



# Outcomes Based Funding

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**STRATEGY LABS**

State Policy to Increase Higher Education Attainment



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**Relentlessly Focused  
on Attainment**



**GOAL  
2025**

**60%**

of adults with high quality  
degrees or credentials by  
the Year 2025



# STRATEGY LABS

State Policy to Increase Higher Education Attainment

Lumina's vehicle for higher education system change

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Strategy Labs are an open platform for leaders and influencers in all 50 states to share research and data, encourage peer learning and provide opportunities for on-request support from Lumina Foundation and its state policy partners.

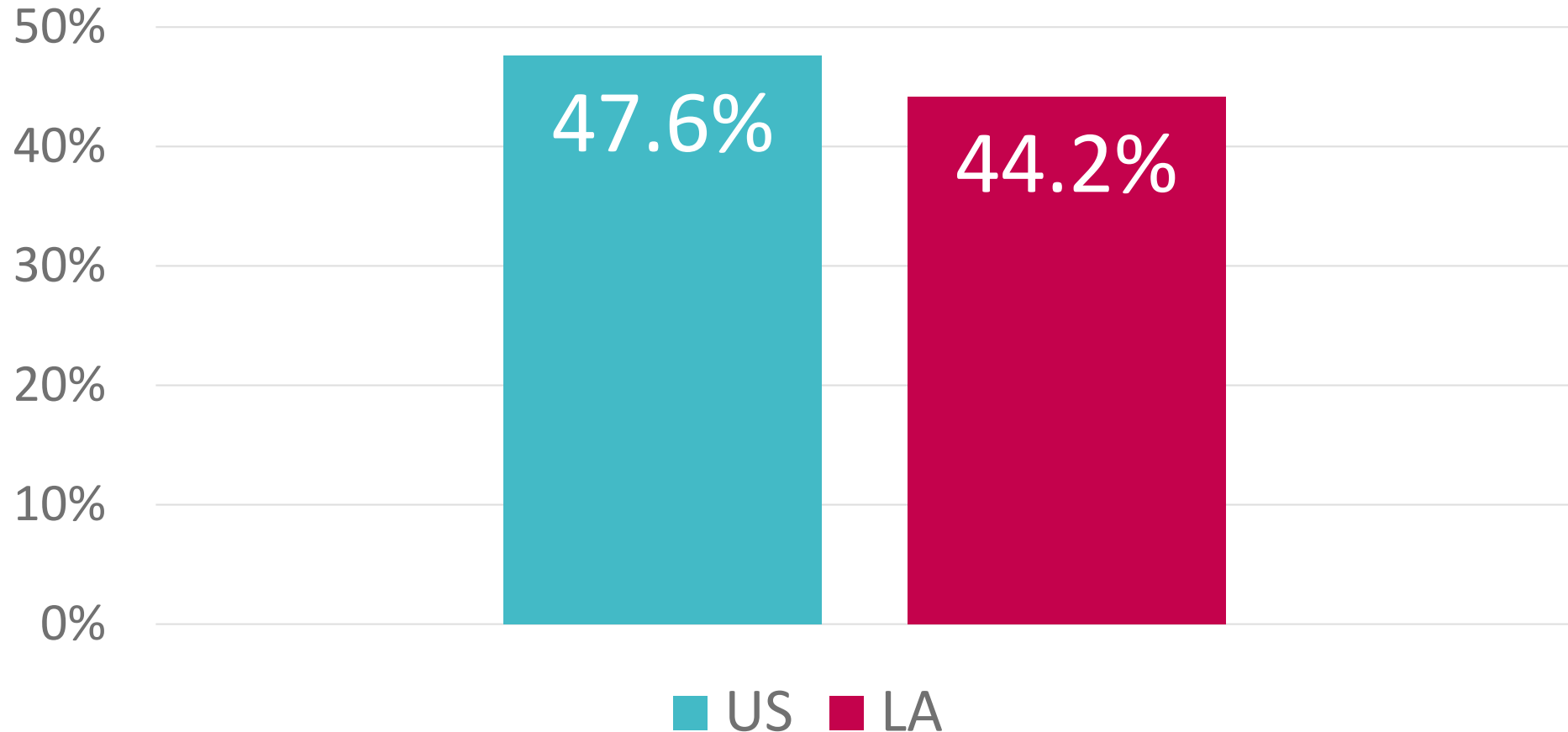
# Strategy Labs Support

- Technical assistance and consulting support is provided to state leaders working to increase higher education attainment in their states.
- Four types of support
  - Non-Partisan, Evidence-Based Policy Expertise
  - Convening and Facilitation
  - Advising Policymakers
  - Research

# Educational Attainment (2017)

## Workforce-Relevant Certificates and Above

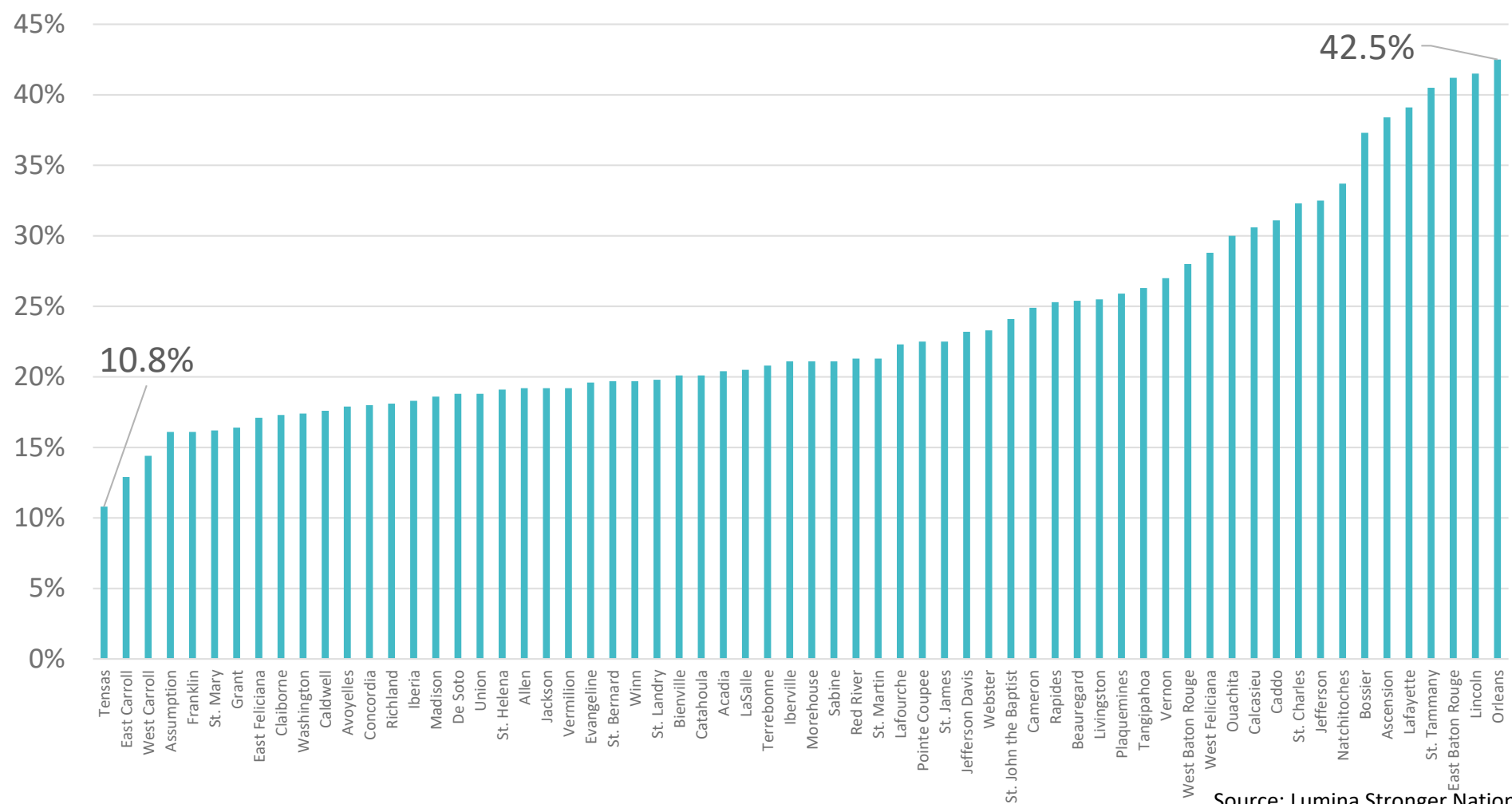
### Adults 25-64



Source: Lumina Stronger Nation

# Educational Attainment by Parish (2017)

## Adults 25-64 with an Associate Degree or Above



Source: Lumina Stronger Nation

## Educational Attainment by Race (2017)

### Adults 25-64 with an Associate Degree or Above



Source: Lumina Stronger Nation





# OUTCOMES-BASED FUNDING NATIONAL CONTEXT

# History of Higher Education Funding Models

- Base-plus funding
  - Linked to historic funding levels
  - Not tied to state goals and priorities
  - Lacks transparency
- Enrollment-driven models emerged in 1960s
  - Linked to goal of increasing access
  - Tied to number of students enrolled
  - More predictable and transparent
  - Reduced political competition and lobbying

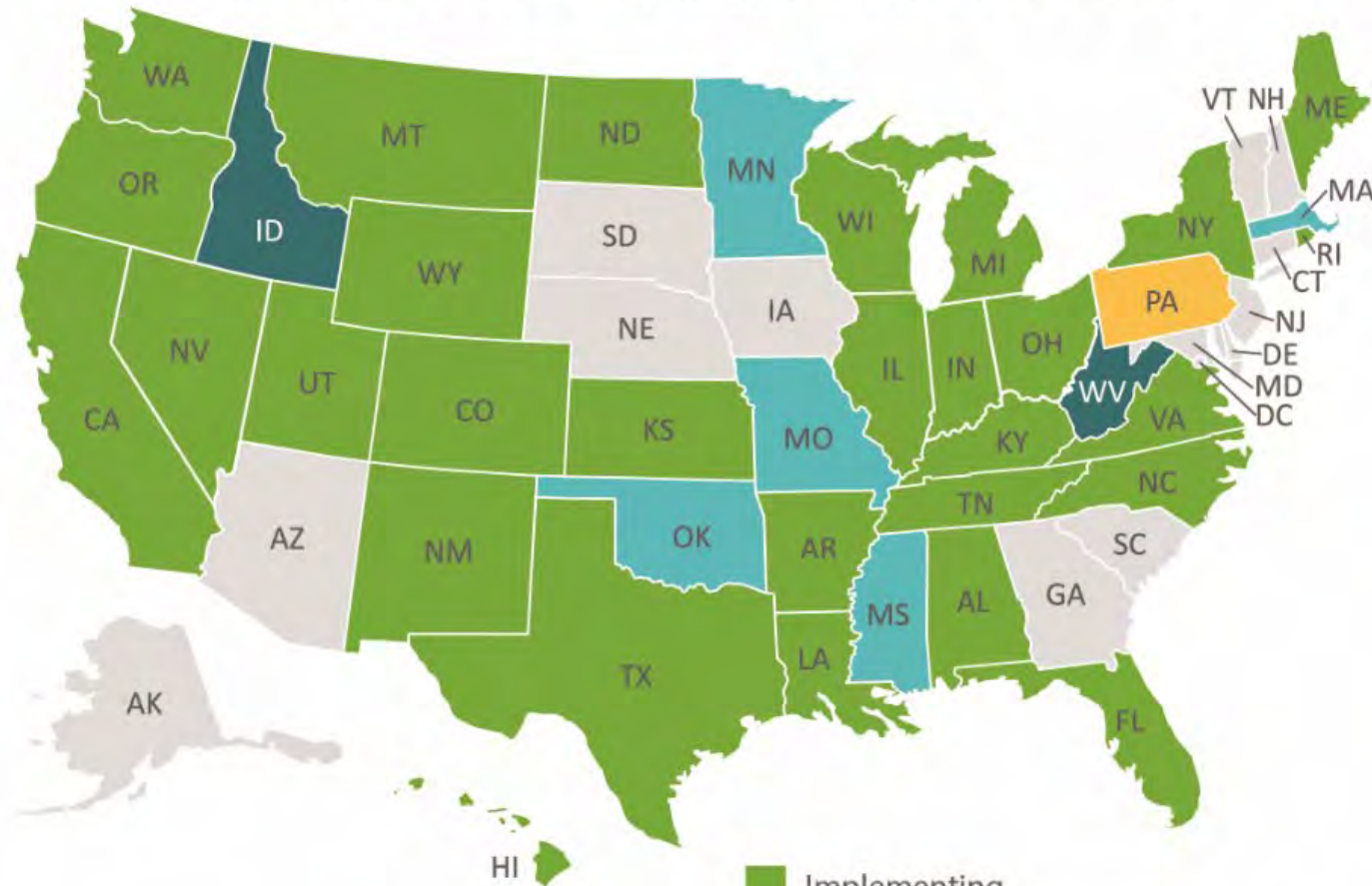
# History of Higher Education Funding Models (cont.)

- Tennessee added a performance bonus to their enrollment model in 1978
  - Many states followed. Became known as “performance funding”.
  - Often there were design problems.
  - Fell in and out of favor over next decades.
- In the late 2000s, several states reexamined these older funding methods that no longer aligned with state goals.
  - Began linking funding to student success, increased attainment, closing equity gaps
  - Adapted new models from what was learned from earlier models.
  - This is “performance funding 2.0” or “outcomes-based funding”.

# Outcomes-based Funding Theory

- Aligns the state's finance policy with state goals
  - Attainment, Equity, Workforce, Research, etc
- Has the ability to influence institutions through:
  - Financial incentives
  - Awareness of state priorities
  - Awareness of institutional performance
- Provides incentives to adopt and scale evidence-based student success practices

## Outcomes-Based Funding in States in FY 2019



*PA: Using a transitional model in FY19 as a new performance funding model is developed.*

- Implementing
- Developed/Not Implementing
- Developing
- Implementing & Developing

Data collected as of January 2019

# OBF Typology

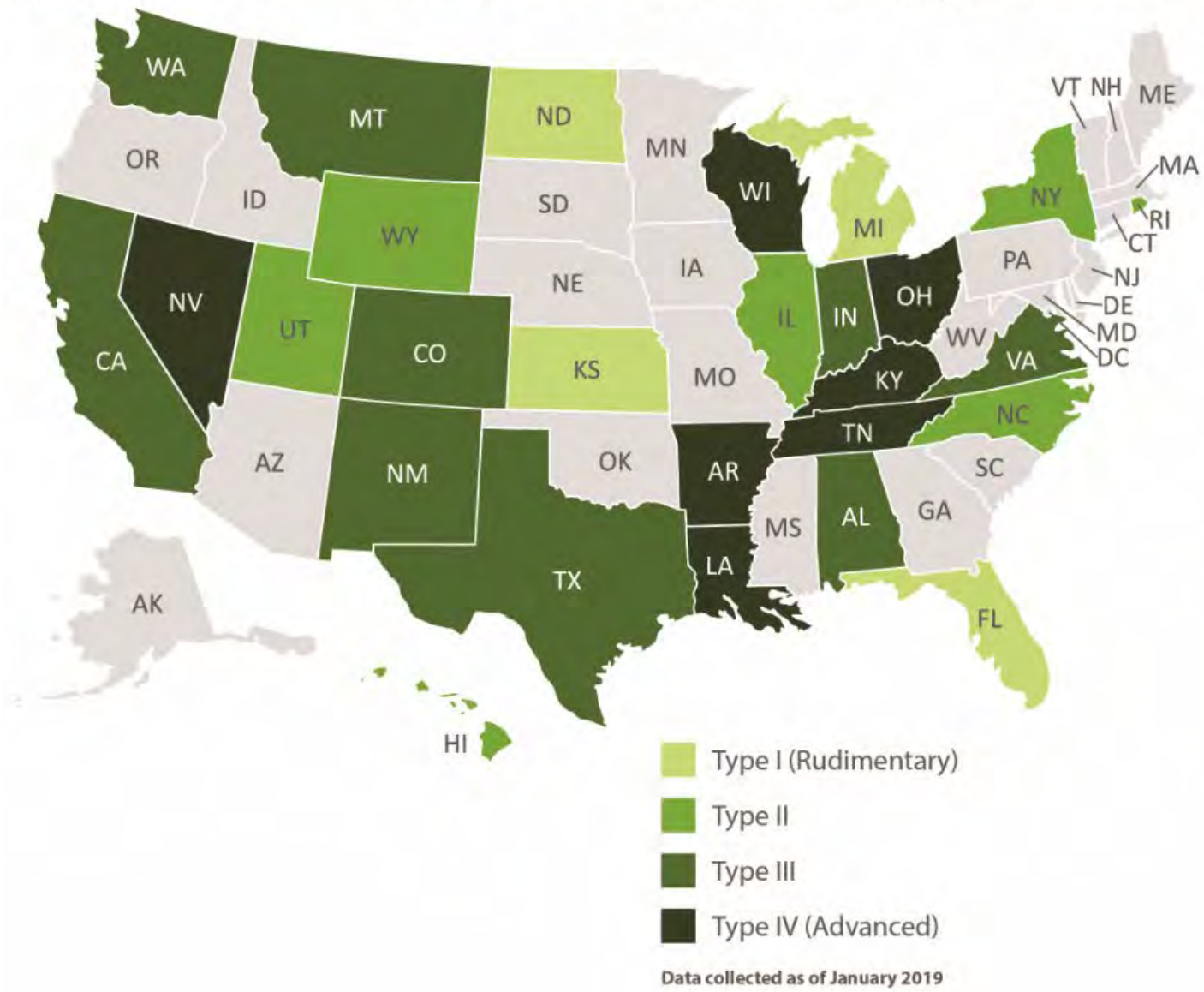
- State funding systems vary significantly in design, focus and sophistication.
- HCM Strategists has developed a typology for Outcomes-Based Funding ranging from Type I (Rudimentary) to Type IV (Advanced).

## Type IV

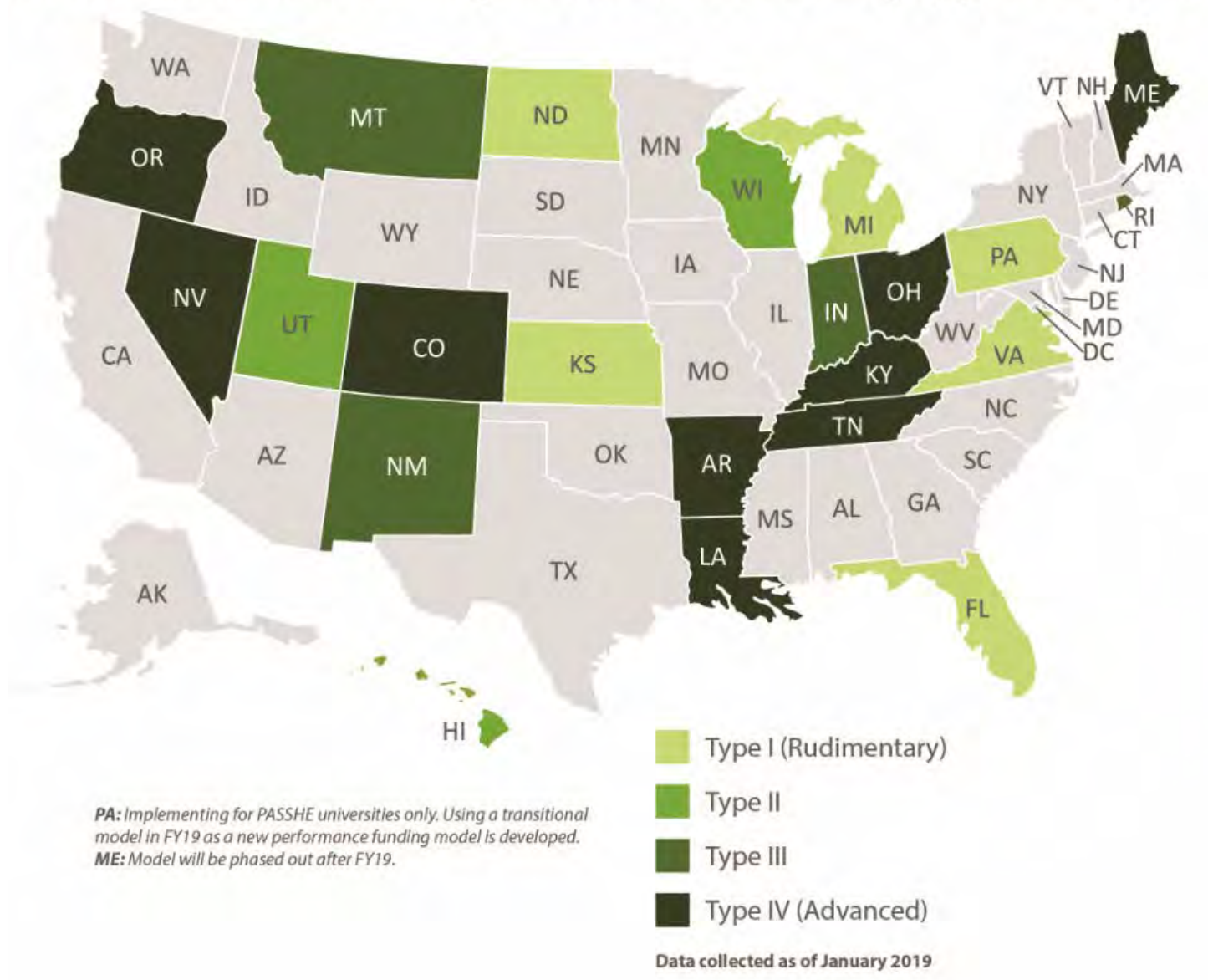
- Aligned with completion/attainment goals and related priorities
- Recurring/Base funding
- *High level of state funding (25% or greater)*
- Differentiates by institutional mission
- Total degree/credential completion included
- Outcomes for underrepresented students prioritized
- *Formula driven/incentives continuous improvement*
- *Sustained for two or more consecutive fiscal years*



# Outcomes-Based Funding in Two-Year Sector by Type in FY 2019

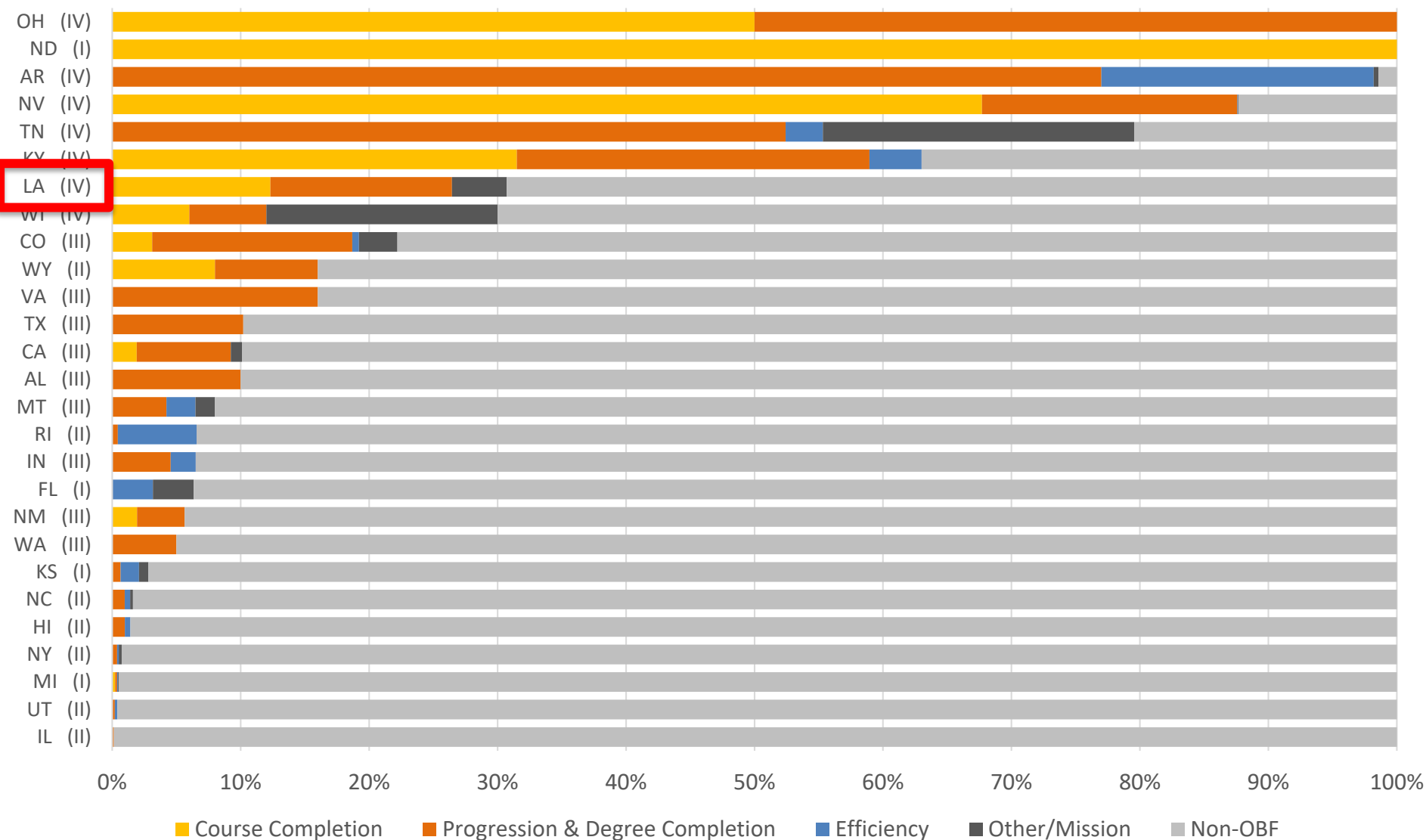


# Outcomes-Based Funding in Four-Year Sector by Type in FY 2019



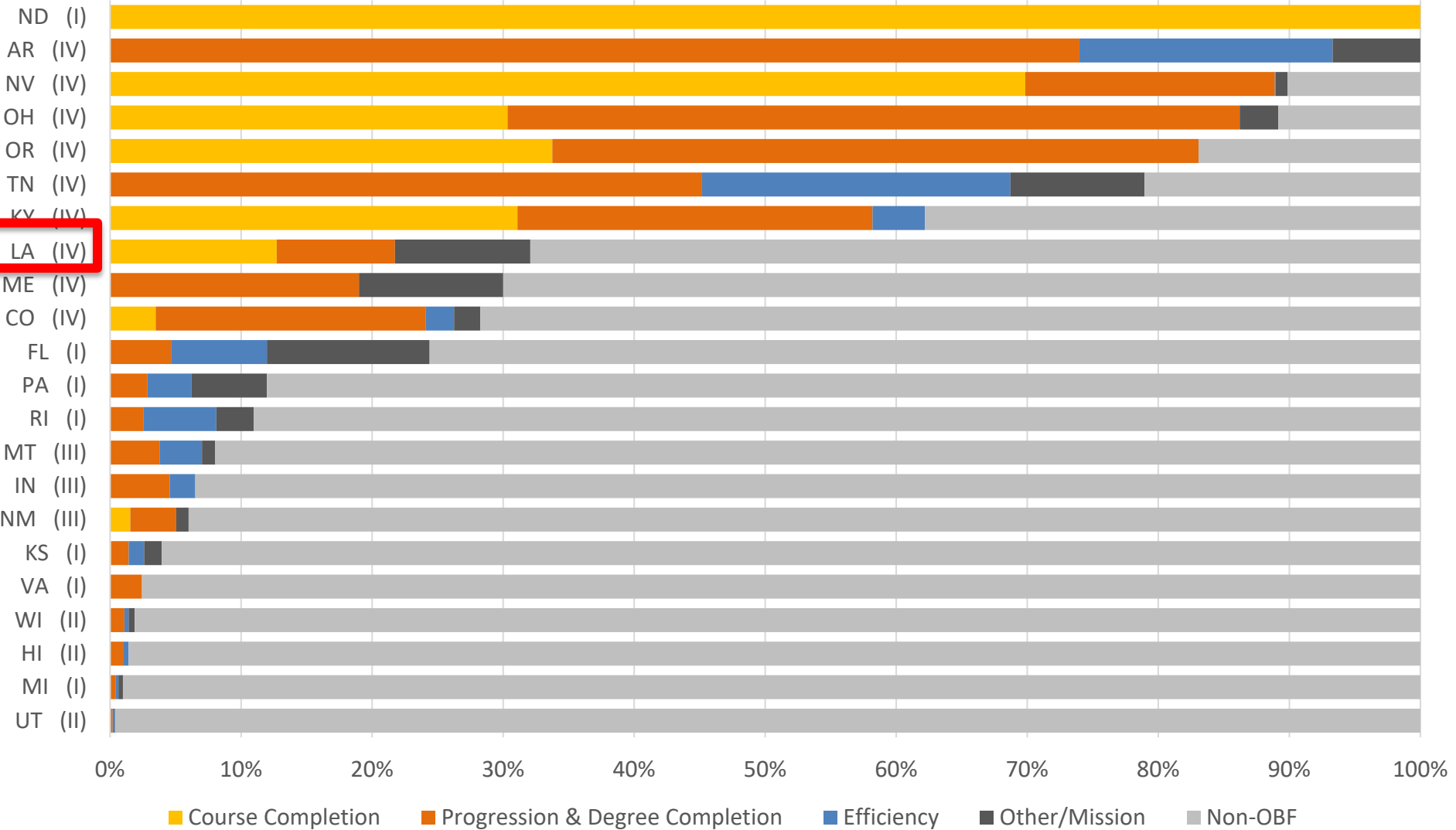


# OBF as a Share of State Institutional Support: 2-Year Sectors





# OBF as a Share of State Institutional Support: 4-Year Sectors



# Common Metrics: Most Aligned with Educational Attainment

- Completion
  - Earned certificates
  - Earned degrees
- Progression
  - Earned credit hour benchmarks
  - Total earned credit hours
  - Gateway course success
  - Retention
  - Developmental/Remedial Success

# Common Metrics: Most Aligned with Educational Attainment

- Priority funding for underrepresented students
  - Underrepresented minority students
  - Low income students
  - Adult students
  - Underprepared students
  - Veterans
  - First generation students
  - Rural students



# Common Metrics: Related to Specific State Goals

- Research expenditures
- Transfers
- Job placements
- Wages of graduates
- High demand/STEM degrees
- Non-credit workforce training

# Common but More Problematic Metrics

- Rate and cohort-based metrics
  - Graduation rate
  - Retention rate
- Metrics without a history of trusted data



# ANALYSIS OF LOUISIANA FORMULA



# FY 2019 Louisiana Funding Model

## Funding Model Components

### 63% Base Funding

### 17% Cost

- Completed Student Credit Hours
- Operation of Plant and Maintenance
- General Support

### 20% Outcomes

- Student Success
- Articulation and Transfer
- Workforce and Economic Development
- Efficiency and Accountability

# FY2019 Model Alignment with Best Practices

Criteria	Alignment
Established completion or attainment goals are linked to the model	Yes
Recurring base funding is distributed	Yes
A significant level of funding is distributed by outcomes (>5%)	Yes
Limited, measurable metrics are used, with degree/credential completion being prioritized	Partial
Institution mission is accounted for	Partial
Formula-driven to ensure incentives for continuous improvement	Yes
Funding model is sustained over multiple years	Yes
Success of underrepresented students is prioritized	Partial

# Underrepresented Populations Prioritized in OBF Models: Four-Year Sector (FY2019)

	Minority	Low- Income	Acad. Unprepared	Adult	Veterans	First Generation	Rural	Other	Weight
AR	X	X	X	X					29%
CO		X							100%
LA		X		X					25%
ME				X					40%
MT		X		X	X			X	25%
NV	X	X							40%
OH	X	X	X	X		X			4% - 184%
OR	X	X			X		X		80% - 120%
TN		X							80% - 100%
UT		X							10%
HI		X						X	33%
IN		X							50%
KY	X	X							33%
NM		X							48%
PA	X								20%



# Underrepresented Populations Prioritized in OBF Models: Two-Year Sector (FY2019)

	Minority	Low-Income	Acad. Unprepared	Adult	Veterans	First Generation	Other	Weight
AL	X	X		X				25% - 75%
AR	X	X	X	X				29%
CO		X						100%
FL		X						25%
LA		X		X				25%
MT		X		X	X		X	25%
NV	X	X						40%
OH	X	X	X	X				15% - 200%
TN		X	X	X				80% - 120%
UT		X						10%
WA	X	X	X					100%
HI		X					X	33%
IL		X	X					17%
IN		X						50%
KY	X	X	X					33%
NM		X						48%
NY		X			X		X	17%
TX			X					20%
VA	X	X				X	X	50%
WI							X	11%

## Share of Total FY2019 State Appropriations from Degree and Certificate Production

	2-Year	4-Year
Louisiana	2.4%	2.1%
Ohio	25%	56%
Oregon	N/A	49%
Tennessee	32%	37%
Kentucky	14%	14%
Nevada	7%	14%

# Accounting for Institutional Mission

- The model does differentiate based on mission
  - Metrics and weightings vary between the four-year and two-year sectors.
  - Weighting student credit hours accounts for the varied cost of instruction.
- More could be done to differentiate between universities.
  - Other states' models vary metrics and weightings between universities.
  - Adjusting metrics or adding weights to account for institutional mission should be weighed against the complexity that the changes will add.

# Example Weighting Structure: Montana

	Flagships	4-Year Regional	2-Year Regional
Undergrad Degrees and Certificates	30%	40%	30%
Retention Rates	30%	50%	30%
Graduate Degrees and Certificates	20%		
Research Expenditures	20%		
Masters Degrees and Certificates		10% MT Tech & MSUB	
Dual Enrollment		10% UMW & MSUN	15%
Remediation Success			13%
Credit Accumulation			13%

# Assessment of Changes for FY2020

## Increased focus on student completion

- Increased associate and bachelor's degrees time-to-degree weights
- Phasing out of adult and low-income metrics tied to enrollment
- Decreased the weight of the research metric

## Increased focus on underrepresented student success

- Increased adult and low-income completer weight from 0.25 to 2.25
- Added a new metric for underrepresented minority completers

# Changes Between FY2019 and Approved FY2020 Model


Four-Year Institutions	FY19 Model	FY20 Model	Change	Type of Metric
Cost	17%	17%	0%	
Base Funding	63%	63%	0%	
Outcomes	20%	20%	0%	
FTF Time to Degree	1.0%	1.2%	0.2%	Completion
XFR Time to Degree	0.5%	0.6%	0.1%	Completion
Grad Level Awards	0.4%	0.4%	0.0%	Completion
Pell Completers	0.2%	0.8%	0.7%	Completion
Adult Completers	0.1%	0.4%	0.3%	Completion
Closing Equity Gap	N/A	0.5%	0.5%	Completion
Progression	6.6%	6.6%	0.0%	Progression
Transfer 2 to 4-Year	0.0%	0.1%	0.0%	Progression
Research	8.0%	6.7%	-1.3%	Mission
Workforce	2.6%	2.4%	-0.2%	Mission
Adult Enrollment	0.2%	0.1%	-0.1%	Enrollment
Pell Enrollment	0.5%	0.2%	-0.2%	Enrollment
Total	100.0%	100.0%	0.0%	

Type of Metric	Previous Model	Approved Model	Change
Completion	2.1%	3.9%	1.7%
Progression	6.6%	6.7%	0.0%
Mission	10.6%	9.1%	-1.5%
Enrollment	0.6%	0.3%	-0.3%



# Changes Between FY2019 and Approved FY2020 Model

Two-Year Institutions	FY19 Model	FY20 Model	Change	Type of Metric
Cost	17%	17%	0%	
Base Funding	63%	63%	0%	
Outcomes	20%	20%	0%	
Assoc. Time to Degree	1.3%	1.1%	-0.2%	Completion
Certificate/Diplomas	0.5%	0.5%	-0.1%	Completion
Pell Completers	0.4%	1.8%	1.4%	Completion
Adult Completers	0.4%	1.5%	1.1%	Completion
Closing Equity Gap	N/A	0.8%	0.8%	Completion
Progression	10.6%	9.4%	-1.2%	Progression
Transfer 2 to 4-Year	0.4%	0.3%	0.0%	Progression
Cross-Enrollment	0.1%	0.0%	0.0%	Mission
Workforce	4.7%	3.8%	-0.9%	Mission
Adult Enrollment	0.5%	0.2%	-0.2%	Enrollment
Pell Enrollment	1.1%	0.5%	-0.5%	Enrollment
Total	100.0%	100.0%	0.0%	



Type of Metric	Previous Model	Approved Model	Change
Completion	2.7%	5.7%	3.0%
Progression	11.0%	9.7%	-1.3%
Mission	4.8%	3.8%	-0.9%
Enrollment	1.6%	0.8%	-0.8%

# Research Metric Levels in OBF Models FY2019

	Research Metric as Share of Formula	Research Metric as Share of Total Appropriations
Arkansas	7.0%	7.0%
Louisiana	8.0%	8.0%
Maine	15.0%	4.5%
Michigan	5.6%	0.1%
Montana	8.0%	0.6%
Nevada	4.5%	4.1%
New Mexico	16.0%	1.0%
Ohio	3.0%	3.0%
Rhode Island	8.0%	0.9%
Tennessee	6.0%	6.0%
Utah	7.0%	0.1%
Wisconsin	8.0%	0.2%
Kansas	6.0%	0.2%

# Assessment of Changes for FY2020

- Increased alignment with master plan
- Increased focus on educational attainment
- Increased focus on closing achievement gaps
- Prioritized stability
  - Respects structure and metrics of FY2019 model
  - Phasing in changes

# Continuous Engagement and Support

- The model should be a policy tool, not just a budget exercise
- Clearly communicate how the model works
  - Transparent incentives
  - Interactive projection tools
  - Report annual effects of model
  - Funding formula summits

# Continuous Engagement and Support

- Provide support to institutions
  - Analysis of institution specific outcome and funding data
  - Sharing best practices for increasing success
  - Student success improvement grants
- Track and address unintended consequences
  - Establish formal review process
  - Monitor academic standards
    - Student learning outcomes, faculty surveys, grade distributions
  - Monitor student access
  - Monitor funding volatility

# STRATEGY LABS

State Policy to Increase Higher Education Attainment

[StrategyLabs.LuminaFoundation.org](http://StrategyLabs.LuminaFoundation.org)

Presented by Scott Boelscher

Senior Associate, HCM Strategists

[Scott\\_Boelscher@hcmstrategists.com](mailto:Scott_Boelscher@hcmstrategists.com)



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