# A Brief History of Outcomes-based Funding, and Suggestions for Moving Forward

Patrick Kelly

**NCHEMS**

**National Center for Higher Education Management Systems**
3035 Center Green Drive, Suite 150
Boulder, Colorado 80301

# Outcomes-based Funding is Not a New Phenomenon

- Enrollment-based funding is a form of outcomes-based funding – it rewards increased access
- What is new is the shift
  - From a focus on access
  - To a focus on student success and other outcomes
- A reminder – the importance of tuition and fee revenues to institutions continues to reinforce the importance of access
  - Even if all state funds are distributed through an outcomes-based mechanism, a strong access based component will remain.

**NCHEMS**

# Currently in the 3rd Cycle of Performance-based Funding

Round 1      1975-1984

Round 2      1985-2004

Round 3*     2005-Present

*In this round, the nomenclature evolved from Performance Funding to Outcomes-based Funding

- Tennessee breaks new ground
- Initially 2%, then 5.4% of each institution's appropriation tied to performance
- Encouraged good practices rather than outcomes
  – Accreditation of programs
  – Building data capacity
  – Using national assessments where available
- Specifics changed over time
- Incorporated into the current outcomes-based model as the Quality Assurance Component

NCHEMS

- Numerous states tried it

| | |
|---|---|
| – California CCs | – Oklahoma* |
| – Florida CCs | – Pennsylvania (PASSHE)* |
| – Illinois | – South Carolina |
| – Kentucky | – South Dakota |
| – Missouri* | – Tennessee* |
| – Ohio* | |

*In effect, but in a different form.
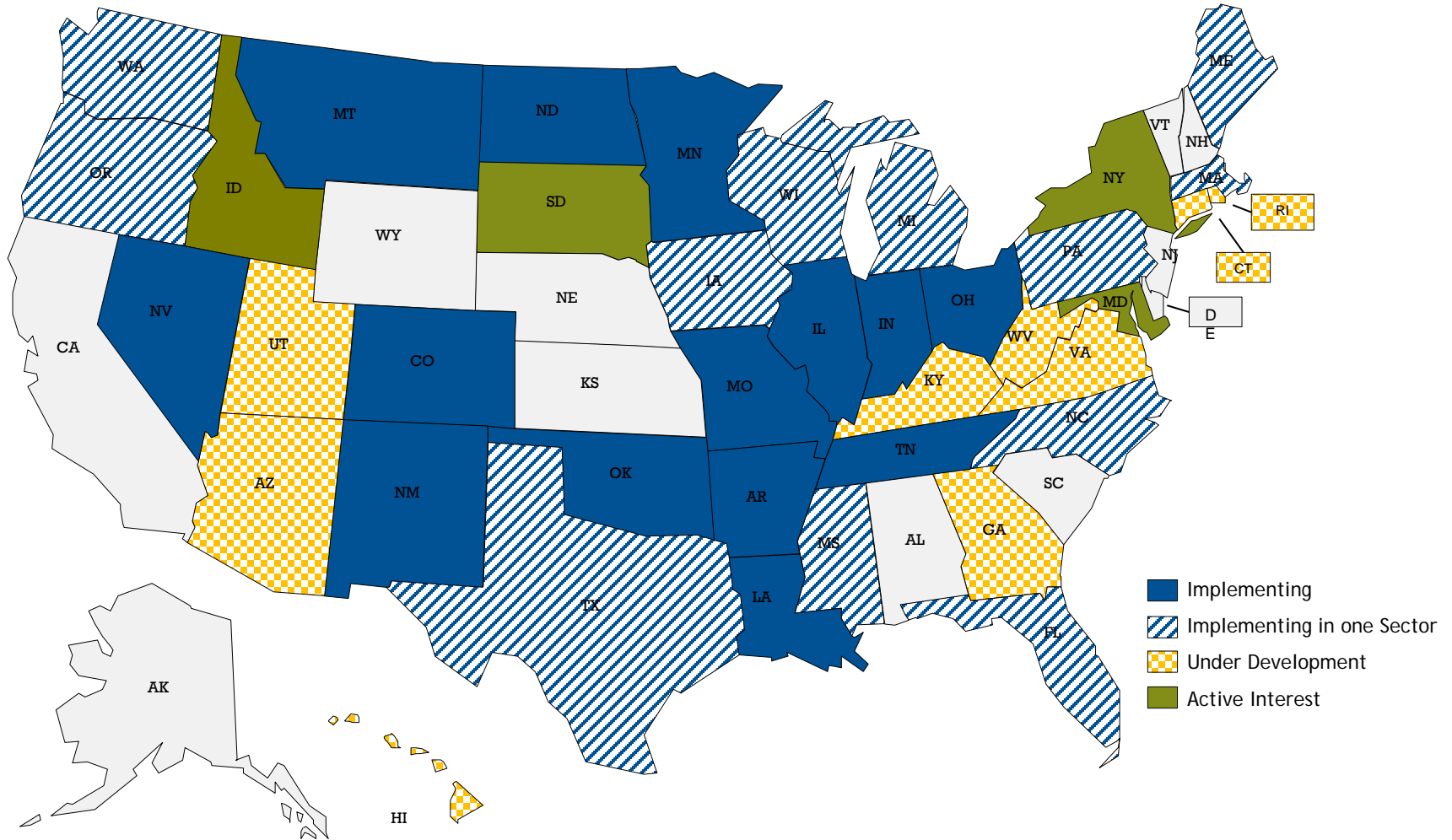
NCHEMS

# Most Faded Away for One or More Reasons

- Done for the wrong reasons
  - A resource acquisition device – abandoned when budgets were tight
  - An end in itself – not a means to promote goal attainment
- Faulty design
  - Too complex – too many elements
  - Insufficient data – unavailable or unreliable
  - Didn't recognize different institutional missions – one size fits all
- Faulty Process
  - Imposed without institutional consultation/buy-in

**NCHEMS**

# Round 3

The Current State of Development & Implementation

NCHEMS
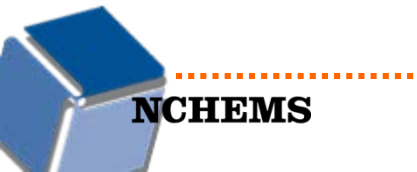
# Outcomes-Based Funding: The Wave of Implementation



Legend:
- Implementing
- Implementing in one Sector
- Under Development
- Active Interest

NCHEMS

# Why the Renewed Interest in Outcomes-based Funding

- An increase in the number of states defining statewide goals for higher Education
- Outcomes-based funding is the most direct way of linking state funding to these goals
- An alternative to micromanagement – a way to negotiate autonomy with accountability

**NCHEMS**

# Designs in Implementing States Have Much in Common

- Degree completion as a central theme
- Bonuses for
  - Success of underserved populations
  - Producing degrees in priority fields
- Incorporation of momentum points
  - Especially for community colleges

**NCHEMS**

# There are Also Considerable Differences in

- Coverage
  - All institutions
  - One sector
- The specific factors included
- The definition of underserved groups
- The level of fiscal commitment
  - From 0.5%
  - To nearly 100%
- The approach to easing into implementation

**NCHEMS**

# Design Principles

1. Get agreement on goals before putting outcomes-based funding in place
   – Goals need to be the driving force for outcomes-based funding, not a rhetorical afterthought

2. Design the funding model to promote mission differentiation – use it to sharpen distinctions, not blur them

3. Construct outcomes metrics so that all institutions have an opportunity (not a guarantee) to benefit by excelling at their different missions
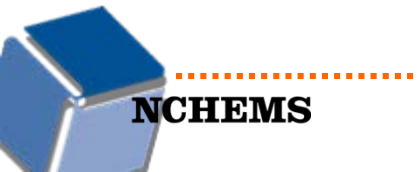
**NCHEMS**

4. Include provisions that reward success in serving underserved populations

   – Low income

   – Minority

   – Adult

   – Academically at risk

   – Geographically hard to serve

5. Limit the numbers of outcomes to be rewarded

6. Use metrics that are unambiguous and difficult to game

**NCHEMS**

# Implementation Principles

1. Make the outcomes funding pool large enough to command attention
2. Be inclusive in the development process
3. Reward continuous improvement, not attainment of a fixed goal
4. Include a phase-in provision – especially if funded through reallocation

5.  Employ stop-loss, not hold-harmless provisions

6.  Continue outcomes funding in both good times and bad

7.  Put in place a rigorous (outcomes-based) approach to assessing quality and monitor results on an ongoing basis

**NCHEMS**

# Typical Sticking Points

- New money or reallocation of existing funds
- Data and metrics used
  - What degrees should be counted?
    - All or UG only?
    - Should they carry different weights?
  - Graduation rates vs. total number of completers
  - Outcomes only, or momentum points as well
    - Credits completed
    - Developmental education
  - Data for economic/community development
- How to handle transfers
- How to handle certificates
- The quality issue
- Implementation
  - Phase –in
  - Stop-loss
- Different models (and pools) for different types of institutions?