

# Outcomes-Based Funding

## Overview for Higher Ed Task Force

March 17, 2017

### Background

The State Board of Education (SBOE) began work in earnest in October 2015 on an initiative to incorporate an Outcomes-Based Funding (OBF) component into Idaho's funding process for higher education. The objectives of the OBF initiative included:

- Begin to close the funding gap (real dollars) that developed during 2008 recession and beyond
- Provide additional funding to institutions through an equitable distribution based on output
- Continue momentum of state's major investments in K-12 education
- Support Idaho's 60% goal to prepare students for careers in workforce
- Use a systematic approach applicable to CTE as well as Academic programs
- Use a consistent model for both the college/universities and the community colleges
- Replace earlier ("seat time" based) Enrollment Workload Adjustment funding formula
- Reward progress through the "pipeline" and incentivize program completion

The SBOE studied other states' OBF efforts (33 states are already using performance-based funding) and worked with leading national consultants in developing a viable approach for Idaho, including:

- Patrick Kelly—VP, National Center for Higher Education Management Systems (NCHEMS)
- HCM Strategists (Martha Snyder, Cristen Moore)—with support from Lumina Foundation

SBOE vetted OBF plans with Governor's office, legislators, chambers of commerce, and all colleges and universities in all regions of state—concept well received. Team effort with Division of CTE. Supported by all eight public college (2-year and 4-year) presidents.

SBOE proposed kickoff of multi-year plan to implement OBF as Board's number one line item request for FY2018. Governor deferred action to enable stand-up of Higher Education Task Force and solidify statewide stakeholder support.

### Outline of SBOE OBF Concept

- Basic principles
  - Initiate first year of program primarily with new funding, supplemented with 10% from reallocation of current institutions' shares
  - All institutions earn at least a modest increase—important for "buy in"
  - SBOE already has statutory authority to allocate General Funds among institutions—no enabling legislation required
  - Recognize and support assigned missions of all institutions (varied program types)
  - Keep the process as simple and transparent as possible

- “Pay Out” approach
  - Ongoing pool of new General Fund dollars, supplemented by institution dollars, is allocated by SBOE on July 1<sup>st</sup> of each year, based on each institution’s outcomes
  - Program completion/progress payments based on “length” of programs. For example, a 120 credit (typically 4-year) Bachelor Degree earns twice as much as a 60 credit (typically 2-year) Associate Degree; and four times as much as a 30 credit (one-year) Certificate
  - Payments track individual student progress through pipeline—community college student may generate 60 credit payout for community college, then transfer to 4-year institution and generate additional 60 credit payout for progressing to completion of BA/BS degree
  - State Longitudinal Data System (SLDS) enables tracking of progress metrics
  - Process would also provide pay outs for graduate (Master’s, Doctorate, and Professional) degrees, certificates of less than 1-year duration, skillstack badges, industry certifications
  - As systemwide output increased, additional ongoing funds would be sought to keep pay outs amounts level (or to increase payouts) for succeeding years
  - Flexibility: funds earned through OBF can be used at discretion of each institution to effect maximum payback and meet the institution’s highest needs
  - Pay outs would be weighted to incentivize progress for selected programs and student populations, for example:
    - Students with limited economic means (also serves to assist under-represented demographic groups)
    - Industry-related high-need areas (e.g., STEM fields, Health Professions)
  - Initial funding pool (new General Fund dollar portion) needs to be large enough to create a tangible incentive to have a positive impact on institutions’ operations
  
- Other points for consideration
  - SBOE staff conducted pay out simulations using above model and previous three years’ of production at all eight institutions to determine impact on funding. All units received benefits, even after their 10% “ante” of current baseline funding.
  - CTE programs (badges) and SLDS tracking capability matured during past year, enabling SBOE 1<sup>st</sup> and 2<sup>nd</sup> phases of original OBF plan to be implemented simultaneously in FY2019.
  - Governor’s Budget Office is working with SBOE staff to provide additional time for FY2019 budget submission, to enable OBF concept implementation.
  - Enrollment Workload Adjustment (EWA) process would terminate (without recovery of arrears payments from State) when OBF is implemented.
  - Adoption of OBF in first year would not eliminate Legislative mechanism for Line Item requests in future years.
  - Multiple support teams (Provosts, Financial VPs, Institutional Researchers and Budget Directors) are already in place to support Task Force’s OBF recommendations.

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