Outcomes-Based Funding
Executive Overview
October 14, 2016

Background

Outcomes-Based Funding (OBF) is a higher education initiative being led by the State Board of Education, in coordination with the Governor's Office and the Legislature. OBF is one of the key elements of a Board Five-Year Operational Plan for Higher Education, which is being developed in response to the Governor's request to continue the momentum of actions undertaken as part of the Governor's Task Force for Improving [K-12] Education.

K-12 and higher education need to operate seamlessly as an integrated and coherent system in order to provide Idahoans the opportunity to reach their full potential, prepare and sustain them in meaningful careers, and establish a commitment to lifelong learning.

During the recession, higher education institutions in Idaho (as in many states) bore a heavy share of the impact from austere budgets (with cuts in Idaho's college/university budgets of approximately 26%). The state buffered the negative impacts of the recession on primary and secondary education in order to meet federal "maintenance of effort" guidelines and tap American Recovery and Reinvestment Act (ARRA aka "stimulus") dollars for the K-12 portion of the system. Coupled with the growth in college enrollment since 2009, the impact has been a significant shift in the proportion of support provided for higher education from state appropriations to students. Students and their families are coping with higher tuition costs (albeit, at tuition levels well below regional and national averages) and taking on additional debt. Higher education institutions have reallocated internal resources using program prioritization tools to cope with growth; deferred maintenance actions where possible; and avoided putting caps on enrollment to provide continuing access to students.

Across the nation, state funding for higher education academic and technical programs has begun to turn around. In FY2017, Idaho's funding for the four-year institutions and community colleges increased by over 8% (although approximately 5% of that increase represented the costs of covering the 27th payroll and a share of a 3% merit increase and benefit costs increases). This catch-up effort needs to continue. Looking at the period from the start of the recession until the 2015-2016 school year which just concluded, Idaho is one of only eight states where inflation-adjusted cuts in higher education budgets since 2008 exceed 30%[1]. It will be important to channel additional support to the

higher education system in a manner which incentivizes achievement of the State's strategic "60% goal" in order to provide the needed post-secondary certificates and degrees to Idahoans to enable them to meet the workforce needs of 2020 and beyond.

Outcomes-Based Funding is an approach which is in varying stages of adoption in over 30 states[2]. Its goal is to complement traditional funding models based on access/enrollment (participation) with dollars to incentivize program <u>completion</u>. OBF "affords an opportunity to eliminate some of the most glaring and unintended consequences and perverse incentives associated with enrollment-based funding models."[3] OBF would begin to shift Idaho's previous performance-based funding model from an "Enrollment Workload" (credit hours taken) approach to an incentive model based on students' successful completion of their badge/certificate/degree programs.

Moving Away from EWA
Before describing the Board's proposed OBF approach, let's take a quick look at the Enrollment Workload Adjustment (EWA) model which will be eliminated and replaced by OBF. In the early 1990s, the State Board of Education put the EWA funding approach in place to help higher education institutions keep pace with the growth in enrollment which was not covered in their base budgets. This approach suffered from three major drawbacks:
- It was funded at only 1/3 to 2/3 of the computed cost to educate students in their programs.
- Funding for EWA was intermittent and was cut off during the recession, at a time when enrollment grew significantly over 1990 levels.
- The process, when funded, was based on enrollment in courses, whether or not the enrolled students later completed their programs of study in preparation for entry into the workforce.

The Board is <u>not</u> seeking to recover the "arrears" in unfunded EWA from previous years before implementing the OBF approach. However, to put the EWA gap in perspective, the unfunded EWA shortfall across the four 4-year institutions is approximately $14M on an ongoing basis since the 2012 timeframe. It would take an investment of that size to return the ongoing EWA balance to zero, and a multiple of that to recapture the funding which would have been provided in the intervening years in which EWA requests were not appropriated. And, as noted above, the EWA formula only captured between one-third and two-thirds of the computed costs of educating additional students.

Analysis of OBF Approaches in Other States
Idaho has had the benefit of being able to "go to school" on other states' efforts to implement OBF within their higher education funding mechanisms. Over the past year, the State Board has studied this area and has worked closely with national experts on OBF from the National Center on Higher Education Management Systems (NCHEMS) and HCM Strategists (taking advantage of support from the Lumina Foundation). This spadework has helped the Board identify successful OBF adoption strategies that have worked in other states and, just as important, potential pitfalls (mistakes to avoid) that have hampered some states' efforts.

Basic Outline of the OBF Plan

- In the upcoming Legislative session, the State Board of Education is submitting, as its #1 priority for FY2018, a line item request to begin OBF with $10M in ongoing appropriated dollars.
- Other than the appropriation for $10M, no enabling legislation will be required. The SBOE already has the authority to allocate and reallocate appropriated dollars among the institutions.
- The request has been targeted at $10M in order to be just large enough to influence institutional behavior among the colleges, universities, and community colleges in their delivery of academic and career technical education programs.
- While the $10M would represent new dollars for the institutions, the SBOE will also reallocate and additional $1M from the institutions' current base allocations to add to the OBF kitty. Thus, the total pool of OBF dollars for distribution will be $11M in FY2018.
- The OBF initiative is intended to replace the current EWA mechanism. The SBOE is not submitting an EWA request for FY2018 and is eliminating the Board policy which covered the EWA process.
- The initial phase (FY2018) of OBF has been intentionally designed to be as simple as possible. Dollars in the pool will be distributed based on certificates and degrees completed during the academic year in progress, with no more than one payoff for a completer/graduate (in the event of students who earn multiple degrees during the year). For the first year, a modest additional weight (20%) will be applied for needy students (based on Pell Grant eligibility) and completed STEM and Health Professions degrees.
- OBF payouts will be made to all institutions in the pipeline who produce completers—the four year institutions as well as the community colleges, including both academic and career-technical education certificates and degrees.
- The allocation model will award dollars based on the standard length of the applicable degree or certificate. This helps level the playing field among different institutions and incentivizes timely completion of programs. For example, the OBF pool would be distributed based on the total number of completers in the system, weighted by the following program length factor:
    - X dollars for a one-year Certificate completer
    - 2X dollars for a two-year Associate degree completer
    - 4X dollars for a four-year Bachelor's degree completer
- Plugging typical recent degree production rates at the institutions into this formula with an allocation pool of $11M, yields an X = approx. $350, or
    - Approx. $350 for a one-year certificate
    - Approx. $700 for a two-year Associate degree
    - Approximately $1400 for a four-year Bachelor's degree
- It is anticipated that an $11M pool of ongoing funding would be sufficient to motivate institutions while giving them flexibility in the use of the funds so that they can use the dollars in ways that will have the most positive impact on their pipeline production, based on their individual challenges (for example—one institution may get more "bangs for its bucks" by beefing up advising—another by adding resources in programs with chokepoints in upper division classes).

A Phased Approach to OBF in Idaho

<div align="center">Phase One--Simplicity</div>

Based on lessons learned from other states' OBF efforts, the SBOE is making its OBF request as simple and as transparent as possible, with an easily-understood approach to keep the playing field level for all institutions. Some OBF efforts in other states have failed to launch when their models became overly complex, or when there were perceptions of one-upmanship by key institutions and/or policy-makers. The proposed rules for Idaho's plan would apply equally to all levels of institutions (community college through research universities) for academic as well as technical programs. The system will support and encourage transfers of students from one tier in the system to another.

<div align="center">Phase Two—Additional Certificates/Degrees and Weighting of Targeted Programs/Populations</div>

Additional Certificate/Degrees: As OBF systems have matured, many states have added funds to provide weighting factors to increase the incentives for certain types of degrees/programs or for various underserved student populations. The SBOE believes the $10M line item request, supplemented with the reallocation of $1M in current baseline funds, will be sufficient to launch the OBF process and make the transition away from the EWA approach. Moderate weighting for needy students and for STEM/Health Professions program completions would be used in FY2018. The Board will work with the Governor's Office, Legislature, and other key stakeholders to further refine weighting formulas for specific target programs or student population in FY2019 and beyond.

By FY2019, the SBOE anticipates that the "SkillStack" badge system will be in place. Idaho's students— and the state's workforce—will reap benefits from this approach. The Board's current plan is to return to the Legislature in the 2018 session to seek additional funding to support programs needed in the workforce but which are not covered in the initial OBF distribution model, including:
- Certificates (including SkillStack badges) of less than a year. This would include high demand training programs with high need in business, industry, and the health professions.
- Graduate programs (Master's, Doctorate, and Professional degrees), for which there is also workforce demand.

While programs of less than one-year duration and post-baccalaureate degrees are bona fide recipients for OBF funding, the SBOE is planning to wait one year before adding them to the OBF mix based on the size of the FY2018 OBF request and the number of projected completers across the state.

Weighting of Target Programs/Student Populations: The following are examples of categories which have been weighted in other states, and which the Board would could address or revise (in FY2019 and beyond) after the OBF process is up and running:
- Science, Technology, Engineering and Math (STEM) degrees (20% weight in FY2018)

- Health Professions (20% weighting factor in FY2018)
- Certificate/degree completion by non-traditional (adult) students
- Programs with track records of high placement in program-related career fields
- Completions by students with limited economic means (20% initial weighting in FY2018)
- Hispanic, Native American, or other student populations with historically low completion rates

Relationship to other SBOE Initiatives

As described above, the OBF line item request is the Board's number one Legislative priority for the upcoming session. The Board's second highest priority request is for an access-related initiative—a request for $5M to establish an "Adult Completer" scholarship. In light of the size and importance of the OBF request, the Board has sharply limited the four-year institutions' line item requests for FY2018 to no more than two items and no more than 5% of their general fund appropriation levels, with the understanding that, in a limited resource environment, the OBF request will take priority over all other line item requests in the Board's recommendation to the Governor's Office and the Legislature.

The OBF initiative complements other elements within the Board's Five-Year Operational Plan which includes (as a partial listing):
- Program Prioritization (program cost/effectiveness assessment and reallocation of funding)
- Access initiatives (scholarships, Direct Admission project, remedial education reform, etc.)
- Medical/Health education expansion (undergraduate, graduate, residency programs)
- Research initiatives (INL expansion, Higher Education Research Council plan)
- Career-Technical Education enhancement (program start-up/sustainment, facilities, SkillStack)
- Open Education Resources (reducing textbook costs)
- Increasing College/University and Community College collaboration (2+2 programs, etc.)
- Advanced Opportunities/Dual Credit programs
- Teacher Effectiveness assessment

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Notes:
1. Michael Mitchell, Michael Leachman, and Kathleen Masterson; *Funding Down, Tuition Up: State Cuts to Higher Education Threaten Quality and Affordability at Public Colleges*; p.2; Center on Budget and Policy Priorities; May 19, 2016

2. Martha Snyder and Brian Fox; *Driving Better Outcomes: Fiscal Year 2016 State Status and Typology Update*; p. 5; HCM Strategists; Mar 16, 2016

3. Jose L. Cruz; *Lumina Issue Papers: Leveraging Outcomes-Based Funding at the Institutional Level*; p.2; Lumina Foundation; June 2016

OBF Initiative—Summary of Key Points

Outcomes-Based Funding is a multi-year Board effort to increase funding to the higher education institutions in a way that incentivizes completion of student certificates and degrees to prepare them for successful careers and lives. The approach is being used to some degree in many other states, and the Board is proposing to initiate an OBF model in Idaho which will support the State's 60% goal. Key characteristics of the Board-proposal include:
- A line item request for $10M in ongoing funds for FY2018.
- An additional $1M drawn from reallocated dollars from the current higher education base.
- Annual allocation of OBF funds by the State Board to institutions based on the number of students who complete certificates, associate degrees, and bachelor's degrees.
- A simple allocation model in which dollars are proportional to the standard length of degrees and certificates (i.e., no penalty for part-time students who take longer to complete degrees).
- Applies to academic and career-technical programs.
- Applies to community colleges and four-year institutions.
- Permanently replaces the defunct Enrollment Workload Adjustment (EWA) process.
- A phased approach: following adoption in FY2018, additional ongoing dollars will be requested for FY2019 to include graduate degrees and certificates/badges of less than one-year duration, plus additional weighting for key programs/populations.

Participating Units
- Boise State University
- Idaho State University
- University of Idaho
- Lewis-Clark State College
- College of Southern Idaho
- College of Western Idaho
- North Idaho College
- Eastern Idaho Technical College
- Division of Career-Technical Education
- Office of the State Board of Education

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