



National Center for Higher Education Management Systems

Outcomes-Based Funding: The Wave of Implementation

by
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for

**COMPLETE
COLLEGE
AMERICA**

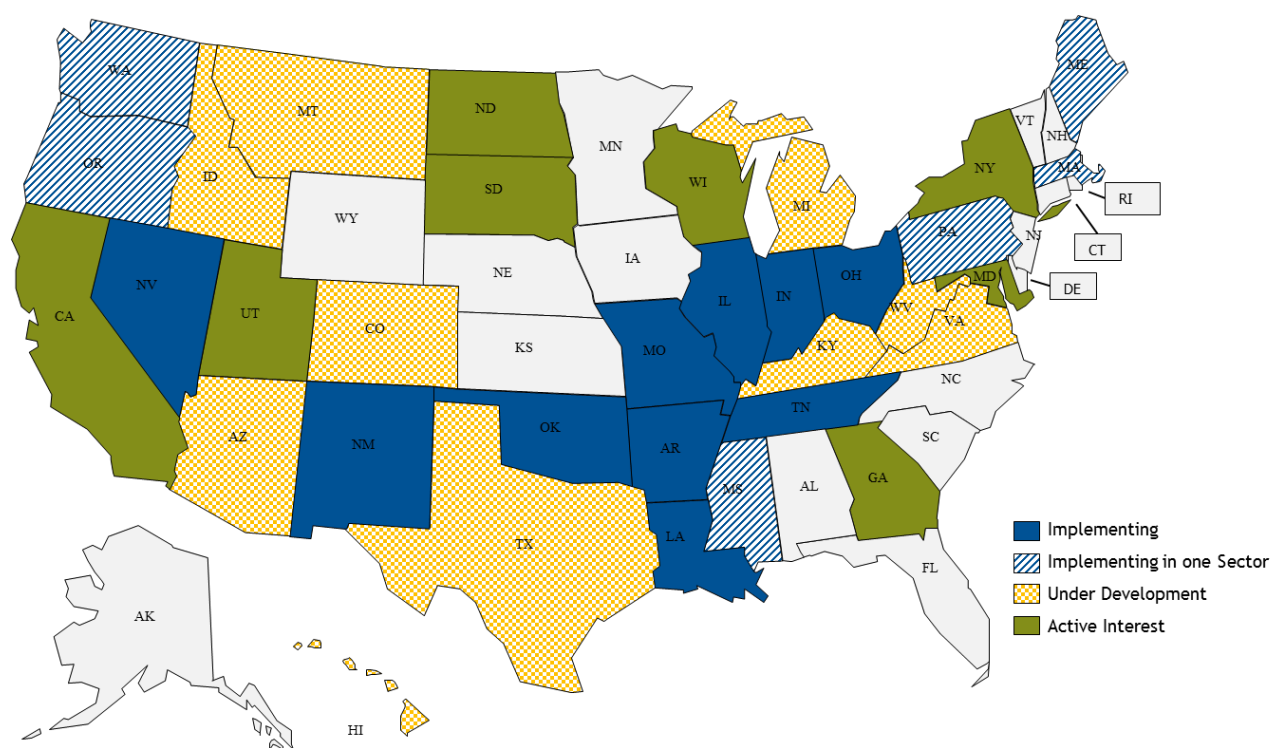
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Two years ago I wrote a brief paper entitled *Performance Funding: From Idea to Action*. In that paper I proposed a set of design and implementation principles to guide states that were considering incorporating an outcomes-based component in their resource allocation model. When that paper was written only a handful of states, Tennessee and Indiana most notably, were using outcomes-based funding across the full spectrum of institutions. In several other states, the idea was either being applied in a single system or being actively discussed.

In the intervening two years much has happened. The map below indicates the current level of adoption and interest insofar as these conditions can be determined in this rapidly changing environment. Now more than a quarter of the states are implementing outcomes-based funding in at least one segment of higher education, and numerous other states are moving in that direction.

Figure 1. Outcomes-Based Funding Implementation



While much has occurred on the substantive side during the last two years, it is worth noting that the language used to talk about the phenomenon has also changed. When I wrote the initial paper, the common terminology was performance funding. Now the preferred label is outcomes-based funding. This change in nomenclature is not whimsical; there is solid rationale behind it. Institutions can “perform” along numerous dimensions that have nothing to do with student success – increasing enrollments or ranking higher on national rating schemes such as US News & World Report. At the policy level, the objective is to improve outcomes. While the nature of outcomes sought varies from state to state, the common thread is a universal desire to increase the number of students graduated from the state’s colleges and universities. Linking funding to outcomes, not performance in the broader sense, is the clear intent. The change in language reflects more than semantics; it reflects substantive changes in intent.

The purposes of this document are twofold:

1. To revisit the sets of design and implementation principles presented in the earlier document and revise them in light of states' actions and experiences.
2. To assess the level of conformance to these principles on the part of those states that have moved past the discussion stage to implementation of outcomes-based funding.

As with the earlier version of the document, the ultimate objective is to provide clear, straightforward guidance to policymakers who are in the process of making decisions about the efficacy, design, or implementation of outcomes-based funding of higher education in their state.

Design Principles

As a result of experiences in the states that have been the pioneers in the most recent wave of outcomes-based funding, a number of common threads regarding such models are emerging. Because they have arisen out of independent processes in various states and because they are inherently sensible, they are presented here as principles to be used in the design stages.

1. **Recognize that all funding models create incentives for institutional behavior.** Tying funding to achievement of particular objectives is not a new idea. It is the objectives being prioritized that are new, not the notion of paying for performance. In the past, institutions have been rewarded for increasing access and enrolling more students. Enrollment-driven formulas became the norm, with the access objective so strongly embedded in financing policy and institutional cultures that change is now difficult. But access is no longer the sole – or even dominant – goal in many states. Student success and completion of academic programs (increased degree production) are on the ascendancy as state priorities. Over the years decisionmakers and analysts have become very good at devising ways to appropriately reward improvements in student access. The task now is to become equally adept at rewarding a different set of goals. The current wave of outcomes-based funding is a variation on a well-practiced theme, not a completely new idea. Since the first line of defense in resistance to change is an argument that tying funding to goals is something new and untested, a reminder of a long and successful history is a useful starting point.
2. **Get agreement on goals** before attempting to implement outcomes-based funding. Resource allocation models are means to an end, not ends unto themselves. If there is not a clear statement of goals that has broad bipartisan acceptance, there is almost no chance of creating a outcomes-based funding model that can last. It is well worth the time and effort to get broad consensus around a “public agenda” for the state before embarking on design of a outcomes-based based funding model. The public agenda should state a limited set of goals that:
 - Are tailored to the needs of the state, not borrowed from elsewhere
 - Focus on the needs of the state and its citizens, not the institutions of higher education

In the absence of a public agenda, the adoption of which precedes attempts to create an outcomes-based approach to funding, the design and implementation of the allocation model likely will be seriously compromised. The model will either

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- Be designed in such a way as to do what is easy (e.g. incorporating factors for which data are readily available) and thereby reinforce the status quo, or
 - Reflect sound principles but do so in the absence of the political support necessary for adoption and on-going success.

Goals need to be the driving force for outcomes-based funding, not a rhetorical afterthought.

Tennessee and Indiana provide illustrations of good practice in this regard. In both cases, a well-regarded plan was put in place and gave direction to the specifics of the funding model.

3. **Include all public institutions in the model.** In recent years, many of the outcomes-based models that have been implemented have included only one segment of the institutions within the state – the state colleges in Pennsylvania, two-year institutions in Massachusetts and Washington, and four-year institutions in Oregon, Maine, and Mississippi. These actions are to be commended, but they are no substitute for more inclusive approaches. Achieving statewide goals requires contributions from all institutions, not just institutions in one sector. Sector-by-sector approaches have the disadvantages of:

- Sidestepping the need for a statewide public agenda and foregoing the political consensus that can be constructed around such an agenda.
- Promoting system, not state, goals.
- Ignoring goals that take the concerted efforts of institutions in all sectors (e.g., no single sector can eliminate statewide attainment gaps between whites and minorities).

While specifics of the funding model must vary by sector, they should be developed within a statewide framework. Having said this, in the absence of state-level initiative, system-level efforts should be encouraged and viewed as building blocks for future statewide actions.

4. **Design the model in such a way that it reflects and reinforces mission differentiation.**

The current focus nationally is on education attainment of the population and the associated encouragement for institutions to increase the numbers of degrees and employer-recognized certificates produced. In most states this is a necessary and important goal, but is likely not the only one of importance to the state. Others frequently found include:

- Innovations that expand and broaden the state's economy
- Production of graduate and professional degrees in selected fields such as STEM or health care
- Improvements to K-12 education
- Development of a workforce for high-need occupations

While all recently implemented outcomes-based funding models have incentives for increased degree completion as a central feature, they all contain other components as well. This is important for several reasons:

- States legitimately have multiple goals; focusing on only one is ultimately a disservice to the state.

- Too narrow a focus will inevitably lead to unwanted institutional behaviors. If the sole objective is increased degree production, research universities will have every incentive to dig deeper into their applicant pool, enroll more students than deemed desirable (or sustainable) by policymakers, and increase competition with teaching oriented institutions even further. If the focus were to be on innovation and economic development, the incentive would be for all institutions to expand efforts and fuel the tendency toward mission creep to even more unhealthy levels.
- All institutions need an opportunity to benefit by doing their assigned mission well, not changing their stripes and seeking to become a different type of institution. If some segments of institutions see that the deck is stacked against them, they will rally supporters in the legislature and elsewhere to oppose adoption and implementation of the model.

Illinois is a good example of a state whose public agenda is both well-focused on the needs of the state while simultaneously calling on the different capacities of different kinds of institutions to achieve that agenda. (See http://www.ibhe.state.il.us/masterPlanning/materials/070109_PublicAgenda.pdf)

Tennessee's model is particularly good at reflecting different institutional missions by having different models for its two-year and four-year institutions and, within the four-year model, placing different weights on the variables that drive the model. As a result, it rewards:

- The research universities for producing doctoral and professional degrees and successfully competing for more research funding
- The comprehensive institutions for producing masters and baccalaureate degrees
- The community college for producing associate degrees and certificates, transferring students and reaching specified "momentum points" (remedial success, dual enrollment, and job placement, for example).

See <http://www.state.tn.us/thec/>.

An option is to create different pools of resources for different kinds of institutions – and ensure that institutions compete for resources in only one pool. At one point, Ohio used this strategy, with separate models for its main campuses, regional campuses, and community colleges. This approach has the benefit of reinforcing mission differentiation. The down side is that it locks in the distribution of funding across sectors making it difficult to shift funds across sectors (and potentially to better performing institutions) without legislative action.

5. **Include provisions that reward success in serving underrepresented populations.** One of the major concerns voiced about outcomes-based funding, especially when the goal is to produce more graduates, is that institutions will seek to enroll only those students most likely to succeed and ignore students who are at risk academically, economically, or otherwise. To counter this possibility most states that have instituted outcomes-based funding give extra weight for graduating students from at-risk populations. The weights vary from 40% (in Tennessee) to 100% (in Texas). The definitions of "at-risk" differ considerably from state to state. Examples include:

- Low income – usually measured as Pell or state grant eligible (Tennessee, Ohio)
- Adult (Tennessee, West Virginia)

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- Academically at-risk – below national average on ACT/SAT and those with GED

The beauty of the formulation that gives added weight to graduates with specified characteristics is its flexibility; flexible in the weights attached and in the characteristics of students identified as priorities for extra attention.

6. **Include provisions that reward progress as well as ultimate success (degree completion).** This is especially important in the early implementation stages of outcomes-based funding. Degree production is difficult to increase in a single year; a mechanism that rewards improvement in the shorter term is a useful and appropriate tool. It removes an argument against implementation and, more importantly, it helps students succeed by rewarding institutions who help students make step-by-step progress.

States that have implemented outcomes-based funding have pointed the way to different approaches to accomplishing this objective. They include:

- Providing rewards to institutions on the basis of number of students who complete 24 credits, 48 credits, 72 credits (Tennessee).
- Valuing completed credits at the upper-division level at a higher rate than at the lower division level (Ohio, Nevada).
- Rewarding institutions for students achieving certain momentum points – completing developmental education and succeeding in the first college-level courses, completing 15 credits, 30 credits, etc. (Washington community colleges).

It is possible to make this an inclusive provision, but it is also possible to confine this provision to at-risk students.

As will be noted later in this document – in the section on implementation – it is appropriate to view progress metrics as transitional in nature, being phased out after sufficient time has elapsed to allow improvements that lead to increases in numbers of degrees granted to be effective. The exception is community colleges where recognition of their transfer function should be incorporated in an explicit way on an ongoing-basis.

7. **Limit the categories of outcomes to be rewarded.** A frequent urge is to create an ever-expanding list of variables that can serve as drivers of the outcomes-based funding model; all institutions will press for inclusion of a factor that will benefit them. It must be remembered that outcomes-based funding should reward contributions to attainment of state, not institutional, goals. State policymakers are counseled to keep the variables attached to each type of institutions to no more than a half dozen. One of the primary purposes of outcomes-based funding is to focus institutional attention on key state priorities. If state policymakers can't limit the number of priorities, they are providing insufficient leadership and the message sent to institutions will be garbled at best. Success will be achieved only if the message is clear.
8. **Use metrics that are unambiguous and difficult to game.** Numbers of graduates is an unambiguous measure; students either graduated or they didn't. Graduation rates on the other hand are metrics fraught with ambiguities. There are all kinds of definitional problems associated with determining rates. Furthermore, institutions can “game” improvements in graduation rates; rates can be improved by graduating fewer, better-prepared students. This doesn't serve the overall goal – raising education attainment by graduating more students.

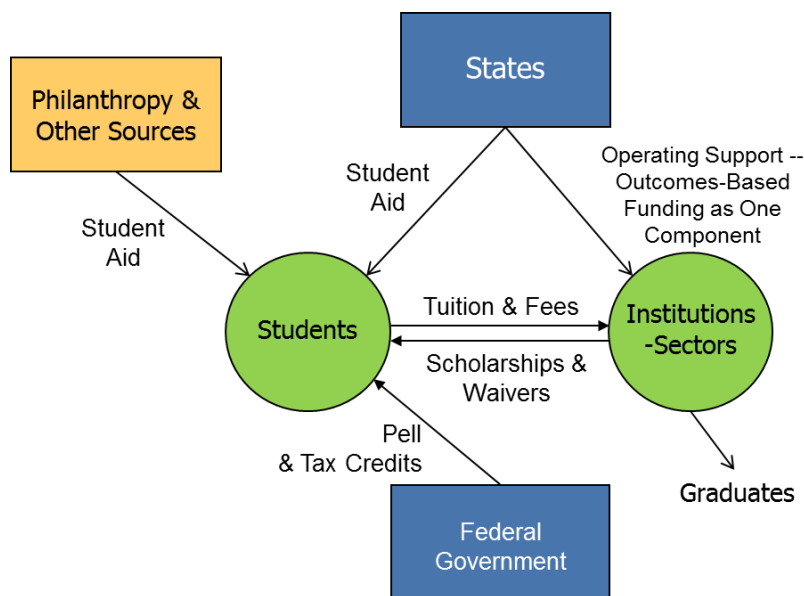
Regardless of the goal being pursued, it is always useful to test the metrics that will serve as drivers of the calculation by asking two questions:

- If an institution sought to maximize their benefit on each metric what would they do? What is the easiest way to “win”?
- Is the behavior elicited the intended behavior?

If the answer to the second question is “no”, go back to the drawing board; the chosen metrics are constructed incorrectly.

9. **Reward continuous improvement, not attainment of a fixed goal.** Creating conditions under which institutions can be rewarded only if they reach a predetermined level of outcomes is generally a bad idea. Either the goal will be set too low in effort to ensure success by at least a few institutions, or the goal will be viewed as unattainable and institutions will give up before they make a concerted effort to succeed. Better each institution’s current outcomes be established as the baseline and funds allocated on the basis of year over year improvements from that baseline.
10. **Address the quality issue.** The first attack on outcomes-based funding will come from those who will argue that such funding promotes a reduction in quality – institutions can easily graduate more students if they lower their standards and become diploma mills. While faculty, as the guardians of academic integrity, are unlikely to allow this scenario to play out, the concern about quality is real and should be addressed head-on. The country and states not only need more degree-holders, they need degree holders with higher, not lower, levels of knowledge and skills. To date, no state has explicitly included a quality metric in its funding model, but some states (Nevada as a prime example) are putting in place faculty-led processes intended to produce a set of metrics to track quality levels over time and potentially be incorporated into the funding model.
11. Recognize that outcomes-based funding is but one piece of the overall financing model for any institution of higher education, even in Tennessee where 95% of the state appropriation to institutions is allocated on the basis of outcomes. The following figure reinforces this point. It has been simplified from a more complex reality.

Figure 2. The Elements of Finance Policy



Two points are of particular importance. First, with few exceptions, outcomes-based funding represents but one component of the methodology by which state funds are allocated to institutions. The majority of funds are distributed through a mechanism that can be characterized as either enrollment driven or base plus. The former rewards access rather than success. The second is a recipe for maintaining the status quo. The orientation to enrollment increases as the primary driver is reinforced by the growing importance of tuition as a revenue source. Regardless of state goals, institutions have an ever-growing incentive to increase enrollments. Both approaches to base funding work at cross-purposes to the intentions of outcomes-based funding.

State funding is but one of two major sources of resources for college and universities; the second is student through payment of tuition and fees. This is inherently an enrollment-driven revenue stream and, in a growing number of states, accounts for more institutional revenue than state appropriations.

Faced with these realities, it is important that steps be taken to ensure that the outcomes-based component of the funding model doesn't get negated by the incentives for maintenance of the status quo (reinforced by base-plus funding models) or for access rather than success being the dominant driver (as reinforced by enrollment-driven state formulas and the pressure to acquire additional tuition revenues). Several tactics can help in this regard:

- In enrollment-driven state education models, base the calculations on completed credits, not enrolled credits. This suggestion is based on the fact that programs won't be completed if courses that constitute those programs aren't completed.
- In base-plus arrangements, freeze the base at current levels and devote all new funds to the outcomes-based pool.
- Make the outcomes pool an increasingly large part of the state allocation. In states where tuition makes up half of institutional revenues, allocation of half the state appropriation to outcomes equates to 25% of institutional revenues – a level still overshadowed by enrollment-driven considerations.

The bottom line message is “don’t create an outcomes-based funding model and declare the financing policy work to be done.” Among the unfinished business are steps needed to align tuition policy and the other elements of the state funding process with degree completion and other state goals. Equally important is successfully implementing the outcomes-based funding model once designed. Some principles of good practice in this regard are presented in the next section.

Implementation Principles

Even the best designed outcomes-based funding model is doomed to failure if not thoughtfully implemented. And a key to successful implementation is involvement of the major stakeholders from the very beginning of the design process.

It’s not just adherence to sound principles, but the environment in which they’re deployed that matters. Institutions are understandably interested in the means by which state funds are distributed. For both technical and political reasons it is important to have institutional representatives at the table at every step. Most have knowledge and experience that will improve the final product. Equally important, their involvement improves the chances of achieving a model that has broad support.

But institutional representatives are not the only voices to be heard during the development process. Since sustained implementation depends on broad political support, it is important to keep key legislative and executive branch staff in the loop as a way of ensuring that objections are heard earlier rather than later. And while the political cultures of most states would not have representatives of the business community as full participants in the design process, their support of the notion of pay for outcomes and of the kinds of outcomes that should be rewarded is often critical.

More specific suggestions regarding implementation practices include:

12. Make the outcomes-based funding pool large enough to command attention.
Controversy almost always surrounds the determination of the proportion of the state appropriation to be allocated on the basis of outcomes. Institutions typically argue for a small percentage; there is comfort in business as usual. Policymakers take the opposite position; more is better. There is no proven right answer and different states have reached different conclusions in this regard. Tennessee for years allocated 5.4% of the state appropriation on the basis of performance. Under the new Tennessee model, nearly all of the allocation is outcome based. Legislation in both Colorado and Louisiana sets the amount at 25%. Indiana now has one of the lower amounts at 6.5%. As a general principal, the smaller the share of institutional resources derived from the state the greater the percentage of state funds that should be directed toward outcomes. To do otherwise is to render such funding impotent. Given the high institutional dependence on tuition revenues that has emerged as the new normal, a target of at least 25% of state funding being devoted to outcomes is reasonable.
13. Don’t wait for new money. Given the economic outlook for most states, funding the outcomes component of the allocation model only with new resources is a recipe for indefinite postponement. Because pursuit of state goals is such an imperative, delay in attaching outcomes requirements to some part of the allocation sends entirely the wrong message.

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14. Include a phase-in provision. Don't try to do it all at once. If the ultimate size of the outcomes fund is intended to be 25%, consider phasing it in at the rate of 5% over five years – 5% in year one, 10% at year two, etc. The objective should be to get to the target level as fast as possible without making the changes so large that institutions can't adjust.
 15. Employ stop-loss, not hold-harmless, provisions. Institutions should not be held harmless from cuts to their allocations if they are not contributing to state goals. At the same time, cuts should not be so large as to jeopardize the stability of the institution. One way to accomplish this objective is through a "stop-loss" provision that establishes a maximum cut that can be imposed in any one year – e.g., 2% the first year, another 2% the second, etc. At some point – four or five years from the point of implementation – the stop-loss provision should be sun-setted and the outcomes-based funding model should function without artificial constraint.
 16. Continue outcomes-based funding in both good times and bad. If pay for outcomes is intended to reward institutions for addressing the most critical issues facing the state, it is hard to see how postponing its implementation could be a good idea. Funds that address the issues identified as being most important should be the last dollars cut, not the first. If the overall state appropriation is reduced, the strategy should be to allocate outcomes-based funding dollars first and then make cuts. The net effect will be to cut the high performers less than those making a lesser contribution to state goals.
 17. Incorporate intermediate/progress factors in the early years of implementation. For reasons discussed earlier in this paper, it is important to incorporate factors that can be affected in the short run. Progress metrics fit this bill. But at the end of the day, it is increased outcomes (in the form of degrees and certificates) that is the objective. As a result, progress metrics should be considered as transition devices and phased out after five or six years. If there is an exception, it should be for community colleges where continued focus on step-by-step progress for a typically at-risk student population can be justified.

The Road Blocks

Those not fully sold on outcomes-based funding will raise predictable counter arguments. Among them:

- Outcome-based funding has been tried before with limited, if any, success. Why should this incarnation of an old idea be any more successful than previous cycles? There are several critical differences this time around. First, if done right it is now being driven by a public agenda; it is seen as a tool to achieve key goals not as a device for talking the legislature into providing marginal new dollars. Second, it derives its power from a consensus about priorities, not from promotion by a single persuasive leader or a group of self-interested proponents. Third, data systems are now much improved; it is possible to calculate metrics for important outcomes directly without relying on proxy measures. Finally, legislatures are raising the stakes; it's no longer 2-5%, but 25%. It is much harder to ignore such programs than it was in times past.
- What is the evidence that it has made a difference? It's too early to judge in most cases, but there are some states in which implementation has resulted in higher performance.
 - In Tennessee, performance on the metrics included in their model has improved with few exceptions.

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- Similarly, Washington Community Colleges increased the number of momentum points achieved by 12% after initiation of a modest performance funding program.
 - You have to restore base funding before setting aside funds for outcomes. This is perhaps the most common argument put forward by opponents of outcomes-based funding. The reality is that institutions are producing their current (baseline) level of outcomes with whatever resources they currently have at their disposal. It should be expected that any new resources lead to higher levels of outcomes, not the same level of outcomes at higher cost.

The Score Card on Implementation

In an effort to get a more complete picture of outcomes-based funding implementation, NCHEMS staff reviewed the models that have been deployed. Only those that actually have been implemented – those that have been used to distribute funds for the current fiscal year – were included in the review. The review covered not only those states in which outcomes-based funding has been applied to all public institutions but those in which such funding models are being used in only one sector (e.g., the four-year institutions in Mississippi or the community colleges in Massachusetts). The results are presented in the appendix to this document.

The review material is organized in accordance with the list of principles presented in the document. Summary tables indicate the extent to which the models in place conform to the principles. This is a device for not only organizing the information, but also testing the list. The exercise proved useful. It provided a robust framework for organizing information and allowed description of key features of state programs. No features of models being implemented that suggested additions to the list of principles were discovered.

In scanning the summary charts, several points worth noting emerge:

- With few exceptions, outcomes-based funding models have been developed in the context of, and in alignment with, state (or System) goals.
- Almost all have provisions that allow for, and encourage, mission differentiation. The exceptions are models constructed for community colleges only. Community colleges are treated alike in all models.
- With few exceptions, the models recognize the importance of successfully serving underrepresented groups. There is considerable variation in the definition of “underrepresented” from state to state, but the characteristic most often reflected is “low-income” as determined by Pell eligibility.
- Only about half the states reward year-to-year improvement in the basic metrics. The rest use most recent year (or three-year averages) as the drivers.
- The majority of the states/Systems that use outcomes-based funding have moved to using completed credit hours rather than enrolled credit hours as the drivers in their base funding models.
- Only Tennessee and Missouri incorporate student learning/quality metrics into allocation algorithms. A small number of others are creating means for monitoring trends in quality metrics that will be used in parallel with their resource allocation models.
- The proportions of state funding being allocated on the basis of outcomes varies enormously from state to state ranging from 0.5% in Illinois to essentially 100% in

Tennessee. In several states at the low end of the spectrum, the plans are to move to higher proportions in a stepwise fashion. In these cases, the normative ultimate target is 25%.

- States and Systems that have implemented outcomes-based funding, with few exceptions, have done so by carving the outcomes funding pool out of the base allocation. Only Oklahoma has a provision requiring that outcomes-based funding be implemented only if new funds are provided. The Massachusetts community colleges happened to get new funding (at least in part because they were moving ahead with the new funding model) but the commitment was to implement outcomes based funding even without additional funds.
- Whether or not states incorporate stop-loss provisions depends heavily on the size of the pool and the extent to which significant amounts of money would be reallocated based on formula implementation. Those states/systems that incorporated an outcomes-based component within the redesign of their overall approach (base plus outcomes) were primary users of this feature. These include Nevada, the Massachusetts community colleges, and the Mississippi Institutions of Higher Learning.

If there is any observation that has emerged from this review (and not encompassed by the principles), it is that the models must be periodically adjusted to allow legitimate improvements. In some cases, change will be occasioned by the availability of new kinds of data. In other cases, changes are made when it becomes apparent that certain metrics don't make a difference or they don't accurately reflect the phenomenon of interest. In the end, it is important to be flexible – but only in the interests of better promoting goal achievement, not of eliminating reallocations and treating institutions “fairly” (interpreted as “equally”).

Figure 3 summarizes both design characteristics and implementation strategies for those outcomes-based funding mechanisms used to allocate state funds in FY 2014. Descriptive information for each implementing state/System is provided in the appendix.

Figure 3. Outcomes-based funding Design Mechanisms and Implementation Strategies by State

Principle	Arkansas	Illinois	Indiana	Louisiana	Maine	Massachusetts	Mississippi	Missouri	Nevada	New Mexico	Ohio	Oklahoma	Oregon	Pennsylvania	Tennessee	Washington
					4-Yr	2-Yr	4-Yr						4-Yr	4-Yr		2-Yr
2. Goals	x	x	x	x		x		x	x	x		x	x	x	x	
3. Inclusive	x	x	x	x				x	x	x	x	x			x	
4. Mission Differentiation	x	x	\	x	x		x	x	x	x	x	x		x	x	
5. Underserved Populations	x	x	x		x	x			x	x	x	x	x	x	x	x
6/7. Limited number of Program Metrics	x	x	x		x	x	x	x	x	x	x	x	x	x	x	x
8. Unambiguous	x	x	x		x	x	x	\	x	x	x	x	x	x	x	x
9. Cont. Imp.	x		x	x				x				x		x		
10. Quality	x							x	x					P	x	
11. Broad Alignment			x	x		x	x		x	x	x		x		x	
12. Large Pool	x		\	x		x	x	x	\	\	x			x	x	
13. Don't Wait	x	x	x	x	x	x	x		x	x	x		x	x	x	x
14. Phase-in	x	x			x				x						x	
15. Stop-loss				x	x	x	x		x							
16. Cont. in bad times	x	x	x	x	x	x	x		x	x	x		P	x	x	x

Concluding Comments

Outcomes-based funding has moved into the mainstream of state-level higher education financing policy. Several states have thoughtfully fashioned approaches to allocation of resources in ways that link funding to achievement of state goals. As a result, there is a growing body of information about good practices regarding design and implementation of such financing models. This brief paper is an attempt to succinctly describe those practices. The field has advanced to the point that the knowledge base regarding “how” to develop such systems is now in place. The issue now is one of political will, not technical know-how.

Appendix I. State Examples

Arkansas

(see URL: http://www.adhe.edu/divisions/researchandplanning/Pages/rp_performance.aspx)

2. Goal – Double the number of college graduates in Arkansas by 2025
 3. Includes all public institutions
 4. Mission Differentiation reflected in
 - Different metrics for 2- and 4-year
 - Optional metrics to allow institutions to better reflect mission
 5. Underserved populations
 - Four-year – proportion of Pell recipients
 - Two-year – low income relative to enrollment
 - Underprepared relative to enrollment
 - 6/7. Metrics – 4-year institutions
 - Mandatory
 - BA credentials
 - All credentials – technical certificates and above
 - STEM credentials
 - Progression – Arkansas-developed measure
 - Optional
 - Course completion
 - High demand credentials
 - Minority student credentials
 - Non-traditional credentials
 - Remedial credentials
 - Regional economic need credentials
 - Transfer student credentials
 - Expenditures of Federal funds
 - Patents
 - Start-ups
- Two-year institutions
- Mandatory
 - Remedial course success
 - Non-remedial course success
 - Progression – 18 hours or credential
 - Certificates of proficiency
 - Technical certificates
 - Associates degrees

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- Total credentials
 - Optional
 - STEM credentials
 - High-demand credentials
 - Workforce training – contact hours
 - Transfers – after 12 hours
 - Adult credentials
 - Minority credentials
 - Employment
10. Quality – an explicit list of metrics to monitor quality and ensure no diminution
 11. Broad alignment: No – other 75% distributed on basis of enrolled credits.
 12. Target is 25%, to be allocated on basis of outcomes – legislature capped at 10% until equity reached in base funding.
 14. Phase in – designed to start at 5% and increase 5% per year until target of 25% is reached.
 15. No stop-loss – but decrement based on a sliding scale – can lose full 5% only if failure on 9 of 10 metrics.

Illinois

2. Well developed through a broadly inclusive process (see URL: <http://www.ibhe.org/PerformanceFunding/default.htm>)
3. Includes all public institutions.
4. Mission differentiation accomplished by having separate models for two- and four-year institutions.
5. Additional weights provided for graduating students who are
 - Low income (Pell/MAP eligible)
 - Adults (25 years or older)
 - Hispanic or African-American
- 6/7. Metrics
 - Four-year
 - Degrees granted (Baccalaureate, Masters, Doctoral, and first professional)
 - Bonus for STEM and Health degrees
 - Undergraduate degrees per 100 Undergraduate FTEs
 - E&G spending per completion
 - Research and public service expenditures
 - Two-year
 - Degree and certificate completion
 - Transfers (to both 4-year and other 2-year)
 - Remedial and adult education advancement
 - Momentum points
11. Broad alignment: No – Most funds based on a base-plus model with the “plus” being uniformly applied
12. Large Pool: No – 1/2% of state appropriation
13. Intent is to increase portion of funds being allocated on basis of outcomes – stepwise increments in future years.
15. No stop loss. Allocation is so small as to not warrant consideration of protecting institutions against severe decrements.

Indiana

2. Yes – See URL for Reaching Higher, Achieving More, <http://www.in.gov/che/2349.htm>

3. Yes – applies to all public institutions

4. Generally the same for all institutions – some variation within metrics

5. “At-risk” – defined Pell recipients

6/7. Metrics

- Overall degree completion (certificates, Associates, Baccalaureates, Masters, and Doctoral)
- At-risk student degree completion
- High impact degree completion – STEM
- Student persistence
 - Two-year institution – 15, 30, and 45 credits
 - Four-year non-research – 30 and 60 credits
- Remediation success – successful completion of remediation and successful completion of gateway course in same subject area.
- On-time graduation rate – improvement in 4-year and 2-year graduation rates
- Productivity metric – negotiated with each institution

11. Base funding calculated on basis of completed credit hours

12. 6% for 2014, 7% for 2015

Louisiana

2. Yes – See Master Plan URL, http://regents.louisiana.gov/?page_id=102
3. Yes – Applies to all public institutions
4. Mission differentiation maintained by including different measures for different types of institutions.
5. No.
- 6/7. Metrics – numerous in various categories. Based on GRAD Act (Granting Resources & Autonomy for Diplomas)
 - Student Success
 - Retention
 - Program completers
 - Pass rates on Licensure/certification exams
 - Articulation and transfer
 - Workforce and Economic Development
 - R&D
 - Employment of completers
 - Institutional efficiency and accountability.

In each area, institutions establish annual performance targets in consultation with the Board of Regents. Success is determined by the proportion of these targets successfully achieved.

11. Yes. Base funding determined on basis of completed credit hours.
12. Yes, institutions that achieve 80% of their targets receive
 - 15% of base appropriation
 - Permission to raise tuition up to 10%

Maine

2. No master plan at either state or system level.
3. Includes public four-year only.
4. Differentiation promoted by assigning different weights to the metrics for different types of institutions – University of Maine, University of Southern Maine, and all others.
5. Underserved populations – premiums awarded for adults who complete AA or BA degrees or transfer with 30 or more credits.
- 6/7. Metrics
 - Awards – certificates, Associates, Baccalaureates, Advanced
 - Premiums for STEM, health, and regional need field
 - R&D – revenues and numbers of contracts with premiums for contracts with Maine partners
 - Momentum points – 30-59 credits and 60-89 credits
 - Productivity – awards per \$100,000 of (state appropriations + tuition)
8. All are unambiguous counts.
10. Quality issues not addressed.
11. No – most funds based on prior year's funds with across the board increments or decrements.
12. No. 5% of base allocation.
14. Phase-in with 5% increase per year until 25% is reached.
15. Stop-loss. Yes, 2% the first year.
16. Intended to be applied every year regardless of base funding levels.

Massachusetts

2. Yes. Model developed within the context of The Vision Project, the Department of Higher Education's strategic plan. <http://www.mass.edu/visionproject/home.asp>
3. Includes only public two-year institutions.
4. No differentiation among institutions. All institutions are treated the same.
5. Underserved populations. Low income defined as Pell recipients.
- 6/7. Metrics
 - Completions – certificates and Associates. Premiums for awards in priority fields (30%), and to underserved populations (30%)
 - Transfers with at least 24 SCH
 - Momentum points
 - Completes 30 credit hours
 - Completes first college-level English
 - Completes first college-level Mathematics
 - Productivity – awards per 1000 FTE
 - Success rate – using the Achieving the Dream definition
8. All are unambiguous counts except the ATD Success Rate.
10. Quality issues not addressed.
11. Yes. Balance of funds are distributed on basis of completed credit hours.
12. Yes, 50% of the funds allocated on the basis of outcomes.
13. Allocates all funds regardless of prior year's funding level.
14. Phase in - no.
15. Yes. Both stop-loss and stop-gain.

Mississippi

2. No. No strategic plan at either state or system levels.
3. Includes only public four-year institutions.
4. Mission differentiated by weighting metrics differently for different types of institutions.
 - MSU, USM, UM
 - Jacksonville State
 - All others
5. No feature that provides a premium based on student status.
- 6/7. Metrics
 - Degree completion
 - Intermediate outcomes – completing 30, 60, and 90 SCH
 - Research activity – expenditures
 - Links to K-12 education – TBD
 - Productivity – degrees per 100/FTE
8. All are unambiguous counts
11. Yes. Base funds allocated on basis of completed credits.
10. Quality issues not addressed.
12. Yes, 15% of appropriation allocated on basis of outcomes.
14. Phase-in, intended to be increased.
15. Both stop-loss and stop-gain.
16. Intended to be utilized regardless of funding levels.

Missouri

2. Goals established in their Master Plan, “Imperatives for Change: Building a Higher Education System for the 21st Century.” No quantitative targets are associated with the goals.
3. Includes all public institutions.
4. Mission differentiation maintained by
 - Having separate models for two- & four-year institutions.
 - Providing four-year institutions freedom to select a mission-specific metric on which to be assessed.
 - Does not address underserved populations

6/7. Metrics – four-year

- Student success and progress (institutions choose one)
 - Freshmen to sophomore retention
 - First-time full-time freshmen successfully completing 24 hours in their first academic year
- Increased degree attainment (institutions choose one)
 - Total degrees awarded
 - Six-year cohort graduation rate
- Quality of Student Learning (institutions choose one)
 - Improvements in assessments of general education
 - Improvements of assessments in the major field
 - Improvements on professional/occupational licensure tests
- Financial responsibility and efficiency (institutions choose one)
 - Percent of total educational and general expenditures expended on core mission (instruction, research, public service)
 - Increase in educational revenue (state appropriations plus net tuition revenue) per FTE student at or below the increase in the CPI.
- Institution – selected, mission-specific metric

Metrics – two-year institutions

- Student Success and Progress
 - Three-year completion rate for first-time, full-time entering students (includes students who complete a program one-year or more in length or successfully transfer to a four-year institution)
 - Percentage of developmental students who successfully complete their last developmental English course, who then successfully complete their first college-level English course.
 - Percentage of developmental students who successfully complete their last developmental Mathematics course, who then successfully complete their first college-level Mathematics course.
- Increased degree attainment and Quality of Student Learning

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- Percentage of career/technical graduates who pass their required licensure/certification examinations
 - Fiscal Responsibility and Efficiency
 - Institution-specific measures

For both two- and four-year institutions, success is defined as improvement over the previous year's performance (both measured as a 3-year rolling average) or performance in the top third of a comparison group.

8. Most are unambiguous counts. Graduation rates and revenue/expenditure ratios are possibly subject to manipulation
9. Most measures require either continuous improvement or high performance.
10. Quality of student learning included in metrics for all institutions.
11. Base funding does not include incentives for goal attainment.
12. Outcomes-based pool is approximately \$25 million in FY 14, about 3% of the general fund appropriation amount.
13. Funded with new money.
14. No explicit phase-in.
15. No need for stop-loss since it is funded with new money.

Nevada

2. Yes – see URL,
http://system.nevada.edu/tasks/sites/Nshe/assets/File/Initiatives/fundingformula/Funding%20Model%20Summary%20Revised_8_12.pdf
3. Yes – Applies to all public institutions
4. Mission differentiation reflected in
 - Different metrics for different types of institutions
 - Regional workforce needs reflected in community college metrics
 - Different weights applied to metrics for different types of institutions
5. Underserved populations defined as including
 - Minorities
 - Pell eligible
- 6/7. Metrics
 - Degrees awarded
 - Certificates (at least 30 credits)
 - Associate's
 - Bachelor's
 - Masters and Doctoral
 - Sponsored research expenditures – Research Universities only
 - Transfer students
 - Four-year – numbers of transfer students received with AA degrees
 - Two-year – transfers with at least 24 credits
 - Gateway course completers – non-research institutions only
 - Efficiency – awards per 100 FTE
 - Economic development
 - STEM and Health graduates
 - Institution-selected field
10. Yes. Metrics have been developed to monitor any changes in quality and are being put in place.
11. Yes. Base funding tied to completed credits.
12. 5% in year one increasing by 5% per year to 20%.
14. Outcomes-based funding is being phased in over four years. See above.
15. Stop-loss in place and operative for first two years.
16. Yes.

New Mexico

2. No explicit goals contained in a Public Agenda or Master Plan
3. Includes all public institutions
4. Differentiated by applying different weights to common metrics for different types of institutions – research universities, comprehensive universities, community colleges
5. At-risk students defined as students who are Pell eligible during term in which they receive their degree
- 6/7. Metrics
 - Degrees and certificates awarded
 - Degrees awarded to “at-risk” students
 - Degrees awarded in STEM and healthcare professional fields
11. Yes. Base funding allocated on basis of completed credit hours.
12. Outcomes pool was 5% of the state appropriation in FY 2013. This was reduced by the legislature to 3.5% for FY 2014. The intent is to increase it in future years.

Ohio

2. No statewide plan on explicit goals currently in effect. Prior plan no longer being referenced.
3. Includes all public institutions, two-year and four-year.
4. Mission differentiation maintained through different metrics and separate pools for two- and four-year institutions. Within the four-year category 20% of the appropriation is set aside for doctoral and medical education.
5. Underserved populations. Low income defined in terms of eligibility for state need-based aid funds.

6/7. Metrics

- Four-year
 - 50% for degree completions
 - 30% for course completion
 - 20% for doctoral and medical
- Two-year
 - 25% course completion
 - 50% enrollment
 - 25% success/momentum points

The two-year metrics will change in FY 15 to add rewards for degree completion and transfers and eliminate enrollment components.

11. Broad alignment is achieved by using courses completed as a major component of the allocation scheme.
14. Phase-in only to the extent that the community college model will be revised for coming year to with more emphasis on outcomes – a phase-in of the model rather than the proportion of funds allocated to outcomes through the model.
15. Stop-loss. The stop-loss employed in prior years has been eliminated.

Oklahoma

2. Yes. Developed within the context of the statewide Brain Gain initiative.
3. Yes. Applies to all public two- and four-year institutions.
4. No. Applies equally to all two- and four-year institutions.
5. Yes. Pell grant recipients. Applies only to retention metric.
- 6/7. Metrics
 - First-year retention
 - First-year retention for Pell recipients
 - 24 credits in first academic year
 - Cohort graduation rates anywhere in the system
 - Degrees granted
 - Improvement
 - Relative to CCA targets
 - Program accreditation
9. Yes. Rewards on most metrics are based on increase not absolute numbers.
11. Broad Alignment: No.
12. Large Pool: No. Total of \$2 million.
16. Implemented only if state appropriations are increased (there is new money).

Oregon University System

2. Created within the context of the state's 40/40/20 initiative and the System's strategic plan.
3. No. Four-year institutions only.
4. No. Applies to all four-year in the same way.
5. Yes. A premium for underrepresented minorities and students from rural counties.
- 6/7. Metrics
 - Number of degrees (baccalaureate and graduate) awarded to Oregon residents
 - Number of degrees (baccalaureate and graduate) awarded to underrepresented minority and rural Oregonians.
8. Yes Metrics are direct counts.
11. Yes. Base funds are allocated on the basis of completed credit hours.
12. \$6.9 million for the current biennium.
16. Allocated out of base System funds. Changes in Oregon's governance structure will undoubtedly affect outcomes-based funding in the state.

Pennsylvania State System of Higher Education

2. No statewide goals. Developed within the context of System goals.
 3. Includes only PASSHE institutions. Excludes the state's public research universities and community colleges.
 4. Provides for differentiation within the System through use of measures institutions can select in addition to a standard set.
 5. Yes. Underrepresented minorities and Pell recipients.
- 6/7. Metrics – three domains (student success, access, and stewardship) and three groups.
- Mandatory
 - Selection of 3-5 from a predetermined list
 - Up to two institution specific

The mandatory metrics are

- Degrees conferred (associates, baccalaureate, graduate)
- Baccalaureate degrees per FTE UG enrollment
- Closing achievement gaps for Pell recipients
- Closing achievement gaps for underrepresented minorities
- Closing access gaps for Pell recipients
- Closing access gaps for underrepresented minorities
- Percent FT tenure/tenure track faculty who are non-majority
- Percent FT tenure/tenure track faculty who are women
- Private philanthropic support

The prescribed group from which institutions can pick 3-5 metrics include:

- Third- and fourth-year student persistence
- Educational value added (as reflected in senior CLA, CAAP, or ETS® Proficiency Profile Scores)
- STEM degree recipients (including health degrees)
- Faculty career advancement
- Staff diversity
- Student diversity
- Student experience with diversity and inclusion (as reflected in the average for the combined scores on applicable NSSE items)
- Facilities investment (as measured by the annual Sightlines Return on Physical Assets study)
- Administrative expenditures as percent of the cost of education
- Credit hour productivity (as measured by student credit hours as a ratio of the total FTE faculty)
- FTE student/FTE employee (faculty and staff) productivity

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8. Measures are well-defined and unambiguous.
 9. Yes. Several metrics focus on closing gaps; institutions rewarded only for improvement.
 10. Quality. Only if institutions select the educational value added metric from the optional list.
 11. No. Base funds are distributed on an FTE basis.
 12. 2.4% of the total operating budget is allocated on the basis of outcomes. This amount is supported by the state appropriation.

Tennessee

2. Has well established goals included in their master plan (See <http://www.state.tn.us/thec/>). Goal is 55% attainment by 2025.
3. Includes all public institutions.
4. Mission differentiation maintained by:
 - Having separate models for two- and four-year institutions
 - Further distinguishing institutions in different Carnegie classes by assigning different weights to metrics.
5. Underserved populations – adults and low income.
- 6/7. Metrics – four-Year
 - Student progression (24, 48, 72 credits)
 - Transfers out with 12 credits or more
 - Degrees and certificates per 100 FTE
 - Degrees granted (Associates, Bachelors, Masters/Education Specialists, Doctoral and Professional)
 - Research and services
 - Six-Year graduation Rate
- Metrics – two-Year
 - Student progression (12, 24, 36 credits)
 - Transfers out with 12 credits or more
 - Degrees and certificates per 100 FTE
 - Dual credit enrollments
 - Degrees (AA and certificates)
 - Job placements
 - Remedial/developmental education success – completion of college level course
 - Workforce training – contact hours
7. All are unambiguous counts with the possible exception of the six-year graduation.
10. Quality. When Tennessee adopted its new outcomes-based model in 2011 it maintained its old performance funding model (5.45% of the state appropriation) and devoted this pool to ensuring that quality is maintained. The metrics utilized in allocation of this pool include:
 - Assessments of general education (tests)
 - Major field assessments (licensure/certification exams whenever possible)

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- Academic program accreditation; rigorous review in fields with program accreditation
 - Student satisfaction/engagement data
 - Job placement results

11/12. Since almost 100% of the funding is outcomes-based (the exception is a small percentage for non-outcomes performance) all funding is aligned with state goals.

13. Allocates all of the money appropriated regardless of prior year's allocation.

14. Phase-in – over three years

15. Stop-loss – no

16. Applied every year regardless of funding levels

Washington State Board for Community and Technical Colleges – Student Achievement Initiative

2. No statewide plan currently in effect. One is under development
3. Includes only the community colleges. Four-year institutions do not have a similar program
4. All community colleges are treated the same.
5. Yes. Extra weight given to programs/completion of students who were designated as basic skills students at time of entry.
- 6/7. Metrics
 - Basic - a certificate requiring at least one year of college work, a degree, or an apprenticeship.
 - Increase in Basic Skills – Multiple points awarded from test score gains
 - Multiple points awarded incrementally for each level completed in English and math
 - Single count for each achievement point reached: 1st 15 College Credits, 1st 30 College Credits, Quantitative/College Math
 - Progression/Retention points
8. Yes. Clear definitions.
9. Based on cumulative points, not continuous improvement.
10. Quality not considered specifically.
11. Broad alignment: No. Base allocation determined largely by enrolled credits.
12. Pool in each year of current biennium is \$5,000,000.
16. Was continued in absence of legislative appropriation in prior biennium.