

Creating Funding Formulas: Best Practices & Lessons Learned



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NCHEMS

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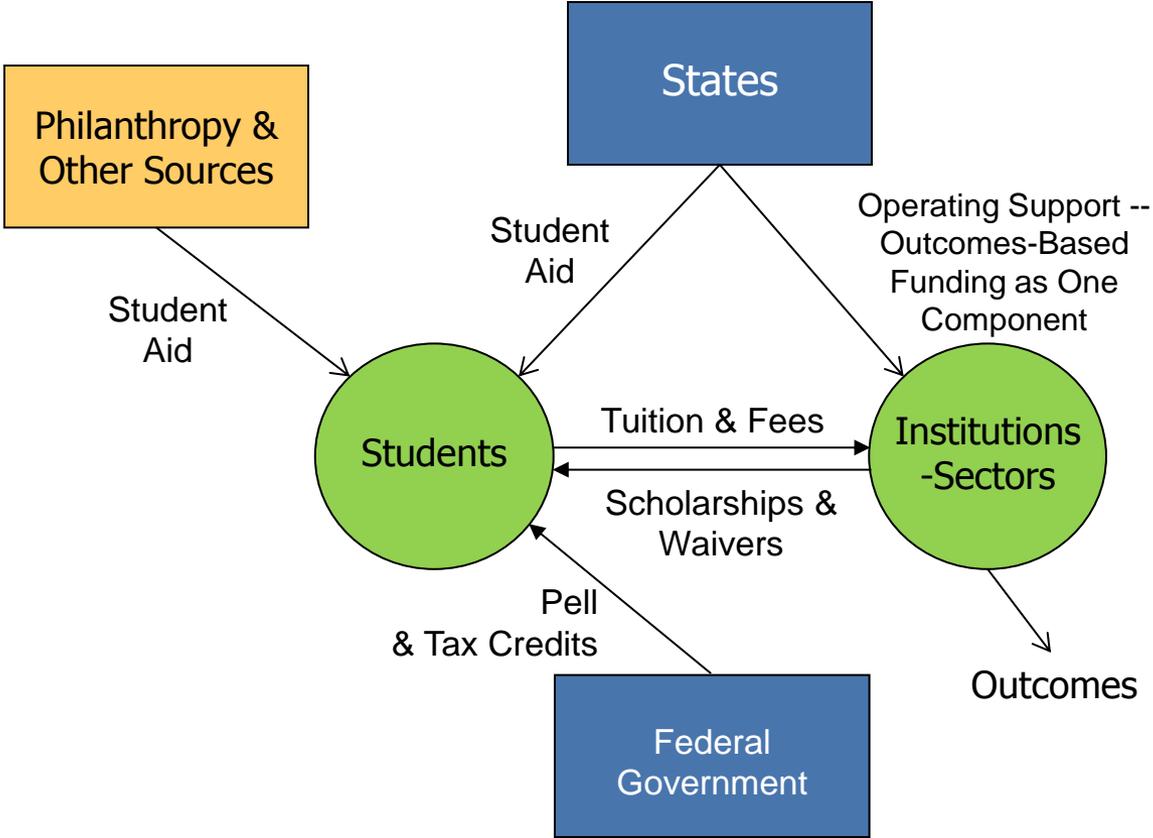
Why the Renewed Interest in Outcomes-Based Funding

- 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

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 as well as access
- A reminder – the importance of tuition and fee revenues to institutions is a strong incentive to increase access

The Elements of Finance Policy



Currently in the Third Cycle of Outcomes-Based Funding

Round 1	1975 – 1984
Round 2	1985 – 2004
Round 3	2005 - Present

Round 1

- Tennessee breaks new ground
- Initially 2%, then 5.4% of each institution's appropriation tied to outcomes
- Rewards encouraged good practices rather than outcomes
 - Accreditation of programs
 - Building data capacity
 - Using national assessments where available
 - Etc.
- Continued in new model as the Quality Assurance Component

Numerous states tried it

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

*Still in effect.

Most Faded Away for One or More Reasons

Examples of what *not* to do

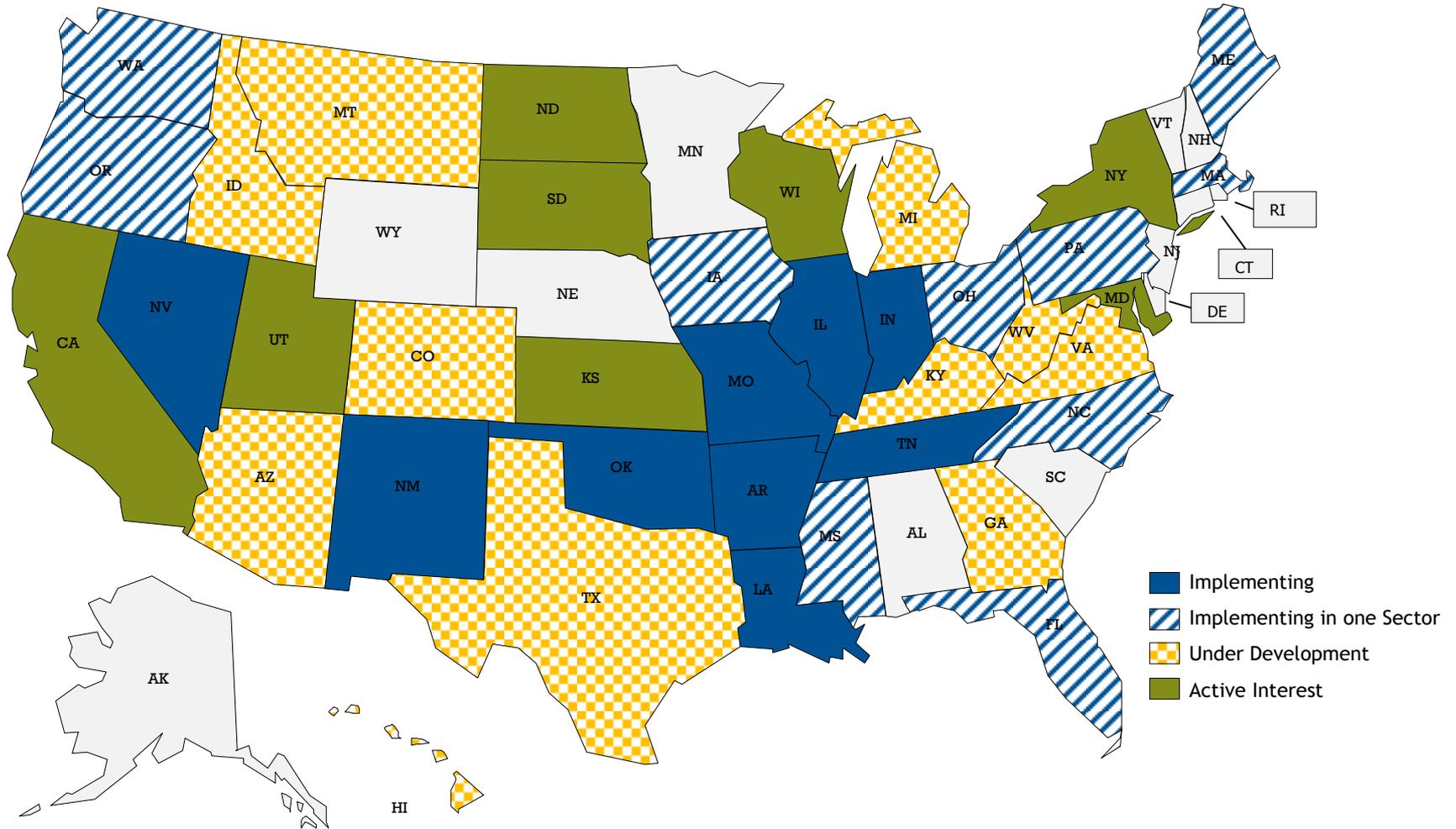
- Right idea but faulty implementation
 - Too complex – too many elements
 - Insufficient data – unavailable or unreliable
 - Didn't recognize different institutional missions – one size fits all
 - Imposed without institutional consultation/buy-in
 - Based on new funds
- Done for the wrong reasons
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

Round 3

The Current State of Development & Implementation



Outcomes-Based Funding 3.0: State Activity





From those states that have carefully constructed outcomes-based funding models, we have learned some lessons about

- Good design
- Sound approaches to implementation

Design Principles

1. Get agreement on goals before putting outcomes-based funding in place
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
4. Include provisions that reward success in serving underserved populations

Design Principles

(continued)

5. Remember the other parts of the funding model - don't create conflicting incentives
 - COF
 - Mission Funding
6. Limit the numbers of outcomes to be rewarded
 - No more than 4 or 5
 - Too many and both institutional focus and the communication value are lost
7. Use metrics that are unambiguous and difficult to game



Typical Outcomes Include

- Degrees/certificates
 - Premiums for at-risk populations
 - Premiums for priority fields
- Transfers
- Momentum points
 - Credits completed
 - Completion of first college credit courses in English and math
- Economic development
- Productivity
 - Degrees/\$100,000 of tuition and appropriations revenue
 - Degrees/100 FTE

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
 - For each institution, establish most recent year as baseline
 - Allocate outcomes funds on the basis of year-over-year improvements
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

Typical Sticking Point

- New money or reallocation of existing funds
- Metrics used
 - What degrees should be counted?
 - All or UG only?
 - Should they carry different weights?
 - In-state students only?
 - Outcomes only, or momentum points as well
 - Credits completed
 - Completion of first college-level mathematics and English courses
 - Metrics for economic/community development
- How to handle transfers
- How to handle certificates – which ones count
- The quality issue
- Implementation
 - Phase-in
 - Stop-loss
- A single model or different models (and pools) for different types of institutions?

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