

PERFORMANCE & OUTCOMES-BASED FUNDING

Lessons for Accountable
Investment for Postsecondary
Progress in Kentucky



Kentucky Chamber



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OVERVIEW

Like many states, Kentucky faces declining support for postsecondary education and competing demands for state resources. Enacted state General Fund appropriations declined 16 percent between FY 2008 and FY 2016 – from \$1.084 billion to \$914 million.¹ The financial burden on students continues to rise, in tuition and student debt. From 2008 to 2016, tuition rose 48 percent at four-year institutions and 35 percent at two-year institutions.² Similarly, from 2004 to 2014 the percentage of Kentucky students with loan debt increased from 52 percent to 64 percent, and the average amount of debt increased 82 percent – from \$14,250 to \$25,939.³ Yet demand for an educated workforce continues to increase. By 2020, 62 percent of jobs in Kentucky will require some postsecondary education. But only 33 percent of working-age adults have an associate degree or higher, and only an estimated 42 percent have a high-value postsecondary credential or higher.⁴

Given this context, the question of how the state can best invest in Kentucky's postsecondary education system was brought into sharp focus during the 2016 legislative session as policymakers crafted the state budget for the next two years. Included in the enacted budget was a mandate that 5 percent of postsecondary institutions' operating appropriations in 2018 would be based on a new, comprehensive funding model. Consisting of the Governor, President of

the Senate, Speaker of the House, institutional presidents and the president of the Council on Postsecondary Education, the newly created Postsecondary Education Working Group was charged with developing the funding model based on elements of performance, mission and enrollment and to make recommendations by December 1, 2016.

To help inform key stakeholders, a symposium hosted by the Prichard Committee for Academic Excellence and the Kentucky Chamber of Commerce on June 29, 2016, "Performance & Outcomes-Based Funding: Lessons for Accountable Investment for Postsecondary Progress in Kentucky" provided a forum for an informative discussion on performance and outcomes-based funding models for postsecondary education. The event continued the two organizations' long-standing partnership, bringing together educators, policy experts, business leaders and citizen advocates to discuss critical education policy issues.

Leading experts from Kentucky and around the nation offered a variety of perspectives and timely information about the national context, state-level experience, and challenges with data and analytics. Symposium presentations can be accessed online at prichardcommittee.org. An overview of important takeaways from the day, as well as the presenters and brief summaries of their topics, follows.

KEY TAKEAWAYS

Kentucky embraced substantial reform to higher education in the 1997 Postsecondary Education Improvement Act (House Bill 1), which provided mission focus for institutions and oriented Kentucky on a more coordinated, strategic pathway to increasing postsecondary education attainment. Due in large part to these reforms and increased financial support in the years that followed, Kentucky saw progress in postsecondary education attainment. The state recorded some of the largest gains nationally in the percentage change of attainment and graduation rates from 2000-2009, but this growth has slowed since 2009.

Given state fiscal climates today and significant demands from other areas of government, additional public investment requires accountability for progress toward well-defined system, institutional, and student outcomes and performance goals. There is now a recognizable, national trend to more directly link public investment in postsecondary institutions to outcomes and performance. Currently, 38 states are in the process of either implementing or developing some form of outcomes or performance-based funding, with significant variation among approaches with regard to funding level, structure, and metrics used.

Outcomes or performance-based funding refers to a set of policies that base financial support of postsecondary institutions on measures of performance, outcomes, and quality linked to state-level and institutional priorities. The movement toward this strategy represents a departure from funding based simply on prior-year levels or levels of enrollment.

While actual evidence of the effects of implementing these new types of funding models is limited, common benefits and concerns often cited include:

Benefits

- Increase in institutional awareness of state-level priorities and college-level goals
- Increased use of data in institutional planning
- Enhanced student services focused on completion
- Increased public accountability and transparency

Concerns

- Reduction in quality of academic programs with focus on increasing completion levels
- Restricting access to opportunity for traditionally underprepared students
- Challenges to strategic planning due to instability of funding levels
- Potentially negative effects on institutions with different capacities



Despite the variation in funding models nationwide, some common design principles have emerged that may help address some concerns and maximize benefits. These include but are not limited to:

- Clearly define state-level policy priorities.
- Use measurable metrics that can be clearly communicated.
- Involve all stakeholders.
- Reflect the mission of different institutions.
- Funding must be meaningfully significant to influence strategic planning.
- Properly count all students, weighting those that are typically underrepresented.
- Phase in implementation to ensure stability and sustainability.

Likewise, states vary in how to measure performance and quantify outcomes. Common metrics have emerged, including:

- Student Progression – i.e. credit-hour accumulation, course completion
- Completion – i.e. degrees awarded, graduation and transfer rates
- Productivity & Mission-Focus – i.e. degrees per 100 FTE, expenditures per completion, research dollars, workforce training activity
- Student Priority – i.e. weighting for adult, low-income, minority, or academically underprepared students, as well as high-demand credentials

While these are common measures, others metrics states have considered or are considering include:

- Enrollment as a measure of access
- Post-college outcomes such as job placement, professional licensure, further education, and earnings
- Learning outcomes and academic quality measures such as scores on standardized assessments and licensure exams, program reviews, accreditation, and satisfaction surveys
- Measures of cost and affordability such as tuition and fees, and expenditures per student



Even with the overall trend toward performance and outcomes-based funding models, significant variations exist among states. This reflects the diversity among postsecondary institutions as well as the wide variety of state-level economic factors, workforce needs, and governance structures. Policymakers should consider carefully data describing their state's strength and weaknesses in achieving postsecondary education's goals, the overall context of their state and institutions, and the diverse perspectives of the many stakeholders engaged with postsecondary education. Other key considerations include:

- Basis of funding on progress to targets or actual outcomes
- Impact of model on students' access to postsecondary opportunities
- Impact of model on state and institutional financial aid
- Impact of model on tuition
- Method of funding for research, public service programs, and other mission mandates

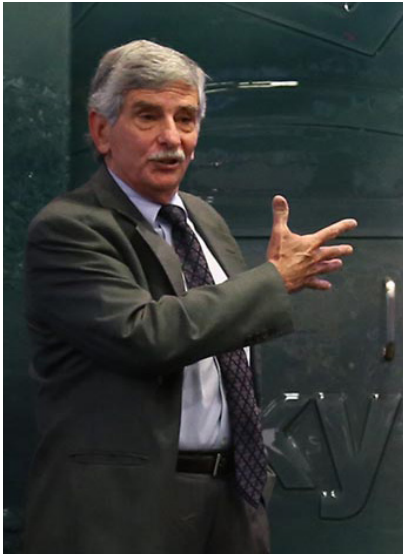
- Impact of model on institutional collaboration
- Methods of quality assurance such as measures of student learning, satisfaction surveys (student/faculty/alumni/employer), accreditation, and program reviews, etc.

Basing financial support for postsecondary education on measures of quality, performance, and outcomes can be a significant tool in incentivizing programs and policies linked to state-level priorities. The challenge is to define state-level goals, identify what to assess, and determine what metrics to prioritize. Effective funding models should provide accountability, reflect core values and public goals, respect institutional missions, and capture student learning, research, innovation, and public service. Balancing the interests of all stakeholders will ensure the success of new funding models and, ultimately, that Kentuckians have access to affordable, high-quality postsecondary education.

PRESENTATION SUMMARIES

Kentucky's Postsecondary Landscape – A View Since Reform (1997)

Dr. John Thelin, University Research Professor and Professor of Education Policy Studies, University of Kentucky



Professor Thelin provided a brief historical overview of the progress of postsecondary education in Kentucky noting the seminal 1981 report of the Prichard Committee on Higher Education in Kentucky, “In Pursuit of Excellence,” which identified critical issues and offered key recommendations in an effort to reform higher education policy. He characterized the impact of the 1997 Postsecondary Education Improvement Act as an enduring reform – specifically citing the restructuring of the community and technical college system and creation of the Research Challenge Trust Funds (“Bucks for Brains”) as notable achievements. He expressed the opinion that Kentucky’s postsecondary education system is better than its reputation and continues to improve.

Professor Thelin highlighted the historic success of America’s postsecondary education system, significantly the impact of the focus on access since the 1970s. The focus is beginning to shift, he noted, to student achievement as questions of cost and effectiveness arise with shrinking percentages of funding going to direct educational activities. The larger tension between the public and private nature of the benefits of postsecondary education has intensified with funding challenges facing institutions and students.

Performance & Outcomes-Based Funding – The National Context

Brian Fox, Senior Associate – Higher Education Policy, Lumina Strategy Labs/HCM Strategists

Mr. Fox provided HCM’s detailed overview of the national context for outcomes-based funding, its policy basis, and key design principles. The key design principles outlined include:

- Clearly define state-level policy priorities.
- Use a simple approach.
- Include measurable metrics.
- Incent success of underrepresented students.
- Include all institutions and reflect varying missions.
- Seek stakeholder input.
- Make the funding meaningful.
- Phase in implementation.
- Plan to evaluate.

Also discussed were common measures used in states with outcomes-based funding policies, including:

- Student Progression and Momentum - Intermediate outcomes/key milestones important to student’s progression toward completion
- Completion and Outcomes - Promote certificate, degree completion, transfer
- Productivity and Institution Mission - Promote efficiency, affordability and focus dollars on core mission functions
- Priority - Student categories and/or degree types that are a priority for the state to meet attainment and job needs; student focus is on progression and completion, not just access.

HCM has developed a typology for outcomes-based funding



reflecting the significant variation among states in funding levels and structure. With 38 states either implementing or developing some form of outcomes-based funding model, the typology framework provides a useful tool for those interested in basic comparisons. The most developed funding policies include the following characteristics: link to a state-level completion/attainment goal; are part of greater than 25% of base allocation; include all institutions; differentiate based on mission; focus on degree completion; prioritize underrepresented students; are formula driven; and have been sustained for two or more years.

He concluded with the notion that outcomes-based funding should promote transparency and understanding of all state investments in postsecondary education, including institutional funding, tuition, and student financial aid.

Kentucky's Outcomes-Based Funding Experience

Robert King, President, Kentucky Council on Postsecondary Education

President King provided an overview of Kentucky's efforts in recent years to establish some basis of funding using performance measures. He noted that Kentucky led the nation in several areas of postsecondary performance from 2000 to 2009, but that the progress has slowed.

Over the last three budget cycles, the Council on Postsecondary Education (CPE) has proposed performance funding for institutions based on either achievement of targets and goals or shares of degrees produced. All of these proposals applied only to new funding requests.

While none of these proposals have been adopted by the General Assembly, President King summarized the principles that CPE and institutions have come to agree upon as well as lessons learned. He emphasized that measures of quality and student learning need to be built in over time.

Principles for Performance-Based Funding

- Mission sensitive
- Outcomes-based
- Completion driven
- Easily communicated
- Stable and sustainable
- Data driven
- Flexible and efficient
- Makes like comparisons



Lessons Learned

- Keep it simple.
- Involve key stakeholders.
- Funding involved must be sufficient to influence campus behavior.
- Be sensitive to campus missions.
- Select metrics that reflect state and campus priorities.
- Consider resource environment.
- Budgetary/statutory language is helpful.
- Identify ways each campus can benefit.
- Sustainability is key.

A State Perspective – Tennessee's Implementation of Outcomes-Based Funding

Dr. Rich Rhoda, Executive Director Emeritus, Tennessee Higher Education Commission

David L. Wright, Chief Policy Officer, Tennessee Higher Education Commission

Steven Gentile, Director of Fiscal Policy Research, Tennessee Higher Education Commission

Current and former administrators from the Tennessee Higher Education Commission provided an overview of that state's outcomes-based funding model, its development, and lessons learned.

As part of the Complete College Tennessee Act (CCTA) of 2010, Tennessee replaced its primarily enrollment-driven funding model with one based on outcomes. Work toward a new funding model began in Tennessee in 2007 and 2008 with a Lumina Foundation planning grant and a policy audit by the National Center on Higher Education Management Systems (NHCEMS). This initial work provided insight into what was inhibiting postsecondary success and which outcomes would be best for the state to use given its context and strengths and weaknesses. This research base and a consensus that the old formula was not working provided a platform from which to develop a new funding model. The CCTA did not specifically prescribe the metrics and measures to be used in the new formula, rather it outlined the public agenda

and goals for Tennessee's postsecondary institutions and directed the Tennessee Higher Education Commission to develop the formula. The new model bases a significant portion, but not all, of postsecondary education state appropriations on the scaled and weighted outcomes assigned to each institution. These outcomes are as follows:

Four-Year Universities

- Students accumulating 30-60-90 credit hours
- Degrees Granted – Associate, Bachelor's, Master's, Doctoral and Law
- Research and Service Expenditures
- Degrees per 100 Full-Time Equivalent
- Six-Year Graduation Rate
- Premium given for success of focus populations of adult and low-income students

Community Colleges

- Students accumulating 12-24-36 credit hours
- Degrees and Certificates Granted– Associate, Short and Long-Term Certificates
- Dual Enrollment Students
- Workforce Training
- Job Placements
- Degrees/Credentials per 100 Full-Time Equivalent
- Transfers out with 12 Credits
- Premium given for success of focus populations of adult, low-income students, and academically underprepared students.

Additionally, institutions in Tennessee can earn up to an additional 5.45 percent of their formula allocation based on quality assurance measures. The use of these quality measures provides an important layer of accountability and incentivizes well-developed institutional effectiveness programs. The supplemental funding is based on measures of student learning and engagement as well as student access and success:

Student Learning & Engagement

- Student performance on assessment of general education
- Student performance on assessment in major field
- Accreditation and evaluation of academic programs
- Satisfaction surveys of students, alumni, employers
- Job placement
- Assessment implementation of student learning initiatives

Better Measures of Postsecondary Performance – Using Data for State Finance Policy

Dr. Jennifer Engle, Senior Program Officer, Bill & Melinda Gates Foundation

Dr. Engle provided an overview of postsecondary data and data systems and the challenges in using data to answer questions about outcomes, value and, ultimately, quality. Beginning with the notion that better data leads to better outcomes, she emphasized that both data quality and infrastructure must improve for outcomes-based funding policies to be effective.

She offered some examples of data that is currently inadequately captured but important for policymakers to consider, such as: non-traditional student success, transfer and drop-outs, levels of debt and ability to repay, post-college employment and earnings, and student learning outcomes.

Dr. Engle presented a metrics framework based on performance, efficiency and equity using metrics on access, progression, completion, cost, and post-college outcomes. The overarching principles underlying the framework are:

Student Access & Success

- This incentivizes institutions to increase graduates in critical areas including:
 - Adult, low-income, African-American, Hispanic, males
 - High need geographical areas
 - STEM fields, health fields, other high need fields

Tennessee provides a set amount for fixed costs (management and operations, utilities, equipment, etc.) for each institution that is added to the outcomes-based allocation. Additionally, funding for programs related to medical education, research, public service and other mandated mission elements receive direct appropriations outside of the outcomes-based formula (such as funding for cooperative extension and agricultural experiment stations at land-grant institutions). The new funding model was phased in over a three-year period to ensure institutional stability. Tennessee's Formula Review Committee (FRC) reviews the funding model annually for strengths and weaknesses and makes structural changes on a five-year cycle, most recently for the 2015-2020 funding period. Also in Tennessee, the formula recommendation and the tuition recommendation are linked, which provides input into the recommendation for student financial aid.



- Counting all students
- Counting all outcomes
- Costs count
- Considering post-college outcomes

Evaluating Performance & Outcomes-Based Funding – Parameters for Design, Implementation and Impact

Dr. Kathleen M. Shaw, Executive Director, Research for Action

Dr. Kate Callahan, Deputy Director of Quantitative Research, Research for Action

Research for Action (RFA) provided an overview of their new research on outcomes-based funding policies in Indiana, Tennessee, and Ohio. This two-year, ongoing effort mixes qualitative and quantitative analysis to better understand institutional responses and the effects on target outcomes of outcomes-based funding.

As others noted, the RFA analysis found variation among state funding policies particularly on sector/mission differentiation, funding levels, and number of metrics and the weights applied. This variation can make cross-state comparisons challenging.

Initial analysis has shown that institutions are responding to outcomes-based funding by aligning policies to state-level priorities and metrics. Outcomes-based funding policies act as a signal to institutions that student success is a priority, resulting in this alignment. Variation in the alignment to student success reflects the institutions' mission, capacity, resources, leadership, geographic location, and other sources of revenue. Preliminary data from Indiana is showing some association with an increase in bachelor's and associate degree completion.

RFA noted key considerations including:

- The importance of an appropriate time horizon in the funding policy due to the lagged effect on students from changes in institutional practice
- Flexibility within the formula for the state to address differences in institutional capacity

The RFA presenters also suggested Kentucky consider the following questions in developing its formula:

- To what degree is OBF (outcomes-based funding) aligned with other policies/initiatives from the state?
- Will there be a state-level driver of the funding formula design and implementation process?
- Will Kentucky formally engage institutions in designing the funding formula?
- What metrics will Kentucky include? How will they align with the state agenda?
- How will Kentucky reflect sector and/or institutional differences within metrics?
- Will Kentucky identify and address differing levels of institutional capacity to respond to OBF?



RESOURCES

¹Budgets of the Commonwealth of Kentucky, <http://osbd.ky.gov/Publications/Pages/Budget-Documents.aspx>.

²Annual Tuition and Mandatory Fees for Full-Time Resident Undergraduate Students, <http://cpe.ky.gov/NR/rdonlyres/B28AFD1F-B17D-44B5-BEBF-46F8A3278A59/0/AnnualTuitionandFeesbyInstitution200215.pdf>.

³Student Debt and the Class of 2014, The Project on Student Debt, The Institute for College Access and Success, October 2015, http://ticas.org/sites/default/files/pub_files/classof2014.pdf.

⁴A Stronger Nation through Higher Education, Lumina Foundation, 2016, https://www.luminafoundation.org/stronger_nation2016.





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