

# Creating Funding Formulas: Best Practices & Lessons Learned



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**NCHEMS**

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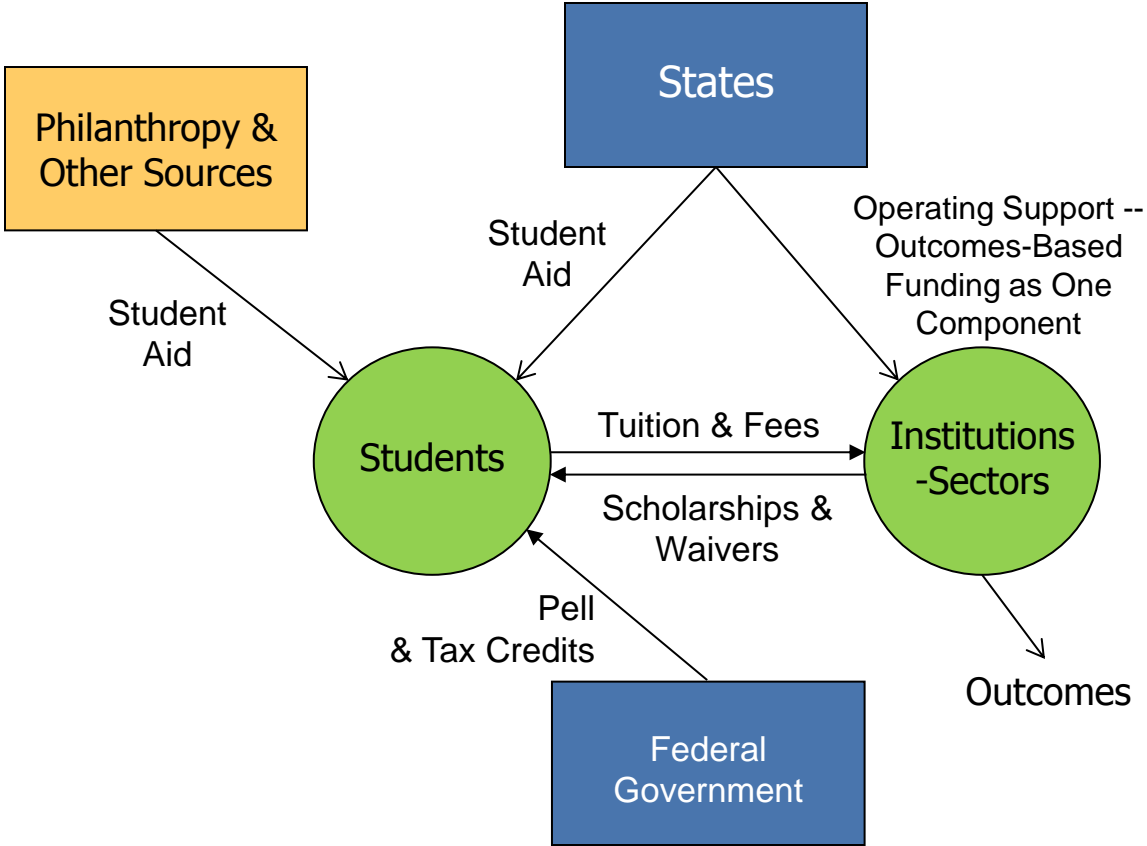
## Why the Renewed Interest in Outcomes-Based Funding

- 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

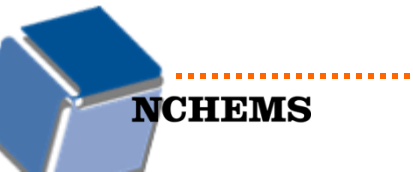
- California CCs
- Florida CCs
- Illinois
- Kentucky
- Missouri
- Ohio
- Oklahoma\*
- Pennsylvania (PASSHE)\*
- South Carolina
- South Dakota
- Tennessee\*

\*Still in effect.

# Most Faded Away for One or More Reasons

Examples of what *not* to do

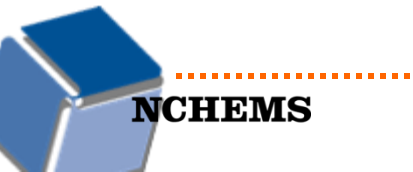
- Right idea but faulty implementation
  - Too complex – too many elements
  - Insufficient data – unavailable or unreliable
  - Didn't recognize different institutional missions – one size fits all
  - Imposed without institutional consultation/buy-in
  - Based on new funds
- Done for the wrong reasons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



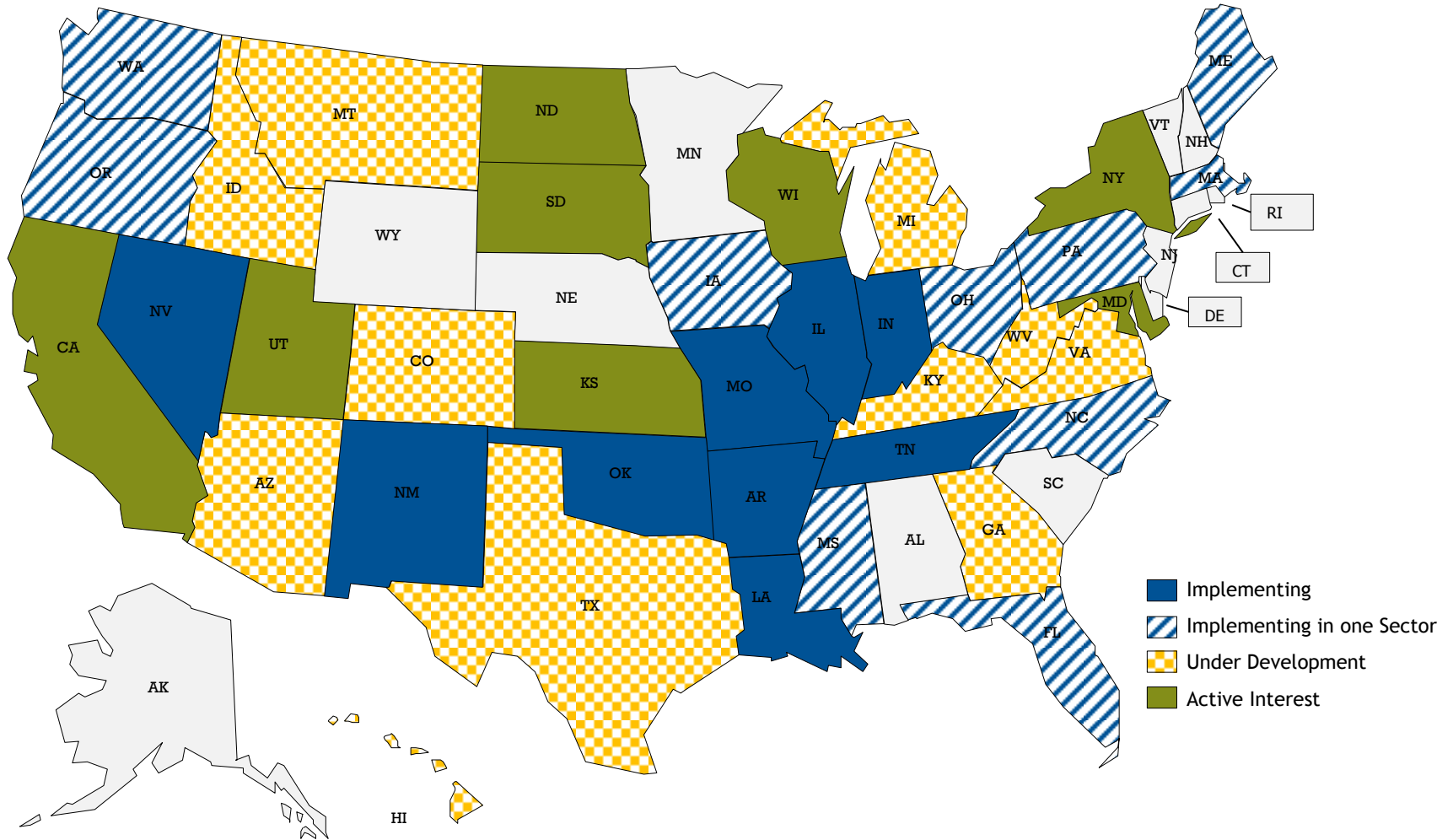


# Round 3

## 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

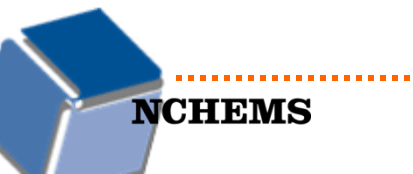
# Design Principles

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?



# For More Information Contact:

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