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HIGHER EDUCATION OUTCOMES-BASED FUNDING MODELS AND ACADEMIC QUALITY

EXECUTIVE SUMMARY

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Executive Summary

There is increasing interest in considering new outcomes-based funding models for higher education that explicitly tie state funding to well-defined performance and outcomes metrics. Several states are developing or implementing outcomes-based funding models.

While these models vary in specific design (metrics used) and implementation (amount or source of funding) elements, a common concern regarding the emerging outcomes-based funding models is that they tend to focus primarily upon productivity—specifically increasing the number of students who receive degrees and meet other academic milestones—without explicitly focusing on quality.

Measuring college quality presupposes a rigorous and well-defined notion of quality in higher education. Unfortunately, the research and policy community is far from a consensus on this. As questions about quality remain unanswered, states continue to move forward with outcomes-based funding models. Policymakers need useful information to guide these important decisions.

Ensuring Quality

While the primary focus of outcomes-based funding models has been upon improving student progression and completion, there are several ways in which these models implicitly or explicitly address quality:

- **Many current outcomes-based models are designed so as to implicitly include input-adjusted graduates.** In most cases, states have weighted degrees awarded to at-risk students (such as Pell Grant-eligible students, adult learners, or racial and ethnic minority students) more heavily. In such cases, the model does account for student characteristics, and the net result is similar to funding based on input-adjusted graduates, which is a quality metric. The greater weight placed upon degrees awarded to at-risk students is a direct way to reward institutions for promoting access and diversity.
- **Many current outcomes-based funding models attempt to reward institutions for meeting workforce needs.** As described above, states typically do this by placing more weight upon graduates in fields deemed as high priority by the state. Meeting workforce needs can be considered a process metric designed to improve labor-market outcomes for students and to ensure the institution is responsive to state and local needs. Nevada and Tennessee both include student job placement as a metric within their outcomes-based funding model. The Texas State Technical College System recently shifted to a funding model that is based entirely on the earnings of its graduates. Overall, however, current approaches to identifying workforce needs leave a lot to be desired.

Recommendations

As states continue to advance toward outcome-based funding models, policymakers should take steps to ensure that efforts to improve productivity enhance rather than undermine quality.

- 1. Begin to incorporate appropriately researched quality metrics into funding models.** The most promising college quality metrics for use in outcomes-based funding models are input-adjusted measures of student outcomes and student access and diversity. These metrics are straightforward and understandable, draw from existing data sources, and are acceptable to stakeholders. Process metrics are also attractive, but more research is needed to identify processes that produce desired outcomes.
- 2. Consider using student grades and learning metrics to monitor quality during implementation of outcomes-based funding models.** While it is challenging to obtain buy-in to include student assessments directly into outcomes-based funding models, a program of low-stakes assessments that are used to monitor quality as outcomes-based funding is implemented may be more acceptable. Over time, as a research base emerges and effective processes are identified, outcomes-based funding models can include weighted process indicators that are linked directly to desired outcomes.
- 3. Undertake a program of research to develop, implement, and evaluate appropriate methods for identifying workforce needs.** Meeting workforce needs is a laudable goal of colleges and universities and one for which state governments would like to create incentives. However, current methods are limited in their ability to pinpoint workforce needs. Further research is needed to help states develop appropriate metrics for rewarding colleges and universities that meet these needs. A good starting point would be for states to use available data from state departments of labor and economic development that can help project future needs and potentially incorporate related measures into funding models and decisions.
- 4. Draw upon existing data for outcomes-based funding models.** Data are increasingly available from a variety of sources that can be leveraged to inform policy and funding decisions. State longitudinal data systems are an increasingly powerful and cost-effective resource for developing student outcomes and diversity metrics. These data are available in most states and allow researchers to adjust student outcomes for student characteristics. Other sources of data include federal sources such as the Integrated Postsecondary Education Data System (IPEDS) and the National Postsecondary Student Aid Survey (NPSAS) as well as non-federal national data available through the National Student Clearing House and entities such as Burning Glass that can provide job market data and analysis.
- 5. Recognize that stakeholder buy-in is key.** Experience with outcomes-based funding models has shown that it is imperative to involve stakeholders in the model development process. Stakeholders should agree on a set of metrics that represent their collective goals for higher education and a method for tying those metrics to state funding. To support the engagement process, states should highlight ways in which outcomes-based funding models directly or indirectly provide incentives for quality.