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OUTCOMES-BASED FUNDING IN HISTORICAL AND COMPARATIVE CONTEXT

EXECUTIVE SUMMARY

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NOVEMBER, 2015

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State allocations for public colleges and universities are a singularly important element in the nation's investment in higher education, and thus central to its performance. Each state has adopted a distinctive mix of funding approaches, with notable variations not only in individual states' allegiance to particular approaches but also in their implementation. There are strengths and risks to each higher education funding model, and choosing among them requires trade-offs in goals and values.

Four Models for Funding Public Higher Education

Prior to 2000, there emerged three distinct approaches to state subsidies of colleges and universities. Each has distinct strengths and weaknesses, some of which are highlighted below.

- Base-plus funding, a nonformula-based approach begun in the 1800s, provides annual or biannual changes relative to an established base.
  - *Strengths:* Simplicity; low administrative costs; minimal data and analytical demands.
  - *Weaknesses:* Lack of strategic direction; funding inequity across institutions; politically driven.
- Enrollment-based formula funding, a formula-based approach developed after World War II that emphasizes professional planning, efficiency, and predictability.
  - *Strengths:* Data-informed; predictable; promotes increased access; attention to costs; sensitive to institutional complexity/size.
  - *Weaknesses:* Complexity; not linked to attainment/degree completion needs; rewards continuation of established production models.
- Early versions of performance-centered funding, an approach spanning the late 1970s through the early 1990s that typically ties a small portion of funding, usually in the form of a bonus, to specific indicators of performance.
  - *Strengths:* Emphasis on goals/evaluation; use of targeted incentives to influence behaviors.
  - *Weaknesses:* Insensitive to institutional differences and state strategic priorities; inter-institutional competition; emphasis on means over ends; limited focus on student completion.

More recently, outcomes-based funding policies have tied a substantial portion of state allocations to performance on student success and outcome measures.

- *Strengths:* Connection to state strategic goals and completion and attainment priorities; centrality of outcomes over inputs and processes; attention to simplicity; reflection of institutional missions.
- *Weaknesses:* measurement challenges; vulnerability to misestimating labor markets.

Conclusions for Policymakers

When contemplating modifications to each state's unique mix of funding policies—or adoption of an entirely new model—policymakers should bear in mind:

1. **Empirical evidence isolating the distinctive impacts of each of the four funding models is inconclusive and of limited generalizability.**
   Each state's model implementation and funding level has been different in both form and magnitude, and each has changed over time. Outcomes-based models in particular exhibit substantial diversity in design and implementation. This diversity, combined with the great variability in states' socioeconomic, educational, and policy contexts, has made it difficult to discern effects that are generalizable beyond the particular state in which a program is implemented. However, because new outcomes-oriented programs seem to offer heavier "dosages" of funding and more consistently structured "treatments" than older performance-centered programs, more convincing analyses of their effects may be forthcoming.

2. **Without care, creating incentives for outcomes can unintentionally cause disincentives for access, and thus equity for students and, in some cases, institutions.**
   Absent special attention to potential tensions between valued goals, the funding approaches that might most successfully promote expanded access and equity for all student groups may be the very approaches that restrain efforts to improve student success, and vice versa. To their credit, some system and campus officials have identified these potential risks and worked to offset them.

3. **The distinctive nature of efficiency and effectiveness in higher education can confound attempts to distill college attendance to a matter of production outputs.**
   The current emphasis on creating incentives for improved postsecondary outcomes is both welcome and necessary, but caution is warranted in such a client-centered, open and interactive process as college education. The route to a "successful" education is not always the most direct and linear, and a quick, low-cost, vocationally targeted educational experience is not always a cost-effective educational experience from a student, provider, or societal perspective.

4. **The new outcomes-based movement is substantially altering relationships between institutions and their state governments.**
   Though limited to "add-on funding," earlier performance-centered approaches helped increase institutions' attention to student-centered services and student-level data on campuses. Outcomes-based approaches that are more assertively core funding-driven are likely to create stronger incentives for institutions to act in ways that comport with central expectations, especially for those campuses most dependent on state funding. For institutions with abundant federal, industry and foundation funding, strong out-of-state enrollments, high retention and graduation rates, and higher tuition levels, the influences of the new funding approaches may be somewhat diluted.

5. Designing effective state funding models requires serious investment of time and energy.

Abandoning earlier funding models requires significant forethought, understanding of competing stakeholder perspectives, and willingness to trade off values and goals. Contemplating a shift to an outcomes-based system, policymakers must weigh: stability; improvement in access; quality of undergraduate education; persistence rates; graduation rates and numbers; contributing to economic development; higher oversight and data-management expenses; and other outcomes. As research has noted, in order to succeed, any funding model must: be clear and understandable to all stakeholders; balance institutional autonomy with control; recognize differences in institutional missions; be based in accurate, transparent and timely data; be well-integrated with campus strategies and processes; and be well-supported by political leadership.