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LEVERAGING OUTCOMES-BASED FUNDING POLICIES AT THE INSTITUTIONAL LEVEL

EXECUTIVE SUMMARY

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One of the largest and most diverse comprehensive universities in the United States, California State University, Fullerton, is leveraging the prospect of outcomes-based funding policies and financial incentives to advance its mission and deliver on its strategic goals. Over the past three years, the state of California has signaled intent to fund its three systems of postsecondary education—California State University, University of California, and California Community Colleges—through an outcomes-based funding framework rather than enrollment-based formulas and targeted earmarks. The Fiscal Year 2013-14 budget conditioned future funding upon system adoption of three-year sustainability plans with targets for key measures, which are expected to inform eventual outcomes-based funding metrics. The Fiscal Year 2014-15 budget established a $50 million post-secondary innovation grant program to reward campuses that significantly boost timely bachelor's degree attainment and ease student transfers.

Attuned to the state's policy trajectory toward outcomes-based funding, the California State University system has worked to prepare its 23 campuses by funding competitive award programs to identify, validate, scale and replicate programs that have shown or show promise to accelerate the system's ability to improve student outcomes. With these incentives from the state and university system—and thoughtful determination—campus leaders at Cal State-Fullerton are employing the strategies outlined below to position the institution for success in state and/or system-level outcomes-based funding policies. Building on significant campus engagement and planning work, the university has convened a task force of faculty and administrators charged with developing and overseeing the initial implementation of a phased approach for adopting an outcomes-based funding allocation model, and has incorporated outcomes-based funding conversations into the parallel development of the university's Academic Master Plan.

Strategies for Postsecondary Systems and Institutions

The following strategies can inform other postsecondary systems and institutions in preparing for and implementing outcomes-based funding policies:

1. **Engage and Mobilize Campus Communities:** Academic leaders—administrators, faculty and staff — can leverage outcomes-based funding to engage and mobilize campus communities to intensify efforts and accelerate progress towards improving student outcomes, advancing institutional missions and achieving strategic goals and objectives. If framed correctly, campus communities, especially those that are particularly committed to student success, are quick to realize that well-crafted outcomes-based funding policies and incentives can work to their benefit.
2. **Deploy Actionable Data and Technology Tools:** In the era of outcomes-based funding, the institutions that will be most likely to deliver on their goals and meet system and state expectations are those that make data come alive for faculty, staff and students. To this end, system offices should alleviate the compliance burden on its campuses so that the campuses can dedicate their institutional research teams to strategic initiatives.

3. **Restructure Budget Processes:** Outcomes-based funding affords an opportunity to eliminate some of the most glaring unintended consequences and perverse incentives associated with enrollment-based funding models. While expenditures for full-time-equivalent students will always need to factor into the equation, campus communities should proactively work to align budgeting processes with desired institutional outcomes and, in doing so, well-position their institutions for the corresponding system and state outcomes-based funding processes.

Recommendations for Policymakers

Policymakers seeking to develop or refine outcomes-based funding policies should consider the following recommendations:

1. **Frame the Policies:** Outcomes-based funding policies and financial incentives should be designed, developed and implemented in a way that will allow system and campus leaders to leverage them to not only improve the outcomes explicitly measured by the funding metrics, but also to advance their institutional missions and strategic priorities.
2. **Engage Institutions to Develop Metrics:** Policymakers should work closely with higher education leaders in choosing and defining the metrics that will guide their outcomes-based funding investment decisions to ensure that they are consistent with system and institutional missions and are framed in a way that will help intensify focus and accelerate efforts to drive student success at the institutional level.
3. **Pace the Rollout:** Policymakers should allow time for systems and campuses to position themselves for success by identifying, validating and scaling successful programs, investing in promising programs and ideas and transitioning their financial systems and processes to better aid the goals supported by outcomes-based funding.
4. **Promote Accountability:** Policymakers should hold system leaders responsible for system level outcomes. This provides system offices an opportunity to factor in differences in institutional missions and operational realities among their institutions when setting expectations and allocating funding to campuses.
5. **Provide Flexibility:** Policymakers should remove constraints in how systems and institutions invest their funds, except for mission-critical efforts, and should provide flexibility in how institutions can address structural problems exacerbated during tough financial times (e.g., employee compensation, deferred maintenance).
6. **Support Funding Stability:** Policymakers should commit to multi-year minimum funding plans for higher education. The stability allows for better planning, particularly as the systems and campuses transition to outcomes-based funding. The funding plans should be adjusted to ensure that the state's investment in higher education tracks with the state's prosperity.