



Outcomes- Based Funding Strategies for Postsecondary Education

A CASE STUDY



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An Inspiring Story

This brief tells the story of Indiana’s efforts to develop and implement outcomes-based funding (OBF) for public postsecondary education. Indiana’s story is supplemented by a briefer description of efforts in Tennessee. Based primarily on interviews with key state leaders, this story is designed to highlight the unique path each state took to implement funding policies that can help increase educational attainment beyond high school, improve equity in student outcomes, and inspire ideas for leaders in other states.



“I am convinced that the metrics we have in place have been effective, and they have been [supported] by the legislature and multiple governors as being the right strategy for Indiana.”

— *Teresa Lubbers, Commissioner at the Indiana Commission for Higher Education*

“[OBF] really changed the conversation... The fact that institutions not only stood to gain but also stood to lose money if they didn’t focus on the outcomes of completion, equity, and productivity made them realize that they had to join that conversation ... It set a new paradigm in Indiana for articulating and working toward our shared goals.”

— *Sarah Ancel, Vice President at Complete College America*

A National Policy Agenda

Over the past several years, many factors have converged to persuade national and state leaders of the need to significantly increase residents' attainment of educational credentials beyond high school. Those factors include:



Economic and demographic changes—such as an increasing wage premium for earning a credential and substantial shifts in age, race/ethnicity and income among the population of many states—have highlighted the challenges that states face in building a skilled workforce.



Policymakers have raised concerns about the nation's ability to compete globally, given increasing education levels in many other countries.



Growing bipartisan agreement and increased messaging have drawn attention to the benefits of postsecondary education and the need to ensure that students not only enroll but also succeed in education and training beyond high school.



Public discussions about college affordability and rising loan debt have contributed to a feeling of urgency on this issue.

As these conversations have intensified, major initiatives funded by organizations such as the Bill & Melinda Gates Foundation, Helios Education Foundation, and Kresge Foundation—as well as intermediary organizations and initiatives such as Complete College America, the Community College Research Center, and Completion by Design—have offered support to states that are trying to improve students' access to and success in post-high school programs. These factors have helped align a diverse set of stakeholders around a national policy agenda that aims to increase educational attainment.

Lumina Foundation has played a key role in supporting this national attainment agenda. In 2009, Lumina launched an ambitious goal—known as Goal 2025—to encourage efforts to focus on improving educational attainment. Goal 2025 aspires to “increase the proportion of Americans with degrees, certificates and other high-quality credentials to 60 percent by 2025” (Lumina Foundation 2017a; Lumina Foundation 2009; Merisotis 2009). The goal's development was informed by projections of workforce needs at the national and state levels—projections made by Georgetown University's Center on Education and the Workforce. Since Lumina

set that national goal, many states have followed suit and set their own goals, often noting that the national attainment agenda inspired their efforts.

To help states consider how to increase attainment, Lumina Foundation developed a state policy agenda (Lumina Foundation 2017b). Although there are many important elements of this agenda, three critical factors have shaped Lumina's work: 1) the development of a national attainment goal and encouragement of statewide attainment goals; 2) the alignment of postsecondary funding with state attainment priorities, such as outcomes-based funding; and 3) an intentional focus on equity across student populations. Lumina's Strategy Labs team works closely with states that are crafting policies to increase educational attainment.

A primary purpose of Strategy Labs is to share state policies and practices through peer learning to advance the goal of increasing attainment nationally. To that end, Lumina Foundation has commissioned three publications that share various aspects of the work. This brief focuses on states that have adopted the second key element of the agenda: outcomes-based funding strategies.

Benefits of Outcomes-Based Funding

Outcomes-based funding (OBF) allocates a portion of a state's postsecondary education funding based on student outcomes rather than on enrollment or historical allocations. While this funding strategy has recently begun to draw considerable attention in many states, it is not an entirely new approach. Beginning in the 1980s, several states began including institutional performance indicators in their formulas for funding public postsecondary institutions. For the most part, these performance-based funds represented only a small portion of state funding for postsecondary education, were often allocated outside institutions' general or core funding and were intended to create incentives for colleges and universities to focus on a variety of state priorities. Over time, however, problems surfaced that challenged the sustainability of performance-funding strategies in some states. These problems—including poorly designed and often-contradictory measures, inadequate data, and unstable funding—limited institutions' ability to respond to the incentives and eventually caused many states to abandon the funding approach (Hearn 2015; Snyder 2015).

More recently, states have begun to revisit the idea of using state postsecondary education funding to help them reach their attainment goals. These new funding models, based on performance measures that emphasize student outcomes, have evolved from the earlier models. They are more clearly focused on aligning the funding with states' attainment needs and on ensuring that institutions are held accountable for student success (Hearn 2015; Snyder 2015; Jones 2016). As of 2016,

outcomes-based funding approaches could be found in 25 states, with an additional five states working to develop such systems. In addition, five states have tied at least 25 percent of their funding formulas to measures of student success (Boelscher and Snyder, forthcoming 2018). However, most outcomes-based funding systems remain rudimentary, and only a few states have implemented OBF policies that include all public colleges and universities and reflect current best practices.

What is Strategy Labs?

Strategy Labs is a resource and network for leaders and influencers in all 50 states to share research, data and professional experiences to advance postsecondary attainment so that, by 2025, 60 percent of Americans hold a degree or other high-quality credential. It enables state and system-level policymakers and higher education leaders to connect and collaborate with one another and with experts in the field to develop strategies to increase educational attainment. Strategy Labs also aims to encourage peer learning and provide opportunities for on-request support from Lumina Foundation and its state policy partners. (Strategy Labs 2015).

States can apply for support for nonpartisan, evidence-based policy expertise, such as:

- Experts and facilitators for meetings.
- Convening and facilitation.
- Peer learning engagements or multi-state discussions.
- Advisement of policymakers through testimony or briefings.
- Research such as data collection and analysis.



The most robust of the new outcomes-based policies share several research- and practice-informed principles. These policies:

- Reflect the state’s attainment priorities, with a specific focus on increasing postsecondary success among specific student populations.
- Provide a consistent and formula-driven funding structure that encourages continuous improvement by colleges and universities and allows all institutions to benefit from the funding model.
- Are sustained over time by allocating resources as part of the state’s ongoing general fund support for postsecondary institutions.
- Are developed with input from institutional stakeholders and are phased in over time to allow institutions to adjust their practices.
- Use measures that vary based on institutional sector and/or mission and reward student progression as well as completion.
- Are consistently implemented over three to five years and also allow for regular intervals of evaluation and refinement.

Despite these common characteristics, OBF systems differ significantly across states. Such differences include the percentage of state funding allocated to performance measures, the specific measures used and whether the system applies to both two- and four-year colleges or to only one of these sectors. HCM Strategists has developed a typology of outcomes-based funding models, ranging from pilot efforts with limited funding to robust systems that feature strong alignment to the state’s completion and attainment agenda, full institutional participation, and significant and stable funding (Snyder 2015). As of 2016, few states had implemented all the elements included in the typology for more robust OBF models, with Indiana, Ohio and Tennessee among the states that have implemented these policies over a sustained period (Snyder and Fox 2016).

Despite common characteristics, OBF systems differ significantly across states.

Examining the experiences of states that have adopted OBF helps clarify key elements of these funding systems, as well as the processes states have used to develop them. Indiana’s system, for example, reflects many of the principles described above. Although the funding allocated under this system accounts for a relatively small portion of the state’s investment in postsecondary education, the metrics used are closely aligned with state priorities, vary based on institutional mission, and have been refined over time based on feedback from institutions and other stakeholders. The following section provides a narrative account (based primarily on interviews with state leaders) of how Indiana’s OBF model was created and adapted to state needs. A shorter section also provides some key points about the outcomes-based funding strategy used in Tennessee, a state that originated performance-based funding for postsecondary education nearly 40 years ago and today represents one of the strongest examples of an OBF approach.

Evolution of Performance Funding Models

The ways in which states allocate funds to postsecondary institutions according to specific performance measures have evolved over time. The design and implementation of early performance-funding policies created multiple obstacles, including performance measures that were too broad and sometimes contradicting, a lack of differentiation for institutional missions, and unstable funding levels. Despite these challenges, early performance-funding policies laid the groundwork for what would eventually become outcomes-based funding. OBF models are more explicitly connected to state needs and educational attainment goals, and they account for institutions’ differing student populations and missions. More robust outcomes-based funding models, referred to as OBF 2.0, provide a more stable funding structure. While previous OBF models allocated resources as an addition to base state funding, OBF 2.0 models incorporate those resources into base funding (Snyder 2015).

Typical Characteristics

Note: Some states may meet most but not all criteria.
States that do not meet all criteria for a particular type are assigned a lower type.
Italicized elements are primary differences from prior level.

<p>Type I</p>	<ul style="list-style-type: none"> • State may have completion/attainment goals and related priorities. • Model reliant on new funding. • Low level of funding (under 5%), based on statewide analysis. • Some or all institutions in one sector included. • No differentiation in metrics and weights by sector. • Degree/credential completion not included. • Outcomes for underrepresented students not prioritized. • Target/recapture approach. • May not have been sustained for two or more consecutive fiscal years.
<p>Type II</p>	<ul style="list-style-type: none"> • State may have completion/attainment goals and related priorities. • <i>Recurring dollars/base funding at least portion of funding source.</i> • Low level of funding (under 5%), based on statewide analysis. • All institutions in one sector included, or some institutions in both sectors. • No differentiation in metrics and weights by sector, or may not be applicable (if operating in only one sector). • <i>Degree/credential completion included.</i> • Outcomes for underrepresented students may be prioritized. • Target/recapture approach likely. • May not have been sustained for two or more consecutive fiscal years.
<p>Type III</p>	<ul style="list-style-type: none"> • State has completion/attainment goals and related priorities. • Recurring dollars/base funding at least portion of funding source. • <i>Moderate level of funding (5-24.9%), based on statewide analysis.</i> • <i>All institutions in all sectors included.</i> • Differentiation in weights and metrics by sector likely. • <i>Outcomes for underrepresented students prioritized.</i> • May not be formula-driven. • May not have been sustained for two or more consecutive fiscal years.
<p>Type IV</p>	<ul style="list-style-type: none"> • State has completion/attainment goals and related priorities. • <i>Recurring dollars/base funding.</i> • <i>High level of funding (above 25%) based on statewide analysis.</i> • All institutions in all sectors included. • Differentiation in metrics and weights by sector. • Degree/credential completion included. • Outcomes for underrepresented students prioritized. • <i>Formula-driven.</i> • <i>Sustained for two or more consecutive fiscal years.</i>

Outcomes-Based Funding in Indiana

Indiana has a long history of sustained efforts to improve educational attainment that set the stage for its OBF model. Concerned about lagging indicators of educational success, state leaders have worked to improve outcomes along each portion of the educational pipeline. These efforts have been supported by a range of stakeholders within the state, including former Commissioner of Higher Education Stan Jones and current Commissioner Teresa Lubbers, as well as legislators, successive governors, and the Indiana Chamber of Commerce.

During the 1990s, Indiana expanded access to college through the creation of the 21st Century Scholars program, which offers early-commitment financial aid and other supports to low-income students, and the development of the Core 40 high school diploma, a college-preparatory curriculum that became standard in Indiana high schools in 2005. During this time, the state also added 30,000 new college students by converting the state technical

college system into a statewide comprehensive community college. By 2007, these efforts were paying off. Indiana was 10th in the nation in the number of students who enrolled in college directly after graduating from high school, up from 34th in 1992.

These increases in college access, however, did not automatically lead to improved

educational attainment in the state, as there are many factors that affect attainment, ranging from college completion rates to migration. Indiana therefore remained below the national average in the number of residents who had completed a college degree (Indiana Commission for Higher Education 2007). Given the increasing need for college-educated workers in the state, education leaders recognized the importance of shifting their focus from simply college access to include college success.

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History of Strategy Labs

The concept of Strategy Labs developed gradually, beginning with Lumina Foundation's Productivity Grant program in 2009. The program emerged from Lumina's first strategic plan (2009-12). Designed to extend support to the 11 states that had applied for Lumina Productivity Grants, Strategy Labs focused on offering research, promising practices and advice aligned to Lumina's "Four Steps to Finishing First" agenda. This state policy agenda emerged from the work within the productivity states and focused on four policy areas: institutional incentives (outcomes-based funding), student incentives (financial aid and affordability), innovation and technology and business practices to promote savings (Lumina Foundation 2011).

As the process for providing customized state support developed, Lumina wanted to continue the peer learning conversation beyond those initial 11 states. By 2014, Lumina was offering the flexible, evidence-based and nonpartisan Strategy Labs resources to all 50 states (see Page 3, "What is Strategy Labs?"). Strategy Labs' support evolved to focus on Lumina's 2013-2017 state policy agenda, which included a range of policy actions grouped under three overarching objectives each state should have for its postsecondary system: improved student outcomes, aligned investments and smarter pathways. The Strategy Labs team now supports states to consider and adopt any part of Lumina's 2017-2020 state policy agenda, including setting a statewide attainment goal, aligning finances (both institutional and student) to that goal and supporting multiple lower-priced pathways to credentials.

Indiana and Lumina Foundation

Indiana has a long history of engagement with Lumina Foundation, located in Indianapolis. The state has a strong statewide attainment goal, expecting 60 percent of adult Hoosiers to hold a quality credential by 2025, and it has adopted many of the policies found in Lumina Foundation's state policy agenda (Lumina Foundation 2017b). These include creating a comprehensive data and information system to measure student progression and outcomes, implementing a comprehensive approach to student financial aid and creating smarter pathways for students, such as state transfer guarantees.

Indiana was also one of the first seven states to be awarded a Lumina Productivity Grant and to work with Strategy Labs. The first time that Strategy Labs offered what would later be called a "Peer Learning Opportunity," a group of states visited Indiana to learn about its funding formula. Strategy Labs resources also have enabled Indiana leaders to visit other states to learn and to share their work. In addition, after the adoption of the outcomes-based funding policy, Strategy Labs assisted the state's higher education commission in thinking through proposals to tie financial aid to credit completion, with additional funds made available to students for good grades, acceleration and earning credentials along the way (SPEC Associates 2012).

These concerns led the Indiana Commission for Higher Education to publish a series of strategic plans, each of which moved the state toward achieving its educational attainment goals. The first version of the plan—*Reaching Higher: Strategic Directions for Higher Education in Indiana*—was released in 2007. It outlined several initial goals, including:

- Improving access to quality education.
- Expanding affordability for qualified students.
- Increasing the number and timeliness of college graduates.
- Increasing the number of high school graduates prepared to immediately succeed in college.
- Developing programs that respond to critical workforce needs (Indiana Commission for Higher Education 2007).

The next version of the plan, *Reaching Higher, Achieving More*, was adopted in 2012 (Indiana Commission for Higher Education 2012). It built on the first plan and set out a vision for improving completion and attainment rates for the state, with specific goals such as:

- Increasing on-time college graduation to at least 50 percent at four-year colleges and 25 percent at two-year campuses by 2018.
- Doubling the number of degrees and certificates produced by 2025.
- Increasing postsecondary attainment to 60 percent of the state's adult population by 2025.

In 2016, the commission adopted its third strategic plan—*Reaching Higher, Delivering Value*—which focuses on more clear and direct paths to timely college completion, quality competency-based credentials and purposeful career preparation (Indiana Commission for Higher Education 2016).

Together, these strategic plans set Indiana on a path toward improving attainment and laid the foundation for the state to orient its finance policy and other initiatives to reinforce the state's goals.

Engage Stakeholders

The process of moving toward an outcomes-based model developed gradually, with various stakeholders engaging in the process at different points. Efforts to change the way state policymakers allocate funding to postsecondary institutions began in 2003, with one metric designed to match federal research dollars obtained by research institutions. By 2007, discussions about postsecondary education had begun to address a question often posed by state legislators: "We keep giving money to institutions, but how do we know if they're actually producing degrees that Indiana needs in a timely manner?" Outcomes-based funding was subsequently identified as an additional way to encourage institutions to focus on student success.

State legislators and the Indiana Commission for Higher Education compiled different outcomes-based funding options for commission members to consider. A proposal did not make it into

Each biennium since 2007, the Indiana legislature has passed a budget incorporating OBF, as recommended by the commission.

legislation at that point as it was crucial to allow enough time to educate the commissioners, state legislators and other stakeholders about the goals and advantages of OBF. Recognizing the potential value of adopting an OBF model, commissioners recommended during the next budget cycle that the governor and General Assembly consider outcomes-based funding. Finally, in 2007, the proposal was approved by the General Assembly, and the first outcomes-based metrics were introduced. Each biennium since 2007, the Indiana legislature has passed a budget incorporating OBF, as recommended by the commission.

Get the Formula Right

While the specific formula metrics have changed over time, they have always emphasized the policy goals and objectives set by the commission and other state policymakers. In the original 2007 formula, for example, metrics focused on transfer, on-time graduation and increasing the number of degrees awarded. In 2009, a focus on completion for at-risk students was added, as well as an incentive for Ivy Tech Community College and Vincennes University to provide workforce training (Maio 2012). Subsequently, the 2011 budget allocations removed the transfer and workforce-training measures, which were addressed through other state policy initiatives (HCM Strategists 2011).

In 2011, the General Assembly directed the commission to review the formula. Hearing pushback from institutions in their districts on how the formula worked, legislators asked the commission to review funding models in other states and present a new formula to the budget committee. In particular, the commission was asked to consider how other state models account for different institutional missions through their metrics and weightings (HCM Strategists 2011).

Among other resources, commission staff used Strategy Labs to help in this review. Strategy Labs provided peer-learning opportunities and site visits to Tennessee, Ohio, and Pennsylvania to learn about their funding formulas and how they chose their metrics. Strategy Labs also funded Indiana participation at conferences and helped produce a detailed report that analyzed funding formulas

from other states. That report identified priorities to be addressed in a revised formula, such as the success of at-risk populations, certificates, and high-demand programs (HCM Strategists 2011).

With these resources and help from other experts, the commission was able to refine the OBF formula to the legislature's satisfaction. The 2013-15 formula included a premium for increasing degree completion among at-risk students and also featured several new metrics to reflect differentiation for institutional missions. These new metrics included student success in developmental education (for community colleges) and completion of high-impact degrees (for research institutions).

The state is now entering the third biennial budget using the same metrics and weightings. However, the General Assembly has directed the commission to conduct another review of the formula, and possible changes to the model are being considered. For 2015-17, the bulk of the formula funding is allocated to primary metrics that apply to all institutions, including degree/certificate completion, at-risk student degree completion and on-time graduation. (The formula originally included an institutionally defined metric that was removed in 2016.) (Research for Action 2017). Additional metrics—high-impact degree completion, success in developmental education, and a measure of persistence that is defined differently by sector—are included to address institutions' differing missions (Research for Action 2017; Callahan, Meehan, & Shaw 2017). Overall, the formula has been “evolutionary, not revolutionary,” and the refinements have given institutions time to adjust (Bearce 2017).

Maintain the Investment

Indiana has remained consistent in its implementation of outcomes-based funding despite economic and political changes that could have derailed the process. The percentage of state appropriations linked to the outcomes-based metrics has increased incrementally since this work began, growing from 1 percent to 3 percent and then to 5 percent (See Page 10, “Timeline of OBF in Indiana”). In FY 2015, 6 percent of state appropriations for public colleges and universities was based on the OBF formula, about \$67 million annually. That dipped to 4 percent for FY 2016, but the state increased appropriations based on the formula to 6.5 percent in FY 2017 (Research for Action 2017). The funding levels for FY 2018 and FY 2019 are set at 5.25 percent and 6.5 percent, respectively. Although the amount of formula funding based on outcomes in Indiana is not as large a percentage as in some other states, the sustained investment in the model continues to clearly signal institutions to stay focused on increasing outcomes in priority areas. This has helped create steady progress toward the state's completion and attainment goals.

Timeline of OBF in Indiana

2003 —● Implementation of incentives for research institutions, funding at 1 percent.

2007 —● First version of outcomes-based funding based on student success measures, with an initial funding percentage of 3 percent. Metrics are focused on increasing the number of degrees, on-time graduation and transfer from public two- to four-year institutions.

2009 —● OBF 2.0 adopted for all institutions. Metrics are: increase in number of degrees awarded, more students graduating on time, higher rates of completion by low-income students, transfer from two- to four-year institutions and an incentive for providing noncredit workforce-training courses. The enrollment component is shifted from attempted credit hours to earned credit hours.

2011 —● Five percent of higher education budget allocated for 2011-13 OBF. Transfer and workforce-training metrics are removed from the formula.

2011 —● Legislature directs the commission to review the formula.

2013 —● Formula refined. Metrics for all sectors are: degree/certificate completion, on-time graduation, a premium for low-income students and an institutionally defined metric, plus sector-specific measures for persistence, success in developmental education (community colleges) and high-impact degree completion (four-year institutions).

2016 —● Formula changed to remove institution-specific metric.

Evaluate Impact

A recent study shows early evidence of the impact of the outcomes-based funding approach in Indiana. The study focuses on key student outcomes for full- and part-time university students, using four years of pre-OBF data and six years of post-OBF data (2005-2014). For full-time students at four-year institutions, researchers found that OBF had positive effects for bachelor's degree completion, declaration of a high-impact major and graduation with a high-impact degree. In addition, in-depth case studies suggest that institutional practices and policies—such as changes in advising models, student support programs and access to courses—have changed since OBF was adopted, with the goal of improving student educational outcomes (Research for Action 2017).

Other outcomes are less quantifiable but still important. Indiana has been highlighted as a leading state in outcomes-based funding and complementary policies, which in turn has reinforced the commission's position in terms of its commitment to increasing educational attainment. The success of its efforts has elevated the commission's work and encouraged continuing communication and direct engagement with state legislators, the governor's office, the chamber of commerce, and others. At the same time, Indiana has emerged as a leader in providing expertise to other states. Commission staff members have shared their experiences with other states while continuing to learn from those states and other partners.

Align Other State Policies

In addition to instituting outcomes-based funding, Indiana has also made substantial changes in its financial aid program to align with its attainment goal and funding approach, with a particular focus on on-time completion. Legislation was passed in 2013 (HEA 1348) to encourage on-time college completion through student financial aid incentives. For example, students must complete 30 credits each 12-month award year for their state aid award to be renewed at the maximum level; students completing at least 24 credits receive less aid, while students who do not meet that requirement may not renew their aid (Indiana Commission for Higher Education 2015).

The commission, in collaboration with other organizations, implemented an aggressive campaign to notify students of the policy change, increase academic advising, promote the use of “degree maps,” and monitor student progress. By the end of 2013, more than half of the students who received state financial aid were aware that their state aid was tied to credit completion (Indiana Commission for Higher Education 2015).

Since then, both students and institutions have responded to the incentives. For example, institutions have made more classes available, changed advising systems, implemented degree maps, and changed their own financial aid allocations. Additionally, after just one year, more students were enrolling in and completing 30 or more credit hours, with some students also taking summer classes to maintain financial aid eligibility (Indiana Commission for Higher Education 2015).

Perceptions of the Process: Reflections on Why OBF Works in Indiana

The story of Indiana’s outcomes-based funding strategy highlights the fact that the commission and some of its key partners in state policymaking have adopted a learning mindset. They regularly take advantage of the resources other states and external experts have to offer. The support from Strategy Labs continues to help them raise awareness in the state about their national leadership on the issues, which helps sustain the work.

OBF systems can withstand challenging circumstances such as budget cuts or gubernatorial transitions.

Outcomes-based funding has been one part of the puzzle—in addition to a statewide attainment goal, financial aid reform and other policies—that has helped the state make progress toward the goals of its strategic plan, including a 10 percent increase in

on-time college completion rates at four-year institutions over five years, as well as a 6 percent increase at two-year institutions (Indiana Commission for Higher Education 2017). Indiana’s experience also shows that OBF systems can withstand challenging circumstances such as budget cuts or gubernatorial transitions and that, when used as a tool within a broader policy agenda, OBF systems can be more effective, have more buy-in and be more sustainable over time than standalone policies.

Outcomes-Based Funding in Tennessee

In 1979, Tennessee became the first state to adopt a performance-funding strategy¹ for its public colleges and universities, and the state has used some form of performance funding ever since (Hearn 2015). In 2009, Tennessee received one of Lumina’s Productivity Grants (see Page 7, “History of Strategy Labs”) and, with the support of Strategy Labs, worked to better align state policies with state educational attainment goals. One of the areas this work identified as particularly important was the state’s postsecondary education funding formula. In 2010, legislators passed the Complete College Tennessee Act, which established that state funding for postsecondary education should be based entirely on outcomes. State public colleges and universities have been funded under this model since 2011 (Wright 2016). This funding strategy also helps support the state’s Drive to 55 attainment goal, established in 2013, which aspires to have 55 percent of Tennesseans holding a postsecondary degree or certificate by 2025 (Tennessee Office of the Governor 2016).

Engage Stakeholders

In developing metrics for the new outcomes-based funding strategy, the Tennessee Higher Education Commission sought input from stakeholders through the 24-member Statutory Formula Review Committee created through the Complete College Tennessee Act. This committee, which included representatives from the University of Tennessee, the Tennessee Board of Regents, the state’s community colleges, state government officials and several national postsecondary education leaders, developed the metrics used during the initial 2010-15 funding period (Ness, Deupree, and Gándara 2015). Since then, the committee has met regularly to review the metrics and to ensure their utility and their alignment with state postsecondary education priorities.

Get the Formula Right

Tennessee’s OBF metrics are closely aligned with the Statewide Master Plan for Higher Education and emphasize credit accumulation and degree production. The formula uses different metrics for two- and four-

¹ This long-held performance-funding policy has been in place since 1979; however, in 2015 the name was changed to Quality Assurance Funding to distinguish the mission from the outcomes-based funding formula (Tennessee Higher Education Commission 2015).

year institutions, reflecting their differing student populations, missions, and functions. For instance, metrics related to research and service apply to universities, while those related to dual enrollment, developmental education, and workforce training apply to community colleges. Within each sector, metrics are weighted to reflect differences in institutional mission, and institutions receive additional points for degrees earned by adults and low-income students (Ness, Deupree, and Gándara 2015; Wright 2016). Since 2015, community colleges also receive additional points based on a target population of students identified as academically underprepared (Callahan, Meehan, and Shaw 2017).

Maintain the Investment

Tennessee's original performance funding strategy, dating to 1979, included only about 5 percent of total state appropriations for higher education. The OBF system adopted in 2010, on the other hand, allocates nearly all state funding for public colleges and universities based on institutional outcomes. No funding allocations are based on enrollment, and institutions are not guaranteed a specific base level of funding each year (Snyder 2015; Wright 2016). As of 2016, more than 85 percent of Tennessee's general fund support for colleges and universities is based on institutional outcomes, with 5 percent allocated through Quality Assurance Funding and the remainder reserved for expenditures on operations and maintenance (Snyder and Fox 2016).

Evaluate Impact

Outcomes have improved since the passage of the Complete College Tennessee Act. On average, bachelor's degree completion in Tennessee has increased by 3.4 percent each year during this time, compared to a 2.5 percent average annual increase before the funding changes were implemented. Associate degree completion has increased an average 6.3 percent annually versus 2.8 percent in the earlier period. Enrollment during this period has not grown substantially, indicating that institutions have become more efficient in moving students toward degree completion (Johnson and Yanagiura 2016). In addition, a recent study shows increased credit accumulation and degree completion for full-time students at both two- and four-year institutions in the state (Callahan, Meehan, and Shaw 2017). State leaders also argue that the use of an OBF strategy has helped change how stakeholders think and talk about productivity in postsecondary education, shifting their focus from enrollment numbers to degree completion (Wright 2016).

Conclusion

Experiences in several states highlight some key factors for success in implementing outcomes-based funding:

- **Engage stakeholders:** OBF systems require the support of many stakeholders. This includes legislators, who can help ensure that funding for the system remains stable, and college and university leaders, whose state funding increasingly depends on a new kind of formula.
- **Get the formula right:** As noted, many states have tested OBF strategies, and there are now well-researched publications that offer good advice on how to design funding formulas. The typology referenced on Page 6 is just one example of expert guidance that can help states to “get the formula right.” For example, colleges and universities are not monolithic. They vary considerably based on sector, size and mission, and the metrics used in an OBF system must take those differences into consideration while also aligning with state goals for postsecondary education.
- **Maintain the investment:** Many of the early performance-funding systems failed because states stopped funding them. Without a funding commitment for multiple budget cycles, postsecondary institutions won't have adequate time or incentives to make lasting changes in their policies and practices.
- **Evaluate impact:** Regular assessment of outcomes is the only way to determine if an OBF system is helping a state achieve its goals for postsecondary education. Such assessment can also help leaders understand the results of the funding strategy and make appropriate changes to metrics that are not serving their purpose.

Outcomes-based funding policies are just one in a portfolio of strategies and policies that can support increasing educational attainment. It is critical to also consider policies that complement and support the funding strategy. Additional briefs will describe the work in other states to develop statewide attainment goals and the adoption of an equity lens as a specific approach to statewide efforts to improve attainment.

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