OVERVIEW
Outcomes-based funding (OBF) is a term used to describe state- and system-level higher education funding policies that link public dollars to key student outcomes such as credit completion, retention and graduation. Outcomes-based funding models are a significant shift away from traditional approaches to funding public higher education based on enrollment or previous levels of funding. Within the past decade, OBF policies have become increasingly prevalent, and are now present in a majority of states. When taken together, these policies determine how hundreds of millions of dollars are distributed to public colleges and universities across the country.

At the same time, outcomes-based funding policies vary widely across states. For this reason, generalizations are not particularly helpful to policymakers. It is much more useful to examine these policies within each state’s context to answer the question of who these policies affect, how, and under what circumstances. To provide this type of more practical analysis to guide state policymakers who are considering adopting or refining OBF, Research for Action (RFA) has compared the implementation and impact of OBF in three states—Indiana, Ohio, and Tennessee. While each has adopted robust forms of the policy, they vary in important ways, as indicated in Table 1 below.

Table 1. Variation in Outcomes-Based Funding Policy across Three States

<table>
<thead>
<tr>
<th>OBF PERFORMANCE METRICS/WEIGHTS</th>
<th>INDIANA</th>
<th>OHIO</th>
<th>TENNESSEE</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2-Year</td>
<td>4-Year</td>
<td>2-Year</td>
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<tr>
<td>College Credit Accumulation/</td>
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<tr>
<td>Course Completion</td>
<td>•</td>
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<tr>
<td>Degree/Certificate Completion</td>
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<td>Developmental Course Completion</td>
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<td>•</td>
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<tr>
<td>Graduation Rate (On-Time/6 years)</td>
<td>•</td>
<td>•</td>
<td>•</td>
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<tr>
<td>Transfer</td>
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<td>Workforce Training</td>
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<td>Job Placement</td>
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<tr>
<td>Dual Enrollment</td>
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<tr>
<td>Research &amp; Service</td>
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<tr>
<td>Weight: At-Risk/Low Income Students</td>
<td>•</td>
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| OTHER POLICY ELEMENTS                  |         |       |         |        |        |
|% of State Base Funding based on        | 6%      | 100%  | 80%     | 85%    |
|Outcomes                               |         |       |         |        |        |

Year Adopted

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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FINDINGS

A. Student-Level Outcomes in Tennessee and Indiana

RFA examined how the adoption of OBF policies in Tennessee and Indiana impacted key student outcomes and targeted student populations as defined by each state’s formula. Summary findings include:

1. **OBF policies are having a positive impact on full-time students** across a range of outcomes:
   - Credit accumulation in both 2- and 4-year sectors (TN)
   - Certificate completion (TN)
   - Degree completion (100% and 150%-time) in both the 2-year (TN) and 4-year (IN, TN) sectors
   - Declaring and obtaining a degree in a high impact major in the 4-year sector (IN)

2. **Full-time Pell students** in Tennessee show significant improvements on:
   - Associate’s degree completion (150%-time)
   - Certificate completion
   - 12 credit accumulation

3. **Full-time students of color** in Tennessee show significant improvements on:
   - 24 credit accumulation
   - Certificate completion

4. **Part-time students** do not fare as well in either state. We see no effect of OBF on Indiana’s part-time students in the four-year sector. And part-time students in Tennessee’s 2-year sector experienced significant negative effects on:
   - Associate’s degree completion (150%-time), credit accumulation and transfer for all part-time students and for Pell students
   - Credit accumulation for students of color

5. **Little to no change** was observed for Pell students or students of color in Indiana on any four-year outcomes.

B. Changes in Institutional Policy and Practice in Tennessee, Indiana and Ohio

All fourteen institutions (six 2-year, two comprehensive 4-year, and six research universities) that we examined across the three states showed movement toward meeting the goals articulated through their respective formulas. Specifically:

- Institutions of all types revised **strategic plans** to prioritize student outcomes. The most robust changes occurred among research universities and community colleges. Comprehensive university policy and practice were somewhat better aligned with OBF goals at adoption, and therefore required less adjustment.
- Institutions strengthened student success-focused **policies and practices** across both academic affairs and student services. Changes to policies and practices include hiring advisors, implementing early alert systems and other data analytic tools, promoting degree pathways, and introducing one-stop shops for students, among other initiatives focused on student success.
- A broad range of **faculty and administrators** reported buy-in to OBF goals, although the degree to which they approved of specific elements of each policy varied by mission and capacity. For example, the absence of metrics capturing the success of non-degree students was criticized by some at community colleges. Awards for STEM degrees restricted to only research institutions was seen by faculty at comprehensives to exclude their STEM work. Lastly, at least some individuals at every campus were critical of the competition created by the policy.
- Although limited, some institutions reported **unintended consequences** of OBF policy. For example, two universities reported staff layoffs or unfilled positions due to reallocation or loss of funds; three others noted the creation of new credentials that may not have optimal meaning in the workforce.

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1 Quantitative analysis of impact in Ohio has been delayed due to incomplete data; results are in process and forthcoming shortly.
C. Factors Affecting Policy Success

We identified a range of policy-related factors that affected OBF effectiveness, including:

1. Policy Development
   - **Previous state-wide efforts to increase student success.** All three of our states had engaged in student success efforts prior to or concurrent with the OBF policy development process in areas such as completion, progression, remediation and transfer. This created a fertile environment for Outcomes-Based Funding policies.
   - **Presence of a strong, stable state “driver.”** Policies developed by a well-respected leader or entity got stronger marks from stakeholders. They also typically understood the policies to a greater degree—a factor that improved the capacity of institutions to respond to the policy effectively. In states without a strong policy driver, the policy development process was less smooth.
   - **Consistent, transparent involvement of institutional stakeholders.** While all three states involved at least some institutions to some degree in policy development, explicit and transparent involvement of all institutions created a deeper degree of buy-in and the perception of fairness.
   - **Attention to sector-specific mission and capacity.** A policy development process that recognizes variation in sector mission and capacity sets the stage for higher levels of policy legitimacy.

2. Formula Elements
   Institutional buy-in and response were affected by the degree to which states struck the right balance on the following elements of the OBF formula itself:
   - **Balance of formula simplicity and “meaningful” metrics.** While sector-specific metrics are better aligned to institutional mission, they also complicate the design of formulas, and the method in which funding is awarded. In contrast, simplicity in the form of fewer metrics can ignore metrics that are relevant to specific types of institutions.
   - **Balance of formula stability vs. flexibility.** States vary in terms of the frequency with which they adjust or refine elements of OBF policy. Too much change created a “moving target”, making it more difficult for institutions to respond effectively and promptly. Too little change was perceived by some to be unresponsive to institutional mission or capacity.

3. Policy Implementation and Contextual Factors
   Variation in the policy implementation process or other key contextual factors affected the urgency with which institutions responded to OBF. Factors for policymakers to consider include the following:
   - **An Incentive for Change.** Across the three states studied, the percentage of base funding affected by OBF varies widely, from 6% in Indiana to 100% for community colleges in Ohio. Yet as can be seen in the evidence of OBF impact in Indiana, even small percentages of base funding can have an effect. Whereas money certainly matters, when coupled with other factors—policies aligned to student outcomes, a strong state leader, clear messaging, and a sense of competition for scarce funds—a small percentage can motivate change.
   - **Stopgap measures.** Some states use stopgaps to create a “hold harmless” period during early years of OBF implementation. While stopgaps provided institutions with time to adjust to the formula before experiencing its full effect, they can also delay the effect of the policy by reducing institutions’ sense of urgency.
   - **Formula reach.** States varied in the degree to which they distributed public dollars to each campus via the OBF formula. Some states distributed OBF dollars to both main and branch campuses; others distributed OBF dollars to main campuses only, leaving decisions about whether to reward branch or regional campuses for performance on OBF metrics to central administrators. These practices increased institutional autonomy, but could reduce the impact of OBF policy.
   - **State-wide postsecondary reform.** States used other reforms to support and accelerate student progression and completion. Mandates such as co-requisite models, fewer credits for degrees, and
articulation agreements were often aligned with the goals and key performance metrics included in state OBF formulas, and amplified their effects.

4. Institutional Response
While all institutions reported changes in both policies and practices that are aligned to OBF, the degree of response varied by the following institution-level factors.

- **Mission.** Institutions were most likely to align policies and practices to the formula elements that were aligned to their institutional mission. In some instances, institutions were either unable or unwilling to respond to elements of the OBF policy if it was perceived to be in conflict to their mission. For example, research and comprehensive universities moved to align policies and practices to increase degree completion—an outcome that is central to their missions. Community colleges realigned resources to address the needs of those they were created to serve: at-risk students. In contrast, some selective institutions did not devote as much energy to re-aligning resources to serve at-risk students.

- **Capacity.** Institutions varied by their capacity to effectively collect and analyze data to assess and predict their performance on OBF metrics. Other factors such as resources and size also affected their capacity to respond to the policy. As a result, we saw variation in the amount of time and effort institutions required to align to OBF incentives. Smaller institutions, or those that entered the OBF era with fewer resources, struggled to adapt quickly to the new policy. In some instances, direct assistance from state agencies helped to ameliorate this challenge.

- **Leadership.** Strong, strategic leadership focused institutional response and provided stability and vision as institutions responded to OBF incentives. The absence of strong leadership hampered institutional efforts to effectively respond to OBF.

- **Ability to Offset Revenue Losses.** Institutions that could raise revenue via alternative sources (e.g., raising more research dollars; recruiting out-of-state-students) were able to ignore or resist specific OBF formula metrics that did not align to their missions. Institutions not as well-situated were more compelled to align policies and practices to maximize OBF dollars.

D. Conclusion
After several years of robust implementation, outcomes-based funding in Tennessee, Ohio and Indiana is having concrete, measurable effects on institutional practice and policy, and on a range of student outcomes. Across all three states we see evidence of a noteworthy uptick in the emphasis that public institutions of all types are placing on retention and graduation; and we document significant improvements on multiple related student outcomes in both Tennessee and Indiana.

Yet progress is not wholly consistent or uniform. Variation in the process of policy development, design and implementation matters, as does the broader postsecondary policy context in each state. Moreover, institutional buy-in and response varies by capacity, mission, resources, and perceived alignment with each policy’s specific metrics.

Similarly, the impact on student outcomes, while encouraging, is also not uniformly positive. Positive impact is concentrated among full-time students. OBF negatively affects part-time students in Tennessee and has no measurable impact on part-time students in Indiana. Moreover, whereas full-time Pell students and students of color benefit from OBF in Tennessee, the policy has no effect on similar students in Indiana.

More comprehensive, state-specific reports detailing the implementation and impact of outcomes-based funding policies in each of the three states are forthcoming shortly. These analyses will be designed to assist state policymakers as they examine variation in policy development, design, and implementation to determine whether and how best to adopt or refine a state’s OBF policy to align with their particular state contexts and goals.

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