



# SHEEO

STATE HIGHER EDUCATION EXECUTIVE OFFICERS ASSOCIATION

# SHEF

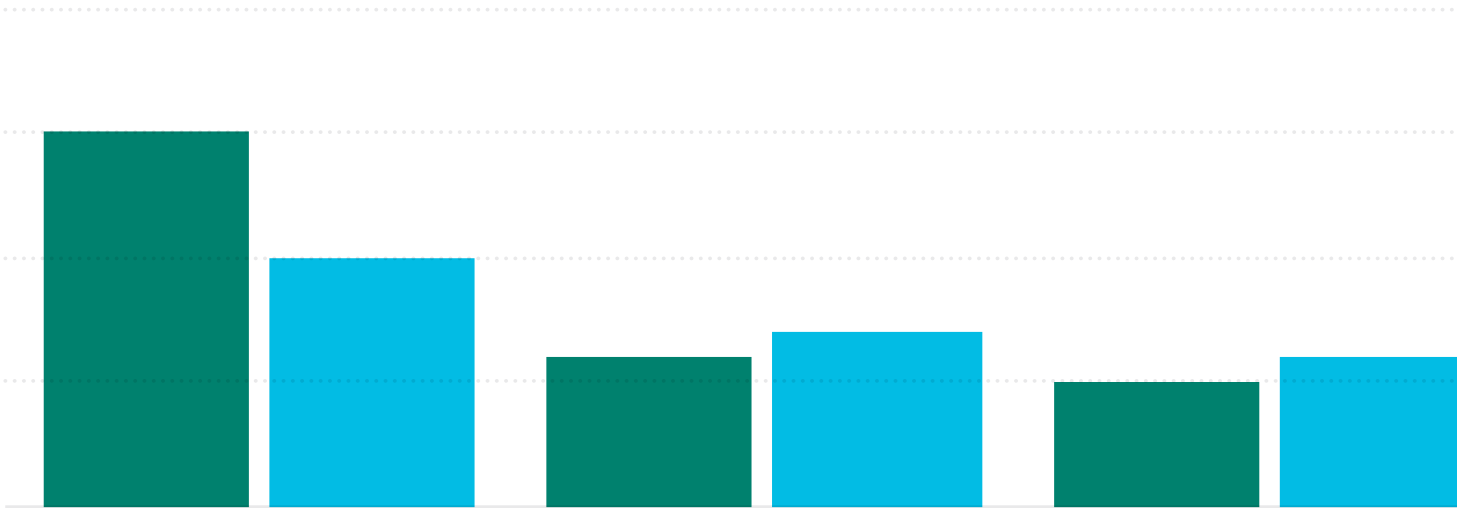
STATE HIGHER EDUCATION FINANCE

# 2017

## ISSUE BRIEF:

## OUTCOMES-BASED FUNDING AND STATE SUPPORT

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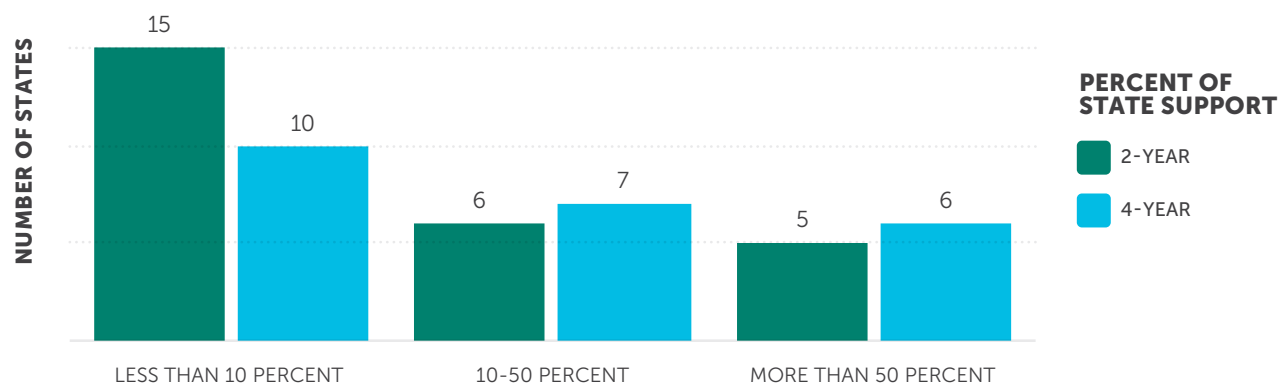
# OUTCOMES-BASED FUNDING AND STATE SUPPORT

Outcomes-based funding (also known as performance-based funding) has been around in some form in the higher education sector since 1979. The idea of funding institutions based on outcomes rather than inputs appeals to legislators and policymakers facing tight budgets and looking to improve returns on the investment of public dollars. However, implementing and sustaining an outcomes-based funding system can be difficult in practice.

In 2017, SHEEO conducted two surveys on outcomes-based funding. The surveys gathered information on the year the funding system began, outcome metrics, and the amount of funding allocated based on these outcome metrics. Of 28 respondents, 20 indicated their system or state had outcomes-based funding in fiscal 2017 (see *Table 1*).<sup>1</sup> Most states indicated that outcomes-based funding had been adopted recently. Only Indiana, Kansas, Tennessee, Washington, and Wyoming indicated that the current model was adopted prior to 2012. In most states, outcomes-based funding applied to both the four-year and two-year sectors. However, in Illinois, New York, Texas, and Wyoming, outcomes-based funding only applied to the two-year sector, and in Mississippi, it only applied to the four-year sector.

The survey and follow-up research also found that states vary in the amount of state support allocated based on outcomes.<sup>2</sup> As *Figure 1* illustrates, most states allocate less than 10 percent of state support through the outcomes-based formula, particularly at two-year institutions.

**FIGURE 1**  
**PERCENT OF STATE SUPPORT ALLOCATED THROUGH OUTCOMES-BASED FUNDING**



**SOURCES:** State Higher Education Executive Officers Association, *Dougherty et al. (2016)*

1. Through follow-up research, we found outcomes-based funding models were implemented in 11 additional states—Connecticut, Hawai'i, Louisiana, Maine, Michigan, Minnesota, Nevada, North Carolina, Oregon, Pennsylvania, and Wisconsin. In addition, Kentucky, Rhode Island, and the Wisconsin University System are scheduled to begin allocating a portion of state support based on outcomes in fiscal year 2018 or 2019.
2. Dougherty, K.J., et al. (2016). *Performance funding for higher education*. National Conference of State Legislatures. Retrieved from <http://www.ncsl.org/research/education/performance-funding.aspx>.

Initial research on these programs suggests that outcomes-based funding models which incentivize progression and completion for underrepresented populations can, in some cases, benefit the targeted populations. Sixteen out of the 20 states included at least one underrepresented student metric (*Table 1*). A metric for low-income students—usually using Pell Grant eligibility as a proxy—was the most common, followed by students needing developmental or remedial education.

**TABLE 1**  
**OUTCOMES-BASED FUNDING STATUS AND EQUITY METRICS**

STATE	2-YEAR SECTOR	4-YEAR SECTOR	FISCAL YEAR STARTED	EQUITY METRICS
ARKANSAS	YES	YES	2012 (NEW MODEL 2019)	MINORITY, LOW-INCOME, REMEDIAL, ADULT
COLORADO	YES	YES	2016	LOW-INCOME
FLORIDA	YES	YES	2014	LOW-INCOME
ILLINOIS	YES	NO	2013	MINORITY, LOW-INCOME, ADULT
INDIANA	YES	YES	2004	LOW-INCOME, REMEDIAL
KANSAS	YES (UNFUNDED)	YES (UNFUNDED)	2006	
MASSACHUSETTS	YES	YES	2016	MINORITY, LOW-INCOME
MISSISSIPPI	NO	YES (UNFUNDED)	2014	REMEDIAL
MISSOURI	YES	YES	2014 (NEW MODEL 2019)	LOW-INCOME (NEW MODEL)
MONTANA	YES	YES	2015	MINORITY, LOW-INCOME, ADULT, VETERAN
NEW MEXICO	YES	YES	2013	LOW-INCOME
NEW YORK	YES	NO	2015	
NORTH DAKOTA	YES	YES	2014	
OHIO	YES	YES	2015	MINORITY, LOW-INCOME, REMEDIAL, ADULT, FIRST-GENERATION
OKLAHOMA	YES (UNFUNDED)	YES (UNFUNDED)	2012	LOW-INCOME
TENNESSEE	YES	YES	2010	LOW-INCOME, REMEDIAL, ADULT
TEXAS	YES	NO	2014	REMEDIAL
UTAH	YES	YES	2013	LOW-INCOME
WASHINGTON	YES	NO	2007	REMEDIAL
WYOMING	YES	NO	2011	

**SOURCE:** State Higher Education Executive Officers

As shown in *Table 1*, only a few have had an outcomes-based funding system continuously implemented for more than a decade. Each of these states has updated and modified the funding system during this time but also continuously allocated a portion of funding based on outcomes. Other states' experiences with outcomes-based funding have been more volatile, often in one of three ways:

**1. The outcomes-based funding system is implemented in some years but not others.**

Examples: Kansas, Mississippi, Oklahoma. In each state, educational appropriations per FTE declined in 2017. In Mississippi, the outcomes formula was not used due to this funding reduction. In Kansas and Oklahoma, the outcomes formula only kicks in when state support increases.

**2. The outcomes-based funding system goes through significant revisions.** Examples:

Arkansas, Missouri, Utah. Each state is in the process of refining the current system to allocate more state support based on outcomes.

**3. The outcomes-based funding system is discontinued.** Examples: Arizona, Massachusetts,

Minnesota. In these states, the outcomes-based model was discontinued after it lost political support or was considered ineffective.

As state policymakers become more interested in improving student success, outcomes-based funding has become a popular policy option to incent improvement. However, the survey results highlighted in this case study suggest state experiences vary greatly and challenges to sustaining an outcomes-based system remain after initial implementation.

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