

LEVERAGING OUTCOMES-BASED FUNDING TO SUPPORT EQUITY	
<i>Series</i>	<p>OBF POLICY DEVELOPMENT AND REDESIGN: PRIORITIZING EQUITY</p>
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<p><i>Module</i> <b>GOALS</b></p> <p><b>THIS MODULE</b> addresses equity in OBF at the state and institutional levels as outlined in our OBF Equity Overview. It will help policymakers and institutional leaders consider:</p> <ul style="list-style-type: none"> <li>• Why it is critical to include <b>institutions</b> in OBF formula revision;</li> <li>• How <b>states</b> have included institutional leaders in OBF formula review; and</li> <li>• Recommendations for developing an ongoing feedback mechanism to examine and strengthen OBF policies.</li> </ul>	<p><i>About This</i> <b>TOOLKIT</b></p> <p><b>THE OBF EQUITY TOOLKIT</b> provides practical lessons on how states, systems, and institutions work to address equity in the development and implementation of OBF policy. Broken into four Series focused on equity challenges in distinct phases of the OBF policy process, the Toolkit contains short, individual modules that consider specific topics and provide lessons learned and recommendations for policymakers and institutional leaders to consider. Content is derived from in-depth study of six states (Tennessee, Indiana, Ohio, New Mexico, Oregon, and Kentucky) and 13 institutions in them. See the Research Methods section of the Overview for more information.</p>

NOVEMBER 2018

This research was conducted with the Center for Law and Social Policy (CLASP) and supported by a grant from the Bill and Melinda Gates Foundation. Opinions reflect those of the authors, not necessarily those of the Foundation.

## EQUITY CHALLENGE

### Advancing institutional equity through inclusive and regular OBF review processes

As demonstrated in [Module 2.2: Involving Institutions in Policy Development](#), including all institutions in the process of developing OBF policy results in fairer and more balanced policy. The same is true when states revisit these policies. By including all institutions in a review process, states and systems can

ensure that the needs and opinions of leaders from under-resourced institutions, smaller institutions, or institutions enrolling high percentages of historically underserved students are considered.

OBF formula review processes also provide an opening to discuss successes and challenges of OBF policies following implementation. For example, when such policies focus exclusively on completion goals, they can create challenges for small and under-resourced institutions, as well as for institutions serving disadvantaged students. For more information on how the design of OBF policies may disadvantage certain institutions, see [Module 3.1: Identifying the Capacity Needs of Disadvantaged Institutions to Increase Outcomes Under OBF](#), and [Module 3.3: Constructing OBF Policies that Consider Small Schools](#). Inclusive and regular formula review processes can ensure that OBF policies address variation in institutional mission and capacity. In doing so, these policies are more likely to effectively incentivize and support institutions to improve outcomes for underserved students and discourage them from gaming the policy in ways that do not help at-risk students.

## LESSONS FROM THE FIELD

Within the first few years of implementation of an outcomes-based funding policy, institutions and states alike typically recognize limitations to the model and identify possible refinements to address them. As a result, the implementation of OBF is often iterative.

States take varied approaches to refining their OBF policies. Revisions to funding formulas can be formal, often set in legislation and involving a range of stakeholders; or informal through ad hoc processes with select stakeholders. In addition, iterations can occur frequently, such as every year or every other year, or less frequently, with decisions made to evaluate every five years or more. The ways that states approach formula revision have different implications for institutional equity, and we summarize them below.

### Formalized OBF policy review and refinement processes provide more inclusive institutional involvement

Across the six study states examined for this research, five have a formalized process for reviewing their OBF policy and Indiana will have a formal formula review process beginning with the 2019-2021 biennium. Legislation in Kentucky, Oregon, Tennessee, and Indiana require working groups to review the funding formula every few years. New Mexico also convenes a working group; however, this process is not regularly occurring or consistent. In Ohio, while not legislated, the Ohio Association of Community Colleges convenes an annual meeting to revisit the formula. Our research suggests that when states convene a formal working group to review their OBF formulas, the revision process provides the opportunity for more institutions to have input, especially under-resourced institutions that do not have government relations teams and lobbyists. One institutional leader from a small, under-resourced community college in Tennessee spoke about the importance of having input in the formula review process:

*I'm on a funding formula review committee...and I was thrilled to get to serve on this committee because we had a lot of things influencing our decisions on our level....I mean, the good thing about it is that they've listened to us. They understand where we live, they understand who we are, and they listen to me when I go up to Nashville...They have understood our problems with transportation, our trouble with broadband.*

In contrast, when a state has an informal review process, it can be more difficult to ensure that the perspectives of all institutions are considered equally. Indiana's experience illustrates this point well. Historically, the state's OBF policy review process was informal. Although the Commission for Higher Education reached out to all institutions individually to get input, institutional leaders perceived the process as less than robust and one that favored larger institutions with more resources for lobbyists and government relations staff. As one institutional representative said: "I would say Indiana University is

most engaged in that it has more lobbyists than anyone... they've got a fleet of people that are in the Commission's building. So, no one does anything without Indiana University being there.” This is problematic from an equity perspective because under-resourced institutions with fewer lobbyists and government relations staff have less influence in the policy review process.

Indiana policymakers recognized the need for a more transparent and balanced policy review process. As a result, the 2017-2019 budgetary bill requires the Indiana Commission for Higher Education (CHE) to convene a working group to “(1) review the metrics used in the performance funding formula to ensure that those metrics are aligned with the state's higher education goals; and (2) make recommendations to the legislative council and the governor concerning the metrics used in the performance funding formula.”<sup>i</sup>

### Strategies for ensuring meaningful institutional involvement in policy review and refinement

States used several strategies to solicit input from institutions. All six states include institutions in the formula review process. Formal review for Kentucky and Oregon has not yet occurred, given the recent adoption of their OBF policies (in 2017 and 2014, respectively). However, both states legislate the inclusion of institutional leaders in the formula review working group. For instance, Kentucky’s OBF-related legislation mandates that a working group composed of a broad range of system, institutional and legislative stakeholders revisit the funding formula every three years. The members of the formula review working group are the same members that met to develop the initial OBF formula.

States that have already revised their OBF policies used different strategies to obtain institutional feedback. The Tennessee Higher Education Commission convened a Formula Review Committee (FRC) to develop and then revise the funding formula. The FRC consists of institutional representatives as well as system and state policymakers. Institutional participants perceive the process as transparent, with discussion and compromises being shared across a table. For the formula review process conducted by Ohio’s community colleges, HCM Strategists served as a third-party facilitator, providing further advice and counsel to state policymakers and institutions reviewing the model.

### Striking the right balance between formula stability and revision

States and institutions point to the need for finding the right balance between frequency of formula revision and formula stability. While frequent revisions more immediately address unintended results of OBF policy such as the proliferation of certificates that do not have labor-market value, too-frequent revisions can pose significant challenges to institutions as they continually adjust to the new formula.

The frequency of policy review varies considerably across states, as detailed in Table 1.

**Table 1. Frequency of OBF review process for six study states**

STUDY STATE	FREQUENCY OF OBF FORMULA REVIEW PROCESS
OHIO	Annual
TENNESSEE	Every year, with a comprehensive review conducted every five years
INDIANA	Every two years, in line with Indiana’s budgetary biennium
KENTUCKY	Every three years

NEW MEXICO	Not defined
OREGON	Every two years, with a comprehensive review conducted every six years

**Too-frequent changes in OBF models can pose a range of challenges.** For example, OBF models typically pull from prior years of data when states calculate student outcomes and distribute funds. In such cases, the more funding formulas are changed, the harder it is for institutions to see the results of aligning policies and practices to the OBF policy. One Indiana institutional leader described how having an OBF formula that both changes every two years and factors in historic outcomes data leads to funding that is not necessarily reflective of current practices or performance: “All of the data for our funding for the next biennium is already [calculated] so there's nothing that we can do now to address that.”

Institutional stakeholders in New Mexico noted how difficult it is to strike the right balance between formula stability and revision. One institutional leader described the complicated political and practical dilemmas involved in this process. He said, “We've complained so much about the formula, over and over, to every politician that we know, all of us, that now they're saying, ‘You've got to change the formula.’” And the reality is that changing it is the very worst thing you could do,” pointing to the fact that many institutions had already aligned policies and practices to the formula and were reluctant to shift again.

Ohio’s community colleges delayed revisions to their OBF model for multiple years because institutional leaders wanted to see how the formula worked before adjusting it. As one stakeholder involved in Ohio’s process noted:

*In 2013, there was a desire to get everything into the funding model, and then to put anything else that couldn't get into the funding model into the parking lot, and get it incorporated as soon as possible. After things kind of settled there was a decision...to just hold as steady as we can on a funding model. Let it play out for a few years, kind of be monitoring the trend, and the impact, and then come back.*

Many stakeholders credit relatively longer waiting periods with changes that better align an OBF model to state and institutional priorities. For example, during Tennessee’s review process after a five-year waiting period, a component of Tennessee’s original formula—an award for remedial success—was eliminated and replaced with bonus funding for academically underprepared students that complete each outcome. This change aligned to developmental education reform occurring across the state and within institutions. In addition, it more clearly acknowledged an important student group for the state and its institutions in meeting completion goals.

**However, waiting too long to revisit a funding formula can also be a challenge for implementation, as it restricts the state’s capacity to make changes as unintended consequences become apparent.**

Tennessee overcame this challenge by making changes to its funding formula outside the review process when it discovered a sharp increase in certificates under OBF. Specifically, the Tennessee Higher Education Commission limited certificates awarded under the funding formula to those in high-demand fields. [For a full discussion of the equity implications related to awarding certificates through OBF see [Module 2.6: Increasing Completions Through Quality Certificates.](#)] Both state policymakers and institutions applauded this revision, although it pre-empted the first, five- year formula review process.

## THE TAKEAWAY

The six states in our study provide a range of lessons for other states to consider as they structure the OBF policy review process to ensure that the perspectives and insights of all institutions are brought to bear when refining the policy to become more equity-focused.

**Include all institutions in the process of refining OBF policy, and ensure that the perspectives of smaller and open-access institutions are heard.** Institutional engagement is critical to the formula review process. This type of involvement can ensure that the needs of all institutions and their students—not just those that are best connected with state policymakers or legislators—are considered. This is particularly critical as states become more focused on utilizing OBF to reduce equity gaps, since the institutions that typically serve large numbers of disadvantaged students may not have adequate political or fiscal resources to get a seat at the OBF revision table. Crafting a revision strategy that allows for meaningful input from all institutions can also lead to deeper buy-in to the goals and priorities of outcomes-based funding. In addition, including all institutions is particularly important over time as new leaders onboard across the state’s institutions.

**Find the right balance between policy stability and responsiveness.** OBF policies are complex, and institutions need time to absorb and respond to them. Yet states also need to examine and refine OBF policy periodically, particularly to ensure that they decrease rather than increase gaps in student attainment. Too much policy change can be taxing on institutions, particularly those with fewer resources. In offering an established period following implementation for institutions to adjust and align with the policy goals of OBF, institutions are likely to experience less fatigue and exhibit more investment during revisions.

**Consider using a combination of meetings with individual institutions and more inclusive working groups when revising OBF policies.** Ensuring a transparent revision process, in which all institutional voices are heard, may require a two-pronged strategy. In states that convened working groups to discuss revisions to OBF formulas, institutional leaders described this process as highly transparent and inclusive. Even when institutional perspectives were not included to the final formula revisions, institutions felt heard, and acknowledged that compromises were made amongst all institutions.

In contrast, while individual campus visits can allow institutions to express their concerns more freely, they can also lead to less transparency in the process. To balance comprehensive information and collaboration, some states offered both opportunities: a working group as well as additional visits to individual campuses. In doing so, all institutions were represented during the formula review process – either privately or through a seat at the table.

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<sup>i</sup> House of Representatives. “House Bill 1001.” Indiana General Assembly. 2017. <http://iga.in.gov/legislative/2017/bills/house/1001/#digest-heading>