

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> GOALS</p> <p>THIS MODULE addresses equity in OBF at the state, institutional, and student levels as outlined in our OBF Equity Overview. It will help state policymakers and institutional leaders consider:</p> <ul style="list-style-type: none"> • What is known about the quality and market value of different kinds of certificates for students; • How states have approached rewarding certificates under OBF formulas; and • How institutions have balanced maximizing rewards with awarding meaningful certificates. 	<p><i>About This</i> TOOLKIT</p> <p>THE OBF EQUITY TOOLKIT 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>

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EQUITY CHALLENGE

Determining how to best recognize institutional mission to support equity

OBF policies drive funding to public postsecondary institutions based on how they perform against an explicit set of student outcomes. However, institutional missions vary widely. Equitable OBF policy recognizes this variation and is structured to ensure that all institutions have the resources and supports they need so that they can reasonably be held accountable for their students' success while maintaining their mission. One part of creating an equitable OBF policy is to consider how institutional mission varies and to reflect this variation in policy design.

In the context of outcomes-based funding, “mission differentiation” refers to measures or differentiation within an OBF policy that account for differences between institutional missions and sectors (such as selective universities, open-access or regional universities, community colleges, and technical colleges). States differentiate their formulas in order to:

- Recognize that different institutions serve unique purposes in higher education.
- Create policy that recognizes institutions serve students with different goals (e.g., transfer, credential attainment, degree attainment);
- Disincentivize institutions from dramatically deviating from their missions to meet performance metrics; and
- Create fairer policy that recognizes the needs of all institution types across a state.

Recognizing and supporting mission differentiation is an important element of equitable OBF policy.

LESSONS FROM THE FIELD

OBF policy has recognized differences in institutional mission in a variety of ways. For example, equity metrics reward institutions whose mission is to serve under-resourced students for these students’ success. See [Module 2.4: Equity Metrics](#) for a more complete discussion of the role of equity metrics in supporting institutional mission.

While institutional mission varies within a sector, states most commonly approach mission differentiation by providing sector-specific, rather than institution-specific, OBF policies. This module describes how states recognize institutional mission in three different ways: 1) creating separate formulas for the two- and four-year sectors; 2) assigning different measures to different sectors or institutions in the same formula; and 3) recognizing mission through special accommodations or line items outside of the formula. Each strategy is described below.

Recognizing institutional mission through separate OBF models

Some states address variation in institutional mission by creating separate policies or formulas for the two- and four-year sectors. Notably, this approach does not redistribute resources across sectors. Of the six states in this study, Kentucky and Ohio took this approach.

In Kentucky, policymakers and institutional presidents from both sectors worked in parallel to create two separate but similar models.ⁱ The result was separate OBF formulas for Kentucky universities and for the Kentucky Community and Technical College System (KCTCS). The models are similar in the percentage of funding tied to three basic components: student success, course completion, and operational support. Within the student success component, the models recognize sector-specific outcomes (bachelor’s/associate degrees), progression milestones, and completions by low-income and underrepresented minority students, but the KCTCS model further recognizes the unique mission of community and technical colleges by including completions of underprepared students and transfer to four-year institutions as outcomes measures.

Policymakers in Ohio worked separately to create sector-specific OBF models that approach institutional mission differently.^{ii, iii} University presidents developed a model that recognizes the mission of the four-year sector through doctoral and medical set-asides. The Ohio Association of Community Colleges worked with college presidents to develop a model focused in part on progression milestones and transfer, activities essential to community colleges’ mission. Ohio’s formulas also provide bonus weighting for the success of underserved students. The university formula provides additional weight for course

completions of low-income and academically underprepared students, and additional weight for degree completions of adult, low-income, academically underprepared, under-represented minority, and first-generation students. In the Community and Technical College Formula, additional weight is applied to completions of adult, low-income, under-represented minority, and academically underprepared students.

Table 1 summarizes this information.

Table 1. Sector-specific formulas in Kentucky and Ohio

STATE	FORMULA	SECTOR-SPECIFIC OUTCOMES
Kentucky ^{iv}	University Performance Funding Model	<ul style="list-style-type: none"> • Course completion • Bachelor’s degree completion • Degrees per 100 FTE students • Bachelor’s degree completion in STEM+H Fields • Bachelor’s degree completion by URM & low-income students • Progression (@ 30, 60, 90 credit hours)
	Kentucky Community and Technical College System Performance Funding Model	<ul style="list-style-type: none"> • Course completion • Credential completion • Credential completion in STEM+H, high-demand, & targeted fields • Credential completion by URM, low-income, & underprepared students • Progression (@ 15, 30, 45 credit hours) • Transfers
Ohio ^{v,vi}	University Regional & Main Campuses SSI Funds	<ul style="list-style-type: none"> • Course completion • Associate degree completion • Baccalaureate degree completion • Masters and professional degree completion (excluding medical degrees)
	Community and Technical Colleges SSI Funds	<ul style="list-style-type: none"> • Developmental education course completion • Progression (@ 12, 24, 36 credit hours) • Associate degree completion • Long-term certificate degree completion • Transfer

Recognizing institutional mission within a single OBF formula

Indiana, New Mexico, and Tennessee created a single OBF model for all institutions but included metrics within the model to recognize distinct institutional missions. This approach allows for dollars to be redistributed across the two- and four-year sectors. All three states award degree completions, although the level of degree varies based on the type of institution. These states also include non-completion mission-specific metrics in their models—for example, milestone progression, transfer, and research funding—as explained in Table 2 below.

The number of mission-specific metrics included in OBF formulas vary by state. Tennessee’s metrics have the potential to recognize the greatest array of institutional missions. Indiana took a simpler approach by only including one to two sector specific metrics in their model.

Some OBF policies consider *types* of institutions within the four-year sector, providing additional mission-specificity. Research universities and comprehensive universities in Indiana and New Mexico can receive funding through mission-specific metrics unique to the type of institution. In Indiana, research universities are rewarded for high-impact degree completion, and in New Mexico, funding is allocated to research universities based on the percentage of federal grants and contracts they secure. While comprehensive universities are not eligible for these metrics, these institutions are rewarded for student persistence. Both policies distinguish research institutions from comprehensive institutions and attempt to offer outcomes that recognize their unique missions.

States also took different approaches to weighting and funding these metrics:

Institutions in Tennessee can determine the weighting of outcome metrics, further supporting mission differentiation.^{vii} Institutions can adjust the weight on each outcome, within a range, allowing them to attach a higher percentage of funds to areas of focus. For example, if a university excels in providing law degrees, it can assign a higher percentage of formula weight to success in that area. Tennessee’s community colleges allocate a standardized weight for associate degrees, progression milestones, and certificates, as recommended by the Tennessee Board of Regents. The remaining set of outcomes—dual enrollment, job placement, transfer, and awards per FTE—are adjusted by each community college to reflect their unique mission. Universities have full autonomy over the weights they assign to each outcome; however, the University of Tennessee system provides final validation for the weights assigned by each institution in the system.

In Indiana, poor performance on mission-specific metrics never counts against an institution’s funding. The high-impact degree completion, remediation success rate, and student persistence metrics allow institutions to gain more funding for fulfilling their missions by measuring each institution’s performance relative to its past performance, rather than to the performance of other institutions. If an institution’s progress towards those measures does not improve, that measure is not funded.

Table 2 lists metrics common between types of institutions as well as mission-specific measures that states intend to support mission differentiation. Completion measures listed in the Common Outcomes column are sector-specific, with overall degrees at two-year institutions linked to associate degree production and at four-year institutions generally bachelors and higher. However, Indiana and New Mexico’s policies do not communicate completions designed to support distinct missions. In Tennessee, the OBF policy communicates each measure as supporting the distinct mission of each sector.

Table 2. Mission-specific measures in Indiana, New Mexico, and Tennessee

STATE	INSTITUTIONAL TYPE	COMMON OUTCOMES	MISSION-SPECIFIC OUTCOMES
Indiana ^{viii}	Research institutions	<ul style="list-style-type: none"> Overall degree and credential completion At-risk degree completion On-time graduation rate 	<ul style="list-style-type: none"> STEMH (High-Impact) degree completion
	Comprehensive institutions		<ul style="list-style-type: none"> Student persistence
	Community colleges		<ul style="list-style-type: none"> Student persistence Remediation success*
New Mexico ^{ix}	Research institutions	<ul style="list-style-type: none"> Overall degree and credential completion STEMH degree and credential completion Financially at-risk awards End-of-course student credit hours 	<ul style="list-style-type: none"> Percentage of total federal grant and contract funds
	Comprehensive institutions		<ul style="list-style-type: none"> Progression (@ 30, 60 credit hours) Dual credit hours completed
	Community colleges		<ul style="list-style-type: none"> Progression (@ 30 credit hours) Dual credit hours completed
Tennessee ^x	Research and comprehensive institutions	<ul style="list-style-type: none"> Undergraduate degree and credential completion 	<ul style="list-style-type: none"> Progression (@ 30, 60, 90 credit hours) Masters/ed. specialist degrees

		<ul style="list-style-type: none"> • Doctoral/law degrees • Research, service, and sponsored programs • Six-year graduation rate • Degrees per 100 FTE
	Community colleges	<ul style="list-style-type: none"> • Progression (@ 12, 24, 36 credit hours) • Dual enrollment • Job placements • Transfers out with 12 CUs • Workforce training/contact hours • Awards per 100 FTE

* Notes: Remediation Success exists in the formula but has never been funded and will be phased out in the next formula.

Recognizing institutional mission outside of the outcomes formula

Oregon recognizes institutional mission through “off the top” base allocations.^{xi} Oregon’s OBF policy currently includes the four-year sector only, but it recognizes that research institutions and rural comprehensive institutions vary in mission. Rather than sending all base funding through its OBF formula, the state provides some mission-specific funding based on historical funding levels adjusted for inflation. This approach was adopted to financially protect small, regional universities. One policymaker explained, “What we did was essentially protect the regional institutions by maintaining the base funding.” Set-asides in mission differentiated funding are divided into three categories:

- **Regional** allocations provide resources to the four Technical and Regional Universities (TRU) and OSU Cascades, which provide access to higher education in rural areas and bear a higher administrative cost because of their small size.
- **Research** allocations sustain sponsored research activities to drive state economic development and innovation needs.
- **Mission** allocations provide funding for non-instructional activities that are difficult to account for in an outcomes formula, such as veterinary labs and high-cost engineering programs.

Historically Black Colleges and Universities

Some institutions, such as HBCUs, typically suffer from persistent underfunding, placing them at a disadvantage when responding to OBF. Yet because they serve high numbers of students whose success is critical to closing equity gaps, states that have adopted OBF must grapple with how best to both support these institutions and ensure that outcomes for their students increase.

States recognize the unique challenges of HBCUs to varying degrees as they craft OBF policies, as seen in the examples provided below.

Kentucky supported its HBCU by protecting its base funding during the first year of OBF. However, all institutions saw cuts in the second year of implementation. When Kentucky transitioned to OBF, the state took 5% of base funding from each institution, except for Kentucky State University, to create the Postsecondary Education Performance Fund. These dollars comprise the pool of money redistributed through OBF. Initially, the state introduced a three-year hold-harmless for KSU and a three-year incremental hold-harmless/stop-loss of 0%, 1%, 2% for all other institutions to ensure that no institution lost a dramatic amount of funding in the early years of OBF. Yet state-wide budget cuts led to a 6.25% cut to all institutional budgets for FY2019.

Tennessee and Ohio did not make any special considerations for their public HBCUs. In both states, the HBCUs operated under the same set of policies as all others in their state. Under OBF, Tennessee’s

HBCU, Tennessee State University, has seen a slower rate of funding growth than all other universities—8%, compared to the state average of 25%.^{xii} In Ohio, HBCU Central State University has experienced a greater funding decline than other universities.^{xiii} The impact of OBF on Tennessee State University and Ohio State University is well documented by Jones, et. al. in *Outcomes Based Funding and Race in Higher Education: Can Equity be Bought?*^{xiv}

Perceptions of the effectiveness of mission differentiation

Perceptions of how effectively metrics are capturing mission differentiation vary by the amount of funding attached to metrics and by the number of metrics. This section notes perceptions from institutional leaders on how well state OBF policies recognize mission.

Not all metrics designed to recognize mission differentiation do so adequately, according to institutional leaders. Even metrics communicated as mission specific—for example, accumulation of 30 credits—are not necessarily perceived as mission-specific by institutional leaders. One leader explained how using the same progression metrics for all institutions disadvantages those that enroll less-prepared students who won't meet those milestones as quickly:

Looking at progression, for example, we're all using the same definitions. The kids that go to [highly-selective school], none of them had below a 3.5 coming in. Of course, they're going to do well. They're going to take a full load every semester. Our mission is completely different.

In addition, institutional leaders in Indiana's comprehensive universities felt their exclusion from awards for high-impact degree completion did not recognize their mission in providing STEM+H degrees for their students. Here, institutional leaders described mission differentiation as “barely there.”

However, some institutional leaders consider sector- or mission-specific metrics as the key to maintaining funding under the state's OBF policy. In many instances, metrics that differentiate mission can be the difference-maker for assuring that funding is driven out to open-access and low-enrollment institutions in a competitive formula. In New Mexico, one institutional leader emphasized the importance of mission differentiation funding in this way:

For us to just break even with the funding formula, we need to grow our enrollment by 143%. For STEM-H we need to graduate 60% more students. For general awards we need to grow by 300%. The only piece where we are doing well is what they call the mission-based funding. Dual-credit and those momentum points—in those, we are doing better than the rest of the state.

Policymakers and institutional leaders in Oregon believe that secure base funding for open-access regional institutions is a critical way to support their mission of serving local, rural, and underserved students. One policymaker said base-funding “undergirds their existence. If you pulled that off and you just had a formula-driven system, there's no way you could deliver enough dollars for them to continue to operate.” An institutional leader at a regional university confirmed, “We want to make sure that the mission differentiation subsidies remains... It's not a lot in the grand scheme of things, but it's a lot for us.”

THE TAKEAWAY

Building mission differentiation into OBF policies is seen by policymakers and institutional leaders in the six study states as a mechanism for creating and supporting equity between institutions. While it can be difficult to account for the wide array of institutional missions, policymakers can target their support to institutions with equity missions critical to closing achievement gaps within the state.

As states and institutions consider how to best recognize mission differentiation in OBF policy, we offer the following recommendations:

Policymakers should identify institutions that serve important equity missions in the state and protect their base funding. Small institutions with open-access missions in high-poverty areas can be particularly disadvantaged by competitive funding approaches such as OBF. Ensuring these institutions have adequate and reliable funding to operate can help level the playing field by allowing these institutions to focus on improving student outcomes rather than fighting for survival.

Mission-focused metrics should align with institutional and state equity goals and be re-evaluated as needed. Mission-focused metrics present states with the opportunity to communicate that they value equity. Yet some such metrics, such as rewarding institutions for receiving research grants and contracts, do not support state equity goals. States should focus on mission-specific measures that will close achievement gaps—for example, progression milestones.

Policymakers should support institutions with an equity-focused mission both in and out of the OBF formula. Including mission differentiation and equity metrics within a formula is an important element of an equity agenda. But states with OBF can do more by considering such things as time-limited hold-harmless clauses, technical support, supplemental grants, or completion academies. [See Module 3.2 Strategies for Supporting Institutions During OBF Implementation](#) for more details on supporting institutions.

Policymakers should carefully consider the trade-offs of sending dollars through a single formula for both postsecondary sectors that includes mission-specific measures versus creating sector-specific formulas. Creating a single model in which all institutions compete has the potential to shift dollars between the two- and four-year sectors. In New Mexico and Indiana, this approach benefited the large community colleges who nimbly responded to OBF and secured funding from a larger pool of money than they may have if they'd competed only against other community colleges.

ⁱ Ransdell, Gary, Robert King, John Chilton, Andrew McNeill, David Givens, Arnold Simpson, Michael Benson, Jay Box, Aaron Thompson, Wayne Andrews, Robert Davies, Geoffrey Mearns, Eli Capilouto, and Neville Pinto. "Report of the Postsecondary Education Working Group to the Governor and Interim Joint Committee on Education." Kentucky Council on Postsecondary Education. December 1, 2016. Accessed August 20, 2018. <http://cpe.ky.gov/data/reports/performancefundingreport.pdf>.

ⁱⁱ Ohio Department of Higher Education. "State Share of Instruction Handbook: Providing the Methodology for Allocating State Share of Instruction Funds for Fiscal Year 2018 and Fiscal Year 2019, For use by: Community and Technical Colleges." June 2017. Accessed August 20, 2018. https://www.ohiohighered.org/sites/ohiohighered.org/files/uploads/financial/FY2018_SSIHandbookCollege.pdf

ⁱⁱⁱ Ohio Department of Higher Education. "State Share of Instruction Handbook: Providing the Methodology for Allocating State Share of Instruction Funds for Fiscal Year 2018 and Fiscal Year 2019, For use by: University Regional & Main Campuses." June 2017. Accessed August 20, 2018. https://www.ohiohighered.org/sites/ohiohighered.org/files/uploads/financial/FY2018_SSIHandbookUniversity.pdf

^{iv} Kentucky Council on Postsecondary Education. "Progress Report: Kentucky's Progress toward Postsecondary & Adult Education Strategic Agenda Goals." 2018. Accessed October, 24 2018. <http://cpe.ky.gov/data/reports/2018progressreport.pdf>

^v Ohio Department of Higher Education. "State Share of Instruction Handbook: Providing the Methodology for Allocating State Share of Instruction Funds for Fiscal Year 2018 and Fiscal Year 2019, For use by: University Regional & Main Campuses." June 2017. Accessed August 20, 2018. https://www.ohiohighered.org/sites/ohiohighered.org/files/uploads/financial/FY2018_SSIHandbookUniversity.pdf

^{vi} Ohio Department of Higher Education. "State Share of Instruction Handbook: Providing the Methodology for Allocating State Share of Instruction Funds for Fiscal Year 2018 and Fiscal Year 2019, For use by: Community and Technical Colleges." June 2017. Accessed August 20, 2018. https://www.ohiohighered.org/sites/ohiohighered.org/files/uploads/financial/FY2018_SSIHandbookCollege.pdf

^{vii} Tennessee Higher Education Commission & Student Assistance Corporation. "2018-19 Outcomes Based Funding Formula." Accessed October 20, 2018. <https://www.tn.gov/thecc/bureaus/finance-and-administration/fiscal-policy/redirect-fiscal-policy/outcomes-based-funding-formula-resources/redirect-outcomes-based-funding-formula-resources/2015-20-outcomes-based-funding-formula.html>

^{viii} Indiana Commission for Higher Education. "Indiana Performance Funding Review: A Report in Response to House Enrolled Act 1001-2017" January 5, 2018

^{ix} New Mexico Higher Education Department. "New Mexico Higher Education I&G Funding Formula: 2017 Technical Guide for the FY18 Budget Cycle." Accessed August 20, 2018.

<http://www.hed.state.nm.us/uploads/files/NM%20I%20%26%20G%20funding%20formula/New%20Mexico%20HED%20Funding%20Formula%20-%20202017%20Technical%20Guide%20for%20FY18%20Budget%20Cycle.pdf>.

x Tennessee Higher Education Commission & Student Assistance Corporation. "Outcomes-Based Funding Formula." Accessed October 20, 2018. https://www.tn.gov/content/dam/tn/thec/bureau/fiscal_admin/fiscal_pol/obff/1_-_Outcomes_Based_Funding_Formula_Overview_-_One_Page.pdf

^{xi} State of Oregon Higher Education Coordinating Commission. "Postsecondary Funding Distribution Models." November 18, 2015. Accessed October 12, 2018. <https://www.oregon.gov/HigherEd/Documents/HECC/Resources/Finance/SSCMBaseShortPowerpointUpdatedfinal.pdf>

^{xii} Testa, Joshua. "Outcomes-Based Funding Formula Profile: Tennessee State University." Tennessee Comptroller of the Treasury. August 2018. Accessed October 10, 2018. [http://www.comptroller.tn.gov/Repository/RE/TSU%20\(8.15\).pdf](http://www.comptroller.tn.gov/Repository/RE/TSU%20(8.15).pdf)

^{xiii} Ohio Department of Higher Education. "State Share of Instruction Spreadsheets." Accessed October 10, 2018. <https://www.ohiohighered.org/financial>

^{xiv} Jones, Tiffany, Sosanya Jones, Kayla C. Elliott, LaToya Russell Owens, Amanda E. Assalone, and Denisa Gándara. Outcomes Based Funding and Race in Higher Education: Can Equity be Bought?. Springer, 2017.