



LEVERAGING OUTCOMES-BASED FUNDING TO SUPPORT EQUITY			
<i>Series</i>	OBF IMPLEMENTATION: STATE STRATEGIES FOR SUPPORTING INSTITUTIONS TO CLOSE EQUITY GAPS		
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<i>Module</i>	CONSTRUCTING OBF POLICIES THAT CONSIDER SMALL SCHOOLS		
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<table border="1"> <tr> <td style="text-align: center;"> <p><i>Module</i></p> <p>GOALS</p> <p>THIS MODULE addresses equity in OBF at the state and institutional levels as outlined in our OBF Equity Overview. It will help state policymakers and institutional leaders consider:</p> <ul style="list-style-type: none"> • How small institutions enter OBF at a disadvantage based on their dependence on state funding and relatively lower levels of institutional resources; • How state policy design decisions, including the way an outcome is calculated, differentially advantage types of institutions; and • Strategies for how states can consider small institutions in OBF policies. </td> <td style="text-align: center;"> <p><i>About This</i></p> <p>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> </td> </tr> </table>		<p><i>Module</i></p> <p>GOALS</p> <p>THIS MODULE addresses equity in OBF at the state and institutional levels as outlined in our OBF Equity Overview. It will help state policymakers and institutional leaders consider:</p> <ul style="list-style-type: none"> • How small institutions enter OBF at a disadvantage based on their dependence on state funding and relatively lower levels of institutional resources; • How state policy design decisions, including the way an outcome is calculated, differentially advantage types of institutions; and • Strategies for how states can consider small institutions in OBF policies. 	<p><i>About This</i></p> <p>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

Crafting OBF policies that address the unique challenges faced by vulnerable institutions

In many states, smallⁱ public institutions provide the only broad access to higher education for students in remote, less populated areas. Research highlights the importance of having close, affordable college opportunities, given that most students enroll in colleges within 50 miles of their homes.ⁱⁱ College proximity is particularly important for students of colorⁱⁱⁱ low-income^{iv} and rural students.^v

Most OBF formulas reward institutions for increases in the total numbers of certificates and degrees awarded. As a result, small institutions—particularly those serving historically underserved students—can be at a unique disadvantage when a state adopts OBF. Unless states level the playing field by addressing the unique constraints of small institutions, these institutions will likely lose the funding they need to support their students and advance state equity goals.

LESSONS FROM THE FIELD

Our analyses suggest that small two- and four- year institutions may enter OBF at a disadvantage due to institutional characteristics and the way outcomes are measured. This section summarizes research findings about how size factors into institutional response to OBF and provides examples from the field of how some states have considered small institutions in policy design and implementation.

How small institutions can be disadvantaged by OBF

Small, open-access institutions have struggled under OBF policies because of their dependence on state funding and relatively low levels of institutional resources. These challenges are described in greater detail below.

Small institutions depend heavily on state funding; for them, OBF is particularly high stakes. Unlike large institutions in major metropolitan areas, most small institutions cannot offset a loss of state dollars by recruiting more students. As a result, they are uniquely vulnerable to OBF policies—especially in states like Tennessee, which drives 85% of state funding through its OBF formula.

Smaller institutions have fewer resources to respond effectively to OBF policies. Small institutions consistently referenced inadequate staffing and infrastructure as challenges that encumbered their response to OBF and delayed implementation of statewide student success initiatives. Notably, the disadvantages faced by small schools are acknowledged even at large institutions. An administrator from a large institution in Oregon recognized the important role of “staff capacity” in responding to OBF:

I think [understanding the formula and how to respond] is particularly problematic at smaller institutions where your staff capacity, your administrator capacity, is really, really thin, and your middle managers tend to be much weaker. You just don't have the same capacity that larger, more sophisticated institutions do to really design intricate schemes to maximize or disseminate information.

Small, resource-limited institutions often rely on external sources for assistance and guidance on how to be successful under OBF. Small institutions looked to state and system leaders and successful institutions for a range of necessary supports. These ranged from an extra year to implement completion initiatives to direct technical assistance, such as running analytics to identify where students were getting stuck. Large institutions also described serving in this role. For example, administrators from a large community college described being approached for advice by smaller community colleges:

[Small colleges] face huge challenges in capacity to respond. So we've got some institutions coming to us now, after all these years, saying, “Gee, how really did you increase graduations and these disciplines? And how do you know which ones to focus on?” It's all right there in the formula. You know how you're going to be funded, but some are just beginning to say, “Oh, maybe I should pay attention to that.”

Factoring size into OBF formula metrics: Totals vs. rates

State OBF policies reward performance through two very different strategies: awarding institutions for increases in the total number of target outcomes or awarding increases in the completion ratio or percentage of students that achieve the given outcome. While there are pros and cons to each approach, they also have unique implications for small institutions.

Total counts, while simpler to understand and calculate than ratios, advantage larger institutions.

Table 1 shows that neither totals nor ratios include adjustments to reflect different student inputs; however, ratios do, to some degree, control for institutional size and thus provide a more equitable comparison.

Table 1. Distinguishing characteristics of two approaches to measuring student outcomes: Totals v. rates

	TOTAL OUTCOMES	RATIO/PERCENTAGE OUTCOMES
RELATIONSHIP TO ENROLLMENT SIZE	High: Outcome reflects enrollment	Lower: Controls for enrollment (i.e. institutional size) to some degree
COMPLEXITY OF MEASURE	Simple: Aggregate count of a given outcome	More complicated: States need to define which students to count in the denominator, which adds complexity.
OTHER (NON-PERFORMANCE) WAYS TO INCREASE OUTCOMES	Enrollment growth will drive up outcome (i.e., as inputs increase, so will outputs)	Either increased admissions selectivity or an enrollment decline will temporarily boost outcome ratio
EQUITY CONCERN	<p>Advantage large institutions or institutions experiencing rapid enrollment growth</p> <p>Do not control for student composition (e.g., selectivity, SES, nontraditionality)</p>	<p>Small institutions can potentially increase ratio with fewer outcomes than large institutions.</p> <p>Non-open access institutions or institutions not challenged with enrollment growth could increase admissions selectivity to game outcomes ratios.</p> <p>Do not control for student composition (e.g., selectivity, SES, nontraditionality)</p>

In five of six study states, most or all OBF outcomes—for both two- and four-year institutions—are measured as totals. A notable exception is Kentucky, which incorporates rates for all two-year institutional outcomes and total measures for all four-year institutional outcomes.

Across all study states, policymakers, large institutions, and small institutions were keenly aware of the differential benefits of total and rate metrics. A New Mexico policymaker described how the New Mexico's emphasis on totals can make OBF feel like "death by a thousand cuts" for small institutions:

There's always a concern...does this allocating method mean that smaller institutions, or institutions that can't grow as fast as others, or above the norm, above the baseline or

this median point—if they can't grow enough, is this a reduction in state funding a sort of death of a thousand cuts? That's always been discussed. You'll have all the rhetoric that says, "Of course that's not the intention." But that is an effect of this formula.

In contrast, a leader from a large Indiana institution noted that the state's focus on total increases in outcomes rewarded an enrollment boom, and that Indiana's plan to incorporate more percentages brought uncertainty: "We've always been a winner, and that's largely, in part, because of our size...Now we're seeing that leveling off. Historically, we've done well, but that's not how it's going to work out in the future...Especially now that they're changing more to percentages."

A leader from a small, open-access institution in New Mexico noted that his institution could improve at the same ratio as others but still lose funding because of the state's OBF focus on totals:

If everybody doubles in every one of the indicators, so we double graduation, we double student completion, we double at-risk, everything we double, we still lose. Despite that we may be improving. Because the others, they already have a larger base. They will still win.

Addressing institutional disadvantage during OBF design and implementation phases

States have used a variety of tools to support small schools during OBF design and implementation. Three strategies are described below.

"Small school adjustments" during the design phase. Policymakers in Kentucky and Oregon provided additional resources to small schools to ensure they maintained the baseline level of funding needed to stay in operation. For example, Kentucky's small school adjustment is calculated to recognize small enrollments, non-traditional populations, and the fixed costs required to, in the words of one policymaker, "keep doors open." This policymaker further explained the rationale by saying, "There's a certain level of spending that's necessary to even say you have a university, and with such a small enrollment, you can't spread those fixed costs over a very high volume of students. And so that small school adjustment helped to address that."

"Hold harmless" dollars after implementation for small institutions whose performance improved but were still losing funding. In some instances, small institutions received additional funding to recognize improved outcomes and, as one New Mexico institutional leader noted, help "keep the lights on" so progress might continue. While small institutions appreciated these allowances, leaders expressed concern that one-time investments only provide short-term relief.

Capacity-building grants as supplemental funding to help lower-capacity institutions. The Tennessee Higher Education Commission (THEC) provided "Institutional Outcome Improvement Fund Grants"^{vi} to spur the development of strategies or programs to increase student outcomes in the funding formula. Recognizing that all institutions are not equally well-positioned to respond effectively to OBF policy, Tennessee set aside \$800,000 to be awarded through a competitive grant process to institutions in need of assistance. Over two grant cycles in FY2016 and FY2017, THEC awarded funds to nine community colleges and universities. Institutions used these funds to mount a range of programs and strategies, including a summer bridge program for at-risk students, the creation of a student success center, a new advising program, and other interventions. Although these grants did not target small institutions specifically, at least one grant was awarded to a small institution.

THE TAKEAWAY

Small public institutions can play an important role in increasing postsecondary attainment rates for students who have been historically underserved and who benefit from proximity to high-quality

postsecondary institutions. OBF equity metrics that reward institutions for serving these students are an important recognition of this fact. However, the institutional playing field is not level, since small institutions sometimes lack the capacity and resources to effectively adjust to OBF. States can consider the following options to address the unique challenges faced by these institutions as OBF policies are adopted:

During the policy design and revision phases, assess how various OBF formula configurations will affect small institutions. This will allow states to create a formula that accounts for mission and resource differences. For example, Kentucky and Oregon examined the capacity of their small institutions early in the process; as a result, they adopted formulas with adjustments for small schools.

Consider how specific types of OBF formula metrics—ratios and totals—can be used to mitigate the inherent disadvantages of small institutions. Our research provides compelling evidence that rewarding increases in outcome rates, rather than overall numbers, can be a more equitable way to construct OBF policies in states with institutions that vary significantly in size. However, formulas are not one-size-fits-all. In developing a funding formula, policymakers should weigh the advantages and disadvantages of both approaches and consider developing a funding formula that awards both totals and rates, as demonstrated in Indiana and Tennessee.

As OBF policy is implemented, determine how best to increase the capacity of small institutions to respond. Responding to OBF requires a strong combination of human capital and fiscal resources. These resources are in relatively short supply in many small institutions serving large numbers of historically underserved students. States should consult directly with small institutions about the necessary type and form of assistance. They can also assist small institutions to identify potential revenue sources for growing staff and infrastructure capacity.

Recognize that small institutions cannot recruit more students to offset losses under OBF, and consider how a small school adjustment can protect small institutions from losing the funding they need to keep doors open. Leaders of large institutions often point to their capacity to increase tuition revenue by enrolling more students, but small institutions are typically located in rural areas and may face other barriers to using this strategy. One Oregon policymaker noted, “If you just ran a flat formula for all of us, the three large universities would win, and the four small universities would be insolvent.” By recognizing differences in institutional mission and size, Oregon was able to set aside support for smaller, regional universities before the resource pool was allocated through the funding formula. During OBF policy development, states should consider the challenges for small institutions and design processes—either through the funding model or through other safeguards—to protect access to higher education across the state.

ⁱ According to the Carnegie Classification of Institutions of Higher Education a small 2-year institution has fewer than 2,000 degree-seeking FTE, and a four-year small institution has fewer than 3,000 degree-seeking FTE. http://carnegieclassifications.iu.edu/classification_descriptions/size_setting.php

ⁱⁱ Hillman, Nicholas, and Weichman, Taylor. “Education deserts: The continued significance of “place” in the twenty-first century.” *Viewpoints: Voices from the Field*. 2016.

ⁱⁱⁱ Butler, Donnell “Ethno-racial Composition and College Preference: Revisiting the Perpetuation of Segregation Hypothesis.” *The ANNALS of the American Academy of Political and Social Science* 627 no. 1 (2010): 36-58.

^{iv} Ovink, Sarah, Demetra Kalogrides, Megan Nanney, and Patrick Delaney. “College Match and Undermatch: Assessing Student Preferences, College Proximity, and Inequality in Post-College Outcomes.” *Research in Higher Education* 59 no. 5 (2018): 553-590.

^v Hillman, Nicholas, and Weichman, Taylor. “Education deserts: The continued significance of “place” in the twenty-first century.” *Viewpoints: Voices from the Field*. 2016.

^{vi} Tennessee Higher Education Commission & Student Assistance Corporation. “Institutional Outcome Improvement Fund Grant Competition.” Accessed August 7, 2018. <https://www.tn.gov/the/bureaus/finance-and-administration/fiscal-policy/redirect-fiscal-policy/institutional-outcome-improvement-fund-grant-competition.html>.
