

Section 5

SSF/ OBF Response: Student Success Funding Strategies to Increase Racial and Socioeconomic Equity

Section 5 provides examples of how states and institutions approached leveraging SSF and OBF strategies to increase racial equity during the time of COVID-19.

Module 5.1 Student Success Funding Strategies During COVID-19- A Policy Scan

Equity Challenge: Maintaining and advancing equity goals while SSF policies shift as a response to COVID-19-related budget cuts.

This module communicates findings from Phase 1 of “State Responses to COVID-19 – Implications for Outcomes-Based Funding” a 50-state policy scan to determine how PBF/OBF/SSF policies are shifting in response to COVID-19 related budget cuts. Student Success Funding (SSF) distributes state funding to higher education institutions based on students’ achievement of milestones and credential completion. While SSF is a departure from enrollment-based funding models, it can still become destabilized by significant shifts in student enrollment. COVID-19 has disrupted student enrollment in unprecedented ways, with enrollment declines varying tremendously across semesters, states, and institutional types.¹ Enrollment fluctuations combined with the uncertainty of state budgets left some states rushing to shift SSF policy to ensure that institutions were not harmed by enrollment changes beyond their control.

Conducted between August and December of 2020, this 50-state scan included the following goals:

- Explore how COVID-19 and related budget cuts have impacted state SSF policies.
- Explore how, if at all, shifts in SSF policies affected the level or type of support provided to sectors and institutions that serve Black, Latinx and low-income students.

The research team reviewed publicly available websites, including those of state legislatures, higher education agencies, local and state-level media, and systematically recorded data along several key

elements. This scan goes beyond other efforts to track the impact of the economic downturn on state budgets and higher education funding by focusing on SSF models with a critical eye on how states are or are not protecting students who identify as Black and/or Latinx, and students from low-income households, as well as the institutions that serve those student groups. Because the following findings are based off information found on state websites and reflect the information states have chosen to publish online, these findings may not reflect the most current policymaker thinking, but decisions that have been formalized and publicly disseminated.

Lessons from the Field: A 50-State Policy Scan

The following section presents findings from RFA’s scan of SSF models.¹ In our review, RFA found that over one third of states running SSF models in FY20 either: implemented a new hold harmless provision meaning institutions will continue to receive funds based on prior funding levels; extended a FY20 hold harmless provision that had been set to expire; or paused their formula for FY21. In addition, RFA also explored whether states made any changes in recent months to align SSF models to racial justice. Few states heightened their focus on racial equity through SSF models. Some states communicated an intent to increase institutional focus on underrepresented minority students through SSF models, but none adopted new equity metrics for FY21.

Within states with SSF models there is dramatic variation as to whether, how, and when states are cutting their overall higher education budgets.² Some states, such as North Carolina, were able to sustain or even expand higher education funding from FY20 levels in their latest FY21 budgets, relying on anticipated federal revenues, state rainy day funds, and other sources. At the same time, many states are experiencing drastic budget shortfalls, with higher education often one of the first state agencies to lose funding. California and New Jersey, for example, both experienced funding cuts to higher education of 10% or more.

¹ We follow the HCM Strategists’ convention and use the term “Student Success Funding” to refer to the wide range of policies implemented by states to allocate funding to higher education institutions according to pre-determined outcomes, such as graduation rates, credit accumulation, etc. States differ in how they label this, including terms like performance funding, outcomes-based funding, productivity funding, and others.

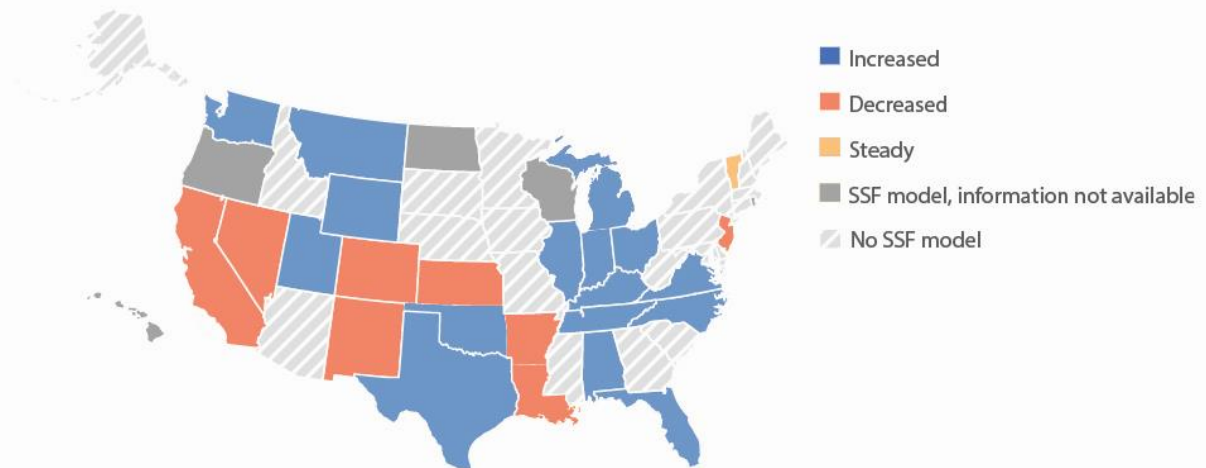
² RFA used budget figures from each state’s most recent legislative cycle. However, given variation in legislative cycles and differences in how states structure their budgets, budgetary figures may not be comparable state-to-state. For example, some states include debt services within their higher education budgets, whereas other states do not.

Eight states increased the amount of money allocated through its SSF model in FY21, compared to FY20. Despite the challenging economic environment, Alabama, Indiana, Montana, New Jersey, Ohio, Oregon, Tennessee, and Utah all increased funding allocated through their SSF models. Alabama, for instance, increased funding allocated through the SSF model by \$13M after a historically high level of funding for the state’s FY21 education budget whereas New Jersey increased funding allocated through the SSF model while facing significant cuts to the state’s overall appropriation to higher education.

In contrast, Arkansas, Kentucky, and New Mexico decreased funding allocated through the SSF model in their respective states. While Kentucky experienced increased funding overall for higher education, it decreased funding appropriated through the SSF model and instead redirected state support to institutions through base funding, rather than formula funding.

Figure 1 shows states with an overall increase or decrease in higher education funding from FY20 to FY21 and Figure 2 shows increases and decreases in SSF funding in states that are running an SSF model in FY21.

Figure 1. Overall increase or decrease in higher education funding from FY20 to FY21* among SSF states



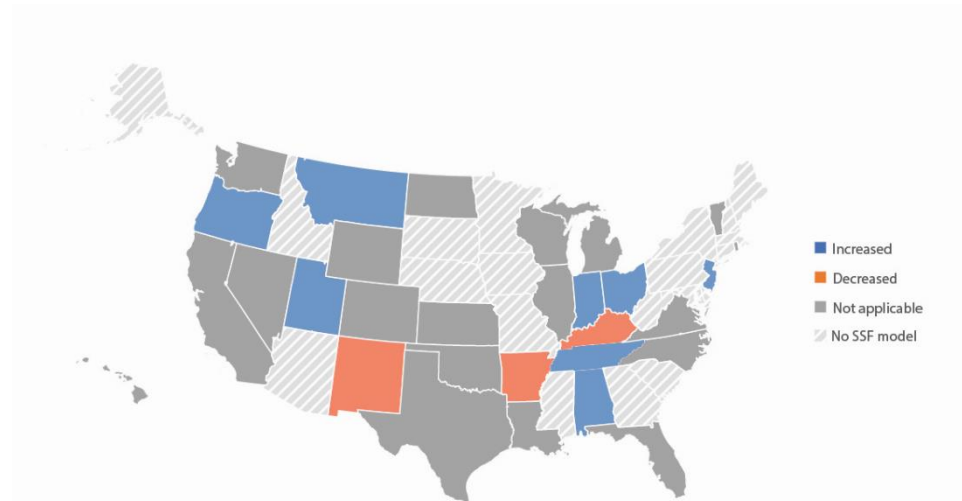
*Figures used are based on the latest state appropriation bills available and categories of higher education funding may not be comparable from state to state – with states varying widely in how they categorize spending on higher education. For example, some states budget separately student aid from institutional appropriations.

Through our analysis of 30 SSF states we found that:

- Sixteen SSF states increased the total amount of funding to higher education.

- Eight SSF states decreased the total amount of funding to higher education.
- One state held higher education funding steady.
- Data on overall higher education funding was not available in five states and all remaining states have not implemented a SSF model.

Figure 2. Increase or decrease in SSF funding in states that were running an SSF model in FY21



Through our analysis of 30 SSF states we found that:

- Eight states increased the amount of funding run through the SSF model.
- Three states decreased the amount of funding run through the SSF model.
- Three states—Colorado, Nevada, or Oklahoma—indicated they were running their formulas, although specific information was not yet available for to evaluate if they had increased or decreased funding allocated through the SSF model.

All remaining states with SSF models (n=16) opted to hold funding harmless or pause the funding model, as explained in-depth below.

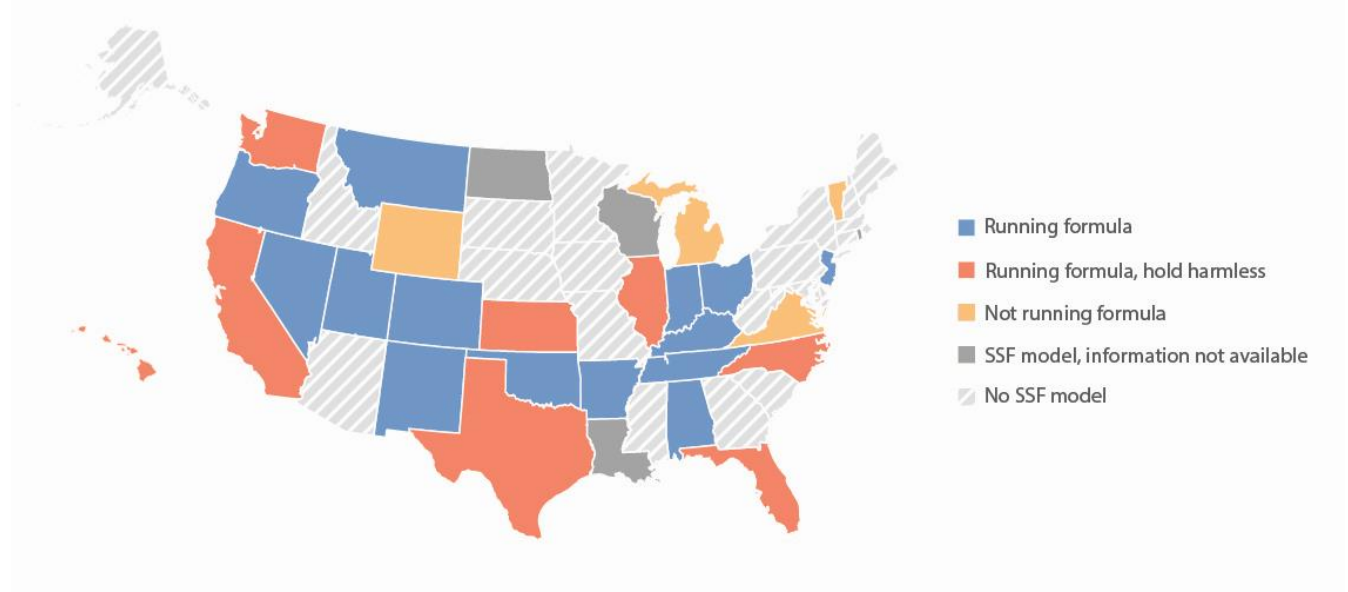
Despite the wide variation in the effects of and responses to the economic downturn on state higher education budget and SSF models, patterns of responses have emerged.

One of the most common responses from states was to hold institutions harmless (i.e., award the same amount as of FY20) or pause funding through the SSF model. California, Florida, Hawaii, Illinois,

Kansas, North Carolina, Texas, and Washington kept SSF allocations flat through hold harmless provisions, providing the same level of funding in FY21 as allocated through the SSF model in FY20. Florida, for example, has largely held its state budget steady and put the exact same amount of money through the formula in FY21 as in FY20, \$14M for community colleges and \$560M for four-year institutions. California, similarly, extended their hold harmless provision an additional year (i.e., extended to FY22 rather than FY21, as initially planned as part of the phase-in for a community college SSF funding model). A few states did not run their SSF formulas at all, directly appropriating funds to institutions rather than basing appropriations on outcomes. States that did not run their formulas include Michigan, Virginia, Vermont, and Wyoming.

Figure 3 identifies whether states used its SSF model to distribute FY21 funding (“running formula”), adopted a hold harmless provision, or suspended the formula and allocated funding outside of the SSF model (“not running formula”).³

Figure 3. Status of SSF states in FY21 that were running a SSF model in FY20



Of the 30 states that ran a SSF model in one or both sectors in FY20:

- Eight states implemented a hold harmless policy across one or both sectors in FY21.

³ Budget information for seven states in the sample (n=30) was unavailable or budgetary decision-making were unresolved at the time of data collection.

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- Fourteen states are running the SSF model in one or both sectors in FY21.
- Four states suspended the model for FY21.

Many states are bracing for supplemental state budgets that will either cut funding or adjust funding based on federal stimulus as the economic picture becomes clearer. These budget cuts could be especially acute, depending on the level of aid provided by the federal government. Some states, such as Rhode Island, have put off making final state budget decisions for FY21 until there is greater clarity as to whether federal funds can be counted on to bridge any gaps in state funding. Other states like Illinois enacted a flat budget for their SSF model with the assumption that additional federal funds would be provided.

Further, most states are maintaining how their SSF models are structured rather than using the opportunity to refocus models on equity. While COVID-19 and the resulting economic downturn have disproportionately impacted communities of color, our scan finds no evidence of efforts to revise models to have a stronger focus on outcomes for Black, Latinx and Native American students. Of the 14 states⁴ that included metrics for underrepresented minority students in their SSF model in FY20, eight are running their formula in FY21, three have implemented a hold harmless, and three are not running the formula.

The Takeaway from Student Success Funding Strategies During COVID

Utilize hold-harmless or stop-loss provisions so institutions are not harmed by enrollment fluctuations beyond their control. Crisis situations like the pandemic, hurricanes, and forest fires can financially strain institutions and cause enrollment declines that further diminish budgets. Only hold institutions accountable for student outcomes that they have control over.

Ensure SSF is race-conscious and equity metrics are supported by a high percentage of formula funding. Including underrepresented minority student success as a formula metric incentivizes institutions to focus on closing attainment gaps.

Reinforce racial equity metrics with a racial equity vision and guiding principles. Provide clear racial equity-focused guidance for decision makers through the pandemic.

⁴ States that included metrics for underrepresented minority students at some or all institutions in FY20 are: AL, AK, FL, KS, KY, LA, MT, NJ, NV, OH, OR, RI, VA and WA. <http://hcmstrategists.com/wp-content/uploads/2020/08/DRIVING-BETTER-Outcomes-Fiscal-Year-2020-State-Status-Typology-Update.pdf>

Align SSF with a strategic state-wide plan to support institutions in improving student outcomes. Creating a consensus around racial equity goals is an important step in tracking progress in closing racial equity gaps.

Appendix A. Sample and methodology

To define to our analytic sample, we used the fiscal year 2020 HCM Typology report. Using the HCM report, we identified 30 states that implemented an SSF model in fiscal year 2020 for either the two or four-year sector or across both sectors.⁵

For each identified state, the team retrieved official policy documents on state agency, higher education association, or other reputable websites to understand whether states are utilizing SSF models for FY21 and how models, implementation, and funding have changed from the previous year. Building on this, the team also gathered state-level contextual information through targeted state media retrieval.

Limitations. While we endeavor to make this report and the findings as robust as possible, there are limitations to a review of publicly available data. Notably, many states are slow to release information about their SSF models. In most cases, it takes a year or more for detailed reports to emerge from state higher education agencies, associations, and institutions detailing the resource allocation of funding formulas. These challenges are compounded by the state budgeting process, which differs greatly from state to state, with each state operating within its unique timeline, structure, and process.

⁵ <http://hcmstrategists.com/wp-content/uploads/2020/08/DRIVING-BETTER-Outcomes-Fiscal-Year-2020-State-Status-Typology-Update.pdf>