An Overview of Outcomes-Based Funding & Application to the University of Maine System

UMS Finance/Facilities Committee
November 4, 2012
The Management Cycle

- State/System
- Institution
- Planning
- Resource Allocation
- Assessment
- Institution
The Elements of Finance Policy

- Student Aid
- Tuition & Fees
- Scholarships & Waivers
- Pell & Tax Credits

States

- Operating Support -- Outcomes-Based Funding as One Component

Institutions - Sectors

Graduates

Philanthropy & Other Sources

Federal Government
Why the Renewed Interest in Outcomes-Based Funding

• The emergence of state/systemwide goals

• The most direct way of linking state funding to state & system priorities

• An alternative to micromanagement – a way to negotiate autonomy with accountability
Outcomes-Based Funding is Not a New Phenomenon

• Enrollment-based funding is a form of outcomes-based funding – it rewards increased access

• What is new is the shift
  – From a focus on access
  – To a focus on student success and other outcomes

• A reminder – the importance of tuition and fee revenues to institutions continues to reinforce the importance of access
Currently in the Third Cycle of Outcomes-Based Funding

Round 1 1975 – 1984
Round 2 1985 – 2004
Round 3 2005 - Present
Round 1

- Tennessee breaks new ground
- Initially 2%, then 5.4% of each institution’s appropriation tied to performance
- Rewards encouraged good practices rather than outcomes
  - Accreditation of programs
  - Building data capacity
  - Using national assessments where available
  - Etc.
- Continued in new model as the Quality Assurance Component
Numerous states tried it

- California CCs
- Florida CCs*
- Illinois
- Kentucky
- Missouri
- Ohio

- Oklahoma*
- Pennsylvania(PASSHE)*
- South Carolina
- South Dakota
- Tennessee*

*Still in effect.
Most Faded Away for One or More Reasons

• Right idea but faulty implementation
  – Too complex – too many elements
  – Insufficient data – unavailable or unreliable
  – Didn’t recognize different institutional missions – one size fits all
  – Imposed without institutional consultation/buy-in

• Done for the wrong reasons
  – A resource acquisition device – abandoned when budgets were tight
  – An end in itself – not a means to promote goal attainment
Round 3

The Current State of Development & Implementation
Outcomes-Based Funding 3.0: State Activity

- **Implementing**
- Implementing in one sector
- Under Development
- Active Interest

US map showing states in different colors representing their status in implementing outcomes-based funding.
What Lessons can be Learned From States that have Fully Implemented Outcomes-Based Funding Most Recently?
Pay Attention to Both

- Design of the allocation model
- The implementation of that model
Design Principles

1. Get agreement on goals before putting outcomes-based funding in place
   - Goals need to be the driving force for outcomes-based funding – not a rhetorical afterthought

2. Don’t construct performance metrics too narrowly
   - Important that all institutions have an opportunity (not a guarantee) to benefit by excelling at their different missions.

3. Design the funding model to promote mission differentiation – use it to sharpen distinctions, not blur them
   - States are not differentiating within their community colleges (it is one size fits all)
4. Include provisions that reward success in serving underserved populations
   Among the possibilities
   - Low income
   - Minority
   - Adult
   - Academically at risk
   - Geographically hard to serve

5. Limit the numbers of outcomes to be rewarded
   - No more than 4 or 5
   - Too many and both institutional focus and the communication value are lost

6. Use metrics that are unambiguous and difficult to game
   For example:
   - Numbers of graduates
   - Graduation rates
Implementation Principles

1. Make the performance funding pool large enough to command attention
2. Reward continuous improvement, not attainment of a fixed goal
   - For each institution, establish most recent year as baseline
   - Allocate performance funds on the basis of year-over-year improvements
3. Include a phase-in provision
4. Employ stop-loss, not hold-harmless provisions
5. Continue performance funding in both good times and bad
6. Put in place a rigorous (outcomes-based) approach to assessing quality and monitor results on an ongoing basis
Applying These Principles to the University of Maine System
Performance Funding Being Implemented as a Result of a BOT Directive Contained in the Goals and Actions Statement Adopted January 23, 2012:

Align Funding with Performance-Based Outcomes.
Goals that Provide the Foundation for the Performance Funding Model Synthesized From:

- BOT Goals and Actions Initiative
- New Challenges, New Directions
- Governor’s letter to Chair of the BOT
Maine - Goals

- Increase the educational attainment of the working-age (25-64) population of the state
- Meet the workforce needs of Maine employers
- Contribute to the economic development of the state
- Improve the productivity of the University of Maine System institutions
Maine: Preliminary Metrics

1. Degrees awarded
   - Includes premium for degrees awarded to priority populations
     • Adults
     • Transfers

2. Degrees awarded in priority fields
   - Allied Health
   - STEM
   - Other statewide needs (TBD)
   - Regional need (by campus TBD)

3. Productivity
   - Number of degrees awarded per 100 FTE students
   - Number of degrees awarded per $100K of Appropriation and net tuition/fees

4. Credit accumulation – temporary metric to be phased out over 3 years

5. Economic Development (TBD)
Implementation Principles

• Use a three-year rolling average for each metric to smooth out performance dips and spikes
• Reward relative improvement
• Make the performance funding pool large enough to command attention and drive outcomes
• Employ a stop-loss provision during phase-in
Next Steps

• Finalize recommendations for weighting of the metrics and allocation of points
• Determination of priority fields
• Determination of economic development metrics
• Continued engagement of key constituencies: University Presidents, CFOs and CAOs
• Incorporation of feedback