

What is the Issue and Why Does it Matter?

Concerned with low on-time graduation rates, state lawmakers continue to turn to outcomes-based funding (OBF) as one policy approach to support postsecondary degree attainment and workforce goals. Policymakers have also been confronted with constituent complaints about student debt loads, course schedules and academic programs that force students to enroll in additional terms, and transfer policies that require students to retake courses already completed at other public two- and four-

year institutions in the same state. These issues are compounded by rising institutional costs that include tuition, fees, housing and living expenses. Through the influence of national foundations and postsecondary advocacy and policy groups, state lawmakers are learning that institutional success barriers and costs adversely affect the most at-risk students that enroll in college.

OBF models are designed to encourage institutions not just to focus on student enrollment, but also student success through retention and completion efforts. The funding models often include student success measures concerning first to second year retention, completion of entry-level — or gateway — English and math courses, on-time graduation rates and federal graduation rates set at 150 percent of degree completion time. Most states that passed and operationalized OBF models focus on the at-risk student populations as sub-measures of these success metrics. At-risk student populations can include underrepresented minority, first-generation, transfer and low-income students. Out of the 28 states that have OBF models in place for four-year institutions, 16 included measures for at-risk students during the 2015-16 academic year.¹ When examining the 29 states that have an operational OBF model for two-year institutions, 17 considered at-risk student measures.²

Evidence of OBF policy impact is mixed, with various findings of positive and negative results across a range of locations and policy constructs.^{3,4} In 2016, only two states, **Ohio** and **Tennessee**, utilized OBF models that exceeded more than 25 percent of the states' postsecondary appropriations.⁵ Despite uncertainty of the long-term impact of OBF, the approach continues to be popular as legislation was both introduced and adopted during the two most recent legislative sessions. The following sections of this Policy Snapshot provide summary information on OBF-related 2016 and 2017 legislative activities.

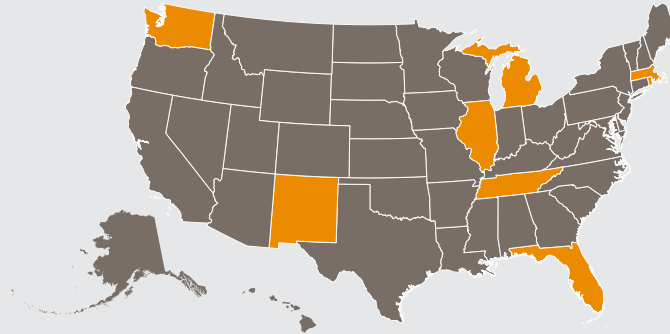
Outcomes-based funding models are designed to encourage institutions not just to focus on student enrollment, but also student success through retention and completion efforts.

How Many States Considered Legislation in 2016?

Based on a review of 2016 legislative activity concerning OBF:

- At least nine states considered OBF legislation.
- Fifteen bills were introduced.
- Two bills were enacted, 10 bills failed and three bills are pending.


Which States Considered Legislation in 2016?



State	Legislation	Status
Florida	S.B. 524 H.B. 7043	Failed Failed
Illinois	H.B. 3703	Failed
Massachusetts	H.B. 1049 H.B. 3955 S.B. 2102 — Section 26	Failed Failed Failed
Michigan	S.B. 801 — Sections 230 and 265	Enacted
New Jersey	A.B. 3097 A.B. 2853 A.B. 549	Pending Pending Pending
New Mexico	H.B. 22	Failed
Rhode Island	S.B. 2392	Enacted
Tennessee	S.B. 2502 H.B. 2613	Failed Failed
Washington	H.B. 2692	Failed

Note: New Jersey’s legislative sessions are biennial and, therefore, the three 2016 bills still are pending for 2017.

Examples of 2016 State Legislation

 **Michigan: S.B. 801** made changes to the existing code focused on public community college OBF and receipt of that funding based on tuition increase caps. Section 230 of the legislation revised specific percentages of the state’s performance funding formula. The most notable change from the previous iteration was breaking up 30 percent of designated funds to administrative costs to three 10 percent allocations based on improvement over the previous year and current cohort completion rates. Revisions to Section 265 included an increase in the amount a community college board could increase tuition — from 3.2 to 4.2 percent.



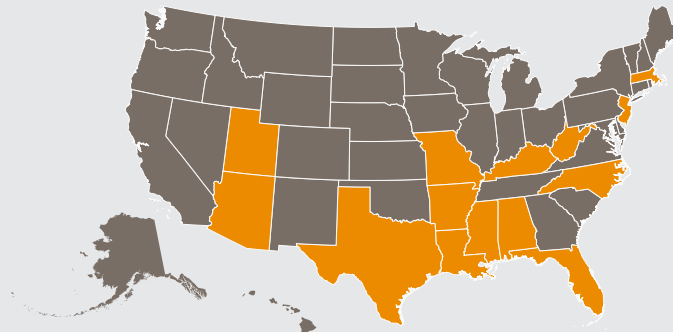
Rhode Island: [S.B. 2392](#) directs the Rhode Island Commissioner of Postsecondary Education to implement a performance-incentive funding formula in consultation with the Council on Postsecondary Education. The implementation of the community college funding system must occur by 2017 and include the following metrics: degrees awarded, progress toward completion, certificates earned tied to high-need workforce demands, and other indicators determined by the commissioner and community college officials. The Rhode Island College and University of Rhode Island funding system must be in place by 2018 and include the following measures: degrees awarded, degrees tied to high-need workforce demands, and other indicators determined by the commissioner and university officials. The bill also addresses accountability and reporting related to the performance funding systems.

How Many States Have Considered Legislation in 2017?

Based on a review of 2017 legislative activity concerning OBF, as of August 25, 2017:

- Excluding appropriations bills, at least 14 states considered OBF legislation.
- Thirty-four bills were introduced.
- Four bills were enacted, one was vetoed, 24 failed and five are pending.
- All four of the enacted bills include equity measures for at-risk or developmentally challenged students.

Which States Have Considered Legislation in 2017?



State	Legislation	Status
Alabama	S.J.R. 85	Failed
Arizona	S.B. 1061	Failed
	H.B. 2359	Failed
	H.B. 2201	Failed
Arkansas	H.B. 1209	Enacted
Florida	H.B. 3	Failed
	S.B. 2	Failed
	S.B. 186	Failed
	S.B. 374	Vetoed
	S.B. 1456	Failed
	H.B. 1125	Failed
	S.B. 1226	Failed
S.B. 1598	Failed	
Kentucky	S.B. 153	Enacted
Louisiana	H.B. 528	Failed
Massachusetts	H.B. 640	Pending
	S.B. 160	Pending

State	Legislation	Status
Mississippi	S.B. 2631	Failed
	H.B. 154	Failed
Missouri	H.B. 748	Failed
	H.B. 744	Failed
	H.B. 927	Failed
New Jersey	S.B. 2995	Pending
	A.B. 3097	Pending
North Carolina	S.B. 379	Pending
Texas	S.B. 719	Enacted
	H.B. 1241	Failed
	S.B. 1892	Failed
	H.B. 430	Failed
	H.B. 123	Failed
	S.B. 34	Failed
	S.B. 34	Failed
Utah	S.B. 117	Enacted
West Virginia	H.B. 2557	Failed
	S.B. 32	Failed

Examples of 2017 State Legislation

The following legislative actions were enacted during the 2017 sessions.



Arkansas: [H.B. 1209](#) eliminates provisions in previous state statute sections that laid out specific components for an OBF plan. The new bill is more general and gives broad authority to the department of higher education and the Arkansas Higher Education Coordinating Board to develop a new plan that will undergo review every five years. The productivity-based funding model must include measures for effectiveness, affordability and efficiency that acknowledge specified state higher education priorities.



Kentucky: [S.B. 153](#) creates an OBF model that prescribes metrics and state funding allocations. Thirty-five percent of total higher education allocations will be set aside as performance incentives. The funding formula places an emphasis on degree and certificate production, the number of students progressing beyond credit hour thresholds, STEM and health degree production, and degrees earned by low-income and underrepresented minority students.



Texas: [S.B. 719](#) directs the Texas Higher Education Coordinating Board to develop a data collection pilot project for five junior college districts. The bill focuses on outcomes related to students with intellectual and developmental disabilities, and requires a comprehensive inquiry into resource allocation and how students are meeting existing performance funding formula attainment and completion milestones. Reporting on the pilot project will occur in 2019 and 2020.



Utah: [S.B. 117](#) modifies the current statute to include applied technical colleges in the state's performance funding model. The legislation requires the Utah Board of Regents to establish a model for determining a higher education institution's performance. Among other measures, the model must include the following: completion, completion by underserved students, responsiveness to workforce needs and institutional efficiency. The Utah College of Applied Technology Board of Trustees must develop a performance-funding model that, among other metrics, includes the following: certificates awarded; short-term occupational training completion; secondary student completions; placements in related employment, military service or continuing education; and institutional efficiency.

Resources

[Driving Better Outcomes: Fiscal Year 2016 State Status and Typology Update](#)

[Outcomes-Based Funding: Taking Stock](#)

[Why Performance-Based College Funding Doesn't Work](#)

[Outcomes-Based Funding: Lessons for Colleges and Universities](#)

[Community College Research Center](#)

ENDNOTES

1. Robert Kelchen, “Do Performance-Based Funding Policies Affect Underrepresented Student Enrollment?” Working paper with permission of author.
2. Robert Kelchen, “Exploring the Relationship between Performance-Based Funding Design and Underrepresented Student Enrollment at Community Colleges” Working paper with permission of author.
3. David A. Tandberg, Nicholas W. Hillman, “State Higher Education Performance funding: Data, Outcomes, and Policy Implications”, *Journal of Education Finance* 39 (2014): 222.
4. Nicholas W. Hillman, David A. Tandberg, & Jacob P. K. Gross, “Performance Funding in Higher Education: Do Financial Incentives Impact College Completions”, *The Journal of Higher Education* 31 (2016): 826.
5. Martha Snyder, Brian Fox, *Driving Better Outcomes: Fiscal Year 2016 State Status & Typology Update* (Washington, D.C., HCM Strategists), <http://hcmstrategists.com/drivingoutcomes/wp-content/themes/hcm/pdf/2016-Report.pdf> (accessed August 17, 2017).

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About Postsecondary Legislative Tracking

The Postsecondary and Workforce Development Institute at Education Commission of the States tracks legislation on multiple issues related to college readiness and higher education. The team follows the bill’s status from introduction through its final action, summarizes key provisions and assigns topics. The policy tracking helps keep an eye on trends, innovative policy approaches and the overall landscape of higher education legislative activity. This information is leveraged for several purposes, including Policy Snapshots that offer a brief background on a topic, a visual take on recent bills and summaries of selected state legislation.

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