

ARKANSAS OUTCOMES-BASED FUNDING MODEL FRAMEWORK PROPOSAL TO THE ARKANSAS HIGHER EDUCATION COORDINATING BOARD

Outcomes-based funding can be used to properly align institutional funding with statewide priorities for higher education by encouraging programs and services focused on student success and incentivizing progress toward statewide goals. At the same time, such models encourage accountability to students and policymakers by focusing on the success of students through the achievement of their educational goals. Any new funding model must be built around a set of shared principles embraced by institutions, employing appropriate outcomes metrics, and aligned with goals and objectives for post-secondary attainment in our state.

A set of guiding principles, which are described below, are important to orient the design of a new funding model for public higher education institutions. These guiding principles will allow the development of an outcomes-based funding model which is student-centered and responsive to post-secondary attainment goals, while creating a funding context which enables innovation, increased efficiency and enhanced affordability.

Guiding Principles

Student-centered:

- The model should place at its center students and student's needs including both access to and completion of meaningful and quality post-secondary learning.

Outcomes:

- The model should focus on completion, and particularly on completions of underserved and at-risk students and completions in areas of need by the state and industry. This structure should recognize differences in investment associated with meeting the evolving needs of students, the workforce, and the state.

Collaboration:

- The model should provide incentives for cross-institutional collaboration and reward the successful transition of students across institutions.

Supporting institutional mission:

- The model should respect and be responsive to the diverse set of missions represented by each public institution of higher education.

Formula structure:

- The model should maintain clarity and simplicity.

Flexibility:

- The model should be adaptable in the face of a dynamic institutional and external environment.

Stability and transition:

- The model should support short-, mid- and long-term financial stability of the public institutions of higher education, while focusing attention on outcomes and the goals of the state. The transition from the current funding formula to a future outcomes-based funding formula should allow for a managed and intentional transition process which mitigates negative impact at any one or group of institutions.

Measures

In addition to incorporating the guiding principles above, measures adopted in the outcomes-based funding model should acknowledge the following priorities:

- Differences in institutional missions are recognized and encouraged
- Completion of students' educational goals should be the most important priority of every institution
- Progression toward completion recognizes that funding must follow the student
- Affordability is encouraged through on-time completion, limiting excess credits, and efficient resource allocation.
- Collaboration is rewarded by encouraging successful transfer of students and reducing barriers to student success
- Potential unintended consequence of raising academic requirements or lowering academic quality to increase completions must be discouraged

Measures should be adopted which relate to three criteria: Effectiveness, Affordability and Efficiency. In addition, some adjustments to the model are necessary to respond to the unique missions of some institutions which cannot be captured in the outcomes metrics.

Measures should be reviewed every five years to ensure that the model continues to respond to the needs and priorities of the state. A review more frequently than five years is impractical as institutions would not have opportunity to respond in a timely fashion. However, if it is determined that the measures adopted have created unintended consequences, those measures should be reviewed immediately.

Effectiveness measures that may be considered:

Completions: The primary measure of effectiveness is whether students' complete credentials which meet their educational goals and meet workforce needs of the state. The importance of credentials at each educational level, from short-term training through graduate programs should be recognized. In addition, the unique characteristics of students should be measured to recognize the additional resource needs of institutions which serve these students. Such characteristics include race and ethnicity, family income, age, and academic preparedness.

Progression: For programs requiring more than one year to complete, progression toward a credential must be measured. As with completions, similar unique characteristics of students should be measured.

Gateway Courses: Gateway courses in math, English and reading-intensive courses in the humanities and social sciences are a first indicator of likely student success. This is particularly important for students who are underprepared for college-level course work.

Transfer Success: Many students begin their post-secondary work at a community college before transferring to a university to complete a bachelor's degree. The efficient and effective transfer of these students should be measured to encourage collaboration among institutions.

Post-Completion Success: Success of students is ultimately measured by their success after completing a credential. This can be measured by their transfer from an associate's degree program to a bachelor's degree program (included in transfer success), enrollment in a graduate program or transition into the workforce.

Other: Other measures should be considered based on changing needs, priorities and missions.

Affordability measures that may be considered:

Time to Degree: Affordability of a credential is impacted by the length of time it takes a student to earn a credential. Measures should encourage students to complete credentials on time; generally, two years for an associate's degree and four years for a bachelor's degree; or close to on time.

Credits at Completion: Similar to time to degree, measuring the affordability of a credential also includes measuring the number of credit hours a student completes toward that credential. Students whose credit hour accumulation is at or near the minimum number required for a credential pay less in tuition and fees, thus making the credential more affordable.

Other: Other measures should be considered based on changing needs, priorities and missions.

Efficiency measures that may be considered:

Core Expense Alignment: Measures should encourage resource allocations which maximize spending in areas which directly impact student success and achievement of institutional mission.

Faculty-to-Administrator Salary Ratio: Measures should encourage efficient use of administrative positions to support institutional mission.

Cost per Credential: Measures should encourage institutions to minimize the cost to deliver each credential awarded.

Other: Other measures should be considered based on changing needs, priorities and missions.

Adjustments that may be considered to account for unique institutional missions:

Research: One unique mission of some public universities that is not adequately captured in outcomes measures is research and should be included as an adjustment to appropriate institutions. Research is essential to the discovery of new knowledge,

innovation, entrepreneurship, and societal, health, and economic development advancements.

Diseconomies of Scale: Some institutions in the state serve rural areas with insufficient populations to support large enrollments. Adjustments should be included to acknowledge this unique aspect of mission.

Other: Other measures should be considered based on changing needs, priorities and missions.

Funding Recommendations

The outcomes-based funding model will become the mechanism for recommending institutional funding to the executive and legislative budget process. There will be two components to the annual recommendation; one to recommend funding for formula funded institutions as a whole and a second recommendation for the allocation of funding among those institutions. To ensure stability in funding in the short run, stop loss and stop gain provisions should be included to limit fluctuations.

Funding recommendations for all formula funded institutions should include an increase or decrease over the previous year based on the following factors:

Inflation Index – The measure of changes in operating costs for institutions. This index is used to recommend funding changes for all institutions in total. Inflation should result in a recommendation of additional funding while deflation should result in a recommendation of reduced funding. Distribution of inflationary adjustments should be made based on each institution's pro rata share of total funding for the previous year.

Productivity Index – The measure of total change in outcomes for all institutions. This index is used to recommend funding changes for all institutions in total. Rising productivity should result in a recommendation of additional funding while declining productivity should result in a recommendation of reduced funding. Distribution of productivity adjustments should be made based on each institution's contribution to productivity changes in the current year. Stop loss and stop gain provisions should be considered to limit fluctuations. In the event of significant economic declines resulting in reduced funding to higher education as a whole, application of the productivity index will be temporarily suspended.

Distribution of funding recommendations should be made in consultation with the presidents and chancellors of public institutions.

Adoption of Implementing Policies

Specific policies necessary to implement this outcomes-based funding model framework shall be adopted by the Arkansas Higher Education Coordinating Board based on recommendations from Arkansas Department of Higher Education staff. Recommended policies shall be formulated in collaboration with the public college and university presidents and chancellors.