Show Me the Outcomes! The Emergence of Performance and Outcomes-Based Funding in Higher Education

Abstract This chapter explains the evolution and characteristics of performance and outcomes-based funding (POBF) and why it matters to achieving equity in higher education. It also describes the research questions, methods, and theoretical frameworks guiding the book.

Keywords Performance funding · Chapter overview · Outcomes-based funding

Over the last decade, concerns about the cost and value of college have saturated the media. Less than 24 hours after HBO aired an episode about the student loan crisis on its VICE documentary series, presidential candidate Hillary Clinton released a proposal to provide student loan forgiveness to entrepreneurs. Higher education sessions and national education policy forums are dominated by topics like "how to measure the value of college," "college affordability," and "free community college." These movements represent the growing concern over the costs of college, students' reliance on student loans to pay for college, and, ultimately, whether or not it is all worth it.

With less than half of all students in the United States completing a college degree within six years, and student loan debt reaching $1 trillion, policymakers have become entrenched in a movement to hold colleges and universities more accountable to their supporters. Similar to K-12 accountability,

officials are pressured to answer questions about student outcomes and performance, the value of education, the effectiveness of instructors, and the ability of existing leaders to manage college budgets efficiently and effectively. States have also taken numerous actions to hold institutions of higher education more accountable by adopting performance and outcomes-based funding (POBF) policies. Through POBF, public colleges and universities receive state funding through formulas that no longer rely solely on student enrollment, but are instead based on student outcomes. This means that lower student outcomes such as graduation rates result in less funding for the college or university.

POBF policies were first introduced to encourage higher education institutions to focus on issues that governments and voters felt were important, such as outputs and efficiency (Dougherty et al., 2015). As the costs of higher education increased in the 1980s and 1990s, so too did the demand for greater proof that institutions provided a high-quality education and higher graduation rates. As of 1994, more than one-third of states implemented POBF policies that provided financial incentives for measures such as providing access for undergraduate students, sustaining quality in undergraduate education, creating national competitiveness in graduate studies and research, meeting critical state needs, and maintaining managerial efficiency and effectiveness (Ruppert, 1994). The 1.0 version of POBF policies allowed states to provide bonus money for high-performing campuses. However, the economic crisis of the new millennium resulted in the reduction of such policies, as states did not have enough funding to provide incentives to affect institutional behaviors (Burke and Modarresi, 2000; Shulock, 2011). But more recently, the popularity of POBF policies has reemerged as a result of limited state resources for higher education and an increased demand for accountability for all public spending (McLendon et al., 2006). Instead of making bonus funding available, the limited resources of POBF 2.0 stipulate that either some or all of a campus's base funding must be determined by student outcomes. So far, over half of all states have adopted a funding formula that takes student outcomes and institutional performance into account (National Conference of State Legislatures, 2015).

How Does POBF Work?

Historically, states determined campus funding based on inputs or student enrollment; however, POBF policies often consider student inputs, progress, and outcomes. Within POBF policies, states use *input metrics* to track

and reward campuses that enroll and hire desired student and faculty populations. For instance, the state of Virginia measures increases in the enrollment of in-state undergraduate students from underrepresented populations, including low-income, first-generation, and racial and ethnic minority students. *Progress metrics* includes variables like credit accumulation and retention that demonstrate colleges' progress toward degree completion and other outputs. Progress metrics are paired with *process metrics* that capture institutional efforts to increase their capacity in ways that could increase their institutional effectiveness. For example, in Arkansas, progress is measured at four-year institutions based on the percentage of students who earn 18 or more credit hours over two academic years. The *output metrics* represent states' goals for public higher education, which most often means overall degree completion for targeted student populations. For instance, the state of Nevada rewards campuses based on the number of bachelor's degrees conferred during an academic year. States also use POBF metrics designed to meet state equity and diversity goals by rewarding campuses for the enrollment and success of students that they have characterized as academically "at risk" or underprepared, including adult, low-income, underrepresented racial minority, transfer, and first-generation college students. In Oklahoma, POBF is awarded based on the retention of Pell Grant recipients and other factors.

Since states use different definitions and metrics to define and measure performance, models vary considerably across state lines. HCM strategists (Snyder, 2015) have identified four different types of models to classify the policies based on their level of sophistication and adherence to promising practices. HCM's typology classified *Type I* systems as those that are rudimentary, do not involve high levels of funding, and represent a minimal alignment between completion and attainment goals and the state's finance policy. *Types II* and *III* represent increasing degrees of development and adherence to promising practices, while *Type IV* systems are the most robust, with significant and stable funding, full institutional participation, differentiation of metrics by sector, and prioritization of both degree/credential completion and outcomes for underrepresented students.

POBF's Significance and Impact

States should be cautious in how they design their POBF policies, as evidence illustrating that the adoption of particular POBF policies leads to the desired student outcomes remains inconclusive. Scholars who have

studied the impact of these funding formulas have found that some policies limited or even negatively impacted student outcomes like retention and graduation rates (Tandberg and Hillman, 2013). In some cases, policies have even resulted in unexpected outcomes like increased selectivity and increased certificate rather than degree attainment to reach completion goals at community colleges (Dougherty et al., 2015; Hillman et al., 2015). What remains is a limited understanding about the implications of these policies for achieving equity in higher education. It is also necessary to consider what POBF policies mean for students of color–many of whom are first-generation college students from low-income households–and the colleges and universities that primarily serve these student populations, such as Minority-Serving Institutions[1] (MSIs).

Although the enrollment of students of color in higher education has increased over time, gaps in completion rates have increased (Eberle-Sudre et al., 2015). MSIs have fewer resources than non-MSIs, but are responsible for enrolling two of every five students of color in higher education; in fact, public MSIs enroll over half of all students of color in public higher education (Cunningham et al., 2014; Jones, 2014). As higher education becomes increasingly stratified, where students attend college, the resources possessed by those institutions, and the outcomes institutions are able to achieve all matter. Indeed, such is critical, as students of color and low-income students are often educated at the least-resourced institutions across the educational pipeline. Therefore, the approaches policymakers use to determine resources at colleges and universities that educate large proportions of such students are of the utmost importance. Consequently, the aim of this book is to examine the implications of POBF for racial equity in higher education. More specifically, the book will:

1. Discuss how states have addressed equity in their POBF policies, and the possibilities and limitations of these approaches;
2. Discuss the specific implications and outcomes of POBF for MSIs, which are most likely to serve the populations who experience significant inequities in higher education;
3. Provide policymakers and higher education scholars with recommendations and strategies for using POBF to advance racial equity in higher education; and
4. Encourage communication between those engaged in higher education policy and the issues thereof.

Book Overview

Theoretical Framing

Educational policy research is often disconnected from the political and historical contexts that shape the policy being studied (Halpin and Troyna, 1994). As Bensimon and Bishop (2012) explain, "The scholarship and policy frames that are familiar to decision makers and practitioners too often fail to ask the 'race' question critically and knowledgeably" (p. 2). We sought to address this gap by employing throughout the book critical frameworks that center issues of race and inequality, such as intersectionality, Critical Race Theory (CRT), and Critical Discourse Analysis. We most commonly used CRT, which challenges assumptions of objectivity and embraces the understanding that seemingly neutral laws and policies often have consequences and outcomes that either sustain or exacerbate existing structural and institutional racial inequities (Bell, 1980; Solorzano and Yasso, 2002). In particular, we applied the CRT tenets of *the permanence of racism* and *interest convergence* to understand the implications of POBF policies for students who have been historically underrepresented and for the campuses that primarily enroll them.

Methods

The methods used vary across each chapter, but involve either one or more of the following strategies: (1) a comparative analysis of publicly available POBF allocations by institutional type (the state allocation data were created and made publically available by each state's respective higher education agency); (2) an analysis of publicly available data on state POBF policy descriptions, which was conducted through a systematic review and evaluation of documents, including print, electronic, and digital media records, and artifacts for the purpose of uncovering new knowledge (document analysis supports our goals to employ a critical framework because this method provides context, highlights gaps, poses questions that need to be asked, and verifies or corroborates claims) (Creswell and Plano Clark, 2007); (3) the use of publicly available data trends from sources like The National Center for Education Statistics, which were used to provide demographic, enrollment, and completion information for the campuses in each state; and (4) the use of data from semistructured participant interviews

(Olson, 2011) that lasted approximately 1 hour each. Purposeful sampling (Patton, 1990) was used to select 11 participants, which included higher education researchers and leaders, and nonprofit and policy organization leaders, some of whom have been instrumental in POBF design in their respective states. The group included four participants representing non-profit organizations engaged with higher education policy and advocacy, six academic researchers studying higher education accountability systems, and one participant serving as a campus leader at a public four-year university that primarily serves low-income students and students of color in a state with a POBF policy.

In previous studies comparing POBF models in different states, it has been noted that contextual features may play a role in how a state's model is conceived, supported, and implemented (Dougherty et al., 2015). Furthermore, it should be noted that for each state there is a unique history of the use and implementation of POBF, which inevitably may complicate how institutions respond to the model itself and how subsequent funding cuts impact the institution. We used a purposive sampling technique (Maxwell, 2005) in order to include states that were not only employing a POBF system, but were allocating moderate to high levels (at least 5%) of higher education allocations to the POBF model. We also wanted states that provided regional diversity and included a diverse group of higher education institutions, including two- and four-year MSIs. Within the discussion of national trends, the book includes in-depth analyses of existing POBF systems in Ohio, Florida, Tennessee, and Texas, and proposed models in California, Texas, and Maryland. There are also states like Tennessee that, due to their long-standing policy and significant state investment in POBF, are looked to as models for other states' policy design, thus we focused on highly influential states such as this one. Additionally, Texas has a POBF policy that applies to its two-year campuses, including a robust set of MSIs that will be addressed in Chapter 4. Texas has a separate proposed policy that, if adopted, would apply to all four-year MSIs in the state. We include both analyses because the state of Texas has one of the largest numbers of public MSIs in the nation, and both the adopted policy for two-year colleges and the proposed policy for four-year institutions have the potential to significantly impact a large group of students of color. Detailed descriptions of how states are examined in the chapters are provided below.

Chapter Descriptions

The book begins with three studies examining the impact of POBF on racial equity in four states. Impact is measured in multiple ways, but each chapter addresses funding allocations to campuses enrolling students of color and how equity is rewarded in those systems. The second half of the book focuses on POBF design in existing and proposed policies, and how states are attempting to account for and reward racial and other types of equity. The book also addresses policy influencers' perspectives on how POBF impacts equity, and how those perspectives impact policy design and adoption. Finally, the book closes with recommendations for redesigning POBF to advance racial equity.

Chapter 2, "Double or Nothing: States Betting It All on Performance and Outcomes-Based Funding and the Implications for Equity," addresses the effects of POBF measures on four-year MSIs in states that have made a significant investment in performance-based funding measures. Two states, Ohio and Tennessee, serve as the focus of this chapter, and their POBF data are analyzed in depth. In both states, a significant amount of school funding is dependent on performance measures, with Historically Black Colleges and Universities (HBCUs) faring seemingly well. Considering these outcomes, it is imperative to understand how states account for equity in their policy to ensure MSIs are not disadvantaged. Thus, this chapter gives a detailed overview of factors considered in both Ohio's and Tennessee's funding formulas, and how those factors specifically affect MSIs in those states.

In Chapter 3, "Reparations and Rewards: Performance and Outcomes-Based Funding and De Jure to De Facto Segregation in Higher Education Systems," the authors use the case study method to explore POBF policies in Florida and how they either depart from or extend to the once legally segregated South. In order to understand the social implications of these policies, the authors first review the history of HBCUs in the South, discussing the once legally enforced segregation these institutions experienced, the desegregation cases that acted as legal interventions to help create equality, and the de facto segregation that often resulted from those interventions. Finally, this chapter explores whether the POBF policies and resulting resource allocations work to support the mission of the desegregation cases, or if these policies are simply another example of de jure segregation that ultimately results in separate and unequal institutions of higher education.

Chapter 4, "Impacting the Whole Community: Two-Year Minority-Serving Institutions and Performance and Outcomes-Based Funding in

Texas," includes an overview of POBF policies in Texas and discusses how these policies plan to improve student outcomes at specific two-year MSIs. The chapter also includes a description of the metrics Texas used to determine POBF allocations among two-year MSIs and two-year non-MSIs. Texas uses the Student Success Points model for incorporating POBF into the community college instructional appropriation. The authors evaluate the impact of the model on student retention and graduation rates at two-year Hispanic-Serving Institutions (HSIs) and Asian American and Native American Pacific Islander-Serving Institutions (AANAPISIs) in the state.

In Chapter 5, "A Critical Analysis of the Sociopolitical Climate for POBF in Three States," the authors use a critical policy framework to examine the sociopolitical climate of three states with rapidly increasing populations of color: Texas, California, and Maryland. These states are examples of active, failed, and proposed legislation for performance-based funding designed to increase accountability for better outcomes in higher education. The authors' examination offers a critical perspective on how different factors within a state's context may shape the ways in which differently resourced institutions are considered in the creation and adoption of POBF policy.

Chapter 6, "Policy Actors, Advocates, and Critics: The Promotion and Critique of Performance and Outcomes-Based Funding's Impact on Equity," includes a review of data from a qualitative interview study conducted with POBF advocates and critics from various organizations focused on higher education, campus leaders, and academic researchers. As more states move toward substantial POBF formulas for higher education, it is crucial to understand how these policies work to advantage or disadvantage our most vulnerable student populations. In this chapter, we explore higher education leaders' insights and experiences with POBF, specifically targeting leaders who have been publicly vocal about the ways the policies have helped or inhibited equity.

Chapter 7, "Between Words and Action: The Problem with POBF Indictors for Achieving Racial Diversity," examines the discourse of diversity as it is framed by POBF models. Using critical discourse analysis, we map the prevalence and parameters of the discourse of diversity within POBF models. Our findings will illustrate the limits and potential negative implications of the framing within POBF models for racial diversity and equity. Recommendations for policymakers, institutional leaders, and researchers about how POBF can be more reflective and purposeful towards supporting institutional racial diversity and inclusion goals will be offered.

In Chapter 8, "Toward a New Framework for Funding for Equity," the authors propose a framework for using higher education funding and policy to advance equity issues. This new framework challenges existing ones that focus on inputs and outputs, ignore issues of institutional capacity, and rarely involve campus leaders in policy development and implementation. This chapter also addresses how POBF in particular is changing the purposes/goals of higher education. Finally, it provides recommendations for policymakers who are working to advance equity within existing policy structures.

NOTE

1. Minority Serving Institutions (MSIs) include Historically Black Colleges and Universities (HBCUs), Hispanic Serving Institutions (HSIs), Tribal Colleges and Universities (TCUs), and Asian American and Native American/Pacific Islander-Serving Institutions (AANAPISIs).

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