

# OUTCOMES-BASED FORMULA FUNDING

*Recommendation of the General Academic  
Institution Formula Advisory Committee*



MARCH 2014

Texas Education Code Section 61.0593 states that, “it is in state's highest public interest to evaluate student achievement at institutions of higher education and to develop higher education funding policy based on that evaluation.” It further charges the Coordinating Board, in consultation with institutions of higher education, to incorporate the consideration of undergraduate student success measures in developing recommendations for university formula funding for the next biennium.

## BACKGROUND

Each interim, the General Academic Institution Formula Advisory Committee (GAIFAC), composed of representatives of Texas public universities, examines the formulas that are used to allocate state funding among institutions. In line with the requirements of TEC 61.0593, this interim the committee was charged to, “study and make recommendations for alternative approaches to incorporating undergraduate student success measures into the funding formulas. . . .” This overview outlines the outcomes-based funding recommendations adopted by the GAIFAC at their March meeting.

## GAIFAC RECOMMENDATION

The GAIFAC recommends that some state funding for public universities be allocated among institutions on the basis of their relative performance on certain student success measures.

### Basic Principles

**Outcomes funded above the base.** The committee recommends creation of a \$235 million outcomes-based funding pool to be allocated by the success metrics defined below. This pool should be outside of and in addition to the enrollment-based formula funding, and should only be funded if the base formulas are fully funded.

**Phase-in:** The model should be phased-in over three biennia, with no institution’s percentage of outcomes funding varying more than 0.5 percent from their percentage of undergraduate formula funding for the first biennium, and no more than 1 percent for the second biennium. Beyond that, the model should function without such restrictions.

**Biennial Review:** The model should be examined each interim to monitor the equity and effectiveness of the outcomes-based methodology, and to address any unanticipated impacts.

### Student Success Metrics

Under the GAIFAC proposal, each institution earns points for their performance on seven student success metrics, with the points being used to determine each institution’s proportional share of outcomes-based funding. The proposed metrics measure actual outcomes (rather than institutional increases in performance), and use a three-year rolling

average to determine each institution's performance on each metric. The points are then *scaled* and *weighted*.

**Scaling:** Because the number of points generated by different metrics is very disproportionate, a multiplier is applied to the points generated by each metric to ensure all metrics are meaningful to the methodology.

**Weighting:** The proposal requires each institution to assign a percentage weight to each of their metrics, which will allow the institution to prioritize the metrics they consider most advantageous in determining their point total. The weights will sum to 100 percent, and the institution will assign a zero percent weight to one (and only one) metric. These weights would remain in place for three biennia. This incentivizes institutions to identify and focus on those student success metrics most in line with their missions and the needs of their student populations.

## Metric Definitions

**Total Undergraduate Degrees:** The total number of undergraduate degrees awarded by an institution. This directly incentivizes institutions to increase degree completions, a primary goal of *Closing the Gaps*.

**Undergraduate degrees adjusted by graduation rate:** The institution's total undergraduate degrees multiplied by its 6-year graduation rate (3-year graduation rate for upper-level institutions). The adjustment for graduation rate provides an incentive to have students graduate in a timely manner.

**Undergraduate degrees per 100 undergraduate FTSE:** The institution's total undergraduate degrees divided by enrolled Full-Time Student Equivalents (FTSE) and multiplied by 100. FTSE represents aggregate enrollment at the institution, and captures both transfer students and part-time students. This metric measures degree production relative to all undergraduate students, and provides a common basis for comparing and incentivizing degree productivity regardless of institutional size or mission.

**Undergraduate degrees to At-Risk Students:** The institution's undergraduate degrees to students who meet criteria for being at higher risk for not completing. These include being a Pell grant recipient, having an SAT/ACT score below the national average, being enrolled part-time, having earned a GED, or first enrolling at age 20 or higher. (The Committee recommends continued study of at-risk factors to refine this metric in future biennia.) This measure incentivizes institutions to adopt effective and efficient practices that will aid at-risk students to the completion of a degree.

**Retention (30, 60, and 90 SCH):** The institution's count of each undergraduate student that completes their 30<sup>th</sup>, 60<sup>th</sup>, or 90<sup>th</sup> college-level semester credit-hour at that institution. The count does not include hours earned prior to the student enrolling at the institution. These measures are designed to incentivize the use of effective persistence policies.

## Next Steps

The GAIFAC recommendation will be considered by the Coordinating Board's Committee on Affordability, Accountability and Planning (CAAP) on March 26, and by the full Board at the quarterly meeting on April 24. The final formula funding recommendation, as approved by the Board, will be forwarded to the Legislative Budget Board and Governor's Office of Budget, Planning and Policy. The 84<sup>th</sup> Texas Legislature will decide whether to adopt any or all of the recommendations when they convene in January of 2015.