



# Outcomes-Based Funding

## The University Model

### The Challenge

Now, more than ever, productivity in higher education is front and center on the national stage. As state governments face increasing fiscal constraints, the United States continues to fall further behind in higher education credentials. The challenge is to produce better outcomes with limited resources. Texas, like most other states, has much work to do to improve productivity.

Today, only 55.9 percent of Texas public university students graduate within six years. The cost of students who enroll but do not complete a university program is significant not only for the state, but also students. The **average loan debt of non-completers** for a six-year period was **\$10,800**. These students also accounted for **more than \$207 million in lost financial aid** in the form of grants, loans, and other awards subsidized by the state and federal government.

*Students who fail to complete coursework at universities cost the state **\$124 million** each biennium.*

### Outcomes-Based Funding Model

Today, universities are funded solely on enrollments. The state calculates total enrollments for each university based on the 12<sup>th</sup> class day of a regular semester. If students drop coursework after the 12<sup>th</sup> class day, universities retain tuition and fees paid, state formula funding, and state/federal financial aid as applicable. This methodology inherently incents recruitment over retention or completion.

The THECB's recommendation incents universities to place greater emphasis on retention and degree completion, rather than enrollments alone.

- The outcomes-based model allocates **10 percent** of base funding relative to the number and characteristics of bachelor's degrees awarded; **90 percent** will continue to reflect enrollment trends.
- Universities will attain a greater share of formula funding by increasing total degrees, as well as degrees awarded to at-risk students defined as part-time students, Pell grant recipients, and students under-prepared for college-level work.
- Universities will be particularly incented to align degree outputs with state economic development and workforce needs, particularly in critical fields such as nursing, engineering, and secondary school teachers certified in math and science.
- The *Predicted Graduation Rate* will be used to evaluate each university on their overall performance relative to the makeup of their student body reflected in financial need and academic preparation.

**Total Degrees  
(x 1)**

**Total Degrees—Critical Fields  
(x 2)**

**Total Degrees—At-Risk  
(x 1)**

**Predicted Graduation Rate  
(x 1)**

### The Results

- The outcomes-based funding model will result in a **better and more productive balance** between student access and success.
- The outcomes-based funding model will result in a **better return on the state's investment** by increasing degree production at Texas' universities.
- The outcomes-based funding model will incite Texas universities to **focus more intently on the success of at-risk students**, a critical goal for *Closing the Gaps*.