

Testimony Before the Texas Higher Education Coordinating Board

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I am pleased to have this opportunity to present testimony before the Texas Higher Education Coordinating Board. I work for the State Higher Education Executive Officers Association, otherwise known as SHEEO. SHEEO is the national association of the chief executives of statewide governing, policy, and coordinating boards of postsecondary education. Founded in 1954, SHEEO serves its members as an advocate for state policy leadership, as a liaison between states and the federal government, as a vehicle for learning from and collaborating with peers, as a manager of multistate teams to initiate new programs, and as a source of information and analysis on educational and public policy issues. SHEEO seeks to advance public policies and educational practices to achieve more widespread access to and completion of higher education, more discoveries through research, and more applications of knowledge that improve the quality of human lives and enhance the public good. While I work for SHEEO, the views expressed in this testimony are my own.

Outcomes based funding (OBF) has become an extremely popular state higher education policy. While reports vary, there are somewhere around 35 states with some form of OBF. OBF or performance funding has gone through various phases of implementation, decline, and renewal. The 1980s and 1990s constitute the first phase. These early programs were considered rudimentary and most dissolved under lack of financial and/or political support. Very few remained in the 2000s. The latest phase, which began around 2009, is fundamentally different in that major foundations, policy organizations, consulting groups, and advocacy organizations have added resources and intellectual heft to the design, implementation, and spread of OBF. Many of the latest OBF policies are more sophisticated than their predecessors and have been implemented with wider support and commitment than programs enjoyed in past. In this testimony I will review what has been found in the empirical peer-reviewed literature and focus on a few areas where I believe special attention is warranted and conclude with some recommendations.

Peer Reviewed Quantitative Research on OBF and Completions

The peer reviewed literature is by necessity always playing catch-up with and lagging policy innovations. Nevertheless, there are some important lessons to be learned from the literature in regard to OBF. First, the early literature revealed that early attempts at performance or outcomes based funding had little impact on higher order outcomes like completions. However, there was some evidence that if programs existed for as long as 7 years positive impacts become evident on completions of both associates and bachelor's degrees.¹

¹ Tandberg, D. A., & Hillman, N. W. (2014). State higher education performance funding: Data, outcomes, and policy implications. *Journal of Education Finance*, 39(3), 222-243.

Tandberg, D. A., Hillman, N., & Barakat, M. (2014). State Higher Education Performance Funding for Community Colleges: Diverse Effects and Policy Implications. *Teachers College Record*, 116(12), n12.

This early literature was limited because it evaluated older programs and treated all policy designs the same. More recent research has evaluated more sophisticated programs such as Pennsylvania's Washington's, Indiana's, Ohio's, and Tennessee's². Across these evaluations of individual states, the most consistent finding is a relatively large and statistically significant bump in certificates, and short-term certificates in particular, after the implementation of OBF. In many states short term certificates can be implemented through an expedited process or without state approval, they are relatively low cost, and can be implemented quickly. Therefore, they may offer the path of least resistance to earn more OBF points. A recent national study revealed similar findings with increases in short-term certificates following the implementation of OBF.³ Washington, Ohio, and Tennessee have all recently taken steps to ensure that any short-term certificates that earn OBF points have true labor market value and are aligned with state workforce needs.

Qualitative Research

The qualitative literature indicates that campus leaders often believe that the implementation of OBF has changed the types of conversations they have on campus, increased collaboration between areas of campus, increased awareness of and attention to state goals, and increased their use of strategic planning. However, in some cases, faculty have felt left out of the conversations around the design of OBF and its implementation, and similarly left out of conversations on campus regarding campus responses to OBF.⁴ Minority serving institutions (MSIs), in particular, have expressed some frustration and anxiety around OBF design and implementation.⁵

Equity and OBF

I would now like to draw particular attention to OBF and its implications for equity considerations. A spate of research has raised a number of red flags regarding traditional OBF and equity. One study in Indiana found decreased admission rates and increased selectivity.⁶ Later, a national study and found that, on average, the implementation of OBF resulted in a reduction in Pell grant revenue (fewer Pell students being enrolled).⁷ More recently one study looked at the relationship between OBF and state

² Hillman, N. W., Tandberg, D. A., & Fryar, A. H. (2015). Evaluating the impacts of "new" performance funding in higher education. *Educational Evaluation and Policy Analysis*, 37(4), 501-519.

Hillman, N. W., Tandberg, D. A., & Gross, J. P. (2014). Performance funding in higher education: Do financial incentives impact college completions?. *The journal of higher education*, 85(6), 826-857.

Hillman, N. W., Hicklin Fryar, A., & Crespín-Trujillo, V. (2017). Evaluating the Impact of Performance Funding in Ohio and Tennessee. *American Educational Research Journal*, 0002831217732951.

³ Li, A. Y., & Kennedy, A. I. (2018). Performance Funding Policy Effects on Community College Outcomes: Are Short-Term Certificates on the Rise?. *Community College Review*, 46(1), 3-39.

⁴ Dougherty, K. J., Jones, S. M., Lahr, H., Natow, R. S., Pheatt, L., & Reddy, V. (2016). *Performance funding for higher education*. JHU Press.

⁵ Jones, T., Jones, S., Elliott, K. C., Owens, L. R., Assalone, A. E., & Gándara, D. (2017). *Outcomes Based Funding and Race in Higher Education: Can Equity be Bought?*. Springer.

⁶ Umbricht, M. R., Fernandez, F., & Ortagus, J. C. (2017). An examination of the (un) intended consequences of performance funding in higher education. *Educational Policy*, 31(5), 643-673.

⁷ Kelchen, R., & Stedrak, L. J. (2016). Does Performance-Based Funding Affect Colleges' Financial Priorities?. *Journal of Education Finance*, 41(3), 302-321.

appropriations to MSIs and found that MSIs in OBF-states lost significant funding per student compared to MSIs in non-OBF states and non-MSIs in the same OBF state⁸.

However, concerns around equity and OBF, and a general increase in attention to equity, have motivated those working in the area of OBF to recommend that OBF programs be designed to provide significant incentives to institutions to successfully graduate underrepresented students. This effort has also recently motivated scholars to begin examining whether or not the use of equity indicators or bonuses might mitigate the negative outcomes I listed earlier and even produce increases in underrepresented student access and success.

In that regard, there is some evidence that the use of equity indicators can have positive impacts. This is particularly true for the enrollment and completion of low-income students. Across the studies equity premiums appear to lead to positive outcomes for low-income students. In a recent study, researchers found that the share of both low-income and Hispanic students increased in institutions with performance-funding premiums for underserved students compared to institutions subject to performance funding without such premiums. They also found that the positive effects on Hispanic and low-income students were larger when a state had both minority student and low-income student premiums in place. Such positive results were not evident for black students, and it is not clear why.⁹

However, a somewhat different analysis, found that the use of OBF equity indicators led to increased black student enrollments at 4-year institutions. This finding was mainly driven by less selective 4-year colleges. Further, more-selective colleges that were subject to OBF systems that did not have at-risk components enrolled fewer Pell recipients than selective colleges not facing OBF. However, the presence of equity indicators helped mitigate that pressure. This suggests that equity provisions may at least reduce the prevalence of cream skimming at selective colleges and can lead to positive equity outcomes at less selective colleges.¹⁰

Finally, an additional study found that OBF states with equity indicators saw an increase in share of Pell grant recipient enrollments. Again, the results were mixed for the share of Hispanic student enrollments and black student enrollments, indicating that special attention is warranted in regard to racial/ethnic enrollments and OBF.¹¹

Recommendations

Considering the existing evidence regarding OBF and student outcomes, I feel comfortable making the following recommendations:

- I strongly encourage the inclusion of underserved student bonuses in any OBF program. The research indicates that these can be effective and that without them there may be some skimming that takes place. States ought to include Pell grant bonuses and bonuses for other

⁸ Hillman, N., & Corral, D. (2017). The Equity Implications of Paying for Performance in Higher Education. *American Behavioral Scientist*, 61(14), 1757-1772.

⁹ Gándara, D., & Rutherford, A. (2017). Mitigating Unintended Impacts? The Effects of Premiums for Underserved Populations in Performance-Funding Policies for Higher Education. *Research in Higher Education*, 1-23.

¹⁰ Kelchen, R. (forthcoming). Do Performance-Based Funding Policies Affect Underrepresented Student Enrollment? *Journal of Higher Education*.

¹¹ Hillman, N. & Crespin-Trujillo (forthcoming). *State accountability policies: Can performance funding be equitable?*

underrepresented students (black, Hispanic, older adult students, etc.). These equity indicators appear to work best when there is more than one type of bonus in place.

- At least one study revealed larger impacts when states implemented more sophisticated programs like those recommended by HCM. Attention ought to be paid to designing a program that matches HCM's recommended design parameters.¹²
- Feedback from campus leaders and faculty ought to be sought in the design and implementation of the OBF program. This is especially true when it comes to representatives from MSIs.
- I strongly recommend that the Coordinating Board carefully evaluate the OBF program if one is to be implemented. The design of the evaluation should be developed before or in tandem with the implementation of the OBF program. In that regard, the evaluation should pay attention to such things as:
 - The attributes of the institutions who do well under the OBF program and those who do not. Such attributes may include per FTE funding before and after OBF, percentage of students who receive Pell grants before and after OBF, racial/Ethnic make-up of the institutions before and after OBF. Are those institutions who have traditionally had more resources doing better under OBF? How are those institutions who have traditionally served underrepresented students doing under OBF?
 - Completions at individual institutions and by credential type. Are completions overall increasing after OBF? How does that vary by institution and are we seeing completions increase primarily in certain credential programs? In that regard, careful attention ought to be paid to the proliferation of short-term certificate programs and enrollments in those programs. Any expansion should happen in those programs with real labor market value.

Conclusion

If properly designed I believe that OBF may lead to positive outcomes such as increased enrollments and completions of underrepresented students. Such an outcome would most certainly help Texas reach its attainment goal and more importantly significantly improve the lives of the students who would not have otherwise enrolled in and competed college. However, if careful attention is not paid to the design of the OBF program, and particularly to underrepresented students, not only will the OBF program not likely increase completions generally, it may divert attention from serving those students most in need increased attention and service.

¹² Gándara, D., & Rutherford, A. (2017). Mitigating Unintended Impacts? The Effects of Premiums for Underserved Populations in Performance-Funding Policies for Higher Education. *Research in Higher Education*, 1-23.