



Oregon

Higher Education Coordinating Commission
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September 11, 2014

To: Higher Education Coordinating Commission
From: Ben Cannon, Executive Director
Subject: Progress report on outcomes-based funding allocation work (public universities)

In accordance with the Commission's strategic plan and after consultation with the presidents of Oregon's seven public universities, in June I requested that a workgroup be formed to provide a recommendation about how to modify the allocation formula for the Public University Support Fund (PUSF) to more clearly emphasize student outcomes. The "University Outcomes-Based Funding Technical Workgroup" is composed of senior budget and academic leaders from each public university, the President of the Inter-institutional Faculty Senate (IFS), a representative of the Oregon Student Association (OSA), and HECC staff led by Brian Fox. The workgroup is facilitated by consultants from HCM Strategists, funded by the Lumina Foundation. The group has met twice and is on schedule to meet its end-of-year deadline to present to me a fully-developed recommendation for a new funding allocation formula.

From the outset, the workgroup was asked to adhere to the following principles, which were developed in consultation with Chair Nesbitt and the university presidents:

The allocation model will:

- Reflect the principles and priorities embedded in the strategic plan of the HECC and the OEIB Equity Lens;
- Focus on student access and success by supporting institutions to enroll, retain, and graduate Oregon resident students with a particular emphasis on underrepresented populations whose increased success is necessary to reach Oregon's attainment goals;
- Encourage completion of high demand and high reward degrees key to Oregon's economic future;
- Recognize and reward differentiation in institutional mission and scope;
- Use data that is clearly defined and currently available;
- Maintain clarity and simplicity;
- Be phased-in to ensure stability through transition, starting with the 2015-17 biennium.

At its first meeting, the workgroup generally agreed that these principles seemed reasonable given the HECC's strategic plan and that they were fair insofar as they attempt to provide sufficient flexibility for the seven institutions to define the unique role they play within the state and to be rewarded for their efforts. The last bullet is understood as particularly significant: it articulates the HECC's commitment both to move quickly to outcomes-based funding as a key component of its "productivity agenda," while recognizing that after years of state disinvestment in higher education any changes will require both a deliberate period of transition and additional

state resources. The duration of the transition period is likely to be a function of the level of resources available and the amount of change that the new allocation model entails.

The second meeting focused on the performance measurement and accountability systems that currently exist, as well as the scope of the PUSF that is under consideration for formula changes. The group reviewed recent Oregon State Board of Higher Education Performance Reports, Annual Performance Progress Report to the Legislature, Achievement Compacts, and draft HECC Key Performance Measures, and acknowledged that any changes to the funding formula should complement other accountability and performance measurement systems.

The workgroup will address the entire scope of the PUSF that the HECC has statutory authority to allocate to individual universities, excluding certain public service-oriented line items which will continue as they currently function. It was not determined, however, what *proportion* of funding the new formula should allocate based on outcomes rather than enrollment or other factors. The starting point for this analysis will be to treat all eligible funds as if they are to be allocated based on outcomes; from this total, reductions may be made to support core campus operations, the purchasing of shared services, or higher operational costs at certain institutions. It is broadly recognized that some institutions have higher cost structures than others due to lower economies of scale and/or geographic isolation, yet they provide irreplaceable value to the state and their regions. This will need to be accounted for in any funding formula.

The OSA representative proposed linking the new formula partly to the post-graduate success of students. HECC staff and representatives of OSA met separately to discuss options for developing and incorporating such a measure. It is not yet evident whether existing data is sufficiently robust and time-tested to permit the incorporation of such a measure within a new formula. Discussion on this point will continue.

The IFS representative expressed concern that an outcomes-based formula would lower academic quality through the incentives it is likely to create for institutions to increase rates of course and degree completion. Efforts to mitigate this risk, whether real or perceived, ought to be undertaken. Because the absence of clearly defined, generally accepted, quantifiable data relating to academic quality is likely to prevent its incorporation directly into the funding formula, other steps need to be taken to address this important issue. This effort should account for the roles played by regional accreditation, faculty governance, faculty ownership of curriculum, and the respective institutional missions. HECC staff and the IFS representative are working on a potential reporting structure to help ensure that high-quality instruction remains at the forefront of institutional decision-making. This process might reasonably be joined with efforts to develop an assessment of institutions with governing boards. Quality, access, and attainment must all be advanced by any changes to the funding formula.

The workgroup will meet next in late September. The focus of this meeting will be on establishing which core outcomes represent the nexus of institutional priorities and the interests of the state. To facilitate this process, each institution was asked to submit a rank ordering of

potential outcome metrics. A preliminary review of these results shows broad consensus amongst the institutions about the importance of prioritizing baccalaureate degree attainment, advanced degrees and certificate attainment, high-cost and high-demand degrees, as well as the need to focus on underserved populations. Several other metrics were ranked highly by one or more institution, including intermediate progress measures. At the meeting, the workgroup will attempt to reach preliminary decisions about the type of metrics that should be included – the “what” – and the priority student populations which will require additional investment to meet their particular needs – the “who.” These preliminary decisions will permit staff to begin to develop and refine technical models.

Subsequent meetings and intervening staff work will focus on finalizing the metrics, the student sub-populations, ironing out data definitions, and constructing and testing the new model. After basic construction of the model is complete, outcome weights will need to be assigned, along with recommendations for a phase-in schedule. It is expected that the workgroup’s recommendations will be completed in December. This represents an aggressive but achievable timeline thanks to the dedicated and creative efforts of workgroup members.