

TO: BEN CANNON, EXECUTIVE DIRECTOR
COMMISSIONERS, HIGHER EDUCATION COORDINATING COMMISSION

FROM: BRIAN FOX, ADMINISTRATOR UNIVERSITY BUDGET AND FINANCE

SUBJECT: OBF SCENARIOS AND SENSITIVITY ANALYSIS

DATE: FEBRUARY 2, 2015

CC: OUTCOMES-BASED FUNDING TECHNICAL WORKGROUP

Process and Overview

The Higher Education Coordinating Commission, acting under ORS 351.735(3)(d) and 351.735(3)(b) to determine the allocation of the Public University Support Fund (PUSF) to public universities, has undertaken an effort to redesign the funding allocation model to support its productivity agenda and Oregon's ambitious 40-40-20 goal. The productivity agenda transitions university funding allocations from the current enrollment-based system to a student focused outcomes-based funding (OBF) model. The Outcomes-Based Funding Technical Workgroup (OBF TWG or workgroup), formed in June 2014, has developed the Student Success and Completion Model (SSCM) which focuses the PUSF on rewarding high quality teaching and learning, student access, and support that leads to completion. Specifically, the SSCM measures and funds degree completion, particularly for neediest, hardest to reach, and historically underserved students.

Appendix A includes the framing document for the workgroup which provides background, goals, process and principles from which work has progressed, resulting in the SSCM. Embedded within this document are the following principles by which the model is expected to function:

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.

The workgroup includes senior financial, student affairs and academic leaders from each of the seven public universities, the President of the Interinstitutional Faculty Senate and the President of ASPSU as a representative of the Oregon Students Association. A complete roster of the OBG TWG is included in Appendix B.

After much conversation, development, honing and revisions the workgroup has produced the mechanical structure of the SSCM as requested by the HECC and presented on December 4th to the Funding and Achievement Subcommittee. The SSCM accommodates the unique institutional context represented by the seven public universities in Oregon, meets the guidelines promulgated by the HECC and provides a rational and consistent methodology for allocating the PUSF. The allocation methodology is congruent with the HECC strategic plan and is designed to incentivize completion of resident Oregonians and particularly those least likely to complete today.

The workgroup is keenly aware and focused on issues of quality in baccalaureate and advanced education. Jeff Dense, President of the IFS, assisted the workgroup in developing a robust methodology to evaluate quality in concurrence with recommendations supported by the IFS and subsequently by the Provost's Council and included in Appendix C. The workgroup recommended that the HECC rely on academic experts to continue this evaluation exercise as it was beyond the scope and ability of the workgroup.

SSCM Structure

The SSCM divides the PUSF into three tranches for allocation purposes: Base, Activity-Based (SCH), and Outcomes-Base (OBF) portions. Each tranche is discussed in more detail below.

Base

The Base allocation tranche consists of PUSF resources reserved for specific purposes. Each line item within the Base allocation is assigned to one of three general categories: Research, Mission, and Regional Support.

Research allocations provide resources for key economic development and innovation needs of the state. Specifically the research allocation supports sponsored research activities and provides faculty salary support to promote research activities. Allocation for the Research Base in the model is based on the FY15 allocation of PUSF and will be inflation adjusted each fiscal year.

Mission allocations provide funding for non-instructional activities that are consistent with the purpose of a public university and that may be difficult or impractical to account for in outcomes metrics. Examples of Mission allocations include support for high-cost engineering programs (undergraduate and graduate), the collaborative OUS nursing program, campus public service programs, OSU's Veterinary Diagnostic Lab,

health professions programs, and PSU's NEW Leadership Oregon program. With the exception of two specific items in the Mission category, allocations in the model are based on the FY15 allocation of PUSF and will be adjusted for inflation each fiscal year. Two additional components have unique calculations: supplemental support for Dual Credit SCHs and base support for law, pharmacy and veterinary medicine education support.

Support for Dual Credit SCH were determined by the workgroup to be vital for continued collaboration between universities and local school districts to ease and accelerate the transition of students between high school and college level coursework. Additional allocations are determined on a per SCH basis and vary by institutions according to the number of Dual Credit SCH completed at each respective institution. Three professional programs, law, pharmacy, and veterinary medicine, receive supplemental support on top of regular credit-hour and outcomes allocations. By shifting from a high marginal revenue allocation structure to a set fixed cost low marginal revenue allocation scenario, the SSCM focuses on the stability of these programs and not incentivizing their growth over time. This came at the advice of those institutions most directly affected. This base allocation will be adjusted each year for inflation. Students in professional programs that complete credit hours of instruction and/or earn degrees will continue to earn SCH and/or OBF allocation at the same rate as closely related non-professional disciplines.

Regional allocations provide resources for the higher cost mission of the four TRU universities which serve a unique and critical public policy purpose. Regional support promotes access to higher education, provides underpinning for those regional institutions whose size does not allow them to capture economies of scale, and funds retention and graduation focused efforts. Allocation for the Regional Base in the model is based on the FY15 allocation of PUSF and will be inflation adjusted each fiscal year.

It is important to note that the amount of base allocation to each institution, except where otherwise noted above continues as a holdover from the FY15 RAM allocation. The HECC and universities continue to discuss base funding, including support for the University Shared Services Enterprise and other expenses incurred due to the dissolution of the Oregon University System and Chancellor's Office operations. This is of particular importance to the TRU institutions which tend to have less capacity to absorb additional work.

The PUSF appropriation amount that remains after disbursement of the Base allocation provides resources for the Activity Based (SCH) allocation and the Outcomes-Based (OBF) allocation. The percentage-based division between SCH and OBF within the model is a policy decision of the Commission. The capability of varying the levels during the implementation phase has been discussed by the OBF TWG as a tool to aid in easing the transition between the RAM and SSCM models. To emphasize degree completion and continue support for resident enrollment and inter-institutional collaboration, the workgroup's calculations have assumed a final split of 80% OBF and 20% SCH.

Activity-Based Allocation

Inclusion of an Activity-Based component in the SSCM recognizes the ongoing significance of course completion by students and provides an opportunity to smooth the transition to an allocation method that heavily emphasizes the successful outcomes for resident students as reflected in degree and certificate completion. Computation of the SCH allocation involves two factors: the three-year average of SCH generation (by CIP code) of an institution and a cost-of-instruction factor. The cost-of-instruction factor is a staple of the RAM and recognizes that instructional costs are not equal in all academic disciplines or all degree levels. This cost differential factor is carried forward from the RAM.

An index is created of an institution's total SCH output by considering the number of completed SCHs and the related cost-of-instruction for those SCHs. This is compared to the same index for all institutions and a proportional allocation from the SCH allocation pool is assigned to each institution.

Outcomes-Based Allocation

The primary driver of the OBF allocation is degree generation. Similar to SCH, each degree represents a unique share of the OBF allocation determined by the relative cost-of-instruction and academic level of the degree (BA, Master's PhD, Professional, etc.). Two additional factors are involved to support access and equity as well as priority degree types. Degrees in high demand high-reward disciplines (STEM, Health, and Bilingual Education) are awarded additional resources. Similarly, degree completions by students who represent one or more traditionally underserved student populations (Veterans, low income, rural, or under-represented minority students) are assigned additional resources. Using a three-year average of degree production, the model calculates the total relative value of all degrees awarded by each of the institutions. These values drive the proportional distribution of the OBF allocation portion within the SSCM.

Transition Tools

Included in the mechanics of the model are both a Stop Gain and a Stop Loss function designed to smooth year-to-year allocation differences for institutions. The Stop Loss and Stop Gain may be used during the transition period to mitigate positive and/or negative shocks to institutions that would experience large year-to-year swings in allocations if the model were fully implemented in FY16.

The Stop Loss, which can either be a positive or negative percentage, provides assurance that an institution will not experience a dramatic decrease in allocation compared to the prior year. If the Stop Loss is triggered, all institutions that receive an allocation change that exceeds the Stop Loss threshold contribute a proportional amount of allocation to those institutions whose allocation fell below the Stop Loss threshold.

Only the allocation amount required to bring all institutions at or above the Stop Loss threshold is re-distributed.

Similarly, the Stop Gain, is designed to prevent an institution from receiving a positive spike in allocation in excess of a set threshold when compared to the prior year. If the Stop Gain is triggered, the excess allocation from the triggering institution is re-distributed proportionally to all non-triggering institutions. Only the amount of allocation necessary to bring all institutions within the Stop Gain threshold is re-distributed.

Policy Questions for the HECC

The OBF workgroup continues to meet and has shifted focus from the development of the SSCM to principles and mechanics of implementation and transition. All members of the workgroup are in agreement that the transition from the current enrollment-based model to a student success-focused model should balance decisive and deliberate implementation with ensuring that institutions have sufficient time and fiscal space to adjust. This process will require that institutions develop an understanding of model operations, and adapt institutional strategy to greater emphasize student completion. To inform this effort, the workgroup is requesting HECC guidance on several policy questions that will shape the ultimate function of the model. Those policy decisions include:

- Final and initial split of non-Base allocation between the SCH and OBF allocation pools;
- Relative weights of degree levels to be used in OBF calculations;
- Relative weights of high-demand high-reward degrees used in OBF calculations;
- Additional weight of degrees conferred to graduates representing one or more underserved population characteristics;
- Additional allocation, if any, for credit hours completed by a dual credit student.
- Whether the inclusion of a Stop Loss and/or Stop Gain mechanism(s) during the RAM-to-SSCM transition period is desirable;
- Duration of transition and final implementation

Additional Information

To demonstrate the impacts of each of these factors the Funding and Achievement Subcommittee will discuss a set of six SSCM scenarios, which are presented in a separate memo. A draft transition document is also included in a separate memo, which outlines detailed analysis of the current OBF TWG discussion regarding assumptions around ultimate desirable level of OBF vis-à-vis SCH, timeframe, and the utilization of the Stop Loss and Stop Gain mechanisms. Finally, a calendar summarizing important dates and milestones in the OBF implementation process is included in this memo as Appendix D.

Appendix A: Workgroup Charge

Outcomes Based Funding Technical Workgroup Charge

Background

Over the past several years the state has embarked on an ambitious reform of its public higher education enterprise, including SB 242 (2011), SB 909 (2011), SB 270 (2013), and HB 3120 (2013). Together, these reforms have significantly increased autonomy for public universities, exemplified by the creation of institutional governing boards, while also promoting greater levels of state coordination across the P-20 continuum, exemplified by the creation of the Oregon Education Investment Board (OEIB) and the Higher Education Coordinating Commission (HECC).

The reforms are predicated on Governor Kitzhaber’s “tight-loose” concept, which pushes operational autonomy and flexibility to the lowest possible level while reserving accountability and associated state investment at the highest level. The operational flexibility provided for institutions through the dissolution of the Oregon University System and the creation of institutional Boards of Trustees can broadly be thought of as the “loose” component. The creation of the HECC, with its specific authorities to review and approve public university missions and programs as well as to develop and oversee a funding allocation model by which the state’s investment in post-secondary education rewards institutional behavior, can be thought of as the “tight” component.

Recognizing this new operating structure, the HECC, consistent with its strategic plan and the direction of the Governor and the OEIB, does *not* believe the current funding allocation model, which relies on inputs, is ideally suited to an environment in which access *and* completion are necessary for the achievement of the state’s ambitious 40-40-20 goal. Accordingly, the HECC’s 2015-17 state funding request to the Governor will endorse an outcomes-based funding allocation model that is consistent with the principles outlined below.

At the same time, the HECC also acknowledges that current levels of state funding – under any allocation model – are insufficient for achieving our state’s higher education goals. The success of outcomes based funding will rely as much on securing appropriate state funding levels as it does on optimizing the design of the formula itself.

In order for the HECC to develop an optimum allocation model, HECC staff will convene a group to develop the allocation model and recommend a phase-in period. This group, the Outcomes-Based Funding (OBF) Technical Workgroup, will include experts on university finance, academic affairs and student success representing each public university, university students and faculty as well as HECC staff. The Workgroup will utilize external expertise to ensure a robust model uniquely suited to Oregon’s higher education context and vision is developed.

Goals and Process

By the end of 2014, the Outcomes-Based Funding (OBF) Technical Workgroup will develop a new model for the allocation of the state’s investment in its comprehensive public universities, with implementation to begin during the 2015-17 biennium. The allocation model will be designed to incentivize outcomes that help meet the state’s ambitious 40-40-20 goal. Particular emphasis will be placed on supporting access and completion for Oregon resident students from

underrepresented populations and in particular high value areas of study. The group will recommend a phase-in period that is aggressive yet allows sufficient time for institutions to respond effectively and appropriately to a new approach to state investment.

The workgroup will examine research and best practices around existing and proposed outcomes funding models and produce a white paper that recommends to the Executive Director of the HECC an OBF model that is consistent with the principles articulated in this document. An independent third-party expert on OBF and higher education will be engaged to facilitate the workgroup and provide research support. Internal and external expertise from outside the Workgroup will be utilized as necessary.

The OBF Workgroup will be comprised of the following members:

- Administrator of HECC University Budget & Finance
- Representatives appointed by the Presidents of each of the seven public universities
- A student representative appointed by the Oregon Student Association (OSA)
- A faculty representative appointed by the Interinstitutional Faculty Senate (IFS)

The HECC intends for implementation of this allocation model will begin in the first year of the 2015-17 biennium and continue until 100% of all formula based allocations are incorporated.¹

Principles

- The allocation model will reflect the principles and priorities embedded in the strategic plan of the HECC and the OEIB Equity Lens, including support for access and completion of Oregon resident students with a particular emphasis on socio-economically disadvantaged, first generation, diverse and underserved populations and graduates in high-demand and high-return fields key to Oregon’s economic future;
- The allocation model, once fully implemented, will include all formula-based state funding;
- Clarity and simplicity will be maintained in the development of an allocation model;
- The allocation model will recognize and reward differentiation in institutional mission and scope;
- The allocation model will use data that is clearly defined and currently available.
- The allocation model will be phased-in, starting with the 2015-17 biennium.

Technical Workgroup Timeline:

The workgroup will be appointed in May and convene in June, work through the Summer and Fall of 2014 in order to produce an OBF model for adoption by the HECC before the convening of regular Legislative Session in February of 2015.

June - Workgroup is formed and holds its inaugural meeting,

¹ We presume that the current state practice of allocating some dollars to institutions outside of the formula (eg ETIC, statewides, research, campus public services) will continue, whether through line-items adopted by the Legislature or by the HECC.

discussing HECC expectations, reviews OBF model concepts and sets calendar.

- July - Workgroup discusses institutional outcomes and student sub-populations and weighting structures. Group accesses national experts as necessary. Sub-group is formed to produce whitepaper regarding OBF & proposed metrics.
- August - Workgroup discusses data definitions for outcomes and students. Workgroup is provided draft whitepaper for review, including proposed metrics. OBF Prototype Model framework is discussed, including metrics and weights.
- September - Workgroup reviews & discusses OBF prototype model, including simulation and sensitivity. Phase-in period is discussed.
- November - Workgroup determines appropriate phase-in period and adjusts OBF prototype model. Workgroup provides final input on draft whitepaper.
- December - Workgroup produces final whitepaper, OBF model and phase-in period and forwards to the Executive Director of the HECC for review and approval.
- December/January - Executive Director recommends adoption of OBF model to Higher Education Coordinating Commission for adoption and implementation.

Appendix B: OBF Workgroup Roster

- Sherm Bloomer
Director, Budget and Fiscal Planning
Oregon State University
- Brad Burda
Provost and Vice-President for Academic Affairs
Oregon Tech
- Jeff Dense
President
Interinstitutional Faculty Senate
- Brian Fox
Administrator, University Budget and Finance
Higher Education Coordinating Commission
- Jan Lewis
Director, Administrative Services
Oregon State University
- David McDonald
Associate Provost
Western Oregon University
- Lara Moore
Vice-President, Finance and Administration
Eastern Oregon University
- Craig Morris
Vice-President, Finance and Administration
Southern Oregon University
- Eric Noll
President
Oregon Student Association
- Kevin Reynolds
Vice-President, Finance and Administration
Portland State University
- Brad Shelton
Interim Vice-President, Research and Innovation
University of Oregon
- Sarah Witte
Interim Provost and Senior Vice-President Academic Affairs
Eastern Oregon University
- Mary Ann Zemke
Vice-President, Finance and Administration
Oregon Tech

Appendix C: Statement on Academic Quality

Outcomes-Based Funding Technical Workgroup Statement on Academic Quality

In order for the State of Oregon to maximize the potential benefits accruing from its ambitious 40-40-20 academic achievement goals, the Higher Education Coordinating Commission (HECC) recognizes Oregon's public universities must provide a rigorous and high quality academic experience. Any diminution of the knowledge and skills currently embedded within degree-granting programs at Oregon's public universities countermand the duties and powers of HECC articulated in Oregon Revised Statutes § 351.735(3). Hence, HECC is committed to an ongoing partnership with Oregon public universities, faculty and students in ensuring the rigor and quality of the educational experience for future generations of Oregonians. By focusing the investment of state resources on student success, HECC will serve to ensure academic quality via institutional and programmatic accreditation, a profound respect for shared governance and faculty ownership over the curriculum and, moreover, rewarding institutional investment in initiatives benefitting student success through an outcomes-based funding model.

Perspectives and Components of Academic Quality

Capacity – Institutional leaders have primary responsibility to ensure resources (physical capital, faculty time and expertise, student support services) are available to support a robust and rigorous educational enterprise inextricably linked to each university's mission.

Process – A wide range of stakeholders seek to develop a process to ensure students garner subject area expertise, develop an understanding of multiple facets of human knowledge, are imbued with the skills necessary to confront a changing global economy and are prepared to be engaged participants in our democratic society. This process includes a diverse range of academic and co-curricular experiences, and ready access to student services necessary to engage and support students.

Output – Measures such as degree production are intermediate markers which signify the accomplishment of students, their knowledge, skills and competencies. These outputs rely on the capacity of institutions and educational processes and signal preparation for future positive economic, social and civic outcomes.



Outcomes - Employers desire college graduates with the ability to think critically, innovate, communicate articulately and to diverse audiences, solve complex problems, demonstrate integrity and ethical judgment¹.

Policymakers, taxpayers, employers, university leaders, faculty and students all seek educational outcomes which rest on the bedrock of academic quality. An increased call for accountability of the academic enterprise by policymakers and the citizenry highlights the benefits of academic quality in preparing students for life-long success. In order to develop the human and intellectual capital necessary for a successful and prosperous future, Oregon's public universities must remain vigilant in ensuring a quality academic experience for all students by staying on the cutting edge of academic innovation and providing the support services underscoring student success.

Committed faculty continually strive to develop student knowledge, skills and abilities relevant to the 21st century economy via regular engagement in research and professional development activities which are subsequently incorporated into the curriculum to the benefits of students.. Finally, an institution's commitment to ongoing and systematic academic quality prepares students for life-long success while buttressing mission fulfillment efforts.

While there may appear to be divergent views from these stakeholder groups on the meaning of academic quality, there is, in fact, significant synergy on the importance of academic quality to the educational enterprise, and more importantly, the future success of Oregon's public university graduates. All parties agree on the centrality of the educational process and commitment of resources necessary to ensure academic quality, and coincidentally student success. In the absence of a profound commitment to academic excellence, students will not gain the knowledge and skills necessary to succeed in their careers and as engaged citizens, employers will look elsewhere for employees of high quality, and the state will not gain the talent necessary for Oregon's economy to flourish. Without a robust and rigorous educational process that incorporates a learned commitment to academic quality in both in-class and out-of-class experiences, the state's ambitious 40-40-20 goals will not generate the leaders of tomorrow.

Institutional Efforts to Ensure Academic Quality

The ability of institutions to graduate high numbers of students appears to be gaining traction as the national measure of higher education success. While the goal of significantly increasing the number of people with college degrees and certificates, as captured by the state's ambitious 40-40-20 goals is laudable, this trend is disturbing because a national drive toward that goal—to the exclusion of others like academic success—could threaten important principles, including

¹ American Association of Colleges and Universities "[It Takes More Than A Major: Employer Priorities for College Learning and Student Success.](#)" April 2013.

inclusiveness, access and affordability that are crucial to the quality higher education Oregonians will need to be successful in the 21st century without proper attention.

A more fruitful direction would recognize educational success, like human health, is a complex systemic process that requires a rich data picture (of both qualitative and quantitative measures) for full assessment. For higher education to flourish, all our leaders—in government and in education—must avoid the lure of reductionist measures and simplistic goals that will foster a false sense of progress now but bitter disappointment at the quality of the results in the future. A focus on academic quality as an essential component of higher education in Oregon will enhance the state’s ability to not only meet its 40-40-20 goals, but enable graduates of Oregon public universities to make an indelible positive contribution on the future of our society.²

The transition in Oregon higher education from an enrollment based to outputs focused funding model which focuses state investment around the degree attainment of students is only meaningful to all stakeholders if degrees granted are underscored by an unwavering commitment to academic quality. As part of the formulation, adoption and implementation of a redesigned funding allocation outcomes-based model, the future success of any new budgetary paradigm must be inextricably linked to academic quality. A means to ensure this connection must be developed.

² Campaign for the Future of Higher Education. [Principles: Quality Education in the 21st Century](#). 2011.

Appendix D: SSCM Rule and Adoption Timeline

1/14	OBF TWG	OAR review, Scenario discussion
1/15	Public Hearing Notice Filed	OAR 715-013-0025 (SSCM Structure)
1/21	VPFA Meeting	OBF update, Base and USSE discussion
1/24	OBF TWG	Phase in principles and discussion
1/26	HECC F&A	Brief update on progress
2/5	HECC F&A	OBF scenario discussion
2/6	OBF TWG	Discuss HECC F&A feedback and advise staff
2/7-8	Staff	Issue preliminary weighting recommendation
2/9	OBF TWG	Give feedback and discuss weighting recommendation
2/9	Staff	Executive Director issues weighting recommendation
2/12	HECC Full Commission	Makes policy decision and instructs workgroup
2/13	Public Hearing Notice Filed	OAR 715-xx-xxxx (Weighting & Values)
2/17	Public Hearing	OAR 715-013-0025 (SSCM Structure)
2/--	VPFA Meeting	Update on OBF and discuss base allocation
2/--	OBF TWG	Continue phase in discussion
2/20	Public Comment Period Closes	OAR 715-013-0025 (SSCM Structure)
3/5	HECC F&A Meeting	Review OAR and discuss public comment
3/6	Staff	Final rule sent to HECC Commissioners
3/12	HECC Full Commission	Potential OAR 715-013-0025 (SSCM Structure) adoption
3/16	Public Hearing	OAR 715-xx-xxxx (Weighting & Values)
3/--	OBF TWG	Continues implementation refinement
4/9	HECC Full Commission	Potential OAR 715-xx-xxxx (Weighting & Values) adoption
6/11	HECC Full Commission	Adopt FY 16 budget