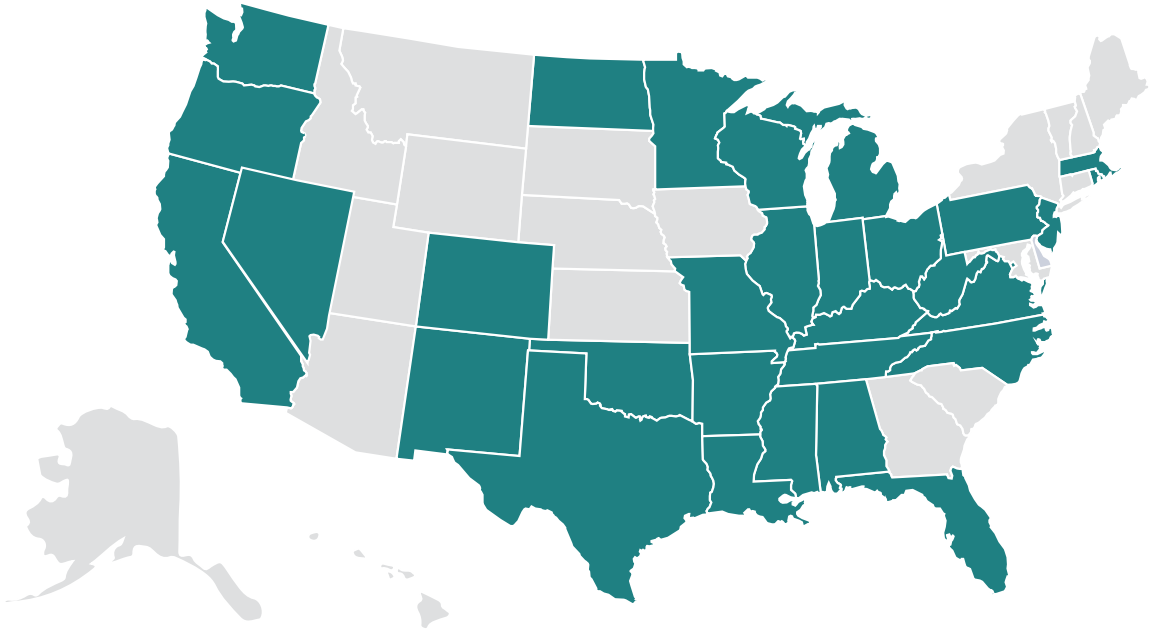
Outcomes-Based Funding Overview

August 28, 2025

HCM STRATEGISTS

HCM's leadership on strategic finance

HCM Strategists has established a typology of outcomes-based funding models and created a state-by-state classification of funding systems according to the typology. We are also supporting states tackling emerging issues like adequacy and value through their funding formulas.



HCM has supported 30 states in developing or reviewing funding formulas. Our support has run the gamut from staffing and facilitating large commissions to sharing best practices and providing technical modeling.

Agenda

1. National Landscape	Principles of a Strong Postsecondary Finance System
	Common Funding Formula Approaches and Recent Trends
	Typology of Outcomes-Based Funding Models
2. Elements of an Outcomes-Based Funding Model	Common Metrics, Target Populations, and Weights
	Trends in Workforce & Value
	State Examples
3. Implementing an Outcomes-Based Funding Model	Allocating State Funds
	Total Funding Allocated by the Model
	Other Revenue Sources and Incentives

Why Outcomes-Based Funding (OBF)?

OBF is a common component of state funding for postsecondary education.

Aligns operating funds with state goals.

Overall attainment	Student success measures	Target populations

States have incorporated and developed OBF in response to different circumstances.

Funding for accountability	$ increases/decreases	Emphasis on value

National Landscape

Principles of a Strong Postsecondary Finance System

Principle	State Approaches
A funding system that is **linked to clearly established goals and objectives** for higher education.	States often use their attainment goal and strategic priorities as a critical anchor for assessing, developing, and implementing funding models.
A funding system that has **defined adequate level of resources required to deliver quality education.**	Recent efforts to determine sufficient spending levels to achieve desired outcomes and to articulate the state's role in funding.

Principles of a Strong Postsecondary Finance System

Principle	State Approaches
A funding system that includes a minimum level of funding to **support fixed costs**.	Minimum amount per school, funding per square foot, small or rural school adjustment.
A funding system that is **responsive to changes in the system on both enrollments and outcomes.**	Funding based on enrollments and/or outcomes. More states are including headcount as an enrollment metric.
A funding system that **aligns with state's current needs for a more educated and trained workforce.**	Weights for enrollment in high-priority or high-cost programs, and rewards for completions in high-priority degrees or certificates.
A funding system that **accounts for differing student needs**.	Enrollment or outcome weights for target populations, to incentivize access and success.

Types of State Funding Allocation Models

Funding Approach	Description	Pros	Cons
Base +	Allocation based on prior levels of funding Adjusted based on estimated costs, institutional priorities, or across the board	Institutional fiscal stability	Not responsive to changes in enrollment or other changing conditions or state priorities Past disparities in institutional funding often favor institutions serving better-prepared and better-resourced students
Enrollment	# of students enrolled (FTE most common) Often limited to in-state students	Directs resources to where the students are	Shifts in enrollment limit stability Limits incentive for student success or timely completion FTE-based funding disadvantages institutions with large part-time populations

Types of State Funding Allocation Models

Funding Approach	Description	Pros	Cons
Weighted Enrollment	Additional weights for enrolling certain types of students (e.g., low-income, adult) or in certain programs, or levels (CTE, health, graduate).	Student weights incentivize expanded access and provides resources to support success. Course weights account for state strategic economic priorities and higher-cost programs to deliver.	Similar to pure enrollment-driven formula: Sudden enrollment shifts create instability. No incentive for student persistence and completion.
Outcomes-Based Funding	Allocation is based on a school's performance on a set of metrics. Can include metrics on progression, completion, efficiency, and workforce outcomes.	Aligns state investment with state priorities. Creates incentive for institutions to focus on student success.	If not adjusted, OBF can incentivize reduced access for students who are less likely to succeed. Institutions also need the resources to compete on a level playing field for outcomes, which not all may have.

National Landscape of Funding Formulas

Funding Model (FY2020)		Four-Year	Two-Year
Traditional	No Formula	16	6
	Base Adjusted Only	12	4
Incentive	Enrollment Only	0	4
	Performance Only	2	3
	Enrollment + Performance	2	5
Hybrid	Base + Enrollment	9	10
	Base + Performance	13	9
	Base + Enrollment + Performance	6	17

InformEd States
HIGHER EDUCATION POLICY INITIATIVE

States have shifted from traditional funding models to hybrid models.

Alabama

2-year – Hybrid

4-year - Traditional

Source: InformEd States "The Landscape of State Funding Formulas for Public Colleges and Universities"

Combinations Used in States

Several states use a combination of approaches that balance various considerations of stability, access and outcomes.

Increasingly these approaches are adjusted to reflect student needs, including adjustments to minimum "base" funding, weighted enrollment funding and outcomes adjusted for student characteristics.

Several states supplement other mission-specific aspects to institutions outside of the funding formula, such as medical schools and research.

Recent Trends in State Funding Formulas

ADEQUACY

Determining the basic level of resources required to achieve the outcomes desired.

OUTCOMES

Increased focus on value. Enrollment components prioritizing enrollment in courses/programs with workforce demand or value. OBF components prioritizing completion of credentials of value.

VARIATION

Recognizing current gaps in outcomes and different cost required to achieve the desired outcomes by population or program, and accounting for those difference in allocating resources.

INTERPLAY BETWEEN ADEQUACY, VARIATION, AND OUTCOMES

Must provide sufficient resources in exchange for accountability for outcomes.

Texas Community College Example

ADEQUACY

"Base Tier" Funding determines a minimum amount for each college based on its size and student population

OUTCOMES

OBF formula rewards "credentials of value" that lead to a positive return on investment

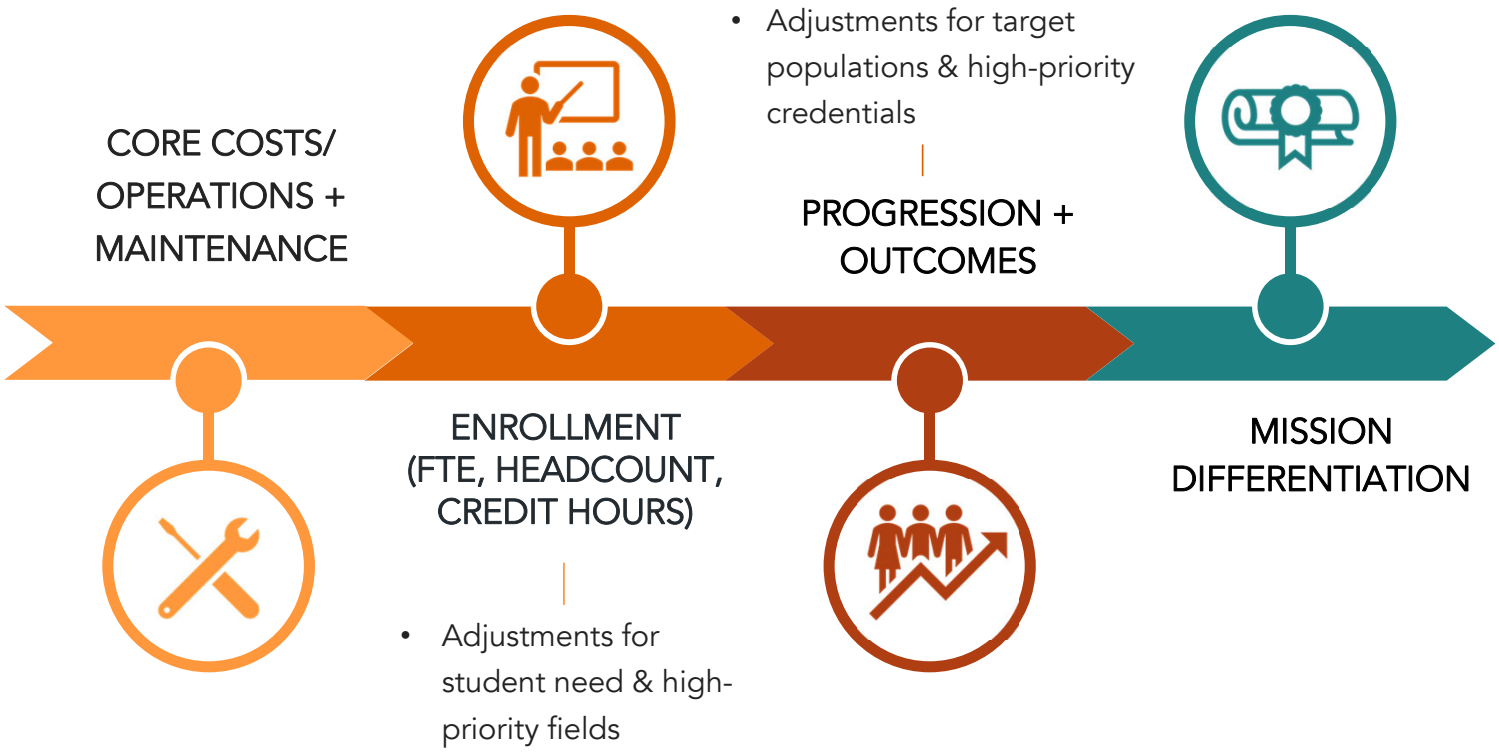
VARIATION

Enrollment and Outcome weights for Adult, Low-income, and Academically Disadvantaged students

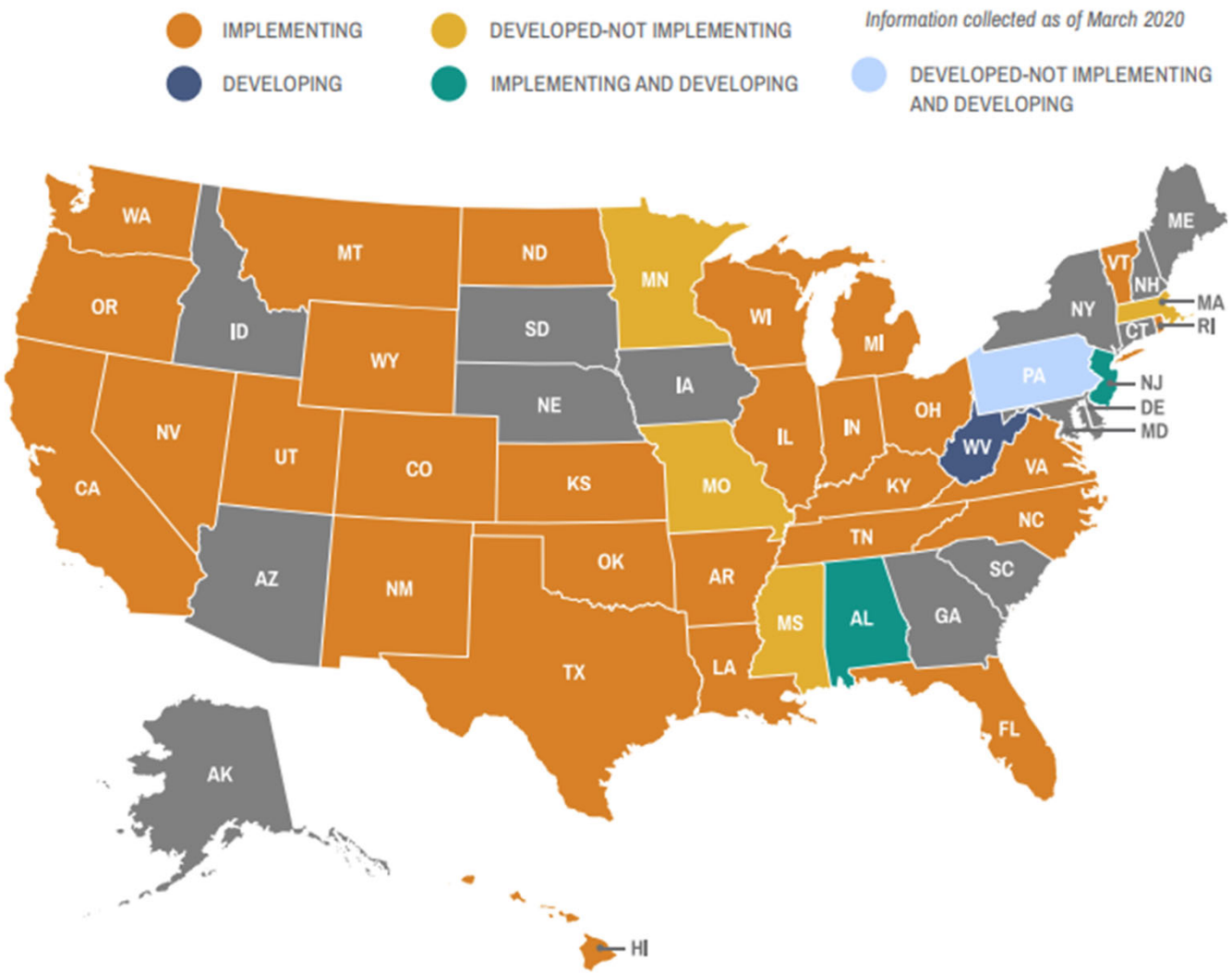
Research-based costs needed to produce a "successful outcome," which informed the weights in the model.

Adult:	$11,458 (2.6x)
First-Gen:	$11,296 (2.5x)
Low-income:	$5,943 (1.3x)
English Learner:	$5,398 (1.2x)
Base:	**$4,536**

A Balanced Framework:
A Best Practice and Growing Trend



Outcomes-Based Funding: National Landscape



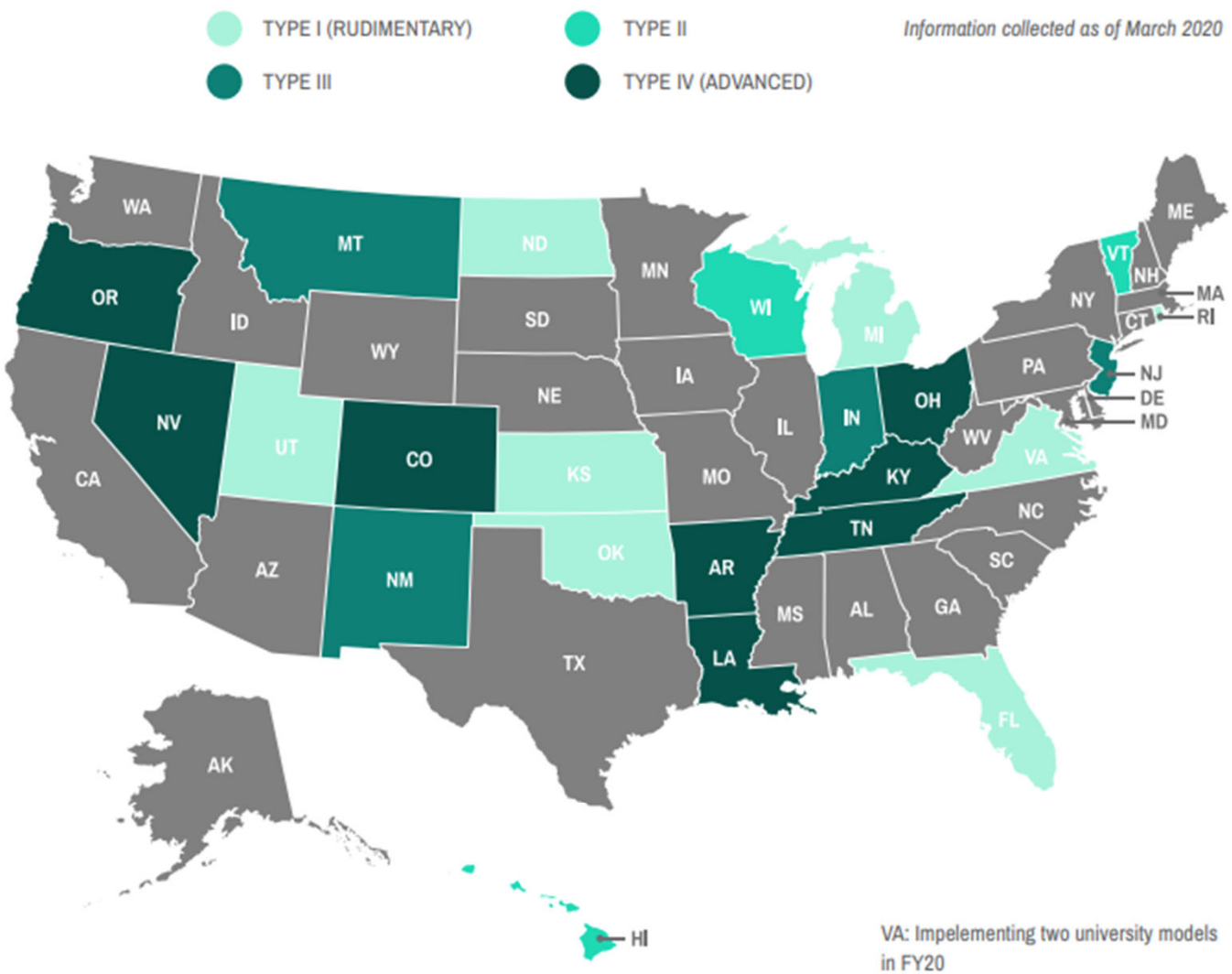
Outcomes-based Funding in States: FY 2020

OBF Typology

- State funding systems vary significantly in design, focus and sophistication.
- HCM Strategists has developed a typology for Outcomes-Based Funding ranging from Type I (Rudimentary) to Type IV (Advanced).

Type IV

- Aligned with completion/attainment goals and related priorities
- Recurring/Base funding
- High level of state funding (25% or greater)
- Differentiates by institutional mission
- Total degree/credential completion included
- Outcomes for underrepresented students prioritized
- Formula driven/incents continuous improvement
- Sustained for two or more consecutive fiscal years



Outcomes-based Funding by Type, FY 2020: 4-year Sector

Outcomes-Based Funding: Elements

Common OBF Metrics

Degrees/Certificates

- Counts
- Rates

Workforce

- Job placement
- Wages

Progression

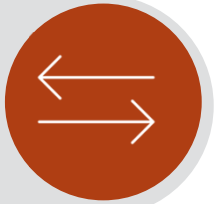
- Retention
- Credit completion

Efficiency

- Costs to operate
- Costs to students

Transfer

- 2yr to 4yr
- 4yr transfer student success



Priority Funding

- Underrepresented students
- High-demand degrees

Common Target Populations

MOST COMMON

- Low Income Students
- Underrepresented Minority Students
- Academically Unprepared Students
- Adult Students

OTHER

- Veterans
- First-Generation Students
- Rural Students

Workforce Outcomes & Value

States can move from less-precise proxies for value (Level 1) to more targeted assessment of ROI (Level 5) with increasingly granular data.

Level	Policy Objective	Data & Metrics	State Examples
1	Is this program designed to lead to a high-wage job?	Wage data by occupation	AR, LA, KY
2	Are completers successfully prepared for their occupation?	Licensure/Certification pass rate	NC
3	Do completers get a job?	Job placement rate	TN, WV, FL, WI
4	Does this program lead to good wages in our state, on average?	Program-level earnings	CA, WV, FL
5	Are students better off than if they hadn't attended the program?	Debt/Earnings ratio; Earnings premium; ROI	TX

Mission Differentiation

- Differentiated metrics across sectors. **Tennessee's** metrics for the two-year sector include job placement and workforce/training contact hours, while the four-year sector has a metric for Research, Service, and Sponsored Programs.
- Differentiated metric weights. **West Virginia's** OBF for both four-year and two-year sectors assigns different weights to each metric based on each institution's mission.
- Institutional selection of metrics (within or across sectors). In **Wisconsin's** two-year OBF, institutions choose seven out of 10 metrics that will determine their allocations relative to the other institutions that chose the same metrics.
- Research-specific formulas or metrics within a formula. **Texas** has three different funds to support university research, with different institutions eligible for each one based on their mission.

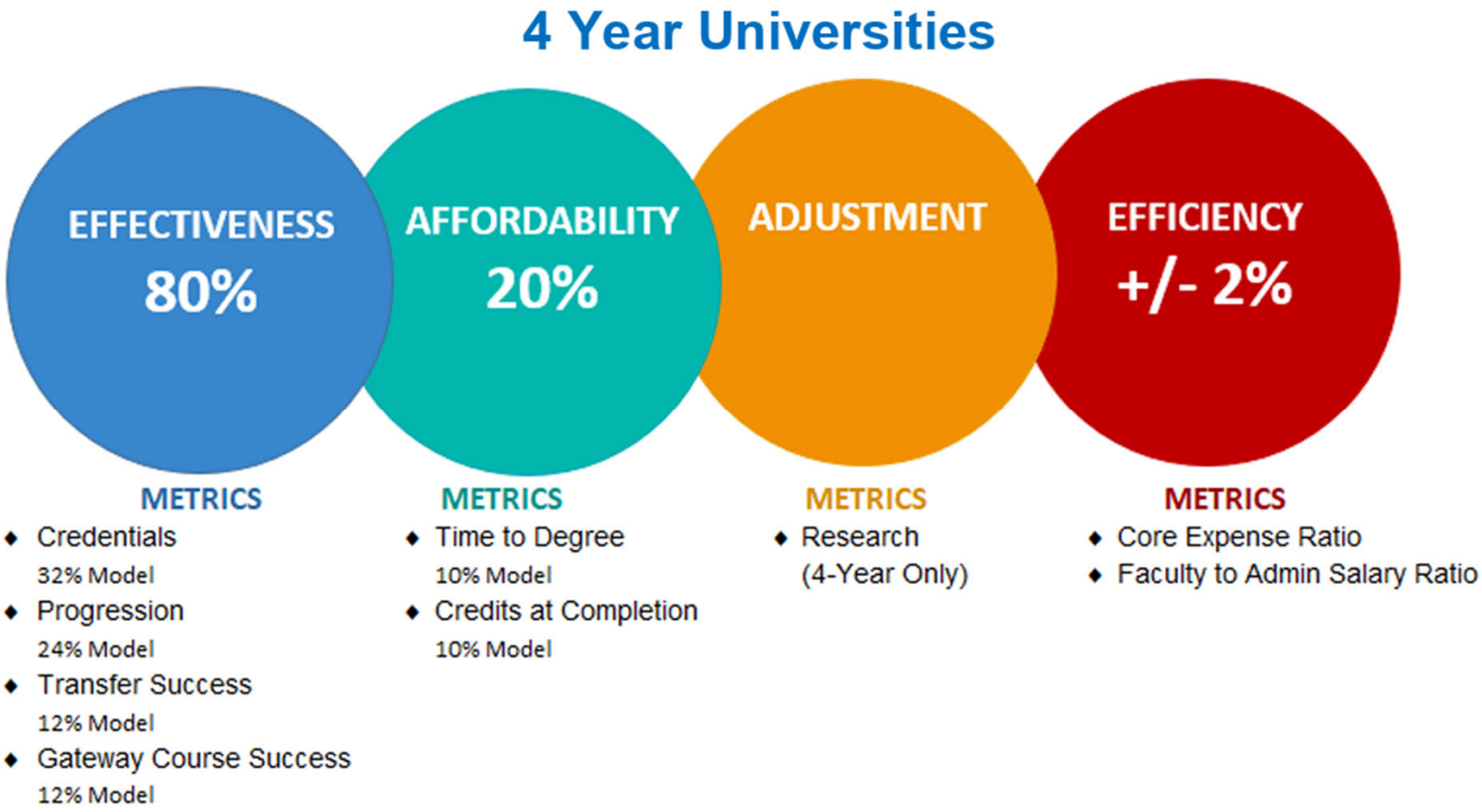
Comparison of OBF Metrics (4yr Sector)

	Progression	Completion	Transfer	Workforce	Efficiency	High-Priority Field	Research/ Public Service
Arkansas	✓	✓	✓	*	✓	✓	✓
Kentucky	✓	✓			✓	✓	
Louisiana	✓	✓	✓	✓		✓	✓
Ohio	✓	✓	✓	*		✓	✓
Tennessee	✓	✓		✓	✓	✓	✓

Comparison of OBF Target Populations (4yrs)

	Low-Income	Underrepresented Minority	Adult	Academically Underprepared
Arkansas	✓	✓	✓	✓
Kentucky	✓			
Louisiana	✓	✓	✓	
Ohio	✓	✓	✓	✓
Tennessee	✓		✓	✓

Example: Arkansas



Example: Kentucky

35% Student Success

KCTCS	UNIVERSITIES
-Credentials awarded	-BA/BS degrees awarded
-Credentials in STEM+H, high-demand & targeted fields	-Degrees per 100 FTE students
-Credentials by URM, low-income & underprepared students	-BA/BS degrees in STEM+H fields
-Progression (@ 15, 30, 45 hrs.)	-BA/BS by URM & low-income students
-Transfers	-Progression (@ 30, 60, 90 hrs.)

35% Course Completion
Based on each institution's share of sector total student credit hours earned, weighted to account for cost differences by degree level and academic discipline.

10% Maintenance & Operations
Based on each institution's share of square footage dedicated to student learning.

10% Institutional Support
Based on each institution's share of sector total instructional and student services spending.

10% Enrollment Support
Based on each institution's share of sector total full-time enrollment.

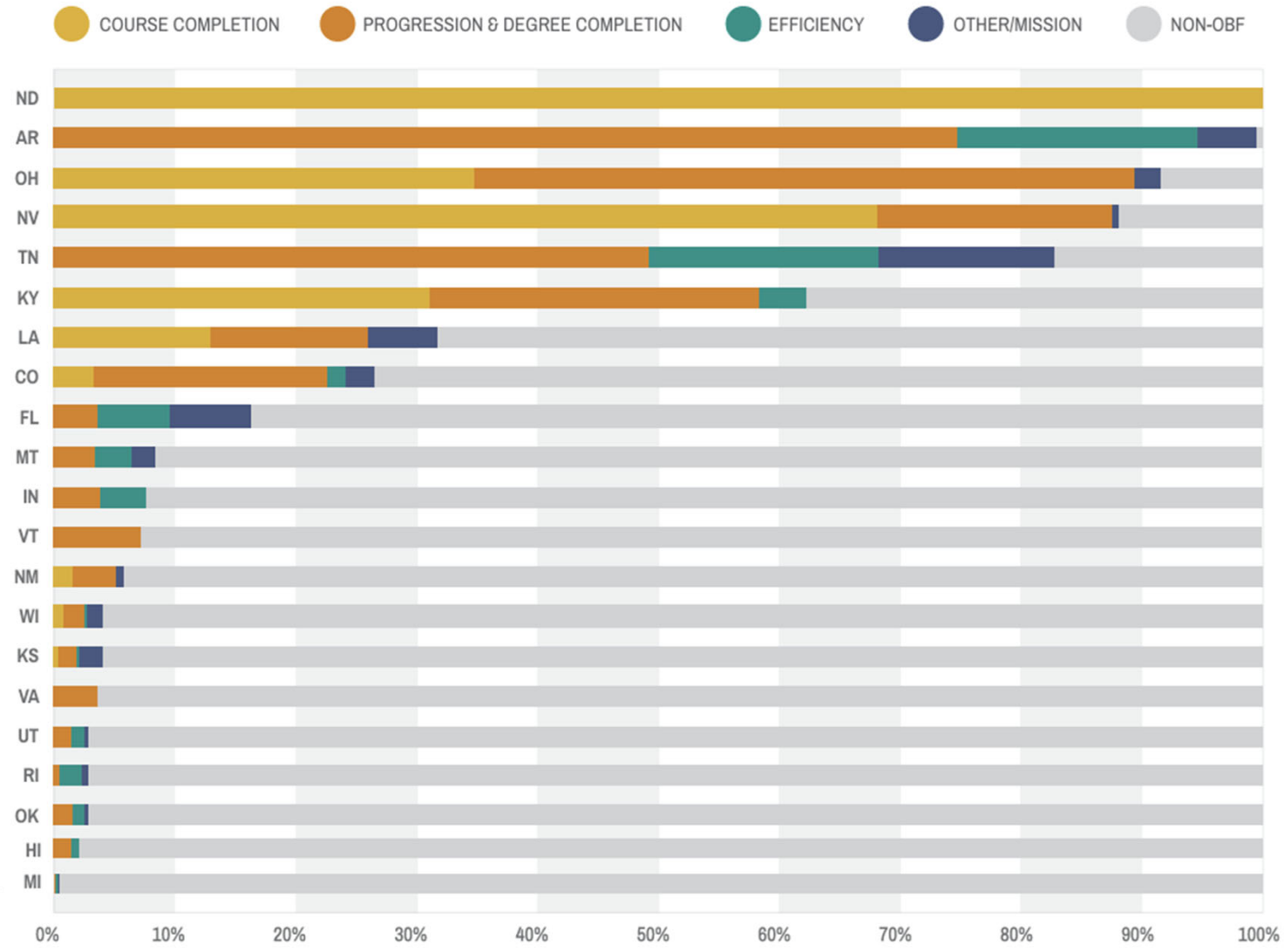
Outcomes-Based Funding: Implementation

To effectively incentivize outcomes, OBF funding should:

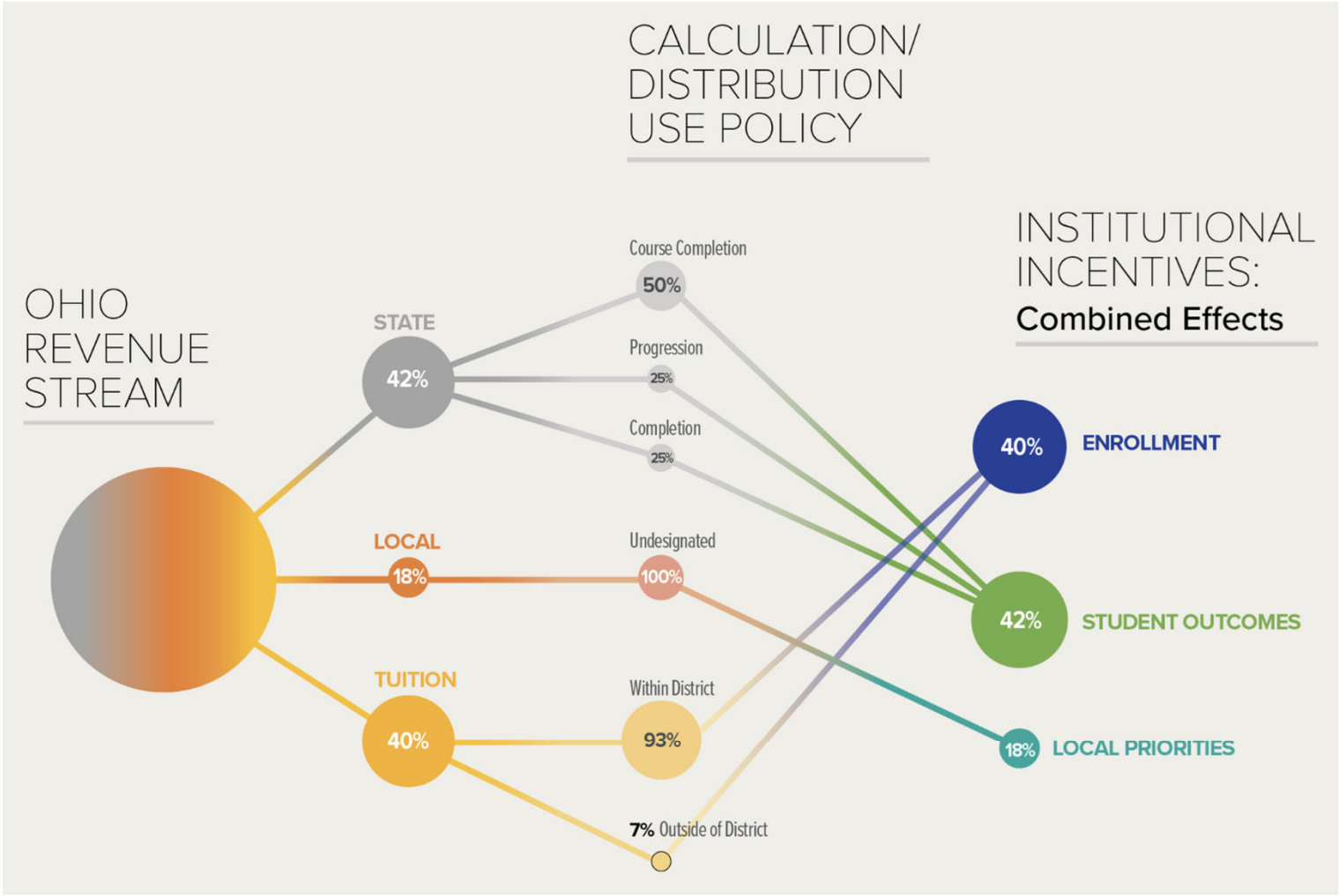
- Reward continuous improvement, not cap rewards at a certain goal/threshold.
- Recur each year, not just be used to allocate new money.
- Allocate enough to influence behavior (>5%).

Allocating to Reward Continuous Improvement

Allocation Approach	Description	Example
Share of Outcomes	Funding is based on each institution's share of the total outcomes generated in the state. Metrics can be scaled and weighted as desired.	**Institution A** produces 15% of all outcomes, so it receives 15% of the OBF funds.
Relative Growth	Funding is based on how much an institution improves over its own baseline relative to others' improvement.	**Institution A** improves its outcomes by 10%. Others improve by 0-5%. Institution A receives a larger share of the OBF than it did last year.
Target-Based	Funding is based on whether an institution reaches set targets for its outcomes.	**Institution A** achieves 90% of its target outcomes; it receives 90% of its designated OBF funding. **Institution B** achieves 120% of its target; it receives 100% of its funding.



In many states, OBF allocates only a small portion of state funding, which can temper its influence.



Institutions face different incentives from other revenue streams, as well.

Conclusion

1. National Landscape	Formulas should account for state goals, student needs, and institutional costs
	A balanced approach includes core costs, enrollment, OBF, and mission
	About half of states use OBF for their four-year sector
2. Elements of an Outcomes-Based Funding Model	Progression, Completion, Target Population metrics are most common
	More states are exploring post-completion outcomes (employment, wages, ROI)
	High-priority field, research, low-income, and adult metrics common to example states
3. Implementing an Outcomes-Based Funding Model	Formulas should reward continuous improvement
	Formulas should be predictable year-to-year and allocate substantial funding
	States should recognize the influence and interaction of other revenue sources

Thank You!

Get in touch

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