STATE-FEDERAL PARTNERSHIPS IN POSTSECONDARY EDUCATION

ROWING TOGETHER: ALIGNING STATE AND FEDERAL INVESTMENTS IN TALENT TO COMMON OUTCOMES

EDUCATION COMMISSION OF THE STATES

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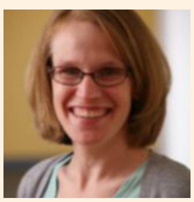
ABOUT THE AUTHOR

Kristin Conklin is partner at HCM. She is an expert in higher education policy and strategy development at the state and federal levels. In 2008, she founded HCM Strategists, a public policy and advocacy consulting firm policy and advocacy firm taking innovative health & education solutions farther, faster. Conklin has testified to the U.S. Senate and House of Representatives on federal financial aid reforms recommended by two efforts she led, the American Dream 2.0 coalition and "Doing Better for More Students" technical report. Kristin developed Strategy Labs for Lumina Foundation, which has been supporting state leaders with non-partisan advice since 2010. States, systems, colleges and non-profit organizations utilize Conklin when they want to examine and refine leadership and policies that will improve student outcomes.

Her career in state higher education policy is grounded in nearly a decade of service to the National Governors Association and the National Center for Public Policy and Higher Education, where she helped develop the first comparative 50-state report card on higher education performance. Conklin has been the senior advisor to the U.S. Undersecretary of Education.



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Before her tenure at HCM, Martha worked as a senior policy advisor at the U.S. Department of Education, focusing on K-12 accountability, high school reform and special education. Today, Martha's in-depth understanding of the role state-level leadership plays in advancing strong policies that lead to growth and innovation has been an important foundation to Martha's work with state policymakers. She has worked with state leaders, including state legislators and higher education policy officials, to facilitate the development of performance based funding recommendations and related strategic higher education policies.

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Before joining HCM, Jeff served as associate vice president for SHEEO, where he managed a project for Complete College America that provides policy and data systems support to states working to increase college completion rates. He also worked as a consultant to HCM, managing state grants in Indiana and Ohio to strengthen college attainment rates through increased productivity. Ever focused on helping students achieve educational and professional success, Jeff works with clients to close the skills gap and ensure that students are prepared for the transition from high school to college and, later, into the workforce.

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EXECUTIVE SUMMARY

Demand for postsecondary talent is accelerating and is more and more becoming the gateway to opportunity. The United States' postsecondary attainment rate is increasing, but not fast enough to reach the level of attainment necessary to fill workforce demands, which requires improved outcomes for students not well served by postsecondary education, such as African American, Hispanic, first-generation and low-income students.[1] Financing the postsecondary opportunities for an additional 10 million Americans – as workforce projections stipulate – will require an investment of new resources and a better alignment of existing resources, particularly state and federal investments, toward the outcomes the nation needs.

Today, nearly co-equal state and federal investments in postsecondary education flow without much connection to one another. In 2013, federal spending on higher education totaled $75.6 billion and state spending accounted for $72.2 billion. That same year, slightly more than $100 billion in federally-provided student loans were made to help finance postsecondary education, with loan default rates the only student outcome variable used for institutional eligibility to participate in these loan programs.[2] Collectively, these billions share one thing in common – dollars flow largely based on enrollment or prior levels of support. Funding formulas for colleges and students remain disconnected from outcomes that encourage credential attainment.

Herein lies a critically important distinction – there are two modalities for delivering public financial support to colleges and other postsecondary education providers. First, typical of state governments, grants are made directly to postsecondary institutions to finance general operations, thus providing a broad subsidy to all students. Second, typical of the federal government, substantial but indirect financial support to individual postsecondary institutions is delivered via student grant and loan programs. Those students in turn use that financial support to pay tuition at the colleges they have chosen to attend. Very broadly speaking, states provide general institutional subsidies while the federal government provides specific student subsidies.

A 21st century postsecondary education financing framework should recognize the two modalities and finds ways to align state and federal investments in colleges and students around the national imperative to improve student outcomes:

- Closing the stubborn access and attainment gaps for racial and ethnic minorities and low-income students.

- Providing increased learning opportunities for adults who have some college but no degree.
- Expanding options for students to earn lower-priced credentials with a focus on work-aligned, high-quality certificates.

The elements of a new financial framework can be found within several states that have developed robust outcomes-based funding (OBF) models. These models are having a substantial effect on campus efforts to improve student outcomes and target student supports to students at risk of dropping out. Indiana, for example, has not only adopted outcomes-based funding measures, but the state's student financial aid programs create financial incentives for timely student progression. Colleges, in turn, have begun offering summer free or discounted tuition and housing to support continuous enrollment. The results indicate that when states include outcomes-based general operating support for institutions and student financial aid in their postsecondary improvement strategies, progression and completion improve for low-income students.[3]

With an outcomes-based approach, a new state/federal postsecondary finance framework can emerge. We recommend five initial steps states and the federal government could take to connect postsecondary funding to student outcomes:

1. Collect, nationally, student-level data on a common set of student outcomes and metrics, including the attainment of high-quality credentials.
2. Create greater federal waiver authority around Pell Grants.
3. Utilize common access, completion and employment metrics in state and federal funding for institutions.
4. Require well-designed outcomes-based funding in state funding for institutional operations or student aid as conditions for new federal funding.
5. Identify high quality credentials by utilizing the federal workforce delivery system.

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THE FUTURE OF HIGHER EDUCATION: CHANGING DEMOGRAPHICS AND STUDENT NEEDS

Our nation is undergoing significant demographic change at the same time our economy is demanding increasing numbers of workers with postsecondary education credentials. This shift to a greater skills-based workforce requires investments in postsecondary education that target resources to students with the greatest need for those resources and in ways that create incentives for postsecondary institutions to enroll and help students – particularly African American, Latino, adult and low-income students – complete quality, workforce-aligned programs and credentials that are valued by labor markets.

The Bureau of Labor Statistics 2024 projections anticipate the labor force to reach 163.8 million persons, growing at an average annual rate of 0.5 percent over the course of the next 10 years.[4] An aging population with its attendant declining labor force participation rate is expected to contribute to the slow rate of growth in the labor force.[5]

PROJECTIONS INDICATE THAT THE NUMBER OF HIGH SCHOOL GRADUATES WILL CONTINUE DECLINING AND, THOUGH THERE IS AN ANTICIPATED INCREASE AROUND 2020, THESE NUMBERS ARE NOT EXPECTED TO RETURN TO THE SAME LEVEL SEEN IN THE PRIOR DECADE.

By 2020, workers age 55 and older will make up 25 percent of the labor force as the labor pool becomes more diverse in age, ethnicity and nativity.[6] Three key dimensions will drive the nation's emerging population shifts:[7]

Growth: The U.S. population is projected to grow by 91 million over the next 40 years and will occur in all age brackets. However most of the growth will be concentrated in the older segments of the population.

Diversity: The population will become more diverse with the white population declining about 10 percent while the Hispanic population will more than double.

Aging: The short-term population age shift is especially significant with the senior working-age population (ages 65+) expanding rapidly, the mature workers (ages 45-64) stabilizing over the next 10 years, and young working-age population (20-44) experiencing a steady increase.[8]

Projections indicate that the number of high school graduates will continue declining and, though there is an anticipated increase around 2020, these numbers are not expected to return to the same level seen in the prior decade.[9] In addition to short-term declines, followed by slower than previous growth, future graduating high school classes will be more diverse. By 2019-20 projections indicate graduating classes in

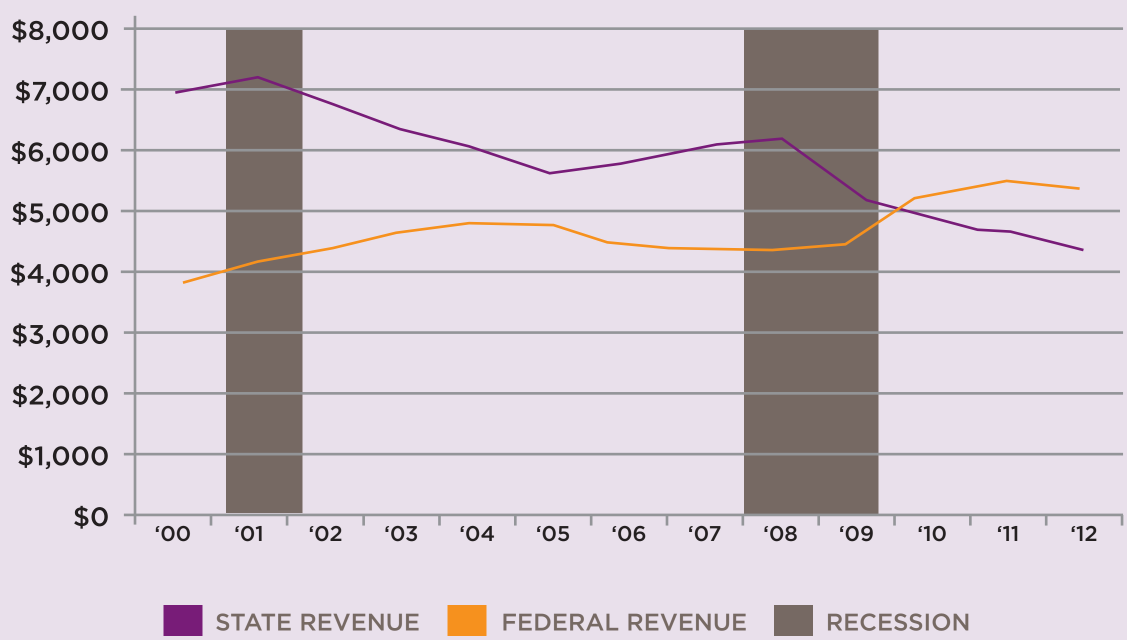
Arizona, Florida, Georgia, Maryland and Nevada will reach "majority-minority" status, joining California, the District of Columbia, Hawaii, Mississippi, New Mexico and Texas.[10]

With an aging population exiting the workforce and a declining but more diverse high school graduating pool entering the workforce, the demand for a skilled workforce with postsecondary credentials will only increase. Simply relying on the current enrollment-based state and federal financing structure (and current investment levels) for postsecondary education will prove increasingly inadequate since the supply of available students will simply not keep up with the demands of the labor market unless production (graduation and credential attainment rates) increases.

CURRENT FEDERAL AND STATE FUNDING OF HIGHER EDUCATION

Apart from the changing national demographics, a dramatic shift also has occurred in the proportion of public investments to higher education coming from state and federal appropriations. Historically states were the leading investors in postsecondary education; however, **Figure 1** shows how in recent years the combination of declining state funding and increasing federal funding has shifted the balance of public investments in higher education.

STATE FUNDING FOR HIGHER EDUCATION DECLINED IN RECENT YEARS WHILE FEDERAL FUNDING GREW



Source: The Pew Charitable Trusts
http://www.pewtrusts.org/~/media/post-launch-images/2015/06/chartbook-final-graphics/fig4.jpg?la=en
(accessed October 16, 2016).

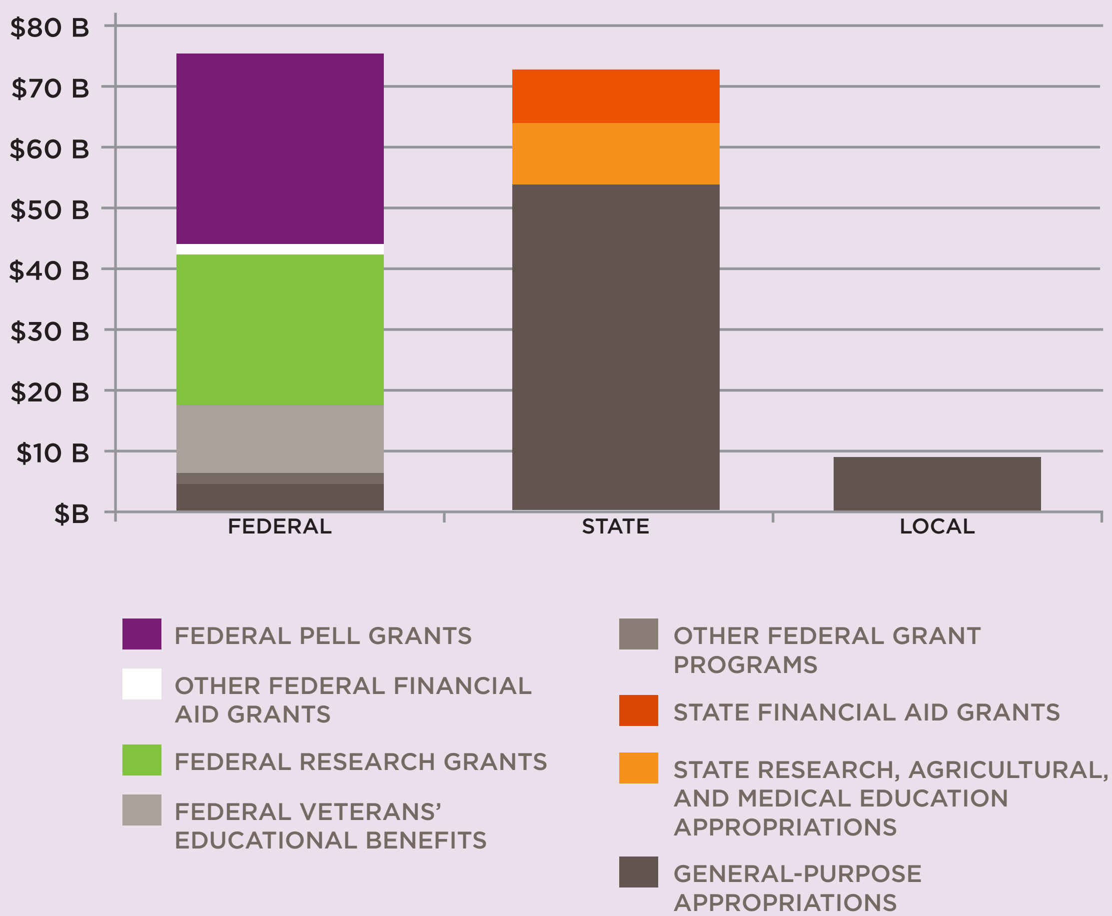
This change has resulted in federal and state funding accounting for 37 percent of public college and university budgets in 2013, as illustrated in **Figure 2**.

FEDERAL AND STATE FUNDING MAKES UP A SIGNIFICANT SHARE OF PUBLIC COLLEGE AND UNIVERSITY BUDGETS

Source: The Pew Charitable Trusts
http://www.pewtrusts.org/~/media/post-launch-images/2015/06/chartbook-final-graphics/fig8.jpg?la=en
(accessed October 16, 2016).

Federal expenditures are now similar in size to state investments, but in meaningfully different ways (**Figure 3**). The federal government provides substantial – but indirect – financial support to individual postsecondary institutions. In large measure the federal government provides financial support to individual students via student grant and loan programs, and those students in turn use that financial support to pay tuition at the colleges they've chosen to attend. In contrast, state governments typically make grants directly to their postsecondary institutions to finance general operations, thus providing a broad subsidy to students. Very broadly speaking, states provide general institutional subsidies while the federal government provides specific student subsidies.

FEDERAL AND STATE INVESTMENTS IN HIGHER EDUCATION ARE SIMILAR IN SIZE, DIFFERENT IN NATURE.



Source: The Pew Charitable Trusts
http://www.pewtrusts.org/~/media/post-launch-images/2015/06/chartbook-final-graphics/fig2.jpg?la=en
(accessed October 16, 2016).

Despite state and federal financing near equal in their proportions of revenue to our nation's postsecondary system, they were not designed to work together to promote common state and national priorities. However, without radically changing the underlying distribution of responsibilities, a new framework can be achieved by leveraging state and federal investments to work in ways that reinforce each other. This aligned framework would place a shared emphasis around outcomes, namely access, completion and employment metrics, weighted for the student populations whose increased success is necessary to meet workforce demands.

A NEW STATE AND FEDERAL FINANCE FRAMEWORK: OUTCOMES BASED FUNDING

A new state/federal postsecondary finance framework based on common outcomes starts with creating models for both general operating expenditures to institutions and student aid that are grounded in student completion metrics. Altering the traditional state and federal funding paradigm does not require wholesale reconstruction, but rather can be built around the lessons and principles encompassed by strong outcomes-based funding models (for both colleges and students) being utilized in a handful of states as well as looking to the federal outcomes based funding system currently being implemented under the Workforce Investment and Opportunity Act.[11]

OUTCOMES-BASED GENERAL OPERATING SUPPORT

States have traditionally used a combination of three financing methods when distributing general operating support to colleges and universities: "base plus," enrollment driven, and performance-based funding. The base plus funding method is primarily a continuation of funding levels from the previous budget cycle with adjustments made on anticipated revenue projections or inflation. As such it provides postsecondary institutions with a measure of year-to-year funding certainty. Enrollment driven funding formulas have the simple underlying driver of determining the number of students for a base level of support with increases being driven by expanding student enrollment. This method can be seen as an enhanced base plus approach wherein the "plus" aspect recognizes a student-level performance metric rather than a simple adjustment based on that year's availability of funds. Performance based funding usually involves a small portion of funding being linked to specific indicators that might or might not include student outcomes.

The early performance models implemented by states were often hampered by poor design, rushed implementation, lack of student-level data, and lack of dedicated funding. However, where past performance-based mechanisms fell short, more evolved outcomes-based models emerged. Outcomes based funding (OBF) models, when compared to performance-based models, are designed to more strongly align investments with state needs and goals, institutional missions and student progress.[12] While state implementations of more recent OBF efforts vary in their robustness of implementation, the more advanced models have the following characteristics:

- Students are the focus with degree and credential completion clearly reflected as a key priority.
- Outcomes for underrepresented students are prioritized to emphasize increased access and degree attainment.[13]
- Significant and stable funding dedicated to improved outcomes built into base budgets.
- All public institutions in the state are included.

As of fiscal year 2016, 30 states (60 percent) are developing or implementing some level of OBF policies. HCM Strategists has identified four different types of OBF models used by these states. This typology demonstrates that while OBF is an active state financing policy, there is significant variation in the design of these models and the level of funding associated with the policies.[14] Only seven states currently have OBF policies in place that fully encompassed commonly recognized, and research-informed design principles that allocated at least five percent of recurring general fund support to institutions using defined student outcome measures.

Included in the appendix of this paper is the typology of the OBF models, their defining characteristics and maps that depict the state policies according to their implementation status.[15] **Figure 4** shows the states implementing (that is, allocated funding to) OBF and the states developing or having developed but not yet implemented an outcomes-based funding formula. **Figure 5** highlights states implementing OBF by type and the sectors funded by the OBF formula. **Figure 6** shows states that have developed or are developing

OBF but have not yet implemented the policy, and sector participation also is denoted. In addition, **Table 1** is included to provide a breakdown of each state and their classification by type according to what is currently known; in some instances a lower type assignment may reflect a lack of information rather than a weak or embryonic policy.

UNDERSTANDING AND APPLYING EVIDENCE OF OUTCOMES-BASED FUNDING EFFECTIVENESS

Outcomes-based funding, by itself, is an insufficient driver of student outcomes. Rather, it is effective when it is part of a broader effort of states to improve student outcomes through goals, policies and institutional capacity-building.

In Tennessee, where well-designed OBF has been sustained for through six budget requests, institutions indicated that the shift to an outcomes-based funding model bolstered efforts to focus on student success. This is not to say campuses were not engaged in efforts to better support students and adopt various reform strategies prior to the outcomes based funding model. Rather, there was a notable disconnect between the reform efforts and the financial incentives created by an enrollment-driven model. This resulted in an underlying tension between the desire to focus on student completion efforts, particularly for low-income students, and the financial implications of bringing these efforts to scale and sustaining them over time. The outcomes-based funding model may not have produced the advent of student success efforts, but is seen as an important tool to raise the priority and focus of these efforts more broadly throughout campus. Respondents indicated that the outcomes-based funding model provided external support for completion initiatives and that with OBF in place, institutions reoriented their internal resources toward increasing these efforts.[16]

Of primary importance is ensuring that state finance models support institutions to direct student supports and services to the students most in need and create financial circumstances that make these investments sustainable over time. Research into early performance-based funding models draws several conclusions. First, the research indicates that financial incentives do shape institutional behavior and result in institutions building capacity for organizational learning, including greater use of data; changes to student services, policies and programs; and changes to academic programs and instructional practices. However, this research also provides important cautions, namely that if not properly targeted with significant and sustained levels of funding designed to support the success of high-need students, performance-based funding models could lead colleges to restrict admissions to less prepared or low-income students in order to boost graduation rates.[17]

OUTCOMES-BASED FUNDING, BY ITSELF, IS AN INSUFFICIENT DRIVER OF STUDENT OUTCOMES. RATHER, IT IS EFFECTIVE WHEN IT IS PART OF A BROADER EFFORT OF STATES TO IMPROVE STUDENT OUTCOMES THROUGH GOALS, POLICIES AND INSTITUTIONAL CAPACITY-BUILDING.

Importantly, the majority of models evaluated were not designed with attainment or more equitable student outcomes as a central focus or primary goal of the funding model. Further, the research lacks differentiation among state funding models that have distinctive differences in intent and design.

These distinctions are important to help understand differences in effect and response by institutions in the types of students enrolled and how supports are targeted. In many cases, the funding models evaluated focus on improving the productivity or "quality" of institutions, use graduation rates as the primary measure of completion, and fail to recognize differences among institutions and the students they serve.

STATE INVESTMENT SHOULD BE DIRECTED IN WAYS THAT CREATE INCENTIVES FOR COLLEGES TO ENROLL AND SUPPORT STUDENTS WHO ARE LESS LIKELY TO PERSIST IN AND GRADUATE FROM COLLEGE.

As a result of these lessons, along with the increased national focus on attainment, state investment should be directed in ways that create incentives for colleges to enroll and support students who are less likely to persist in and graduate from college. This "value-add" approach should create incentives for institutions to increase not only access to postsecondary education but also the successful earning of credentials for students typically underserved by postsecondary education, such as African American, Latino, adult and low-income students.

Unfortunately, the research around various types of funding models is limited in its ability to discern just *how much or at what level state investment should be targeted* to support to ensure institutions have a financial incentive to invest in the long-term and strategic supports necessary for students to succeed.

OUTCOMES-BASED STUDENT AID

Federal and state student financial aid includes grant programs designed to reduce the amount of tuition a student pays. Federal loan programs defer that payment to a later time and accrue interest – they actually cost the students more than the actual amount borrowed. Student financial aid programs are almost exclusively focused on ensuring a student's access to college with few incentives around progression or on-time completion. Research on the effectiveness of student aid programs that increase access, progression *and* completion suggests the following policy principles:

- Support student progress.
- Target students for whom financial barriers are likely to affect postsecondary enrollment.
- Provide students with more direct and interim payments.
- Prioritize a large number of awards over larger award amounts.
- Provide opportunity for adult and part-time students to access financial aid.[18]

STATE EXAMPLE: INDIANA ALIGNMENT OF GENERAL OPERATING SUPPORT AND STUDENT AID TOWARD OUTCOMES

Indiana serves as example of the potential power of aligning outcomes-based funding for institutions' general operating support with student financial aid. Indiana started connecting completion goals to their higher education state allocations in 2007,[19] and in 2012 the Indiana Commission for Higher Education adopted a comprehensive, outcomes-based statewide postsecondary agenda in the "Reaching Higher, Achieving More" strategic plan, which included goals for on-time college completion, degree production, and education attainment.[20]

As a result, Indiana has tied several outcomes based metrics to a moderate portion (6-7 percent) of the biennial state higher education budget including overall degree completion, on-time degree completion, and at-risk student degree completion.[21] In addition, Indiana has accounted for mission differentiation within 2-year and 4-year institutions and therefore included all public higher education institutions in their outcomes based funding efforts.

At the same time, Indiana has also focused the state's two primary student financial aid programs (Frank O'Bannon grants and 21st Century Scholars) around improving outcomes. The Frank O'Bannon grants serve as Indiana's primary need-based financial aid program, and the 21st Century Scholars serve as Indiana's early promise program for students from low-income families starting in middle school. Under the 21st Century Scholars program, Indiana offers to pay all eligible student tuition when a student signs a pledge and meets certain academic and behavior conditions during high school. Both programs include incentives toward student progress and completion.

The Frank O'Bannon grant program allows students to earn additional financial aid for completing 30 credits each year in college, maintaining a cumulative GPA of at least 3.0, or earning an associate degree before enrolling in a bachelor degree program, or completing at least 39 or the equivalent credit hours by the end of the first year and 78 or the equivalent credit hours by the end of the second year in college.[22] The 21st Century Scholarship program requires a student to complete at least 30 credits or the equivalent by the end of each school year for the first three years.[23]

The first cohort subject to the reforms has produced some initial encouraging results including[24]

- Students receiving state financial aid are taking 30+ credits their sophomore year at higher rates compared to their peers not subject to reforms in both 4-year and 2-year institutions.
- At 4-year institutions, roughly three-quarters of the 21st Century Scholars and two-thirds of Frank O'Bannon recipients met the 30-credit mark.
- At 2-year institutions, nearly half the 21st Century Scholars and one-quarter of Frank O'Bannon recipients met the 30-credit mark.
- Students at both 4-year and 2-year campuses demonstrated significant gains in meeting the 30-credit-benchmark, but improvement was greater in the 2-year sector.

The recent 2016 College Completion Report by the Indiana Commission for Higher Education indicates more Indiana students are graduating from college across the board, however improvements are still needed for low-income and minority groups. The 2016 College Completion Report included the following:[25]

MORE STUDENTS ARE GRADUATING ON TIME (4-YEARS AND 2-YEARS).

- Between 2012 and 2015, the number of students earning a bachelor's degree in four years improved by more than 5 percent.
- During the same period, the number of students earning associate degrees in two years increased by 4.4 percent.
- Extended-time (six year) also improved across the board with 66.5 percent degree completion at 4-year institutions, and 29.3 percent at 2-year institutions.

BLACK AND HISPANIC STUDENTS ARE MAKING PROGRESS BUT THE ACHIEVEMENT GAP REMAINS HIGH

- All campus types are making progress in closing the achievement gap for Black students.
- Two-year campuses are making progress toward closing the gap for Hispanic students.
- Black and Hispanic students are still about half as likely as White students to graduate on time.

LOW-INCOME STUDENT COMPLETION RATES HAVE IMPROVED ACROSS THE BOARD

- Grant recipients (State aid or Pell) increased over 5-years by 7.5 percent.
- On-time graduation for grant recipients increased for 4-year and 2-year institutions in both the 5-year trend and 3-year trend.
- On-time graduation for Indiana's 21st Century Scholar recipients increased at a greater rate over 5-years than students receiving no state aid.

FEDERAL EXAMPLE: WORKFORCE INNOVATION AND OPPORTUNITY ACT PERFORMANCE MEASURES

Federal funding for postsecondary institutions is not completely indifferent to outcome measures. The recent enactment of the bipartisan Workforce Innovation and Opportunity Act (WIOA) serves as an example of a federal financing structure that identifies common outcome measures and connects individual student performance to those outcome measures.

WIOA is the primary federal legislation that creates the governance structure for our nation's workforce training delivery system. Federal funds are delivered to states and regional workforce authorities in which training is made available through eligible training providers. Federal investments are directed toward a single set of six performance measures that apply to all core programs:

1. *Entry into unsubsidized employment.* WIOA definition: the percentage of program participants who are in unsubsidized employment during the second quarter after exit from the program.
2. *Retention in unsubsidized employment.* WIOA definition: the percentage of program participants who are in unsubsidized employment during the fourth quarter after exit from the program.
3. *Earnings change after entry into unsubsidized employment.* WIOA definition: the median earnings of program participants who are in unsubsidized employment during the second quarter after exit from the program.
4. *Credential rate.* WIOA definition: the percentage of program participants who obtain a recognized postsecondary credential, or a secondary school diploma or its recognized equivalent, during participation in or within 1 year after exit from the program.
5 *Skills gain*. WIOA definition: the percentage of program participants who, during a program year, are in an education or training program that leads to a recognized postsecondary credential or employment and who are achieving measurable skill gains toward such a credential or employment.
6. *Employer engagement.* WIOA definition: indicators of effectiveness in serving employers. Currently, the U.S. Department of Labor is identifying what these indicators of effectiveness should include.[26]

Annual results of these performance measures will be publicly available in the form of state performance reports, local area performance reports, and eligible training provider performance reports. Under WIOA, community colleges are often the primary training providers and, as noted by the American Association of Community Colleges, are required to report the following:

- Performance outcomes for the first four primary indicators listed above.
- The total number of individuals exiting the program of study.
- The total number of WIOA participants who received (and exited) training services through

the adult and dislocated worker program, and the average cost per participant.

- The number of individuals with barriers to employment served by the adult and dislocated worker programs, disaggregated by the subpopulations of those individuals, as well as race, ethnicity, sex, and age.[27]

In addition to WIOA's institutional accountability, the program also applies outcomes-based measures to the individuals directly accessing the program through federally funded individual training accounts. Under WIOA, recipients eligible for training receive a voucher that they can choose to apply to any of the public and private institutions listed on the state eligible training provider list. While each state varies in the range of training options, all states include a wide range of postsecondary certificate and degree options primarily offered by community colleges.

These vouchers or individual training accounts (ITAs) operate like Pell Grants. Both are voucher systems that can be applied to public and private postsecondary institutions. While individual training accounts are primarily focused around postsecondary occupational certificates and Pell Grants around degree programs, the precedent is noteworthy. If federal funding for postsecondary certificates under individual training accounts can be outcomes-based, relevant and common outcomes metrics can be incorporated into federal financial aid policies.

IF FEDERAL FUNDING FOR POSTSECONDARY CERTIFICATES UNDER INDIVIDUAL TRAINING ACCOUNTS CAN BE OUTCOMES-BASED, RELEVANT AND COMMON OUTCOMES METRICS CAN BE INCORPORATED INTO FEDERAL FINANCIAL AID POLICIES.

PRACTICAL NEXT STEPS TO DEFINE A NEW AND ALIGNED STATE AND FEDERAL POSTSECONDARY FINANCE FRAMEWORK AROUND COMMON STUDENT OUTCOMES

The following policy recommendations are practical next steps to create a new state/federal postsecondary finance framework. These recommendations are designed to alter the current enrollment-only approach that characterizes federal postsecondary education financing policy and leverage, support and advance outcomes-based financing for general institutional operating and student financial aid in all 50 states.

Recommendation #1: *Identify, collect and publicly report a common set of student outcome metrics.*

A national set of key outcome measures for postsecondary education would be similar in nature to the six common measures that govern our national workforce training delivery system. These measures would allow states to connect their attainment goals to national priorities and could serve as the foundation for a networked system of state longitudinal data systems. The common set of metrics for postsecondary finance should include access, completion, and employment outcomes, disaggregated by race, ethnicity and income.

THE COMMON SET OF METRICS FOR POSTSECONDARY FINANCE SHOULD INCLUDE ACCESS, COMPLETION, AND EMPLOYMENT OUTCOMES, DISAGGREGATED BY RACE, ETHNICITY AND INCOME.

Access. When it comes to federal financing policy much is known from Federal Student Aid's administrative files about the number and characteristics of recipients attending each institution. However, little is known about the proportional share of an institution's student body that its aid recipients represent. This is because the U.S. Department of Education does not currently collect enrollment information on student financial aid eligible subpopulations of students. For example, federal student loan recipients must be enrolled on at least a half-time basis. But the Department only knows enrollment headcounts at each institution; it does not know how many of those students might be eligible for student loans based on enrollment intensity. Further, not all undergraduates are eligible for Pell Grants; any undergraduate who already has a bachelor's degree is ineligible for Pell. Similarly, the subpopulations of undergraduate students who have exhausted their Pell Grant eligibility is unknown. A specific institution-by-institution accounting of federal aid recipients within the program eligible pools of enrolled students – especially Pell Grant recipients – is needed.

Pell Grants are the largest proportion of income-targeted student aid and can serve as a reasonable proxy on establishing institutional equity, that is, the degree to which a given institution is successful in enrolling low-income students. By starting with institutional reporting of Pell Grant recipients, states can identify how their collective institutions are performing as a statewide system in providing access and equity. This information can help guide state efforts to further expand or improve their OBF goals and priorities.

Completion. A national common measure for on-time completion that more accurately captures student attainment would enhance current state OBF efforts, make it more acceptable to include this metric in federal postsecondary financing and provide needed transparency to help monitor institutional effectiveness.

Congress established the federal definition of graduation rates some 25 years ago. That this definition lacks relevance for today's higher education environment should be a surprise to no one. Federally-collected on-time completion rates have suffered in two significant ways – the exclusion of part-time students and students who attend multiple institutions. First, the Integrated Postsecondary Education Data System (IPEDS) represents the only national collection of student performance data every year from colleges and universities; however, the cohort used for determining graduation rates has left out a number of students, primarily part-time students and transfer students.[28] Technical work is now underway to add these students to the cohort data collection. Second, the cohort used for tracking graduation rates under IPEDS includes only first-time, full-time, degree seeking students, leaving out a significant portion of students when determining completion rates.[29] Importantly, states with well-designed OBF policies use student-level data from their longitudinal data systems to calculate more accurate – and disaggregated – on-time completion rates.

Employment. Students and taxpayers need confidence that time and money invested in postsecondary education will result in employment outcomes sufficient to pay back student loans and earn a living wage. A student loan repayment rate performance measure is one improved way states and the federal government can measure the immediate economic value of a postsecondary credential. The Department introduced this concept several years ago in the context of defining gainful employment. Postsecondary education should, generally speaking, improve students' circumstances including – but not limited to – wage and income gains. Repayment rates can help to identify the existence of such gains by demonstrating that borrowers' post-school discretionary incomes allow for reasonable rates of repayment of amounts borrowed for that education. To align postsecondary and workforce measures in the same financing framework, states and the federal government can use wage rate and retention measures following completion of a postsecondary credential, similar to the current requirement under WIOA. The Department also advanced the concept of wage gains in the gainful employment context by establishing a debt service metric. That is, the amount of income needed to stay current on student loan repayments should not exceed a reasonable percentage of income.

Recommendation #2: *Create greater federal waiver opportunities around Pell Grants.*

The Federal government should adopt a similar demonstration waiver process to Pell Grants that is used for Medicaid under section 1115 of the Social Security Act. Some of the most innovative and effective health care reform approaches were the result of a section 1115 waiver. A similar state based waiver system for Pell Grants can allow experimentation and evaluation of the effects of two policies that can better align Pell Grants around a state's attainment goal. Potential examples are as follows:

1. An on-time Pell demonstration program to

fund 30 credits of enrollment for the first year.[30] Complete College America has proposed an on-time Pell Grant program in which students could front-load their Pell eligibility to achieve 30 credits of enrollment in the first year. Research had demonstrated that when students take 30 credits per year, rather than the Pell minimum of 24 credits for full-time status, students complete and graduate on time.[31] The more time it takes the less likely a student is to graduate.[32] An on-time Pell demonstration program can help determine if a new 15 credit standard, as opposed to the 12 credit minimum, results in more on-time and greater completion of degree attainment for low income students.

2. A state-specific Pell Grant schedule. The ability of students to pay for college varies significantly by state, with variation by family income, tuition and fees; cost of living and amount of state and institutional aid available to students of different income levels; institutional mix; and academic preparation. Meanwhile, maximum and minimum Pell Grant awards are fixed amounts determined by the federal government. A demonstration program could allow states with high-quality student-level information systems to leverage federal financial aid more effectively than current, rigid payment schedules allow. A 2014 demonstration by Russ Deaton and David Wright of the Tennessee Higher Education Commission modeled the full distribution of unfunded tuition need for community colleges by expected family contributions. The analysis showed that a Tennessee-specific payment schedule for the Pell Grant could distribute federal grant dollars to students more effectively and reduce unfunded tuition and borrowing for a greater number of low and moderate-income students.[33]

Recommendation #3: *Utilize common access, completion and employment metrics in state and federal funding for institutions.*

State Outcomes-Based Funding for Institutions. Just seven states have embraced the full concept of outcomes-based funding. Most other states have adopted small, peripheral policies with the larger state investment remaining based on historic-base plus models, devoid of any connection to policy priorities and non-responsive to changing conditions across the higher education system, or enrollment-based models that encourage access but are not sufficiently targeted to promote sustained support for students from underserved populations to succeed.

All states should embrace outcomes-based funding models that allocate a significant and sustainable portion of base funding according to a limited set of metrics tied to needed outcomes – increased completion of quality postsecondary credentials by all students and higher weighted funding for the continued access and increased completion of African American, Hispanic, Native American, low-income and adult students.

Federal Outcomes-Based Funding for Institutions. The federal government makes grants to institutions to support research and institutional capacity. In neither case are student outcomes metrics, like disaggregated, on-time completion rates, utilized in making determinations of eligibility for federal funding or as bonus criteria for receiving federal funds. This can change.

Federal Title II (funding for teacher education), III and V (funding for minority serving institutions), and Title IV (student financial aid) policies of the

Higher Education Act should use common access and completion metrics, disaggregated for African Americans, Latinos, Native Americans and Pell-recipients, in determining minimal eligibility for receipt and renewal of federal funds. Recent and emerging policy changes provide insight into constructing such a process. In California, institutions are not eligible to participate in the need-based Cal Grant programs unless completion and loan-default rates are above a common-sense performance floor. Specifically, students cannot use a Cal Grant at institutions where fewer than 30 percent of students graduate on-time and 3-year loan default rates are lower than 25 percent. In September 2016, the Council of Regional Accrediting Commissions announced that 4-year institutions with 6-year graduation rates below 25 percent would receive increased scrutiny; 2-year institutions with 3-year graduation rates below 15 percent also would receive increased scrutiny. The same month, Senators Chris Coon (D-DE) and Johnny Isakson (R-GA) introduced new legislation whereby the secretary would rank institutions by the enrollment of Pell students, in which institutions who fall below a norm-based floor would lose eligibility for Title IV funding.

Congress can also extend statutory priority so any institution applying for competitive federal funds receives a "bonus" if they do a relatively excellent job enrolling Pell Grant recipients and students of color or meet mission-differentiated floors for on-time completion rates. Without statutory guidance for allocating discretionary (and even formula-driven) funds in this way, agencies of the executive branch (for example, National Institutes of Health, the National Science Foundation, the Departments of Education and Labor) still can align federal financing with common access and completion outcomes by stipulating performance levels in competitive grant priorities.

Recommendation #4: *Consider well-designed outcomes-based funding in state funding for institutional operations or student aid as conditions for new federal funding.*

Federal policymakers and advocates have lamented state disinvestment in higher education, with recent calls for boosting federal spending to states in exchange for state commitments to maintain certain spending levels to colleges. While recommendations generally pertain to state funding for public colleges, it is fair to include maintaining or increasing state funding to students for need-based aid, given that 80 percent of all state spending need-based aid occurs in just seven states, while many states with high levels of poverty (for example, southern states) have relatively small average need-based aid awards. [34]

Unlike other areas of fiscal federalism (for example, health care, child nutrition, transportation), almost all federal funds for postsecondary education flow beyond state authority and directly to providers and students (workforce funds for postsecondary education are one exception). This makes it both unprecedented and difficult for the federal government to require states to spend a "certain amount" on postsecondary education. Prior (but not longer authorized) federal programs to encourage state spending for need-based aid (SSIG/LEAP/SLEAP) had maintenance of effort (MOE) requirements, however legislated safety valves allowed states to continue in the program even if they failed MOE. Only two states, Georgia and Rhode Island, actually lost eligibility due to MOE. Further, without large increases in the appropriations, the MOE requirements in these aid programs remained quite small and easily achieved.

Two short-term (also now expired) federal programs funding states (College Access Challenge Grants and America Recovery and Reinvestment Act) also had MOE requirements, but since the programs essentially only provided 2-year money, sanctions never took effect.

A different approach to MOE could be to require states utilize the common access, completion and employment metrics in outcomes-based policies for institutional operating support as a condition of receiving significant new federal resources.

Recommendation #5: *Identify high quality postsecondary certificates by using WIOA.*

In the last 10 years, students earning a postsecondary certificate have grown faster than those earning bachelor's degrees and associate degrees. According to IPEDS, from 2002-03 to 2012-13, the number of students earning a bachelor's degree grew by 36 percent, those earning an associate degree grew by 59 percent, and those earning a certificate, that is more than one year but less than 2 years in length, grew by 72 percent.

Not only have the number of those holding postsecondary certificates increased, but research indicates many certificates have significant labor market benefits and serve as a gateway to college degree attainment.[35]

While postsecondary certificates are popular and serve a diverse set of students, there are currently no national quality standards to properly identify those high value certificates that can produce labor market benefits or lead to greater degree attainment. The recent passage of WIOA creates a unique opportunity to identify a high value postsecondary credential.

As noted earlier, WIOA requires postsecondary institutions enrolling WIOA recipients into their certificate programs to report completion rates, employment rate, retention rate, and wage rate for all students in their program of study. In addition, annual state and institutional public reports are required to better determine the efficacy of certificate programs. By using the reporting requirements under WIOA, a state can identify high-value certificates and incorporate them into their OBF models. Since certificates are the fastest growing output of our higher education system, it is critical high quality certificates are identified and incorporated in outcomes-based funding mechanisms.

A federal/state initiative to support this effort could also include the following:

1. The federal government could allow WIOA recipients to use Pell Grant funds and individual training accounts to earn short-term occupational certificates.
2. States could designate certain Pell-eligible training programs from the Eligible Training Provider List under WIOA. Criteria could include only postsecondary certificates that have demonstrated industry sector support to ensure only demand-driven programs are approved.
3. States would publicly report the outcomes of the Pell-eligible certificate programs per the WIOA reporting requirements.

By allowing states to leverage Pell Grants to better connect their workforce delivery system to postsecondary certificate attainment not only creates a better on-ramp for underserved populations obtaining a college credential, but it also can identify quality standards for the fastest growing postsecondary credential being awarded among higher education and apply those to outcomes-based funding models.

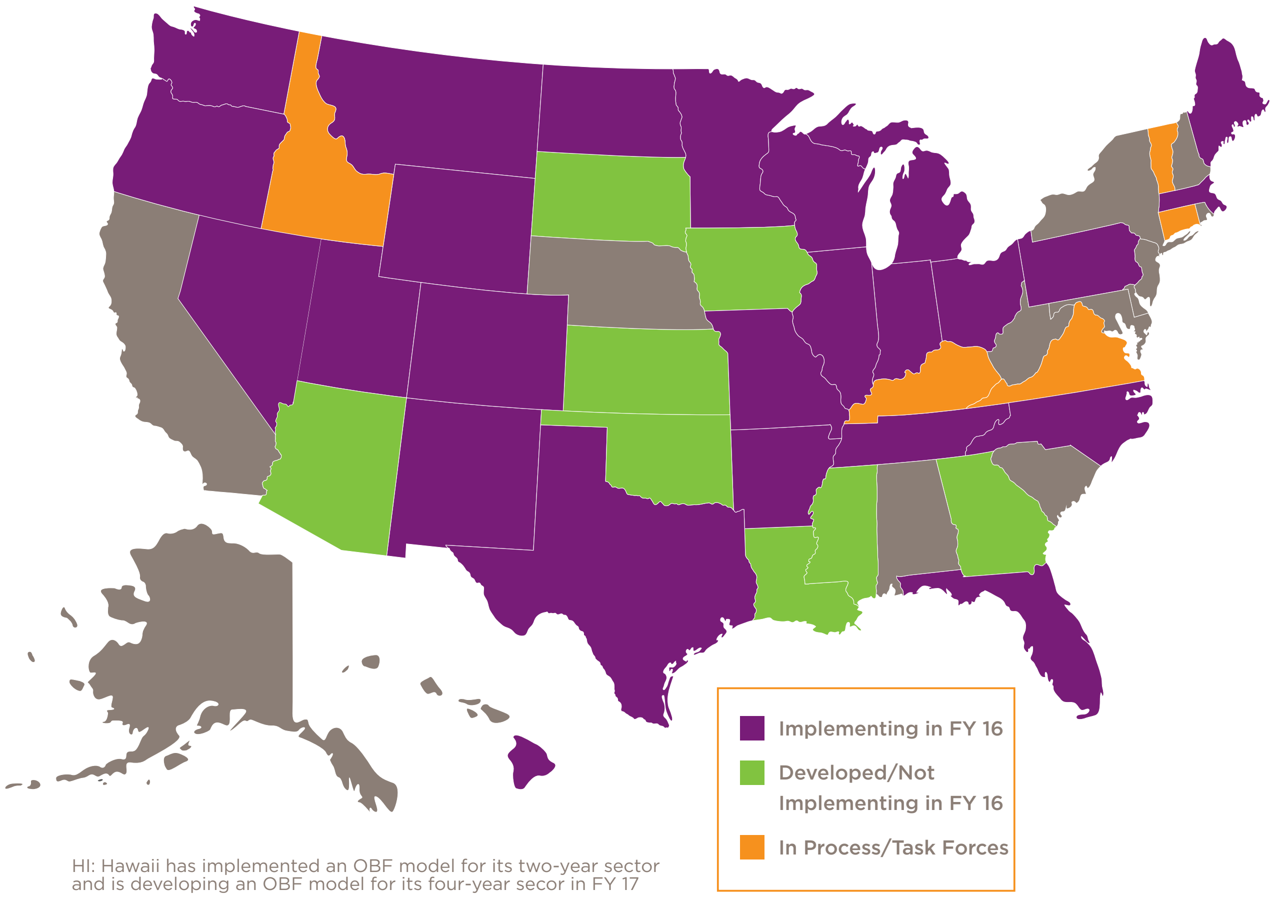
CONCLUSION

Increasing attainment rates to achieve a national goal of 60 percent of Americans with a quality postsecondary credential by 2025 requires a balanced financial funding strategy that focuses on both increasing access as well as completion, especially for racial and ethnic minorities and low-income students. Current federal and traditional state funding models are misaligned and too weighted toward inputs.

Fortunately, several state-based OBF models have demonstrated success in connecting funding to student outcomes. As more states enhance their current OBF structures and other states adopt OBF models, the federal funding approach should align with these state efforts and create a new postsecondary state/federal postsecondary finance framework for higher education centered around student success and outcomes.

APPENDIX

FIGURE 4: STATES IMPLEMENTING (THAT IS, ALLOCATED FUNDING TO) OBF, AND STATES THAT ARE DEVELOPING OR HAVING DEVELOPED BUT NOT YET IMPLEMENTED AN OUTCOMES-BASED FUNDING FORMULA



HI: Hawaii has implemented an OBF model for its two-year sector and is developing an OBF model for its four-year secor in FY 17

AR: Arkansas has implemented a Type III OBF model and has formed a work group to develop a more advanced OBF model

FIGURE 5: STATES IMPLEMENTING OBF BY TYPE AND THE SECTORS FUNDED BY THE OBF FORMULA

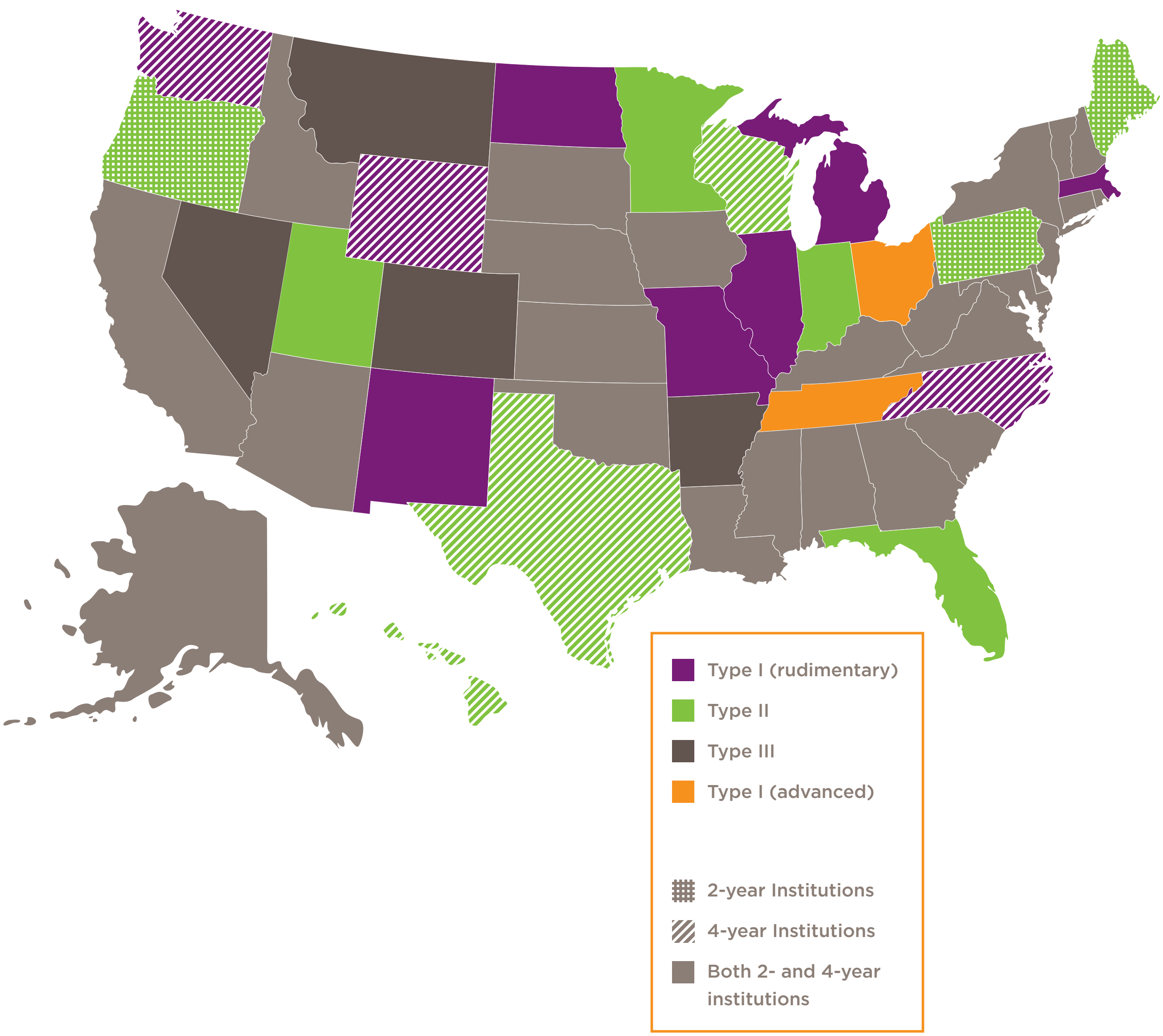
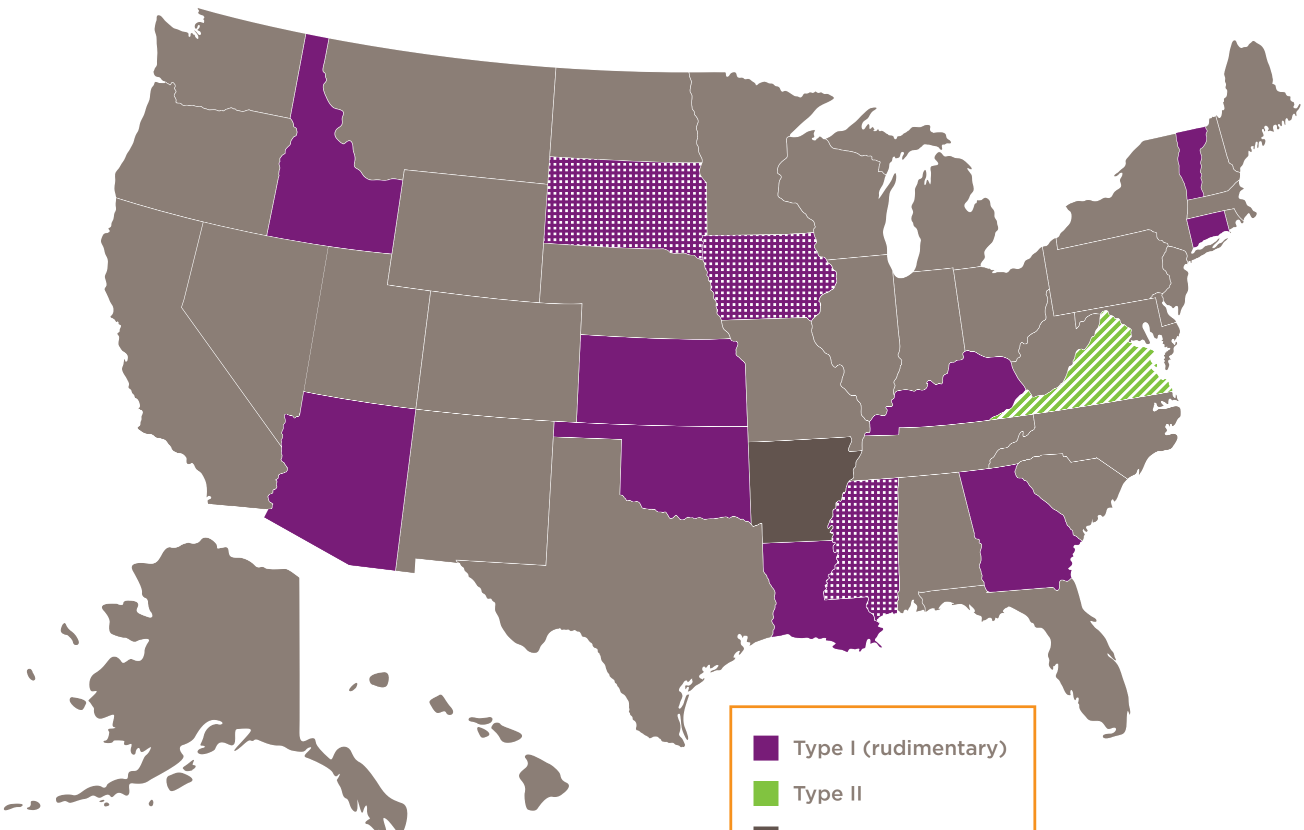


FIGURE 6: STATES THAT HAVE DEVELOPED OR ARE DEVELOPING OBF BUT HAVE NOT YET IMPLEMENTED THE POLICY, AND SECTOR PARTICIPATION ALSO IS DENOTED



Type I (rudimentary)

Type II

Type III

Type I (advanced)

2-year Institutions

4-year Institutions

Both 2- and 4-year institutions

OK: Previously implemented but have not allocated any money to their outcomes-baed funding model for two consecutive fiscal years

GA and KS: Developed a model but never implemented

AZ, LA, MS: Abandoned the model to address other issues (e.g. equity) or put in place a hold-harmless

SD: Four-year sector previously funded a pilot OBF system but was not continued

HI: Has implemented OBF in its two-year sector and is developing OBF in its four-year sector

AR: Previously implemented Type III OBF system in both sectors and is currently developing a more advanced OBF system

TABLE 1. OBF TYPOGRAPHY BY STATE IN FY 2016

STATE	STATUS IN FY 16 (e.g. developing/ implementing)	STATUS IN FY 15 (e.g. developing/ implementing neither)	FY 15 TYPE	FY 16 TYPE	LINKED TO STATE GOALS	RECURRING (base) OR NEW DOLLARS	FUNDING LEVEL	2-YEARS INCLUDED	4-YEARS INCLUDED	DIFFERENTIATION BY SECTOR	DEGREE/ CREDENTIAL COMPENSATION INCLUDED	UNDERREPRESENTED STUDENTS PRIORITIZED	SUSTAINABILITY (IMPLEMENTING FOR 2 OR MORE YEARS)	FORMULA DRIVEN OR TARGET/ RECAPTURE
AR	Implementing + Developing	Implementing	III	III	Yes	Recurring	Moderate	Yes	Yes	Yes	Yes	Yes	Yes	Target/ recapture
CO	Implementing	Developing	Developing	III	Yes	Recurring	High	Yes	Yes	Yes	Yes	Yes	No	Formula
FL	Implementing	Implementing	I	II	No	Both	Moderate	Yes	Yes	Yes	Yes	Yes	1	Target/ recapture
MI	Implementing	Implementing + Developing	II	II	Yes	Recurring	Low	Yes	Developing	N/A	Yes	Yes	Yes	Target/ recapture
IL	Implementing	Implementing	I	I	Yes	Recurring	Low	Yes	Yes	Yes	Yes	Yes	Yes	Formula
IN	Implementing	Implementing	III	II	Yes	Both	Low	Yes	Yes	Yes	Yes	Yes	Yes	Formula
MA	Implementing	Implementing	II	I	Yes	New dollars	Low	Yes	Yes	Yes	Yes	Yes	2	Formula
ME	Implementing	Implementing	II	II	Yes	Recurring	Moderate	No	Yes	N/A	Yes	Yes	Yes	Formula

* Low (0-4.99%), Moderate (5-24.99%), High (25%+)
[1] Yes — Four-year sector only.
[2] Yes — Two-year sector only.
[3] Yes — Four-year sector only.
[4] Yes — University of Minnesota System only.
[5] Both — OBF system used to distribute funding increases, which become recurring portion of base.

STATE	STATUS IN FY 16 (e.g. developing/ implementing)	STATUS IN FY 15 (e.g. developing/ implementing neither)	FY 15 TYPE	FY 16 TYPE	LINKED TO STATE GOALS	RECURRING (base) OR NEW DOLLARS	FUNDING LEVEL	2-YEARS INCLUDED	4-YEARS INCLUDED	DIFFERENTIATION BY SECTOR	DEGREE/ CREDENTIAL COMPENSATION INCLUDED	UNDER-REPRESENTED STUDENTS PRIORITIZED	SUSTAINABILITY (IMPLEMENTING FOR 2 OR MORE YEARS)	FORMULA DRIVEN OR TARGET/ RECAPTURE
HI	Implementing	Implementing	I	I	Yes	New dollars	Low	Yes	Yes	Yes	Yes	3	Yes	Formula
MN	Implementing	Implementing	I	III	Yes	Recurring	Moderate	Yes	Yes	Yes	Yes	4	No	Target/ recapture
MO	Implementing	Implementing	I	I	No	New dollars	Low	Yes	Yes	Yes	Yes	No	Yes	Target/ recapture
MT	Implementing	Implementing	II	III	Yes	Recurring	Moderate	Yes	Yes	Yes	Yes	Yes	Yes	Target/ recapture
NC	Implementing	Implementing	I	I	Yes	New dollars	Low	Yes	No	N/A	Yes	No	Yes	Formula
ND	Implementing	Implementing	I	I	Yes	Recurring	High	Yes	Yes	No	No	No	Yes	Formula
NM	Implementing	Implementing	I	II	No	5	Moderate	Yes	Yes	Yes	Yes	Yes	Yes	Formula
NV	Implementing	Implementing	III	III	Yes	Recurring	High	Yes	Yes	Yes	Yes	Yes	Yes	Target/ recapture
OH	Implementing	Implementing	IV	IV	Yes	Recurring	High	Yes	Yes	Yes	Yes	Yes	Yes	Formula

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STATE	STATUS IN FY 16 (e.g. developing/ implementing)	STATUS IN FY 15 (e.g. developing/ implementing neither)	FY 15 TYPE	FY 16 TYPE	LINKED TO STATE GOALS	RECURRING (base) OR NEW DOLLARS	FUNDING LEVEL	2-YEARS INCLUDED	4-YEARS INCLUDED	DIFFERENTIATION BY SECTOR	DEGREE/ CREDENTIAL COMPENSATION INCLUDED	UNDER-REPRESENTED STUDENTS PRIORITIZED	SUSTAINABILITY (IMPLEMENTING FOR 2 OR MORE YEARS)	FORMULA DRIVEN OR TARGET/ RECAPTURE
OR	Implementing	Implementing	I	II	Yes	Recurring	Low	No	Yes	N/A	Yes	Yes	Yes	Formula
PA	Implementing	Implementing	II	II	Yes	Recurring	Low	No	Yes	N/A	Yes	Yes	Yes	Target/ recapture
TN	Implementing	Implementing	IV	IV	Yes	Recurring	High	Yes	Yes	Yes	Yes	Yes	Yes	Formula
TX	Implementing	Implementing	II	II	Yes	Recurring	Low	Yes	No	N/A	Yes	Yes	Yes	Formula
UT	Implementing	Implementing	II	II	Yes	Both	Low	Yes	Yes	Yes	Yes	Yes	Yes	Formula
WA	Implementing	Implementing	I	I	Yes	New dollars	Low	Yes	No	N/A	Yes	No	Yes	Formula
WI	Implementing	Implementing	II	II	Yes	Recurring	Low	Yes	No	N/A	Yes	Yes	Yes	Formula
WY	Implementing	Implementing	I	I	No	Recurring	Low	Yes	No	N/A	No	No	Yes	Formula

* Low (0-4.99%), Moderate (5-24.99%), High (25%+)
[1] Yes — Four-year sector only.
[2] Yes — Two-year sector only.
[3] Yes — Four-year sector only.
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ABOUT THE INITIATIVE

Education Commission of the States coordinated the creation and dissemination of a series of policy briefs focused on the interaction between state- and federal-level policies pertaining to higher education. The briefs are composed by a diverse collection of education policy and thought leaders representing state and federal perspectives. The goal of this collection of briefs is to highlight how federal and state higher education policies can provide a cohesive policy playbook to support student success and the progression toward meeting aggressive attainment goals.

The brief production process began in late-summer 2016 with authors beginning the writing process. Dissemination of the briefs was provided through informal policy briefings with state and federal audiences through winter 2016 and the public release in January 2017. Topics explored in the briefs include, but are not limited to, financial aid, data policies, funding, the “triad” and workforce needs.

Education Commission of the States would like to thank the two core funders for this initiative, the Bill and Melinda Gates Foundation and Lumina Foundation, for their support of this paper series and the ongoing work with federal and state higher education policies. Both foundations understand the necessity of marrying federal and state higher education policies to better serve students and citizens. Education Commission of the States would also like to thank the brief authors for their hard work and dedication to this important topic.

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