Formulating Success

A Primer on Outcomes-Based Funding for Higher Education

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Introduction

In fiscal year (FY) 2024, states contributed $124.3 billion to higher education institutions — an increase of about $9 billion from FY23.[1] As state investments have grown, so have expectations for accountability. Colleges and universities are facing mounting pressure to demonstrate their value given high (and growing) tuition costs, student debt burdens, and a perceived lack of "return on investment" (ROI).[2] Many assume that institutions of higher education (IHEs) are not adequately prioritizing student outcomes, taxpayer value, and workforce needs, leading to a push for greater efforts to show that attendance and completion lead to measurable student and workforce-related outcomes.[3] This push can be seen at the national level with the One Big Beautiful Bill Act of 2025, which created new accountability measures for programs that receive federal funding.[4] At the same time, state budgets will need to balance competing priorities: Recent changes to federal funding across sectors have increased pressure on state resources,[5] forcing state policymakers to make difficult decisions about how to allocate appropriations.

SIDEBAR 1

Defining Outcomes-Based Funding

Outcomes-based funding (also known as "OBF") originated with performance-based funding, a term that many states still use and some may prefer. **This brief defines these models to include all funding formulas that have a direct, systematic link between improved outcomes and increased state funding**.

While this definition may seem straightforward, implementing outcomes-based funding requires policymakers to grapple with complex questions: What constitutes "performance"? Whose performance is being measured? Who is being incentivized? What constitutes "success"? The answers to these questions shape every aspect of an outcomes-based funding model and can affect whether a model is successful at achieving its goals.

Against this backdrop of heightened scrutiny and fiscal pressure, outcomes-based funding has emerged as an increasingly popular solution, with states like Texas and Oregon recently adopting state funding formulas that prioritize student completion and workforce readiness.[6] These funding models calculate state higher education funding using IHEs' performance on specific metrics, creating an explicit link between public dollars and postsecondary outcomes (Sidebar 1). As a result, outcomes-based models are often seen as a way of ensuring that taxpayer investments yield tangible returns for the public, in support of state education and workforce goals.

Yet despite this momentum, whether these formulas are achieving their intended impact remains an open question. Research studies evaluating the effectiveness of outcomes-based funding have not reached a clear consensus on whether these models improve outcomes compared to traditional funding approaches. The lack of clarity can be attributed to several factors, including wide variation in formula design and implementation. For some states, mixed results may stem from a lack of clarity about shared goals and how they translate into specific funding mechanisms. And some metrics related to workforce outcomes are newer, meaning there is not yet enough data to draw definitive conclusions.

Some policymakers and advocates are also contemplating new types of outcomes: Beyond traditional academic metrics, there is growing interest in measuring equitable distribution of resources, financial sufficiency to cover the needs of under-resourced institutions, and broader social benefits such as civic engagement and economic mobility. These evolving priorities complicate the already complex task of designing effective postsecondary funding formulas.

The goal of this primer is to provide a nuanced but accessible introduction to outcomes-based funding in state postsecondary finance. It reviews where outcomes-based models sit in the broader landscape of state higher education finance, synthesizes existing research, and explores reasons why a state might consider this funding approach. For those interested in next steps, it also outlines key design considerations and offers examples of thoughtful funding formulas from states across the country. This brief is not intended to be a technical guide or formal evaluation of specific models; rather, it serves as a resource for policymakers, advocates, funders, and others seeking to understand the opportunities and challenges associated with outcomes-based funding models. The goal is to equip decision-makers with the knowledge they need to make informed decisions about whether and how to incorporate outcomes-based elements into their state's higher education funding formula.

Reasons States Consider Outcomes-Based Funding

Outcomes-based funding models differ significantly from traditional models.

Historically, the default approach to funding higher education has been the "base-plus" model, in which an IHE's allocation starts with a base amount of money (usually the prior fiscal year's funding total), and changes are made at the state legislature's discretion.[7] Additional funding is not tied to formulas or statutory requirements but can reflect economic circumstances or political priorities, such as demographic trends, institutional initiatives, or personnel costs.[8] Changes in one fiscal year, however, are typically minor and not guaranteed for future years. The base-plus approach provides financial stability and predictability for IHEs but does not explicitly reward improvements. As a result, these models are often unresponsive to evolving student needs and changing state priorities, and they can also further entrench historical funding disparities,[9] including differences between two- and four-year institutions.[10]

Over time, many states have pivoted to use funding formulas (many with increasing numbers of inputs).[11] These formulas were developed to a) reduce political influence and volatility, and b) distribute funds in a fairer, more rational way.[12] Some formulas use simple rate-based calculations based on inputs such as program costs and enrollment levels (e.g., dollars per full-time equivalent [FTE] student); others are complex models involving weighting, normalization, or relative comparisons. Typically, these formulas include some combination of three components: base funding, which is tied to historical funding levels; enrollment-based funding, which is usually calculated using FTE enrollment; and outcomes-based funding, which considers data on a predetermined set of metrics.

Traditional funding models are often unresponsive to evolving student needs and changing state priorities, and they can also further entrench historical funding disparities, including differences between two- and four-year institutions.

As of 2025, more than 30 states distribute some amount of funding using outcomes-based models.[13] In most of these states, the outcomes-based component is not the main vehicle for distributing appropriations, and the amount of funding tied to outcomes can vary widely. Some states use outcomes-based funding as a supplement. For example, Indiana provides up to 2% additional funding based on performance, and Michigan applies its outcomes-based formula only to annual increases in appropriations.[14] Other states, such as Louisiana and Nevada, incorporate outcomes as a percentage of the total funding distributed.[15] Still others, like Florida and Illinois, determine outcomes-based funding totals through the appropriation process, resulting in percentages that fluctuate annually depending on the state's budget.[16] In some of these states, enrollment of specific populations is an outcome metric, blurring the line between traditional enrollment-based funding and newer outcomes-based models.[17]

A small number of states tie a majority (or all) of their state funding to outcomes (Table 1),[18] which can introduce financial instability, as certain trends (e.g., a pandemic or falling birth rates) are outside institutions' control. To mitigate risk, almost all of these formulas carried safeguards (e.g., funding floors or hold harmless provisions) during the early years of their implementation.[19] Some states also stretched the implementation timeline of their formulas over several years to allow for change management and periodic adjustments.[20] These types of specific design and implementation considerations are critical to policy success.

TABLE 1: STATES WITH FORMULAS THAT ARE MAJORITY OUTCOMES-BASED

State	Sector	Percentage of Formula Tied to Outcomes
Kentucky	Four-Year	70%
Tennessee	Two-Year	83%
Colorado	Four-Year	85%
Arkansas	Two-Year	100%
Ohio	Two- and Four-Year	100%

Policymakers interested in outcomes-based funding often have common goals.

There are several reasons state policymakers might choose to use outcomes-based models to distribute appropriations. One common goal is to connect higher education directly to statewide priorities, especially economic development and workforce needs. Some outcomes-based formulas, such as Indiana's four-year formula, reward completions in high-priority fields such as STEM,[21] reflecting the belief that aligning degree production with labor market demand will strengthen the state's economy. The business community often advocates strongly for such workforce-aligned goals, and outcomes-based models can appeal to business leaders' preference for applying performance-based accountability to public investments.

Some see outcomes-based funding as a tool to achieve broader goals linked to the public good. Advocates in Illinois, for example, have worked to incorporate elements of funding adequacy into their proposed formula, recognizing that under-resourced institutions may need additional support to improve outcomes.[22]

Underlying these discrete goals is a core belief that financial incentives can shift institutional priorities to focus more on student success. This view is often rooted in a broader accountability mindset: Policymakers and taxpayers want assurance that institutions are fulfilling their missions and providing high-quality education with public dollars. From this perspective, outcomes-based funding becomes a mechanism to hold institutions accountable for results, not just inputs or processes.

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Evidence on the effectiveness of these models remains mixed across different designs and implementation strategies.

Despite the growing enthusiasm for outcomes-based funding, evidence of its effectiveness remains mixed. Across 12 quantitative evaluations of outcomes-based funding models, researchers found that states using these models did not outperform other states on key metrics.[23] Others have documented limited impact on credential attainment,[24] and one study found that an outcomes-based model negatively affected state funding for historically Black colleges and universities and similar institutions serving high concentrations of students from racially minoritized groups, raising concerns about exacerbating funding inequities.[25]

There are several potential explanations for this lack of success, but one hypothesis is that outcomes-based funding policies often feature measures that are mismatched with institutional capacity or too attenuated to be meaningful. If the selected metrics do not align with what institutions can realistically influence, are voluminous and difficult for IHEs to prioritize, or if the funding tied to those metrics is too small to justify significant changes in practice, then an outcomes-based model will fail to drive meaningful change.

Another factor that affects the evidence pool is the wide variation in formula design. A study investigating just one outcome metric, certificates awarded, found substantial variation in how states defined and used it for allocating funds.[26] When viewed across multiple metrics and state contexts, this variation makes it difficult to truly understand the effectiveness of outcomes-based funding — both as an approach per se, and across multiple designs.

However, some emerging qualitative evidence offers a more optimistic picture. Early reports from Texas, which modified its outcomes-based formula for community colleges in 2023, indicate that institutions are investing in student success initiatives in response to the new incentives.[27] While it is too early to draw definitive conclusions, this suggests that when designed well, these formulas may be used as a strategy to push schools to increase their focus on student outcomes.

Outcomes-based funding may still play a key role for state policymakers in ensuring 'returns' on public investments.

Given the mixed formal evidence, some stakeholders may be rightfully skeptical of outcomes-based funding models; however, they are still appealing to many state policymakers who have limited alternative mechanisms for influencing higher education institutions. Regulating funding is one of the most significant levers state policymakers can wield to be good stewards of public funds and ensure that those dollars truly benefit constituents (who themselves are a complex group).

This emphasis often leads to outcomes-based funding being discussed as a way to ensure a "return on public investment" in higher education[28] — a framing that especially resonates with policymakers and taxpayers in fiscally conservative states. However, there is no consensus around a single definition of ROI in higher education, and different actors emphasize different types of returns.[29] State policymakers typically focus on macroeconomic outcomes: More graduates in high-demand fields lead to higher employment rates, which in turn generate stronger tax revenues and economic growth. Businesses highlight the need for a skilled workforce and filling talent shortages in critical industries. Students, meanwhile, think of ROI in terms of individual earnings, debt repayment, and career stability. Advocates may point to broader social returns that are harder to quantify but no less important: greater civic participation, upward mobility, and increased opportunities for both historically marginalized groups and students who face unique obstacles.[30]

These differing perspectives create challenges for policymakers designing outcomes-based funding models. Narrow definitions of ROI, such as earnings premiums or job placement rates, are easier to measure and communicate but risk reinforcing a transactional view of higher education that ignores its broader civic and social purposes. Broader definitions may capture the full range of returns but are harder to quantify and tie directly to funding.

Moreover, there may be trade-offs when different priorities are in competition. For example, a funding formula that heavily rewards high-earning fields (e.g., engineering) may inadvertently discourage institutions from investing in student success programs or promoting critical but lower-earning fields (e.g., teaching).

Outcomes-based funding policies require policymakers to balance competing priorities and determine what is most relevant, high priority, and applicable in their state context (Sidebar 2). Designing outcomes-based systems that reflect the full public value of higher education thus requires a nuanced conversation about what "outcomes" and "ROI" mean to different stakeholders.

SIDEBAR 2

Outcomes-Based Funding as a Policy Tool

Using outcomes-based funding as an incentive assumes that institutions have the capacity to respond but lack motivation. However, poor performance can be the result of insufficient resources rather than inadequate effort.[31] This is a particularly common issue in states with large rural populations, where colleges may struggle with limited local revenue, declining enrollment, or difficulty attracting faculty.

In these cases, what is the appropriate role of the state in boosting student outcomes? Should the state provide additional resources to build capacity, or should it tie funding to performance and risk further destabilizing struggling institutions? These are not easy questions, and they point to a fundamental tension in the design of outcomes-based models.

Moreover, there is the question of whether financial incentives are the right mechanism to change institutional behavior at all. Research suggests that government operates differently from business, and performance incentives can have unintended consequences, such as narrowing focus to only what is measured, gaming the system, or neglecting harder-to-serve populations.[32] Policymakers should consider what other levers exist to promote accountability, such as program review processes, accreditation standards, or public reporting or transparency requirements.

Design Considerations for Outcomes-Based Models

Unlike traditional funding formulas, outcomes-based models are inherently complex, with multiple dimensions that allow for different configurations depending on a state's priorities, prior funding model, existing data, and stakeholder interest. This section provides an overview of three aspects of outcomes-based funding models: **outcome metrics**, **calculation and distribution methods**, and **implementation considerations**. Each description also includes an example of an existing outcomes-based formula that was crafted creatively or thoughtfully to meet that state's priorities. These are not necessarily exemplars, but they can help highlight unconventional or newer approaches for consideration. At the end of this section is a list of questions to guide interested stakeholders in thinking holistically about outcomes-based model design.

Outcomes can span traditional metrics, state-specific priorities, and creative measures that reflect a fuller picture of higher education's value.

The first and most critical step in designing an outcomes-based funding model is to align stakeholders on the desired impact. Policymakers must ask: What do we hope to achieve? This question is deceptively simple: Even stakeholders with similar goals may want to use different metrics to measure success, or there may not be existing data that can accurately capture the desired outcomes. Moreover, including too many metrics could blunt any incentive to move the needle on any one outcome as institutions spread their efforts thin trying to satisfy competing demands.

EXAMPLE: Texas' revamped two-year formula links funding directly to state policy goals by prioritizing high-value credentials.

In a 2023 redesign of the community college funding formula, a major priority for **Texas** policymakers was increasing attainment as a driver of economic prosperity for both employers and individuals. The state's current formula for two-year colleges reflects this goal through its primary outcome metric: credentials awarded. However, not all credentials are treated equally. Awards are eligible to count for funding only if they are "credentials of value," defined as providing "a positive return on investment within 10 years (on average), such that cumulative earnings will exceed students' initial investments."[33] By linking funding to credentials that demonstrably improve students' economic outcomes, Texas created a direct connection between its policy goals and funding formula, providing a useful example of how a state can center its formula on a clearly articulated goal.

While traditional metrics, such as completion rates and time to degree, remain important, the field's definition of outcome metrics is evolving as stakeholders look for other ways to measure state priorities. For example, standard outcomes-based metrics may not consider the full range of underserved groups, including adult learners, justice-impacted students, former foster youth, or students with disabilities. Incorporating metrics that track the success of these populations can help ensure that funding formulas promote subgroup outcomes as well as overall system efficiency.

EXAMPLE: Indiana's revised funding model for both two- and four-year institutions recognizes disparate declines in outcomes for low-income and adult students.

Data from **Indiana** show larger declines in enrollment and completion among low-income and adult (ages 25 and older) students than their comparison groups.[34] These patterns also reflect a broader context in which the decline of Indiana's overall college-going rate is outpacing much of the nation, raising concerns about access, success, and competitiveness of the state's labor market.[35] Consequently, in 2024, state policymakers added low-income youth enrollment, adult enrollment, and adult completion rates to the metrics evaluated for funding.[36] By specifying these metrics, Indiana policymakers aimed to incentivize institutions to address the disparities and increase the college-going and success rates for low-income and adult students.

Another consideration is rewarding institutions for non-enrollment "inputs" that are directly connected to student outcomes. This might include investing in student success or access programs, academic or career counseling, or speedy delivery of financial aid packages. These more holistic approaches recognize not just *what* institutions produce, but also *how* they get there — in other words, the specific inputs and processes that must be included to achieve the desired results. Institutions facing declining enrollment or changing demographics that affect other portions of their funding thus can still earn state funding for delivering high-quality programs.

EXAMPLE: Tennessee's two- and four-year funding formulas reward institutions for high-quality programming in addition to student outcomes.

Tennessee is an example of how states can look beyond typical outcomes metrics to fulfill their goals. While the outcomes-based component of its formula still considers many of the usual measures (e.g., completions and progression), institutions in Tennessee can earn up to 5.45% additional funding based on a "quality assurance score," which is determined using a rubric that considers performance on seven standards related to student learning, engagement, access, and success.[37] For example, a significant portion (25% for colleges, 35% for universities) of the quality assurance score is tied to maintaining good standing with accreditors, as measured by external evaluations.[38] These standards are reevaluated every five years to ensure relevance and ongoing alignment with state priorities.[39]

There are also less quantifiable externalities that remain valuable. Civic engagement and democratic participation are among the most significant benefits of higher education; graduates are more likely to vote,[40] volunteer,[41] and serve in leadership roles.[42] Lifelong learning skills are another important outcome, as higher education equips individuals for reskilling and upskilling over a lifetime[43] — something difficult to capture in short-term metrics. Relatedly, greater social mobility is correlated with higher attainment and is often measured using individuals' lifetime earnings;[44] however, that metric does not capture additional long-term effects, such as transforming the trajectory of graduates' children or breaking cycles of poverty across generations. Finally, institutions often serve as anchors in their communities, contributing to cultural life, civic stability, and regional development in ways that extend far beyond individual student outcomes.[45]

Measuring these outcomes is particularly hard, but not impossible. Stakeholders might consider measuring second-order effects that are less tied to individual students: For example, research has shown that degree holders are less reliant on social services or direct fiscal benefits, saving state and local governments up to $82,000 per individual.[46] These types of measures could be especially helpful in states where a significant portion of institutional funding comes from local sources, as a way to gain buy-in and demonstrate value to local constituents. Even if these outcomes are not tied to particularly large sums of money, including them in the formula can signal their importance to stakeholders and institutions.

EXAMPLE: Michigan's two-year funding formula is a creative metric that measures how institutions contribute to their local communities.

Michigan's outcomes-based funding formula for two-year colleges allocates 5% of formula funding to "local strategic value."[47] Developed in collaboration with the Michigan Community College Association, the metric requires institutions to certify compliance with four out of five "best practices" within each of three categories: economic development and business/industry partnerships, educational partnerships, and community services.[48] This approach acknowledges that colleges contribute to public value in many ways, and funding formulas can use creatively designed metrics to reflect this multifaceted role.

The mixed evidence on outcomes-based funding's effectiveness may stem, in part, from overly narrow definitions of what counts as "performance." Older outcomes-based models have primarily focused on a limited set of metrics, such as completion rates and time to degree. While these measures matter, they do not capture the full range of ways institutions can contribute to state goals or student success. Rather than defaulting to conventional metrics, stakeholders might experiment with measuring student support services, community partnerships, or longer-term economic and civic outcomes. The examples in this section illustrate that there is not one right way to design an outcomes-based model, and that thoughtful experimentation with new approaches could better align funding with the multifaceted goals of higher education.

Outcomes-based funding policies require policymakers to balance competing priorities and determine what is most relevant, high priority, and applicable in their state context.

Different ways of calculating and distributing funding can shape institutional behavior.

The metrics themselves are only part of the story: How those metrics are used can significantly alter both funding levels and institutional behavior. Different calculation methods (e.g., head counts, percentages, multiyear averages, weighted averages, relative growth) can produce different funding amounts for institutions with identical raw performance data. Certain goals may be best met by weighting existing metrics rather than adding new ones; for example, credentials awarded to first-generation students could carry a premium compared to those of other students. Early research has found that premiums for STEM fields have led to increased credentials in those fields.[49]

Some states use a scoring system based on points, while others multiply raw outcomes data by established statewide rates that are usually tied to program costs. When states use the latter approach, it is essential that the rates reflect actual program costs and are updated regularly to account for inflation and changing expenses. Rates that remain static over time can inadvertently disincentivize institutions from offering certain programs, even if those programs are a high priority from a policy perspective.

EXAMPLE: Ohio's four-year funding formula combines multiyear averages with annually updated cost rates to ensure that the formula is up to date without letting temporary changes bias the data.

Ohio's four-year formula relies mainly on two outcome metrics: course completions and degree attainment.[50] Both are calculated using three-year averages to smooth out year-to-year fluctuations and account for outliers.[51] These averages are then multiplied by rates calculated by the Ohio Department of Higher Education. To ensure that the rates remain reflective of current expenses, the Department updates them annually and calculates them using actual expenditures across all four-year institutions.[52] This approach provides stability for institutions while ensuring that funding remains aligned with real costs.

Without sufficient funding at stake, even a well-designed outcomes-based model is unlikely to influence institutional behavior.

Distribution methods — or how funding is allocated after metrics are calculated — also matter. In some states, funds are distributed based on an institution's individual performance relative to other institutions in the state. This approach incentivizes cross-institution competition, which can drive higher outcomes but also discourage statewide collaboration. Other states opt to compare IHEs' current metrics against their past performance, to account for variations among institutional contexts. If institutions are competing against themselves, leaders may feel as if it is more realistic to drive increases in student outcomes rather than compete with an IHE that might have different population demographics or local revenue bases.

EXAMPLES: Kentucky and Colorado use different distribution methods in their four-year formulas, enabling a comparison of the two approaches.

Kentucky's four-year formula uses the competitive approach: For each of five metrics, institutions earn funding based on their share of the total systemwide volume of that metric.[53] The advantage of this method is its simplicity, but the disadvantage is that institutions are competing with one another rather than working toward shared statewide goals.

In contrast, **Colorado's** formula measures performance by relative growth. For each of the eight metrics used, the change in an institution's data is multiplied by its prior year's appropriation share and normalized to calculate the current year's share of total funding.[54] This method allows IHEs to compete against their past performance, but it is more complex, and it is not always clear exactly how an increase in any outcome metric will translate into additional funding.

Practical implementation strategies can mitigate risk and facilitate success.

Finally, states should consider what implementation will look like, including how much funding will ultimately be tied to outcome metrics. Without sufficient funding at stake, even a well-designed outcomes-based model is unlikely to influence institutional behavior. On the other hand, tying 100% of funding to outcomes without careful implementation can also destabilize institutional budgets and inadvertently take funding away from student success initiatives or state priorities. For IHEs that already lack sufficient resources and consequently perform poorly, further withholding of funds could only exacerbate the issues rather than improve students' experiences and outcomes.

To ensure that outcomes-based formulas are as effective as possible, policymakers should gather a diverse set of stakeholders to holistically assess the current state of institutions' performance, students' experiences, and challenges facing both students and IHEs. These stakeholders should be involved throughout the design process, including during technical modeling, to give feedback on how changes to the formula may impact funding levels and other likely institutional responses around student support offerings. Policymakers might also consider temporary guardrails during early implementation, such as funding floors, hold harmless provisions, or timelines that give IHEs time to align their budgets and programs with new requirements. Finally, states should plan continuous improvement cycles to evaluate and refine their formulas over time. Only by tracking data and analyzing changes over time will stakeholders be able to learn whether an outcomes-based funding model has achieved its goals.[55]

EXAMPLE: Oregon's recent redesign of its community college funding formula included an extended implementation timeline for stability as well as designated review cycles.

In 2023, **Oregon** redesigned its community college formula to add two student-focused components — student support and student success — prioritizing low-income and adult students, those in career and technical education, and underrepresented learners, with a long-run target of dedicating 10% of the Community College Support Fund (CCSF) to these areas.[56] To protect stability, the state is phasing in the outcomes component over five years, from $12.5 million in FY25 to $37 million in FY29.[57] From FY30 on, the outcomes-based component will stay a constant 10% of total state appropriations.[58] The initial five-year implementation timeline also includes a review cycle after two years specifically to examine any unintended consequences of the new formula, after which reviews will occur every five years.[59] Finally, colleges can also request one-time funds from the CCSF Strategic Fund — a set-aside for statewide initiatives and efforts to meet new legislative requirements — to support implementation.[60] A corresponding increase in appropriations for the CCSF Strategic Fund reflects this support, totaling $6.4 million for the 2025-27 biennium (up from $5.9 million for 2023-25).[61] The multiyear timeline, attention to continuous improvement, and extra implementation support all signal thoughtful attention to stability and institutional capacity as the state works to integrate and scale the new student success components.

Ultimately, designing an effective funding model that accounts for outcomes is a balancing act. States must select metrics that align with clearly articulated goals while avoiding an overwhelming number of measures, which can dilute focus. They must decide whether to reward absolute performance, improvement, or a combination of both. Calculation methods and distribution approaches need to be transparent enough for IHEs to understand how their actions translate into funding, yet sophisticated enough to account for differences in institutional contexts and student populations. And, perhaps most critically, states must find the right level of funding to tie to outcomes — enough to motivate meaningful change, but not so much that it creates instability or punishes institutions for factors beyond their control. These design and implementation choices shape whether an outcomes-based model becomes a catalyst for improvement or another administrative burden with limited impact.

Questions to Consider

As states contemplate whether to adopt or revise outcomes-based funding models, several questions can help guide discussion and decision-making:

- **Does the state have clearly articulated goals for its higher education system?** Without clear goals, it will be difficult to design an effective funding formula. Who have been the primary stakeholders engaged in developing those goals? Are there disagreements about priorities? If so, how might they be addressed?

- **Who would be most impacted by a new funding model?** Is there interest in an outcomes-based funding approach? Building broad support for outcomes-based funding is essential for successful implementation. Resistance from institutional leaders, faculty, or students can undermine even well-designed models.

- **Given a state's specific context, how much funding is appropriate for incentivizing behavioral change without causing adverse effects?** Tying too little funding to outcomes could fail to motivate change, while too much could create financial instability and encourage gaming the system.

- **Can the state's goals be captured within an outcomes-based funding framework?** Some goals, such as increasing degree completion or improving job placement rates, lend themselves to quantification and incorporation into funding formulas. For these metrics, the next question is what data currently exist — perhaps in a state's longitudinal data system, for example — to capture the relevant goal and set expectations for future improvement. Other goals, such as promoting civic engagement or supporting regional development, are harder to measure but no less important. Policymakers must determine whether an outcomes-based funding model is the right tool for advancing their priorities.

- **Which entity will be responsible for stewarding and implementing the outcomes-based formula?** How will this organization monitor funding levels and institutional performance, and how might it propose changes?

- **What data infrastructure would be necessary to support the outcomes-based funding model?** Effective outcomes-based funding requires robust data systems that can track student progress, calculate outcomes reliably, and provide transparency to stakeholders. States must invest in the infrastructure needed to support their funding models.

Conclusion

Outcomes-based approaches to higher education funding are gaining momentum, driven by demands for accountability, concerns about rising costs, and interest in ensuring a return on public investments. Expectations about what colleges and universities should accomplish are shifting: Beyond traditional completion metrics, priorities now include workforce readiness, equitable access, and funding adequacy. This evolving landscape creates both opportunities and challenges for states thinking about higher education funding, and it requires a nuanced understanding of what outcomes-based funding could accomplish with thoughtful design and implementation.

Despite its growing popularity, the evidence on the effectiveness of outcomes-based funding remains mixed, demonstrating the complexity of designing and implementing these models. The metrics selected, the methods used to calculate and distribute funds, and the amount of money tied to outcomes all matter. When poorly designed and implemented, outcomes-based funding models likely create perverse incentives, exacerbate inequities, and fail to produce meaningful improvements in student outcomes. But when designed thoughtfully, with attention to both traditional and emerging definitions of success, these models have the potential to focus institutional attention on student success and align higher education with statewide priorities, benefiting both students and other stakeholders.

Endnotes

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About Bellwether

Bellwether is a national nonprofit that works to transform education to ensure young people — especially those furthest from opportunity — achieve outcomes that lead to fulfilling lives and flourishing communities. Founded in 2010, we help mission-driven partners accelerate their impact, inform and influence policy and program design, and bring leaders together to drive change on education's most pressing challenges. For more, visit **bellwether.org**.

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