PARTNERSHIP FOR COLLEGE COMPLETION
Advancing Equity in Higher Education

Effective, Equitable, and Efficient: A New Paradigm for Holding Universities Accountable

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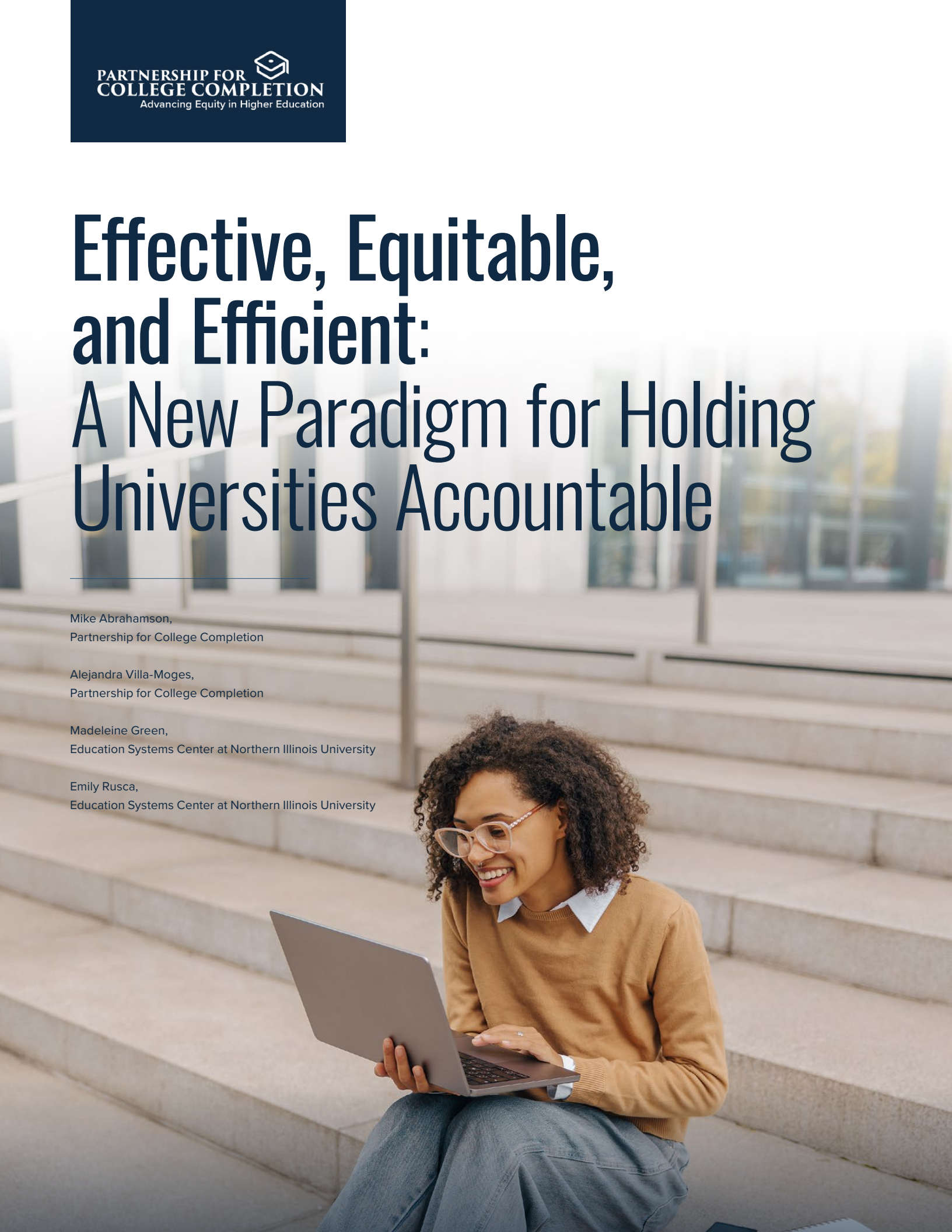

About Us

The Partnership for College Completion champions policies, practices, and systems that increase college completion and eliminate degree completion disparities for low-income, first-generation, and students of color in Illinois—particularly Black and Latinx students.

Acknowledgments

This report is based on research funded by the Gates Foundation. The findings and conclusions contained within are those of the authors and do not necessarily reflect positions or policies of the Gates Foundation. The report was authored by Mike Abrahamson and Alejandra Villa-Moges of The Partnership for College Completion (PCC), and Madeleine Green and Emily Rusca of the Education Systems Center at Northern Illinois University, with support from Sonny Metoki of PCC. It was made possible with editing from Lorraine Forte. We would also like to thank Kelsey Bakken at Advance Illinois, Andy Koetz at Lawndale Christian Health Center, and many other partners who generously reviewed and advised this report. As always, our work would not be possible without the deep commitment and ongoing support of so many individuals, including the PCC Board of Directors, PCC Investors Council, college and university partners, legislative champions, colleagues within state agencies and government, and advocates. The digital version of this report can be found on the PCC website: partnershipfcc.org.

Letter from the Board Chair and the Executive Director

At a time when the federal government is shrinking investment in higher education and weakening student and consumer protections, states must take it upon themselves to strengthen systems and make sure that institutions are accessible, affordable, efficient, and effective.[1] Each state now faces a responsibility to hold their public institutions accountable in ways that are most effective and beneficial for students and taxpayers alike.

Illinois is in a unique position to meet this responsibility: we have the potential to lead the nation, but are currently at the back of the pack. Our state recently pioneered a new formula that can revolutionize higher education funding, but lawmakers have yet to pass it, and so we are stuck with no model at all. Our governor's office and legislature have prioritized higher education funding over the last seven years, but that has just kept us treading perilously high water, as massive disinvestment during the preceding decade led to the largest enrollment declines in the nation at public universities. Meanwhile, pension obligations make up an astonishing one-third of state higher education funding. Those dollars don't go to students, and they mostly don't go to higher education faculty and staff either.[2]

What does all of this add up to? Our state is living on the precipice between the stark status quo and a promising future.

In designing an innovative, adequacy-based funding formula, policymakers and advocates together have identified the core issues that have limited decades of attempted reform. And while we can identify the limitations and unintended consequences of trying to micromanage university behavior through the blunt tools that funding offers, we have yet to fully flesh out an alternative accountability system that centers the needs and success of underserved students. That is the purpose of this report: because there's no model to emulate, we turn to other fields and policy areas to learn all we can about how government can hold higher education institutions accountable in ways that benefit students, as careful study of their practices can help us predict the results of a new approach to accountability.

We hope this report serves as a blueprint for the stakeholders who have the tough but necessary task of redesigning accountability for higher education funding.

Sincerely,

Kyle Southern, Ph.D.
Executive Director

Dr. Doug E. Wood
Board Chair

Executive Summary

Prompted by the recessions of the 1980s, policymakers took aim at making public colleges and universities more efficient. Every budget crunch since has resulted in states renewing their efforts to make institutions of higher education do more with less. The accountability reforms that followed, however, neglected to look at the big picture: asking where universities are falling short of meeting students' needs and how the state can most strategically improve those efforts. Short-sighted cuts and the focus on oversimplified metrics have failed to address, and in some cases exacerbated, the problems that funding reforms have hoped to solve.

Because Illinois has a ripe opportunity to change the way it funds its public universities, now is the time to build and establish a new paradigm for higher education accountability. This new accountability system can and must center students, assuring the public that dollars are being spent efficiently, effectively, and equitably to support student success.

This report pulls key lessons from K-12, healthcare, and Illinois' transitional math and English implementation to uncover the following **principles** and **oversight** metrics for higher education funding accountability.

Principles for Student-Centered Accountability

- To achieve better outcomes for students, universities first need adequate resources.
  - Zero-sum models, where some institutions only get more funding at the expense of others, can be counterproductive.
- Beyond mandates, the state must create shared goals, support, coordination, transparency, and monitoring.
- The state must ensure funds are used to measurably improve affordability and access.
- Consequences must be tied to shared goals and outcomes, and provide incentives for better serving students, without the threat of removing essential resources for colleges and universities to improve student outcomes.
- Funding structures should enable and hold institutions accountable for operating more efficiently, individually and as a system.

Key Accountability Metrics

In order for the state to strengthen accountability, the state must first collect and report measures most critical to the mission of Illinois' public higher education system. Categories of metrics to collect include:

- **Public planning**: Collect and assess institution alignment around goals, strategies, evidence-based tactics, and reported progress.
- **Adequacy gap tracking**: Calculate the state's funding responsibility – what each institution needs to serve its students, what resources they have, and the difference between the two.
- **Affordability**: Collect student-level data on what students actually pay, unmet financial need, and how state investment lowers costs for students.
- **Equity in enrollment and access**: Report demographic breakdowns of applicants, admissions, and enrolled students, as compared to institutional goals and state/regional representation.
- **Progress, retention, and completion outcomes**: Track data on credits earned, progress, retention, completion, and time-to-degree metrics by student demographics, including benchmarks for improvements tied to institutional and state goals.

- **Efficiency and collaboration indicators**: Measure system-wide and institutional efficiencies through spending data, shared services, enrollment capacity, and transfer between institutions.

Adopting a new framework for higher education accountability will benefit public universities, providing clear guidelines along with the resources and capacity to create meaningful change. Students, meanwhile, will doubly benefit, both from the additional resources targeted towards those who most need them and the oversight that assures they are being effectively supported.

Background

Shared Goals for Higher Education Funding

PCC has been working for the better part of a decade on higher education funding reform in Illinois. Throughout this work, we have found the goals of different higher education stakeholders to be remarkably consistent, even as the identification of root causes, rhetoric, and policy prescriptions have varied.[3] Frequently cited goals include:

1. Funding should encourage public access to higher education.[4]
2. Institutions should use additional funding to improve or maintain affordability.[5]
3. Institutions should be held accountable for executing their plans to meet their goals and fulfill their missions.
4. Funding should provide incentives for institutions to improve student outcomes and create a positive return-on-investment.[6]
5. Institutions should operate efficiently, both individually and as a system.

Stakeholders often disagree, however, on what barriers stand in the way of these goals. Some blame institutions for being inefficient and ineffective, while others point to the federal and/or state government for not holding up their end of the bargain.

Table 1 summarizes some of the most common arguments and counterpoints, synthesized from years of conversations around Illinois' equitable funding efforts (though these points closely mirror views from around the country). This report does not argue that institutions are inherently efficient or inefficient, but rather seeks out evidence on how to best use state resources to make them achieve their full potential in terms of student access and completion.

The state's values are critical when it comes to putting these shared goals into operation. Many decisions about how to design accountability systems come down to the philosophy of what higher education is trying to accomplish, for which there won't be a technocratic answer. In Illinois, we approach this work — designing an accountability system— from an **equity lens**, because equity is the stated goal of the Illinois Board of Higher Education's strategic plan and the development of its funding formula.[26] An equity lens recognizes not just students' different needs, but the responsibility of the state and its public institutions to meaningfully account for students' different resources and opportunities. However, equitably improving outcomes for students is also economically efficient for the state, as graduating more students grows the state's tax base and shrinks its welfare and corrections spending in a way that's revenue-positive.[27] Therefore, the findings of this report may well be applicable to states with different perspectives and priorities.

TABLE 1

University Efficiency and Effectiveness Assumptions

Belief	Supporting Arguments/Evidence	Counter-Arguments/Evidence
Less selective and/or open access colleges do a poor job of graduating students	• Graduation rates at some universities and community colleges are low • Graduation rates at flagship and selective institutions are higher[7]	• Institutions with lower graduation rates tend to enroll student bodies with the broadest array of needs[8] • Students primarily leave college because of a lack of resources, which mostly is not in colleges' control[9] • Colleges enrolling the most economically vulnerable student populations are the most underfunded[10]
College costs are spiraling out of control	• Public college and university tuition and fees have more than doubled since the year 2000[11]	• Public disinvestment is mostly responsible for historic tuition increases[12] • With more level funding, tuition prices have declined by 12% and 8% at Illinois public universities and community colleges, respectively, over the last three years[13]
College presidents and high-level administrators are overpaid	• Some college presidents and staff at large and prestigious colleges have high salaries • While administrator costs overall have increased, that is mainly because there are more administrators now than in previous decades[14]	• This is a relatively small part of price increases[15] • More administrators are often the result of universities being asked to expand their services and specialization, which can be efficient ways to support students[16]
Universities overspend on non-essential luxuries	• Some universities are spending big on amenities like climbing walls and pools[17]	• Most colleges don't have these amenities[18] • This is not where the data shows rising costs are coming from[19] • To the degree this is an issue, private sector-like competition, rather than public sector inefficiency, may be at fault, as these facilities tend to be at more selective universities[20]
Universities are slow and resistant to adaptation	• Faculty resist online programs[21]	• Colleges adapted quickly to virtual platforms in the pandemic[22] • Quick change is not always ideal in higher education[23]
Universities would be more efficient if they were run like corporations	• CEOs are held accountable in ways that college presidents are not[24]	• Crises fueled by corporate mismanagement have created waves of reforms calling for more democratic accountability for companies[25]

A Brief History of Accountability in Public Higher Education

Accountability is among the most important and elusive goals of higher education. Public colleges and universities are accountable to many different stakeholders, including taxpayers, legislators, local communities, alumni, students, accreditors, their governing boards, and the Governor's Office. And yet it's rare to find any one of these groups (including the colleges themselves) that would say their accountability systems are working for them.[28]

Public higher education could be considered in its fourth wave of accountability reform. The first wave came in the late 1980s and early 1990s, when federal and state governments, facing a lagging economy, sought to improve the efficiency of institutions as an alternative to continuing to increase investment in colleges.[29] Research on the first performance-based funding (PBF) models showed negative effects, however, which stemmed from choosing general outcomes, attaching little funding to the models, and from top-down design.[30]

The next generation of models often included more specific and actionable metrics tied to state goals, usually benchmarked to other institutions or previous years. These models assigned greater percentages of state funding to these metrics and involved institutions more thoroughly throughout the process. PBF models expanded to over a dozen states by the mid-1990s.[31] After a lull in the 2000s, another wave of performance-based funding swept the nation around the Great Recession (likely also related to fiscal belt-tightening), and by 2015 a majority of states adopted these policies.[32]

Subsequent research showed that these "PBF 2.0" formulas pushed institutions toward action.[33] However, that action tended to fall short on equity across two fronts. First, in rewarding institutions for students' outcomes, they created incentives for more selective universities to enroll fewer students who they deemed less likely to achieve these outcomes; the result was often fewer enrolled students of color and students from low-income backgrounds.[34] Second, more open-access institutions, unable to similarly change their enrollment or to quickly improve outcomes without the necessary additional funding, experienced relative funding cuts.[35] Years of implementation and research suggests that, while well-intentioned, performance-based funding models can lead to unintended consequences related to student degree completion. Even the most robustly funded models, like in Ohio or Tennessee, have led to increased certificate production rather than degrees, and have widened gaps in postsecondary attainment for student groups already underrepresented in higher education.[36]

In response, advocates and researchers across the country prompted a third wave of performance- or outcomes-based funding models that provided direct incentives across categories, including the enrollment and outcomes of underrepresented groups.[37] More recent research shows that these changes can possibly offset some negative effects.[38] However, funding models are still too often falling short of achieving their goals.[39] And while there is wide agreement that institutions should be responsible for their outcomes, the idea that institutions could improve solely by more directly aligning incentives with specific outcome metrics, even without expanding funding, remains the flawed underpinning of many models being developed today.[40] The economic theory that further explains the limitations of past funding accountability models is explained in Appendix B.

New Funding Models Need an Innovative Accountability Solution

Though legislators, state agencies, advocates, and researchers have worked hard to hone outcomes-based funding, there is little evidence that directly connecting outcomes to the threat of decreased funding is by itself effective. In fact, doing so has been found at times to be counterproductive.[41] States cannot continue to implement variations on the same base assumption and expect different results; a new approach is needed.[42]

Fortunately, the last few years have brought about true innovation in the public higher education funding space, with **adequacy**- and **equity-based** funding. Adequacy-based funding means allocating money to institutions based on the needs of their student populations, and equity-based funding is designed to eliminate disparities in access and completion between different student groups, both within institutions and across the system. Here in Illinois, years of effort led by a legislative commission have turned an idea into a full-fledged operational model, culminating in promising legislation supported by advocates and institutional leaders statewide.[43] In 2025, State Senator Kimberly A. Lightford and Representative Carol Ammons introduced SB 13 and HB 1581, respectively. These bills would make Illinois the first state in the country to adopt an adequacy- and equity-based model. Although it did not pass the first year it was introduced, it garnered dozens of legislative champions and thousands of supportive witness slips. The effort to enshrine it in law continues.

If fully realized and funded, these new models have potential to achieve the underlying goals of previous formulas.[44] However, unlike previous funding models, they don't implicitly prescribe what to do about accountability. Legislators and voters across the political spectrum are unequivocal that institutions should be held accountable for the taxpayer funds they receive, and institutional leaders are charged with making progress, but there is no agreement on the most effective way to leverage funding to get the best results.[45]

Though there are no adequacy-based higher education funding formulas in use today, we can maximize the effectiveness and minimize the unintended consequences of this model by studying similar accountability measures in other fields. The following section draws parallels and lessons from accountability measures in the sectors of **K-12 education**, the most direct parallel to higher education, and **healthcare**, which often draws comparisons to college finance structures. We also draw on Illinois' experience of scaling **transitional math and English**, which was implemented to bridge a persistent gap between high school and college-level math and English courses, to inform how to make an accountability system most effective in practice.

Lessons from Outside Higher Education

K-12 Funding

No Child Left Behind

Like higher education, K-12 went through a period in the 1980s and 1990s in which governments sought to tie funding to outcomes, increasing oversight and accountability measures. Along with the shift in funding structures came a shift in blame, with individual school leaders and teachers bearing the brunt of increased scrutiny for inequitable outcomes, instead of societal forces like segregation and differences in resources among students.[46] A bipartisan effort culminated in the 2002 No Child Left Behind (NCLB) law, which was intended to measure and equitably improve school quality and student performance by holding schools accountable for improving test scores.[47]

There is much to learn from both the attempt and the results of this policy, and not all of it bad. First, NCLB policymakers acknowledged that to improve something, it should be measured. The law also defined success by adequate yearly progress (AYP), a measure that in theory sets up schools to improve on their own benchmarked performance. Finally, NCLB set the specific and measurable goal of getting 100% of students to proficiency within 12 years.

But NCLB contained fundamental problems with each of these elements from the start: defining AYP by standardized test scores had a limited connection to overall goals; assigning high stakes to those tests created problematic incentives; and the 100% proficiency goal was unachievable. When the check came due, this goal turned from being aspirational to dispiriting.[48]

Most experts would say NCLB missed the target on its intended impact.[49] The problem can be traced to inherent design flaws. First, making standardized tests the sole determinant of the highest-stakes consequences — reconstituting or even closing a school — pushed some schools and districts to disproportionately focus on, game, or in extreme cases, even cheat on these tests.[50] Because improving a school's true academic performance is an incredibly complex endeavor, it was unrealistic to expect that schools could manage this without additional resources and guidance. As the decade of implementation showed, it was far easier for school leaders to raise scores by "teaching to the test."[51] This dynamic undermined the usefulness of test scores as an objective measure or an incentive. Many schools diverted teachers' hours toward test-taking strategies or, in the most extreme examples, dropped hundreds of students before test time. These are tactics few stakeholders would consider to be positive results of a policy.[52]

NCLB's problematic consequences should be instructive for higher education. The threats of replacing staff via a turnaround, or even closing a school, were a strong incentive to change, even if the threats led to misguided actions. But the consequences were more punitive than beneficial to students. Studies show school closures disrupted students' education and disproportionately affected Black and Latinx students.[53] And even regardless of their effectiveness, NCLB's consequences proved too blunt to enforce and maintain in the long run; a spike in school closures followed the law's passage, but after that, states got exceptions or just stopped complying. The final phase of NCLB showed inconsistent implementation and no measurable impact on the number of school closures.[54]

Every Student Succeeds Act

The Every Student Succeeds Act (ESSA), signed into law by President Barack Obama in 2015, reflected lessons learned from some of NCLB's failures. It kept the focus on universal measurement of school performance through standardized testing but removed the federal threat of reconstituting or closing schools based on test scores. ESSA required states to make a plan for improving their lowest-performing schools, but left the details and consequences for executing that plan to state and local education agencies.[55]

Many stakeholders welcomed the localization of consequences, lauding the move away from "one-size-fits-all" policy. But the aftermath of ESSA has shown mixed effects of localization. The nation's 50 different sets of accountability standards show how a decentralized model can vary in quality, equity, and enforcement. However, many states have opted to use a variant of the Common Core curriculum, providing some consistency, and there are benefits to fitting accountability to local contexts.[56] This outcome shows a clear tradeoff between the universality and efficiency that comes with centralizing accountability, and the context-specific policymaking possible at a more local level.

The Obama Administration also attempted to move beyond the punitive measures of NCLB, adding in potential incentives through School Improvement Grants (SIGs) in 2012. Using $3 billion of the $100 billion of K-12 funding allotted from the Great Recession stimulus package, the federal government awarded SIGs to implement school intervention models. The 2015 ESSA law allowed more flexibility in administering these funds.[57]

Research is mixed on the effectiveness of the SIG program. A comprehensive 2017 study commissioned by the U.S. Department of Education showed mostly no impact, driving the first Trump administration's move in a different direction.[58] Digging into this study and others, though, provides a complex picture with more useful lessons. First, the 2017 study did not conclusively find that the SIG grants actually *added* to schools' overall funding – it may have merely replaced other funding – so the failure may have been more in implementation than design.[59] The study also acknowledges that the effectiveness of the school turnaround practices that SIGs required is itself debatable. And finally, another study shows positive results of the policy, especially in local contexts, again suggesting that implementation was a key factor.[60] In Ohio, researchers found that ESSA led to improved reading and math scores; in Texas, graduation rates improved (though test scores, surprisingly, fell); and one study found more pronounced improvement in the third year of the award, showing that results may just take more time.[61]

Illinois' Evidence-Based Funding Formula

In 2017, Illinois adopted the Evidence-Based Funding (EBF) formula, which assesses the amount of per pupil funding each school needs given its student population, and directs additional funding from the state to fill those gaps. Illinois' innovative public university funding formula has already learned much from this effort.[62] A key difference, though, is that K-12 schools are more limited in what they can spend state funding on, and there is transparency built in that tells legislators where money is going, through a district spending plan.[63] This transparent planning is less common in higher education, where revenues from different sources are mixed and their connection to expenditures is often opaque.

One notable element of accountability in the EBF model relates to higher education: it redirects some responsibility for subpar and inequitable outcomes away from underfunded institutions and back to the state. ESSA may have been an improvement on NCLB, but it builds on the same flawed assumption: that, with the right accountability framework, schools can achieve more with less.[64] EBF is grounded in research tying the effect of additional funding to outcomes, rather than solely relying on threats to improve them.[65] And EBF ultimately demands that the state eliminate funding inequities that underlie subpar and inequitable student achievement.[66]

Lessons Learned from K-12:

1. Look to systems, policies, and resource allocation instead of solely focusing accountability on colleges, staff, and students.
2. Ground any mandated change for colleges in evidence-based practices and interventions that improve, not undermine, student equity and outcomes.
3. Set benchmarked, meaningful, and achievable goals.
4. Make data collection universal, centralized, and disaggregated by student demographics.[67]
5. Require transparent reporting of revenues and expenditures, disaggregated such that the public can clearly track funding from appropriations through spending.

Healthcare

Healthcare and higher education are two very different sectors, but with strikingly similar cost issues: both are singularly expensive in America; both are paid for by individuals and the government; prices for both are notoriously murky, with individuals rarely paying "sticker price;" costs of both have skyrocketed relative to other areas of individual and state spending; and, partially as a result of the challenges in affordability, both produce inequitable outcomes by income and race.[68] The healthcare sector has experimented with different accountability mechanisms and reimbursement models aimed at reducing costs and improving care, which may be instructive to universities.

Fee for Service Models

Fee-for-service models are the most ubiquitous payment systems in the U.S., with 70% of practice revenue coming from fee-for-service payment models in 2020.[69] Their role in rising healthcare costs, without accompanying improvements in patient outcomes, however, has made them the target of reform.[70] Research shows that financial incentives influence physician decisions, increasing the use of additional services or higher-cost procedures and contributing to increasing healthcare costs.[71] A lack of transparency exacerbates these issues in fee-for-service models.[72]

Because Medicare and Medicaid are entitlement programs, the government must fund medically necessary health care for those who qualify, most often individuals with low income or high medical needs.[73] As the federal government has explored methods to reduce costs, Centers for Medicare and Medicaid Services (CMS) has scaled innovative alternative payment models with the goal of driving a more efficient delivery of specialized, preventative, and routine care.[74]

TABLE 2

Overview of Relevant Healthcare Payment Models

Payment Scheme	Description
Fee-for-Service	Reimburses providers for the number of appointments and healthcare services provided, regardless of quality or outcomes.
Pay-for-Performance Incentives (P4P)	Gives financial incentives to providers based on their performance on designated processes and/or outcomes. This model can be paired with other payment models.
Capitated Costs	Providers get an amount of money to cover services needed over a set period of time.

In the following section, we highlight how other payment models could more efficiently align payors and providers, to reduce costs and ultimately, keep people healthy.

Alternative Models

Pay-for-performance (P4P) gives providers additional funding based on their performance on processes or outcomes. P4P has not proved to be more effective overall – even the limited evidence showing improved processes have not led to demonstrably better outcomes.[75] Problems with pay-for-performance models could be taken nearly verbatim from a list of issues with higher education funding accountability: incentives are often ineffective, "one size fits all" solutions do not account for different contexts and are not nuanced enough for complex processes, and purely pay-for-performance models can lead to a disincentive to enroll the sickest patients – those who are least likely to meet performance benchmarks and are also most in need of quality healthcare.[76] This last point is particularly poignant for informing higher education accountability systems, as it demonstrates an important issue that underlies these policy practices: meaningful improvement, whether in patient or student outcomes, is not easily achieved by simple behavior changes among those providing services – so instead of improvement, there are often unintended consequences.[77]

Finally, under certain pay-for-performance models, top performers receive financial rewards and bottom performers pay a penalty, which means that top performers are not only incentivized to enroll relatively healthy patients, but they receive additional funding at the expense of providers serving the sickest patient populations.[78] The way these zero-sum models can defund providers that serve patients with the greatest need for additional resources is counterproductive, as even if a provider is generally performing well, it does not lessen the funding need of another.

Capitation models, where a provider receives a per-person pre-payment for a group of patients over an allotted timeframe, has shown potential in limiting costs, but not necessarily in improving outcomes for patients.[79] This model is based on the idea that predictable funding allows providers to plan ahead with greater efficiency, and that patients benefit from access to routine care.[80] In some settings, though, a capitated payment arrangement fails to incentivize providers to enroll patients with diagnoses considered high-risk; treating these patients will be more costly, with providers incurring the whole additional risk[81]. We see this also in higher education, where, under the pressure to increase graduation rates, institutions will manage their risk by increasing selectivity in enrollment. Pure capitation payment systems also tend to lead to "utilization management" tools (such as prior authorizations) in an attempt to decrease spending.[82] Though a capitation model itself does not lead to better outcomes for patients, there are ways of adapting this model that show promise.[83] For example, CMS has developed a tool called a "risk score adjustment." A third-party reviewer assigns a risk score to a provider based on their patient group demographics. Providers with sicker patients are given a higher risk score, which means that CMS will increase provider capitated payments. This equity adjustment allows providers in particularly vulnerable communities to provide the services needed to keep their patients healthy.

Value-based care is a healthcare approach designed to center each patient's values and health goals. CMS has created programs that blend the best of capitation models with the best of pay-for-performance models within a value-based framework, while also adjusting for the shortcomings of these models (risk management tools, described earlier in relation to capitation models, are an example of this). For example, this could look like blending the cost-efficiency of a capitated, per-patient prepayment, while also tracking outcomes for accountability, as in a pay-per-performance model. In higher education, this equates to predictable and adequate funding with equity adjustments, as well as outcomes tracking. This approach is showing potential to achieve both lower healthcare costs and improved patient outcomes.[84]

The promise of value-based care stems from each party involved being responsible for doing what they are well-suited for. When well implemented, patients determine what outcomes are most important to them, which aligns goals

with their wellbeing. CMS as the government funder/regulator is well positioned to look holistically across the system, defining goals and aligning actors, but is not in charge of dictating specific solutions, which is often beyond their expertise/scope. And healthcare providers are financially incentivized to work with one another for the long-term benefit of the patient – that collaboration eases patients' responsibility to navigate complex healthcare systems by themselves. Similarly, a higher education accountability framework must enable state agencies to define goals and align institutions, and empower institutional leaders to identify and implement strategies that best serve their students while avoiding weighing them down with bureaucratic processes.

In practice, however, value-based care's success rests largely on how it's implemented. The best models should stimulate high quality care, cost-conscious behavior and be well-coordinated.[85] Independent risk score adjustments play an important role in CMS's implementation of value-based care as they ensure providers are paid fairly for higher need or medically complex patients or patient populations.[86] So while CMS sets per-person rates that standardize what they will pay for any given treatment, they also adjust for provider risk through these third-party risk score adjustments that account for more costly patient populations. In this way they commit to adequately funding providers at the base level, without writing a blank check, while still equitably paying providers a fair price for serving their specific patient population.

Add-Ons for Equity, Efficiency and Accountability

Most healthcare Medicaid and Medicare payors are now required to have care managers and/or community health workers on staff. These workers connect patients to wraparound support essential to maintaining health, such as nutrition, housing and transportation. Though this adds administrative costs to both Medicare and Medicaid, the added efficiency prevents greater, future costs that could result from missed appointments for routine or preventative care, or from preventable conditions like malnutrition.

Some CMS programs operating at a national level encourage health providers to enter into data-sharing agreements.

Data-sharing agreements add essential oversight, and once group-level data are uploaded, providers may have access to national trends for equivalent programs across the country. Key demographic factors such as age, race, ethnicity, and gender allow providers and CMS to evaluate health outcomes at a disaggregated level and compare providers across national averages.[87] Besides allowing for federal oversight, tracking outcomes data allows providers to do two things: gauge a base level of health in a patient population, and to track broad improvements and declines. Higher education accountability must incorporate a level of oversight similar to this, as improved outcomes of one's unique student population are more appropriate success metrics than a comparison to a wholly different student body.

Lessons Learned from Healthcare

1. Move away from zero-sum models, where some institutions only get more funding at the expense of others. These models can be demotivational or even counterproductive.[88]
2. Ground systems in students' goals and outcomes.
3. Aim for better outcomes by tying incentives to specific, institution-level goals and context, rather than using a one-size-fits-all approach.
4. Build reasonable, evidence-based equity measures that incentivize colleges to provide appropriate resources to a diverse student body, into funding structure.
5. Recognize higher education as a public good and adequately fund universities to spur an efficient use of resources.

Implementation of Transitional Math and English

The aforementioned principles from healthcare and K-12 accountability are a great start for redesigning a higher education accountability system. But it's clear from these sectors that ultimately, results depend on implementation. Because implementation is specific to a state's context, Illinois' previous efforts to implement evidence-based practices are uniquely instructive. The following section provides reflections on the implementation of another policy priority in Illinois education: transitional math and English.

Policy Context of Transitional Instruction

In the early 2010s, overall postsecondary remediation consistently remained above 45%, sparking a broad conversation about how to address college and career readiness more systematically in state policy. One resulting law was the Postsecondary and Workforce Readiness (PWR) Act, a four-pronged approach to comprehensive college and career readiness that includes a framework for career exploration in middle grades and high school; college and career pathway endorsements for students to earn on their high school diplomas; a pilot of competency-based high school graduation requirements; and the development of a statewide system for scaling of transitional courses in twelfth grade statewide.[90]

Transitional math and transitional English are twelfth-grade courses designed to ensure students graduate from high school prepared for credit-bearing college coursework. Transitional courses require alignment and deep coordination across secondary and postsecondary institutions. Students who successfully complete an approved transitional instruction course are guaranteed placement into credit-bearing math or English at all of Illinois' 48 community colleges. Implementation of these courses has contributed to an overall decline of students taking remediation classes by over 21

percentage points between the graduating classes of 2013 and 2022. In particular, math remediation rates have declined dramatically to 19% (class of 2022) from 41% (class of 2013).

The bulk of strategies outlined in the PWR Act rely on the voluntary participation of districts in order to build a base of best practices and statewide support. Maintaining the state's dedication to local control, the PWR Act converts state law into systems change by empowering local partnerships to design and implement relevant college and career programming for students within a consistent statewide policy framework.

Legislative Expectations

The PWR Act outlined parallel, though distinct, paths to implementation of transitional math and English. PWR established a default expectation of implementing at least one transitional math course (though districts can opt-out if their school board finds that the district's cost of implementation outweighs the potential benefits to students and families) no later than the 2021-22 school year. Transitional English is fully voluntary for districts to participate.

PWR required the state's education agencies to collaborate and establish joint policies and portability processes, a statewide implementation plan, and implementation supports to ensure that transitional math could be scaled up, on a broad basis, within the expected timeline.[91] PWR also outlined similar expectations for transitional English, though it did not set out timelines or requirements.

In collaboration with secondary and postsecondary educators statewide, the state's education agencies published Statewide transitional course parameters, competencies, and policies for both math and English.[92] These course parameters allow local control of curriculum while ensuring consistency in the key competencies and skills students need to learn for college and career success. High schools and community colleges collaborate to develop course syllabi, submit them to a Local Advisory Panel made up of local secondary and postsecondary instructors in that content area, and then representative courses are presented to a Statewide Portability Panel in March and October of each year for approval.

Using an Investment Frame for Implementation

Implementation of these courses has not been limited to institutional compliance, but rather through a combination of the guidance, support, and targeted investment from the state as well as the Illinois Education and Career Success Network ("the Success Network").[93]

State investments under the PWR Act have allowed agencies to coordinate, develop necessary policies, and support implementation, in some cases directly funding communities' implementation. For example, state funding supported the staffing of an Illinois Director of Transitional Math, who led the policy development process, including robust research, elevating practitioner expertise and best practices, and facilitating interagency discussions.

The Illinois Community College Board (ICCB) also fiscally supports ongoing interagency coordination and other technical activities, which have been managed by Education Systems Center at Northern Illinois University. An interagency group convenes regularly, monitors implementation, identifies opportunities for field support, and develops strategies for improving implementation. The ICCB has also offered grants to community colleges to support implementation of transitional instruction, including Innovation Grants in FY2022 of $10,000-$25,000 per selected college, with a particular focus on transitional English.

The network organizers for the Success Network offered multiple rounds of "spark grants" of $7,500-$10,000 per community to support their implementation of transitional math using philanthropic funds. This grant model, which started with five communities in 2017, enables network organizers to seed local implementation efforts and thus build "proof points" for broader scaling of state policy across Illinois. The relatively small but flexible investments have had a tremendous effect on the ability of many Network Leadership Communities to catalyze efforts that otherwise may not have been possible. The grants have allowed community partners to cover various costs, such as hiring substitute teachers to allow partners to convene and develop action plans, paying for relevant course fees,

and providing resource materials. In addition to the funding, these communities received targeted technical assistance to make sense of the policies and requirements of the law. In addition to state agency resources for course design, other practitioner-centered resources have emerged as well, and they contribute to the scaling of courses across Illinois. For example, Regional Office of Education (ROE) 47's annual Transitional English Summit builds connection and support across the transitional English landscape statewide, and there is a regular TELA advisory comprised of English faculty, high school teachers, and other administrators who are interested in supporting transitional English. Together they create resources and occasionally advise districts looking to implement the course.

Strengths and Challenges of Transitional Instruction Implementation

The strengths and limitations in this approach offer insights into its adaptability across different policy spaces. From its inception, transitional instruction builds on local practice and expertise, empowering practitioners to co-create the educational experiences necessary to ensure students are well-equipped to move successfully through college and career. Through legislative action, administrative supports, direct investment to schools, and a focus on local practice, the implementation of transitional instruction generated buy-in from stakeholders to achieve widespread uptake in transitional math.

Student enrollment grew from 1,732 students in the graduating class of 2019 to 26,076 students in the class of 2024. Policymakers and practitioners in Illinois broadly agree that this scaling can be attributed to the combination of the PWR Act's default expectation for districts to implement math courses and the provision of financial and capacity-building investments.[94]

By contrast, transitional English began implementation later, remains voluntary, and did not enjoy the same level of availability of financial investment, leading to less uptake. This disparity is clear in the data: over program history, 121,453 unique students have taken transitional math courses, while just over 14,000 unique students have taken transitional English. With in-kind supports such as syllabi templates, model partnership agreements, guiding policies, and the ROE 47 Transitional English Summit, transitional English is at a pivotal moment for scaling statewide.

Despite being fully voluntary to implement and garnering less direct financial investment, Implementation of transitional English has exemplified the bottom-up nature of successful institutional change.

Transitional instruction provides important lessons for future policymaking. Leveraging data to inform policy action is key. Investment must be financial and through capacity-building. And, transformation must be built from the expertise and buy-in of practitioners. As illustrated by the differing paths of transitional math and English, there are tradeoffs for not having an explicit mandate for a particular system change. A mandate alone may result in compliance, but investment generates further buy-in and authentic implementation.

Lessons Learned from Transitional Math and English Implementation

1. Adopt meaningful student outcomes like ensuring students graduate college-ready (reducing remediation rates) and regularly track progress.
2. Pair mandates with implementation coordination, monitoring, guidance, and targeted funding supports.
3. Base reforms in evidence and ground them in national best practice, while creating opportunities for local adaptation as needed to achieve the desired student outcomes.
4. Give implementers a wealth of connection points to drive change – for transitional instruction, that included legislation, grants,

New Paradigm of Funding Accountability

Using what we learned from K-12, healthcare, and the implementation of previous legislation, we identify five principles for equitable and adequate funding accountability to move from goals to a funding concept:

1. The state must provide more resources to achieve better outcomes.

Efficiency is an attractive concept to states that are struggling with tough budgeting decisions, but universities cannot do more with less. And zero-sum models, where some institutions only get more funding at the expense of others, can be counterproductive.

Making it operational

- The state should calculate "adequacy targets," what each university needs to serve its unique student population.[96]
- The state should use historical data to calculate a "resource profile," a reasonable amount of revenue that each university can raise on its own every year.
- Legislators and the Governor's Office should be responsible for filling in the gap between the adequacy target and the resource profile.

Key oversight metrics to track

- University funding by revenue source.
- "Adequacy gaps," the difference between each university's adequacy target and resource profile.
- State investment over time.

2. Mandates may be necessary, but they're not sufficient – there must also be shared goals, support, coordination, and monitoring.

Merely suggesting accountability is unlikely to result in sustained improvement, but top-down mandates are likely to bring unintended consequences. States must work with systems from the start to align on goals, calculate needed support, coordinate with and between universities, and continuously monitor progress.

Making it operational

- With coordination from the Governor's Office and agencies, universities should create public plans for how they will equitably and adequately enroll and serve students.
- Oversight bodies should require universities to analyze outcomes and progress, sharing best practices when they achieve goals and explaining when they fall short.
    - An accountability committee of diverse stakeholders can hold universities responsible for making progress toward affordability, access, and enrollment goals.[97]

- For punitive consequences, first utilize accountability levers that don't limit the total amount of funding that universities receive, including:
  - Increased reporting required to an accountability committee
  - Answering to oversight bodies
  - Oversight over funding allocation within the university's operations
  - Agencies' program-level review and approval processes
- In implementing last-resort consequences, like funding freezes or cuts, work with institutions to implement them in a way that least affects student affordability, enrollment, and outcomes.

Oversight metrics to track

- Specific and measurable goals jointly set by institutions and agencies
- University strategic plans and goals for key student outcomes
- Core tactics that universities will use to bring about change
  - Evidence basis for each tactic
  - How tactics flow to strategies, and how strategies have led to progress towards goals

3. The state must ensure universities use additional funds to measurably improve affordability and access.

Improving affordability is both a demand of lawmakers as a condition of receiving new funds and paramount for increasing college access and completion. This is true with healthcare as well, where patients should be able to afford all the treatment they need; and K-12 education and transitional math and English, where underrepresented students have not had access to the same opportunities and pathways.

Making it operational

- Institutions must report progress toward equitably lowering prices to a reasonable degree given the amount of increased funding they receive.[98]
- An accountability committee can benchmark affordability, based on what students can realistically afford and what they pay at other institutions.
- Legislation and/or an accountability committee can require university pricing to be transparent and understandable.

Oversight metrics to track

- Disaggregated data on net price – what students actually pay to attend
  - Disaggregated, institution-specific data on how students are paying for college
  - Data on students' unmet financial need
- Transparency on total per semester pricing, including on website
- Student demographics and how enrollment reflects the state/local population and institutional mission

4. Consequences must be tied to shared goals and outcomes and provide incentives for supporting students to earn a degree, without the threat of removing essential resources.

Just as doctors want to help patients and teachers work to educate their pupils, universities strive to graduate the students they enroll. But like the healthcare providers under fee-for-service models, and school systems under NCLB, incentives can derail the institutions they seek to help. Centering the student in all considerations and

focusing universities and oversight bodies on what they are suited for and have control over – serving students and reviewing the high-level results of that work, respectively – can ensure accountability improves outcomes.

Making it operational

- Annually convene listening sessions with a diverse array of students to understand barriers that stand in the way of persistence and graduation.
- Conduct regular student climate surveys across universities.
- Pull evidence-based best practices from universities locally and nationally, and determine what is achievable at each university.
    - Analyze what barriers currently exist and if/how they can be overcome
- Review, and where possible redirect, incentives of current funding approaches to align with institutional equity goals.

Key oversight metrics to track

- Enrollment, retention, completion, and time to degree, disaggregated by student demographics
- Momentum indicators on students' pathways through college
- Institutional spending on instruction and education-related activities
- Student satisfaction and campus climate survey results

5. Institutions should operate efficiently, individually and as a system.

Public universities in general often have more room to operate at full efficiency and in cooperation with one another, but that's especially true in states like Illinois, where there is no unified governing board or oversight body. For that reason, a new funding system has a unique ability to improve the efficiency of universities individually and as a whole.

Making it operational

- Universities should annually share with the state agency their minimum and maximum enrollment capacity and at what level they would operate at peak efficiency.
    - Consolidation and closures should be a last resort, given their inequitable and economically backward effect on communities, students, and equity
- Oversight bodies should facilitate resource-sharing among universities.
    - Reward finding and implementing efficiencies in shared processes
- Oversight bodies should streamline accountability measures so they complement and do not duplicate funding measures.
- State agencies should convene institutions to share best practices.
- An accountability committee should require only the data reporting they need, aligning with data that institutions already report wherever possible.
- The state should ensure transfer between institutions is as seamless as possible.

Key oversight metrics to track

- Enrollment targets disaggregated by student demographics
- State funding spent on individual and shared administration
- Transfer enrollment, credit transfer efficiency, and transfer students' outcomes

Conclusion

The accountability systems tried in other funding models have fallen short of delivering on the goals set by policymakers. As a state, Illinois must move forward, learning from what works across other sectors and systems, like healthcare and K-12 education, to reimagine how the tools of accountability can be designed to ensure that public investment is worthwhile. This report shows that models grounded in adequacy and equity, informed by evidence and designed in collaboration, can enable institutions to better serve students. That service should be supported by the state, and then measured to show access, affordability, and outcomes that reflect the full breadth of student diversity and ambition.

Accountability should not be solely about rewarding or punishing institutions — it is a commitment to taxpayers, to institutions, and above all, to the students who rely on public higher education to transform opportunity into achievement. Illinois can lead the nation by building a funding and accountability model that is rigorous and transparent without being unproductively punitive, coordinated without being one-size-fits-all, and centered on students.

The economic theories, research, and data that underlie the principle of accountability in higher education funding may seem complex and abstract, but the impact of getting this right is anything but. It's urgent and it's personal, because behind the metrics and models are students whose futures are shaped by what we choose to value. If states are now the main stewards of higher education accountability, then they must lead with the clarity, resolve, and creativity necessary to get more students to and through college.

Appendix A: Economic Framework

This appendix highlights the framework we used to understand why some university funding models' accountability mechanisms consistently produce unintended outcomes. Our analysis draws on **principal-agent theory**, an economic framework which describes relationships where one group (the principal) sets goals and provides resources, and another group (the **agent**) is responsible for carrying them out.

"Principal-agent theory" examines how a group with power, but no direct control over action (the "principal") can create incentives to try to get a different group, with direct control over action but not resources (the "agent") to achieve something. In higher education, performance-based funding seeks to give the principal (agencies, legislators, and ultimately, the taxpayer) control over an agent's (college leaders') behavior through funding incentives, with the hope of improving outcomes.

However, principal-agent theory shows that principals will only be effective in wielding this power to produce specific outcomes if the actions that the agent needs to take to succeed are simple and straightforward. So direct incentives might work in a factory, where the CEO (principal) gives more money to employees (agents) who produce more goods. But with more complex work, this is rarely the case—a corporate account manager might spend much of the day collaborating with others, but if the CEO paid them based on how many people they met with, they would likely fill their schedules with unproductive meetings, and everyone would be less productive for it.

This example shows why many accountability models don't work as intended; the work needed to improve college outcomes (or K-12 schools, or patient outcomes), particularly in ways that are more equitable, is complex and teeming with underlying issues. Principal-agent theory says that, in these situations, directly aligning incentives to specific outcomes will create unintended consequences. Most commonly, the agent will instead take whatever simple action they can that achieves outcomes, without meaningful improvement (like the account manager's full calendar). This is why we see colleges "improve outcomes" by simply enrolling more high-income students who were more likely to graduate in the first place, K-12 schools teach to maximize standardized test performance instead of learning, or healthcare providers refuse to treat high-risk patients. These are all classic examples of principal-agent theory in action.

Using this lens helps to explain why state funding systems have historically failed to promote college access, affordability, or completion, particularly for students from underrepresented backgrounds. When incentives are unclear or misaligned with student-centered goals, funding formulas exacerbate disparate outcomes rather than reduce them. Principal-agent theory tells us exactly how directly connecting outcomes to funding, though perhaps an appealing idea, will often be ineffective and even counterproductive. States can't continue to implement variations on the same faulty base assumptions and expect different results. A new approach is imperative.

Appendix B: Detailed Oversight Metrics to Track

The following more detailed metrics are designed to help ensure that increased public investment in higher education follows student need and leads to improved outcomes. These metrics emphasize progress and accountability while recognizing that institutions—particularly those that have faced chronic underfunding—require time and support to implement meaningful change. The intent is not to impose punitive consequences that could further disadvantage students, but rather to guide continuous improvement, transparency, and shared responsibility across our higher education system.

1. The state must provide more resources to achieve better outcomes.

Key oversight metrics to track

- University funding by revenue source, per student and overall
- "Adequacy Targets," the amount that each university needs to achieve its enrollment and completion goals
    - State goals around access and completion can provide a focal point for targets
    - These can be calculated using research on the marginal effect of additional funding on enrollment, persistence, and completion
- "Resource Profiles," the current funding level of each university inclusive of all sources of revenue that can be used for operations and/or which affect student access and completion
- "Adequacy Gaps," the difference between each university's Adequacy Target and Resource Profile
- State investment over time, adjusted for inflation

2. Mandates may be necessary, but they're not sufficient – there must also be shared goals, support, coordination, transparency, and monitoring.

Key oversight metrics to track

- Specific and measurable goals tied to outcomes
- Aggregated up to the state level
- Disaggregated by institution and student group
- The tactics that universities will use to bring about change
- Evidence basis for each tactic
- How tactics flow to strategies, and how strategies accomplish goals
- Regularly updated progress
- Timely and thorough data transparency
- Regular and accessible sharing of data findings
- Dashboards to provide more in-depth and public accountability

3. Universities must use additional funds to improve affordability and access.

Key oversight metrics to track

- Data on net price for students
    - At each institution and further disaggregated by academic program
    - Disaggregated by wealth and income metrics
    - Disaggregated by relevant demographic factors like rurality, high school of origin, race, and English Learner status
- Transparency on total per semester tuition and fees, including on website
- Data on how students are paying for college, disaggregated by demographic factors
    - Amount paid by grants, institutional scholarships, and outside scholarships
    - Amount of federal loans (subsidized and unsubsidized) and private loans
- Data on students' unmet financial need, disaggregated by demographic factors
    - The share of students with unmet need
    - Average unmet need for students who have unmet need
    - Percentage of income required to pay for college
    - Percentage of estimated wealth required to pay for college

- Admissions and enrollment
  - Demographic breakdown of applicants and admits
  - Disaggregated yield rates, the percentage of students who enroll at an institution after being offered admission
  - Demographic breakdown of students who enroll and how that compares to the state/local population

4. Consequences must be tied to shared goals and outcomes and provide incentives for supporting students to earn a degree, without the threat of removing essential resources.

Key oversight metrics to track

- Enrollment, retention, and completion
  - Disaggregated by demographic factors like rurality, high school of origin, race, income-level, and English Learner status
- Smooth and efficient pathways through college
  - Credit accumulation per semester by full-time/part-time status
  - Time to degree
- Transfer into and between public institutions
  - Enrollment and outcomes for vertical transfer students (from community college to public university)
  - Enrollment and outcomes for horizontal transfer students (from 4-year institution to public university)
  - Enrollment and outcomes for transfer students disaggregated by student demographics
- Institutional spending on instruction and education-related activities
- Student satisfaction climate survey
  - Survey on instructional effectiveness, advising, financial aid, and campus climate

5. Institutions should operate efficiently, individually and as a system.

Key oversight metrics to track

- Enrollment changes over time and by program/major
  - Faculty and staff count, and ratios to enrolled students
- State funding spent on individual and shared administration
  - Current shared services spending
  - For functions that are identified for possible shared spending, track spending by administrative department and function at each university

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