

## Your Question:

You requested a policy scan of different approaches that states have taken for outcome-based funding in K-12 education. You were particularly interested in components in state funding formulas that give additional money to reward districts for certain levels of performance on top of the base amounts allocated in the formula.

## Our Response:

Outcome-based funding models are designed to encourage school districts to focus on completion or student performance rather than on student enrollment. They are prevalent in postsecondary education, as discussed in this [this Policy Snapshot](#) from Education Commission of the States, yet states have implemented outcome-based funding in K-12 education as well.

In K-12, the most common example of outcome-based funding is performance-based compensation for teachers. Nine states require and 14 states encourage or permit districts to consider performance in teacher pay based on a 2017 review performed by the [National Council on Teacher Quality](#). In addition, based on our review, at least four states (**Arizona, New Mexico, Ohio and Texas**) have enacted outcome-based funding streams that are not tied to compensation. These funds are awarded to school districts or charters for achieving certain outcome standards and often include an additional incentive for achieving outcomes for students from low-income backgrounds. The following sections discuss these examples and provide links to the legislation or to the relevant state statute.

### **Early Postsecondary Completion and Industry-Based Certification**

State leaders looking to increase postsecondary credential attainment to build the depth and breadth of their high-skilled labor force could consider outcome-based funding that encourages early postsecondary completion or industry-based certification. There is at least one state (**Texas**) that annually appropriates state funds to encourage districts to increase achievement in these areas.

- **Texas (HB 3)** created the [College, Career, or Military Readiness Outcomes Bonus](#) in 2019. These incentive funds reward high schools for preparing graduates for college, a career or the military through participation in Texas' early college programs. High schools start to receive funds when a threshold percentage of students meets the college, career or military readiness goals, which include completion of an associate degree or earning an industry-based certification. Districts receive \$5,000 for students from low-income backgrounds that meet this standard compared to \$3,000 for students who are not from low-income backgrounds.

## Proficiency on Standardized Tests and Graduation Rates

While standardized tests are [not the only measure](#) for student progress, test performance informs state and district leaders on the extent to which students have achieved proficiency in subject areas. State leaders looking to make progress in an identified subject area can design outcome-based funding models that encourage improved performance.

At least two states, **Arizona** and **Ohio** have implemented funding models that reward achievement on tests in certain subject areas or for graduating. Funding for **Ohio's** performance bonuses were not included in the 2022-23 state budget.

- **Arizona** offers [Results-Based Funding](#) to schools in districts or charter schools with the highest percentage of students passing the math or the language arts portion of the statewide assessment. The amount of funds that a district or charter receives depends on the percentage of students eligible for free or reduced priced lunch.

In schools where 60% or more of the student body is eligible for free or reduced priced lunch, the state distributes \$225 per student if the school performed in the top 27% but not the top 13% and \$400 if they are in the top 13%. In schools with less than 60% of students eligible for free or reduced priced lunch, the state distributes \$225 per student if the school is in the top 13%. In the [2021 fiscal year](#), the state distributed \$30.1 million to districts and \$11.3 million to charter schools for results-based funding.

- **Ohio** previously provided [performance bonuses](#) for school districts based on their graduation rates and the percentage of students achieving third grade reading proficiency. In the 2018 fiscal year, the state appropriated \$20.4 million for the graduation bonus and \$11.2 million for the third grade reading proficiency bonus. Bonuses were awarded to districts based on the number and the percentage of students graduating or achieving reading proficiency. Funds for performance bonuses were not included in the 2022-23 budget ([HB 110](#)).

## Performance-Based Budgeting

Performance-based budgeting is one strategy that [states have used](#) to improve budgeting and to spend public funds efficiently and effectively. This budgeting process requires programs and agencies to work toward meeting specific goals and performance measures. At least one state (**New Mexico**) has recently enacted policies to incorporate performance-based budgeting into how state funds are allocated to school districts.

- **New Mexico** enacted legislation ([SB1](#)) in 2019 that establishes performance-based budgeting procedures for school districts. Starting in the 2021 fiscal year, school districts and charters are required to submit information in their educational plan on: instructional time; services provided to state defined “at-risk students,” bilingual students, Native students, students in extended learning

programs and K-5 plus programs; services and budgeted expenditures for students with a disability; and performance targets and performance measures.

- In the same legislation ([SB1](#)), **New Mexico** created the Public Education Reform Fund for the purposes of implementing evidence-based public education initiatives related to high quality teaching and school leadership, extended learning opportunities for students, educational services for state defined “at-risk students,” effective and efficient school administration or for promoting public education accountability.

## Teacher Compensation

Many states factor performance into teacher salaries and bonuses to recognize, advance and retain excellent teachers. [This Policy Brief](#) from Education Commission of the States provides a high-level overview of the research on teacher financial incentives, including pay for performance, and finds that state financial incentive programs have the potential to direct teachers to shortage areas and ensure they stay — but they lose their lure if they are not sufficient, sustained and paired with improvements to working conditions.

There are nine states that require districts to consider performance in determining teacher pay and 14 states that encourage or allow districts to consider performance in teacher pay, based on a 2017 review performed by the [National Council on Teacher Quality](#).

States that require districts to consider performance in determining teacher pay:

- FL, GA, HI, IN, LA, MI, MN, NV, UT

Examples of statutory language requiring districts to consider performance in determining pay (excludes **Hawaii** because the requirement is not in statute):

- **Florida** ([Fla. Stat. Ann. § 1012.22](#)) requires districts to adopt a performance salary schedule that provides annual salary adjustments for instructional personnel and school administrators based upon performance evaluation criteria, which must:
  - o Be designed to support effective instruction and student growth learning;
  - o Provide appropriate instruments, procedures, timely feedback and criteria for continuous improvement; performance data from multiple sources including parental input;
  - o Identify teaching fields for special evaluation;
  - o Differentiate using four performance levels; and
  - o Provide for training and monitoring.
- **Georgia** ([Ga. Code Ann. § 20-2-212](#)) does not credit teachers on the salary schedule for a school year where the teacher receives an unsatisfactory or ineffective annual summative performance

evaluation. The evaluations are based on multiple, rigorous and transparent measures, which include student growth, professional growth and teacher evaluations and observations.

- **Indiana** ([Ind. Code Ann. § 20-28-9-1.5](#)) does not provide any raise to a teacher rated ineffective or improvement necessary if the employment contract is continued. The funding that would otherwise have been allocated for the salary increase for the teacher rated as ineffective is allocated to teachers rated as effective.
- **Louisiana** ([La. Stat. Ann. § 17:418](#)) prevents teachers or administrators who are rated as ineffective from receiving a higher salary in the year following the evaluation and ([La. Stat. Ann. § 17:10.2](#)) permits a city or parish school board to adopt an incentive compensation program that provides monetary awards based on performance which meets or exceeds standards established for a school or the school district.
- **Michigan** ([Mich. Comp. Laws Ann. § 380.1250](#)) requires districts to include job performance and job accomplishments as a significant factor in their method of compensation for teachers and school administrators. The assessment of performance must be in part based upon data on student growth as measured by assessments and other objective criteria.
- **Minnesota** ([Minn. Stat. Ann. § 122A.414](#)) permits districts to develop and implement an alternative teacher pay professional pay system as long as it meets the following conditions:
  - Teachers can achieve career advancement and additional compensation;
  - Teachers are provided career advancement options that allow teachers to retain primary roles in student instruction;
  - Reforms the steps and lanes in the salary schedule;
  - Attains schoolwide student achievement gains;
  - Includes measures of student growth and literacy that may include value-added models;
  - Has an objective evaluation program;
  - Provides for participation in job-embedded learning opportunities;
  - Allows any teacher to participate without quota or limit; and
  - Encourages collaboration rather than competition among teachers.
- **Nevada** ([Nev. Rev. Stat. Ann. § 391A.450](#)) offers a program of performance pay and enhanced compensation. School districts must reserve an amount not less than 5% and not more than 10% of the base salary of teachers and administrators in the district for performance pay and enhanced compensation.
- **Utah** ([Utah Code Ann. § 53F-2-513](#)) has an incentive program for effective teachers in state-defined “high poverty schools.” School districts or charter schools will annually apply to the state board on behalf of eligible teachers to receive an annual salary bonus. Eligibility is determined based on the

teacher achieving a median growth percentile of 70 or higher and is in a school with a threshold level of intergenerational poverty or students eligible for free or reduced priced lunch.

### Additional Resources

- [What We Know About Differential and Performance Pay](#): Links recent research on the impacts of differential pay and pay for performance on student outcomes.
- [Differential and Performance Pay for Teachers](#): Provides resources for comparing state and district models and related research on differentiated pay and pay for performance.
- [Targeted Teacher Recruitment](#): Highlights legislation enacted by states to provide financial incentives for teacher recruitment.
- [Does Outcome-Based Funding Encourage Academic Progress Or Deepen The Divide?](#): News coverage around the debate in Texas to implement outcome-based funding models.
- [Re-Imagining Outcomes-Based Funding](#): Provides a guide for implementing equitable outcome-based funding in higher education.