

Chairman Read and Members of the House Higher Education Committee,

My name is Kevin Furey Ph.D.

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I'm an Economics Instructor at Chemeketa Community College, and

I was the Community College Faculty Advisor to the Oregon State Board of Education 2012-14, where the subject of Outcome Based Funding (OBF) was often discussed.

As an economist, I'm trained to look at systems for incentives and unintended consequences. On the surface OBF has the appearance of an effective strategy for improving graduation rates, but as we look deeper, it has a set of bad incentives that will, more than likely, damage higher education. I will focus on three unintended consequences.

1. A question we have repeatedly asked the proponents of OBF is "how will rewarding colleges for student progress and graduations cause students to study harder;" and, "how will it make students come to college better prepared?" The proponents of OBF have never had an answer to this question, only a vague notion that the institutions will make changes that will increase graduation rates. Even if the solution to higher graduation rates revolved around institutions rather than students, there is no magic bullet here. The current funding model is a cost production model, where costs are assumed to increase linearly. But every CFO knows that they face increasing returns to scale. Thus, the college can make more "profit" if it maximizes retention; and, if you retain students long enough, they graduate. The system already focuses, indirectly, on graduation rates. Without funding specifically targeted towards programs that are known to work, there are only two ways to significantly increase graduation rates.

a. Gimmicks to inflate graduation rates; and,

b. Having the faculty lower grading standards. Even if the college doesn't actively put pressure on faculty, once the college is rewarded for graduations, part-time faculty, who have little employment protection, will fear for their jobs if they flunk too many students. Once part-time faculty lower their grading standards, it will put pressure on full-time faculty to do the same in order to attract enough students to their classes. But, of course, the competitive pressures built into an OBF system will give colleges' a strong incentive to pressure faculty to lower grading standard. Chemeketa started putting subtle pressure on its faculty three years ago when this idea first went to the State Board of Education.

2. This model implicitly assumes that the quality of students is randomly distributed across the state. But, we know this isn't true. Students from poorer families are, on average, less prepared for college than their well-to-do colleagues. Since some community college school districts have a higher proportion of poorer students than others, an OBF model will act like a perverse NASCAR race--some teams will be given fast cars, while others will be given slow ones. They will then race against each other, and the winners will receive the largest share of the prize money. The teams will then be required to invest all their prize money into making their cars faster. And then they will race again, and

this process will repeat itself over and over. The outcome will be that our citizens who are most in need of our resources to be able compete, will get less, and less and less, while those who have the least need of resources will get more, and more, and more.

3. Let's say College A discovers a new program that increases graduation rates. What would be best for all Oregonians is for College A to share this new discovery with others. But is that what is best for College A? No, the OBF system gives College A an incentive to keep this new program a secret, so that it could profit from it year after year after year.

In closing,

- What we need is a funding formula that fosters cooperation and not competition.
- What we need is a system that promotes a higher quality of education and not lower quality.
- What we need is a funding formula that promotes higher education for the disadvantaged and doesn't put them further and further behind.

Thank you for the opportunity to testify before you today.