

January 12, 2022

Funding Review Steering Committee Members,

At the last convening of the School Funding Steering Committee on December 15<sup>th</sup>, committee members requested the department research the use of outcomes-based funding models in other states' K-12 funding formulas, and report back findings to the committee. In this context, the term “outcomes-based funding” refers to components in state funding models that reward additional money to districts for certain levels of performance on top of the base amounts allocated in the formula. Outcomes based funding models are designed to reward districts for student performance and completion of programs. To fulfil this request, the department asked the Education Commission of the States (ECS) to perform a 50-state policy scan to identify different approaches states have taken to incorporate K-12 education outcomes into education funding models. The attached policy snapshot summarizes the results of the policy scan.

ECS found that outcomes-based funding approaches are still developing in K-12 education funding and have traditionally been more commonly used in higher education funding formulas. However, several states have recently enacted outcomes-based funding streams that are tied to student outcomes. The attached policy snapshot summarizes these different strategies, which include rewarding extra dollars for completion of early postsecondary opportunities (Texas), proficiency rates on standardized tests and graduation rates (Arizona), and third grade literacy rates (Ohio). The department has also identified Florida as a state that employs some type of outcomes-based funding approach, and Maryland as a state that has taken a creative approach to teacher compensation based on outcomes.

Although ECS found several examples of outcomes-based funding models that focus on student outcomes, the most common example of outcomes-based funding identified by ECS was performance-based compensation for teachers. Specifically, 14 states encourage or require districts to consider performance in teacher pay. Tennessee currently has a robust differentiated pay framework in place that allows LEAs to recruit teachers in hard to staff areas and reward teachers for performance, although the use and implementation of that policy flexibility varies across districts. Strategies that reward higher pay for teacher performance should be viewed as separate from outcomes-based funding models that reward districts with additional funding for student outcomes. Outcomes-based funding approaches reward districts for specific student outcomes, while differentiated pay frameworks are more flexible, and are policy decisions that can be made with funding that is currently allocated. To pair with the attached ECS analysis of other state's approaches to teacher pay for performance, the following is a summary of the current pay for performance framework in Tennessee.

[T.C.A 49-3-306](#) lays out the framework in state law for LEAs to use pay to recruit, retain, and award high performing teachers. Specifically, all Tennessee LEAs are required to develop, adopt, and implement a differentiated pay plan. Differentiated pay plans are designed to aid in staffing hard to staff subject areas and schools, and aid in hiring and retaining highly qualified teachers. The State Board's [Strategic Compensation Policy 5.600](#) further requires districts to provide pay incentives in one of the following areas: Hard to staff subject areas or schools, instructional roles and responsibilities, or teacher performance based on effectiveness. As part of differentiated pay plans, districts may also adopt an alternative salary schedule pursuant to T.C.A. 49-3-306 that allows districts to deviate from the state minimum salary schedule for the purpose of recruiting and rewarding effective teachers. The department reviews all differentiated pay plans, and if an LEA wishes to use an

alternative salary schedule as part of their differentiated pay plan, the schedule must be reviewed and approved the department and State Board.

We hope this additional information is helpful to the committee.

Sincerely,

**Charlie Bufalino**  
**Assistant Commissioner of Policy & Legislative Affairs, Department of Education**

## This response was prepared for Jack Powers, Director of Policy, Tennessee Department of Education

### Your Question:

You requested Education Commission of the State's assistance in performing 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 post-secondary 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 2022-2023 state budget.

- **Arizona** offers [Results-Based Funding](#) to schools in districts or charter schools with the highest percentage of students passing the mathematics 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 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 percentage of students graduating or achieving reading proficiency. Funds for performance bonuses were not included in the 2022-2023 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 2021 fiscal year, school districts and charters are required to submit information in their educational plan, which includes information on: instructional time; services provided to “at-risk students”, bilingual students, native students, students in extended learning programs, and K-5 plus program; 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 “at-risk students”, effective and efficient school administration or promoting public education accountability.

### Teacher Compensation

Many states factor performance into teacher salaries and bonuses to recognize, advance and retain excellent teachers. [This report](#) 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 9 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 programs 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;
  - 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 percent and not more than 10 percent 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 “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

- **Education Commission of the States** [What We Know About Differential And Performance Pay](#): Links recent research on the impacts of differential pay and pay for performance on student outcomes.
- **Education Commission of the States** [Differential and Performance Pay for Teachers](#): Provides resources for comparing state and district models and related research on differentiated pay and pay for performance.
- **Education Commission of the States** [Targeted Teacher Recruitment](#): Highlights legislation enacted by states to provide financial incentives for teacher recruitment.
- **K-12 Dive** [Does Outcome-Based Funding Encourage Academic Progress Or Deepen The Divide?](#): News coverage around the debate in Texas to implement outcome-based funding models.
- **The Education Trust** [Re-Imagining Outcomes-Based Funding](#): Provides a guide for implementing equitable outcome-based funding in higher education.