THE CENTER FOR OUTCOMES BASED CONTRACTING: GUIDANCE FOR STATE AND LOCAL EDUCATION AGENCIES

As State Educational Agencies (SEAs), Local Educational Agencies (LEAs), and education service providers work to accelerate student learning, many are exploring new ways to ensure public investments translate into measurable results.

The U.S. Department of Education (ED) has reinforced this focus through its Supplemental Priority on Meaningful Learning Opportunities, including Priority (b)(v), which explicitly encourages the use of outcomes based contracting (OBC) to improve student achievement.

The Center for Outcomes Based Contracting (The Center) issues this guidance to support the effective implementation of OBC in alignment with this federal priority. It addresses three persistent barriers:

1. the absence of a shared definition,
2. questions about alignment with federal priorities, and
3. uncertainty regarding allowable funding streams.

Defining Outcomes Based Contracting

A Working Definition

To support consistency across jurisdictions, The Center recommends the following definition for use in programs aligned to Priority (b)(v):

Outcomes Based Contracting (OBC) is a contract model in which payments to a service provider are contingent on meeting predefined outcomes, as measured by reliable and valid metrics, including standardized academic achievement, student growth, and other meaningful, malleable, and measurable indicators aligned to district priorities. OBC agreements include a base payment component and contingent outcomes payments tied to a rate card specifying outcome prices and outcome payment caps.

Key Terms

- **Contingent Outcomes Payments** are disbursed as agreed-upon outcomes are achieved, rather than upon delivery of services alone.
- **Rate Card** specifies each payment outcome, the associated price, and any outcome payment caps.
- **Mutual Accountability** describes the explicit commitments between the provider and the LEA, including defined responsibilities and clear remedies, ensuring both parties are accountable for implementation conditions and student results.

- **Process Outcomes** are non-payment indicators of student success and program implementation used to inform continuous improvement.
- **Implementation Success Plan** is a comprehensive plan—designed and driven by the provider with input from the district—that outlines the activities needed to support and drive implementation consistent with evidence-based practices.

How OBC Differs from Traditional Contracting

Traditional contracts primarily pay for inputs such as sessions delivered, licenses provided, hours logged, or staff deployed. OBC, by contrast, ties a meaningful share of payment—typically at least 40 percent of total contract value—to demonstrated outcomes.

Alignment with Federal Priorities

The U.S. Department of Education's 2026 Supplemental Priority for Meaningful Learning Opportunities explicitly names outcomes based contracting, both as a standalone contracting lever for improving student achievement in Priority (b)(v) and as an approach within high-impact tutoring in Priority (b)(iv). This dual recognition suggests strong alignment between OBC as a mechanism for results-driven investment and a broader federal emphasis on ensuring public funds are tied to results rather than activities.

That emphasis runs through the priority's overarching structure: all supported interventions must be grounded in strong, moderate, or promising evidence (as defined in 34 CFR 77.1). While traditional procurement may focus on selecting evidence-based programs, OBC goes a step further by embedding accountability for the implementation integrity required to achieve evidence-based results within the contract itself.

The Standards of Excellence for Outcomes Based Contracting™ codify the contract components that are essential for outcomes based contracting to work, ensuring both districts and providers have the clarity, structure, and shared accountability needed to drive meaningful results. The Center recommends that all OBC agreements incorporate the following five domains:

1. **Clearly Defined Population and Program**: Contracts define the target population to be served, specifying the content area, grade level, and like-performing student group, and the evidence-based instructional intervention to be implemented.

2. **Clearly Defined Outcomes and Metrics:** Contracts include multiple clear outcomes aligned with district priorities, such as academic achievement and growth, with associated measures and achievement goals specific to the target population.
3. **Contingent Outcomes Payments:** At least 40 percent of total contract value is contingent on outcomes, supported by a rate card that specifies outcome prices and payment caps. Contract value should be sufficient to enable full and faithful implementation without requiring additional payments or inputs.
4. **Mutual Accountability:** Contracts establish agreed-upon commitments between the LEA and provider, including minimum service requirements (e.g., attendance, dosage, tutor consistency), explicit roles and responsibilities, and clear remedies for non-compliance. This ensures each party is accountable for creating the conditions necessary for student success.
5. **Continuous Improvement:** Contracts establish a systematic approach to data collection, analysis, and collaboration that supports informed, transparent decision-making between districts and providers, including regular data review cycles and use of process outcomes to monitor progress.

Use of Federal Funding Streams

When designed in accordance with applicable statutes and regulations, OBC aligns with federal education funding requirements. Importantly, the inclusion of contingent payment mechanisms does not, in itself, make a contract noncompliant (more detail below). Furthermore, OBC's contingent payment structure is compatible with federal grant timelines. Funds are obligated at contract signing and liquidated as contingent payments are made. In cases where contingent payments are not fully disbursed, remaining funds can be carried over and repurposed for another allowable activity.

Potential Funding Sources

Based on current federal program guidance, as of August 2026, OBC-structured agreements may be funded by:

- **Title I, Part A (ESEA):** for targeted academic support for students at high-poverty schools
- **Title II, Part A (ESEA):** for professional development for teachers and school leaders
- **Title III, Part A (ESEA):** for supporting English Learners
- **Title IV, Part A (ESEA):** for student support and academic enrichment
- **Title IV, Part B (ESEA):** for before / after school programming
- **Title V, Part B (REAP):** for additional funding to support rural schools

- **IDEA, Part B:** for services supporting students with disabilities, consistent with IDEA requirements
- **Title I School Improvement Grants:** for comprehensive or targeted support and improvement activities
- **Discretionary grant programs** in which Priority (b)(iv) or (b)(v) is included as an absolute or competitive preference priority
- Note: states that are pursuing or have received state block-grant waivers from USED to consolidate funds should consult state-specific waiver terms, as allowable uses may differ from the standalone programs above (updates from USED)

Allowable Uses Within Outcomes Based Contracts

Funds may be used to support:

- Base payments for program delivery and infrastructure;
- Contingent outcomes payments tied to verified student results;
- Implementation supports, including training, data systems, and continuous improvement processes; and
- Technical assistance for contract development, monitoring, and compliance.

Districts may also fund OBC agreements by braiding a combination of general fund dollars and federal funds. SEAs and LEAs should work closely with legal counsel and program offices to ensure alignment with all applicable requirements.

Clarifying Concerns About Prohibited Incentive Compensation

Contingent outcomes payments made under an OBC are not prohibited incentive compensation under 34 C.F.R. § 668.14(b)(22). That regulation governs postsecondary institutions participating in Title IV programs and applies only to payments tied to securing student enrollment or financial aid. It does not apply to K-12 district-provider contracts. *For additional background, see GAO-10-370R and ED Program Integrity Q&A on Incentive Compensation.*

Beyond that jurisdictional distinction, OBC contingent payments differ structurally from prohibited compensation in two important ways:

- They are performance-based contract payments made to service providers, not compensation paid to individual employees.
- They are governed by federal procurement standards, not compensation law.

LEAs should document OBC agreements as performance-based service contracts within procurement records and clearly define outcomes, payment structures, and responsibilities within the contract.

Closing

The Department of Education's inclusion of outcomes based contracting in its supplemental priorities signals an important shift toward results-driven investment in education.

The Center stands ready to support SEAs, LEAs, and education service providers in designing and implementing high-quality OBC agreements that strengthen accountability and improve student outcomes.

For additional resources, including model RFP, contract, and rate card templates, please visit the Center for OBC Resource Page or contact us.