**Tennessee Higher Education Commission**

**2015-2020 Outcomes-Based Funding Formula Overview**

**Introduction**

Immediately following the passage of the Complete College Tennessee Act of 2010 (CCTA) — a law which in part stipulates that higher education institutions be funded based on outcomes rather than enrollment — the Tennessee Higher Education Commission (THEC) convened a Formula Review Committee (FRC) consisting of institutional, system and governmental stakeholders to provide counsel on the creation of an outcomes-based funding formula. THEC also solicited advice and feedback from all university and community college presidents and chancellors. Through this process THEC produced a formula that funds institutions based on metrics that measure success as well as weights that reflect institutions’ priorities and missions.

Since 2010, THEC has convened the FRC annually to review the strengths and weaknesses of the formula, with plans to implement any structural changes after the first five-year cycle. That five-year cycle came to an end with the distribution of FY 2015-16 appropriations in November 2014. Beginning in February 2015, the 2015-2020 FRC (see membership in Appendix A) proposed and reviewed changes to the current model. THEC also requested frequent feedback and advice from all institutions’ presidents and chancellors, and discussed all proposed changes from these meetings with the Statutory Formula Review Committee, a formal committee charged with reviewing and recommending changes to the formula (see Appendix B).

THEC staff presented the basic framework and structure of the proposed 2015-2020 Outcomes-Based Funding Formula model to commissioners at the July 2015 Quarterly Commission Meeting. Since the approval by the Commission at the July meeting, all components of the 2015-2020 formula have been finalized. The finalized components are detailed below and are summarized in Appendices C and D.

**Outcomes**

The outcomes for both sectors remain largely intact. Modifications include several definitional changes and two outcome removals.

*Community College Sector*

In the 2010-2015 model, only academic and technical short-term certificates (those requiring fewer than 24 semester credit hours) that represented the highest award earned at the time of a student’s stop-out were counted. In the 2015-2020 model, *all* technical certificates will be counted, whether awarded to students who then stopped out or who continued taking classes at any institution. Short-term certificates identified as academic in nature will not be counted as part of the short-term certificate metric as they are awarded to students who intend to transfer — a measurement of success that is its own outcome.

Members of the FRC expressed an interest in removing non-degree-seeking students, such as dual enrollment students, from the full-time enrollment metric used in the Awards per 100 FTE outcome. Due to improvements to the THEC Student Information System the 2015-2020 model will only count degree-seeking undergraduate students in the Awards per 100 FTE outcome.

Finally, in an effort to better capture a community college’s success in remediating students, the Remedial and Development Success outcome will be replaced with an Academically Underprepared focus population. In the 2010-2015 model, a student who enrolled in a remedial or developmental course and then completed at least one college-level course during any of the following three academic years was considered successfully remediated and counted as an outcome. Today community colleges engage in learning development for underprepared students in methods that occur outside of a remedial course (e.g. SAILS, or Seamless Alignment and Integrated Learning Support, offered to high school students by community colleges throughout the state). To recognize these innovative interventions, the 2015-2020 model will instead reward community colleges with an applied premium when academically underprepared students attain different progression metrics or earn an award.

*University Sector*

THEC identified the Transfers Out outcome from the university sector as an outcome that did not necessarily represent an accurate measurement of success at universities. Because of this, the outcome will be removed from the university model for 2015-2020.

To encourage on-time completion at the university sector, the 24-, 48- and 72-credit hour progression metrics will change to 30-, 60- and 90-credit hour progression metrics. These progression points better represent the number of hours students must earn within an academic year to complete a bachelor’s degree in four years.

Finally, as in the community college sector, the university sector’s Degrees per 100 FTE outcome will be refined within the FTE metric to recognize only degree-seeking students.

**Focus Populations & Premiums**

The 2010-2015 model applied a premium of 40 percent to an institution’s progression metrics and awards (certificates, associates and bachelors) whenever a low-income student or an adult persisted or completed. These two populations of students were recognized as “subpopulations.” In the 2015-2020 model, these groups of students will instead be referred to as “focus populations,” to highlight the significance of their success to completion initiatives across Tennessee.

As discussed above, an additional focus population will be added to the community college sector: Academically Underprepared. A student is identified as academically underprepared if s/he meets one of three criteria: the community college identifies the student as requiring remediation; a student scores an 18 or below on the ACT Composite; or a student scores an 18 or below on the ACT Reading or Mathematics component, or a 17 or below on the ACT Writing component.

Discussion ensued within the FRC and during the Quarterly Commission meeting as to whether universities should also be rewarded for success with academically underprepared students. After in-depth discussion with all stakeholders, THEC decided to study the issue further and will not include academically underprepared as a focus population for universities at this time.

Finally, the FRC recommended to THEC that the 40 percent premium level be increased based on feedback from campus officials throughout the 2010-2015 cycle who believed a higher premium level would be more appropriate. The 2015-2020 model will employ *elevated* and *graduated* premium levels: students who qualify for one focus population will garner an 80 percent premium; students who qualify for two will garner a 100 percent premium; and students who qualify for three — at community colleges only — will garner a 120 percent premium.

**Weights**

CCTA stipulates that outcomes must be weighted to reflect mission differentiation. During the formula review process, college presidents and chancellors were asked to prioritize the 2015-2020 outcomes and to provide narratives describing how the priorities reflect their institutions’ missions. The University of Tennessee and Tennessee Board of Regents systems also reviewed their respective institutions’ responses to verify and validate the campuses’ priorities.

Weights at universities are based on a combination of the prioritized outcomes and on Carnegie classification. In the community college sector weights are largely based on institutional mission. Officials from TBR recommended that weights for certain outcomes be prioritized and standardized across the community college sector to reflect the needs of statewide completion initiatives, including Drive to 55 and CCTA: Associate degrees are weighted at 22.5 percent; progression metrics sum to 15 percent for all community colleges; and Long-term and Short-term certificates sum to 20 percent, with differentiation between the two certificate types based on institutional priority and historical performance. See Appendix E for each institution’s weight structure.

**Removal of Salary Monetization and Out-of-State Tuition**

In the 2010-2015 model, each institution’s total weighted outcomes were monetized using a salary multiplier based on institutional peer data collected by the Southern Regional Education Board. Members of the FRC proposed removing the multiplier since it introduced unwanted volatility from other states’ salary policies and therefore shifted state funding based on changes to the SREB median faculty salary rather than outcome production. The 2015-2020 model will no longer rely on a salary multiplier to monetize the outcomes.

The 2010-2015 model also deducted out-of-state tuition from each institution based on the number of full-time equivalent students identified by the state as paying out-of-state tuition. Members of the FRC suggested that the deduction discouraged institutions from enrolling out-of-state students — students who as degree completers would contribute to the state economy as well as the Drive to 55 initiative. The 2015-2020 model therefore excludes the out-of-state tuition deduction.

**Scales**

In addition to serving the purpose of comparing outcomes of varying magnitudes (e.g. Research and Services in the millions to Doctoral/Law Degrees in the dozens), the 2010-2015 scales were used in part to help calibrate the new outcomes-based funding formula to the old enrollment-based funding formula. This decision required the use of estimated values for scales.

With the reworking of the underlying structure of the 2015-2020 model to allow for the removal of salary monetization, the model can now be calibrated without the use of scales and mathematically-derived scales can be implemented.

The 2015-2020 model uses an historic data set (a ten-year history for most outcomes) to determine the average standard deviations of all outcomes across each sector. These averages were used in determining the scales. Most outcomes use the exact mathematically-derived scales while a few are altered to provide parity between the sectors or to reflect observed and anticipated volatility.

The process used to analyze and review changes to the outcomes model allowed all stakeholders to play a significant role in creating the 2015-2020 model. This model does not differ greatly from the 2010-2015 model, but more effectively rewards institutions for outcome success while reflecting the input from these stakeholders.

**Appendix A**

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| **THEC 2015-20 Formula Review Committee** | | |
| **Name** | **Institution** | **Title** |
| Chad Brooks | Austin Peay State University | Professor of Biology |
| Cynthia Brooks | Tennessee State University | Vice President for Business and Finance |
| Richard Brown | University of Tennessee, Chattanooga | Executive Vice Chancellor for Finance and Operations |
| Crystal Collins | THEC Staff | Director of Fiscal Policy Analysis |
| Evan Cope | THEC Commission | Chair of Commission |
| Will Cromer | Governor's Office | Director of Policy and Research |
| Betty Dandridge Johnson | THEC Staff | Associate Executive Director for Academic Affairs |
| Russ Deaton | THEC Staff | Interim Executive Director |
| Tristan Denley | Tennessee Board of Regents | Vice Chancellor for Academics |
| Steven Gentile | THEC Staff | Director of Fiscal Policy Research |
| Danny Gibbs | Roane State Community College | Executive Vice President for Business and Finance |
| Tre Hargett | Secretary of State | Secretary of State |
| Sharon Hayes | THEC Commission | Commissioner |
| Katie High | University of Tennessee System | Vice President for Academic Affairs and Student Success |
| Nate Johnson | Postsecondary Analytics | Consultant |
| David Lillard | Treasurer | Treasurer |
| Kenyatta Lovett | Tennessee Board of Regents | Assistant Vice Chancellor for Community College Initiatives |
| Teri Maddox | Dyersburg State Community College | Vice President for the College |
| Susan Martin | University of Tennessee, Knoxville | Provost and Senior Vice President |
| Warren Nichols | Tennessee Board of Regents | Vice Chancellor of Community Colleges |
| Butch Peccolo | University of Tennessee System | Chief Financial Officer |
| David Rudd | University of Memphis | President |
| Dale Sims | Tennessee Board of Regents | Vice Chancellor for Business and Finance |
| Janet Smith | Columbia State Community College | President |
| Greg Turner | Department of Finance and Administration | Education and THDA Coordinator |
| Justin Wilson | Comptroller | Comptroller |
| David Wright | THEC Staff | Associate Executive Director for Strategic PPR |

**Appendix B**

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| **Statutory Formula Review Committee** | | |
| **Name** | **Institution** | **Title** | |
| Representative Harry Brooks | House of Representatives | Chair, House Education Administration & Planning Committee | |
| Russ Deaton | Tennessee Higher Education Commission | Interim Executive Director | |
| Joe DiPietro | University of Tennessee | President | |
| Representative John Forgety | House of Representatives | Chair, House Education Instruction & Programs Committee | |
| Senator Dolores Gresham | Senate | Chair, Senate Education Committee | |
| Cathy Higgins | Office of Legislative Budget Analysis | House Budget Analysis Director | |
| Larry Martin | Department of Finance and Administration | Commissioner | |
| Senator Randy McNally | Senate | Chair, Senate Finance, Ways & Means Committee | |
| John Morgan | Tennessee Board of Regents | Chancellor | |
| Rick Nicholson | Office of Legislative Budget Analysis | Senate Budget Analysis Director | |
| Representative Charles Sargent | House of Representatives | Chair, House Finance, Ways & Means Committee | |
| Justin Wilson | Comptroller | Comptroller | |

**Appendix C**

**2015-20 Higher Education Funding Formula Proposed Changes**

The higher education outcomes-based funding formula is made up of three major elements: outcome metrics, institutional mission weights, and focus populations. Below is a summary of the changes to the formula.

**Proposed Changes to Outcome Metrics**

*Community College Model* — Community colleges would be measured by a suite of outcomes very similar to the current version of the funding formula. Short-term certificates would undergo a definitional change and remedial and developmental success would be removed as an outcome metric, replaced with a subpopulation premium focused on academically underprepared students.

*University Model* — Universities also would have very similar outcomes in the next iteration of the funding formula. The progression metrics would change from 24/48/72 semester hours to 30/60/90 semester hours and the transfer-out metric would be removed.

In both sectors, the Degrees/Awards per Full-time Enrollment metrics will change so that full-time enrollment (FTE) only includes students who are degree-seeking. In the current model all undergraduate students, whether degree-seeking or not, are included.

**Proposed Changes to Mission Weights**

All chancellors and presidents were asked to prioritize outcomes based on institutional mission. These prioritized outcomes were presented to the Formula Review Committee (FRC) for analysis and feedback. During this process, conversations between THEC and TBR led to a policy recommendation to standardize the weights for certain outcomes across the community college sector in order to create a unified system-wide response to the needs of Drive to 55 and the Complete College Tennessee Act. University weights would continue to be grounded in Carnegie classification.

**Proposed Changes to Focus Populations (formally called Subpopulations)**

*Community College and University Models* — A premium level will be applied to the progression and undergraduate completion metrics for students who are low-income (qualify for the Pell Grant), adults (25 years or older) or, in the community college sector only, identified as academically underprepared.

*Premium Levels* — Premiums will be differentiated based on the number of focus populations for which a student qualifies. The first subpopulation would garner an 80 percent premium, the second would garner an additional 20 percent, and the third (in the community college sector only) would garner another 20 percent.

**Proposed Additional Changes to the Model**

The 2015-2020 Outcomes-Based Funding Formula will exclude the out-of-state tuition deduction. This change will result in state funding no longer shifting due to changes in out of state enrollment levels. Furthermore, tuition border county legislation will no longer impact the funding formula. Additionally, the FRC also discussed no longer using an SREB salary multiplier, thus removing the state funding movement based on changes to the SREB median faculty salary rather than outcome production. The Quality Assurance program, which was reviewed separately, and the fixed cost components would remain largely unchanged.

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| **Appendix D** | | |
| **Outcomes-Based Funding Formula Changes: Outcomes and Focus Populations** | | |
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| **2010-2015 Formula Model** |  | **2015-2020 Outcomes Model** |
|  |  |  |
| **Community College Outcomes** |  | **Community College Outcomes** |
| Students Accumulating 12 hrs. |  | Students Accumulating 12 hrs. |
| Students Accumulating 24 hrs. |  | Students Accumulating 24 hrs. |
| Students Accumulating 36 hrs. |  | Students Accumulating 36 hrs. |
| Dual Enrollment |  | Dual Enrollment |
| Associates |  | Associates |
| Long-term Certificates |  | Long-term Certificates |
| Short-term Certificates |  | ***Short-term Certificates1*** |
| Job Placements |  | Job Placements |
| Remedial & Development Success |  | **~~Remedial & Development Success~~2** |
| Transfers out with 12 hrs. |  | Transfers out with 12 hrs. |
| Workforce Training |  | Workforce Training |
| Awards per 100 FTE |  | ***Awards per 100 FTE3*** |
|  |  |  |
| **University Outcomes** |  | **University Outcomes** |
| Students Accumulating 24 hrs. |  | ***Students Accumulating 30 hrs.*** |
| Students Accumulating 48 hrs. |  | ***Students Accumulating 60 hrs.*** |
| Students Accumulating 72 hrs. |  | ***Students Accumulating 90 hrs.*** |
| Bachelors and Associates |  | Bachelors and Associates |
| Masters/Ed Specialist Degrees |  | Masters/Ed Specialist Degrees |
| Doctoral / Law Degrees |  | Doctoral / Law Degrees |
| Research and Service |  | Research and Service |
| Transfers Out with 12 hrs. |  | **~~Transfers Out with 12 hrs.~~2** |
| Degrees per 100 FTE |  | ***Degrees per 100 FTE3*** |
| Six-Year Graduation Rate |  | Six-Year Graduation Rate |
|  |  |  |
| **Subpopulations (Both Sectors)** |  | ***Focus Populations* (Both Sectors)** |
| Adults |  | Adults |
| Low-Income |  | Low-Income |
|  |  |
|  |  |
|  |  | **Focus Population (Community College Only)** |
|  |  | ***Academically Underprepared4*** |
|  |  |  |
| **Subpopulation Premiums** |  | **Focus Population Premiums** |
| 40% for Each Population |  | 80% for One Focus Population |
|  |  | 100% for Two Focus Populations |
|  |  | 120% for Three Focus Populations |
|  | | |
| 1 - In the 2010-2015 model only short-term certificates (those requiring fewer than 24 semester credit hours) that represent the highest award earned at the time of a student's stop-out were counted. In the 2015-2020 model all *technical* short-term certificates will be counted, regardless of whether a student stops-out or continues to be enrolled. Certificates defined as *academic* are not counted as they are intended for transfer. | | |
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| 2 - Outcome removed from consideration. |  |  |
| 3 - In the 2010-2015 model both non-degree-seeking and degree-seeking undergraduate students were included in the full-time enrollment (FTE) metric. Due to refinements in the data, only degree-seeking undergraduate students are included in the FTE metric in the 2015-2020 model. | | |
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| 4 – Defined as students who either required remediation; scored an 18 or below on the ACT Composite, ACT Mathematics or ACT Reading component; or scored a 17 or below on the ACT Writing component. | | |

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**Appendix E**

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| **Community College Weights** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcomes** | | **CHSCC** | | **CLSCC** | | **COSCC** | | **DSCC** | | **JSCC** | | **MSCC** | | **NASCC** | | **NESCC** | | **PSCC** | | **RSCC** | | **STCC** | | **VSCC** | | **WSCC** | |
| Students Accumulating 12 hrs. | | 3.0% | | 3.0% | | 3.0% | | 3.0% | | 3.0% | | 3.0% | | 3.0% | | 3.0% | | 3.0% | | 3.0% | | 3.0% | | 3.0% | | 3.0% | |
| Students Accumulating 24 hrs. | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | |
| Students Accumulating 36 hrs. | | 7.0% | | 7.0% | | 7.0% | | 7.0% | | 7.0% | | 7.0% | | 7.0% | | 7.0% | | 7.0% | | 7.0% | | 7.0% | | 7.0% | | 7.0% | |
| Dual Enrollment | | 5.0% | | 7.5% | | 7.5% | | 15.0% | | 7.5% | | 7.5% | | 15.0% | | 10.0% | | 10.0% | | 15.0% | | 12.5% | | 10.0% | | 10.0% | |
| Associates | | 22.5% | | 22.5% | | 22.5% | | 22.5% | | 22.5% | | 22.5% | | 22.5% | | 22.5% | | 22.5% | | 22.5% | | 22.5% | | 22.5% | | 22.5% | |
| 1-2 Year Certificates | | 10.0% | | 2.5% | | 17.5% | | 10.0% | | 10.0% | | 0.0% | | 10.0% | | 12.5% | | 0.0% | | 10.0% | | 2.5% | | 5.0% | | 2.5% | |
| <1yr Certificates | | 10.0% | | 17.5% | | 2.5% | | 10.0% | | 10.0% | | 20.0% | | 10.0% | | 7.5% | | 20.0% | | 10.0% | | 17.5% | | 15.0% | | 17.5% | |
| Job Placements | | 15.0% | | 15.0% | | 5.0% | | 7.5% | | 15.0% | | 7.5% | | 7.5% | | 15.0% | | 7.5% | | 5.0% | | 5.0% | | 7.5% | | 7.5% | |
| Transfers Out with 12 hrs. | | 10.0% | | 5.0% | | 15.0% | | 10.0% | | 5.0% | | 12.5% | | 10.0% | | 5.0% | | 15.0% | | 10.0% | | 7.5% | | 15.0% | | 15.0% | |
| Workforce Training (Contact Hours) | | 7.5% | | 10.0% | | 10.0% | | 5.0% | | 10.0% | | 10.0% | | 5.0% | | 7.5% | | 5.0% | | 7.5% | | 12.5% | | 5.0% | | 5.0% | |
| Awards per 100 FTE | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | | 5.0% | |
|  | **100.0%** | | **100.0%** | | **100.0%** | | **100.0%** | | **100.0%** | | **100.0%** | | **100.0%** | | **100.0%** | | **100.0%** | | **100.0%** | | **100.0%** | | **100.0%** | | **100.0%** | |

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| **University Weights** | | | | | | | | | |
| **Outcome** | **UTM** | **APSU** | **TTU** | **UTC** | **MTSU** | **ETSU** | **TSU** | **UM** | **UTK** |
| Students Accumulating 30 hrs. | 4.0% | 3.0% | 4.0% | 4.0% | 3.0% | 6.0% | 4.0% | 3.0% | 2.0% |
| Students Accumulating 60 hrs. | 6.0% | 4.5% | 6.0% | 6.0% | 4.5% | 7.5% | 6.0% | 4.5% | 4.0% |
| Students Accumulating 90 hrs. | 10.0% | 7.5% | 10.0% | 10.0% | 7.5% | 9.0% | 10.0% | 7.5% | 6.5% |
| Bachelors and Associates | 30.0% | 27.5% | 25.0% | 25.0% | 22.5% | 20.0% | 22.5% | 22.5% | 20.0% |
| Masters/Ed Specialist Degrees | 15.0% | 20.0% | 15.0% | 10.0% | 20.0% | 15.0% | 12.5% | 10.0% | 10.0% |
| Doctoral / Law Degrees | 0.0% | 0.0% | 5.0% | 5.0% | 7.5% | 15.0% | 7.5% | 15.0% | 12.5% |
| Research and Service | 5.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 15.0% | 10.0% | 12.5% |
| Degrees per 100 FTE | 10.0% | 17.5% | 10.0% | 15.0% | 10.0% | 7.5% | 12.5% | 10.0% | 17.5% |
| Six-Year Graduation Rate | 20.0% | 10.0% | 15.0% | 15.0% | 15.0% | 10.0% | 10.0% | 17.5% | 15.0% |
|  | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |