

Tennessee Higher Education Commission

2020-2025 Outcomes-Based Funding Formula Changes

The Tennessee higher education outcomes-based funding (OBF) formula undergoes a statutory review annually to identify issues requiring immediate attention. Questions or concerns not requiring immediate response are tabled for a more in-depth five-year review, in which all components of the formula model are examined. Below is a summary of the topics discussed during the 2021 five-year formula review, focusing on changes approved by the Tennessee Higher Education Commission in May 2022 for immediate implementation in the 2023-2024 appropriation request cycle.

Approved Changes to Outcome Metrics

Community College Model — Community colleges continue to be measured in the 2020-2025 OBF formula by the same suite of outcomes in the 2015-2020 OBF formula. One definitional change to the **workforce training/contact hours** metric (to remove secondary training activities provided by certified trainers) was approved, aligning this metric more closely to state workforce needs.

University Model — Outcomes measured in the 2020-2025 university model remain unchanged from the final 2015-2020 model. In July 2021, two changes to the 2015-2020 OBF formula were approved by the Commission for immediate implementation with the 2022-2023 appropriation request: a definitional change and a scaling change to associate degrees. No other changes to outcomes were approved for the 2020-2025 OBF formula.

Approved Changes to Focus Populations

Categories in the Community College and University Models — As in the 2015-2020 model, premiums continue to be applied to progression and undergraduate completion metrics for students who qualify as low-income (ever eligible for the Pell grant), adult (25 years or older), or—in the community college sector only—academically underprepared (scoring an 18 or below on the ACT or identified for learning support coursework). The higher education commission approved the implementation of a new **workforce investment premium** for students completing an undergraduate award in a high-need academic program—defined as STEM and health care majors. The Commission also approved a data source refinement to the low-income focus population premium to accommodate the inclusion of **out-of-state low-income students**. This action now aligns residency treatment in all focus population categories.

Premium Levels in the Community College and University Models — As in the 2015-2020 model, focus population premium levels continue to be applied in an *elevated* and *graduated* manner to an institution's progression and undergraduate award metrics. The first focus population garners an 80 percent premium, the second an additional 20 percent, and the third an additional 20 percent. The fourth (in the community college sector only) garners an additional 20 percent.

Approved Changes to Fixed Costs

THEC staff thoroughly analyzed and discussed with our institutional and governmental partners potential changes to the **fixed costs component** of the funding formula. Currently, institutions benefit in the formula calculation from increasing square footage and suffer from renovating or reducing space. While THEC initially advocated for the complete removal—over time—of the influence of fixed costs on the formula, several institutional and governmental partners expressed concern the effect this immediate change could have on institutions. Considering this feedback, the 2020-2025 OBF formula **streamlines fixed costs**—focusing on square footage and equipment while eliminating utilities, rent and the premium for older space—and **reduces the overall influence** of fixed costs on the formula from 21.5 percent to 15 percent. A placement of 15 percent on fixed costs along with the 5.45 percent on Quality Assurance Funding ensures that outcomes influence a greater share (80 percent) of the appropriation request in 2020-2025.

Additional Changes to the Outcomes Formula

Scales in the Community College and University Models — Beginning with the 2015-2020 OBF formula, scales—a tool used to ensure outcomes of varying magnitudes are comparable across the funding formula—are derived using ten years of outcomes data for each outcome collected. These historical data are used to determine the average standard deviation for each outcome in each sector. The average institutional standard deviation for each outcome is then scaled proportionally to center on a standardized scale for an outcome in each sector. For the community colleges, scales are calibrated to the associate degree scale of 1.50 while in the university sector, scales are calibrated to the bachelor's degree scale of 1.00. This methodology provided similar comparison opportunities between the 2010-2025 and 2015-2020 outcomes-based formulas.

Continuing this practice, the 2020-2025 OBF formula centers the community college and university scales on the standardized scales for the associates and bachelor's degrees, respectively. As in the previous version of the model, most outcomes use a scale that closely mirrors the standard deviation calculation, however, a few outcome scales are altered to align with the previous model or to reflect anticipated volatility, including certificates and transfers out at the community colleges.

Weights in the Community College and University Models — As part of the five-year review process, institutions can reprioritize outcomes in alignment with their missions. For the 2015-2020 OBF formula, the community college weights were standardized for progression, awards, and awards per 100 FTE, reflecting the status of these institutions as a system. For the revised 2020-2025 OBF formula, community college outcomes are placed within "bands"—grouping the completion and progression metrics together in the top band and the remaining outcomes in the bottom band—to allow additional flexibility for these colleges to reflect institutional mission in outcome prioritization. This change ensures degrees and credit hour accumulation remain the highest priorities while also allowing priorities to reflect the unique missions of each campus more closely. Undergraduate completion remains the top priority in the university sector, with remaining outcome priorities following a combination of institutional mission and Carnegie classification.

Appendix A

2020-2025 THEC Formula Review Committee

Name	Institution	Title
Randy Boyd	University of Tennessee	President
Butch Eley	Department of Finance and Administration	Commissioner
Glenda Baskin Glover	Tennessee State University	President
Catherine Haire	Legislative Budget Office	Senate Budget Analysis Director
Rep. Patsy Hazlewood	TN House of Representatives	Chair, House Finance, Ways and Means Committee
Jessica Himes	Legislative Budget Office	House Budget Analysis Director (beginning July 2021)
Emily House	TN Higher Education Commission	Executive Director
Sen. Brian Kelsey	TN Senate	Chair, Senate Education Committee
Michael Licari	Austin Peay State University	President
Sidney McPhee	Middle Tennessee State University	President
Peter Muller	Legislative Budget Office	House Budget Analysis Director (ending June 2021)
Jason Mumpower	Comptroller's Office	Comptroller
Brian Noland	East Tennessee State University	President
Phil Oldham	Tennessee Technological University	President
M. David Rudd	University of Memphis	President
Flora Tydings	Tennessee Board of Regents	Chancellor
Sen. Bo Watson	TN Senate	Chair, Senate Finance, Way and Means Committee
Rep. Mark White	TN House of Representatives	Chair, House Education Administration Committee

Appendix A (continued)

2020-2025 THEC Formula Working Group

Name	Institution	Title
Patrick Boggs	Legislative Education/Finance Chairs	Research Analyst for House Ed Administration Committee
Lori Bruce	Tennessee Technological University	Provost and Vice President for Academic Affairs
David Butler	Middle Tennessee State University	Vice Provost for Research and Dean of Graduate Studies
Chris Cimino	University of Tennessee, Knoxville	Sr. Vice Chancellor of Finance and Administration
Crystal L. Collins	THEC Staff	Sr. Director of Fiscal Policy
Lynne Crosby	Austin Peay State University	Sr. Vice Provost and Assoc. Vice President of Academic Affairs
Bruce Davis	Legislative Budget Office	Budget Analyst in the Office of Legislative Budget Analysis
Russ Deaton	Tennessee Board of Regents	Executive Vice Chancellor for Policy and Strategy
Steven Gentile	THEC Staff	Chief Policy Officer
Danny Gibbs	Tennessee Board of Regents	Vice Chancellor of Business and Finance
Jerry Hale	University of Tennessee at Chattanooga	Provost and Sr. Vice Chancellor for Academic Affairs
Tracy Hall	Southwest Tennessee Community College	President
Michael Hoff	East Tennessee State University	Assoc. Vice President of Planning and Decision Support
Raaj Kurapati	University of Memphis	Chief Financial Officer
Ron Loewen	University of Tennessee System	Asst. Vice President for Budget and Planning
Michael Maren	Legislative Education/Finance Chairs	Research Analyst for Senate Education Committee
Petra McPhearson	University of Tennessee at Martin	Sr. Vice Chancellor for Finance and Administration
Tony Niknejad	Governor's Office	Policy Director
Laurence Pendleton	Tennessee State University	General Counsel
Lauren Spires	Comptroller's Office	Higher Education Resource Officer (HERO)
Greg Turner	Department of Finance and Administration	Coordinator of Education Budget
Russell VanZomeren	THEC Staff	Director of Fiscal Policy

Appendix B

Outcomes-Based Funding Formula Changes: Outcomes and Focus Populations

2015-2020 Outcomes Model

Community College Outcomes

Students Accumulating 12 hrs.
Students Accumulating 24 hrs.
Students Accumulating 36 hrs.
Dual Enrollment
Associates
Long-term Certificates
Short-term Certificates
Job Placements
Transfers out with 12 hrs.
Workforce Training
Awards per 100 FTE

University Outcomes

Students Accumulating 24 hrs.
Students Accumulating 48 hrs.
Students Accumulating 72 hrs.
Associate Degrees
Bachelor's Degrees
Masters/Ed Specialist Degrees
Doctoral / Law Degrees
Research and Service
Degrees per 100 FTE
Six-Year Graduation Rate

Focus Populations (Both Sectors)

Adults
Low-Income

Focus Population (Community College Only)

Academically Underprepared

Focus Population Premiums

80% for One Focus Population
100% for Two Focus Populations
120% for Three Focus Populations

2020-2025 Outcomes Model

Community College Outcomes

Students Accumulating 12 hrs.
Students Accumulating 24 hrs.
Students Accumulating 36 hrs.
Dual Enrollment
Associates
Long-term Certificates
Short-term Certificates
Job Placements
Transfers out with 12 hrs.
Workforce Training
Awards per 100 FTE

University Outcomes

Students Accumulating 30 hrs.
Students Accumulating 60 hrs.
Students Accumulating 90 hrs.
Associate Degrees
Bachelor's Degrees
Masters/Ed Specialist Degrees
Doctoral / Law Degrees
Research and Service
Degrees per 100 FTE
Six-Year Graduation Rate

Focus Populations (Both Sectors)

Adults
Low-Income
Workforce Investment¹

Focus Population (Community College Only)

Academically Underprepared

Focus Population Premiums

80% for One Focus Population
100% for Two Focus Populations
120% for Three Focus Populations
140% for Four Focus Populations

1 – Defined as students who receive an undergraduate award in an approved high-need academic field (STEM + health care CIP codes) in a given academic year. Limited to short- and long-term certificates and associate and bachelor's degrees.

