

## **New Formula Model Elements**

### **April 14, 2005**

The Tennessee Higher Education Commission staff through utilization of the formula Review Committee and its sub-committees made a complete review of all elements of the college and university funding formula. This review included several major areas of policy affecting public higher education. The following elements are included in the new formula model:

- Enhanced focus on student retention and transfer.
- Emphasis on non-traditional students at the two-year sector.
- Use of new unique peer sets for each university and a new peer set for the community colleges.
- Expansion of university peer sets from 10 to 12 institutions and from 10 to 15 for the community college peer set.
- Simplification of the calculations and data required from each institution.
- New enrollment base calculation that is a three-year moving average of actual fall enrollments plus summer enrollment supplements.
- Research calculation that is determined by Carnegie classification and Doctoral degree production.
- Alterations to the out-of-state tuition deduction that avoid the incentives and disincentives in the formula for enrolling out of state students.
- Utilization of the total needs concept and simplification of the revised cost sharing policy that utilizes percentages of student fees.

The new model contains many elements not found in the old formula model and are indicated below:

- New, unique peer sets for each university
- New peer set for the community colleges
- Focus on adult enrollment of students age 25 and up at community colleges
- Research calculation determined by Carnegie classification and Doctoral degree production
- Enrollment base calculation using a three-year moving average of actual fall enrollments plus supplements
- Models current salary data

Some of the new formula's components are included in the old formula model but have been revised; these are indicated in the following listing:

- Out of state tuition deduction that avoids the incentives and disincentives for enrolling out of state students.
- Focus on student retention at universities
- Revised cost sharing policy that no longer uses ratios, but uses a percent of the total need
- Enhancement of the performance funding calculation
- Student services calculation
- Institutional support

The new formula also utilizes some existing formula components that were determined to be adequate after updating the specific rates used in these calculations. These are: Maintenance & Operation; Utilities; Rent; Operating Inflation; and, Legislative Initiatives formerly know as "Special Allocations".

## **New Higher Education Funding Model Development Timeline**

- THEC convened the Formula Review Committee (FRC) to evaluate and review the existing college and university formula and to recommend to THEC a new formula model.
- The Formula Review Committee consisted of governing board and institutional representatives, and state government representatives.
- The review began with a meeting in summer 2002 to review the existing TN funding formula, critique and evaluate the current formula, and review formula models from other states.
- The FRC further reviewed the strengths and weaknesses of the current formula at the December 17, 2002 meeting. The committee also discussed philosophical changes to the formula, including what behavior the formula should reward or encourage and what principles should guide the development of the new model.
- In spring 2003, the FRC met to discuss the status of funding in Tennessee higher education, and specific issues related to the development of the new model, including:
  - Incentive funding for statewide goals
  - Enrollment funding
  - Role of peers
- On August 27, 2003 and on November 19, 2003, THEC staff met with members of the Peer Review Subcommittee and Dennis Jones of NCHEMS to review the development of the new peer sets.
- During spring of 2004, THEC and the two governing boards finalized new institutional peer sets to be used in the new funding formula and performance funding.
- On October 15, 2004 a joint Master Plan and Formula Review Committee meeting was held. The FRC received guidance from national experts from SHEEO and NCHEMS on “Linking the Public Agenda with Fiscal Policy.” At this meeting, the themes to be included in the 2005-10 Master Plan were agreed on, which gave specific direction to the FRC.
- The Technical Advisory Committee (TAC), a subcommittee of the FRC, began development of the calculations for the new model in January 2005.
- The chief fiscal and academic officers from each system as well as a representative from F&A sat on the TAC along with THEC staff.

- Over the course of three meetings, the TAC developed the new formula model.
  - February 4, 2005
  - March 3, 2005
  - April 1, 2005
- THEC presented a summary of the proposed changes to the formula to the Senate Education Committee and the House Education Subcommittee in spring 2005.
- During spring 2005, THEC met with representatives from F&A, the Comptroller's office, the Secretary of State, the State Treasurer and the chairs of the respective Education Committees in each chamber to review and discuss the proposed formula model.
- At the April 2005 THEC quarterly meeting, staff presented the proposed formula model where it was approved in concept.
- THEC staff continued to meet individually with members of the General Assembly to review the proposed new formula model during the 2005 legislative session.
- On August 23, 2005, THEC staff met with the legislative committee established in the 2005 Appropriations Bill charged with reviewing proposed changes to the funding formula.
- The new model must be used for the FY 2006-07 budget recommendation process, according to a provision in the 2004 Appropriations Bill; TCA 49-7-202.