

DATE: July 23, 2015**SUBJECT:** 2015-20 Outcomes Funding Formula**ACTION RECOMMENDED:** Approval

Immediately following the passage of the Complete College Tennessee Act of 2010 — a law which in part stipulates that higher education institutions be funded based on outcomes rather than enrollment — 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 successes as well as weights that reflect institutional priorities and mission.

Since that time, THEC has convened the FRC annually to review the strengths and weaknesses of the formula, with plans to implement any significant structural changes after a five-year cycle. That first five-year cycle came to an end with the distribution of FY 2015-16 appropriations. For the last six months the 2015-20 FRC (see membership in Appendix A) has proposed and reviewed changes to the current model. THEC also requested frequent feedback and advice from all presidents and chancellors, and reviewed all proposed changes with the Statutory Formula Review Committee, a formal committee charged with reviewing and recommending changes to the formula (see Appendix B).

This process resulted in the removal and redefining of a few outcomes, the inclusion of a new focus population, and an alteration to the application of focus population premiums. Though weights still largely reflect institutional mission as defined by presidents and chancellors, the community college sector chose to implement a unified weighting structure for its completion outcomes to better reflect the needs of the state. The proposed formula also excludes the out-of-state tuition deduction and no longer relies on a salary multiplier to monetize the outcomes. These changes are summarized in Appendices D and E.

Additionally, the underlying structure of the formula was reworked in part to allow for the introduction of mathematically-derived scales. This structural change — while not changing how the formula rewards success — also allows the 2015-20 model to calibrate perfectly to the 2010-15 model, removing the need for a phase-in period. This change will be discussed in the presentation.

The process used to analyze and review changes to the outcomes model allowed all stakeholders to play a significant role in creating the proposed 2015-20 Outcomes-Based Funding Formula model. This model does not differ greatly from the 2010-15 model, but it more effectively rewards institutions for outcome success while reflecting the input from these stakeholders. THEC staff recommends it for approval.

Appendix A

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
Tré 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

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

Formula Review Committee Meeting Dates

- Thursday, February 12, 2015
- Friday, March 13, 2015
- Friday, April 10, 2015
- Friday, May 8, 2015
- Thursday, June 4, 2015
- Tuesday, June 30, 2015

Statutory Formula Review Committee Meeting Date

- Monday, June 29, 2015

Appendix D

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 proposed 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. New weights would be assigned to outcomes based on these priorities as part of the final formula design process.

Proposed Changes to Focus Populations (formally called Subpopulations)

Community College and University Models — A premium level would 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 identified as academically underprepared (tentatively defined as students who score an 18 or below on the ACT or are flagged for remedial or developmental coursework).

Premium Levels — Premiums would 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 would garner another 20 percent.

Proposed Additional Changes to the Model

The 2015-20 Outcomes-Based Funding Formula would exclude the out-of-state tuition deduction. This change would result in state funding no longer shifting due to changes in out of state enrollment levels. Furthermore, tuition border county legislation would no longer impact the funding formula. Additionally, the FRC has 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 (Performance Funding) program, which was reviewed separately, and the fixed cost components would remain largely unchanged.

Appendix E

Outcomes-Based Funding Formula Changes: Outcomes and Focus Populations

2010-2015 Formula Model	2015-2020 Outcomes Model
<p><u>Community College Outcomes</u> Students Accumulating 12 hrs Students Accumulating 24 hrs Students Accumulating 36 hrs Dual Enrollment Associates Long-term Certificates Short-term Certificates Job Placements Remedial & Development Success Transfers out with 12 hrs Workforce Training Awards per 100 FTE</p> <p><u>University Outcomes</u> Students Accumulating 24 hrs Students Accumulating 48 hrs Students Accumulating 72 hrs Bachelors and Associates Masters/Ed Specialist Degrees Doctoral / Law Degrees Research and Service Transfers Out with 12 hrs Degrees per 100 FTE Six-Year Graduation Rate</p> <p><u>Subpopulations (Both Sectors)</u> Adults Low-income</p> <p><u>Subpopulation Premiums</u> 40% for Each Population</p>	<p><u>Community College Outcomes</u> Students Accumulating 12 hrs Students Accumulating 24 hrs Students Accumulating 36 hrs Dual Enrollment Associates Long-term Certificates Short-term Certificates¹ Job Placements Remedial & Development Success² Transfers out with 12 hrs Workforce Training Awards per 100 FTE³</p> <p><u>University Outcomes</u> Students Accumulating 30 hrs Students Accumulating 60 hrs Students Accumulating 90 hrs Bachelors and Associates Masters/Ed Specialist Degrees Doctoral / Law Degrees Research and Service Transfers Out with 12 hrs² Degrees per 100 FTE³ Six-Year Graduation Rate</p> <p><u>Focus Populations (Both Sectors)</u> Adults Low-income Academically Underprepared⁴</p> <p><u>Focus Population Premiums</u> 80% for One Focus Population 100% for Two Focus Populations 120% for Three Focus Populations</p>

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 with her education. Certificates defined as *academic* are not counted as they are intended for transfer.

2 - Outcome removed from consideration.

3 - In the 2010-2015 model both nondegree-seeking and degree-seeking undergraduate students were included in the full-time enrollment (FTE) metric. In the 2015-2020 model, only degree-seeking undergraduate students are included in the FTE metric.

4 - Tentatively defined as students who either required remediation or scored an 18 or below on the ACT Composite.