Tennessee Higher Education Commission
2021-2025 Formula Review Committee
September 1, 2021 Meeting Minutes

On September 1, 2021, the 2021-2025 Formula Review Committee (FRC) convened for its second meeting to review the current outcomes-based funding formula. The meeting began with roll call and a determination of necessity to allow for a quorum to be constituted using members participating in the meeting remotely. A motion of determination was made by Greg Turner and seconded by Dr. Brian Noland. The motion was supported unanimously by committee members in attendance.

Dr. Steven Gentile, Chief Policy Officer, gave an overview of the topics to be covered during the meeting as well as a recap of items that were settled during the last meeting. These items included changes to the scaling and counting of associate degrees in the university sector. Dr. Gentile noted that the FRC changes related to university associate degrees were presented to and approved by the Tennessee Higher Education Commission at the July 2021 meeting, and would be immediately implemented in the FY23 appropriation cycle. Other topics reviewed included the workforce investment premium, inclusion of out-of-state low-income students in the low-income premium, and potential changes to the graduation rate calculation. Dr. Gentile reminded the group that any changes on these or other items would be implemented in the FY24 appropriation cycle.

A summary of the discussion is below.

Discussion of Proposed Five-Year Revisions to the Formula

- **Graduation Rate Metric:** Continued discussion of the possibility of moving from a six-year to four-year graduation rate.
    - Dr. Gentile began by furth addressing potential changes to the graduation rate metric. He acknowledged during the previous meeting a couple committee members had expressed concern about how the on-time completion metric would affect institutions with larger shares of Pell-eligible or minority students.
    - After noting that the THEC fiscal team would be responding to the questions raised in the previous meeting about graduation rate, Executive Director Dr. Emily House stated that THEC **does not intend to move forward with a recommendation to move to a four-year graduation rate within the formula at this time.**

- Further, Dr. House noted that this is just the beginning of this conversation around efficiencies in completion, and that THEC plans to ensure this is a key component of the THEC Master Plan and Strategic Financial Plan conversations.
- Director of Fiscal Policy Russell VanZomeren then presented extensive analysis completed in response to questions about graduation rates raised by institutional representatives on the committee.
- Mr. VanZomeren provided graduation rates for the most recent cohort available, acknowledging the unique student bodies served by each institution and how that can affect graduation rates.
- Mr. VanZomeren noted the concerns expressed by institutions serving greater proportions of Pell and Minority students and how those institutions would be able to succeed with a four-year rate within the formula. In the most recent cohort, one-fourth of Pell and one-half of non-Pell students graduated on time from universities.
- Graduation rate growth over the past six years by sector and Pell status was then presented. Mr. VanZomeren noted that the growth for both Pell and Non-Pell students has been higher for completion in four years compared to six years. This data indicates that had THEC used a four-year graduation rate in the most recent formula model, it would not have uniquely hurt Pell eligible students or the institutions who serve higher proportions of those students.
- Mr. VanZomeren then transitioned to discussing potential effects of transitioning to a four-year graduation rate on institutions serving high proportions of minority students. The analysis presented showed that growth in four-year graduation rates for minority students meets or exceeds growth in the six-year rate.
- Mr. VanZomeren commended the universities for their work in improving graduation rates at both the four and six-year levels before transitioning to highlight where growth areas may still exist as universities look to the future.
- The discussion concluded with Dr. House again reiterating that THEC would not recommend a change to the graduation rate metric in the formula at this time. Dr. Gentile noted that THEC will examine other policies and practices outside of the formula that can be leveraged to improve on-time completion.
- President Glover from Tennessee State University asked that the slides presented be made available to committee members.

        - THEC committed to doing so and these slides can be found on the THEC website [here](#).
    - President Oldham from Tennessee Tech University suggested that one of the large drivers of four-year graduation is the number of credit hours students enter college with and asked if THEC had looked at those trends and, if so, could demographic considerations to be made related to a graduation rate change.
        - Dr. House said THEC has looked into this some and continues to have discussions around dual enrollment but can continue to look into this.
        - Dr. Gentile noted that making sure that a broader swath of students has access to dual enrollment is also key.
    - President Oldham added that dual enrollment often being remote adds a level of difficulty and encouraged THEC to make sure students have access to dual enrollment courses embedded in the local high schools.
    - Vice Chancellor of Business and Finance Danny Gibbs, speaking as the designee for Tennessee Board of Regents Chancellor Dr. Flora Tydings, noted that TBR would be open to the inclusion of a graduation rate within the community college sector.
        - THEC Senior Director of Fiscal Policy Crystal Collins said THEC would be open to adding this as a sector level outcome for the community colleges and welcomed further conversation on this matter.

- **Fixed Costs:** Discussion of the recommended removal of—or change to—the influence of fixed costs on the outcomes-based funding formula.
    - Dr. Gentile began with an overview of fixed costs within the formula, noting that fixed costs account for about 22 percent of funding within the formula. He then reviewed what items are currently included in the fixed costs calculation included in the funding formula.
    - Dr. Gentile noted that fixed costs are calculated annually, and are sensitive to new buildings, renovations, demolitions, and buildings being taken offline. Additionally, the fixed costs calculation is the most time intensive part of the formula for both THEC and institutional staff.
    - Fixed costs are not listed as an outcome in statute, but because fixed costs influence funding, institutions are incentivized to grow this portion of the formula similar to outcomes. Since the beginning of the formula, fixed costs account for the third greatest influence on funding, only trailing associate and bachelor’s degrees. The inclusion of fixed costs in a growth model

disincentivizes reducing the campus footprint, counter to the overall capital outlay process.

- Dr. Gentile then presented three options for discussion:
  - streamline fixed costs to focus solely on the Education & General (E&G) space footprint and equipment inventory;
  - move the current fixed costs measure to a 3-year average; or
  - gradually reduce, but not remove, over several years the influence of fixed costs on the formula.
- President Oldham asked if there had been modeling done to show how these changes would move money.
  - Dr. Gentile said THEC fiscal staff had modeled the effects of two of the three options: focusing on the E&G footprint and reducing the overall influence of fixed costs on the formula. Dr. Gentile noted these models had been shared out to committee and working group members but that THEC would be happy to provide them again.
- President Oldham acknowledged that the changes seem reasonable, though without modeling it would be tough to know for sure.
- Dr. Gentile noted he understood this concern and cautioned that any modeling THEC shared out would only indicate how money would have moved in the past, not necessarily what would happen going forward. He also noted the volatility-limiting and reduction scenarios give more influence to outcomes in the formula.
- Chief Financial Officer David Miller, speaking as the designee for University of Tennessee President Randy Boyd, asked if the modeling could include analysis as to whether the removal of fixed costs would result in decreasing in appropriations overall.
  - Ms. Collins responded that the modeling THEC had completed operated on a "no new money" assumption, such that new money would not mute any cumulative effects. She acknowledged THEC could make a model looking at FY 21-22 and see what the removal of fixed costs would've done to the overall recommendation.
- Vice Chancellor Gibbs stated that the original wisdom of including fixed costs within the formula was to recognize the significant operating costs associated with bringing new buildings online. Mr. Gibbs expressed gratitude that THEC is no longer considering removing fixed costs altogether and said that several of TBR's institutions believe it is important to keep fixed costs within the formula.

    - Mr. Gibbs did agree that it may make sense to limit fixed costs to E&G, however, he did express concern that the plan to switch to the three-year average would dilute one of the primary benefits of fixed costs being in the formula—creating a revenue stream that can help cover the costs of bringing a new building online. Finally, Mr. Gibbs noted that any movement towards increasing the impact of outcomes on the formula would be detrimental to the community colleges over the next few years because of pandemic-related enrollment declines.
        - Dr. Gentile thanked Vice Chancellor Gibbs for his remarks.
    - No further comments were provided by the formula review committee members related to this proposed change.

- **Workforce Training:** Discussion of the recommended change to remove third-party activities and those independently provided by trainers who received training at the reporting community college.
    - THEC Senior Director of Fiscal Policy Crystal Collins began the discussion by defining workforce training as non-credit contact hours activities in which community colleges partner with local businesses, and industry and community partners to provide training and upskilling for local community members.
    - Ms. Collins enumerated the many changes to the workforce training since the funding formula was established and stated that that this metric is the only remaining self-reported outcome in the formula. Due to the nature of the data, an extensive review of the metric definition occurs every year to ensure accuracy, consistency, and fidelity to the intention of the metric
    - During these reviews, THEC staff identified two types of activities reported that require further discussion to determine if they meet the original intention of the metric.
    - THEC staff expressed concerns with some activities offered through partnerships with third-party online education providers, like Ed2Go, where the activity reported does not utilize instructional materials or instructor from the reporting community college.
    - In most cases, the community college's main roles involve advertising, fee collecting, and monitory student progress. Ms. Collins notes that THEC staff believe that workforce training hours where the reporting institution is not involved in the developing of course material or in providing the instruction should no longer influence the distribution of the funding formula.

- Ms. Collins then presented concerns with institutions reporting instructional activities provided by individuals who received training from the institution reporting the contact hours. She provided an example related to OSHA certification, stating that under the current definition, institutions are reporting not only the training they provide to individual to become certified trainers, but also all the trainings those trainers then go out and provide in the greater community.
- THEC believes that the primary activity described above (the providing of training to create certified trainers) does align with the intention of the workforce training metric, however the secondary activity (the training provided by those certified trainers who received their instruction at the reporting institution) does not and should no longer influence funding distribution in the formula.
- Based on analysis completed by THEC staff and considering current THEC policy and feedback from various stakeholders—including members of the working group and members of the formula review committee, Ms. Collins presented the following **recommended changes to the workforce training metric:**
  - *Exclude activities provided by the third-party vendor Ed2Go and further, exclude activities independently provided by trainers who received their training from the reporting community college.*
- Vice Chancellor Gibbs thanked THEC for their work here and asked to share comments on the issues, starting with the removal of activities provided by third-party online education providers. Mr. Gibbs noted that Ed2Go represents a cost-effective way for colleges to offer extensive course options. However, the enrollment in any given course is low enough such that it would be cost prohibitive for the colleges to offer the courses on their own.
- Mr. Gibbs stated that removal of these course from the workforce training metric would indicate to their campuses that their efforts to provide these courses to students at a lower cost than they could offer themselves would indicate that their work was not being valued. He concluded by reading testimonials from institutions on the need for Ed2Go courses.
  - Ms. Collins thanked Vice Chancellor Gibbs and the institutions for their comments, before acknowledging that THEC understands this proposed change would push institutions to reevaluate which courses they offer through Ed2Go. Ms. Collins stated that THEC's intention with this recommended change is to focus how the state's finite funds

are distributed to institutions through the funding formula, but that it is not THEC's intention to bar institutions from continuing to partner with Ed2Go if they chose.

  - Mr. Gibbs asked if someone will be looking further into workforce training over the next few years.
    - Ms. Collins said yes, that THEC intends to look into identifying a better way to reward institution and community partnerships in the funding formula with an eye towards the next five-year review.
  - Mr. Gibbs asked that THEC consider delaying the removal of Ed2Go training until this deeper review of workforce development partnerships is completed.
  - Additionally, Vice Chancellor Gibbs commented on the removal of activities provided by institutionally certified trainers, focusing on the OSHA activities reported by Volunteer State. He indicated that while Volunteer does have a unique model for providing OSHA trainings and capturing activities by those trainers, that TBR believes this model operates within the current rules of the workforce training metric. Mr. Gibbs further recognized that Volunteer State's success is skewing the metric for other community colleges.
  - Mr. Gibbs provided several alternatives to THEC's recommendation, including scaling these hours differently, weighting them differently, or counting them as a separate workforce training metric.
    - Ms. Collins thanked Vice Chancellor Gibbs for his remarks and asked if there are any other comments from other committee members.
  - No further comments were provided by the formula review committee members related to this proposed change.

General Discussion

- Dr. Gentile noted that THEC has no further recommendations for the day, before opening the floor to any final comments.
- No further comments were provided by the formula review committee members.

Adjourn

- Dr. Gentile indicated that THEC staff would take these discussions into consideration when developing the recommended changes to be presented to the Commission at the November 2021 meeting.
- With no further discussion, Dr. Emily House thanked committee members for attending and adjourned the meeting.

Statutory Formula Review Committee - September Meeting Attendance

Name	Institution	Title	Attended	Designee
Emily House	Tennessee Higher Education Commission	Executive Director	Yes	
Randy Boyd	University of Tennessee	President	Designee	David Miller
Flora Tydings	Tennessee Board of Regents	Chancellor	Designee	Danny Gibbs
Michael Licari	Austin Peay State University	President	Yes	
Brian Noland	East Tennessee State University	President	Yes	
Sidney McPhee	Middle Tennessee State University	President	No	
Glenda Baskin Glover	Tennessee State University	President	Yes	
Phil Oldham	Tennessee Technological University	President	No	
David Rudd	University of Memphis	President	No	
Butch Eley	Department of Finance and Administration	Commissioner	Designee	Greg Turner
Jason Mumpower	Comptroller	Comptroller	Designee	Lauren Spires
Senator Brian Kelsey	Senate	Chair, Senate Education	Designee	Michael Maren
Senator Bo Watson	Senate	Chair, Senate Finance, Ways & Means	Designee	John Kerr
Representative Mark White	House of Representatives	Chair, House Education Administration	No	
Representative Patsy Hazlewood	House of Representatives	Chair, House Finance, Ways & Means	No	
Jessica Himes	Office of Legislative Budget Analysis	House Budget Analysis Director (beginning in July)	No	
Catherine Haire	Office of Legislative Budget Analysis	Senate Budget Analysis Director	No	