

Overview of Outcomes-Based Funding Formula

States have long sought an equitable way to fund institutions of higher education in a manner that is stable but also prompts institutions to be more productive and efficient. For many years, funding to higher education institutions in Tennessee and across the nation was distributed based primarily on enrollment. This meant that policies incentivized increased enrollment, rather than efficiency in performance or production of degrees. In an attempt to increase degree completion, Tennessee incorporated a small, yet robust, performance funding component to the enrollment-based formula in 1979 to reward institutions for success in meeting certain state goals for higher education. These goals included higher graduation and job placement rates, student satisfaction levels, and other variables.

The funding formula model, developed in response to the Complete College Tennessee Act (CCTA) of 2010, rewards institutions for the production of outcomes that further the educational attainment and productivity goals of the state Master Plan for Higher Education. The outcomes-based model no longer includes student enrollment data. Instead, two sets of outcomes are identified—those for four-year universities and those for two-year community colleges—that best reflect the purposes of each type of institution. The outcomes were chosen to represent broad activities across institutions and are grouped into the categories of student progression, degree production, efficiency, and other important institutional functions. Student progression measures the accumulation of credit hours (e.g., the accumulation of 30-, 60-, and 90-credit hours at a university), thereby incorporating course completions. These and the other sector-specific outcomes are detailed below.

Outcome Metrics for Universities

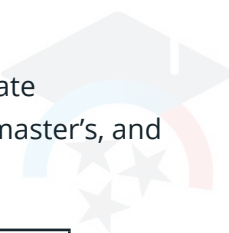
- Students Accumulating 30hrs
- Students Accumulating 60hrs
- Students Accumulating 90hrs
- Research and Service Expenditures
- Degrees per 100 FTE
- Bachelor and Associate Degrees Awarded
- Masters and Ed Specialist Degrees Awarded
- Doctoral and Law Degrees Awarded
- Six-Year Graduation Rate

Outcome Metrics for Community Colleges

- Students Accumulating 12 hrs
- Students Accumulating 24 hrs
- Students Accumulating 36 hrs
- Dual Enrollment Students
- Awards per 100 FTE
- Short- and Long-term Certificates Awarded
- Associate Degrees Awarded
- Job Placements
- Workforce Training
- Transfers Out with 12 Credit Hours

The outcome data is collected annually and the outcomes-based model utilizes a three-year average of all outcome data to minimize volatility. The outcome data is then weighted to reflect the priority of that outcome at a particular institution; weights are often based on the institution's Carnegie Classification. Institutions with similar missions have the same weights applied, providing a framework for grouping similar institutions together. Metrics that play a larger role in institutional mission are weighted more heavily in that institution's formula. As an example, the weighting structures for Austin Peay State University and the University of

Memphis are presented below. Note that as institutions change in complexity (e.g., Austin Peay State University offers bachelor and master's degrees only; the University of Memphis offers bachelor, master's, and doctoral degrees), the weighting structure changes.



Weights Based on Institutional Mission	APSU	UM
Students Accumulating 30 hrs	3.0%	3.0%
Students Accumulating 60 hrs	4.5%	4.5%
Students Accumulating 90 hrs	7.5%	7.5%
Bachelor and Associate Degrees	27.5%	22.5%
Masters/Ed Specialist Degrees	20.0%	10.0%
Doctoral / Law Degrees	0.0%	15.0%
Research, Service and Sponsored Programs	10.0%	10.0%
Degrees per 100 FTE	17.5%	10.0%
Six-Year Graduation Rate	10.0%	17.5%
Total	100.0%	100.0%

Institutions are also rewarded with a premium for the progression and undergraduate degree production data attributable to certain focus populations. Community colleges receive a premium for progression, associate degree, and certificate completions for low-income, adult and academically underprepared students. Universities receive a premium for progression and undergraduate degree completion for low-income and adult students only. Premium levels are graduated, with a student triggering one focus population resulting in a premium of 80 percent, a student triggering two focus populations garnering a premium of 100 percent, and a student who qualifies for all three focus populations (at community colleges only) earning a premium of 120 percent.

The outcomes-based model provides several distinct advantages to other funding methodologies. Approximately 60 percent of the previous formula recommendation was based on enrollment. In contrast, the outcomes model is productivity based and provides more stability by spreading the incentives across more variables. Additionally, the institutional specific weights allow the state to be clear in its expectations, while not being prescriptive to institutions in how to achieve higher levels of productivity. Unlike Performance Funding, the outcomes-based formula does not have annual targets or benchmarks. Therefore, it is not punitive if an institution fails to achieve a predetermined goal. Furthermore, the links to the Master Plan are strengthened by utilizing the formula as a policy tool to encourage increased productivity.