

DATE: July 29, 2010**SUBJECT:** Outcomes-Based Funding Formula**ACTION RECOMMENDED:** Approval

The Complete College Tennessee Act states that the Commission is to develop policies and formulae or guidelines for fair and equitable distribution and use of public funds among the state's institutions of higher learning that are consistent with and further the goals of the statewide policy agenda. It also requires that:

- The policies and formulae or guidelines shall result in an outcomes based model;
- The model shall emphasize outcomes across a range of variables that shall be weighted to reinforce each institution's mission and provide incentives for productivity improvements consistent with the state's higher education master plan.

Previously, THEC utilized an enrollment-based model, where as much as 60 percent of the calculation was dependent on fall full-time equivalent (FTE) student enrollment. The outcomes-based model incorporates data on broad institutional activities including but not limited to student progression, undergraduate and graduate degree production, student transfer and research at universities. At community colleges, the outcomes include student progression, certificate and associate awards, student transfer and job placement. The new model rewards institutions for the production of these outcomes that furthers the productivity goals of the state Master Plan. As well, a major design component of the new model is the incorporation of institutional specific weighting factors that reflect both the priority of that outcome at a particular institution and the institution's Basic Carnegie Classification. This weighting system allows the outcomes model to properly account for the role of various activities within a specific institutional mission.

Unlike Performance Funding, the outcomes based formula does not have annual targets or benchmarks. Therefore, it is not punitive for failure to achieve a predetermined goal. A key design feature of the outcomes-based model is the inclusion of a significant premium for student progression and degree production from low income and adult students. This feature reflects the statewide priority for these types of students and provides institutions with a strong incentive to recruit, retain and graduate them.

Per the CCTA, THEC will utilize the new model for the 2011-12 budget cycle and will begin phasing out the hold harmless provision over the next four years, which will result in each institution being funded at the same percentage of the outcomes-based formula recommendation.