

Section Title: Financial Policies

Policy Title: Outcomes-Based Funding Formula

Policy Number: F4.5

4.5.10 **Scope and Purpose.** The Commission is tasked and empowered to oversee and ensure the fair and equitable distribution of public funds among state institutions of higher education by the development, maintenance, and use of an outcomes-based funding formula.

4.5.20 **Authority.** The Commission's enabling legislation grants the Commission authority to develop and execute an outcomes-based funding formula to distribute public funds to all state institutions of higher education.

4.5.30A **Procedures.** The Commission shall develop and utilize an outcomes-based funding formula model to ensure the fair and equitable distribution and use of public funds among state institutions of higher education.

4.5.30B The Commission shall submit the revised higher education funding formula for the following fiscal year to the Office of Legislative Budget Analysis and the Comptroller of the Treasury no later than December 1 of each year.

4.5.30C The Commission shall operate the funding formula and its funding recommendations in accordance with applicable state and federal statutes.

4.5.30D The Commission staff shall maintain and update annually informational and educational resources pertaining to the outcomes-based funding formula model, its components, and its use on the Commission's website.

4.5.40 **The Model.** The funding formula model shall further the goals of the statewide Master Plan by emphasizing 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 Master Plan, including:

- 1) End-of-term enrollment for each term, student retention, timely progress toward degree completion, and degree production; and
- 2) Student transfer activity, research, and student success, as well as compliance with the transfer and articulation policies required in this section.

The funding formula model shall consider the impact of tuition, maintenance fees, and other charges assessed by each institution in determining the fair and equitable distribution of public funds.

The Commission shall develop funding recommendations that reflect the outcomes-based funding formula model as well as the priorities of the Master Plan.

4.5.50 **Formula Review Committee.** The Commission shall establish a review committee to aid in development or revision of the funding formula, as prescribed and constituted by T.C.A. § 49-7-202(g)(1).

The committee shall review the funding formula components, as well as identify needed revisions, additions, or deletions to the formula. The committee shall also ensure that the funding formula is linked to the goals and objectives of the Master Plan.

The committee shall meet at least annually.

Before any amendment or revision to the outcomes-based funding formula model shall become effective, the amendment or revision shall be presented to the Education and Finance, Ways and Means Committees of the Senate and the Education Administration and Planning and Finance, Ways and Means Committees of the House of Representatives for review and recommendation.

Revised: August 12, 1994
May 11, 2017

Applicable Statute

T.C.A. § 3-14-202, legislative budget analysis

T.C.A. § 8-50-114, tuition and fee waiver as related to budget and funding formula

T.C.A. § 49-7-116, tuition-free courses as related to budgets and funding formula

T.C.A. § 49-7-202, outcomes-based funding formula

T.C.A. § 49-7-1002, state funding requests for public higher education

Section Title: Financial Policies

Policy Title: Academic Funding FormulaOutcomes-Based Funding Formula

Policy Number: F4.5

4.5.10 **Scope and Purpose.** The Commission is tasked and empowered to oversee and ensure the fair and equitable distribution of public funds among state institutions of higher education by the development, maintenance, and use of an outcomes-based funding formula.

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4.5.20 **Authority.** The Commission's enabling legislation grants the Commission authority to develop and execute an outcomes-based funding formula to distribute public funds to all state institutions of higher education.

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4.5.30A **Procedures.** The Commission shall develop and utilize an outcomes-based funding formula model to ensure the fair and equitable distribution and use of public funds among state institutions of higher education.

Comment [TO1]: TCA 49-7-202(f)(1)

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4.5.30B The Commission shall submit the revised higher education funding formula for the following fiscal year to the Office of Legislative Budget Analysis and the Comptroller of the Treasury no later than December 1 of each year.

Comment [TO2]: TCA 49-7-202(h) and TCA 3-14-202(g)

4.5.30C The Commission shall operate the funding formula and its funding recommendations in accordance with applicable state and federal statutes.

4.5.30D The Commission staff shall maintain and update annually informational and educational resources pertaining to the outcomes-based funding formula model, its components, and its use on the Commission's website.

4.5.40 **The Model.** The funding formula model shall further the goals of the statewide Master Plan by emphasizing 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 Master Plan, including:

Comment [TO3]: TCA 49-7-202(f)(2)

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- 1) End-of-term enrollment for each term, student retention, timely progress toward degree completion, and degree production; and

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2) Student transfer activity, research, and student success, as well as compliance with the transfer and articulation policies required in this section.

The funding formula model shall consider the impact of tuition, maintenance fees, and other charges assessed by each institution in determining the fair and equitable distribution of public funds.

The Commission shall develop funding recommendations that reflect the outcomes-based funding formula model as well as the priorities of the Master Plan.

4.5.50 **Formula Review Committee.** The Commission shall establish a review committee to aid in development or revision of the funding formula, as prescribed and constituted by T.C.A. § 49-7-202(g)(1).

The committee shall review the funding formula components, as well as identify needed revisions, additions, or deletions to the formula. The committee shall also ensure that the funding formula is linked to the goals and objectives of the Master Plan.

The committee shall meet at least annually.

Before any amendment or revision to the outcomes-based funding formula model shall become effective, the amendment or revision shall be presented to the Education and Finance, Ways and Means Committees of the Senate and the Education Administration and Planning and Finance, Ways and Means Committees of the House of Representatives for review and recommendation.

~~T.C.A. § 49-7-202 requires the Tennessee Higher Education Commission “To develop policies and formulae of guidelines for the fair and equitable distribution and use of public funds among the State’s institutions of higher learning, taking into account enrollment projections, and recognizing institutional differences as well as similarities in function, services, academic programs and levels of instruction.” The Commission has adopted the following policy regarding the formula-~~

- ~~1. The formula should adequately but reasonably reflect the funding needs of public higher education institution.~~
- ~~2. The formula must provide equitable distribution of available resources.~~
- ~~3. Institutions should retain maximum management flexibility in the use of funds, and should not be penalized for efficient use of resources.~~
- ~~4. The formula should provide recognition of differences in institutional role and mission.~~
- ~~5. The formula should be compatible with statewide goals such as access, desegregation, quality and evaluations of performance.~~

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Comment [TO4]: TCA 49-7-202(f)(3)

Comment [TO5]: TCA 49-7-202(k)

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Comment [TO6]: TCA 49-7-202(g)(2)

Comment [TO7]: TCA 49-7-202(g)(3)

Comment [TO8]: TCA 49-7-202(i)

- ~~6. The formula should be as simple as possible given the complex nature of the institutions to be funded.~~
- ~~7. The formula should be based upon reliable information and data systems which assure comparability among institutions.~~

~~The formula is revised, as necessary, in accordance with new information or methods and is annually evaluated by the Formula Review Task Force, comprised of Commission staff and representatives from the institutions and governing boards. Beginning FY 1995-96, the Commission will analyze actual expenditures at each institution in relation to the amount appropriated through the formula.~~

~~The two parts of the current formula, expenditures and revenues, relate only to unrestricted education and general monies, Restricted funds such as federal research grants or other gifts and grants are not included.~~

~~The calculations do not represent the specific institutional budgets for the functions listed, but rather are for the purposes of requesting and distribution of appropriations. The management of actual appropriations is the responsibility of institutions and their governing boards.~~

~~FORMULA COMPONENTS ARE:~~

~~**Instructional and Academic Support:** Institutional expenditures are concentrated in the instruction and academic support categories. Included are faculty, academic administration and clerical salaries, office expense and equipment, and other activities such as demonstration schools and farms which support the instructional program.~~

~~— For instruction the formula recommends funds based upon faculty salaries and student/faculty ratios at comparable institutions. The use of CIP (Classification of Instructional Programs) have been adopted as the standard to use for credit hour production and student/faculty ratio determination.~~

~~— The funding calculation divides the projected student credit hour production by student/faculty ratios to determine the number of instructional personnel required, and this number is then multiplied by the average salary factor of peer institutions. Adjustments are made for graduate assistants, equipment, clerical, and supply requirements, and to recognize enrollment fluctuations. Within the formula, Tennessee institutions are compared to comparable institutions for purposes such as average faculty salaries. The use of peer institutions is a major component of the formula. A common set of ten peers was selected for the 14 two-year colleges and technical institutes. Ten peers each were selected for the University of Memphis and University of Tennessee, Knoxville. For the other seven universities, ten peer institutions were selected comprised of seven common and three specific peers.~~

~~— Funding needs for libraries depend on the type, as well as size of the institution. The formula approach for libraries recommend a rate per FTE student. The rate is based on an analysis of library expenditures at peer institutions.~~

~~**Maintenance and Operation of Physical Plant:** The maintenance and operation of physical plants, which includes repair service, utilities, custodial service, and grounds work comprises 10.5% of the total institutional expenditures. Cost factors recognized by the Commission formula are intensity of use, age of facility, and education and general square footage. The formula distributes equal dollar amounts for each square foot of education and general space, excluding dormitories and auxiliary space.~~

~~**Institutional Support:** Expenditures for institutional support are 10.69% of total expenditures. Included in this category are the president's office, business office, personnel office, security, catalogs, and information. Campus security is funded at each institution on a square footage basis and adjusted by a factor which considers whether or not the campus is located in an urban or rural area.~~

Student Services: Expenditures for student services, including admissions and records, dean of men, dean of women, financial aid, student health, and athletics, are 9.8% of total expenditures. Formula costs are related to FTE and headcount enrollment at each institution.

Research: The research function comprises 1.56% of total expenditures and includes bureaus institutes, and special projects. For universities, funds are allocated based on the institution's historical expenditures for research and the institution's ability to attract sponsored research funds.

Public Service: A formula calculation is used for public service and continuing education administration as a part of the public service function. Each institution receives a \$35,000 base plus 1% of instructional costs for administration of public service. (UTK receives .25% of instructional costs plus the base for the public service allowance.

College Preparatory Programs: College preparatory programs include remedial and developmental instructional activities. These programs continue to be offered by the institutions, but are no longer funded at a special rate per credit hour. Instead they are funded at the same rate as college level courses in the same discipline.

Staff Benefits: Staff benefits requests are analyzed in relation to previous annual expenditures. Fluctuations in health insurance and social security rates are considered in making recommended changes. Included in this category is an amount for longevity pay, an incentive program adopted by the legislature which rewards employees based on years of service.

Student Aid: Requests for student aid are analyzed in relation to previous annual expenditures and federal matching requirements.

Special Allocation: Institutions may request funds for special activities which cannot be adequately addressed through regular allocations.

Desegregation: Institutions may request funds for desegregation purposes which cannot be adequately addressed through other formula components.

Performance Funding: The formula includes a sum to be allocated to institutions depending upon their ability to improve on standards of performance. Up to 5.45% over and beyond what the formula generates if it meets or exceeds a set of qualitative standards are awarded to each institution. The purpose of these funds is to recognize and reward efforts by institutions to evaluate and improve instructional quality.

~~**Equipment Replacement Supplement:** Since 1989, funds have been distributed each year within the formula and through special allocations for teaching and research equipment purchases to assist institutions in replacing obsolete equipment. The method used has been based upon each institution's percent of the total value of an equipment inventory which is kept for all institutions. The increase in equipment in areas of instruction makes it necessary to consider enrollment differences among institutions as well as the equipment inventory.~~

~~**Liability Insurance:** Liability insurance premiums for state operations are included in this category and are based on state determined experience ratings by campus.~~

~~**Inflation:** The formula includes inflation factors for non salary expenditures and library acquisitions.~~

~~**Revised:** August 12, 1994
May 11, 2017~~

~~**Applicable Statute**~~

- ~~[T.C.A. § 3-14-202, legislative budget analysis](#)~~
- ~~[T.C.A. § 8-50-114, tuition and fee waiver as related to budget and funding formula](#)~~
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~~**Revised:** August 12, 1994~~

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