



# TENNESSEE HIGHER EDUCATION COMMISSION

## Finance and Operations Committee

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### REGULAR CALENDAR ITEM: II.

**MEETING DATE:** May 14, 2025  
**SUBJECT:** 2025 Outcomes-Based Funding Formula Review  
**ITEM TYPE:** Information

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#### BACKGROUND

Per Tenn. Code Ann. § 49-7-202(g), the Commission is statutorily required to establish and annually convene a review committee to aid in the development or revision of the Outcomes-Based Funding (OBF) formula. After consulting the Statutory Review Committee, the body charged with developing and revising the state's higher education master plan and OBF formula, THEC staff then develop formal recommendations to amend or revise the formula to the Commission, which votes on all recommendations.

THEC staff evaluate the formula in consultation with the Review Committee on an annual basis to provide a technical review, or an opportunity to ensure that all formula mechanisms are working as designed. To allow for stability, clarity, and ability to respond to formula incentives, Tennessee makes major policy revisions to the OBF formula no more than once every five years. THEC staff, in consultation with the Review Committee, will begin the five-year policy review later this year following the completion of the master plan. This process provides a space for the Commission, state and elected officials, institutional representatives, and THEC staff to evaluate and recommend policy revisions to align the formula with the state goals outlined in the higher education master plan.

In preparation for the five-year OBF review process, THEC staff will present information on the current state of the OBF formula followed by a conversation on potential policy revisions in the upcoming review cycle. During this time and throughout the review process, THEC staff will record feedback for future consideration on policy changes the commission may like to see considered during the 2025 formula review.

Information on the current metrics in Tennessee's OBF formula can be found in the materials attached.

## Outcomes Based Funding Formula Overview

The Complete College Tennessee Act (2010) requires Tennessee public community colleges and universities to be funded on outcomes like student progression and completion. The Tennessee Higher Education Commission and Review Committee developed a formula that funds institutions through outcome metrics that reflect institutional priorities and mission. THEC uses a **three-year average** of the outcomes listed below to limit potential volatility in the formula year over year.

### Outcomes

<u>Community Colleges</u>	<u>Universities</u>
Students Accumulating 12 hours	Students Accumulating 30 hours
Students Accumulating 24 hours	Students Accumulating 60 hours
Students Accumulating 36 hours	Students Accumulating 90 hours
Associate Degrees	Bachelor's and Associate Degrees
Long-Term Certificates	Masters/Ed. Specialist Degrees
Short-Term Certificates	Doctoral/Law Degrees
Dual Enrollment	Research, Service, and Sponsored Programs
Job Placements	Six-year Graduation Rate
Transfers out with 12 hours	Degrees per 100 FTE
Workforce Training/Contact Hours	
Awards per 100 FTE	

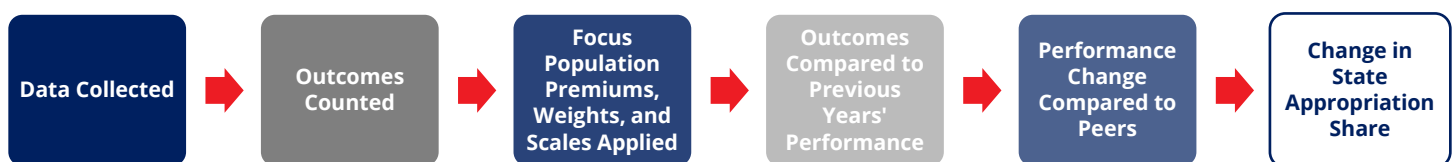
Outcomes are **weighted** to align with institutional priorities and mission, totaling 100 percent for each institution. Moving away from the common weight structure used in the previous model, the 2020-2025 model uses a banded weight structure for the community college sector that prioritizes completion metrics while allowing individual colleges to better reflect missions. The formula also includes premiums for **focus populations** for student progression and undergraduate awards to encourage completion at public institutions.

### Focus Populations

<u>Community Colleges</u>	<u>Universities</u>	<u>Premiums</u>
Adult	Adult	1 Focus Population = 80% = 1.8 Outcomes
Low-Income	Low-Income	2 Focus Populations = 100% = 2 Outcomes
Academically Underprepared	High-Need Fields*	3 Focus Populations = 120% = 2.2 Outcomes
High-Need Fields		4 Focus Populations = 140% = 2.4 Outcomes

\*Applied to undergraduate awards only.

**How It Works:** Universities and community colleges compete for a **share** of available state appropriations each year. They do this through improvement in their outcomes relative to peers. Data are counted and **scaled** and compared to previous outcome levels. An institution's increase or decrease in outcome production is assessed compared to peer increases or decreases in outcome production. That movement influences that institution's share of state appropriations. For example, if all institutions experienced net improvement in outcomes, institutions that experienced the *greatest* growth would increase their share of total funding the most.



The funding formula also includes an assessment of institutional quality and programmatic support via the **Quality Assurance Funding** (QAF) score. Institutions may earn up to an additional 5.45% of funding based upon metrics such as licensure pass rates and accreditation. The formula also includes values for institutional **fixed costs** intended to ensure institutions receive adequate funds to maintain the operation of their physical infrastructure.

<b>Outcome</b>	<b>Simplified Definition</b>
Student Progression	The number of undergraduate students reaching 30, 60, or 90 credit hours at universities or 12, 24, or 36 credit hours at community colleges during an academic year.
Short-Term (<1 Year) Certificates	The total number of technical certificates requiring fewer than 24 credit hours granted during a calendar year.
Long-Term (1 - 2 Year) Certificates	The total number of long-term certificates (excluding those in the general education core) conferred in an academic year.
Bachelor's Degree	The total number of bachelor's degrees conferred in an academic year.
Associate Degrees	The total number of associate's degrees conferred in an academic year.
Master's And Education Specialist's Degrees	The total number of master's and education specialist's degrees and certificates conferred in an academic year.
Doctoral And Law Degrees	The total number of Doctoral and Law degrees conferred in an academic year.
Graduation Rate	The six-year university graduation rate of first-time, full-time freshmen.
Awards/Degrees Per FTE	The total number of associate and bachelor's degrees at universities, or long-term certificates and associates at community colleges, in an academic year per 100 undergraduate FTE.
Research, Service, And Sponsored Training	Expenditures derived from external sources for research, public service, and sponsored program activities at a university.
Dual Enrollment	The number (unduplicated headcount) of high school students taking degree-credit courses in an academic year.
Transfers Out	The number of undergraduate students who, after accumulating 12 credit hours, successfully transferred to another institution in an academic year.
Job Placement	The number of graduates employed full-time in the year following graduation from a community college.
Workforce Training	The number of eligible non-credit workforce training hours completed in an academic year at a community college.
<b>Focus Population</b>	<b>Simplified Definition</b>
Adult	Students 25 years or older at the time the outcome is achieved. Used only for the progression metrics and undergraduate awards.
Academically Under-Prepared	Any student who scores below certain thresholds on the ACT and any student who is ever identified by the community college as requiring a remedial or development course. Used only for the progression metrics and the undergraduate awards at community colleges.
Low-Income	Students identified as Pell-eligible at any time during their college career. Used only for the progression and undergraduate awards.
Workforce Investment	Students who receive an undergraduate award in an approved high-need academic field in a given academic year. Used for undergraduate awards only.