

FUNDING TENNESSEE'S PUBLIC COLLEGES AND UNIVERSITIES: THE OUTCOMES-BASED FUNDING FORMULA

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Tennessee's outcomes-based funding formula governs all operating appropriations for Tennessee's public colleges and universities. The formula was implemented following the adoption of the Complete College Tennessee Act (CCTA) of 2010, and shifted higher education funding from an enrollment-based formula, which funded colleges and universities based on how many students they enrolled, to one that funds institutions based on performance, such as the number of credit hours accumulated by students, the number of degrees and certificates awarded, and job placements of students following graduation.

A substantial amount of public funding is allocated based on the recommendation created by this complex formula. In 2017-18, approximately \$913 million appropriated for higher education was allocated to colleges and universities according to the formula.

In an effort to make the outcomes-based funding formula more understandable and transparent, the Comptroller's Office has created this brief as part of a collection of publications to explain how this complex formula works. More information on the formula, including a detailed step-by-step report and process chart, can be found here: <http://www.comptroller.tn.gov/OREA/>

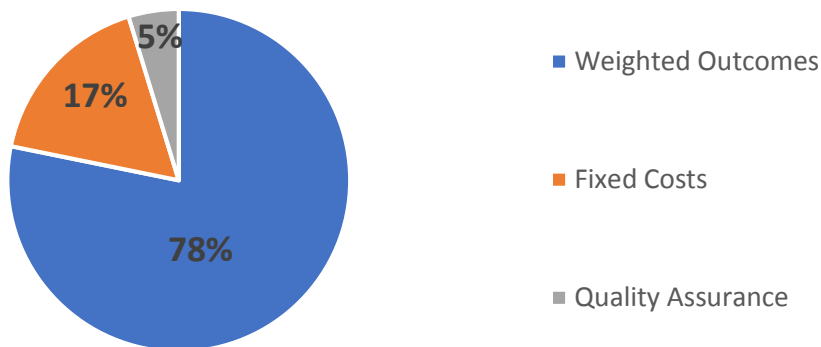
The outcomes-based funding formula creates funding recommendations based on three major components: Weighted outcomes, fixed costs, and Quality Assurance Funding.

Weighted Outcomes

The weighted outcomes component allocates funding for colleges and universities based on progression, completion, and efficiency measures, such as the number of degrees awarded, student credit-hour accumulation benchmarks, certificates and degrees granted per 100 full-time equivalent students, and graduation rates.

As one of the three components of the formula, weighted outcomes are responsible, on average, for roughly 78 percent of the total funding recommendation. The weighted outcomes component has several distinct features:

- It relies on the 3-year average of each outcome for every institution to account for outcomes that show greater variation over time,
- Outcomes include premiums for at-risk students, such as adult and low-income students, that progress through college and graduate,
- Each averaged weighted outcome is scaled to allow for comparability across outcomes over time. Scaling produces more stable appropriation share recommendations,
- Each scaled outcome is weighted based on institutional mission as defined by college and university officials and in accordance with a classification method used in higher education known as the Basic Carnegie Classification.



Note: Although Tennessee's Colleges of Applied Technology (TCATs) are accounted for in the formula, they are primarily funded through a cost and enrollment-based formula.

Source: Tennessee Higher Education Commission, 2015-2020 Outcomes Based Funding Formula, 2017-18 Outcomes Formula Model, <https://www.tn.gov/thec/article/2015-20-funding-formula> (accessed July 12, 2017).

Fixed Costs

The fixed costs component allocates funds for the costs incurred by colleges and universities for maintenance and operations, utilities, equipment replacement, and education and general space. Capital outlay for new construction of buildings and capital maintenance is not funded through the fixed costs component of the formula.

The total spent on fixed costs at an institution determines its share of the total fixed costs component. An institution's fixed cost share is largely dependent upon its size, with the locally governed institutions accounting for about 43.5 percent of total fixed costs while the Tennessee Board of Regents community colleges account for about 22 percent.

Quality Assurance Funding

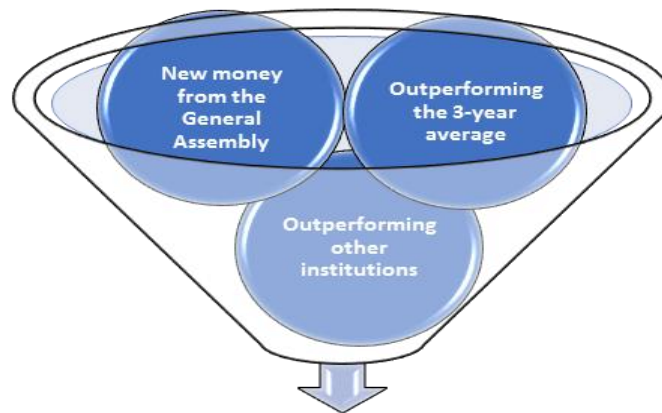
Quality Assurance Funding (QAF) offers colleges and universities additional funding for meeting certain quality standards related to student learning, student improvement, student access, and student success. Each institution can earn a maximum of 5.45 percent of the institution's funding recommendation.

In 2017-18, a total of \$43 million in Quality Assurance Funding was distributed among all institutions. QAF typically consists of self-auditing academic services, student services, and institutional support functions in order to improve performance. The standards are slightly different for community colleges and universities, due to the different roles these institutions play in serving students.

Final Funding Recommendation

The final stage of the formula involves calculating each institution's share of funding based on two factors: the change in performance of the individual institution, and the change in performance of all other institutions. All else being equal, an institution with lower performance than the previous year will receive a smaller share of funding; institutions with higher performance will receive a larger share of funding.

While performance determines each institution's share of funding, the amount of funding appropriated by the General Assembly determines how much funding is ultimately received by each institution. These three elements (the institution's performance, the performance of all other institutions, and the amount of funding appropriated by the General Assembly) determine the amount of funding received by each institution.



Final Funding Recommendation

- Generally, increases in higher education funding will result in a recommended net funding increase for all colleges and universities.
- Institutions that performed poorly compared to the previous year may receive a smaller recommended share of total higher education funding but may still receive a net funding increase when the state increases all higher education funding.
- Institutions that performed better compared to the previous year may receive a larger recommended share of total higher education funding in addition to the new money when the state increases all higher education funding.
- Generally, decreases in higher education funding may result in a net funding decrease for institutions.
- If higher education funding decreases, better performing institutions may not necessarily receive a recommended net funding decrease.

In 2017-18, the formula calculated a recommendation of \$1.35 billion in operating funds for higher education in Tennessee. The Tennessee Higher Education Commission (THEC) requested \$913 million from the Tennessee General Assembly based on the 2017-18 formula recommendation, or about 67 percent of the formula's calculated recommendation, and this request was fully funded by the legislature.

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