Higher Education Finance Reform:
Lessons from the Tennessee Experience

David L Wright and Russ Deaton,
Tennessee Higher Education Commission

Southern Legislative Conference webinar

October 23, 2012
Tennessee Higher Education prior to CCTA

• Master Plan; limited buy-in from institutions
  - Little linkage between funding and state goals

• Performance Funding program allocated 5.5% of budget on measures tied to Master Plan

• Enrollment-based funding formula
  - Hadn’t been fully funded since mid 1990s

• Geography and demography drove institutional growth
Tennessee Higher Education
Fiscal Realities

• Fewer state dollars for institutional operations
  o 20% cut over the last 5 years
• Robust merit scholarship program
• Enrollment growth
• Cost inflation
• Tuition spiral
• Exacerbated by recent recession
Tennessee Public Higher Education Operating Revenues

Total Revenue per FTE - Universities
Inflation Adjusted

<table>
<thead>
<tr>
<th>Year</th>
<th>ARRA/MOE</th>
<th>StFees</th>
<th>StAppr</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001-02</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005-06</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007-08</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010-11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CCTA Context

NEEDED:
A new vision for Tennessee higher education
CCTA Context

• Unprecedented fiscal circumstances

• Emphasis on policy alignment
  o Statewide policy audit (April 2009, NCHEMS)

• Opportunity for higher ed to function as an integral part of a statewide agenda.
CCTA Overview

• Public Agenda
• Outcomes-based Funding Formula
• Mission Differentiation
• Articulation & Transfer
• Remedial & Developmental Education
• Community College System
• Research

⇒ www.tn.gov/thec
2010-2015 Public Agenda for Tennessee Higher Education

• Primary focus = increasing educational attainment

• “Public agenda” language was intentional

• Narrowly focused -- on CCTA implementation

• A Public Agenda annual Progress Report on the Complete College TN website will provide accountability for Agenda implementation
2010-2015 Public Agenda for Tennessee Higher Education

• The “Big Goal”
  • Informed by THEC Student Flow Model
  • Achieve the U.S. avg in ed attainment by 2025
  • Needed:
    o 26,000 additional cumulative degrees by 2015
    o 210,000 by 2025
    o 4% annual increases in certificate and degree production; every year from now to 2025
    o Goal includes private non-profits and for-profits
The Big Goal

Additional Cumulative Degrees Needed by 2015: 26,000

Current Projection 2009-2015
Cumulative Degree Production: 281,000

Annual Degree Production (Current Projection)

Required Annual Degree Production

Additional Cumulative Degrees Needed by 2025: 210,000

Current Projection 2009-2025 Cumulative Degree Production: 711,000
Mission Profiles

• Required by the CCTA
• Why important?
  ▪ Excellent institutions ≠ higher ed system meeting State needs
• Institutional Mission Differentiation
  ▪ Carnegie Classification
  ▪ Academic Degree Programs by level and field
  ▪ Undergraduate/graduate mix
  ▪ Sub-populations
  ▪ Research capacity
• Goal: avoid duplication of programs & services
• Core of outcomes funding formula
• Institutions constructed the profiles ⊳ systems endorsed ⊳ THEC approved
Performance Funding

• 30-year program, distinct from the outcomes formula; builds on indicators from existing cycles

• Quality Assurance focused

• Accountability instrument for Master Plan

• Serves as THEC statutorily-required State performance report for General Assembly

• Contributes to student success as the unifying goal of Public Agenda, outcomes based funding formula, and Performance Funding
# Performance Funding

## 2010-15 Performance Funding Cycle

Two Quality Assurance Standards

<table>
<thead>
<tr>
<th>Standard I</th>
<th>Institutional performance measured by achievement of student learning, program evaluation and satisfaction studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of Student</td>
<td></td>
</tr>
<tr>
<td>Learning &amp; Engagement</td>
<td></td>
</tr>
<tr>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>Standard II</td>
<td></td>
</tr>
<tr>
<td>Quality of Student</td>
<td></td>
</tr>
<tr>
<td>Access and Student</td>
<td></td>
</tr>
<tr>
<td>Success</td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

Institutional performance measured by achievement of credentials earned for selected student sub-populations
Tennessee’s Outcomes-Based Funding Formula: An Analysis of the First Two Years
Tennessee Finance Policy Reform

• In January 2010, Tennessee passed the “Complete College Tennessee Act.”

• The legislation called for reforms in several areas:
  – student transfer
  – research collaboration
  – funding formula policy
Funding Formula Policy

• TN retired its enrollment based model and built a funding formula that is entirely a function of outcomes.

• The TN design, utilizing outcomes and an institution-specific weighting structure, is unique in higher education finance policy.
TN Outcomes-Based Model

• This is *not* simply a reform to TN’s long-standing Performance Funding program.

• The outcomes-based model *completely replaces* the enrollment-based model.

• There is no enrollment-based allocation in TN.
TN Funding Formula Evolution

TN Enrollment-Based Funding Formula, 1979-2011

- Enrollment
- Performance Funding
TN Outcomes-Based Funding Formula, 2011-Present

- Outcomes
- Performance Funding
TN Outcomes-Based Model

• Rather than counting enrollments, the TN model simply counts outcomes such as degrees.

• There are no state-imposed targets or pre-determined goals.

• The outcomes are weighted to reflect institutional mission.
# TN Outcomes-Based Formula

## Universities

<table>
<thead>
<tr>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Progression: 24 Credit Hours</td>
</tr>
<tr>
<td>Student Progression: 48 Credit Hours</td>
</tr>
<tr>
<td>Student Progression: 72 Credit Hours</td>
</tr>
<tr>
<td>Bachelors Degrees</td>
</tr>
<tr>
<td>Masters Degrees</td>
</tr>
<tr>
<td>Doctoral/Law Degrees</td>
</tr>
<tr>
<td>Research/Grant Funding</td>
</tr>
<tr>
<td>Student Transfers</td>
</tr>
<tr>
<td>Degrees per 100 FTE</td>
</tr>
<tr>
<td>Graduation Rate</td>
</tr>
</tbody>
</table>
## TN Outcomes-Based Formula

**Community Colleges**

<table>
<thead>
<tr>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students Accumulating 12 hrs</td>
</tr>
<tr>
<td>Students Accumulating 24 hrs</td>
</tr>
<tr>
<td>Students Accumulating 36 hrs</td>
</tr>
<tr>
<td>Dual Enrollment</td>
</tr>
<tr>
<td>Associates</td>
</tr>
<tr>
<td>Certificates</td>
</tr>
<tr>
<td>Job Placements</td>
</tr>
<tr>
<td>Remedial &amp; Developmental Success</td>
</tr>
<tr>
<td>Transfers Out with 12 hrs</td>
</tr>
<tr>
<td>Workforce Training (Contact Hours)</td>
</tr>
<tr>
<td>Awards per 100 FTE</td>
</tr>
<tr>
<td>Weights Based on Institutional Mission</td>
</tr>
<tr>
<td>--------------------------------------</td>
</tr>
<tr>
<td>Student Progression: 24 Credit Hours</td>
</tr>
<tr>
<td>Student Progression: 48 Credit Hours</td>
</tr>
<tr>
<td>Student Progression: 72 Credit Hours</td>
</tr>
<tr>
<td>Bachelors Degrees</td>
</tr>
<tr>
<td>Masters Degrees</td>
</tr>
<tr>
<td>Doctoral/Law Degrees</td>
</tr>
<tr>
<td>Research/Grant Funding</td>
</tr>
<tr>
<td>Student Transfers</td>
</tr>
<tr>
<td>Degrees per 100 FTE</td>
</tr>
<tr>
<td>Graduation Rate</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

- Bachelors degrees; little research/doctoral degrees
- Extensive doctoral degrees and emphasis on research
TN Outcomes-Based Model

• Outcomes model utilized for 2011-12 and 2012-13 state budget cycles.

• The outcomes model is not for the allocation of new state funding, but for all state funding ($750 million).

• The model works with flat, increasing or decreasing state appropriations.
TN Outcomes-Based Formula

• All state funding is back up for grabs every year.

• No institution is entitled to some minimal level of appropriations that is based on prior-year funding.

• State appropriations have to be earned anew each year.
TN Outcomes Formula

• 100% of state appropriations are subject to reallocation each year to reflect productivity changes.

• The TN model is engineered such that productivity changes generate state appropriations changes largely within a +/-2% range.
TN Outcomes-Based Formula

Annual Reallocation of State Appropriations

- APSU
- ETSU
- MTSU
- TSU
- TTU
- UM
- UTC
- UTK
- UTM

2011-12
2012-13

Tennessee Higher Education Commission
TN Outcomes-Based Formula

Annual Reallocation of State Appropriations

- Chattanooga
- Cleveland
- Columbia
- Dyersburg
- Jackson
- Motlow
- Nashville
- Northeast
- Pellissippi
- Roane
- Southwest
- Volunteer
- Walters

2011-12 2012-13
Cumulative Change in Appropriations Due to Formula

- APSU
- ETSU
- MTSU
- TSU
- TTU
- UM
- UTC
- UTK
- UTM
- Total Funding
Outcomes Based Model Advantages

• The outcomes model is linked directly to the educational attainment goals of TN’s Public Agenda.

• The outcomes model establishes a framework for government to have an ongoing policy discussion with higher education.

• The model is adjustable to account for new outcomes or a different policy focus (changing the weights).
Outcomes Based Model Advantages

• The structure (outcomes & weights) of the outcomes-based model is the key innovation.

• The specific outcomes and weights that TN chose fit our state’s context and current needs.

• Other states could adopt the general design and decide for themselves what outcomes are valuable and how they should be weighted to reflect institutional mission.
TN Outcomes Formula

• Extensive information, including the formula model, is available on the THEC homepage.

• www.tn.gov/thec
Contact Information

David L Wright  
Chief Policy Officer  
David.L.Wright@tn.gov  
615-509-6020

Russ Deaton  
Chief Fiscal Officer  
Russ.Deaton@tn.gov  
615-532-3860

[Link to Tennessee Higher Education Commission website]

www.tn.gov/thec