

**DATE:** January 31, 2020

**SUBJECT:** Fiscal Policy: Funding Formula Review Committee

**ACTION RECOMMENDED:** Information

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In February, the Formula Review Committee (FRC) (see membership in Appendix A) will formally begin the five-year review of the current Outcomes-Based Funding formula model. The review process will also incorporate a working committee comprised of higher education personnel, government stakeholders, and THEC staff. The process will culminate in the creation of the 2020-2025 Outcomes-Based Funding formula model, which will be presented to the Commission in July. This review will proceed under the following guiding principles:

- The Commission will use the formula in all funding scenarios;
- The formula will align with the education goals of the state, providing incentives for productivity improvements consistent with the statewide master plan;
  - The formula will continue to incorporate outcomes across a range of variables, reflecting differences in institutional missions;
  - Any new outcomes will be incorporated only after rigorous evaluation of data quality and integrity;
  - Effects in formula will be driven by performance not by integration of new outcomes.

The review process reflects prior assessment and adoption of formula components. Immediately following the passage of the Complete College Tennessee Act of 2010—a law which in part stipulates that higher education institutions be funded based on outcomes rather than enrollment—THEC convened the FRC and solicited advice and feedback from all community college and university presidents and chancellors as well as government stakeholders. Through this process THEC staff produced a formula that funds institutions based on metrics that measure successes as well as weights that reflect institutional priorities and mission.

Since that time, THEC has convened the FRC annually to review the formula, with a commitment to wait to implement any significant structural changes during its five-year review cycles. The first five-year review produced the

2015-2020 model which was used for the first time to distribute FY 2016-17 appropriations and has been used each year through FY 2020-21. The 2020-2025 FRC will likewise propose and review changes to the current model, relying on frequent feedback and advice from all stakeholders.

The process used to analyze and review changes to the outcomes formula allows all stakeholders to play a significant role in creating the 2020-2025 Outcomes-Based Funding formula model. The outcomes formula encourages an institution to remove barriers to completion, directly improving efficiencies and limiting costs to the student. This review will ensure the formula continues to effectively reward institutions for how they distinctly meet the needs of the state.

## Appendix A

### Members of the Statutory Formula Review Committee

Executive Director Mike Krause	Tennessee Higher Education Commission
Chancellor Flora Tydings	Tennessee Board of Regents
Interim President Randy Boyd	University of Tennessee
President Alisa White	Austin Peay State University
President Brian Noland	East Tennessee State University
President Sidney McPhee	Middle Tennessee State University
President Glenda Baskin Glover	Tennessee State University
President Phil Oldham	Tennessee Technological University
President David Rudd	University of Memphis
Commissioner Stuart McWhorter	Department of Finance and Administration
Comptroller Justin Wilson	Comptroller of the Treasury Office
Senator Dolores Gresham	Senate, Chair of Education Committee
Senator Bo Watson	Senate, Chair of Finance, Ways & Means Committee
Representative Mark White	House of Representatives, Chair of Education Committee
Representative Susan Lynn	House of Representatives, Chair of Finance, Ways & Means Committee
Catherine Haire	Office of Legislative Budget Analysis, Senate Budget Analysis Director
Peter Muller	Office of Legislative Budget Analysis, House Budget Analysis Director