

**Tennessee Higher Education Commission**  
**2021-2025 Formula Review Committee**  
**July 8, 2021 Meeting Minutes**

On July 8, 2021, the 2021-2025 Formula Review Committee (FRC) convened for its first meeting to review the current outcomes-based funding formula. The meeting began with a determination of necessity to allow for a quorum to be constituted using members participating in the meeting remotely. A motion of determination was made by THEC Executive Director Emily House and was supported unanimously by committee members in attendance.

Dr. House then welcomed committee members and offered her appreciation for the work completed by the working group over the previous 5 months. Dr. House also recognized the feedback provided by committee members, specifically that the review process felt rushed. In response, THEC will extend the review process through next year for most recommended changes.

Chief Policy Officer Dr. Steven Gentile then provided an overview of the charge and responsibilities of the statutory working group, as well as reviewed a timeline for the formula review process. Changes recommended for immediate implementation will be presented to the Commission at the summer meeting later in July, while other recommended changes would be held for submission in November 2021 with implementation for the 2023-24 funding formula cycle.

A summary of the discussion is below.

**Review of 2015-2021 Outcomes-Based Funding Formula**

- Senior Director of Fiscal Policy Crystal Collins provided an overview of the mechanics of the 2015-2021 outcomes-based funding formula. This included discussions of the four major parts of the formula: outcomes, focus populations, weights/scales, and fixed costs.
- Ms. Collins also provided an overview of production increases at the universities and community colleges, focusing on undergraduate degree production over the last decade and a half, as well as a discussion of five-year changes in all outcome metrics.

## Discussion of Proposed Immediate Revisions to the Formula

- Dr. Gentile introduced the next discussion topic, focusing on the need to ensure a fair and equitable opportunity for success for all institutions within the formula. Dr. Gentile identified an outcome where THEC staff believe the opportunity for success is not evenly applied within the university sector and that the value applied by the formula to this outcome differs across sectors.
- **Associate Degrees in the University Sector:** Discussion of the rescaling of associate degrees in the university sector, and the implementation of a definition change what university-conferred associate degrees are included in the formula.
  - Currently, only two universities are approved to provide associate degrees: Austin Peay State University and Tennessee State University. APSU is approved to award three associate degrees and TSU is approved to award one. Most universities awarded associate degrees at one point, until the 2005 THEC Plan of Action recommended that universities limit these degree offerings to those in allied health, nursing, or to military-affiliated students at APSU.
  - Dr. Gentile detailed a recent change at APSU to use the associate degree in liberal arts as a retention tool for students pursuing a bachelor's degree, resulting in a year-to-year increase of 175%, from 378 to 1,038. The ability to use this degree as a milestone award for students is not available to any other university.
  - Ms. Collins then provided an overview of THEC staff discussions, conversations that occurred over several meetings with working group members, and with each committee member in preparation for the July 8 meeting.
  - Ms. Collins identified a discrepancy between the scaling in the university and community college sectors for the associate degree. Due to mechanics of the current formula, associate degrees awarded in the university sector receive the same scale as bachelor's degrees (scale = 1) while those awarded in the community college sector receive a different scale (scale = 1.5), resulting in associate degrees at community colleges being worth two-thirds of what the same degree is worth in the university sector.
  - Ms. Collins then presented the recommended definitional change to which university-awarded associate degrees are counted in the outcomes-based funding formula. Differences between technical and non-technical associate degrees were discussed, including the terminal nature of the technical associate and the designation of liberal arts associate degrees as either terminal or transfer degrees.
  - Statistical information on the associate degree in liberal arts offered at APSU was presented, including the number of students who completed this degree and remained enrolled and those who completed the degree and left—or stopped out— from APSU.

- Based on the analysis completed by THEC staff and considering current THEC policy and feedback from various stakeholders—including members of the working group and members of the formula review committee, Ms. Collins presented the following **recommended changes for university associate degrees**:
  - *To address the scaling inequity for associate degrees in the university sector, THEC staff recommend implementing the same scale at universities as is implemented at the community colleges.*
  - *To address the inequity in opportunity to succeed in the associate degree metric in the university sector, THEC staff recommend implementing a definitional change that limits the inclusion of university-conferred associate degrees to those earned by students who do not re-enroll at the awarding institution at any time in the following academic year. This change will require that associate degree in the university sector be lagged an academic year.*
- President Licari from Austin Peay State University provided some additional context for the associate degree awarding activities and the mission at APSU, including stating that nearly 40% of incoming freshman indicate an associate degree as their degree of choice. Additionally, President Licari pointed to the need for associate degrees for underserved students (Pell-eligible, students of color, adult students, etc.) and the need for the associate in liberal arts for the military-affiliated students APSU serves.
  - Dr. Gentile thanked President Licari for his comments and perspective.
- President Oldham from Tennessee Tech University provided general agreement with the recommended changes. He then asked a question about how the implementation of a lagged metric, leading to the counting of the previously counted data, in the formula.
  - THEC staff discussed precedent for implementing a lag for a previously included metric.
- President Noland from East Tennessee State University asked if the increase in associate degrees in liberal arts at APSU was a recent phenomenon.
  - Dr. Gentile responded in the affirmative.
- Dr. Noland then asked if, under the current formula, a university with an associate degree program would be rewarded in the formula for both the associate and bachelor's degree should a student complete both.
  - Dr. Gentile responded in the affirmative.
- Finally, President Noland asked if the recommended definitional change would allow an institution to capture a student's success but would only prevent the institution from capturing that student's success twice.
  - Dr. Gentile responded in the affirmative.

- No further comments were provided by the formula review committee related to these two recommended changes.

### **Discussion of Proposed Five-Year Revisions to the Formula**

- Dr. Gentile introduced the next series of proposed changes for implementation beginning in the 2023-2024 funding formula.
- **Workforce Investment Premium:** Discussion of the inclusion of a focus population recognizing undergraduate awards in high need fields.
  - Ms. Collins gave an overview of the process for determining how to recognize degrees in high need fields in the funding formula. Using a previously approved definition of high need fields included in the quality assurance funding program, THEC fiscal staff analyzed the overlap between these fields and the long-term job projections released by Jobs4TN and the ECD Indicators report.
  - Ms. Collins then discussed an issue with the classification of associate degrees at the community colleges discovered during the operationalization process. Nearly two-thirds of all associate degree programs at community colleges are identified as university parallel degrees. Due to how the proposed definition for the new focus population premium would be operationalized, these degrees could not qualify even if the student completed a degree in an area of emphasis (e.g., Engineering or Mathematics) that would trigger the premium otherwise.
  - To remedy this issue, THEC staff recommend counting Tennessee Transfer Pathway university parallel associate degrees completed in an area of emphasis that correlate to a qualifying high need field.
  - Under the proposed workforce investment premium definition, about one-quarter of all associate degrees, one-third of all bachelor's degrees and over half of community college certificates currently awarded would qualify for this new focus population.
  - Based on the analysis completed by THEC staff and considering current THEC policy and feedback from various stakeholders—including members of the working group and members of the formula review committee, Ms. Collins presented the following **recommended change to the focus populations:**
    - *Implement Workforce Investment Premium that recognizes completion of bachelor's and associate degrees at universities, and associate degrees and long- and short-term certificates at community colleges in majors*

*aligned with high-need academic programs. THEC staff recommend treating this new focus population premium in the same mechanical manner as the current focus populations.*

- President Glover from Tennessee State University began the discussion by asking if THEC staff had considered the inclusion of business or information systems majors for inclusion in the high-need fields definition.
  - Ms. Collins indicated that THEC had elected to promote simplicity for institutions by using an approved definition for high need fields.
  - Ms. Collins also stated it is THEC fiscal staff's intention to revisit the definition of high-need fields at the next five-year review and should business—or any other major—be indicated as high need, a discussion of those majors would occur.
- Vice President of Academic Affairs and Student Success Dr. Linda Martin, speaking as the designee for University of Tennessee President Randy Boyd, asked if there was consideration for areas outside of STEM or regional needs to identify high-need fields. Additionally, Dr. Martin asked if graduate degrees were considered for inclusion in this new premium.
  - Ms. Collins indicated that simplicity for the implementation of a new measure was the focus and that after a period allowing institutions to respond to the metric, changes to what majors qualify could be discussed.
  - Ms. Collins then discussed the THEC staff decision to focus on undergraduate degrees initially, with the hope that this focus population premium will increase partnerships, through the inclusion of Tennessee Transfer Pathways, between community colleges and universities. Additionally, current focus populations are only applied to undergraduate degrees and certificates.
- Dr. Gentile then asked if any other formula review committee members who thought that the workforce investment premium should include graduate degrees. No other committee members provided comments on this topic.
- Peter Muller, House Budget Analysis Director, asked for further clarification on if this new focus population would be grouped together with existing focus populations. Specifically, Mr. Muller is concerned that if these premiums are mixed, a degree meeting the workforce investment premium definition would be “worth less” if that student already qualified for an existing premium.

- Ms. Collins stated that the current THEC recommendation would be to group all focus population premiums together.
  - Ms. Collins then asked if the committee concurred with this recommendation or if they would prefer that demographic (e.g., low-income, adult, academically underprepared) and non-demographic (e.g., majoring in a high need field) based premiums be separated.
  - President Oldham stated that setting the premium at a flat level and not graduating the premium levels as students qualified for multiple focus populations was how the focus populations were treated in the 2010-2015 formula.
    - Ms. Collins indicated that this was true but that the question here was whether a non-demographic based premium should be on its own and not part of the stackable premiums.
    - Mr. Muller stated that he believed that the premium based on the type of degree awarded should be treated the same regardless of the demographics of the student, so that a degree in a high-need field would garner the same premium for an institution if that student was low-income or not.
    - President Licari expressed agreement with Mr. Muller's point.
  - Dr. Gentile asked for any further comment about the recommended inclusion of a workforce investment premium in the funding formula.
  - No further comments were provided by the formula review committee related to this recommended change.
- **Graduation Rate Metric:** Discussion of the possibility of moving from six-year to four-year graduation rate.
  - Dr. Gentile introduced the next topic for discussion, movement from a six-year graduation rate to a four-year graduation rate. Institutions have indicated to THEC staff growing concern that growth opportunities for the six-year rate are plateauing.
  - Institutions also suggested moving this rate metric to a benchmark, where success would be measured on an institution's ability to meet a set graduation rate based expected success informed by student demographics.
  - Dr. Gentile indicated this is not how outcomes are currently measured in the outcomes-based funding formula, which promotes productivity and increases in efficiencies.
  - However, THEC staff did investigate how to address concerns of possible stagnant growth in the six-year graduation rate within the current architecture of the model. This led to the proposed policy change to move from a six- to four-year graduation rate.

- Director of Fiscal Policy Russell VanZomereren started by briefly discussing the work completed by THEC fiscal policy staff concerning the creation of a benchmark graduation rate metric and then began the discussion on the possible formula effects of moving to an on-time graduation rate.
- Mr. VanZomereren presented current six-year graduation rates by institution for first-time, full-time freshmen, transitioned to a presentation of the four-year graduation rate, and then finally compared the two measures to identify opportunities for increased growth.
- Mr. VanZomereren then discussed the growth in these rates over time, illustrating that while the average six-year graduation rate has grown over the last decade, the average four-year rate has grown even more.
- Modeling of the current formula shows that had a four-year graduation rate been implemented in 2015, cumulative funding would have been higher for seven of the nine universities.
- Mr. VanZomereren concluded his presentation by presenting additional information on the policy framework for this recommended change including how this change would affect students, the state, and institutions.
- Based on the analysis completed by THEC staff and considering current THEC policy and feedback from various stakeholders—including members of the working group and members of the formula review committee, Mr. VanZomereren presented the following **proposed change to the graduation rate metric**:
  - *Transition the graduation rate metric from a measurement of 150% time to on-time graduation.*
- President Glover stated she had some concerns that this change would have a negative effect on poor and minority students asserting that these students delay graduation due to lack of resources and the need to work to support themselves. President Glover stated that institutions who serve more of these types of students would potentially be negatively affected by this outcome change.
- President Sidney McPhee from Middle Tennessee State University reiterated President Glover's concerns, especially concerning the needs of rural and working students. President McPhee also expressed concern that movement to a four-year graduation rate would force institutions to increase entrance standards, limiting attendance to those students who can complete on-time.

- THEC fiscal staff studied the rate at which full-time students drop to part-time status and found that on average about one-quarter of full-time students drop to part-time status at some point during their college attendance. This phenomenon would not account completely for the current on-time graduation rates.
- Dr. Martin asserted that there exist other metrics in the formula already to recognize low-income students and reward institutions for outcomes as soon as the outcome is produced.
- President Noland asked about the applicability across sectors asking if we would also reset the community college sector to on-time completion.
  - Dr. Gentile indicated that currently the funding formula does not measure graduation rates for the community colleges.
- President Licari asked if THEC staff had looked at graduation rates by institution by type of student. President McPhee supported this request.
  - Dr. Gentile indicated that THEC will investigate this specific data request and bring an analysis to the next formula review committee meeting.
- **Fixed Costs:** Introduction of the recommended removal of or change to the influence of fixed costs on the outcomes-based funding formula
  - Dr. Gentile introduced the concern with the inclusion of fixed costs in the funding formula, which currently encourages growth in space and maintaining more expensive non-renovated square footage. These incentives contradict current THEC capital policy as well as the core tenets of THEC's strategic financial plan, both of which focus on efficient use of space and promoting renovations.
  - Dr. Gentile briefly mentioned three possible solutions to this fixed cost concern: the removal of fixed costs completely from the formula; the reduction of the influence of fixed costs on the formula; or the streamlining of the fixed costs calculation to better align with other THEC policies.
  - Dr. Gentile indicated that this would be the main topic of conversation in the next convening of this committee.

### **General Discussion**

- Dr. Gentile opened the floor to general discussion to allow for committee members to identify topics of concern that THEC staff had not identified.
- Dr. Martin suggested investigating predictive modeling for graduation rates based on the entering characteristics of students.



- Dr. House indicated THEC staff would discuss this further with Dr. Martin before the next meeting.
- No further comments were provided by the formula review committee members.
- **Low-Income Focus Population:** discussion of the addition of a secondary data source to allow for the inclusion of out-of-state students in the low-income focus population.
  - Dr. Gentile provided an overview of the current method for measuring the low-income focus population. Due to the data source, the low-income focus population only includes in-state Pell-eligible students. The exclusion of out-of-state students from this focus population was not a policy decision and THEC staff have been working with institutional data representatives to devise a high-fidelity method to collect out-of-state low-income student information.
  - Based on the analysis completed by THEC staff and considering current THEC policy and feedback from various stakeholders—including members of the working group and members of the formula review committee, Dr. Gentile presented the following **proposed change to the low-income focus population premium.**
    - *Expand data collection process to include out-of-state students in the low-income focus population premium to align this premium with all others.*
  - President Licari indicated full support for this proposed change.
  - No further comments were provided by the formula review committee members related to this proposed change.

### **Adjourn**

- With no further discussion, Dr. Emily House adjourned the meeting, indicating that committee members would be contacted shortly with information on the next scheduled meeting.

### **Next Statutory Formula Review Committee Meeting**

**Wednesday, September 1 at 1:30 PM Central**

**Statutory Formula Review Committee - July Meeting Attendance**

<b>Name</b>	<b>Institution</b>	<b>Title</b>	<b>Attended</b>	<b>Designee</b>
Emily House	Tennessee Higher Education Commission	Executive Director	Yes	
Randy Boyd	University of Tennessee	President	Designee	Dr. Linda Martin
Flora Tydings	Tennessee Board of Regents	Chancellor	Yes	
Michael Licari	Austin Peay State University	President	Yes	
Brian Noland	East Tennessee State University	President	Yes	
Sidney McPhee	Middle Tennessee State University	President	Yes	
Glenda Baskin Glover	Tennessee State University	President	Yes	
Phil Oldham	Tennessee Technological University	President	Yes	
David Rudd	University of Memphis	President	No	
Butch Eley	Department of Finance and Administration	Commissioner	Yes	
Jason Mumpower	Comptroller	Comptroller	Yes	Lauren Spires
Senator Brian Kelsey	Senate	Chair, Senate Education	Designee	Michael Maren
Senator Bo Watson	Senate	Chair, Senate Finance, Ways & Means	No	
Representative Mark White	House of Representatives	Chair, House Education Administration	No	
Representative Patsy Hazlewood	House of Representatives	Chair, House Finance, Ways & Means	No	
Peter Muller	Office of Legislative Budget Analysis	House Budget Analysis Director (through July)	Yes	
Catherine Haire	Office of Legislative Budget Analysis	Senate Budget Analysis Director	Yes	