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# **EARLY RESULTS OF OUTCOMES-BASED FUNDING IN TENNESSEE**

## EXECUTIVE SUMMARY

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## Executive Summary

No state has done more than Tennessee to shift higher education funding toward outcomes. In other states, most of the core funding for higher education, including tuition and state appropriations, flows to colleges based on student enrollment.

In January 2010, Tennessee passed the Complete College Tennessee Act (CCTA), which mandated a change to outcomes-based funding. In Fall 2010, after developing measures of outcomes in consultation with institutions and governing boards, the Tennessee Higher Education Commission (THEC) submitted the FY 2011-12 Budget Request, using an outcomes-based formula for the first time.

### How much money is at stake?

States considering performance funding often wonder how much of the budget to include. The answer may depend on how much institutions' budgets depend on state appropriations rather than other sources of income, such as tuition. Tennessee institutions, like others around the country, have become more dependent on tuition and less on appropriations as state budget cuts have taken hold. Funding for outcomes in Tennessee's formula, especially progress toward degrees, balances the financial incentive of tuition.

- Degree and certificate completion: **38 percent** of state funds, **14 percent** with tuition included
- Progress toward degree and transfer: **17 percent** of state funds, **6 percent** with tuition included
- Graduation rates and degrees per FTE: **7 percent** of state funds, **3 percent** with tuition included
- **Total degree-related funding: 63 percent of state funds, 23 percent of funds with tuition included**
- **Total outcomes-based funding: 28 percent of funds with tuition included**

In addition to the degree-related measures, the formula includes measures for other important functions not directly related to degrees, such as research at research universities, and workforce development and dual enrollment at community colleges. These account for another 15 percent of formula funds, or 5 percent of institutions' total tuition and appropriations revenues. Tuition revenue can be seen as a performance incentive for enrollment, and it remains a significant component of institutional budgets.

### What's the evidence of success?

Degree award data from Tennessee are suggestively positive, but it remains too early to draw strong conclusions from them, given the limited time elapsed and the dearth of comparative national data available for other states.

- **Bachelor's degrees** awarded have increased by 3.4 percent annually since initial formula implementation, compared to 2.5 percent annual growth prior to formula implementation. Other states have also had faster growth in bachelor's degree completion in recent years, consistent with underlying demographic trends, so it is too early to confidently attribute the results to the formula alone.
- **Associate degrees** have increased by 6.3 percent annually since initial formula implementation, significantly faster than the 2.8 percent average growth rate prior to implementation.

Certificates in Tennessee show strong growth since formula implementation that appears clearly linked to the new funding policy, with 174 percent total growth in short-term and 27 percent average growth in long-term certificate awards. The “certificate” category is much more flexible than degrees, so institutions have greater scope to create programs very quickly or to define completion of certain existing groups of courses as a certificate award. Tennessee has refined its standards for which certificates can be counted to limit opportunities for “gaming” the formula and to make sure that certificates have genuine academic and economic value for students.

## Recommendations

While it is too early to make firm conclusions based on Tennessee’s early data alone, initial numbers are at least encouraging. More specific lessons for other states (and for future evaluators of performance funding) that emerge from this early analysis include:

- **Establish clear baseline data as early as possible in development of funding formula measures to allow for strong, early evaluation.** Use measures that have enough history to allow for analysis of change in long-term trends.
- **Continue looking at measures of outcomes each year, while making well-informed comparisons with other states.** Where possible, use measures and quantities that allow for comparisons with and benchmarking against other states.
- **Establish clear rules about the types of outcomes (such as the types of certificates) that will be included in the formula.** States should ensure the measures used in a funding formula are consistently collected and defined across institutions and are not easily “gamed” to the expense of student success and quality.
- **Consider all aspects of finance and other policy incentives when developing outcomes funding policies.** Policymakers, institutions and researchers need to understand the full range of financial and other incentives that will exist alongside the formula (tuition, research funding, fundraising, executive compensation incentives) and how they are likely to interact.
- **In quantitative or contextual evaluations of the outcomes-based formula, make sure to account for the influence of other policies relevant to degree production.** For instance, Tennessee recently created a comprehensive transfer pathway system, and has modified its state financial aid system. These policies may also be contributing to improved degree attainment. States without outcomes-based funding may also be improving results because of other innovations in policy or finance.
- **Understand how related measures (such as numbers of degrees and production rates) overlap or compete,** and the extent to which they encourage similar or different institutional policies and practices. For example, degree rates may be more aligned with productivity but can be influenced by other factors as well – such as decreased enrollment – that may not be aligned with overall attainment objectives for higher education. Focusing on the number of degrees may be more aligned with these primary objectives but could arguably result in decreased degree standards or have little effect on the overall productivity of institutions and the need to also increase graduation rates. Balancing the two to ensure both increased attainment (overall numbers of degrees) and productivity and quality (rates) may be a best practice.