

# OUTCOMES-BASED FORMULA FUNDING

*Recommendation of the General Academic  
Institution Formula Advisory Committee*



TEXAS HIGHER EDUCATION  
COORDINATING BOARD

MARCH 2014

Texas Education Code Section 61.0593 states that, "It is in state's highest public interest to evaluate student achievement at institutions of higher education and to develop higher education funding policy based on that evaluation." It further charges the Coordinating Board, in consultation with institutions of higher education, to incorporate the consideration of undergraduate student success measures in developing recommendations for university formula funding for the next biennium.

## BACKGROUND

Each interim, the General Academic Institution Formula Advisory Committee (GAIFAC), composed of representatives of Texas public universities, examines the formulas that are used to allocate state funding among institutions. In line with the requirements of TEC 61.0593, this interim the committee was charged to, "study and make recommendations for alternative approaches to incorporating undergraduate student success measures into the funding formulas. . . ." This overview outlines the outcomes-based funding recommendations adopted by the GAIFAC at their March meeting.

## GAIFAC RECOMMENDATION

The GAIFAC recommends that some state funding for public universities be allocated among institutions on the basis of their relative performance on certain student success measures.

### Basic Principles

**Outcomes funded above the base.** The committee recommends creation of a \$235 million outcomes-based funding pool to be allocated by the success metrics defined below. This pool should be outside of and in addition to the enrollment-based formula funding, and should only be funded if the base formulas are fully funded.

**Phase-in:** The model should be phased-in over three biennia, with no institution's percentage of outcomes funding varying more than 0.5 percent from their percentage of undergraduate formula funding for the first biennium, and no more than 1 percent for the second biennium. Beyond that, the model should function without such restrictions.

**Biennial Review:** The model should be examined each interim to monitor the equity and effectiveness of the outcomes-based methodology, and to address any unanticipated impacts.

### Student Success Metrics

Under the GAIFAC proposal, each institution earns points for their performance on seven student success metrics, with the points being used to determine each institution's proportional share of outcomes-based funding. The proposed metrics measure actual outcomes (rather than institutional increases in performance), and use a three-year rolling

average to determine each institution's performance on each metric. The points are then *scaled* and *weighted*.

**Scaling:** Because the number of points generated by different metrics is very disproportionate, a multiplier is applied to the points generated by each metric to ensure all metrics are meaningful to the methodology.

**Weighting:** The proposal requires each institution to assign a percentage weight to each of their metrics, which will allow the institution to prioritize the metrics they consider most advantageous in determining their point total. The weights will sum to 100 percent, and the institution will assign a zero percent weight to one (and only one) metric. These weights would remain in place for three biennia. This incents institutions to identify and focus on those student success metrics most in line with their missions and the needs of their student populations.

### Metric Definitions

**Total Undergraduate Degrees:** The total number of undergraduate degrees awarded by an institution. This directly incents institutions to increase degree completions, a primary goal of *Closing the Gaps*.

**Undergraduate degrees adjusted by graduation rate:** The institution's total undergraduate degrees multiplied by its 6-year graduation rate (3-year graduation rate for upper-level institutions). The adjustment for graduation rate provides an incentive to have students graduate in a timely manner.

**Undergraduate degrees per 100 undergraduate FTSE:** The institution's total undergraduate degrees divided by enrolled Full-Time Student Equivalents (FTSE) and multiplied by 100. FTSE represents aggregate enrollment at the institution, and captures both transfer students and part-time students. This metric measures degree production relative to all undergraduate students, and provides a common basis for comparing and incentivizing degree productivity regardless of institutional size or mission.

**Undergraduate degrees to At-Risk Students:** The institution's undergraduate degrees to students who meet criteria for being at higher risk for not completing. These include being a Pell grant recipient, having an SAT/ACT score below the national average, being enrolled part-time, having earned a GED, or first enrolling at age 20 or higher. (The Committee recommends continued study of at-risk factors to refine this metric in future biennia.) This measure incents institutions to adopt effective and efficient practices that will aid at-risk students to the completion of a degree.

**Retention (30, 60, and 90 SCH):** The institution's count of each undergraduate student that completes their 30<sup>th</sup>, 60<sup>th</sup>, or 90<sup>th</sup> college-level semester credit-hour at that institution. The count does not include hours earned prior to the student enrolling at the institution. These measures are designed to incentivize the use of effective persistence policies.

### Next Steps

The GAIFAC recommendation will be considered by the Coordinating Board's Committee on Affordability, Accountability and Planning (CAAP) on March 26, and by the full Board at the quarterly meeting on April 24. The final formula funding recommendation, as approved by the Board, will be forwarded to the Legislative Budget Board and Governor's Office of Budget, Planning and Policy. The 84<sup>th</sup> Texas Legislature will decide whether to adopt any or all of the recommendations when they convene in January of 2015.

**General Academic Institution Formula  
Advisory Committee (GAIFAC)  
FY 2016-2017 Biennial Appropriations  
Report on the Commissioner's Charges**

**March 13, 2014**

The General Academic Institution Formula Advisory Committee (GAIFAC), organized in August 2013 (Attachment A), met to address the charges identified by the Commissioner relating to formula funding for the 2016-2017 biennium (Attachment B). The GAIFAC met on the following days: August 14, September 16, October 2, November 18, December 4, 2013, and February 20 and March 13, 2014.

Charge 1:

Study and make recommendations for alternative approaches to incorporating undergraduate student success measures into the funding formulas and compare the effects on funding the success measures within the formula versus applying the success measures as a separate formula.

Recommendation:

1. The GAIFAC recommends the following:

**Basic Principles**

Allocate \$235 million: The committee recommends an outcomes-based funding pool, to be allocated by the metrics defined below, should be funded by the Legislature at \$235 million. This pool should be outside of and in addition to enrollment-based instruction and operations formula funding. This recommendation is contingent on funding the Instruction and Operations and Infrastructure formulas at or above \$4.649 billion. In the event the Instruction and Operations and Infrastructure formulas are funded below this level, the committee does not recommend allocating funds on outcomes.

Phase-in: Phase the model in over three biennia. No institution's funding should vary more than 0.5 percent of the percent funded if allocated through the Instruction and Operations formula for the 2016-2017 biennium and no more than 1 percent for the 2018-2019 biennium. For the 2020-2021 biennium and onward, the model should be allowed to function without such restrictions, as institutions will by then have had several student cohorts with whom to focus on increasing outcomes.

A biennial committee review of the model. The model's equity should be reconsidered if the funding level is significantly increased or funded inside of the Instruction and Operations formula model.

**Allocation Metrics**

The metrics should measure actual outcomes (rather than institutional increases in performance) as this provides a more stable, predictable, and equitable funding stream for institutions. Allocate outcomes-based funding among institutions using a three-year rolling average of the below metrics and update the metrics during the Legislative session to allocate on the latest data available. Full definitions of these metrics are provided at the end of this section.

Scales: Because the total points generated by some metrics are very disproportionate to others, scale the metrics for mathematical comparability to make all the metrics meaningful. Apply the following scaling factors to the metrics:

Metric	Scale
Total Undergraduate Degrees	1.0
Total Undergraduate Degrees, adjusted by 6-Year Graduation Rate	7.0
Total Undergraduate Degrees, per 100 Undergraduate FTSE	25.0
At-Risk Students	7.0
Retention to 30 Semester Credit Hours	1.5
Retention to 60 Semester Credit Hours	2.5
Retention to 90 Semester Credit Hours	4.0

**Weights:** In addition to scaling the metrics and to better account for the varying missions of the institutions, the committee recommends permitting each institution to weigh its metrics individually by selecting weights from the list of weights below. Each weight must be used once and only once. The weights for each institution's metrics will sum to 100 percent. The committee recommends one of the weight options to be 0 percent to permit an institution to omit its least advantageous metric. The recommendation is for each institution to submit selected metric weights by October 1, 2014 with the intent these weights would not be modified for the following three biennia.

Selection	Weight
1	25%
2	25%
3	20%
4	15%
5	10%
6	5%
7	0%
Total	100%

### **Definitions**

**Total Undergraduate Degrees:** Undergraduate degrees reported on the Graduation Report in the given fiscal year (includes AAS degrees). Total undergraduate degrees is the primary outcome measure under the premise that most students enroll at a general academic institution with the intent that the outcome will be the award of a degree.

**Total undergraduate degrees adjusted by 6-Year Graduation Rate:** Total undergraduate degrees multiplied by 6-Year Graduation Rate (3-Year Graduation Rate for Upper-Level only institutions). The adjustment for graduation rate provides an incentive to have students graduate in a timely manner.

**Total undergraduate degrees per 100 undergraduate FTSE:** Total undergraduate degrees divided by fall Full-Time Student Equivalents (FTSE) as reported in the accountability system and multiplied by 100. FTSE is calculated by dividing the undergraduate fall semester credit hours (SCH) reported on the fall Class Report (includes state funded and non-state funded hours) by 15. Total undergraduate degrees per 100 undergraduate FTSE produces a

comprehensive outcomes ratio that converts enrollments into degrees awarded. This aggregate measure captures outcomes of all undergraduate students, including part-time and transfer students, and provides a common "level field" basis for comparing and incentivizing degree productivity regardless of institutional size or mission.

At-Risk (Pell): Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who were Pell grant recipients (FADS). At-Risk Pell is a surrogate that compensates for the additional expense of graduating a financially challenged at-risk student. It incents institutions to adopt effective and efficient practices that will aid at-risk students to the completion of a degree.

At-Risk (SAT/ACT): Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students whose SAT/ACT score is below the national average for the year taken.

At-Risk (Part-Time): Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who were concurrently enrolled in fewer than 12 SCH when first reported on the Student Report.

At-Risk (GED): Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who received a GED.

At-Risk (first-time undergraduate 20 or Over): Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who were first reported on the Student Report at age 20 or older.

(All at-risk factors are designed to compensate for the additional expense of graduating an at-risk student who may be academically challenged. It incents institutions to adopt effective and efficient practices that will aid at-risk students to the completion of an award.)

While the at-risk metric is designed to adjust for the varying student characteristics at individual institutions and the effort needed to see the student succeed, it is noted that the data for measuring student characteristics is not as reliable or readily available as the committee would prefer. The committee recommends that the THECB staff study this issue and make recommendations to the 2015 GAIFAC for potential improvements to the model.

Retention (30, 60, and 90 SCH): Count of undergraduate students having cumulatively earned 30, 60, or 90 college-level SCH at their current institution. Excludes hours earned prior to the student attending the institution reporting the hours. A point can be earned for a student who completes multiple thresholds in a given fiscal year. These measures are designed to incentivize the use of effective persistence policies.

#### Charge 2:

Study and make recommendations for the appropriate funding levels for the Instruction and Operations and Infrastructure formulas and the percent split between the "utilities" and "operations and maintenance" (O&M) components of the infrastructure formula.

Recommendation:

Recommendation:

The GAIFAC committee recommends the legislature **return formula funding rates to the 2010-2011** biennium appropriated rates (\$62.19 for the Instruction and Operations formula and \$6.21 for the Infrastructure formula) by phasing in these increases over the next three biennia. While the GAIFAC understands the Legislature reduced funding due to a reduction in state revenue, the committee is confident institutions cannot continue to meet the *Closing the Gaps* goals at current funding levels and urges Legislators to find funds to support higher education, specifically to

- fund \$4,649 million to the formulas for the biennium (\$281 million, or 6.4 percent more than the \$4,368 million appropriated for the 2014-2015 biennium);
- fund \$3,915 million to the Instruction and Operations (includes Teaching Experience) formula for the biennium (\$265 million, or 7.3 percent more than the \$3,650 million appropriated for the 2014-2015 biennium). This funding level assumes a rate of \$57.30 per weighted semester credit hour (SCH) (\$2.44, or 4.4 percent more than the \$54.86 funded for the 2014-2015 biennium) and a 2.7 percent increase in weighted semester credit hours between the 2013 and 2015 base years. Funding should be allocated using a relative weight matrix using a three-year rolling average expense per semester credit hour based on fiscal years 2012, 2013, and 2014;
- fund \$734 million to the Infrastructure (includes Small Institution Supplement) formula for the biennium (\$16 million, or 2.2 percent more than the \$718 million appropriated for the 2014-2015 biennium). This funding level assumes a rate of \$5.78 per square foot (\$0.22, or 4.0 percent more than the \$5.56 funded for the 2014-2015 biennium) and 1.6 percent increase in square feet between fall 2012 and 2014;
- split the recommended Infrastructure rate between "utilities" and "operations and maintenance" components using FY 2014 utility rates, update the utility rate adjustment factors using the FY 2014 utilities expenditures, and allocate the Infrastructure formula using the fall 2014 space model predicted square feet;
- fund the Small Institution Supplement using the same methodology and rate as the 2014-2015 biennium; and
- consider, as a basis for comparison, that the percentage of total operational funding received by Texas general academic institutions from the state was 26.5 percent in FY 2012, versus 32.7 percent at national peer institutions (Higher Education Policy Institute and IPEDs). This six-percentage point gap equates to \$985 million in FY 2012 state appropriations.

Charge 3:

Study and make recommendations on the treatment of competency-based courses in formula allocations.

Recommendation:

The committee recommends that funding for these courses use the existing formula calculation and updated expenditure-based weights for the 2016-2017 biennium. The expenditure study should include the courses' expense and hours reported for the respective fiscal years in the expenditure study, and institutions should report course hours to the Coordinating Board upon the completion of all modules associated with the course.

The committee recommends that the formula should fund course hours for courses where the student attained mastery of the subject at the institution through instruction or independent study, but exclude course hours where the student obtained mastery of the entire course prior to enrolling in the program. Credit obtained through CLEP tests or similar evaluation practices should not be reported for formula funding purposes.

The committee requests Texas A&M University-Commerce to provide competency-based course expenditure data as a subset of the data they provide for the expenditure study for the Fiscal Years 2013 and 2014. The GAIFAC for the 2018-2019 biennium should be charged with reviewing this information to determine if the expense per funded semester credit hour for these courses varies significantly enough from the statewide ratios to warrant additional formula-to-fund, competency-based education courses. The committee notes that funding additional competency-based programs as a single program at a single institution will not provide enough data to determine if an alternate formula is required.

2. In addition to the Commissioner's charges, the committee considered the effects of the following:
  - A. The committee considered the practice of differentiating students by enrollment classification in the expenditure study and formula calculations. The committee's consensus was that, while this practice added complexity to the expenditure study and formula, its removal would be unnecessarily disruptive and would have significant effects on the allocation of funding.

The committee noted that the issued reporting guidance has taken this adjustment into account and would need modification prior to removing the adjustment. For example, students enrolled in a doctoral program are classified as master's students for the first 30 SCHs of a doctoral program. The courses are reported in the course inventory as doctoral courses, and the hours are adjusted to the master's level in the formula funding calculations. If the adjustment were removed, these students would be funded at the doctoral level for the first 30 SCHs.

Therefore, the committee recommends continuing the enrollment classification adjustment.

- B. The committee considered including undergraduate hours taught by all full-time teaching faculty (in addition to tenured and tenure-track faculty) to the teaching experience supplement. Because the intent of the supplement is to improve the quality of undergraduate education, the committee explored whether dedicated full-time faculty would fulfill this intent in addition to tenured and tenure-track faculty.



However, the redistribution in allocation associated with this change led the committee to believe institutions have become dependent on adjunct faculty because of funding reductions, and the implementation of this change would not satisfy the legislative intent.

Therefore, the committee does not recommend including the undergraduate hours taught by full-time faculty to the teaching experience supplement at this time.

## Attachment A

### General Academic Institution Formula Advisory Committee Roster

Name	Institution
<b>Dr. John Opperman, Chair</b> Vice Chancellor for Policy and Planning	Texas Tech University System P.O. Box 42013 Lubbock, TX 79409
<b>Dr. Marc A. Nigliazzo, Vice Chair</b> President	Texas A&M University-Central Texas 1001 Leadership Place Killeen, TX 76549
<b>Mr. Martin V. Baylor</b> Vice President for Business Affairs	The University of Texas at Pan American 1201 W. University Dr. Edinburg, TX 78539
<b>Dr. Allen Clark</b> Vice Provost for Academic Resources <b>For Ms. Jean R. Bush</b> Senior Associate Vice President for Finance	University of North Texas Hurley Administration Building, Room 213 1501 W. Chestnut St. Denton, TX 76201
<b>Ms. B.J. Crain</b> Vice President for Finance and Administration	Texas A&M University Division of Finance 1181 Rudder Tower, 8th Floor College Station, TX 77843
<b>Dr. F. Dominic Dottavio</b> President	Tarleton State University P.O. Box T-0001 Stephenville, TX 76402
<b>Dr. Dana L. Gibson</b> President	Sam Houston State University Box 2027 Huntsville, TX 77341
<b>Ms. Martha Hilley</b> Distinguished Professor in the College of Fine Arts	The University of Texas at Austin Butler School of Music 2406 Robert Dedman Dr., stop E3100 Austin, TX 78712
<b>Dr. Edward T. Hugetz</b> Interim Provost and Senior Vice President for Academic and Student Affairs	University of Houston-Downtown 203 E. Cullen Building Houston, TX 77204
<b>Dr. Rodney H. Mabry</b> President	The University of Texas at Tyler 3900 University Blvd. Tyler, TX 75799
<b>Mr. Jim McShan</b> Vice President for Finance and Chief Financial Officer	Texas Southern University Hannah Hall, 145A 3100 Cleburne St. Houston, TX 77004
<b>Dr. Perry Moore</b> Vice Chancellor for Academic Affairs	Texas State University System 200 E 10th Suite 600 Austin, TX 78701
<b>Dr. Robert Neely</b> Provost and Vice President Academic Affairs	Texas Woman's University P.O. Box 425617 Denton, TX 76204
<b>Dr. Paula M. Short</b> Senior Vice President for Academic Affairs and Provost	University of Houston Ezekiel W. Cullen Building, Room 204 S2019 4800 Calhoun Rd. Houston, TX 77004
<b>Ms. Cynthia V. Villa</b> Vice President Business Affairs	The University of Texas at El Paso 500 West University Administration Building, Suite 301 El Paso, TX 79968

## **Attachment B**

### **Commissioner's Charge to the General Academic Institution Formula Advisory Committee (GAIFAC) for the 2016-2017 Biennial Appropriations Texas Higher Education Coordinating Board**

#### **Background**

The GAIFAC addresses the instruction and operations, infrastructure, small institution supplement, and teaching experience supplement formulas. The general academic formulas first used in the mid-1960s were reworked for the 1998-1999 biennium and first funded with an expenditure-based, relative weight matrix in the 2010-2011 biennium.

The Instruction and Operations formula funds faculty salaries, departmental operating expenses, library, instructional administration, research enhancement, student services, and institutional support and is allocated based on weighted SCHs. Appropriated at \$54.86 per weighted SCH for the 2014-2015 biennium, the formula allocates 84 percent of the general academic formula funds (teaching experience supplement included). The teaching experience supplement incentivizes the use of tenured faculty instructors in undergraduate courses and allocated 2014-2015 biennium funds with a 10 percent bonus of weighted SCH.

The Infrastructure formula funds plant-related and utility expenses and allocates on predicted space. Appropriated at \$5.50 per predicted square foot for the 2014-2015 biennium, the formula allocates 16 percent of the formula (small institution supplement included). The small institution supplement distributes additional resources on headcount for the reduced economies of scale associated with operating small institutions.

#### **Commissioner's Charges**

The GAIFAC, conducted in an open and public forum, is charged with proposing a set of formulas that provide the appropriate funding levels and financial incentives necessary to best achieve the four major goals of *Closing the Gaps*. A preliminary written report of its activities and recommendations is due to the Commissioner by December 3, 2013, and a final written report is due by February 3, 2014. The GAIFAC's specific charges are to

1. Study and make recommendations for alternative approaches to incorporating undergraduate student success measures into the funding formulas and compare the effects on funding the success measures within the formula versus applying the success measures as a separate formula. (TEC, Section 61.0593)
2. Study and make recommendations for the appropriate funding levels for the Instruction and Operations and Infrastructure formulas and the percent split between the "utilities" and "operations and maintenance" (O&M) components of the infrastructure formula. (TEC, Section 61.059 (b))
3. Study and make recommendations on the treatment of competency-based courses in formula allocations.