



SHEEO

STATE HIGHER EDUCATION EXECUTIVE OFFICERS ASSOCIATION

THE FUNDING FORMULA REVIEW PROCESS

GUIDANCE AND BEST PRACTICES

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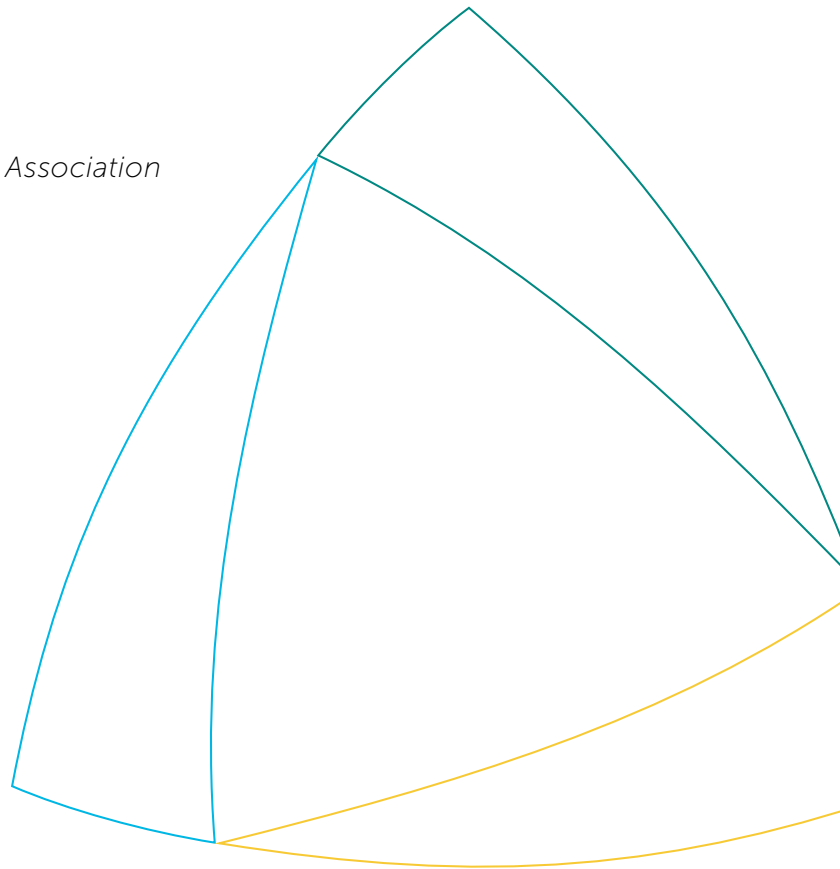
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PREFACE

This work is intended to serve as a guide for practitioners, to provide best practices for conducting a review process and address the expectations stakeholders should have of the process. It is not dependent on any particular formula design or governance structure. The principles included are broad enough in application to cover any number of scenarios.

However, certain assumptions are made, including that a funding formula is already in use. If not, this work might still prove useful, but creating an entirely new funding formula comes with its own unique set of challenges. Also, some of the material might not apply to those states using a base-plus, hybrid, or other budget process whereby institutions make a direct, line-item request of the legislature. Those processes are often highly organized and regulated.

It is also assumed that form follows function—that certain policy goals or principles with broad agreement exist to serve as the foundation for the formula, and that the formula will be closely aligned with the state’s higher education goals and will be designed in such a way as to ensure alignment. If that is not the case, if broad agreement does not exist around policy goals, it might be worth considering a focus on that effort before a review is conducted, or the review should focus solely on formula-policy alignment.

Finally, some of what is recommended in this manual might be aspirational depending on circumstances and context. The governance relationship and political environment may prevent the implementation of some best practice recommendations. Governance matters and can dramatically affect the formula review process. The aim should be progress and not perfection.

To better understand funding formula review processes across states, we developed a survey instrument that asked questions about the need, length, and process for conducting a formula review. This survey instrument was administered to SHEEO agency finance officers in the summer of 2021 and is available in the Appendix. Following a review of the survey results, we conducted follow-up interviews with nine states, including three that were unable to complete the survey by the deadline. States were selected for follow-up interviews based on several factors, including geographic location, governance structure, formula design, and survey responses, to ensure data were collected from as wide a range of states as possible. In all, information was collected from nearly two-thirds of states that currently utilize a formula.

ACKNOWLEDGMENTS

The motivation for this guide began with the realization that a number of our colleagues also had an interest in the best practices associated with a review process. We want to acknowledge all those who have contributed their time and expertise to the development of this manual and to whom we owe our deepest thanks and appreciation.

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- Ben Cannon, Executive Director, *Oregon Higher Education Coordinating Commission*
- Dr. Rob Anderson, President, *State Higher Education Executive Officers Association*

Finally, we hope practitioners will find this manual helpful as they work with their respective offices, institutions, and stakeholders to ensure continued student success.

STAGES OF THE REVIEW PROCESS

SETTING THE FRAMEWORK

- Establish the need for a review.
- Determine the type of review and potential scope.
- Adopt review principles and assumptions.
- Define the workgroup membership and charge.

CONDUCTING THE REVIEW

- Organize logistics and technical support.
- Reach consensus (as applicable).
- Define and record consensus.
- Focus on communication efforts to all stakeholders.

PROMOTING SUCCESS

- Publish a detailed final report with recommendations, context, and the potential impact of the recommendations.
- Document follow-up efforts and remaining policy issues.
- Continue communicating to promote success.

The foundation of all stages is effective communication. Communicating throughout the process is important and should be thought of as a dynamic activity that occurs during every stage.

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INTRODUCTION

A funding formula is a mechanism for determining the objective and rational basis upon which public funds (i.e., state tax dollars) are distributed to institutions of higher education. As such, it is an expression of that which the state values. Ultimately, the formula should support the state's higher education goals by incentivizing institutional behaviors that are in alignment with these goals. A formula should be dynamic enough to respond to changing circumstances but stable enough to allow the institutions a reasonable level of predictability of future distributions.

To achieve this balance, formulas are periodically reviewed for fit, form, and function. There are a host of related issues to consider during the process, including the purpose of the review, type of review, stakeholder sentiment, applicable state laws or administrative rules, and precedent. Context is also important since the review will inherently be political, involving a large number of stakeholders both inside and outside of higher education.

The level of attention, which may include media coverage and stakeholder involvement, often means the review process is as much a communications exercise as it is a funding distribution exercise. The discussion of dollars often leads to increased anxiety, especially for those institutions whose financial viability is dependent on public funding. As a result, it is important for those who coordinate the process to understand that their focus should be on creating conditions in which both objectivity and candid exchanges can occur. More simply stated: jealously guard objectivity throughout the process.

It is also important to understand that establishing the foundation and following through are of equal importance among the three phases of the review: **setting the framework, conducting the review, and promoting success**. Establishing a stable foundation is just as important as conducting the meetings and reaching consensus. Wrapping up the process and promoting its success are also critical to a robust implementation.

SETTING THE FRAMEWORK

THE NEED FOR A REVIEW

There are a number of reasons why the periodic review of a funding formula should be conducted. The most common reasons are ensuring the formula aligns with the state's higher education goals (i.e., fit), avoiding unintended consequences (i.e., form), and responding to current circumstances (i.e., function).

A review should be conducted periodically but not so often that it reduces the predictability of an allocation, thereby affecting an institution's financial viability. This involves striking a balance between institutional inertia and stakeholder engagement. The institutions will likely not want to review too frequently to avoid introducing uncertainty and unpredictability in funding, while policymaker attention will wane unless timely reviews are conducted. Based on our survey results and follow-up interviews, the consensus is to conduct a review at least every five years. This roughly coincides with the time frame in which many statewide, higher education strategic plans are reviewed and updated.

Changing circumstances, which can be dynamic or static, often dictate a periodic review. State funding practices, student behaviors, and institutions are all constantly evolving. These dynamic shifts unfold over time and may compel a formula review.

An example is a desired outcome. If student success, as measured by completion rates, is a policy goal and the formula is aligned to that effort, does the current formula design accomplish that goal? Are more students completing as a result of the institutional incentives in the formula?

Another example is STEM incentives. If a formula includes an incentive for STEM majors to graduate, and more students were already shifting toward majoring in STEM fields, does that nullify the need to place an emphasis on STEM degrees? Does the formula design effectively account for the interaction between student behavior and desired outcomes?

BEST PRACTICE

Require a periodic review in statute or rule. The consensus is to conduct a review at least every five years.

A static change in circumstances could be an extraordinary event such as a natural disaster or a global pandemic. If there is anything about the extraordinary nature of an event that alters the principles that serve as the foundation of the formula, a review might be appropriate. Institutional advocacy could also compel a review due to changing or extraordinary circumstances.

Although infrequent, a review may be mandated. An out-of-cycle review may be ordered at the request of the governor or legislative leadership. This could be to ensure funding accountability, to respond to changing conditions, or for some other reason. Regardless, stakeholder alignment on the need for a review is important.

Consensus can be created by including a requirement for a periodic review in statute or administrative rule. This can offer cover for those charged with the review effort. Also, getting stakeholders to reach consensus early on can set the tone for what will hopefully be more consensus to come.

Be aware that there will always be stakeholders arguing for the status quo. They will suggest that any changes will likely have a negative impact on student outcomes or cause grievous harm to an institution's financial viability. On the other side, other stakeholders will argue the time is now to "fix" the formula for any number of reasons. An example may be to correct historical inequities, such as an effort to better equip underfunded institutions to serve underrepresented students. Therefore, unless the impetus for a review is beyond dispute, generating consensus about the need for a review becomes a necessary first step.

THE TYPE OF REVIEW

The type of review matters simply because it speaks to the scope of the review. This section introduces new vocabulary to differentiate between types of reviews based on existing practice. Technical reviews, intended to update components like cost weights or incentivized areas of study, are different in scope from policy reviews, which serve to challenge the underlying principles of the formula. Some reviews will include both components, and often there is not a clear distinction between them.

TWO BASIC TYPES OF REVIEWS

TECHNICAL REVIEW	POLICY REVIEW
Narrow scope focused on technical components <ul style="list-style-type: none"> • Occurs with more frequency • Focused on updating design • Not likely to have a large funding impact 	Larger scope focused on policy choices <ul style="list-style-type: none"> • Much less frequent occurrence • Could lead to a total redesign • May include a large funding impact
Not intended to alter the underlying principles <ul style="list-style-type: none"> • May not include rulemaking process • More targeted workgroup membership 	The underlying principles are in scope <ul style="list-style-type: none"> • Will likely involve rulemaking process • Larger workgroup membership with a broader range of stakeholders involved

A **technical review** is a process that might occur more frequently, will not alter the formula principles, and will likely lead to fewer dollars moving around as a result of any recommendations. As a result, any changes recommended may not necessitate a phased implementation. Alternatively, this can be called a technical update as opposed to a technical review if routine changes are intended. Technical reviews are conducted more frequently to assess potential unintended consequences.

STATE EXAMPLE – TEXAS

The formula advisory committee (FAC) process performed by the Texas Higher Education Coordinating Board is an example of a technical review. The FAC process occurs every other year in which the results of an annual cost study update the cost weights used in the formula. The intent is to define the legislative appropriations request for the following biennium. Although there may be a policy question or two directed at the FAC, the scope is often limited and not intended to change the underlying principles upon which the formula is based.

A more substantive **policy review** occurs less frequently in an effort to balance funding stability with the need for accountability and alignment with state goals. The principles underlying the formula are in scope, and substantial shifts of funding among institutions may occur as a result. An example is shifting from one formula design to another.

This type of review generally includes more stakeholders with more meetings, requires more support and resources, and can take longer to complete. This is the type of review most people think of when considering a statutory review and may require a phased implementation based on the financial magnitude of any changes recommended.

BEST PRACTICE

Use a clearly defined scope to clarify stakeholder expectations. Specify the type of review intended.

STATE EXAMPLE – OREGON

The university funding model in Oregon is an example. The Higher Education Coordinating Commission adopted an equity lens in 2014. In response, a policy review of the funding formula was conducted to realign the formula with the equity lens and pursue accountability by shifting the formula from an input-based, enrollment-driven model to an outcomes-based model driven by student completions. A commitment was made to review the formula every five years thereafter.

Ultimately, the scope of the review should be clearly defined to clarify stakeholder expectations. The reviews should specifically answer the question: Are the underlying principles potentially changing, or is the idea to review technical issues only? The scope can also be thought of as a communications device in that it signifies what the stakeholders can expect.

This is especially useful later on in the process as stakeholders may want to move the goalposts by redefining the scope in order to reach consensus. A reminder that the scope was agreed upon earlier is a useful counterpoint.

REVIEW PRINCIPLES AND ASSUMPTIONS

Robust, comprehensive funding formulas are based on a clear set of principles, and the review process should be too. This takes the scope conversation one step further by establishing clear guidelines. For example, if the scope specifies a technical review, the review principles can then define what any potential recommendations will need to accomplish. These review principles will serve as useful guidance throughout the process.

It may be necessary to have the sponsoring board, commission, or committee officially adopt the review principles. The sponsor should have input regardless, but best practice suggests the sponsor adopt, or at least endorse, a clear set of review principles to guide the process. Any recommendations made should tie back to these process principles.

STATE EXAMPLE – OREGON

Oregon's recent university formula review process included the following guiding principles adopted by the Higher Education Coordinating Commission. The principles were laid out to ensure that any changes to the funding model focused on the state's policy priorities and how those priorities are embedded within the model. Specifically, they stated the model should:

- 1. Reflect the Commission's strategic plan and Equity Lens.*
- 2. Focus on student access and success with an emphasis on underrepresented populations.*
- 3. Encourage educational attainment in high-demand and high-reward disciplines.*
- 4. Recognize and reward distinctions in institutional mission and scope.*
- 5. Recognize the cost differences in various academic program areas.*
- 6. Use clearly defined, currently available data.*
- 7. Maintain clarity, simplicity, and stability.*

These seven principles clearly establish what the commission is looking for in any recommendations they are asked to consider. The principles outline in detail what any recommended changes need to accomplish to ensure alignment with the state's priorities. The principles serve as a grading rubric against which any proposed changes can be measured.

Even before that, establishing operating assumptions further clarifies boundaries. The assumptions provide guide rails for stakeholders. Essentially, the guide rails define what is within bounds for discussion and what is not.

BEST PRACTICE

Have the sponsoring board, commission, or committee adopt a set of review principles and operating assumptions.

STATE EXAMPLE – OREGON

Again, using Oregon's recent university formula review process as an example, the following assumptions were adopted by the Higher Education Coordinating Commission.

- Fundamentally, the formula is designed to allow for the distribution of state funding in support of student access and completion and applies objectively to all public universities without regard to winners and losers. The assumption is that Oregon deserves a public system organized to maximize student success.*
- The formula is not a tool used to govern but rather a tool to allocate resources in the pursuit of the state's higher education goals. The assumption is that state resources are provided to maximize learning outcomes and student success.*
- The governance of the institutions across all funding sources, including those revenues defined by the formula, is left to the independent university boards. The assumption is that there should be centralized coordination with local governance and management.*
- The implementation of the formula is too recent to fundamentally shift away from the use of an outcomes-based model.*

In this example, specific to circumstances in Oregon, the guide rails communicate to stakeholders that the governance structure of the institutions is assumed to remain the same, that the formula will remain an outcomes-based model, and that the formula will continue to focus on incentivizing student success.

These assumptions are a good tool that the sponsor can use to establish clear boundaries. Later in the process, stakeholders may want to reframe the conversation around long-standing criticisms and perceived shortcomings. Clear boundaries, adopted by those who will ultimately decide the fate of any proposed formula changes, will streamline the workgroup conversations and help sustain progress.

THE REVIEW – ORGANIZATION

WORKGROUP MEMBERSHIP

The composition of the workgroup membership will often be determined by precedent and necessity. It is ultimately the responsibility of the SHEEO agency staff to include the voices needed to ensure a robust discussion that stakeholders will accept as thorough and reasonable.

The ultimate goal remains consensus.

Striking the balance between too many members and too few is more art than science. Too many members will lead to an unwieldy process that requires significant task discipline, making it harder to achieve consensus. Too few members could lead to complaints of a disingenuous process that excludes, if not ignores, the perspectives of those it is intended to serve.

In states where the review process seems to work well and robust consensus is achieved, multiple stakeholder groups are engaged. They involve the legislature, gubernatorial staff, institutions, and all major stakeholders to appropriately balance inclusivity and productivity. SHEEO agencies may want to consider how to engage advocacy and other influential groups in the process as well, even if such groups are not given representation on the working group.

The scope of the review can also affect the membership. Technical reviews, which focus on existing components or mechanisms, might only include the institutions as they are more acutely impacted by formula design on an ongoing basis. The institutions' representatives might include finance staff, institutional research staff, or other subject matter experts as appropriate. For policy reviews, which likely contain the formula's principles in their scope, the membership might be expanded to include a broader stakeholder group.

BEST PRACTICE

Encourage a diverse workgroup membership. Focus on a manageable size. Members should be appointed by their respective institutions or groups.

Representation from the institutions (and system offices where applicable) will be included regardless of review type. The president of each institution (or system) should be allowed to appoint a representative unless they choose to participate directly. To encourage a more diverse membership with multiple campus perspectives, each institution should be allowed a primary and secondary representative or similar setup.

Some state processes use a workgroup with only institutions represented along with coordinating board staff. Other state processes include representation from all major stakeholder groups (institutions, students, faculty) as a matter of practice. Some include general members of the public and consulting experts as well, or may include a separate general public component to gather feedback from ordinary citizens.

Including legislative staff or the governor's staff depends on precedent and necessity. For those states in which formula funding is appropriated directly to the institutions, including legislative and/or gubernatorial staff might be a necessity. For those states in which formula funding is appropriated to the coordinating board or commission for distribution to the institutions, legislative and/or gubernatorial staff might want to be updated on the process but may not participate in the workgroup. As a matter of principle, all stakeholders should be kept informed throughout the process.

As for who leads the workgroup, the members might want to appoint a leader from the workgroup membership. Doing so allows SHEEO agency staff to focus on providing technical support and offers the members a more assertive role in the process. Having the SHEEO agency staff facilitate the meetings and member requests may provide for a smoother review process since the SHEEO agency staff will not have an active voice but will be available for insight and historical knowledge.

Alternatively, the sponsoring board, commission, or committee could identify a leader during the appointment process. Sometimes the workgroup membership will lack the ability to reach consensus on a leader or will expect SHEEO agency staff to provide leadership.

SETTING THE AGENDA

The next question then becomes: Who sets the agenda for the review? Specifically, what questions, ideas, topics, or issues will be addressed during the review process? Sometimes called a workgroup charge, the “to do” list for the review will depend on the scope of the review.

Determining the agenda should be done collaboratively among stakeholders in conjunction with SHEEO agency staff. Input should also be sought from the sponsor. SHEEO agency staff can and should collect feedback from stakeholders to draft an initial workgroup charge before the workgroup meetings begin and then finalize it at the first meeting.

There are a number of different ways to solicit stakeholder input, including formal or informal surveys, panel discussions, structured meetings, and others. One specific example is a listening tour. This involves traveling to each institution and meeting directly with various stakeholder groups. This could include a one-on-one meeting with the CFO or a small meeting with the institution president, CFO, and policy staff member. It should also include touchpoints with student groups, faculty groups, staff groups, and any groups that will likely participate in the review process.

Obviously, in the interests of efficiency and cost, regional meetings or other formats can be used to accomplish the same objective. The idea is simply to create a low-stakes, relaxed discussion in a more private setting about those issues of importance to stakeholders. This allows stakeholders to speak more freely of their interests.

BEST PRACTICE

Establish an endorsed workgroup charge based on stakeholder feedback. Finalize at the first meeting.

MEETING LOGISTICS

Workgroup meetings should be held often enough to ensure that progress continues but not so often that the frequency affects the SHEEO agency staff’s ability to effectively support the process. This will be especially important when the calculations begin and for data gathering to occur around certain issues. The workgroup members will need to keep their own stakeholders updated on the process as well.

The regularity of meetings will depend on the type of review and scope. Biweekly or monthly meetings will be the most beneficial to accomplish the goals associated with the review. Weekly meetings for a short time might be appropriate near the end of the process to wrap up the calculations. Any scheduled subgroup meetings need to be considered within the overall schedule.

Subgroups can be used to provide a venue for deeper and more focused discussions, which can then be summarized during full workgroup meetings. This is a way to ensure full workgroup meetings are not sidetracked by a particular interest or issue while ensuring stakeholders feel heard and that their concerns are receiving adequate attention during the review.

Technical reviews might take six months, while policy reviews could take nine to twelve months. Any process lasting longer than a year is not likely to be productive. It is worthwhile to specify a target end date from the beginning while communicating the intent. If, for example, the review's findings need to be considered during a subsequent legislative session or are to be included in a budget request.

Meeting locations might change depending on circumstances. In-person meetings in the state capital area are common but can also be held online or hybrid as needed. Meetings can also be held at varying locations around the state for greater accessibility. If the workgroup meetings are subject to open meeting rules, follow all posting guidelines and documentation requirements.

USING EXTERNAL CONSULTANTS

Based on the scope of the review, workload demand, and potentially, the need for enhanced credibility, it may be necessary to incorporate outside consultants or experts. They can offer expertise during the initial stages of the process or related to certain workgroup charges. They can offer an objective opinion after observing workgroup deliberations. They may be especially valuable in gathering and curating information from other states or settings, or in developing data resources and tools to inform the process for deliberating about design and implementation principles and specific policy parameters. They can also help manage the consensus building process, if needed.

Should the relationship involve a contractual arrangement:

- Clearly define expectations and the desired work product(s).
- Have a clear understanding in mind of how they will support the process.
- Ensure a shared understanding of expectations and what they will provide.
- Require that any recommendations to revise a formula be made by the appointed workgroup and/or SHEEO agency staff.

If the decision is made to engage outside assistance, be sure to inform them of the circumstances and environment. Make sure they understand who the review members are and the totality of stakeholders and are fully informed about the situation. It has to be immersive in that they need to understand the process, personalities, and context to avoid unpleasant surprises and to better tailor their advice.

Engaging consultants may be thought of as a continuum of options. At one end is the complete outsourcing of the formula conversation. The consultants create the formula, including all calculations and related materials, and present a fully formed recommendation to the review sponsor.

To be effective, this level of consultant engagement still requires considerable project management and oversight by the SHEEO office or sponsoring organization, as well as substantial involvement with stakeholders. There is simply no way to productively make use of a "canned" set of recommendations for changing the formula, and promises about turnkey solutions in this regard may appropriately be viewed with skepticism.

At the other end is using the consultants to help manage the conversation. They moderate the workgroup discussions and offer insight along the way. The need for their knowledge of the details of the existing policy and its impacts, and of higher education finance generally, is less acute for this type of engagement. The middle, perhaps, is using the consultants to help with certain aspects, like updating cost weights or validating objective information related to certain charges.

Finally, in using an external consultant, care must be taken to delineate the level of the consultant's involvement during the review process meetings. Consultants hired to be technical specialists need to strike an effective balance of time devoted to speaking with institutions and other stakeholders in order to understand the major concerns and issues, with the time needed to actually develop models or tools, conduct research, craft recommendations, and perform other tasks within the scope of work. Few consultants hired to facilitate meetings as a major element of the scope can realistically participate in all the gatherings that will occur. Some of the work of messaging and communicating with stakeholders will likely be undertaken solely by the SHEEO agency or sponsoring organization, and the distribution of that responsibility should be the product of a deliberate choice.

STATE EXAMPLE – LOUISIANA

Louisiana undertook a formula review in 2019 to align the funding model with the newly adopted Master Plan and attainment goal. After the Board of Regents approved the recommendations presented by staff and agreed upon by the systems, a consultant was used to determine how the formula changes compared to formula design best practices and to other state models. The presentation provided stakeholders with a nationwide perspective and showcased that the adopted recommendations were not out of line or unique.

THE REVIEW – DECISION-MAKING

DETERMINING CONSENSUS

As the workgroup meets, a process will be needed to determine consensus. The workgroup members should agree on a preference. There are a number of options noted below, as summarized by content provided by Lucid Meetings (a training company based in Portland, Oregon, that offers meeting support services).

Voting is the most popular. Each voting member can vote, with a simple majority carrying the issue. The “go around” method is another option in which each member is provided the opportunity to vote and make related comments. It takes a lot of time and votes might be affected by peer pressure.

However, voting does not provide the opportunity for members to express the magnitude of their agreement or lack thereof. Quantity is indicated but not quality. To ensure the appropriate level of support is reached, a method that allows members to show their relative degree of agreement is needed. For that, a human map or constellation can be employed.

An example is the “fist to five” method which allows for considering the quality of the consensus, as in how strong of a consensus is reached. A fist represents “no,” while any number of fingers represents “yes.” More fingers represent stronger agreement. The workgroup could decide on a minimum threshold for consensus.

It may be that workgroup members are uncomfortable with public displays of agreement or disagreement. Typically, this occurs during the consideration of especially contentious issues. Stakeholders might not want to “tip their hand” to their fellow stakeholders in order to preserve the ability to negotiate later on in the process. Therefore, as discussions unfold, recording comments and potential consensus might be the best approach. Recording potential consensus in the meeting minutes will help organize the decision-making.

BEST PRACTICE

Use an agreed upon method to determine consensus that allows members to record their relative level of agreement.

As consensus is reached on various issues, the process should include a feedback loop to the sponsoring board, commission, or committee so they are made aware of potential workgroup recommendations and have the opportunity to weigh in on them before they are finalized. Especially when considering various calculations, understanding the interactions between recommendations will be important for the sponsors as they may wish to express additional or different policy priorities.

STATE EXAMPLE – OREGON

While considering options to update cost weights, any attempt to modernize the weights increased the amount of funding distributed based on graduate-level coursework completed. While reviewing this phenomenon with the sponsor, the members of the commission decided the policy should be to prioritize undergraduate education.

This is not something the sponsors had previously expressed as a priority or as a formula principle. They did not understand the effect of this recommendation until they were made aware of how the proposed calculations impacted other elements of the formula.

As a policy, the commission members wanted the amount of formula funding allocated for graduate-level coursework to be set as a constant percentage of the available funding. Any new funding in the formula would be allocated to undergraduate coursework and prioritize undergraduate students. As a result, the cost weights were updated, and then a graduate discount was applied to the weights, thereby meeting the policy goal.

BEST PRACTICE

Include a feedback loop so sponsors can weigh in on potential recommendations and identify additional priorities or any conflicts.

RECORDING CONSENSUS

The proceedings of each meeting should be recorded in the form of minutes. Transcripts are not necessary unless required as subject to open meeting rules. Meeting reviews (e.g., written reports or summaries) might be helpful for sponsors or stakeholders who want to be kept informed.

Minutes should be published after each meeting. Whether or not to publish the minutes publicly will depend on the circumstances. If the meetings are subject to open meeting rules, there might not be a choice. However, if the meetings are not subject to open meeting rules, the minutes might only be published to workgroup members with meeting reviews becoming the public record.

At a minimum, the minutes for each meeting should include:

- Member attendance.
- Outline of the issues discussed.
- Summary of the discussion for each issue.
- Record of consensus reached or decisions made (with enough detail for context).
- Action items for delivery at the next meeting.

STATE EXAMPLE – TENNESSEE

In 2021, Tennessee conducted a five-year technical review of its Outcomes-Based Funding (OBF) formula. During this review process, the Tennessee Higher Education Commission (THEC) convened monthly working group meetings focused on detailed technical discussions and development of recommended formula changes and a statutorily required Formula Review Committee (FRC), which was presented with the proposed changes for further discussion. The working group met monthly from February through June of 2021, leading up to two FRC meetings in July and September. Recordings of both FRC meetings are publicly available on the THEC website, along with copies of the agendas, PowerPoint presentations, and minutes from each meeting.

Working group meeting minutes were provided to members in draft form, with a request to members to reach out with any concerns about the characterization of consensus on the topics discussed. Members were encouraged to utilize these minutes to review the recommended changes to the formula with their principals. Minutes of the statutory FRC were provided to Commission members as an official record of the discussions about the proposed changes to the formula recommended for approval.

Minutes for both types of meetings included a summary of the discussion organized by topic with official recommendations identified in bold. Working group minutes specifically focused on discussions and the process of building consensus on proposed changes, while minutes from FRC meetings focused more on the changes that generated consensus through the working group process. FRC meeting minutes also included an attendee list, including the identification of any designee who attended in place of a member identified in statute. Any action items for subsequent meetings were included in both types of meeting minutes.

STRATEGIES FOR ACHIEVING CONSENSUS

The most difficult part of the entire review process will be achieving consensus and establishing a set of recommendations that all stakeholders can support. The workgroup will be charged with making recommendations, even if the recommendation is to leave the formula unchanged. It is often preferred that the workgroup reach agreement without relying on any outside influence (from legislative members, governor's staff, or others) to force resolution.

Reaching agreement might be straightforward if there is a history of collaboration among the leaders of the institutions and other stakeholders or if a review routinely occurs that includes an accepted, well-defined process. Even still, and more likely, there will be disagreement and opposing opinions in general or regarding certain topics. This makes achieving consensus difficult but not impossible.

Use momentum to overcome inertia. Start early by creating consensus around the need for the review. Next, create consensus around the principles and assumptions, then consensus around the meeting logistics, and so on. Hopefully, this will create an environment in which consensus becomes the norm, making consensus more likely later on.

Formulate an ideal policy design before discussing any movement of funding. This is a two-stage conversation in which the workgroup determines the ideal policy, or set of policies, first. This method can include the discussion of a number of topics, issues, and options based on the workgroup charge. The workgroup should attempt to build consensus about each topic/issue/option, which will lead to the creation of an idealized formula design.

The second phase is to consider the funding distribution to each institution resulting from this ideal formula design. If the volatility is acceptable to the workgroup, stop there. However, if the ideal formula design creates an uncomfortable level of volatility (moving around a lot of dollars), then discuss how to bridge the gap. How do you get from the current design to the ideal design? A phased implementation over a number of years might do the trick. A stop-loss or stop-gain limiter might also be considered.

For each contentious issue, define a continuum of options. A reiterative process of defining the guideposts, or the extremities at each end, and then defining one or more middle-ground options, may provide workgroup members with the opportunity to tailor their perspectives and come to agreement.

STATE EXAMPLE — TENNESSEE

During the 2021 formula review process in Tennessee, the working group discussed several possible changes to formula outcomes and focus populations. Initial conversations centered on the reasons for the recommended policy change; however, the discussion quickly turned to the possible financial impact any potential changes may have.

To shift the focus back to what an ideal policy design should be, THEC developed a modeling tool to determine the overall effect of the formula change over a six-year period in a no-new-money scenario, focusing on the redistribution of the base only. THEC staff then presented these results aggregated at the system level to the working group members. This shifted the focus back to the underlying principle of the recommended change.

A hypothetical example might involve cost weights. This is a seemingly binary choice of either updating the weights or not. However, if updating the weights causes extraordinary volatility, is there another option? Perhaps one middle-ground approach is to update the weights but cap the change year to year in an effort to manage volatility. Other options might be to update the weights but cap the growth in certain programs, or add additional weighting to certain programs. This is where creativity can be helpful.

Have a plan in mind to get the process back on track. At some point, when funding becomes involved, more in-depth debating occurs during which the institutions jockey for position either to protect their current distribution or to secure additional funding. This is a normal part of the process and can derail achieving consensus. There are a number of potential approaches to getting back on track:

1. **Take a step back to move forward.** If consensus cannot be achieved around specific ideas or concepts, there may be utility in working toward consensus around what the parameters should be in more general terms. A hypothetical example might involve funding outcomes. If consensus cannot be reached around using degree completions, then taking a step back in the process may allow workgroup members to come together to define some examples of other types of outcomes they want to see considered.
2. **Appeal to the Sponsor.** If consensus is elusive, an appeal can be made to the sponsor for more guidance. After considering all perspectives and options, the guidance they offer can then incentivize consensus among workgroup members, especially if offered during a public hearing or meeting. The public nature of the guidance offered may provide the support needed for workgroup members to appease their stakeholders and come to consensus.

If consensus is still not achieved, then the options are limited to either dropping the contentious issue(s) from further consideration or having the sponsor make the decision based on staff recommendations. If the process was set up from the beginning wherein the workgroup is making recommendations to staff, with staff making recommendations to the sponsor, then absolute consensus is not necessary. However, the workgroup members need to understand this possibility, and it should be communicated as an option from the beginning of the process.

3. **Identify a liaison.** Another approach is having a facilitator or collaborator available to help achieve consensus—maybe a sponsor member or the SHEEO. It should be someone the stakeholders can call when they get frustrated with the process and who will offer an additional outlet for complaints or who will serve as a sounding board. This should also be a person empowered to negotiate because the party calling will likely be seeking to negotiate one-on-one outside of the workgroup setting. Communication between staff and the negotiator is key. This back-channel effort can help achieve consensus.
4. **Discuss one-on-one with stakeholders in parallel.** Another approach to consider is a one-on-one, parallel process with workgroup members. The SHEEO agency staff, negotiator, or both can talk one-on-one with workgroup members to gather feedback and support the conversation during the policy debating phase. This could also be with institution presidents, politicians, or other key stakeholders to keep them informed and provide them with an opportunity to weigh in on the discussions that are taking place. This more direct and objective feedback loop allows the SHEEO agency staff to hear that which may not be stated publicly. It also allows the opportunity to workshop solutions and gauge the level of support for different recommendations that are taking shape.

THE REVIEW – COMMUNICATING EFFECTIVELY

The review process is as much about communicating with stakeholders as it is about anything else. With that in mind, there is a communications component to every aspect of the review process. We attempt to highlight those components throughout this guide.

One of the biggest issues is how to strike the appropriate balance between transparency and workgroup privacy. This often leads to a parallel process in which workgroup consensus is recorded through meeting minutes that are not widely released. Then, updates are provided to the sponsor at routinely scheduled public meetings or hearings.

In some states, public law requires this work to be done via fully transparent meetings open to the public, in which case, there is no choice. Staff should consult legal counsel to ensure compliance. For states that include the funding formula in administrative rules, the rule setting process in most instances requires public hearings with testimonial opportunities for the general public.

Thinking through a comprehensive plan with targeted efforts to various stakeholders is work worth doing, especially if the SHEEO agency staff have access to a specialist who can help with the plan. Alignment is important when messaging to different stakeholders. There are general notes included below, by stakeholder group, to help inform a plan.

BEST PRACTICE

Communicate routinely while focusing on transparency. Use consistent messaging. Engage as many stakeholders as possible.

Sponsors – Routine updates during the review process at regularly scheduled meetings. These could include panel discussions with stakeholders who are invited to share first-hand experience. An example is a panel of chief financial officers from the institutions to discuss the impact of implementing the current formula design.

Legislative staff updates – Preferably before the public meetings/hearings during the review process, so they have a chance to ask questions and flag issues; this assumes they are not already a part of the formula review workgroup.

Institutions and other stakeholders – One-on-one conversations with stakeholders outside the workgroup as needed to gauge support for consensus or to obtain perspective on deliberations.

General audiences – Media releases to interested education reporters and newsletters if published routinely by SHEEO agency staff.

STRATEGIES FOR COMMUNICATING EFFECTIVELY

The management of relationships is key to a successful formula review process. In fact, effective communication requires continuous engagement with all stakeholders. Just like the agenda setting process, the intensity of these efforts can differ depending on many different factors, including:

- Who is the intended audience?
- How interested are they in the topic being discussed?
- Is the objective to provide a summary or is there a more specific deliverable required?
- Is the interaction meant to diffuse a potential future issue?
- Is the intent to cultivate a potential ally for future discussion?

No matter the purpose of the communication, the key tenet should be to foster an environment that allows for the most honest and genuine interaction possible. Every communication method available should be called to action which may include both formal and informal check-ins and taking advantage of existing channels and relationships. Mixing up communication strategies, especially if existing methods are not working, can add value.

Proaction is better than reaction. Establish healthy feedback loops to ensure shared meaning is exchanged. Finally, be sure to conduct your day-to-day operations with an eye toward maintaining healthy relationships, even when not involved in a formula review process. Conducting a review is hard enough without partners bringing old wounds to the table.

CONCLUDING THE PROCESS

Wrapping up the process is dependent upon the expectations surrounding the review. If formal rules need to be adopted, then that process will become the final stage of the review. For policy work as substantial as a funding formula, this will likely be the case.

If significant changes are recommended, the review process may be followed by an implementation process. A phase-in implementation period is separate from the review. Stakeholders should engage in that conversation as they near the end of the review process to better understand the transition.

It could also be that the conclusion of the process is for the recommendations to be included in legislation or a state budget request, especially for those states in which formula funding is appropriated directly to the institutions. This will vary state to state depending on the governance structure and other processes in place.

BEST PRACTICE

Publish a final report that documents the process, provides context, and outlines recommendations as well as potential impacts.

Regardless, there should be some sort of report out from the workgroup to the sponsor. This is the final product of the workgroup that will document the entire review process, provide the context for any recommendations, and outline the recommendations in detail along with a discussion of potential impacts. The report will also provide historical context for the next time a review occurs, especially in the event of staff and stakeholder turnover. The report should be made public and include enough context and documentation for future stakeholders to understand the origins.

Although not exhaustive, the report should include the following components at a minimum:

- Background information on formulas in general with best practices (for those stakeholders who may not be too familiar with how higher education funding works).
- Background information on the current formula design and necessary context.
- A recap of the review process, including the purpose of the review, workgroup membership, the workgroup charge, etc.
- Recommendations made by the workgroup with a thorough discussion of the context, options considered, and consensus reached.
- The potential impact of the workgroup's recommendations (this could be framed a number of ways but could include information on funding received by institution, potential changes to student access/success, equity impacts, progress toward the state's goals, etc.).
- Minority opinions (if necessary).
- Any other supporting information as appropriate.

PROMOTING SUCCESS

Once the formal review process has concluded, there is always work that remains. A funding formula is not static and should be continuously monitored due to its dynamic nature. There are three tasks that may help stakeholders better understand the recommendations of the workgroup and maintain a focus on the goals the formula is trying to achieve:

1. **Document any follow-up or remaining issues.** The first task is to record any follow-up or remaining issues. There is potential that the review process may conclude with a lack of consensus on some issues or the discovery of others that may merit attention. Not often will all the work get accomplished in the time allotted. There may also be issues stakeholders just want to monitor, like equity outcomes.

Documenting these issues while fresh on the minds of SHEEO agency staff is important, so they are not forgotten. Just as important is the related context. Document why a lack of consensus exists and what information or steps are needed as a result. Document any remaining issues or newly discovered issues and why they exist.

2. **Communication materials.** The second task is to put together any communication materials for stakeholders. These could include summaries, overviews, and other presentation materials for different stakeholders, like the sponsoring board, commission or committee, legislative members, internal staff, higher education stakeholders, and the media.
3. **Shared understanding.** The third task is to get the word out with the intent of sharing an understanding of what the formula is trying to accomplish and how the formula actually works. Even formula workgroup members might not fully understand the mechanics of the calculations. Therefore, it is important for stakeholders to understand the incentives and the policy choices expressed by the formula design to achieve a greater awareness of formula and policy alignment. Plan a road show to present the final outcomes of the review process to interested stakeholders. Understand that the process of building a shared understanding never stops.

STATE EXAMPLE – LOUISIANA

Louisiana holds formula summits with institutional leadership to discuss the formula incentives, underlying data, and how the data trends interact to produce the funding distribution received by the institution. Coordinating staff will meet with the institution president, provost, chief financial officer, deans, and other institutional staff in order to ensure they have the opportunity to ask questions and peek under the hood of the formula.

CONCLUSION

Properly executed, a well-managed formula review should result in a collaborative, inclusive, objective, consensus-driven process. However, the conditions needed for real change will likely require more than just the advocacy of the coordinating board or commission alone. A “plus one” approach will likely be needed. Ideally, the commission plus the governor or the commission plus the legislature will be needed to drive any substantial formula realignment effort. This is more easily accomplished during a period of economic growth. Optimistically, even the failure to achieve a desired formula outcome can signal intent that will incentivize institutional behavior.

SUMMARY OF BEST PRACTICES	
SETTING THE FRAMEWORK	<ul style="list-style-type: none"> • Require a periodic review in statute or rule. The consensus is to conduct a review at least every five years. • Use a clearly defined scope to clarify stakeholder expectations. Specify the type of review intended. • Have the sponsoring board, commission, or committee adopt a set of review principles and operating assumptions.
CONDUCTING THE REVIEW	<ul style="list-style-type: none"> • Encourage a diverse workgroup membership. Focus on a manageable size. Members should be appointed by their respective institutions or groups. • Establish an endorsed workgroup charge based on stakeholder feedback. Finalize at the first meeting. • Use an agreed upon method to determine consensus that allows members to record their relative level of agreement. • Include a feedback loop so sponsors can weigh in on potential recommendations and identify additional priorities or conflicts.
PROMOTING SUCCESS	<ul style="list-style-type: none"> • Communicate routinely while focusing on transparency. Use consistent messaging. Engage as many stakeholders as possible. • Publish a final report that documents the process, provides context, and outlines recommendations as well as potential impacts.

APPENDIX – FUNDING FORMULA REVIEW PROCESS SURVEY INSTRUMENT

GENERAL QUESTIONS

1. What state are you from?
2. Contact information. We may follow up with you to discuss your state's formula review process in greater detail.
 - Name
 - Email
 - Phone number
3. How is your state's funding formula used? (check all that apply)
 - Allocate appropriations
 - Develop budget recommendation
 - Develop governor's budget
 - Develop legislative budget
 - Other (please explain)

DEFINING NEED

4. What was the impetus for reviewing/developing a formula?
 - Statutory mandate
 - Budget development process
 - Legislative buy-in for additional funding
 - Equity review
 - Other (please explain)
5. Was the evaluation mandated as part of a regular review schedule? If so, please include the length of time between reviews (e.g., every three years, five years, etc.).

EVALUATION PROCESS

6. What stakeholders did you include in the process (e.g., institutional administrators, faculty, staff, students, legislative, etc.)? For each stakeholder group, please describe how they were included in the review process.
7. Did you engage any consultants during the review process? If so, what process did you use to select the consultants, and what role did they serve (e.g., facilitation, data analysis, research, etc.)?
8. Describe the steps you went through with your review/evaluation process.
9. How did you evaluate the formula for equity across institutions and students?
10. Did you find any external resources helpful? (If so, share what they were.)
11. How long did the review process last?
12. What was the frequency of meetings for the review process?
13. Were notes/minutes taken and circulated after each meeting or after the evaluation concluded?

CONCLUSION

14. Please describe the political negotiation process that occurred. For example, which stakeholder groups were involved, and how did these negotiations impact the final recommendations?
15. As a result of the process, were there major changes to the existing formula, minor tweaks to the formula, or the development of an entirely new formula?
16. What are you doing to follow up (e.g., formula seminars, presentations to governing boards/stakeholders, other marketing efforts, etc.)?
17. What are the lessons learned? Specifically, what would you do differently, or what mistakes were made?

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