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SCHEV Review of Base Adequacy Funding Guideline Methodologies And Processes

State Council of Higher Education for Virginia

Advancing Virginia through Higher Education

SCHEV Review of Base Adequacy Funding Guideline Methodologies and Processes

In 2007, the General Assembly (Chapter 847, Item 145. O.) directed the State Council of Higher Education for Virginia (SCHEV) to do the following:

> The State Council shall review the funding guideline methodologies and processes related to base adequacy. The State Council shall review factors affecting the methodologies and processes and shall report on the recommendations of its findings to the Governor and the Chairmen of the House Appropriations and Senate Finance Committees by September 1, 2007.

NOTE: SCHEV requested an extension to September 17, 2007 in order to allow the Council to review and approve the recommendations at its September 11 meeting.

Background

Prior to the recession of the early 1990's, funding for college and university operating budgets flowed from guidelines known as Appendix M. These guidelines, which were appended to the state budget manual, provided a common yardstick for measuring funding for higher education and a consistent way to evaluate requests. As a result of the recession, the framework that guided higher education funding was abandoned. With the absence of any funding standards, there was considerable debate about how much was required to adequately fund Virginia's colleges and universities.

The 1998 General Assembly established the Joint Subcommittee on Higher Education Funding Policies to reestablish funding guidelines that could be used as an objective and commonly accepted yardstick for institutional funding. The Joint Subcommittee adopted four basic principles for use in developing the guidelines:

1. The guidelines would complement current funding policies for higher education.

2. To the extent possible, guideline factors would be developed through an assessment of actual experience, or national "best practice."

3. To the extent possible, the guidelines would balance the desire for simplicity with the need to recognize institutional differences.

4. Not all institutional resource requirements would, nor should, be met through the guidelines.

The goal was to determine what drives the cost of providing higher education so that these cost drivers could then be incorporated into a funding guideline. The Joint Subcommittee determined that the primary drivers of instructional cost are students and faculty. Specifically, two factors determine the number of faculty needed:

1. Types of programs offered (social sciences, engineering, health professions, etc.); and

2. Level of instruction (undergraduate, master's, doctoral).

The next step was to develop student-faculty ratios based on the number of faculty required in different kinds of programs and at different levels of instruction. Ultimately, the ratios were based on a combination of four sources:

1. Guidelines used in other states

2. Appendix M (Virginia's old guidelines used in the 1970s and 1980s)

3. Recommendations from Virginia's colleges and universities

4. Accreditation standards on staffing requirements

All other instructional costs are identified as "non-faculty instructional costs" (NFIC). These include support staff, equipment, and supplies used in faculty offices, classrooms, and laboratories. The Joint Subcommittee approved a staff recommendation to calculate these costs at a ratio of 40 percent of instructional faculty costs. The funding need for support programs such as academic support and student services is based on statistical ratios and coefficients derived from national norms.

The guidelines were completed and approved in 2001—but Virginia's economy was beginning to falter. Current funding for the system was calculated to be 91% of the new guidelines. However, the budget reductions and enrollment growth that took place in the 2002-04 biennium reduced system funding to 84% of guidelines and produced a funding shortfall of about $400 million. Thus, the first application of the guidelines was intended to help smooth out the necessary budget reductions. Institutions that were funded at higher levels were able to withstand larger cuts than those funded at lower levels. Since 2004, state support for higher education has increased by about 45%, and as we begin to update the model for the 2008-10 biennium, the system is funded at about 96% of guidelines.

Stakeholder Meetings

After the 2007 legislative session, SCHEV staff met with the higher education fiscal analysts for the House Appropriations Committee and the Senate Finance Committee to determine the scope of the review. It was decided that the review would not include the core components of the guidelines such as the student-faculty ratios, the methodology for calculating non-faculty instructional costs and support programs, nor the fund share ratio policy. Rather, the focus would be on the following methodologies and processes:

1. Input data and frequency of updates

2. Frequency of running the guideline model

3. Treatment of enrollment

4. Other adjustments

A preliminary review of these components and related recommendations was discussed in late June 2007 at a meeting of SCHEV's Finance Advisory Committee, which is composed of the chief fiscal officers at each of the public higher education institutions. The preliminary review was also discussed by the Resources Committee at the July 2007 Council meeting, and a document was distributed to committee members summarizing the related comments provided by Dr. Eugene P. Trani, acting in his capacity as the Council of Presidents' liaison on matters related to the base adequacy funding guidelines. The results of this process are reflected in the following recommendations.

Recommendations

- What resource requirements should the model consider?

  The Joint Subcommittee on Higher Education Funding Policies stated that the base adequacy guidelines should complement current funding policies for higher education. Not all institutional resource requirements should be met through the guidelines. We agree with this premise and recommend that budget items such as faculty salary (peer group) needs, the Higher Education Equipment Trust Fund (HEETF), and certain institution-specific initiatives continue to be handled outside of the base adequacy guidelines.

- What source of expenditure and position input data should be used for the base adequacy model?

  SCHEV recommends that we use a common database collected from the institutions by the Department of Planning and Budget. Updated operating plans submitted in July should be used initially, followed by the ABB (activity-based budget) file collection in September.

- How often should the model be run?

  We recommend that the model be completely updated and run once each biennium—prior to the even year legislative session. Updates should involve all input data files, including appropriated faculty salary increases and faculty mix or full-time v. part-time faculty changes.

- How should enrollment be handled? Two options must be considered.

  <u>Option 1</u>

  The latest year of actual enrollment data could be used in the model prior to the even year legislative session. In the odd year (short) legislative sessions, the model could be run, with the new year of actual enrollment data, but with no other changes to the input data files. Note that only in-state enrollment growth is funded by the state.

  Advantage: Funding would be based on the most recent actual enrollment data.

  Disadvantage: Funding for enrollment growth would be delayed two years. Growing institutions would need to rely on nongeneral fund sources, such as tuition, to a greater degree in order to fill the budget gap.

  <u>Option 2</u>

  Projected enrollment for the coming biennium could be used in the model prior to the even year legislative session. The model would be run just once per biennium. In the odd year (short) legislative session, the Commonwealth would seek to address any gap in funding between current appropriations and full base adequacy funding.

  Advantage: Funding for anticipated growth in enrollment would be available when the enrollment is expected with no delay.

  Disadvantage: Funding could be based on projected enrollment growth that is not realized.

  We recommend using Option 1, that is, using the latest year of actual enrollment in the model prior to the even year legislative session. Then, in the odd year (short) legislative session, the model would be run again with the new year of actual enrollment data—but with no other changes to the input data files.

- What other adjustments should be considered?

  In 2004, the Joint Subcommittee adopted a state general fund share policy of 67% in general fund support and 33% in tuition revenue for in-state students derived by the funding guidelines. Since this time, additional appropriations to higher education have been based on this fund share policy. However, since the budget reductions of the 2002-04 biennium, institutions have generated more revenue from tuition than they have received from state appropriations. Some institutions have over-collected tuition revenue—based on the fund share policy—and at the same time are under funded in terms of general fund support.

  In 2006, in consultation with the Council of Presidents, SCHEV endorsed the following policy statement regarding the issue of future realignment of funds:

  > The State Council affirms that it will recommend that the Commonwealth seek to extend the 67/33 percent fund share ratio policy developed by the Joint Subcommittee on Higher Education Funding Policies to the current base appropriation just as it is already being applied to incremental funds. Further, the State Council recommends that the Commonwealth establish a goal of completing this extension of achieving full general fund and nongeneral fund base adequacy funding by 2012.

  The recommendation to provide the necessary state support to accomplish this realignment should be considered in conjunction with, but separate from, the base adequacy guidelines. Additionally, this recommendation should be contingent on appropriate board-approved tuition rates, much like the current Tuition Incentive Fund.

Conclusion

The base adequacy funding guidelines are now well into their first decade of use. However, a statement contained in MGT of America's 2001 document, "Final Report and Recommendations to the Joint Subcommittee on Higher Education Funding Policies" continues to ring true: "States may borrow basic guideline design features from other states, however, in the end, there is no one best funding guideline methodology. Rather it is more critical that a state's guidelines reflect its own context and funding policy goals."

It is SCHEV's intention that this review of methodologies and processes will improve the guidelines by regularizing their application. The guidelines have proven to be useful in both good economic times and during recessions. Our review suggests that the current guidelines have served the Commonwealth well and deserve continued support.