

Minnesota
Higher Education
Coordinating Board

090782

Suite 400
Capitol Square
550 Cedar Street
Saint Paul, Minnesota 55101

COMMITTEE OF THE WHOLE

612-296-3974

MEMORANDUM

TO: HIGHER EDUCATION COORDINATING BOARD
FROM: DAVID R. POWERS, EXECUTIVE DIRECTOR
DATE: DECEMBER 1, 1989
SUBJECT: REPORT OF THE AVERAGE COST FUNDING TASK FORCE

The Average Cost Funding Task Force is required to report to the Legislature on December 1 of odd-numbered years.

The Average Cost Funding Task force is chaired by the Executive Director of the Minnesota Higher Education Coordinating Board. Minnesota Statutes 135A.05 charges the Task Force with reviewing and making recommendations on the definition of instructional cost in all four systems, the method of calculating average cost for funding purposes, the adequacy of accounting data for defining instructional costs in a uniform manner, and the biennial budget format to be used by the four systems in submitting their biennial budget requests. The Task Force includes representatives from each of the public systems of post-secondary education, post-secondary students, the education division of the house appropriations committee, the education subcommittee of the senate finance committee, the office of the commissioner of finance, the office of state auditor, and the uniform financial accounting and reporting advisory council.

A copy of the December 1, 1989 Report of the Average Cost Funding Task Force is attached. The report is an update of recent Task Force activity and an outline of the Task Force's agenda.

The report is provided for your information. No action is required.

DRP:jr

Attachments


**Minnesota
Higher Education
Coordinating Board**

Suite 400
Capitol Square
550 Cedar Street
Saint Paul, Minnesota 55101

612-296-3974

MEMORANDUM

TO: Honorable Wayne Simoneau Honorable Gene Merriam
 State Representative State Senator
 Chairman, House Chairman, Senate
 Appropriations Committee Finance Committee

FROM: David R. Powers,  Executive Director

SUBJECT: Average Cost Funding Task Force Report

DATE: November 22, 1989

The Average Cost Funding Task Force is required to report to the Legislature on December 1 of odd-numbered years. This memorandum constitutes the 1989 report. The memorandum describes the recent activities of the Task Force and outlines the Task Force's current agenda.

The Average Cost Funding Task Force received a report from the Task Force's Technical Committee on July 21, 1989. The report examined the issue of adequate funding of post-secondary education in Minnesota. The report was divided into three parts. First, the report examined past and current spending levels in each of Minnesota's four systems of post secondary education. Second, the report examined aggregate comparative post-secondary education finance data for Minnesota and the other forty-nine states. Third, the report summarized peer group analyses conducted by the Minnesota Community College System, the Minnesota State University System, and the University of Minnesota.

On July 10, 1989, the Average Cost Funding Task Force focused its issue agenda on the following three topics:

1. Adequate Funding
2. Counterincentives in the Current Policies
3. Treatment of Fixed Costs

A copy of the Average Cost Funding Task Force's issue agenda is attached to this report (Attachment #1).

The Average Cost Funding Task Force Technical Advisory Committee is preparing to report to the Task Force on the following topics:

1. Adequate Funding
 - a. Past and Current Spending Levels
 - b. Aggregate State Level Post-Secondary Education Finance Comparisons

2. Counterincentives in the Current Policies
 - a. Efficacy of Incentive Funding
 - b. Summary of Recent Incentive Funding Analysis

The Average Cost Funding Task Force Technical Advisory Committee continues to examine the additional items on the Task Force's issue agenda. On October 5, 1989, members of the Higher Education Advisory Council agreed to removing peer group analysis from the Task Force's issue agenda of adequate funding (see Attachment #2). Peer group analyses will remain the province of each of the state's post-secondary education systems.

The 1989 Minnesota Legislature extended the Average Cost Funding Task Force to June 30, 1993.

ATTACHMENT #1

AVERAGE COST FUNDING TASK FORCE

ISSUE AGENDA

AVERAGE COST FUNDING TASK FORCE
ISSUES AGENDA
JULY 10, 1989

1. Adequate Funding:
 - a. The Technical Committee will continue to collect and analyze interstate comparative data on an annual or biennial basis.
 - b. The Technical Committee will work with legislative and finance staff to develop a report on the methodology to be used in peer group analyses. In particular, issues of sample size and system v. institution financing are to be addressed.
 - c. The Technical Committee should look in depth at the detail of budgets for post-secondary education in a select number (e.g. 5) other states. The suggested method would include reviewing expenditure reports, so that truly comparable data is used.
2. Counterincentives in the Current Policies
 - a. Incentive to maintain enrollments. Since all instructional funding varies with enrollments, the current policy provides an incentive for systems to maintain enrollment levels. Consequently, a system choosing to contract faces a significant counterincentive.
 - b. Incentives to retain low cost programs and avoid high cost programs. The current policies specify that state appropriations for instruction equal 67 or 74 percent of instructional expenditures. Consequently, a system choosing to reduce its enrollments in low cost programs and maintain its enrollments in high cost programs would experience increase in per student expenditures and in tuition rates that would exceed the rate of inflation.
 - c. Incentive to serve students who are easy to educate. Average cost funding provides an incentive to constrain spending levels by reducing funding proportionately as enrollments decline. Consequently, it provides an incentive to serve students who are less expensive to serve and a counterincentive to serve students who are more expensive to serve.

d. The question before the Task Force then should also be, are there incentive programs that might provide a mechanism to offset the impact of any counterincentives in current average cost funding policy. Examples from other states should be made available to the Task Force. Examples could include incentive funding mechanisms providing strategies to add needed high cost programs, improve quality, reduce enrollments in programs that should be cut, etc.

3. Treatment of Fixed Costs:

The average cost funding policy treats all instructional expenditures as though they vary proportionately with enrollments. It is argued, however, that certain categories of expenditures remain fixed for a range of enrollment levels.

ATTACHMENT #2

HIGHER EDUCATION ADVISORY COUNCIL
PEER GROUP ANALYSES

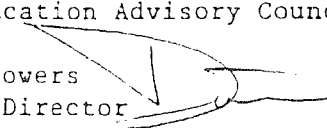
Minnesota
Higher Education
Coordinating Board

Suite 400
Capitol Square
550 Cedar Street
Saint Paul, Minnesota 55101

612-296-3974

MEMORANDUM

TO: Higher Education Advisory Council Members

FROM: David R. Powers
Executive Director 

DATE: October 3, 1989

SUBJECT: Average Cost Funding Task Force Peer Group Analyses

The Average Cost Funding Task Force's issue agenda includes an analysis of "adequate funding" of Minnesota post-secondary education. Peer group analyses have been used by the state's collegiate systems to assess "adequate funding." At its last meeting, the Task Force reaffirmed the use of peer group analyses. The Task Force asked the Technical Committee to resolve peer group analyses methodological issues.

The future use of peer group analyses within the Technical Committee, however, is contentious. Systems' representatives are divided as to whether or not they should pursue peer group analysis individually or collectively. Moreover, key legislative representatives differ as to the relevance and validity of peer group analyses as a policy making tool. The lack of consensus on the appropriateness of peer group analysis precludes addressing methodological considerations in the Technical Committee.

Peer group analyses have been used by Minnesota public post-secondary education systems to individually support budget requests. This hinders methodological uniformity across systems. As a tool for building budget requests, peer group analyses are appropriately the province of each system. The Average Cost Funding Task Force's Technical Committee serves no substantive purpose in the peer group analyses exercise.

If, however, the Average Cost Funding Task Force determines that peer group analyses should be conducted as a Task Force activity, the analyses should be produced by a neutral third party. A report on peer group analyses could then be presented to the Task Force as a report from the contracted

October 3, 1989

party. This approach would provide an analytic perspective not found in the current budget process. The Higher Education Coordinating Board could serve as the agent for contracting a party to conduct peer group analyses for the Average Cost Funding Task Force.

Peer group analyses are foremost a method for justifying budget request and, therefore, should remain with each system choosing to conduct such a study. Systems could continue to conduct peer group analyses at their discretion and to make analytic judgments within their own budget context.

DRP/JR:dl