

DRAFT

PRELIMINARY EVALUATION OF
CURRENT AND ALTERNATIVE FUNDING POLICIES

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PRELIMINARY EVALUATION OF CURRENT AND ALTERNATIVE FUNDING POLICIES

Introduction

During the last several months the Funding Task Force has reviewed fiscal projections of current and alternative funding policies for post-secondary education. These alternatives were identified and developed in response to the assumption that current finance policies may not serve Minnesota well as conditions facing post-secondary education change.

This document contains six parts. Part 1 includes a summarized evaluation of each alternative policy and conclusions about the funding policies. The alternative policies were evaluated on the basis of five criteria. The criteria include:

1. Providing incentives for innovative resources management. The funding method should encourage governing boards to anticipate changing needs for education and training, and to develop procedures for the re-allocation of resources based on priorities.
2. Provide resources in an equitable manner. The funding method should provide funds to systems in an equitable manner.
3. Recognize differing cost patterns. The funding method should recognize that costs differ based on factors such as size, mission and program mix and that all costs are variable in the long run but some costs are fixed in the short run.
4. Encourage quality. Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.
5. Encourage increased productivity. Funding policies should include incentives for increasing productivity through the adoption of new educational technology.

The score for each criterion ranged from 0 to 3. Two criteria, incentives for innovative management and recognition of differing cost patterns, were judged to be more important than the other criteria. The evaluation score for each alternative on these two were doubled to reflect their greater importance.

Part 2 includes an evaluation of current funding policies for each public system and a brief description of these policies. Parts 3 through 6 contain descriptions and evaluations of the following alternative policies: Average Cost Funding, Program Funding, Fixed and Variable Cost Funding and Core Funding. Following the evaluation of each policy are tables showing projected consequences of the policy. For the alternatives to current policies, the tables reflect two different options for tuition policies.

Conclusions

The conclusions presented below are organized along the lines of the criteria used to evaluate each funding alternative. They are intended to highlight 1) aspects of current policies which both satisfy and fail to satisfy the criteria, and 2) those funding alternatives which best satisfy each criteria.

Funding of AVTIs and State Universities

Current funding policies for the AVTIs and the State Universities provide fewer incentives for innovative resource management than funding policies for the other public systems. Program funding for the AVTIs fails to provide incentives for resource management because it is based on prior expenditures rather than enrollments. Moreover, allocation procedures for instructional resources are specified in statute, which undermines the management discretion of the governing board.

Since 1978, the State University Board has received separate funding for Southwest State University. The Board also has received special funding for Metro State University. In 1982, additional legislative support was obtained for Bemidji State University. As a result of these funding decisions, the State University Board has not had to re-allocate internally to support these institutions.

Funding of Community Colleges and the University of Minnesota

In comparison, funding policies for the State Board for Community Colleges and the University of Minnesota have made allocation decisions to support small and high cost institutions out of existing resources. In response to limited resources, the Community College Board has re-organized and consolidated five small institutions serving northeastern Minnesota. At the University of Minnesota, this has resulted in the development of an extensive internal planning process to guide budget planning.

Innovative Resource Management

Of the alternative funding policies, average cost funding best satisfies the resource management criteria. Average cost funding directly relates state appropriations to enrollments. By limiting resources in this manner, average cost funding provides a strong incentive for governing boards to develop procedures for the re-allocation of resources based on priorities within their respective systems.

Equity

Each alternative to current funding policies can attain favorable levels of equity, if there are adjustments for inequalities in the current bulge policy (described below), tuition policy, and recent reductions for post-secondary education. Current funding policies for post-secondary education were developed in a period of enrollment growth and growing state revenue. As a result, it was possible to provide additional resources to post-secondary education as problems arose. This resulted in the development of a variety of funding policies which are not uniformly applied to all systems. Conditions have changed. State revenue is no longer growing as fast as projected expenditures. Enrollments are projected to decline, in the aggregate in post-secondary education by 20 to 24 percent by the mid-1990s. Problems

which occurred on a isolated basis in the past will become more widespread in the future. It will no longer be possible to address these problems on an individual basis. Comprehensive and equitable policies will have to be developed for all systems and institutions.

As enrollments decline, so will tuition revenue. Regardless of the funding policies adopted by Legislature and the Governor, it will be necessary to develop a comprehensive and equitable tuition policy. There will be pressure to raise tuition in order to offset revenue losses from declining enrollments. During the last three years, tuition was raised in response to mandated budget reductions. This pressure also will continue. Equity considerations further suggest that systems should receive similar levels of state subsidy for instructional programs.

Recognition of Cost Patterns

In 1977, the Legislature adopted the "bulge funding" policy for the collegiate systems of post-secondary education. This policy recognized the temporary enrollment growth facing collegiate institutions which would be followed by more than a decade of declining enrollments. Under this policy, collegiate systems were required to fund enrollment growth above 1977 levels out of additional tuition revenue. No permanent state funding has been provided. The bulge policy correctly recognizes that the marginal costs associated with temporary enrollment growth are less than average costs. Unfortunately, the bulge policy has been undermined by funding reductions during the last three years. Further reductions in base funding for the collegiate systems could erode the quality and diversity of educational programs and services. It would be prudent to maintain the intent of the bulge policy until enrollments decline below the 1977 base. At that point alternative funding policies could be implemented.

When enrollments were growing, state support was provided in relation to the number of students served. As enrollments drop below the 1977 base, funding for the collegiate systems presumably could be withdrawn in a similar manner. This method of enrollment-related funding does not recognize that some costs are fixed and do not decline as enrollments decrease. On the other hand, funding for the AVTIs is essentially fixed at current levels. This policy does not recognize that many costs are variable and do decline as enrollments drop. Neither of these policies recognizes that some costs are variable and some are fixed in the short-run.

Of the alternative funding policies, two, fixed and variable funding and core program funding, best recognize cost patterns. During periods of declining enrollments, fixed and variable funding prevents severe loss of funds by distinguishing between costs that vary with enrollment and costs that do not. Core program funding ensures that small institutions will be provided with sufficient resources to offer a program consistent with their stated mission, regardless of enrollment levels.

Quality

None of the existing or proposed alternative funding policies contains explicit incentives for providing high quality services. This does not mean that high quality programs do not exist in Minnesota institutions, or that current policies inhibit the offering of high quality programs. However, they do not specifically address the issue of defining and measuring the quality of services being provided.

If the Governor and the Legislature wish to provide explicit incentives for enhancing the quality of post-secondary education it will be necessary to provide additional resources for this purpose. The allocation of these resources should be based on demonstrable and measurable outcomes.

Productivity

There are no explicit incentives in current funding policies for increasing productivity with new educational technology. In fact, some disincentives exist for the use of new educational technology, for example, if an AVTI wanted to substitute a computer for a faculty member, the institution would lose those funds two years later.

As enrollments decrease, it is probable that some positions will be lost and others re-allocated to new or high priority programs. With pressures to reduce spending yet save jobs, obtaining funds for implementing new technology may be difficult. Nonetheless, new technology should be supported in the educational process as a means of enhancing quality and improving productivity.

None of the proposed alternatives directly supports increased productivity. However, average cost funding, by reducing funding directly with enrollments, provides an indirect, but strong, incentive to increase productivity through adoption of new technologies. To ensure adoption of new technologies, it may be necessary for the Legislature and the Governor to provide supplemental funds, or require systems to set aside money from their base budget, for that purpose.

TABLE 1

SUMMARY OF EVALUATION SCORES: CURRENT AND PROPOSED FUNDING POLICIES

<u>Criteria</u>	<u>Current Funding Policies</u>				<u>Average Cost Funding</u>	<u>Program Funding</u>	<u>Fixed/Variable Funding</u>	<u>Core Funding</u>
	<u>AVTIs</u>	<u>Community Colleges</u>	<u>State Universities</u>	<u>University of Minnesota</u>	<u>All Systems</u>	<u>Collegiate Systems</u>	<u>All Systems</u>	<u>Collegiate Systems</u>
1. Management Incentives	2	6	2	4	6	0	2	0
2. Equity	0	1	1	1	3	3	3	3
3. Cost Patterns	2	4	4	4	2	2	6	6
4. Encourage Quality	0	0	0	0	0	1	0	0
5. Increase Productivity	1	1	1	1	2	0	0	0
TOTAL EVALUATION SCORE	5	12	8	10	13	6	11	9

Key to evaluation scores: 0 1 2 3
 does not satisfy criteria satisfies criteria satisfies criteria fully satisfies
 to a small degree to a large degree criteria

Criteria 1 and 3 were judged to be twice as important as the other criteria. Therefore, these scores were multiplied by 2.

POLICY: CURRENT FUNDING POLICIES

Description of Policy

Funding for public post-secondary education in Minnesota involves a variety of approaches. The legislature has adopted several methods for providing funds to the post-secondary systems. Each system, in turn, has internal procedures for allocating state funds to individual institutions.

LEGISLATIVE FUNDING METHODS

Legislative Appropriations Procedures

Before reviewing legislative funding methods, a brief description of appropriations procedures may be helpful. Appropriations for collegiate systems and for AVTIs undergo different processes. Within the legislature responsibility for recommending collegiate appropriations rests solely with the House Appropriations Committee and the Senate Finance Committee. Each committee reviews proposed systemwide budgets and considers requests for changes in funding levels. Although the committees seldom challenge existing activities and funding levels (the budget base), they scrutinize requests to expand or establish programs and activities. Approval of new items is necessary before the systems can begin them. For example, the legislature may have to approve additional faculty positions and appropriate money for salaries in order to start or expand an instructional program. Alternatively, the legislature may authorize the new or expanded program, but only if resources are shifted from another program without requiring the appropriations of additional state funds. The legislature, thus, retains some direct control over the level of services offered by the collegiate systems.

Responsibility for recommending AVTI appropriations rests primarily with education committees of the House of Representatives and the Senate.

Because local school boards operate AVTIs, the education committees include funding for AVTIs with financial aids to local school districts. In theory, the aids are entitlements to school districts to cover the operating costs of AVTIs. In reality, the State Department of Education apportions AVTI aids according the procedures which the legislature has authorized the department to establish. The education committees of the legislature, however, do not review operating budgets, nor do they authorize changes in funding for specific activities. After each education committee has drafted its aids bill, it sends the bill to the respective appropriations committee in each house for the actual appropriation of funds. Neither the House Appropriations Committee nor the Senate Finance Committee reviews AVTI aids extensively.

Enrollment Bulge Funding

In 1977, the legislature adopted the enrollment bulge policy for the collegiate systems. Anticipating that enrollments would decline after the early 1980s, the legislature decided essentially to freeze basic appropriations at 1977 levels. Except for inflationary increases and specially approved new items, there were to be no additional state funds for the systems.¹ The additional tuition revenue was deemed sufficient to meet the extra costs of the short-term increases in enrollments. If system-wide enrollments drop below the levels of the 1977 base, then, presumably, funding would be reduced directly in proportion to enrollment.

¹The 1981 Legislature modified the bulge policy by appropriating funds to the State University System and the Community College System for enrollments exceeding certain levels. Further details about this change can be found in the appendix.

Core Funding

For several biennia, the legislature provided funding for Southwest State University and Metropolitan State University on a separate basis from the other campuses in the State University System. In the case of Southwest the purpose of this special treatment was to provide a level of support staff that is greater than its enrollment would otherwise justify. This minimal level, or core, is designed to accommodate about 2,000 full-time equivalent students as compared to recent enrollments of 1,500-1,800. No change in funding for support services will result from increases or decreases in enrollment when enrollment is below 2,000. Should enrollment ever rise above 2,200, Southwest would be treated in the same manner as other state university campuses. Metropolitan is a non-traditional, upper division institution. The legislature provides a special appropriation which is not related to enrollments.

Program Funding

In 1979, the legislature approved a new funding policy for the area vocational-technical institutes. The legislature substituted program-based funding for the previous enrollment-based funding. Starting in Fiscal Year 1981, AVTIs received funds for instructional programs based on the cost of the programs. The purpose of this approach is to provide stable funding for vocational education. Changes in institutions' enrollments are considered, but they constitute a minor factor in the calculation of funding levels. Appropriations for support services and other expenditures are determined independently of instructional costs based on historic expenditure patterns and institutional circumstances.

Special Appropriations

The legislature has been making special appropriations to the University of Minnesota and, to a much lesser degree, to the other public systems. These state specials are separate from regular operating budgets. They cover items which the legislature considers to be of short duration or high priority.

SYSTEM ALLOCATION METHODS

The governing boards of the various post-secondary systems have the responsibility for allocating funds to individual campuses. The legislature makes most appropriations on a systemwide basis for governing boards to distribute at their discretion. Each governing board has its own method for allocating resources. The State Board for Community Colleges recognizes an instructional core in its funding methods by assuring small campuses a certain level of support. The State University Board recognizes the notion of core funding and staffing to a limited extent in support programs. The University of Minnesota Board of Regents does not explicitly maintain core funding internally. The State Board for Vocational Education has limited discretion in apportioning instructional aids to AVTIs because distribution of those aids, by statute, must be related to previous instructional activity at each institution. The State Board can exercise more discretion in non-instructional aids.

Community Colleges

The Community College System has a series of complex formulae for allocating resources among its campuses. Many of the formulae are enrollment-based, while others are based on historical experiences. Some formulae also recognize economies of size by allocating fewer instructional resources per student over certain enrollment thresholds. A large institution would enroll more students than would a small institution in order to be allocated another faculty position. While large campuses receive fewer resources per student

than small campuses, small campuses are assured of a certain minimum level of support. In this manner, the Community College System internally maintains core funding for small institutions.

State Universities

Southwest State University and Metropolitan State University receive core funding as a result of external legislative action. The remaining traditional campuses receive internal allocations of resources, except for physical plant, primarily on proportion to enrollments. After allocating a core of administrative positions to each institution, the system allocates additional administrative positions according to the proportion of systemwide enrollment at each traditional campus. Allocation of instructional positions to each campus, except Southwest State and Metropolitan State, reflects a fixed ratio of students to staff. Small campuses receive resources at the same rate as large ones. This allocation method recognizes virtually no economies of scale, as large and small campuses experience the same treatment.

University of Minnesota

The University of Minnesota does not allocate resources to its various campuses and units on the basis of a formula. Traditionally, the University appears to have made allocations by adjusting resources for instructional units in proportion to changes in enrollments and changes in amounts of available funding levels. Within the past two years, the University has attempted to reallocate resources internally to reflect changing priorities.

Area Vocational-Technical Institutes

Area vocational-technical institutes receive state funds in the manner prescribed in statute. Allocation of instructional aids follows school district salary patterns for programs which have been offered previously. Allocation of other aids (support, supplies, heavy equipment) follows historic

patterns of need plus special needs as they arise at individual institutions.

Summary

Current funding policies for post-secondary education were conceived during a period of enrollment growth and relative prosperity. As a consequence, modification of policies to deal with particular problems at individual campuses or within a system was possible. Now, the prospect of continuing fiscal difficulties and significant enrollment declines suggest that current funding policies should be reassessed and altered where necessary.

The evaluation of current funding policies raises several issues. Funding policies vary significantly across systems, resulting in disparate capacities for innovative resource management. The State Board for Vocational Technical Education is limited in its discretionary authority because parts of its funding formula are specified in statute. On the other hand, a single appropriation is made to the Community College Board, which has exercised much discretion in allocation decisions.

Differences exist in the appropriation and budget review process. At present, appropriations decisions for the AVTIs essentially are made by the education policy committees of the House and Senate. Appropriations decisions for the public collegiate systems are made by the House Appropriation Committee and Senate Finance Committee. The nature and extent of these reviews are very different. The instructional appropriation formula for the AVTIs specified in statute and appropriations are an entitlement based on the formula. Appropriation levels for the collegiate systems are determined by a review of proposed system budgets with close scrutiny of requested increases. These variations in the appropriations process have resulted in differential application of state funding policies to the post-secondary education systems.

The situation has inhibited the development of comprehensive and equitable policies for public post-secondary education.

The state does not currently have a formal policy regarding tuition levels in public post-secondary systems. Prior to the state's fiscal difficulties, tuition rates were usually increased in all systems by a uniform rate, often the inflation adjustment from the governor's proposed budget. In response to the fiscal crisis, however, tuition rates were increased by rates significantly above the rate of inflation. Further, under current practices tuition revenue as a percent of instructional expenditure ranges from 13 percent in the AVTIs to 31 percent at the University of Minnesota in FY 1983.

The absence of a tuition policy has two consequences. First, the state is providing different levels of subsidy to the public post-secondary systems. This suggests than explicit encouragement for students to enroll in certain systems. Second, the state has found it expedient to turn to students as a source of additional revenue as it has encountered fiscal problems over the last three years.

The bulge policy was implemented in 1977 to cope with temporary enrollment growth in the public collegiate systems. The AVTIs were not included in this policy. The policy recognized that enrollments would decline after 1983 and that institutions could accommodate short-term enrollment growth without state funding. The financial base of the collegiate systems, however, has been cut in each of the last three fiscal years in response to state revenue short-falls. This development has undermined the intent of the bulge policy. State appropriations per student have been reduced in constant dollars by 5 to 7 percent between 1982 and 1983, and by as much as 18 percent since 1980.

It is not known if the bulge policy coupled with recent budget reductions has adversely effected the quality of services in post-secondary education in the short-run. Further cut most likely would erode the quality and diversity of educational services. Nonetheless, the bulge policy should remain in effect until enrollments go below the 1977 base.

In the interest of access, the state of Minnesota has built an extensive array of public post-secondary education institutions. Many of these institutions are small by national standards and will get smaller as enrollments decline. At some point enrollments in these institutions will go below the level which justifies sufficient resources to offer a minimum academic program. If these institutions are to continue to provide basic services, they must have a minimum resource base which is fixed regardless of enrollment levels. Although the state has implemented such a core funding policy, it has not done so consistently. For example, Southwest State University receives a fixed legislative resource base while the University of Minnesota-Morris, an institution of comparable size, does not. Further, small community colleges which are confronted with problems similar to Southwest are not provided with a separate legislative funding base. This requires the Community College Board and the Board of Regents to allocate internally in order to provide sufficient resources to these small campuses.

AVTIs
Current Policy

Criteria for evaluation of funding alternatives:

-
1. Provide incentives for innovative resource management. The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

State funding for instruction is not related to enrollments. The State Board has no discretion for allocation of instructional aids because the formula is specified in statute. The Board has some discretion in allocation of non-instructional aids, which have been partially related to enrollments.

Evaluation score: 2

2. Provide resources in an equitable manner. The funding method should provide funds to systems and institutions in an equitable manner.

Tuition revenue is between 11 and 13 percent of instructional expenditures as opposed to a minimum of 25 percent in the collegiate systems. Legislative committees do not review operating budgets or authorize specific changes in funding for the AVTIs. In comparison, the legislative appropriations committees do review operating budgets and authorize changes in funding for the collegiate systems.

Evaluation score: 0

3. Recognize differing cost patterns. The funding method should recognize that costs differ based on factors such as size, mission, program mix, and that all costs are variable in the long-run but some costs are fixed in the short-run.

The instructional portion of the AVTI funding policy does not recognize changing cost patterns as they relate to enrollment changes. Instructional costs are essentially fixed given projected enrollment patterns. Non-instructional aids have been partially related to cost patterns. Both institutions with increasing and declining enrollments receive fixed levels of instructional support.

Evaluation score: 2

4. Encourage quality. Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

No explicit incentives exist for providing or measuring the quality of services.

Evaluation score: 0

5. Encourage increased productivity. Funding policies should include explicit incentives for increasing productivity through the adoption of new educational technology.

The funding formula does not relate resources to outputs or enrollments. It relates resources to past expenditures. Consequently, there are few incentives for increasing productivity.

Evaluation score: 1

Key to evaluation scores:

<u>0</u>	<u>-1</u>	<u>2</u>	<u>3</u>
does not satisfy criteria	satisfies criteria to a small degree	satisfies criteria to a large degree	fully satisfies criteria

Total evaluation score: 5

Community Colleges
Current Policy

Criteria for evaluation of funding alternatives:

-
1. Provide incentives for innovative resource management. The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

Prior to 1977, state funding was related to enrollments. The bulge policy provided no additional state funding for enrollments beyond the 1977 base. The Board has discretion in the allocation of resources and the organization of institution and programs and has used these powers to formulate allocation and management policies to respond to changing conditions and needs.

Evaluation score: 6

2. Provide resources in an equitable manner. The funding method should provide funds to systems and institutions in an equitable manner.

Legislative funding policies for the community college have not recognized the costs of operating many small institutions. The community colleges operate vocational and occupational programs. Those programs have not been funded on the same basis as those in the AVTIs.

Evaluation score: 1

3. Recognize differing cost patterns. The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long-run but some costs are fixed in the short-run. Funding in the community colleges for base enrollments does change with enrollments. The bulge funding policy recognizes cost patterns related to small increases in enrollments over short time spans. Internal allocation procedures recognize that costs vary with factors such as size and program mix. However, the enrollment levels beyond which the bulge policy must be modified have not been defined.

Evaluation score: 4

4. Encourage quality. Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

No explicit incentives exist for providing or measuring the quality of services.

Evaluation score: 0

5. Encourage increased productivity. Funding policies should include explicit incentives for increasing productivity through the adoption of new educational technology.

Although there are no explicit incentives for increasing productivity with new educational technology, resources can be used for this purpose without penalty or loss of resources.

Evaluation score: 1

Key to evaluation scores:

<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>
does not satisfy criteria	satisfies criteria to a small degree	satisfies criteria to a large degree	fully satisfies criteria

Total evaluation score: 12

State University System
Current Policy

Criteria for evaluation of funding alternatives:

-
1. Provide incentives for innovative resource management. The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

Prior to 1977, state funding was related to enrollments. The bulge policy provides no additional state funding for enrollments above the 1977 base. The Board has discretion in the allocation of resources and the organization of institutions and programs. The Board has asked that Southwest State University and Metro State University be placed on separate funding basis. Consequently, the Board has not has to make internal reallocation decisions to address the special

Evaluation score: 2 needs of these institutions.

2. Provide resources in an equitable manner. The funding method should provide funds to systems and institutions in an equitable manner.

Legislative funding policies recognize the unique costs of SSU and MSU. While instructional costs are higher, tuition rates paid by students in the system is comparable to rates in the community colleges.

Evaluation score: 1

3. Recognize differing cost patterns. The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long-run but some costs are fixed in the short-run. State funding is related to enrollments up to the 1977 base. The bulge policy recognizes cost patterns related to small enrollment increases over short time periods. The application of bulge funding policy has not been defined with respect to the size and duration of bulge enrollments. Internal allocation policies for instruction do not recognize economies of scale, however, a core program has been defined for support services.

Evaluation score: 4

4. Encourage quality. Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

No explicit incentives exist for providing or measuring the quality of services.

Evaluation score: 0

5. Encourage increased productivity. Funding policies should include explicit incentives for increasing productivity through the adoption of new educational technology.

Although there are no explicit incentives for increasing productivity with new educational technology, resources can be used for this purpose without penalty or loss of resources.

Evaluation score: 1

Key to evaluation scores:

<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>
does not satisfy criteria	satisfies criteria to a small degree	satisfies criteria to a large degree	fully satisfies criteria

Total evaluation score: 8

University of Minnesota
Current Policies

Criteria for evaluation of funding alternatives:

-
1. Provide incentives for innovative resource management. The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

Prior to 1977 state funding was related to enrollments for instructional programs. The bulge policy provided no additional state funding for enrollments above the 1977 base. The Board of Regents has discretion in the allocation of resources and the organization of University programs. The internal planning process has recommended reallocations based on university-wide priorities.

Evaluation score: 4

2. Provide resources in an equitable manner. The funding method should provide funds to systems and institutions in an equitable manner.

Legislative funding policies have not recognized the costs of operating Morris. Revenue from tuition changes will be more than 31 percent of instructional costs in FY83, which is higher than any other system.

Evaluation score: 1

3. Recognize differing cost patterns. The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long-run but some costs are fixed in the short-run.

State funding is related to enrollments up to the 1977 base. The bulge policy recognizes the cost pattern related to small enrollment increases over a short time period. Tuition rates and internal allocation policies recognize that costs vary with factors such as size and program mix.

Evaluation score: 4

4. Encourage quality. Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

No incentives exist for providing or measuring the quality of services.

Evaluation score: 0

5. Encourage increased productivity. Funding policies should include explicit incentives for increasing productivity through the adoption of new educational technology.

Although there are no explicit incentives for increasing productivity with new educational technology, resources can be used for this purpose without penalty or loss of resources.

Evaluation score: 1

Key to evaluation scores:

<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>
does not satisfy criteria	satisfies criteria to a small degree	satisfies criteria to a large degree	fully satisfies criteria

Total evaluation score: 10

TABLE 2

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: CURRENT POLICIES

SYSTEM: AREA VOCATIONAL-TECHNICAL INSTITUTES

Fiscal Year	Average Daily Membership Enrollments (ADM)	ADM as a Percent of F.Y. 1980	Student/ Instructional Licensed Staffing Ratio ²	Net Expenditures/ ADM ³	Net Expenditures/ ADM as a Percent of F.Y. 1980	State Appropriations/ ADM	State Appropriations/ ADM as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Net Expenditures
1982	32,264	101.72%	14.20:1	\$3,379	98.33%	\$2,460	99.55%	10.57%
1983	32,877	103.66	14.40:1	3,175	92.40	2,208	89.36	13.10
1984	32,821	103.48	14.42:1	3,171	92.27	2,203	89.14	13.11
1986	32,031	100.99	14.13:1	3,222	93.76	2,241	90.67	12.90
1988	31,658	99.81	13.97:1	3,257	94.77	2,269	91.82	12.76
1990	31,907	100.60	14.08:1	3,236	94.15	2,252	91.14	12.84
1992	30,662	96.67	13.55:1	3,343	97.27	2,336	94.53	12.43
1994	28,626	90.25	12.87:1	3,516	102.31	2,468	99.84	11.82
1996	28,101	88.60	12.68:1	3,570	103.88	2,510	101.54	11.64
1998	27,961	88.16	12.62:1	3,587	104.38	2,524	102.12	11.58
2000	27,473	86.62	12.45:1	3,632	105.69	2,557	103.47	11.44

1 Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

2 Includes instructional licensed positions.

3 Net expenditures exclude expenditures for supplies which are sold.

TABLE 3

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: CURRENT POLICIES
SYSTEM: COMMUNITY COLLEGE SYSTEM

<u>Fiscal Year</u>	<u>Full-Year Equivalent Enrollments (FYE)</u>	<u>FYE as a Percent of F.Y. 1980</u>	<u>Student Faculty Staffing Ratio²</u>	<u>Maintenance and Equipment Expenditures (M & E)/FYE</u>	<u>M & E/FYE as a Percent of F.Y. 1980</u>	<u>State Appropriations/ FYE</u>	<u>State Appropriations/ FYE as a Percent of F.Y. 1980</u>	<u>Tuition Revenue as a Percent of Net M & E Expenditures</u>
1982	23,615	110.08%	18.96:1	\$2,162	92.28%	\$1,450	88.35%	25.60%
1983	23,672	110.34	18.97:1	2,102	89.73	1,347	82.08	28.30
1984	23,586	109.94	18.96:1	2,108	89.97	1,353	82.41	28.22
1986	22,760	106.09	18.82:1	2,165	92.43	1,407	85.70	27.44
1988	22,499	104.87	18.77:1	2,176	92.87	1,416	86.26	27.30
1990	22,931	106.88	18.84:1	2,146	91.62	1,389	84.60	27.69
1992	22,111	103.06	18.69:1	2,208	94.25	1,446	88.12	26.89
1994	20,846	97.17	18.45:1	2,283	97.45	1,515	92.30	25.97
1996	20,841	97.14	18.45:1	2,283	97.47	1,515	92.32	25.97
1998	20,851	97.19	18.46:1	2,282	97.43	1,515	92.27	25.98
2000	20,983	97.80	18.48:1	2,271	96.96	1,504	91.64	26.11

1 Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

2 Faculty include unclassified positions in the following allocation categories--special outreach, student activities, student services, library/audio visual, low ratio occupational, occupational program leadership, and general instruction.

TABLE 4

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: CURRENT POLICIES
SYSTEM: STATE UNIVERSITY SYSTEM

Fiscal Year	Full-Year Equivalent Enrollments (FYE)	FYE as a Percent of F.Y. 1980	Student/Faculty Staffing Ratio ²	Maintenance and Equipment Expenditures (M & E)/FYE	M & E/FYE as a Percent of F.Y. 1980	State Appropriations/FYE	State Appropriations/FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of M & E Expenditures
1982	36,639	105.46%	18.30:1	\$2,611	95.34%	\$1,883	92.18%	25.60%
1983	36,481	105.01	18.19:1	2,576	94.06	1,761	86.24	29.30
1984	35,011	100.78	17.58:1	2,655	96.95	1,837	89.93	28.47
1986	32,679	94.06	17.22:1	2,765	100.98	1,942	95.10	27.35
1988	30,849	88.80	17.04:1	2,837	103.61	2,010	98.41	26.66
1990	30,640	88.20	17.03:1	2,845	103.90	2,018	98.79	26.58
1992	30,121	86.70	17.00:1	2,865	104.62	2,036	99.70	26.39
1994	28,114	80.92	16.91:1	2,944	107.49	2,109	103.27	25.71
1996	27,690	79.70	16.89:1	2,962	108.15	2,126	104.10	25.55
1998	28,575	82.25	16.94:1	2,924	106.78	2,092	102.42	25.85
2000	28,939	83.30	16.93:1	2,912	106.35	2,081	101.88	25.96

¹ Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

² Includes instructional faculty positions and program supplement unclassified positions.

TABLE 5

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: CURRENT POLICIES
SYSTEM: UNIVERSITY OF MINNESOTA

Fiscal Year	Full-Year Equivalent Enrollments (FYE)	FYE as a Percent of F.Y. 1980	Student/Faculty Staffing Ratio ²	Instructional Expenditures/FYE ³	Instructional Expenditures/FYE as a Percent of F.Y. 1980	State Appropriations for Instruction/FYE	State Appropriations for Instruction/FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Instr. Expenditures
1982	49,937	104.15%	14.30:1	\$3,527	91.82%	\$2,239	87.32%	28.64%
1983	49,320	102.87	14.26:1	3,514	91.48	2,114	82.42	31.85
1984	48,201	100.53	13.94:1	3,596	93.60	2,187	85.30	31.17
1986	45,136	94.14	13.79:1	3,720	96.84	2,288	89.24	30.23
1988	42,558	88.76	13.70:1	3,796	98.83	2,343	91.37	29.71
1990	41,965	87.53	13.69:1	3,813	99.25	2,354	91.80	29.59
1992	41,726	87.03	13.68:1	3,819	99.41	2,358	91.95	29.56
1994	39,294	81.96	13.59:1	3,890	101.26	2,405	93.77	29.11
1996	37,465	78.14	13.52:1	3,951	102.84	2,446	95.39	28.72
1998	37,621	78.47	13.53:1	3,946	102.72	2,444	95.30	28.73
2000	38,219	79.72	13.56:1	3,926	102.20	2,430	94.77	28.86

1 Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

2 Faculty includes all unclassified staff in regular instructional activities.

3 Direct and support expenditures attributable to regular instruction and supported by state funds.

POLICY: AVERAGE COST FUNDING

Description of Policy

Funding on the basis of average costs provides a specified amount of money for each enrolled student or full-time equivalent student. This approach rests on three assumptions. First, the cost per student for providing educational services may be derived or estimated prior to the calculation of aggregate costs. Costs and resource requirements are supposed to be built upon the basis of actual or anticipated enrollments. Second, the cost of services may be allocated equally to every student. Each student, regardless of academic program or individual need, supposedly requires the same amount of resources. Third, the cost per student remains constant regardless of institutional size. Within the same system, for example, the cost per student at an institution with an enrollment of 10,000 would be the same as the cost per student at an institution with an enrollment of 1,000. There are no recognized economies of size, nor are there recognized minimum levels of support for small institutions.

Funding may incorporate recognized differences among post-secondary systems on the basis of mission or other characteristics. Research universities, offering programs from lower division instruction to professional training and advanced research, would incur high average total costs in comparison to community colleges which essentially are limited to lower division instruction. Variations in funding levels per student for these different institutions may reflect functions and costs.

Summary

Resource Management

Under the alternative post-secondary education would be required to reduce resources in proportion to enrollment declines. It would ignore fixed costs in the short-run. By squeezing available resources, systems would have incentives to develop management strategies and system-wide priorities

to guide budget reductions. Governing boards would be forced to consider alternative administrative and organizational arrangements in order to stretch limited budgets.

Equity

The current funding policies include a variety of methods which are not uniformly applied to all systems. Average cost funding would vary appropriations directly with the number of students served. Equity considerations would require legislative implementation of a uniform tuition policy in conjunction with average cost funding.

Recognition of Cost Patterns

Average cost funding does not recognize differences in cost patterns. Furthermore, this alternative would ignore fixed costs. It does not address core program considerations either in small institutions.

Quality

There are no explicit incentives for providing high quality services.

Productivity

Because funding is reduced as proportionately enrollments, there would be an incentive to implement measures which increase productivity.

All Public Institutions
Average Cost Funding

Criteria for evaluation of funding alternatives:

1. Provide incentives for innovative resource management. The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

Average cost funding would base all funding directly on enrollments. As enrollments decrease state funds would be reduced proportionately. It would be necessary for the governing board to have complete discretion in allocation decisions. Clearly, this policy would provide a strong incentive for governing boards to manage resources in accordance with program priorities.

Evaluation score: 6

2. Provide resources in an equitable manner. The funding method should provide funds to systems and institutions in an equitable manner.

Equitable implementation of this policy would require that all budget review and appropriation decisions be placed under the same committee in each legislative body. In order to ensure equitable application, this policy should be coupled with a tuition policy which relates tuition revenue to a uniform percentage of instructional costs, and adjustments for effects of the bulge policy and recent funding reductions.

Evaluation score: 3

3. Recognize differing cost patterns. The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long-run but some costs are fixed in the short-run.

Average cost funding does not recognize changing cost patterns or differences related to size. It ignores fixed costs in the short-run and assumes that all institutions, regardless of size or enrollment pattern, have similar costs. Average cost funding could be designed in a way to recognize the mix of programs in a system or institution.

Evaluation score: 2

4. Encourage quality. Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

No specific incentives exist in this alternative to encourage quality. Budget reductions do create an environment in which priorities must be established to guide allocation decisions. As such, it would be possible to re-allocate resources to high priority programs thereby encouraging the development of high quality programs.

Evaluation score: 0

5. Encourage increased productivity. Funding policies should include explicit incentives for increasing productivity through the adoption of new educational technology.

If funding is enrollment related and declines in proportion to enrollments, and if governing boards have discretion to allocate funds, there would be an incentive to implement productivity increasing measures. However, collective bargaining agreements may inhibit such changes.

Evaluation score: 2

Key to evaluation scores:

<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>
does not satisfy criteria	satisfies criteria to a small degree	satisfies criteria to a large degree	fully satisfies criteria

Total evaluation score: 13

TABLE 5

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: AVERAGE COST FUNDING
SYSTEM: AREA-VOCATIONAL TECHNICAL INSTITUTES

Fiscal Year	Student/ Instructional Licensed Staffing Ratio ²	Net Expenditures/ ADM ³	Net Expenditures/ ADM as a Percent of F.Y. 1980	Current Tuition Policy			Alternative Tuition Policy		
				State Appropriations/ ADM	State Appropriations/ ADM as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Net Expenditures	State Appropriations/ ADM	State Appropriations/ ADM as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Net Expenditures
1982	14.20:1	\$3,379	98.33%	\$2,460	99.55%	10.57%	\$2,460	99.55%	10.57%
1983	14.40:1	3,175	92.40	2,208	89.36	13.10	2,208	89.36	13.10
1984	14.41:1	3,175	92.38	2,207	89.30	13.10	2,150	87.00	14.88
1986	14.43:1	3,167	92.14	2,185	88.43	13.13	2,073	83.88	16.67
1988	14.45:1	3,161	91.97	2,173	87.93	13.14	2,062	83.42	16.67
1990	14.45:1	3,160	91.96	2,177	88.10	13.14	2,066	83.59	16.67
1992	14.45:1	3,147	91.57	2,140	86.61	13.20	2,031	82.20	16.67
1994	14.44:1	3,122	90.85	2,074	83.91	13.31	1,969	79.66	16.67
1996	14.43:1	3,107	90.40	2,046	82.80	13.38	1,944	78.66	16.67
1998	14.42:1	3,101	90.23	2,037	82.44	13.40	1,936	78.34	16.67
2000	14.43:1	3,103	90.31	2,029	82.09	13.38	1,927	77.96	16.67

¹ Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

² Includes instructional licensed positions.

³ Net expenditures exclude expenditures for supplies which are sold.

TABLE 7

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: AVERAGE COST FUNDING
SYSTEM: STATE UNIVERSITY SYSTEM

Fiscal Year	Student/ Faculty Staffing Ratio ²	Maintenance and Equipment Expenditures (M & E)/ FYE	M & E/FYE as a Percent of F.Y. 1980	Current Tuition Policy			Alternative Tuition Policy		
				State Appropriations/ FYE	State Appropriations/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of M & E Expenditures	State Appropriations/ FYE	State Appropriations/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of M & E Expenditures
1982	18.30:1	\$2,611	95.34%	\$1,883	92.18%	25.60%	\$1,883	92.18%	25.60%
1983	18.19:1	2,576	94.06	1,761	86.24	29.30	1,761	86.24	29.30
1984	17.58:1	2,655	96.95	1,837	89.93	28.47	1,761	86.23	31.32
1986	17.22:1	2,765	100.98	1,942	95.10	27.35	1,777	87.00	33.33
1988	17.10:1	2,805	102.41	1,977	96.81	26.97	1,799	88.09	33.33
1990	17.10:1	2,803	102.37	1,976	96.74	26.98	1,798	88.02	33.33
1992	17.10:1	2,801	102.27	1,972	96.56	27.00	1,795	87.88	33.33
1994	17.15:1	2,799	102.21	1,965	96.20	27.04	1,789	87.57	33.33
1996	17.16:1	2,799	102.20	1,963	96.13	27.03	1,787	87.50	33.33
1998	17.15:1	2,799	102.23	1,967	96.31	27.00	1,790	87.64	33.33
2000	17.15:1	2,796	102.11	1,965	96.20	27.04	1,789	87.59	33.33

¹ Constant Fiscal year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

² Includes instructional faculty positions and program supplement unclassified positions.

TABLE 8

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: AVERAGE COST FUNDING
SYSTEM: UNIVERSITY OF MINNESOTA

Fiscal Year	Instructional Expenditures/ FYE ²	Instructional Expenditures/ FYE as a Percent of F.Y. 1980	Current Tuition Policy			Alternative Tuition Policy		
			State Appropriations for Instruction/ FYE	State Appropriations for Instruction/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Instructional Expenditures	State Appropriations for Instruction/ FYE	State Appropriations for Instruction/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Instructional Expenditures
1982	\$3,527	91.82%	\$2,239	87.32%	28.64%	\$2,239	87.32%	28.64%
1983	3,514	91.48	2,114	82.43	31.85	2,114	82.43	31.85
1984	3,596	93.60	2,187	85.30	31.17	2,137	83.34	32.56
1986	3,645	94.88	2,213	86.30	30.86	2,123	82.78	33.33
1988	3,695	96.18	2,243	87.45	30.56	2,141	83.47	33.33
1990	3,705	96.44	2,248	87.64	30.50	2,143	83.55	33.33
1992	3,708	96.52	2,248	87.67	30.49	2,143	83.56	33.33
1994	3,749	97.58	2,266	88.34	30.25	2,150	83.84	33.33
1996	3,786	98.54	2,283	89.04	30.01	2,158	84.14	33.33
1998	3,784	98.50	2,284	89.07	30.01	2,158	84.16	33.33
2000	3,772	98.19	2,279	88.85	30.08	2,156	84.07	33.33

1 Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

2 Direct and support expenditures attributable to regular instruction and supported by state funds.

POLICY: PROGRAM FUNDING

Description of the Policy

Program funding provides resources based on the cost of individual instructional programs and, perhaps, support activities. All costs covered by this funding method may be viewed, in effect, as fixed. There is no recognized variation in cost based on enrollment. Another way to view it is a core funding procedure for every program. Each program is a self-contained unit to receive either full funding or not funding at all. Partial support would be considered inadequate. Changes in institutions' enrollments are considered, but they constitute a minor factor in the calculation of funding levels.

Summary

Resource Management

Because funding is set at a base level for programs and does not change as enrollments decline, there is little incentive for innovative resource management. Excess funding would, however, provide governing boards with an opportunity to respond to changing educational needs.

Equity

Properly implemented, program funding would treat all systems equally by taking into account program needs.

Recognition of Cost Patterns

Program funding recognizes fixed costs, but is not responsive to changing cost patterns over time.

Quality

Program funding provides little incentive for improving quality.

Productivity

Program funding would provide no incentive for increasing productivity.

All Public Collegiate Systems
Program Funding

Criteria for evaluation of funding alternatives:

-
1. Provide incentives for innovative resource management. The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

Program funding would provide a fixed level of support regardless of the number of students served. While governing boards would continue to have discretion in allocating funds, program funding would provide little incentive for reallocation and innovative resource management. In a period of declining enrollments this funding policy would provide systems with increased resources per student and consequently enable systems to begin new or improved programs.

Evaluation score: 0

2. Provide resources in an equitable manner. The funding method should provide funds to systems and institutions in an equitable manner.

If the program funding policy was implemented in a manner which accounted for the effects of the bulge policy, recent budget reductions and tuition rates it would be an equitable funding method. It is assumed that the appropriations process would be consolidated under the same committee in each house and would be uniformly applied to all systems.

Evaluation score: 3

3. Recognize differing cost patterns. The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long-run but some costs are fixed in the short-run.

Program funding does take into account different program costs. If enrollments decline by more than 5% in two years funding would be reduced. However, enrollment projections suggest that this would not occur very often. Consequently, this policy does not recognize changing cost patterns.

Evaluation score: 2

4. Encourage quality. Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

Under this policy, systems would have an opportunity to reallocate excess program funding to enhance quality, although there are no explicit incentives to do so.

Evaluation score: 1

5. Encourage increased productivity. Funding policies should include explicit incentives for increasing productivity through the adoption of new educational technology.

This funding method does not provide any incentives for increased productivity because funding levels are fixed.

Evaluation score: 0

Key to evaluation scores:

<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>
does not satisfy criteria	satisfies criteria to a small degree	satisfies criteria to a large degree	fully satisfies criteria

Total evaluation score: 6

TABLE 9

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: PROGRAM FUNDING
SYSTEM: COMMUNITY COLLEGE SYSTEM

Fiscal Year	Student/ Faculty Staffing Ratio ²	Maintenance and Equipment Expenditures (M & E)/ FYE	M & E/FYE as a Percent of F.Y. 1980	Current Tuition Policy			Alternative Tuition Policy			
				State Appropriations/ FYE	State Appropriations/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Net M & E Expenditures	State Appropriations/ FYE	State Appropriations/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Net M & E Expenditures	
1982	18.96:1	\$2,162	92.28%	\$1,450	88.35%	25.60%	\$1,450	88.35%	25.60%	1
1983	18.97:1	2,102	89.73	1,347	82.08	28.30	1,347	82.08	28.30	3
1984	18.96:1	2,108	89.97	1,353	82.41	28.22	1,306	79.57	30.53	1
1986	18.82:1	2,165	92.43	1,407	85.70	27.44	1,290	78.58	33.33	
1988	18.62:1	2,185	93.28	1,425	86.84	27.18	1,302	79.32	33.33	
1990	18.97:1	2,146	91.60	1,388	84.56	27.70	1,278	77.84	33.33	
1992	18.30:1	2,221	94.83	1,460	88.94	26.72	1,324	80.69	33.33	
1994	17.31:1	2,342	99.97	1,574	95.90	25.29	1,398	85.20	33.33	
1996	17.27:1	2,353	100.43	1,585	96.56	25.17	1,406	85.64	33.33	
1998	17.28:1	2,351	100.36	1,583	96.46	25.19	1,405	85.57	33.33	
2000	17.41:1	2,332	99.55	1,565	95.34	25.40	1,393	84.84	33.33	

¹ Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

² Faculty include unclassified positions in the following allocation categories--special outreach, student activities, student services, library/audio visual, low ratio occupational, occupational program leadership, and general instruction.

TABLE 10

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: PROGRAM FUNDING
SYSTEM: STATE UNIVERSITY SYSTEM

Fiscal Year	Student/ Faculty Staffing Ratio ²	Maintenance and Equipment Expenditures (M & E)/ FYE	M & E/FYE as a Percent of F.Y. 1980	Current Tuition Policy			Alternative Tuition Policy		
				State Appropriations/ FYE	State Appropriations/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of M & E Expenditures	State Appropriations/ FYE	State Appropriations/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of M & E Expenditures
1982	18.30:1	\$2,611	95.34%	\$1,883	92.18%	25.60%	\$1,883	92.18%	25.60%
1983	18.17:1	2,576	94.06	1,761	86.24	29.30	1,761	86.24	29.30
1984	17.57:1	2,655	96.95	1,837	89.93	28.47	1,761	86.23	31.32
1986	17.22:1	2,765	100.98	1,942	95.10	27.35	1,777	87.00	33.33
1988	16.38:1	2,910	106.27	2,083	101.98	26.00	1,870	91.53	33.33
1990	16.27:1	2,932	107.07	2,105	103.05	25.79	1,884	92.23	33.33
1992	15.99:1	2,981	108.84	2,152	105.36	25.37	1,915	93.75	33.33
1994	15.20:1	3,156	115.23	2,321	113.64	23.98	2,026	99.20	33.33
1996	14.97:1	3,204	117.00	2,369	115.97	23.61	2,057	100.73	33.33
1998	15.44:1	3,109	113.52	2,276	111.45	24.32	1,996	97.74	33.33
2000	15.64:1	3,071	112.14	2,240	109.65	24.62	1,972	96.55	33.33

¹ Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

² Includes instructional faculty positions and program supplement unclassified positions.

TABLE 11
PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: PROGRAM FUNDING
SYSTEM: UNIVERSITY OF MINNESOTA

Fiscal Year	Student/ Faculty Staffing Ratio ²	Instructional Expenditures/ FYE ³	Instructional Expenditures/ FYE as a Percent of F.Y. 1980	Current Tuition Policy			Alternative Tuition Policy		
				State Appropriations for Instruction/ FYE	State Appropriations for Instruction/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Instructional Expenditures	State Appropriations for Instruction/ FYE	State Appropriations for Instruction/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Instructional Expenditures
1982	14.30:1	\$3,527	91.82%	\$2,239	87.32%	28.64%	\$2,239	87.32%	28.64%
1983	14.26:1	3,514	91.48	2,114	82.43	31.85	2,114	82.43	31.85
1984	13.94:1	3,596	93.60	2,187	85.30	31.17	2,137	83.34	32.56
1986	13.35:1	3,781	98.43	2,349	91.61	29.74	2,214	86.33	33.33
1988	12.81:1	3,961	103.12	2,508	97.80	28.47	2,315	90.29	33.33
1990	12.63:1	4,016	104.53	2,557	99.71	28.10	2,347	91.52	33.33
1992	12.56:1	4,038	105.11	2,557	100.48	27.96	2,360	92.03	33.33
1994	12.08:1	4,229	110.09	2,744	107.00	26.78	2,467	96.20	33.33
1996	11.69:1	4,393	114.37	2,889	112.66	25.82	2,559	99.80	33.33
1998	11.74:1	4,376	113.92	2,874	112.07	25.91	2,549	99.41	33.33
2000	11.92:1	4,310	112.20	2,814	109.74	26.29	2,511	97.91	33.33

¹ Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

² Faculty includes all unclassified staff in regular instructional activities.

³ Direct and support expenditures attributable to regular instruction and supported by state funds.

POLICY: FIXED AND VARIABLE FUNDING

Description of the Policy

Funding on the basis of fixed and variable costs involves separate support for each type of cost. Offering any educational service at all would require full funding of those costs defined as fixed. Provision of other resources would depend on costs that vary directly with the number of students.

The variable portion would, in reality, reflect average variable costs. It would resemble average total costs in that a specified amount of resources would be provided for each student. However, average variable costs would be less than average total costs because the fixed items already would have been covered.

Summary

Resource Management

This policy does not provide sufficient resources to systems for supporting fixed costs. It does reduce resources for those costs which vary with enrollments. Consequently, fixed and variable funding provides some incentives for innovative resource management.

Equity

All systems could be treated equitably.

Recognition of Cost Patterns

Fixed and variable funding recognizes changing cost patterns caused by changing enrollments.

Quality

Under this policy there are no explicit incentives for improving the quality of services.

Productivity

Since all costs are adequately funded there is little incentive for increasing productivity.

All Public Systems
Fixed and Variable Funding

Criteria for evaluation of funding alternatives:

-
1. Provide incentives for innovative resource management. The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

Fixed and variable funding relates a significant portion of funding directly on enrollments. Costs not related to enrollments are fixed. Therefore, as enrollments decline funding would be reduced, but at a slower rate. Incentives for innovative resource management would exist under this policy, however, since some costs are fixed incentives would not be as great as under average cost funding.

Evaluation score: 2

2. Provide resources in an equitable manner. The funding method should provide funds to systems and institutions in an equitable manner.

This policy can be equitably implemented in all systems providing: 1) it is coupled with a comprehensive tuition policy, 2) budget review decisions are placed under one committee in each house of the Legislature, and 3) the effects of the bulge policy and recent funding reductions are accounted for.

Evaluation score: 3

3. Recognize differing cost patterns. The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long-run but some costs are fixed in the short-run.

Fixed and variable funding specifically addresses the problem of funding changing cost patterns caused by fluctuating enrollments. It does this by distinguishing between costs that vary with enrollments and those which do not. The policy also relates funding to the mix of programs in each system.

Evaluation score: 6

4. Encourage quality. Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

Fixed and variable funding does not provide explicit incentives for high quality services.

Evaluation score: 0

5. Encourage increased productivity. Funding policies should include explicit incentives for increasing productivity through the adoption of new educational technology.

Since fixed and variable funding provides sufficient resources to accommodate changing cost patterns caused by declining enrollments, there is little incentive to increase productivity.

Evaluation score: 0

Key to evaluation scores:

<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>
does not satisfy criteria	satisfies criteria to a small degree	satisfies criteria to a large degree	fully satisfies criteria

Total evaluation score: 11

TABLE 12

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: FIXED AND VARIABLE FUNDING
SYSTEM: AREA VOCATIONAL-TECHNICAL INSTITUTES

Fiscal Year	Student/ Instructional Licensed Staffing Ratio ²	Net Expenditures/ ADM ³	Net Expenditures/ ADM as a Percent of F.Y. 1980	Current Tuition Policy			Alternative Tuition Policy		
				State Appropriations/ ADM	State Appropriations/ ADM as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Net Expenditures	State Appropriations/ ADM	State Appropriations/ ADM as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Net Expenditures
1982	14.20:1	\$3,379	98.33%	\$2,460	99.55%	10.57%	\$2,460	99.55%	10.57%
1983	14.40:1	3,175	92.40	2,208	89.36	13.10	2,208	89.36	13.10
1984	14.39:1	3,178	92.48	2,210	89.44	13.08	2,153	87.12	14.88
1986	14.19:1	3,222	93.76	2,241	90.67	12.90	2,119	85.75	16.67
1988	14.10:1	3,243	94.36	2,255	91.24	12.81	2,130	86.18	16.67
1990	14.16:1	3,227	93.90	2,244	90.79	12.87	2,121	85.83	16.67
1992	13.63:1	3,301	96.06	2,295	92.86	12.59	2,160	87.40	16.67
1994	13.25:1	3,436	99.99	2,388	96.62	12.09	2,231	90.26	16.67
1996	13.09:1	3,471	101.00	2,411	97.54	11.97	2,248	90.95	16.67
1998	13.05:1	3,480	101.26	2,416	97.77	11.94	2,252	91.11	16.67
2000	12.91:1	3,521	102.44	2,446	98.96	11.80	2,274	92.02	16.67

¹ Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

² Includes instructional licensed positions.

³ Net expenditures exclude expenditures for supplies which are sold.

TABLE 13

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: FIXED AND VARIABLE FUNDING
SYSTEM: COMMUNITY COLLEGE SYSTEM

Fiscal Year	Student/ Faculty Staffing Ratio ²	Maintenance and Equipment Expenditures (M & E)/ FYE	M & E/FYE as a Percent of F.Y. 1980	Current Tuition Policy			Alternative Tuition Policy			
				State Appropriations/ FYE	State Appropriations/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Net M & E Expenditures	State Appropriations/ FYE	State Appropriations/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Net M & E Expenditures	
1982	18.96:1	\$2,162	92.28%	\$1,450	88.35%	25.60%	\$1,450	88.35%	25.60%	I
1983	18.97:1	2,102	89.73	1,347	82.08	28.30	1,347	82.08	28.30	CO
1984	18.96:1	2,108	89.97	1,353	82.41	28.22	1,306	79.57	30.53	I
1986	18.82:1	2,165	92.43	1,407	85.70	27.44	1,290	78.58	33.33	
1988	18.72:1	2,174	92.79	1,414	86.14	27.33	1,294	78.86	33.33	
1990	18.83:1	2,155	91.98	1,397	85.11	27.58	1,284	78.21	33.33	
1992	18.59:1	2,194	93.65	1,432	87.26	27.07	1,306	79.56	33.33	
1994	18.23:1	2,255	96.27	1,488	90.62	26.30	1,341	81.68	33.33	
1996	18.22:1	2,257	96.36	1,490	90.75	26.28	1,342	81.76	33.33	
1998	18.21:1	2,259	96.42	1,491	90.83	26.26	1,343	81.82	33.33	
2000	18.30:1	2,245	95.85	1,478	90.06	26.42	1,335	81.32	33.33	

¹ Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

² Faculty include unclassified positions in the following allocation categories--special outreach, student activities, student services, library/audio visual, low ratio occupational, occupational program leadership, and general instruction.

TABLE 14

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: FIXED AND VARIABLE FUNDING
SYSTEM: STATE UNIVERSITY SYSTEM

Fiscal Year	Student/ Faculty Staffing Ratio ²	Maintenance and Equipment Expenditures (M & E)/ FYE	M & E/FYE as a Percent of F.Y. 1980	Current Tuition Policy			Alternative Tuition Policy		
				State Appropriations/ FYE	State Appropriations/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of M & E Expenditures	State Appropriations/ FYE	State Appropriations/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of M & E Expenditures
1982	18.30:1	\$2,611	95.34%	\$1,883	92.18%	25.60%	\$1,883	92.18%	25.60%
1983	18.17:1	2,576	94.06	1,761	86.24	29.30	1,761	86.24	29.30
1984	17.57:1	2,655	96.95	1,837	89.93	28.47	1,761	86.24	31.32
1986	17.22:1	2,765	100.98	1,942	95.10	27.35	1,777	87.00	33.33
1988	16.86:1	2,849	104.02	2,021	98.97	26.56	1,828	89.52	33.33
1990	16.82:1	2,858	104.37	2,031	99.43	26.46	1,834	89.81	33.33
1992	16.70:1	2,883	105.27	2,054	100.57	26.23	1,849	90.55	33.33
1994	16.20:1	2,990	109.19	2,156	105.55	25.31	1,916	93.81	33.33
1996	16.09:1	3,015	110.10	2,180	106.71	25.09	1,931	94.56	33.33
1998	16.32:1	2,964	108.25	2,132	104.39	25.50	1,900	93.03	33.33
2000	16.41:1	2,943	107.45	2,111	103.36	25.69	1,886	92.36	33.33

¹ Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

² Includes instructional faculty positions and program supplement unclassified positions.

TABLE 15

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: FIXED AND VARIABLE FUNDING
SYSTEM: UNIVERSITY OF MINNESOTA

Fiscal Year	Student/ Faculty Staffing Ratio ²	Instructional Expenditures/ FYE ³	Instructional Expenditures/ FYE as a Percent of F.Y. 1980	Current Tuition Policy			Alternative Tuition Policy		
				State Appropriations for Instruction/ FYE	State Appropriations for Instruction/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Instructional Expenditures	State Appropriations for Instruction/ FYE	State Appropriations for Instruction/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Instructional Expenditures
1982	14.30:1	\$3,527	91.82%	\$2,239	87.32%	28.64%	\$2,239	87.32%	28.64%
1983	14.26:1	3,514	91.48	2,114	82.43	31.85	2,114	82.43	31.85
1984	13.94:1	3,596	93.60	2,187	85.30	31.17	2,137	83.34	32.56
1986	13.43:1	3,750	97.62	2,319	90.41	29.99	2,193	85.53	33.33
1988	12.99:1	3,899	101.49	2,445	95.36	28.93	2,274	88.66	33.33
1990	12.88:1	3,936	102.46	2,478	96.61	28.67	2,294	89.46	33.33
1992	12.84:1	3,951	102.85	2,490	97.09	28.57	2,302	89.77	33.33
1994	12.39:1	4,116	107.15	2,631	102.59	27.51	2,392	93.26	33.33
1996	12.04:1	4,256	110.79	2,752	107.30	26.66	2,468	96.22	33.33
1998	12.07:1	4,245	110.50	2,743	106.95	26.71	2,462	95.99	33.33
2000	12.19:1	4,198	109.29	2,703	105.39	26.99	2,437	95.01	33.33

1 Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

2 Faculty includes all unclassified staff in regular instructional activities.

3 Direct and support expenditures attributable to regular instruction and supported by state funds.

POLICY: CORE FUNDING

Description of the Policy

Though similar to fixed and variable funding, core funding implies the existence of small institutions which must be sustained with a prescribed minimum level of resources. This level of support is based on a minimum breadth of instructional and support activities deemed necessary for fulfilling an institution's mission. The instructional and support core, in effect, may be the fixed cost of an institution capable of servicing a specified number of students. At or below this enrollment, the institution would be assured of the prescribed amount of resources. Enrollments above that level would generate additional resources based on average variable costs for other institutions.

Summary

Resource Management

Core program funding is intended to preserve minimum educational services at small institutions. Resources are provided on the basis of program requirements, not the number of students served. Funding for such a policy would be provided on a separate basis. Therefore, governing boards would not be required to maintain and support these institutions with existing resources. As such, there are no incentives for innovative resource management.

Equity

Core funding would be equitable in that it would ensure minimum levels of resources at small institutions in each system.

Recognition of Cost Patterns

Core funding does recognize cost patterns by providing a minimum resource base.

Quality

This policy does not encourage the development of high quality services. Rather, it guarantees minimum services consistent with the institutional mission.

Productivity

By guaranteeing a resource base core funding does not encourage efforts to increase productivity.

LB 2342 .M52 1982a
Minnesota Higher Education
Coordinating Board.
Preliminary evaluation of

LB 2342 .M52 1982a
Minnesota Higher Education
Coordinating Board.
Preliminary evaluation of

DATE	ISSUED TO
MAY 27 '92	
6-24-92	
7-22-92	
8-5-92	

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Two and Four Year Collegiate Institutions
Core Funding

Criteria for evaluation of funding alternatives:

-
1. Provide incentives for innovative resource management. The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

Minimum core funding would provide small collegiate institutions with a sufficient resource base to offer a program consistent with their stated mission, regardless of the number of students enrolled. Since resources are fixed at these institutions, no incentives exist for innovative resource management. The governing board presumably would not have discretion to re-allocate core resources to other institutions.

Evaluation score: 0

2. Provide resources in an equitable manner. The funding method should provide funds to systems and institutions in an equitable manner.

There are small institutions in all three collegiate systems. If a policy was established to provide resources for a core program in all of these institutions it would probably require additional state funding in order to assure equity. It would not be equitable to fund core programs out of resources from larger institutions because small institutions are not equally distributed in all systems.

Evaluation score: 3

3. Recognize differing cost patterns. The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long-run but some costs are fixed in the short-run.

At some point enrollments decline below the level at which resources can be provided on the basis of the number of students served. Core funding addresses this by providing a minimum resource base.

Evaluation score: 6

4. Encourage quality. Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

While this policy may protect minimum program standards, it does not contain explicit incentives for providing high quality services.

Evaluation score: 0

5. Encourage increased productivity. Funding policies should include explicit incentives for increasing productivity through the adoption of new educational technology.

This policy does not encourage increased productivity.

Evaluation score: 0

Key to evaluation scores:

<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>
does not satisfy criteria	satisfies criteria to a small degree	satisfies criteria to a large degree	fully satisfies criteria

Total evaluation score: 6

TABLE 16

PROJECTED OUTCOMES IN CONSTANT DOLLARS¹

FUNDING POLICY: CORE PROGRAM FUNDING
SYSTEM: COMMUNITY COLLEGE SYSTEM

Fiscal Year	Student/ Faculty Staffing Ratio ²	Maintenance and Equipment Expenditures (M & E)/ FYE	M & E/FYE as a Percent of F.Y. 1980	Current Tuition Policy			Alternative Tuition Policy		
				State Appropriations/ FYE	State Appropriations/ FYE as a percent of F.Y. 1980	Tuition Revenue as a Percent of Net M & E Expenditures	State Appropriations/ FYE	State Appropriations/ FYE as a Percent of F.Y. 1980	Tuition Revenue as a Percent of Net M & E Expenditures
1982	18.90:1	\$2,167	92.52%	\$1,456	88.71%	25.53%	\$1,456	88.71%	25.53%
1983	18.86:1	2,111	90.11	1,356	82.62	28.18	1,356	82.62	28.18
1984	18.82:1	2,118	90.44	1,364	83.08	28.07	1,315	80.11	30.47
1986	18.63:1	2,179	93.03	1,421	86.56	27.26	1,299	79.16	33.33
1988	18.56:1	2,191	93.55	1,432	87.22	27.10	1,306	79.58	33.33
1990	18.65:1	2,161	92.25	1,403	85.49	27.50	1,288	78.46	33.33
1992	18.48:1	2,224	94.96	1,463	89.13	26.68	1,326	80.81	33.33
1994	18.18:1	2,303	98.33	1,536	93.56	25.73	1,373	83.64	33.33
1996	18.16:1	2,305	98.42	1,538	93.68	25.71	1,374	83.72	33.33
1998	18.18:1	2,303	98.33	1,536	93.55	25.73	1,373	83.63	33.33
2000	18.22:1	2,291	97.81	1,524	92.86	25.87	1,365	83.18	33.33

¹ Constant Fiscal Year 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

² Faculty include unclassified positions in the following allocation categories--special outreach, student activities, student services, library/audio visual, low ratio occupational, occupational program leadership, and general instruction.