

Higher Education Funding and Costs: (2/11/08)

Recommendations:

1. **Multi-year integrated planning and budgetary process:** The planning and budgeting process should cover multiple years and include full disclosure of the plans, anticipated costs, and impacts on State funding and/or tuition and fees and other revenue streams. Institutions should submit multi-year budgets that reflect all unrestricted resources the institution has on hand, plans to reallocate, or expects to collect, and how the funds will be utilized to meet planning expectations. These budgets should include reconciliation to unrestricted resources reflected in audited financial statements. The impact on the plan should be explained if anticipated revenue streams do not materialize. Ideally both the planning and budget would extend over the normal period required to earn a degree at an institution so that students, parents, and funding agencies can project the potential costs of obtaining a degree.
2. **Assessment of State Needs and on-going accountability:** The costs of program initiatives should be considered with regard to the state needs including access, affordability, and impact on in-state employment prospects. Proposed initiatives should disclose the impact on state funding expectations as well as tuition and fees. There should be an on-going accountability to ensure such initiatives are achieving the desired results. If not, there should be an exit process that can be achieved in a timely manner.
3. **Inclusive Funding Formula:** Funding formulas for institutional funding and costs should be all inclusive and consider all resources institutions have available as well as fully burdened costs of educational offerings, campus operational costs, and renewal and replacement of physical facilities. Costs of institutional activities should be benchmarked and financial incentives provided for effective and efficient operation at levels below benchmarks. An authority must exist that can provide incentives for institutions operating above benchmarks to adopt best practices and reduce costs or be faced requirements to merge or outsource administrative activities with more efficient institutions.
4. **Disclosure of mandatory fee use:** Detailed information on how tuition and fees are distributed should be publicly available. At a minimum any mandatory fees which are allocated to activities ancillary to the education and general needs of the institution should be disclosed.
5. **Incentives for alternative delivery:** The highest costs of institutional operations are instruction followed by infrastructure. These costs can potentially be reduced through wide-spread alternative course delivery such as the internet, television, correspondence, sharing of common courses between institutions, etc. Incentives should be provided for development of alternative delivery methods for: appropriate courses that can be delivered to any interested citizen at a low per credit hour cost; and courses where there is limited but widespread geographic demand. Institutions should be encouraged to market these courses beyond the borders of the state through the ability to retain any resources these courses provide.

Governor's Task Force Questions:

i. What is the meaning of affordability?

Affordability is a function of informed choice and the perceived benefit an individual receives from each choice. If an individual perceives no additional benefit from a higher cost alternative, they will typically will choose the lower cost option.

State funding whether direct to the institution or indirectly through the student should be to support benchmark costs of quality academic programs. Additional costs incurred by the institution to provide additional benefits to the student should be borne by the student who individually perceives the receipt of some individual benefit.

The final factor is linking affordability measures to state needs. Students should have financial incentives provided for in-state employment. (State funded scholarship programs should be linked to in-state employment.) Some incentives should also be extended to out-of-state students who stay and work in South Carolina.

When funding sources, whether these are the legislature, parents, students, or donors are provided with cost/benefit options, free choice should drive investment and investment will drive institutions to provide cost/beneficial education designed to meet the requirements of the State. When the result of these choices causes a decrease in enrollment or other basis for receipt of state funds, then state proportional support should also decrease. There should not be a "hold harmless" process that continues to cause disparity in the allocation of state funds to institutions.

ii. Does affordability include consideration of debt and scholarships?

Yes, up to the base benchmark cost of the institution. Students who opt to attend above benchmark cost institutions should be responsible for excess costs. Whether these costs can be offset by merit scholarships or debt are variables of choice the individual should evaluate in their cost/benefit analysis.

iii. Should the legislature declare support of an amount (percent of cost) it deems necessary and appropriate?

Yes, up to the base benchmark cost of the institution with in-state employment incentives.

iv. Should this declared support impact tuition increases and include lottery funds?

Provision of a multi-year plan and budget allows those providing funding to endorse or reject plans that have do not address state needs. When plans are endorsed the expectation of state funding and/or tuition adjustments should be anticipated. When lottery funds are provided directly to the institution this reduces requirements for increased tuition. If lottery funds are provided to students, then the institution must increase tuition to collect the funding for the endorsed plan.

v. What is the Legislature's intention regarding lottery scholarships?

The Legislature will need to respond, but these are not institutional funds until they are collected from the student. Benchmark operational costs of the institution should not change dependent upon funds directed to students.

vi. Should a universal method or formula of tuition determination be established as based upon criteria of consideration and accepted by all?

Yes, but the criteria of consideration must include variables of program costs, approved quality levels, and valid benchmarks.

vii. Should “Best Practices” be required and technology used to improve efficiency in delivery of education?

Yes. Administrative processes should be examined without regard to institutional boundaries. Benchmarks should provide desired economy of scale levels and identify where diminished returns set in. If this means “administrative” mergers of small institutions with large institutions is desirable, it should occur. Technology should be utilized to improve the efficient and affordability of delivery of appropriate courses.

viii. Should there be incentives for best business and academic practices?

Absolutely. By definition a benchmark cost is an average cost. Institutions that utilize best practices to operate certain components of their institutions at a lower cost should be allowed to retain and invest these funds to improve the cost/benefits in selective areas and not be criticized for incurring above average costs. Institutions that operate above the average should not receive funding above benchmarks and thus must reallocate internally or charge an unsubsidized higher level of tuition that must then withstand cost/benefit market forces.

ix. Should regulations and administrative requirements be systematically reviewed?

Absolutely. Regulations should not be confused with accountability. Institutions should be encouraged to develop alternatives processes that meet accountability requirements. From these alternatives “best practices” should evolve statewide to improve stewardship over the use of the public funds.