

Allocation Methodology Discussion

Each year, as a part of the budget request development process, the Commission on Higher Education reviews the Mission Resource Requirements model (MRR) and the plan for allocating appropriations among the public institutions (allocation methodology). The MRR was reviewed in the fall of 2002, with no changes made at that time. The only change under consideration is the continued implementation of the MGT of America recommendation to modify the Student/Faculty Ratios used in the MRR so that the same ratios would be used for all sectors. That recommendation is currently in a phase-in implementation process, with the issue also being reviewed by an ad hoc study committee. The consideration of the allocation methodology was deferred until the spring due to the state's economy and the uncertainty of the fiscal outlook for the upcoming year. The Commission staff and the Funding Advisory Committee were charged with reviewing the allocation methodology, with specific emphasis on the possibility of including a component to address the parity funding issue.

Parity Funding:

The "Parity Funding" issue developed over the past decade due to the following series of events:

- During the late 1980's, as a result of an economic slowdown, increases in state appropriations became severely limited.
- The Commission instituted a "Hold Harmless" policy, whereby institutions with increasing enrollment would forego increases in funding so that institutions with level or declining enrollment would not face a reduction in funding.
- In the early to mid 1990's, as modest funding increases began to occur, the Commission began to address the resulting funding variances. However, prior to achieving parity in levels of funding, Performance Funding was instituted. As a component of instituting Performance Funding, appropriations levels were frozen at the FY 1996 levels, with increases in funding being designated for allocation based on performance.
- In FY 1999-2000, a one-time equity adjustment allocation was made in an effort to address the funding level inequities.
- The current status of allocations includes the vestiges of the funding inequities resulting from the hold harmless policy, with levels of funding ranging from a low of 38 percent to a high of 67 percent based on appropriations compared to MRR amounts. The range of funding levels is not a direct result of differences in performance.

During the fall of 2002, the Committee on Finance and Facilities agreed parity should be addressed, but not until an increase in state appropriations is realized. As mentioned previously, the Finance and Facilities Committee charged the Commission staff and the Funding Advisory Committee with developing a plan for addressing parity funding when an increase in state appropriations occurs.

Commission staff and the Funding Advisory Committee have met numerous times to discuss the issue. More specifically, the discussions included: 1) What is the appropriate definition of parity? 2) Should parity be based on the existing MRR, or should actual tuition and fee revenues be considered? 3) Does a parity problem actually exist? 4) When is the most appropriate time to develop a plan to address parity? And, 5) how do we address the possibility that parity could be a moving target? After considerable discussion of these and other issues, the

Funding Advisory Committee adopted the following recommendation postponing the development of a Parity Allocation Plan:

In consideration of numerous variables, including: prospective lack of increases in higher education funding, potential changes to the MRR relating to student/faculty ratios and unforeseeable legislative actions, the Funding Advisory Committee respectfully recommends that no changes be made to the existing Commission on Higher Education Allocation Methodology to address Parity at this time.

The recommendation passed on a vote of eight to five. The representatives from the Technical Colleges and the USC Regional Campuses opposed the measure and have submitted a minority report (attached).

As an additional consideration, since the last meeting of the Funding Advisory Committee, the General Assembly has begun deliberations of the budget for the 03-04 fiscal year. As this time, it is clear that higher education will not be receiving any funding increases for operating funds, but rather will be facing significant budgetary reductions.

Recommendation:

Therefore, in consideration of all of the issues discussed above, the Commission staff recommends that the Finance and Facilities Committee reaffirm the existing Commission allocation methodology, which states:

1. All funds are to be allocated based on performance.
2. The rating system and resulting scores, as determined by the Planning and Assessment Committee, will be applied to both the current and previous year's appropriations.
3. In the event of a reduction in current year's appropriations, each institution will receive a pro rata share of the reduction, unless otherwise defined by the legislature. (If the appropriation reduction is 10 percent, then each institution will be reduced by 10 percent, unless the General Assembly dictates exemptions or exceptions.)
4. Total appropriations for each institution will be the combination of previous year's appropriations and their respective share of the current year's appropriations. The two sets of appropriations will be considered as follows:

Previous Year's Appropriation

- Institutions that score an "achieves" or higher on their performance rating will receive their previous year's appropriation.
- An institution scoring less than "achieves" will be subject to the following disincentives:
 - Three percent of its appropriation will be deducted for a "does not achieve" and five percent will be deducted for "substantially does not achieve."
 - The disincentive funds will be added to the current year's appropriation for distribution to the institutions.

Current Year's Appropriation

- Current Year's appropriation is defined as the "new dollars" appropriated by the legislature, plus the disincentive funds from institutions that scored less than "achieve."
- The Current Year's appropriations will be allocated using the following methodology:
 - Funds will be preliminarily allocated based on each institution's share of the total MRR.
 - The preliminary allocation amount will be multiplied by the highest possible percentage score for the performance category earned by the institution (100% for Substantially Exceeds, 94% for Exceeds, 86% for Achieves, 66% for Does Not Achieve, and 48% for Substantially Does Not Achieve) to determine a "performance allocation"
 - Any residual amounts will be allocated among all institutions with a score of at least Achieves, on a pro rata basis.
 - Each institution's share of the current year's appropriations will be the combination of the institution's performance allocation amount and their share of the residual amount.

MINORITY REPORT ON PARITY FUNDING
SUBMITTED TO COMMISSION ON HIGHER EDUCATION
February 11, 2003

As a follow-up to the Funding Advisory Committee meeting on February 6, 2003, we hereby submit a minority report on the motion that carried to defer consideration of parity until such time as "new" funds are available. The vote was 8 to 5 to defer consideration of parity. (Some members of the committee had already departed before this vote was taken.) The five members opposed to the motion (the four technical college sector representatives and the representative from the USC regional campuses) were asked to write a brief minority report for consideration by the Commission on Higher Education. The representative from the USC regional campuses had one campus wanting parity addressed immediately, while the other campuses considered the issue to be less urgent in nature. We, the minority, believe that parity should be addressed immediately with or without "new" funds.

The "hold harmless" methodology, which guaranteed that individual institutions did not receive less funds than they received in the previous year, has been used since fiscal year 1991-1992 and has resulted in a significant loss of funds by institutions experiencing growth. In its June 2001 report, *A Review of the Higher Education Performance Funding Process*, the Legislative Audit Council (LAC) noted that "the institutions did not start on a level playing field" in fiscal year 1997-1998 when funding was required by Act 359 of 1996 to be based on performance. The report noted that: "The technical colleges and others with high growth in enrollment were funded at a lower percentage of need...than institutions with stable or declining enrollment." LAC's follow-up report issued in February 2003 cited the absence of a "change in the disparity of funding according to need."

Section 59-53-30 of the 1976 South Carolina Code of Laws requires that "institutions of the South Carolina Technical Education System shall maintain open admissions policies unless determined to be economically unfeasible by the Budget and Control Board and establish and maintain low tuition and fees..." In fiscal year 2001-2002, 46% of students enrolled in State higher education institutions attended technical colleges and, with implementation of the lottery tuition assistance program, enrollment at technical colleges is expected to continue to grow. Absent parity in funding, this growth will contribute to an even greater lag in State funding for the technical college sector. The lack of parity coupled with overall reductions in state funding has forced the South Carolina Technical College System to increase tuition and fees from an average of \$642 in Fall 2000 to an average of \$1,117 in Spring 2003, an increase of approximately 74% in three years. Each year that the level of State funding is not equal, the colleges below the average funded level are subsidizing those that are above the average. Rectification of this inequity in State funding is long overdue, and progress should begin immediately.

Respectfully submitted,

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