Formula Background
Formula Background

- Most States Use a Formula to Fund Higher Education
  - Approximately two-thirds of states
  - Most formulas based on student enrollment (headcount or credit hours attempted)
- Appropriation Formula Only
  - Method for calculating Teaching Program funding
  - Lump sum provision of Constitution
- Not Used as Allocation Formula
Formula Advantages/Disadvantages

● Advantages
  – Provides a stable/predictable source of funding
  – Maintains affordability and access (stable tuition)
  – State/student cost-sharing partnership
  – Reduce political considerations from funding decisions

● Disadvantages
  – May be viewed as an entitlement
  – Reduced budgetary control for appropriators
  – Does not give weight to certain outcomes or performance
  – Some states have suspended formula funding due to the economic downturn
Current Formula History

- System has been formula-funded since 1963
- Current “Formula for Excellence” in place since 1982
- Formula serves as agreement between the University System, the Governor, the House, and Senate
- Enrollment growth recognized and funded – either wholly or partially - until FY 2012
- FY 2013 Formula
  - $3.7 billion in total earnings
  - $2.8 billion of state funds ($1.14 billion austerity reductions)
- Based on 1982 Expenditure Patterns
- Formula Revision Efforts
  - 1989-90: University System Internal Review
  - 2002: Conversion from quarter to semester hours
Current Formula Overview
Formula Components
($3.7 Billion Total Funds)

- Direct Instruction (Classroom) – 35.5%
- Research – 8.7%
- Academic and Institutional Support – 20.2%
- Fringe Benefits – 22.5%
- Physical Plant and Utilities – 10.3%
- Major Repairs and Rehabilitation – G.O. Bonds
- Public Service/Continuing Education – 1.1%
- Technology – 1.7%
Direct “Classroom” Instruction

- Calculation based on Semester Credit Hours (originally quarter credit hours)
- Two-year funding delay (Use Actual Credit Hour Data)
- Hours Categorized Into Five Groups
  - 1: Law, Letters, Library Science, Psychology, Social Science
  - 2: Area Studies, Business, Communications, Education…
  - 3: Architecture, Engineering, Health Professions…
  - 4: Remedial Programs (Lowest Cost)
  - 5: Medicine, Dentistry, Veterinary Medicine (Highest Cost)
- Hours Further Categorized By Class Level
  - Lower (Freshmen/Sophomore)
  - Upper (Junior/Senior)
  - Graduate
Credit Hours to Earnings

1. Use enrollment/credit hours to determine number of faculty positions needed by each institution
2. Multiply number of positions needed by target faculty salary
### USG Formula Instruction Earnings

#### Classroom Instruction - Earnings Per Semester Hour

<table>
<thead>
<tr>
<th>Group</th>
<th>Lower</th>
<th>Upper</th>
<th>Graduate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group 1</td>
<td>$96.04</td>
<td>$130.72</td>
<td>$290.66</td>
</tr>
<tr>
<td>Group 2</td>
<td>$112.11</td>
<td>$126.58</td>
<td>$196.76</td>
</tr>
<tr>
<td>Group 3</td>
<td>$158.01</td>
<td>$190.62</td>
<td>$414.15</td>
</tr>
<tr>
<td>Group 4</td>
<td>$46.78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group 5</td>
<td></td>
<td></td>
<td>$713.39</td>
</tr>
</tbody>
</table>
Research Funding

- Formula provides an amount equal to Graduate Academic Salaries (1982 proxy for actual research expenditures)
- Includes expenditures for activities specifically organized for research
- Funds are used to leverage other matching funds (sponsored research)
- FY 2013 Formula Research = $321 Million
Academic and Institutional Support

- Calculated as a percentage of Direct Instruction PLUS Research (a.k.a. – Formula Base)
- Current Formula = 18.9% for Academic Support and 26.9% for Institutional Support
- Academic Support includes libraries, computing support, and academic administration
- Student Services and Institutional Support includes admissions, registrar, counseling, executive management, fiscal operations, logistical services and community relations
Fringe Benefits

- Funding for fringe benefits to University System employees ($825 million total):
  - Health Insurance ($456 million)
  - Retirement ($180 million)
  - FICA ($159 million)
  - Life Insurance ($6 million)
  - Liability, Unemployment and Workers’ Compensation ($24 million)

- University System maintains health and life insurance plans for active and retired employees

- TRS and Optional Retirement Plan
Physical Plant and Utilities

- Calculations based on square footage (51,774,279 square feet of instructional space)
- Provides funds for services and maintenance to grounds and facilities ($5.18 per square foot)
- Funding for all utilities ($2.14 square foot)
- Rates per square foot have remained relatively constant over time (few adjustments for inflation)
- Square footage increases with new construction
- GBA Rental Rate for State Agencies = $10.13 sq. foot
Major Repairs and Rehabilitation

- Provides funding to protect the state’s capital investment
- Calculated as a percentage of replacement (insured) value of buildings (Over $7.1 Billion)
- Original formula 0.75% of replacement value
- Current formula 1.0% of replacement value
- MRR total = 1.0% of $7.1 billion = $71 million
- Currently bond funded; previously cash
- Industry data suggest MRR funding as much as 3.0% of replacement value
- Various alternative funding methods to include age of facilities
Technology

- Provides funding for computers, software and replacement of equipment
- Calculated as 1.7% of the formula subtotal
- Not part of original formula – replaced “Quality Improvement”
- Technology emerging in 1982
- Lottery funding briefly used for computers and equipment
- Obsolete equipment
Tuition

- Formula funding is a partnership between the state and students
- State share = 75% of formula total
- Tuition = 25% of formula total
- Budget reductions have reduced state support and altered the tuition share percentage (i.e., tuition now pays more of the total cost)
- Relationship Now Closer to 50% - 50% due to state reductions and increases in tuition
75% during 1990’s

Dropped to mid 50’s after first round of cuts after 9/11

Dropped to mid 60’s after first round of cuts after 9/11
Formula Issues

- Outdated
- Reflects 1982 Expenditure Patterns
- Model No Longer Reflects Reality
- Economies of Scale
- Enrollment/Square Footage Driven
- Performance Not Considered
- Formula No Longer Serves As Agreement
Performance Funding
Performance Funding in Higher Education

- Performance funding dates back more than 30 years
- Approximately one-third of states with a funding formula base some portion of funding on performance
- Inconsistency over time: some states that adopted performance funding discontinued the practice
- States typically allocate only a small portion of funding for performance - “Bonus Fund” approach
- Different measures of performance used across states
- More complicated than straight enrollment funding
- No one state has “mastered” performance funding
Performance Funding in Higher Education

- Increased interest in recent years to modify funding formulas to reward “performance”
  - 19 states have recently enacted new performance funding formulas or created commissions to review formulas
  - Focus on increasing percentage of formula dedicated to performance funding

- Reasons for change:
  - Pressure to show public dollars are being well spent (accountability)
  - Need for more highly-trained workers in states
  - Economic downturn forcing states to look for efficiencies
  - Shift from funding college costs to college success
Performance Funding Measures

● Common metrics:
  - Number and percentage of course completions
  - Graduation rates or degrees completed
  - Retention and progression rates

● Less common metrics:
  - Research funding or number of licenses/patents
  - SAT/ACT scores, HS GPA of incoming class
  - Pass rates on professional licensure exams
  - Results from student/faculty opinion surveys
  - Success of low-income and/or adult students
  - Graduate job placement
  - Student performance on learning assessments
Complete College Georgia

- Complete College America
  - National non-profit founded in 2009
  - Focus on increasing college completion
  - Funded by Lumina, Gates Foundation and others
- Georgia Awarded CCA Grant of $1 Million
- Complete College Georgia Plans
- Completion Plans Likely to be Centerpiece of Formula Revision
### Table: Enrollment and Graduation Rates

<table>
<thead>
<tr>
<th></th>
<th>2-Year Public College</th>
<th>4-Year Public College</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full-Time</td>
<td>Part-Time</td>
</tr>
<tr>
<td>Enroll</td>
<td>37</td>
<td>17</td>
</tr>
<tr>
<td>Return as sophomores</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td>Graduate on time</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>(100% time)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional graduates</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>150% time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200% time</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Total graduates</td>
<td>9</td>
<td>2</td>
</tr>
</tbody>
</table>

- **Graduate in 4 years:** 11
- **Graduate in 8 years:** 28

*From Complete College AMERICA, Time is the Enemy Report, GA Profile, 2011*
### Other States and Performance Funding

- Arkansas
- California
- Colorado
- Connecticut
- Florida
- Idaho
- Illinois
- Kansas
- Louisiana
- Missouri
- New Jersey
- New York
- Ohio
- Oregon
- Pennsylvania
- South Carolina
- South Dakota
- Tennessee
- Texas
Tennessee Experience

- TN had a long-running performance funding program (small percentage of total allotment) with numerous metrics.
- In 2010, TN’s Governor and legislature wanted to emphasize completion so made the ENTIRE funding formula outcomes-based rather than enrollment-based.
- Outcomes are on a range of variables weighted by institutional mission.
- Incentives to graduate low-income and adult students.
- Hold harmless provision for the first few years of implementation to ease the transition.
## Tennessee Outcomes Model Summary

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Data</th>
<th>Scaled Data</th>
<th>Weight</th>
<th>Weighted Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students Accumulating 24 hrs (Scale=1)</td>
<td>4,477</td>
<td>4,477</td>
<td>2%</td>
<td>90</td>
</tr>
<tr>
<td>Students Accumulating 48 hrs (Scale=1)</td>
<td>4,671</td>
<td>4,671</td>
<td>3%</td>
<td>140</td>
</tr>
<tr>
<td>Students Accumulating 72 hrs (Scale=1)</td>
<td>4,673</td>
<td>4,673</td>
<td>5%</td>
<td>234</td>
</tr>
<tr>
<td>Bachelors and Associates (Scale=1)</td>
<td>3,742</td>
<td>3,742</td>
<td>15%</td>
<td>561</td>
</tr>
<tr>
<td>Masters/Ed Specialist Degrees (Scale=0.3)</td>
<td>1,534</td>
<td>5,112</td>
<td>15%</td>
<td>767</td>
</tr>
<tr>
<td>Doctoral / Law Degrees (Scale=.05)</td>
<td>403</td>
<td>8,053</td>
<td>10%</td>
<td>805</td>
</tr>
<tr>
<td>Research and Service (Scale=20,000)</td>
<td>$118.8M</td>
<td>5,938</td>
<td>15%</td>
<td>891</td>
</tr>
<tr>
<td>Transfers Out with 12 hrs (Scale=1)</td>
<td>794</td>
<td>794</td>
<td>5%</td>
<td>40</td>
</tr>
<tr>
<td>Degrees per 100 FTE (Scale=.02)</td>
<td>17</td>
<td>831</td>
<td>10%</td>
<td>83</td>
</tr>
<tr>
<td>Six-Year Graduation Rate (Scale=.04)</td>
<td>64%</td>
<td>1,612</td>
<td>20%</td>
<td>322</td>
</tr>
<tr>
<td>Total</td>
<td>3,933</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Total Weighted Outcomes

<table>
<thead>
<tr>
<th>Total Weighted Outcomes</th>
<th>Avg SREB Salary</th>
<th>Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,933</td>
<td>x</td>
<td>89,643</td>
</tr>
</tbody>
</table>

### For Illustration Purposes Only

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>M&amp;O, Utilities</td>
<td>+</td>
</tr>
<tr>
<td>Equipment</td>
<td>+</td>
</tr>
<tr>
<td>Performance Funding</td>
<td>+</td>
</tr>
</tbody>
</table>

**Grand Total Calculation** 466,562,424
Next Steps
Higher Education Funding Commission

- Created by Executive Order
- Objective: Improve Higher Education Outcomes
- Enhance Economic Development – Educated Workforce
- Review Funding for USG and TCSG
- Includes the following:
  - University System/Technical College System of GA
  - Governor, House and Senate
  - Business Community
- Final Report Due – December 1, 2012
- Fiscal Year 2015 Budget
Commission Scope of Work

- Link funding to performance
- Evaluate and update formula components retained as part of an enrollment-based formula
  - Salaries
  - Fringe Benefits and OPEB?
  - Plant Operations/Utilities
  - Major Repairs and Rehabilitation
- Include any new components and other changes as necessary
- Review tuition policy
Considerations for USG Institutions

- How will performance be measured?
  - Performance of System or Individual Institutions?
  - Performance measure differences by sector?
  - Performance based on “levels” or “gains”?
  - Weighting of performance measures?
- What percentage of funding will be based on performance?
  - Institutions competing for a fixed amount?
  - Will potential earnings be without limit?
- Will there be a phase-in or hold-harmless period?
- Will a new formula drive allocations?
- Need for timely and reliable Data!
- Funding Games??
  - Maximization of earnings
  - Performance funding and budget reductions
University System of Georgia
Funding Formula Overview

November 2011