



University System of Georgia Funding Formula Overview

November 2011



Formula Background

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- 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

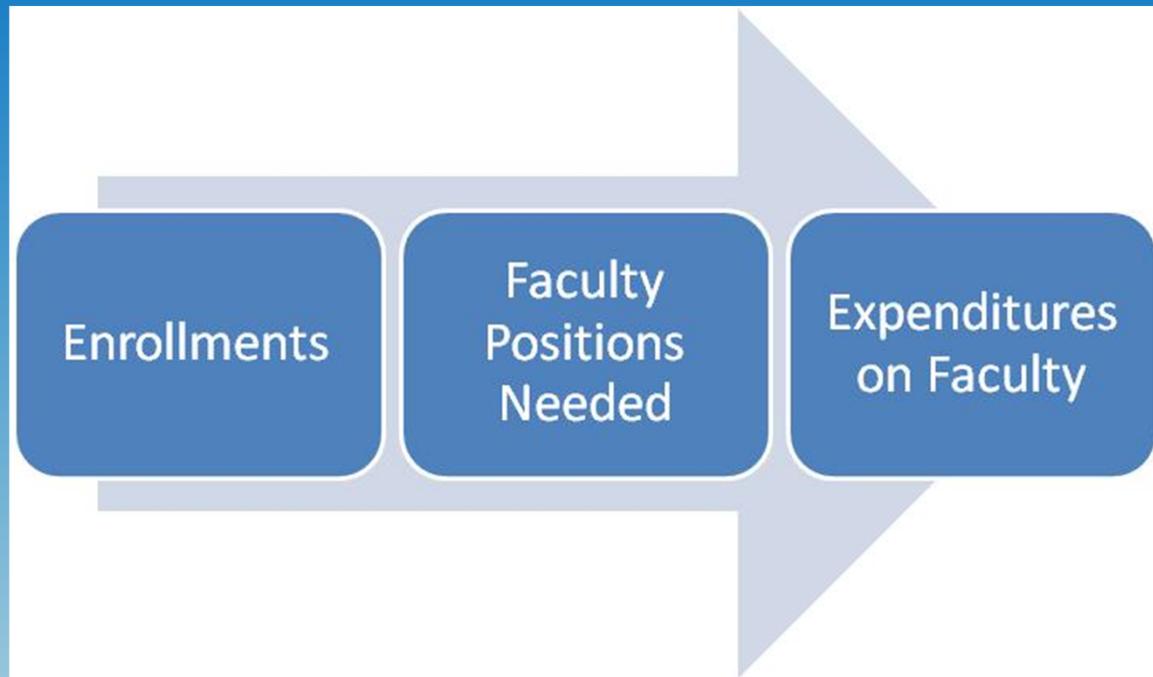
(\$3.7 Billion Total Funds)

- 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			
	Lower	Upper	Graduate
Group 1	\$96.04	\$130.72	\$290.66
Group 2	\$112.11	\$126.58	\$196.76
Group 3	\$158.01	\$190.62	\$414.15
Group 4	\$46.78		
Group 5			\$713.39

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

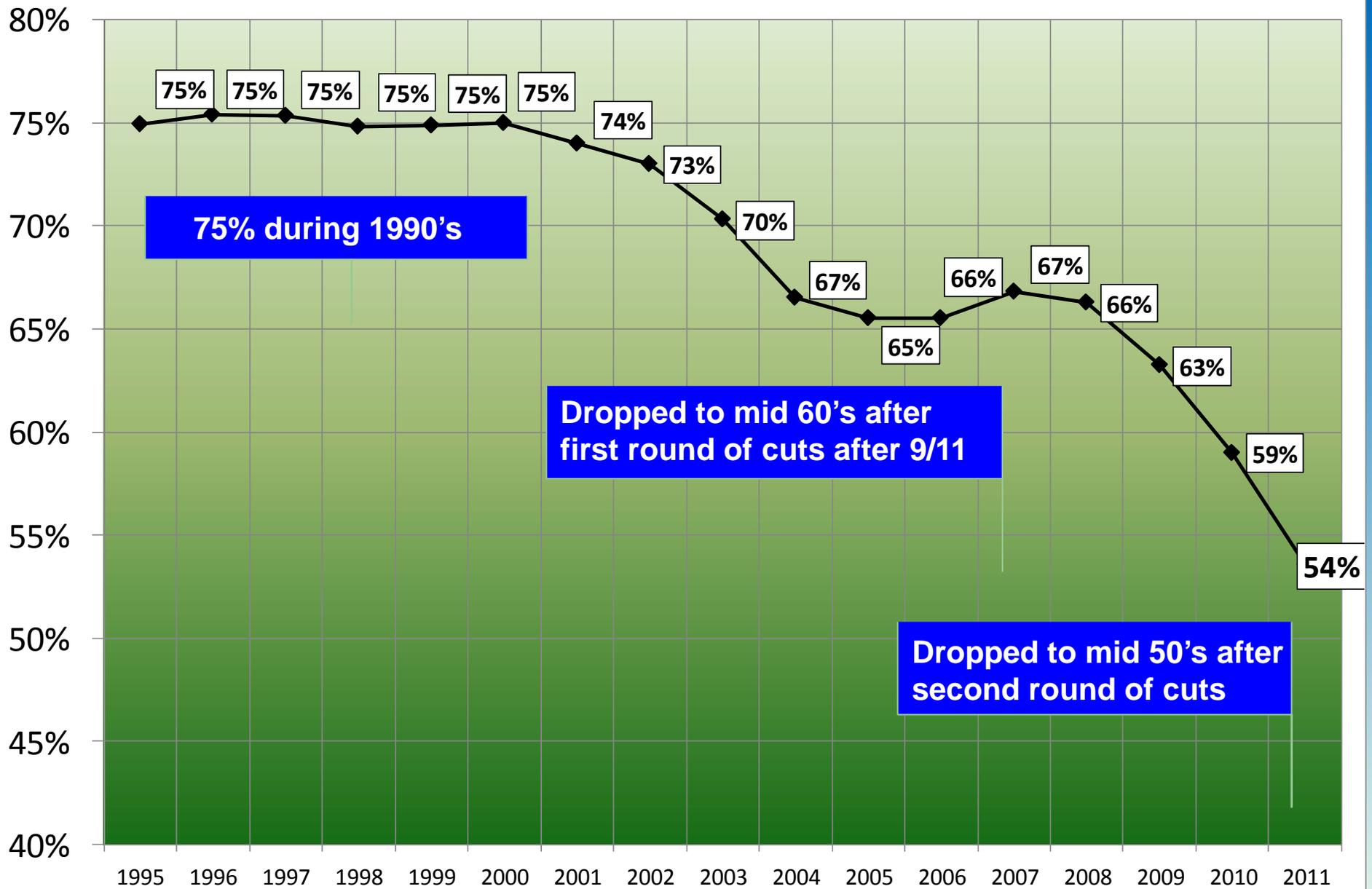
- Provides funding to protect the state's capital investment
- Calculated as a percentage of replacement (insured) value of buildings (Over \$7.1 Billion)
- Original formula 0.75% of replacement value
- Current formula 1.0% of replacement value
- MRR total = 1.0% of \$7.1 billion = \$71 million
- Currently 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



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

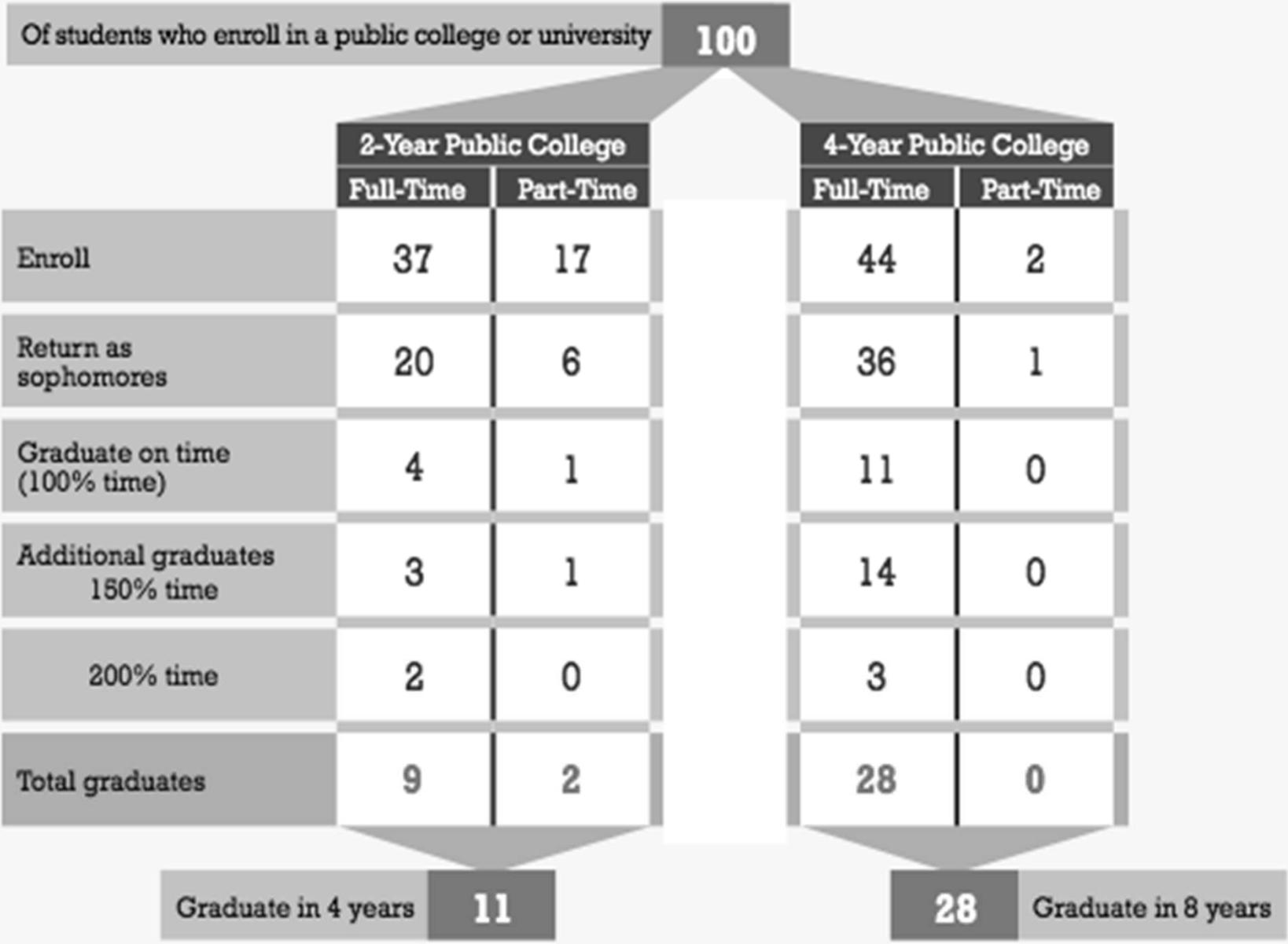
- Increased interest in recent years to modify funding formulas to reward “performance”
 - 19 states have recently enacted new performance funding formulas or created commissions to review formulas
 - Focus on increasing percentage of formula dedicated to performance funding
- Reasons for change:
 -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



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

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

Total Weighted Outcomes		Avg SREB Salary		Subtotal
3,933	x	89,643	=	352,557,624

For Illustration
Purposes Only

M&O, Utilities	+	74,135,800
Equipment	+	17,876,600
Performance Funding	+	21,992,400

Grand Total Calculation	466,562,424
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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



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