



STATE COLLEGE BOARD OF TRUSTEES

COLLEGE OF CHARLESTON • FRANCIS MARION COLLEGE • LANDER COLLEGE

February 17, 1976.

TO: Members of the Commission on Higher Education

FROM: F. Mitchell Johnson

SUBJECT: Appropriation Formula - Improvements for 1977-1978

The following observations are respectfully offered as a result of a request made by Dr. Boozer in a memorandum to the Commission members and others for assistance in continuing the refinement of the Formula.

In order to achieve any worthwhile refinements in the Formula for 1977-1978, it is necessary that each and every member of the CHE (regardless of the future composition of the members) has a clear and uniform understanding of the role of the Commission in relation to the Budget and Control Board and the General Assembly in regards to higher education.

Secondly, we must understand the singular purpose of the Formula in its relation to the role of the CHE and the various public supported universities and colleges.

The CHE has never been designated by the General Assembly as their advisory agency to determine how much money is to be spent on higher education in South Carolina. In respect to money, the role of the CHE is solely to recommend an "equitable sharing of the state tax-payer support for South Carolina public colleges and universities."

Steps 1 through 11, with the proper professional supervision, are largely mechanical. Wisely realizing that all institutions in each fiscal year cannot be measured by an identical yardstick, the Commission created Step 12 in order to adjust for any inequalities. Astutely used, Step 12 may correct certain inequities that result from the uniformity of Steps 1 through 11, and accomplish the sole mission of the CHE in regard to money matters.

Remember, if the CHE should be consistent throughout the budget process, the dollar amounts recommended by the CHE for each institution are only important ultimately as they can be used to determine the percentage of the amount actually allocated to higher education by the General Assembly. Once the total recommended dollars have been

arrived at, and the Commission is convinced that the total amount and the sub-totals designated to each institution provides a fair percentage to each institution, the singular role of the CHE regarding money matters has been accomplished, and that phase of our mission is completed. We, having established a total allocation made up of individual institutional budgets, can determine for each institution its fair percentage of the total, and can then apply these percentages to the allocation of the General Assembly. The total dollars allocated will undoubtedly not match our total recommendations, but as long as we steadfastly maintain the percentages, we will provide a fair and equitable distribution of the funds allocated for higher education.

Yielding to pleas from one or another quarter for special treatment we have failed in each year of "Formula Funding" to courageously hold to this position and, therefore, have never achieved the equity for which formula funding is so highly touted. Repeatedly attempting to place the failure to fund by formula funding on other agencies of government has resulted in a loss of prestige in the General Assembly, the Budget and Control Board, and the Governor's Office.

The most perfect formula is a worthless piece of paper if the determination to implement it is wanting.

The second consideration in this memorandum is the formula itself. The building blocks of the formula are the credit hours, and the foundation is the resultant FTE's. Dollars are only yardsticks of measurement. Furthermore, the formula is a projection. Unless these basic principals are understood and incorporated in the decision-making process, the formula will be destroyed by our own hands.

Let us candidly review our record for fairness in the past two years. That is, our determination to carry out our assigned role and our fairness in recommending an equitable distribution of the allocated funds.

1974-1975 FORMULA YEAR

This is the year that Dr. Boozer referred to in his memorandum of February 5, 1976 in which he stated, in part, "Despite the General Assembly's temporary departure from the formula in 1975, because of 'emergency economic conditions', and the obvious difficulties of returning to the formula in 1976, if no additional funds should materialize..."

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Dr. Boozer has mistakenly taken the position that unless the sums requested by the CHE are funded 100% by the General Assembly, formula funding is automatically discarded. Dr. Boozer seems to relate this formula to dollars rather than to the percentages of the total higher education appropriation for which each institution would be eligible if strict adherence to the formula occurred.

In regard to the application of the formula in 1974-1975, the CHE ignored legitimate requests from some institutions while approving identical requests from others.

Finally, mired down in the "dollar theory", the CHE used as a base the dollars allocated in the previous year, ignoring the fact that the formula is a projection. This was a total departure from the formula concept, and the initial presentation to the Budget and Control Board resulted in errors in excess of \$3,000,000.

The first presentation to the Budget and Control Board, with only one dissenting vote on the Commission, recommended an increase of \$656 (33.0%) for every FTE at Clemson, \$605 (30.7%) at Carolina, and only \$123 (6.8%) for Francis Marion, and \$18 (1.0%) for the College of Charleston.

Is it any wonder the Budget and Control Board ignored that distorted formula presentation?

As a result of that fiasco, an ad hoc committee was appointed to assist the Budget Committee in clarifying disputed items in the formula. Together they did an excellent job.

1976-1977 FORMULA YEAR

Open sessions of committee meetings called to discuss the financial affairs of individual institutions were pledged and were initially adhered to. The initial request by the institutions displayed a greater sense of responsibility, and the Budget Committee under the determined direction of Hugh Chapman produced for the first time "a fair and equitable percentage distribution between the institutions". This is the assigned task of the CHE and initially we did it well. We appeared to have the courage to "stick to our guns" and to the principals of the Formula. Our assigned task at that moment was essentially completed. Further deliberations should have been mechanical. That is, apply the same percentages agreed upon to the total dollar amount recommended by the Budget and Control Board. The integrity of "Formula Funding" would have been preserved.

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We have every right to request trustees and administrators to eliminate the frills in higher education, but I believe that we were morally wrong in promoting the idea of restricting enrollment of qualified students. The economic and social well being of the people of South Carolina will be damaged by that course of action. It is unthinkable that such a course of action is encouraged by a commission on higher education in a state that ranks 49th in post-high school attendance.

Upon securing the recommended allocation from the Budget and Control Board, we again reverted to a previous year to determine our dollar allocations, and the distortions were of serious magnitude.

Members of the Budget Committee of the Commission should understand and not resent the request of ex-officio members to be present when meaningful financial decisions are being considered that seriously concern the institutions for which they are responsible. To receive only the recommendations of the financial staff of the Commission will unquestionably result in hostility between the Commission and the colleges and universities. Consider for a moment our trustees' actions in the development of the annual budget for each of the three institutions under our governance. The Planning and Development Committee meets at least once, and sometimes twice in daily sessions to review every item in the budget of each institution. Each institution's presentation is made to an inquiring and informed Budget Committee. Finally, an entire Board of Trustees meeting is devoted to its review and approval. We know our business and take it seriously.

When the Budget Committee of the Commission meets for an unannounced session for about twenty to thirty minutes, and recommends alterations involving millions of dollars with no inquiries of the ex-officio members, is it any wonder that this institutional representative considers such actions as inimical to the welfare of our entire system of public higher education?

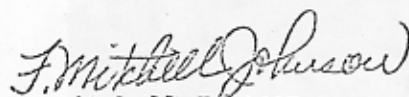
I am sure that there will be wide-spread disagreement with the frank contents of this memorandum but it has been written by a concerned member in the hope that every member will give serious thought to the financial mission of the Commission. Perhaps we should give careful consideration to the purpose of formula budgeting and, after agreeing on the purpose of this procedure, draft a set of rules to be followed scrupulously in the implementation of our formula budgeting duties. What criteria exists for the acceptance of an item in Steps 12 and 13? What grounds constitute adequate reason for special treatment of an institution? Surely the CHE can formulate statements which can be used as sound guidelines for future decisions.

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In regard to the Formula itself, I think that Step 7A -- Operation and Maintenance of Physical Plant is not in character with the rest of the Formula.

In the first place, it uses a basis of three previous years of actual expenditures with adjustments. This results in a money determination in the Formula Year under consideration based on expenditures as early as four years previous. The other alternative relates directly to FTE's. I think in the case of Plant Maintenance, a direct relationship with FTE's produces inequalities. Persons taking one non-credit courses have to be housed just as much as a student in graduate school.

I do not have a positive approach except that the staff should communicate with knowledgeable members of the larger CPA firms in South Carolina for constructive suggestions. Alex Quattlebaum suggested in the past that a survey be made of each and every building. While this may initially be tedious and expensive, it may produce a more realistic approach to our problem. Once the condition and needs of each building are cataloged, annual investigative costs should be relatively small.


F. Mitchell Johnson

FMJ/eaw

cc: Larry A. Jackson, President
Walter Douglas Smith, President
Theodore S. Stern, President
James A. Rogers, Chairman Emeritus