

## Methods of Funding Higher Education Institutions

- Most states use a formula methodology to calculate the operating funds needed by public colleges and universities.
- Benefits of using a formula are that it
  1. develops a more rational and equitable approach to funding higher education;
  2. ties funding to need;
  3. encourages a more stable resource allocation; and,
  3. provides an analytical foundation for advocating higher education funding.
- Most formulas include components for calculating the costs of instruction, support services, and physical plant.
- A number of states also use formulas which deduct a portion of student fee revenues.
- Formulas like SC's Mission Resource Requirement (MRR) are used by several states. For example, Massachusetts, Georgia, Alabama, Texas, and Kentucky use formula calculations very similar to ours.
- Even California isn't too different. California targets enrollment growth for funding, based on population counts. It uses an "economy of scale" model that begins with the "fixed costs" which may change very little as the number of students increase. A "marginal cost methodology" is developed to determine how much additional funding each new FTE generates based on student/faculty ratios, education level and type of instruction. Additional funds are provided for new program areas. A portion of student fees are subtracted from the calculated costs.

- All of the states reviewed used methodologies with components for generating funds for instruction, academic and institutional support, student services, physical plant and most require a deduction of a portion of tuition and fee revenues.
- Some states calculate recommendations every year, while others calculate recommendations every two years.
- Some calculations are used to recommend an initial “base” amount with additional funds added as needed for inflation, new programs, and enrollment growth.
- Others are used to generate an amount per FTE.
- All are based on methodologies which include the basic needs categories and provisions for growth and incentive funding.
- SC has used a funding formula since the mid-1970s.
- The formula has been reviewed and updated several times.
- Our current formula, the MRR, has been evaluated by a national consulting firm and found to be an appropriate, fair, and reasonable way to calculate funding recommendations for public colleges and universities.