

Consideration of Higher Education Allocation Methodology For Fiscal Year 2004-05

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 fiscal year 2004-05 MRR was reviewed and adopted in the fall of 2003. MRR issues for consideration during future years involve the review of student/faculty ratios, and developing new methods for estimating needs for two components where cost factor data is no longer available.

The Commission staff and the Funding Advisory Committee have reviewed the allocation methodology for the 2004-05 fiscal year. The primary considerations during this year's review were the budgetary constraints of the state and the need for fiscal stability for institutions. At this time, it is clear that higher education will not be receiving any funding increases for operating funds, but rather will be facing further budgetary reductions. The question of addressing parity within higher education was also discussed. The majority of the Committee agreed that the Commission's existing position of addressing parity with future funding increases is the most prudent course of action. There was some concern expressed that there are different levels of funding across sectors of institutions, and that the issue must be addressed at some point.

After thorough discussion, the Funding Advisory Committee voted 14 to 4 to reaffirm the Commission's existing allocation methodology, which provides for all institutions receiving a Performance Funding score of at least "Achieves" to participate in a "pro rata" reduction process. Institutions receiving a lower score would first have their appropriations reduced by the established penalty amount, and would then be subject to further reductions in a pro-rata manner.

Recommendation:

The Commission staff, with the concurrence of the Funding Advisory Committee, 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 Commission, 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. (e.g. 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.