

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Finance and Facilities Committee

Date of Meeting: April 16, 2013

Agenda Item: Allocation Framework 101

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
 Information

Cite policy requirement, or explain why item is on the Board agenda:

At the November 2012 board meeting, the Board of Trustees was provided an overview of the system's finances. As a follow-up to that presentation, the board requested additional information on the current methodology used to allocate state appropriations to the colleges and universities; this methodology is commonly referred to as the allocation framework.

Scheduled Presenter(s): Laura M. King, Vice Chancellor – CFO

Deborah Bednarz, Director, Financial Planning and Analysis

Outline of Key Points/Policy Issues:

This presentation is intended to provide more detailed information on the allocation framework as well as the changing financial context in which the framework operates.

Background Information:

The Minnesota legislature appropriates funding to the Board of Trustees of the Minnesota State Colleges and Universities for its operations. With limited exception, the legislature does not prescribe the use of these dollars or how the funds are distributed to each college and university. That authority is vested in the Board of Trustees. The allocation of state appropriation concerns 29 percent of system revenues. The remaining 71 percent of system revenue is earned and retained on college and university balance sheets and income statements. These other revenues are not related to the allocation framework.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

ACTION ITEM
Allocation Framework 101

INTRODUCTION

At its November 2012 board meeting, the Board of Trustees was provided an overview of the system’s finances. As a follow-up to that presentation, the board requested additional information on the current methodology used to allocate state appropriations to the colleges and universities; this methodology is commonly referred to as the “allocation framework.” This agenda item is intended to provide more detailed information on the allocation framework as well as the changing financial context in which the allocation framework operates.

BACKGROUND

The Minnesota legislature appropriates funding to the Board of Trustees of the Minnesota State Colleges and Universities for its operations. With limited exception, the legislature does not prescribe the use of these dollars or how the funds are distributed to each college and university. That authority is vested in the Board of Trustees.

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OVERVIEW OF COSTS AND REVENUES

<u>Revenue</u>	<u>FY 2012 Audited Financial Statements</u>
State Appropriation	\$ 545 million
Tuition and Fees (net of financial aid)	\$ 606 million
Restricted Payments (Revenue Fund) (net)	\$ 108 million
Sales (net)	\$ 118 million
Other (Non-Financial Aid Grants, Interest Income)	\$ 113 million
Financial Aid	<u>\$ 389 million</u>
 Total Revenue	 \$1,879 million

Revenue Trends

- State support represents 29 percent of the system's total revenues in 2012, a decline from 40 percent in 2000.
- State support now represents 40 percent of the combined appropriation and tuition revenues, a decline from 67 percent in 2000.
- Tuition revenue (including financial aid applied to tuition) has more than tripled since 2000, increasing from \$265 million to \$822 million. Tuition revenue now represents 60 percent of the combined appropriation and tuition revenues in 2012.
- Federal and state financial aid is 37 percent of total tuition revenue in 2012, an increase from 26 percent in 2006.
- The system's total revenues increased from \$1.365 billion in 2000, to \$1.879 billion in 2012, an increase of 38 percent. The general fund revenue increased more rapidly, growing 71 percent from \$905 million in 2000 to \$1.548 billion in 2012.

Allocation of Revenues and Costs

- *Revenues that reside with colleges and universities:* Tuition and fee revenue, auxiliary income, grants, private gifts, and other operating revenues remain with the college or university that generated the revenue.
- *Revenues that are distributed to colleges and universities:* Priority allocations directed by the Board of Trustees provide state resources to colleges and universities to advance system priorities such as Centers of Excellence and Access and Opportunity funds. State resources are also distributed to colleges and universities via the allocation framework for academic support, facilities, administration, libraries, research, and public service.
- *Costs that reside on college and university campuses:* Colleges and universities are responsible for local operating costs such as employee compensation, utilities, repair and replacement, etc. In this manner, approximately 95 percent of the system's annual expenses are incurred and paid at the campus level.

ALLOCATION OF STATE SUPPORT

After several years of systemwide involvement in analytical studies, the Board of Trustees approved the current allocation framework for implementation beginning in 2002. State appropriations have been allocated to colleges and universities using an allocation methodology commonly referred to as the allocation framework which was fully implemented in 2006. This comprehensive, multi-component formula is built around the primary functional areas in higher education, including instruction, academic support, student support, institutional support, libraries, research, and physical plant.

In addition, the allocation framework incorporates a number of factors to determine a college or university's share of the state appropriation. These factors include enrollment, the cost of delivering different types of academic programs, and national peer comparison data.

<u>Total State Resources (FY2013 in millions)</u>	\$547.8
Interest on cash balances → allocated to C&U based on their cash balances	\$ 2.0
Learning network (pass-through: MnSCU is the fiscal agent)	\$ 4.1
System office	<u>\$ 33.1</u>
Net:	\$508.6
 Institutional Priority Allocations (e.g. Access and Opportunity) → allocated to colleges and universities	 \$ 16.6
 Systemwide Set Asides (e.g. Attorney General; system-level debt service; enterprise technology; leadership transition; system audit program; PALS) → allocated to support systemwide needs	 <u>\$ 43.0</u>
 Net:	 \$449.0

**Amount allocated to colleges and universities through the allocation framework:
\$449.0 million**

ALLOCATION FRAMEWORK

Overall Mechanics

1. *Revenue buydown*: All calculations are based on expenses attributed only to state appropriation rather than on all revenues (i.e. tuition, state appropriation, auxiliary income, etc.)
2. *Three-year average*: The annual data for instruction/academic support and administrative support are averaged with the two prior year's data.
3. *50:50*: Fifty percent of the allocation is based on the results of the allocation framework for the current year; fifty percent is based on the results of the allocation for the previous year.

Components (Data for FY13)

1. *Instruction/Academic Support (\$248.4 million; 56.3 percent)*: Allocates state appropriation based on the inherent cost of instruction and academic expenses (e.g. engineering courses cost more than philosophy courses) per FYE for each program (level specific) adjusted for the cost efficiency of the program relative to efficiency of other like programs within the system. Programs that are at least ten percent more cost efficient than the average get an increase in their allocation; programs that are at least ten percent less cost efficient than the average get a decrease in their allocation.

2. *Student Support Services & Institutional Support (\$133 million; 30.2 percent)*: Base allocation to each college and university based on their Carnegie classification plus a variable allocation based on student FYE. Institutions with multiple campuses receive an adjustment. (12 percent of the funds allocated by this component are in the base allocation; 88 percent are in the variable allocation.)
3. *Facilities (\$33.1 million; 7.5 percent)*: Allocation based on gross square feet to cover maintenance and operation, repair and replacement. Other smaller allocations for utilities, steam plant factor, leases for instructional purposes, multiple campuses, and residential living.
4. *Library (\$18.7 million; 4.3 percent)*: Based on total operating costs from instructional/academic support, administrative, and facilities components of the allocation framework with universities allocated 1.7 times the allocation of colleges.
5. *Research and Public Service (\$7.7 million; 1.7 percent)*: Based on total operating costs from instructional/academic support, administrative, facilities, and library components of the allocation framework with universities allocated 2.2 times the allocation of colleges.

OBSERVATIONS ABOUT THE ALLOCATION FRAMEWORK

General observations

The allocation framework, while relatively complex in function, provides local flexibility in how the resources are allocated. It operates alongside policy, which provides that all tuition revenue remains at the college/university where the tuition revenue was earned; it is not redistributed through the allocation framework. Likewise, all customized training, grants, gifts, auxiliary services, etc. revenues remain at the college/university where the revenue was earned; it is not redistributed through the allocation framework.

The allocation framework was developed in FY2000-2001; partial implementation began in FY2002 and full implementation in FY2006. The development and implementation of the model involved the work of several working groups which included stakeholders from across the system. In FY2000, 40 percent of the total revenue for colleges and universities ran through the allocation framework. In FY2012, as a result of the decline in state support and the rise in tuition, only 29 percent of the total for the colleges and universities ran through the allocation framework.

The proportion of the non-system office state support that has been allocated via the allocation framework has remained fairly constant over time at 93 percent. The proportion of funds allocated by each of the five formula driven components of the allocation framework has remained fairly constant over the past eight years with the exception of a two percent drop in the allocation for facilities and a two percent increase in the allocation for administrative and student services.

Elasticity of the allocation framework

The details of the allocation framework were designed to honor the historic allocations of state support that were in place when the system was formed, the allocation framework responds to:

- changes in *enrollment* (relative to other colleges and universities);
- changes in the *program mix* that affect changes in the cost of instruction (relative to other colleges and universities);
- changes the *cost efficiency of the courses* (relative to other colleges and universities);
- changes in *GSF* (relative to other colleges and universities).

Changes in *underrepresented* populations (relative to other colleges and universities) affect the allocation of funds for the “serving the underrepresented” institutional priority. The design of the allocation framework supports stability, predictability, and modest redistribution of resources. The institutional support component provides a base allocation to every college and university regardless of fluctuations in enrollment as well as a variable allocation that responds to changes in enrollment. Most of the data used in the allocation framework are lagged by two years. The annual data for instruction/academic support and institutional support are averaged with the data used for the two prior years. Fifty percent of the allocation is based on the results of the allocation framework for the current year; fifty percent is based on the results of the allocation for the previous year.

The two year lag in the data, the three year averaging, and the 50:50 rule protect against short-term fluctuations in the data and increase allocation predictability from year to year; it slows the reallocation towards growing and/or more cost efficient schools and away from shrinking and/or less efficient schools. The allocation framework is neutral with respect to the opening and closing of programs except if they are especially efficient or inefficient or affect student FYE.

Policy design elements

The mechanics of the allocation framework have the impact of communicating policy positions. FYE affects allocations for instruction/academic support, institutional support, library, research and public service; headcount affects a small part of the facilities allocation. The allocation framework promotes competition for students (to raise student headcount and FYE). Courses that are ten percent more cost effective relative to average efficiency of other like courses within the system receive additional resources; courses that are ten percent less cost effective relative to the average efficiency of other like courses receive less allocation. As more of the cost of instruction is covered by tuition and the amount of state support available to support high-cost programs has been reduced, the incentive to offer low-cost courses and programs with large enrollments has grown.

Alignment of the framework with the policy objectives of the Strategic Framework

The allocation framework does not have a feature that “pays” for comparative quality academic programs except very indirectly if students move from low quality to high quality colleges and universities. There is also not presently a feature that ties the allocation to student achievement of learning outcomes or elements of student success (retention, completion, timely completion).

The allocation framework rewards cost efficient enrollment management but does not discern types of enrollment. So there is not a feature addressing student or staff diversity, this approach also results in the allocation framework not judging degree/certificate production or the alignment of academic programs with workforce needs except indirectly as a strategy for increasing student FYE. There are other incentives (e.g. equipment donations) that might help drive these priorities.

The methodology does contain incentives for stewardship of financial and physical resources by the inclusion of a mild incentive for creating cost efficient courses and controlling all costs (savings kept by the institution). There is no particular linkage with other board goals concerning long-term financial viability, encouragement of the growth of new revenue or the collective success of the system to serve the state and regions including collaboration.

CONCLUSION

Chancellor Rosenstone and the Leadership Council undertook a study of the allocation framework last spring. The resulting work ahead will be informed and directed by the recommendations of strategic workgroups. It is expected that amendments to the allocation framework, designed to strengthen its alignment with the Strategic Framework, will be developed with the board’s assistance over the next year.

Date presented to the Board of Trustees: April 16, 2013

Allocation Framework



Board of Trustees
April 2013

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities system is an Equal Opportunity employer and educator.

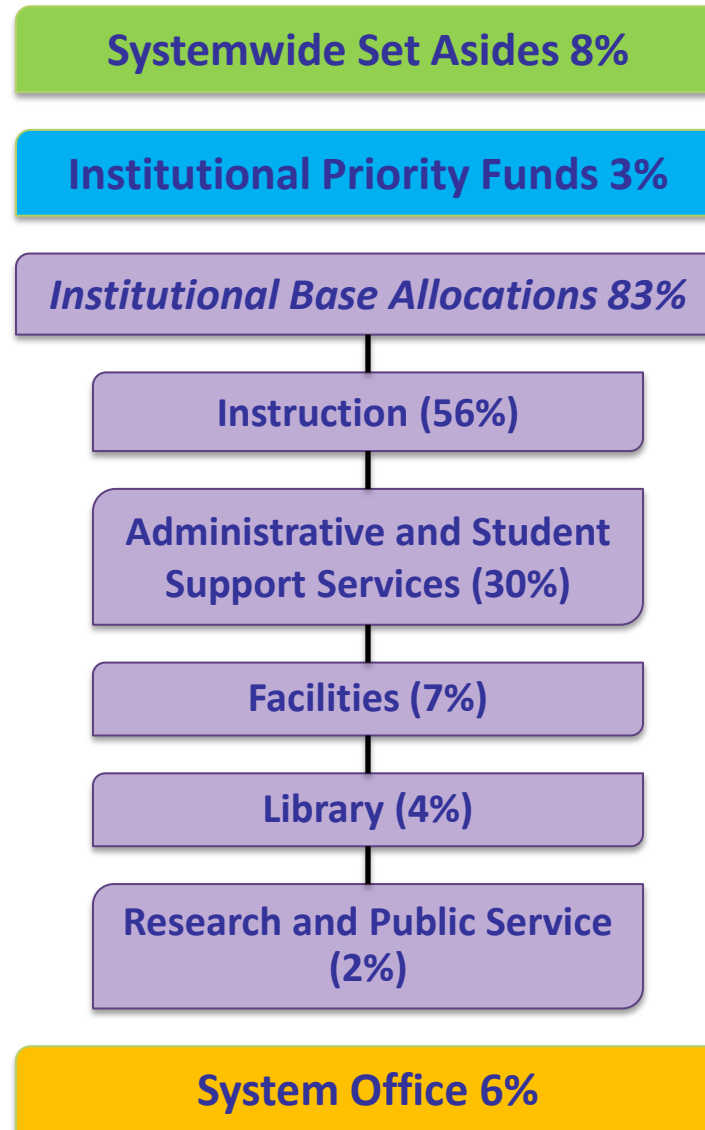
Allocation Framework: Distribution of State Support to Colleges and Universities

- A single model that equitably recognizes the diversity of Minnesota State College and University students' needs and supports the unique educational goals of each institution
- Allocation of funds are based on a number of factors such as enrollment, cost of instruction, national benchmark data, and other institutional data
- Allocation Framework distributed \$441M in FY2013 as base allocations to colleges and universities
- Allocation Framework now under study for possible redesign as part of the Strategic Framework

State Support Allocation

- Institutional Allocations: Priority Funds and Institutional Base Allocations
- Systemwide Set Asides: Enterprise Technology, Debt Service (system share), Attorney General, etc.
- System Office Support

Allocation Framework Design



The Allocation Framework takes into Account the Cost of Delivering High Cost and Low Cost Programs

	Low Band	High Band	Difference	Average
Anthropology	\$ 1,035	\$ 1,265	\$ 230	\$ 1,150
Ground Transportation	\$ 3,752	\$ 4,585	\$ 833	\$ 4,169

Final Allocation Results

- The results of each component is added up to show an overall allocation.
- The model is designed to demonstrate a “fully funded” model. The final results are always higher than available funds
- A percent share of the allocation results is created for each college and university.
- The available funds distributed is based on 50% of the prior year’s allocation % share and 50% of the new allocation % share.
- In the end, colleges and universities receive one amount. The allocation model does not equate to actual spending within the different areas.

Allocation Results

Institution Name	Allocation for Instruction & Academic Support	Allocation for Student Support Services & Institutional Support	Allocation for Facilities	Allocation for Library	Allocation for Separately Budgeted Research & Public Service	Allocation for Enrollment Adjustment	TOTAL ALLOCATION FRAMEWORK
Bemidji SU & Northwest TC-Bemidji	11,726,082	7,102,433	1,823,836	1,239,141	573,557	(89,255)	22,375,794
Normandale CC	11,641,708	5,203,417	745,205	615,662	213,010	12,974	18,431,976
TOTAL	331,665,306	177,604,121	44,138,973	25,057,126	10,264,926	0	588,730,452

Allocation to Available Resources

Institution Name	TOTAL ALLOCATION FRAMEWORK	% Share of Allocation	FY2012 Base Allocation	% Share of FY2012 Base	50% FY2011 Base % Share	50% Allocation Framework % Share	FY2013 Base Allocation	% Share of FY2013 Allocation
Bemidji SU & Northwest TC-Bemidji	22,375,794	3.80%	17,195,481	3.90%	8,597,741	8,380,742	16,978,482	3.85%
Normandale CC	18,431,976	3.13%	14,366,729	3.26%	7,183,365	6,903,605	14,086,969	3.19%
TOTAL	588,730,452	100%	441,012,097	100%	220,506,049	220,506,049	441,012,097	100%

Current Allocation Framework

- Rewards Cost Efficient Instruction
- State Funds Follow Enrollment Changes
- Substantially Formulaic

Design Questions Present in Current Allocation Framework

- Analysis of the alignment of the policy embedded in the allocation framework design with the goals of the Strategic Framework
- Consideration of the design's impact on outcomes
- Consideration of the design's impact on rewarding collaboration
- Consideration of the design's relative inelasticity; that is the balance between allocation stability and responsiveness.