

Allocation of State University System Operating Budget and Legislative Funding

- The State University System (SUS) has three main sources of operating funds; two sources are direct appropriations from the Legislature, while the third source is collected by the university:
 - General Revenue (direct Legislative appropriation)
 - Lottery (direct Legislative appropriation)
 - Student Tuition (collected by the University)
- There are other university revenue sources, such as fees, contracts and grants, and auxiliaries that are not considered operating funds, but are for specific purposes. An example would be a federal grant for a specific research project or revenues generated by an auxiliary (such as a bookstore).
- In developing the legislative budget request, budget issues fall into four main categories:
 - Base operating funds
 - Cost to continue issues
 - Enrollment growth funding
 - Other issues or enhancements
- Whether these issues are completely or partially funded is a Legislative decision. Once a decision has been made to fund an issue, the Legislature determines whether to fund the issue with General Revenue or Lottery based on available revenue at the time the appropriations are made.
- In addition, once the Legislative appropriations are made, each University's Board of Trustees is required to approve an annual operating budget prior to the state distribution of appropriated funds to each university beginning July 1 of each year.

Base Operating Funds

- Each year when the Legislature appropriates funds for the SUS, the appropriation is identified by each university in the appropriations bill. The total funding for each university is derived from the individual issues approved by the Legislature. The appropriation consists of recurring and nonrecurring funds. Recurring funds are considered to be the universities' base operating budget, whereas nonrecurring funds are only appropriated for one year and then drop out of the budget the next year unless the funds are reappropriated. The base operating budget is derived from the most recent Legislative appropriation. Each university's base budget

will continue every year unless changed by the Legislature through subsequent appropriations of recurring funds.

Cost to Continue

- Cost to Continue issues are operating funds needed to continue existing programs at each university. These issues may have been initiated in the prior year by the Legislature, Governor, Department of Education or University. These issues are requested on behalf of the universities by the Board of Governors based on prior funding decisions and are "must haves" to continue operations. No additional information is needed from the universities to determine which issues are considered to be Cost to Continue issues.
- These issues become a part of the base budget if the Legislature appropriates with recurring funds.
- Cost to Continue issues are generally not formula driven (except funds needed to operate new space / facilities), but identified as specific issues for each university. Examples of cost to continue issues include the Florida Center for Reading Research (FCRR), Florida Office of Civil Rights (OCR) Agreement, Major Gifts, and the operating funds needed for new space / facilities.
 - The FCRR was funded with nonrecurring funds in 2003-2004. Therefore, if this program is to continue, funds must be included in the legislative budget request for 2004-2005.
 - The OCR Agreement is based on a 1995 agreement that the State would request funding over a period of time to address funding issues identified in the agreement for Florida A&M University.
 - Major Gift funding is an ongoing issue that is requested to provide state matching for private donations made to the universities.
 - The operating resources (expenses such as utilities and maintenance related to the operations of new space / facilities) needed for new space / facilities are calculated using an established formula that multiplies the gross square footage of the new space / facility by each university's utility and maintenance factor (which totals about \$6 a square foot). The universities submit a list of facilities, the square footage, and expected completion date of the new space / facility to the Department. The information is then used to determine the resources needed for operations by updating the established funding formula.
 - In 1993, a space / facilities operating funding model was developed and was slightly tweaked in 1998. This model has been used consistently by the Governor and Legislature to provide operating resources for new space / facilities. Baseline data was

established in 1992-93 using each university's expenditures in the Plant Operations & Maintenance component. These expenditures are reported in two activities: operations & maintenance and utilities. Using the expenditures associated with each of these activities, a cost per square foot was developed for each university. These two cost factors are adjusted each year to account for inflation and changes in utilities as determined by the Public Service Commission.

Enrollment Growth Funding

- Once a decision has been made on the expected enrollment growth by level (lower, upper, graduate I (masters), graduate II (doctorate) or graduate III (medical)) for each university, the current enrollment growth funding formula is used to determine the funds needed by each university to support the additional enrollment.
- Enrollment growth funding becomes a part of the base budget if the Legislature appropriates with recurring funds.
- Enrollment growth funding is calculated by multiplying the incremental enrollment growth for each university by their own cost per full time equivalent (FTE) student.
 - For example, the cost per FTE student is derived from each university's cost factors (direct instruction, libraries, student services, academic administration, academic advising, and university support) for each level of instruction (lower, upper, etc.) as reported in the annual expenditure analysis report. The funding formula assumes that the university will spend its current operating budget (2003-2004) proportional to its university cost factors as identified in the most recent expenditure analysis report, which is from 2001-2002 (see Table 1). The 2002-2003 expenditure analysis report will not be available until the fall of 2003, at which time the formula will be updated for use during the 2004 Legislative session.
 - By taking the amount each university spends on each level of instruction (which includes the individual cost factors described above) and dividing this amount by the lower level, upper level, graduate I, graduate II, and graduate III legislatively funded FTE students (as identified in the Legislative appropriations bill), a cost per FTE student is derived. The cost per FTE student is multiplied by the incremental enrollment growth expected at that level (lower, upper, etc.). This provides the total cost needed to support that student (which does not include athletic programs or other stand-alone activities such as museums and galleries or radio / TV stations) based on each university's specific cost factor for each level of

instruction. Then the amount of tuition (the per credit hour amount charged to each student) that this student would pay is calculated. The tuition is then deducted from the total cost, leaving the amount of funds to be requested from the Legislature for each university.

Table 1

Lower Level Activities (Cost Factors)	2001-2002 Expenditures*	2003-2004 Appropriation (spent proportional to the most recent Expenditure Information)
Instruction	\$1,000,000	\$1,250,000
Advising	200,000	250,000
Academic Admin.	50,000	62,500
Libraries	250,000	312,500
Student Services	250,000	312,500
University Support	250,000	312,500
Total Lower Level Costs	\$2,000,000	\$2,500,000
Funded Lower Level FTE		500
Expenditures Per FTE		\$5,000
Incremental FTE Enrollment Growth		100
Total Cost		\$500,000
Less Tuition Paid		(\$200,000)
Total Budget Request		\$300,000

*As mentioned above the 2002-2003 expenditure data is not available until the fall.

- Where the funds requested through this model are funded by the Legislature, each university is left to its own presumptions of productivity and instructors needed for the incremental enrollment growth.
- If the university receives enrollment growth funding through a Legislative appropriation and spends that funding per the cost factors noted above the expenditures per FTE should increase. Therefore, this funding model does provide an incentive to the university to spend the new appropriated funds in these areas. If the university spends the funds on non-instructional activities, such as museums, public service, or radios / TV activities, their cost per FTE student would not increase.

Other Issues or Enhancements

- Other Issues or Enhancements do not fall into the previously discussed categories: base operating funds, Cost to Continue, or enrollment growth.
- The Chancellor requests that each university provide their top three to five priorities along with the estimated cost of implementation. These issues are submitted to the Chancellor for review and recommendation to the Board of Governors. An example would be State Critical needs in the areas of teaching and nursing.
- These issues become a part of the base budget if the Legislature appropriates with recurring funds.

Other Models Which may be Considered:

- North Carolina
 - North Carolina uses an approach similar to Florida. An enrollment growth formula and a formula for the operating funds of new facilities make up the bulk of their biennial budget request. In addition, requests are made for specific projects.
 - The enrollment growth formula is driven by an estimated change in student credit hours in four Areas (Area 1, 2, 3 and 4) of instruction (disciplines are categorized into four broad areas) and at three levels (undergraduate, masters, and doctorate) of instruction. An example of the matrix is as follows:

Table 2

	Student Credit Hours (SCHs)			SCHs per Instructional Position			Instructional Positions Required		
	UG	Masters	Doct.	UG	Masters	Doct.	UG	Masters	Doct.
Area 1	20,000	1,000	100	640	171	138	31	7	1

- This matrix shows that an additional 20,000 student credit hours at the undergraduate level would require an additional 31 instructional positions. Funding for these additional instructional positions is then requested from the Legislature.
- The potential benefit of this approach focuses the funding on instructors needed to educate the enrollment growth.

- Texas
 - The funds appropriated to Texas public universities were, until 1997, virtually unchanged for 40 years. In 1997, the Legislature adopted a new set of funding formulas that were fewer in number and simpler in design. Funds for institutions consist of four formulas and supplemental items: Instruction & Operations Formula; Teaching Experience Supplement; Infrastructure Support Formula; and Supplemental Non-formula Items.
 - The Instruction & Operations formula provides funding for faculty salaries distributed on a weighted semester credit hour basis. The weighting is based on a matrix of course disciplines and level (lower, upper, masters, doctorates, special professional).
 - The potential benefit of this approach focuses the funding on course disciplines.
- University Contracts are currently being reviewed by CEPRI. This has the potential benefit of tying funding to performance measures.
- A market oriented approach that establishes or expands educational and/or degree programs that are market driven is an option. The potential benefit of this approach focuses the funding on programs in high demand.
- Modification of existing enrollment growth formula take into account:
 - The university mission (different missions may result in different levels of funding);
 - Whether the university is a research institution (costs for a research institution are higher than a comprehensive institution); and/or
 - Geographical location (part-time students versus full-time students);
 - The potential benefit of this approach tailors the funding to specific university factors.
- Provide funding based on performance (currently being reviewed by the Department as part of the K-20 Education Performance Accountability project). The potential benefit of this approach focuses a portion of the funding on specific performance measures.

- Current tuition is a per credit hour charge. Look at tuition options based on:
 - Block tuition - students taking 0-5 credit hours pay X amount; students taking 6-10 credit hours pay X amount; and, so on. The potential benefit would be to encourage students to take the maximum number of credit hours in an effort to get their degree earlier.
 - Tuition could vary depending on the discipline (engineering, education, science, business, etc.). The potential benefit of this approach aligns the tuition with the cost of implementing the discipline.
 - Tuition could vary by university. The "flagship" universities could charge a higher tuition than the other universities. The potential benefit of this approach would allow the "flagship" universities to set tuition based on student demand and the services/opportunities the student would receive at the university compared to the services/opportunities received at other universities.