EDUCATION COMMISSION OF THE STATES

Your education policy team.

Response to information request

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Question:

Which other states aside from New Jersey, if any, have implemented state-based funding formulas for their public colleges and universities?

Our Response:

According to a 2012 report by SRI International, 17 states use a formula to calculate and distribute funding for higher education institutions, 19 states use non-formula-based funding models, and 14 states employ a hybrid approach (typically formulas for two-year institutions and non-formula methods for four-year campuses).

In general, formula and non-formula models are driven by student enrollment. Non-formula states also may fund postsecondary education based on legislative priorities or policies and/or on a previous years' levels plus additional dollars. In addition, an increasing number of states are incorporating performance metrics into their postsecondary funding systems, whether as part of the base funding or "bonus" funding.

Currently, New Jersey uses a funding formula to fund its Community Colleges based on the number of credit hours in which students enroll. No funding formula is currently in place to fund 4-year institutions.

Additional Resources

A report by SRI International, *States' Methods of Funding Higher Education*, provides a comprehensive summary of funding approaches and individual state profiles.

State Higher Education Funding Formulas

State higher education funding formulas typically include various budgetary functional areas, such as instruction; remedial instruction; operation and physical plant maintenance; academic support, library support; student services; institutional support; public service; and research.

With respect to instruction, which would be most directly related to program costs, the following two types of formulas are commonly used by states:

Method 1 is based on a conversion from Full-time Equivalent (FTE) student enrollment to FTE faculty multiplied by a salary rate.

Method 2 is based on enrolled student credit hours that are multiplied by a cost and program level weight and a rate or an inclusive cost matrix.

Examples of States that Incorporate Program Costs into Funding Formulas

Several states appear to base – or partially base – higher education funding on program costs, according to the SRI report and Dr. Dennis Jones, President Emeritus of the National Center for Higher Education Management Systems (NCHEMS) and a national expert on higher education finance. These states include, but are not limited to: Massachusetts, Mississippi, Ohio, Oregon, Nevada, Texas and Virginia.

State Higher Education Funding Formulas

The total student enrollment cost is determined by using a set of formulas for calculating cost based on faculty-student ratios by discipline and level, and the educational and general programs of instruction, academic support, student services, institutional support, and operation and maintenance of physical plant, with adjustments to the funding policy based on particular state policies or specific institutional missions or conditions.

Massachusetts adopted a new community college funding model in 2014 through which 50 percent is for base funding that is distributed based on student credit hours completed and includes a cost of operation subsidy. The remaining 50 percent is allocated based on several performance metrics. In July 2015, the Board of Higher Education approved a performance funding formula for state universities that also includes cost weights. For additional information on the community college funding model, please see the Department of Higher Education's Power Point presentation entitled, *Community College Performance-Based Funding Model*.

Mississippi revised its allocation model for universities in 2013 to include performance measures, such as graduation and retention rates. The model approved by the Board of Trustees of State Institutions of Higher Learning also considers the varying costs of teaching individual courses and operating a campus. The revised formula shifts the focus from the number of students who enroll to the number of students who successfully complete a course.

Ohio uses successfully completed student credit hours (passing grade) and a cost matrix based on the previous year's actual costs as a function of subject codes and course level. Under the State Share of Instruction (SSI) model, different formulas are used for various types of campuses: university main campuses, university regional campuses, and community college and technical colleges. Ohio also incorporates student success components into the formula.

Oregon's Success and Completion Model (SSCM) includes a cost weighting system that distributes funding based on program type in terms of student credit hours and degree completions. A workgroup is reviewing the cost weight system for possible revisions. Currently, each student credit hour (sorted by academic discipline and student level) is ranked by cost level from 1 to 3. This student credit hour cost weighting hierarchy also serves as the basis for degree cost weighting. In addition, Oregon is beginning to incorporate outcome measures as part of their funding model. For more information, please see the Higher Education Coordinating Commission's memo on the SSCM mechanics.

Nevada adopted a new funding model in 2013 that consists of two basic components: 1) a base formula driven primarily by course completions and 2) a performance pool driven by performance metrics that align with the state goals. The base formula allocates state general fund dollars to institutions based upon completed courses as measured by student credit hours. Student credit hours are weighted by discipline cluster in a cost matrix.

Texas' funding formula determines support levels for instruction through the use of enrolled student credit hours multiplied by a cost matrix. The program and level weights are an aggregation of actual costs based on institutions' annual financial reports. The weighted matrix is multiplied by a single weight set by the legislature and based on available funding. The result is a cost-informed matrix that applies to general academic institutions. Different formulas are used for community and technical colleges.

Virginia enacted the Higher Education Opportunity Act of 2011 that includes a new higher education funding policy; the calculation of the state general fund share of an institution's basic operations and instruction funding need; and per student enrollment-based funding. According to state statute, § 23-38.87:13, an institution's basic operations and instruction funding will be the sum of (i) the institution's cost of education for the total enrollment of students; (ii) the amount required to reach the state's faculty salary goal of the 60th percentile of average faculty salaries paid by peer institutions, and (iii) other funding for educational and general services.