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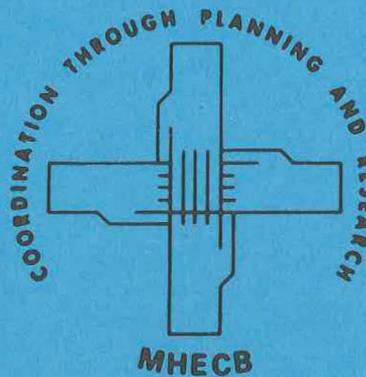


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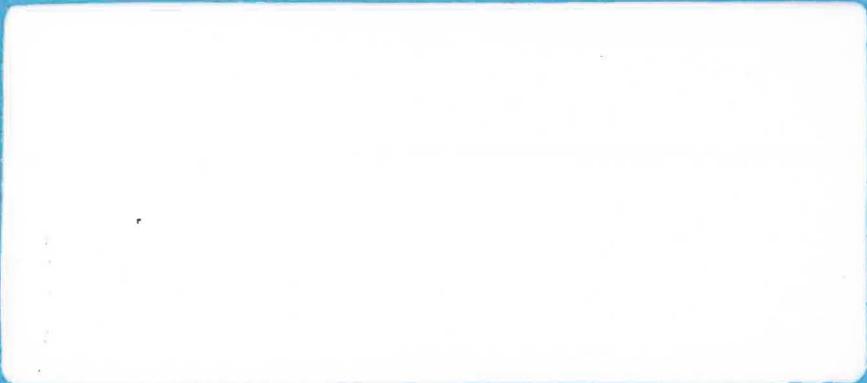
RECOMMENDATIONS ON  
FUTURE FUNDING POLICIES FOR  
MINNESOTA POST-SECONDARY EDUCATION

# A POLICY PAPER



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# MINNESOTA HIGHER EDUCATION COORDINATING BOARD



# **MINNESOTA HIGHER EDUCATION COORDINATING BOARD**

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RECOMMENDATIONS ON  
FUTURE FUNDING POLICIES FOR  
MINNESOTA POST-SECONDARY EDUCATION

January 27, 1983

## COORDINATING BOARD ACTION

SUBJECT: RECOMMENDATIONS ON FUTURE FUNDING POLICIES FOR  
MINNESOTA POST-SECONDARY EDUCATION

DATE: JANUARY 27, 1983

The Coordinating Board made the following recommendations:

- (1) THAT the Coordinating Board commend the members of the Task Force on Future Funding for the time and effort which they devoted to the report
- (2) THAT the Coordinating Board endorse all seven of the recommendations of the Task Force and transmit the report and recommendations to the governor and the legislature.
- (3) THAT the governor, the legislature, and post-secondary governing boards recognize that promoting quality programs and institutions must be the primary objective of any funding policy.
- (4) THAT, to clarify the roles and responsibilities of governing boards vis a vis the executive and the legislature, the relevant statutes be amended to provide, specifically, that the governing boards have the authority to:
  - a. reallocate all of their state funds;
  - b. close their institutions.
- (5) THAT the quality and productivity improvement fund, recommended by the Task Force at the system level, be established at the state level.
- (6) THAT, since the development of new knowledge is vital to the continued health of Minnesota's economy, the governor and legislature should place a high priority on state investment in basic and applied research and maintain or increase state funding for this purpose. A formal reporting process should be developed to ensure the effective use of these funds.
- (7) THAT a new funding base be developed for each post-secondary system which would incorporate adjustments for the differing effects of enrollment growth, funding reductions, and tuition rates since 1977.
- (8) THAT average cost funding should be the basic funding policy for Minnesota public post-secondary education systems. The policy should:
  - a. buffer funding changes associated with enrollment changes;

- b. control for differential growth in programs and levels of instruction;
- c. be applied uniformly to all four public systems and provide no special or separate legislative funding for specific institutions or programs.

(9) THAT the Legislature and Coordinating Board continue to review funding policies and governance structures in an effort to encourage coordination between systems and sectors.

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## OVERVIEW AND RATIONALE

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The Coordinating Board in 1980 established a special task force to study current funding policies for post-secondary education and to identify feasible alternative policies for the future. Financial support for this effort was obtained from the Ford Foundation.

Creation of the Task Force was based on the concern that current funding policies and budgeting procedures will not effectively maintain or enhance quality post-secondary education during the next 15 years. Current funding policies were developed in a period of fiscal prosperity and enrollment growth in post-secondary education. In the future, however, enrollments are projected to decline substantially, and fiscal resources will be severely constrained.

The Task Force completed its work near the end of 1982 with a final report containing findings and recommendations. They were released in January and were the subject of the annual meeting with governing boards. The Coordinating Board, at its January 27th meeting, adopted the following recommendations.

- (1) THAT the Coordinating Board commend the members of the Task Force for the time and effort which they devoted to the report.
- (2) THAT the Coordinating Board endorse all seven of the recommendations of the Task Force and transmit the report and recommendations to the governor and the legislature.

### Rationale

The Task Force consisted of 16 members representing education, government, and the public. For more than two years they invested generously of their time in conducting an extensive review of post-secondary financing in Minnesota and how it might be improved. The findings of the Task Force provide the basis for both procedural and policy recommendations that will strengthen the quality of post-secondary education during the next 15 years. They address the problems with current funding policies and recommend alternative approaches. Summaries of Task Force findings, recommendations, and membership are attached.

In addition, the Coordinating Board made the following specific recommendations which relate to the implementation of the Task Force's recommendations.

(3) THAT the governor, the legislature, and post-secondary governing boards recognize that promoting quality programs and institutions must be the primary objective of any funding policy.

### Rationale

The Task Force on Future Funding found that current funding policies for post-secondary education will not preserve or enhance the quality of services. A high quality system of post-secondary education, however, contributes directly to a highly skilled and reliable workforce which, more than any other factor, will help promote the growth and vitality of the state economy. Consequently, the preservation and enhancement of high

quality post-secondary education services must be the primary objective of any funding policy.

In a period of declining enrollments and constrained budgets, the quality of post-secondary education may be eroded if fewer and fewer dollars are spread across all institutions and programs. If the state attempts to maintain all of its existing commitments, it will end up with a uniformly mediocre system of institutions and services.

(4) THAT, to clarify the roles and responsibilities of governing boards vis a vis the executive and the legislature, the relevant statutes be amended to provide, specifically, that the governing boards have the authority to:

- a. reallocate all of their state funds;
- b. close their institutions.

#### Rationale

The Task Force has recommended that the specific roles and responsibilities of governing boards be clarified. Specifically, the Task Force stated that the governing boards of the systems must have the maximum amount of discretion with respect to policy and allocation decisions regarding their institutions.

Currently, the Board of Regents of the University of Minnesota and the State Board for Vocational Education are limited in their authority to reallocate certain funds. The Board of Regents receives special state appropriations which are dedicated to specific purposes and may not be reallocated. Instructional aids for the AVTIs must be allocated by the State

Board for Vocational Education according to the formula specified in statute.

Further, there exists some uncertainty about the extent to which governing boards have the authority to make the full range of possible decisions regarding the number and type of services and institutions in their systems. If the boards are to manage effectively in a period of declining enrollment and resources, these authorities should be clarified in statute. By specifying these authorities, the legislature would make clear its expectations and support for governing board policy and reallocation decisions.

(5) THAT the quality and productivity improvement fund, recommended by the Task Force at the system level, be established at the state level.

#### Rationale

The Task Force has recommended the establishment of a quality and productivity improvement process for Minnesota public post-secondary education. A fund equaling one percent of all institutions' operating expenditures should be established to support quality and productivity improvement efforts such as measurement of program effectiveness or use of new technology. A process targeted specifically at quality and productivity improvement is essential. Such a fund, however, should be established at the state rather than the system level. A state level process would promote competition for funds and ensure that the institutions with the most promising proposals, regardless of

system, would receive funds. It also could encourage coordination between systems.

Funds would be awarded through a competitive grant process. Institutions would submit proposals for quality or productivity improvement efforts. The proposals would be evaluated on the basis of merit by a committee with faculty, administrative and student representation from each system. The committee would award grants to the institutions with the most promising proposals.

(6) THAT, since the development of new knowledge is vital to the continued health of Minnesota's economy, the governor and legislature should place a high priority on state investment in basic and applied research and maintain or increase state funding for this purpose. A formal reporting process should be developed to ensure the effective use of these funds.

#### Rationale

Economic conditions determine the type and number of employment opportunities for Minnesota residents and others. If there is limited or no growth in the economy, skilled manpower cannot be utilized. The economy of Minnesota is based on industries which require new information, different and new ways to apply existing knowledge and high technology. The development of new knowledge and procedures to implement this information is crucial to the health and vitality of the state economy. Research accomplishments in Minnesota have been beneficial to the region, nation, and world as well. State supported research conducted in post-secondary education has been instrumental in

the discovery of new knowledge in agriculture, mining, the environment, medicine, and computer science. Research investments of this type should be continued in order to maintain Minnesota's competitive position in the region and nationally. In the future, however, the governor and legislature should require annual reporting on the use of research funds and the outcomes of research efforts supported in part or wholly by state resources. The reports should include an assessment of the quality and relative national ranking of research faculty supported by tax dollars so that an assessment can be made of our ability to successfully conduct basic and applied research in Minnesota.

(7) THAT a new funding base be developed for each post-secondary system which would incorporate adjustments for the differing effects of enrollment growth, funding reductions, and tuition rates since 1977.

#### Rationale

The Task Force recommended that the state should honor the commitment of the bulge funding policy. This policy was established in 1977 to reduce state revenue requirements during a period of temporary enrollment growth and minimize the need for retrenchment until enrollments declined below 1977 levels. The implicit commitment when the policy began was that no state funds would be withdrawn until enrollments declined below the bulge enrollment base. While the Task Force recommendation should be supported, it also must be recognized that strict adherence to the bulge policy severely complicates the implementation of a new funding policy. Since enrollments in the Community College

System are not projected to decline below the bulge enrollment base, a new funding policy never would be applied to this system. Since the bulge policy was not applied to the AVTIs, a base year for this system must be selected. In order to simplify the implementation of a new funding policy, a new funding base should be developed for each system. This base would incorporate adjustments for the differing effects of enrollment growth, funding, reductions and tuition rates.

(8) THAT average cost funding should be the basic funding policy for Minnesota public post-secondary education systems. The policy should:

- a. buffer funding changes associated with enrollment changes;
- b. control for differential growth in programs and levels of instruction;
- c. be applied uniformly to all four public systems and provide no special or separate legislative funding for specific institutions or programs.

#### Rationale

The Task Force has recommended buffered average cost funding as the state's primary funding policy for post-secondary education. The average cost funding policy would be used by the governor and the legislature to determine system level appropriations and would not require governing boards to spend the funds in a particular manner. The Task Force recommended that the buffering be accomplished by basing funding on the average of enrollments in the two years prior to the year being funded. Funding would be differentiated by level of instruction and program cost. The policy would be implemented uniformly for all

four systems. All resources for instruction for all institutions, would be provided by this policy and no separate or special funding arrangements for specific institutions would be provided.

The proposed policy is the most desirable approach to funding Minnesota public post-secondary education in the future because it would help preserve and enhance the quality of services. Since funding would be enrollment related and, consequently, would decline, governing boards would have the incentive to manage resources as effectively as possible. Enrollment related funding would also encourage systems to offer the best possible services in order to attract students. Since the policy would be applied uniformly to all systems, no one system would have a funding advantage. Finally, the recommended policy would recognize fixed costs in the short term by using a two-year average of enrollments. Following are several specific suggestions regarding implementation of the new policy.

Funding should be based on actual enrollments in the year two years' prior to the one being funded rather than the average of enrollments in the two prior years. The use of a two-year average for funding would necessitate the use of projected enrollments to determine funding levels in the second year of the biennium. The use of enrollments in the year two years' prior would eliminate this need to use projected enrollments. Funding levels could always be based on actual enrollments or relatively accurate estimates of actual enrollments. In this manner,

funding levels would not be subject to the potential inaccuracies of enrollment projections.

The policy should fund systems on the basis of actual costs of instruction per full-year equivalent (FYE) or average daily membership (ADM) enrollments. The costs per FYE or ADM would include all costs associated with direct instruction and all support costs attributable to instruction. A matrix which displays the average cost per FYE or ADM differentiated by level of instruction and program cost factor (high, medium or low) would be developed for each system. The average cost of programs in each cell of the matrix along with the actual enrollment two years' prior in those programs would determine expenditure levels for those programs. System expenditures would be the sum of all cell expenditures. Since the actual average costs would be from two years' prior, adjustments for changes in personnel and non-personnel costs would also be required.

The use of actual enrollments in the year two years' prior to the one being funded could result in an enrollment related increase (decrease) in funding when the policy is first implemented in a system with declining (increasing) enrollments. In order to avoid such an unwarranted increase (decrease), enrollment related funding adjustments should be delayed one or two years until the funding level under the new policy declines below (rises above) the funding level in the year prior to implementation of the new policy.

(9) THAT the Legislature and Coordinating Board continue to review funding policies and governance structures in an effort to encourage coordination between systems and sectors.

Rationale

Collaboration and coordination in the provision of educational services is a primary way to improve the efficiency and effectiveness of the services. Efficiency and effectiveness are particularly important in a period of limited resources and declining enrollments. Collaboration and coordination need not be limited to post-secondary education. Elementary, secondary, and post-secondary education institutions could benefit from increased cooperation. Consequently, funding policies and governance structures must be continuously reviewed to ensure that they encourage increased collaboration and coordination between systems and sectors in the provision of educational services.

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## SUMMARY OF TASK FORCE FINDINGS AND RECOMMENDATIONS

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### FINDINGS

1. Current funding policies will not preserve or enhance the quality of post-secondary education in Minnesota.
2. Current funding policies and governance structures do not encourage collaboration and coordination between institutions, systems, and sectors.
3. The distinction between the governing and management roles of the lay governing boards and the broad funding and policy roles of the legislature has been blurred.
4. The bulge funding policy accomplished its objective of reducing state funding requirements for the collegiate systems in a period of increasing enrollments.
5. Current funding policies do not consistently encourage innovative resource management.
6. Minnesota public post-secondary systems have been treated inequitably because there is no comprehensive funding policy.
7. Current funding policies do not consistently relate funding to levels of enrollment and the costs associated with those levels.
8. Current funding policies do not encourage systems to increase their productivity.
9. The current AVTI program funding policy is not an educationally or fiscally sound policy in a period of constrained resources and declining enrollments.
10. The split budget review and appropriations process for post-secondary education inhibits development of comprehensive policies for the systems of post-secondary education.
11. Tuition is the most powerful finance factor available for changing the state's funding obligation for post-secondary education.

## RECOMMENDATIONS

1. A mechanism to reallocate one percent of all expenditures and all savings in order to encourage improvements in the quality and productivity of post-secondary education should be established.
2. Greater collaboration and coordination between institutions, systems, and sectors must be encouraged.
3. The state should honor the commitment of the bulge funding policy as enrollments decline.
4. The state should adopt a comprehensive cost related tuition policy for post-secondary education and adjust funding for need based financial aid to prevent loss of access by low income students.
5. The governing boards of the systems must have the maximum amount of responsibility and discretion with respect to policy and allocation decisions regarding their institutions. Legislative involvement in policy and allocation decisions regarding individual institutions should be discouraged.
6. Post-secondary education appropriations decisions should be unified under one committee in each legislative body.
7. Average cost funding should be the basic funding policy for Minnesota public post-secondary education systems. The policy should:
  - a. buffer funding changes associated with enrollment changes;
  - b. control for differential growth in programs and levels of instruction;
  - c. be applied uniformly to all four public systems and provide no special or separate legislative funding for specific institutions or programs.

## MEMBERSHIP

### Education and Government

- o Dr. John Feda, Commissioner of Education;
- o Dr. Garry Hays/Dr. Jon Wefald, Chancellor of the State University System;
- o Dr. Philip C. Helland, Chancellor of the Community College System;
- o Mr. James Krause, Member of the Higher Education Coordinating Board;
- o Dr. C. Peter Magrath, President of the University of Minnesota;
- o Mr. Wilbur Nemitz, Representative of the Minnesota Association of Private Post-Secondary Schools on the Higher Education Advisory Council;
- o Dr. Marion Shane, Executive Director of the Private College Council.
- o Mr. Allen L. Rudell, Commissioner of Finance

### Legislature

- o Representative Lyndon R. Carlson, Chairman of the Education Division, House Appropriations Committee;
- o Senator Jerome M. Hughes, Chairman of the Senate Education Committee;
- o Representative Carl M. Johnson, Chairman of the House Education Committee;
- o Senator Tom A. Nelson, Chairman of the Education Subcommittee, Senate Finance Committee;

### Lay Members

- o Mr. James Hetland, Vice President, First Bank Minneapolis;
- o Mr. Norman Indall, Winona, former mayor of Winona and head of Social Science Department, Winona public schools;
- o Mr. Verne Johnson, Vice President for Strategic Planning, General Mills Corporation, Governor's Representative;
- o Dr. Hazel Reinhardt, Director of Research, Minneapolis Star and Tribune.



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