BR#05-48

Connecticut State University System

SYSTEM

Developing a State of Minds

RESOLUTION

concerning

GENERAL FUND
DISTRIBUTION METHODOLOGY

July 22, 2005

WHEREAS, Pursuant to the provisions of Section 10a-89(a) of the Connecticut general statutes, the board of trustees shall "...Subject to state-wide policy and guidelines established by the Board of Governors of Higher Education,...(1) Make rules for the government of the Connecticut State University system and shall determine the general policies of the university system, including those concerning the admission of students and the expenditure of the funds of institutions under its jurisdiction within the amounts available;..." Further, under the provisions of Section 10a-99(b), "...the board of trustees shall establish an equitable policy for allocation of appropriations from general revenues of the state, fringe benefits transferred from the State Comptroller and tuition revenue deposited in the Connecticut State University System Operating fund...", and

WHEREAS, In FY1994-95, the Board of Trustees, pursuant to its statutory authority, reviewed the then-existing distribution methodology for tuition and general fund dollars, and adopted new formulas for distribution, and

WHEREAS, A completely new model which addressed several issues raised by the universities concerning equity and stability, as well as greatly simplified the distribution formula was adopted by the Board of Trustees effective July 1, 2000, and

WHEREAS, Since that time, there have been numerous suggestions from the universities for revisions, some technical in nature, and some more substantial, and

WHEREAS, The revised distribution model addresses many of these suggestions, while retaining the simplification of the distribution process, therefore be it

RESOLVED, That tuition and the general fund appropriation be distributed on the basis of the principles described below:

- General Fund
  - Each institution will be provided with a base cost block grant for FY2006 of $3,012,522 plus fringe of $1,265,260 to cover certain fixed costs of operations (institutional support and facilities support). This amount will be increased annually, based on salary increases for Management/Confidential personnel and annual changes to fringe benefit rates.
  - Each institution will be provided with a variable cost block grant based on the sum of the prior year's ending full-time-equivalent of full-time students enrolled, with out-of-state students weighted on a 1 to 2.4 basis. These enrollment numbers will be based on the average of fall and spring third-week enrollment figures.
  - A portion of the state appropriation will be retained for system office operations, related activities, and other priorities of the Board of Trustees. These amounts will be established annually as a part of the Spending Plan process. Expenses for System Office and Systemwide Projects will be assessed equally across the four universities. Expenses for Systemwide Information Technology, including expenses for new information security initiatives, will be proportionally allocated among the universities based on FTE of all students, with residential students weighted at 1.25. The System Office will internally exchange General Fund dollars for operating fund dollars in order to ensure that all General Fund current services dollars are spent on Personal Services.
  - Any "new facilities" funds provided in the state appropriated block grant that are not specifically designated (e.g. for a particular university, building or project) will be allocated in perpetuity to the universities with new facilities coming on line that year, on a proportional basis. For FY2006 a base amount of "new facilities" funds will be established by university; this amount will be the total of state appropriated funds provided for new facilities by university for each of the years from FY1997-98 to FY2005-06.
  - Tuition and Extension Fee Freeze amounts received as state appropriation will not be included in the General Fund block grant distributed to the universities. Instead, these funds will be distributed as follows:
    - Tuition Fee Freeze dollars will be distributed proportionally based on the prior year ending tuition net of waivers.
    - Extension Fee Freeze dollars will be distributed proportionally based on the prior years ending part-time credit hours per university.

- Tuition

  - Each institution will retain all tuition funds collected from its students.
  - Each institution will be assessed a portion of its tuition receipts to support priorities of the Board of Trustees. The Trustees' priority portion will be a fixed amount of $1,600,000 per year; $600,000 will be assessed proportionally based on prior year ending tuition net of waivers; $1,000,000 will be assessed equally across the four universities. The Board of Trustees may assess the universities additional amounts for other Board priorities as they see fit.
  - Each institution must comply with policies and statutory requirements of CSU grants.

and be it further

RESOLVED, That supplemental funding of $500,000 from Systemwide reserves be provided to Southern Connecticut State University in FY2005-06, as it will be receiving less General Fund dollars than it would have received under the prior methodology, to enable the university to take the strategic actions necessary to address the decreased funding, and be it further

RESOLVED, That the revised distribution methodology be implemented effective July 1, 2005, and be it further

RESOLVED, That BR#2000-53 be rescinded effective July 1, 2005.

A Certified True Copy:

William J. Cibes, Jr.
Chancellor

ITEM

General Fund Distribution Methodology

BACKGROUND

Prior to 1995, funds were distributed to the universities according to a historical formula established several years previously. In FY1994-95, the Board of Trustees, pursuant to its statutory authority, reviewed the then-existing distribution methodology for tuition and general fund dollars, and adopted new formulas for distribution. BR #95-51 established the distribution methodology for tuition and general funds. BR #95-53 established the distribution methodology for CSU Grants. This new distribution methodology was based on full-time headcount enrollment for general fund, and tuition revenues for tuition. Because it resulted in a significant shift of funds among the universities, the new methodology was to be implemented over a period of 10 years to minimize the impact of this shift. BR#96-68 modified these methodologies to address certain concerns regarding revenues and enrollments.

There was no further change to the model until June of 1999. At this time, it was recognized that the ten-year implementation period continued to provide less funding per student for those universities for whom the new methodology corrected under-funding caused by the old methodology. While there was no change made to the distribution methodology itself at this time, the Board of Trustees in June approved BR#99-32, which accelerated the implementation of the new methodology for general funds and CSU Grants, so that it would be accomplished in six years rather than ten with no retroactive funding, for those universities slated to receive greater allocations than under the "old" methodology. The difference in funding for the universities utilizing the accelerated implementation would be provided from Systemwide reserves. Those universities which were gradually receiving lower allocations of funds under the ten-year implementation schedule would continue on the schedule originally established.

However, it was clear that there were other issues related to the existing funds distribution models, and that it was time to reexamine the existing CSU models in light of other types of models used by other university systems across the nation. It was decided that an outside consultant with expertise in fund distribution methodology be hired to take an objective look at CSU's models. In July of 1999, MGT of America was hired to take on this project. The result was a completely new model which not only addressed several issues raised by the universities concerning equity and stability, but also greatly simplified the distribution formula. This new model was adopted by the Board of Trustees effective July 1, 2000, through BR#2000-53. At the time of passage, the Board indicated that it would be willing to reconsider the allocation formula after five years.

ANALYSIS

It has now been five years since the general fund distribution methodology was completely overhauled. Since that time, there have been numerous suggestions from the universities for revisions, some technical in nature, and some more substantial.

The proposed revisions to the distribution model address many of the suggestions raised while retaining the simplification of the original model. Highlights of the proposed revisions are as follows:

1. Currently, "new facilities" funds provided in the state appropriated block grant that are not specified as pertaining to a specific project or building are allocated proportionally to the universities with new facilities coming on line that year, where they remain for one or two years depending on whether the funds are received in the first or second year of the biennium; after which time they are reabsorbed into the block grant and allocated according to the general formula. The proposed revision specifies that any "new facilities" funds provided in the state appropriated block grant that are not specifically designated (e.g. for a particular university, building or project) be allocated in perpetuity to the universities with new facilities coming on line that year, on a proportional basis. Instead of those funds becoming part of the overall block grant in subsequent years and being distributed on the general model, they would remain with the university in order to pay – at least in part – for the added operating costs of the new facility. In order to increase equitability, the formula for distribution will be recalculated by re-establishing, by university, the original basis of funds designated for new facilities retroactively to FY1997-98.

2. When the distribution model was put in place, regression analysis by our consultant established an amount for institutional base funding on the premise that all universities, regardless of size, had certain expenses that were the same, such as salaries and fringes for a President, a VP of Academic Affairs, etc. However, the model that was approved by the Board of Trustees in June of 2000 did not provide for an annual increase to the base funding amount, even though these expenses would be impacted by collective bargaining increases and inflationary increases. It is proposed that the institutional base funding amount allocated to each university, as determined in 2000, be increased annually, based on salary increases for Management/Confidential personnel and annual changes to fringe benefit rates. In order to account for the changes since the institutional base was instituted, the base amount will be re-established by a one-time adjustment, increasing the appropriate amounts within the base by recapturing the salary and fringe increases that have occurred since 2000.

3. When the current distribution model was established, it was agreed that System Office and Systemwide expenses would be 100% funded from the General Fund, and would "come off the top", prior to any funds distribution. In addition, it was agreed that these expenses would be evenly distributed among all four universities, rather than proportionally. This distribution method is realistic for System Office expenses

and Systemwide Projects, because a) the efforts of these areas are generally of equivalent benefit to each university; and b) it reflects the equal institutional base funding provided to each university. However, this method does not necessarily reflect the proper allocation of Systemwide Information Technology expenses. It is therefore proposed that expenses for Systemwide Information Technology, including expenses for new information security initiatives, be proportionally allocated among the universities based on FTE of all students, accordingly recognizing that IT services are generally delivered proportional to student demand. Furthermore, residential students are proposed to be weighted at 1.25 to recognize the additional efforts required to provide information technology services to these students. The System Office will continue to internally exchange General Fund dollars for operating fund dollars in order to ensure that all General Fund current services dollars are spent on Personal Services.

4. The current distribution model distributes funds based on FTE of full-time students, with no distinction between in-state and out-of-state students. However, both the General Assembly and the Board of Governors for Higher Education ("DHE") expect that taxpayers will provide only limited support for students from outside the state of Connecticut, and that accordingly tuition and fees for these out-of-state students should be set at levels that require them to pay a greater share of the full cost of their CSU education than in-state students. To continue the current distribution formula, in which an FTE full-time student is counted equally whether an in-state resident or an out-of-state resident, results in overfunding the cost of education for out-of-state students, and underfunding the cost of education for in-state students. Therefore, it is proposed that the distribution formula be modified to weight out-of-state students on a 1 to 2.4 basis, reflecting the actual differential in tuition (defined by DHE for this purpose as tuition, university general fee, and information technology fee) charged to out-of-state undergraduates. This still recognizes that there is some benefit to the diversity provided by out-of-state and international students.

This methodology will result in a shift of funds among the universities; of this shift, the most severe negative impact is at Southern, where the revised distribution methodology will result in a reduction in funding of approximately $1 million in FY2006. Therefore, it is proposed that Southern be provided with supplemental funding from Systemwide reserves of $500,000 in FY2005-06. This supplemental funding will enable them to take the strategic actions necessary to address the decreased funding.

It is recommended that the revised distribution methodology be implemented effective July 1, 2005.

CHANCELLOR'S RECOMMENDATION

Approve the revisions to the General Fund distribution methodology, to be effective July 1, 2005.