

DIFFERENTIAL FUNDING BY LEVEL OF INSTRUCTION

DESCRIPTION

Differential funding is frequently used by states to acknowledge the cost variations for specific instructional areas such as lower and upper division courses, graduate level programs, high priority programs such as nursing, high technology, and remedial education. The Legislature usually applies a formula, often derived from rates for various programs at institutions, in appropriating funds for instructional expenditures for the colleges and universities. This formula would differentiate between lower division, upper division and graduate level courses and programs. The formula might also differentiate between high priority and lower priority programs. Approximately half of the states report using some form of differential funding by level and by discipline.

CURRENT EXAMPLES

Among the states currently using this strategy are Georgia, Florida, New Mexico, Ohio, and Texas.

- Texas uses differential funding for its community and technical colleges. The formula is based on a study to determine the cost of offering programs in 26 different areas. The costs reported in the cost study reflect all the unrestricted sources of funds used for instruction. These sources include state general revenue appropriations, tuition and fees, gifts and grants, local *ad valorem* taxes, investment income, and other sources. Each community college is asked to report direct instructional expenditures in each funding category. Using the contact hours reported, a per-contact-hour cost of instruction in each funding discipline is calculated for each institution. (see page three)
- New Mexico uses a cost of instruction model that is less complicated than the version described above for the Texas Model. Funding is provided through a funding model with 9 categories: lower division, upper division, and graduate/professional courses, identified as high cost, moderate cost, or low cost. State funding for each of the institutions in the coming year is based upon the enrollment levels generated in the previous year. Institutions retain revenue from student fees and tuition to supplement the state appropriation.
- In 1997, Florida's legislature directed the Board of Regents to revise the enrollment funding model to reflect the cost per FTE student at upper and lower divisions as well as at graduate levels and professional levels. Subsequently, in the 1998 Florida Master Plan for Postsecondary Education, the state coordinating board recommended, and the legislature adopted, that a funding methodology be implemented to reflect the level of research and instruction provided by each institution, with different costs for different levels of instruction.

STATE POLICY PRIORITIES TRADE-OFF

- Recognizes the higher or lower costs associated with offering particular courses or programs.
- Recognizes the higher costs associated with graduate programs.
- Provides equity of funding, with all institutions treated fairly relative to their mission.
- Establishes a funding mechanism that is transparent and easily understandable.
- Provides funding levels that are predictable from year to year.
- Encourages the universities to enroll upper-division transfer students as a higher priority than lower-division students.

GENERAL FUND IMPACT

This model could be implemented to be revenue-neutral in the initial year. The longer run General Fund impact can not be predicted.

TECHNICAL FEASIBILITY

- Requires a state-level database providing enrollment data by course, by level, by institution. Currently, this database does not exist.
- Determining current costs among all institutions, developing reasonable funding models for different levels of instruction, and negotiating a differential funding approach with the segments and the institutions would take considerable time to implement. Additional workload might also be anticipated to monitor credit hours for each instructional area this is funded differently.

**Comparison of General Revenue Funding
Provided to Universities and Community Colleges
Fiscal Year 2000**

| Two-year College Course | Equivalent Lower-Division University Academic Course |
|---|--|
| English Language, Literature -- 3 lectures per week. 48 contact hours = \$166 | Liberal Arts -- 3 lectures per week. 3 student credit hours = \$128 |
| Mathematics -- 3 lectures per week. 48 contact hours = \$155 | Liberal Arts -- 3 lectures per week. 3 student credit hours = \$128 |
| Biology, Physical Science -- 3 lectures, 2 lab hours per week. 80 contact hours = \$254 | Science -- 3 lectures, 2 lab hours per week. 4 student credit hours = \$333 |
| Agriculture -- 3 lectures, 2 lab hours per week. 80 contact hours = \$406 | Agriculture -- 3 lectures, 2 lab hours per week. 4 student credit hours = \$350 |
| Engineering -- 3 lectures, 2 lab hours per week. 80 contact hours = \$435 | Engineering -- 3 lectures, 2 lab hours per week. 4 student credit hours = \$513 |
| Business Management -- 3 lectures per week. 48 contact hours = \$185 | Business -- 3 lectures per week. 3 student credit hours = \$230 |

Two-year college funding includes Instruction, Academic Support, Student Services, and Institutional Support; university funding includes Instruction, Academic Support, Student Services, Institutional Support, Public Service, and Research Enhancement. In practice, instructional programs are funded by a combination of general revenue and local income, primarily tuition and fees. Because universities typically charge more for tuition and fees, the resources available to universities to produce a course may be higher, even though they may receive less state general revenue.

Source: Texas Higher Education Coordinating Board. April 2000. *Formula Funding Recommendations for the 2002-2003 Biennium*.