

# The Funding Formula Landscape

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SHEEO Communities of Practice

# Why draw attention to funding policies?

- Calls for transparency and accountability
- Opportunity to tie resource allocation to state goals
- Declining demographic trends

# Research on Funding Policies

- Disproportionate attention on performance funding despite nearly all states allocating most of their direct funding of institutions to base support
- MGT Consulting group once produced periodic reports on states' funding approaches
- Recent InformEd States briefs about state funding policies include base funding
- SHEEO and NCHEMS national survey on how states appropriate money to institutions to support general operations

# InformEd States Research on Funding Models

- Source: statutes, budget documents, and audit reports
- Primary funding types: Base adjusted, Enrollment, and Performance
- Many states had a hybrid system with at least two of the three funding mechanisms
- Considered institutional funding equity and research provisions

Type	Two-Year Institutions	Four-Year Institutions
Base+ Only	4	13
Enrollment Only	8	7
Performance Only	2	–
Base+Enrollment	10	6
Base+Performance	8	13
Enrollment+Performance	6	3
Base+Enrollment+Performance	9	3
Research	–	10
Equity	13	14
No Formula	2	9

# InformEd States Research on Frequency of Funding Models

	Two-year colleges			Four-year universities		
Funding model (pct)	FY04	FY12	FY20	FY04	FY12	FY20
<b>Traditional model</b>	<b>19.2</b>	<b>18.9</b>	<b>7.0</b>	<b>45.7</b>	<b>49.9</b>	<b>40.8</b>
No formula	4.3	7.8	2.6	23.8	24.0	24.1
Base adjusted only	15.3	11.9	5.1	22.9	26.8	17.6
<b>Incentive model</b>	<b>23.6</b>	<b>13.7</b>	<b>21.4</b>	<b>13.9</b>	<b>2.0</b>	<b>7.2</b>
Enrollment only	23.6	13.7	7.7	13.7	0	0
Performance only	0	0	4.5	0.2	0.7	5.6
Enrollment+performance	0	0	9.2	0	1.3	1.6
<b>Hybrid model</b>	<b>57.2</b>	<b>67.3</b>	<b>71.5</b>	<b>40.4</b>	<b>48.1</b>	<b>51.9</b>
Base+enrollment	46.3	49.1	13.2	30.9	34.4	23.4
Base+performance	7.0	2.9	10.7	2.4	5.1	18.5
Base+enrollment+performance	3.9	15.3	47.7	7.1	8.6	10.0

# SHEEO/NCHEMS Survey on Base Funding

- Asked about definitions of “base adequacy,” factors affecting funding levels, cost sharing targets, and affordability goals.
- Focus on recurring operational funding not allocated based on institutional performance
- Received 48 responses from 46 states during the fall of 2021

# Defining Base Adequacy

- Only 4 states reported having a definition of “base adequacy”
- Definitions mentioned an expectation for objective information or data to be used
- Definitions were generally confined to cost drivers related to personnel or inflation

# Cost-Sharing Targets & Affordability

- Few states reported explicit numerical cost-sharing targets
- 29 states regularly measure or report on affordability, 10 with formalized requirements



# Definition of Base Funding Approaches

- **Base Plus:** Institutions' funding is relatively consistent from one year to the next, increasing/decreasing off of the institutions base at similar rates or based on legislative funding priorities in the current year.
- **Input-Based Formula:** Appropriations are distributed to institutions by a formula not based on performance (including formulas that are based on cost models).
- **Institutional Requests:** Annual base budgets are determined by the legislature based on historical patterns and/or institution-by-institution requests.

# Base Funding Approaches

(as entered by respondent)

Category	Two-Year Sector		Four-Year Sector	
	Count	States	Count	States
Base+ Only	5	MN, MO, UT, VA, WV	15	AZ, CA, FL, IL, IA, KS, MN, MO, MT, NE, NM, NY, UT, VA, WV
Formula Only	6	IL, KS, NJ, OH, PA, TN	3	KY, OH, TN
History/Institutional Requests Only	4	CT, DE, IN, ME	10	AK, CT, DE, IN, ME, MS, PA, SC, SD, WA
Other Only	5	AZ, MD, MS, SC, VT	4	MD, MI, NH, VT
Base+ & Formula	4	ID, MT, NE, OR	4	ID, NJ, NC, OR
Base+ & Other	4	AR, NY, OK, WI	3	AR, OK, WI
Base+ & History/Inst. Requests	3	AL, HI, IA	3	AL, HI, WY
Base+, Formula, & Other	2	CO, WA	1	CO
Formula & Other	5	CA, KY, LA, SD, WY	1	LA

# Base Funding Approaches

(recategorized)

Category	Two-Year Sector		Four-Year Sector	
	Count	States	Count	States
<b>Base+</b>	12 (30%)	AR, MD, MN, MO, NC, NH, NM, NY, OK, UT, VA, WI, WV	20 (45%)	AR, AZ, CA, FL, IA, IL, KS, MD, MN, MO, MT, NE, NH, NM, NY, OK, UT, VA, WI, WV
<b>Input Formula</b>	9 (23%)	IL, KS, KY, NJ, OH, PA, TN, WY	3 (7%)	KY, OH, TN
<b>Institutional Requests</b>	6 (15%)	CT, DE, IN, ME, MS, SC	10 (23%)	AK, CT, DE, IN, ME, MS, PA, SC, SD, WA
<b>Other</b>	0		1 (2%)	MI
<b>Base+ &amp; Input Formula</b>	8 (20%)	CO, ID, LA, MT, NE, OR, SD, VT, WA	7 (16%)	CO, ID, LA, NC, NJ, OR, VT
<b>Base+ &amp; Other</b>	0		0	
<b>Base+ &amp; Institutional Requests</b>	3 (8%)	AL, HI, IA	3 (7%)	AL, HI, WY
<b>Input Formula &amp; Other</b>	2 (5%)	AZ, CA	0	

# Performance Funding by Sector, FY 2020

Sector	Count	States
Two-Year Only	6	CA, IL, NC, SC, WI, WY
Four-Year Only	2	NJ, OR
Both Sectors	20	MI, MT, CO, NV, HI, NM, KS, ND, LA, OH, AR, OK, IN, RI, MA, TN, KY, TX, FL, UT

NOTE: Includes all state-level PBF models, even those based only on completed credit hours. Excludes states such as AL, CT, VA, WA with system-level PBF (wherein the state is not involved in determining metrics or allocations).

SOURCE: SHEEO State Higher Education Finance (SHEF) Dataset

# Factors in Input-Driven Funding Formulas

- Factors in the input-driven formula approaches to funding base operations
  - Two-year sector: FTE enrollment, enrollments linked to program costs, completed credits, student characteristics, number of faculty and compensation levels, funding of peer institutions, headcount enrollment, square footage of facilities, and institutional mission.
  - Four-year sector: enrollments linked to program costs, completed credits, student characteristics, FTE enrollment, institutional mission, number of faculty and compensation levels, square footage of facilities, and funding of peer institutions.

# Metrics in Performance-Based Funding Formulas

- number of completions; progress milestones or transfers; and average time to degree
- type of award completed, prioritizing STEM, healthcare, or other “in-demand fields” tied to workforce needs
- premiums specific to outcomes of subpopulations such as low-income, adult, or racially/ethnically underrepresented students

# Reflections, comments, or questions?

- Would you characterize your state's approach differently?
- Has your state's approach changed? How and why?
- What are important considerations for the development and implementation of effective funding policies?
  - Continuously review and refine
  - Consider potential disproportionate impacts (type of institution, student subpopulations)
  - Continuously communicate with all impacted audiences