3 January 2014

Dear Members of the South Carolina General Assembly:

Please find enclosed the report prepared by the South Carolina Commission on Higher Education in response to Part 1B Proviso 11.16 of Act 101 of 2013. This proviso required the Commission to study the issue of parity funding for all state institutions of higher learning and submit findings and recommendations to the members of the General Assembly.

We appreciate your interest in exploring funding issues affecting our state’s colleges and universities and trust this report will be helpful to you as the state’s budget is considered in the upcoming year. The Commission is committed to working with you and the higher education community in providing for a more consistent, predictable and sustainable model of state investment in higher education.

Should you have questions about the report or require additional information, please don’t hesitate to contact me or Julie Carullo, Deputy Executive Director for Administration, (jcarullo@che.sc.gov/ 803-737-2292).

Sincerely,

Richard C. Sutton
Executive Director

cc:
Chairman John L. Finan and Members, S.C. Commission on Higher Education
Presidents, Chancellors and Deans, S.C. Public Colleges and Universities
Dr. James Hudgins, Senior Consultant, State Board of Technical & Comprehensive Education
A Review of Parity Funding for South Carolina Higher Education

Prepared by the South Carolina Commission on Higher Education
3 January 2014

Overview

The following report is prepared by the South Carolina Commission on Higher Education (CHE) in response to Part 1B Proviso 11.16 of Act 101 of 2013, a copy of which follows.

11.16. (CHE: Parity Funding) The Commission on Higher Education is directed to study the issue of parity funding for all state institutions of higher learning. Findings and recommendations shall be submitted to the members of the General Assembly by January 3, 2014.

South Carolina has thirty-three public colleges and universities including three research universities, ten comprehensive teaching universities, four two-year regional campuses of the University of South Carolina, and sixteen two-year technical colleges. The colleges and universities have diverse missions and consequently have differing funding needs based on those missions, as well as the type and level of their student enrollments and academic program offerings. South Carolina, like all states, has employed a funding model to inform and recommend equitable funding distributions relative to those needs. The higher education formula developed and refined over the years for recommending state funding for our colleges and universities takes into account these differences in institutional mission, enrollment mix, and academic programs, as well as other factors.

A longstanding issue for higher education in South Carolina has been one of parity in state funding provided for operating support across the state’s colleges and universities. Parity is measured by comparing actual state funding received to the amount recommended by the higher education funding formula. An equitable distribution of funding across the state’s thirty-three public colleges and universities results when the share of state funding for each is at the same percentage of the recommended funding formula.

Since the early 1990s, there has been a growing disparity across the state’s public colleges and universities relative to the actual funding that each institution receives from the state for educational and general (E&G) operating needs. The inequities in state funding for the institutions relative to the formula are primarily a product of disparate enrollment growth of South Carolina students across the institutions and inconsistent state support that has not kept pace with those enrollments. Variances in equitable funding exist in South Carolina across the thirty-three institutions as well as among institutions within each of the sectors.

The purpose of this report in responding to Proviso 11.16 is to provide a review of the higher education parity issue, the current status of funding and parity, and a look ahead.
The Tenet of Equitable Funding

In South Carolina, as in all other states, a formula for higher education has been developed and used to understand the operational needs of colleges and universities and to recommend equitable allocations of state support toward those needs. South Carolina’s original formula was developed in the early 1970s and modeled on other state formulas that considered a number of factors, predominantly enrollment mix and academic programs. It was used to provide the General Assembly with recommended base state funding for E&G purposes and an allocation methodology for distributing any appropriated funds for that purpose. In 1996, a legislative mandate to implement a performance funding system resulted in the Commission on Higher Education (CHE) revising the funding formula. The revised formula, which was subsequently validated by an independent outside organization, was used as the mechanism in the performance funding system to identify the recommended state funding to which performance, as measured by a variety of indicators, could be applied in determining an institution’s allocation of appropriated base state funds. The revised funding formula is known as the Mission Resource Requirement or MRR.

MRR Calculation

The MRR is a sophisticated formula used to calculate the resources required to support an institution’s E&G mission. It is different from a methodology where each student enrollment is weighted equally regardless of the type of student (e.g., equal state funding for undergraduate vs. graduate students) or academic program (e.g., equal funding for students majoring in engineering or chemistry vs. those majoring in history or English). Instead, the MRR accounts for complexities in operating needs that are affected not only by each student enrollment but also by multiple other factors that affect institutional costs, such as student level and the type of academic program.

The MRR, which is typically calculated on an annual basis, considers three-year rolling average enrollments by academic program and level, established student/faculty ratios for each type of program, and peer/regional faculty salary averages by discipline to estimate the bulk of funding needed for instructional expenses. Other components of E&G expenses such as those for libraries, student services, physical plant, and administration are also addressed, and incentive awards are included to encourage increased research and public service activities that are part of approved institutional missions.

The MRR recognizes that funding needed to support E&G activities varies across institutional missions and that these costs are shared by students and the state. Out-of-state students are expected to pay their full costs through tuition and required fees. For South Carolina (in-state) students, the costs are a shared responsibility of our students and the state.

Prior to the MRR, the state’s earlier formula considered a ratio of shared responsibility for in-state undergraduates to be 80% of the costs borne by the state and 20% by the in-state students. With the growth in the late 1990s of state-supported scholarships and grants for in-state students that substantially increased after 2002 with the establishment of the South Carolina Education Lottery, the expected ratio for undergraduates was adjusted to reflect the changing trend in state funding versus student tuition and fees. Presently, the MRR includes an expected equal share (50/50)\(^1\) from in-state undergraduate students and the state. Different expectations for in-state graduate and first-

\(^1\) For technical colleges, the expected ratio is 40 (in-state students)/60 (state) to reflect the sector’s access mission.
professional students are included such that the state share is more in-line with the state’s earlier formula. While the MRR calculates a total need for E&G operating costs, the resulting calculation used in recommending state allocations includes only those costs recommended to support in-state students which is in keeping with a longstanding budget proviso that was ultimately codified in 2011 in Section 59-101-50 of the South Carolina Code of Laws, as amended. This code section provides that state appropriated funds shall not be used to provide subsidies for out-of-state students who attend South Carolina public colleges and universities.

Three primary factors affect the recommended level of state support identified in the MRR.

1) **In-state student enrollment.** Additional students create additional credit hour production which in turn creates the need for more faculty and other instructional resources. The MRR measures the total cost of educating the whole student population, resident and non-resident students. However, 100% of the cost of educating out-of-state students is deducted. Consequently, only in-state student growth creates additional cost, with that cost shared by the students through in-state tuition and fees and by the state through appropriated support.

2) **Academic program mix.** The cost of faculty, instructional resources, equipment, and infrastructure varies significantly by discipline. Colleges and universities with complex and/or high demand programs/majors must compete for qualified faculty in a highly competitive global marketplace. Additionally, non-personnel resources needed to support high-quality programs further contribute to E&G costs.

3) **Student degree level (two-year/four-year undergraduate, graduate, and first-professional).** The cost of delivering instruction is significantly influenced by student/faculty ratios and faculty expectations that vary across degree levels. Faculty who teach in undergraduate (associate and baccalaureate) programs and faculty teaching in graduate programs (masters and doctoral degrees and first-professional programs such as medicine, dentistry, and law) are required to have different credentials and are required to perform with different expectations such as publishing and research in addition to instructing students.

The MRR considers each of these variables, and a few other factors, as described earlier, and calculates operating need at each institution. As stated, the MRR calculation is influenced significantly by the interactions of student credit hour production, faculty and classroom support, and student level, with each affected further by academic discipline. Changes over time in these very dynamic factors have led to differing needs for additional funds. Parity issues do not remain constant, as the parity status of any given institution can change with changes in enrollment and other factors.

State funding decisions for South Carolina’s higher education institutions have not followed the MRR calculation of need for several years. In the early 2000s, when the state experienced a downturn in funding, reductions in funding across higher education were accomplished largely on a pro rata “across-the-board” basis. As the state recovered from the recession in the early 2000s, the majority of subsequent funding increases were targeted in support of particular institutional projects. In 2009, with the Great Recession, funding reductions were again made across-the-board. As the state has begun to recover, funding has again been provided in a targeted manner and predominately from non-recurring or one-time funding sources. Over time, the differences between need and funding have created wide variances in the level of state support relative to the need as calculated with the MRR. This situation is commonly referred to as the parity problem.
FY 2013-14 State Funding and Parity

Table 1 (attached) shows the most recent MRR calculation of the state portion of funding needed to support the education of in-state students per the FY 2012-13 MRR (labeled Column a) and the funding provided by the state in FY 2013-14 through recurring and non-recurring funding in support of college and university E&G operating costs (delineated in Columns b-k with the total from all state sources shown in Column k). The data in Table 1 are shown by institution with institutions arranged by sector (i.e., research, comprehensive teaching, two-year USC regionals, and technical colleges). The percentages displayed in the last column (Column i) provide the ratio of state operating appropriations compared to the MRR need calculation. Subtotals for each sector and sector parity average are also displayed.

The parity problem, which is typically discussed within each of the institutional sectors, is described below statewide and by sector. Disparity, as reflected in Column i of Table 1, exists both within and across the sectors when comparing actual funding levels to the MRR calculation of need.

1) **Statewide.** The range in actual state funding to the MRR calculation across the thirty-three institutions is 24.9% to 58.2% with the statewide average at 36.2%.

2) **Research Institutions.** For research institutions, Clemson University and USC Columbia are funded at similar levels, 47.9% and 46.0% respectively, while the Medical University of South Carolina (MUSC) is funded at 24.9%. MUSC is a free-standing academic health sciences center with predominantly graduate level programs including medicine and dentistry. One aspect of the MRR formula that merits further review is its treatment of medical education, as it has been recognized for some time that the MRR may not be appropriately capturing the very complex nature of medical and dental education.

3) **Comprehensive Teaching Universities.** Among the state’s ten comprehensive teaching institutions, the range in state funding as compared to the MRR is 29.8% to 58.2% with a sector average of 42.7%. Five of the ten comprehensives fall below the sector average.

4) **Two-Year Regional Campuses of USC.** Among the USC two-year regional campuses, the ratio ranges from 28.8% to 50.7% with three of the four campuses falling below the sector average of 36.0%.

5) **Technical Colleges.** For the state’s technical colleges, appropriations are considered collectively. While the MRR can be used to calculate recommended funding levels for the sixteen individual technical colleges, the appropriations are shown aggregated for the sixteen technical colleges. Funding provided to the technical colleges (if not otherwise directed by the General Assembly) is allocated by the technical college system office, which distributes funds to the technical colleges using an internal system funding formula that varies from the MRR. Overall, the technical colleges are funded at 27.9% of the MRR.

The following graph (Figure 1) displays the current percentage of state operating support as a percent of need as determined by the MRR. Also displayed are the averages for each of the sectors and the state.
Conclusion and Recommendations

South Carolina has not used the MRR to allocate E&G appropriations to institutions for some time. Consequently, as institutions have grown and in-state enrollment and program mix have changed, disparities across the universities and colleges continue to evolve.

Discussions about parity in higher education funding typically focus on the need to increase state appropriations to those institutions that are below targeted levels. Parity deliberations rarely consider solutions that redistribute assets from higher funded institutions to lesser funded ones. Although alluring in principle, reallocation efforts on that scale are fraught with challenges and unintended consequences, and for that reason have not been recommended by CHE. Parity concerns should also, in theory, be more easily corrected among institutions that are part of a governance system with central budgeting authority, but that again is more easily said than done. Every institution naturally favors an allocation model that optimizes its individual appropriations.
Presently, leadership is engaged in conversations to establish a new funding allocation model for higher education. Discussions initiated by Governor Haley in 2011 have focused on returning to a model predicated on performance. This model, referred to as Accountability-Based Funding (ABF), would, if adopted, move the state again toward a formula funding model for higher education that focuses on performance measures rather than enrollments and program mix as the primary driver for the distribution of state funds.

In South Carolina, legislation was introduced in 2012 and again in 2013 that would initiate a process for developing an ABF funding model for the research institutions, comprehensive teaching universities, and two-year regional campuses of USC. As 2014 begins, two Joint Resolutions, Senate Bill 266 (S.266) and House Bill 3518 (H.3518), which were introduced in the 2013 session, remain under consideration. Both resolutions require CHE, working with the public universities, to make recommendations for a revised accountability-based funding system for higher education and to bring the recommendations back to the General Assembly for consideration and action. Both exempt the technical colleges. H.3518 passed the House in early 2013 and presently remains in Senate Education. S.266 was reported out of Senate Education late in 2013 and is presently on the Senate calendar awaiting second reading. In recommending S.266, the Senate Education Committee amended the bill to prohibit the use of the MRR relative to any new funding mechanism that is developed.

As conversations evolve concerning the funding of higher education institutions, addressing the issue of parity will be important to many institutions in successfully moving forward with any new funding mechanism. To promote success, an agreement should be reached in partnership with higher education and the state with respect to funding needs and how best to address equitable funding to create a level-playing field going forward.

Ultimately, providing a predictable funding process for higher education is vital to the success of our public colleges and universities and supporting post-secondary access and attainment for South Carolina citizens. The state’s funding system for higher education should provide institutions with clear, transparent, and objective measures that provide reliable and stable funding while encouraging them to align their programs with the articulated priorities and goals of the state. Whether that process focuses on an enrollment-based mechanism, on performance-based accountability, or on some other framework, the critical issue is adherence to providing appropriations through a funding mechanism that incorporates principles of consistency, predictability and sustainability.
### Table 1: Mission Resource Requirement (MRR) and Parity Analysis based on FY 2013-14 Operating Appropriations

<table>
<thead>
<tr>
<th>Total Research Institutions</th>
<th>MRR FY 2013-14</th>
<th>Expected State Share of Need (See Note 1)</th>
<th>FY 2013-14 Recurring Appropriation</th>
<th>Other FY 2013-14 Funding (Non-Recurring) Available to Support Institutional Operations</th>
<th>Total Adjusted: FY 2013-14 State Operating Appropriations</th>
<th>Total Adjusted Approp as a % of Calculated MRR (See Note 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USC-Columbia</td>
<td>$251,140,589</td>
<td>$106,920,131</td>
<td>$1,331,664</td>
<td>$108,251,795</td>
<td>$2,725,000</td>
<td>46.0%</td>
</tr>
<tr>
<td>MUSC</td>
<td>$230,349,706</td>
<td>$58,244,151</td>
<td>$703,011</td>
<td>$58,947,162</td>
<td>$4,527,916</td>
<td>46.0%</td>
</tr>
</tbody>
</table>

#### Column Notes

- **Part 1A Recurring Base**: Total Statewide ($1,330,268,477)
- **BCC & Health/Pay Plan Allocation**: $445,864,905
- **Non-recurring & one-time Part 1A & provisos**: $528,020
- **Capital Reserve Fund (H.3711)**: $9,850,000
- **Other Total**: $36,678,955
- **Total Statewide (See Note 4)**: $36,678,955

**Note 1**: Mission Resource Requirement (MRR) Column (a) displays the most recent calculated MRR for each institution. The MRR is a formula used to estimate an equitable distribution of operating needs for the state’s 33 public colleges and universities and the recommended share of state support based on in-state enrollment. In its simplest form, the MRR is calculated as the total educational and general (E&G) operating costs of an institution, reduced by the student’s share, resulting in the portion recommended to be funded by the state for in-state students.

The MRR considers enrollment and program mix at institutions and calculates costs in the following areas: instruction, research, public service, libraries, student services, physical plant, and administration. The costs for each category (which are derived based on peer, regional, and national data sources) are summed to produce a total recommended E&G operating need. Of that need, recommended state support (column a) is then determined reducing the total calculated operating need by the portion of in-state students share and 100% of the out-of-state students share (i.e. tuition and fees).

**Note 2**: Includes funds appropriated from one-time or non-recurring sources. For USC Sumter, non-recurring funds of $78,750 were appropriated in Part 1A but designated as non-recurring in the Appropriations Act.


**Note 4**: SC Area Health Education Consortium (AHEC) is not reflected in the analysis. AHEC received Part 1A state base appropriations, inclusive of BCC & Pay/Health Plan Allocation, totaling $9,622,989 and received $0 non-recurring funds.

3-January-2014, SC CHE Report on Proviso 11.16, Parity Funding