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Higher Education Funding: *Models Used in Washington and Similar States*

Summary

The 2018 Washington State Legislature directed WSIPP to examine the manner in which higher education is funded and how salary and benefit increases are determined in states comparable to Washington. Further, the legislature directed WSIPP to determine the proportion of state funding that comes from the general fund for higher education in each of these states.

After consulting with representatives from the comparison states, we found:

- Similar to most comparison states, Washington uses a base-plus method to determine higher education appropriations;
- Similar to most comparison states, Washington uses a formula-based method to allocate funding to two-year institutions;
- Like many comparison states, Washington appropriates funding directly to four-year institutions;
- When states do set salary and benefit mandates, funding is not always guaranteed, and in many states, institutions must find revenue from other sources to fund mandates; and
- Washington appropriates a smaller share of its general fund to higher education than most comparison states.

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The 2018 Washington State Legislature directed the Washington State Institute for Public Policy (WSIPP) to review funding models for public higher education in ten states with systems similar to Washington State.[1]

To fulfill this assignment, we interviewed key stakeholders from 11 states with similar higher education systems, including Colorado, Georgia, Illinois, Kansas, Minnesota, Ohio, Oregon, Tennessee, Texas, Virginia, and Wisconsin.[2]

Many states do not have a uniform funding model for all higher education sectors (e.g., universities and community colleges). Therefore, when applicable, we will discuss the division of higher education sectors in each state and the differences in how each is funded.

This report proceeds as follows: Section I gives a brief overview of the assignment. Section II outlines the differences in the division of budget-setting, tuition-setting, and salary-setting authorities by state. Section III discusses the funding methods used for higher education appropriation and allocation. Section IV compares funding levels across the surveyed states. Section V summarizes our findings.

[1] Engrossed Substitute Senate Bill 6032, Chapter 299, Laws of 2018.
[2] A full description of the state selection process is included in Appendix I.

I. Overview

To address this legislative assignment (see sidebar), we compare Washington's higher education funding model to models from 11 similar states. The comparison states were selected using quantitative and qualitative measures along three main dimensions: size, structure, and governance.

We gave extra weight to measures that were unique to Washington's higher education system. For example, Washington has one of the largest community and technical college (CTC) systems in the country. We excluded states with small CTC systems from our analysis, even if they closely matched Washington's postsecondary system on other dimensions. Appendix I describes our state selection process in detail.

We identified 15 states that most closely matched Washington's higher education system. We reached out to representatives in the higher education governing/coordinating boards and legislative bodies in these states to learn about their funding processes. We interviewed representatives from 11 states including Colorado, Georgia, Illinois, Kansas, Minnesota, Ohio, Oregon, Tennessee, Texas, Virginia, and Wisconsin.[3]

Legislative Assignment

...for [WSIPP] to review the higher education funding models in ten states with higher education systems that are similar to Washington state...

The review must include a breakdown of:

(i) The method used to determine state funding levels for institutions of higher education;

(ii) The proportion of state funding that comes from the state general fund or that state's equivalent accounts for salary and benefit increases at institutions of higher education;

(iii) The manner in which salary and benefit increases are determined at or on behalf of employees at institutions of higher education;

(iv) The total proportion of state funding that comes from the state general fund or that state's equivalent accounts for institutions of higher education.

Engrossed Substitute Senate Bill 6032, Sec. 606 (23a), Ch. 299, Laws of 2018

We combined the responses from these interviews; analysis using data from the National Association of State Budget Officers (NASBO), the State Higher Education Executive Officers Association (SHEEO), and The Integrated Postsecondary Education Data System (IPEDS); and information collected from other sources to create a holistic view of the funding and decision making processes in these states.

[3] We were unable to speak with representatives from Florida, Kentucky, Louisiana, Missouri and the technical college system of Georgia.

In this report, we first examine the organization of funding authority in each state. Through our interviews, we found that higher education budget- and salary-setting authority are typically divided among the following key stakeholders:

- State government, including executive and legislative branches;
- Local government;
- State governing/coordinating board(s); and
- Institutional governing boards.

We examine the influence that each stakeholder has on key higher education funding decisions. These include determining appropriations levels, setting tuition levels, and determining salary and benefits for higher education employees.

Next, we examine the funding models that the comparison states use to determine appropriations and allocations.

Finally, we compare higher education funding levels in Washington with the 11 states we interviewed. We outline the history of higher education funding in Washington. We examine how higher education funding from the general fund in Washington compares to other states. We also explore how the proportion of different types of state funding varies by state.

Detailed information about each state's funding model, including a summary for all twelve states (including Washington), is included in Appendix II.

II. Funding Authority

Higher education institutions receive funding directly from a number of sources including, but not limited to, state appropriations, federal grants, and local revenue. Higher education institutions may also receive federal, state, and/or local funding indirectly through sources like student financial aid grants.

In the states we interviewed, we observed that higher education institutions receive most of their funding through state appropriations and tuition.

Exhibit 1

Understanding the Roles of Stakeholders

State Government: Has ultimate authority to appropriate funds to higher education. In general, the state legislature approves the higher education budget, but the governor has some veto authority. The state may delegate a portion of its authority to local government, higher education governing/coordinating board (boards), and/or institutional governing boards.

Local Government: May have primary or shared authority over some higher education institutions, typically community colleges. The local governments' role varies widely from state to state and depends largely on the way that the community college system evolved in the state over time. In some states, local governments have primary authority over community colleges and provide a majority of funding. In others, the state and local government have shared authority. In these cases, the state and local government also share financial responsibility.

State Governing and Coordinating Boards: Higher education governing and coordinating boards act as liaisons between the state government and higher education institutions. The power of the boards varies by state, with some serving an advisory role and others having more authority. In general, governing and coordinating boards carry out similar responsibilities including administering financial aid, creating strategic plans for the higher education system, developing budgets, approving programs, and allocating state appropriations across the higher education system in a given state. In all of the states interviewed, the governor or a branch of the legislature appointed a majority of board members.

The definition of coordinating and governing agencies can vary across states. In this report we consider coordinating agencies to be those focused on system-wide higher education needs, whereas governing boards have the authority to set policies that dictate operations and personnel decisions for individual institutions.

Institutional Governing Boards (may also be referred to as Board of Regents, Board of Trustees, or Board of Governors): An institutional governing board is the board of directors for an institution of higher education. Although not standard, we also use this term to refer to boards of multi-campus university systems, like the University of Washington, in order to distinguish these boards from state boards, which govern all institutions or institutions in a specific sector (e.g., all universities, all four-year institutions, all technical and community college).

Federal Government: The federal government plays a limited role in budgeting and salary/benefit decisions. It plays a significant role in providing funding to higher education through student aid grants, loans, research grants, and other items.

In many of the states we interviewed, higher education employees are considered state employees. As such, it is possible for higher education employees to be subject to state-mandated changes to salaries and benefits for state employees. The state may also be responsible for contractual changes in salaries and benefits offered to higher education employees.

Understanding higher education funding requires considering at least three factors:

1) How states appropriate higher education funding;
2) How states control tuition (the other large source of funding for institutions); and
3) Whether states impose mandates that limit institutional spending.

The interaction among these three factors explains higher education funding authority. We consider each factor in this section.

We find that relative to comparable states,

- Washington's four-year institutions play a more direct role in the budget process;
- Washington's higher education institutions have less autonomy when setting tuition levels;
- Washington's legislature has more influence on salaries and benefits given to higher education employees; and
- Washington funds higher education mandates in a manner similar to other states with salary and/or benefit mandates.

Exhibit 2

Key Funding Terms

General Fund: A fund established to account for all financial resources and transactions except those required by law to be accounted for in specific dedicated accounts.

Appropriation: A legal authorization to make expenditures and incur obligations for specific purposes from a specific account over a specific time period. Appropriations typically limit expenditures to a specific amount and purpose within a fiscal year or biennial timeframe. Only the legislature can make appropriations in Washington State.

Allocation: Spending authority assigned to an agency from a lump-sum appropriation that is designated for expenditure by specific governmental units and/or for specific purposes, activities, or objects. For example, the legislature may provide a lump-sum appropriation to the Office of Financial Management (OFM) for allocation to agencies on an as-needed basis or according to specified criteria.

Source: General Fund, Appropriation, & Allocation. (2017). *Office of Financial Management: Glossary of budget terms.*

General Authority

State governments have the ultimate authority to appropriate funds for higher education. State coordinating/governing boards and institutional governing boards can influence appropriation levels for higher education, in general, as well as allocations made to individual institutions. The extent of this influence varies from state to state.

Institutional governing boards and state governing/coordinating boards influence this process through their role in developing the budget request and the extent to which the budget request informs state appropriations.

We categorize the role of higher education institutions in the budget request process as follows:

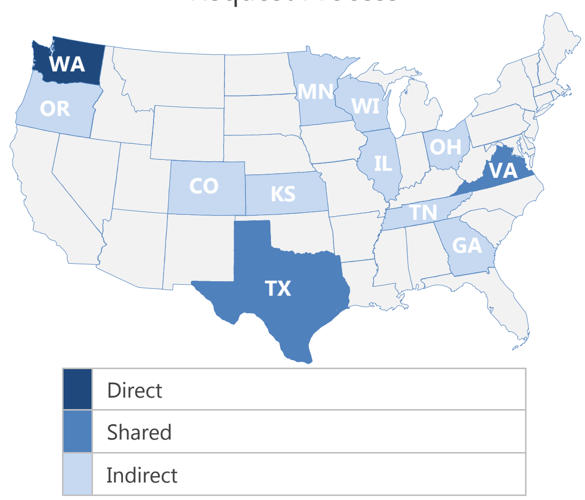
- Direct: Institutions submit their budget request directly to the governor's office, legislative body, or both;
- Shared: A coordinating board or other intermediary submits a request or recommendation for the higher education system or a sector as a whole, but institutions also submit individual budget requests to the governor's office, legislature, or both; or
- Indirect: Institutions submit their budget request to a governing/coordinating board or another intermediary who compiles requests into a unified request and submits it to the governor's office, legislative body, or both.

Two-year institutions have indirect influence on the budget request in all states interviewed, expect Texas. [4]

Nine of the states interviewed reported that four-year institutions have an indirect influence.[5] Texas and Virginia both have shared influence.[6] Washington is the only state where four-year institutions have a direct influence.

Exhibit 3

Four-Year Institutions' Role in the Budget Request Process



We present a full summary of the general budget authority structure for Washington and all the comparison states in Appendix III.

[4] In Texas, two-year institutions have shared influence.

[5] The University of Minnesota operates outside of the Minnesota State system and likely submits its own budget request to the state. However, Minnesota is categorized as having indirect influence (rather than shared influence) because this special relationship applies only to the University of Minnesota system and not to all universities or four-year institutions in the state.

[6] In Texas, institutions submit budget requests directly to the legislature. Unlike Washington, these requests are considered along with formula funding model recommendations made by the Texas Higher Education Coordinating Board. In Virginia, Individual institutions submit a budget request for institution specific funding. However, the coordinating board also submits a general budget request for funding needs which are common across all institutions (examples of common funding needs include funds determined by the state's funding model and salaries).

Tuition-Setting Authority

In the states we interviewed, tuition-setting authority is usually held by the state governing/coordinating board or by the institutional governing boards, while the state legislature typically retains the ability to cap tuition or tuition increases. In this report, we define institutional governing boards and/or coordinating/governing boards as having tuition-setting authority if they are given the ability to set tuition through statute.

Exhibits 4 and 5 show which stakeholders have tuition-setting authority for two-year and four-year institutions.

Exhibit 4

Statutory Tuition-Setting Authority for Two-Year Institutions

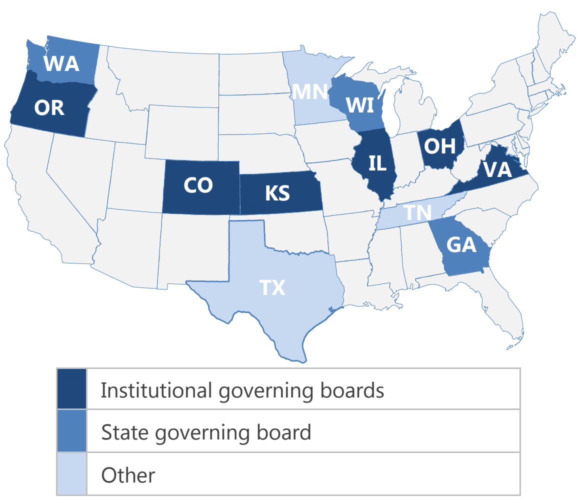
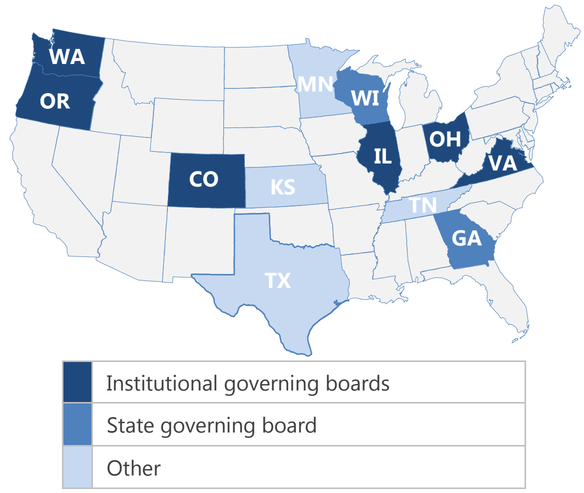


Exhibit 5

Statutory Tuition-Setting Authority for Four-Year Institutions



Kansas, Minnesota, Tennessee, and Texas have unique tuition-setting authorities.

- In Kansas, different types of universities have different tuition-setting authority.
- In Minnesota, the state legislature has official authority, but the state governing board sets tuition if the legislature chooses to not use its authority.[7]
- In Tennessee, tuition-setting authority is divided between the state coordinating board and the institutional governing boards.
- In Texas, there are three types of tuition, each with a different type of institutional authority.[8]

[7] In addition, the University of Minnesota is controlled by neither the state legislature nor the governing board and has institutional tuition-setting authority.

[8] Texas' three types of tuition include statutory tuition, board-authorized tuition, and designated tuition. The legislature sets statutory tuition, which does not apply to community colleges. Institutional governing boards set board-authorized tuition (within legislative limits), as well as designated tuition.

Full details are included in the state summaries in Appendix II and in the tuition-setting authority summary in Appendix IV.

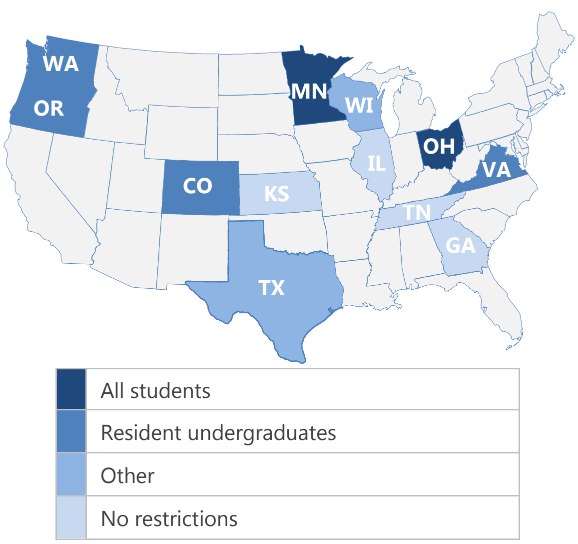
Tuition Restrictions

Beyond specific tuition-setting authority established in statute, we also observe that state legislatures often set limits on the maximum amount of tuition charged or the maximum allowable year-over-year tuition increase. In practice, this can be equivalent to setting tuition. States reported that institutions often charge up to, or close to, the maximum allowable tuition.

Most state legislatures in our comparison group have placed caps on tuition or tuition increases, often as caps on resident undergraduate tuition. Exhibit 6 (on the next page) outlines the type of restrictions state legislatures have placed on tuition.

Exhibit 6

Type of Restrictions Legislatures Place on Tuition



In Georgia, Kansas, Illinois, and Tennessee, the legislatures do not set any limits on tuition.[9] Texas and Wisconsin have special tuition-setting restrictions.[10]

The role of tuition relative to state funding varies between states that exercise control over tuition increases. During our interviews, some states reported that tuition was seen as a counterbalance to state funding.[11] For example, some states reported that the legislature allowed tuition increases during a recession to compensate for decreases in appropriations. States also reported instances when the legislature increased state funding with a mandate or expectation that institutions would not increase tuition or increase tuition by a modest amount.[12]

Other interviewees reported that their states consider tuition and appropriation levels separately. For example, some interviewees reported that their legislature froze tuition during a recession while simultaneously cutting funding which resulted in reductions to programs and staffing.

[9] The Minnesota legislature sets tuition restrictions for tuition at all institutions except for those in the University of Minnesota system. In Tennessee, the state governing board can tuition ranges for institutions.

[10] As previously stated, Texas has three separate tuitions. The board-authorized tuition, which is set by the institutional governing board, is limited by the legislature and applies only to graduate students. In Wisconsin, the legislature controls the maximum level of resident tuition allowable in the University of Wisconsin System. The Board of Regents has discretion over the out-of-state tuition maximum. The Wisconsin Technical College System (WTCS) Board has complete authority over tuition at technical colleges.

[11] The ability of higher education institutions to offset appropriation changes with tuition changes varied by institution and institution type. For example, states reported that two-year institutions were less able to make up funding reductions through tuition increases.

[12] WSIPP interviews with agency officials from December 2018 through February 2019.

We present a summary of tuition-setting authority for Washington and all the comparison states in Appendix IV.

Salary- and Benefit-Setting Authority

In most states interviewed, higher education employees are considered state employees. The states reported exerting very limited control over salaries and benefits for higher education employees. Exhibits 7 and 8 show which state institutions have the sole salary- and benefit-setting authority.

Exhibit 7

Salary- and Benefit-Setting Authority for Two-Year Institutions

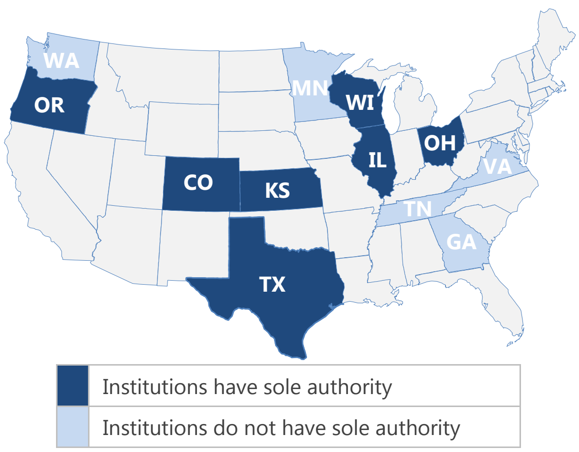
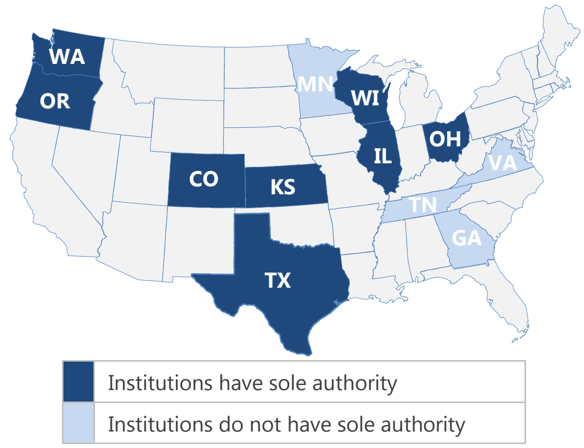


Exhibit 8

Salary- and Benefit-Setting Authority for Four-Year Institutions



In most cases, faculty salaries and benefits are determined at the institutional level.[13] There are some exceptions.

- Georgia—salary and benefits are set by the institutional governing boards and/or the state governing board.
- Minnesota—salary and benefits are negotiated between the legislature and either the state governing board or the Department of Management and Budget.
- Tennessee—salary and benefits are set by the state coordinating board.
- Virginia—institutions set faculty salaries, but salaries for classified[14] staff are set by the state human resources department.

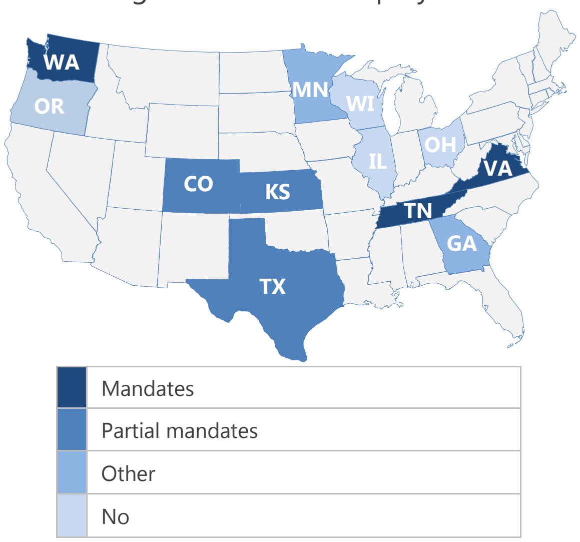
[13] In Kansas, the institutional governing board sets the salary of the six state university CEOs. We still classify Kansas as the state having sole authority because all but these six salaries are set by the institutions.

[14] Employees designated as classified staff vary from state to state. In some states, faculty are included in classified staff.

About half of the interviewed states have set salary and benefit mandates for at least some higher education employees. Exhibit 9 shows which states have salary and benefit mandates for higher education employees.

Exhibit 9

State-Set Salary and Benefit Mandates for Higher Education Employees



Colorado, Kansas, and Texas have partial mandates.[15] Georgia and Minnesota do not technically have mandates but do have influence on salaries and benefits for higher education employees.[16]

In most cases, these mandates are funded proportionally, which means that the state only funds salary and benefit increases for the portion of salaries already covered by the state general fund. The state legislature generally does not cover increases for salary and benefits that are paid for through other sources (e.g., tuition, grants). In several examples brought to our attention during interviews with other states, funding was not proportional to the mandated increase. In these instances, institutions had to determine how to fund salary and benefit increases through other sources.

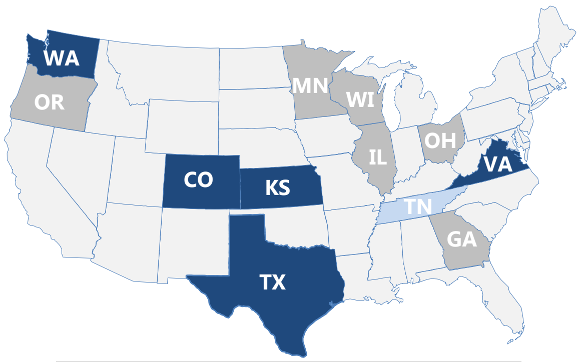
[15] Colorado has salary and benefit mandates for classified staff but not for exempt staff. Kansas only has salary and benefit mandates for state university employees. Texas has mandates for retirement benefits and partially funds health plans but does not typically have salary mandates.

[16] Georgia provides salary and benefit increases to be distributed to employees based on merit. The funding cannot be used for across-the-board salary increases. Institutions do not need to match the funding. Minnesota does not have salary and benefit mandates, but system-wide changes to salaries and benefits (e.g., salary steps, COLA, retirement contributions) must be negotiated with the legislature.

Exhibit 10 shows which of the five states with salary and benefit mandates require higher education institutions to fund the portion of the mandate not covered by state funding.

Exhibit 10

Institutions Having to Fully Fund Salary and Benefit Mandates



■	Institutions must fully fund
■	Institutions do not have to fully fund
■	Not applicable

Five states, including Washington, require higher education institutions to fully fund salary and benefit mandates.

In Tennessee, institutions must use the entire amount of funding allocated for increases to salary and benefits. However, institutions are not required to provide additional funding to cover salary and benefit increases for employees not covered by state funding.

We present a summary of salary- and benefit-setting authority and decisions for Washington and all the comparison states in Appendix V.

III. Funding Method

WSIPP was directed to review the higher education funding models in states with public postsecondary systems similar to Washington. In this section, we summarize the primary funding methods each state uses to determine higher education appropriations and allocations. We then elaborate on the details of each method.

In our review, we observed that state governments use three main funding methods to determine overall higher education appropriations and allocation to institutions:

1) Base-plus,
2) Formula-based, and
3) Performance-based.

When states use a base-plus method, higher education appropriations and allocations are determined by increasing or decreasing funding from an established "base" amount of funding. When states use a formula-based method, higher education appropriations and allocations are based on the operating costs of the institutions. When states use a performance-based method, higher education appropriations and allocations are based on student outcomes and the relative achievement of statewide higher education priorities at each institution.

Washington uses funding methods common among several other states interviewed.

- Like eight other states, appropriations to both two- and four-year institutions are made through a base-plus method;
- Like six other states, allocations to two-year institutions are done using a formula method; and
- Like five other states, appropriations are made directly to four-year institutions, rather than appropriating funds to a governing/coordinating board for allocation to institutions.

We classified states in Exhibit 11 based on the primary method used for higher education appropriation and/or allocation. For example, many states classified as formula-based included components that measured performance in their model. States were only classified as performance-based if a majority of their funding was distributed using a performance-based model.

Exhibit 11

Summary of Appropriation and Allocation Methods Used by States

State	Appropriations		Allocations	
	Two-year institutions	Four-year institutions	Two-year institutions	Four-year institutions
Washington	**Base-plus**	**Base-plus**	**Formula**	**Not applicable** [a]
Colorado	Base-plus [b]	Base-plus [b]	Performance	Performance
Georgia	Formula	Formula	Unknown [c]	Other [d]
Illinois	Base-plus	Base-plus	Formula	Not applicable [a]
Kansas	Base-plus	Base-plus	Base-plus	Not applicable [a,e]
Minnesota	Base-plus	Base-plus	Formula	Formula [f]
Ohio	Base-plus	Base-plus	Performance	Performance
Oregon	Base-plus	Base-plus	Formula	Performance
Tennessee	*Community colleges:* Performance *Technical colleges:* Formula	Performance	*Community colleges:* Performance *Technical colleges:* Formula	Not applicable [a]
Texas	Formula	Formula	*Community colleges:* Formula *Technical colleges and Lamar State Colleges:* Not applicable [a]	Not applicable [a]
Virginia	Base-plus	Base-plus	Base-plus [g]	Base-plus [g]
Wisconsin	Base-plus	Base-plus	Formula	Not applicable [a]

Notes:

[a] Funding is appropriated directly to the institutions.
[b] Appropriation is informed by the allocation method.
[c] Because we were unable to contact a representative for Georgia's technical colleges, the allocation method for two-year institutions could not be verified.
[d] In Georgia, allocations are determined through an internal budget hearing process between the Board of Regents and leadership at individual institutions.
[e] Excludes the municipal university (which receives base-plus allocation).
[f] Excludes the University of Minnesota System (which has a base-plus allocation system).
[g] Virginia uses a formula to calculate funding needs but it is informational only.

Base-Plus Funding Method

With a base-plus funding approach, states determine higher education funding levels based on the previous level of funding (base funding), plus or minus an incremental amount. Typically, the incremental funding is determined by changes in need, the economic outlook in the state, legislative priorities, and budget requests from governing boards and institutional boards. However, some states have based the incremental funding on formula or performance measures. This is the primary method states in our sample use for determining overall state appropriations for higher education.

Formula-Based Funding Method

With a formula-based funding approach, states determine funding using bottom-up estimation. For example, a typical formula will allocate funding based on historic enrollment in a menu of courses and the weighted average cost to provide those courses.[17] States may also include other cost considerations in their formulas.[18]

Funding formulas are sometimes used to calculate overall appropriations for higher education but they are more frequently used to allocate funds across institutions.

[17] The cost of providing a course is usually measured by the average historic cost of providing that type of course in the state.

[18] For example, Wisconsin's formula model is designed to compensate for differences in local funding caused by differences in property values across districts.

Performance-Based Funding Method

With a performance-based funding approach, institutions receive funding based on student outcomes following initial enrollment. These outcomes include measures of student retention and progress, progress of at-risk and underrepresented student populations, the number of students enrolled in STEM fields and other targeted majors, degree completion, course completion, and, in some cases, labor market outcomes for students who have left the program.

Since performance-based funding is typically used for allocation and not appropriation, funding usually depends on each institution's relative performance within a state.[19]

[19] Tennessee is the only state in our study that uses a performance-based model for state appropriations.

IV. Funding Level

In this section, we compare state government support for higher education in Washington to the comparison states. We focus on 1) the proportion of the general fund appropriated to higher education, 2) how states distribute appropriations to institutions, and 3) how the general fund is used to fund salaries and benefits.

- Washington appropriates a smaller share of its general fund to higher education than the comparison states. This is true even if one considers lottery revenue, which many states use to fund higher education, as a component of the general fund.
- Washington distributes a larger share of appropriated dollars to higher education via need-based student financial aid, rather than through general purpose disbursement to institutions.
- Higher education institutions typically expect the state to pay part of the cost of state-mandated increases in employee salary and benefits. Institutions that are more reliant on state appropriations expect the state to pay a larger share.

State Appropriations to Higher Education

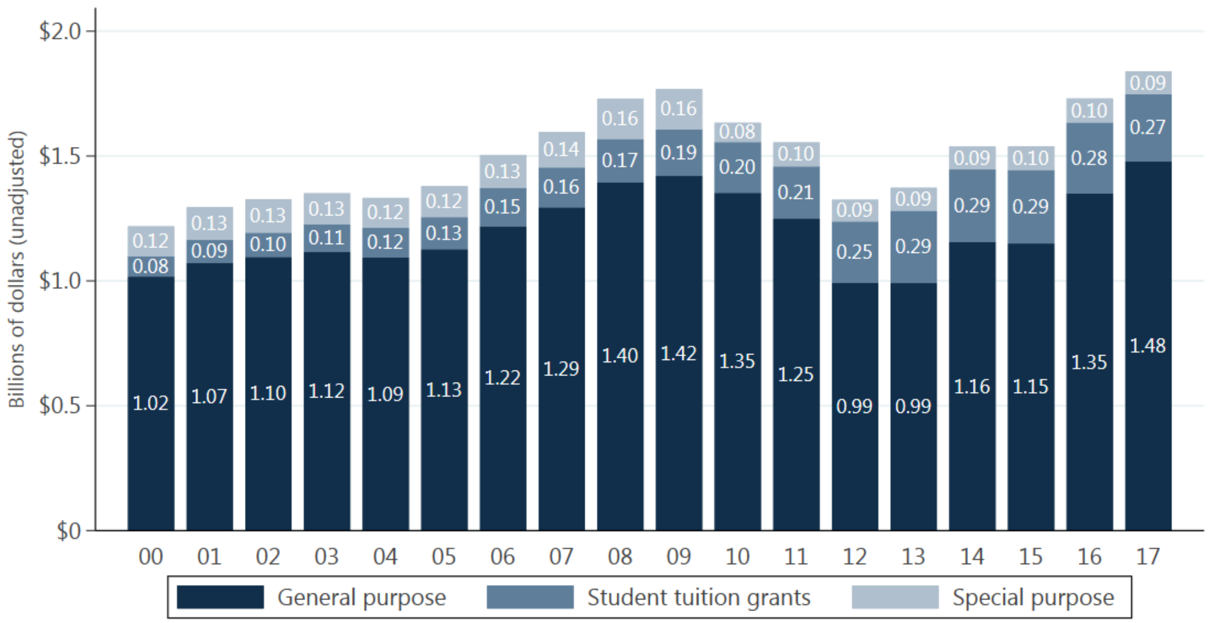
Nationally and in Washington, increases in state appropriations for higher education have approximately kept pace with inflation since the early 2000s. Exhibit 12 shows Washington appropriations by funding type and year. In 2000, Washington appropriated $1.02 billion directly to institutions, funded $81 million in tuition grants to students, and awarded $120 million in special purpose funding. The combined total appropriations grew from $1.22 billion in 2000 to $1.84 billion in 2017.[20] This is an average annual increase of 2.5% per year, which is similar to the 2.2% annual rate of inflation for the same period.[21] While appropriations decreased during the 2008 recession and rebounded afterward, appropriations in inflation-adjusted dollars have not clearly trended upward or downward.

During the same period, full-time equivalent (FTE) enrollment increased 20%.[22] In order to continue operations with a constant level of state support, public colleges, as Exhibit 13 shows, have become increasingly reliant on tuition as a source of revenue. These trends are not unique to Washington. Nationally, growth in enrollment has outpaced growth in appropriations, as states have appropriated smaller proportions of general fund dollars to higher education.[23]

[20] State Higher Education Finance, FY 2017. *State Higher Education Executive Officers*. (SHEEO).
[21] U.S. Bureau of Labor Statistics, U.S. Department of Labor.
[22] In 2000, non-medical FTE enrollment was 198,984. In 2017, it was 239,481. See Exhibit A10 for additional detail.
[23] State Higher Education Finance, FY 2017. *State Higher Education Executive Officers*. (SHEEO).

Exhibit 12

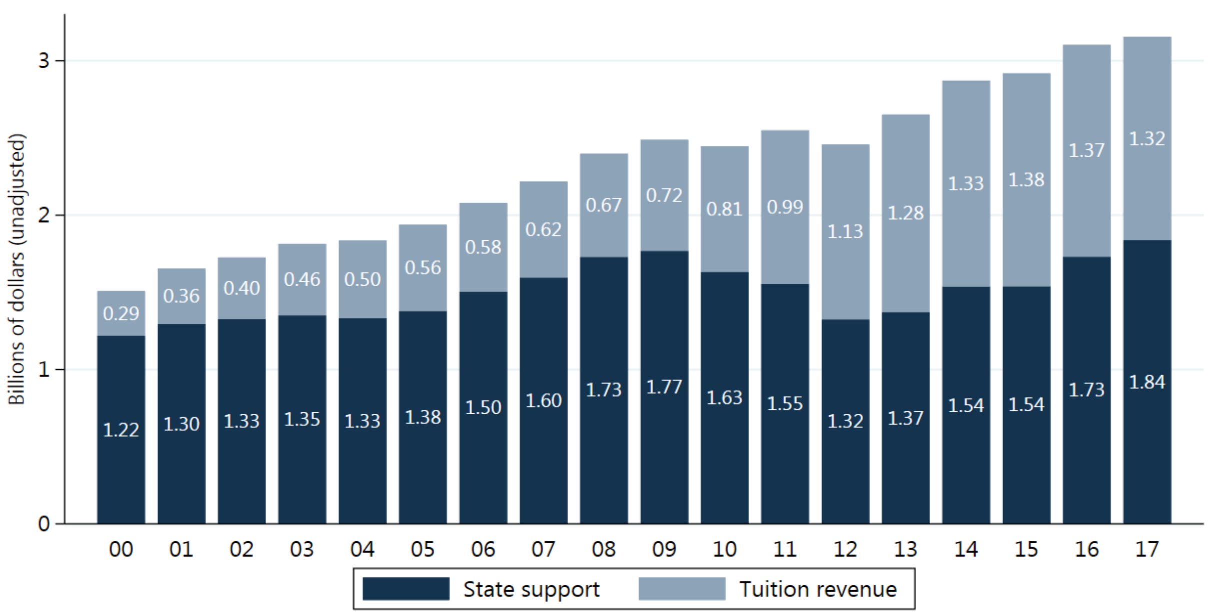
Public Higher Education Funding in Washington, by Fiscal Year and Type of Funding



Notes:
Unadjusted dollars.
Special purpose appropriations are appropriations for research, agriculture programs, and medical education.
Source: State Higher Education Executive Officers Association (SHEEO).

Exhibit 13

State Support and Tuition Revenue for Public Higher Education in Washington, by Fiscal Year



Notes:
Unadjusted dollars.
State support includes all forms of state support from Exhibit 12.
Source: State Higher Education Executive Officers Association (SHEEO).

Proportion of General Fund or Equivalent for Institutions of Higher Education

Comparing the proportion of the general fund appropriated to institutions of higher education across states requires standardization in terminology and accounting methodology. We focused on fiscal years 2015 and 2016,[24] and we used the approaches developed by the National Association of State Budget Officers (NASBO)[25] and the State Higher Education Executive Officers Association (SHEEO).[26]

In 2016, using the NASBO methodology, Washington appropriated 8.3% ($1.5 billion of $18.2 billion) of its general fund to higher education (see Exhibit 12). This proportion was lower than all other states in our comparison group except for Minnesota. A limitation of the NASBO methodology is that general fund dollars typically excluded lottery dollars, which is a significant source of state support for public higher education in Washington and many other states.

Rather than focusing only on the general fund, the methodology developed by SHEEO considers state tax and lottery revenues when comparing state appropriations to higher education. The measure includes support for general operations, student tuition grants, and funding for special purposes, such as research, agriculture, and medical education. By this measure, states appropriated a smaller proportion of available revenue to higher education. Washington was closer to the middle of the comparison group (see Exhibit 13).[27] In 2015, Washington appropriated 4.6% ($1.58 billion of $34 billion) of tax and lottery revenue to higher education.[28] Results were similar using other recent fiscal years.[29]

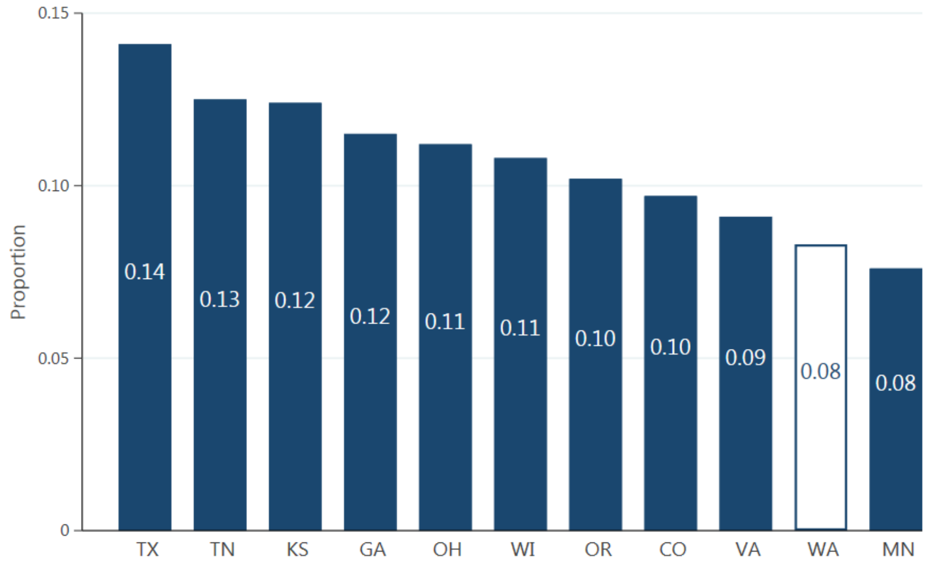
Overall, compared to Washington, using either methodology we found that seven states allocated a larger proportion of their general fund revenue to higher education: Georgia, Kansas, Oregon, Tennessee, Texas, Virginia, and Wisconsin. We found that one state, Minnesota, allocated a smaller proportion of its general fund revenue to higher education. How Washington compared to Colorado and Ohio varied by accounting methodology.

Our preferred methodology is SHEEO's because of its greater detail. These results put Washington behind Georgia, Kansas, Tennessee, Texas, and Wisconsin. Washington's funding was on par with funding in Minnesota, Ohio, Oregon, and Virginia. It is less clear how funding in Washington compares to Colorado, in part because Colorado's higher education accounting can be more difficult to standardize with other states' approaches.

[24] The appendix includes comparisons dating back to 2001.
[25] 2018 State Expenditure Report (2018). *National Association of State Budget Officers (NASBO).*
[26] State Higher Education Finance, FY 2017. *State Higher Education Executive Officers.* (SHEEO).
[27] We omit Illinois as a comparison state because FY16 was an atypical year for higher education funding and differences in how Illinois's state funding is tracked.
[28] $1.58 billion is greater than the $1.54 billion shown in Exhibit 12 for FY2015 because of the inclusion of appropriations to independent higher education institutions.
[29] Appendix Exhibit A8 shows that, since 2010, the percentage of Washington's tax and lottery dollars for higher education has been at least one point lower than the comparison state average (e.g., 5% versus 6% of combined tax and lottery dollars appropriated to for higher education).

Exhibit 14

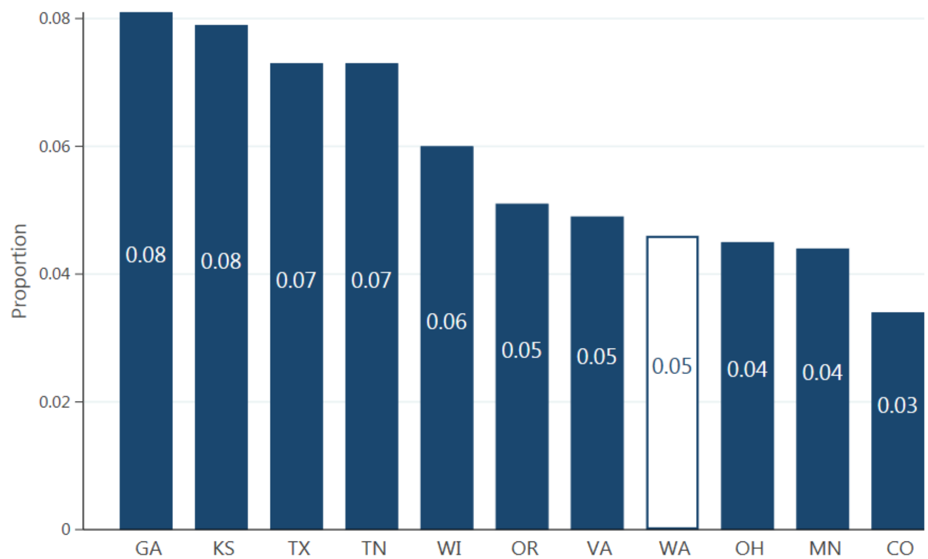
Proportion of General Fund Appropriations to Higher Education, by State: NASBO FY16



Note:
Source: National Association of State Budget Officers (NASBO).

Exhibit 15

Proportion of Tax and Lottery Revenue Appropriated to Higher Education, by State: SHEEO FY15



Note:
Source: State Higher Education Executive Officers Association (SHEEO). Fiscal year 2016 data were not available.

Alternative Metrics for Comparing Higher Education Funding Across States

We considered two other metrics for comparing higher education funding across states. The first was the proportion of *total* state funding for higher education that came from the general fund. The underlying question was whether non-general fund state funding could explain some of the difference between Washington and other states. Unfortunately, the available data with broader measures of state funding (e.g., NASBO) included tuition revenue as a source of state funding, and we did not want to consider tuition paid by students as a form of state support for higher education.

The second alternative metric was appropriations per full-time equivalent (FTE) enrollment in "adjusted dollars," for which SHEEO has also developed a methodology to help facilitate between-state comparisons. Rather than comparing states in terms of the proportion of general fund allocated, the intended comparison is dollars appropriated relative to the anticipated cost of the education provided. Because the focus of this metric is educating students, SHEEO's approach for this comparison excludes special purpose appropriations for research, agriculture programs, and medical education. Medical education is excluded because medical school funding varies substantially across states.[30] The adjusted dollars reported take into account a state's cost of living and higher education enrollment mix.[31] Dollars appropriated in states with a relatively high cost of living, such as Washington, are adjusted downward. Dollars appropriated in states with a larger share of students in less expensive degree programs, such as Washington,[32] are adjusted upward.[33]

Exhibit 16 shows that, by this metric, Washington tended to appropriate dollars above the comparison group average during periods where the economy was relatively strong (2006-2008 and 2015-2016) and below the comparison group average when the economy was relatively weak (2001-2002 and 2010-2013).[34] Analyses in Appendix VI show that this cyclical pattern was attributable to greater decreases in appropriations in Washington relative to the comparison states during economic upturns or downturns, not to greater changes in FTE enrollment (see Exhibits A9 and A10).

Notwithstanding variability by year, on average, Washington compares more favorably on adjusted appropriations per FTE than previous measures mainly for two reasons. First, Washington has more lottery and tax revenue, relative to FTE enrollment, than any other comparison state except Minnesota. Essentially, Washington has fewer students enrolled in postsecondary education than one might expect given its tax and lottery revenue. [35]

[30] State Higher Education Finance, FY 2017. *State Higher Education Executive Officers.* (SHEEO). *Glossary of Terms.*

[31] Differences between states with respect to cost of living and enrollment mix were estimated using data from 2014-2016 and applied retroactively to previous years (SHEF FY17, Technical Paper B).

[32] Washington's ratio of public two-year enrollment to public four-year enrollment was higher than any of the comparison states (Exhibit A11).

[33] SHEEO's approach for comparisons of adjusted appropriations per FTE excludes medical education—from FTE enrollment and state appropriations.

[34] These periods do not correspond exactly to measures of economic growth for the same periods but rather with the strength of the economy during the year when the appropriations were determined.

[35] Determining what enrollment levels to expect based on Washington's tax and lottery revenue and other factors

Second, as discussed in the next section and shown in Exhibit 17, Washington allocates a smaller proportion of its appropriations to research, agriculture, and medical education. Because SHEEO's methodology omits this kind of spending from its measure of appropriations per FTE, Washington compares more favorably. The enrollment mix adjustment also favorably affects Washington but less substantially. The cost of living adjustment adversely affects Washington's relative position.

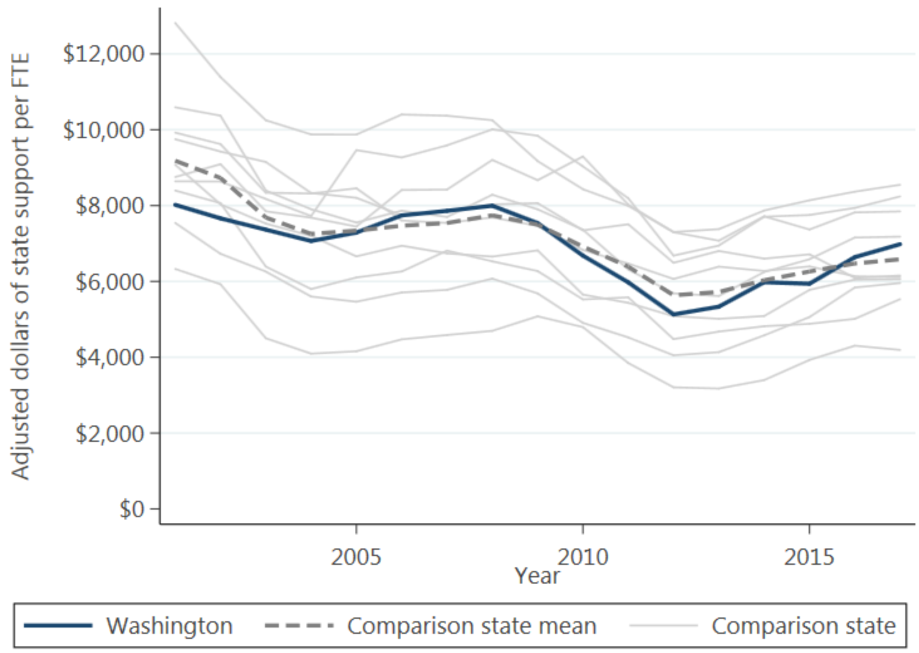
Finally, Washington's larger than average decrease in appropriations during economic downturns—periods that coincide with greater postsecondary enrollment—suggest a potential limitation of comparisons on a per-FTE enrollment basis. Implicitly, enrollment-adjusted comparisons assume that reductions in appropriations do not affect the number of students served. If reductions in state appropriations decrease the number of students an institution has the capacity to serve, then the measure would not capture unmet student demand for education.[36]

would require further analysis, which is beyond the scope of this report.

[36] For example, a decrease in appropriations could lead institutions to eliminate or reduce certain programs. Alternatively, a decrease in appropriations could lead institutions to raise tuition, which could have a negative effect on enrollment.

Exhibit 16

State Appropriations, in Adjusted Dollars, per Full-Time Equivalent (FTE) Enrollment, by Fiscal Year



Notes:
Source: State Higher Education Executive Officers Association (SHEEO).
Special purpose appropriations for research, agriculture, and medical education are excluded.
Dollars adjustments apply SHEEO's methodology, which accounts for inflation, cost of living differences between states, and the mix of FTE enrollment across degree programs.

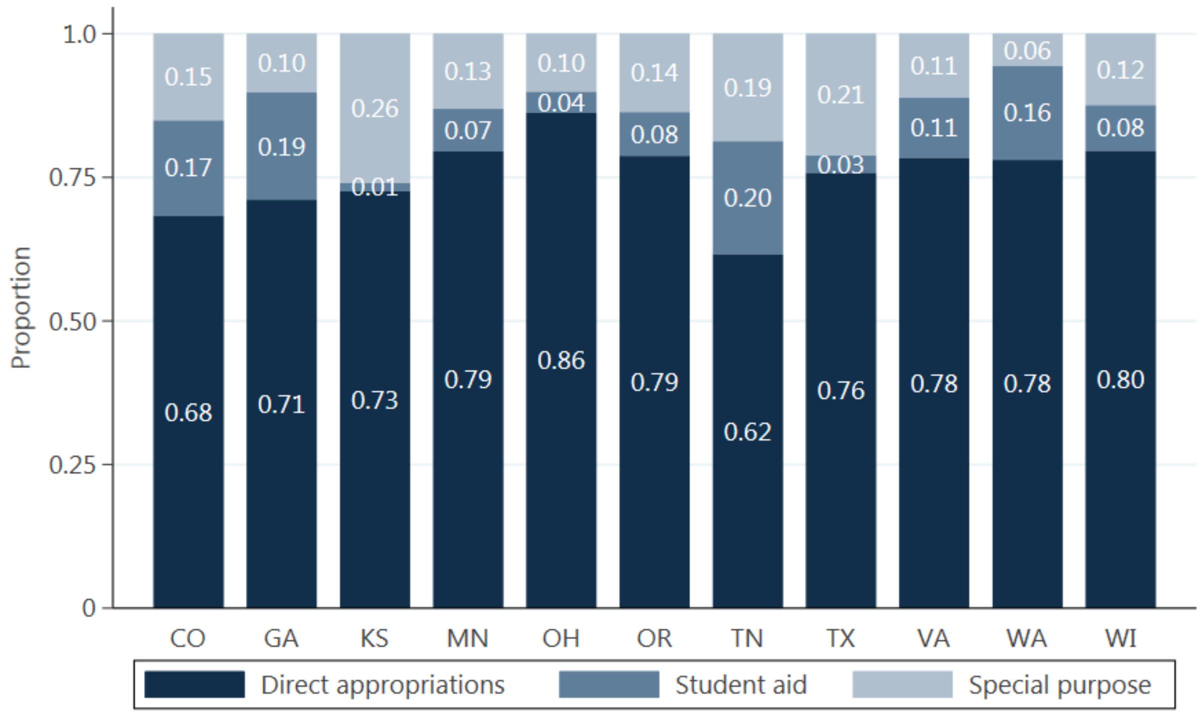
How General Fund Dollars are Disbursed to Higher Education Institutions

States that fund higher education at similar levels do not necessarily fund higher education in the same way. A distinctive feature of Washington's disbursement of public dollars to postsecondary institutions is its focus on need-based financial aid to students. Rather than allocating lottery revenue directly to institutions, lottery revenue largely funds the State Need Grant (SNG) and College Bound Scholarship (CBS). The institution where a student chooses to enroll receives the student's SNG and CBS dollars. Approximately 15%-16% of higher education appropriations are disbursed through need-based financial aid to students at public institutions, which is a substantially higher proportion than most comparison states (see Exhibit 17).

Compared to other states, a relatively small proportion of state higher education funding in Washington is appropriated for special purposes, such as research, agricultural programs, and medical education. Note that the inclusion or exclusion of special purpose appropriations is one reason why Washington was near the average in FY15 and FY16 by the measure used in Exhibit 16 (which excludes special purpose funding) but below the average in Exhibit 15 (which includes special purpose funding).

Exhibit 17

Higher Education State Funding, by Type of Funding and State



Notes:
Source: State Higher Education Executive Officers Association (SHEEO).
Special purpose appropriations are appropriations for research, agriculture programs, and medical education.

Percentage of State Funding That Comes from the State General Fund for Salary and Benefit Increases

WSIPP was also directed to determine the proportion of state funding from the state general fund for salary and benefit increases in comparison states.

We observed that institutions have complete discretion on salary adjustments for most employees in most states. As a result, most states that we interviewed were not able to speak to the proportion of funding from the state general fund that was devoted to salary and benefit increases.

Institutions generally expected the state to maintain its *relative* level of support when mandating a salary or benefit increase. For example, if an institution received 50% of its revenue from state appropriations, then it expected the state to pay half of the cost increase. Therefore, the institution would need to adjust its budget to absorb the other half of the cost increase and cover this increase through other funding sources.

A notable exception includes Tennessee where the proportion of mandated salary and benefit increases funded by the state is determined based on the sector.[37]

[37] See Tennessee's summary in Appendix II for details on their method for funding salary and benefit increases.

V. Summary

The legislative assignment directed WSIPP to examine the method used to determine state funding for higher education institutions, the manner in which salary and benefits are determined, and the proportion of state funding from the general fund that goes to higher education. To accomplish this, we compared various aspects of Washington's higher education funding to 11 other states with comparable higher education systems.

We found that appropriations for higher education are typically determined using a base-plus method, where the "plus" is largely based on budget constraints and legislative interests. While the method of funding to individual institutions varies by state, like Washington, many states use a formula-based method for allocation to two-year institutions. We also found that, like Washington, several states appropriate funding directly to four-year institutions.

In most interviews, states reported that institutions have significant autonomy over how they spend state-allocated funds, with limited legislative intervention on salaries and benefits. As a result, few states were able to speak to the proportion of state funding from the state general fund (or equivalent account) used for salary and benefits. The general assumption was that an equivalent proportion of total funding from the general fund would go to funding salary and benefits.

Many states do not mandate salary or benefit increases for higher education employees. Of the states that do, most provide funding for their mandates in a similar manner as Washington. These states also reported that sometimes their mandates were underfunded and institutions were required to make up the difference using other sources.

Compared to similar states, Washington four-year institutions have a greater ability to engage directly in the budgeting process. However, Washington institutions are also subject to tuition caps and salary and benefit mandates set by the legislature. As a result, Washington institutions have less control over their funding than institutions in several comparison states.

Washington appropriated a smaller proportion of general fund revenue to higher education than comparable states in recent years. Using our preferred measure, which includes lottery revenue appropriated to higher education, we found that Washington appropriates approximately 5% of available revenue to higher education, compared to a range of 3% to 8% in comparison states. Setting aside funding for research and special purposes, we observe that Washington's *per-student* expenditure is close to the average for comparison states.

We also find that the mix of general purpose appropriations, student tuition grants, and special purpose funding is different in Washington than in comparison states. Washington appropriates relatively more funding to higher education through student aid and relatively less for special purposes.

Appendices

Higher Education Funding: *Models Used in Washington and Similar States*

Appendices

I. Methods Used to Select Comparison States

The key points of comparison were the size, structure, and governance of postsecondary education. We used data from the Integrated Postsecondary Education Data System (IPEDS) and the Education Commission of the States (ECS). The most helpful measures for identifying distinctive characteristics of Washington State's higher education system were the following:

- The number of public two-year and four-year colleges (IPEDS);
- The proportion of the state's full-time equivalent (FTE) enrollment in public two-year institutions (IPEDS);
- A composite measure of similarity to Washington in terms of several policy and governance features:
    - Whether states have separate governing bodies for two-year and four-year institutions (ECS),
    - Whether bachelor's degrees can be awarded by colleges that predominantly award associate's degrees (ECS),
    - Whether associate's degrees are automatically accepted for transfer (ECS), and
    - Whether dual enrollment credit must be accepted by public institutions (ECS);
- A composite measure of similarity to Washington in terms of:
    - Percent FTE at a research-oriented university (IPEDS),
    - Percent FTE at an institution with a tenure system (IPEDS),
    - FTE per college (IPEDS), and
    - Median family income (Census).

Total Number of Public Colleges and the Number of Two-year Colleges

Washington has more public colleges than most states. A major reason is its many two-year institutions. Consequently, we eliminated states with very few colleges, because states with few institutions may be able to operate with less formal coordination. In contrast, we did not eliminate states with very large higher education systems because it would be useful to see how states with higher education systems similar to Washington—but operating on a larger scale—made decisions about funding.

States with five or fewer public colleges were eliminated.

- Alaska, Delaware, and Rhode Island.

States with fewer than ten public community and technical colleges were eliminated.

- Hawaii, Idaho, Nevada, Vermont, Wyoming, Indiana, Maine, Nevada, New Hampshire, North Dakota, and South Dakota.

Proportion of State FTE Attending a Two-Year Public Institution

The proportion of state FTE enrollment at a two-year public institution is higher in Washington than any other state. Consequently, we eliminated states at the opposite end of the spectrum.

Five states with unusually low proportions of enrollment in two-year public institutions were eliminated.

- Massachusetts, Montana, Pennsylvania, Utah, and West Virginia.

Similarity to Washington in Terms of Policy and Governance

Our composite measure of similarity to Washington was the sum of the number of points of comparison with respect to whether:

- There are separate bodies for two-year and four-year governance;
- Two-year institutions can award bachelor's degrees;
- Associate's degrees automatically transfer;
- Dual enrollment credits are required to be accepted; and
- The state uses a base-plus funding model.[38]

Eight states, which matched Washington on the fewest dimensions, were eliminated.

- Arizona, California, Maryland, Michigan, New Jersey, New York, Alabama, and Connecticut.

[38] Washington primarily allocates funding using a base-plus model. Other states coded as "yes" for base-plus funding models award 100% of funding using a base-plus model.

Similarity to Washington on a Composite of Quantitative Measures

Unlike size and structure, which we assumed deserved significant weight in selecting comparison states, it was not clear how to weight other quantitative measures of states' higher education systems. Our four remaining quantitative measures were:

- Percent FTE at a research-oriented university;
- Percent FTE at an institution with a tenure system;
- FTE per college; and
- Median family income.

A data-driven way to combine multiple quantitative measures is principal components analysis. Mathematically, principal components analysis uses correlations across measures to reduce dimensions of comparison. The four measures above were reduced to two "components," where each component was a weighted average of the four measures above. States with high scores on the first component had high FTE per college and high median family income. States with high scores on the second component had a high percentage of FTE at colleges with a tenure system and a low percentage of public FTE at a research-oriented university.

Washington was slightly above average with respect to the first component, and it had the highest score on the second component. The seven least similar states were eliminated.

- South Carolina, North Carolina, Oklahoma, Arkansas, New Mexico, Iowa, and Mississippi.

We were left with a list of 15 comparable states.

- Colorado, Florida, Georgia, Illinois, Kansas, Kentucky, Louisiana, Minnesota, Missouri, Ohio, Oregon, Tennessee, Texas, Virginia, and Wisconsin.

We contacted all 15 states for the report. We heard back from 11 states: Colorado, Georgia, Illinois, Kansas, Minnesota, Ohio, Oregon, Tennessee, Texas, Virginia, and Wisconsin.

II. Detailed Summary of Washington and Comparison States

In this section, we summarize the governance structure, higher education funding processes, and salary and benefit decisions in Washington and the 11 states we interviewed for comparison.

Washington

Governance and Funding Authority

Historically, public institutions of higher education partnered with the Higher Education Coordinating Board on a range of issues and provided agency budget requests to the board, which coordinated communication between institutions, the legislature, and the governor's office. In 2011, the Higher Education Coordinating Board was abolished and some of its duties were eliminated, absorbed within the newly formed Washington Student Achievement Council, or moved to the Washington State Board for Community and Technical Colleges (SBCTC).[39] Since 2012, the individual governing boards of public universities and colleges have negotiated funding directly with the state legislature.

SBCTC coordinates and provides general oversight for Washington's 34 community and technical colleges. Established in 1967 as the Washington State Board for Community College Education, it was renamed in 1991 when five technical colleges moved from the K–12 system. This nine-member board is responsible for developing a unified budget for the system, distributing state operating funds, and setting policies for individual institutions.[40]

Main Method of State Funding

Funding for four-year public universities is negotiated directly between the legislature and the individual institution. Four-year institutions are given a block of funding, based partially on the level of funding they received in the previous year. Historically, the legislature receives enrollment information from four-year institutions and provides funding to support a specific level of enrollment.[41] The legislature might also provide additional funding for new enrollments or for enrollment in a specific field, such as STEM. Over time, funding has moved away from enrollment-based funding and more towards supporting specific programs. Although Washington's method for funding four-year institutions has formula and performance components, the vast majority of funding is determined through a base-plus method. Once the budget is approved, funding is allocated directly to the institution.

The legislature sets appropriation amounts for the community and technical college system using a base-plus method. The appropriation is provided to SBCTC, which then allocates funding for community and technical colleges using a formula-based method, primarily based on enrollments. Approximately 10% of funding is based on priority enrollments and other performance measures.[42]

[39] Engrossed Second Substitute Senate Bill 5182, Chapter 11, Laws of 2011.
[40] Washington State Board for Community and Technical Colleges (2018, September 11). *Board Responsibilities.*
[41] House Appropriations Committee. Work session on higher education funding presented 2/6/19.
[42] SBCTC presentation. *Operating Allocations: Explaining the SBCTC Allocation Model.* Provided to WSIPP by SBCTC.

Washington continued

Tuition-Setting Authority

In Washington, the legislature sets a maximum tuition increase for resident undergraduate students. The individual institutional governing boards for four-year schools and SBCTC set tuition up to this maximum level.[43] Washington is unique in that four-year institutions are required to consult with student representatives regarding impacts of potential tuition fee changes prior to the change.[44] Tuition and fees charged at community and technical colleges may vary slightly across institutions because individual governing boards have the discretion to set college-specific fees.

Salary- and Benefit-Setting Authority

Higher education employees are considered state employees in Washington and are subject to provisions in statute.[45] Benefits are provided at the state level. The governor's office, supported by the Office of Financial Management (OFM), negotiates collective bargaining agreements (CBA) with 4-year institutions.[46] OFM negotiates CBAs with community colleges for classified employees. For faculty, exempt employees, and technical college classified employees, CBAs are locally negotiated with each college's governing board (if represented or through the authority of institutional governing boards) to set salary amounts and increases.[47]

The legislature authorizes compensation increases for faculty and staff at higher education institutions. The state currently pays for these increases proportionally, in that it only compensates the proportion of salary and benefits that are covered by state funding and tuition revenue. The state does not provide additional revenue for institution-initiated compensation increases, or for employees paid by other sources of funding (e.g., grants and contracts).

[43] University of Washington Office of Planning and Budget. (2018). Operating Budget: Fiscal Year 2019.
[44] RCW 28B.15.067.
[45] RCW.41.56.
[46] Separate agreements are negotiated for research and non-research institutions.
[47] John Boesenberg, State Board for Community and Technical Colleges. (Personal communication, February 2019).

Colorado

Governance and Funding Authority

The Colorado Commission on Higher Education (CCHE) is made up of 11 members who are appointed by the governor and is the coordinating agency for public higher education in the state. CCHE coordinates ten institutional governing boards, which oversee 13 universities and colleges, 15 community colleges,[48] and three technical colleges. The CCHE is responsible for developing policy, recommending funding allocations to the governor's office and general assembly, distributing state funding to the institutional governing boards consistent with appropriations, allocating the state's financial aid dollars to institutions to administer, and carrying out research and reporting requirements, among other duties.[49] While the CCHE is responsible for coordinating the state's higher education system, the ten institutional governing boards, two local district boards, and three school districts associated with technical colleges make policy and budget decisions for individual institutions.[50]

Main Method of State Funding

The general assembly determines state appropriations for higher education using a base-plus method each year, which depends on available state revenue, the governor's proposed budget, and CCHE's budget request.[51]

The ten institutional governing boards receive state appropriations as single line items and distribute funds using a performance-based model developed by the CCHE and based on statutory requirements.[52] The model includes three components: enrollment; mission; and performance metrics like completions, transfers, and retention.[53] Institutions providing STEM and health care programming receive additional funding. Medical, veterinary, local district colleges, and technical schools receive funding separate from the allocation model. These amounts are adjusted annually based on the overall increase in funding for higher education.

Tuition-Setting Authority

The ten institutional governing boards in Colorado have tuition-setting authority, but the general assembly establishes limits for resident undergraduates through the annual budgeting process. These limits depend on the level of general fund appropriations each year. The general assembly does not typically impose tuition or fee mandates for non-residents or graduate students. This is determined by the institutional governing boards.[54] For example, for fiscal years 2018-19, the general assembly allowed a tuition increase for resident undergraduates up to 3%. The governor's budget for fiscal years 2019-20 proposes keeping tuition flat for resident undergraduates while increasing general fund appropriations for higher education by 11%.[55]

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[48] Some community colleges offer a limited number of four-year degrees.

[49] Colorado Department of Higher Education (2008, January 15), *History*.

[50] The Regents of the University of Colorado is the governing board for the four campuses in the University of Colorado System, the Board of Governors of the Colorado State University System is the governing board for the two campuses in that system, and the State Board for Community Colleges and Occupational Education oversees 13 community colleges. Other institutions have stand-alone governing boards. Amanda Bickel. Colorado General Assembly. (Personal communication, January, 2019);

[51] Amanda Bickel. Colorado General Assembly. (Personal communication, January 2019); Katie Wagnon, Colorado Department of Higher Education. (Personal communication, February 2019).

[52] Colorado Commission on Higher Education (2015). HB 14-1319 Funding Allocation Model Final Report.

[53] Ibid.

[54] Bickel, A. (2018) *Staff Budget Briefing: FY 2019-20 Department of Higher Education.* Colorado: Joint Budget Committee.

[55] Amanda Bickel. Colorado General Assembly. (Personal communication, January, 2019); Katie Wagnon, Colorado Department of Higher Education. (Personal communication, February 2019).

Colorado continued

Salary- and Benefit-Setting Authority

The ten institutional governing boards set salary and benefit levels for exempt staff (e.g., faculty) who make up the majority of higher education employees. Some administrative support and maintenance personnel are classified staff whose compensation is under the state system and is subject to policy changes by the general assembly.[56] Institutions regularly increase salaries, but amounts vary across institutions depending on their enrollment trends, tuition revenue, and funding from the state.[57]

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[56] Excluded personnel are covered under a state personnel system. Source Bickel, A. (2018) *Staff Budget Briefing: FY 2019-20 Department of Higher Education.* Colorado: Joint Budget Committee.

[57] Amanda Bickel. Colorado General Assembly. (Personal communication, January 2019); Katie Wagnon, Colorado Department of Higher Education. (Personal communication, February 2019).

Georgia

Governance and Funding Authority

The Board of Regents of the University System of Georgia (USG) is the governing board for the state's university system, which includes 26 universities and colleges. The Board is comprised of 19 members and is responsible for creating system-wide policies, including financial oversight and appropriation allocations.[58]

The State Board of the Technical College System of Georgia (TCSG) is responsible for governing the state's 22 technical colleges and operates independently from the Board of Regents of the (USG).[59] We were unable to interview a representative from TCSG. As a result, the following information reflects the higher education funding process for institutions overseen by the Board of Regents only.

Main Method of State Funding

State appropriations for Georgia's universities and colleges are determined through the use of a formula-based model, established in 1984.[60] Seen more as a guideline, the formula is not in statute and is informally agreed upon by the general assembly, the governor's office, and the Board of Regents. The formula is primarily based on enrollment credit hours,[61] facilities costs, and pensions and benefits costs.

In the past, the general assembly funded the Board of Regents' budget requests, although the full request was not adopted in some cases immediately after the 2008 recession. Sometimes, the Board of Regents deviates from the formula model when developing the budget request. For example, they may request additional funding for special projects or to address enrollment fluctuations.

The Board of Regents does not allocate state appropriations to institutions using the formula model. Based on enrollment, institutional priorities, and various other factors, the allocation amounts are determined through an internal budget hearing process between the Board of Regents and leadership at individual institutions. Ultimately, the Board of Regents makes recommendations and the Board of Regents' Chancellor approves distributions.

We observed that colleges and universities in Georgia have more limited spending discretion than other comparison states. Georgia law allows schools to roll over 3% of their tuition revenue. Any remaining funds are sent back to the state treasury.

Tuition-Setting Authority

The Board of Regents sets tuition rates for colleges and universities. Immediately after the 2008 recession, like institutions in other states, the University System of Georgia experienced substantial budget reductions by the general assembly. As a response, institutions enacted spending cuts and the Board of Regents increased tuition to offset the budget cuts. Since fiscal year 2015, the general assembly has not enacted funding reductions and has funded enrollment growth and other inflationary requests (e.g., fringe benefits). As a result, the Board of Regents has increased tuition an average of 1.8% each year. In more recent years, the Board of Regents has not increased tuition further.[62]

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[58] Board of Regents of the University of Georgia System website. *Bylaws of the Board of Regents*.
[59] Technical College System of Georgia State Board (2017, September). *About the Technical College System of Georgia*.
[60] Jason Matt. Board of Regents of the University System of Georgia. (Personal communication, January 2019).
[61] Enrollment credit hours are determined based on the most recent data available. Source: Ibid.
[62] Jason Matt. Board of Regents of the University System of Georgia. (Personal communication, January 2019).

Georgia continued

Salary- and Benefit-Setting Authority

Since 2015, the general assembly has appropriated funding for merit-based salary increases but does not provide cost-of-living increases for higher education employees.[63] An average salary component exists within the funding formula, which in part drives state appropriation amounts each year. The general assembly also provides funding for fringe benefits, and if it appropriates funding for salary increases in a given year, it will fund benefit increases too.[64]

The Board of Regents allocates funding for salary increases based on the average salary levels across institutions. Once individual institutions receive funding, they do not provide across-the-board salary increases. The Board of Regents requires institutions to increase salaries based on merit and documented performance evaluations.

[63] Not consecutive every year. For example, the legislature did not provide funding for salary increases in FY 2018.
[64] This does not include health insurance plans, which are funded through individual institutions. Source: Jason Matt. Board of Regents of the University System of Georgia. (Personal communication, January 2019).

Illinois

Governance and Funding Authority

Two agencies coordinate higher education in Illinois. 1) The Illinois Board of Higher Education (IBHE) consists of 16 governor-appointed members and is responsible for setting policy priorities for institutions, providing budget requests to the governor's office and general assembly,[65] approving programs, collecting data, and reporting system-wide information.[66] 2) The Illinois Community College Board (ICCB) is comprised of 11 governor-appointed members and is responsible for approving programs, setting policies that support transfers and degree completion, establishing teaching and academic standards, and distributing state funds.[67]

Main Method of State Funding

The general assembly sets appropriation amounts for two- and four- year institutions using a base-plus method, which depends on the state's economic outlook, available funding, and the IBHE budget request. Appropriations beyond base-operating amounts are sometimes provided to individual institutions for specific projects, but this is determined on a case-by-case basis.[68]

There is no formal allocation model used to distribute state appropriations to universities, and these institutions directly receive appropriations from the general assembly based on prior year amounts and budget requests. The general assembly directs appropriations for community colleges to the ICCB, which distributes operating grants to institutions using a formula-based model that relies on credit hours and equalization grants for smaller colleges that do not receive as much property tax revenue as other colleges.[69]

At times, a small proportion of state funding has been provided to universities and community colleges based on performance.[70] For the public universities, the allocation has been based on criteria that include degrees awarded, certificate completion, graduation rates, persistence, research and public service expenditures, and costs per credit hour.[71] Universities with certain student populations receive higher weighting in the model and additional funding to serve these populations.[72] For the community colleges, the allocation has been based on degree and certificate completion, transfer rates, and persistence from remedial to degree-bearing courses.[73]

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[65] Higher education institutions, including community colleges within the ICCB system submit budget requests to IBHE, which uses this input to develop an annual budget request and recommendations for the governor's office and general assembly.
[66] Illinois Board of Higher Education. (March 6, 2018). *About IBHE statutory responsibilities*.
[67] Illinois Community College Board. (March 16, 2016). *Board information*.
[68] Amanda Long and Alan Phillips. Illinois Board of Higher Education. (Personal communication, January 2019) and Sarah Robinson and Matt Berry, The Illinois Community College Board. (Personal communication, February 2019).
[69] ICCB. (2017). *Fiscal Year 2018: Operating budget appropriation and supporting technical data.* Illinois: ICCB.
[70] For fiscal years 2013-14, $6.1 million (0.5% of appropriations) was allocated to universities based on performance. For fiscal years 2013-14 and 2017-18, $360,000 (0.1% of appropriations) was allocated to community colleges based on performance. Amanda Long and Alan Phillip. Illinois Board of Higher Education. (Personal communication, January 2019).
[71] IBHE. (n.d.). *Performance funding overview.* Illinois IBHE.
[72] Includes students who receive Pell Grants, students from minority backgrounds, and students studying STEM and health care fields.
[73] Amanda Long and Alan Phillips. Illinois Board of Higher Education. (Personal communication, January 2019) and Sarah Robinson and Matt Berry, The Illinois Community College Board. (Personal communication, February 2019).

Illinois continued

Tuition-Setting Authority

The governing board of each institution has the authority to set tuition levels. The general assembly does not impose tuition and fee limitations. Historically, governing boards have kept tuition increases low or even flat from year-to-year due to pressure to maintain affordability.

Salary- and Benefit-Setting Authority

Institutional governing boards are responsible for setting salary and benefit levels and negotiating with various unions to establish increases from year-to-year. Unionization is not standardized across institutions. For example, one community college may have 14 unions for various employee types like trade workers and faculty and another community college may have only a few unions. As a result, salaries, even for similar positions, vary across institutions. Institutions do regularly increase salaries, but the growth depends on their trends in enrollment, tuition revenue, and state funding.[74]

Institutional governing boards do include salary adjustments in their budget requests to the governor's office and general assembly, typically 1% to 2% annually, which the general assembly may adopt in final appropriations. However, the general assembly does not provide appropriations specifically for salary increases. If the general assembly applies an across-the-board salary increase for state employees, this does not apply to higher education employees.

[74] Amanda Long and Alan Phillips. Illinois Board of Higher Education. (Personal communication, January 2019) and Sarah Robinson and Matt Berry, The Illinois Community College Board. (Personal communication, February 2019).

Kansas

Governance and Funding Authority

The Kansas Board of Regents is comprised of nine governor-appointed members and carries out both coordinating and governing responsibilities for the higher education system. The board governs six public universities and is the coordinating agency for a municipal university[75] (Washburn University), 19 community colleges, and six technical colleges.[76] The board is responsible for setting system-wide policies (and developing policies for individual universities), coordinating student transfers and programs across the system, developing a unified budget, and fulfilling reporting requirements.[77]

Main Method of State Funding

Each year, the legislature appropriates higher education funding through a base-plus method. Additional funding is provided through special appropriations for specific projects at individual institutions, like the University of Kansas Cancer Center.[78] Over time, the legislature has increased funding for special projects, while maintaining base appropriations at a similar amount from year-to-year.[79]

There is no formal allocation method to distribute funds to institutions. The state's six public universities, referred to as "governed institutions," receive appropriations directly from the legislature. The Board of Regents receives appropriations from the legislature and distributes grants to "coordinated institutions," which include community colleges, technical colleges, and the municipal university. Grants are distributed to institutions through a base-plus system and typically do not fluctuate from year-to-year, except when the legislature adjusts for retirement and health insurance contributions.

All institutions can receive a small proportion of funding based on performance. If the legislature appropriates a funding increase from one year to the next, institutions must show that they meet specific performance metrics in order to receive the full value of the appropriated increase.

Tuition-Setting Authority

The Board of Regents sets tuition levels for state universities. The institutional governing boards have tuition-setting authority for community and technical colleges and the municipal university. There is no statute in place to limit tuition. The legislature can enact limitations on tuition increases but has done so infrequently.

Salary- and Benefit-Setting Authority

The community and technical colleges and the municipal university are not state agencies and therefore their institutional governing boards determine salary and benefits. Community and technical colleges participate in the state retirement plan and the municipal university has a retirement plan for its own employees. These coordinated agencies typically provide employees with their own health insurance plans.

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[75] Partially controlled by the city and receives funding through county sales tax revenue.

[76] Kansas Statute Annotated. Chapter 74, Article 3202.

[77] Kansas Board of Regents. (2018). *Kansas Board of Regents Policy Manual*. Kansas.

[78] Elaine Frisbie, Kansas Board of Regents. (Personal communication, January 2019).

[79] Ibid.

Kansas continued

The individual governing institutions for the six state universities set salary levels for their schools. The universities can receive compensation increases from the legislature too. In the past, the legislature did not fund increases and individual institutions had to use other revenue sources to cover the cost of adjustments. In recent years, the legislature has provided funding for salary increases. In the latest proposed governor's budget, a 2.5% salary increase has been included. If enacted by the legislature, institutions could use these dollars as they wish and would likely distribute based on merit.[80]

[80] Kansas Office of the Governor. (2019). *The Governor's Budget Report Volume 1: Descriptions and Budget Schedules*.

Minnesota

Governance and Funding Authority

The Board of Trustees of the Minnesota State Colleges and Universities (referred to as Minnesota State) is made up of 15 governor-appointed members and is responsible for developing policy, approving degree programs and admissions requirements, and setting tuition and fee levels for all public higher education institutions except those in the University of Minnesota system.[81] The board oversees seven public universities and 30 community and technical colleges.

The Board of Regents of the University of Minnesota consists of 12 members who are elected by the legislature. This body is responsible for setting policy, approving programs, evaluating performance, and managing fiduciary responsibilities as they pertain to the mission of the University of Minnesota and its regional campuses.[82] We were unable to interview a representative from the Board of Regents. As a result, the following information primarily reflects the funding processes for the Minnesota State system of universities and colleges, not the University of Minnesota system.

Main Method of State Funding

Historically, the state has appropriated higher education funds using a base-plus method, in which the "plus" is determined based on Minnesota's economic outlook, budget requests from institutions, and general support for higher education in the state.[83]

State appropriations for the University of Minnesota are allocated directly to the Board of Regents, which distributes funds across the university system. Appropriations for the remaining public universities and community and technical colleges are directed to Minnesota State, which uses a formula-based allocation model with five components: instructional support, student and institutional services, facilities, student success, and research and public service.[84] Each component is informed by specific metrics. For example, instructional support is driven primarily by enrollment and instructional costs. Each of the five components is aggregated to a dollar amount for each institution and allocations are based on the percentage share that institutions occupy of the total allocation.[85]

For the most part, governing boards at each institution have the discretion to spend appropriated dollars as they wish, but there is a legislative cap on the amount of state funds that Minnesota State can use to support its administrative office.[86]

Tuition-Setting Authority

In Minnesota, the legislature has the authority to set tuition and fee levels for public universities and community colleges, except for the University of Minnesota.[87] If the legislature does not act to set tuition for other institutions, Minnesota State has the authority to set tuition caps, which apply to all students.

[81] Minnesota State. (2017, January). *Minnesota State colleges and universities organization and administration*.
[82] Board of Regents of the University of Minnesota website. *Responsibilities of the Board and individual regents*.
[83] Sue Appelquist, Laura King, and staff at Board of Trustees of the Minnesota State Colleges and Universities. (Personal communication, December 2018).
[84] This model allocates state appropriations only and does not allocation other general fund revenue like tuition.
State appropriations for the University of Minnesota are allocated directly to the Board of Regents, which distributes funds across the university system.
[85] Minnesota State. (2018) Allocation Framework and Instructional Cost Study. Presentation.
[86] Sue Appelquist, Laura King, and staff at Board of Trustees of the Minnesota State Colleges and Universities. (Personal communication, December 2018).

Minnesota continued

Salary- and Benefit-Setting Authority

Salary and benefit increases are negotiated between individual institutional boards and the legislature, and the legislature ultimately approves these decisions. Minnesota State negotiates faculty labor agreements and the Minnesota Department of Management and Budget negotiates employee labor agreements for all other classified employees. Faculty that work in the Minnesota State system of universities and colleges are under a system-wide collective bargaining agreement, which means that cost-of-living increases and other salary related adjustments must be negotiated between institutional governing boards and the legislature. Generally, these negotiations are separate from the legislature's higher education funding decisions.[88] Further, the legislature determines all retirement program terms and conditions and does not negotiate with the institutional governing boards for these benefits.

[87] Sue Appelquist, Laura King, and staff at Board of Trustees of the Minnesota State Colleges and Universities. (Personal communication, December 2018).
[88] Ibid.

Ohio

Governance and Funding Authority

The Ohio Department of Higher Education (ODHE), formerly called the Ohio Board of Regents, was created in 1963 and is the coordinating body for 14 public universities and branch campuses, 23 community colleges, and numerous technical and workforce education centers.[89] The ODHE is responsible for approving degree programs, managing state financial aid programs, making budget recommendations based on university and college input, and creating policies that support higher education throughout the state.

Main Method of State Funding

Each year, the general assembly appropriates funding for higher education, using a base-plus method, through the State Share of Instruction (SSI), the primary mechanism of funding for public universities and community colleges.[90] The general assembly earmarks specific proportions of the SSI amount separately for each higher education sector (two- and four-year institutions).[91]

The ODHE receives the total SSI appropriation and uses performance-based models to allocate funds to institutions.[92] There are separate funding formulas for universities and community and technical colleges. For universities, funding is based on degree completions, course completions, doctoral enrollments and degrees, research activity, and medical student enrollment.[93] Community colleges receive funding based on course completions, degree completions, and regular credit and developmental level credit accumulation among students.[94] The allocation model also weights institutions with at-risk populations more heavily, providing them with additional funding if students demonstrate increased rates of course completion. [95]

Tuition-Setting Authority

The institutional governing boards set tuition rates and fees for all students up to a maximum level set by the general assembly each biennium.[96] For example, between fiscal years 2016 and 2017, the general assembly increased the SSI by 4% and froze tuition at fiscal year 2015 levels for all public institutions.[97] Between fiscal years 2018 and 2019, the general assembly maintained the SSI allocation level and allowed some universities and community colleges participating in a tuition guarantee program to raise tuition.[98]

[89] Ohio Department of Higher Education website. *Ohio's public institutions*.
[90] David Cummins, Ohio Department of Higher Education. (Personal communication, December 2018) and Ohio Department of Higher Education website. *Budget and financial*.
[91] Historically, the general assembly has earmarked approximately three quarters of the SSI amount to university and regional campuses and one quarter to technical and community colleges.
[92] Prior to FY 2010, SSI dollars were distributed to institutions based on enrollment and courses offered at each campus. Millane, E. (2018). Higher Education, Ohio Facts 2018. Presentation. Ohio Legislative Service Commission.
[93] Ohio Department of Higher Education (2017). *State Share of Instruction Handbook: University regional and main campuses*.
[94] Ohio Department of Higher Education (2017). *State Share of Instruction Handbook: Community and technical colleges*.
[95] At-risk populations refer to students from minority backgrounds, low-income backgrounds, and older students.
[96] David Cummins, Ohio Department of Higher Education. (Personal communication, December 2018).
[97] Excluding institutions participating in the state's Undergraduate Tuition Guarantee Program. Millane, E. (2018). Higher Education, Ohio Facts 2018. Presentation. Ohio Legislative Service Commission.
[98] Undergraduate Tuition Guarantee Program sets tuition and fees at a fixed rate for a cohort of students for four years. David Cummins, Ohio Department of Higher Education. (Personal communication, December 2018).

Ohio continued

Salary- and Benefit-Setting Authority

Each institution's governing board is responsible for setting salary and benefit levels for faculty and staff and can use as much or as little of the SSI to cover compensation. Collective bargaining agreements are also determined by each institution's governing board. Ohio's general assembly does not mandate across-the-board raises or benefit increases for higher education employees. The general assembly can mandate salary increases for state employees, but this does not apply to higher education employees.[99]

[99] David Cummins, Ohio Department of Higher Education. (Personal communication, December, 2018).

Oregon

Governance and Funding Authority

The Higher Education Coordinating Commission (HECC) is the central coordinating agency for public universities and community colleges in the state. The commission is comprised of 14 members who are appointed by the governor.[100] HECC is responsible for making policy and funding decisions, requesting a system-wide budget, developing degree programs, administering financial aid, and carrying out reporting requirements across Oregon's public higher education system.

Main Method of State Funding

There are two main sources of funding within the state's general fund that provide operating and instructional support to the higher education sectors, the Public University Support Fund (PUSF) and the Community College Support Fund (CCSF). The legislative assembly appropriates funding for the PUSF and CCSF using a base-plus method.[101]

The HECC receives state appropriations through the PUSF and CCSF and distributes these funds to institutions using two separate allocation formulas.[102] HECC distributes funding to universities using a performance-based model called the Student Success and Completion Model (SSCM), which allocates dollars based on institutional mission,[103] credit hour completion, and degree and certificate completion. Universities that provide STEM programming and serve underrepresented students are weighted more heavily in the formula and receive additional funding.[104]

The HECC distributes funding to community colleges using a formula model based on student enrollment at each college. In Oregon, community colleges also receive local property tax revenue for their operations and the allocation formula considers this additional revenue source when distributing funds.[105] Additionally, smaller institutions are weighted more in the formula and receive additional funding to ensure a consistent level of base support from year-to-year.[106]

Tuition-Setting Authority

The institutional governing boards have the authority to set tuition and fee rates up to 5% for resident undergraduates. If increases exceed 5%, governing boards must receive authorization by the legislative assembly or HECC.[107] There is no cap, however, on tuition and fee increases for non-resident students.[108] The governing boards at community colleges have the authority to increase tuition and are not limited by the legislative assembly.

[100] Higher Education Coordinating Commission website.
[101] Gabe Dougherty and Bruce Johnson, Higher Education Coordinating Commission. (Personal communication, December 2018).
[102] The Oregon Health Sciences University receives state funding, but this appropriation is not distributed through an allocation formula by the HECC. Source: Oregon Revised Statutes. Chapter 350, Section 75.
[103] Base funding provided to institutions based on mission, research, and regional differentiation and needs.
[104] Higher Education Coordinating Commission (n.d.) *Overview: Student Success and Completion Model.*
[105] The most recent data (FY 2015-16) suggests that about 22% of revenue for community colleges comes from local property taxes. Source: Legislative Fiscal Office (2017). *2017-19 Legislatively Adopted Budget. Detailed Analysis.*
[106] Higher Education Coordinating Commission website. *Community college funding*.
[107] Oregon Revised Statutes. Chapter 352, Section 102; Higher Education Coordinating Commission website. *Public University Operational Funding*
[108] Gabe Dougherty and Bruce Johnson, Higher Education Coordinating Commission. (Personal communication, December 2018).

Salary- and Benefit-Setting Authority

The institutional governing boards set salary and benefit levels for faculty and staff and can use state funding from the PUSF and CCSF to cover these expenditures as they see fit. Institutions are responsible for developing budget requests, which are submitted to the HECC and inform the legislative assembly's appropriations for each sector. Therefore, salary increases in individual budget requests may be included in appropriations from year-to-year. However, the legislative assembly does not mandate across-the-board salary or benefit increases in appropriations for higher education employees.[109]

[109] Gabe Dougherty and Bruce Johnson, Higher Education Coordinating Commission. (Personal communication, December 2018).

Tennessee

Governance and Funding Authority

The Tennessee Higher Education Commission (THEC), created by the general assembly in 1967, is comprised of 14 members and serves as the coordinating board for higher education, including nine universities, 13 community colleges, 27 technical colleges, as well as medical and agricultural schools. THEC is responsible for setting system-wide policies and strategic planning, approving programs, setting tuition ranges, developing funding formulas, making budget recommendations, and reporting system-wide information.[110]

The Tennessee Board of Regents (TBR), made up of 19 members, governs community and technical colleges in the state. The TBR is responsible for setting system-wide policies and approving the operating budgets for individual institutions.[111] While THEC is responsible for submitting budget recommendations for the overall higher education system, TBR has the authority to determine allocation amounts for the individual community and technical colleges.

Main Method of State Funding

Each year, THEC submits recommendations for operating and capital budgets and tuition ranges to the governor's office. For each of the higher education sectors (i.e., universities, community colleges, technical colleges, and medical and agricultural schools), the commission uses a performance-based model called the Outcomes-Based Funding Formula and specialized unit formulas to inform budget requests for each sector.[112] Appropriation amounts flow directly to individual four-year institutions and to the TBR, which allocates funding to community colleges using a performance-based allocation model and to technical colleges through a formula-based model.

Universities and Community Colleges. THEC uses a performance-based model to recommend funding levels for universities and community colleges. This funding is based on school performance outcomes including credits earned, degree completion, job placement, research service, and service to "focus" populations like older and low-income students. For community colleges, academically underprepared students are also considered a "focus" population.[113]

Technical Colleges. THEC uses a formula-based model to determine funding amounts, largely based on enrollment.

Medical and Agricultural Schools. THEC uses a base-plus model to recommend funding. The "plus" amount is determined based on enrollment growth, square footage of institutional facilities, and equipment and operating expenses. The medical school formula considers research and public service, staff benefits, institutional and academic support, library expenditures, residencies, and premiums placed on enrollment.

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[110] Tennessee Higher Education Commission (n.d.). *Policy Manual*.
[111] The Tennessee Board of Regents website. *Board of Regents Bylaws*.
[112] Tennessee Higher Education Commission website. 2015-20 Outcomes Based Funding Formula.
[113] Remaining funds for universities and community colleges are for ancillary capital costs. Jason Cavender and Steven Gentile, Tennessee Higher Education Commission. (Personal communication, January 2019).

Tennessee continued

Tuition-Setting Authority

THEC shares tuition-setting authority with institutions across all sectors. THEC sets a range for the maximum tuition and fee increase that institutions can set for in-state undergraduate students. For example, if THEC authorizes tuition and fee increases up to 3%, institutions decide where to set annual increases up to this threshold. School governing boards have complete discretion on setting tuition increases for non-resident undergraduate and graduate students.

Salary- and Benefit-Setting Authority

THEC makes salary recommendations to the governor's office and general assembly to fund mandatory salary increases. The general assembly, in turn, either carves out a proportion of this recommendation or adds an amount on top, which occurs somewhat frequently. For example, in the last ten years, the legislature adopted five recommendations for salary increases. Sometimes the general assembly sets aside salary and benefit amounts for each institution. Other times, the state incorporates salary increases into the operating increase, giving institutions the flexibility to use this increased funding for salary or other purposes.

Mandated benefits are partially funded. Institutions are required to put the entire state appropriated amount toward increases in salary and benefits. Institutions are expected, but not required, to fund the remaining benefit increase through tuition or other funding sources.[114] The exact percent of the mandate funded by the state varies by sector.[115]

[114] For example, four-year institutions receive 55% of mandated increases. These institutions would need to make up the remaining 45% from an alternative funding source. Institutions do not have to put the 45% toward salary increases but are required to put the state's share (55% of the mandate) toward increases. Jason Cavender and Steven Gentile, Tennessee Higher Education Commission. (Personal communication, January 2019).

[115] Four-year institutions receive 55% of mandated increases, two-year institutions receive 66% of mandated increases, technical colleges receive 80% of mandated increases, medical and agricultural schools receive 100% of mandated increase. Jason Cavender and Steven Gentile, Tennessee Higher Education Commission. (Personal communication, January 2019).

Texas

Governance and Funding Authority

The Texas Higher Education Coordinating Board (THECB) was established by the legislature in 1965[116] and is responsible for setting system-wide policies, making recommendations to the governor's office and legislature, recommending changes to allocation formulas, and overseeing state financial aid programs. The board consists of nine governor-appointed members and a non-voting student representative.[117] THECB oversees five distinct types of higher education sectors including universities, community colleges, technical colleges, health-related institutions, and the Lamar State Colleges.[118] Community colleges are locally controlled and all other sectors are controlled by the state.

Main Method of State Funding

THECB does not submit budget requests on behalf of the institutions but is responsible for making recommendations to formula models that are specific to each higher education sector. These recommendations, along with budget requests from institutions can influence how the legislature appropriates funding to each of the sectors, but the legislature can also fund as they wish, regardless of recommendations and requests. Ultimately, the legislature provides appropriations directly to the individual higher education sectors, except for the community colleges,[119] primarily using a formula-based model. The funding methods for each sector are described in detail below.

Universities. Universities submit appropriation recommendations to the governor's office and legislature using a formula-based funding model. This model is based primarily on weighted semester hours[120] and infrastructure support. Universities can receive additional state appropriations for special items like museums or research projects. Smaller institutions, those with fewer than 10,000 students, also receive supplemental funding.

Community Colleges and Lamar State Colleges. Community colleges fund infrastructure needs through local property taxes. For instruction and operations, they receive most of their state funding (about 90%) through a formula-based method. The legislature provides a flat appropriation amount for all community colleges, regardless of size or location, to support core operations.[121] Funding is also based on each institution's share of weighted contact hours.[122] For example, community colleges that demonstrate more instructional contact hours between instructors and students receive more funding.[123]

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[116] Texas Higher Education Coordinating Board website. *About the board.*
[117] Ibid.
[118] Two-year institutions, similar to community colleges but not locally controlled. David Young, Texas Higher Education Coordinating Board. (Personal communication, January 2019).
[119] Appropriations pass through the Texas Higher Education Coordinating Board first and then to community colleges.
[120] The semester hour is based on the cost of providing the university course and the number of credit hours, weighted by discipline, which means nursing programs are weighted more heavily than liberal arts programs. Legislative Budget Board (2018). *Higher Education Funding: Overview of formula funding for all institution types, small institution supplement funding, and the available university fund and higher education fund*.
[121] All community colleges receive $1.4 million per biennium. Legislative Budget Board. (2018). *Higher Education Funding: Overview of formula funding for all institution types, small institution supplement funding, and the available university fund and higher education fund.*
[122] A measure that represents an hour of scheduled instruction given to students during a semester. Legislative Budget Board. (2018).
[123] The specific rate is based on available funding and other factors. Legislative Budget Board. (2018).

Texas continued

A small proportion of funding (about 10%) is also provided through a performance-based model, based on the average student-earned success points at each college. Success points are performance measures like successful completion of developmental courses, satisfactory progress in college-level courses, and degree completion.

Lamar State Colleges are two-year institutions similar to community colleges but are not locally controlled and receive funding directly from the legislature. The same formula structure used to fund community colleges is used to fund the Lamar State Colleges (e.g., a formula model based on weighted contact hours and performance). Unlike community colleges, Lamar State Colleges do not collect local property taxes. Like universities, institutions with lower enrollments receive supplemental funding.

Health-Related Institutions. Health-related institutions[124] are funded similarly to universities but use a formula model with different components. Base operations are funded through an Instruction and Operations Formula, based on the number of full-time equivalent students enrolled during a base period, weighted by program type and level.[125] Institution facilities are funded through a separate Infrastructure Support Formula driven by square footage. Research activities are supported through the Research Enhancement Formula, which provides a base amount of funding, plus a percentage weighted by the research expenditures at a given institution. Additional funding for medical graduate programs is set by the Graduate Medical Education Formula, driven funding by the number of medical residents in the program.

A few health-related institutions also receive specific, mission-related funding. For example, the University of Texas MD Anderson Cancer Center receives additional funding based on the number of cancer patients served.

Technical Colleges. Technical college instruction and operations are funded through a performance-based model. In order to determine each institution's added value, performance measures in the model compare the average wages of students who have completed nine semester credit hours or more at a technical college to the state's minimum wage.[126]

Tuition-Setting Authority

There are three types of tuition in Texas' higher education system: statutory, designated, and board-authorized.[127] Statutory tuition is set by the legislature and is the amount institutions must charge resident and non-resident undergraduates. THECB develops the formula recommendations and the legislature estimates how much each institution will receive from the statutory tuition. Statutory tuition revenue is distributed through the individual formulas to each higher education sector, except community colleges.[128]

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[124] Includes medical schools and teaching hospitals.
[125] Ibid.
[126] Legislative Budget Board (2018). *Higher Education Funding: Overview of formula funding for all institution types, small institution supplement funding, and the available university fund and higher education fund*.
[127] Texas Higher Education Coordinating Board (2017). *Overview: Tuition Deregulation and Tuition Set Asides*.
[128] Community colleges set their own tuition levels without limitations.

Texas continued

In the past, tuition was fully regulated by the state. In fiscal year 2003, the legislature deregulated tuition and institutional governing boards are now able to set their own designated tuition, which is additional tuition beyond the statutory amount. There are no limits on the amount of designated tuition an institution can set and all designated tuition revenue is collected and kept by individual institutions. Finally, institutional governing boards can also set a board-authorized tuition amount for graduate students, but the amount is limited by the legislature.[129]

Salary and Benefit Setting Authority

Salaries are set by the individual governing boards at each institution. Occasionally, the legislature will set across-the-board salary increases. However, institutions have full discretion in determining how to allocate funds and may distribute based on merit instead of an across-the-board raise. Funding for these increases are not guaranteed and schools must determine how to cover raises through appropriations and other funding sources.

Regarding health plans, the legislature provides funding for higher education employees whose salaries are covered by state appropriations, in an amount proportionate to the percentage of salaries funded through state appropriations. For example, if a third of a faculty member's salary is funding through state appropriations, then the legislature will cover a third of the benefit increase. However, institutions within the University of Texas system and Texas A&M University cover their own health plans. In terms of retirement, the legislature proportionally funds plans based on the employee's salary split.[130]

[129] Upper limit is equal to 200% of the undergraduate statutory rate. David Young, Texas Higher Education Coordinating Board. (Personal communication, January 2019).
[130] David Young, Texas Higher Education Coordinating Board. (Personal communication, January 2019).

Virginia

Governance and Funding Authority

In Virginia, individual boards govern the state universities and the State Board for Community Colleges (SBCC) governs community colleges. The State Council of Higher Education in Virginia (SCHEV) acts as the overall coordinating board for higher education. Established in 1956, the board has 13 members, 12 of whom are appointed by the governor. SCHEV coordinates with the state universities and the SBCC to create budget requests for system-wide items like faculty salary increases, funding for facilities, enrollment growth funding, and new academic programs. Individual universities and the SBCC also submit individual requests for institution-specific funding.[131]

Main Method of State Funding

SCHEV uses a formula-based model as a guideline when determining the funding needs for each institution. This formula is based largely on enrollment, but the ratio of funding offered for enrollment varies by institution type.[132] While this formula guides the budget request, it is largely informational, and appropriations are determined in a manner closer to a base-plus model.

The general assembly appropriates funds to SHEV, which allocates funding to its institutions and appropriates funding to the SBCC, which distributes funds across the community colleges. The general assembly has used the formula to determine the appropriation amounts between institutions. For example, from 2002 to 2004, Virginia used the funding formula to identify institutions that most heavily relied on state funding so that they were able to reduce higher education funding equitably across the state.

Tuition-Setting Authority

In Virginia, institutions have tuition-setting authority by statute. However, the governor and general assembly frequently express their policy goals for tuition. They have also established tuition caps on in-state undergraduate tuition.[133] Institutions report their projected tuition rates to SCHEV and provide an explanation to SCHEV when actual increases are larger than projected.[134] Although not usually mandated, there is an informal understanding that tuition changes will offset changes in appropriations.[135]

Salary- and Benefit-Setting Authority

Salary- and benefit-setting authority is shared between the general assembly and higher education institutions. Faculty and classified staff are considered state employees. The compensation for classified staff falls under the state personnel system, which is subject to policy changes by the general assembly. As such, there are specific guidelines that institutions must follow when changing salaries and benefits for classified staff, although they are able to provide merit raises.

[131] State Council of Higher Education for Virginia website. *Overview*.
[132] Virginia is one of the few states that bases funding on in-state enrollment, rather than general enrollment.
[133] State Council of Higher Education for Virginia (2017). *2017-18 Tuition and Fees Report: Tuition and fees at Virginia's state-supported colleges and universities.*
[134] State Council of Higher Education for Virginia (2018). *Tuition and Mandatory Fee Rate Increases for 2018-19: responses by institution.*
[135] In FY 2007 and 2008 the general assembly provided funding to higher education institutions contingent upon institutions not increasing in-state undergraduate tuition above a specific cap. Yan Zheng, State Council of Higher Education for Virginia. (Personal communication, February 2019).

Virginia continued

Institutions negotiate faculty salaries through contracts and have more discretion when making salary and benefit changes for faculty. Higher education institutions are also able to increase salary and benefits offered to faculty using non-general fund sources.

State salary increases are not mandated and largely depend on available state revenue. The general assembly annually adjusts fringe benefits offered to employees. These benefits apply to both faculty and classified staff. Higher education institutions are required to fund the portion of the fringe benefit increase not covered by state appropriations.[136]

[136] The exact ratio of cost sharing is determined through a formula. Institutions are required to fund the remaining portion of salary increases mandated by the state. Yan Zheng, State Council of Higher Education for Virginia. (Personal communication, February 2019).

Wisconsin

Governance and Funding Authority

The Board of Regents of the University of Wisconsin System is one of two governing boards for public higher education in Wisconsin. Established in 1974, the board consists of 18 members and has oversight of 13 universities and 13 affiliated two-year branch campuses.[137] In part, the board is responsible for establishing each institution's mission and approving programs, setting admission policies, developing budgets, and allocating funds.[138]

The Wisconsin Technical College System (WTCS) Board, which consists of 13 governor-appointed members, is the coordinating board for 16 technical colleges.[139] WTCS works in collaboration with individual district boards to govern Wisconsin's vocational, technical, and adult education programs. The WTCS is responsible for distributing state aid to institutions, submitting budget requests, and setting uniform tuition and fees. The district boards are responsible for local planning and budgeting.[140]

We were unable to interview a representative from the Board of Regents of the University of Wisconsin System. As a result, the following information mostly reflects the higher education funding process for institutions overseen by WTCS only.

Main Method of State Funding

Each biennium, the legislature determines appropriation levels for higher education using a base-plus method. The legislature directly appropriates funding to individual universities. For vocational and technical colleges, the legislature directs appropriations to the WTCS board, which in turn allocates funding to individual colleges using a formula model.[141]

After the recession, property taxes represented almost half of the total revenue source for technical colleges. In 2013, the Wisconsin legislature implemented Act 145, which provided annual funding to colleges through property tax relief aid, which has become a base level of funding.[142] In the 2017-19 biennium, about 80% of state appropriations for technical colleges came from property tax relief aid.

The remaining amount of funding for technical colleges comes from general aid, which is mostly distributed to individual institutions based on a formula. This formula model was designed to reduce revenue disparities between schools due to differences in property values across districts. The remaining amount of state appropriations are allocated based on performance measures that include, but are not limited to, job placement in a related field, certificates awarded in high-demand fields, dual enrollment participation, and trainings and services provided to special populations. About 5% of state funding for technical colleges comes from competitive grants for specific projects.

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[137] Board of Regents of the University of Wisconsin System website. *Organization roles*.
[138] Wisconsin Statutes and Annotations: Chapter 36, Section 9.
[139] Wisconsin Technical College System website. *About the WTCS board*.
[140] Wisconsin Legislative Fiscal Bureau (2017). *Wisconsin Technical College System: Informational paper # 31*.
[141] James Zylstra, Wisconsin Technical College System. (Personal communication, January 2019).
[142] The percent of the funds received by each district is determined using the ratio of the individual district's equalized value to the equalized value of all districts as of January 1, 2014. Wisconsin Legislative Fiscal Bureau (2017). *Wisconsin Technical College System: Informational paper # 31*.

Wisconsin continued

Tuition-Setting Authority

The legislature controls the maximum level of in-state tuition allowable at institutions in the University of Wisconsin System. The Board of Regents has discretion over the out-of-state tuition maximum. Institutions use a tuition matrix to set tuition and different programs within schools can have different tuition rates.[143]

The WTCS board has tuition-setting authority for technical colleges. The board has complete autonomy and the state does not impose tuition limitations.[144] The board sets two tuition levels for all colleges, one for occupational programs and another for liberal arts associates' degrees.

Salary- and Benefit-Setting Authority

Higher education employees are not considered state employees with regard to salary and benefits. Institutional governing boards have complete authority over operations and have discretion over contracts offered to their employees. These employees are also not affected by across–the-board changes to benefits and salaries which may affect other state employees. Any increases to salary and benefits have to come from the institution's operating budget.[145]

[143] Wisconsin Legislative Fiscal Bureau (2019). *University of Wisconsin Tuition: Informational paper # 33*.
[144] There is a legislatively required minimum tuition for community and technical colleges. *Wisconsin Legislative Fiscal Bureau (2017). Wisconsin Technical College System: Informational paper # 31* and James Zylstra, Wisconsin Technical College System. (Personal communication, January 2019).
[145] James Zylstra, Wisconsin Technical College System. (Personal communication, January 2019).

III. Summary of General Budget Authority, by State

Exhibit A1

General Budget Authority, by State

State	Governing boards[146]	Coordinating boards	Who submits the formal budget requests to the state?	What is the role of governing boards in developing budget request?	What is the role of coordinating boards in developing budget request?
Washington	**Four-year institutions:** Not applicable[147] **Two-year institutions:** The Washington State Board of Community and Technical Colleges (SBCTC)	Washington Student Achievement Council (WSAC)	**Four-year institutions:** Individual institutions **Two-year institutions:** SBCTC	**Four-year institutions:** Not applicable **Two-year institutions:** The SBCTC develops a single, system-wide budget request based on a collaborative planning process including college presidents and system stakeholders.	Not applicable
Colorado	**Four-year institutions:** Not applicable[148] **Two-year institutions:** State Board for Community Colleges and Occupational Education	Colorado Commission on Higher Education (CCHE)	The Department of Higher Education (DHE) submits the request, which is effectively a unified request from CCHE and the governor's office.	Governing agencies have some involvement, coordinated by the DHE/CCHE staff.	DHE is responsible for compiling and submitting the budget request via the governor's office.
Georgia[149]	**Four-year institutions:** The Board of Regents of the University System of Georgia **Technical colleges:** The State Board of the Technical College System of Georgia	**Four-year institutions:** Not applicable	**Four-year institutions:** The Board of Regents	**Four-year institutions:** The Board of Regents has authority to develop budget requests.	**Four-year institutions:** Not applicable

[146] Excludes institutional governing boards and system governing boards for multi-campus institutions.
[147] Universities and four-year colleges self-govern through state authorized/governor-appointed, institutional boards.
[148] University systems and four-year colleges self-govern through a combination of state authorized/governor-appointed institutional boards, elected institutional boards, and local governance boards.
[149] Information on Georgia's technical colleges is omitted from this section because we were unable to interview a contact for the technical colleges.

State	Governing boards[146]	Coordinating boards	Who submits the formal budget requests to the state?	What is the role of governing boards in developing budget request?	What is the role of coordinating boards in developing budget request?
Illinois	Not applicable	**Four-year institutions:** The Illinois Board of Higher Education (IHBE) **Two-year institutions:** The Illinois Community College Board (ICCB)	IBHE[150]	Not applicable	IBHE uses input by institutions, including community colleges, to develop the overall budget request and recommendations to the governor's office and the general assembly, which is used in determining appropriations.
Kansas	Kansas Board of Regents (Board) governs six public universities	The Board coordinates the municipal university, 19 community colleges, and six technical colleges.	The Board	The Board receives information from the institutions and then decides what to advance as the Unified Appropriation Request.	Based on prior appropriations, the base request is submitted by the Board for the pass-through grants to the coordinated institutions. The Board ultimately decides what to request as budget enhancements beyond the base.
Minnesota[151]	The Board of Trustees of the Minnesota State Colleges and Universities	Not applicable	The Board of Trustees	Formal adoption by Board of Trustees vote	Not applicable
Ohio	Not applicable	Ohio Department of Higher Education (ODHE)	ODHE	Not applicable	ODHE works with colleges and universities to develop recommended changes to their subsidy formulas and to set priorities for what is requested of the state. ODHE is a cabinet-level agency and the final request must be consistent with priorities of the governor's office.
Oregon	Not applicable	The Higher Education Coordinating Commission (HECC)	HECC	Not applicable	Although the HECC develops and submits its own budget request, the universities adopt their own budgets.[152] The HECC then aggregates the universities' current service level and find the desired amount of state support (Public University Support Fund (PUSF)).[153]

[150] Illinois higher education institutions, including community colleges, submit their annual budget requests to the IBHE.
[151] The University of Minnesota has a separate Board of Regents that governs the University of Minnesota and its regional campuses specifically.
[152] Universities produce an analysis using a base-plus formula they call current service level, which is distinguishable from the state's base-plus formula also called current service level.
[153] The desired amount is generally selected such that it maintains the same level of funding as the current biennium with the goal of staving off a tuition increase.

State	Governing boards[146]	Coordinating boards	Who submits the formal budget requests to the state?	What is the role of governing boards in developing budget request?	What is the role of coordinating boards in developing budget request?
Tennessee	**Four-year institutions:** Not applicable[154] **Two-year institutions:** Tennessee Board of Regents (TBR)	The Tennessee Higher Education Commission (THEC)	THEC	The institutional governing boards and the TBR compile and send data to the coordinating board. This data informs THEC's budget request.	THEC executes the performance-based/ formula-based funding process and the models associated with specialized units (medical, agriculture, research, etc.). The recommendations from the formulas comprise the budget request sent to the governor for recommendation to the general assembly.
Texas	Not applicable[155]	The Texas Higher Education Coordinating Board (THECB)	Institutions— (The THECB does not submit budget requests on behalf of the institutions but is responsible for making recommendations to the formula models that are specific to each higher education sector.)	Not applicable	THECB has no role in the budget request, but it develops formula funding recommendations which the legislature may use in allocating funding.
Virginia	**Four-year institutions:** Not applicable **Two-year institutions:** State Board for Community Colleges (SBCC)	State Council of Higher Education for Virginia (SCHEV)	There is a two-track process. SCHEV submits aggregated requests for items common across institutions (e.g. salaries, formula funding). SBCC submits a request for items specific to the community colleges. Four-year institutions submit requests specific to themselves.	SBCC aggregates requests for community colleges and submits requests to SCHEV.	SCHEV aggregates requests from the SBCC and four-year institutions and submits to the state (institutions submit request to agency).

[154] The University of Tennessee (UT) and the Locally Governed Institutions (APSU, ETSU, MTSU, TTU, TSU, UM) are self-governed and participate in the budget request in the same manner as TBR.
[155] Universities and four-year colleges self-govern through state authorized/governor-appointed boards.

State	Governing boards[146]	Coordinating boards	Who submits the formal budget requests to the state?	What is the role of governing boards in developing budget request?	What is the role of coordinating boards in developing budget request?
Wisconsin	**Four-year institutions:** The Board of Regents of the University of Wisconsin System **Two-year institutions:** The Wisconsin Technical College System Board	Not applicable	**Four-year institutions:** The Board of Regents of the University of Wisconsin System **Two-year institutions:** The Wisconsin Technical College System Board	Unable to answer based on interview.	Not applicable

IV. Summary of Tuition-Setting Authority, by State

Exhibit A2

Tuition-Setting Authority, by State

State	Who sets tuition rates?	Does the state legislature or governor's office set or cap tuition or tuition increases?	Who does the tuition cap apply to?	Are tuition caps and appropriations considered in tandem (offsetting each other) or independently?
Washington	**Four-year institutions:** Institutional governing boards **Two-year institutions:** State governing agency	Yes	Resident undergraduate students	Compensation decisions typically assume that additional incremental tuition revenue will cover part of the cost. Tuition caps and reductions are typically offset additional state funding.
Colorado	Institutional governing boards	Yes	Resident undergraduate students	In tandem, tuition caps are proposed in CCHE's annual budget request.
Georgia[156]	**Four-year institutions:** State governing agency	**Four-year institutions:** No	**Four-year institutions:** Not applicable	**Four-year institutions:** No statutory tuition cap
Illinois	Institutional governing boards	No[157]	Not applicable	Although the increasing cost of tuition has been a function of the declining amount of state higher education funding over time, there is no connection between how tuition is set or capped by the colleges and universities and how appropriations are determined by the legislature.
Kansas	**Four-year institutions:** Kansas Board of Regents for state universities; institutional governing board for municipal university **Two-year institutions:** Institutional governing boards	No[158]	Not applicable[159]	There is no statutory tuition; the state budget process is supposed to play out in the spring so that the universities know their state appropriation for the coming year when they develop their tuition proposal for the Board of Regents to evaluate for action. In that respect, they are considered in tandem.

[156] Information on Georgia's Technical colleges is omitted from this section because we were unable to interview a contact for the technical colleges.
[157] Setting or capping tuition at any of the Illinois public universities or community colleges is the purview of that institution, with the exception that there are some administrative rules at the community college level that impact how those rates can be set.
[158] The legislature could enact a limit but there is no language in place to currently allow for it.
[159] A cap would be most likely targeted to resident students but could be applied to all.

State	Who sets tuition rates?	Does the state legislature or governor's office set or cap tuition or tuition increases?	Who does the tuition cap apply to?	Are tuition caps and appropriations considered in tandem (offsetting each other) or independently?
Minnesota[160]	**Shared authority:** State legislature has official authority, but Minnesota State can set tuition if the legislature chooses to not use authority.	Yes	All students[161]	Both are considered at the same time but independently rather than directly in tandem.
Ohio	Institutional governing boards	Yes	All students	The state normally takes the recommended funding level for institutions into account when determining the tuition cap.
Oregon	Institutional governing boards	Yes, institutions must receive authorization from state legislature or state governing agency for increases above a certain amount.	Resident undergraduate students	The institutions have full discretion to increase resident undergraduate tuition and fees by less than 5%. If over 5%, they must get approval. The legislature has linked appropriations and limiting tuition increases in the past (most recently in 2017).
Tennessee	**Shared authority:** The THEC sets a range for in-state tuition. Institutions can set tuition within range.	No, but the state governing board can set a range.	Resident undergraduate students	The tuition range is based on several factors, including appropriations, projected enrollment growth, and inflationary factors. The final range is set after the general assembly finalizes the budget. Tuition and budget setting works in tandem.
Texas	**Shared authority:** The legislature sets statutory tuition, institutions set board authorized tuition (within legislative limits), and institutions set designated tuition. Community colleges do not receive statutory tuition or board authorized tuition and set their own tuition levels without limitation.	**Universities, state run (Lamar) community colleges, and technical colleges:** The legislature sets statutory tuition and sets limits on board-authorized tuition. It does not restrict designated tuition, which makes up most tuition dollars. **Locally run community colleges:** No	Statutory tuition applies to all students except those attending locally run community colleges. Board-authorized tuition applies to graduate students.	Not applicable, the legislature does not set limits on undergraduate tuition. The limits on board-authorized tuition affect the difference between undergraduate and graduate tuition, not the maximum allowable tuition rate.

[160] The legislature does not have authority to set tuition for the University of Minnesota.
[161] Ibid.

State	Who sets tuition rates?	Does the state legislature or governor's office set or cap tuition or tuition increases?	Who does the tuition cap apply to?	Are tuition caps and appropriations considered in tandem (offsetting each other) or independently?
Virginia	Institutional governing boards	The legislature has set tuition limits in the past	Resident undergraduates	There is no formal legislation, however, there is an informal understanding that institutions will raise tuition moderately when appropriations increase.
Wisconsin	**Four-year institutions:** State governing board **Two-year institutions:** State governing board	**Four-year institutions:** Yes **Two-year institutions:** WTCS's board has complete control over tuition setting at community colleges by statute (legislature has no authority).	**Four-year institutions:** Resident undergraduates **Two-year institutions:** The legislature does not impose limitations.[162]	Independently

[162] There is an imposed minimum tuition for community and technical colleges.

V. Summary of Salary- and Benefit-Setting Authority, by State

Exhibit A3

Salary- and Benefit-Setting Authority, by State

State	Who sets salary and benefits?	Are higher education employees considered state employees?	Do across-the-board salary and benefit negotiations precede budget requests?	Does the state set salary and benefit mandates for higher education employees?	Do higher education institutions have to fully fund mandate?	How are mandates funded?
Washington	**Four-year institutions:** Institutional governing boards **Two-year institutions:** Community college classified employees are negotiated by the governor's office. Faculty, exempt, and technical college classified employees are set by the institutional governing board.	Yes	Yes, for certain represented employees.	Benefit mandates are set at the state level. Salary mandates/limitations may be set at the state level for some employee groups and set locally for others.	Yes	Proportionally[163]

[163] The state only funds salary and benefit increases for the portion of salaries already covered by the state general fund. The state legislature generally does not cover increases for salary and benefits paid for through other sources (e.g., tuition, grants). If salary negotiations that do not precede the budget request exceed funding/authorization provided by the legislature, the college must fund the difference.

State	Who sets salary and benefits?	Are higher education employees considered state employees?	Do across-the-board salary and benefit negotiations precede budget requests?	Does the state set salary and benefit mandates for higher education employees?	Do higher education institutions have to fully fund mandate?	How are mandates funded?
Colorado	Institutional governing boards	Exempt staff (e.g., faculty) compensation is not regulated through the state personnel system, although employees of state governing boards are state employees. Classified staff compensation is regulated through the state personnel system.	No	**Exempt staff:** No **Classified staff:** Yes	Yes for classified staff only	All funding for employee compensation (classified and non-classified) is supported through the combination of state general fund funding and tuition (or auxiliary revenue, where applicable). Inflationary salary/benefits increases inform state funding, but the state does not provide appropriations solely on this basis.
Georgia[164]	**Four-year institutions:** Institutions and/or the governing board	**Four-year institutions:** Yes	**Four-year institutions:** Not applicable	**Four-year institutions:** Legislature provides salary increases for governing body to distribute based on merit.	**Four-year institutions:** Not applicable	**Four-year institutions:** Not applicable

[164] Information on Georgia's Technical colleges is omitted from this section because we were unable to interview a contact for the technical colleges.

State	Who sets salary and benefits?	Are higher education employees considered state employees?	Do across-the-board salary and benefit negotiations precede budget requests?	Does the state set salary and benefit mandates for higher education employees?	Do higher education institutions have to fully fund mandate?	How are mandates funded?
Illinois	Institutional governing boards	Community college employees are considered employees of the college as Illinois Community Colleges are considered to be units of local government and not state entities. Public university employees, in general, are considered employees of the state and are governed by the rules and regulations as established by the Illinois State University Civil Service System (SUCSS).	Much like the setting of tuition, salary and benefit negotiations at the colleges and universities are separate from the preparation and submission of the budget recommendations/requests.	No	Not applicable	Not applicable
Kansas	**State universities:** Institutions— The institutional governing board sets the salary of the six state university CEOs; salaries of all other university employees are established on campus. **Two-year institutions and the municipal university:** Institutional governing boards.	**State universities**: Yes **Two-year institutions and the municipal university**: No	There are some negotiated labor agreements with several state universities which are separate from the budget process.	Only for state university employees.	State general fund appropriations are provided for only a portion of the estimated cost to provide salary adjustments; state universities must come up with the other funding sources (e.g., tuition, fees, auxiliary enterprises).	The state universities must manage the costs internally. For example, if the employer costs for participation in the State Employee Health Plan are increased administratively, state agencies absorb the cost increase. They are not necessarily given more state general fund.

State	Who sets salary and benefits?	Are higher education employees considered state employees?	Do across-the-board salary and benefit negotiations precede budget requests?	Does the state set salary and benefit mandates for higher education employees?	Do higher education institutions have to fully fund mandate?	How are mandates funded?
Minnesota[165]	**Shared authority:** Salary and benefit system must be negotiated between legislature and either Minnesota State[166] or Minnesota Management and Budget[167].	Yes	The negotiations do not precede the budget requests; however, targets and parameters are set within the budget request to account for compensation increases within the appropriation request.	No, but system-wide changes to salaries and benefits (e.g., salary steps, COLA, retirement contributions) must be negotiated with the legislature.	Not applicable	Not applicable
Ohio	Institutional governing boards	No	Each campus sets salaries and increases; some have collective bargaining and some do not. For those that do have unions the contracts are negotiated at the institutional level. There are no system-wide negotiations. ODHE takes into account inflation (including HEPI) in developing its request to the state, but it is not tied directly to salary growth on our campuses.	No	Not applicable	Not applicable

[165] This does not apply to the University of Minnesota system.
[166] Minnesota State negotiates faculty labor agreements.
[167] Minnesota Management and Budget negotiates classified employee labor agreements.

State	Who sets salary and benefits?	Are higher education employees considered state employees?	Do across-the-board salary and benefit negotiations precede budget requests?	Does the state set salary and benefit mandates for higher education employees?	Do higher education institutions have to fully fund mandate?	How are mandates funded?
Oregon	Institutional governing boards	No	Yes, governing boards may adopt compensation packages before a budget request. The public universities may pay different rates for defined-benefit pensions than the state agencies (like the HECC does); the rates are set by the Public Employee Retirement System. Institutions do not have control over these rates. The increases are not always funded in the PUSF budget adopted by the legislature.	No	Not applicable	Not applicable
Tennessee	Tennessee Higher Education Commission	Yes	No	Sometimes the state specifically sets aside salary and benefit apportionments for each institution. Other times, the state incorporates salary increases into the operating increase, giving institutions flexibility to use increase for salary or other purposes.	Partially—institutions must put complete state allocated amount to increases in salary and benefits.	Partially—the exact percentage depends on institution type.

State	Who sets salary and benefits?	Are higher education employees considered state employees?	Do across-the-board salary and benefit negotiations precede budget requests?	Does the state set salary and benefit mandates for higher education employees?	Do higher education institutions have to fully fund mandate?	How are mandates funded?
Texas	**Salary:** Institutional governing boards **Benefits:** Shared authority between the institutional governing board and the legislature.[168]	Yes	Not applicable[169]	Partially—the legislature makes decisions regarding health and retirement benefits that affect higher education employees.	Yes	Not applicable[170]
Virginia	**Faculty:** Institutions **Classified staff:** The state human resources department	Yes	Mandated increases are incorporated into state appropriations.	The state has annually adjusted fringe benefits that apply to all employees (including faculty). The state has mandated salary increases in the past.	Yes	A cost share ratio is derived from the formula-based calculation. The state will pay for the portion of the increase determined through the formula, institutions cover the rest.
Wisconsin	Institutional governing boards	No	No	No	Not applicable	Not applicable

[168] The University of Texas System and the Texas A&M University have their own health plans. The other institutions use the state health plan. The retirement plan is set by the state.
[169] Salary and most benefits are determined by the institutional governing boards. Generally, the legislature does not fund salary and benefit increases.
[170] The retirement plan is funded proportionally based on the employee salary split.

VI. Funding Trends in Two-Year and Four-Year Colleges

This section contains descriptive statistics on higher education revenue from state appropriations, local support, tuition revenue, and enrollment. Unlike the main report, it relies on the Integrated Postsecondary Education Data System (IPEDS), a federal data system that collects and reports data on postsecondary education. Individual higher education institutions report data to the IPEDS, which allows us to compare higher education financing in the two- and four-year college sectors. Unlike the SHEEO data, the IPEDS does not collect higher education financing data in a manner that facilitates valid comparisons between states. Reporting inconsistencies between states make the IPEDS a less reliable data source for between-state comparisons. Nevertheless, for comparisons within states over time, it should be less problematic. Our implicit assumption is that between-state inconsistencies in reporting were relatively stable *within states* over time. Ultimately, we consider our analyses using IPEDS data to be sufficiently reliable to compare relative changes within states over time but not necessarily reliable for direct comparisons between states at every point in time.

Our key findings were:

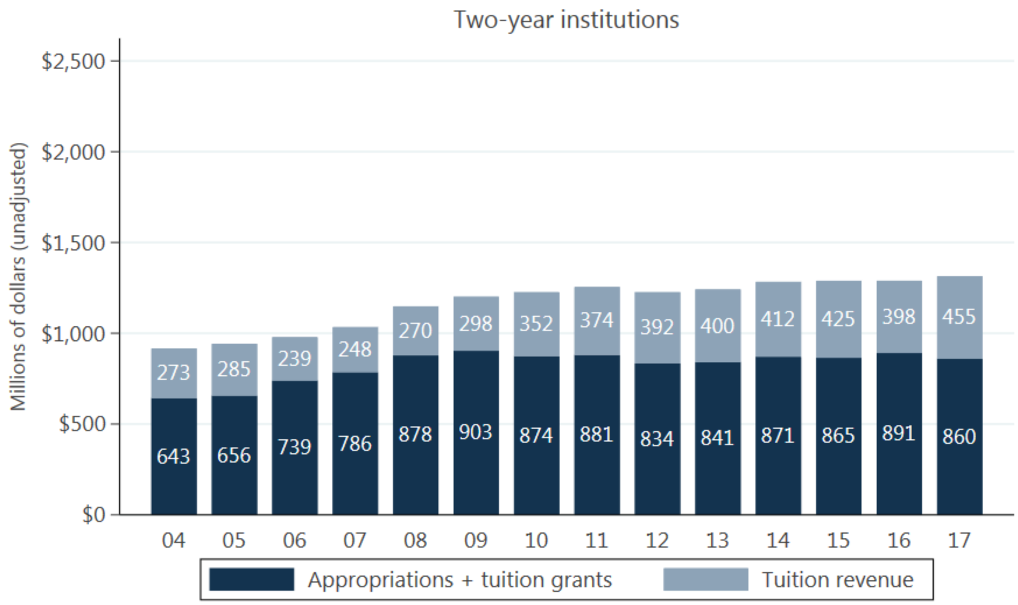
- Between 2004 and 2016, four-year colleges became increasingly dependent on tuition revenue. In Washington and in each comparison state, the proportion of revenue from appropriations declined (Exhibit A5);
- Between 2004 and 2016, two-year colleges also became more dependent on tuition revenue in most states, but the decrease in state support was typically smaller than for a state's four-year institutions (Exhibit A5);
- For states with larger proportions of public enrollment in the two-year sector, such as Washington, four-year institutions saw larger decreases in the proportion of revenue from appropriations (Exhibit A6); and
- Similar to comparison states, Washington's appropriations per FTE enrollment increased during periods of economic expansion and decreased during the recession. However, changes for Washington were larger in magnitude—higher peaks and lower troughs (see Exhibit 16 from the main report, and Exhibits A7, A9, and A10).

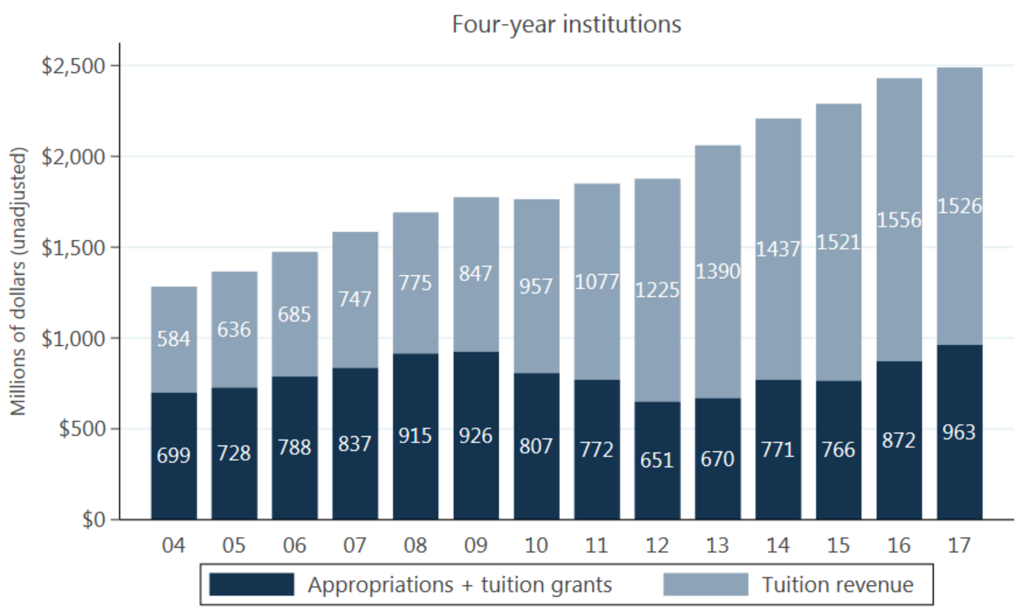
An implication of the four key findings above is that public four-year institutions in Washington face similar funding challenges as public four-year institutions in other states, but the prevalence of the two-year sector may make their challenges more acute. In periods of economic recession, more students enroll in college, and especially at two-year colleges. The influx of enrollment is not a revenue boon for two-year colleges, because their primary source of revenue is state appropriations. This is a challenge for the two-year sector and state legislatures because two-year colleges demand more resources when resources are most scarce. When a greater proportion of a state's enrollment is in the two-year sector, the decrease in appropriations for four-year institutions tends to be greater (see Exhibit A6). This is likely because a greater proportion of state resources are needed to support two-year institutions, and four-year institutions are better positioned to generate revenue from tuition.

Overall, two- and four-year colleges have become increasingly reliant on tuition revenue in recent years. During the most recent economic downturns, the reliance on tuition increased in both sectors but especially for four-year institutions. Four-year institutions in states that serve a greater proportion of students in the two-year sector experienced a greater decrease in appropriations than four-year institutions in states with smaller two-year sectors.

Exhibit A4

Washington: Appropriations and Tuition Revenue, by Year

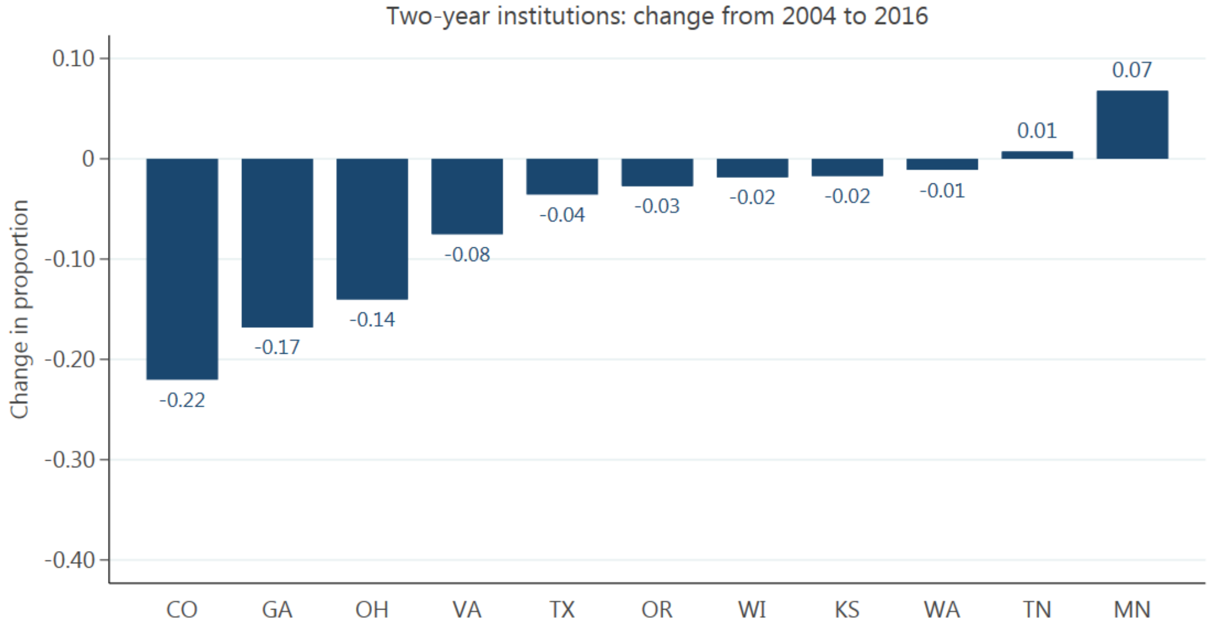


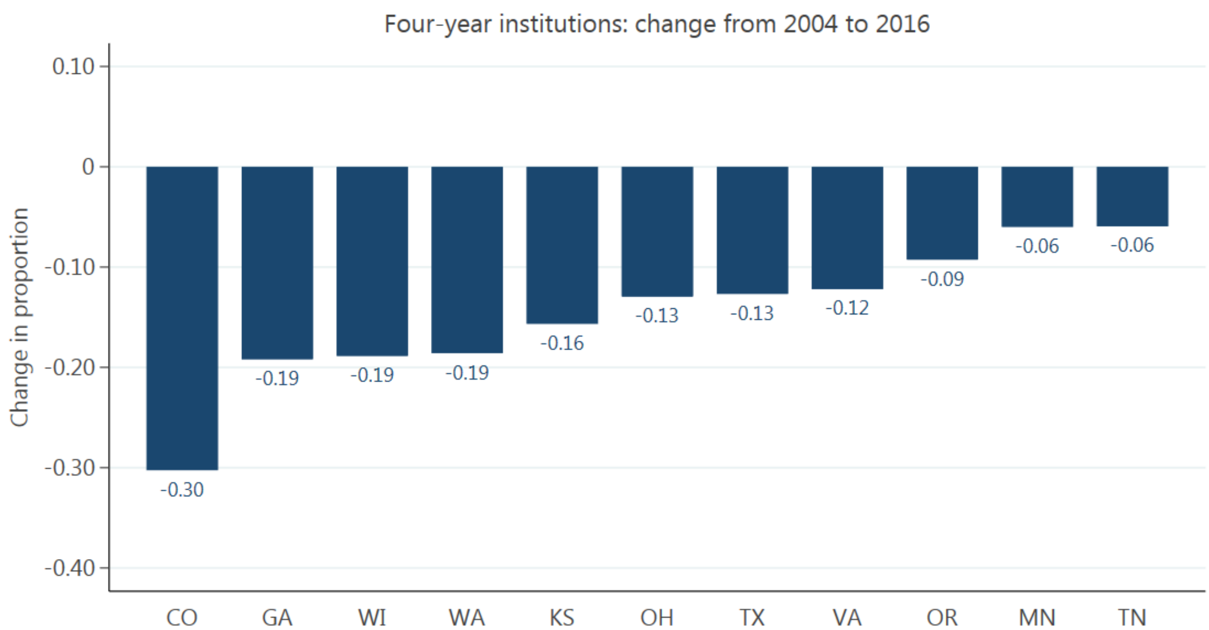


Note:
Source: Integrated Postsecondary Education Data System (IPEDS).

Exhibit A5

Change in State Support: Appropriations / (Appropriations + Net Tuition Revenue)

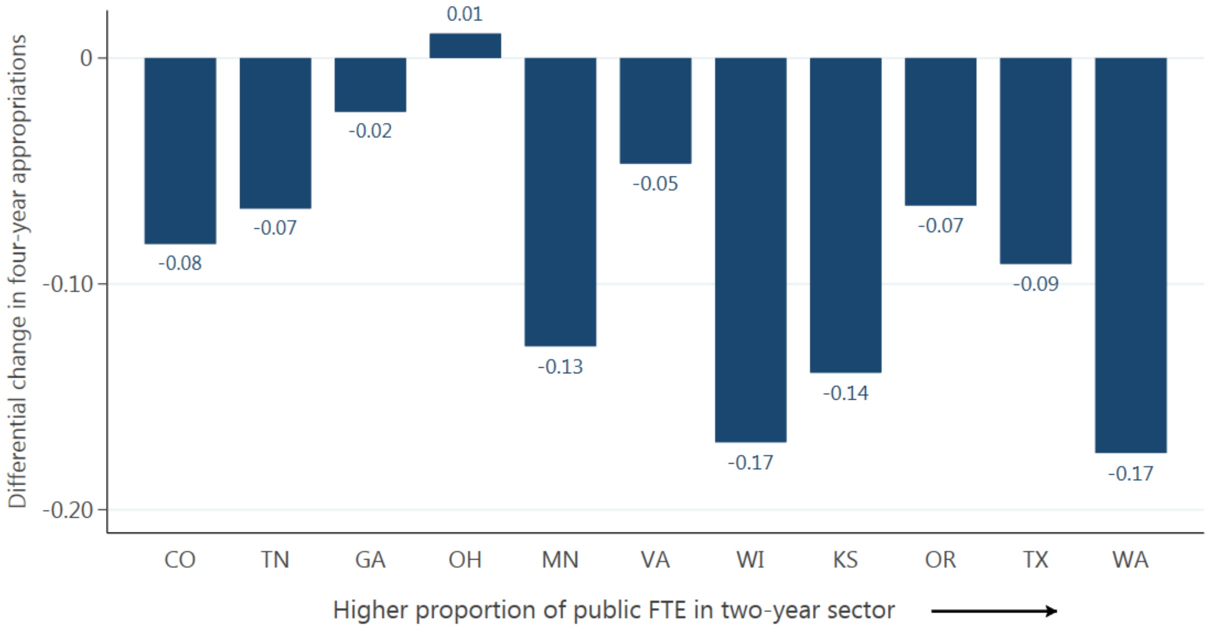




Note:
Source: Integrated Postsecondary Education Data System (IPEDS).

Exhibit A6

Relative Change in State Support for State's Four-Year Sector Relative to Two-Year Sector, by State



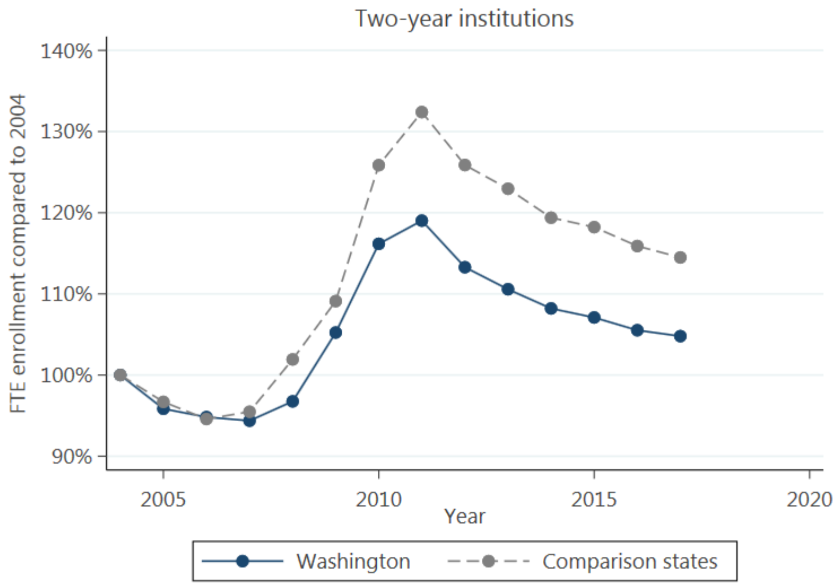
<u>Notes</u>:

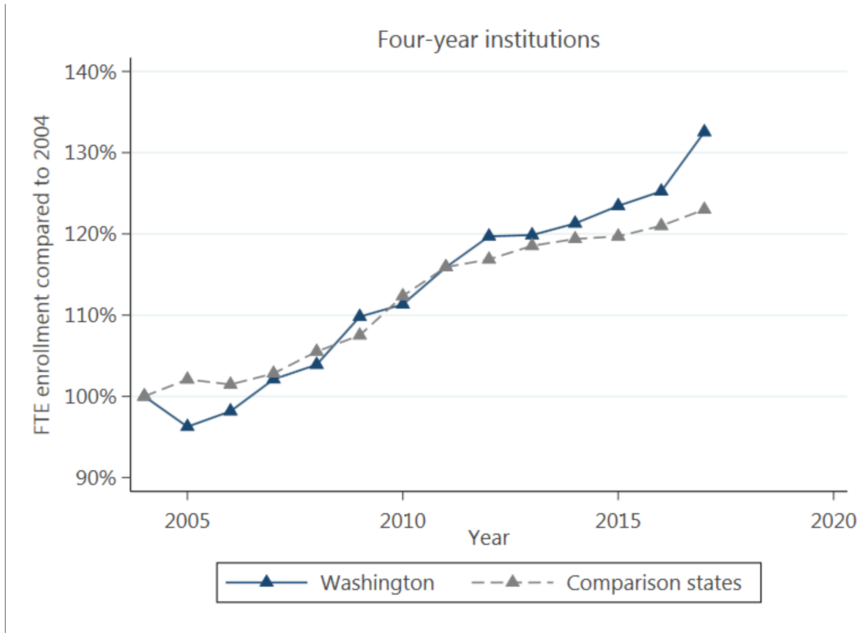
Relative change is calculated by subtracting Exhibit A5's value for two-year institutions from the value for four-year institutions.

Source: Integrated Postsecondary Education Data System.

Exhibit A7

Full-Time Equivalent (FTE) Enrollment by Year and Sector

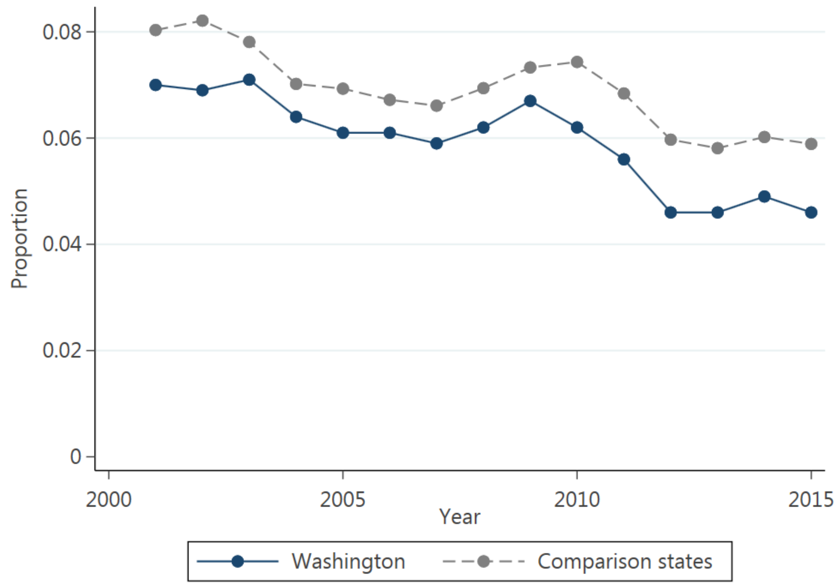




Note:
Source: Integrated Postsecondary Education Data System (IPEDS).

Exhibit A8

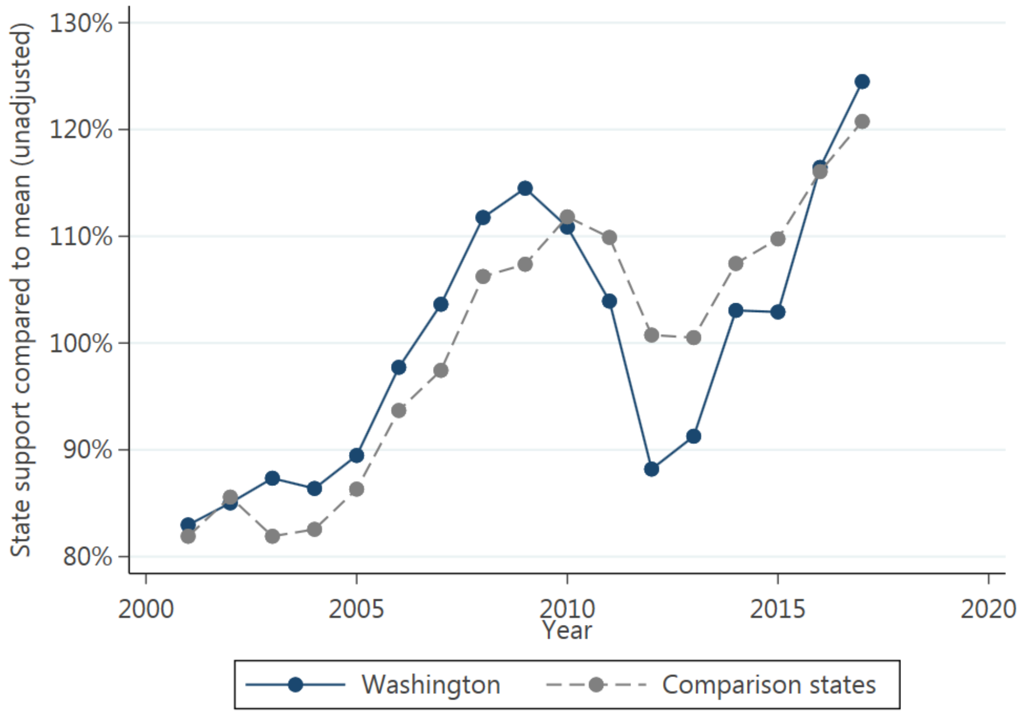
Proportion of Tax and Lottery Revenue Appropriated to Higher Education by Year



Note:
Source: State Higher Education Executive Officers Association (SHEEO).

Exhibit A9

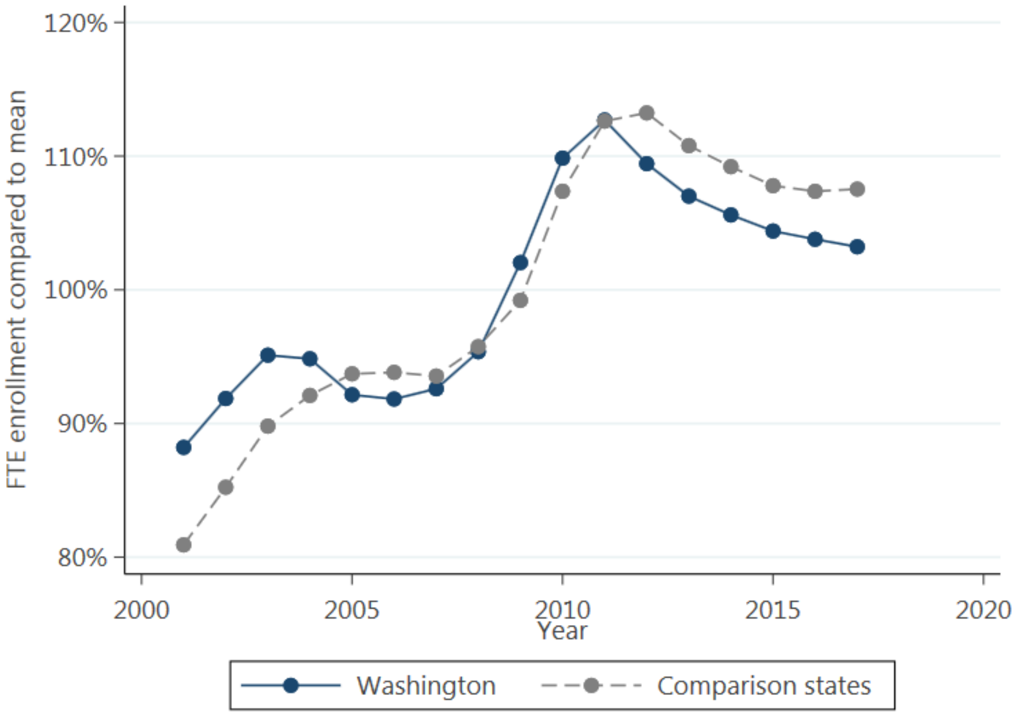
State Support for Higher Education by Year in Washington and Comparison States



Note:
Source: State Higher Education Executive Officers Association (SHEEO).

Exhibit A10

Full-Time Equivalent (FTE) Enrollment, by Year in Washington and Comparison States

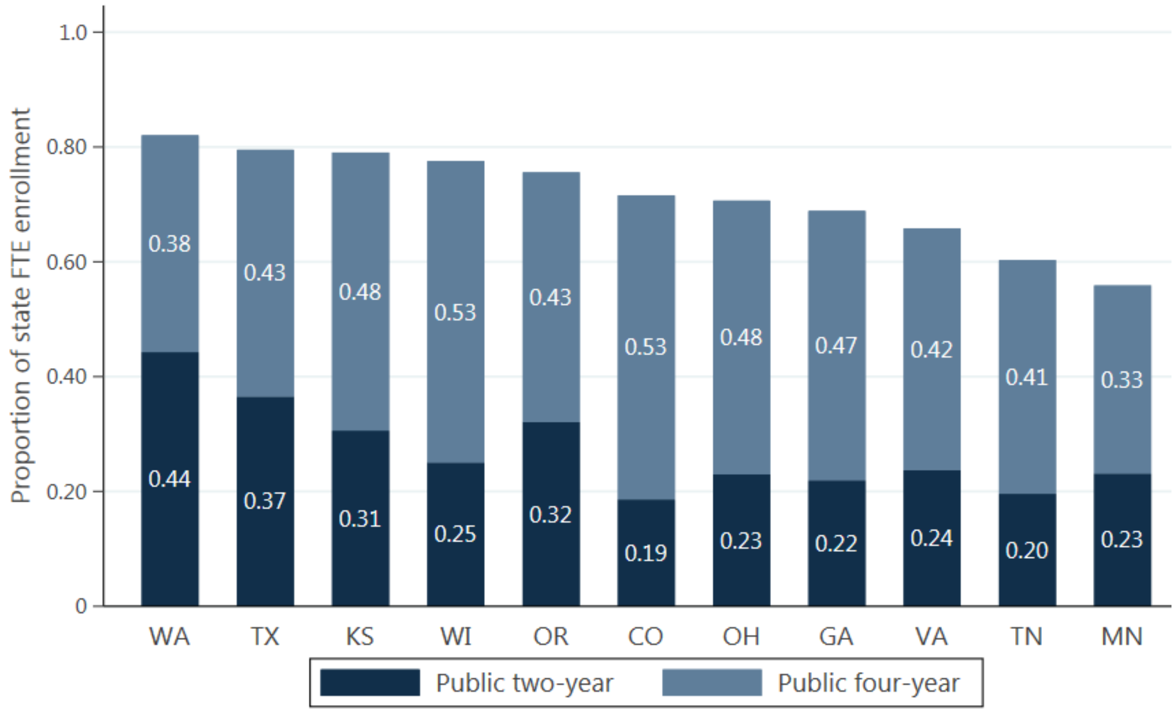


Note:

Source: State Higher Education Executive Officers Association (SHEEO).

Exhibit A11

Public Two-Year and Four-Year Proportion of State FTE Enrollment, by State



Notes:
Source: Integrated Postsecondary Education Data System (IPEDS).
Private college enrollment and sub-two year enrollment excluded.

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