

Approved 2-14-83
Date

MINUTES OF THE HOUSE COMMITTEE ON WAYS AND MEANS

The meeting was called to order by BILL BUNTEN at
Chairperson

8:00 a.m./~~p.m.~~ on Friday, February 11, 1983 in room 514-S of the Capitol.

All members were present except: Representatives Solbach and Wisdom -- both excused

Committee staff present:
Marlin Rein -- Legislative Research
Lyn Entrikin- Goering -- Legislative Research
Bill Gilmore -- Legislative Research
LewJene Schneider -- Administrative Assistant
Charlene Wilson -- Committee Secretary

Conferees appearing before the committee:

Mr. David Monical--Legislative Research Department

The meeting was called to order by Chairman Buntten at 8:00 a.m.

Mr. David Monical was called upon by the Chairman to conclude the review of system wide issues that had begun on Monday and Tuesday of this week.

Mr. Monical indicated that the item he would be reviewing this morning would be Budget Memo 83-9, Board of Regents' Institutions -- Enrollment Adjustment Prodecure. (Attachment I).

The meeting was adjourned at 9:00 a.m.

SUBJECT: Board of Regents' Institutions - Enrollment
Adjustment Procedure

Introduction

Legislative procedures for the addition or deletion of resources from university budgets due to enrollment changes have been employed, and a topic of discussion, for over a decade. After two sessions in which no formal mechanism was employed, the 1981 Legislature adopted a new policy concerning enrollment adjustment funding at Regents' institutions. This procedure represents a radical departure from policies employed by past legislatures and incorporates some of the features requested by the Board of Regents as an outgrowth of its formula funding system.

Because of the relative newness of the legislative policy, it is appropriate to discuss the procedure in some detail; hence, this memorandum. Further, when the policy was adopted by the 1981 Legislature, it was recommended to operate on a three-year cycle. Fiscal year 1984 represents the last year of the cycle, so the 1983 Legislature may wish to reconsider the policy and provide directions to the Regents' institutions prior to the formulation of the FY 1985 legislative budget requests.

In the sections which follow, the Regents' request and the Governor's recommendations will be discussed, the factors which resulted in the FY 1984 request will be examined, and issues for legislative consideration will be raised.

The Regents' Requests

Background. The FY 1984 requests by the Board of Regents' institutions follow the policy on enrollment adjustment funding adopted by the 1981 Legislature and subsequently used in determining appropriations for FY 1982 and FY 1983. Briefly, the policy is based upon determining the actual cost changes associated with actual enrollment changes from a base year (FY 1979) and comparing this dollar amount to a dollar amount based upon a percentage of the institution's base budget for the current fiscal year (the so-called "corridor"). If the dollar amount for enrollment changes is in excess of the specified portion of the budget base, new resources are requested. If the dollar amount for enrollment changes is less than the lower specified portion of the base budget, existing resources are removed. If the amount of funding calculated for enrollment change is within the upper and lower percentages (dollar amounts) of the base budget, no funding change is made (i.e., the change is within the "corridor").

The policy and procedures will be discussed more fully below, but it was on this general basis that enrollment adjustment funding of \$616,228 was provided for FY 1982 and \$2,532,940 was provided for FY 1983. These amounts were based upon actual enrollment changes which occurred between FY 1979-FY 1980 and FY 1979-FY 1981, respectively. Total enrollment adjustment funding received by the institutions under the first two years of this policy are shown in the following table.

FY 1982 and FY 1983
Appropriated Enrollment Adjustment Funding

| <u>Institution</u> | <u>F.T.E. Staff</u> | | <u>Salaries</u> | <u>O.O.E.</u> | <u>TOTAL</u> |
|--------------------|---------------------|---------------|--------------------|------------------|--------------------|
| | <u>Unclass.</u> | <u>Class.</u> | | | |
| KU | 25.0 | 2.5 | \$ 512,667 | \$166,208 | \$ 678,875 |
| KSU | 59.0 | 29.0 | 1,544,702 | 297,621 | 1,842,323 |
| WSU | 15.0 | 9.0 | 409,869 | 22,000 | 431,869 |
| ESU | 5.0 | — | — | — | — |
| PSU | 1.0 | 0.5 | 31,225 | — | 31,225 |
| FHSU | 5.0 | 2.5 | 139,170 | 25,706 | 164,876 |
| TOTAL | 110.0 | 43.5 | \$2,637,633 | \$511,535 | \$3,149,168 |

(Staff Note: Emporia State received \$61,601 and 5.0 F.T.E. positions for FY 1982, but the funding was removed for FY 1983. The Veterinary Medical Center was originally included and for FY 1982 received \$4,133. This funding was deleted for FY 1983 and, because of its small and relatively static enrollments, was removed from the formula. Because of their special circumstances neither Kansas Technical Institute nor the KU Medical Center are included under the procedure.)

In implementing the policy, the Legislature recognized that the enrollment adjustment procedure only determined a dollar amount to be added or deleted from an institution's budget. Therefore, the institutions were given flexibility over whether additional (or reduced) funding would be used for staff or other operating expenditures. (For example: When Emporia State in FY 1983 lost the funding for the 5.0 F.T.E. positions provided in FY 1982, it assessed the reduction against the summer school budget so as to retain the positions.)

FY 1984 Request. For FY 1984 the Regents' institutions request follows the procedures employed by the Legislature in appropriating funding for FY 1982 and FY 1983. The request totals \$1,197,614 for FY 1984 and is based upon actual enrollment changes which occurred between FY 1979 and FY 1982. Shown below are the FY 1984 requests by institution.

FY 1984
Enrollment Adjustment Request

| <u>Institution</u> | <u>F.T.E. Staff</u> | | <u>Salaries</u> | <u>O.O.E.</u> | <u>TOTAL</u> |
|--------------------|---------------------|---------------|-------------------|------------------|--------------------|
| | <u>Unclass.</u> | <u>Class.</u> | | | |
| KU | — | — | \$ (499,865) | \$(77,611) | \$ (577,476) |
| KSU | 14.0 | 8.0 | 408,192 | 158,620 | 566,812 |
| WSU | 25.1 | 14.5 | 890,280 | 282,000 | 1,172,280 |
| ESU | — | — | (34,475) | — | (34,475) |
| PSU | 4.0 | 0.5 | 133,000 | 54,422 | 187,422 |
| FHSU | (2.0) | — | (110,115) | (6,834) | (116,949) |
| TOTAL | <u>41.1</u> | <u>23.0</u> | <u>\$ 787,017</u> | <u>\$410,597</u> | <u>\$1,197,614</u> |

(Staff Note: Based upon staff review it appears that the requests at KSU and FHSU are in need of adjustment to correct technical errors. The correct amounts should be a \$149,819 reduction at FHSU and a \$560,158 increase at KSU. This would result in a total request of \$1,158,090.)

As can be seen in the above table, three institutions (Emporia, Fort Hays, and the University of Kansas) lose resources due to the actual enrollment shifts which occurred between FY 1979 and FY 1982. In the other three cases, enrollment increases and shifts in enrollment patterns have resulted in requests for additional resources. The enrollment factors responsible for these requests will be examined in a subsequent section.

Governor's Recommendation

Background. The Governor did not concur with the legislative enrollment adjustment policy in the first two years of its implementation. In his recommendations for FY 1982 the Governor included \$1,500,000 for enrollment adjustment funding based upon the instructional component of the Regents' requested enrollment adjustment policy. The Legislature did not endorse the Governor's recommendation and adopted the policy described in this memorandum. As a consequence the Legislature approved \$616,228 in enrollment adjustment funding for FY 1982.

The Governor's FY 1983 recommendations totaled \$502,685 and endorsed a return to the staffing ratio funding approach used by the Legislature in the 1970s. This approach was based upon relating changes in full-time equivalent enrollments from fall semester to fall semester to staffing ratios used for the addition or deletion of positions (such as one additional faculty for 15 additional F.T.E. students). The Legislature, however, continued with the policy adopted in the 1981 Session and approved \$2,532,940 in enrollment adjustment funding for FY 1983.

FY 1984 Recommendation. For FY 1984 the Governor recommends the dollars and positions as requested by each institution. This recommendation totals \$1,197,614 and provides for the addition of 41.1 F.T.E. unclassified and 23.0 F.T.E. classified positions.

Legislative Policy

Background. In adopting a revised mechanism for enrollment adjustment funding, the 1981 Legislature included a statement of the policy within the Ways and Means Subcommittee Report on the Board of Regents' Office. This step was taken to insure that the Regents' institutions (and other interested parties) would have available a statement of legislative policy with respect to enrollment adjustment procedures. Much of what follows is taken from that policy statement.

The policy adopted by the Legislature is designed to be more sensitive to actual enrollment patterns than previously employed formulas which related staffing changes to changes in full-time equivalent (F.T.E.) enrollments. The key features of the legislative policy, and which the Board of Regents at the time of adoption deemed essential, are as follows:

1. adjustments should be based upon actual, rather than projected enrollments;
2. enrollments for an entire fiscal year, not just one semester, should be employed;
3. the patterns of enrollment and differences in the cost of instruction by course level and academic discipline should be taken into account; and
4. consideration should be given to cost implications of the entire educational program — not simply instruction.

Procedures. To implement these features the Legislature adopted a formula which is based upon changes in actual student credit hours between fiscal years (not just changes in fall enrollments). Changes in student credit hours by course level and discipline are related to the actual student credit hour costs by level and discipline at the respective Kansas institution. There are 24 academic disciplines (agriculture, biological science, mathematics, etc.) and four levels of instruction (lower division, upper division, graduate 1, and graduate 2) for which changes in student credit hours and their costs are calculated. Following is an example of this procedure taken from an institutional budget request.

EXAMPLE

Calculation of Costs of Enrollment Changes

| Discipline | Change in SCH FY 1979-FY 1982 | | | FY 1983 Adjustment Cost Per SCH | | |
|--------------------|----------------------------------|--------------|------------|------------------------------------|----------|----------|
| | LD | UD | G1 | LD | UD | G1 |
| Biological Science | 426 | (574) | (36) | \$55.79 | \$106.00 | \$167.39 |
| Business | 89 | 436 | 227 | 19.00 | 22.81 | 53.18 |
| Subtotal | <u>515</u> | <u>(138)</u> | <u>191</u> | <u>—</u> | <u>—</u> | <u>—</u> |

| Discipline | FY 1984 Funding Adjustment Dollars | | | |
|--------------------|------------------------------------|-------------------|-----------------|-------------------|
| | LD | UD | G1 | TOTAL |
| Biological Science | \$23,767 | \$(60,844) | \$(6,026) | \$(43,103) |
| Business | 1,691 | 9,945 | 12,072 | 23,708 |
| Subtotal | <u>\$25,458</u> | <u>\$(50,899)</u> | <u>\$ 6,046</u> | <u>\$(19,395)</u> |

This example illustrates several components of the legislative enrollment adjustment procedure. Although total student credit hour production in the two disciplines increased, the amount of resources to be requested decreased. This is due to the sensitivity of the procedure to the differences in cost by level and discipline and the reflection of these cost differences through actual changes in enrollment by level and discipline. The result is that an institution could have an overall increase in enrollment, but require fewer resources because of shifts of student credit hours into lower cost academic disciplines. Conversely, an institution could have an overall enrollment decline, but require additional resources because of increased enrollments in high cost disciplines. This sensitivity to enrollments and costs by level and discipline appears to be a highly desirable component of the procedure — particularly since it is based upon actual enrollments and cost patterns.

When the above calculations are performed for all 24 disciplines and four levels of instruction, the dollar amount of resources generated by the academic instruction component of the procedure has been derived. At this point another set of formulas are applied to generate potential resource requirements for other components of the institution's budget. The amount for libraries and audio-visual services is based upon a dollar amount per actual change in weighted F.T.E. students. Student services support is related to a dollar amount per actual changes in total headcount students while support for campus security is based on changes in on-campus headcount enrollment. Academic administration and institutional support are percentages (based on actual cost data) of the other components. When the dollar amounts for all of the various components are added together, the result is the "total funding adjustment because of enrollment changes" which occurred between the base year (1979) and the most recent fiscal year (1982). It is at this point that the Legislature's policy regarding the "corridor" comes into play.

Under the "corridor" policy, each institution is expected to absorb the costs of enrollment changes within specified percentages of its base budget (Educational Program and Physical Plant). These percentages are +1.5 percent for the University of Kansas, Kansas State, and Wichita State and +1.0 percent to -2.0 percent at Emporia, Pittsburg, and Fort Hays. The application of this policy is as follows: if additional funding appears indicated, the current year's base budget is multiplied by the percentage for the upper "corridor" limit (i.e., 1.5 percent or 1.0 percent) to derive the "margin" of enrollment cost change the institution must absorb. This amount is subtracted from the "total funding adjustment" previously derived. If the total funding adjustment is less than the upper limit on the "corridor," no funding request is to be made as the institution is "within the corridor." If the "total funding adjustment" is above the upper limit of the "corridor," the difference between the "total funding adjustment" and the upper limit is the amount which the institution may request. However, this request is reduced by any previous enrollment adjustment funding provided to insure that the institution is only compensated once for the increased enrollments. The converse of this procedure is followed when an institution's "total funding adjustment" is below the lower limit of the "corridor."

The "corridor" concept used in the enrollment adjustment procedure represents one of its more unique components. It recognizes the ability of institutions to absorb relatively minor increases in enrollments and the difficulty of removing resources in response to relatively minor declines. In this regard it provides a mechanism to attempt to assess the marginal costs of changes in enrollments rather than the total average cost. That is to say, if the total average cost per student credit hour at an institution is \$100.00 and the institution produces 10,000 student credit hours, the cost of adding or deleting one credit hour is not the average cost, but a lesser marginal cost. The "corridor" is a technique to simulate this margin. It should be remembered, however, that the "corridor" is established around the base budget, not around enrollments. In this way, enrollment changes are always considered with regard to their fiscal implications.

Because the legislative policy focuses on the costs of enrollment changes, it does not include any built-in assumptions concerning staffing ratios or allocation of requested resources. The Legislature has allowed institutions discretion over where additional resources are to be added or deleted within the total amount of the request. Thus, some institutions may request resources which more heavily emphasize staffing than others. By not specifying precisely how additional (or deleted) resources are to be allocated, the institutions have the flexibility to make adjustments in areas of greatest need.

As can be seen in the FY 1984 requests, three institutions require additional resources while three requests reflect reductions in resources. The three institutions for which additional funding is requested are all above the upper corridor limits and have additional funding requirements even after enrollment growth funding provided in previous years (FY 1982 and FY 1983) is subtracted. Two institutions (KU and FHSU) have costs which have fallen from above the upper limit of the corridor to within the corridor. Therefore, reductions are made reflecting increases granted in previous years. Finally, Emporia State has fallen below the lower limit of the corridor and its reduction reflects a reduction in its base budget.

Implementation. To implement this policy, the 1981 Legislature recommended that enrollment adjustments be considered over cycles of three fiscal years. A base year is established for each cycle and changed when a new cycle is begun. The FY 1984 request represents the third year of the initial cycle which uses FY 1979 as its base. If the Legislature determines that a new cycle will begin with the FY 1985 request, the "new" base year would become FY 1982 and the request would be based upon actual changes which occurred between FY 1982 and FY 1983.

The original implementation policy is outlined below:

- 1981 Legislature: Request Year: FY 1982
 Period of Enrollment Change: FY 1979-FY 1980
 Base Budget (for "corridor"): FY 1981
- 1982 Legislature: Request Year: FY 1983
 Period of Enrollment Change: FY 1979-FY 1981
 Base Budget (for "corridor"): FY 1982
- 1983 Legislature: Request Year: FY 1984
 Period of Enrollment Change: FY 1979-FY 1982
 Base Budget (for "corridor"): FY 1983
- 1984 Legislature: Request Year: FY 1985
 Period of Enrollment Change: FY 1982-FY 1983
 Base Budget (for "corridor"): FY 1984

If this schedule is followed, a "new" base year enrollment will be used to calculate enrollment changes beginning with the FY 1985 request to the 1984 Legislature. It should be noted that in each year of the three-year cycle, any appropriations received in previous years of the cycle are subtracted from the amounts to be requested. This insures that, in a cycle, the institutions are not compensated twice for the same increase in enrollment nor penalized twice for previous budgetary reductions due to enrollment declines.

Enrollment Changes: FY 1979-FY 1982

The FY 1984 requests are based upon changes in actual student credit hours between FY 1979 and FY 1982. Because these enrollment figures are not readily available outside of the institutional budget requests, it seems appropriate to present them in this memorandum, highlight the changes and discuss the potential implications.

The following table shows actual student credit hour enrollments by course level for FY 1979, FY 1980, FY 1981, and FY 1982. It should be remembered that in calculating enrollment adjustment dollars these enrollments are further subdivided into 24 academic disciplines.

Actual Student Credit Hour EnrollmentsFY 1979-FY 1982

| <u>Institution/FY</u> | <u>LD</u> | <u>UD</u> | <u>GR-1</u> | <u>GR-2</u> | <u>TOTAL</u> |
|-----------------------|----------------|----------------|----------------|---------------|------------------|
| KU FY 1979 | 281,399 | 219,675 | 83,484 | 19,592 | 604,150 |
| FY 1980 | 285,136 | 223,470 | 87,584 | 19,184 | 615,374 |
| FY 1981 | 293,542 | 224,847 | 86,398 | 18,883 | 623,670 |
| FY 1982 | <u>289,507</u> | <u>221,888</u> | <u>84,792</u> | <u>17,821</u> | <u>614,008</u> |
| Change FY 1979-82 | 8,108 | 2,213 | 1,308 | (1,771) | 9,858 |
| Percent Change | 2.9% | 1.0% | 1.6% | (9.0)% | 1.6% |
| KSU FY 1979 | 221,772 | 197,066 | 40,696 | 9,051 | 468,585 |
| FY 1980 | 232,597 | 197,030 | 41,060 | 9,346 | 480,033 |
| FY 1981 | 247,128 | 209,342 | 40,565 | 9,257 | 506,292 |
| FY 1982 | <u>247,983</u> | <u>218,888</u> | <u>36,356</u> | <u>8,991</u> | <u>512,218</u> |
| Change FY 1979-82 | 26,211 | 21,822 | (4,340) | (60) | 43,633 |
| Percent Change | 11.8% | 11.1% | (10.7)% | (0.7)% | 9.3% |
| WSU FY 1979 | 165,982 | 101,864 | 33,923 | 349 | 302,118 |
| FY 1980 | 167,424 | 109,311 | 30,845 | 283 | 307,863 |
| FY 1981 | 174,214 | 112,232 | 31,253 | 303 | 318,002 |
| FY 1982 | <u>180,225</u> | <u>114,677</u> | <u>31,266</u> | <u>342</u> | <u>326,510</u> |
| Change FY 1979-82 | 14,243 | 12,813 | (2,657) | (7) | 24,392 |
| Percent Change | 8.6% | 12.6% | (7.8)% | (2.0)% | 8.1% |
| ESU FY 1979 | 74,599 | 49,710 | 23,441 | — | 147,750 |
| FY 1980 | 77,497 | 51,089 | 21,846 | — | 150,432 |
| FY 1981 | 77,409 | 51,693 | 21,389 | — | 150,491 |
| FY 1982 | <u>77,397</u> | <u>52,040</u> | <u>20,613</u> | <u>—</u> | <u>150,050</u> |
| Change FY 1979-82 | 2,798 | 2,330 | (2,828) | — | 2,300 |
| Percent Change | 3.8% | 4.7% | (12.1)% | — | 1.6% |
| PSU FY 1979 | 79,636* | 42,985 | 22,437 | — | 145,058 |
| FY 1980 | 83,977* | 43,415 | 21,724 | — | 149,116 |
| FY 1981 | 87,616* | 43,951 | 20,441 | — | 152,008 |
| FY 1982 | <u>88,022*</u> | <u>44,329</u> | <u>20,712</u> | <u>—</u> | <u>153,063</u> |
| Change FY 1979-82 | 8,386 | 1,344 | (1,725) | — | 8,005 |
| Percent Change | 10.5% | 3.1% | (7.7)% | — | 5.5% |
| FHSU FY 1979 | 66,621 | 52,364 | 14,482 | — | 133,467 |
| FY 1980 | 66,291 | 53,071 | 14,474 | — | 133,782 |
| FY 1981 | 68,545 | 54,421 | 15,081 | — | 138,047 |
| FY 1982 | <u>68,193</u> | <u>54,779</u> | <u>13,440</u> | <u>—</u> | <u>136,412</u> |
| Change FY 1979-82 | 1,572 | 2,415 | (1,042) | — | 2,945 |
| Percent Change | 2.4% | 4.6% | (7.2)% | — | 2.2% |
| GRAND TOTAL | | | | | |
| FY 1979 | 890,009 | 663,664 | 218,463 | 28,992 | 1,801,128 |
| FY 1980 | 912,922 | 677,332 | 217,533 | 28,813 | 1,836,600 |
| FY 1981 | 948,454 | 696,486 | 215,127 | 28,443 | 1,888,510 |
| FY 1982 | <u>951,327</u> | <u>706,601</u> | <u>207,179</u> | <u>27,154</u> | <u>1,892,261</u> |
| Change FY 1979-82 | 61,318 | 42,937 | (11,284) | (1,838) | 91,133 |
| Percent Change | 6.9% | 6.5% | (5.2)% | (6.3)% | 5.1% |

* Includes clock hours of 18,980 in FY 1979; 21,590 in FY 1980; 21,445 in FY 1981; and 22,909 in FY 1982. Change in clock hours between FY 1979 and FY 1982 was 3,929 (20.7 percent).

A comparison of the above student credit hour enrollments with the FY 1984 requests serves to provide a partial explanation for the differences in amounts requested. The request for Wichita State at \$1,172,280 is by far the largest. Yet, while Wichita State experienced the second largest growth between FY 1979 and FY 1982, its growth from FY 1981 to FY 1982 was the largest. Kansas State experienced the greatest growth between FY 1979 and FY 1982 and also increased in enrollment from FY 1981 to FY 1982. Pittsburg's overall growth rate was third highest and it also recorded an enrollment increase from FY 1981 to FY 1982. The other three institutions all recorded modest enrollment increases from FY 1979 to FY 1982, but, because of declines in enrollment from FY 1981 to FY 1982 are targeted for funding reductions. Differences in the amounts of funding adjustments among the institutions are functions not only of overall enrollment increases and decreases, but also shifts among levels and disciplines.

A striking trend is the decline in graduate credit hours at all institutions except for the master's degree level at the University of Kansas. Except for relatively minor one-year increases, the overall trend is clearly downward. Since graduate level courses tend to have the highest cost per unit, these declines have offset some of the growth experienced at the undergraduate levels (104,255 student credit hours).

While it is difficult to assess the future, all institutions except Wichita State and Pittsburg State recorded declines in full-time equivalent enrollments for the fall of 1982. Depending on the level and discipline where these declining enrollments occur, the cost implications could be significant. If the formula is "rebased" to use FY 1982 as the base year for calculating the FY 1985 request, it is likely that no institution will receive enrollment adjustment funding. If FY 1979 is kept as the base year for calculating the FY 1985 request it is likely there will be substantial budgetary reductions at some institutions and perhaps some increases in funding at others.

Assessment

With the inclusion of the FY 1984 funding requests, it becomes possible to make an assessment of the adequacy of the enrollment adjustment policy in its first three-year cycle. This can be accomplished by contrasting the total funding provided over the three-year period (including the requested funding for FY 1984) with actual average costs per credit hour. While this type of gross analysis overlooks differences in costs by level and discipline, it can serve to indicate the extent to which the policy added or deleted resources at the margin rather than at the average of all costs.

The following table displays cumulative enrollment adjustment funding actually provided (FY 1982 and FY 1983) and requested (FY 1984). Funding is treated in a cumulative fashion so that if a \$100,000 increase was provided one year and a \$75,000 reduction made the next, the cumulative increase is \$25,000.

Cumulative Enrollment Adjustment Funding
Appropriated FY 1982 and FY 1983; Requested FY 1984

| <u>Institution</u> | <u>F.T.E. Staff</u> | | <u>Salaries</u> | <u>O.O.E.</u> | <u>TOTAL</u> |
|--------------------|---------------------|---------------|--------------------|------------------|--------------------|
| | <u>Unclass.</u> | <u>Class.</u> | | | |
| KU | 25.0 | 2.5 | \$ 12,802 | \$ 88,597 | \$ 101,399 |
| KSU | 73.0 | 27.0 | 1,952,894 | 456,241 | 2,409,135 |
| WSU | 40.1 | 23.5 | 1,300,149 | 304,000 | 1,604,149 |
| ESU | 5.0 | — | (34,475) | — | (34,475) |
| PSU | 5.0 | 1.0 | 164,225 | 54,422 | 218,647 |
| FHSU | 3.0 | 2.5 | 29,055 | 18,872 | 47,927 |
| TOTAL | <u>151.1</u> | <u>56.5</u> | <u>\$3,424,650</u> | <u>\$922,132</u> | <u>\$4,346,782</u> |

Thus, a total of \$4,346,782 has been provided the universities to support an increase of 91,133 student credit hours. This funding equates to \$47.70 per unweighted credit hour. However, since enrollments changed at different rates on different campuses this approach needs to be applied on an individual institution basis. Further, in order to determine the extent to which funding was provided at the margin, it is necessary to have some measure of the average costs. Because FY 1982 represents the last completed fiscal year and because the student credit hours produced in that year serve as the basis for the FY 1984 enrollment adjustment request, base expenditures for the Educational Program and Physical Plant for FY 1982 (increased for FY 1983 and FY 1984 enrollment adjustment funding) divided by the total undifferentiated credit hours produced, can be used as a representative average cost per student credit hour. Therefore, the percentage which the enrollment adjustment funding per credit hour represents of adjusted FY 1982 costs per credit hour provides an indication of the margin at which the enrollment adjustment funding was provided.

This information is shown in the following table.

Enrollment Funding Per SCH Compared To
Average Funding Per SCH

| <u>Institution</u> | <u>SCH Change FY 79-FY 82</u> | <u>Percent Change</u> | <u>Enrollment Funding Per SCH</u> | <u>Adjusted FY 82 Expenditure Per FY 82 SCH</u> | <u>Enrollment Funding Per SCH/FY 82 Expenditure Per SCH</u> |
|--------------------|-------------------------------|-----------------------|-----------------------------------|-------------------------------------------------|-------------------------------------------------------------|
| KU | 9,858 | 1.6% | \$ 10.29 | \$ 120.37 | 8.5% |
| KSU | 43,633 | 9.3 | 55.21 | 103.39 | 53.4 |
| WSU | 24,392 | 8.1 | 65.77 | 107.95 | 60.9 |
| ESU | 2,300 | 1.6 | (14.99) | 109.56 | (13.7) |
| PSU | 8,005 | 5.5 | 27.31 | 104.46 | 26.1 |
| FHSU | 2,945 | 2.2 | 16.27 | 106.22 | 15.3 |
| TOTAL | <u>91,133</u> | <u>5.1%</u> | <u>\$ 47.70</u> | <u>\$ 110.47</u> | <u>43.2%</u> |

The percentages shown in the last column indicate the percent of full average funding provided to the institutions based upon enrollment changes. In this regard it represents the "margin" at which resources were provided due to these enrollment changes. As one would expect, the lower the overall growth, the smaller the marginal return, while the larger the enrollment change the greater the marginal return. Thus, the University of Kansas with overall growth of 1.6 percent received additional resources at 8.5 percent of the adjusted FY 1982 average costs. In contrast, Wichita State, with 8.1 percent overall growth received resources at 60.9 percent of adjusted FY 1982 average costs per credit hour. While Emporia experienced an overall increase in credit hours, it actually lost resources at 13.7 percent of average cost due to the significant enrollment decline (12.1 percent) at the relatively high cost graduate level.

An example may serve to make clearer why funding at the margin is a desirable characteristic of an enrollment adjustment policy. Consider an institution which produces 100,000 credit hours. The costs associated with an increase or decrease of 100 credit hours may be relatively modest or nonexistent. In contrast, if the institution adds 1,000 credit hours, marginal costs may be higher as additional faculty must be employed, records kept, students advised, and supplies purchased. Yet even though there are additional costs associated with an increase of 1,000 credit hours, the additional costs are less than the average as it is unlikely new deans will be hired, another president employed, or additional space added. While it is clear that in cases of extreme growth, the marginal costs will begin to approach average costs, typically such extremes do not occur over a relatively short period of time such as three years.

As a further indication of the policy's adequacy it should be remembered that the staffing ratio approach to enrollment adjustments employed by the Legislature during the 1970s (one faculty position for each 15 F.T.E. students) typically added or deleted resources at approximately 60 percent of the average. One of the reasons for moving to the current policy was the recognition that adding or deleting resources at 60 percent of the average was probably too large a margin for relatively minor enrollment fluctuations.

Given that the procedure is designed to provide relatively modest changes in financial resources for modest changes in enrollments, with larger funding changes for larger enrollment changes, it appears to have been successful over this three-year funding cycle.

Issues

Based on the above review, it appears that the enrollment adjustment policy implemented by the 1981 Legislature has been successful in its implementation. It has provided for funding adjustments at marginal rather than average costs, it reflects institutional costs by level and discipline, and is based on actual full-year rather than projected fall enrollments. The policy provides the institutions with the opportunity to engage in systematic planning based on anticipated future enrollment changes and also provides the institutions with flexibility over how the resources are requested or allocated.

Yet, even with these strengths, the policy is not without its drawbacks. The policy is complex, both conceptually and in terms of its implementation. Further,

because funding is provided based on actual rather than projected enrollments, it tends to lag behind the enrollment fluctuations themselves. This creates a situation where an institution may receive resources for a given fiscal year even though it may be likely in the following year those resources would be deleted. Finally, by allowing institutions complete discretion over the requested adjustments anomalous situations occur where an institution may request to retain positions even though their funding support is being removed.

Assuming the Legislature will provide the FY 1984 funding for the third year of the agreed to cycle, issues arise as to whether the Legislature wishes to continue this policy beyond FY 1984. If it does not wish to continue this procedure, perhaps consideration should be given to alternatives. If it wishes to maintain this policy, the Legislature may wish to implement any potential modifications prior to the submission of the FY 1985 budget requests to the 1984 Legislature.

Possible candidates for replacement policies include a return to some form of the traditional staffing ratio approach to enrollment adjustments. Another option would be to have no systematic policy at all, but rather to review enrollment related funding for each institution on an annual institution-by-institution basis. For any alternative considered it is important to weigh its strengths and weaknesses against those of the existing policy in order to determine if the alternative would more completely reflect legislative intent.

If the Legislature wishes to modify the existing policy, but maintain its essential components, several possibilities exist. One option would be to reduce the number of levels and disciplines for which costs are calculated. While this would simplify the calculations, it would also make the model less sensitive to actual cost behavior by level and discipline. Another option is to change the percentage increments of the "corridor." If the increments were increased it would make it more difficult for an institution to gain or lose resources. If the increments were reduced it would be easier to gain or lose resources and marginal changes would more rapidly approach average costs. A final option is to retain the FY 1979 base year and not move to a "new" three-year cycle. Under this approach any previously provided resources would not become part of the base and any future funding provided would continue to be reduced by any previous year's funding.

However, before the Legislature rejects or modifies the existing policy, it would be well to identify precisely what, in the existing policy, is deemed unsatisfactory. With this information at hand it would be much easier to identify potential alternative policies or modifications to the existing policy which would eliminate the shortcomings.