Central Distribution Subcommittee  
Recommendation to Senate Fiscal Committee  
Distribution of Marginal Growth in Masters Fee Income and State Share of Instruction  
February 12, 2009

Background
In March 2007, the Central Distribution Subcommittee presented a report to the Senate Fiscal Committee regarding the distribution of marginal growth in undergraduate fee income and the State Share of Instruction. The Subcommittee presented four recommendations which were adopted by the University and implemented in FY 2008. Recommendations were:

- Combine all undergraduate fee revenue and undergraduate State Share of Instruction (SSI) and return the allocations to the original shares in FY 2003 (40% SSI and 60% tuition/fees).
- Use State-wide average costs to calculate the subsidy rates used to allocate the undergraduate SSI share generated.
- Consider addressing the impact of historical erosion at least in part through the rebasing initiative.
- Implement the recommendations of this committee immediately rather than phasing in the recommendations.

In addition, the subcommittee also recommended that the distribution of marginal growth in masters fee income and the masters level SSI also be reviewed and analyzed for possible changes. The Central Distribution Subcommittee has completed their review, and this report presents the analysis and recommendation.

Since the implementation of the University budget model in FY2003, the relative portion of the masters SSI has been declining while the relative portion of the funding from masters fee income has been growing. SSI takes into account the varying cost of instruction across disciplines which fee income does not. Thus as the share of SSI declines, and fee income increases, the funding for high cost masters programs is eroding relative to the funding for lower cost masters programs. In FY 2003, the proportion of revenue generated from masters SSI was 48% and 52% from masters fee income. In FY 2008, this had shifted to 44% for masters SSI and 56% for masters fee income. This is a much smaller shift than undergraduate revenue where SSI/undergraduate fee income was 40%/60% in FY 2003, and shifted to 30%/70% by FY 2007.

Alternative Methodology – Return to FY 2003 Proportions

Attachment 1 displays the results of changing the allocation methodology on all colleges. It would combine the masters fee income and masters SSI and allocate based on the original proportions in FY 2003 – 48% SSI and 52% fee income. Both FY 2007 and FY 2008 results are shown. In all cases, the shifts were a very small portion of colleges’ PBA. In the FY 2008 modeling, the shift is less than 1% of PBA with the exception of two colleges where the shift is less than 2% of PBA. The total dollars shifted are also relatively small ($2M in FY 2007 and $2.2M in FY 2008).

When RPIA prepared the analysis, several issues arose with the underlying data available to support the analysis which resulted in concerns with the validity of the analysis. These concerns revolve around the fact that it is impossible to compare the recommendation for the undergraduate income to graduate income. Whereas all undergraduates are charged one tuition rate, some graduate students are charged differential
tuition rates based on their program of study. This makes it extremely difficult to combine fee and subsidy income of all graduate students as has been done for all undergraduate students.

First, for masters fee income, it is not possible to isolate strictly masters students. The fee income not only includes students in terminal masters programs, but it also includes income paid by doctoral students who have less than 51 credit hours. Historically, it is not possible to isolate those students who enroll directly in doctoral programs, but have taken less than 51 credit hours and are presumably in their first year of their PhD program. Therefore, for those programs with large PhD programs, fee income would be disproportionately shifted to them and away from the masters only programs.

Second, we found that it is not possible to separate out the hours for students in differential fee programs when measuring credit hours divided by SSI categories of instruction. This is best illustrated by reviewing the results of the methodology on the College of Business. Many of Business’ masters students are in tagged masters programs that already charge differential tuition to account for the increased cost of instruction (ex: MBA, MACC & MLHR programs). Since those subsidy credit hours cannot be isolated, the methodology shifts significant subsidy to Business even though higher tuition levels are already being assessed to make up the funding difference.

Board of Regents Changes to SSI

The OBOR is changing the SSI allocation methodology to all universities beginning in FY 2010. While the previous model was based on system wide expenses by discipline and enrollment, the new taxonomy will have a quality component, including retention goals, degree attainment, quality measures, and mission specific goals. This change will allow the University to consider changing the SSI allocation methodology for the University budget model to more closely match the new OBOR methodology, once it is finalized and adopted. This also impacts our recommendation on whether or not to change the methodology on masters level allocation of SSI and fee income since the Board of Regents funding model will most likely be changing in FY2010, and the actual impact of this change is not yet known.

Recommendation

**The Central Distribution Subcommittee recommends that no change be made the allocation methodology for the distribution of marginal masters level SSI and fee income.** The specific reasons are:

- Based on the current modeling, the impact appears to be minimal on all colleges to change the allocation methodology. For example, only $2.2M in marginal income shifts. As a point of reference, when the undergraduate allocation methodology was changed, over $23M in marginal income shifted. The initial modeling results do not result in significant changes, although those results are impacted by data issues discussed above.
- The historical data available for masters level fee credit hours cannot separate out those students who enroll directly in PhD programs but have taken less than 51 credit hours. Thus accurate conclusions cannot be made on the current modeling.
- The historical data available for masters level subsidy credit hours cannot separate out those students who are in differential fee programs or tagged masters and isolate the true masters only students. Thus, like fee credit hours, conclusions cannot be made on the current modeling.
- The State funding taxonomy for SSI will likely change in FY2010, and the University will have the opportunity to make recommendations to change the allocation methodology for all of SSI. This will be a significant investment in time and resources, and the University should focus its efforts on this endeavor.