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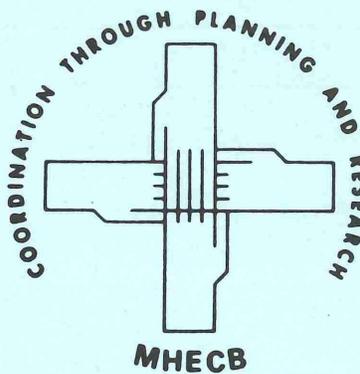
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# STATUS REPORT

## OF THE

# AVERAGE COST FUNDING TASK FORCE



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Minnesota Higher Education Coordinating Board

**STATUS REPORT  
OF THE  
AVERAGE COST FUNDING TASK FORCE**

December, 1986

Minnesota Higher Education Coordinating Board

AVERAGE COST FUNDING  
TASK FORCE

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Senate Finance Committee

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Chancellor  
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## EXECUTIVE SUMMARY

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### INTRODUCTION

The 1983 Legislature created the Average Cost Funding Task Force to implement the state's average cost funding policy for the public post-secondary education systems. The 1985 Legislature transferred responsibility for convening and staffing the Average Cost Funding Task Force from the Department of Finance to the Higher Education Coordinating Board.

This is the first of two reports by the Task Force to the legislature during the 1985-87 biennium. The report reviews the state's finance and governance policies for post-secondary education that were adopted in 1983. The membership, charge, past work, and current structure of the Task Force are described. The agenda of issues that the Task Force will address during the biennium is presented. Finally, the progress of the Task Force in addressing these issues is reviewed.

### BACKGROUND

The 1983 Legislature adopted new financing and governance policies for post-secondary education. The finance and governance policies evolved from extensive reviews of the state's existing post-secondary education policies.

The Coordinating Board, in January 1980, established the Task Force on the Future Funding of Post-Secondary Education. The Task Force recommended that average cost funding should be the basic funding policy for Minnesota public post-secondary education systems. The Task Force also recommended a cost-related tuition policy, increased funding for need-based financial aid, and strengthened management authority for system governing boards.

Governor Rudy Perpich's 1983 recommendations on finance and governance policies for post-secondary education were based on the recommendations of the Future Funding Task Force. The 1983 Legislature adopted the governor's finance and governance policy recommendations. The 1984 and 1985 Legislatures adopted several refinements to the finance and governance policies.

The finance and governance policies included:

- o an average cost funding policy to provide state appropriations for instruction to Minnesota public post-secondary education systems;
- o a tuition policy to determine the state share and the student share of the cost of providing instruction in Minnesota public post-secondary education systems;
- o a major redesign of the State Scholarship and Grant Program;
- o strengthened management authorities for the public post-secondary education governing boards;
- o significant revisions in Minnesota's interstate tuition reciprocity agreements with Wisconsin, North Dakota, and South Dakota.

#### THE AVERAGE COST FUNDING TASK FORCE

The Average Cost Funding Task Force is administered and staffed by the Higher Education Coordinating Board. The Task Force is convened and chaired by the executive director of the Coordinating Board. The Task Force includes representation from the following:

- o each of the public post-secondary education systems;
- o post-secondary students;
- o the Education Division of the House Appropriations Committee;
- o The Education Subcommittee of the Senate Finance Committee;
- o the office of the commissioner of finance;
- o the office of state auditor; and
- o the Uniform Financial Accounting and Reporting Advisory Council.

The charge of the Task Force is to review and make recommendations on several aspects of the average cost funding policy.

The Task Force was established under the Department of Finance. A Task Force report was issued in May 1984. The report describes enrollment and cost definitions, an average cost funding methodology, and a biennial budget format consistent with average cost funding.

Since the report fulfilled the primary responsibility of the Task Force, the Department of Finance proposed to the 1985 Legislature that the Task Force be abolished. Instead, the Task Force was transferred to the Coordinating Board to serve as a forum for consideration of policy issues regarding average cost funding.

The Average Cost Funding Task Force, under the Coordinating Board, is organized at two levels. The Task Force membership includes the chief executives of the public post-secondary education systems and other member organizations. The Technical Advisory Committee, the second level, includes staff representatives from each system and member organization.

#### TASK FORCE ISSUE AGENDA

The Task Force and the Technical Advisory Committee developed an agenda of policy and technical issues to be addressed during the current biennium.

The policy issues include:

1. Treatment of Fixed Costs,
2. Counterincentives in the Current Funding and Tuition Policies,
  - a. Incentive to maintain enrollments.
  - b. Incentive to retain low-cost programs and avoid high-cost programs.
  - c. Incentive to serve students who are easy to educate.
3. Fluctuations in Funding Resulting from Fluctuations in Enrollments,

4. Difficulty in Funding New Programs,
5. The Use of Comparative Data to Support Budget Requests,
6. Funding for High School Students Enrolled Under the Post-Secondary Enrollment Options Program,
7. Consideration of Incorporating Capital Funding Into the Current Policy.

The technical issues include:

1. Differences Between Systems in Counting Credit or Clock Hours,
2. The Method Used for Counting AVTI Adult Enrollments,
3. The Desirability of Updating Enrollment Estimates and Spending Plans During the Odd-Year Legislative Sessions,
4. The Treatment of Other Instructional Revenue in Estimating State Appropriations,
5. The Sources of Revenue Used for Instruction in Defining the Base,
6. The Treatment of Student Health Service and Activity Fees and Expenditures,
7. Average Cost Funding and De-allocation,
8. The Instructional Component of the University of Minnesota Hospitals.

#### RECOMMENDATIONS, CONCLUSIONS AND FURTHER STUDY

The Task Force conducted an initial review and discussion of each of the policy issues. The Task Force reached a consensus on two of the issues. Following are the Task Force recommendations on the two policy issues.

#### The Use of Comparative Data to Support Budget Requests

The Task Force concludes that:

- o Accurate comparative data are an appropriate tool for addressing the issue of base adjustment, and
- o The primary responsibility for the development of comparative data rests with the systems that choose to use it.

**Funding for High School Students Enrolled Under the Post-Secondary Enrollment Options Program**

The Task Force recommends that:

- o Funding for high school students under the Post-Secondary Enrollment Options Program be retained.

The Technical Advisory Committee addressed each of the technical issues on the agenda. The committee reached a consensus on four of the issues. The committee was unable to reach a consensus on the instructional component of the University of Minnesota Hospitals. This issue was subsequently resolved by the Task Force. Two issues were resolved by legislative action. One issue was partially resolved and will be studied further. The following are the Task Force recommendations and conclusions on the technical issues.

**Differences Between Systems in Counting Credit or Clock Hours**

The Task Force concludes that:

- o The differences in enrollment counting practices are not significant enough to justify a recommendation for change.

**The Method Used for Counting AVTI Adult Enrollments**

The Task Force concludes that:

- o The definitions and procedures employed by the State Board of Vocational Technical Education staff for counting AVTI extension ADMs are the same as those used to count AVTI continuous ADMs. Further, the types of instruction that are counted appear to be consistent with those counted in other systems.

**The Desirability of Updating Enrollment Estimates and Spending Plans During Odd-Year Legislative Sessions**

The Task Force recommends that:

- o System enrollment estimates and spending plans for the second year of the biennium be revised in late April and, if possible, the revised estimates should be based on information for fall, winter, and spring quarters.

The Treatment of Other Instructional Revenue  
in Estimating State Appropriations

The Task Force recommends that:

- o Other instructional revenue be subtracted from instructional expenditures before state appropriations are estimated.

The Sources of Revenue Used for Instruction in Defining the Base  
and  
Average Cost Funding and De-allocation

The Task Force concludes that:

- o These issues were resolved by the 1986 Legislature.<sup>1</sup>

The Treatment of Student Health Service  
and Activity Fees and Expenditures

The Task Force recommends that:

- o The systems recover all indirect expenditures incurred by student health services through student fees.

The Technical Advisory Committee will conduct additional analysis on the treatment of student activity fees and expenditures.

The Instructional Component of the University of Minnesota Hospitals

The Task Force recommends that:

- o Thirty-four percent of the current Special Hospitals, Service and Educational Offset Appropriation be treated as instructional expenditures.
- o The instructional component become part of the University of Minnesota Operations and Maintenance Fund.
- o The non-instructional component remain as a special appropriation.

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<sup>1</sup> Laws of Minnesota for 1986, First Special Session, Chapter 1, Article 10 Subd. 10.

This report is intended primarily as a review of the technical issues addressed by the Task Force and the Technical Advisory Committee during the last nine months. The completion of this report will allow both groups to focus on the five remaining policy issues during the next year.



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## CHAPTER I. INTRODUCTION

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The 1983 Minnesota Legislature created the Average Cost Funding Task Force to implement the state's average cost funding policy for the public post-secondary education systems. The Task Force was convened and staffed by the Department of Finance during 1983 and 1984. The 1985 Legislature transferred responsibility for convening and staffing the Task Force to the Higher Education Coordinating Board.<sup>1</sup> The Task Force is required to report to the legislature on December 1 of each odd-numbered year.

This is the first of two Task Force reports to the legislature during the 1985-87 biennium. This report primarily addresses technical issues concerning the state's finance policies. The report reviews the state's finance and governance policies for post-secondary education that were adopted in 1983. The membership, charge, past work, and current structure of the Task Force are described. The agenda of issues that the Task Force will address during the biennium is presented. Finally, the progress of the Task Force in addressing these issues is reviewed.

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<sup>1</sup> Minnesota Statutes 135A.05 (1985 Supplement).



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## CHAPTER II. BACKGROUND

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The 1983 Legislature, acting on proposals of Governor Rudy Perpich, adopted a package of interrelated financing and governance policies for post-secondary education. The policies were intended to promote quality programs, efficient use of resources, and equality of opportunity for students. The policies were developed in response to changing demographic and financial conditions. This chapter reviews the history of the finance and governance policies and describes them.

### HISTORY

The finance and governance policies evolved from extensive reviews of the state's existing post-secondary education policies. As a result of the reviews, the Higher Education Coordinating Board recommended, the governor proposed, and the 1983 Legislature adopted the policies.

The Coordinating Board in January 1980 established the Task Force on the Future Funding of Post-Secondary Education. The Task Force consisted of 16 members representing education, government, and the public. It examined the implications of projected enrollment declines on current and alternative state funding policies. In December 1982 the Task Force issued a final report and recommendations on several aspects of post-secondary education in Minnesota.<sup>2</sup>

The Task Force recommended that average cost funding should be the basic funding policy for Minnesota public post-secondary education systems. The policy, according to the Task Force, should:

- o buffer funding changes associated with enrollment changes;

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<sup>2</sup> Minnesota Higher Education Coordinating Board, Final Report of the Task Force on Future Funding of Post-Secondary Education (December 1982).

- o control for differential growth in programs and levels of instruction;
- o be applied uniformly to all four public systems and provide no special or separate legislative funding for specific institutions or programs.

In addition, the Task Force recommended that:

1. A mechanism to reallocate one percent of all expenditures and all savings in order to encourage improvements in the quality and productivity of post-secondary education should be established.
2. Greater collaboration and coordination between institutions, systems, and sectors must be encouraged.
3. The state should honor the commitment of the bulge funding policy as enrollments decline.
4. The state should adopt a comprehensive cost related tuition policy for post-secondary education and adjust funding for need based financial aid to prevent loss of access by low income students.
5. The governing boards of the systems must have the maximum amount of responsibility and discretion with respect to policy and allocation decisions regarding their institutions. Legislative involvement in policy and allocation decisions regarding individual institutions should be discouraged.
6. Post-secondary education appropriations decisions should be unified under one committee in each legislative body.

Governor Rudy Perpich's package of finance and governance policies for post-secondary education was based on the recommendations of the Future Funding Task Force. The staff of the Department of Finance translated the Task Force recommendations into a package of broad policy recommendations and specific budget proposals. Both the package and the budget proposals were developed in consultation with representatives of the public and private post-secondary systems.

The 1983 Legislature adopted the governor's finance and governance policy recommendations. Although there were compromises on some specific items, the policies were adopted largely as proposed. The 1984 and 1985 Legislatures adopted several refinements to the policies.

## THE FINANCE AND GOVERNANCE POLICIES

The finance and governance policies for post-secondary education included:

- o an average cost funding policy to provide state appropriations for instruction to Minnesota public post-secondary education systems;
- o a tuition policy to determine the state share and the student share of the cost of providing instruction in Minnesota public post-secondary education systems;
- o a major redesign of the State Scholarship and Grant Program;
- o strengthened management authorities for the public post-secondary education governing boards;
- o significant revisions in Minnesota's interstate tuition reciprocity agreements with Wisconsin, North Dakota, and South Dakota.

This section describes the five policies.

### Average Cost Funding

The average cost funding policy is used to suggest state appropriation levels for Minnesota's four public post-secondary education systems. The policy relates state funding for each system to the number of students served by that system and the system's cost of serving those students. The policy buffers changes in funding from changes in enrollments by basing funding to each system on its enrollments two years earlier. For example, the systems received funding for Fiscal Year 1986 based on Fiscal Year 1984 enrollments. This two-year lag of changes in funding provides two benefits. First, the two years give systems and governing boards time to plan changes in staffing and expenditures in response to changes in enrollments. Second, the lag avoids the provision of funding based on projected enrollments.

Average costs per full-time student are the other primary component of the funding policy. The average costs are calculated separately for each level of instruction (lower division, upper division, graduate, and professional) and for each of three cost categories (low, medium, and high), resulting in 12

categories--or cells--for funding purposes. Average costs in each cell are multiplied by the corresponding number of students two years earlier and added to yield total instructional expenditures. Table 1 displays an average cost funding matrix for the State University System. The suggested state appropriation for instruction to each of the collegiate systems is equal to 67 percent of total instructional expenditures for that system. The suggested state appropriation for instruction to the area vocational-technical institutes is equal to 75 percent of its total instructional expenditures. This policy is used to determine system level appropriations. Governing boards have discretion in allocating funds to colleges, campuses, and programs.

### Tuition Policy

The tuition policy relates expected total tuition revenue and, consequently, tuition rates to the cost of providing instruction. In the three collegiate systems, the 33 percent of instructional expenditures not funded by appropriations is intended to be funded by tuition revenue. In the area vocational-technical institutes, the 25 percent of instructional expenditures not funded by appropriations is intended to be funded by tuition revenue. The system governing boards, however, are not required to establish tuition at any specific percentage of instructional expenditures. In addition, the governing boards have discretion to set tuition rates that vary by program, level of instruction, cost of instruction, or other classifications.

### Shared Responsibility in Financial Aid

The State Scholarship and Grant Program assigns responsibility for paying the cost of attendance to students, parents, and government. As the primary beneficiaries of their education, students are expected to assume responsibility for at least 50 percent of the cost of attendance. Students can

TABLE 1. AVERAGE COST FUNDING MATRIX, STATE UNIVERSITY SYSTEM  
1985-87 BIENNIUM<sup>1</sup>

| Level of Instruction | F.Y. 1986      |                |                          |                                 | F.Y. 1987      |                          |                                 |
|----------------------|----------------|----------------|--------------------------|---------------------------------|----------------|--------------------------|---------------------------------|
|                      | F.Y. 1985 Cost | F.Y. 1986 Cost | F.Y. 1984 FYE Enrollment | Total Instructional Expenditure | F.Y. 1987 Cost | F.Y. 1985 FYE Enrollment | Total Instructional Expenditure |
| Graduate             |                |                |                          |                                 |                |                          |                                 |
| Low                  | \$3,347        | \$3,502        | 501                      | \$ 1,754,400                    | \$3,596        | 570                      | \$ 2,049,900                    |
| Medium               | 5,288          | 5,557          | 944                      | 5,245,400                       | 5,691          | 942                      | 5,360,700                       |
| High                 | 6,917          | 7,264          | 175                      | 1,271,200                       | 7,445          | 166                      | 1,235,800                       |
| Upper Division       |                |                |                          |                                 |                |                          |                                 |
| Low                  | 3,685          | 3,871          | 6,773                    | 26,217,000                      | 3,965          | 6,849                    | 27,159,300                      |
| Medium               | 4,715          | 4,949          | 1,850                    | 9,155,500                       | 5,073          | 1,850                    | 9,384,600                       |
| High                 | 5,953          | 6,253          | 4,352                    | 27,211,900                      | 6,406          | 4,352                    | 27,876,800                      |
| Lower Division       |                |                |                          |                                 |                |                          |                                 |
| Low                  | 3,103          | 3,291          | 6,465                    | 21,274,400                      | 3,372          | 6,501                    | 21,918,200                      |
| Medium               | 3,676          | 3,861          | 5,477                    | 21,145,800                      | 3,955          | 5,477                    | 21,663,500                      |
| High                 | 4,282          | 4,497          | 7,208                    | 32,417,000                      | 4,608          | 7,208                    | 33,211,700                      |
| Other                |                |                |                          |                                 |                |                          |                                 |
| Bulge                | 1,552          | 2,777          | 4,379                    | 12,158,600                      | 3,282          | 4,126                    | 13,540,900                      |
| Sum Sess             | 1,517          | 1,592          | 3,336                    | 5,310,100                       | 1,632          | 3,230                    | 5,272,000                       |
| O-C Grad             | 1,778          | 1,873          | 353                      | 661,000                         | 1,913          | 419                      | 801,700                         |
| Totals               |                |                | 41,813                   | \$163,822,300                   |                | 41,690                   | \$169,475,100                   |

SOURCE: Minnesota Department of Finance.

<sup>1</sup>Reconciles to the 1985 Appropriations Act.

finance their share of the costs with earnings, savings, loans, or other forms of assistance. The remaining costs of attendance are to be met by a parental contribution and a combination of the federal Pell Grant and a state grant. The parental contribution is calculated using a national need analysis. A ceiling equal to the instructional cost in a comparable public institution was placed on private institution tuition recognized under the policy. This ceiling results in an additional portion of the cost of attendance assigned to students attending some private institutions.

### Strengthened Management Authority

The strengthened authority ensures that the governing boards have the authority to make management decisions necessary to operate their systems under the state's funding, tuition, and financial aid policies. The changes include the following:

- o The average cost funding policy is used to determine system level appropriations. Governing boards have discretion to allocate the funds among colleges, campuses, and programs.
- o The tuition policy applies at the system level only. Governing boards are not required to raise a specified amount of tuition revenue and may establish tuition rates which differ on the basis of level of instruction, program costs, type of student, or other considerations.
- o The State University, Community College, and Vocational Technical Boards have the authority to carry over any unexpended funds from one year to the next. This change gives these systems more financial flexibility.
- o The state will not take non-state funds such as gifts, grants, bequests, or endowments into account in determining state appropriations for each system.
- o The collegiate governing boards are given funding for salary increases and have the authority to set salary levels within the limitations of the funds provided and the Public Employee Labor Relations Act.
- o The governing boards have the authority to close institutions under their jurisdiction.

- o A governing board for the AVTIs separate from the State Board of Education. The new board has the authority to (a) approve or disapprove programs offered by AVTIs, (b) reorganize AVTIs, and (c) allocate state and federal funds.

### Interstate Tuition Reciprocity

Minnesota interstate tuition reciprocity agreements with Wisconsin, North Dakota, and South Dakota enhance opportunities for students to attend post-secondary institutions in neighboring states.

The Wisconsin agreement allows Minnesota residents to attend institutions in Wisconsin and pay tuition rates identical to those in comparable Minnesota institutions. Similarly, Wisconsin residents pay Wisconsin tuition rates at comparable Minnesota institutions. Under the reciprocity agreements with South Dakota and North Dakota, students pay a regional tuition rate based on the average tuition of similar types of institutions in the states. Each agreement includes a formula to calculate both states' financial liability for its residents enrolled in the other state. A limited reciprocity agreement covers two Iowa and three Minnesota public post-secondary institutions.

The current agreements were significantly revised in 1983. Prior to Fiscal Year 1984, Minnesota residents attending public institutions in participating states paid the same tuition rate as residents of those states. The cost-related tuition policy, included in the 1983 higher education package, caused tuition rates in Minnesota public institutions to rise significantly above resident tuition rates in reciprocity states. The previous reciprocity agreements would have provided Minnesota residents a financial incentive to attend institutions with lower resident tuition rates in bordering states. While consideration was given to eliminating the reciprocity programs, a renegotiation in 1983 allowed them to continue by reducing the financial incentive.



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### CHAPTER III. THE AVERAGE COST FUNDING TASK FORCE

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This chapter describes the Average Cost Funding Task Force, including its statutory membership, charge, transfer to the Coordinating Board, and structure. The 1984 Task Force report also is reviewed.

#### STATUTORY MEMBERSHIP

The Task Force is administered and staffed by the Higher Education Coordinating Board. The Task Force is convened and chaired by the executive director of the Coordinating Board. The Task Force includes representation from the following:

- o each of the public post-secondary education systems;
- o post-secondary students;
- o the Education Division of the House Appropriations Committee;
- o the Education Subcommittee of the Senate Finance Committee;
- o the office of the commissioner of finance;
- o the office of state auditor; and
- o the Uniform Financial Accounting and Reporting Advisory Council.

#### CHARGE

The charge of the Task Force is to review and make recommendations on the following:

- o the definition of instructional cost in all four public systems;
- o the method of calculating average cost for funding purposes;
- o the method used to assign programs to the proper level of cost at each level of instruction;
- o the adequacy of the accounting data for defining instructional cost in a uniform manner; and

- o the biennial budget format to be used by the four systems in submitting their biennial budget requests.

The 1985 Legislature added the following charge:

- o The average cost funding task force shall review the instructional component of the University of Minnesota hospitals and report its findings and recommendations to the legislature by October 1, 1986.<sup>3</sup>

### 1984 REPORT

The Task Force, under the Department of Finance, met regularly between July 1983 and May 1984 and issued a report in May 1984.<sup>4</sup> The report describes enrollment and cost definitions, an average cost funding methodology, and a biennial budget format consistent with average cost funding. The recommendations became the basis for implementation of the average cost funding policy in the 1985 budget cycle. The report lists the following accomplishments.

- o Full year enrollment equivalents were defined in a comparable manner for the four post-secondary education systems which eliminated previous differences based on time or place of program offerings. The 1984 Legislature enacted legislation adopting this recommendation.
- o Instructional cost was defined to incorporate the recommended definition of enrollments. The 1984 Legislature adopted this recommendation also.
- o A method of uniformly allocating indirect costs to instruction and then assigning these costs by level of instruction and program category was established.
- o A taxonomy of instructional program categories was developed for each of the post-secondary education systems.
- o A model was devised that uniformly assigns program costs to the appropriate average cost cell and then translates cell values into state appropriations and tuition revenues.
- o A biennial budget format compatible with the average cost funding concept has been disseminated.
- o A series of supporting data requirements designed to document the uniform application of the average cost funding policy was identified for submission with the 1985-87 biennial budget requests.

<sup>3</sup> Laws of Minnesota for 1985, First Special Session, Chapter 11, Section 3, Subdivision 2.

<sup>4</sup> Finance Department, Average Cost Funding Task Force Report to the Legislature (May 1984).

### TRANSFER TO THE COORDINATING BOARD

The primary responsibility of the Task Force under the Department of Finance was to develop the definitions, methods, and budget format necessary for consistent and equitable application of the average cost funding policy. This responsibility was fulfilled with the publication of the 1984 Task Force report. Since its purpose had been fulfilled, the Department of Finance proposed to the 1985 Legislature that the Task Force be abolished.

The post-secondary community, however, felt that the Task Force might serve as a useful forum for consideration of policy issues regarding average cost funding. Since the 1985 Legislature thought that such a role seemed consistent with the policy development role of the Coordinating Board, it transferred the Task Force to the Coordinating Board.

### STRUCTURE

The Average Cost Funding Task Force, under the Coordinating Board, is organized at two levels. The Task Force consists of the chief executives of the public post-secondary education systems and other member organizations. The Task Force is the forum for consideration and resolution of policy issues. It provides direction on which policy issues will be addressed and how they will be addressed. The Task Force also considers recommendations for the resolution of technical issues.

The Technical Advisory Committee, the second level, consists of staff representatives from each system and member organizations. A list of committee members is included in Appendix A. The Committee identifies and considers technical issues and makes recommendations to the Task Force on their resolution. The committee also provides staff support for Task Force consideration of policy issues.



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## CHAPTER IV. TASK FORCE ISSUE AGENDA

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The Task Force and the Technical Advisory Committee developed an agenda of issues. This chapter presents that agenda of policy and technical issues which will be addressed in the current biennium.

### POLICY ISSUES

Policy issues are primarily those which concern the nature of the average cost funding policy or related policies. The Task Force identified the following seven policy issues.

#### 1. Treatment of Fixed Costs

The average cost funding policy treats all instructional expenditures as though they are proportionately variable with enrollments. It has been argued that certain categories of expenditures are not proportionately variable with enrollments. Rather, it is argued that certain categories of expenditures remain fixed for a range of enrollment levels.

#### 2. Counterincentives in the Current Funding and Tuition Policies

It has been suggested that the following three incentives could have negative consequences in certain circumstances.

- a. Incentive to maintain enrollments. - Since all instructional funding varies with enrollments, the current policy provides an incentive for systems to maintain enrollment levels. Consequently, a system choosing to contract faces a significant counterincentive.
- b. Incentive to retain low-cost programs and avoid high-cost programs. - The current policies specify that state appropriations for instruction equal 67 percent or 75 percent of instructional expenditures. Consequently, a system choosing to reduce its enrollments in low-cost programs and maintain its enrollment in high-cost programs would experience increases in per student expenditures and in tuition rates that would exceed the rate of inflation.

- c. Incentive to serve students who are easy to educate. - Average cost funding provides an incentive to constrain spending levels by reducing funding proportionately as enrollments decline. Consequently, it provides an incentive to serve students who are less expensive to serve and a counterincentive to serve students who are more expensive to serve.

### **3. Fluctuations in Funding Resulting From Fluctuations in Enrollments**

Since funding varies proportionately with enrollments and is provided on the basis of enrollments two years earlier, short-term fluctuations in enrollment levels result in similar fluctuations in funding levels two years later. Consequently, a system experiencing a decline in enrollments one year and an increase two years later would experience a decline in funding at the same time its enrollments increased.

### **4. Difficulty in Funding New Programs**

The reduction in funding proportionately with enrollments and the provision of funds on the basis of enrollments two years earlier constrain the funds available for the development and implementation of new instructional and support programs.

### **5. The Use of Comparative Data to Support Budget Requests**

The average costs currently used to provide funding are to a large extent the product of the aggregate system spending levels prior to the implementation of the average cost funding policy. It has been argued that those spending levels were not necessarily the appropriate levels. Comparisons of average expenditures per student in Minnesota institutions with the same information for peer institutions is one method of assessing the appropriateness of current average costs.

### **6. Funding for High School Students Enrolled Under the Post-Secondary Enrollment Options Program**

The Post-Secondary Enrollment Options Program enables high school students to attend a post-secondary institution and ultimately receive both high school and post-secondary credit for post-secondary courses they take. The school district in which the student attends high school pays the student's post-secondary tuition, book and supply costs. The act that created this program currently calls for the post-secondary systems to receive funding for these high school students through the average cost funding policy.

**7. Consideration of Incorporating Capital Funding Into the Current Funding Policy**

The average cost funding policy provides instructional operating funds to the public post-secondary education systems. Capital funds are provided through a capital budgeting process. It has been argued that the current capital funding process provides little incentive for the systems to constrain their requests for or their use of physical plant space. It has been suggested that the incorporation of capital funding into the average cost funding process might strengthen this incentive.

**TECHNICAL ISSUES**

Technical issues are those which concern the implementation of average cost funding. The Task Force identified the following eight issues.

**1. Differences Between Systems in Counting Credit or Clock Hours**

The average cost funding policy provides funding based on full-year equivalent (FYE) enrollments in the collegiate systems and average daily membership (ADM) enrollments in the AVTIs. Student credit hours are used to measure FYE enrollments. Clock hours are used to measure ADM enrollments. There are differences between the systems in which hours are counted and when they are counted.

**2. The Method Used for Counting AVTI Adult Enrollments**

AVTI adult (now called extension) instruction had not been funded based on ADM enrollments. Consequently, ADM enrollment information had not been routinely collected for this category of instruction. AVTI extension instruction is now funded through the average cost policy based on ADM enrollments. State Board of Vocational Technical Education staff subsequently have established definitions and a procedure for collecting ADM information for extension instruction.

**3. The Desirability of Updating Enrollment Estimates and Spending Plans During the Odd-Year Legislative Sessions**

The systems submit their budget requests for a biennium early in the second year of the previous biennium. Enrollment and expenditure information for that year is estimated. This estimated information to a large extent determines funding levels for the subsequent biennium. Updated enrollment and expenditure information submitted during the legislative session could minimize the impact of errors in the estimating process.

**4. The Treatment of Other Instructional Revenue in Estimating State Appropriations**

Some systems collect instructional fees such as late fees or transcript fees. In its 1984 report, the Average Cost Funding Task Force recommended that this instructional fee revenue be subtracted from estimated instructional expenditures before tuition revenue is estimated. The 1985 Legislature altered the tuition policy to specify an appropriation percentage rather than a tuition percentage.

**5. The Sources of Revenue Used for Instruction in Defining the Base**

The extent to which the systems fund instructional expenditures with sources of revenue other than state appropriations and tuition varies significantly. It is necessary, for the biennial budget process, to define the instructional expenditure base for the next biennium in terms of the sources of revenue used to fund it.

**6. The Treatment of Student Health Service and Activity Fees and Expenditures**

There are differences in the extent to which the public systems support student health services and activities with state funds.

**7. Average Cost Funding and De-allocation**

Expenditures in the second year of a biennium serve as the budget base for the following biennium. Consequently, reductions in appropriations for the second year reduce the appropriation for the following biennium. If systems have flexibility to implement appropriation reductions in either year of a biennium, reductions in the following biennium can be minimized.

**8. Review of the Instructional Component of the University of Minnesota Hospitals**

The 1985 Legislature directed the Average Cost Funding Task Force to review the instructional component of the University of Minnesota Hospitals and report its findings and recommendations by October 1, 1986.

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## CHAPTER V. RECOMMENDATIONS, CONCLUSIONS, AND FURTHER STUDY

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The Task Force and the Technical Advisory Committee have made their decisions primarily by consensus, typically following a review of background material and an extensive discussion of an issue. This chapter presents the recommendations and conclusions of the Task Force and notes the issues which will be studied further.

### POLICY ISSUES

The Task Force initially reviewed and discussed each policy issue, and reached a consensus on two of the issues. The remaining five policy issues were referred to the Technical Advisory Committee for further analysis. Although the Task Force discussed further and considered options for addressing two of these issues, it has not agreed on the remaining five issues and will continue to address them during the next year. Following are the Task Force recommendations on the two policy issues.

### The Use of Comparative Data to Support Budget Requests

The Task Force concludes that:

- o Accurate comparative data are an appropriate tool for addressing the issue of base adjustment, and
- o The primary responsibility for the development of comparative data rests with the systems that choose to use it.

Rationale. An examination of average expenditures per student in Minnesota institutions and identical information for peer institutions is one method for addressing the issue of the appropriate state funding level for Minnesota institutions. Such comparisons can contrast state funding and

institutional allocation decisions at peer institutions with those at Minnesota institutions.

System staff are best qualified to develop an accurate comparative data base. They are familiar with intricacies of system financial data. System staff should be prepared to defend the accuracy of the comparative data and the appropriateness of the peer institutions chosen. Although accurate comparative data is a useful tool in the budget process, it can be expensive and time consuming to develop. Further, there do not appear to be well developed sources of comparative data for community colleges and AVTIs.

#### Funding for High School Students Enrolled Under the Post-Secondary Enrollment Options Program

The Task Force recommends that:

- o Funding for high school students enrolled under the Post-Secondary Enrollment Options Program be retained.

Rationale. The program has the potential to encourage more individuals to pursue a post-secondary education. The program appears to be working well and accomplishing its objectives. The State Department of Education has been directed by the legislature to evaluate the program and report by January 15, 1987.<sup>5</sup>

#### TECHNICAL ISSUES

The Technical Advisory Committee addressed each of the eight technical issues on the agenda. The committee reached a consensus on four of the issues and was unable to reach a consensus on one issue which was subsequently resolved by the Task Force. Two issues were resolved by legislative action. One issue was partially resolved and will be studied further during the next year. The following are the Task Force recommendations and conclusions on the technical issues.

<sup>5</sup> Laws of Minnesota for 1986, Chapter 447, Section 13.

### Differences Between Systems in Counting Credit or Clock Hours

The Task Force concludes that:

- o The differences in enrollment counting practices are not significant enough to justify a recommendation for change.

Rationale. Consistency over time in the methods each system uses to count enrollments is more important than absolute uniformity among systems. The role of enrollments in the average cost funding policy is to measure changes in the level of activity over time. The absolute size of the unit of measure is not important. Consequently, the slight differences between systems in enrollment counting practices were considered acceptable.

### The Method Used for Counting AVTI Adult Enrollments

The Task Force concludes that:

- o The definitions and procedures employed by the State Board of Vocational Technical Education staff for counting AVTI extension ADMs are the same as those used to count AVTI continuous ADMs. Further, the types of instruction that are counted appear to be consistent with those counted in other systems.

Rationale. Extension courses are the same types of courses and are provided in the same manner as in continuous programs. The primary difference between extension courses and continuous programs is the length of instruction. Extension instruction is typically provided on a course basis without a commitment to offer an entire program. Continuous instruction is typically provided in the context of a program but also is available on a course basis.

### The Desirability of Updating Enrollment Estimates and Spending Plans During Odd-Year Legislative Sessions

The Task Force recommends that:

- o System enrollment estimates and spending plans for the second year of the biennium be revised in late April and, if possible, the revised estimates should be based on information for fall, winter, and spring quarters.

**Rationale.** Updated enrollment and spending estimates allow appropriations' decisions to be based on the most accurate information available. Accurate information could minimize the size of estimation error corrections in the subsequent biennium.

**The Treatment of Other Instructional Revenue  
in Estimating State Appropriations**

The Task Force recommends that:

- o Other instructional revenue be subtracted from instructional expenditures before state appropriations are estimated.

**Rationale.** This recommendation is consistent with the current practice of displaying this revenue category as non-instruction or eliminating it from the state budget.

**The Sources of Revenue Used for Instruction in Defining the Base  
and  
Average Cost Funding and De-allocation**

The Task Force concludes that:

- o These issues were resolved by the 1986 Legislature.<sup>6</sup>

**Rationale.** The 1986 Appropriations Act includes the following language which specifies the treatment of changes in appropriations and defines the instructional expenditure base for the 1987-89 biennial budget requests.

The changes in appropriations in this act must not be taken into account when calculating the 1987-1989 biennial budgets for post-secondary systems. Except for changes attributable to enrollment or internal reallocation of appropriated money, the fiscal year 1987 instructional base used by each system in its respective 1987-1989 biennial budget request must not differ from the spending level established by Laws 1985, First Special Session chapter 11.

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<sup>6</sup> Laws of Minnesota for 1986, First Special Session, Chapter 1, Article 10, Subd. 10.

**The Treatment of Student Health Service and Activity Fees and Expenditures**

The Task Force recommends that:

- o The systems recover all indirect expenditures incurred by student health services through student fees.

**Rationale.** The state universities and the campuses of the University of Minnesota recover all indirect expenditures for student health service operations from student fees. The AVTIs and community colleges do not recover indirect expenditures. This recommendation would advance the equitable treatment of the four systems under the state's financing policies. The impact on AVTI and community college students would be negligible. The Technical Advisory Committee will conduct additional analysis on the treatment of student activity fees and expenditures.

In addressing this issue, the Technical Advisory Committee has focused on the technical issue of differences among the systems in financing student health services. The Committee has not addressed the broader question of the role of the systems and the state in providing student health care.

**The Instructional Component of the University of Minnesota Hospitals**

The Task Force recommends that:

- o Thirty-four percent of the current Special Hospitals, Service and Educational Offset Appropriation be treated as instructional expenditures.
- o The instructional component become part of the University of Minnesota Operations and Maintenance Fund.
- o The non-instructional component remain as a special appropriation.

**Rationale.** The recommendation to treat 34 percent of the expenditures supported by the Special Hospitals, Service and Educational Offset Appropriation as instructional was based on a review of the categories of expenditures supported by the special appropriation. The expenditures supported by the

special were identified by the University of Minnesota Health Sciences Cost Allocation Study for Fiscal Year 1984. The Task Force concluded that expenditures for medical graduate fellow and specialist instruction should not be treated as instructional for the state funding and tuition policies. See Appendix B for further discussion of this issue. After these expenditures are eliminated, the expenditures identified as instructional constituted 34 percent of the expenditures supported by the special appropriation in Fiscal Year 1984.

The treatment of a smaller percentage of the Special Hospitals, Service and Educational Offset Appropriation as instructional expenditures would lower the tuition revenue expectation and increase state appropriations to the University of Minnesota. State appropriations to the University of Minnesota would have been \$1,143,435 higher in Fiscal Year 1986 and \$1,189,179 higher in Fiscal Year 1987 if this recommendations had been in effect during the current biennium.

The recommendation to treat the expenditures attributable to graduate medical fellow and specialist instruction as non-instructional recognizes the unique nature of this type of instruction. Fellow and specialist instruction is primarily clinical training in a hospital. The fellows and specialists provide a substantial service to the hospital and receive modest compensation in addition to receiving graduate medical instruction.

The recommendation to transfer the instructional component to the Operations and Maintenance Fund and the retention of the non-instructional component as a special appropriation is consistent with recent efforts to place all instructional expenditures in the Operations and Maintenance Fund.

CONCLUSIONS

This report is intended primarily as a review of the technical issues addressed by the Task Force and the Technical Advisory Committee during the last nine months. The recommendations and conclusions represent a consensus of the members of the Task Force and the Technical Advisory Committee on how to best address these issues. The completion of this report will allow both groups to focus on the five remaining policy issues during the next year.



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APPENDIX A. MEMBERS OF THE AVERAGE COST FUNDING TASK FORCE  
TECHNICAL ADVISORY COMMITTEE

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David Buelow, Education Subcommittee of the Senate Finance Committee;  
Ivan Fletcher, University of Minnesota;  
Edmund Fuller, Office of the State Auditor;  
Ron Hackett, Department of Finance<sup>1</sup>  
Pam Heinrich, Education Division of the House Appropriations Committee;  
Nick LaFontaine, State University System;  
Dale Nelson, Department of Finance;  
John Ostrem, State Board of Vocational Technical Education;  
Craig Schoenecker, Higher Education Coordinating Board;  
Debbie Felt, Minnesota Student Association;  
Eric Radtke, Community College System; and  
Ken Zastrow, Minnesota Department of Education.

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<sup>1</sup>Replaces Dale Nelson.



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APPENDIX B. THE INSTRUCTIONAL COMPONENT OF THE  
UNIVERSITY OF MINNESOTA HOSPITALS

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The University of Minnesota receives a special appropriation entitled Special Hospitals, Services and Educational Offset. The appropriation is intended to help support the additional costs associated with the teaching, research, and public service mission of the University Hospitals and Clinics.

Appropriation and Total Hospital Expenditures

|   | <u>F.Y. 1984</u> | <u>F.Y. 1985</u> | <u>F.Y. 1986</u> | <u>F.Y. 1987</u> |
|---|------------------|------------------|------------------|------------------|
| Special Hospitals Appropriation                               | \$12,420,700     | \$12,938,700     | \$13,105,900     | \$13,859,900     |
| Appropriation as a Percent of<br>Total Hospitals Expenditures | 7.83%            | 7.91%            | 7.40%            | 6.40%            |

The 1985 Appropriations Act contained the following language:

"The average cost funding task force shall review the instructional component of the University of Minnesota hospitals and report its findings and recommendations to the legislature by October 1, 1986."

The interpretation of this language was that it called for a review of the basis for dividing the Special Hospitals, Service and Educational Offset Appropriation into instructional and non-instructional components.

Since this appropriation helps support costs attributable to education occurring in the University Hospitals and Clinics, a portion of it has been treated as instructional expenditures for estimating tuition revenue and state appropriations for the University of Minnesota. The effect of this treatment is that the students enrolled at the University of Minnesota finance 33 percent of the portion considered to be instructional through tuition revenue. Approximately 75 percent of the special appropriation was treated as instructional expenditures during the 1983-85 biennium. Sixty percent of the special was treated as instructional expenditures during the 1985-87 biennium.

The instructional component as defined in University of Minnesota Health Sciences Cost Allocation Study, December 1984 is presented in Table 2.

TABLE 2. UNIVERSITY OF MINNESOTA  
SPECIAL HOSPITALS, SERVICES AND EDUCATIONAL OFFSET  
FISCAL YEAR 1984

| <u>Program</u>                          | <u>Medical<br/>School<br/>Payroll in<br/>Hospital</u> | <u>Hospital<br/>Cost<br/>Centers</u> | <u>Totals</u> |
|---|---|--------------------------------------|---------------|
| Undergraduate Medicine                  | \$ 641,843  | \$ 126,875                           | \$ 768,718    |
| Allied Health                           |   |                                      |               |
| Nurse Anesthetist                       | 54,669  | 0                                    | 54,669        |
| Occupational Therapy                    | 52,890  | 37,679                               | 90,569        |
| Physical Therapy                        | 50,128  | 36,678                               | 87,806        |
| Medical Technology                      | 342,330   | 145,558                              | 487,888       |
| Subtotal                                | 500,017   | 220,915                              | 720,932       |
| Medical Fellow Specialists              | 3,954,457   | 864,906                              | 4,819,363     |
| Dentistry                               | 16,945  | 10,568                               | 27,513        |
| Pharmacy                                |   |                                      |               |
| Pharmacy                                | 43,728  | 165,366                              | 209,094       |
| Pharmacy - from Allied Health           | 0   | 76,951                               | 76,951        |
| Subtotal Pharmacy                       | 43,728  | 242,317                              | 286,045       |
| Nursing                                 | 21,318  | 163,810                              | 185,128       |
| Public Health                           |   |                                      |               |
| Public Health                           |   | 31,495                               | 31,495        |
| Public Health - from Allied Health      |   | 39,044                               | 39,044        |
| Subtotal Public Health                  |   | 70,539                               | 70,539        |
| Undergrad Other                         |   |                                      |               |
| Undergrad Other                         | 10,440  |                                      | 10,440        |
| Undergrad Other - Home Economics        |   | 177,653                              | 177,653       |
| Undergrad Other - from Allied Health    |   | 254,800                              | 254,800       |
| Undergrad Other - Other Continuing Educ |   | 161,785                              | 161,785       |
| Undergrad Other - GC Radiologic         |   | 484,541                              | 484,541       |
| Subtotal Undergrad Other                | 10,440  | 1,078,779                            | 1,089,219     |
| Medicine Graduate                       |   |                                      |               |
| Medicine Graduate School                | 261,382   | 57,169                               | 318,551       |
| Dentistry Graduate                      | 35,333  | 14,658                               | 49,991        |
| Medicine Graduate Other                 | 213,342   | 340,982                              | 554,324       |
| Subtotal                                | 510,057   | 412,809                              | 922,866       |
| Medicine Continuing Education           | 311,896   | 8,022                                | 319,918       |
| Total - Instructional                   | \$6,010,701   | \$3,199,540                          | \$9,210,241   |
| Percent Instructional                   |   |                                      | 76.87%        |
| Total - Non-Instructional               |   |                                      | \$2,771,759   |
| Percent Non-Instructional               |   |                                      | 23.13%        |
| TOTAL                                   |   |                                      | \$11,982,000  |

SOURCE: University of Minnesota.

The Task Force initially recommended that 33 percent of the expenditures supported by the Special Hospitals Service and Educational Offset Appropriation be treated as instructional. This recommendation was based on the conclusion that two categories of expenditures supported by the special, non-credit continuing education and medical graduate fellow and specialist instruction should not be treated as instruction. The rationale for the exclusion of non-credit continuing education was that such instruction is treated as a non-instructional activity for purposes of average cost funding. The University of Minnesota Health and Sciences Cost Allocation Study attributed \$481,703, or 4 percent of the \$11,982,000 in Fiscal Year 1984 expenditures supported by the special, to non-credit instruction. The recommendation, in effect, suggests that this non-credit instruction be supported entirely by state appropriations.

State practice regarding non-credit instruction is that it should be self-supporting. Consequently, the Task Force asked for a description of the non-credit instruction supported by the special, including how it is financed. The University response (attached) was that this non-credit instruction is indeed self-supporting, both for direct and indirect expenditures. In other words, the non-credit instruction is not supported by the special appropriation. The special appropriation funds that appeared to be attributable to non-credit instruction are actually attributable to other functions with the University Hospitals.

The basis for the Task Force recommendation that \$481,703, or 4 percent of of the special, be treated as non-instructional was that it supported non-credit instruction. Since these funds do not, in fact, support non-credit instruction, there was no rationale for classifying them as non-instructional. Their classification depended upon which other functions they support within the University Hospitals.

The Task Force assumed that the \$481,703 supported both instructional and non-instructional activities in the same proportions as the rest of the special. The result was a recommendation of 66 percent non-instructional and 34 percent instructional for treatment of the special. Table 3 presents the expenditures supported by the special appropriation in Fiscal Year 1984. They have been arrayed to illustrate the Task Force recommendation. Table 4 presents the fiscal impact of this recommendation had it been used to determine appropriations for the 1985-87 biennium.

**TABLE 3. UNIVERSITY OF MINNESOTA  
SPECIAL HOSPITALS, SERVICES AND EDUCATIONAL OFFSET  
FISCAL YEAR 1984**

| <u>Program</u>  | <u>Totals</u>       |
|---|---------------------|
| <b>Instructional</b>  |                     |
| Undergraduate Medicine  | \$ 768,718          |
| Allied Health   |                     |
| Nurse Anesthetist   | 54,669              |
| Occupational Therapy  | 90,569              |
| Physical Therapy  | 87,806              |
| Medical Technology  | 487,888             |
| Subtotal  | 720,932             |
| Dentistry   | 27,513              |
| Pharmacy  |                     |
| Pharmacy  | 209,094             |
| Pharmacy - from Allied Health   | 76,951              |
| Subtotal Pharmacy   | 286,045             |
| Nursing   | 185,128             |
| Public Health   |                     |
| Public Health   | 31,495              |
| Public Health - from Allied Health  | 39,044              |
| Subtotal Public Health  | 70,539              |
| Undergrad Other   |                     |
| Undergrad Other   | 10,440              |
| Undergrad Other - Home Economics  | 177,653             |
| Undergrad Other - from Allied Health                                      | 254,800             |
| Undergrad Other - GC Radiologic   | 484,541             |
| Subtotal Undergrad Other  | 927,434             |
| Medicine Graduate   |                     |
| Medicine Graduate School  | 318,551             |
| Dentistry Graduate  | 49,991              |
| Medicine Graduate Other   | 554,324             |
| Subtotal  | 922,866             |
| Other Instructional<br>(Previously allocated to Continuing Education)     | 163,779             |
| Total - Instructional   | \$4,072,954         |
| Percent Instructional   | 34%                 |
| <b>Non-Instructional</b>  |                     |
| Medical Fellow Specialists  | 4,819,363           |
| Other Non-Instructional<br>(Previously allocated to Continuing Education) | 317,924             |
| Non-Instructional   | 2,771,759           |
| Total - Non-Instructional   | \$7,909,046         |
| Percent Non-Instructional   | 66%                 |
| <b>TOTAL</b>  | <b>\$11,982,000</b> |

SOURCE: University of Minnesota.

TABLE 4. FISCAL IMPACT OF AVERAGE COST FUNDING TASK FORCE RECOMMENDATION  
ON THE INSTRUCTIONAL COMPONENT OF THE  
UNIVERSITY OF MINNESOTA HOSPITALS<sup>1</sup>

|   | <u>F.Y. 1986</u>           | <u>F.Y. 1987</u>           |
|---|----------------------------|----------------------------|
| Special Hospitals, Services and<br>Educational Offset Appropriation <sup>2</sup>  | \$13,326,900               | \$13,859,900               |
| Assumed Instructional Percentage<br>for 1985-87 Biennium                          | 60%                        | 60%                        |
| Instructional Component<br>Assumed Tuition Revenue at 33%<br>for 1985-87 Biennium | \$7,996,140<br>2,638,713   | \$8,315,940<br>2,744,260   |
| Recommended Task Force<br>Instructional Percentage                                | 34%                        | 34%                        |
| Recommended Instructional Component<br>Assumed Tuition Revenue at 33%             | \$4,531,146<br>\$1,495,278 | \$4,712,366<br>\$1,555,081 |
| Additional Appropriation<br>(Difference Between Assumed Tuition Revenue)          | \$1,143,435                | \$1,189,179                |

<sup>1</sup> Fiscal impact if recommendation had been used to determine appropriations  
for the 1985-87 biennium.

<sup>2</sup>The amounts are those originally appropriated. They have not been adjusted  
for reductions in 1986.





UNIVERSITY OF MINNESOTA

Office of the President  
202 Morrill Hall  
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Minneapolis, Minnesota 55455

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SEP 17 1986

September 11, 1986

EXECUTIVE DIRECTOR  
MHECR

David A. Longanecker  
Executive Director  
Minnesota Higher Education Coordinating Board  
Suite 400, Capitol Square  
550 Cedar Street  
Saint Paul, Minnesota 55101

Dear Dave:

This will respond to your letter of August 11, 1986 and attempt to answer the questions posed by the Average Cost Funding Task Force relative to Medical Fellow Specialists and their impacts on teaching hospitals.

1. How is graduate medical instruction financed in our affiliated teaching hospitals?

Teaching hospitals are financed from a combination of revenue sources including patient revenues, auxiliary revenue from cafeteria, etc., investment income and support or appropriations. To the extent that non-patient revenues exist, they effectively reduce the price patients must pay to secure services.

The University of Minnesota Hospital and Clinic (UMHC) receives a direct general support appropriation from the state of Minnesota. This appropriation has historically been provided to support undergraduate and graduate medical education, clinical research, and special procedures and services which are provided through UMHC which are not otherwise available or which are essential to an integrated graduate education program.

Similarly, the three major affiliated public teaching hospitals each receive support. The Veterans Hospital is totally funded through federal support while Hennepin County and Ramsey County provide support for each of their hospitals. In 1985 Hennepin County General Hospital received \$13,024,763 in county support for operating needs and capital equipment, and another \$1,864,150 in intergovernmental support including \$1,580,000 in support from the University of Minnesota for family practice and undergraduate education support. In 1985 Ramsey County Medical Center received \$8,465,247 in support from Ramsey County for operating and capital equipment expenditures, another \$6,458,779 in restricted and unrestricted contributions for special program expenditures, and \$1,375,208 in state support from the University for family practice and undergraduate education support.

2. How are medical fellow specialists financed elsewhere?

We have approached this in two ways. A request for information from AAU institutions with teaching hospitals produced nine responses from which we can construct the following table:

|                | # of M.F.S. | Pay Tuition? | Instructional Cost Financing                               | Source of Stipends                            |
|----------------|-------------|--------------|--|---|
| Indiana        | 588         | No           | Some State; some other                                     | Hospital budget                               |
| Iowa           | 550         | No           | State 25%, Practice Plans 35%, Other 40%                   | Mostly hospital                               |
| Kansas         | 302         | No           | State appropriations                                       | State appropriation                           |
| Michigan State | n.a.        | No           | Hospitals  | No response                                   |
| Minnesota      | 1,049       | Yes          | State 67%, MFS tuition about 5%, Other student tuition 28% | Mostly hospital budget                        |
| North Carolina | 612         | No           | State appropriations                                       | No response                                   |
| Pittsburgh     | 730         | No           | Can't separate sources                                     | 80%-90% Hospital                              |
| Ohio State     | n.a.        | No           | Not considered students                                    | Hospital budget                               |
| Virginia       | 450         | No           | Primarily Hospital budget                                  | 80% Hospital (including state appropriations) |
| Wisconsin      | 435         | No           | State appropriations and patient charges                   | Hospital budget                               |

We also prepared a table indicating the degree to which states are providing appropriations to their teaching hospitals. That table follows.

**COMPARISON OF STATE APPROPRIATIONS  
FISCAL YEAR 1982**

(000s Omitted)

| <u>Hospital Name</u> | <u>State<sup>2</sup> 1982<br/>Appropriation</u> | <u>1982 Gross<br/>Charges</u> | <u>1982 Net<br/>Charges</u> | <u>%<br/>Gross</u> | <u>%<br/>Net</u>  |
|----------------------|---|-------------------------------|-----------------------------|--------------------|-------------------|
| New Jersey           | \$52,261  |                               | \$ 39,601                   |                    | 31.0 <sup>1</sup> |
| Med. Col. VA         | 31,218  | \$164,293                     |                             | 19.0               |                   |
| Illinois             | 29,450  |                               | 121,495                     |                    | 24.2              |
| LSU                  | 23,000  |                               | 47,300                      |                    | 48.6              |
| Iowa                 | 22,277  |                               | 132,803                     |                    | 16.7              |
| Talmadge             | 21,526  |                               | 57,610                      |                    | 37.4              |
| N. Carolina          | 20,878  |                               | 84,079                      |                    | 24.8              |
| Virginia             | 19,287  |                               | 115,415                     |                    | 16.7              |
| Alabama              | 16,271  |                               | 125,102                     |                    | 13.0              |
| Colorado             | 16,117  |                               | 84,626                      |                    | 19.1              |
| S. Carolina          | 15,396  |                               | 71,875                      |                    | 21.4              |
| Oregon               | 14,351  | 106,317                       |                             | 13.5               |                   |
| Mississippi          | 14,034  |                               | 58,833                      |                    | 23.9              |
| Missouri             | 12,868  | 75,659                        |                             | 17.0               |                   |
| Kansas               | 12,309  | 70,542                        |                             | 17.4               |                   |
| Ohio State           | 12,216  | 133,983                       |                             | 9.1                |                   |
| Minnesota            | 11,596  | 144,678                       | 127,000                     | 8.0                | 9.1               |
| UCLA                 | 11,179  | 202,531                       |                             | 5.5                |                   |
| UCSF                 | 10,679  |                               | 119,977                     |                    | 8.9               |
| Arizona              | 8,770   |                               | 55,623                      |                    | 15.8              |
| Florida              | 8,529   |                               | 70,921                      |                    | 12.0              |
| Michigan             | 8,449   | 200,397                       |                             | 4.2                |                   |

(1) Excludes \$30 million which is apparently a capital appropriation in 1982.

| <u>Hospital Name</u> | <u>State<sup>2</sup> 1982<br/>Appropriation</u> | <u>1982 Gross<br/>Charges</u> | <u>1982 Net<br/>Charges</u> | <u>%<br/>Gross</u> | <u>%<br/>Net</u> |
|----------------------|---|-------------------------------|-----------------------------|--------------------|------------------|
| UC Davis             | 8,328   | 100,439                       |                             | 8.3                |                  |
| UCSD                 | 7,824   |                               | 97,302                      |                    | 8.0              |
| UC Irvine            | 7,269   | 128,604                       |                             | 5.7                |                  |
| Washington           | 5,888   | 65,915                        |                             | 8.9                |                  |
| Nebraska             | 5,182   | 53,524                        |                             |                    | 9.7              |
| Cinci. Gen           | 4,481   |                               | 91,576                      | 9.7                |                  |
| Hahnemann            | 3,769   | 170,968                       |                             |                    | 2.2              |
| S. Alabama           | 3,399   |                               | 33,213                      | 2.2                |                  |
| Wisconsin            | 2,374   | 79,860                        |                             |                    | 3.0              |
| Utah                 | 1,930   |                               | 50,504                      | 3.0                |                  |
| Med. Col. PA         | 745   | 260,099                       |                             | .3                 |                  |
| Rush                 | 120   | 262,690                       |                             | -                  |                  |
| Ohio                 | -0-   | 51,538                        |                             | -                  |                  |
|                      |   |                               | Average %                   | 8.8                | 18.2             |

(2) Excludes county appropriations.

|                                   |                       |           |           |      |      |
|-----------------------------------|-----------------------|-----------|-----------|------|------|
| Hennepin County<br>Medical Center | \$14,304 <sup>3</sup> | \$115,842 | \$108,831 | 12.3 | 13.1 |
| Ramsey County<br>Medical Center   | 16,299 <sup>3</sup>   | 90,160    | 82,922    | 18.1 | 19.7 |

(3) All appropriation sources.

While UMHC receives a direct appropriation from the state to defray the costs of education, the appropriation is not limited to the support of instructional programs. It is also provided to support graduate medical education and program cost associated with research and newly developing clinical programs. Secondly, each of the three major affiliated hospitals receives support from the federal, state or county governments for the operation of the hospitals and to reduce the cost to the patient. Finally, as one can see from the following table, every teaching hospital that provided data except one receives state support. University of Minnesota Hospital and Clinic receives less state support than the average hospital when figured as a percent of gross revenue, and only half of the average when figured as a percentage of net revenue.

3. Describe third party reimbursement policies for expenditures attributable to medical graduate fellowship and specialist instruction.

At the present time Medicare is the only third party payor that provides reimbursement to hospitals specifically for direct graduate medical education costs. This reimbursement is based on the costs (such as stipends, fringe benefits, etc.) incurred by the hospital for graduate medical education. Medicare then pays a proportion of these costs, the proportion being determined by the percentage that Medicare patients utilize all hospital services in relation to the total services the hospital provides.

4. How do the rates charged by the University of Minnesota Hospital and Clinic (UMHC) compare to other hospitals?

The University of Minnesota Hospital and Clinic's charges are comparable to other major tertiary teaching hospitals. In comparing UMHC's charges to all hospitals in general, UMHC's charges are higher. A survey completed by the Council of Community Hospitals in September, 1985 indicated that on average, when case mix is considered, UMHC's charges were 11% higher than the other 27 hospitals in the Twin Cities metropolitan area.

5. Describe the continuing education component shown on previous analysis of the Hospital Special Fund.

The presence of a small allocation for continuing education on the analysis of the Special Hospitals, Service, and Education Fund is an artifact of the method of cost allocation used in the past. The UMHC budget is administered as an undivided whole. Expenditures are accounted for on the basis of cost centers, not functional analysis. The latter is derived from an activity survey of Health Sciences personnel that covers all of their activities and has been generalized to the Hospital Special Fund as well as other fund sources. The continuing education involved is short courses for doctors, dentists, and other health professionals to keep them current with the latest developments in health care. These courses are given on a fee-for-service basis that covers all direct and indirect costs and the faculty activity analysis should have been (and will in future be) adjusted to attribute this activity specifically to those fee sources of revenue. These costs will be redistributed to other functions in the Special Hospitals appropriation.

Sincerely,



Kenneth H. Keller  
President

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