Overview of the ACHE Peer Equity Adjustment Process

- **Budget Highlights**
  - State support for higher education is still behind 2008 funding levels.
  - The proposed FY 2019-20 budget request is the largest increase in higher education funding in a decade.
  - 99.5% of the $1.8B college and university budget recommendation is based upon previous year funding plus 5% increase.
  - Less than half of a percent (0.47% or $9m) of the budget was set aside to address the most egregious inequities in funding.

- **It is a statutory requirement for ACHE** to develop the Consolidated Budget Recommendation (CBR) for publicly supported institutions (Section 16-5-9(b) Code of Alabama, 1975). The Alabama Commission on Higher Education formally voted on the FY 2019-20 budget recommendation that included the peer equity component in December 2018.

- **How funding inequities occurred.** During the early years of the recession state support for higher education was reduced significantly. As the economy improved and additional ETF revenues were generated, institutions were awarded modest incremental increases of 1-3%. A decade of incremental across-the-board budget increases did not adequately take into consideration changes in enrollment and the variable cost of academic programs.

- **The National Center for Higher Education Management Systems (NCHEMS)** was contracted by ACHE to develop statistical peers for each public institution. Created in 1969, NCHEMS is the most respected provider of accurate-and-timely data and information useful in making sound higher education policy decision. NCHEMS provides a Comparison Group Selection Service (CGSS) which is designed to aid states and institutions in selecting a group of institutions which are similar in mission to be used in comparative data analyses. CGSS has been in use at NCHEMS since 1982 and has been used by hundreds of institutions and a number of states.

- **Determining funding inequities by comparing institutional peers.** Each of Alabama’s institutions are created to serve a specific role, scope, and mission. To determine the funding needs of institutions, statistical peer institutions were identified based upon similar instructional mission, academic program mix, student characteristics, Carnegie Classification, enrollment and degree production. These components of the higher education environment are the drivers of cost. Alabama institutions found to be significantly underfunded in state support, (less than 90% of their $perFTE peer average), were given an adjustment to work toward alleviating this inequity over several years. Less than $9 million (less than half of 1% of the budget) was directed to address funding inequities. ACHE plans to continue monitoring these inequities and recommending adjustments to state support based on this analysis over the next few years.
• **Variables used in the determination of peers.** Many variables were analyzed and reviewed in determining institutional peers including the following variables:

  o **Institutional Characteristics** based upon Land Grant, Medical School, City Size, Region, Total Annual FTEs, city, and state
  
  o **Academic program mix** based upon degree production by level (certificate, associate, bachelors, masters, doctorate, professional), number of academic programs, % science degrees, % health degrees, % social science degrees, % humanities, % engineering, % business, % education, % computers, ratio of research to instruction expenditures, and Carnegie Classification
  
  o **Student characteristic** based upon headcount, % part-time, % minority, % undergraduates with Pell, annual FTE students, Fall FT enrollment, FT student retention rate, Fall PT enrollment, PT retention rate, completers, graduation rate, student/faculty, and student/staff ratios.
  
  o **Employee Characteristics** based upon faculty headcount, FTE of managers, student FTEs per manager, annual FTE of other academic professionals, students FTEs per other academic professional, FTE faculty, Full-time faculty, PT faculty, FTE per PT faculty, and PT faculty per FT faculty
  
  o **Ratio of Expenditures:** Research, Public Service, Instruction, Academic Support, Student Services, Institutional Support, Scholarships, Auxiliary Enterprises, Hospital Services, Independent Operations, Other Expenses, Operations and Maintenance, and Depreciation
  
  o **PLEASE NOTE:** Revenue sources were not considered in determining statistical peers. Revenue components are used when calculating the average state support for peers and average tuition revenue for peers and any variances. Funding sources vary across the US.

• **The beauty of a peer is in the eyes of the beholder.** As a part of next year’s budgeting process (FY 2020-2021), ACHE has asked the institution’s presidents and chancellors to review their NCHEMS peers and offer suggestions for changes. Pending legislative and gubernatorial approvals, NCHEMS will be contracted over the next two years to review suggested changes in peers. Adjustments will be made as determined appropriate. Equity adjustments will be a multi-year iterative process.

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