**SUMMARY**

The Analyst’s FY 2007 recommendations do not include any change to the compensation figures. During the session, the Executive Appropriations Committee may determine a compensation increase and then direct the Legislative Fiscal Analyst to incorporate that increase into the various state agencies’ budgets. Funding of any increase is based upon the agency’s or institution’s current revenue stream. Increases in USHE institutions have been funded with a combination of state funds and tuition (dedicated credits).

**OBJECTIVE**

Should the current formula to fund compensation adjustments be changed to help alleviate the disparity in the funding mix among USHE institutions?

**DISCUSSION AND ANALYSIS**

There is considerable difference between the nine USHE institutions as to their funding mix. While the USHE average shows State tax funds providing approximately 65 percent of the revenue for higher education and 35 percent of the revenue coming from tuition, there is great disparity among the nine institutions. At the one extreme is the College of Eastern Utah, which is funded with State funds for approximately 80 percent of its costs and dedicated credits (tuition) pick up the remaining 20 percent. At the other end of the spectrum, Utah Valley State College has less than 50 percent of its expenses covered by State tax funds, while tuition covers over 50 percent.

When compensation adjustments are based on current revenue sources, the institutions are required to raise tuition to cover that portion of the compensation adjustment. It is evident that the difference in current funding percentages results in an inequity in funding compensation adjustments. This inequity becomes more pronounced each year.

**Estimated Compensation Increases**

The Analyst estimates the total cost of a one percent increase in compensation at $7.1 million, the projected 10.71 percent increase in health insurance premiums at $8.8 million, and the expected 0.84 percent increase in State retirement costs at $1.2 million. With those three figures, the total would be $17.1 million. Using the current method of funding the increase, a State tax funds appropriation of $11.0 million would be required, along with $6.1 million from dedicated credits.

The State Board of Regents has requested that the Legislature consider capping the percentage that dedicated credits would fund any compensation adjustment at 25 percent, with State tax funds picking up the balance.

Under the Regents’ proposal, the example above would require $13.1 million in State tax funds and $4.0 million in dedicated credits. The 25 percent cap would result in additional costs in the amount $2.1 million for the State, while reducing the needed tuition increase by the same amount.

**Recommendation**

Because the Regents’ proposed change differs from the Executive Appropriations Committee’s current guidelines, the Analyst feels that the EAC would have to approve such a change. If the Subcommittee wishes to advance this proposal, it could be made to the EAC during one of its meetings where the co-chairs make a presentation.