

DATE: July 14, 2005

SUBJECT: Consideration of Proposed Policy on Self-Supporting Academic Entities

ACTION RECOMMENDED: Approval

BACKGROUND INFORMATION: At its April 14, 2005 meeting, the Tennessee Higher Education Commission directed THEC staff to develop policy that will govern the establishment and operation of academic entities proposed by institutions as self-supporting. This action followed Governor Phil Bredesen's endorsement of the proposal by East Tennessee State University to establish a self-supporting College of Pharmacy and doctoral program in pharmacy that will be operated with "100 percent private funds." The Commission asked staff to define necessary special provisions to ensure the integrity of the proposed self-supporting funding model.

The Commission noted that the established funding model for self-supporting auxiliary enterprises in public higher education is associated with non-instructional functions, not academic entities. The Commission consequently emphasized the importance of establishing general policy provisions for self-supporting academic entities. In developing such policy, the THEC staff will pursue the necessity of an amendment to the General Appropriations Act that requires comparable fees to be charged for comparable programs. Such an amendment may be necessary to allow fee levels required for program self-sufficiency.

SUMMARY OF COMMENTS: The proposed policy, Self-Supporting Academic Entities, is indicated on the following page.

RECOMMENDATION: It is recommended that the Commission approve the new policy.

Self-Supporting Academic Entities

Policy on Self-Supporting Academic Entities

1.0 Requirements for establishing and maintaining a self-supporting academic entity

- 1.1 Governing board and THEC policy for review and approval of academic programs and units applies to entities proposed as self-supporting.
- 1.2 The proposal to establish the self-supporting academic entity must identify the source and amount of funds by source which are planned to meet the entity's expenses.
- 1.3 Governing board and THEC policy for review and approval of academic program operating budgets applies to entities approved as self-supporting. If the characteristics of a self-supporting academic entity justify high program costs, the proposal must state a rationale for these costs.
- 1.4 The institution will annually review the status of the self-supporting academic entity in meeting its approved purpose and forward the review to the governing board and THEC as part of the annual budget process.
- 1.5 The governing board and THEC require a self-supporting academic entity to generate sufficient tuition and fees and non-state revenue to fund all direct and indirect costs of the entity, including personnel and overhead costs. An institution will not use state funds to meet direct or indirect operating costs associated with a self-supporting academic entity.
- 1.6 An institution will not use state funds for capital outlay, capital maintenance, or other physical plant renovations or improvements for a self-supporting academic entity. Capital improvements for a self-supporting academic entity will be subject to established policies and procedures of the State Building Commission and the Tennessee State School Bond Authority.

2.0 Safeguards to ensure that a self-supporting academic entity does not impact the state support of any existing higher education institution or entity

- 2.1 In its proposal to establish a self-supporting academic entity the institution will identify comparable private and public programs and assess the market potential for the proposed entity relative to its competitors.
- 2.2 The institution shall develop a formal memorandum of understanding with its governing board and THEC stating the relationship of a proposed self-supporting academic entity to the host institution. The memorandum of understanding will document provisions for compensation to the host institution for all services it provides to a self-supporting academic entity and specify contingency plans in the event the entity cannot sustain a revenue stream adequate to pay its expenses.
- 2.3 Institutions will report enrollments in a self-supporting academic program; however, student credit hours generated through these enrollments will not be considered for funding purposes.
- 2.4 A self-supporting academic entity will have a unique allotment code issued by the State Department of Finance and Administration.
- 2.5 An institution's internal auditor will review the self-supporting academic entity as part of the institution's regular audit plan.
- 2.6 It will be recommended that the annual State audit report include audits of self-supporting academic entities.

3.0 Processes to set tuition and fee levels and ensure adequacy of non-state revenue to sustain a self-supporting academic entity

- 3.1 The THEC shall not include in its annual tuition recommendations to the governing boards a specific tuition level for a self-supporting academic entity. Instead, THEC shall recommend that the governing board set tuition and fees at a level sufficient to meet the expenses of this entity when combined with other non-state revenue sources specific to it.

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- 3.2 As part of the annual budget process, the institution will report to the governing board and THEC all updates to strategies to realize revenue projected in the proposal to establish the self-supporting academic entity.
- 3.3 All student tuition and fee revenue associated with the self-supporting academic entity shall be retained by the institution and accounted for separate and apart from the host institution's unrestricted general fund.
- 3.4 The institution will establish a reserve fund for excess revenue specific to a self-supporting academic entity. Excess revenue derived from a self-supporting academic entity may be applied only to that entity.