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MEMORANDUM

TO: **Adequacy Workgroup Meeting**
(Illinois Commission on Equitable Public University Funding)

FROM: **Ralph M. Martire, Executive Director**
Sarah Wasik, Research Policy Analyst

FROM: **Ralph M. Martire**

DATE: **June 16, 2022**

SUBJECT: **Higher Education Funding Concepts**

Here are some elements to consider when designing a funding formula for Higher Education.

1. Establish a Base-line Goal

Factors to Consider:

(i) What is the total cost of funding Higher Education in Illinois, and how much of that cost should the state cover with General Fund Appropriations?

- The FY 2023 General Fund appropriation for Higher Education is $2.242 billion.
- The FY 2023 General Fund appropriation for Higher Education is 45.8% less in real, inflation-adjusted terms than it was in FY 2000.[i] To be equivalent with the FY 2000 appropriation, after adjusting for inflation, the General Fund appropriation for Higher Ed in FY 2023 should have been $4.132 billion, or almost double the enacted amount.
- It is unclear whether the aggregate amount being spent by institutions of higher learning in Illinois is adequate to meet needs. Factors have to be identified to cover various costs—including consideration of adjustments for

(a) programs needed to ensure students who have been traditionally disadvantaged have the support needed to complete degrees within 5 or 6 years,

(b) costs of completing different types and levels of degrees,

(c) costs of ensuring a broad range of academic programing across the state and institutions,

(d) per student cost adjustments needed to attract and retain more minority and low income students— possibly borrow from the differentials in average per student adequacy funding amounts for Tiers 1, 2, 3, and 4 of the EBF—as well as consider the equitable funding adjustments in Section 2 below,

(e) what percentage of the state's population do we want to be attaining a college degree and by what date, and how do we ensure said population is equitable across demographic lines,

(f) appropriate levels of MAP grant funding needed to ensure all low income students can afford college, and

(g) costs of facilities/deferred maintenance.

- In FY 2002, Illinois General Fund appropriations accounted for 72 percent of the total revenue received by the state's public universities, while the remaining 28 percent of such revenue was derived from University Income Funds ("**UIF**"). UIF is primarily comprised of tuition and fees paid by students.[ii]
- By FY 2020, however, this ratio substantially reversed, with General Fund appropriations constituting just 35.9 percent of all in-state public university revenue, while UIF—that is tuition and fees—made up the remaining 64.1 percent.[iii]
- Going forward, we have to decide what percentage of Higher Ed costs will be borne by the state versus tuition, both overall and adjusted for concentration of minority/low income students attending a particular university. So, the state could cover 70% of total cost, but 90% of the cost in universities with significant concentrations of minority and/or low income students, and a lesser percentage for institutions with lower concentrations.

(ii**) Stability and Dollars Subject to Formula.**

We have to decide if a hold harmless makes sense, in both context of an underfunded system overall, and to promote stability in funding from year to year. So are all dollars subject to the formula, or only new dollars committed in a given fiscal year? We could borrow from the EBF Base Funding Minimum model, which automatically increases the BFM of an institution, to include the year-to-year funding increase, if any, an institution receives in a fiscal year.

Similarly, we have to decide what happens in the event year-to-year General Fund appropriations are cut. Again, borrowing from the EBF model makes sense in this context, as cuts are first allocated to the best funded school districts, and the poorest funded school districts are last to be cut, if at all.

(iii) Determining the New Annual State Investment in Higher Ed.

Once a baseline total of Higher Ed funding is determined, as well as what portion of that total amount should be covered by the state through General Fund transfers, a minimum target level of new Higher Ed funding per year should be established, which is adjusted for inflation, and gets to full funding within a defined period of time—say 5-10 years from enactment of the new formula.

2. Equitable Funding Adjustments and Allocation of New Funding

Factors to Consider:

(i) What per student funding adjustments should be utilized to

(a) counter historic racism in Higher Ed admissions and implicit biases in higher ed institutions, as well as to encourage universities to accept a greater percentage of minority students generally and African American students specifically,

(b) coordinate with the EBF and provide additional student-based resources to support academic success for students who attended underfunded K-12 school districts (i.e. Tier 1 and Tier 2 schools), and hence did not have access to the same educational opportunities as students who attended adequately funded schools (so for instance, the full cost of developmental course work these students have to take to build the basic numeracy and literacy skills needed to complete a college degree should be covered by the state, which put these students at a disadvantage to begin with by underfunding their K-12 education),

(c) support the learning and academic persistence needs of low income students, minority students, special needs students, first generation students, and English learners, and

(d) reward universities for having a greater percentage of overall student population comprised of minority, low income, former Tier 1 or 2, first generation, or other historically disadvantaged students.

(ii) What role do existing university resources like endowments play—can there be any correlations made to the LCT under the BFM? Could interest income on significant endowments be utilized to support equitable practices in admissions and support.

3. Funding Adjustments for Performance.

Factors to Consider:

Should the funding formula contain incentive adjustments based on

(a) Retention rates,

(b) Graduation rates,

(c) Percentage enrollment/graduation of low income, minority, special needs, first generation, and other historically disadvantaged student populations,

(d) Credential production, and

(e) growth in admission and graduations rates of low income, minority, special needs, first generation, and other historically disadvantaged student populations.

[i] Center for Tax and Budget Accountability, "Analysis of Illinois' FY 2022 Enacted General Fund Budget," July 2021, ctbaonline.org/reports/analysis-illinois-fy-2022-enacted-general-fund-budget

[ii] CTBA analysis of (i) IBHE, "Annual Report on Public University Revenues and Expenditures: FY 2020", https://www.ibhe.org/pdf/annual-reports/2021/FY20%20Revenues_and_Expenditures_Report-Final.pdf; and (II) State Higher Education Executive Officers Association, "State Higher Education Finance: FY 2020," page 22, https://shef.sheeo.org/wp-content/uploads/2021/05/SHEEO_SHEF_FY20_Report.pdf

[iii] CTBA analysis of (i) IBHE, "Annual Report on Public University Revenues and Expenditures: FY 2020", https://www.ibhe.org/pdf/annual-reports/2021/FY20%20Revenues_and_Expenditures_Report-Final.pdf; and (II) State Higher Education Executive Officers Association, "State Higher Education Finance: FY 2020," page 22, https://shef.sheeo.org/wp-content/uploads/2021/05/SHEEO_SHEF_FY20_Report.pdf