ILLINOIS COMMISSION ON
EQUITABLE PUBLIC UNIVERSITY FUNDING

Resource Workgroup Meeting #7 - November 17, 2022 (1pm-4pm CT)
Meeting Notes

MEETING OBJECTIVES

1. Provide update on Adequacy group
2. Develop ways to factor affordability into UIF and Auxiliaries
3. Review endowments
4. Review what will be handed off to the Technical Workgroup
5. Plan for report out to full commission

Welcome & Agenda Overview

Executive Director Ginger Ostro opened the meeting with general announcements regarding Open Meetings Act, that the meeting will be recorded and instructions for any members of the public who would like to participate in Public Comment. Martha Snyder provided an overview of the agenda.

Action: Approval of minutes from the October 20, 2022 Workgroup Meetings

Commissioner Kinzy made a motion to approve the minutes from the August 25, 2022 workgroup meeting. Commissioner Glassman seconded the motion. All were in favor.

Introductions

Will Carroll started a round of introductions and asked each workgroup member to introduce themselves.

Update on the Adequacy Workgroup

Martha Snyder gave an update on the Adequacy Workgroup. Each institution will have an adequacy target, built from the components of what it costs for students to succeed and will vary based on student need. The Adequacy Workgroup is developing these components. She gave an overview of the potential conceptual model for developing adequacy. Each adequacy component's description and rationale was shared on the screen.

Commissioner Glassman asked about Operations & Maintenance in regards to the framework and whether the Adequacy Workgroup discussed how deferred maintenance should be appropriated? Will Carroll provided additional information around the discussion that the Adequacy Workgroup held. A solution was not defined, but pros/cons were identified to pass along to the Technical Modeling Workgroup. Executive Director Ostro also flagged that deferred maintenance is included in the capital budget.

Commissioner Zarnikow asked whether there is adequate funding at this time to address all the areas that are being discussed. Commissioner Glassman shared that it's a matter of scale. With additional funds, would institutions see a higher return on investment?

Commissioner Kinzey flagged that additional clarification, from the state, may be needed for Auxiliaries Facilities Systems.

Factoring Affordability into UIF and Auxiliaries

Will Carroll summarized discussions that have happened in previous workgroup meetings.

What is a Shared Responsibility model?

- Currently, the state allocates funds to universities, and universities fill in the remaining gap to costs through tuition and fees, often unaffordable.
- A Shared Responsibility model would assign each university an "Expected UIF" based on its student body, and then allocate new state funds based on the gap to the Adequacy Target.
- The example assumes:
    - The Adequacy Target is higher than the current amount a college spends to educate students.
    - The Expected UIF will be lower than current tuition collected.

Commissioner Zarnikow asked about how this model is affected by inflation rate. Higher Education would have to be funded higher than the current inflation rate for this model to happen over time. Nate Johnson shared that inflation would affect the adequacy target.

Commissioner Castillo-Richmond asked whether the current state appropriations would stay "as is" as a baseline. The idea behind the hold harmless is that no one would lose the funding formula amount they receive currently.

Defining New Terms

- Shared Responsibility Model: a model to determine the allocation of additional state appropriations to universities. This model assumes the state has responsibility for filling the gap between a university's current Resources (current levels of state appropriations, tuition dn feeds, and other sources of revenue) and its Adequacy Target.
- Actual University Income Fund (UIF): the actual tuition and fees received by universities.
- Expected UIF: a derived amount of tuition and fees used in place of Actual UIF in calculating the resources a university has to meet its Adequacy Target. The Expected UIF is equal to the sum of the "Equitable Student Share" of each student enrolled at the university.
- Equitable Student Share: a cost to students deemed by the state as a reasonable amount to expect the student to contribute based on a variety of factors, which may include income, wealth, residency, demographics, etc. The actual price students are charged may be different; this figure is used solely for purposes of calculating a university's available Resources.

State Responsibility = Adequacy Target - Resources
Resources = Current State Approps + Other Sources + Expected UIF
Expected UIF = Sum of individual students' equitable student share

Calculating Expected UIF - an example

- Establish groups of students and assign different tuition amounts, or "Equitable Student Share" that students can reasonably be expected to pay, based on characteristics like income and assets, demographics, or policy priorities.
- The Expected UIF for a university would be: Expected UIF = (# Group A * $15,000) + (# Group B * $10,000) + (# Group C * $5,000)

Factors to Include in Equitable Student Share

The state can set the Equitable Student Share (ESS) at different levels for different students based on a variety of factors, such as:

- Income and assets
- Residency
- Historically underserved populations
- State preferences for level of affordability
- Mandatory tuition waiver categories

The state can define any number of student groups' and respective ESSs

- Fewer groups can make the Expected UIF calculation easier to operationalize and understand
- More groups can reduce the volatility, if a school ends up enrolling a different mix of students than what is predicted and allocated to it based on its Expected UIF.

Commissioner Kinzy shared that institutions should not assume that what they have today (out of state tuition) is what they will have at another time. Vicky Gress and Commissioner Glassman chimed in that some institutions still do have differential tuition.

The workgroup members did not have other factors that should be added to the list to determine Equitable Student Share. Commissioner Zarnikow asked whether there is data available on income and assets. Ketra Rosleib shared that likely this data is only available for students who complete a FAFSA and that data collected on the FAFSA is subject to chance in the next few years. Schools do not normally collect separate data other than what is collected on the FAFSA. Other estimates may be able to be made based on zip code, or other factors.

Commissioner El-Amin asked about students going into medical or dental school. Is there a factor based on their undergraduate major to cut down on debt for medical students? This idea would be something for the Technical Modeling Workgroup to dive into.

Connecting Expected UIF and Shared Responsibility

- In this model, the Expected UIF and Adequacy Target will be different for each institution.
- The state's responsibility is to fill in the gap between the Adequacy Target and the Expected UIF and other institutional revenue.

Implications of Expected UIF and Shared Responsibility

Equitable Student Share and Financial Aid

- Because non-institutional aid goes into the UIF, students should be able to use state, federal and private aid to meet their ESS.
- Universities can use institutional aid as they see fit; the ESS levels would be net of institutional aid.
- **For consideration:** whether to see ESS such that it signals grant aid should be used for non-tuition and fee costs.
    - Example: an ESS of $3,000 for a student receiving the max Pell grant ($6,895) would mean the state expects the student to only have to use $3,000 of the grant for T&F, with ~4,000 for other costs of attendance.
    - MAP Grants can only be used for tuition and fees, so a student eligible for the maximum $7,200 grant might have that aid included in their ESS. MAP Grant amounts are also tied to tuition levels. If a school lowers its tuition in response to the new ESS structure, it could reduce the actual UIF revenue below the Expected UIF level.

Commissioner Kinzy shared her concern around assumptions of MAP and Pell when the programs may adjust. There was further discussion amongst the workgroup members of how this model would work and what concerns or questions are present. Commissioner Castillo-Richmond asked how the model would control for an institution "going wild" with tuition and fees.

Scenario of Actual Tuition Exceeding Expected UIF

If Institution A charges more tuition than its Expected UIF , the new state share will exceed the annual investment level the state formula is built around. This poses two problems:

- The state wants to target funds to schools with gaps between resources and adequacy, not to exceed the adequacy threshold.
- The state has an interest in keeping college affordable.

Response to Actual Tuition Exceeding Expected UIF

State options in response:

- Reduce the institution's allocation from the new state share by the overage in the future year.
- Require that the overage be used for need-based aid or student success interventions.
- Others?

Commissioner Kinzy shared that if a state made a project and a certain institution ends up with a drastically increased enrollment, we don't want an institution penalized due to their success. Commissioner Zarnikow shared a consideration of looking at how numbers are coming out over time (rolling average).

Scenario of Actual Tuition Below Expected UIF

- There is not much incentive for colleges to drop tuition far below the Expected UIF levels, as the state won't make up the lost revenue in calculating the new state share.
- But if the state wanted to incentivize universities to future invest in affordability, it could provide a match through the new state share.
    - **Example:** for every 5% below the Expected UIF a university's Actual UIF is, the state reduces the next year's Expected UIF by 1%. This increases the university's Adequacy gap, which increases its proportion of the new state share.

Commissioner Castillo-Richmond said that she likes this idea in theory but would need specific examples. Commissioner Kinzy shared a loophole that could become an unintended consequence.

Shared Responsibility Model - Discussion

- What resonates with you? What concerns you?
- Does this approach appropriately account for affordability?
- What incentives does this create for institutions? For students? For the state?
- If this were the approach:
    - How might IL set the Equitable Student Share levels?
    - How would it factor in financial aid and institutional aid?
    - How many Equitable Student Share groups should there be (or sliding scale)?
    - How to account for cost of attendance versus tuition and fees?

- Does this approach ensure tuition is not a "release valve" for shortfalls in state funding?
- What happens if an institution's actual tuition is above or below the "Expected UIF"?
- What are the implications for the model during difficult state budget years (e.g. recessions)?

Break
The workgroup took a brief break before reconvening.

Factoring Affordability into UIF and Auxiliaries (continued)
Latest Discussion of Auxiliary Enterprises
Description: Auxiliary enterprises include residence halls, food services, parking facilities, student unions, college stores and such other services as barber shops, beauty salons, movie houses and bowling alleys. In some cases these are self-sustaining (fees charged cover expenses) in other cases they may be revenue generators.
Equity Implications

- Can influence student success: access to housing, food, transportation and childcare.
- Supported by student fees - underlies question about student's ability to pay.
- Quality and quantity of these services may be related to the profile of the students.

Initial Recommendations and Considerations

- More evaluation and discussion.
- Perhaps set some minimum (average) level for "basic needs" auxiliaries - food, housing, etc.

Factoring in Affordability to Auxiliaries

- Average room and board: $10,000 (>75& cost of tuition)
- Auxiliaries are usually self-funded; they are not meant to subsidize other components of adequacy.
- But they do affect adequacy and affordability:
    - Some institutions can charge a lot and provide more-than-adequate housing/food - the state has an interest in making sure that such schools are accessible to all.
    - Some institutions may not provide "adequate" housing/food because the student bodies can't afford as much - the state has an interest in making sure students at these schools still receive adequate services.

Proposal: Use Expected UIF concept (Expected Auxiliaries)

- Set a reasonable amount of auxiliary revenue a school would get based on its student body.
- Compare it to an adequate level of auxiliary services in the formula. The gap gets added to the adequacy gap total.

Questions:

- Should it be limited to room and board, or include all auxiliaries?
- Will this be sufficient to influence institution's decisions on cost of auxiliaries to students?
- How to account for schools that charge more than Expected?

Commissioner Glassman shared that the residence halls at his institution are bonded. Commissioner Kinzy also shared that their housing has different ages and life expectancies which means that each building has a different cost. If housing stock is newer, the needs are very different than those that are older. Ketra Roseleib shared that there are mandatory fees that are not part of the UIF. For example, the recreation center on her campus has a mandatory fee and that fee goes to auxiliaries and not the income fund. Each campus has different auxiliaries with some fees that go to the income fund and some that do not.

Commissioner Glassman shared that none of the auxiliaries at his institution are generating funds for the institution. These are activities that help the students have an enjoyable environment. These are separate "businesses." Ketra Roseleib echoed Commissioner Glassman's sentiments and asked that the Adequacy and Technical Workgroups consider the cost to a student and the equity provided change based on some of the auxiliary units.

Is there an opportunity for auxiliaries to be money-makers? Parking fees are used to cover the cost of fixing sidewalks, parking lots and campus police.

Kim Tran shared his perspective that auxiliary services are not designed to generate revenue. The student fee applied for a recreation center would not generate revenue beyond upkeep.

Commissioner Castillo-Richmond emphasized the point that the workgroup needs to be careful with items that are revenue neutral. Institutions are representing their own perspective and some ideas are not universal across the system. She also raised whether it makes sense to treat housing and dining in a separate way because of equity implications. In addition, whether revenues earned from an auxiliary enterprise that is above a certain threshold.

Nate Johnson noted that an adequately funded university will be able to have student unions, dormitories, dining halls, etc. Executive Director Ostro asked whether the state has an interest in subsidizing these resources, if students are unable to cover the cost. Commissioner Zarnikow asked whether this then puts the state in the position to determine what adequate housing is, which varies based on campus, location, etc.

Martha Snyder raised that this could be something that is handed over to the Technical Modeling Workgroup to navigate. Are there equity implications within auxiliaries? Should mandatory fees be separated out from other areas?

Commissioner Zarnikow flagged that complexity will be the enemy of any funding formula. The more complex, the harder to manage and the less likely to get the desired outcome.

Incorporating Endowments and Other Sources of Revenue
Latest Discussion of Grants, Contracts & Endowments
Description
- Government Grants and Contracts: revenues from local, state, and federal governments that are for specified purposes and programs (e.g., research, other priorities).
- Private Grants and Contracts: gifts and grants provided to the university from individuals (private donors) or non-governmental organizations included in this funding category are revenues provided for student financial assistance.
- Endowments: income from endowment and similar fund sources, including irrevocable trusts.

Equity Implications

- Capacity to bring in these resources may vary across institutions, and are often self-reinforcing (institutions with higher resources have greater capacity to seek other types of resources)
- Access to these dollars can have indirect implications for equity:
  - Research dollars can affect ability to recruit faculty, give students access to STEM or other opportunities.
  - Endowment can endow chairs, free up resources for other spending.
- Access to private resources and endowments often reflected of historical wealth inequities and distributed in inverse proportion to racial/ethnic representation at institutions.

Initial Recommendations and Considerations

- More data and analysis needed to establish parameters for including in institutional resource profile.

Commissioner Kinzy recommended that we do not choose yes or no. As the model is built, we shouldn't treat endowment as one large lump of money. Age of institution also matters; it's harder for younger institutions to raise endowment funds.

Endowments and Other Sources of Revenue
What questions do we need to answer to arrive at a fair and equitable treatment of endowment as revenue?

- What are common restrictions?
- What percent of annual expenditures are restricted?
- How do the restricted activities relate to or support an adequate education?
- How do endowments affect other aspects of a school's resources (e.g. bond rating)?

Review Technical Workgroup Hand-off
Evaluate resources through an equity lens: does access to the resource provide differential capacity to institutions in a way that affects equity?

UIF: include in institutions' resource profile, with following considerations:

- Deduct mandatory waivers
- Factor in students' ability to pay (Expected UIF)
- Further evaluate student fees

Endowments, Grants & Contracts: more data and analysis needed to establish parameters for including in institutional resource profile.

Auxiliaries: more analysis needed of the following:

- Perhaps set some minimum level for "basic needs" auxiliaries
- Perhaps factor in student ability to pay (e.g., Expected Auxiliary revenue)

Prep for Commission Meeting
The next Commission meeting is scheduled for December 12, 2022 (12pm-3pm CT). Each workgroup will report out the summative of the considerations to be handed off to the Technical Modeling workgroup. Workgroup members were asked to volunteer.

Public Comment
Members of the public wishing to make public comment were given three minutes:

- Dan Hrozencik, faculty member at Chicago State University and member of the Faculty Advisory Council for IBHE. Ms. Hrozencik reminded the committee of the broad mission that universities in the state have. An equitable and robust funding formula is needed to match the wide array of university missions. In addition to teaching, research, arts and entertainment and outreach. Funding needs to attract the most excellent faculty members to the state to retain and best educate the students to produce a state with high wage earners and tax payers. As a faculty member, Mr. Hrozencik wanted to remind the workgroup not to limit to teaching functions, but to also think of the other missions.
- Jennifer Delaney, member of the IBHE and faculty member at UIUC. Ms. Delaney reflected that calculating "expected" is challenging. Her initial take mirrors what President Glassman said that it feels like "putting a round peg in a square hole." As Commissioner Zarnikow. said, "complexity is the enemy of a funding formula." He also asked why not use percent of Pell recipients in a simple weighted formula? Ms. Delaney raised the following concerns with the "expected" approach: likely to reduce institutional competitiveness to attract students, add risk of losing state money (or not meeting expected tuition) to the calculation about how to set institutional aid. Incentives seem likely to encourage raising tuition prices to make sure that expected UIF is met. Ms. Delaney argued that student aid should be applied to the full cost of attendance, not only tuition and fees. For students living expenses and forgone earnings are the largest expenses of attending college, not tuition and fees. She highlighted the importance of thinking about counter-cyclical funding. Currently higher education institutions are cut at each economic downturn. Ms. Delaney shared that if tuition was raised above the expected UIF, then in the year after the downturn, institutions would face a cut in state funding. This becomes a double whammy for institutions to be cut during the downturn and cut again when coming out of recovery for not acting as "expected." Ms. Delaney shared that room and board, most of the rest of the world uses living maintenance grants for students. She recommended this as an alternative model to consider as it is nicely focused on students and can be adjusted to reach equity goals. Most programs are structured as vouchers so students can take their living maintenance grants to any institution (instead of being tied to a particular institution).

Next Steps and Adjournment
The next full Commission meeting was scheduled for Monday, December 12, 2022 (12pm-3pm CT).

Workgroup Members in attendance
Lisa Castillo-Richmond
Kim Tran, designee for Zaldwaynaka "Z" Scott
Terri Kinzy
Vicky Gress, designee for Andreas Cangellaris
Eric Zarnikow
Wendi Wills El-Amin
David Glassman
Ketra Roselieb, designee for Guiyou Huang

Support Team Members in attendance
Ginger Ostro
Jaimee Ray

Emily Chase
Ja’Neane Minor
Jerry Lazzara
Martha Snyder
Jimmy Clarke
Will Carroll
Nate Johnson
Toya Barnes-Teamer
Katie Lynne Morton