ILLINOIS COMMISSION ON
EQUITABLE PUBLIC UNIVERSITY FUNDING

Technical Modeling Workgroup Meeting #15 - August 3, 2023 (9am-11:30am CT)
Meeting Notes

MEETING OBJECTIVES
1. Refine proposals for Auxiliaries and Other Resources.
2. Discuss the appropriate mechanism(s) for addressing affordability in the model.
3. Further explore the full model and how it behaves in different scenarios.

Welcome & Agenda Overview
Executive Director Ginger Ostro opened the meeting with a general welcome and 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 July 20, 2023 Workgroup Meeting
Corey Bradford made a motion to approve the minutes from the July 20, 2023 workgroup meeting. Kim Tran seconded the motion. Seven workgroup members were present and in favor. Two workgroup members abstained.

Mock Model Pressure Testing
Pressure Testing
- We modeled out what one additional student would do to schools' adequacy targets and resource profiles using the following examples:
  - Pell undergraduate (0% ESS)
  - In-state adult enrolled in a high-cost program (25% ESS)
  - In-state medical school student (75% ESS)
  - Out-of-state graduate student (100% ESS)
- For the most part, the formula worked as intended.
- But the pressure test did identify some pieces of ESS that warrant further examination and a possible alternative.

Possible Alternative to Model
- Switch to calculating ESS using a dollar value of the adequacy target, rather than a percentage of adequacy.
- State with the student subsidies we've discussed, and calculate the tuition revenue those subsidies create.
- Each student enrolled at a university would have a specific ESs amount based on their characteristics, and the school's ESS would be the sum of them.

Workgroup members made the point that there has to be an understanding of the balance of the support from the state. It was also noted that the workgroup members needed some additional time to absorb the information and think through scenarios.

Sandy Cavi shared her concern that you can't assume that the state will make up the difference and this means possibly controlling tuition: two things that are competing against each other. Michael Moss echoed Cavi's concern and also shared that universities need to have a way to generate reserves.

- Commissioner Ralph Martire asked whether the workgroup's work is closely aligned enough, philosophically, to what the different aspects of the formula are doing at this point in the work. Whatever the formula does is supposed to create a more equitable allocation of funding to universities over time. Each of the individual elements of the formula need to perform their role in the overall formula and be very clear about what each of the elements do and don't do. Commissioner Ralph Martire raised the concern that some areas of the formula may be being conflated during this process. Commissioner Robin Steans echoed this concern.

Michael Moss shared that some decisions may result in unintended consequences. Commissioner Dan Mahony shared an example in which a university is held harmless, but budget problems arise due to inability to increase tuition. He shared that the ESS portion of the formula has not made sense due to MAP and Pell. The explanation could be confusing to the public. Will Carroll raised that a "cheat sheet" on how each part of the formula works might be helpful when starting to share information.

Sandy Cavi raised that the continued assumption shouldn't be that the current allocations are inequitable without looking at the facts. Proportionally, there are inequities that have existed for years. Commissioner Simón Weffer asked that Cavi further elaborate on her comments. Commissioner Mahony shared that the higher education market today leaves some institutions able to increase their tuition and not affect the enrollment, but that this scenario cannot happen at other institutions.

ESS: Affordability Levers
Equitable Student Share: Options for Affordability
To influence affordability, the formula could consider the following options:

- ESS vs. actual external tuition revenue
- Affordability Measure (e.g., net price, percent of T&F paid)
- Both

1. **ESS vs actual external tuition revenue**

What it is: Comparison of an institution's ESS with "external tuition revenue," all revenue from tuition and fees paid for from sources other than the institution itself.

External tuition revenue = Gross T&F charged to all students – Gross institutional aid

How it would work: Universities would be expected to bring their actual external tuition revenue to the ESS level, over time and as the state fulfills its obligation. The formula adjusts a university's ESS or allocation based on progress towards that goal.

Pros:

- Reflects actual resources available to the university.

Cons:

- Topline number inhibits an assessment of equity; universities could reduce costs for out-of-state or higher-income students.
- Requires a change in data reporting.

- May be too precise for the way the adequacy target works.

Pressure Testing Lessons: Interaction with Option 1

- The adequacy cost is not a perfect measure of the total cost to educate individual students.
- For example, we've excluded some costs (e.g., athletics, medicare, CMS health insurance)
- And we've used averages to avoid overcomplicating the formula: we are not intended to account for every cost difference across all programs.
- It works well at a schoolwide and system level to generate relative costs that will inform an allocation formula.
- It gets more complicated when accounting for how individual students affect finances.
- If a program costs $20,000 to deliver but the adequacy target is only $16,000, schools will need to generate that extra $4,000. They could cross-subsidize from other students, but there may be times they need to charge more in tuition.

Pressure Testing Lessons: Interaction with Affordability

- Under Optio 1, if the school raised an extra $4,000 in tuition to cover actual costs, it would exceed its ESS and be penalized in the next year's formula.
- Is Option 1 too precise to allow the necessary flexibility?
- IBHE could still track actual tuition revenue, assess how much it exceeds ESS at schools, and revisit whether to link the two in future revisions of the formula.

Commissioner Robin Steans asked whether the adequacy target is wrong based on the gap. Michael Moss shared that it doesn't make sense to have a single baseline for every university because each institution is different. Mike Abrahamson shared this may be a "worst of both worlds" approach since it depends on where the $4,000 is coming from and who it's subsidizing. Commissioner Simón Weffer raised questions regarding when a university is backfilling what is provided from the state.

Commissioner Ralph Martire asked whether there's a way to know the out-of-pocket tuition charged to low-income students on a per student basis? If that amount can be tracked and is found to be held constant or declines over time, then the task was successful. If that data is available, it can help guide an affordability incentive into the formula that is rational and sustainable.

2. Affordability Measure

What it is: A benchmark of affordability, using metrics such as the net price or the percent of tuition and fees paid. The benchmark could be for all-students and/or low-income students.

How it would work: Example: Universities that keep their net price below $X or reduce it by Y% a year would have their ESS decreased by Z%.

Pros:

- Ability to look at affordability for specific populations (residents, low-income).

Cons:

- Some drawbacks to both net price and percent of T&F paid as metrics.
- Does not address the scenario of a university bringing in more tuition revenue than its ESS.

Corey Bradford shared that he likes Option 2 better but there are still factors that need to be watched. Commissioner Robin Steans flagged that when looking at one part of the formula, the group needs to remember what other parts of the formula are doing/interacting. Nate Johnson shared that a narrow focus on the populations where the state has a real interest in maintaining affordability is important, while giving universities as much flexibility and no disincentives to manage outside that area. The market has a lot of constraints right now.

Equitable Student Share: Options for Affordability

- Is it necessary for the formula to incentivize affordability? Or is there an out-of-formula lever that could work?
- Is there a way to address concerns about over-complicating the formula while still incentivizing affordability?
- Preference for Option One, Option Two, None, Both?

Commissioner Ralph Martire shared that Option Two, when designed right, could be better. Adjusting the MAP grant to be expanded to act like Pell grants would be a great way to make higher education affordable. Michael Moss and Corey Bradford shared that they both like Option Two better.

Topic Team Report Out: Auxiliaries

Recommendation: Option 1 - Cost of Attendance

Calculate the number of students that fall into demographics (following ESS subsidy calculation) that may need additional financial assistance for other educational expenses such as food, housing, books, etc. Then assign tiers to each university based on the relative percentage of students in need. Then include a subsidy for each tier based on what it costs to provide additional educational support to students.

Pros:

- Possibly more accurate estimate of student need
- Equity-based calculation

Cons:

- May be duplicative with elements of ESS
- Adds complexity to formula

Operationalizing Option 1

The average room and board for four-year university students in Illinois is about $11,700. There's an additional $1,200 spent on books, totaling $12,900 in non-tuition expenses. A simple calculation for a subsidy would be to take this number and multiply it by the number of Pell-eligible students. Covering all costs of attendance for Pell-eligible students may be too expensive. The *simplest* solution is to set a lower subsidy. A more *equitable* way of lowering this price is to have tiers/multiplier based on the percent of Pell students. This also takes into account how student populations can subsidize on another. This would be added to the Equity Adjustment of each university. Mike Abrahamson walked through a sample calculation.

Michael Moss shared that this example is very undergraduate-focused.

Recommendation: Option 2 - Accountability and Net Price/Cost of Attendance
Revisit the Affordability Adjustment and the accompanying accountability metrics such that the formula funds and incentivizes universities to lower their net prices for students that fall into demographics (following ESS subsidy calculation) that may need additional financial assistance for other educational expenses such as food, housing, books, etc.
Pros:
- Flexibility in spending
- Accountability with desired outcome
- Simplicity

Cons:
- Formula changes needed to make proactive discounts possible
- May not result in desired spending on specific programs
- Data is imperfect

Operationalizing Option 2
Approach 1: Add to the Equity Adjustment such that universities can lower their net price.
- Effectively achieves a room and board subsidy without micromanaging finances.
- Ex. If net price is $8,000 for a university's 1,000 students who have 25% ESS
  - Subsidy: $8,000 x 1,000 x .75 = $6 million
  - New net price per 25% ESS student: $2,000

Approach 2: Instead of aiming for a full subsidy fund and hold institutions accountable for bringing down *relative* net prices.
- Set the subsidy to bring each institution to the bottom X% of the universities' net price nationwide.
- Set subsidy to the lowest of IL universities.

Operationalizing Price and Accountability
Distribution Considerations:
- Universities may currently have inequitable distribution of institutional aid, resulting in higher net prices for lower-income students and lower prices for higher-income students.
  - To recognize equity in aid distribution, we could calculate an equitable aid index to determine the subsidy amount
    - Based on the distribution of institutional aid, the populations of students, and net price

Timing and Accountability Considerations:
- Universities need these funds proactively to lower net prices
- Option 1: limit the spending of these funds to aid to students' tuition, fees, housing, food and books for the student groups they're allocated to
- Option 2: require institutions to maintain enrollment numbers for subsidized students
  - To avoid universities lowering net prices by subsidizing fewer students.

Michael Moss raised a concern about an approach to bringing down the net price (cost of attendance) since the auxiliaries are bonded and fixed costs. It isn't reasonable that housing rates would be reduced. There would be an impact on the academic side of the house. Corey Bradford shared that most states don't provide subsidies to the auxiliaries for students. Kim Tran shared that while thinking of the different options he flagged that the workgroup needs to look at how the different mechanisms/levers overlap.

Topic Team Report Out: Other Resources
Other Resources
Revenue sources include:
- Government Grants
- Sales & Services (hospitals, auxiliaries, "education departments")
- State line item appropriations (other than operating expenses)
- Private Gifts & Grants

Other Resources: Sales & Service
The group walked through some of the examples that institutions provided of this revenue. The topic team has not come up with a solution yet, but some of the areas do not fit into the formula very well. There is overlap between topic teams based on the pieces that were mentioned (lab fees, technology, etc.).

Michael Moss shared that some data may not be reported consistently across institutions.

Other Resources: State Line Item Appropriations
Possible approach:
- Identify and include items that are relevant to adequacy.
- If new items are added in later years, the formula review process could revisit whether to include them in.

Commissioner Robin Steans shared that it will be important to review on an ongoing basis. Commissioner Dan Mahony shared that start up programs are useful as a separate line item appropriations. Kim Tran shared that at CSU there was no Chicago State Foundation five years ago, so the funds are primarily used for student's institutional scholarships.

Other Resources: Gifts
- Agreement remains that some portion of gifts should be recognized.
  - Can an algorithm be used to predict a university's level of revenues to be generated by gifts?
    - To what extent can/should historical revenues be used in addition? Instead?
- Funding formula needs to incent continued philanthropic activities
  - Incentivize both institutions that already have high revenues from gifts but allow for other institutions to expand their philanthropic activities.

The Other Resources group is still exploring how to account for gifts in the Resource Profile.

Sandy Cavi cautioned due to restricted and unrestricted gifts. Kim Tran also flagged that sometimes restricted gifts come in the creation of new programs as opposed to funding existing ones.

Public Comment
There were no members of the public wishing to make public comment.

Plan for Subsequent Meetings
Martha Snyder reminded the workgroup members what was planned for the upcoming Technical Modeling Workgroup meetings.

August 17
- Aim for Draft Institutional Level Model (Revisit ESS subsidies; evaluate total cost and the prioritization of equity; revisit calculation of instruction and student services per student base)
- Allocation Formula
- Formula Upkeep

August 31
- Accountability and Transparency
- Future Adequacy

September 14
- Refine/finalize recommendations

September 21
- Commission Meeting

Martha Snyder outlined next steps, including:
- Auxiliaries and Other Resources refine proposals.
- Develop and circulate institutional level model.
- Implementation Topics teams develop proposals to be discussed at the next two meetings.

Adjournment
The next workgroup meeting was scheduled for Thursday, August 17, 2023 (9am-11:30am CT).

Workgroup Members in attendance
Mike Abrahamson, designee for Lisa Castillo-Richmond
Kim Tran, designee for Zaldwaynaka Scott
Sandy Cavi, designee for Aondover Tarhule
Robin Steans
Ralph Martire
Simón Weffer
Corey Bradford, designee for Cheryl Green
Dan Mahony
Michael Moss, designee for Javier Reyes
Andrew Rogers

Support Team Members in attendance
Ginger Ostro
Jaimee Ray
Will Carroll
Martha Snyder
Jimmy Clarke
Nate Johnson
Katie Lynne Morton
Brenae Smith