Technical Modeling Workgroup Meeting #21 - December 14, 2023 (9am-11:30am CT)
Meeting Notes

MEETING OBJECTIVES
1. Discuss proposals from the Other Resources and Allocation Formula topic teams
2. Review impact of revised ESS subsidy levels and examine how financial aid is treated in the formula
3. Discuss options for faculty diversity and adjustments for graduate students

Welcome & Agenda Overview
Executive Director Ginger Ostro opened the meeting with a general welcome and announcements regarding Open Meetings Act 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 November 30, 2023 Workgroup Meeting
Corey Bradford made a motion to approve the minutes from the November 30, 2023 workgroup meeting. Ralph Martire seconded the motion. Ten workgroup members were present and in favor. Zach Messersmith introduced himself, as he will be stepping in for Ketra Roselieb during her maternity leave.

Faculty Diversity Adjustment
Options:
1. Leave as is. This is something all institutions should be doing and is part of the concept of an adequate and equitable education.
2. Target the adjustment. Tie the funds to the percent of BIPOC faculty to create better incentives. Institutions with higher shares of faculty of color get more per student.
3. Remove entirely. The formula cannot adequately incentivize or ensure that institutions address this important issue, and it should be funded through a separate initiative.

Possible adjustment to Option 2: Include all staff, not just faculty. Martha Snyder walked through charts that outline the adequacy gap for options 2 and 3.

The Workgroup members raised the following questions/discussion points:
- Advocate for "remove entirely" and beefing up programs already in existence, with additional accountability.
- Concern was raised around whether this creates a performance based metric.
- There was interest in an "adjusted" option 2, where more resources are applied because the need is greater from a student point of view.
- Agreement that accountability is needed.
- Option 2 provides less resources to those who may need to do more to diversify their faculty, which seems counter productive.
- Additional resources would be needed for universities to diversify their faculty/recruit top talent. Preference for option 1.
- Clarity is needed about how faculty is described/defined.
- Support for option 1, very little support for option 2.

Graduate Student Adjustments
TWG Feedback: The formula does not provide sufficient equity adjustments for graduate students.
Grad student eligibility for some adjustments is somewhat limited by data availability (e.g., income) and applicability (e.g., age).

Proposal: Increase the amounts that graduate URM students receive for Acad/Non-Academic Support to match undergrads of the same race.
Black and AI/AN grad students would go from $4,000 to $6,000; Hispanic, 2+ Races, and NHOPI would go from $2,000 to $4,000.

The Workgroup members raised the following questions/discussion points:
- An idea was shared to build in as a future version once the data is collected and think about accountability. There are obvious implications brought up but the theory of action around narrowing completion disparities and increasing completion rates.
- In future data iterations, it might be possible to identify graduate students' prior Pell status and use that as a low-income flag, similar to the EBF model.

ESS
Framework
ESS represents a reasonable and affordable amount a university is expected to generate through tuition and fees based on the characteristics of its student body. ESS would be calculated by applying subsidy rates – tied to characteristics of a university's student body - to the adequacy target. The greater the share of high-subsidy student groups (e.g., low-income, underrepresented minority) a university enrolls, the lower its ESS.

Factoring in Financial Aid
- ESS represents an estimate of the reasonable and affordable amount a university can generate through tuition and fees based on the characteristics of its student body.
- ESS represents all tuition and fees revenue that students bring with them from an external source to the institution, regardless of source. *It is net of institutional aid since that is not an external source*.
  - Avoids problematic incentives of financial aid recipients increasing a university's ESS.
  - Recognizes the complex institutional decisions that go into financial aid packaging.
  - Maintains the incentive to enroll low-income students and enables universities to lower tuition.

Institutional Aid
- Institutional aid is essentially "off-formula" for the purpose of the adequacy target
  - Institutions account for their own aid very differently, but for this purpose it is not an expenditure and has no effect on the formula
  - Whether an institution charges a student $5,000 with no aid or $50,000 with a $45,000 scholarship, it has a net $5,000 to spend on adequacy
  - The ESS estimate is based on the net amount expected for the student population profile
  - Institutions can raise this amount however they wish, with or without aid/discounts

- What if a university wants to increase institutional aid by $5m?
- The current proposal would not directly affect such a decision, which is already a complicated one and would continue to be. The key questions would continue to be:
    - Would increasing aid help raise more net tuition revenue? E.g. would increasing aid $5m help bring in $6m in gross tuition for a net gain of $1m?
    - If the increased aid would not pay for itself, how would the institution make up for the reduction in net tuition revenue?

Pell and MAP

- The ESS subsidy levels currently provide a 50% subsidy for a Pell or MAP recipient. Equivalent to about ~$10,300 of the average base cost.
- The average Pell Grant is $4,700; the average MAP Grant is $4,300.
- A school that enrolls a Pell/MAP student gets a double incentive: a lower ESS index = a higher state share, while also receiving the grant funds.
- Schools could use those grant funds to reduce room & board costs for Pell/MAP students, increase services, or reduce other students' tuition.
- Is this double incentive perhaps too steep?
- Does not accounting for MAP make it more difficult for legislators to strategically invest in and address affordability?

Alternative: Include MAP revenue in each school's ESS - calculate ESS using the ESS Index, then add actual MAP funds.

- To keep the ESS total at a reasonable level, both statewide and at each institution, the base in-state subsidies are increased.
- The state has two ways of addressing affordability, through MAP and through the funding formula. By accounting for MAP funds into the formula, that investment in affordability will be reflected in adequacy gaps.
- Pell Grants are kept out partly because the can be used for non-tuition and fees costs, which are outside of adequacy, and would therefore be difficult to parse out the right amounts to include.

The Workgroup members raised the following questions/discussion points:

- The more the institutions' net tuition is reduced, the less revenue they receive.
- Is there a differentiation between students who receive assistance and who are eligible?
- Concern was raised that if MAP is added back into the resources that it's being counted twice (resources and income fund).
- Concern was raised about explaining this to legislators and it being perceived as an over-incentive.
- Support for the double incentive.
- How much of the overall responsibility for higher education do we want to shift? How much should the state be covering?

Revising Subsidy Levels

TWG Suggestions:

1. Remove rural subsidy
2. Make EBF Tier 2 conditional on low-income
3. Increase grad student subsidies

Affordability Adjustment
Current Model: Includes an adjustment to ESS to incentivize institutions to address affordability for lowest-income students, including non-tuition and fees costs.

How it works: Institutions where the net price for students with family incomes between $0-$30k is less than $9,400 receive a 5% reduction of their ESS. The $9,400 threshold is the average of the 25th percentile in IL and the national median.

Why: ESS enables institutions to lower tuition, with the state backfilling as it moves toward full funding, but it doesn't incentivize affordability. This approach also is the only part of the formula that addresses non-tuition and fees costs.

The Workgroup members raised the following questions/discussion points:
- Was data pulled to look at rural overlaid with income (rural and Pell/MAP)?
- Should tier 1 and tier 2 be distinguished?
- Continued advocacy for graduate students being the same as undergraduates.
- It's important to think of other ways to think about affordability.

Allocation Formula
Options under consideration:
1. Guardrail + Adequacy gap percentage
2. Guardrail + Adequacy gap percentage and total dollars
3. Guardrail + Tiers based on adequacy gap percentage

The Allocation topic team is converging on Option 2.
- Option 1 requires very large increases in state funding to before all institutions are funded at least at inflation and leaves the large $ gap institutions further behind.
- Option 3 produces very similar results to Option 2, but Tiers may be harder to communicate and understand.
- Option 2 starts to reduce adequacy gaps at every institution earlier than the other options.

Questions:
- What size should the guardrail be?
- Should the allocation formula be the same in all funding/inflation scenarios, specifically when there is a cut in state appropriations?

The guardrail functions the same in all options:
- Equal to inflation or half of the state appropriation increase, whichever is less.
    - *Example: Inflation is 3%, State Approp increase is 4% → 2% guardrail*
- A "guardrail factor" adjusts the share of funds that go through the guardrail.

State Funding Cuts
- The topic team has just begun exploring scenarios where state approps are cut.
- Option 2 generally provides smaller percentage cuts to those closest to adequately funded.
- Alternatives could be:
    - Across-the-board

- Something that reflects the same priorities of how increases are distributed (cut least from those farthest from adequacy)

The Workgroup members raised the following questions/discussion points:

- Support for talking about in dollar amounts rather than percentages.
- A workgroup member shared that this makes sense in a K12 setting, but was not in support of this process. It does not make sense in higher education setting since all the institutions are very different.
- The target amount that the state is being asked to invest (new dollars) has to be the focus moving forward.
- Is there an across the board protection for a cut scenario?
- State policies allow for tuition increases to only apply to new students at institutions. Rate increases would have to be very large and would apply only to new students to overcome a revenue inadequacy.

Other Resources
Three options:

1. Count fundraising overhead as an adequacy cost
2. Count a portion of actual endowment (current model is 4.2%; could be dialed)
3. Base amount on estimated capacity for fundraising rather than actual amounts raised (e.g. size and estimated wealth of alumni base)

The Other Resources implementation team shared that their subgroup hasn't been able to reach agreement, but that they agree on the foundational principle that we don't want to undermine fundraising capacity, or fundraising incentive for donors to give. Increasing fundraising going forward can benefit all students and can't help with equity goals.

The Workgroup members raised the following questions/discussion points:

- The Commission asked for simulations/numbers and for more specificity and it's imperative that this area be one in which simulations are shared with the larger Commission.
- There isn't just a one-year impact, there's an impact forever.
- What is the calculation of the impact?

Other Topics & Next Steps
Items to be Discussed/Finalized
Martha Snyder walked through the list of items to be discussed/finalized. These topics/model components will guide our meeting agendas and work:

- Benchmark adjustment
- ESS subsidy levels and groups
- Faculty diversity equity adjustment
- School Size and Concentration Factors
- Med/Doc premium
- Acad/Non-Acad Support amounts for grad students
- Other Resources: endowment/gifts
- Addressing Systems and SIU School of Medicine
- Headcount/FTE
- Auxiliaries: non T&F support
- O&M calculation

Public Comment

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

- Jennifer Delaney, member of the IBHE and faculty member at UIUC. Ms. Delaney addressed a number of topics including the equitable student share discussion, ESS affordability adjustment, and diverse faculty recruitment. By including student financial aid in the student share, the ESS is fundamentally a regressive calculation. Effectively, ESS taxes low-income students for receiving need-based student aid. Those student groups who bring need-based aid with them will look like they are adequately funded, but middle- and upper-income students without the need-based aid will look like they are not adequately funded so additional state funding is needed to subsidize these groups of students. She shared that it seems like the adjustment for Pell and MAP are then being used to adjust for the inclusion of financial aid in the formula. This does not change the fundamental regressive nature of the approach. Related to this, Ms. Delaney raised five issues that did not come out in the discussion from the group today. First, is to be sure that the adjustment is equal to or more than the Pell and MAP adjustment. It does look like this issue has been considered. However, the averages hide a lot and create skewedness in predictable ways. This could be driven by student type. If institutions enroll more zero-EFC students (to use an old financial aid term), then they would be underfunded since these students receive the maximum Pell amount, not the average amount. It is also possible to have a lot of Pell students who receive only partial awards that would receive too much funding than institutions that have more Pell students closer to the average award amount. This could be driven by institutional type with those institutions that serve more part-time students benefiting by the use of averages. Second, this causes a conceptual issue for the other groups that are intended to receive an adjustment, but do not bring specific aid with them – URM, EBF, Adult, and Rural students. If there are some target groups that receive true "bonus" funding and other target groups where the ESS is backfilled by student aid, then those groups that bring in "bonus" funding would be more attractive students to institutions than those that are low-income. At the last technical workgroup meeting, Ms. Delaney previously raised the issue of what it signals to students to use different percentages for different types of student groups. It is not clear that it is meaningful to use different amounts since it is not clear that some targeted groups should be shown to hold more value than others. This concern is only exacerbated by the different intentions of what these adjustments will do in the formula. Third, she recommended that, if this approach is taken, that the formula include a specific year-to-year adjustment tie to Pell and MAP, especially given promises about increasing MAP grants in the future. If the values of these scholarships increase, then the Pell and MAP amounts should also be increased in the formula to not short-change these students. Fourth, Ms. Delaney echoed the comments from President Mahoney about the use of no loan programs at Illinois institutions. It is not clear how having "free tuition" programs, like Illinois Commitment or the programs at the two Southern campuses, interact with this approach. Most of these programs are dependent on institutional aid since they operate as last dollar programs. It seems likely that this approach in the formula will make it more difficult for institutions to meet these commitments. This will also be true with the state truth-in-tuition law, which I addressed in my public comments at the last meeting. Instead, she encouraged the group to think about ways to directly encourage institutions to spend institutional aid in ways that support low-income students and enhance equity. Finally, Ms. Delaney pointed out that a different approach would be to make the ESS calculation *not* be regressive so these adjustments would not be needed. She made two comments about the approach. Ms. Delaney encouraged the group to use more consistency in identifying low-income students in the formula. At some points of the formula, Pell and MAP are used. In this proposal a $30,000 threshold is used. These are not entirely the same populations. Fundamentally using different definitions of low-income in the formula will create unintended consequences for some groups of low-income students (like those with family incomes between $30-40k). It is not recommended to build-in this “weirdness” in the formula. Ms. Delaney also shared the importance that these funds can be used for both recruitment and retention. Most of the discussion only focused on recruitment. Ms. Delaney also commented on the idea of substituting including this item in the formula with the DFI program. The DFI program currently only funds students pursuing degrees in Illinois institutions. This limits the pool of future faculty that are eligible for these funds. The funding goes towards supporting expenses during degree programs. These funds are “paid back” by years of service as a faculty member at an Illinois institution. With this structure, funding would not go directly to institutions to help with recruitment or retention.

Plan for Subsequent Meetings
Martha Snyder walked through the upcoming meetings, noting that the next Commission meeting was scheduled for Monday, January 8, 2024.

Adjournment
The next workgroup meeting was scheduled for Thursday, January 11, 2024 (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
Andrew Rogers
Zach Messersmith, designee for Ketra Roselieb, designee for Guiyou Huang

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