## EQUITABLE PUBLIC UNIVERSITY FUNDING Meeting #24

Welcome to the February 8, 2024 meeting of the Technical Modeling Workgroup. The meeting will begin at 9:00 a.m.

Members of the general public will remain muted throughout the meeting and will have the opportunity to comment during the public comment period. To make a comment, please leave your name and the organization you represent in the Q&A section by 10:45 a.m. We will call on you during the public comment period and ask that you keep your remarks to under three minutes.

### Welcome & Agenda Overview

- 9:00 am Welcome & Agenda Overview
- 9:10 am Action: Approval of Minutes from January 25, 2024

#### Workgroup Meeting

- 9:15 am Process & Timeline
- 9:30 am Review of Model Output

#### 10:15 am Commission Outstanding Items *Allocation Formula Research Medical Cost Factor Other Resources Accountability & Transparency*

11:15 am Public Comment

11:30 am Adjournment

### Action: Approval of minutes from January 25, 2024 Workgroup Meeting

### Process & Timeline

### Timeline

- Feb 8: TWG meets to addresses Outstanding Issues
- Feb 9: Send draft report to Commission for review
- Feb 15: Commission meeting
  - Review output of the model, content of the report, any final TWG recs
  - Get initial feedback that people want incorporated in the report
  - Discuss Outstanding Issues (may not resolve, will note options in the report)
- Feb 20: Comments on report due
- Feb 27: Commission meeting
  - Review comments and resulting changes made to report
- Mar 1: Submit final report

### **Review of Model Output**

### **Allocation Formula**

#### **Allocation Formula**

**Proposal**: Guardrail with remaining increase split 50/50 between the share of adequacy gap percentage and the share of adequacy gap dollars.

- **Guardrail**: Provide the same percent increase to all institutions
- Share of **adequacy gap percentage**: The percent "fully funded" an institution is divided by the sum of all institutions' percentages.
- Share of **adequacy gap dollars**: A university's total dollar gap divided by the statewide total dollar gap

#### Key Questions:

- What size should the guardrail be (if any)?
- What should the target increase be every year?
- How should cuts be allocated?

#### Guardrail Impact on % of Funds Allocated by Adequacy

When the State Appropriation increase is twice the size of inflation **or less**, the guardrail will allocate between 25%-50% of the funds. As the guardrail factor increases, fewer funds are allocated based on adequacy and equity.

Guardrail Factor	Percent of Formula Allocated by <b>Guardrail</b>	Percent of Formula Allocated Based on <b>Adequacy Gaps</b>
50%	25%	75%
67%	33%	67%
75%	38%	62%
100%	50%	50%

#### Impact on Adequacy Gaps

9% State Increase					
InstitutionAdequacyFactor:Factor:Factor:Gap50%67%100%					
Governors State University	55%	-5.1%	-4.9%	-4.4%	
UI - Urbana / Champaign	8%	0.1%	0.0%	-0.2%	

4% State Increase					
InstitutionAdequacyFactor:Factor:Factor:Gap50%67%100%					
Governors State University	55%	-1.8%	-1.6%	-1.2%	
UI - Urbana / Champaign	8%	0.4%	0.3%	0.2%	

As the guardrail factor increases, UI-UC (and others closer to fully funded) makes more progress on its adequacy gap, while Governor's State (and others farthest from fully funded) sees less progress in closing its gap.

#### Impact on State Appropriations

9% State Increase				
InstitutionAdequacyFactor:Factor:Factor:				
	Gap	50%	67%	100%
Governors State University	55%	27.4%	26.2%	23.8%
UI - Urbana / Champaign	8%	2.7%	3.1%	3.9%

4% State Increase				
Institution	Adequacy	Factor:	Factor:	Factor:
Institution	Gap	50%	67%	100%
Governors State University	55%	11.4%	10.6%	9.0%
UI - Urbana / Champaign	8%	1.5%	1.8%	2.3%

As the guardrail factor increases, UI-UC (and others closer to fully funded) receive increases to their state appropriation closer to or above inflation (3%), while Governor's State (and others farthest from fully funded) see smaller increases.

### Summary of Guardrail Factors

- The higher the guardrail factor:
  - Institutions with the largest gaps close their gaps more slowly.
  - More funding is distributed in an across the board manner, ensuring some minimal increase for all institutions.
- The higher the state appropriation, the lower the factor would need to be for all institutions see a reduction in their gap.
  - At a 9% increase in state funding, all institutions reduce their gaps at a guardrail factor of 64%.
  - At 4%, two institutions still have small increases (0.2%) in their gaps with a 100% guardrail factor.

### **Guardrail Factor**

There is no way to calculate the "right" guardrail factor – it is a decision that weighs the following factors:

- The likelihood of large state increases in funding
- A trade-off between funding adequacy/equity (lower guardrail) and stability (higher guardrail)

#### **Discussion**:

- What share of funds should be allocated based on adequacy each year?
- What is the minimum increase an institution should receive that provides stability? Should that be tied to the inflation rate?
- Is there a guardrail factor that appears to strike the right balance?

#### Allocating State Funding Cuts

## Proposal: Ratio of the statewide adequacy gap to each institutional adequacy gap, plus a guardrail

- Allocates cuts using the same principle as the formula for increases: prioritizing state resources for those farthest from adequacy.
- Does not solve the issue that universities more reliant on state appropriations receive larger cuts to their overall revenue, but reduces that impact compared to across-the-board.

#### **Ratio-Based Cut Details**

- Starts with the same guardrail
- Calculates the ratio and applies it to the state cut
  - e.g., IL state gap = 32%, ISU gap = 45%, State cut = 4%
    ISU ratio = 69% (32%/45%), ISU ratio-based cut = 2.8% (4%\*69%)
- Calculates each institutions' cut based on its ratio-based cut
- This generates a total cut larger than the overall cut, so all school's cuts are scaled proportionally to fit within the total
- Guardrail factor could be increased to minimize chance of significant cuts at any institution.

#### Ratio-Based Cut Example

Institution	Guardrail	Guardrail Cut	Ratio-Based	Ratio-Based	Scaled Ratio-	% Change in
Institution	Cut %	\$	Cut %	Cut \$	Based Cut \$	State Approp
Chicago State University	-2.0%	-\$789,865	-4.1%	-\$1,635,366	-\$481,352	-3.2%
Eastern Illinois University	-2.0%	-\$859,583	-3.2%	-\$1,390,939	-\$409 <i>,</i> 408	-3.0%
Governors State University	-2.0%	-\$479,335	-2.3%	-\$544,765	-\$160,346	-2.7%
Illinois State University	-2.0%	-\$1,439,333	-2.9%	-\$2,061,105	-\$606,664	-2.8%
Northeastern Illinois University	-2.0%	-\$735,050	-2.1%	-\$762 <i>,</i> 866	-\$224,541	-2.6%
Northern Illinois University	-2.0%	-\$1,815,157	-2.8%	-\$2 <i>,</i> 577,530	-\$758,668	-2.8%
Southern Illinois University Carbondale	-2.0%	-\$1,968,850	-6.9%	-\$6,835,908	-\$2,012,076	-4.0%
SIU SOM	-2.0%	-\$489,904	-10.8%	-\$2,643,856	-\$778,190	-5.2%
Southern Illinois University Edwardsville	-2.0%	-\$1,270,877	-3.3%	-\$2,126,073	-\$625,787	-3.0%
University of Illinois at Chicago	-2.0%	-\$4,655,939	-3.3%	-\$7,645,261	-\$2,250,300	-3.0%
UIC SOM	-2.0%	-\$400,869	-2.4%	-\$472,232	-\$138,996	-2.7%
University of Illinois at Springfield	-2.0%	-\$498,693	-4.5%	-\$1,112,327	-\$327,402	-3.3%
University of Illinois at Urbana / Champa	-2.0%	-\$6,123,367	-15.3%	-\$46,882,349	-\$13,799,313	-6.5%
UIUC SOM	-2.0%	-\$38,612	-2.9%	-\$56 <i>,</i> 043	-\$16,496	-2.9%
Western Illinois University	-2.0%	-\$1,025,019	-3.4%	-\$1,732,034	-\$509,805	-3.0%
Illinois	-2.0%	-\$22,590,452	0.0%	-\$78,478,654	-\$23,099,344	-4.0%

### State Funding Cuts - Impact of 4% Cut on Resources

#### Ratio-based cut and guardrail

- A 4% cut using the Ratio-Based Cut would result in cuts to **state appropriations** ranging from **2.6%** (Northeastern IL) to **6.5%** (UI-UC).
- This option would result in total reduction of state and tuition resources ranging from 0.8% at ISU to 2.5% at Chicago State.

### State Funding Cuts - Impact of 4% Cut on Adequacy

- A 4% cut to state appropriations would **increase each institution's adequacy gap**, whether distributed across-the-board or some combination of guardrail and ratio. However, the range of the impact on equity gaps would vary.
- A 4% cut **across-the-board** results in increases in adequacy gaps ranging from **3.6%** for Chicago State to **1.1%** for Illinois State.
- A 4% cut distributed using a the **ratio-based cut and guardrail** results in increases in adequacy gaps ranging from **3.2%** for Chicago State to **0.9%** for Illinois State.

### State Funding Cuts

- Does this approach appropriately balance the principles of allocating state funds based on adequacy/equity and ensuring institutions have stability?
- Are there adjustments that could be made to the ratio-based cut approach to improve it?

### Research

Instruction and Student Services

Student-centered access components

Academic supports

*Non-academic supports* 

Core instructional program costs

**Research & Public Service Mission** 

Unfunded and inseparable from instructional adequacy/equity

Externally or separately funded

**Operations and Maintenance** 

**Research & Public Service Mission** 

#### **Institutional Mission Adjustment**

**Amounts:** \$600 (Masters), \$1,200 (R2, R3), \$1,800 (R1) Provides varying levels of funding to support research mission, based on an institution's Carnegie classification. Amounts are derived from actual institutional expenditures on research, as reported in the NSF HERD survey.

**Purpose:** Ensure a minimum level of basic research at all universities while also providing additional resources to institutions with a mission that includes greater levels of research.

### Research - Differentiate between R2 and R3?

	Institutional	Total Spending
	Spending Per Capita	Per Capita
R1	\$3,652	\$12,920
R1	\$4,012	\$12,561
R2	\$2,277	\$4,178
R2	\$903	\$1,559
R2	\$634	\$1,196
R3	\$1,065	\$1,388
Masters	\$11	\$471
Masters	\$210	\$653
Masters	\$0	\$299

## Should the formula provide different levels of funding for R2s and R3s?

EQUITABLE PUBLIC UNIVERSITY FUNDING

The data used to derive the current levels for research in the model were based on the data from the NSF HERD survey shown here.

These data indicate that the R3 institution has similar levels of research spending as two of the three other R2s. One R2 is distinct in its higher level of spending.

The Carnegie Classification system is based on research activity. The R1/2/3 cutoffs are not based on absolute thresholds but relative position to other institutions.

### **Medical Cost Factor**

#### **Medical Costs**

- The Commission looked at different size cost factors to recognize the higher costs of providing medical education, but did not decide on one.
  - Possible range from 450% (national and other state data) up to 1100% (based on costs provided by SIU and UIC).
  - Other health professional programs continue to receive a 100% cost factor.
- The Commission requested we look at a model with colleges of medicine treated as separate schools in the formula.

#### **Medical Costs**

#### **Separating out Schools of Medicine**

- The draft model treats the Schools of Medicine at SIU, UI-C, and UI-UC as separate institutions, calculating their own adequacy targets, resource profiles, and adequacy gaps.
- SIU-Carbondale, UI-C, and UI-UC are split into two institutions each, one with college of medicine students and one with all other students.

#### **Assumptions in Current Model:**

- Cost factor of 1100% to reflect actual SIU/UI expenditures per student (~\$160k)
- Adjust ESS Index down by 45% to reach a reasonable and affordable level that better reflects current tuition revenue (\$40-\$60k)
- Exclude \$13.4 million of SIU SOM's state approp, which supports residency costs
- UI-UC's state appropriation is equal to UIC's on a per student basis (UI-UC was not able to provide a specific number at this time).

#### Key Takeaways:

- Two Schools of Medicine have large adequacy gaps (UIC @ 46.5%; UI-UC @ 56.6%), while one is well funded (SIU SOM @ 88.3%)
- SIU has a large state appropriation per student (\$60k) that is a main driver of it being closer to fully funded compared to the others (closer to \$13k).
- SIU-Carbondale goes from 90% fully funded to 82% by taking out the school of medicine. UIC and UI-UC have much smaller shifts.
- Schools of Medicine do use other sources of revenue (e.g. clinical) to support their higher costs per student, which are not captured in the formula.

#### Schools of Medicine

- Is there a preferred way to address Schools of Medicine in the formula that reflects their higher costs and other resources?
- Is there a baseline or minimum the Commission could recommend, while acknowledging that additional support may be necessary and could be handled outside the formula?

### **Other Resources**

#### **Commission Discussion and Context**:

- Some stated that counting a portion of the endowment will disincentivize future philanthropy and that a substantial portion of the funds are restricted.

- Others voiced that the state must account for these resources in the formula given their scale, inequitable distribution, and impact on student outcomes.

- Estimated annual endowment revenue in the current model ranges from \$95,000 to \$80,000,000.

- Endowment revenue currently provides \$119.6 million towards adequacy costs.

- A \$1 million gift changes an adequacy gap by \$10,500, based on using a 4-year average and 4.2% spend-down rate. This changes the average adequacy gap by 0.01% and the allocation by less than \$100.

#### Other Resources: Endowment

**Alternative:** A Commission member suggested counting endowment revenue only from endowments above a certain value. Endowments should be large enough before they must contribute those resources towards adequacy.

**Proposal**: Base the minimum for an endowment on its ability to generate funds that support continued fundraising activities. Include 4.2% of the total endowment value, but <u>exempt the first \$1 million</u> in revenue from the formula.

**Rationale**: This ensures institutions have sufficient resources to support fundraising activities. \$1 million is derived from the overhead spending by the universities' endowment foundations; most lower-resourced institutions spend less than this, while larger endowed institutions spend \$5+ million.

#### Alternative – \$1m in Exempted Endowment Revenue

	Free days is in a Court		Other Resources Counted in Model		
Institution	Fundraising Costs Supported by Endowment	Total Endowment Value	Current Model (4.2% of Value)	Alternative (Exempt first \$1m)	
Chicago State University	\$706,311	\$5,935,750	\$249,302	\$0	
Eastern Illinois University	\$648,886	\$57,840,625	\$2,429,306	\$1,429,306	
Governors State University	\$366,708	\$2,259,375	\$94,894	\$0	
Illinois State University	\$4,937,112	\$134,397,775	\$5,644,707	\$4,644,707	
Northeastern Illinois University	\$680,476	\$11,471,225	\$481,791	\$0	
Northern Illinois University	\$5,293,631	\$80,502,475	\$3,381,104	\$2,381,104	
Southern Illinois University Carbondale	\$12,022,365	\$151,086,200	\$6,345,620	\$5,345,620	
Southern Illinois University Edwardsville	\$1,312,066	\$24,999,850	\$1,049,994	\$49,994	
University of Illinois at Chicago		\$391,193,510	\$16,430,127	\$15,430,127	
University of Illinois at Springfield	\$40,479,000	\$20,616,544	\$865,895	\$0	
University of Illinois at Urbana / Champaign		\$1,908,771,421	\$80,168,400	\$79,168,400	
Western Illinois University	\$2,116,707	\$57,331,475	\$2,407,922	\$1,407,922	
Illinois	\$1,714,387	\$2,846,406,225	\$119,549,061	\$109,857,180	

#### **Other Resources - Options**

Option	Pros/Rationale	Cons
Percent of endowment	Endowments provide real resources to institutions to cover adequacy costs that the state should consider when allocating its funds; 4.2% is based on the current national level of spending from endowments.	New gifts to the endowment would have small impact on universities' state appropriation, which could disincentivize giving. (Alt: could use current endowment value only and not factor in new gifts)
Add fundraising to adequacy costs	Brings institutions up to the statewide average of development revenue derived from endowments. All institutions could benefit from additional fundraising capacity; avoids disincentivizing actual fundraising.	Equal fundraising capacity will not eliminate disparities in size and wealth of universities' alumni bases. The state's allocation would not account for the difference in access to resources.
New Proposal: Exempted minimum endowment level	Protects a portion of endowment revenue that is necessary to support adequate fundraising activities, set at \$1,000,000. Counts 4.2% of any endowment spending that exceeds that protected level.	Does not eliminate the potential disincentive on giving.

Note: For options #1 and #3, the 4.2% figure could be adjusted.

### Public Comment

Instructions for Members of the Public:

Please wait for your name to be called. Public comments will be limited to three (3) minutes per person.

#### Other Commission Recommendations

The following items are in the draft report as Other Commission Recommendations, and could be expanded or edited to reflect other Commission input.

#### Topics for Consideration Outside the Funding Formula

- **Diversifying Faculty**: IL should increase funding for the Diversifying Faculty Initiative program.
- **Hospitals & Athletics**: Excluded from formula, but could be considered how they impact equity in future reviews
- **Deferred Maintenance**: Not addressed through formula; should be addressed separately given its implications on equity.
- **Non-Tuition and Fees Costs**: Not addressed in formula, but a major affordability and equity issue. MAP could be reformed to cover these costs.

#### Other Commission Recommendations, continued

#### Data capacity and improvements

• **EBF Tier Data**: Need a data-matching agreement with ISBE for full data on EBF Tier; once available, look for other ways to refine equity adjustments and ESS subsidies

• Additional Student Populations: Incorporate students groups into the equity adjustments when data becomes available (student parents, first-gen, mandatory tuition waivers, students with disabilities)

• **Refinements to Existing Populations**: Measures for identifying low-income students that are not solely based on Pell or MAP eligibility; supplement/refine EBF tiers with additional socio-economic identifiers.

• **IBHE Capacity:** IBHE will need more resources to implement the formula

#### Formula Review

• **Future formula review:** As part of the recommended review process, a few key issues are of interest to the Commission (ESS and graduate/prof students) to ensure the formula is working as intended.

### Adjournment