Technical Modeling Workgroup Meeting #24 - February 8, 2024 (9am-11:30am CT)
Meeting Notes

MEETING OBJECTIVES
1. Review updated model output
2. Close out outstanding items from the Commission agenda

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 January 25, 2024 Workgroup Meeting
Commissioner Robin Steans made a motion to approve the minutes from the January 25, 2024 workgroup meeting. Andrew Rogers seconded the motion. Seven workgroup members were present and in favor. One workgroup member abstained.

Process & Timeline
Martha Snyder gave a high-level overview of the timeline for closing out the work of the workgroup and the Commission, noting that it was subject to amendment and adjustment pending conversations with the Commision Co-Chairs.

Review of Model Output
Will Carroll walked through the updated draft of the model spreadsheet on screen. In this version, the Schools of Medicine have been pulled out as individual institutions and changes to adequacy target and ESS are updated.

The Workgroup members raised the following questions/discussion points:
- There was concern raised that there wasn't an agenda topic to talk about Graduate programs/Graduate students and this model fails to address Graduate students.
- Concern that the workgroup ran out of time and there are unfavorable consequences due to lack of graduate student inclusion.
- Concern around ESS and that it "doesn't make sense."
- Process suggestion: feel like on the graduate front, there are conversations that might really help. Are there places in the report that we can flag this as a targeted question? Targeted, identifiable work that could happen in the future. Identify in report as a recommendation?
- Argument was raised that there shouldn't be distinctions between in-state and out-of-state graduates. It was shared that the undergraduate population was the intended focus.
- Concern was raised that if not accounting for graduate students, the model will be underserving and "shooting ourselves" regarding the pipeline. Many of these graduate students were previously undergraduate students at in-state universities.
- Statute is mostly about undergraduate, but colleges and universities do also serve graduate students.

- Question was raised whether there is good data on graduate students? Is there a quick calculation to come up with as a "holding place" and request the review panel to recalibrate and dig deeper into?

Commission Outstanding Items

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 Percent 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.

Impact on Adequacy Gaps

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

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 Factors

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?

The Workgroup members raised the following questions/discussion points:
- Concern was raised that stability is a real concern for campuses.
- To have a truly adequate model, the equity factor has to be built in.
- The guardrail factor helps to build in stability, even at lower levels.

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

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% Cuts 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?

The Workgroup members raised the following questions/discussion points:

- Concern raised that universities are not adequately funded, and that the hold harmless is too low.
- Concern raised that there hasn't been much time spent looking at the downstream impact of the ESS portion of the formula.
- There has to be some way of thinking about how to handle cuts and this scenario seems appropriate.
- This approach achieves what is trying to be done and is true to the spirit of the Commission.
- It's difficult to cut institutions that are so far from the adequacy target, but this approach is probably best for institutions (instead of across the board cuts).
- Question was raised as to whether the Commission has held conversations regarding return on investment.
- Desire to not get to the case where the state has to cut back on appropriations, but if that happens, it's important that it is equitable on the back end.
- There shouldn't be different subsidies for different universities. At what point are we shifting per capita funding away from certain institutions to others?
- Across the board cuts are not viable.

Research

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.

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

Workgroup members did not raise objections to the concept presented.

Medical Cost Factor

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.

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 appropriation, which supports residency costs
- UIUC'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).

Separate Schools of Medicine
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.
- 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?

The Workgroup members raised the following questions/discussion points:

- It's helpful to have the Schools of Medicine separated.
- Ultimately, there is a desire to know whether the schools of medicine are being adequate funded.
- Medical schools need to be accredited.
- Affordability concerns and enrollment disparities by race, income, etc. should be included in the affordability concerns.

Other Resources: Endowment
Nate Johnson walked through Other Resources, Endowment.
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.

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 exempt the first $1 million 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.

The Workgroup members raised the following questions/discussion points:

- Some workgroup members believe that endowment should be included; others believe it should not be included at all.
- What about other areas such as athletic resources? It was shared that there was a targeted discussion around other resources and the charge from the committee that was adopted by the commission was to not look at athletics, not look at hospitals, but to consider other resources such as endowments and private giving. This is part of the Commission's framework provided and charge given to the technical workgroup.
- How will future elements potentially be included in the formula? For example, English Language Learners, which there may not be data readily available now, but in the future when data is collected and available?

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

Adjournment
Martha Snyder closed out the meeting by walking through the formula components that we've focused on and how the report will call out the other issues that have come up for which are not directly reflected or addressed in the formula.

It was reminded that the next Commission meeting would be held on Thursday, February 15, 2024 (9am-12pm CT) and that Technical Modeling Workgroup members who are not Commissioners are welcome to attend to listen in.

Workgroup Members in attendance
Mike Abrahamson, designee for Lisa Castillo-Richmond
Sandy Cavi, designee for Aondover Tarhule
Robin Steans
Ralph Martire
Simón Weffer
Corey Bradford, designee for Cheryl Green
Beth Ingram, designee for Lisa Freeman
Michael Moss, designee for Karen Colley
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