Discussion Item
June 5, 2018

DEVELOPMENT OF A PUBLIC UNIVERSITY FUNDING FORMULA

Submitted for: Information.

Summary: Since Fiscal Year 2013 the Illinois Board of Higher Education (IBHE) has recommended the allocation of some funding between public universities as required based on performance funding formula. The provisions of what must be included in the formula are outlined in P.A. 97-320. However, IBHE recommendations have rarely resulted in the reallocation of funds as the General Assembly has generally declined to include those recommendations in final appropriations. The performance funding formula needs to be reviewed and replaced for Fiscal Year 2020 IBHE budget recommendations based on decisions when the original formula was approved.

During the legislative appropriation hearings in both the House and the Senate there were many questions about the basis for the distribution of funds between public universities. It was noted that funding has just been adjusted incrementally for many years. In most cases this has meant a decrease across the board to all universities.

Looking at annual budgets going back to Fiscal Year 1990, staff found that the distribution of funds between universities changed notably in most years until Fiscal Year 1995. There were smaller adjustments in the allocation of funding between universities until Fiscal Year 2002. These adjustments were made based on cost study data as well as other adjustments for initiatives or projects. In addition, some realignment was influenced by the "Priorities, Quality, Productivity" (PQP) process. The cost study was used to make the amount of state subsidy per full-time equivalent (FTE) student relatively equal between universities. There has been no systematic change in the distribution of funds between public universities in the 16 years since Fiscal Year 2002 and no major realignment is anticipated for Fiscal Year 2019.

A great deal of change has taken place since Fiscal Year 2002. Inequities have built-up, primarily due to enrollment shifts. In addition, thinking about budgeting has shifted from the incremental, cost based approach on which realignments were based in the past. Today budgeting processes in general, and specifically in higher education, put more emphases on reaching goals and achieving outcomes. Even where this includes priority setting and productivity issues it is unlikely the state would chose to return to exactly the IBHE PQP process because it was centralized. Today we likely would leave the final choices and implementation to individual universities.

In recognition of the need to address the inequities that have built-up over almost two decades, to reward performance, and to create incentives

to meeting state goals, IBHE has agreed to develop a new funding formula with the intent of using it as a basis for developing the public university portion of the Fiscal Year 2020 IBHE budget recommendations and for continued annual realignments.

Action Requested: None

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STATE OF ILLINOIS
BOARD OF HIGHER EDUCATION

DEVELOPMENT OF A PUBLIC UNIVERSITY FUNDING FORMULA

During the spring legislative session there were many questions from legislators about how the allocation of funding between public universities was developed. Illinois Board of Higher Education (IBHE) staff has not been able to identify a point at which there was any kind of overarching initial allocation or systematic reallocation. Modest reallocations were made annually based on cost studies that attempted to even the amount of tuition subsidies between universities through 1995, as well as other factors and for specific initiatives or to account for specific costs. Smaller reallocations continued until Fiscal Year 2002.

Fiscal Year 1995 happened to coincide with the reorganization of the Illinois higher education system from a system of systems to one based primarily on independent university boards. Fiscal Year 2002 represented the peak year for higher education operations funding from state appropriations. Since 2002 there has been no significant realignment of funds between universities.

A great deal of change has occurred in the intervening 16 years both for individual universities and in relative terms between universities. Funding distribution questions have also arisen this year related to particular universities, including Southern Illinois University Edwardsville and Illinois State University. Unfortunately, funding formulas reallocations are easier to implement when they are based on the allocation of increased funds. It is difficult to impose negative adjustments on universities when the whole system is already experiencing cuts.

IBHE has made recommendations for funding realignments each year since Fiscal Year 2013 as required by P.A. 97-320. The performance funding model includes factors such as graduations, graduation rates, retention, and cost per credit hour and cost per completion. Other factors take into account differences in university missions. Extra weight is given to underserved minority, low income (Pell eligible), older students (25 and older) and those graduating with STEM and health care degrees. However, the amount of funding slated for reallocation has generally been small and the General Assembly has regularly declined to take reallocation recommendations into account in final appropriations. Funding during each intervening year has been flat or declined. During the two year budget impasse universities had to deal with partial budgets. Fiscal year 2018 university budgets were reduced by ten percent.

When the performance funding model was approved it was agreed it would be revisited and there needs to be a review this year in preparation for the IBHE Fiscal Year 2020 budget recommendations. This makes it a particularly good time to reconsider how university funding is allocated. The current funding formula adheres closely to the factors outlined in the law (P.A 97-320), which focuses on factors considered measures of performance. If funding had been reallocated systematically each year since the law was passed there would have been some realignment overall. However, that did not take place and the General Assembly now seems interested in having factors considered in addition to those outline in the law. The attached listing of possible measures that could be included in a revised formula includes a description of measures that are a part in the current formula as well as other options that might be used to

address other concerns. The law does not prohibit the inclusion of factors other than those specifically listed.

One problem with the current model is how it is constructed. All of the factors are considered together instead of individually. The steps are separated and the results are difficult to track from the source data to the resulting realignment. This makes it difficult to explain how a university did on any one factor and thus it is difficult to understand why a university gained or lost funds. No matter what factors are included or weighted, IBHE staff will recommend a method for addressing each factor individually so that interested individuals can follow the process from the original data to the resulting dollar allocations.

In regards to who will be involved with the development of a revised funding formula the law states:

> *The Board is directed to form a broad-based group of individuals representing the Office of the Governor, the General Assembly, public institutions of higher education, State agencies, business and industry, Statewide organizations representing faculty and staff, and others as the Board shall deem appropriate to devise a system for allocating State resources to public institutions of higher education based upon performance in achieving State Goals related to student success and certificate and degree completion.*

The Director shall begin the recruitment and selection process for this group with the intent that the Fiscal Year 2020 recommendations to the Board will be based on the revised formula.

Possible Items for Inclusion in Illinois Public University Funding Formula

High Cost Entities Set-Aside * – Primarily medical, dental, and veterinary medicine schools. These programs are important to the state and the overall higher education system. They cannot be assessed in the same way as other higher education programs.

Physical Plant

Facility Replacement Costs – Calculated replacement cost of state owned facilities. To recognize the cost to operate and maintain the infrastructure differ between campuses.

Enrollment and Special Populations *

Total Undergraduate Enrollment – Number of undergraduates enrolled regardless of how many hours they are taking. (Not in the current formula and not directly required to be included but could be included to address other concerns.)

FTE Undergraduate Enrollment – Full-time equivalent (FTE) undergraduate students based on total credit hours completed (30 hours/year). (Not in the current formula and not directly required to be included but could be included to address other concerns.)

Total Graduate Enrollment - Number of graduates enrolled regardless of how many hours they are taking. The current funding formula is focused primarily on graduations. It treats masters and doctoral students separately. (Not in the current formula and not directly required to be included but could be included to address other concerns.)

FTE Graduate Enrollment - Full-time equivalent graduate students based on total credit hours (24 hours/year). The current formula focuses on graduations as the desired favorable outcome and treats masters and doctoral students separately. There are far fewer doctoral graduates but they are given twice as much weight as masters' graduates. (Not in the current formula and not directly required to be included but could be included to address other concerns.)

Pell Eligible Enrollment * – Number of Pell eligible students based on federally reported data. This recognizes the additional work to recruit, enroll and retain low income students. Reaching low income students is one of the required metrics in the law.

Underserved Minorities * – Number of African-American, Hispanic or American Indian students. This measure rewards the effort to recruit, enroll and maintain more students from underserved minorities. Trends point to increasing proportions of the college age population coming from underserved groups, indicating a growing need to reach those students. Reaching traditionally underrepresented students is one of the required metrics in the law.

Illinois Students – Number of Illinois resident students, either enrolled or FTE. This measure would recognize both that Illinois state tax dollars help support Illinois' public universities and to work to address the problem of the net out-migration of Illinois students to other states. (Not in the current formula and not directly required to be included but could be included to address other concerns.)

Persistence/Advancing Students (Undergraduate (UG)) – Counts each student who advances to the next level. The intent is to recognize that there is journey between enrollment and graduation and it requires efforts by universities to help students continue on the path to graduation. This goal addresses the goal of "increasing completion of college course, certificates, and degrees."

First Generation Student (UG) * – Number of enrolled undergraduate students regardless of their grade level or the number of credit hours taken. Recognizes the additional work necessary to recruit, enroll and maintain students who do not have a family background of college attendance. Research shows first generation students are less likely to complete their course of studies.

Students 25 and Older (UG) * – Number of undergraduates enrolled who are over 25 or older at the beginning of the term. Older students represent a growing proportion of the student population. This measure notes the additional work necessary to reach and retain these students who often face greater challenges than traditional students. This also recognizes that increased numbers of older students will have to seek higher education credential if the state is to fulfill the needs of the economy of the future. Reaching traditionally underrepresented students is one of the required metrics in the law.

Students Requiring Remediation – Number of students requiring remediation coursework. Recognizes that enrolling and retaining non-traditional students often requires remediation efforts. Effective remediation requires thought and effort. This is not a current measure and there are challenges in measuring it.

Performance *

Undergraduate Degrees Granted * – Number of undergraduate degrees granted. Recognizes the most important outcome of higher education is the granting of degrees.

Graduate Degrees Granted * – Number of graduate degrees granted. Recognizes the most important outcome of higher education is the granting of degrees. The current formula gives double weight to doctoral and professional degrees compared to master's degrees.

*Degrees/FTE * – Completions within Six Years/150 Percent of Time* * - Completion within six years/150 percent of time is the most commonly used measure of completion success. The longer a student takes to reach graduation the greater the chance they will not graduate.

STEM and Health Care Degrees * - Emphasizes degrees where there is a particular shortfall and where it is anticipated there will be a growing demand in the future. Other degrees could be added or counted separately.

Cost/Credit Hour * - This represents a measure of the economic efficiency in the delivery of courses.

Cost/Completion * – The cost per credit hour represents a measure of efficiency during the educational process. The cost per completion represents a measure of efficiency in in reaching graduation.

Research and Public Service Expenditures * – The law requires that the formula consider the differential missions of each university. Research and public service have a greater weight in the mission of some universities. Those costs generally fall outside of instructional costs and thus are accounted for separately.

*** Indicates current performance formula measure**