

Testimony for the Legislative Higher Education Working Group

Normal, Illinois, August 30, 2018

Good morning Chairman McGuire and Working Group members.

Thank you for the opportunity to speak to you about the important but complicated subject of university funding distribution.

- **History of Illinois Public University funding formulas**

There has never been a full-fledged, systematic formula for allocating fund between Illinois' state universities. We may be the only state with a multiple university system like ours that does not have an overall means of objectively distributing funds. There was some annual realignment of funding based on each universities per student state subsidy until FY 04. That did not take into account many of the factors we would include today, particularly the importance of serving more difficult populations like low-income, older, first generation college students, and minority students. Those populations are making up increasing proportions of university students and we have to serve even more of them if we are going to meet our goal of preparing our state for the jobs of the future.

There has been no systematic reallocation of funds since FY 04.

- **Performance Funding Formula**

However, IBHE is mandated to propose the allocation of some funding based on performance, which we have done since FY 13. The recommended reallocations were included in final appropriations only in the first two years, FY 13 and FY 14. The proportion of funding reallocated was only 0.5% in each of those two year. No university lost or gained more than a fraction of that amount. The biggest loser in the FY 19 formula would have lost just 0.15% of funding and the biggest winner would have gained just 0.3%.

The current performance funding formula is closely aligned with the legislation. Many elements in the performance formula would logically be included in a base funding formula. Unfortunately, IBHE staff is concerned that the current formula is complicated and hard to understand. It is difficult to clearly state why individual universities gained or lost money on any individual measure or overall.

Staff have advocated that any new formula needs to be more transparent to universities and other interested parties, such as yourselves, if it is to be accepted and meaningful.

- **University Funding Formula Working Group**

IBHE has initiated a University Funding Formula Working Group. This is required to review the existing performance formula but we also have asked the group to consider the development of a base funding formula. There have been two meetings so far: August 13 and August 23. Participation is mainly comprised of representatives of universities but there are members representing other higher education interests as well as the general public. We attempted to invite participation along the lines noted in the performance funding law. We have not tried to reach consensus on any issues yet but the group has expressed opinions and they are interested in feedback from the Higher Education Working Group on a number of funding formula related issues.

- **FIRST: Should we be building a base funding formula or just a performance formula?**

The law neither mandates nor prohibits the recommendation of base funding via a formula. State law does mandate a performance funding formula, although the Governor and General Assembly determine if the recommendations will be incorporated in final appropriation levels. A problem with performance elements for universities is they need to be based on an average of three years to avoid oddities and to allow universities time to implement changes. The budget impasse created many oddities in the data. In cases like graduation rates, it takes 5-6 years to measure change. The standard measure is graduation within 150% of the normal time, which is six years for a bachelor's degree. The national average is about five years.

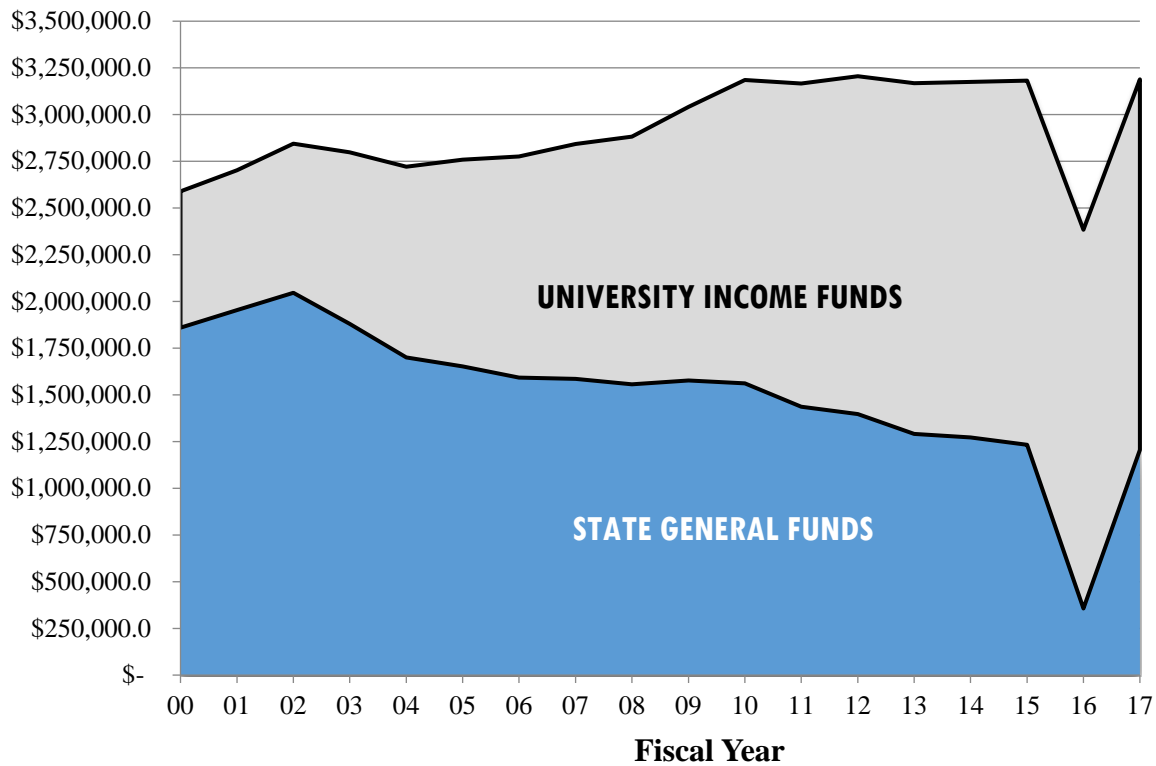
I have been involved in the implementation of several performance funding formulas for social service programs and this is dramatically different. In those cases we started to see results very quickly but in those cases measurement took place monthly. That is not practical with a university funding formula. Measurement is can only take place annual, at best, and, as just noted, real impact takes years.

Universities are not resistant to performance funding in principle and they are not against the ideas embodied within the performance measures in our current model. In fact, universities are working very hard to improve performance on these very measures. They all want to see every student graduate and they want to help them do so as quickly as they can. They also are all trying to attract and educate more of those hard to reach populations, including minorities, PELL eligible students, older students and first generation students. Unfortunately, it is difficult, time consuming and expensive work.

Universities face many other priorities and demands in the best of times. When the amount of money at play is so small it is difficult to justify making even more aggressive changes specifically to address the performance measures in our formula. Unfortunately, recent years have not been the best of financial times for universities. The years since performance funding was introduced have represented a period of severe fiscal trauma.

The budget impasse was particularly hard on universities. Their direct funding in FY 16 was only 30% of what it had been in FY 15 and then they received a 10% cut for FY 18. While it was welcome, the 2% increase for FY 19 just roughly equal to inflation. Since about two thirds of university state funds now come from tuition, universities would need to increase tuition by a similar amount to stay even. Unfortunately, after years of tuition increases, even the U of I has made every effort to hold down tuition to help lure students back and make college more affordable. Progressive cuts made it more difficult to focus on much more than survival for a number of schools. While universities made every effort to maintain forward momentum, the negative publicity from the budget impasse has been difficult to overcome.

**Trends in Educational and Related Revenues at Illinois Public Universities
Fiscal Years 2000 to 2017 (in FY 2017 dollars)**



Source: University Historical RAMP Submissions

As you know, state universities operate in a competitive environment and colleges and universities from other states took advantage of the negative publicity generated during the budget impasse to lure away many of Illinois’ best students. Unfortunately, we were losing a tremendous number of students to other states even before the impasse. Although the return to funding stability has helped, the steep decline in the working capital available to universities has severely limited their ability to respond.

This all helps explain why the state’s effort to implement performance funding has not produced the positive results we would have liked. However, even if state universities had not faced such difficult times, research indicates performance funding formulas have not resulted in meaningful improvements in performance.

The IBHE Funding Formula Working Group understands the need for a more overarching funding formula. They are skeptical about the value of focusing our attention on the performance formula. Also, during the most recent meeting, it was noted that a central premise behind performance funding is to harness competition but the missions of Illinois universities are so different they really are not in competition with each other. The most obvious example is that the U of I. It is the flagship university, a land grant schools, a member of the Big 10 and a national research power house. Is it realistic for the regional universities to compete against the U of I? In the current performance formula they do.

Unfortunately, as things stand today for Illinois's 12 state public universities, the real competitors are each school's individual peer institutions in other states. I recently got a personal example of this when I received the annual fund raising call from my undergraduate alma mater, Iowa State University, which ranked second in the number of Illinois students who leave the state. I'll bet you can guess what state the student calling me came from. That is right. He was a graduate of a suburban Chicago high school. I actually let him know I was doing what I could to reduce the number of Illinois students who would follow him to Iowa State, right before I made my contribution.

With all of this in mind, the IBHE Funding Formula Working Group would rather put its energy into building the base funding formula. Although, as we have previously noted, some performance elements could and logically should be included in a base funding formula. For instance, the current formula includes graduations and extra weighting for hard to reach populations. IBHE staff would recommend that this be included in the base formula and it seems likely the working group would agree.

So our recommendation would be to have IBHE develop a base funding formula, likely with performance elements. At the close of the August 23 IBHE Working Group meeting I indicated that based on their initial feedback I would take that message to you today. This logically would require us to also provide draft legislation to modify the current performance funding language to accommodate a base funding formula. We would not recommend including the formula itself into that legislation. That might result in a system that could not adapt to change. For various reasons the performance funding formula has not worked as hoped but at least under the current law we can adjust it within the general framework provided by the law. IBHE staff has already turned its attention away from looking at other state performance funding formulas to other state base funding formulas. Although, we can easily return or focus to performance if there is a desire for us to do so.

- **SECOND: What is the timeframe?**

If we just had to update the legislatively mandated performance funding formula we could do that in time to include it in the IBHE FY 2020 budget recommendations our Board will vote on in December. A base funding formula is a bigger issue. It is more involved and time consuming. It is a much bigger question and one we have not tackled before. The group's greatest concern is trying to complete a recommendation too quickly. They would prefer that we be allowed to include a recommendation with the FY 2021 budget recommendations. Some group members noted a significant portion of the General Assembly will be new next year and it is uncertain who will be in the Governor's mansion for the next legislative session. They are worried that we might build recommendations that reflect the desires of current decision-makers but not those who will be making the decisions in the next legislative session.

When the performance funding law was passed it required that it be put in place for the following fiscal year IBHE budget recommendations. To follow that path we would recommend replacement legislation to you in time for you to consider it before the end of the coming legislative session. Our Working Group would continue our deliberations and the FY 2021 budget recommendations would incorporate a new funding formula based on the legislation.

However, we will try to work within whatever timeline we are provided.

- **THIRD: What proportion of funds should be included?**

There has been very little allocation of funds via the performance funding model for universities. The amount of money reallocated when it was done based on student subsidy levels also was small. However, if we are going to talk about a base funding formula, the amounts involved logically could be higher. The Working Group understands the proportions involved should be higher than the 0.5%. However, all universities are in a much weaker financial position in the wake of the budget impasse.

Many are only now starting to climb out of the hole of negative public impressions and address the fiscal blows they received. It will take a considerable time for them to recover from the impact of the budget impasse. The schools that took the hardest hits are likely to be at the greatest disadvantage in a base funding formula and would have the smallest resource base to respond. Therefore, the group would recommend that any formula be phased-in over a number of years and that reallocations be smaller in the initial years.

It is wise for the state to implement a base funding formula but given the recent financial history of higher education in Illinois, it also is in the state's interest to implement a new formula in a way that allows all 12 campuses to thrive.

- **FORTH: Do you assume a formula will be assessed against base funding or just new funding?**

This is similar to the previous question. The Funding Formula Working Group is concerned that a formula could be implemented too aggressively. That could further harm already weakened institutions. It is easier to implement a formula based on new funds. Including too much of the base too early could create additional problems.

Since FY 02, university funding has been cut repeatedly and in some cases sharply. In FY 02, there was an unwritten rule that higher education would receive \$1 for every \$2 received by elementary and secondary education. We are still refining and verifying our analysis but the ratio of K-12 operations funding to higher education operations funding in FY 02 was about 2.5:1.

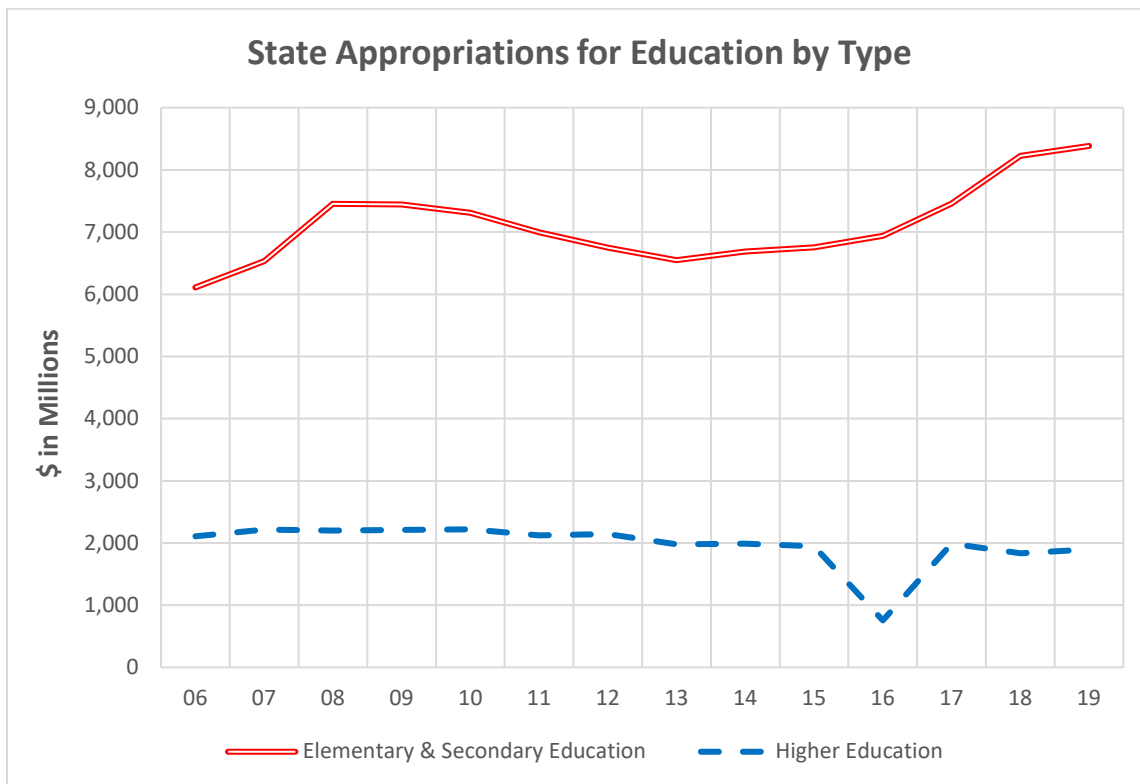
Since that time higher education funding has been cut sharply while elementary and secondary education funding has increased. We calculate that when accounting for the Consumer Price Index and unfunded mandates put in place since FY 02, state support for universities is only 49% of what it was in FY 02 and that does not account for the year when they received just 30% of the previous year appropriations. If you take into account the Higher Education Price Index the reduction is even greater.

For FY 19 the ratio of K-12 operations funding to higher education operations funding has widened to over 4.4:1. For many years universities made-up for the cuts with tuition increases. We calculate that after accounting for inflation, the cuts in state funding support accounts for 98.7% of the increase in tuition.

Change in Revenue Support for Illinois Public Universities: FY 10-FY 17

(\$ in thousands)

	CPI Adjusted			HEPI Adj.	% State Approp.
	Approp.	UIF	Revenues	Revenues	
FY 02 Adj. Funding	\$ 2,046,726	\$ 796,970	\$ 2,843,696		72.0%
FY 10 Adj. Funding	\$ 1,560,997	\$ 1,623,650	\$ 3,184,647	\$ 3,338,503	49.0%
FY 17 Funding	\$ 1,205,164	\$ 1,984,234	\$ 3,189,398	\$ 3,189,398	37.8%
FY 10-17 \$ Change	\$ (355,833)	\$ 360,584	\$ 4,751	\$ (149,105)	
FY 10-17 % Change	-22.8%	22.2%	0.1%	-4.5%	
% Chng. Explained by Approp. Reduction		98.7%			



Unfortunately, this runs counter to our Public Agenda goals, including affordability. It also is a handicap in the competition for students with other states. Increasing tuition at this point can even mean a decrease in revenues if it is off-set by decreases in enrollment. But universities must maintain programs and try to maintain facilities to attract students. Facilities represent another problem for universities trying to compete with out-of-state schools since the state has provided almost no capital maintenance funding since FY 04 while many other states have continued to provide some support for capital improvements and maintenance.

I should stop at this point to express our deep appreciation for the \$100 million in emergency capital funding that is in the process of being released. It is a great relief to many universities.

If a formula can be applied only against new funding or at least sparingly initially, it will give universities facing the greatest difficulties a greater chance to accommodate the change. Again, it is in the best interest of the state to allow all of its universities the chance to thrive.

- **FIFTH: Are there particular missions, priorities or outcomes you would like us to consider?**

The existing performance funding law provides some guidance but that was not intended to be a base funding formula. The IBHE Public Agenda provides guidance, such as improving affordability and increasing the proportion of Illinois residents with the necessary credentials for the jobs of the future. There also is a clear interest in taking steps to reduce the exodus of our best students to other states. Our Funding Formula Working Group is interested in getting feedback from the Higher Education Working group on any specific goals you would like to see reflected in a funding formula.

- **Closing**

In summary, IBHE and its Funding Formula Working Group understand the need for a base funding formula, although but they are concerned about how rapidly one might be implemented. Our recommendation, incorporating feedback from our Funding Formula Working Group, is for the following:

- Look to update the existing performance formula for the FY 2020 IBHE funding recommendations with an eye towards the move to a base funding formula with performance elements and attempt to make it more transparent.
- Provide the General Assembly Working Group with draft legislation to replace the current performance funding law with a law to mandate a base funding formula with performance elements by May 1 to allow passage in the upcoming legislative session
- Base the FY 2021 IBHE University funding recommendations on a funding formula that conforms to the new legislative language passed in the 2019 legislative session.

The recommendations for legislative language and for the formula itself would be informed by feedback from you today as well as in the future.

In closing, we would like to express our appreciation for your interest in this issue and for all you have done and are working to do to strengthen higher education in Illinois and look forward to more dialogue with you today and in the future. We are genuinely interested in your feedback.