THE ILLINOIS PUBLIC AGENDA
FOR COLLEGE AND CAREER SUCCESS

REPORT TO
THE GOVERNOR, THE HONORABLE PAT QUINN
AND
MEMBERS OF THE ILLINOIS GENERAL ASSEMBLY

BY
THE HIGHER EDUCATION FINANCE STUDY COMMISSION
PURSUANT TO SENATE JOINT RESOLUTION 88

December 2010

HIGHER EDUCATION FINANCE STUDY COMMISSION

Members

Senator Edward Maloney, *Senate President Appointee*
Representative Fred Crespo, *House Speaker Appointee*
Senator Pamela Althoff, *Senate Minority Leader Appointee*
Representative Robert Pritchard, *House Minority Leader Appointee*

Dr. Abbas Aminmansour, Chairman, *IBHE Faculty Advisory Council*
Dr. Al Bowman, President, *Illinois State University*
Terry Bruce, Chancellor, *Illinois Eastern Community College*
Dr. Sunil Chand, Professor, *Benedictine University*
Dr. Gary Davis, Former Executive Director, *Illinois Community College Trustees Association*
Dr. Charles Delman, Professor Eastern Illinois University, *Illinois Federation of Teachers*
Omar Duque, President and CEO, *Illinois Hispanic Chamber of Commerce*
Brian Fabes, Executive Director, *Civic Consulting Alliance of Chicago*
Larry Frank, *Illinois Education Association*
David Harby, President, *Illinois Community College Trustees Association*
Anne Ladky, President, *Women Employed*
Dr. Tom Layzell, Former State Higher Education Executive Officer of Kentucky and Mississippi
Dr. Walter McMahon, Economist & Professor Emeritus, *University of Illinois Champaign/Urbana*
Suzanne Morris, Vice-Chair, *Illinois Community College Board*
Dr. Jim Palmer, Professor of Higher Education, *Illinois State University*
Dr. John Peters, President, *Northern Illinois University*
Lance Pressl, President, *Chicagoland Chamber Foundation*
Stephen K. Rugg, Vice President for Administration, *University of Illinois*, and Treasurer, *U of I Foundation*, Retired
Brian Zucker, President, *Human Capital Research Cooperation*

Illinois Board of Higher Education

Carrie J. Hightman, Chairwoman
Guy Alongi
David Benjaih
Jay D. Bergman
Dr. Frances G. Carroll
Dimitra Georgouses
Heba Hamouda
Dr. Alice B. Hayes
Donald J. McNeil
Dr. John P. Minogue
Dr. Proshanta K. Nandi
Dr. Santos Rivera
Robert J. Ruiz
Dr. Elmer L. Washington
Dr. Addison E. Woodward, Jr.

Printed by Authority of
the State of Illinois
12/10 – 500

Printed on Recycled Paper

Table of Contents

EXECUTIVE SUMMARY

Illinois is not ready to face its future.

Today's workforce has a massive skills deficit that threatens the economic well-being of the state and its citizens. By 2020, over 60 percent of jobs will require some form of postsecondary education. Countries and states that achieve that level of educational attainment will prosper and enjoy a high quality of life. Those that don't, won't. For now, Illinois is among the don't/won't states.

Currently, 41 percent of working-age adults in Illinois have an associate's degree or higher. To meet the demands of the 21st Century economy, Illinois needs to graduate some 600,000 more students with degrees and career certificates than it will on its current trajectory. That means by 2025, Illinois will need to graduate some 70,000 more students each year above current levels – a 70 percent increase in certificate and degree production.

And yet, when it is most essential to Illinois' future, Illinois higher education is endangered. . .

Affordable access to quality academic programs that lead to successful completion of degrees and credentials needed by a 21st century workforce through an efficient and productive system of colleges and universities – all the things a state expects its higher education system to be and to do . . .

. . . all endangered.

In 2007, the General Assembly directed the Illinois Board of Higher Education (IBHE) to develop a blueprint to address the postsecondary needs of the state over the next decade. That effort, which included contributions from a multitude of Illinoisans, resulted in the *Illinois Public Agenda for College and Career Success*. The *Illinois Public Agenda* sets four goals for the state and recommends that all state higher education policies and resources be directed toward meeting the goals.

The General Assembly followed up in 2010 with Senate Joint Resolution 88, which directed the IBHE to create the Higher Education Finance Study Commission to evaluate higher education budgeting practices in Illinois, consider fresh ideas and new approaches from other states, and develop recommendations to the IBHE, the Governor, and the General Assembly to more closely align the financing of colleges and universities to goals of the *Illinois Public Agenda for College and Career Success.*

The Commission, comprised of state legislators, business leaders, and a broad cross-section of education stakeholders and aided by the testimony of national experts and higher education authorities, arrived at a series of unsettling findings and proposed multiple recommendations to get Illinois back on the path to success.

Fact: Colleges and universities are starving for state dollars.

- State support for colleges and universities and student financial aid has dropped $440 million in inflation-adjusted dollars over the past 15 years.

- Budgets for community colleges and public universities in fiscal 2011 are at the same level of state resources as they received in FY99.

- One-quarter of the way through fiscal 2011, some colleges and universities still had not received all payments for fiscal 2010. And none for FY 2011. This degree of fiscal instability exacerbates the impact of longer term erosion of state support.

- Illinois community colleges rank 46th in the nation in spending on education and related services per student. They rank 31st in the nation in the subsidy provided by state and local taxes.

Fact: The burden of financing a college education has increasingly fallen on students and families.

- In fiscal 1996, nearly 3 of every 4 dollars spent by public universities came from the state; student tuition paid just over a quarter of university operations.

- Since then, the student share has almost doubled, and tuition now covers 53 percent of university expenses.

- Over the same period, the state share of community college spending on education and related expenses has fallen from 28 percent to 17 percent, while the proportion of spending covered by student tuition has risen from 28 percent to 40 percent.

Fact: Illinois' student financial aid system has been eroded.

- This year more eligible students will *not* receive a Monetary Award Program (MAP) grant than those who will because the money ran out in April.

- Just a decade ago, the MAP grant covered 100 percent of average tuition and fees at public universities. Now, the maximum award covers less than half of those costs.

- The Illinois Student Assistance Commission (ISAC) undertakes an annual rationing of financial aid to spread the limited MAP dollars as far as possible. As a result, the MAP formula uses cost of living allowance and tuition and fees so out of date that the buying power of a MAP grant has eroded over the past several years.

Fact: Unfunded state mandates and regulatory requirements undermine efficiency and productivity, while institutions often squeeze cost savings out of instruction and student support services.

- Tuition and fee waivers for veterans cost community colleges and universities $30 million annually.

- New requirements from recent changes to the Procurement Code jeopardize university research, inhibit cost-saving partnerships for purchasing, increase costs of capital projects, reduce opportunities for minority businesses, hinder artistic events, hamper competition in intercollegiate athletics, and, worst case scenario, endanger accreditation.

- Faced with diminishing state dollars, institutions curb spending for instruction through hiring freezes, across-the-board cuts, and shifts in faculty teaching load from full-time to part-time faculty.

These facts add up to an indisputable and unacceptable **Big Fact: Higher education finance in Illinois does not promote the four state goals of educational attainment, college affordability, workforce modernization, or economic development**.

This **Big Fact** matters. A state that endangers the quality, the reach, and the effectiveness of its colleges and universities is a state that endangers the future of its citizens. Economically, associate's degree holders earn 28 percent more over the course of a lifetime than workers with only a high school education. Bachelor's degree holders earn nearly double the lifetime earnings of high-school-only-workers. And the benefits extend well beyond income and job security. College-educated citizens are healthier, more engaged civically and politically, more likely to work, less likely to be incarcerated, and less likely to require government services. Greater attainment yields greater well-being.

To better align the expenditure of state resources to important state goals that are linked directly and causally to the economic health of Illinois and its citizens, the Higher Education Finance Study Commission recommends that the State implement a new finance and budgeting design for higher education within the next year that will:

1. **Ensure adequacy and predictability of higher education revenues.** The Commission affirms the *Public Agenda* principle that higher education is a public good, and therefore a public responsibility. The Commission urges a greater priority be given to investment in postsecondary education, noting that, in economic development terms, there is a 14 percent rate of return on each tax dollar invested in higher education. When the additional benefits of a college degree are factored into the equation, the return on state investment reaches upwards of 40 percent.

2. **Reduce the burden of unfunded state mandates and promote efficiency.** The Illinois Board of Higher Education, in conjunction with public colleges and universities, should identify economies and efficiencies and report to the General Assembly with recommendations on streamlining and cost-saving measures, including:

    - The effects of unfunded state mandates on college and university operations and costs.

    - The unintended consequences for colleges and universities related to changes to the state Procurement Code, taking into account the highly specialized and time-sensitive nature of campus procurement for research, consortia purchasing, intercollegiate athletics, special events, and compliance with minority-enterprise requirements.

    - Possible cost-savings and efficiencies in institutional operations and programs.

    - Means to foster cooperation and innovation-sharing across institutions rather than a competition for limited resources.

3. **Move forward with development of performance-based funding.** This new funding system should be guided by the following principles:

- Support at-risk students – special funding incentives should accrue to institutions that foster success for students with educational, financial, or other needs.

- Accommodate the different missions of institutions and higher education sectors.

- Fund completion of courses and degrees or, in the case of community colleges, certain "momentum points" signifying substantial student progress toward completion of a degree or credential.

- Recognize the importance of research and engagement with employers for economic development.

- Involve representatives of all higher education sectors in designing the architecture of performance-based funding.

- Maintain the quality and value of a college degree.

4. **Alter the state's current financial aid policy to ensure that affordability goals are met, particularly for the most vulnerable students.** These measures could include:

   - A financial aid set-aside, such as the Silas Purnell Incentive for Access grants, targeted at the most financially vulnerable students.

   - Seeking proposals for expanding the resources available for MAP grants.

   - Developing a shared-responsibility financial aid model that accounts for the student, family, federal, state, and institutional share of need-based assistance for low-income students.

5. **Develop a financial aid policy that expands access to success.**

   - 2+2 partnerships that enable students who start at a community college to bank a portion of a MAP grant to cover tuition costs at a four-year institution.

   - Leveraging state financial aid dollars to incentivize college completion in all sectors of higher education.

The Commission believes that these recommendations will recommit the state to the vitality of its system of higher education through connecting state resources to the achievement of critical state goals as articulated by the *Illinois Public Agenda*.

INTRODUCTION

Illinois faces a massive skills deficit that threatens its well-being. Projections are that by 2020, over 60 percent of jobs will require some form of postsecondary education (Carnevale, et al., 2010). Countries and states that achieve that level of educational attainment will prosper and enjoy a high quality of life. Those that don't, won't. Currently, 41 percent of 24 to 65 year-olds in Illinois have an associate's degree or higher. However, in order to meet the demands of the 21st Century economy, Illinois needs to graduate some 600,000 more students with degrees and career certificates than it will on its current trajectory. That means by 2025, Illinois will need to graduate some 70,000 more students each year above current levels – nearly a 70 percent increase above current certificate and degree production.

The benefits of a highly educated public extend well beyond income and job security, and achieving 60 percent of the adult population with a degree or certificate will have a great impact on many aspects of life. College-educated citizens are healthier, more engaged civically and politically, more likely to work, less likely to be incarcerated, and less likely to require government services. In addition, increases in parents' educational attainment lead to increases in their children's health and educational attainment (McMahon, 2010). In sum, greater educational attainment yields greater well-being for individuals and society.

Achieving 60 percent of the adult population with a degree or career certificate will be no easy task. Illinois continues to grapple with an achievement gap between majority and minority groups at the K-12 level, in higher education, and in the adult population, and Illinois' projected population growth is within groups traditionally underrepresented in higher education. Achieving the goal will require a greater financial commitment to higher education than the state currently exhibits. Colleges and universities must do their part to find efficiencies and better ways to deliver quality educational opportunities to more people as well. And combining these two requirements, Illinois' method of financing higher education must be geared toward paying for results – that is, additional funds for additional certificates and degrees.

These issues are central to the *Illinois Public Agenda for College and Career Success*. In the spring of 2007, the Illinois General Assembly directed the Illinois Board of Higher Education (IBHE) to create a Public Agenda Task Force to guide Illinois' higher education policy for the next decade. Over the course of six Task Force meetings and 17 regional public forums, the Public Agenda Task Force concluded that there are two states of Illinois – one well educated and prosperous, the other underserved educationally and struggling economically. *The Illinois Public Agenda for College and Career Success*, the Task Force's solution to closing the prosperity gap between the two states, lays out the economic, educational, and social challenges facing Illinois and establishes four goals for postsecondary education in Illinois:

1. Increase educational attainment to match best-performing states and countries;
2. Ensure college affordability for students, families, and taxpayers;
3. Increase the number of high-quality postsecondary credentials to meet the demands of the economy and an increasingly global society; and
4. Better integrate Illinois' educational, research, and innovation assets to meet economic needs of the state and its regions.

In addition, the *Illinois Public Agenda* affirms two budgetary principles that underlie and enable the achievement of its goals: 1.) priorities, policies, and budgets must align with state goals; and 2.) adequate and equitable P-20 funding, deployed effectively and efficiently, is essential for meeting the state goals.

Purpose and Scope of the Higher Education Finance Study Commission

During its spring 2010 session, the Illinois General Assembly approved Senate Joint Resolution 88, which called for the IBHE to convene a Higher Education Finance Study Commission made up of members of the General Assembly, representatives of a cross-section of the higher education community, and experts in higher education finance to evaluate current higher education budgeting practices in Illinois and elsewhere and to develop recommendations to the IBHE, the Governor, and the General Assembly to more closely align the State's higher education budgeting process to goals of the *Illinois Public Agenda for College and Career Success*. Specifically, the General Assembly directed the Commission to consider the following:

- The history and means of higher education funding in this State, and comparison of funding with other states and peer institutions.

- Comparison of productivity of Illinois higher education to other state systems and the productivity of public colleges and universities to peer institutions.

- Practices implemented in other states that incentivize certificate and degree completion, including incentives for both students and institutions.

- Review of tuition and financial aid policies and practices and their roles in improving certificate and degree completion.

- Alternative funding mechanisms that will advance the goals of the *Illinois Public Agenda* particularly improving completion rates among low income and minority students.

The Commission convened a series of five meetings facilitated by Dennis Jones, President of the National Center for Higher Education Management Systems (NCHEMS), between July 2010 and November 2010. Jones' participation was made possible by assistance from Complete College America, which Illinois joined as a participating state in 2010. The first three meetings featured guest presentations by nationally known experts on higher education finance policy, productivity, performance-based funding, and tuition and financial aid policy, followed by discussions among Commission members and the guest presenters. The final meetings provided the Commission an opportunity to discuss and approve the final recommendations included within this report.

Format of the Commission's Report

This report is the result of a thorough and thoughtful process undertaken by the Commission to determine how the state can best finance higher education to achieve the four goals of the *Illinois Public Agenda*, particularly degree and certificate completion goals. Its format follows the directives of the General Assembly set forth in SJR 88, summarizing what the Commission learned and what the Commission recommends to the General Assembly. Guiding questions are:

- What is the framework for connecting state finance policy to Illinois' college and career success agenda?

- How does Illinois currently allocate funds to colleges, universities, and students?

- What are the recent trends in higher education funding in Illinois?

- How does Illinois compare to other states and peer institutions on higher education revenues, expenditures, and performance?

- What is performance funding, and how is it employed by other states to reach higher education goals?

- What makes for good performance funding policy?

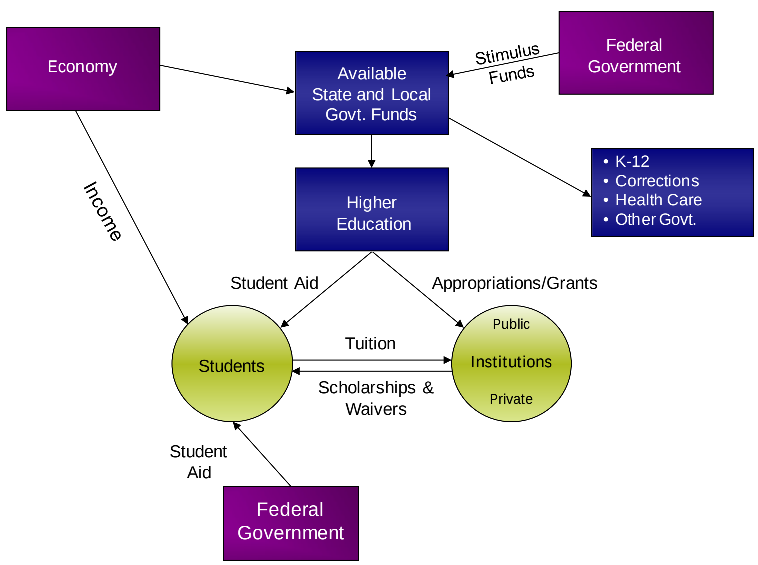
- How could Illinois improve tuition and financial aid policies to accomplish the goals of the *Illinois Public Agenda*?

- What changes in finance policy and what next steps does the Commission recommend to the General Assembly to better accomplish the attainment and other goals of the *Illinois Public Agenda*?

I. WHAT IS THE FRAMEWORK FOR CONNECTING STATE FINANCE POLICY TO ILLINOIS' COLLEGE AND CAREER SUCCESS AGENDA?

Higher education finance is a multifaceted, complex series of interdependent relationships. As illustrated in the NCHEMS figure below, core funding for the general operations of public institutions comes from state and local governments and students. Additional funding sources, such as federal grants and contracts, donors, foundations, and corporations, also play a role in funding higher education; however, these resources are often restricted to funding specific programs or services. Thus, the availability and sources of revenue to support the overall instructional mission of higher education are directly tied to performance of the state economy and tax policy.

This relationship is problematic for states, students, and institutions during economic downturns. As the economy declines, family income to pay for higher education declines. Simultaneously, state revenue declines and state support for higher education is reduced, forcing institutions to rely more heavily on tuition revenues for support. Tuition increases become the means to generate revenues necessary to support higher education while family incomes to pay for college are shrinking. Higher education competes with other government services (K-12 education, public safety, healthcare, etc.) for scarce state resources – often at a disadvantage because of the availability of an alternative revenue source (student tuition).



The diagram on the following page is used by NCHEMS to help conceptualize the link between funding policy and the goals of the *Illinois Public Agenda*. The diagram outlines institution-focused or student-focused allocation mechanisms that address either core capacity or capacity utilization. Core capacity focuses on institutional funding polices to build and maintain educational capacity and student funding policies to generate tuition revenues. Capacity utilization focuses on alignment of finance policy and state goals through institutional and student finance policy centered on outcomes. While conceptually useful, this is not always a neat distinction. In fact, Jones notes that regardless of the chosen finance policy, all allocation mechanisms have embedded within them incentives for institutional and student behavior. The key question is, are incentives within current mechanisms consistent with state goals?

	Institution Focused	Student Focused
Core Capacity	• Base-Plus • Formulas • Investment Funds	Tuition & Aid Policy Focused on Revenue Generation
Capacity Utilization/ Public Agenda	Performance Funding	Tuition & Aid Policy Focused on Attainment of Specified Outcomes

Together, these diagrams help provide a framework for understanding how the state and the colleges and universities can best allocate their resources to accomplish the goals of the *Illinois Public Agenda*. As Jones states, achieving the goals requires appropriate focus on each of the three legs of the funding stool – state appropriations, tuition, and financial aid. In addition, both core capacity and capacity utilization must be addressed. Institutional and financial aid funding must be adequate to build and maintain the capacity of the institutions and the financial aid programs, but it must also consistently promote pursuit of state goals. Finally, state finance policy must maintain affordability for both students and states.

II. HOW DOES ILLINOIS CURRENTLY ALLOCATE FUNDS TO COLLEGES, UNIVERSITIES, AND STUDENTS?

Each year the Illinois General Assembly appropriates state tax dollars to subsidize the costs of higher education. These funds are allocated through direct operating support, indirect operating support, institutional grant programs, and student financial aid programs.

Public universities and community colleges are funded primarily through direct operating support. The majority of dollars for operating support is general in nature and can be used for any number of costs such as salaries, contracts for services, energy, supplies, travel, scholarships, etc. Operating support is also appropriated for specific activities, such as workforce preparation programs, adult basic education, career and technical education, or legislative initiatives.

Public colleges and universities also benefit from indirect operating support through payments or benefits provided by the state to or for college and university faculty and staff. These funds are not paid to the colleges and universities; rather, they are spent by other state entities on behalf of the employees. Indirect operating support includes health insurance for university employees provided through the state employee benefits plan and funding for pensions for community college and public university employees paid to the State Universities Retirement System.

Public universities, private colleges and universities, and community colleges also benefit from state grant programs that provide funds for specific activities or educational programs. Funding for these programs -- Cooperative Work Study, Nursing Grants, Diversifying Faculty in Illinois, etc. -- is appropriated to the Illinois Board of Higher Education and then distributed by the Board based upon competitive application and program criteria. This source of funding has fallen from over $100 million to less than $10 million between fiscal years 2001 and 2011.

Finally, state tax dollars support higher education through direct support to students. State student financial aid is distributed through the Illinois Student Assistance Commission. The primary source of direct student assistance is need-based aid programs that cover a portion of the costs of tuition and fees for students at public and private colleges and universities. Illinois also funds several programs that pay some or all of the costs of tuition and fees for students who have served in the military or are preparing for high-demand occupations such as nurses and certain teachers.

Public Universities: In Illinois, public university operating support is distributed via direct state appropriation, usually for various expenditure object lines (personal services, social security, contractual services, travel, etc.). The allocation to public universities is made using a base-plus budgeting method. That is, appropriations are not based upon any predetermined standard or formula (although extensive unit cost data is collected from public universities), but rather on a combination of factors such as salary support, new facility operations and maintenance funding, increases in energy costs, and new program requests. These items are included in budget requests made by each of the universities and in IBHE recommendations to the Governor and the General Assembly. Since 2009, the IBHE's budget recommendations have included investment levels that demonstrate what level of outcomes can be expected from different levels of state support. Funding levels are ultimately determined by the Governor and the General Assembly.

Community Colleges: Community college funding is largely formula driven and distributed through grant programs administered by the Illinois Community College Board. The principal operating grants for community colleges, Base Operating Grants and Equalization Grants, are allocated to each local community college district based on prescribed formulas.

Base Operating Grants are determined largely by number of credit hours in six funding categories (Baccalaureate, Business, Technical, Health, Remedial, and Adult Education). To arrive at a college's grant amount, ICCB multiplies reimbursable unrestricted credit hours by the calculated credit hour rate in the six funding categories. When the state appropriation does not equal the system's need for full funding of the credit hour allocation, the credit hour rate is further adjusted downward.

Equalization Grants attempt to reduce the disparity among districts in local property tax funds available per student, thereby ensuring that colleges with limited local tax base have access to the funds necessary to support educational programs. A threshold, or foundation, of expected local property tax revenues per student forms the basis of equalization funding. Any community college district below the threshold is eligible for tax base equalization funding. Full funding of the Equalization Grant allows all community college districts to receive funding necessary to meet the calculated threshold. State funding has been inadequate to fully fund either the Equalization Grant or the Base Operating Grant in recent years.

Financial Aid: Eligibility for grants from the Monetary Award Program (MAP), the state's primary need-based grant, is determined by the expected family contribution to a child's education (EFC), which is calculated from data captured on the Free Application for Federal Student Aid (FAFSA). The EFC is calculated from both parental and student income and assets. Certain fractions of these assets and income are considered available to pay for college. The total parental contribution is equally distributed among all their children attending college. The parental contribution plus the student's contribution equals the total EFC.

The Illinois Student Assistance Commission (ISAC) takes the total federally calculated EFC for each applicant and determines if it is less than $9,000. Students with EFCs of $9,000 or greater are excluded from consideration for MAP. The correlation between EFC and income varies based on a number of factors including family size, the number of students in college, and the percentage of income from the student. Noting the factors above, for dependent students, a $9,000 EFC translates very roughly into an income in the upper $60,000s; for independent students without dependents, a $9,000 EFC roughly translates to an income in the low $30,000s.

Students with EFCs less than $9,000 are evaluated for eligibility for MAP. First, the EFC is divided into the parents' and student's contribution. The parents' contribution is inflated with two multipliers that provide a greater weight to higher EFCs. This inflation process is a rationing mechanism, not a comment on whether the EFC is a realistic measure of ability to pay. Many analysts believe that the federal EFC is not realistic, and it indicates more than the family can reasonably provide. ISAC's further inflation of the parents' portion of the EFC exacerbates the deviation from reality.

The student's contribution is not automatically inflated, but ISAC assumes all students can contribute a minimum of $1,800 per year toward their education. If the student's EFC is not $1,800, ISAC increases it to $1,800. If a student qualifies for the Federal Pell grant, 80 percent of the qualified Pell amount is considered an asset available to pay for college in the MAP formula. ISAC then adds the inflated parents' contribution, the student's contribution, and the Pell grant together to get the resources available for college.

The second part of determining the MAP award is the cost of attending college. College costs include the cost of tuition and fees plus a fixed living allowance. The current MAP formula uses cost of attendance rates that are lower than current costs to remain within the appropriation level as tuition and fees increase and the volume of applications increase. For the 2010-11 academic year, ISAC continued to use the cost of tuition and fees from the 2003-04 academic year and the fixed living allowance from 2002 ($4,875) as rationing mechanisms.

Cost Estimate:
Tuition and Mandatory Fees
+
Living Allowance

LESS

Student Resources:
ISAC Adjusted EFC
+
Pell Grant

EQUALS

MAP Eligibility:
Maximum of $4,968

ISAC's last calculation in determining the MAP award is to subtract the resources available for college from the costs of attending college. The result is the student's MAP eligibility level. The student is eligible for the student's calculated eligibility level or the maximum amount, whichever is lower. Although the General Assembly has set the statutory maximum award at $6,468, a maximum award of $4,968 per student has been used by ISAC since fiscal year 2002 as another rationing mechanism to remain within the appropriation level.

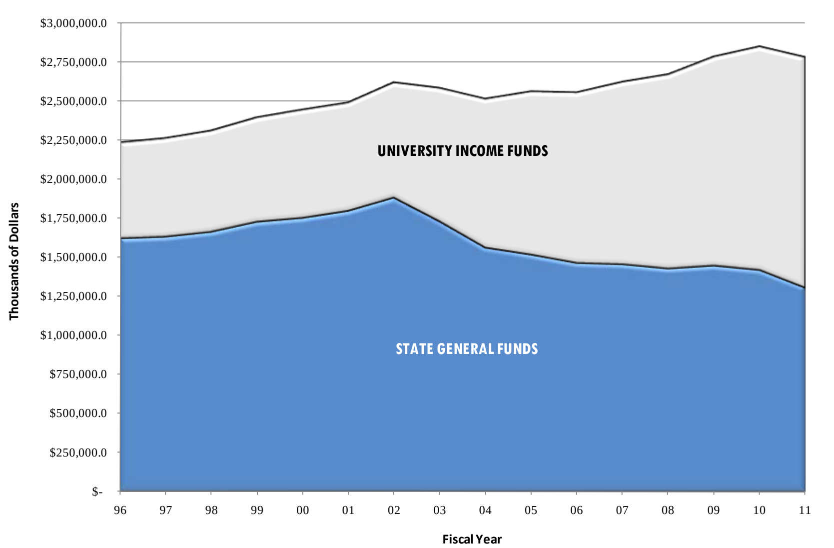
III. WHAT ARE THE RECENT TRENDS IN HIGHER EDUCATION FUNDING IN ILLINOIS?

Historical Funding: Looking back over 15 years, total state funding for higher education (operations, grants, and pensions) is 10.6 percent greater in fiscal year 2011 than in fiscal year 1996 after accounting for inflation. However, the increase is entirely attributable to funding for the State Universities Retirement System, which has increased rapidly over this period as the State has addressed chronic historical underfunding of its pension systems. Excluding pensions and adult education/career and technical education (which came under community colleges oversight in 2002), community colleges, public universities, need-based financial aid, and institutional grant programs all have experienced decreases in funding since 1996 after accounting for inflation. The total decrease is $440.3 million, or 17.6 percent.

For public universities, state general funds appropriations and university income funds (tuition funds) are the primary sources of funding for general support of educational and related activities. For community colleges, state general funds appropriations, local property tax revenues, and student tuition and fees fill those same support needs. The charts below show the inflation-adjusted trend in total educational and related revenues at Illinois public universities and community colleges, respectively, between fiscal years 1996 and 2011 by source. During this period, inflation-adjusted total educational and related revenues increased by 24.3 percent at public universities and by 38.5 percent at community colleges. In both sectors, however, support from non-state sources has increased at a far greater rate than state support since fiscal year 1996.

The most rapid growth in non-state sources has occurred since fiscal year 2001, the point at which the State's fiscal condition began to deteriorate and funding for higher education was significantly reduced. State general funds support for public universities as a percent of total educational and related revenues declined from 72.7 percent to 47.1 percent between fiscal years 1996 and 2011, while the share from tuition (university income funds) increased from 27.3 percent to an estimated 52.9 percent. For community colleges, state general funds support as a percent of total educational and related revenues declined from 28.2 to 17.4 percent over the same period, while support from tuition increased from 27.9 percent to an estimated 40.0 percent.

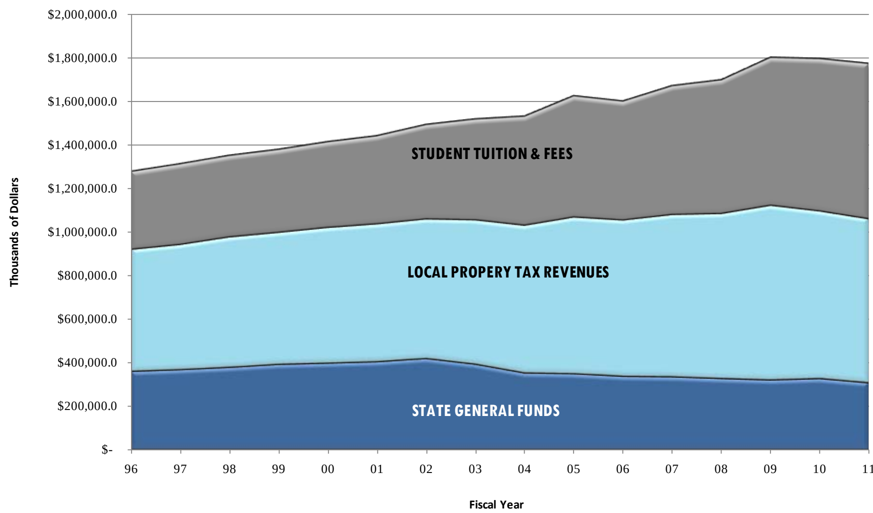
Trends in Educational and Related Revenues at Illinois Public Universities
Fiscal Years 1996 to 2011* (in FY 2011 dollars)



*University Income Funds for fiscal years 2010 and 2011 are estimated.

Source: IBHE records.

Trends in Educational and Related Revenues at Illinois Community Colleges
Fiscal Years 1996 to 2011* (in FY 2011 dollars)



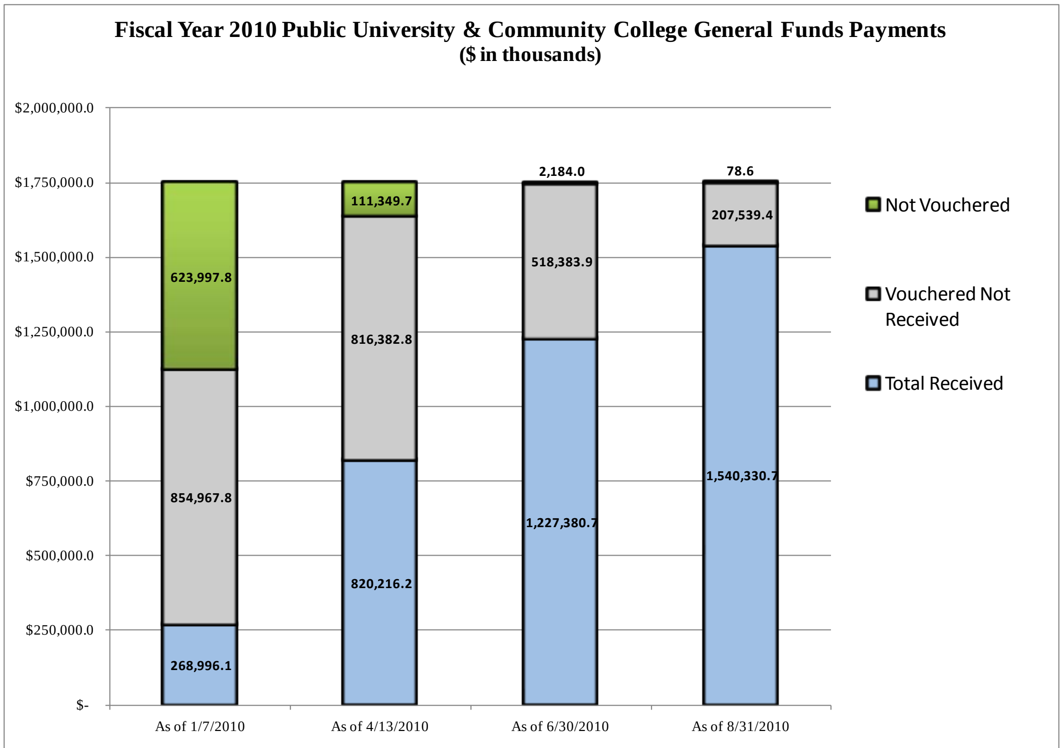
*Local Property Tax Revenues and Student Tuition and Fees amounts for fiscal years 2010 and 2011 are estimated.

Source: IBHE records.

Cash flow: The State's most recent recession has taken a toll on higher education funding in several ways. Between fiscal years 2010 and 2011, operations and grants funding decreased $104.2 million, or 4.7 percent, when retirement funding is excluded. This reduction is primarily attributable to the loss of federal support provided in fiscal year 2010 for public universities and community colleges through the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA funds are not available in fiscal year 2011, though the State is required to maintain support for public colleges and universities at the fiscal year 2006 level as a condition of spending ARRA funds in fiscal year 2010.

On top of the reduced appropriations, the State is far behind on its payments to colleges and universities, just as it is with many vendors and service providers. According to the Comptroller's Office, the state began fiscal year 2011 with $6.4 billion in unpaid bills from the prior fiscal year, necessitating that a large portion of the fiscal year 2011 revenues be set aside to pay the prior year's bills. The Comptroller also noted that other than payments for mandated debt service on state bonds, general state aid to K-12 education, federal stimulus-related Medicaid, and critical state operations, only a limited amount of fiscal year 2011 obligations are likely to be paid in calendar year 2010. As a result, the state is expected to end fiscal year 2011 with a general revenue bill backlog significantly higher than that at the end of fiscal year 2010, possibly topping $8.0 billion.

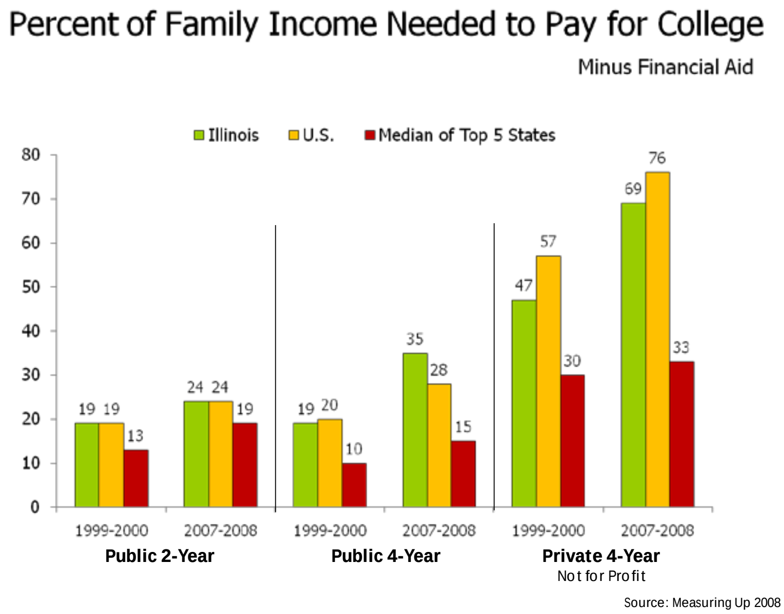
As of October 31, 2010, public universities were owed $20.2 million and community colleges were owed $46.0 million for fiscal year 2010. In addition, public universities were owed $575.6 million and community colleges were owed $99.7 million for fiscal year 2011. The chart on the following page illustrates the fiscal year 2010 cash flow to public universities and community colleges. The cash flow cycle for fiscal year 2011 is expected to be as slow as or worse than fiscal year 2010. As of October 31, 2010, public universities had received only $325,100 for fiscal year 2011, while community colleges had received only $16.6 million. The uncertainty of receiving State funding makes financial planning and management extremely difficult and pushes institutions to rely even more heavily on tuition as a stable source of funds.



Source: IBHE records.

IV. HOW DOES ILLINOIS COMPARE TO OTHER STATES AND PEER INSTITUTIONS ON HIGHER EDUCATION REVENUES, EXPENDITURES, AND PERFORMANCE?

Nearly all states were adversely affected by the economic downturn of the early 2000s, and nearly all states are still suffering from the effects of the most recent recession. Nationally, as in Illinois, state support for higher education has declined, but tuition has increased to fill the gap. According to Jane Wellman, Executive Director of the Delta Project on Postsecondary Education Costs, Productivity, and Accountability, who presented her findings at the Commission's July 29 meeting, national financial patterns have not shown an overall reduction in higher education revenues or expenditures, but rather a shift in revenue from reliance on state sources to a reliance on student tuition. As demonstrated earlier in this report, the shift is pronounced in Illinois. Unfortunately, Illinois has not been able to maintain funding for student financial aid at a level adequate to meet tuition and fee increases. As the chart on the following page illustrates, the percentage of family income needed to pay for college at a public 4-year institution has risen significantly more in Illinois than in the nation as a whole. The percentage of family income needed to pay for community colleges has remained stable in Illinois and nationally.

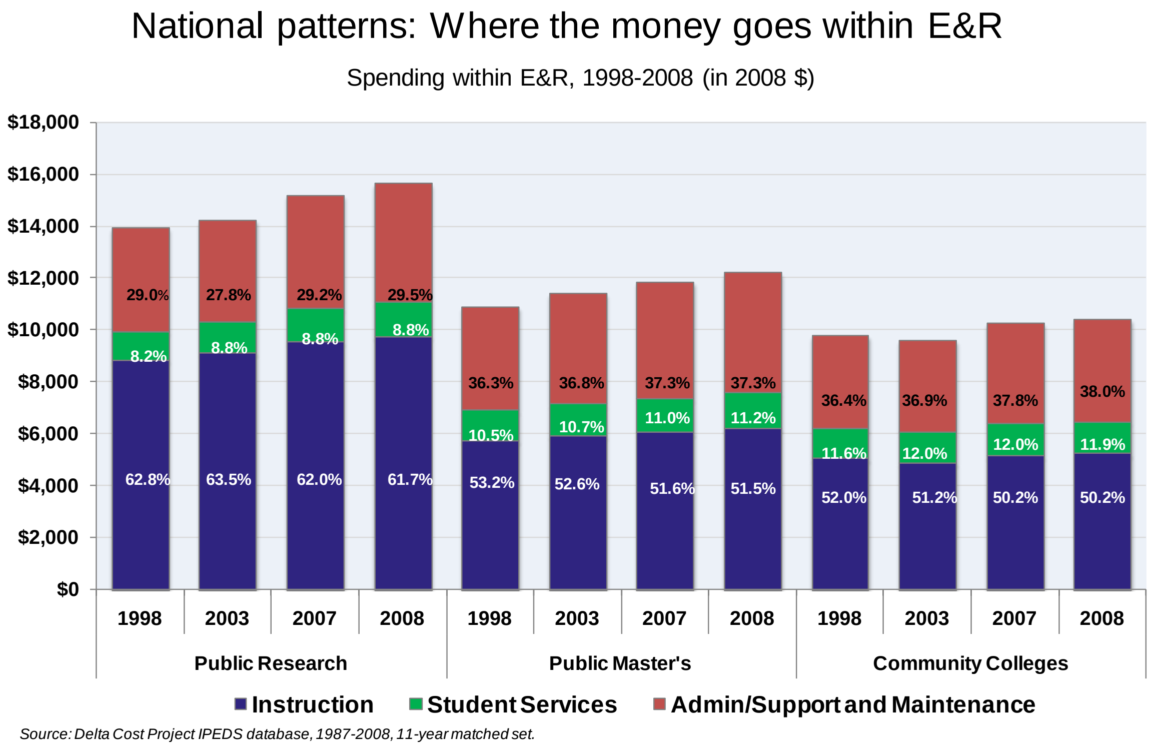


Wellman's research also looks at higher education spending patterns, particularly for education and related (E&R) expenses. E&R spending includes instruction, student services, administration, and facility maintenance, but excludes sponsored research and auxiliary enterprises such as hospitals and dormitories, which are funded with dedicated revenues. Illinois' research (universities offering multiple doctoral degrees and engaged in high amount of externally funded research) and master's level institutions (those that offer very few or no degrees above the master's) are above the national average in E&R spending per student. However, community colleges lag behind the national average in E&R spending per student. Compared to institutions nationally, Illinois is most skewed in terms of the differences in funding levels between four-year institutions and community colleges. Illinois community colleges rank near the bottom (46 out of 50 states) in E&R spending per student. Illinois community colleges also lag behind in state and local support per student, ranking 31 out of 50 states. By comparison, Illinois research institutions rank 20th in E&R spending per student and 28th in state and local subsidy per student, and master's institutions rank 13th in E&R spending per student and 17th in state and local subsidy per student.

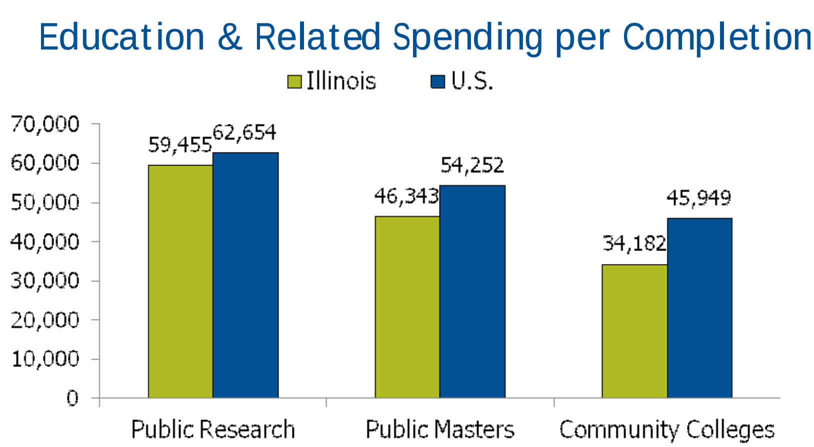
Illinois and National Comparisons
E&R Spending and State & Local Subsidy Per Student, Academic Year 2008

	Public Research Institutions			Public Masters' Institutions			Public Community Colleges		
	National Average	Illinois	Illinois Rank	National Average	Illinois	Illinois Rank	National Average	Illinois	Illinois Rank
E&R spending per student	$15,619	$16,282	20	$12,185	$13,560	13	$10,396	$7,836	46
State & local subsidy per student	$8,055	$7,533	28	$6,578	$7,203	17	$7,404	$5,422	31

In times of recession, institutional spending reductions are most evident in the area of instruction as institutions seek to reduce spending through short-term solutions such as hiring freezes, across-the-board cuts, and shifts in faculty teaching load from full-time to part-time faculty. In the past, instructional spending generally returned to pre-recessionary levels over time. However, Wellman's research reveals that over the past decade institutions nationwide have seen an erosion of the proportion of expenditures going to the instructional function.



According to data from the Delta Cost Project, Illinois is an efficient state in terms of resources spent per degree and certificate completion. Based on a comparison of degrees and certificates awarded per full-time-equivalent (FTE) student to total funding per FTE student, Illinois produces more credentials at a lower cost than the national average. The chart below provides more evidence of efficiency in Illinois. Based on a comparison of total E&R spending per degree and certificate completed, Illinois produces more credentials at a lower cost than the national average across all three sectors (public research, public master's, and community colleges).



As demonstrated on the following chart, increases in education and related costs per FTE student at Illinois institutions were below national averages between academic years 2003 and 2008. However, increases in the student share of education and related costs have exceeded national averages, particularly at public research and master's institutions. Wellman contends that national data show no consistent relationship between higher levels of spending on higher education and better outcomes; that is, spending more on higher education is not consistently linked with graduating more students. According to Wellman, what is more important than the quantity of funding is how the funds are spent.

Average education and related costs per FTE student, student share, instruction share, and performance

	Illinois				United States			
	Public Research	Public Master's	Public Bachelor's	Community Colleges	Public Research	Public Master's	Public Bachelor's	Community Colleges
Education and related costs per FTE student								
2008	$16,282	$13,560	n/a	$7,836	$15,619	$12,185	$17,075	$10,396
Change from 2003-2008	8%	6%	n/a	5%	10%	7%	4%	8%
Net tuition share of education and related costs								
2008	55%	48%	n/a	31%	50%	47%	44%	31%
Percentage-point change from 2003-2008	12	13	n/a	4	6	7	7	3
Instruction share of education and related costs								
2008	61%	54%	n/a	47%	62%	52%	47%	50%
Percentage-point change from 2003-2008	1	-2	n/a	-3	-1	-1	-1	-1
Completions per 100 FTE students								
2008	27	33	n/a	28	25	24	20	26
Change from 2003-2008	0	3	n/a	2	1	1	1	3
Education and related spending per completion								
2008	$59,453	$46,343	n/a	$34,182	$62,654	$54,252	$84,561	$45,949
Change from 2003-2008	7%	3%	n/a	-3%	3%	3%	0%	-4%

Delta Cost Project IPEDS State Database, 2003-2008.

While Illinois should be justly proud that its institutions of higher education are more productive and efficient than the national average, it remains a fact that they cannot increase the number of graduates they produce by 70 percent without additional resources. A very simple assumption that state support would need to increase by 70 percent to yield a 70 percent increase in graduates would require over $1.4 billion more in current dollars than is appropriated for community college and public university operations and the Illinois Student Assistance Commission. Furthermore, the simple assumption ignores the additional capital investment that would be required to accommodate more students and the increase in financial aid that would be needed simply to cover the unmet need that currently exists. This leads to two conclusions: Illinois needs to invest more in higher education, and the simple, business-as-usual model needs to be modified to boost efficiency and productivity even more. Performance funding combined with additional funds can address both conclusions; it will push institutions to increase efficiency and bolster their case for additional state funds at the same time.

V. WHAT IS PERFORMANCE FUNDING, AND HOW IS IT EMPLOYED BY OTHER STATES TO REACH HIGHER EDUCATION GOALS?

Put simply, performance-based funding rewards institutions that meet state goals. The more success institutions exhibit in meeting state goals, the more funding they receive, creating incentives to boost performance. Daniel Lang, in his essay, "The Political Economy of Performance Funding," notes that performance funding is formula funding based on outputs instead of inputs. For example, an enrollment driven funding formula can be based on enrollment of students as degree candidates (inputs) or students as degree recipients (outputs) (Lang, 2004). Historically, most states used input factors as a means of driving state appropriations to higher education. However, more recently some states have provided financial incentives focused on outcome as the goal of higher education is not just to enroll students, but to graduate them.

According to Jones, performance-based funding has often been considered a budgetary add-on and was often one of the first programs eliminated during times of state budget constraints. However, more recently, Ohio, Indiana, Tennessee, and Texas have developed performance-based funding models that are grounded in public agendas and include funding mechanisms tied to the pursuit of state goals. These state models are summarized below.[1] All of these models have increased degree production as one, although not the exclusive, goal. These programs fund performance based on the actual increases in the number of graduates – not increase in graduation rates. The states with strong programs also all realize that students enter the higher education system with different levels of preparation and accommodate for such differences in the funding formulas. The states take into account the unique mission of each sector of higher education and have developed reward systems tailored to fit each sector.

Ohio: At its August meeting, the Higher Education Finance Study Commission learned about Ohio's performance-based state subsidy formula from Eric Fingerhut, Chancellor of the Ohio Board of Regents. Ohio has implemented a funding formula that includes performance goals driven by the state's *Strategic Plan for Higher Education: 2008-2017*, adopted March 31, 2008. The goals of the *Strategic Plan* seek to drive economic prosperity through development of a well-educated workforce. Performance funding formulas are seen as a key tool to increase graduation rates and meet the first objective of the *Strategic Plan* - increased educational attainment.

In Ohio, state funds have historically been allocated to two- and four-year institutions through a single enrollment-driven formula with factors for instruction at different levels and disciplines determined by analysis of historical costs. A separate performance funding program, the "Success Challenge," provided a bonus pool of additional funds to public colleges and universities based upon graduation rates. While "Success Challenge" was certainly a positive step forward, Ohio found that funding was not large enough to fundamentally change institutional behavior. The state also recognized wastefulness in allocating its subsidy for higher education based upon enrollment. The subsidy was paying for courses and degrees not completed. Thus, the question became, can the state be a good steward of taxpayer dollars and ensure its state subsidy is used to get students to complete a course or degree? The answer chosen by Ohio was to collapse bonus funding into the overall state subsidy for higher education and allocate the entire state subsidy based upon performance.

Beginning in fiscal year 2010, Ohio's single enrollment-driven funding formula was replaced with three different formulas for university main campuses, university branch campuses, and community colleges. At university main and branch campuses, the core state subsidy is based on course completions. The subsidy continues to reflect educational costs at different levels of instruction and discipline. The goal of performance funding is to increase educational attainment for all students – including those identified as at-risk. Rather than suggest lower expectations for completion, the state awards additional funds for completion by at-risk students. A simple formula was devised to identify at-risk students based on family income; however, a

[1] The following state summaries are largely taken from a paper written by Dennis Jones, President of the National Center for Higher Education Management Systems, for the Higher Education Finance Study Commission meeting on August 30, 2010.

broader study is ongoing to identify additional factors such as age, ACT score, college preparation, race and ethnicity that are appropriate for identifying at-risk students. The program also includes set asides for doctoral and medical funding to become more performance based. Under the plan, a degree-completion component of the funding formula will be phased in over time.

In the first year of implementation, 100 percent of state subsidy payments to four-year institutions were allocated based on the performance formula. However, a stop-loss measure was added to ensure institutions received at least 99 percent of the previous year's funding. This stop-loss maintains basic financial stability, while allowing time for institutions to implement policies to improve completion rates. Each fiscal year the stop-loss will be reduced until it is no longer necessary.

Adoption of performance-based funding for community colleges proved to be more challenging given that students enroll in college for a variety of reasons ranging from adult basic education through an associate's degree in preparation for transfer to a four-year institution, with many individual workforce goals in between. As such, the core subsidy to community colleges continues to be enrollment-based. However, Ohio has adopted "Success Points" (from the State of Washington's Momentum Point model) as an additional component to the community college formula. "Success Points" reward community colleges based upon student progress towards benchmarks tied to student success. The points provide for measures of student success that are sensitive to the community college's mission and students. Implementation of performance funding at community colleges has been more gradual, beginning with 5 percent of funding allocated based on "Success Points." Each year the percentage of total funds allocated by performance is expected to grow.

Because Ohio's performance funding formula remains in its infancy, data on results is incomplete. Ohio recently published updated metrics to benchmark progress in meeting goals of the *Strategic Plan*. While early results indicate progress is being made, it is too early in the process to correlate the results with any particular strategy.

Indiana: Indiana approved performance funding directed towards shifting the focus of the state's higher education system from enrollments to outcomes. The state also aims to substantially eliminate all remedial courses at public four-year colleges and universities. In doing so, Indiana adopted a number of college completion incentives focusing on course and degree completion. These incentives, first implemented in fiscal year 2010, are summarized below.

1) <u>Enrollment Completion Incentive:</u> Transitions from funding enrollment based on the number of credit hours students are enrolled at the beginning of the semester ("attempted credit hours") to funding enrollment based on the number of credit hours completed by students at the end of the semester ("successfully completed credit hours"). In fiscal year 2010, 10 percent of enrollment funds will be based on completed credit hours, while all enrollment funding will be based on completion by fiscal year 2014.

2) <u>Changes in Degrees Incentive:</u> Provides funding to institutions based on increases in the number of baccalaureate or associates degrees they produce year over year.

3) <u>Time to Degree Incentive:</u> Provides funding to institutions that increase on-time graduation rates within four years for a baccalaureate degree and within two years for an associate's degree.

4) Low Income Degree Incentive: Provides additional funding to institutions based on increases in the number of degrees awarded to low income students, defined as federal Pell grant recipients.

5) Transfer Incentive: Provides additional funds to a four year institution that accepts credit hours transferred from Ivy Tech Community College and Vincennes University.

Indiana is one of a few examples of the use of performance funding to both reward institutions and prioritize budget cuts. In preparing budget reductions, the state considered measures of per student costs and completion rates. Schools with better performance and lower costs experienced smaller budget cuts than those with higher per-student costs and lower completion rates.

Tennessee: Since 1979, Tennessee has had a performance funding program in place that allows institutions to earn an additional 5.45 percent of operations budgets based on performance on a number of common measures. However, approximately 60 percent of higher education funding is enrollment driven and heavily focused on inputs. The performance incentives provided limited leverage for policy change. Moving forward, Tennessee is focusing on an outcomes-based funding model that includes end of term enrollment, student retention, degree production, and timely progress towards a degree. The funding model may also take into consideration student transfer activity, research, student success, and compliance with transfer and articulation policy.

Overall, the goal of the revised formula is to alter the incentive structure to focus on outputs and strengthen links to the state's Master Plan; spread the financial incentives to a larger, more appropriate set of variables (not just enrollment); and calibrate the formula specifically to an institution's mission. The formula also introduces a focus on productivity. Specifically, the Complete College Tennessee Act of 2010 requires the state to: 1) identify outcomes important to the state; 2) compile actual data on those outcomes; 3) award "points" for those outcomes through a funding formula; and 4) weight the outcome based on an institution's mission.

The proposed outcomes-based model does not have targets or goals and is not large scale performance funding. The formula is also not prescriptive in how to achieve success and excellence, nor does it penalize failure to achieve pre-determined goals. However, institutional excellence will no longer be overshadowed by enrollment growth. Additionally, multiple measures of productivity (transfer activity, research and development success, degree production, etc.) previously unaccounted for will now be credited to the institution. Along with new performance funding standards focusing on quality assurance, the outcomes-based model will increase leverage for policy change and reinforce the Master Plan.

Texas: In 2000, Texas established as one of its goals in *Closing the Gaps by 2015*, Texas' statewide master plan for higher education, to award 210,000 certificates, associate's degrees, and bachelor's degrees. In the formula funding recommendations for the 2012-1013 biennium, the Texas Higher Education Coordinating Board (THECB) proposes formula modifications to increase course completion and student success while reducing costs to the state and to students and their families. The funding formula recommendations, described in detail below, are designed to incentivize institutions to help students already enrolled complete courses and programs.

1) Align formula funding with the mission of the institutions and state goals. As such, THECB is recommending a four-year phased-in funding of universities based on course

completion (currently based on 12th day enrollment) and partially funding two-year colleges based on Momentum Points of student progress towards completion of a certificate or degree or transfer to a four-year institution.

2) Provide institutional performance funding to recognize achievement in meeting student success goals such as increasing the number of degrees and certificates awarded or increasing the number of transfers from two-year to four-year institutions.

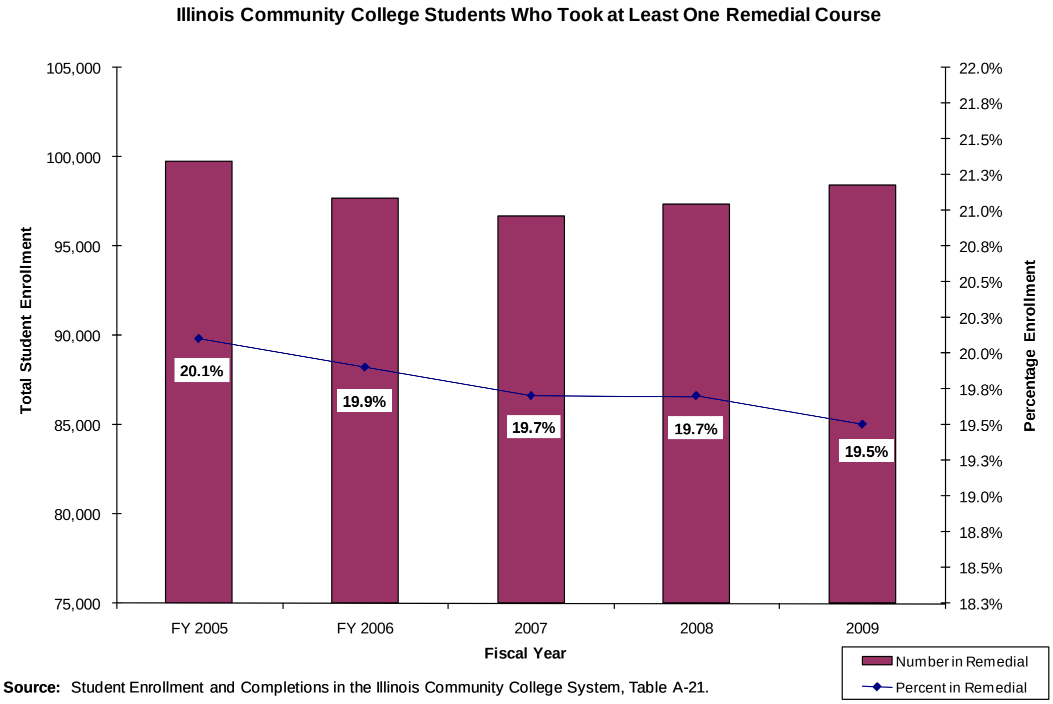
The proposed funding formula modifications are not the state's first attempt at performance-based funding. In 2007, the legislature created the Performance Incentive Fund (PIF) to provide institutions funding based degrees awarded. Half of the funding ($40.0 million) is distributed based on the increase in the numbers of degrees awarded in the most recent two fiscal years compared to the two previous fiscal years. The remaining $40.0 million is distributed based on the annual average number of degrees awarded at each institution during the three most recent fiscal years. Each degree awarded is weighted to give extra points for critical fields of study and at-risk students.

Momentum Points. It is well known that the mission of community colleges is different from the mission of four-year universities. Community colleges are open admission institutions, serving a diverse student population including traditional college-aged students, high school students, and returning adults. These institutions serve students with a wide range of academic skills, from remedial education to strong college preparation, in a number of programs ranging from adult basic education, workforce certifications, associate's degrees, and general education for transfer to a baccalaureate institution. Momentum points (also referred to as success points) are measures of student success that are sensitive to the community college's mission and students.

First implemented in Washington, momentum points are a model for incentivizing incremental progress and annual improvements towards student success goals. Under this model, points are awarded to community colleges based upon successful completion of educational milestones tied to student success. Examples of commonly used momentum points include:

- Number of students who progress from remedial courses to degree credit courses;
- Number of students earning their first 15 semester credit hours of college level coursework at that institution by a given year;
- Number of students earning their first 30 semester credit hours of college level coursework at that institutions by a given year;
- Number of students who earn at least on associate's degree, from that institutions, in a given year; and
- Number of students who complete at least 15 semester credit hours at that institution and subsequently enroll for the first time in a four-year college or university.

As the graph below illustrates, Illinois' community colleges have a high percentage of students enrolled in remedial education. The Illinois Higher Education Finance Study Commission explicitly noted that Illinois faces serious challenges to improving outcomes of remedial education. However, as Ohio Chancellor Fingerhut noted during his presentation to the Commission, remedial education itself is not the problem if institutions can get students to complete remedial courses and move into credit bearing courses. Momentum points provide promise for incentivizing successful completion of remedial courses and improving outcomes for at-risk students.



Source: Student Enrollment and Completions in the Illinois Community College System, Table A-21.

VI. IS PERFORMANCE FUNDING JUST ABOUT REACHING COMPLETION GOALS?

While the summaries thus far have focused on performance-based funding to incentivize certificate and degree completion, states have also developed performance-based funding programs tied to other statewide goals such as increasing degrees and certificates in high-need fields such as healthcare and science, technology, engineering, and mathematics (STEM). As part of the overall performance funding model, Texas provides extra financial support to institutions for increase in degrees in high-need fields. Indiana is working to develop a formula to reward non-credit workforce instruction leading to certifications in areas such as computers and information technology, manufacturing and industrial, and medical and healthcare. Illinois has adopted, but not funded, baccalaureate completion grants to provide financial incentives for institutional partnerships between community colleges and public and independent, not-for-profit four-year colleges and universities designed to increase transfer and degree completion rates. It is important to note that no single program can address all state goals. These examples show how performance funding can be adapted to incentivize any number of state higher education goals.

Research & Economic Development. Many states have adopted a separate research and economic development program designed to enhance institutional research capacity. Illinois has economic development goals that can be advanced through performance-based funding. Goal Four of the *Illinois Public Agenda* calls for the state to better integrate Illinois' educational, research, and innovation assets to meet economic needs of the state and its regions. The State Matching Grant Program, last funded in fiscal year 2007, is an example of finance policy used to promote economic development. The program provided incentives for colleges and universities (public and not-for-profit) to compete for federal research grants and contracts by awarding state funds to institutions to satisfy local funding requirements of federal grants and contracts. Indiana has had a program similar to the Illinois State Matching Grant that provides matching funds to Indiana's major research universities for increases in science and engineering research expenditures funded by the federal government. The Ohio Research Incentive Program provides support to enhance the quality of research and scholarship at Ohio's universities; to increase the level of federal and industrial research funding received by Ohio's universities; and to encourage research efforts that support economic growth in Ohio through technology commercialization. The Ohio Research Incentive Program provides a direct match to public universities for external funding from federal and private sources. A small percentage of the funding is also dedicated to incentives for research collaboration with Ohio industry and to award matching support to private doctoral-degree granting universities for external research funding. In Kentucky, The Research Challenge Trust Fund rewards the state's two research universities for developing programs of national excellence, while in Texas, the Texas Research Incentive Program (TRIP) creates state matching funds for gifts directed to support the development of more national research universities in the state.

VII. WHAT MAKES FOR GOOD PERFORMANCE FUNDING?

According to Dennis Jones, a strong performance funding model should, with exceptions to recognize the unique nature of community colleges, include a performance feature in the base component of institutional funding that is tied to course completion and degree production rather than course enrollment. Performance funding models must be tailored to fit different types of institutions (research universities, master's institutions, and community colleges) with different measures of success tied to each type of institution. The performance funding model for research universities must provide incentives for competition of research funds and the application of research to state issues while the model for master's institutions must provide incentives for increasing the number of graduates and application of research to regional priorities. The community college model must include incentives for increasing numbers of certificate and degree completers, increasing numbers of transfers, and completion of momentum points. Finally, the model must include an explicit recognition that students enter higher education with different needs and levels of preparation. Performance funding must be constructed to encourage success of at-risk students.

For performance-based funding to yield increases in performance, success needs to be well-defined and well-communicated. Performance measures must focus on areas over which institutions have influence and be based on valid, reliable data that can't easily be manipulated. Reviews of performance funding programs by the Public Affairs Research Council of Louisiana and other scholars have yielded several conditions that are indicative of successful performance funding programs. These conditions include:

- Goals specifically tailored for each institution and tied to a statewide strategic plan for higher education -- institutional diversity is preserved;
- Funding source that is stable and predictable;
- Incentives build on an adequate funding base;
- Incentives should not be considered entitlements, but rather hard-earned rewards;
- Measurement data should be uniformly collected and easily accessible to the public, and performance indicators should be neither too numerous nor too few; and
- Performance incentive programs should be routinely reviewed to ensure that success is continually redefined as the state's needs continue to change.

Finally, in her presentation before the Midwest Higher Education Commission (MHEC) Policy Summit, Brenda Albright points out some pitfalls of performance funding to be avoided:

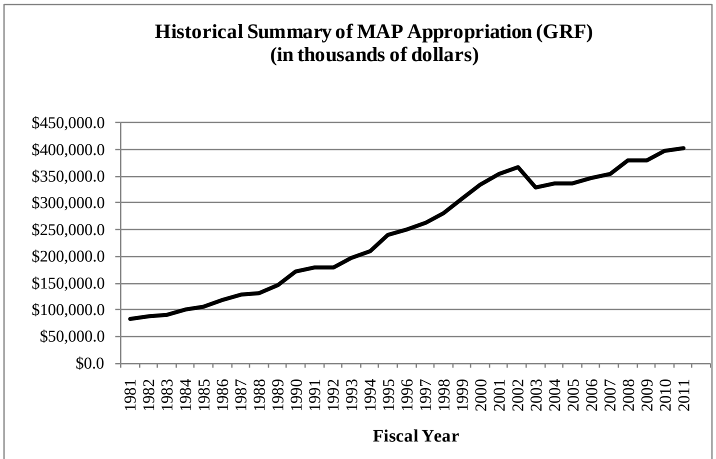
- Many institutions dislike performance funding;
- It hasn't worked in some states – poor design and lack of political commitment;
- Difficult to design – need to involve technical expertise early;
- Real-time data hard to come by; and
- Need to recognize funds needed to support institutions' core functions.

VIII. HOW COULD ILLINOIS IMPROVE TUITION AND FINANCIAL AID POLICIES TO ACCOMPLISH THE GOALS OF THE *PUBLIC AGENDA*?

SJR 88 recognized the importance of financial aid programs and policies and tuition policies for achieving the goals of the *Illinois Public Agenda* and directed the Higher Education Finance Study Commission to consider how financial aid programs and policies and tuition policies could be made to increase certificate and degree completion. The Commission considered the topic at its September 30 meeting, which featured Andrew Davis, Executive Director of the Illinois Student Assistance Commission, and Dr. David Longanecker, President of the Western Interstate Commission on Higher Education, as guest speakers. Both men focused their attention on the State's Monetary Award Program (MAP), one of the premier student aid programs in the country.

Monetary Award Program. The Monetary Award Program (MAP), created in 1967, was designed to help low- and middle-income Illinois residents attend the college of their choice. The program has evolved over the years in response to changes in the postsecondary education environment. What began as a $600,000 program became the second largest need-based grant program in the country in the mid-1990s. MAP eligibility was expanded in 1974 and in 2003 to include part-time students. Students at qualifying proprietary schools became eligible for MAP in fiscal year 1998. Today, MAP is the fourth largest need-based program in the country, with a budget of about $404.0 million in State funds and $4.0 million in federal funds.

While state General Funds appropriations have funded MAP for the past fifty years, for the past decade state dollars have been unable to keep up with demand. A decade ago, the maximum MAP grant covered 100 percent of the average tuition and fees at a public university and all students who were eligible for aid and attended a MAP-approved school received an award. Today, the maximum MAP award covers less than half of average tuition and fees at a public university, and ISAC now denies more grants – due to insufficient funding – than it awards to eligible students.

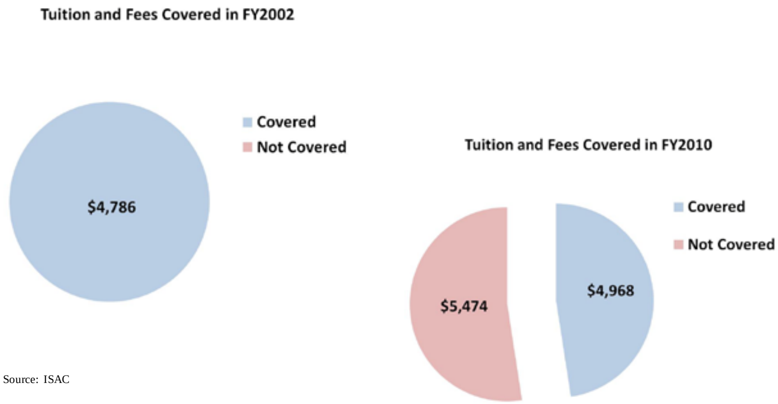


Source: *Data Book,* Illinois Student Assistance Commission

The MAP formula takes into account a cost of living allowance, tuition and fee rates, a maximum award amount, and an expected family contribution (EFC). Since fiscal year 2002, the cost of living allowance (COA) has remained at $4,875. Had the COA increased at the rate of inflation, it would have been $5,919 in 2010. Tuition and fee rates from fiscal year 2004 have been incorporated into the formula since fiscal year 2006. Meanwhile, tuition and fees have more than doubled, so that in fiscal year 2010, the maximum MAP award covered only 48 percent of the average public university tuition and fees. At community colleges, the maximum MAP award covers only 70 percent of average tuition and fees. In addition, as shown in the exhibit below, the maximum paid award has not increased since fiscal year 2002 (the maximum statutory award was increased by PA 95-0917 in 2008, but funding was not provided to implement the new maximum), and the percentage of eligible awards paid has decreased from a peak of 70.5 percent in fiscal year 2001 to 45.0 percent in fiscal year 2010.

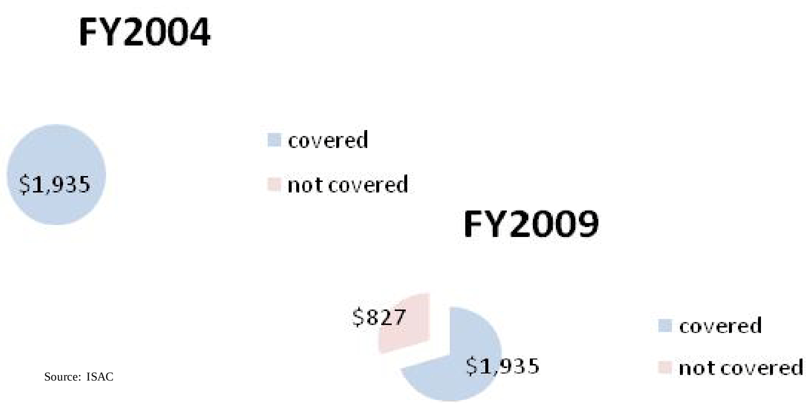
Is the Monetary Award Program (MAP) Serving the Needs of the State and Its Students? Driven by declines in state funding since fiscal year 2002, community colleges and public universities have become increasingly dependent on tuition and fees. Illinois has relatively high tuition – four-year institutions are above the Midwest and national averages and two-year institutions are above the national average. Higher tuition rates are balanced by a progressive finance structure marked by high per capita income (13th in nation) and strong financial aid that reduces "net tuition." Longanecker reported that Illinois is still fourth in total grant dollars and the net price for higher education remains competitive. Yet, Illinois' high tuition, high aid model is not meeting the needs of low-income students.

MAP Coverage of Tuition and Fees at Public Universities has
Decreased Since 2002



Source: ISAC

MAP Coverage of Tuition and Fees at Community Colleges has
Decreased Since 2004



Source: ISAC

In practice, Illinois' tuition and financial aid program is not where it has been in the past. Illinois is in what Longanecker described as a "triage" situation in which many of the most vulnerable students are sacrificed. MAP is underfunded by nearly 50 percent and can't meet established state goals. Funding for the program is not keeping pace with demand. Opportunities for state-funded expansion of MAP remain limited, given the current fiscal climate. Even in the future, it is unlikely that Illinois can afford to sustain an effective Monetary Award Program without an infusion of capital from an outside source. Longanecker notes the future for Illinois "is either never living up to your goals, or coming up with a more practical idea."

How has the Illinois Student Assistance Commission Responded to Inadequate State Support for MAP? Because of inadequate state support, the Illinois Student Assistance Commission has instituted a number of rationing strategies to sustain the MAP. As Longanecker describes, Illinois' financial aid model incorporates four intervention strategies that ration available resources. First, the MAP formula doesn't recognize the real costs of higher education. The formula still uses 2003-04 tuition rates and 2002 cost of living expenses. Updating the MAP formula to incorporate current costs requires an investment of approximately $60.0 million in state support. Next, ISAC applies a progressive assessment on Estimated Family Contribution (EFC). The parents' contribution is inflated with two multipliers that provide a greater weight to higher EFCs. Both the out-dated costs and progressive assessment of EFC disproportionately impact moderate income students. MAP eligibility is restricted by a cap on the EFC of $9,000. Students with EFCs of $9,000 or greater are excluded from consideration for MAP – impacting students at independent colleges the most. Raising the EFC cap would cost the state an estimated $10.0 million per $1,000 increase.

The most troublesome rationing intervention is a cutoff, or suspension, date for award announcements to eligible students. In recent years, an unprecedented increase in demand for need-based financial aid has resulted in the early suspension of MAP awards. In fiscal year 2010, ISAC suspended awards for MAP applications received after May 15, 2009, several months earlier than the August suspension date of past years. For the current year (FY 2011), ISAC suspended awards on April 19, 2010, the earliest suspension date since the creation of the MAP program. As of October 2010, ISAC denied more than 110,000 eligible MAP applications. In total, ISAC estimates that over 160,000 eligible students, of whom over 125,000 attend a community college, will go without state need-based aid because of the early suspension date. The number of eligible students suspended is expected to exceed the number of MAP awards.

The earlier suspension date disproportionately affects community colleges students, as many are independent students who tend to apply late in the admission cycle for college and financial aid. Illinois' most vulnerable students are at-risk because of the early award suspension date, triggered when the MAP appropriation has been exhausted for the fiscal year. In fiscal year 2009, about 57,000 community college students received MAP; in 2010 that figure will shrink to about 50,000. All decreases are a direct result of award suspension dates that become earlier each year. Of those students whose awards are suspended, ISAC data show that only 30 percent of these students will enroll in college, whereas 70 percent would have enrolled had MAP funds been available. Maintaining the status quo no longer treats community college students equitably.

MAP and Completion Goals. Need-based financial aid enhances access for low-income families, but financial aid isn't enough to assure success: preparation through a rigorous high school curriculum is key. Illinois' current financial aid program incentivizes access, but not necessarily success. Neither exclusively need-based financial aid programs nor exclusively merit-based programs achieve access to success. Need-based aid fails to incentivize student success, while merit-based aid fails to promote college access and cost-effectiveness. Illinois' current need-based financial aid model does not include college preparation requirements to ensure that recent high school graduates are prepared for college-level work. In addition, the program's rationing criteria are not explicitly aligned with the *Public Agenda*.

According to Longanecker, good financial aid policy is characterized by the following five key factors:

1. Clear rationale/philosophy;
2. Clear goals and measures;
3. Program that supports the goals and rationale;
4. A winning coalition to sell the program; and
5. An affordable program (today and tomorrow).

Because of the State's inability to maintain adequate funding for MAP, Illinois' current financial aid policy remains unaffordable. Longanecker pointed out in his presentation to the

Higher Education Finance Study Commission that if the State's finance policy continues to expand access through need-based aid, the state will get students in the door, but there will be fewer students because of necessary rationing. In addition, the state's current financial aid policy strongly supports access goals, but not the completion goals established in the *Public Agenda*. Longanecker suggests that Illinois' financial aid policy needs to send a message about the importance of preparation for college so that more students become degree completers. Finally, although a coalition of Illinoisans successfully rallied around MAP to protect its funding in fiscal year 2010, budget constraints make it unlikely that this coalition could achieve full funding for MAP in its current form.

IX. CONCLUSION: WHAT HAVE WE LEARNED?

SJR 88 directed the Higher Education Finance Study Commission to address the following points:

- The history and means of higher education funding in this State, and comparison of funding with other states and peer institutions.
- Comparison of productivity of Illinois higher education to other state systems and the productivity of public colleges and universities to peer institutions.
- Practices implemented in other states that incentivize certificate and degree completion, including incentives for both students and institutions.
- Review of tuition and financial aid policies and practices and their roles in improving certificate and degree completion.
- Alternative funding mechanisms that will advance the goals of the *Illinois Public Agenda* particularly improving completion rates among low income and minority students.

The Commission's findings on the first four points can be summarized as follows:

<u>Higher Education Finance and Productivity</u>

Illinois' finance policy is not tied to the goals of the *Illinois Public Agenda*. Illinois' higher education finance policy has had a laudable focus on access, but is not tied to achieving the goals of the *Illinois Public Agenda*. All mechanisms for the allocation of resources have embedded within them incentives for institutional and student behavior. In Illinois, these incentives are for the status quo; incentives within the current funding mechanism are not consistent with state college credential completion goals.

State support for higher education has declined, and tuition has increased to fill the gap. National financial patterns have not shown an overall reduction in higher education revenues or expenditures, but rather a shift in revenue from reliance on state sources to a reliance on student tuition. This shift is more pronounced in Illinois. In Illinois, the student share of educational and related spending is up 14.8 percent at community colleges, 28.0 percent at research institutions and 37.0 percent at master's institutions. At research institutions, the student share of spending represents over 50 percent of the total educational and related spending per student, while at master's institutions the student share is nearly 50 percent of total spending.

Illinois community colleges lag behind the national average in educational and related spending per student. Illinois community colleges rank near the bottom (46th out of 50 states) in E&R spending per student. Illinois community colleges also lag behind in state and local support per student, ranking 31st out of 50 states. By comparison, Illinois research institutions rank 20th in E&R spending per student and 28th in state and local subsidy per student and master's institutions rank 13th in E&R spending per student and 17th in state and local subsidy per student.

Illinois is a low resource/high production state. Based on a comparison of degrees and certificates awarded per FTE to total funding per FTE, Illinois is a comparatively low resource/high production state. Such high productivity in comparison to spending is partially due to the large number of community college degrees and certificates awarded at a low cost, but all sectors of Illinois public higher education are more efficient than the national average. In many respects, this puts Illinois in an enviable position. However, the State still has much to do, particularly in addressing enrollment and completion of African American and Latino students, increasing the number of science, technology, engineering, and mathematics graduates, and maintaining or bolstering the skills of the adult population.

<u>Incentivizing Certificate and Degree Completions</u>

Performance-based funding is a viable policy tool to achieve improved outcomes. While not a new phenomenon, performance funding is resurgent as states seek new ways to address the need to increase college completion levels to compete with other countries. Ohio has developed a performance-based funding model for allocation of its state subsidy that is tied to the goals of the state's strategic plan. The Ohio subsidy formula allocates funding based upon course completion. Other states such as Indiana, Tennessee, and Texas also have performance-based funding models tied to the pursuit of state goals, with similar characteristics summarized below:

1. Realize that students enter higher education system with different levels of preparation and accommodate for such differences in the funding formula;
2. Models are tailored to fit different sectors of higher education (community college, master's, and research institutions); and
3. Base funding is tied to course completion rather than course enrollment.

Performance-based funding must be developed through a consultative process. Performance-based funding should be developed through a consultative process with institutional representation from public colleges and universities. This team is best suited to develop the specific funding model and measures of success for each sector of higher education. Building a strong consensus of support for a funding model is critical to the success of performance-based funding. Once adopted, the State should continue to monitor progress and study outcomes with an understanding that further changes to the formula are possible. Faculty and business leaders are also important partners in the development of a funding model.

Performance funding models must be tailored to each sector of higher education. A performance funding system must take into account the unique mission of each sector of higher education. Research, master's level four-year institutions and community colleges attract different types of students and serve different functions. Community colleges, in particular, are deserving of special attention because students attending these institutions do so for a variety of reasons, not just the attainment of a certificate or degree. Likewise, research institutions could benefit from a performance funding model that includes research incentives.

Performance-based funding must encourage at-risk students to complete a certificate or degree. The focus on improved performance and student success must not come at the expense of access for low-income and minority students. Illinois would benefit from following the lead of other states that have not only focused on outcomes, but also on progress towards certificates and degrees. Illinois has a high percentage of students enrolled in remedial courses and faces serious challenges to improve the outcomes of these students. Institutional financial incentives and focus on at-risk students have proven to make a difference and drive change faster. Improving graduation rates among at-risk students should be an important part of any performance funding formula.

<u>Tuition and Financial Aid Policy</u>

Illinois' financial aid philosophy is exceptional, but the Monetary Award Program is underfunded. In practice, MAP is not meeting the needs of low-income students. The MAP is underfunded by nearly 50 percent and can't meet established state goals. Funding for the program is not keeping pace with demand. The Illinois Student Assistance Commission has instituted a number of rationing strategies to sustain the MAP. These strategies include:

- Failure to recognize the real costs of education – tuition rates and cost of living allowance in the MAP formula are not current;
- Progressive assessment of the Estimated Family Contribution (EFC);
- Cap on EFC at $9,000; and
- Most serious, a cut-off date on awards.

Opportunities for state funded expansion of MAP remain limited given the current fiscal climate.

Illinois' most vulnerable students are at-risk. In fiscal year 2011, MAP awards were suspended in April, leaving over 160,000 students without state need-based aid. The MAP suspension date is the point at which funding for awards have been exhausted. The number of eligible students denied MAP exceeded the number of MAP awards. On average only 30.0 percent of these students will enroll in college, whereas 70.0 percent would have enrolled had MAP funds been available. The shortage of MAP funds disproportionately impacts community college students, as these students are most likely to apply for college closer to the start of fall classes. MAP grants to community college students has doubled since inception of the program but is now on the decline.

Illinois' current financial aid program doesn't connect access to success. Need-based financial aid enhances access to higher education for low-income students but does not guarantee academic success. Merit-based aid, while incentivizing success, does not foster broad access to college. Neither financial aid programs that are solely need-based nor those exclusively merit-based achieve access to success. Illinois' current need-based financial aid promotes college access and does not include a college preparation component. Any preparation requirement, however, must be cognizant of the wide variance of quality educational opportunities at high schools in Illinois.

X. WHERE DO WE GO FROM HERE? RECOMMENDATIONS OF THE HIGHER EDUCATION FINANCE STUDY COMMISSION

The final task of the Higher Education Finance Study Commission is to synthesize its findings into recommendations to the General Assembly. These recommendations are intended to tie Illinois' higher education funding mechanisms to the goals of the *Illinois Public Agenda for College and Career Success*.

1. Ensure Adequacy and Predictability of Higher Education Revenues

The past decade witnessed a decline in state funding for postsecondary education in many states, and Illinois has been hit particularly hard. State General Funds support for Illinois public universities decreased from the high water mark of $1.5 billion in fiscal year 2002 to the fiscal year 2011 appropriation of $1.3 billion, without adjusting for the effects of inflation. When a required $45 million contribution for state health insurance and the loss of reimbursement from the state for tuition and fee waivers provided through the Illinois Veterans Grant are figured in, the reduction has been even more extreme. Funding for community colleges has also fallen since fiscal year 2002 and is far below the levels necessary to meet the State's commitments embodied in the Base Operating Grants and Equalization Grants. Meanwhile, the community colleges must grapple with record enrollments. State funding for capital projects, particularly capital renewal, has been far less than adequate to maintain facilities, leading to a large backlog of deferred maintenance. The declines in funding experienced by the colleges and universities have led to steep tuition increases, reductions in services, and an inability of the State's MAP program to meet demand.

Furthermore, in fiscal years 2010 and 2011, the state has fallen far behind in it payments to the colleges and universities. The lack of timely payment of state funds has stretched institutional resources very thin and must be addressed. The State must find a way to stabilize its finances. While the focus of the Commission was on ways to tie funding policies to the goals of the *Illinois Public Agenda*, Commission members have also been clear about the need for adequate state support and their alarm at the failure of the State to disburse funds in a timely manner. Inconsistent funding makes planning difficult and increases the need for institutions to seek certainty from other revenue sources such as tuition and fees. Late MAP reimbursements strain independent colleges and universities as well, which enroll large numbers of Illinois students and are major sources of employment and cultural and economic activity in their regions.

The higher education community must make a strong statement that Illinois higher education is a public good, and therefore a public responsibility. The output of higher education is educated students who are more than human capital with labor skills who can contribute to the economic prosperity of the state. The returns from higher education are not limited to economic returns. Higher education yields social benefits, such as decreased rates of crime and an enhanced cultural environment; personal benefits, such as improved health and income; and public service benefits, such as increased participation in political and community life. Recent work by University of Illinois economist emeritus Walter McMahon, a member of the Commission, documents and quantifies many of the benefits that accrue to states and countries that invest sufficiently in postsecondary education.

2. Reduce the Burden of Unfunded State Mandates and Promote Efficiency

While the Commission has made clear the need for adequate state support for higher education, the fiscal condition of the state makes it unlikely that additional resources will be available any time soon. Unfortunately, reduced and unpredictable state funding has placed considerable pressure on tuition and fees, which have become the most reliable source of operating support. Illinois community colleges and universities have shown themselves to be more efficient than the nation as a whole. Even so, institutions must continue to seek efficiencies.

Greater efficiency can be achieved by eliminating state mandates that will reduce public university costs and improve operating efficiencies without negatively impacting students or sacrificing the academic integrity of the institution. The report of the HR 918 Blue Ribbon Committee on Higher Education Mandates, created by the General Assembly in 2010, could serve as a useful guide in this endeavor. The Blue Ribbon Committee on Higher Education Mandates reviewed state mandates on public universities to determine whether the mandates are: (1) necessary for the health and safety of students in compliance with federal laws; (2) essential to the academic integrity of public university systems; (3) exceed federal requirements; or (4) superfluous to the core academic programs of public universities. The Committee analyzed more than 100 statutory and regulatory mandates imposed upon public universities. Using the guidelines provided by HR 918, each mandate was analyzed to determine its origin, significance, purpose, and impact. Committee members were careful in drafting recommendations to ensure that services would not be reduced and academic integrity would be maintained. The Committee identified several key areas of concern and developed a set of recommendations that would provide the universities with administrative and financial relief without sacrificing the health and welfare of their students or the academic integrity of their campuses.

The Blue Ribbon Committee on Higher Education Mandates identified six high-impact mandates with significant potential for savings if revised or eliminated. These recommendations include the elimination of two mandates that would result in an estimated $55.1 million in savings for public universities in the current fiscal year. The other four recommendations, if implemented, will provide long-term indirect savings by reducing administrative work and promoting efficiencies at public universities. Two additional mandates are included in this report as areas of concern.

Mandates to Revise or Eliminate	Estimated Direct Cost Savings	Long Term Indirect Savings
Illinois Veterans Grant/Tuition Waivers	$29.5 million	
Procurement/SB 51 Issues	*See HR 919 report	Reduce Administrative Burdens & Costs
CDB Construction Administration Fee	$24.6 million	
State University Retirement System, 6% Rule	$1.0 million	Promote Efficiencies
CMS/Movable Equipment Inventory Level		Reduce Work Load
IBHE Approval of Non-instructional Capital Projects		Reduce Administration & Alleviate Costly Delays
TOTAL:	$55.1 million	

Other places to find efficiencies are within and among institutions. Wellman's research indicates that spending per degree continues to increase at most institutions and that institutions manage revenue shortfalls through cost-shifting and one-time budget cuts. The trend over the past decade has been a small but apparent shift away from the instructional function. Wellman recommends that states focus on sustained investment in core functions, particularly instruction and student services, which are closely related to student success. All institutions should undergo a comprehensive quest for efficiencies from within the institution, such as an administrative audit. The University of Illinois' StewardingExcellence@illinois project may be of great value in aiding other institutions. The University's efforts are being carried out by project teams assigned to look for cost savings and efficiencies in various University operations, including academic departments. An example of looking for efficiencies between institutions is the University System of Ohio's Advisory Committee on Efficiency, which helps Ohio institutions find ways to collaborate that save money and improve services. The University System of Maryland has also achieved success with an Initiative on Effectiveness and Efficiency in Higher Education. The Illinois Board of Higher Education and the Illinois Community College Board should assist the colleges and universities in identifying economies and efficiencies in institutional operations and programs. Opportunities to partner with independent colleges and universities to achieve greater efficiencies should also be explored.

3. Move Forward with Development of Performance-Based Funding

Performance-based funding is a valuable policy tool to achieve state goals of improved student outcomes. Illinois should move forward with development of financial incentives to achieve desired outcomes – particularly improved educational attainment. The Commission acknowledges that the development of performance-based funding is in its infancy and continued collaboration is required to develop specific funding metrics and goals. Performance-based funding must not be developed in isolation. Thus, the Commission recommends continued involvement of and consultation with a broad cross-section of education, business, labor, and nonprofit leaders as specific performance-based funding models are developed.

While a specific funding model is not being recommended, the Commission has established the following core principles as necessary for the development and success of performance-based funding.

a) **Encourage At-Risk Students.** The focus on improved performance and student success must not come at the expense of access for at-risk students, such as low-income students, students from underrepresented racial/ethnic groups, students with dependents, first-generation students, and working adults. The State must encourage at-risk students to complete certificates and degrees through an explicit recognition that students enter higher education system with different needs and levels of preparation. Formulas must take into account the extra costs of serving students at-risk because of educational, financial, or other needs. Illinois should follow the lead of other states that have not only focused on outcomes, but also on progress towards certificates and degrees.

b) **Differentiate Between Institutional Missions.** Performance funding models must be tailored to each sector of higher education (community college, master's, and research institutions) and the different measures of success applicable to each sector; i.e., success in obtaining research funding, success in remediating adult students, success in awarding workforce certificates, success in graduating students in high-need areas. Performance funding models must also account for the costs of graduate and professional education, an important yet unique element of a university's mission.

c) **Funds Tied to Completion.** Base funding for higher education institutions should be tied to course completion and degree production rather than course enrollment. Exceptions are necessary to recognize the unique nature of community colleges; however, performance funding remains important and can be achieved through funding based on momentum points.

d) **Maintain quality.** The *Illinois Public Agenda* calls for the production of high quality degrees and certificates. Performance-based funding mechanisms must be designed to maintain the quality of degrees, certificates, courses, and programs. Measures of quality should be considered for inclusion in an overall strategy for performance-based funding policy. For example, Ohio has committed to measuring business satisfaction and is working with the business community to develop a measurement instrument. Likewise, the state should remain cognizant to academic integrity and continue to protect the value of an Illinois degree. A successful performance-funding system will rely on a combination of performance, quality, and efficiency measures.

e) **Examples of Performance Funding Metrics.** As noted, performance-funding details should be worked out collaboratively between the State and the colleges and universities. However, for the benefit of policymakers and other interested parties, the following examples are performance funding metrics that are aligned to multiple goals of the *Illinois Public Agenda*:

- Increase in number of credit hours completed (as opposed to credits attempted).
- Increase in certificates/associate/baccalaureate degrees awarded.
- Increase in certificates/associate/baccalaureate degrees per 100 undergraduate FTE.
- Increase in certificates/associate/baccalaureate degrees awarded to at-risk students.
- Increase in certificates/associate/baccalaureate degrees awarded in STEM fields.
- Increase in certificates/associate/baccalaureate degrees awarded to students over age 25.
- Increase in GED holders successfully completing college-level courses and earning certificates and degrees.
- Increase in number of students successfully transferring to a four-year institution.
- Increase in federal research funds.

4. Alter the State's Current Financial Aid Policy to Ensure that Affordability Goals are Met, Particularly for the Most Vulnerable Students.

The Commission reaffirms that the State's current financial aid program (MAP) is well designed but underfunded. But with a record numbers of eligible MAP applicants, particularly community college students, denied awards because funding is exhausted, the MAP program is unable to ensure that the State's affordability goal can be met. The current criteria to ration limited MAP funds (particularly the early award suspension date) are not aligned with the goals of the *Public Agenda*. Given that opportunities for state-funded expansion of MAP remain limited, the Commission recommends looking at innovative approaches to provide additional resources for the Monetary Award Program and extend the announcement of awards to community college students.

In October 2009, the Illinois General Assembly approved HJR 75, directing the Illinois Board of Higher Education, in consultation with the Illinois Student Assistance Commission and the Illinois Community College Board, to study and provide recommendations on the efficiency and sustainability of MAP. Members of the Higher Education Finance Study Commission each received copies of the HJR 75 report, *A Report on the Efficiency and Sustainability of the*

Monetary Award Program. While not an exhaustive list, the following options in the report were acknowledged by the Commission as alternatives that could be explored. However, without additional funding, some options push MAP into a zero-sum game in which positive changes for one sector are offset by negative changes for another. The Commission did not come to unanimous agreement on how to achieve student access and success goals.

1. Changing aspects of the MAP formula;

2. Allocating MAP funding among public universities, community colleges, and private colleges and universities more proportionately to their numbers of eligible students;

3. Building 2 + 2 relationships between community colleges and 4-year institutions that allow students to be enrolled in two partner institutions at the same time;

4. Implementing changes to institutional tuition and financial aid policies within the context of state goals to focus more funds on financially needy students;

5. Adding merit-based modifications to the existing need-based MAP program to incentivize better academic preparation for college;

6. Limiting MAP to public institutions;

7. Re-evaluating institutional eligibility to participate in MAP based on student success rates;

8. Developing a shared-responsibility model akin to Oregon's financial aid program; and

9. Using "MAP capital investment bonds" to increase funding available for the MAP program. Since the MAP report was issued, both the Illinois Community College Board and the Illinois Community College Trustees Association have taken official action in opposition to this proposal.

Among the menu of options identified, Commission members specifically discussed the merits of allocating MAP grants to particular sectors, using MAP capital development bonds, developing 2 + 2 programs, adding a merit component to MAP, and developing a shared-responsibility model. While no final decision was reached to recommend one particular strategy, these options are discussed in greater detail in the following sections.

The inequities of an early suspension date can be addressed within the current financial aid program (MAP) through alterations of the rationing criteria that prioritize need. Greater numbers of community college students would be served by MAP if the award suspension date were extended. Such a change could occur if funds were set aside for access by community college students subject to a later cutoff date. While such a proposal has support from community college advocates on the Commission, the Illinois Student Assistance Commission argues a separate reserve pool of funding would result in redistribution of funds among higher education sectors.

ISAC has developed and presented a proposal to finance MAP grants for community colleges using capital investment bonds. Financing MAP grants for students through capital investment bonds, a creative adaptation of tax increment financing may provide the needed additional revenue to lessen the gap between state funding and students' need. Funding MAP using revenue bonds would allow the program to behave counter-cyclically. In hard economic times, when many students return to college for retraining, revenue bonds can provide additional funding for needed MAP grants. As recipients benefit from the higher wages they will earn as a result of their training, their tax revenues can pay off the bonds.

Revenue bonds could work for the community college portion of MAP because the grants are relatively small (averaging about $1,000 per student); most community college students work while attending school, thus generating tax revenues even while in college; and community college programs are two years or less, allowing students to return to the workforce fairly quickly. Under these conditions, revenue bonds issued for community college MAP grants can be paid back in a relatively short period of time. Students who attend four-year schools have much larger average awards (around $3,500), work less, and are in school longer than community college students, making issuing revenue bonds for this group more difficult. The program would not be designed to separate community colleges from the rest of the MAP program, but simply to *diversify* MAP funding by financing a portion of MAP with revenue bonds.

ISAC has investigated the viability of MAP capital investment bonds using historical tax data from the Illinois Department of Revenue for community college MAP recipients. Based on the results, bond experts have indicated that there is a sufficient income stream to finance 10-year revenue bonds. Over a lifetime, a worker with an associates' degree can expect to make between 33 percent and 55 percent more than a worker with a high school diploma. While the bond will capture the tax revenue for ten years, the higher taxes associated with rest of the student's working life will be added to state coffers. The tax data for community college MAP recipients shows an increase in tax revenues even for those MAP recipients who do not graduate. Gains of 70 percent for the non-graduates and over 100 percent for the graduates over the six years of data collected were found for independent MAP recipients.

As noted above, many Commission members do not support the proposal to fund MAP in part through capital investment bonds. Commission members note that there are serious concerns among many of the advocates of the community college system about the proposed $550 million MAP borrowing. They contend that while the borrowing will help individual students, it can decrease funding for the system as a whole. The borrowing will deplete the General Revenue Fund by diverting limited state revenues to ISAC to make bond payments. The General Revenue Fund is the state source of funding for community colleges and higher education. Additionally, though the borrowing would increase the number of community college students receiving MAP grants, it still would not be enough to cover all students applying and still would not fund a full grant for each student. Some Commission members also expressed concern that projections of increased state income tax revenue from graduating students to fund the costs of this borrowing depend on an economic recovery that is uncertain. Recognizing that community college students receive a smaller percentage of these grants than their overall enrollment numbers and need would suggest, there are other options to increase community college MAP grants. These options include a set aside for community college students within the current funding and a prioritizing of need instead of a first-come, first-served policy.

Finally, the Commission recommends that the state reconsider the way it packages financial aid to make explicit the shared responsibility that students, parents, state government, the federal government, and institutions have to meet financial need. In his presentation to the Commission, David Longanecker highlighted Oregon's "shared responsibility" model as a financial aid program based on a clear philosophy and measurable goals that relate to the state's broader agenda - that every student should be able to attend college, but that the student, as beneficiary, should bear the greatest share of the cost.

The “shared responsibility” model shares some features with the MAP program. Under the model, students, as the principal beneficiaries, contribute a set percentage or dollar amount from work, savings, scholarships, and/or borrowing towards the total cost of their education. In 2006-07, that amount in Oregon was $4,750, which was the equivalent of 15 hours per week at minimum wage throughout the year or ten hours per week during the school year plus full-time during the summer. MAP assumes a minimum student contribution of $1,800 per year. Next, a parental share, determined using federal methodology, and federal aid from Pell and tax credits/deductions are included as contributions to the cost of the student’s education. The MAP formula does not include tax credits or deductions. In the Oregon model, the state fills in the gap between the combined student, parent, and federal share and the total educational cost. Students attending independent institutions receive a state contribution equal to what would be contributed at a comparable state institution. The remaining gap becomes the institution’s responsibility. The Oregon model also enhances philanthropic participation because the state’s obligation to students is not reduced by private dollars a student receives. Instead, those private funds are applied towards the minimum student contribution.

5. Develop a Financial Aid Policy that Expands Access to Success.

The Commission recommends continued exploration of incentives to encourage degree completion with financial aid. One way to address both front-loading and back-loading of aid – that is, concentrating aid on the first two years to incentivize retention versus concentrating aid in the last two years to incentivize completion – could be the expansion of 2+2 agreements with community colleges and four-year institutions. These agreements are an innovative approach to maximizing MAP eligibility in which students are dually admitted to a community college and a public university and are subject to the same admission, matriculation, and degree requirements governing the two institutions. One pilot program now exists between Western Illinois University (WIU) and two of its feeder community colleges. For MAP purposes, MAP eligibility for all four years is calculated based on WIU’s tuition and fees, and “excess” MAP awards in the first two years – awards in excess of the community college tuition and fees – are “banked” by ISAC to be added to regular MAP eligibility in the second two years. In 2009, two pilot agreements were concluded between Carl Sandburg College and WIU (The Western Illinois Advantage) and Black Hawk College and WIU – Quad Cities.

The reserve account of the agreements provides a positive opportunity for participants. The reserve account allows the excess funds to be back loaded – that is, used in the junior and senior years – to meet the higher tuition and free rates associated with a public university. ISAC estimates that students in these types of programs can cut their student loan debt in half compared to the debt incurred attending a four-year institution exclusively. A student with an EFC of zero attending a university for four years may expect to have an unmet need of $9,412 after all aid and loans are included, whereas all needs may be met under a 2 + 2 approach. Under a 2 + 2 approach total grant aid remains the same, while total costs, need after grants, and loans and/or work-study decrease.

MAP funds could include a preparation provision that enhances students’ opportunity to succeed in a timely manner. Currently MAP funding is rationed by criteria, suspension date in particular, that are not clearly connected to the goals of the *Illinois Public Agenda*. If MAP funds were explicitly tied to the *Illinois Public Agenda*, factors such as high school preparation and college academic performance – using GPA and ACT performance or high school course-taking requirements – could be used as rationing criteria**.** This change could add a minimal merit component to the existing MAP program. During the 2008-2009 academic year, Ohio launched the TANF Educational Awards Program (TEAP), a one-year pilot financial aid program to incentivize academic performance. This program provided low-income, TANF eligible students at four community college campuses with incentive payments upon successful completion of a designated number of credits with a grade of C or better. While a comprehensive evaluation of the program is ongoing, unscientific results from a previous TANF scholarship program in 2006-2007 yielded positive gains in the academic performance of scholarship recipients.

The Commission also discussed adoption of a blended financial aid program similar to programs in Indiana and Oklahoma that enroll students from low-income families prior to high school, require those students to complete a rigorous high school curriculum, and then guarantee aid to the students when they get to college. The Commission recommends further study and consideration of financial aid policy that incorporate both access and success.

CONCLUSION

The Higher Education Finance Study Commission concluded its work after nearly five months of discussion, deliberation, and debate. The Commission's study addressed issues and conditions outlined in SJR 88, and identified the failure of the current funding system to adequately support public colleges and universities or to relieve students of the crushing financial burdens of attending college. The cost of these twin shortcomings will be enormous, measured in economic decline and educational deterioration.

In sum, the Commission's report points to an alarming conclusion: Illinois is not ready to face its future. As the momentum of the economy requires greater levels of knowledge and skills, Illinois' workforce suffers a massive skills deficit. At a time when more and more Illinoisans need more and more education, the State continues to shortchange educational opportunity, particularly for minority and low-income students.

The Commission recommends steps to arrest that economic decline and revitalize educational opportunity through a new financing plan that ensures taxpayers have an efficient, effective higher education system connected to the vital State goals of the *Illinois Public Agenda*.

REFERENCE LIST

Albright, Brenda. 2009. *Promoting Degree Completion Through Financial Incentives to Both Institutions and Students*. Presented to Midwestern Higher Education Compact Policy Summit, November 9. Fargo, North Dakota

Carnevale, Anthony P., Smith, Nicole, and Strohl, Jeff. 2010. *Projections of Jobs and Education Requirements Through 2018*. Washington, D.C., Georgetown University Center on Education and the Workforce.

Davis, Andy. 2010. *Increasing College Access and Success: Investing in Human Capital*. Presented to the Higher Education Finance Study Commission, September 23. Chicago, Illinois.

Illinois Board of Higher Education. 2010. *A Report on the Efficiency and Sustainability of the Monetary Award Program*. April 2010. Springfield, Illinois.

Illinois Board of Higher Education. 2010. *Setting a Context for Fiscal Year 2012 Budget Development*. Springfield, Illinois.

Illinois Office of the Comptroller. 2010. *The Illinois State Comptroller's Quarterly*, October 2010, Edition 37. Springfield, Illinois.

Jones, Dennis. 2010. *Using Funding Policy to Achieve State Goals*. Presented to Illinois Higher Education Finance Study Commission, July 27. Chicago, Illinois.

Lang, David. 2004. *The Political Economy of Performance Funding*. Essay prepared for the Taking Public Universities Seriously Conference, December 3-4, University of Toronto.

Longanecker, David. 2010. *Where to from here for Illinois: Tuition and Financial Aid Policy and Practice*. Presented to Higher Education Finance Study Commission, September 23, Chicago, Illinois.

Lubbers, Teresa. 2009. *Promoting Degree Completion Through Financial Incentives*. November 9. Indiana Commission for Higher Education.

McMahon, Walter W. 2010. *Higher Learning, Greater Good: The Private and Social Benefits of Higher Education*. Baltimore: The Johns Hopkins University Press.

National Center for Higher Education Management Systems (NCHEMS). 2008. *Consultants' Report: Developing a Public Agenda for College and Career Success*. Draft. August 4. Boulder, Colorado.

Ohio Board of Regents. 2010. *Research Incentive Program: Fiscal Year 2011 Request for Proposals (RFP)*. October 5. Columbus, Ohio.

Public Affairs Research Council of Louisiana, Inc. May 2008. *Higher Education Performance Funding: Louisiana's Options*. Baton Rouge, Louisiana.

Tennessee Higher Education Commission. 2010. *Higher Education Outcomes Based Formula*. Accessed at www.state.tn.us/thec/Divisions/Fiscal/funding_formula_presentation.html.

Wellman, Jane. 2010. *Higher Education Financing Trends…National Patterns and Implications for Illinois*. Presented to Higher Education Finance Study Commission, July 27. Chicago, Illinois

APPENDIX A

Senate Joint Resolution 88

WHEREAS, The Illinois Public Agenda for College and Career Success has documented the critical role higher education plays in economic recovery and growth, particularly in ensuring this State has an educated workforce to meet the needs of business and industry; and

WHEREAS, The Illinois Public Agenda also has documented the fact that at least some postsecondary education is an essential credential for jobs in the present and future global marketplace; and

WHEREAS, 40.8% of Illinois adults held a college degree in 12 2008, while the best-performing countries in the world averaged 13 55% of adults holding a college degree; and

WHEREAS, To achieve a level of 60% of adults holding a 15 college degree by 2025, the National Center for Higher 16 Education Management Systems estimates that this State will 17 need to increase the number of degrees awarded by 4,671 each 18 year, for a total of 635,243 additional degrees between 2010 19 and 2025; and

WHEREAS, The State of Illinois and its higher education 21 institutions have a responsibility for student success, including improved student retention, program completion, and graduation; and

WHEREAS, Funding for community colleges and public universities in Fiscal Year 2010 is $592 million, or 26% below appropriations in Fiscal Year 2002 after accounting for inflation; and

WHEREAS, Tuition and fee rates for entering students have escalated 86% at public universities between Fiscal Year 2004 and Fiscal Year 2010 and by 52% at community colleges during that period; and

WHEREAS, Between Fiscal Year 2002 and Fiscal Year 2010, appropriations for the Monetary Award Program, the State's premier, need-based, student financial aid program, fell by nearly $57 million or 12%, after accounting for inflation; and

WHEREAS, Many public universities and community colleges have experienced severe cash flow crises due to delinquent payments of Fiscal Year 2010 State appropriations; and

WHEREAS, The Illinois Public Agenda for College and Career Success has recommended that the Board of Higher Education, in consultation with other higher education agencies, "develop a comprehensive funding strategy that makes more explicit and intentional the links between state appropriations, tuition, and need-based student financial aid"; therefore, be it

RESOLVED, BY THE SENATE OF THE NINETY-SIXTH GENERAL ASSEMBLY OF THE STATE OF ILLINOIS, THE HOUSE OF REPRESENTATIVES CONCURRING HEREIN, that the Board of Higher Education establish a Higher Education Finance Study Commission; and be it further

RESOLVED, That the Commission shall be comprised of 11 members, including one senator appointed by the President of the Senate, one senator appointed by the Minority Leader of the Senate, one representative appointed by the Speaker of the House, and one representative appointed by the Minority Leader of the House and the remaining members appointed by the Board of Higher Education to represent a cross-section of the higher education community as well as experts in higher education finance; and be it further

RESOLVED, That the Commission's study shall include, but not be limited to, the following: (1)

examining the history and means of higher education funding in this State, comparing funding with other states and peer institutions, and reviewing funding mechanisms for adequacy, equity, and reliability; (2) comparing the productivity of Illinois higher education to other state systems and the productivity of public colleges and universities to peer institutions; (3) analyzing best practices implemented in other states, such as Ohio and Indiana, for incentivizing certificate and degree completion, including incentives for students and for institutions; (4) reviewing tuition and financial aid policies and practices and their roles in improving certificate and degree completion; and (5) considering alternative funding mechanisms that will advance the goals of the Illinois Public Agenda; and be it further

RESOLVED, That the Commission consult with representatives of other states or other higher education finance experts, as appropriate, to inform the Commission about best practices; and be it further

RESOLVED, That the Commission shall report its findings and recommendations to the Board of Higher Education, the Illinois Community College Board, and the Illinois Student Assistance Commission for adoption by these agencies; and be it further

RESOLVED, That the Commission shall report its findings and recommendations to the General Assembly and the Governor on or before December 1, 2010; and be it further

RESOLVED, That suitable copies of this resolution be delivered to the chairpersons of the Board of Higher Education, the Illinois Community College Board, and the Illinois Student Assistance Commission.