

MINUTES
PERFORMANCE FUNDING STEERING COMMITTEE
January 14, 2013

A meeting of the Illinois Board of Higher Education Performance Funding Steering Committee was called to order at 10 a.m. in Public Affairs Center Conference Rooms C and D at the University of Illinois at Springfield, Springfield, Illinois, on January 14, 2013.

Harry J. Berman, Interim Executive Director, presided.
Cindy Deitsch was Secretary for the meeting.

Welcome and Introductions

The following Board members were present:

Jay D. Bergman	Proshanta Nandi
Allan Karnes	

The following Committee members were present:

Abbas Aminmansour	Lynne Haeffele
Felicia Bohanon	Michael Monaghan
Rita Cheng	Geoffrey Obrzut
Larry Frank	Dave Tretter

The following Board members were present via telephone:

Frances Carroll	Paul Langer
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The following Committee members were present via telephone:

Maria Capoccia	Liz Ortiz
Anne Ladkey	Gayle Saunders
Elaine Maimon	Julie Smith
Jeff Mays	

Dr. Harry Berman said, “Good morning everyone. My name is Harry Berman and I am the Interim Executive Director of the Illinois Board of Higher Education and I want to welcome everyone to this meeting of the Performance Funding Steering Committee. I will facilitate the discussion when we get to that part of the agenda this morning.

“Under Public Law 97-0320 the Illinois Board of Higher Education is required to devise a system for allocating state resources to public institutions of higher education based upon performance in achieving State goals related to student success and certificate and degree completion. The law specifies some principles for the development of the performance funding model and what that model will contain. In terms of developing the

model, we were required to consult with public institutions of higher education, as well as other state agencies, associations and other stakeholders. In terms of what the model will contain, the law states that the model will take into consideration the challenges of educating students who are at risk, the differentiated missions of our public institutions and the fundamental goal of increasing completion of college courses, certificates and degrees. The law also states that the model should seek to maintain the quality of degrees, certificates, course and programs.

“Well, all of that is a tall order. It implies a balancing of considerations and interests and the use of judgment. Through much discussion, patience and sheer stamina and under the dedicated leadership of Deputy Director Phillips, sitting to my right, the Board was able to comply with the legislation in creating the FY2013 budget recommendation and the ultimate budget. We did incorporate a performance funding component into the FY2013 budget. Now, by my rights, that first round established a sort of baseline for this activity. The complexities of doing this imply a kind of iterative process where we take a look of the results from one year and then re-examine the model in the subsequent year.

“So following the initial implementation of the model, there was a general agreement that the model needed to be refined. The word “refined” is important, not discarded, not scuttled, just refined. Now the purpose of the meeting today is to present the product of the refinement discussions, to show how the ideas for sharpening the model were evaluated by the Refinement Committee and when appropriate, incorporated into the model as it will be used in FY2014. I want to make it clear that the focus today is on the model itself. In the coming days we will be working with our Board in developing an FY2014 budget recommendation. That recommendation will specify the way the results of the model will be integrated into the FY2014 budget recommendations. So that is where we are talking about the model today and with that, I would like to turn it over to Dr. Phillips to make the presentation.”

Performance Funding Refinement Presentation and Discussion

Dr. Alan Phillips said, “Welcome back to yet again another [inaudible]. While the Steering Committee has not met in a while, the refinement committee that was put together as a result of the last year’s effort has met a number of times. The Refinement Committee was essentially composed of directors of institutional research and finance directors and other college administrators and as I like to say that it was nice to know that I had all the people in the room who were much smarter than I was to help me to try put this all together. We did not always agree on everything, but at least we had some interesting discussions. So, I want to thank them for their efforts and I also want to thank the IBHE staff who have done the lion’s share of the work to put all this together, run the various models, put together the iterations and have done the lion’s share of the work of actually figuring out how to make all of this work.

“Next chart is purpose. The purpose is to talk about the performance funding model and as Dr. Berman said to talk about how we refined the model that we agreed to use for last year in accordance with the Public Act and the Performance Funding Act. I am going to talk

about five things – a little background on performance funding, I am going to talk briefly about what we did last year, although to not belabor the effort, all the models for last year to include the four-year university model and the community college model are including in the back of the presentation. So, I am not going to go over those again. What I am going to talk about is how we have changed them, but those are in the back of the presentation. I am going to talk about what the Refinement Committee considered, looked at and recommended. I am going to talk about how those refinements impact the model and then we are going to talk about budget considerations as we go forward with our recommendation at our February 5 Board meeting for considerations of what recommendation we are making regarding performance funding.

“First, the background – thirty-three states have expressed interest or currently implementing performance funding systems, up from fewer than ten states only two years ago. In the past, performance funding was very popular. A number of the states that tried it dropped it, but now it has certainly gained momentum again and we are one of the states that had over the last couple of years has implemented performance funding. States are now turning their attention to how, rather than how much state funding is distributed to public colleges and universities. The issue is that as states have less money to spend on education and on other things, they are much more interested in the return on their investments. So, that is one of the reasons why you see performance funding and in the State of Illinois, budgeting for results that covers not only education, but all areas of the state and so what they are looking for is to get a better return on more scarce resources.

“One of the things I took a look at to see if we were on the right path, the Complete College America and National Center for Higher Education Management Systems (NCHEMS) published a paper talking about the principles of a good performance funding model. Basically the points they made were that there needs to be consensus around a public agenda, which we have done. The performance metric need to be constructed broadly, we did that. It promotes mission differentiation. It includes provisions to reward success with underserved populations. We did that through the use of subcategories. Rewards progress, as well as ultimate success. Last year we were unable to do that. This year by talking about credit hours, over periods of time, we think we moved a little bit more in that direction. We have limited the number of categories. This was a discussion we had in the Refinement Committee because if you have too many categories then none of them count for very much and you dilute any of the specific objections that you have in terms of completion or other areas.

“Good performance funding models have measures and metrics that are unambiguous and difficult to game. As you remember last year that was one of our tenets and we tried to do that because what we did not want to do is provide perverse incentives for universities to do things that are not in the best interest of the students in order to gain additional dollars.

“Continuous improvement is rewarded as opposed to setting fixed goals. We have not set goals, but as you improve what you do your scores will increase and you should get additional funding. The incentives align with state goals and the performance funding pool is large enough to command attention. Now this last one, I disagree a bit because given the fact

that most of the states that implemented performance funding have longitudinal database systems in effect. They did this over a number of years. They were in states that had a stable budgetary situation. Until some of these other things resolve themselves, our recommendation is that the allocation be kept low until we get Illinois Longitudinal Data System (ILDS) online and we resolve some of these others issues. That is one of the areas that we disagree.

“The objective of the effort, and we talked about this last year, was we were directed to develop a performance funding models that are linked to the goals of the *Public Agenda* and the principles of the legislation, equipped to recognize and account for each university’s mission and set of circumstances, adjustable to account for changing in policies and priorities, and are not prescriptive in how to achieve excellence and success. In other words, we are not going to tell the universities how to do, but provide incentives for them to do things that we would like them to do. Also the purpose of the performance funding is to attain the goals of the *Public Agenda* and specifically the Act talks about rewarding. Our specific guidelines are to reward the performance of an institution in advancing students who are academically or financially at risk, first generation, low income and underrepresented students, recognize and account for differentiated missions, focus on the goal of increasing completion, recognizing the unique and broad mission of the community colleges and maintain quality.

“Now for the most part we have done pretty well with this. There are a couple areas we still have not been able to, of these goals, have not been able to accomplish. The first one is the first generation students. One of the challenges there, much like many of the areas that we talked about in the refinement effort, we do not have good data. That data is self reported. The universities all define it differently and there is no good source of data for that and we are hoping once we get the longitudinal database online that will help us with that.

“The other area is quality – whereas we can count the number of degrees and graduates, it is much more difficult to get our arms around coming up with objective measures for the evaluation of quality. We took a look at in the Refinement Committee a lot of the things that other universities had done, areas where they had assessed quality. Our thoughts were that we still have a lot to do with the basic model and we need to get that in place and working well, because quality is going to be a whole additional effort unto itself, because to measure quality you have to have enough quality measures to capture comprehensively quality at a university and sometimes it hard to even agree on what quality is, much less how would you come up with objective measures for it. So, we still have work to do in that area.

“Very briefly and I am skipping most of the last year’s four-year performance funding charts. All I want to say about last year’s model is that all steps were identical, it accounts for each institution’s unique mission, the formulas are calculated independently. It changes; this year’s numbers will be different from last year’s because the numbers we are counting are different from year to year. The funding is competitive, it is distributed on a pro-rata basis and once again, it does not say how to achieve, it says what we would like to see but not how you get there.

“Community Colleges – same thing, even though we have two models. We have a four-year model and we have a two-year model. Part of that is because the missions of the four-year universities and the community colleges are quite different, but also because they are currently funded separately. So, we have two separate models and the community college model was developed by the community colleges in conjunction with the Community College Board.

“Once again, the same things apply. All steps are identical. Each district competes independently for funding. The funds are distributed on a pro-rata basis. It will change every year and you can scale the amount depending on how much is allocated for performance.

“Last year, very briefly, did we accomplish our objective? We were asked to develop workable models. Our model and recommendation were approved by the Steering Committee and the Board. It was included in the FY2013 higher education budget submission. It was included in the Governor’s budget without change. Our recommendations were taken without change and the General Assembly allocated funding based on our recommendations. So, on that basis we accomplished the objective which was to implement performance funding in a relative short period of time and have it as a component of the FY2013 budget.

“Now we are going to talk about the refinement effort.

Mr. Larry Frank said, “I felt the objective went beyond just implementing something until we actually developed it.”

Dr. Phillips said, “No, it was, basically what I was talking about was that we met the intent of the legislation. That the legislation was to implement performance to help further the completion agenda, 60 by 25. Like I said, the legislation was very specific in terms of helping underrepresented students and the performance funding model, what we did basically, and what it is all about is providing incentives for the universities to change their performance to get more graduates, to help more underserved students.”

Mr. Frank said, “I got that part. I guess it just concerns me that the committee would put out a public document that says we achieved the objectives under this and it never talks about making it better for kids. If that comes later that is okay. That is just.”

Dr. Phillips said, “I am talking, and you are exactly right, our objective for last year was to implement the legislation. That is what we were held to. Understanding the intent of the legislation which was to create incentives for universities to focus more on completions and helping underserved students, but in this context it was we were given a very specific task which was to, in the legislation, there had to be a performance funding component of our budget recommendation. That was the only piece I was talking to. But, you are correct, this was all about providing incentives to universities to help students.

“Our refinement goals, there were four. What we were tasked to do was refine the existing measures and subcategories to the extent that we could or find replacement measures that captured what we were trying to measure in a better way. One of the challenges with performance funding is this is not necessarily an exact science. A lot of the data that we used was data we had. It may not have been the exact data we wanted. It is very difficult to take six measures and five subcategories from last year and capture the entire performance of a college and university. So many of these measures are selective, they focus on what we want to, but this is not comprehensive. The additional challenge is that some of the data, even that we wanted to use, either was not available or was not very good. So, what we tried to do was build off of last year, add a few measure where appropriate if we could come up with additional data that we did not have last year, refine the model and put a little finer edge on it and then change it incrementally, deliberately so that once again as we go forward it is a very deliberate way.

“We broke it down into four things that we had to look at. The first thing we wanted to do was identify additional measures and subcategories we might want to add. See if we could find better sources of data. The issue that probably generated the most discussion last year was how do you normalize or scale the data so that it all, the problem still is you cannot take 3,000 graduates and add it to \$100 million in research expenditures and come up with a number that means anything. So you have to normalize the values so the numbers work together.

“One of the other issues that came up last year was that a the number of the universities have high cost entities such as University of Illinois at Chicago’s hospital, Southern Illinois University at Carbondale’s medical school, dental schools, veterinary schools, that are relative high cost entities that were factored into the formula but that produce very few completions. Since the model is largely based on completions, it was viewed that we need to adjust that number in some way to account for the amount of funding that they received that did not actually go toward completions but that was of no fault of the college or university, so we took a look at that.

“The first goal – we took a look at which measures should be revised and which measures we wanted to add. Once again the problem was that many of the measures had significant drawbacks. Either there were no data or we could not agree on which data we should add. One of the challenges is that once again we have twelve institutions and universities and what may help one institution may not help another institution. As we had all twelve universities represented on the Refinement Committee it made for some interesting discussion and so we once again wanted to keep the changes to a minimum. We took a look at a lot of different measures and basically agreed on just a few of them because most of them had issues or problems.

“What we decided to do was, we decided that regarding the current measures subcategories that we would replace education general spending per completion and that we would try to find better data for low income because the Illinois Student Assistance Commission (ISAC) data we had was not as good as we would have liked. We took another

look at the CIP codes for the STEM and healthcare field to see if we could refine those a little more clearly and come up with a better list for that.

“In terms of the measures to add, what we did was we took a look at all the other studies, all the other states, all of the other measures being used by other institutions and we tried to compile those and break them down, kind of in a systemic way so that you would have input measures, process measures, completion measures, efficiency, institutional quality and adversity. So we took a look at all of these measures. Once again, probably the largest problem was, we did not have data on most of these. If you look on the chart out to the right on most of these what you will see is it says ILDS. When we get the ILDS system up and online we expect to have that data, but for now we do not.

“The ones that are underlined, however, are the measures that we decided that we would add and we would see if we could find the data for those. So for the credit hour per accumulation we were looking at, we did not have ILDS data. Time to completion we did not have ILDS data. What we did instead was we went out to the universities and surveyed them to provide us with that data. So even though we did not have it, the universities did. We surveyed all the universities and they provided that data to us.

“Under efficiency we looked at cost for completion, cost per credit hour and we instead of using IPEDS we used a cost study because one of the other issues was high cost entities and those entities are not included in the cost study, so that made it better data.

“The rest of the measures, either we did not have the data or we could not come to any agreement to include them in the model, but once again, as we are moving forward in a deliberate fashion, that was okay.

“This is what we finally decided to do. We decided to delete education, general spending per completion, add cost per credit hour, cost per completion, credit hour accumulation and time to completion. So these were the changes to the basic model.”

Dr. Allan Karnes said, “For cost per completion, credit hour accumulation and time to completion, we are going to have to look at the population of students at each school because time to completion if you have well-prepared, financially well-off students, their time to completion is going to be very good. However, if you have a less well-prepared poor students who have to drop in and out to work or are not able to take a full load then that school is going to suffer. So I think the way to do it really is to compare schools by population. In other words, break out the population into all the subcategories and then look at a school’s performance within that subcategory and that will put all the schools on the same.”

Dr. Phillips said, “And you are talking about the subcategories on the model?”

Dr. Karnes said, “No subcategories of students.”

Chancellor Rita Cheng said, “Definitely what Allan is saying is an important factor to look at the possible measures to add, none of the input measures made it. So SAT, ACT scores, students who require remediation or the number of transfer students did not make it into the model because of the lack of data. But, the low income, PELL/MAP eligible also did not make it in. You have an underline to find better data but you are not using the FASFA for that. Since low income and socioeconomic status and preparation for college are really highly correlated, couldn’t we look at something like that? Because then you would have access institutions versus very selective institutions separated and not compared against each other, but compared to how we are doing with the input measures that we have. I think that is something that we should definitely put on the table and think about, if we do not have the direct measure what we have that is highly correlated to that.”

Dr. Berman said, “Let me suggest that we hold that thought and come back to that and continue with the presentation and we are also going to need to weigh how your suggestion relates to the accounting that is already taking place for student demographics that is already in there. We will come back to that.”

Dr. Karnes said, “I had just another comment. The cost per completion, the completions has to be a weighted completion.”

Dr. Phillips said, “We are going to take a look at that.”

Dr. Karnes said, “Time to completion for the credit hour accumulation, the same kind of argument that we have to look at for time to completion, because poor students or poorly prepared students have a much harder time coming up with 24 hours in the first year and 48 by the end of the second year. So if we do not measure those students independently then schools with large populations of those kinds of students will do poorly even though they may be doing a very good job with the students they have.”

Dr. Phillips said, “They are more difficult to get through.”

Mr. Jay Bergman said, “One thing to consider may be, you are right, all the universities cannot be measured in the same way. It may be looking at what was the, whether it is cost per completion, cost per credit hour, this year, what is it the following year and if it is improved and if we can define improvement somehow then that is a positive to this formula. So it may be a question of each university improving their economic performance versus what they had before. It is a little less complex than trying to look at metrics for every different university.”

Dr. Karnes said, “That is what we originally started with. Were you able to increase your performance from year to year then somehow it got into we are throwing dollars into a pool and letting everybody compete.”

Dr. Phillips said, “The problem with the model is we need to get to a baseline to where we can get it stabilized and locked in, so we do not change it, so we can see how folks do from year to year.”

Chancellor Cheng said, “But clearly if there is weighting on some of the input measures relative to race and ethnicity, but then there is no weighting on some of the other variables, they are going to wipe each other out.”

Dr. Phillips said, “And I very much would like to see some entry level variables in this because we are measuring output, but as a systems process guide that all of your outputs are largely a function of the quality of your inputs and we have not yet captured that. In the subcategories we do talk about underserved populations and low income and all that and you get a premium for that, but the model does not account for where you start. So that is a shortcoming of the model.”

Dr. Abbas Aminmansour said, “If I may follow-up on what Jay said, if you do that, if that the base is each institution’s performance and that makes sense because we have said already that different institutions have different missions and they should be evaluated differently. So if we start with the same university or college as a base then it may be more reasonable [inaudible].”

Dr. Berman said, “We are already taking into consideration the different missions, but that is not to say that this central component that we want to get to at least where we are identifying improvement. With that said, that is a terrific point. It is the end in view to where we want to be headed. Whether we can accomplish it this year, I am not sure, but that is where we want to be headed.”

Dr. Aminmansour said, “The point is if one institution, if one of their main missions may be to serve underrepresented students more so than another. That is the basis that the table could pick up.”

Dr. Phillips said, “The subcategories – we did not change the subcategories once again even though there are others we would like to add. There is the challenge of having the data. We did however, decide to take a look at, as I said before, the data for low income, PELL/MAP eligible students and the STEM and healthcare subcategory and take a look at the CIP codes and we did that. Those changes are incorporated into the model.”

Dr. Berman said, “I think that is important to give some attention to.”

Dr. Phillips said, “Goal 2 – identify better and more current sources of data. For IPEDS we used IPEDS in the last model. The data we used for IPEDS, we are still using IPEDS except that we defined the CIP code basically to be Homeland Security STEM list and we staffed this with all the universities and the 51 CIP code health professionals and related program field. We originally were going to use the Homeland Security list and we sent it out for input and we got quite a bit of input back. Most of the input was that we should add additional CIP codes that were in the 51 field and we did not have any problem with that.”

Dr. Karnes said, “What is that?”

Dr. Phillips said, “That is the health professions and related programs.”

Chancellor Cheng said, “Did you give the list to those?”

Dr. Phillips said, “We have the, you do not have the list, I have the list, but I would be happy to provide that to you. We did take a look at all of that. Basically, health information management was recommended, athletic training, community health services, medical illustration, medical illustrator, these are all 51s. There were a number that were recommended that were not in the 51 fields – clinical psychology, counseling psychology, school psychology. We did not include those because, once again, one of the things we are trying to do with the model is keep it simple and straight forward and we did not want to get into a discussion of which of these should fit, which would not. So, what we did was we limited it to this time, to the Homeland Security list plus the CIP code 51 fields. That actually incorporated all of the recommendations for what we should add with the exception of those that were in the 42, 13, 31, 19 and 44 fields and some of those were social work, foods nutrition, wellness, those kinds of things we did not include.”

Dr. Karnes said, “I do not want to break in all the time. I asked this before and I know STEMS are important, but there are also other degrees that are in high demand and it seems to me that if we are working to help Illinois’ market that we ought to put a premium on those degrees that have high job demand. There is information for that. The Illinois Department of Employment Security (IDES) puts out a, I believe, five-year projection on job growth for certain occupations. It seems to me why not look at that.”

Dr. Phillips said, “We can do that.”

Dr. Berman said, “I am coming to this relatively new, but my understanding of the rationale for singling out those degrees is that they were identified in the *Public Agenda*, the higher education master plan, as areas that we wanted to develop to benefit the economy of the State of Illinois. So it was not just picking those out of nowhere, it was because it was grounded in our master plan.”

Chancellor Cheng said, “There is some overlap, but that document is starting to be dated as well, but what I am seeing from other performance funding models from other states is that is very much linked to the state’s economic agenda and STEM is certainly one of them.”

Dr. Phillips said, “And I am very happy to, we cannot do it this go around, but I am very happy to open it up and take a look at other things. One of the other things that came up later on was that we have a lot of high cost programs. Well there are other programs we did not consider such as engineering and there is other programs we may want to look at. So there is a lot of things, once again we are trying to go forward deliberately and these are all things which certainly have merit and deserve a look at to try to figure out once again you get into a discussion of which ones of those do we need to add and where would we find a list. It will take some work to narrow it down.”

Dr. Karnes said, “Can we count the accounting?”

Mr. Bergman said, “We have too many accountants in this world.”

Dr. Karnes said, “Never enough.”

Mr. Richard Wheeler said, “Isn’t the “E” in STEM, engineering?”

Dr. Phillips said, “Yes it is.”

Chancellor Cheng said, “In healthcare I heard athletic training?”

Dr. Phillips said, “Well once again.”

Chancellor Cheng said, “How did that get into, not that I am critical of getting down in the weeds here, but that seems to water down the argument if you start including some CIPs that are nice to have but are not really core to the economic impact of this state.”

Dr. Phillips said, “I agree completely. There were a number that we did not include.”

Chancellor Cheng said, “That we did not include?”

Dr. Phillips said, “Like I said the only ones we included were 51 and the Homeland Security list.”

Chancellor Cheng said, “Then I misheard.”

Dr. Phillips said, “Those were the only two, the 51 code included all of those, because it was straight forward and there was no argument about what was in that and the Homeland Security list. Those are the only things we included. Once again, best to keep it straight. There were a number of other CIPs that were recommended that were kind of from this field and that field, and some of them were, when you took a look at them, like I said nutrition and some other things were not exactly what we wanted and that will take a lot more work by people much smarter than I am to figure out which ones should be added. But, for right now, the National Science Foundation list was fairly complete and everybody was okay with that, and then we added the 51 CIP code because all the recommendations with the exception of a few were in that area. So we just added that whole code to keep it simple.

“Once again in the grand scheme of things, whether a code is in there or (a) is in there or not is not going to have a big impact on the results. I was more interested in keeping it clean and straight forward so everyone would understand why something was included or why it was not. So we only went with those two lists. Once again that is something we can also discuss more at length.

“Cost study – we added cost study, so we used that data for cost per completion, cost per credit hour. Under RAMP we deleted the education and general spending per completion, basically replaced it with cost per completion and cost per credit hour. Complete College America (CCA) data we used adult students, we now have two years data instead of just one and for low income we went to the universities to gather that data because our view was their data was much more comprehensive than what Illinois Student Assistance Commission (ISAC) could provide us and would be much better to use that as opposed to the ISAC data.

Chancellor Cheng said, “And is this the same data that we submit to the IPEDS? So this is [inaudible] data?”

Dr. Phillips said, “As far as I know. It is data that each institution sent to us. We surveyed, the IR directors all provided that data back to us.”

Chancellor Cheng said, “Because we do have a requirement for IPEDS and [inaudible].”

Dr. Phillips said, “It should all be the same.”

Mr. Doug Franklin said, “It is not in IPEDS. It is the number that actually receives? In our survey the number is actually eligible. There is in some cases a small difference between those two. So, it will be close but in some cases it will not be exactly the same.”

Dr. Karnes said, “Which one did we use? Eligible or received?”

Mr. Franklin said, “Eligible.”

Dr. Phillips said, “As you can see ILDS, we had our first submission this last summer. We managed to acquire 350,000 unit level records and then immediately decided to have everybody submit them again because we could not agree on definitions and there were issues with the data which actually is to be expected. That effort is going extremely well. However, it is probably going to be a year or two longer before we work through every issue and have data that has enough fidelity that we can actually use for this. So it will probably be a couple of years before we can actually use the ILDS data. But once we do, all of the additional data that you see here will be available and the data elements that were developed for ILDS were also done with an eye towards a use for performance. So we tried to make sure in the data elements we had those things that we planned to use down the road to help us with the performance funding model, but as of yet it is not ready for primetime.

“So the next question was to determine if there was a better way to scale and normalize the data. We had lots of discussions and it was nice to know that I was in a room full of people of who were more knowledgeable than I was because they could help me with this. The problem is there are a number of ways you can do this. As we talked about last year you can use Z scores, everything from standard deviations, you can come up with all kinds of ways to do this, but when I have to walk down the street and explain all of this to a

legislator, that does not work very well. The intent was to come up with something that was complex enough to do what it was we needed to do but not so complex that I could not explain it to a legislator because last year I actually had to go do that. Our concern was that some of the appropriations committee if they did not agree with what we had done and provided to them and understood what we had done, they were going to come up with their own performance measures and do it themselves. So it was important they understood what we did. We had lengthy discussions on this and we came to the conclusion that there are many ways to do this, but if you are going to do it and keep it simple enough to explain it, we are not sure there is another way you can do this that is any better. So, for this purpose, and we understand there are biases in this and it, once again is not perfect, it does what it was we needed to do. It normalizes the data, so that we can take all the measures, make them roughly equivalent and add them all together to get a performance value.

“For this year we are going to continue with the present approach and we will continue to search for a better way to do this, but for now this works, I can explain it and it does what we need it to do.

“Goal 4 – we had lengthy discussion on the high cost entities and how to account for those, because in the case of UIC they have a hospital and it is a significant portion of their budget, their funding. SIU Carbondale has a medical school, a significant portion of their funding, but these institutions do not produce a lot of graduates. So one of the discussions we had revolved around before we applied the performance funding model just take those amounts out of the appropriation and apply performance funding to what remained. Our concern was that we do not control the appropriations process. All we do is make recommendations to the Governor and to the legislature. For us to try to impact the amount that they appropriate and have them take part of the appropriation out of consideration for the performance funding model we thought might get somewhat more interesting than we would like for it to. So to avoid all that, we added a factor to the model to account for these entities so that whatever money they set aside, if it is an additional money or if it is a set aside like they did last year, we have adjusted for those entities in the model so we do not have to try to exclude any funding from the appropriation that the model would not apply to. It just keeps it more simple, and once again, since we do not control the appropriations process I do not want to get into a discussion and try to explain to a legislator why some of this, why performance funding should apply to some and not the other. So what we did was we added a factor and as we go on I will show you how that works in the model to account for these entities. Additionally by using cost study data, cost study data does not include the cost for these entities either. So the cost study data that we use for cost per completion, cost per credit hour, the cost for those entities are not factored into that.”

Dr. Aminmansour said, “This is more of a budget issue than performance based, and I do not mean to get political either, but what if Obamacare impacts the revenues of some of these institutions, in particular, hospitals. That could be significant. Are there any discussions or considerations?”

Dr. Phillips said, “We have not had any of those discussions. That would be a separate discussion it is along the lines of the sequester. What happens if the sequester

impacts grant funding, research funding, financial aid? We just have no idea. So for purposes of this we have not included that, we are just dealing with the appropriations numbers as we know them. I would have no idea how to account for that in anyway because we just have no idea what the impacts are going to be.”

Dr. Aminmansour said, “Do we have information on like Medicaid?”

Dr. Phillips said, “We have nothing. I do not have any of that. What I do know is the impact it is having on the state budget and how much money less we have this year than we had last year, but in terms of the impact on these entities I would have no idea.”

Dr. Aminmansour said, “It may be more significant than overall.”

Dr. Berman said, “But in terms of performance funding I think the take away on this Goal 4 is that the idea of accounting for some of these high cost entities was introduced as a potential refinement. There are different ways to accomplish that but that absolutely is a part of the model going forward.”

Dr. Phillips said, “That is correct.”

Mr. Wheeler said, “Is there a master list of what these high cost entities are? Universities do a lot of things [inaudible] is that one the list, [inaudible].”

Dr. Phillips said, “The only things we agreed to exclude because there, the challenge is that every university has unique things that they do that they would like to have excluded or from the model. They are all different. They all have unique challenges. So the Refinement Committee only agreed to hospital, medical school, dental school and veterinary school. Once again that was for this go around, that we would adjust the performance values for those specific entities which did not apply to all the universities, pretty much the larger ones, but not some of the smaller ones. Those were the only things that we adjusted for in terms of high cost entities that produce, that really do not add to the completions. There are other things we might include in the future, but those are the only four we agreed to this go around.”

Dr. Aminmansour said, “Can this be discussed later today after we adjourn.”

Mr. Jeff Mays said, “I want a little clarity on what we are doing in terms of putting money behind these performance funding metrics. Are we suggesting that [inaudible] IBHE appropriation include a certain amount of money, a certain percentage of money or what?”

Dr. Phillips said, “Last year the recommendation for the IBHE Board recommendation was that one-half a percent of the total general revenue fund appropriation to the universities would be allocated based on performance. So that amounted to about \$6.1 million after the budget reductions were made. So we took \$6.1 million, put that into the model which then allocated that amount of money back to each of the twelve universities based on performance. This year although we have not yet determined what our

recommendation is going to be, the recommendation from the IBHE Board will be something similar to that. It either will be based on additional money or it may be based on a carve out or a set aside going into next year, but this is what we were directed to do by the legislation.”

Mr. Mays said, “So your recommendation will be similar to last year’s in that the overall appropriation set aside a percentage of some amount to drive this performance funding metric. If I recall when we decided upon the one-half percent, the discussion was that that was the start and that percentage would be increased in out years. Am I the only one that remembers that?”

Dr. Phillips said, “That is very likely, that is correct. However, our concern is until we have good data and until the state budget situation stabilizes, we are concern that we not allocate too much to this because what we want to do is get to a point where we can lock in the model for a period of time so that the universities are not always chasing a moving target. Most of the states where this failed were because in most cases they had additional funding allocated based on performance. It was not a carve out or a set aside and when that money went away they did not do performance funding anymore and the other situation where there were challenges was when the state had an unstable budget situation and those were two of the factors that led to performance funding being dropped by a number of the states and we are trying to avoid that.”

Mr. Mays said, “Well I am not going off on the concept of set aside, I just was not happen how limited we set aside initially. I like how we are doing it I just did not think the amount was enough to drive a sincere effort. 99.5 percent is going to be going to the usual and commonplace. I like how we are doing it and this is a judgment decision that is made to keep as it was last year. I guess I can live with that, but I sure hope that we never lose sight of the fact that we need to put more into this for it to amount to anything.”

Mr. Bergman said, “I do not believe that the decision has been made as to whether it is one-half a percent or any other percent. That will be made in actuality by the Illinois Board of Higher Education rather than this committee.”

Dr. Berman said, “That is correct. Jeff this is Harry Berman and I do not know if you were present for my initial comments, but our work today is really just on the model and as Jay Bergman mentioned it is the Board that is going to determine what the component of our budget will be, that will be directed to performance funding.”

Mr. Mays said, “I understand that. I thought this committee was to make a recommendation to the Board.”

Dr. Phillips said, “One thing I will say is that based on the many discussions I have had with university presidents and senior university administrators, I can guarantee you that this is something that has garnered their attention. I can assure you this is very important to them as we move forward. I have had some interesting.”

Mr. Mays said, “Thank you.”

Dr. Phillips said, “Goal 4 – I think we have covered that. Other issues we ran into were basically that data continues to be a problem, the quality of the data from ILDS is not good enough to use yet. Some of the data, once again, we are using data, the best data we may have two or three years old which even predates the start of this performance funding process and so we did in fact specify some of the data we needed from the universities and went directly to them to get it.

“Quality is still a challenge. That is going to be a tough one. We talked about that but you are going to need a number of quality measures and quality tends to be subjective and so that is going to require a deliberate effort to get our arms around quality.

“Then, first generation, geographic area, IERC made the recommendation we should look at students from disadvantages high schools, but once again, we do not have that data yet. So more work to be done in those areas, but those are all areas we plan to focus on in the future.”

Performance Funding Recommendations Discussion

Dr. Alan Phillips said, “What I am going to talk about now is the model that we are proposing for this year. Basically, the model is the same except that we added one step. Step seven is the step where we added an adjustment factor for the high cost entities. All the other steps remain the same as in last year.

“Steps one and two identify performance measures and then collect the data. In that case, we added four measures. We deleted the education general spending per completion and then it also shows the source of the data. Subcategories – all remain the same with the exception of for the low income category we used survey data from the universities and we refined the CIP codes by using the Homeland Security and the 51 code, but other than that, those stayed the same.

“Scaling factor – we did it exactly the same as we did it last year and this is what it looks like when you add in the additional measures. Now for the grad rates, we did 100 percent, 152 percent, 200 percent and for retention, 24, 48 and 72 semester hours. The scaling factors for the measures that we used last year, we kept those values and then we added additional scaling factors for the new additions.

“The weights – once again we weighted each of the performance measures to reflect the prior of the measure and the mission of the institution. As you can see, there are more, and so each of the percentages is somewhat less. I will point to grad rates and retention rates. So as to not overweight those categories we basically devoted three percent or so to each, and as you can see the percentage starts at 100 percent to 150 and 200 percent decreases and for retention the longer you keep them the more credit you get for that because the goal here is to keep them to completion. Other than that this is exactly the same as we did for last year, and these are the rest of the schools since I could not fit them all on one page like I did last year.

“The performance value calculation is done exactly the same as last year. You take the data, add the premium, scale the data by multiplying by the scaling factor which gives you a number, times the weight for that measure gives you a value for that measure for each institution. You add those up that gives you a performance value for each institution.

“This is the additional measure that we added. For those institutions that have a high cost entity what we did was we went to all the institutions and asked them what the appropriation was for that program or institution. For instance, SIU Carbondale Medical School we said okay, how much of your state appropriation goes to fund the medical school? We then basically took that as a percentage of their total funding, multiplied that by their total performance value and added it back into the model. If the program cost \$20 million out of a \$200 million institution budget that would mean ten percent of their funding would go towards the support of that hospital or program. You multiply it by the performance value and in this case I just used \$3,200. It gives you a number of 320 and that is added back on top of the performance value. That is in lieu of doing a carve-out or trying to take those entities out of the appropriation before we apply the model. This way it is all included, it makes it much easier for all of us to allocate the funding, so no matter what amount they give us we just have to take that amount, we do not have to go through the issue of well how much of that should not be in there based on what the universities spend for that. This is how we adjusted for those entities.”

Mr. Bergman said, “Let me ask you and I have not, and I know you sent out initially a copy of this, email and a refined one this morning. I did not look at either one of them before coming here, but looking at the performance value calculation, step six, the bottom two items, cost per credit hour, cost per completion. They both come out to negative amounts. How did that happen?”

Dr. Phillips said, Well the intent is that we look at those as efficiency measures. So if those cost are kept lower then you want, lower is better. So that is actually the same we did last year’s cost per expenditure, what was it here. Hold on.”

Mr. Bergman said, “Maybe it is the same as last year, but I do not remember last year. So you are saying lower is better. I am looking at the performance value and these are negative numbers. Go ahead.”

Dr. Phillips said, “Basically we subtracted that because.”

Mr. Mike Mann said, “Al, if you have a high cost per credit hour if you use a positive value for a performance value you would get more credit the higher your cost were.”

Mr. Bergman said, “Alright. So it is like an inverse relationship.”

Dr. Phillips said, “Right.”

Mr. Bergman said, “Okay, I understand. Thank you.”

Dr. Phillips said, “Any other questions? So this is how we added in the high cost entities. Once again, what you do then is, and this is not using 12 institutions, I just used three. It is a pro rata share of the total. You add up all the values for all the institutions, you take their pro rata share and multiply it times the amount of money that is allocated for performance and that is what they get. In the case of an institution that would have a high cost entity, instead of \$3,200 if you go back to the previous page it would \$3,550. So their value would be a little bit higher so they would get a little bit larger proportion of the funding.

“So the model works exactly the same. We took out one element and we added four measures, we refined some of the data, we added in a factor to adjust for the high cost entities and that is pretty much all that we did to the model.

“Any questions about what we did?”

Mr. Bergman said, “I do not know if it is a question about what we did, but the thing that concerns me is economic efficiency. We had discussed this in the past. When we talked about it a year ago, we were concerned about the data. So, it was not, it had little or no effect on the ultimate formula. This year it appears that we have a little bit better data or at least a different source for data, but still it seems to have little or no effect on things because it being such a small amount. I do not remember the exact wording of the resolution that created us and the performance funding, but economic efficiency was a part of it. Many other things were a part of it also, but as the account in the room, not the one that just teaches accountants, to me my thoughts would be economic efficiency maybe should play a little bigger role in this.”

Dr. Alan Phillips said, “Well one of the and there are a lot of things to look at, but the efficiency that is what we were trying to get to with the cost per credit and cost per completion.”

Mr. Bergman said, “Right and I understand.”

Dr. Phillips said, “It is a more holistic measure and it is less specific than we.”

Mr. Bergman said, “But, even so, the cost per credit hour and the cost per completion in looking at your charts. It plays such a small amount in the overall calculation, as to be almost, well less than insignificant. I think it should be, I think whether it be this year or next year, it should play a larger amount.”

Dr. Phillips said, “Okay.”

Mr. Richard Wheeler said, “I am missing something really basic here on the performance value [inaudible] suppose you have two universities, one is twice as big as the other and they perform exactly same way but one is double the other, do they have the same performance value or would one have double the performance value?”

Dr. Phillips said, “One will have double the performance value, but once again, when you do a set aside or carve-out, if you are allocating one-half a percent, that is one-half a percent of the pot, so each university would give up one-half a percent. So the larger universities one-half a percent would be much greater, so because the larger university is going to have more completions, more graduates, their performance value will be higher, but it is proportionate. Basically what they are doing is getting back their piece of the money which was proportionate to the university in the first place.”

Dr. Allan Karnes said, “Are we going to look at Big 5 and Non-Big 5? Because it makes a difference.”

Dr. Phillips said, “We did not get down to that level of detail, we just took aggregate numbers.”

Dr. Karnes said, “Because that will place some of the schools around the state at a disadvantage.”

Mr. Bergman said, “Maybe that is what economic efficiency is.”

Dr. Karnes said, “I would disagree, Jay. University of Illinois is going to have a very high cost per credit hour because they hire expensive professors.”

Mr. Bergman said, “Understandable and perhaps they should be rewarded for being able to either bring down either the cost per credit hour or slow the rate of increase.”

Dr. Karnes said, “They could do that by having a bunch of research assistants teach their classes. That would not be good.”

Dr. Phillips said, “Well part of the intent of the model is to have enough measures and variables in there that they balance each other out and that is how we weighted them also. For instance, if we were going to weight the bachelor’s degrees at the University of Illinois at a very large percentage, they just have to open the flood gates and they could just crank those out all day long. So that is why we weighted those much more heavily for the smaller master’s institutions because that is more of what they do. That is why we weighted the larger universities much more heavily in terms of research because that is what they do. So many of these, and we ran into the same issue with the Refinement Committee, what may work really well for one institution may not work at all for another. So trying to reach any kind of consensus was a challenge, but once again, what we are trying to do is put enough measures in there so we can balance out the difference between and the strengths and weaknesses between all 12 universities. Because we all know, and this certainly became very apparent to me when I started working on this, they are all completely different. They are totally different. They serve different populations, they have different missions, they have different cultures, they focus on different things and they have different programs. So what we tried to do was build enough into the model to accommodate the strengths and weaknesses of all those institutions and then balance that out so that we came up with a

model that is equitable. It is not perfect, there are still things we need to and add and a lot of work to do, but that was our intent.”

Dr. Harry Berman said, “As Jay mentioned a few minutes ago, it is wonderful to think about getting to the point where we would be measuring approval. So a reduction in cost per credit hour with respect to what the institution’s baseline is.”

Dr. Abbas Aminmansour said, “I just wanted to point out that some of these expenses are beyond the control of the institution. An accounting professor, the market dictates what the salary is for starting faculty members, and going back to Jeff’s point earlier, that may be one of the reasons why we have to keep the percentage low until we get it more right.”

Dr. Phillips said, “I agree 100 percent. Once again, much of what the measures we have are proxies and some cases proxies for proxies. I mean once again you are trying to capture the totality of performance at institutions that are totally different, we have added a couple, but last year it was six measures and five subcategories. It is kind of like these surveys you hear on for the elections where they poll 1,000 people and that tells you what the interest is going to be. That is kind of what we are trying to do here. Or, you invest in an index fund that buys a basket of securities or stock that mirror the entire market. So what we are trying to do is come up with enough measures to capture performance holistically understanding that this is, some days, more art than science. These are approximations. As we go forward the goals can be very deliberate by how we do this, bring everybody along with us, build consensus, but at the end of the day we have to do what we were tasked to do by the legislature which is address all these specific things and I would be the first to tell you that we have a ways to go.”

Dr. Aminmansour said, “Hopefully we will do better than the stock market.”

Dr. Berman said, “Al has incorporated some broader thoughts about the overall budget situation that may ultimately have a bearing on the recommendation that we make with respect to performance funding. Why not review those.”

Dr. Phillips said, “As you might guess, lately we have been doing a lot of thinking about the FY2014 budget and some of the considerations as we go forward especially with regard to our performance funding recommendation is that the state budget situation is not stable and we may continue to see declines in funding for the colleges and universities. As a matter of fact, the good news is that the revenue to the state has increased from last year to this year. The bad news is with the pension problems and Medicaid it has not even come close to covering the additional costs and we just last week received the certification amount for next year’s SURS payment. It has gone up by \$100 million. This year we wrote a check for \$1.4 billion, next year it is going to be \$1.5 billion. There are no corresponding additional revenues to offset that. The state is going to be this year between one-half a billion and one billion dollars short of breaking even. So you are probably going to see additional cuts and that may also impact higher education. We are very concerned about the pension cost, the pension resolution, a potential transfer of the costs to the universities.

“We continue to have unfunded mandates. Things like veteran’s programs and grants. We still have the issues with procurement, the additional costs that those changes have made. Financial aid is a problem, funding for PELL and MAP continues to decline. Enrollment has declined.”

Dr. Berman said, “If I might just underscore that forethought the availability of financial aid continues to be a problem and funding levels for MAP and PELL are declining. Well, it is difficult to increase completions if we have fewer students because we do not have the financial aid to support that.”

Chancellor Rita Cheng said, “We all had a number of students who did not register for spring because they do not have the money, or they owe us because the gap between their financial aid and tuition was such that they could not even approach it with working.”

Dr. Berman said, “Each one of these will be elaborated but that one is particularly painful in terms of what we are trying to accomplish with increasing educational attainment in the State of Illinois and what the performance funding is all about.”

Dr. Phillips said, “So and on top of that as we talked about as financial aid declines so does enrollment and when enrollment declines that is additional funding that is not available to the colleges and universities on top of the fact that not only is the state reducing the funding, but they are not paying the universities what they owe them. As a matter of fact, this morning on the front page of the Springfield paper was an article talking about that so far the state has only paid a small percentage of what they owe to the colleges and universities. I think at the end of last month they were behind by about \$950 million for this year. So that continues to be a problem.

“My other concerns, which we talked about today, are that we need to more fully define the performance funding model and try to get to a place where we can stabilize it and stick with the measures and go forward from there in the hopes that then we can maybe measure the differences in improvement.

“And one of the other problems is as was with last year we are using data that was in existence prior to us starting this effort which also puts the universities in a position of being evaluated on data they did not have the opportunity to impact.

“So these are all considerations which would lend us to recommend worse case a small set aside, although once again, all we can do is recommend, we have no idea of what the final appropriation would be or to recommend that we only do this if we get additional money. Another possibility may be that if we suffer additional funding cuts on top of the 6.1 percent we took last year that perhaps we do not add a performance funding component unless we receive additional money or receive no cuts. So, we are working through all of those. Once again, before we can come to any conclusion we are probably going to need to talk to some of the legislators and get a sense for what is possible and appropriate. But, these are all the things we are very concerned about as we go forward because as you know the

colleges and universities in many cases are having a very difficult time given the current funding and enrollment situation.

“Last but not least, we will present final performance funding recommendations to our Board on the 5th of February along with our higher education budget submission which will include our performance funding recommendations and we will continue to work to refine the model, because once again, we expect that this will be a component of the FY2015 budget and so once we get through this iteration we will start again working on refining the model for next year.”

Dr. Berman said, “Al before we get into general discussions, do you want to say a word about the community colleges?”

Dr. Phillips said, “The community colleges model for this year is the same as last year. If you look in the very back, their model is in the back. Their model is a little different, and what they have done is they have set aside, where ours is fully integrated, the community college model is set up based on essentially six buckets. So last year the recommendation was \$720,000, it was reduced to \$360,000 was the actual appropriation. And so one-sixth of that or \$60,000 went into six buckets and the community colleges compete for that money based on each one of those measures. Basically, if you improved you got a pro rata share of the funding. If your performance in that measure declined or was zero or less then you were not eligible to compete for the funding. So only those districts that had improved in that area could compete for the funding and if you look in the back, I ran the numbers for each of these measures and their measures were degree and certificate completion, degree and certificate completion at-risk students, transfer to a four-year institution, remedial and adult education advancement, momentum points, and transfer to a community college. The range of the allocation, and once again, this is based on \$720,000. Of the 36 the college that got the least was \$1,741 and the one that got the most was \$5,038 based on a \$720,000 allocation. Once again, that came off the top. Some got more than they gave up, some got less. It is just a slightly different way to allocate the money whereas the four-university model is integrated; the two-year model is set up so they compete separately for six different measures.

Dr. Berman said, “Geoff is there anything else you would want to add to that? Or anybody else from the community colleges?”

Mr. Geoffrey Obrzut said, “No.”

Mr. Michael Monaghan said, “The reservation would be to reduce the amount [inaudible].”

Comments

Dr. Berman said, “Well we are going to turn to general discussion now. I would like to start with people...”

Mr. Wheeler said, "Can I ask a question about this [inaudible]."

Dr. Berman said, "Sure."

Mr. Wheeler said, "It says that [inaudible] February 5 recommendation. Is that a distribution recommendation or is that an amount?"

Dr. Phillips said, "I would basically be a recommendation for how much is allocated to performance and then it would be distributed based on this model."

Dr. Berman said, "Ultimately."

Dr. Phillips said, "Ultimately."

Dr. Berman said, "In terms of when the appropriation is finalized at the end of the budget process, but the recommendation at the February 5 meeting will be, as Al said, a percentage and how that percentage relates to the overall budget recommendation. Right now this is something we have to discuss, as I said, with the Board chair."

Dr. Phillips said, "Last year our recommendation was one-half of a percent of the funding would be allocated based on performance."

Dr. Aminmansour said, "We are taking our recommendation of this committee to the Board?"

Dr. Berman said, "It was not my understanding that this committee makes that particular recommendation, it is a Board decision."

Dr. Aminmansour said, "It is a Board decision, but we can recommend to the Board that it remains the same or whatever. I think it would be a good idea, particularly making the point that there are so many variables still that we do not have our arms around and then it might be best to keep the percentage low to make sure that nobody suffers inadvertently. So I think we should make a recommendation. It is up to the Board to decide but we can recommend."

Mr. Bergman said, "As a member of the Board and as a member of the committee, the committee has, even though the committee as a whole has not met for some time, we have a greater understanding of what the situation is, so I would not think it would hurt at all to make a recommendation to the Board with the understanding that they may want to change it."

Dr. Berman said, "Let us see if there are any questions about the presentation and then we will return to that matter of a recommendation. I would like to start with the people on the phone."

Dr. Frances Carroll said, “I can agree with Jay that we can make a recommendation. I do have a concern about the matter of my money going to the colleges with less of an incentive.”

Dr. Berman said, “Are you speaking about the community colleges or even the four-year institutions?”

Dr. Carroll said, “Even the total. It is not as much money to get [inaudible]. I mean we can talk about that later, but I can see that the incentive is not there, is not necessarily there based on [inaudible] rather than the money coming in.”

President Elaine Maimon said, “Harry is Elaine Maimon, let me just say that, just as I said, [inaudible] a lot of attention to this. The incentives are too long and too unsure [inaudible]. The spirit of what we are discussing is high. The problem is and you heard this from people today, it is very difficult to get good data and it does not make sense to be allocating larger portions of scarce resources when we simply do not have, and we are working very hard to refine the data, to [inaudible], to look for improvement, to do all the things the [inaudible] but prematurely to start allocating larger amounts before we get the data refined, I think it undercuts the purpose of the whole. I think I can safely speak for the university presidents in saying that we are paying attention, we are trying to do our best for students of the State in light of these goals, but we are not anywhere close to having the kind of data that we need that would allow for larger proportions to be allocated.”

Dr. Berman said, “Elaine thank you very much for that comment. Anybody else on the phone who would like to weigh in?”

Mr. Eric Lichtenberger said, “I just have a quick question, I was wondering what our relationship is in terms of our committee, the Refinement Committee, would be or could be to a couple of the Illinois Higher Education Consortium (IHEC) committees. And, this kind of relates to this previous question that we are developing a longitudinal data system and perhaps this is a perfect opportunity to make sure we have good data going into the future and perhaps even an opportunity to have IHEC automatically generate reports that we could use for performance based funding. I just wanted to know what our relationship was to IHEC in those regards.”

Dr. Berman said, “Does any of the staff want to respond to that?”

Mr. Doug Franklin said, “I am on the IPEDS data element committee and I have talked with that committee about eventually incorporating some of these data elements into the longitudinal data system and it is a continuing discussion, and you know their work is still in its early stages. They have only submitted one data set so far and so it is, discussion will continue to happen in the future, but they are at least open to that idea.”

Dr. Berman said, “Eric thanks for that comment and Doug for your comment. I think that the answer is that is where we are headed in terms of the better full integration, and that

also speaks to the issue that President Maimon raised about improved data. We are headed down that path in terms of the development of the longitudinal data system.

“Anyone else on the phone?”

President Gayle Saunders said, “I wanted to just say similar things to Elaine in terms of the community college presidents paying close attention to what we are doing with performance funding and we are trying to stay within the spirit of what is going on. I think definitions need to continue to be refined as it relates to what we mean by momentum points and how the universities will accept our students and what reverse transfer means to those students who go back and forth between our institutions and I think we do need to remain concerned about how our students are going to compete with the offsets of financial aid not being there for them.”

Dr. Berman said, “Indeed. Thank you very much. Alright if there is nobody else on the phone let us open it to the people sitting around the table.”

Dr. Aminmansour said, “I just want to follow-up on what comments Elaine had, and the point about keeping the percentage low. It may be low, but it is still a good chunk of money. I mean, you mentioned, was it \$60 million?”

Dr. Phillips said, “It was \$6.1 million, but I will say in the current environment.”

Dr. Aminmansour said, “For public, four-year public institutions?”

Dr. Phillips said, “It was \$6.1 million.”

Dr. Aminmansour said, “That, I do not know what the proportion of each institution may be, but it is a lot of teaching assistantships, it could be faculty positions, it could be improving a badly needed improvements to buildings. It is still very essential to get us as much funding as possible, particularly keeping in mind that there may be budget cuts next year. Some of our institutions have high costs of benefits that may be affected because of new laws such as Obama Care and others. So I just want to put things in perspective that we say the percentage is low, it is still a good chunk of money.”

Chancellor Cheng said, “I would just add from a chancellor’s position that the early conversations did focus on that in order to do this we had to change some of the ways that we are approaching student success on our campuses and that the new organizations and restructuring of our support services on campuses, as well as looking at gateway courses and re-engineering some of our math and English sequences, we are going to require investments and reallocations and that work is not done. It is not easy work, it is not something that is done over night and so the institutions were expecting a gradual increase in this proportional carve-out in order to get our organizations structured to be able to map these outcomes. So, I think that is an important reminder to this group that we did talk about the need to invest and reallocate and change what we were doing and our costs are very sticky. We are very service

oriented. A lot of people costs and those things are evolving on our campuses at different rates.”

Dr. Berman said, “Good point.”

Dr. Karnes said, “I think the research has shown that performance funding works best when it is new money, not the carve-out. When it is a carve-out of old money all you are doing is taking resources away from the schools that actually need to invest because they need to make changes, but you are making that impossible for them to make those changes because they lose those resources. I, you know, we have got to keep this at a very low percentage in the budget that we have.”

Mr. Bergman said, “Al, you had mentioned \$6.1 million was the one-half of one percent, but as I recall it was not really a half a percent. Nobody could lose or gain a half a percent; it was really about one-eighth of a percent that was at risk. Is that correct?”

Dr. Phillips said, Well basically that is the stop loss. In other words, before you would get to performance funding, you would get 99.5 percent of your funding in a normal manner. So basically what we are doing is taking that away off of the top and then you are through performance trying to get most of that back.”

Mr. Bergman said, “Well as I recall, I guess the only thing is and maybe I am incorrect but, you really could not lose more, even though a half of a percent is allocated, you could not lose more than an eighth percent if I recall correctly. If that is correct and if I am wrong tell me, that is really not \$6.1 million that is at risk, it is only about a little over a million and a half that is at risk throughout the entire system.”

Dr. Phillips said, “The variance between the winners and those that gain money and those that lost money I think it was like the one gained the most money was I think got one-tenth of a percent in their total funding more. Those that lost only lost, I think it was like fifteen one-hundredths of a percent. So the variance was very small. Now one of the reasons for that was in the states where performance funding failed, it was when you started to have big winners and big losers and then it became political and then the big losers ended up weighing in politically to eliminate performance funding. So we are very careful, once again we are trying to balance a lot of things. We are trying to balance completions with serving underserved populations. We are trying to initially until we get this into place, to a large extent try to balance this so that the institutions get back most of what they gave up because, once again \$10,000 to \$20,000 in the current environment is a lot of money, and so the other thing you have is that one of the challenges is many of the institutions are largely regional. So you have to work with the students that you have. I mean they are not national universities, they are not big name universities, you have what you have and a lot of these institutions, and one of the challenges is, that a lot of these institutions are doing great things and working very hard, but because they either have a lot of low income students or they have difficult demographics, doing great things and still lose money based on performance because they cannot compete with some of the other institutions. So, but the variance between the winners and losers even though for one-tenth of a percent for University of

Illinois is a lot of money, it is several hundred thousand dollars. A tenth of a percent for University of Illinois at Springfield may be \$50,000. So it is proportional to the institution itself.”

Mr. Bergman said, “I know. My only point was that we are concerned about money and rightly so, but in reality on an overall basis we are not talking about a huge amount of dollars. I just to make sure everybody was on that page.”

Mr. Larry Frank said, “Two things kind of strike me from our discussion today that I think are going to be real challenging moving forward. One is the whole issue that Jay spoke to about economic efficiency and Jeff May has mentioned it too, and the other is our desire and I think everybody in room shares it to keep high quality programs and high quality degrees. I mean we are wrestling with that all across the education spectrum these days and it is, how do you, is there a way to spend less money and improve quality. I think as we develop the performance funding model that is going to be a particularly sticky point for us because given our understanding of that process so far it is sort one or the other and I do not think we have figured out how to do both of those things together.

“The other thing that strikes me is that whole question of the reduction of student aid and how that may relate completions. I mean we may need to think about at some point figuring out is there a subset of students who leaves a particular school through no fault of the school’s and therefore the school should not be penalized for that. But, divine inspiration is not given me a good path to collect that data.”

Dr. Phillips said, “You have no idea how challenging this has been to try to take all of those kinds of issues and to try to figure out how to address all of those and then do that by institution, because each institution has its own unique challenges and problems. So those are all things that we are trying to figure out how to get our arms around so that we can do the best that we can and coming up with a model that is equitable and does what it is we want it to do.

Dr. Proshanta Nandi said, “I have two observations and one question. Actually when you build a model, you look for inspiration, as the famous scholar Max _____, the ideal type and the basis that you should have adequate causation and objective possibility. So whether you even include and I marvel at the capacity of to master all those things and maybe there are more things left because as you mentioned there are so many variables, but this is a very noble beginning and I am sure this is not the final product, but as we deliberate on it we will improve it more and more, but one has to remember that ideal types are not average types, it is not an [inaudible] on reality it is a conceptual reality and then it is not expected that a model will be a complete replication of a real institution. It is just a model. That is number one.

“Number two is, I often wonder, I saw in the presentation a tension between reliability and validity by which I mean that in terms of validity how do you know what you know. And in terms of reliability is the evaluation or consistency on the featured application. We go for 100 percent reliability but we lose on the validity side and you can go for 100

percent validity and you lose on reliability. So there is really a compromise between what is possible under the circumstances.

“The third point is a question. Have you given the high cost programs and the bigger research universities and the teaching universities, have you looked at the medical model? As you all know, cancer is a very high cost item whereas a common cold is not a high cost but common cold tablets sell \$800 million a year, but cancer tablets probably not much. How do they manage, how do they look at, what is the perspective there? I wonder if you have ever looked at that?”

Dr. Berman said, “On the matter of validity Proshanta, one of the things that has been on my mind since I began working in my current position is what it is that we mean by performance and not to confuse the issue we are working on here which is the efficiency of an institution at producing completions – a very important issue. With performance in any kind of larger global sense but there are other ways in which universities perform besides this. There is the matter of the effectiveness of instruction, effectiveness of public service, but that is not what we are getting at. This is performance is shortening for completion performance and that is one dimension of performance.

“Well with all of that said, I wonder if, given that the group expressed an interest in making a recommendation, I wonder at this point if anyone would like to put forward something as a potential recommendation from this group.”

Chancellor Cheng said, “I have one question and I was not clear when we eliminated the education and general cost and we replaced with cost per completion and cost per credit hour, is that general and education cost or is that total cost? Because I think that makes a big difference. We report our general and educationally expenditures very differently than do our extension, our auxiliary, a lot of other expenditures and those costs are very different across institutions based on mission. So, what costs are we actually?”

Dr. Phillips said, “The cost last year between the research and the service spending and the other cost. That basically took in 100 percent of all expenditures at the university. So anything that was not in the research and public service was in the other figure. So that was everything.”

Chancellor Cheng said, “So you took out grants and you took out public service?”

Dr. Phillips said, “It was all. It was the total, it was all in there.”

Chancellor Cheng said, “I think that is problematic because if you have a high research environment and you have a lot of expenditures, but they are all supported by federal grants, why would that be...”

Dr. Phillips said, “That was last year. That was the one we took out. So we took that one out and replaced it with cost per credit hour and cost per...”

Dr. Berman said, “Was that instructional cost or?”

Chancellor Cheng said, “But what is the cost?”

Dr. Phillips said, “I think it was total cost.”

Chancellor Cheng said, “Instructional cost or...”

Mr. Matt Berry said, “I am pretty sure it is instructional.”

Chancellor Cheng said, “If it is instructional, it makes sense. If it is not instructional it is...”

Mr. Berry said, “I am 99 percent sure it is instructional.”

Chancellor Cheng said, “Okay.”

Dr. Phillips said, “So it was out of the cost study.”

Chancellor Cheng said, “So that answers the questions about what about extension costs.”

Dr. Berman said, “Right.”

Dr. Aminmansour said, “Turning to the matter of whether a possible recommendation coming out of this committee.”

Ms. Lynne Haeffele said, “Are you talking about the model itself?”

Dr. Berman said, “No, well I think that the sentiment around the table was that it would go beyond the model. The recommendation would be for how we would handle performance funding in relation to the budget.”

Ms. Haeffele said, “I have a question. Can we discuss after the motion?”

Dr. Berman said, “Yes.”

Dr. Aminmansour said, “I want to move that we recommend to the Illinois Board of Higher Education that we maintain the current one-half a percent portion of the higher education budget for performance based funding and we elaborate why we feel that way and partly because we do not quite have a formula that accurately measures performance we do not want to do anything that would do more harm to our institutions.”

Dr. Nandi said, “I would like to second that with observation that these are hard times for the universities and good teachers will continue no matter what and bad teachers will do

the same no matter what. So this award will be kind of symbolic to not be a huge award but like a feather in the cap and that is why it should be kept low especially in these hard times.”

Dr. Karnes said, “Perhaps as a friendly amendment that we would recommend that it stays at that level until education funding rebounds.”

Mr. Bergman said, “I do not think that would be a wise thing to do beyond one year as far as a recommendation to the Board.”

Chancellor Cheng said, “Are you comfortable with tying it to the start up, the fact that this is still a start up, the measures are not quite right and...”

Mr. Bergman said, “When I was going to speak, I was going to say for political purposes I think we should increase it but by a small percentage because it looks better to the legislature. I think we have found today that really the difference in dollars is not great and I understand we do not want to make it great at this point and I agree with that too. I am wondering, but since we had one-half a percent this year and the legislature is very interested in this topic if we should not make it five-eighths of a percent or maybe three-quarters of a percent this coming year, because the actual dollars are not that much. It looks good but the actual dollars are not that much.”

Mr. Obrzut said, “I agree, I would opposed to that just because we probably going to have budget deficits/cuts rather than increases.”

Mr. Michael Monaghan said, “I would like to say that if the Board would consider entertaining the motion that was made with an amendment that would take into consideration the size of possible budget cuts that might actually occur for FY2014 and adjust even one-half of a percent considering what the possible size of budget cuts could be. There are exercises that are occurring as we know to reduce budgets by five percent, ten percent, things of that nature. I find it curious that we would consider funding at the same rate a program such as this if we were to sustain substantial budget cuts/budget reductions.”

Mr. Bergman said, “It would be the same percentage not the same...”

Mr. Monaghan said, “The same percentage, the same rate, but when you get in the large sizeable budget reductions, maintaining the rate is difficult and I would suggest that the Board of Higher Education simply take that into consideration.”

Ms. Haeffele said, “This kind of goes along those same lines, along in this same vein, but I know originally last year when the original proposal went in that there was a suggested ramp up of the amount in a lot of documentation. So politically, I guess I am also suggesting along the lines of what Jay was saying is that you need to look at what was said in the past about how, you know, what the process of ramping up the percentage was and if there is not going to be a ramp up, there needs to be a really good justification. From what I have heard so far, the data is a pretty good justification. If the data are not good then it is going to be really hard to say this formula works.”

Dr. Berman said, “Folks and I am looking to staff and AI here. Am I correct in thinking that the ramp up was in relation to increasing appropriations for higher education?”

Mr. Bergman said, “I do not know if it was specified.”

Dr. Phillips said, “I do not think it was specified. This was along the lines of all the states over time increased the portion, but most of those states, those that were having challenges have bottomed out and are starting to move back up or, if you look at Indiana, they actually have a budget surplus. So our issue is a little different.”

Dr. Berman said, “The issue is an intention to ramp up over time. That is what we are talking about.”

Dr. Aminmansour said, “I just want to point out again that it was never really very well established whether the funding for performance based funding would come from additional funds or from existing funds, and given that it is coming out of our existing budgets and given that we did not anticipate a 6.1 percent cut last year even if it stays at one-half of a percent, that is still a cut given that also our costs keep going up. I mean we do not have any control over that. I totally agree that from a political point of view that might be a good gesture to make, but I also feel that we should try to help our legislators understand what is going on. I am concerned. We are talking about our community colleges competing against one another potentially or universities. We are competing nationally and internationally. Our education in this country is suffering. Obviously in an article a few days ago how much some other countries are investing in higher education because they have a different vision. I understand the realities. I understand that we are dealing with very very difficult times, but this is what we need to think about the future. This is where we need to invest in the right places. Even if it is \$100,000 that is still a significant investment. If you are the person who would lose their job or if you are the person who would not be able to take or course or building that cannot be repaired because there is no money to repair it, badly needed renovations or whatever. That is still very very serious, but I think more importantly in the large term given the budget cuts that have taken place and the potential budget cuts of the future and other things that are coming our way, even one-half a percent, even if it stays at that level is still a cut.”

Dr. Berman said, “Any other thoughts on this right now? Alright, anybody else on the phone want to weigh in on this?”

“What I am gathering though, what I have heard is a recommendation that we maintain the performance funding component of the operating budget at one-half a percent or at the most make a modest increase along the lines of what Jay suggested. That is point one. The second point was that we somehow in framing the budget recommendation take into consideration the potential for additional significant budget reductions. If that is satisfactory with the people let us have that be the recommendation coming out of this group and as I said repeatedly, ultimately...”

President Maimon said, "Harry, I guess I was not hearing the sentence on recommending any increase at all. I heard [inaudible] about it and some assessments of the political value of it. I would simply like to argue that it is important for us who have been studying this issue to help our legislators understand the data issues and just because something may sound good, performance based funding, and we all want it and we want to make sure that good work gets rewarded. There has to be a reality check about really gathering the appropriate information to backup appropriate decisions, and I think we have some obligation to say that we are not recommending more than last year because we are not in a position at this juncture even with our best efforts and excellent statisticians and everything else to really back up the values that the legislature wants to put on this. I just wanted to say that that I think we have to be very careful with the messages that we send to the legislature and that would be one that I would recommend.

Dr. Berman said, "I think it is quite the case that we need to continue the effort to education legislators about what this is and what it is not.

"Any other thoughts? I want to thank everybody for participation in this meeting today, a good exchange of perspectives and we will carry on."

Dr. Karnes said, "I am sorry Harry, one other thing."

Dr. Carroll said, "Harry I want to thank you."

Dr. Karnes said, "That we had the refinements, we talked about for the different subcategories and we actually did [inaudible] the graduation rates and the on the cost per completion and things like that because that makes a huge difference."

Dr. Phillips said, "We will go back and take a look."

Mr. Bergman said, "I have a comment too. Two or three years ago, prior to actually doing this, we had the commission, I forget the exact name of that, many of us were members of that commission, we looked at some of the systems that other states were [inaudible] were looking at at the time, but everybody was fairly new on this. We do not really have any options for this current legislative session, but a year from now we are going to be talking about the same thing. I am wondering if we want to consider working throughout 2013 and maybe have, looking at what has happened specifically at some of these other states, things they may have refined things and may have some pretty good ideas that we are not aware of."

Dr. Berman said, "That is an excellent suggestion and it actually fits in very nicely with our membership in the Complete College America group. That is the group that is really pioneering the thinking on performance funding. So there is more experience than there was four or five years ago when the Education Finance Committee made its report. I think that is an excellent suggestion."

Chancellor Cheng said, "I would also like to request that Al and his team rerun last year with this new model. It would be very helpful to the campuses to know where they

would have been with the refined model so we know where we need to go. To carve a path it is always good to know where you stand. So if you could do that for us it would be really helpful.”

Dr. Phillips said, “I think we can do that.”

Dr. Karnes said, “One other thing I found very helpful, when I got a hold of the actual computation for all twelve schools and I was able to look at impact that each of the components have and what was in it and what was not in it. If we could each get a hold of that and then meet, I think that would be very helpful for all of us.”

Mr. Bergman said, “We should talk about maybe a schedule going forward, maybe not dates but you know, I think at one point that we were going to meet every other month which seems to me to be something we need to do if we are really going to look at this. You know in detail.”

Mr. Monaghan said, “For clarification on the motion just I understand what we were talking about here. We were intending that whatever the colleges and universities set aside last year would be the maximum amount, we would not go over that in the coming year.”

Dr. Berman said, “Well I have one of my Board members here who is ultimately going to vote on this who has a somewhat different perspective. Not a radically different perspective, a moderately different perspective.”

Mr. Monaghan said, “In the business of going above the amounts that were set aside.”

Mr. Obrzut said, “You had one person who spoke up in support of that so far.”

Mr. Bergman said, “Well I think two people may have but I am certainly able to live with one-half a percent if that is the way it comes out with the Board.”

Dr. Aminmansour said, “I agree with Jay, we probably should have a general idea about how often we are going to meet. I think we should meet more frequently than we did last year.”

Mr. Bergman said, “Maybe every other month or so is my thinking.”

Adjournment

Dr. Bergman said, “Thank you very much folks – appreciate it.”