

## **Performance-Based Revenue Model Task Force Members**

- David Miles, former president and member of the Board of Regents;
- Katie Mulholland, Board of Regents President Pro Tem;
- Len Hadley, retired CEO of the Maytag Corporation;
- Cara Heiden, retired co-president of Wells Fargo Home Mortgage; and
- Mark Oman, retired Senior Executive Vice President of Wells Fargo and Company and Co-Chair of the Board of Trustees of the UNI Foundation.

**BOARD OF REGENTS**

**PERFORMANCE-BASED REVENUE MODEL TASK FORCE**

**AGENDA**

**October 18, 2013 11:00 a.m. – 2:30 p.m.**

**BOR Office, 11260 Aurora Ave, Urbandale, IA 50322**

- I. Introductions & Welcome David Miles, Chair
  
- II. Organizational Matters David Miles
  - a. Charge to the Task Force
  - b. Projected Timeline
  - c. Discussion
  
- III. The History of State Funding for Iowa’s Public Universities Patrice Sayre, BOR CBO
  
- IV. National Trends and Issues in Funding Public Higher Education Art Hauptman, Consultant
  - a. National Trends in State Funding & Governance
  - b. What are the Different Ways in which State Funds are Allocated to Universities?
  - c. Issues in Developing Funding Formulas
  - d. Ways in Which Performance Can Be Built into the Funding System
  - e. Where do Tuition and Fees Fit into this Picture?
  - f. What is the Appropriate Role of Student Financial Aid in State Financing?
  - g. Some Principles for Reform
  - h. The Importance of Linking Funding, Tuition & Fees, and Financial Aid Policies
  - i. Recommendations for how States Can Reform How Higher Education is Financed
  
- V. Discussion Task Force Members
  
- VI. Wrap Up & Next Steps David Miles

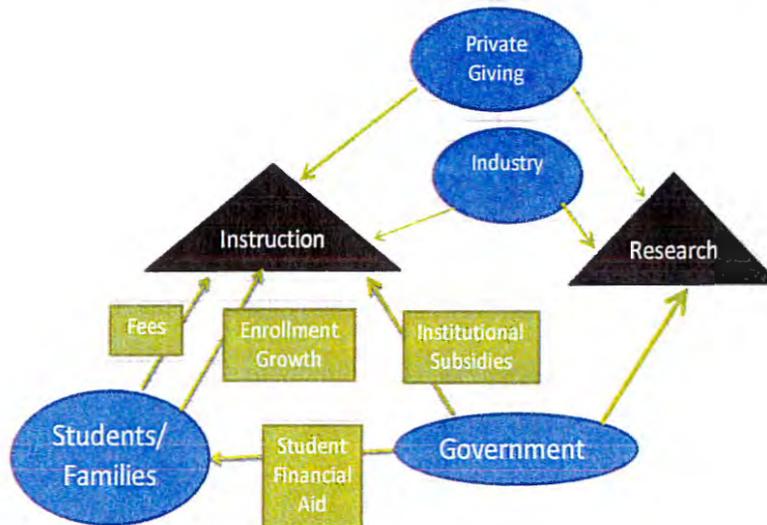
# **TRENDS AND ISSUES IN FUNDING HIGHER EDUCATION**

**ARTHUR M. HAUPTMAN  
PERFORMANCE-BASED REVENUE MODEL  
TASK FORCE  
DES MOINES, IOWA  
18 OCTOBER 2013**

## **ITEMS DISCUSSED IN THIS PRESENTATION**

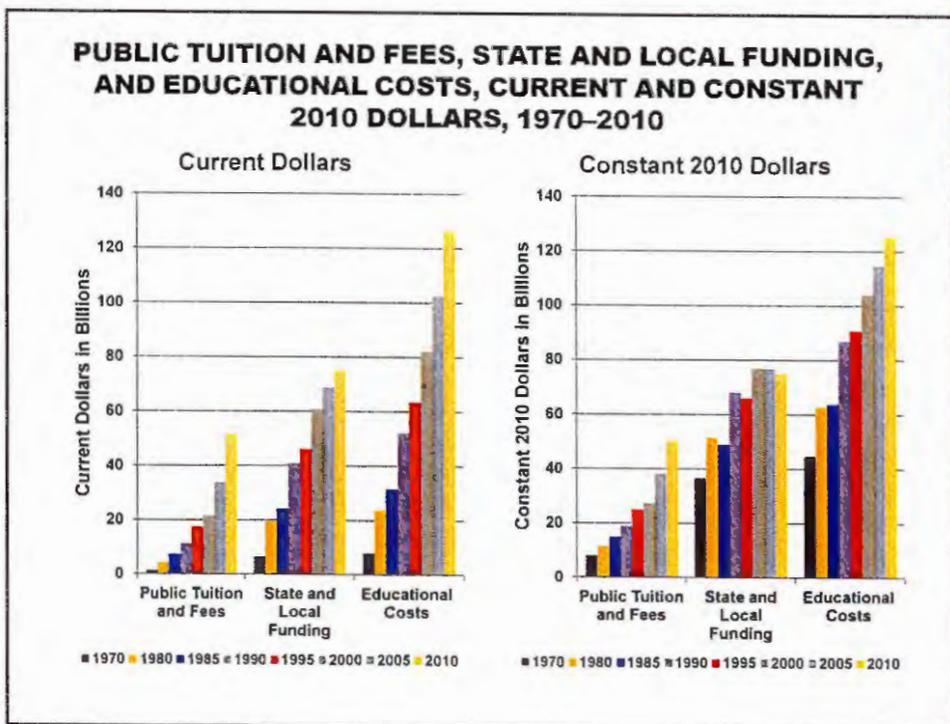
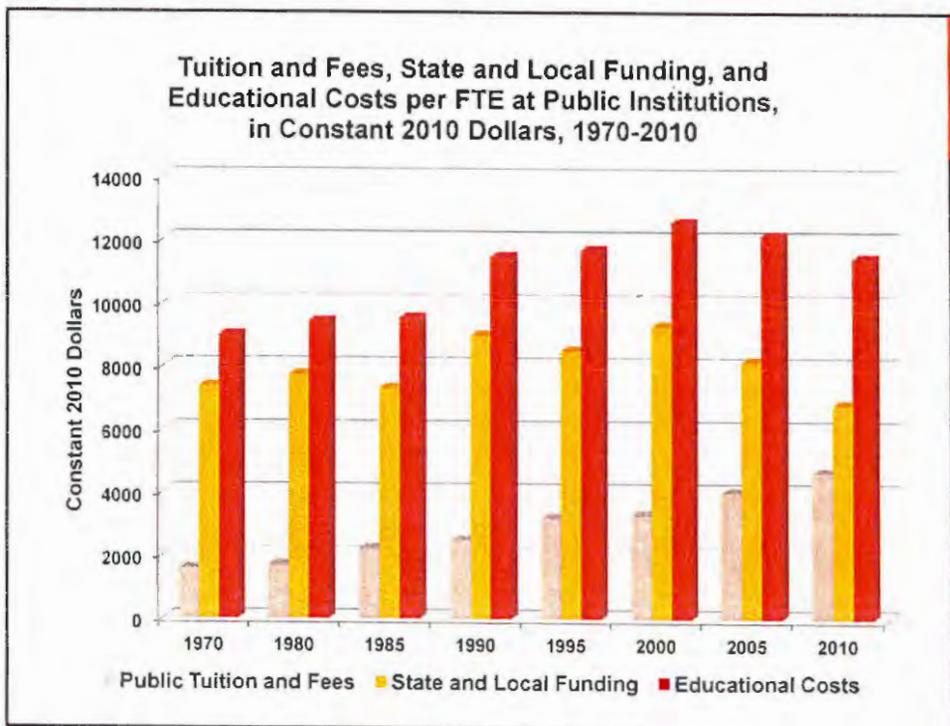
**Traditional Sources of Funds for Instruction & Research  
Ten Instructional Funding Dualities  
National Trends in State Funding, Fees, and Enrollments  
Trends in State Funding of Higher Education, 1970-2010  
Mechanisms for Allocating Public Funds to Institutions  
Elements of Funding Formulas for Recurrent Expenses  
Traditional and Performance-Based HE Funding Mechanisms  
The Role of Tuition Fees in Financing HE  
Possible Objectives of State Student Financial Aid Programs  
The Importance of Linking Funding, Fees, and Financial Aid  
Principles to Guide the Public Financing of Public HE  
Six Suggestions for Reforming How States Finance HE**

## TRADITIONAL SOURCES OF FUNDS FOR INSTRUCTION AND RESEARCH

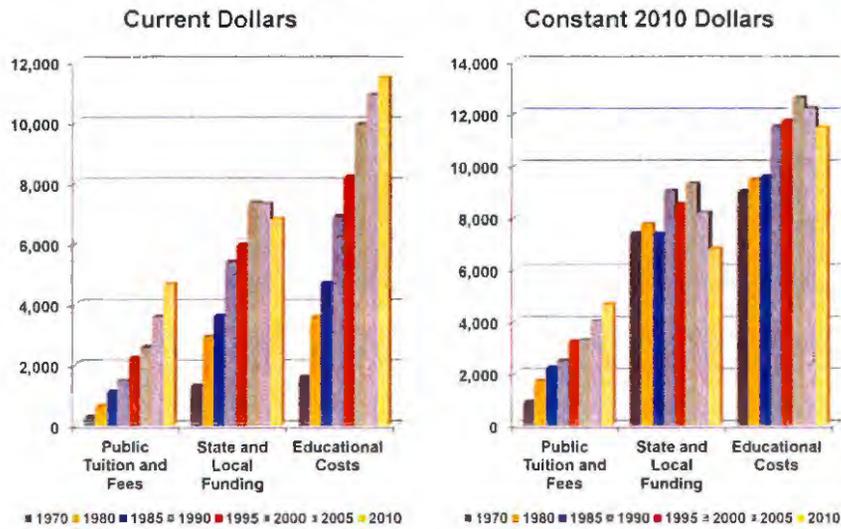


## TEN INSTRUCTIONAL FUNDING DUALITIES

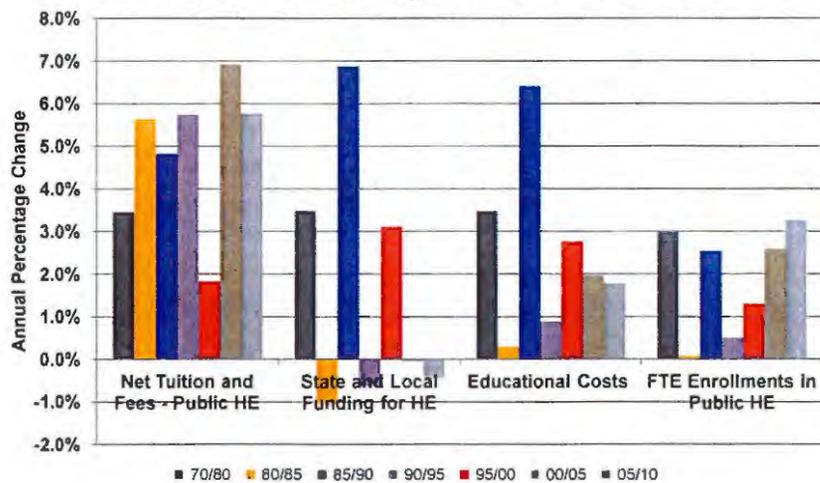
Mix of Funding	Government/(Student/Family)
Allocation of Public Funds	Formula/(Competitive/Categorical Grants)
Type of Government Support	Institutional Operations/Student Financial Aid
Type of Student Support	(Grants-Bursaries)/(Loans-Work-Study)
Student Support Delivery	Institution-Based/Vouchers
Role of Government Funding	Fund Base/Fund Growth
Types of Policy	Regulation/Funding Incentives & Penalties
How Growth is Funded	Government Funding/Student Fees
Funding Strategy	Government-Set/Market-Based
Basis of Funding	Inputs/Outputs

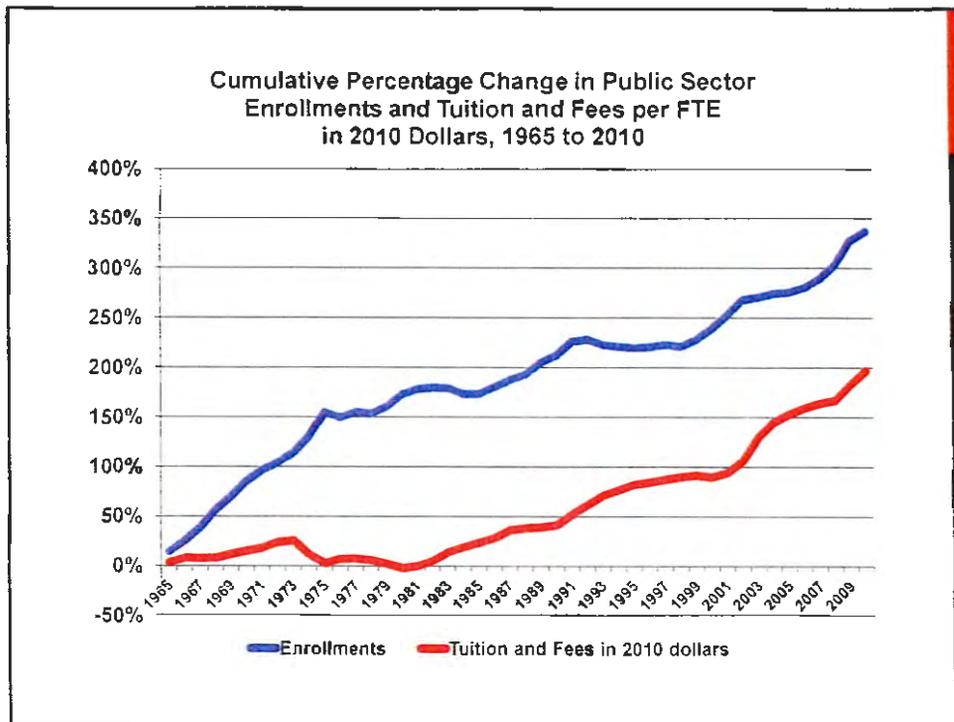


**PUBLIC TUITION AND FEES, STATE AND LOCAL FUNDING, AND EDUCATIONAL COSTS PER FTE, CURRENT AND CONSTANT 2010 DOLLARS, 1970-2010**



**Annual Percentage Change in Key Financial Indicators in Constant 2010 Dollars and FTE Enrollments for Public Higher Education, 1970-2010**





## **MECHANISMS FOR ALLOCATING PUBLIC FUNDS TO INSTITUTIONS**

Countries around the world and states use a variety of approaches to fund instruction, operations, and capital investment of HE institutions, including:

- Negotiated or ad hoc budgets
- Categorical or earmarked funds
- Funding formulas

## ELEMENTS OF FUNDING FORMULAS FOR RECURRENT EXPENSES

Most countries now use some type of formula to allocate funds to HE institutions for their recurrent expenses. The factors used in developing these formulas include:

- Inputs such as staff or numbers of students
- Costs per student
- Priority-based funding
- Performance-based funding

Countries also vary in what type of organization develops the formula:

- Political entities
- Buffer bodies

## TRADITIONAL AND PERFORMANCE-BASED HE FUNDING MECHANISMS

Traditional Mechanisms	Performance-Based Mechanisms
Negotiated Budgets – Allocations of public funds are negotiated between government agencies and institutions	Performance contracts – Governments enter into agreements with institutions to link resource allocations to the achievement of mutually determined performance-based goals
Categorical Funds – Categories of institutions are designated as being eligible for funding for specific purposes including facilities, equipment, and programs	Performance set asides - A portion of public funding for tertiary education is set aside to pay institutions on the basis of their achieving various performance targets  Competitive funds – Institutions or faculty compete for funding based on peer reviewed project proposals against a set of policy objectives
Funding Formulas – Funds typically are allocated to institutions on the basis of staff numbers, enrollment levels and unit costs	Paying for Results – Output or outcome measures used to determine all or part of funding formula allocations, or institutions are paid for the number of students graduating in certain fields of study or with specific skills

## **ELEMENTS OF FUNDING FORMULAS FOR RECURRENT EXPENSES**

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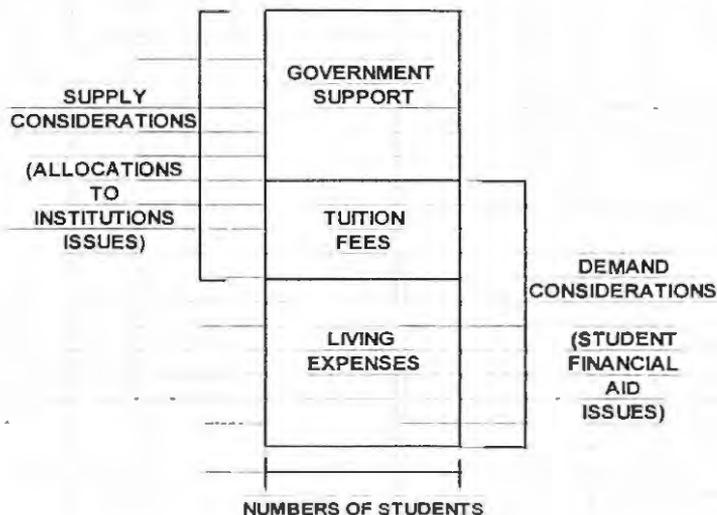
## **FUNDING FORMULA COMPONENTS**

Components	Types of Indicators Utilized
<b>Numbers</b>	Students - Head Count, Full-Time, FTE Staff – Faculty, Administrative Staff, Total Progression – Graduates, Course Completers Timing – Retrospective, Current, Prospective
<b>Costs</b>	Actual by Institution or Program Average Across Institutions or Program Normative – Typically by Program
<b>Priority Factors</b>	National or Regional Priority Labor Force Needs Extra Costs of Different Programs Socioeconomic Characteristics of Students

## TRADITIONAL AND PERFORMANCE-BASED THE FUNDING MECHANISMS

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## THE KEY ROLE OF TUITION FEES IN THE SUPPLY OF AND DEMAND FOR HIGHER EDUCATION



## **WHO SETS TUITION AND FEES: INSTITUTIONS OR GOVERNMENT?**

**If government sets fees, it should be on a consistent basis:**

- As % of costs per student
- Based on what peer institutions charge
- Based on overall or individual ability to pay
- Do fees vary by institution? By field of study?

**If institutions set fees, it should also be on a rational basis with government oversight**

**In either case, institutions should retain tuition fees that students are charged**

## **POSSIBLE OBJECTIVES FOR STATE STUDENT FINANCIAL AID PROGRAMS**

**State student financial aid programs can seek to achieve a number of different objectives, including:**

- Need-based – Help those students whose families lack the financial resources to pay for tuition and other charges
- Merit-based – Reward students who do well academically or who otherwise have demonstrated merit
- Choice – Aid provided to students who go to public and private institutions within the state
- Portable – Encourage choice by allowing students to use state aid to attend institutions in other states

## **WHAT MAKES FOR GOOD SYSTEM GOVERNANCE**

Institutions should have autonomy in how they spend public funds with government safeguards against abuse

Accountability should be achieved by institutions receiving public funds the next year based on the results of how they spent this year's funds

Either governments or institutions should set fees in the context of what families can afford and the private value of the education

Regardless of who sets fees, institutions should retain fees to spend as they see fit

Good institutional governance requires that faculty be seen as part of the solution, not the source of the problem

## **PRINCIPLES TO GUIDE THE PUBLIC FINANCING OF HE INSTITUTIONS**

Government officials should be responsible for how much public funds are allocated to HE

The process of allocating public funds to HEIs should be insulated as much as possible from political pressures

Policies for fees, funding and financial aid should be linked as much as possible

The basis for funding instruction and research need not be the same

Funding formulas should use normative costs as the basis for allocating funds rather than actual or average costs

Strong quality assurance processes should be in place to assure that public funds for HE are spent wisely

## **IMPORTANCE OF LINKING FUNDING, FEES, & FINANCIAL AID**

- As much as possible, states should try to link their policies for funding, fees, and financial aid
- This is one of the most important things that states can do to ensure that the policies they adopt for financing higher education are effective
- These policies should reinforce each other so that they each are directed at meeting state policy goals
- This is often not the case, as state funding is intended to improve quality while student aid policies are generally directed at improving equity
- Another example of poor coordination occurs when student aid does not grow commensurately when tuition is increased

## **STATE GOVERNMENT HIGHER EDUCATION POLICY REFORMS**

**Tie public tuition levels to median income family's ability to pay**

**Ensure low income students are provided aid so they don't have to borrow to pay for tuition**

**Reallocate funds towards lower cost institutions**

**Modify state funding formulas to encourage greater efficiency and productivity at each public institution**

- Funding formulas should be based on "normative" costs rather than actual or average costs
- Include number of graduates, not just students enrolled, in state funding formula
- Provide funding premium to schools based on number of low-income family students they enroll and graduate

**Require public institutions to enroll a minimum number of in-state students to qualify for state support**

**Allow public institutions to retain all the tuition and fees they charge**



**BOARD OF REGENTS**  
**PERFORMANCE-BASED REVENUE MODEL TASK FORCE**

**AGENDA**

**Board of Regents Office**

**11260 Aurora Avenue**

**Urbandale, IA 50322**

**December 17, 2013**

**10:00 a.m. – 2:00 p.m.**

- I. Introductions & Welcome (10:00-10:05 am) David Miles, Chair
- II. Organizational Matters (10:05 – 10:15 am) David Miles  
a. Minutes of October 18 Meeting
- III. Performance Funding 2.0 (10:15 – 11:45 am) Matt Pellish, Director of Strategic Research,  
Education Advisory Board
- BREAK (11:45 – 12:00 pm)
- IV. Iowa Demographics (12:00 – 12:30 pm) David Peters, ISU Asst. Professor  
Sociology - AGLS
- WORKING LUNCH – distribute box lunches (12:30 – 12:45 pm)
- V. Student Debt (12:45 – 1:15 pm) Tahira Hira, ISU Sr. Policy Advisor to President &  
Is It Too Much? What Should We Do? Professor Human Development & Family Services;  
Roberta Johnson, ISU Director Financial Aid
- VI. Discussion, Wrap Up & Next Steps (1:15 – 2:00 pm) David Miles

**Reminder: Next Meeting has been set for January 21 at the BOR Office; time TBD**

# Preparing for Performance Funding 2.0

Critical Questions in Designing Formulas

[eab.com](http://eab.com)

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December 17, 2013

## Iowa Board of Regents

Performance Based Revenue Model  
Task Force

# EAB – The Higher Education Practice of the Advisory Board

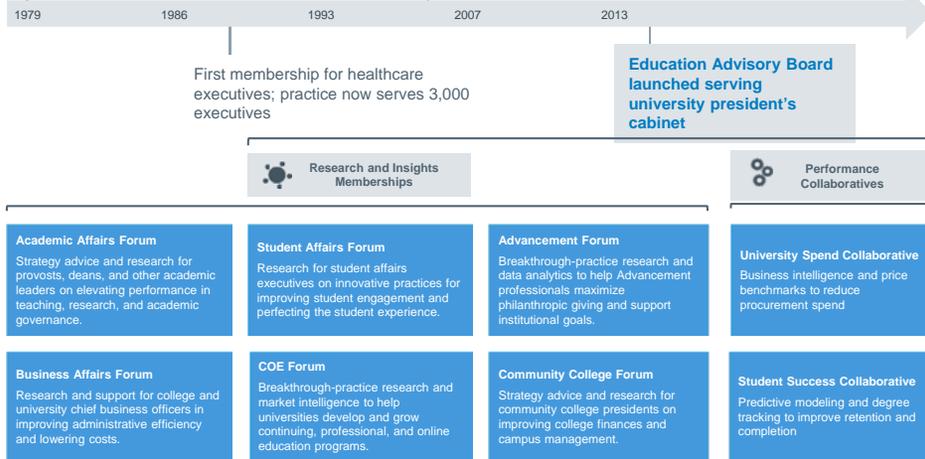


Thirty Years Serving Health Care, Half a Decade with Colleges and Universities

3

Advisory Board founded in Washington, DC doing bespoke research

Membership for Fortune 500 C-level executives, spun off as Corporate Executive Board



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# Working with Leaders at 450+ Institutions



Partial List of Education Advisory Board Members

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Flagship State Research Universities	Public Research Universities	Canadian Institutions	Private Research Universities	Master's Colleges and Universities	Community Colleges
University of Alabama University of Arkansas University of California-Berkeley University of Colorado at Boulder University of Connecticut University of Florida University of Georgia University of Illinois at Urbana-Champaign Indiana University-Bloomington University of Iowa The Ohio State University	University of Maryland-College Park University of Massachusetts-Amherst University of Michigan University of Minnesota University of Mississippi University of Nevada University of New Hampshire University of New Mexico University of North Carolina at Chapel Hill University of North Dakota University of Oklahoma	University of Alberta University of Calgary University of Guelph University of Manitoba University of Montreal University of Toronto	American University Baylor University Brown University University of South Carolina-Columbia University of Tennessee University of Utah University of Vermont University of Virginia University of Wisconsin-Madison University of Wyoming West Virginia University	Marquette University New York University Rensselaer Polytechnic Institute Rice University Rochester Institute of Technology Syracuse University Texas Christian University The George Washington University University of Dayton	University of Alaska-Anchorage University of Indianapolis University of New England University of North Carolina-Wilmington University of Texas at Brownsville Western Oregon University Western Washington University
Arizona State University Auburn University Ball State University Colorado State University Colorado School of Mines Georgia Tech Georgia State University	University of Akron University of Houston University of Maryland-Baltimore County University of North Carolina at Charlotte Wright State University		Johns Hopkins University	Boise State University Bryant University Butler University California Polytechnic State University The College of Saint Rose Eton University Gallaudet University Gonzaga University James Madison University	Kean University Marymount University Midwestern State University MNSCU-Saint Cloud State University Roosevelt University Saint Xavier University Simmons College Towson University
Algonquin College of Applied Arts and Technology British Columbia Institute of Technology Dalhousie University McGill University	McMaster University Memorial University of Newfoundland Ryerson University Simon Fraser University St. Clair College		Anne Arundel Community College Bossier Parish Community College Broward College Community College of Delaware County Delaware County Community College Fayetteville Technical Community College	Hawkeye Community College Ivy Tech Community College Lone Star College System Middlesex Community College NOVA Oklahoma City Community College Pellissippi State Community College Prince George's Community College	College Community College of Rhode Island Santa Monica College South Puget Sound Community College Wake Technical Community College Wor-Wic Community College

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# Impressively Resilient

## Non-Profits Outperform For-Profits and Two-Years in the Recession

### Annual Percentage Change in Total Enrollment by Sector, 2010-2013

#### 4-Year Publics

Faced moderate declines compared to other sectors

#### 4-Year Privates

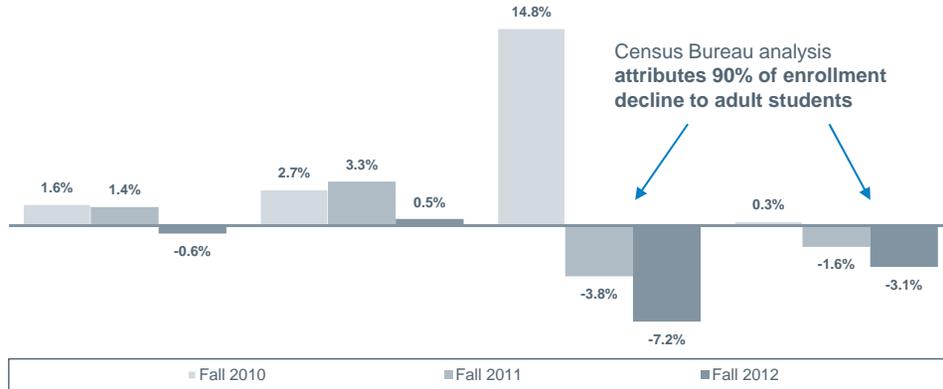
Have continued to grow despite high cost

#### 4-Year For-Profits

Plummeting figures after 2010 political controversy

#### 2-Year Publics

Restricted by funding cuts and capacity constraints

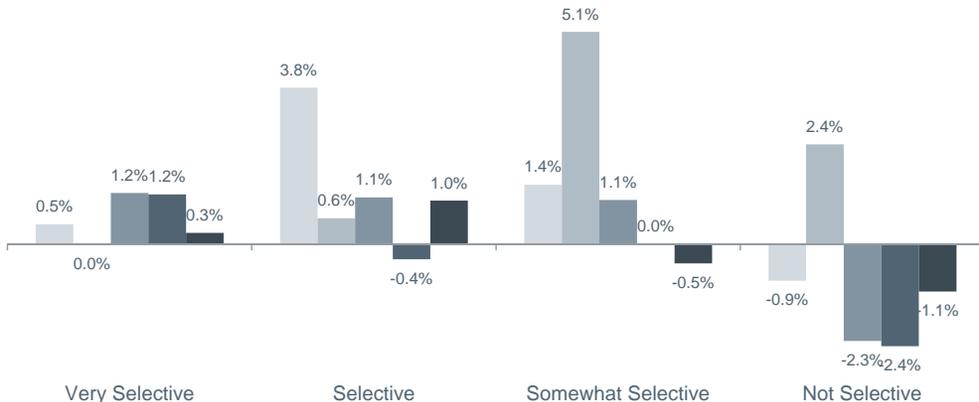


# Survival and Selectivity

## Least Selective Institutions Are Hardest Hit by Post-Recession Downturn

### Selective Institutions Still Have Flexibility to Increase Enrollment

Change in First-Time, Full Time Enrollment by Selectivity



1) Selectivity defined by 75 percentile combined math and verbal reasoning SAT scores. Very selective > 1400, Selective > 1200, Somewhat selective > 1000, Not Selective < 1000

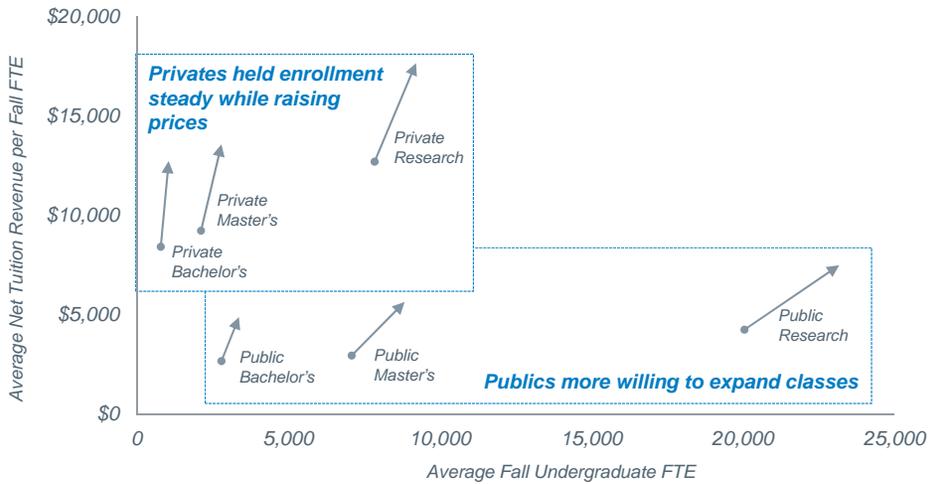




# A Good Run While It Lasted

Privates Leveraged Price, Publics Expanded Headcount

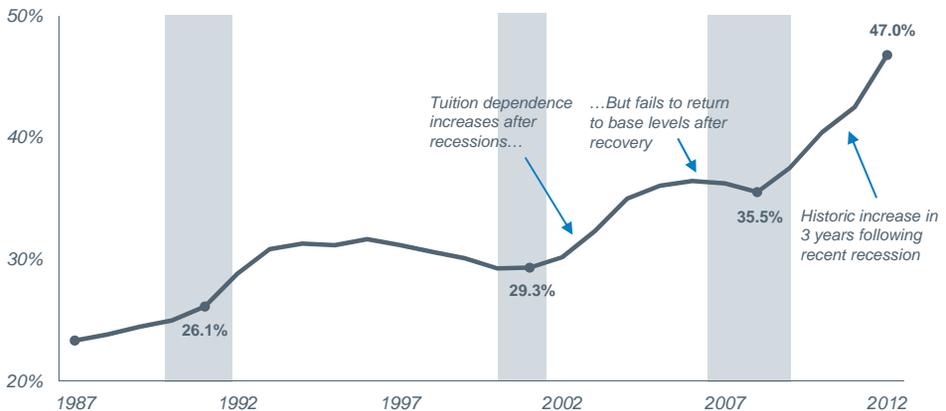
## Growth in FTE Enrollment and Net Tuition Revenue Per FTE, 2002-2010



# The Flip Side of Enrollment Growth

An Unprecedented Jump in Tuition Dependence

## Tuition as a Percentage of Educational Revenues for Public Universities, 1986-2012



1) Shaded areas indicate recessions

## Blood From a Stone

Cost-Savings Measures a One-Time Windfall, Not a Panacea

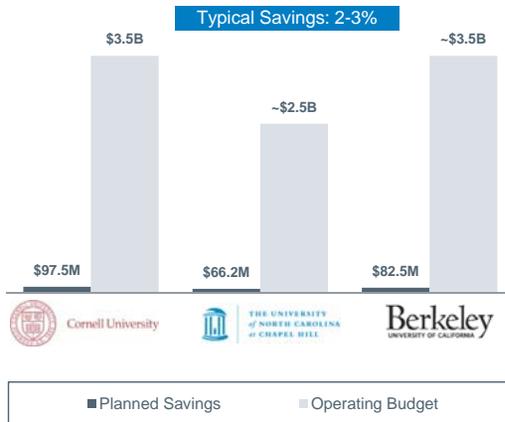


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**Huron**  
CONSULTING GROUP

Prominent Consulting Engagements Achieve Savings...



... But Not a Long-Term Solution



“Cost containment is an important issue, but **once you’ve achieved it, you won’t become more efficient every year.** At some point there has to be revenue growth.”

*Higher Education Analyst  
Credit Rating Agency*

## Downgrading the Entire Sector

Moody’s Highlights Threats to Revenue



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**MOODY’S**  
INVESTORS SERVICE

“For 2013, Moody’s revises its outlook for the entire US higher education sector to negative... The new sector-wide negative outlook reflects mounting pressure on all key university revenue sources... The sector will need to adjust to the prospect of prolonged muted revenue growth.”

### Pressure and Uncertainty Around All Revenue Sources

- Household income and wealth
- Philanthropic support
- Investment returns
- State appropriations
- Federal research funding
- Medicaid and Medicare
- Pell grants



### Elite Schools Not Immune

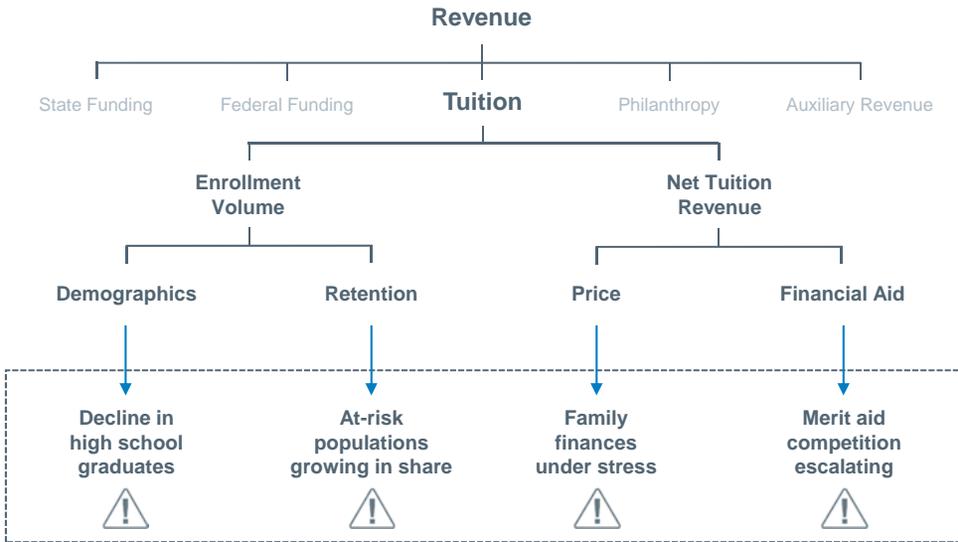
“Over the past year and a half, the credit ratings of several prestigious liberal arts colleges have been downgraded or assigned a negative outlook by Moody’s Investor Service... These are institutions – **Haverford College, Morehouse College, Oberlin College, and Wellesley College** – that top students seek out...”

*Ry Rivard, Inside Higher Ed*

# What Got Us Here Won't Get Us There



Revenue "Tailwinds" Can't Be Relied On Going Forward



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Source: Education Advisory Board interviews and analysis.

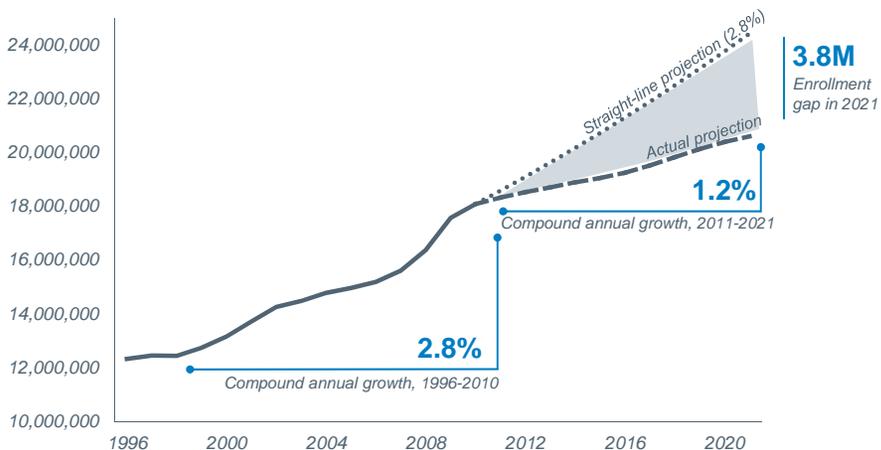
Demographics

## Mind the Gap



Enrollments Will Continue to Grow, But at a Slower Rate

Total Fall Enrollment, 1996-2021 (projected)



Source: National Center for Education Statistics, Projections of Education Statistics to 2021, Jan 2013; National Center for Education Statistics, "Table 214," Digest of Education Statistics; Education Advisory Board interviews and analysis.

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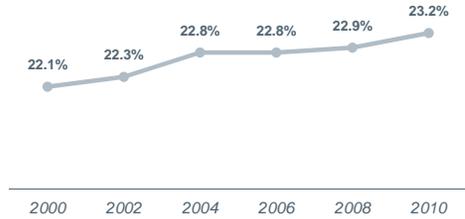
# Location Matters, Still

But Some Regions Will Face Significant Demographic Headwinds

**Net Change in High School Graduates, 2012-2022**



**Percentage of Freshmen Studying Out of State, 2000-2010**



1) Percentage of freshmen studying out-of-state was calculated across nonprofit four-year institutions that reported student residence and migration data to NCES in each listed year.

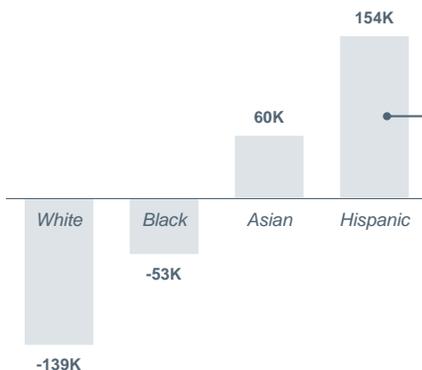
Source: WICHE, "Knocking at the College Door," Dec 2012; National Center for Education Statistics, IPEDS Data Center; Education Advisory Board interviews and analysis.



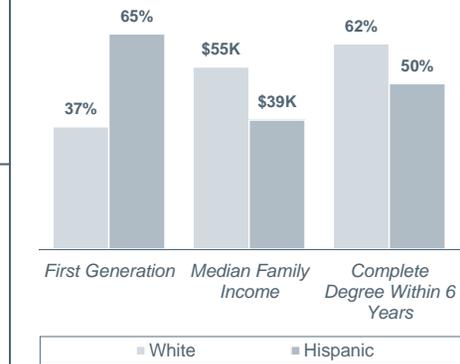
# Shifting Student Mix

Demographics Will Require Greater Investment in Student Success

**Projected Net Growth in High School Graduates by Race, 2011-12 to 2021-22**



**Distinct Challenges Facing Hispanic Students**



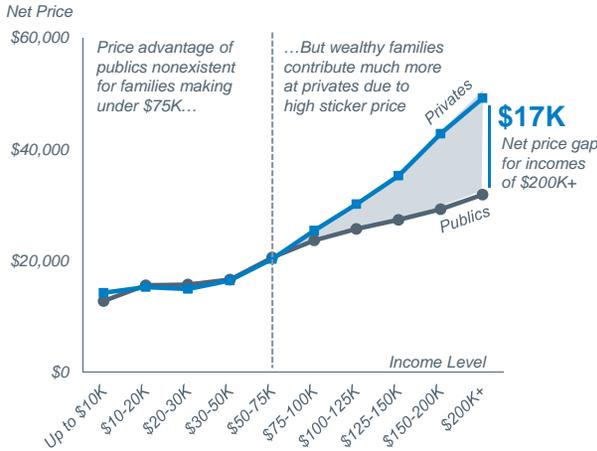
Source: Western Interstate Commission for Higher Education, "Knocking at the College Door," Dec 2012; Education Advisory Board interviews and analysis.

# The Art of Price Discrimination

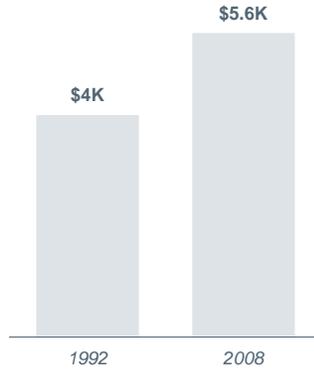


## Even Publics Increasingly Rely on Full-Pay Students

**Net Price by Income Level for Public and Private Institutions, 2012**



**Difference in Net Tuition at Publics for Highest and Lowest Income Brackets**



1) Data comes from 318 public and private institutions.  
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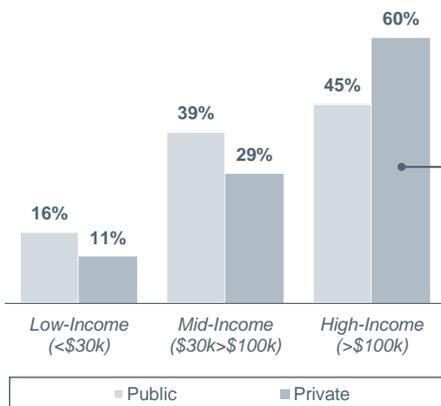
Source: Greg Peretto, "Landscape of Higher Education: Net Price," Presentation at Middle States Regional Forum, 2/13/2013; Education Advisory Board interviews and analysis.

# More Reliant Than We Knew on the 1%

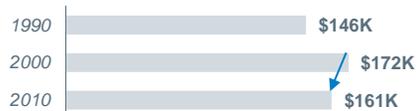


## Declining Wealth of High-Income Households Threatens Tuition Revenue

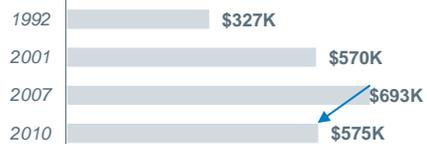
**Share of Average Net Tuition Drawn from Each Income Bracket, 2012**



**Median Income Falling for High-Income Households**



**Median Net Worth Falling for High-Income Families**



1) For the purpose of household income and net worth calculations, "high-income" refers to households with more than twice the national average income. Median household income is adjusted for household size.

Source: Greg Peretto, "Landscape of Higher Education: Net Price," Presentation at Middle States Regional Forum, 2/13/2013. Scott Jaschik, "Clashes of Money and Values: A Survey of Admissions Directors," *Inside Higher Ed*, September 21, 2011. Pew Research Center, "Fewer, Poorer, Gloomier: The Lost Decade of the Middle Class," August 2012; Education Advisory Board interviews and analysis.



# High-Income Families Cut Back

Falling Family Income Threatens Ability to Pay

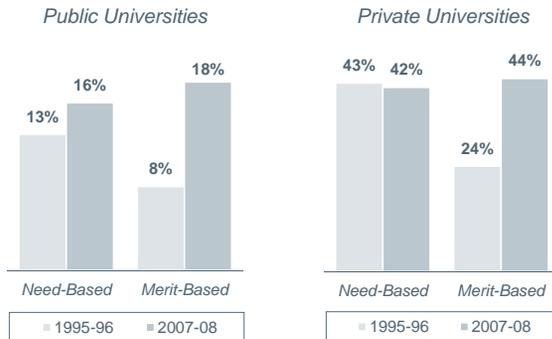
Average Amount Paid for College by Income Group, Year-over-Year



# The Merit Aid Arms Race

The Unintended Consequences of the High Tuition, High Aid Model

Proportion of Students Receiving Need-based or Merit Aid



- More publics moving to high tuition, high aid model
- Out-of-state students have significantly higher incomes
- Perception that out-of-state students are crowding out minorities

- 19% of freshmen with SAT scores below 700 receive "merit" aid
- 12+ institutions charging Pell students over \$20K
- Net tuition falling despite price increases

**Revenue Over Mission?**

"Rather than **compete for students based on educational quality** or the extent to which institutions were effectively meeting their stated missions, usually oriented toward public service and equitable opportunity, colleges and universities competed by developing a variety of **strategies with prestige and revenue concerns at the forefront.**"

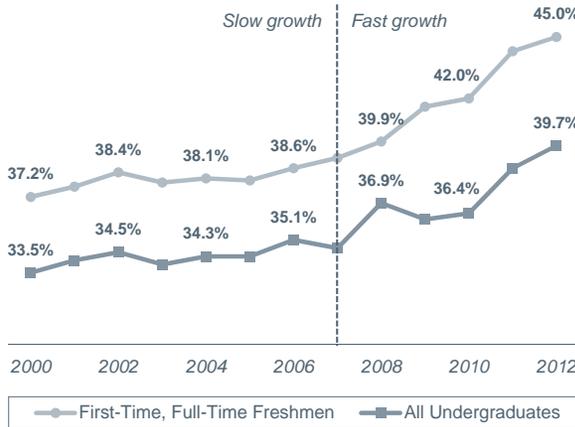
*Scott Schulz and Jerome Lucido, Enrollment Management, Inc.*



# How High Can It Go?

Tuition Discount Rate Continues Its Ascent

## Average Discount Rate at Private Institutions



### Higher at Small Schools

Average Freshman Discount Rate by Institution Type

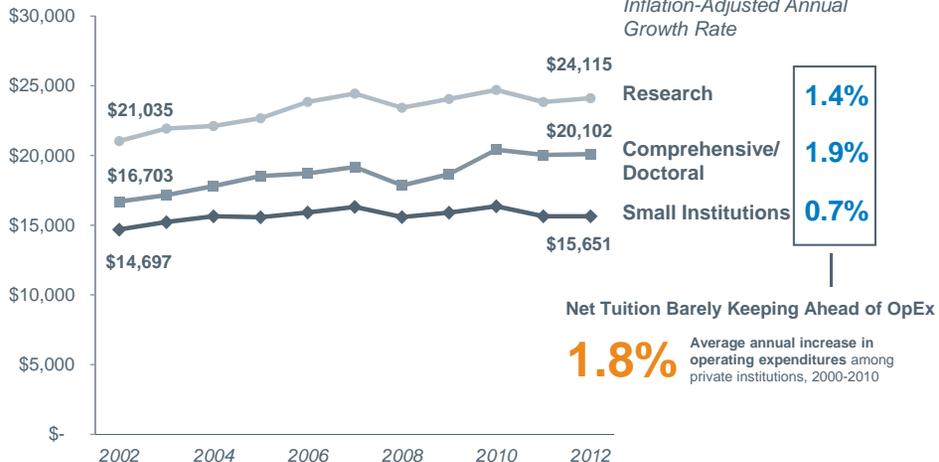
- 46.2%** Small Institutions
- 41.4%** Research Universities
- 40.0%** Comprehensive and Doctoral Universities



# No Relief in Sight

Net Tuition Revenue Growth Weak as Discount Rates Rise

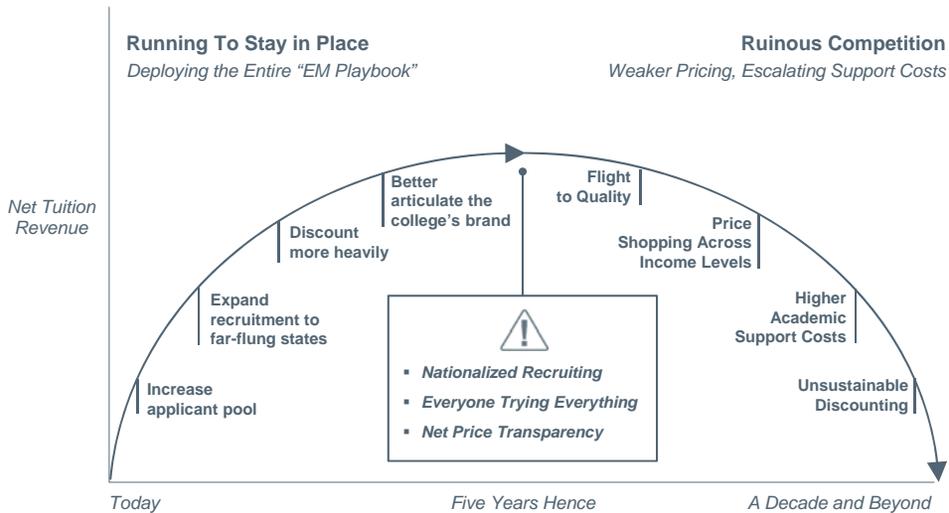
## Net Tuition Revenue per Full-Time, First-Time Freshman at Private Institutions, 2002-2012, in Constant 2012 Dollars (n = 383)



# How We're Responding



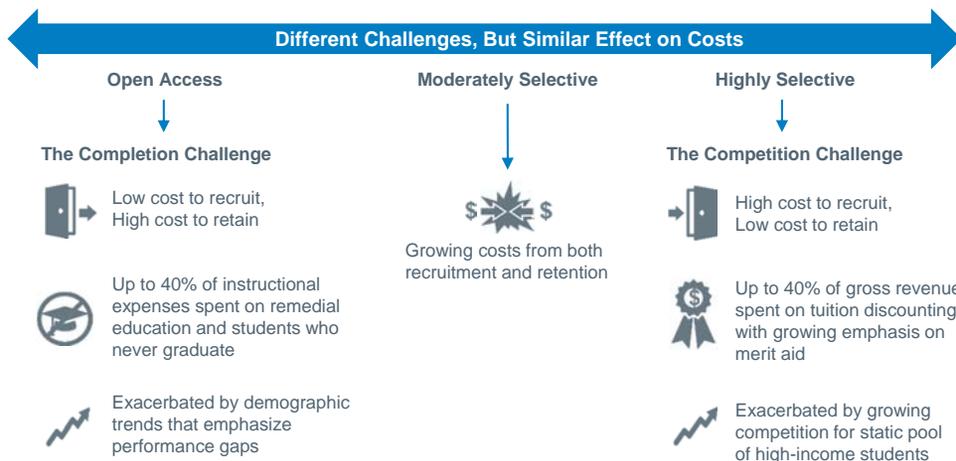
Delaying the Demographically Inevitable



# The Rising Costs of Traditional Students



Enrollment Costs Rising at Both Selective and Non-Selective Institutions





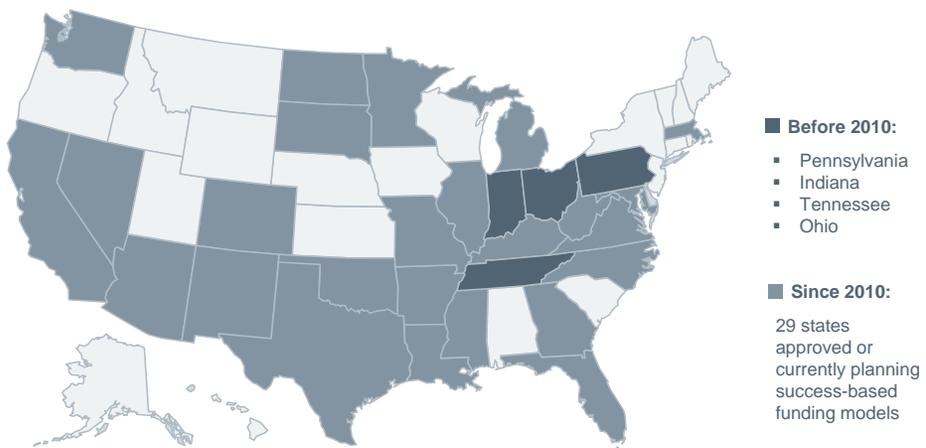
- 1 | Performance Funding 2.0 – Why It Might Work This Time
- 2 | Balancing Competing Goods – Challenging Questions in Designing Performance Funding Models
- 3 | Right Roles for System and College Leadership

## Performance-Based Funding, Take Two

Half the Country (and Counting) Piloting Success and Completion Metrics



Performance Funding Spreading Across Nation (Again)



# Cement Still Wet for Most States

Majority Either Blueprinting or Phasing In New Formulas



## Where States Stand in Performance-Based Funding



### Transitional Provisions May Delay Financial Impact of Some New Models

**Stop-Loss Provisions**  
Funding loss capped at 95-98% of existing levels

**Gradual Phase-In**  
Portion of state funds at stake increases annually

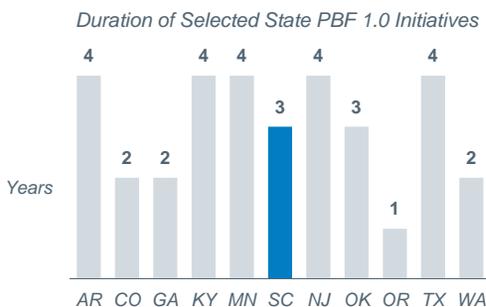
**Fiscal Thresholds**  
Model kicks in only when the state budget is healthy

# Why Will It Work This Time?

Skepticism of PBF Staying Power Justified Given Past Record



## Spotty Implementation in the Last Decades



### South Carolina's "Moving Target" PBF, 1996-99

- Lack of consensus over success KPIs = 37 indicators
- Share of state allocation dropped from 38% to 3% in one year after budget shortfall

## Confusion Today



### ASHE Report, 2013

*"State officials not infrequently disagree in their understanding of what PBF is, and whether their state has it..."*

# Will PBF Go Federal?



Proposed Plan Would Create Competition for Access to Financial Aid

## The President's Proposal: "A Better Bargain for the Middle Class"

August 22, 2013



**Proposed Formula**

Access X Affordability X Outcomes



**Performance Incentives**

- 1 Larger Pell grants for highest-need students
- 2 More favorable loan rates for all students



**Potential Impact**

High-performing schools may find it much easier to recruit students, especially from low-income families

# Big Philanthropy's Reach



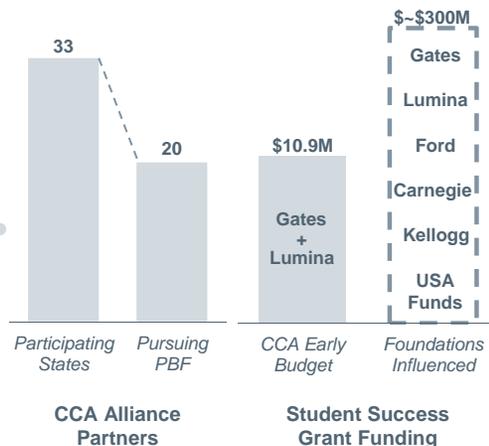
Funds and Clout to Nationalize Student Success Efforts

## A Focused Agenda

## Playing a Long Game

### COMPLETE COLLEGE AMERICA

- Established 2009 with Gates Foundation backing
- Three tenets:
  1. Completion-Based Performance Funding
  2. Remedial Education
  3. Cross-State Benchmarking

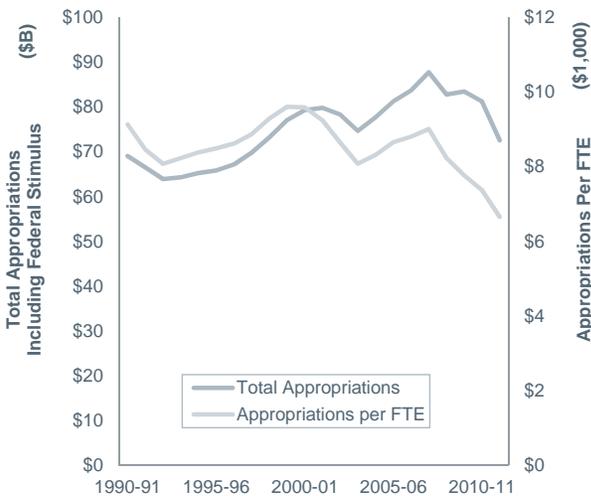


# Another Means of Defunding Public Education?



State Appropriations Firming Up, But...

Total State Appropriations per FTE



**Hope on the Horizon:  
Appropriations Are  
Coming Back**

- State appropriations expected to increase by 3.6% in 2013-2014



## Harder-to-Detect Cuts?

“Some individual institutions see more funds under competitive PBF formulas, but in aggregate most schools will be losers and there may be less overall to go around. I wonder if a motive of performance funding is to continue the trend of defunding public higher education while avoiding the publicity fallout.”

*Senior Administrator*  
Public Research Master's Institution



## Bigger Piece of a Smaller Pie

“If PBF doesn't get traction, it will be because the increase in outcomes-based funds will be dwarfed by decreases in overall funding. The pie overall is shrinking over time.”

*Senior Administrator*  
Midwestern Regional Public Institution





- 1 | Performance Funding 2.0 – Why It Might Work This Time
- 2 | Balancing Competing Goods – Challenging Questions in Designing Performance Funding Models
- 3 | Right Roles for System and College Leadership

## Balancing Competing Goods

Challenging Questions in Designing Performance Funding Models



# Fixing the Design Flaws in Past Formulas



Consensus Around Handful of PBF Formula Features

## Performance Funding 1.0

### Bonuses

In addition to enrollment-based allocation



## Performance Funding 2.0

### Core Funds

Success KPIs embedded in core funding formula

### Trivial Funds at Stake

Success metrics affect only 1-2% of total funding, changing year by year



### Meaningful Dollars at Stake

Success metrics apply to 8% to 100% of allocation

### Rates

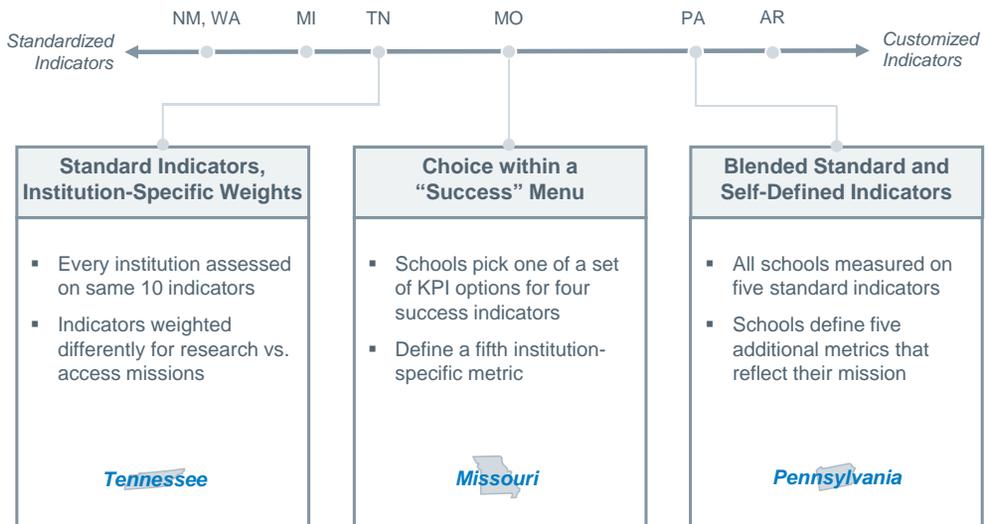
Completions measured as percentages of cohorts



### Counts

Aggregate completion, regardless of student start date

# How Do We Account for Diverse Missions?





## Consistent Criteria, Different Emphases

MO and TN Formulas Encourage “Self-Calibration” of Success Indicators

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### Missouri’s Success “Menu”

<b>Student Success</b>	Freshman to Sophomore Retention
	Credit Progression
<b>Degree Attainment</b>	Total Degrees Awarded
	6-Year Retention
<b>Quality</b>	Assessment Results
	Licensure Pass Rates
<b>Financial Efficiency</b>	Share of Spending on Mission
	Revenue Growth Per Student
	SCH per \$100,000 of Funding
<b>Optional Metric</b>	Reflecting Institutional Goals

### Tennessee’s Weighted Outcomes

Success Indicator	UT-Knoxville <i>Very High Research</i>	UT-Martin <i>Master’s</i>
Students @ 24 Hours	2%	3%
Students @ 48 Hours	3%	5%
Students @ 72 Hours	5%	7%
<b>Bachelors and Associates</b>	<b>15%</b>	<b>30%</b>
Master’s and Specialist	15%	15%
<b>Doctoral and Law</b>	<b>10%</b>	<b>0%</b>
Research and Service	15%	10%
<b>Transfers</b>	<b>5%</b>	<b>10%</b>
Degrees per 100 FTE	10%	15%
<b>6-Year Graduation</b>	<b>20%</b>	<b>5%</b>

## What Students and Programs to Overweight?



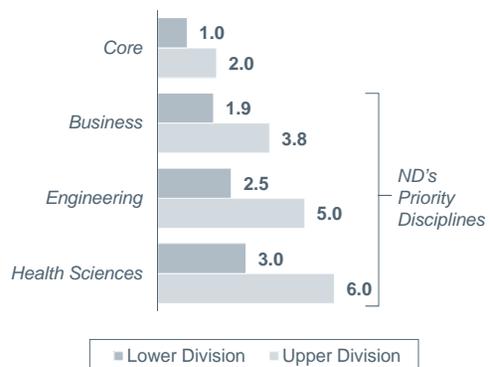
42



### Selected States’ Funding Multipliers for Low-Income Completions

<b>Illinois</b>	Pell-eligible completers = 1.4x
<b>Tennessee</b>	40% “completion premium” for low-income and adult completers
<b>Pennsylvania</b>	10% to 20% of total institutional success score tied to Pell-eligible completions
<b>Michigan</b>	Institutions must meet funding prerequisites tied to low-income success to receive funds

### North Dakota Rewards High-Priority Degree Attainment



# Should We Reward Intermediate Achievement?



## Intermediate Milestones In Complete College Tennessee Act

<p> <b>Four-Year Institutions</b></p> <ul style="list-style-type: none"> <li>▪ 24 Hours</li> <li>▪ 48 Hours</li> <li>▪ 72 Hours</li> <li>▪ Transfers with 12 Hours+</li> </ul>	<p> <b>Two-Year Institutions</b></p> <ul style="list-style-type: none"> <li>▪ 12 Hours</li> <li>▪ 24 Hours</li> <li>▪ 36 Hours</li> <li>▪ Transfers with 12 Hours+</li> <li>▪ Remedial and Developmental Success</li> </ul>
<p> <b>Pros</b></p> <ul style="list-style-type: none"> <li>▪ Research shows students achieving progress milestones far more likely to complete</li> <li>▪ Focuses institution on degree mapping</li> </ul>	<p> <b>Concerns</b></p> <ul style="list-style-type: none"> <li>▪ Dilutes laser-like focus on completions</li> <li>▪ Reintroduces enrollment incentive unless SCH/student measured</li> </ul>

# Is It Feasible to Track Career Outcomes?

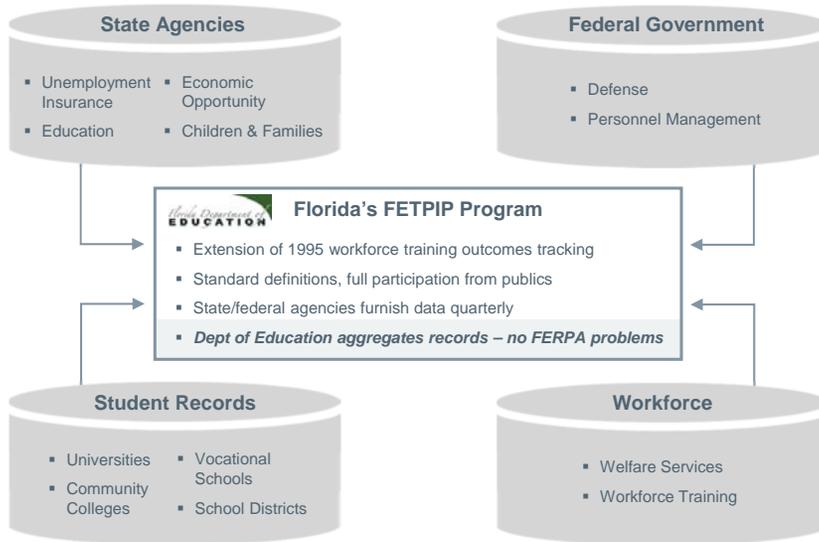


<p></p> <p><b>Unclear FERPA Rules</b></p> <ul style="list-style-type: none"> <li> <b>Compliance Risk</b> 50% of states cite FERPA as reason for not reporting career outcomes</li> <li> <b>Crossing Borders</b> Interstate data exchange requires authorization from multiple state agencies</li> </ul>	<p></p> <p><b>Surveys Not Worth the Expense?</b></p> <ul style="list-style-type: none"> <li> <b>Shaky Data</b> Very low response rates, self-reported data</li> <li> <b>Non-Trivial Recurring Costs</b> \$100,000+ to conduct survey</li> </ul>
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# State-Managed Unit Record-Matching



Florida Expands Workforce Training Database to Higher Ed



# Standard Dataset Enables Reporting and Analysis



Multiple Uses of FETPIP Information

## Statewide Averages Summary Report

**Annual Outcomes Report**

**Success Outcomes**

- Associate's
- Bachelor's
- Master's
- PhDs

**Job Outcomes**

- Employment Rate
- Average Wage
- Continuing Education
- Public Assistance

## Database for Institutional Drill-Downs

What is the Delta in Wages for Different Degree Levels?

What Institutions and Programs Have the Highest Earnings?

Where Do Students Who Start in Community Colleges Wind Up?

# PBF 3.0 – From Completions to Earnings?

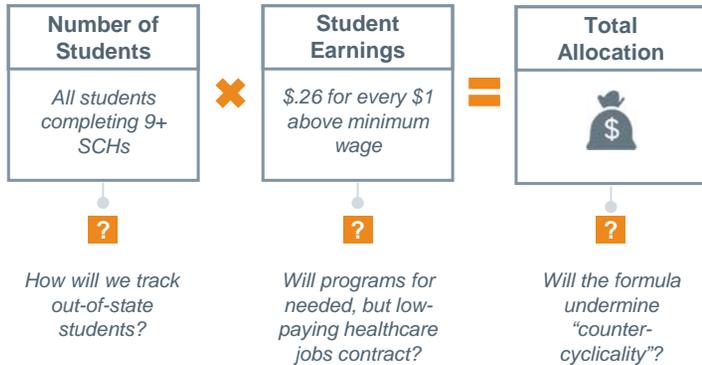


Texas Adopts First-of-a-Kind Career Outcomes Formula



← Five-Year Average →

- New formula for technical college system's 12 schools effective 2015
- Funding based entirely on student earnings after they leave system

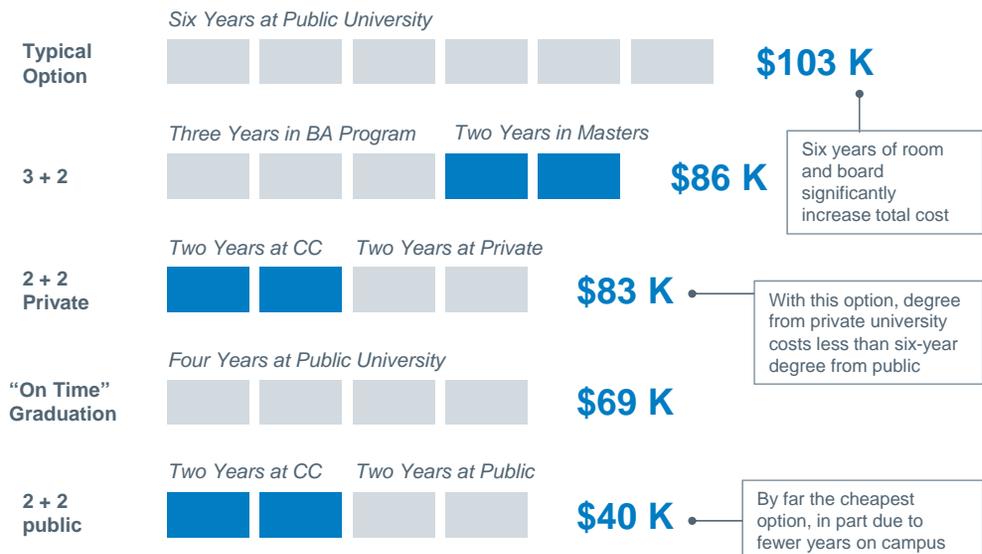


Tracking Transfers More Important?



# The Great Unbundling Begins

Students Driving "Mix and Match" Program to Degree



# Transfer-Friendliness as Success Indicator



49

Michigan Considers Articulation with Two-Years for PBF Eligibility

## Linking PBF Escalators to Transferability

## An Unintended Temptation to Raise Tuition?

**Michigan's SB-193 Performance Funding Eligibility Requirements**

-  *Participate in Michigan's student transfer network*
-  *Reverse transfer agreements with three community colleges*
-  *Accept dual-enrollment credits*
-  *"Tuition Restraint"*

Schools adopting these policies eligible for 3% increase in PBF



### Heard on the Street

"Another institution told us they realized they weren't going to meet the PBF eligibility requirements in time. They knew they'd lose the state funding boost no matter what, so they upped tuition 9% to offset the hole in the performance funds."

Senior Administrator  
Regional Public Institution

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# Right Measures



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Balancing Comparability and Mission Diversity

## Lessons to Share, Or Advice to Ask?



*What New Success Indicators is Your System Considering Introducing (or Retiring)?*



*Have the Success Indicators You've Chosen Resulted in Any Unintended Consequences (Restricted Access, Closure of Low-Completer Programs, Perceived Unfairness to a Type of Institution, etc.)?*



*Will Tracking Career Outcomes Ever Become Feasible? To What Extent Will Earnings Displace Completions as the Main Success Indicator?*

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# Balancing Competing Goods

Challenging Questions in Designing Performance Funding Models



## How Can We Design a Fair and Effective PBF Model?

**Right Measures**  
*Balancing Comparability and Mission Diversity*

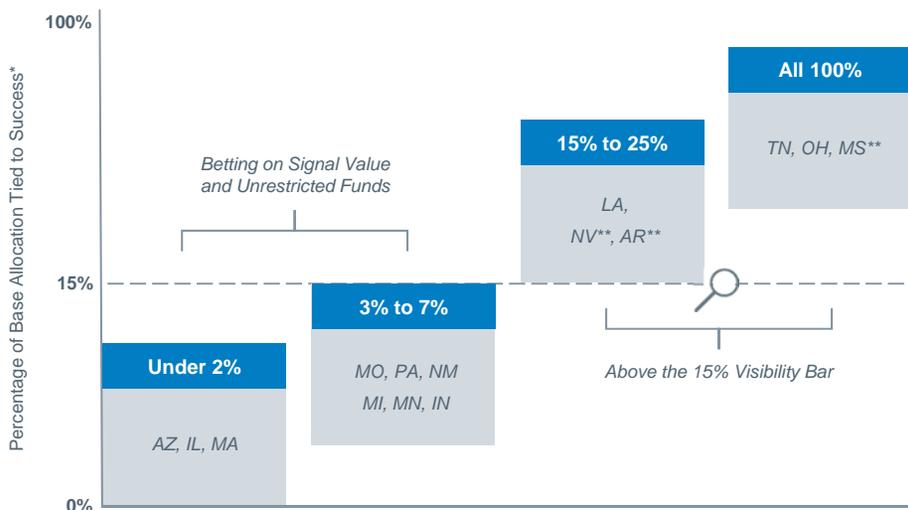
- 1 *How Do We Account for Diverse Missions?*
- 2 *What Student Populations and Programs Should We Overweight?*
- 3 *Reward Intermediate Achievement, or Just Completions?*
- 4 *Is It Financially Feasible to Track Career Outcomes?*

**Right Change Levers**  
*Balancing "Consequential" Incentives and Stability*

- 5 *How Much Funding Should Be at Risk?*
- 6 *How Do We Help Low Performers Manage Transition Risks?*
- 7 *What's the Best "Continuous Improvement" Incentive?*
- 8 *Should Individual Administrators Be Accountable for Success Indicators?*

# How Much Should Be Put at Risk?

No Consensus Yet on Minimum Needed to Spur Change



\* Does not include states treating performance funds as fixed-dollar pools or bonuses on top of base allocations

\*\* End-state PBF goals phased in over next years

# How Do We Help Manage Transition Risk?



# PBF Impact Modeling



Tennessee Tool Helps Anticipate Financial Impact of Competitive Funding

### Competitive Funding Scenarios

	Annual Outcome Change	Institution A	Institution B	Institution C
Set Outcome	Students Accumulating 24 Hours	5%	5%	5%
Select School	Bachelors and Associates	5%	5%	5%
State Funding	Six-Year Graduation Rate	5%	5%	5%
	Percent Change in Estimated Funding	0.3%	0.3%	0.3%
	Change in Estimated Funding (\$1K)	\$110.3	\$54.0	\$108.2

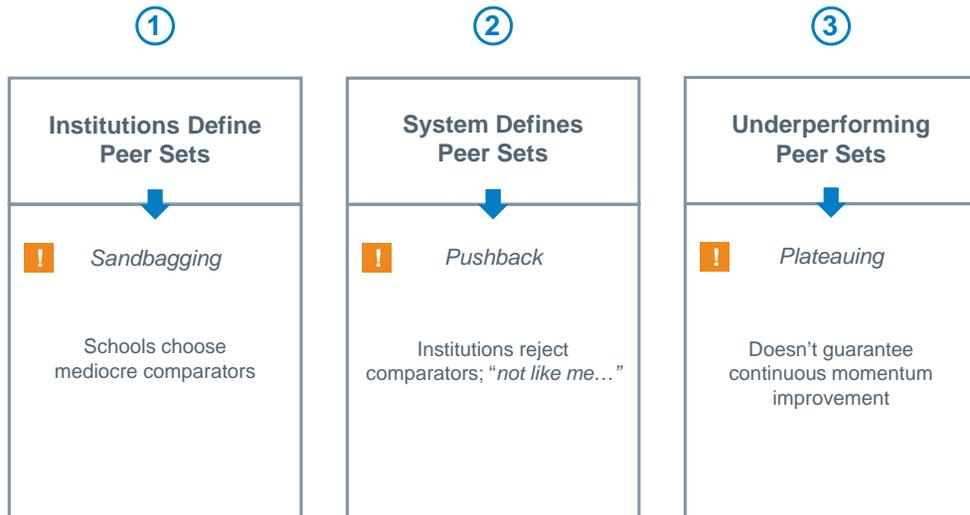
Allows plug-in assumptions for state funding and institutional performance

Models gains and losses in Tennessee's competitive funding system

# Problems with Peer Benchmarks



Neither Systems Nor Institutions Happy Tying Targets to Peer Sets

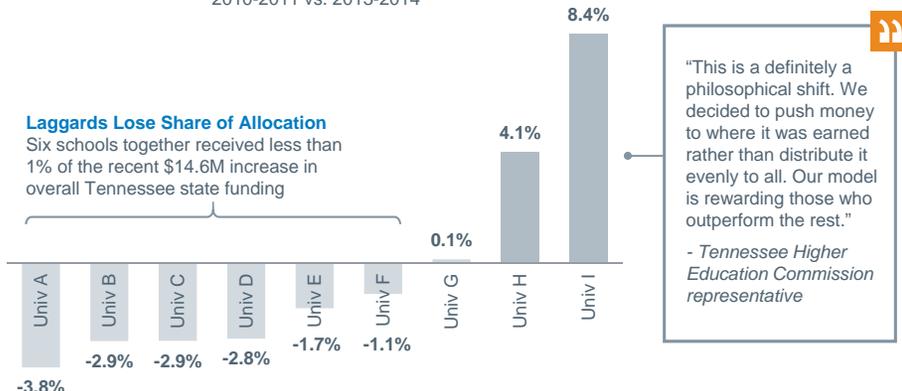


# Competitive Funding



"Winners" Capturing an Increasing Share of Tennessee Resources

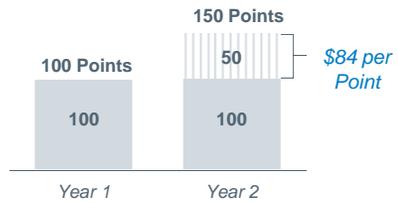
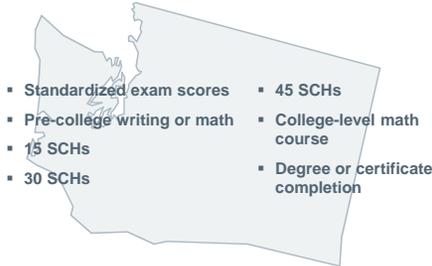
**Percent Change in Share of State Allocations Since Onset of Tennessee's Outcomes Funding Model**  
2010-2011 vs. 2013-2014



# Improving a “Self-Improvement” Plan

Formula Designed for Fairness Sees Competition Resurface

## Washington Tech College Funding Tied to Improvement in “Momentum Points”



- Points value = last year's point accumulation/next year's likely budget
- Schools can “bank” points

## Perceptions of Unfairness Persist

Recognize Schools Serving Less-Prepared Students

Non-Competitive = Collaborative

Data-Driven Continuous Improvement

Top performers feel penalized – little room to improve

“Any dollar spent on one school isn’t spent on another”

Small schools lack IR resources, can’t tell where they’re off-path

# Success Incentives for Administrators?

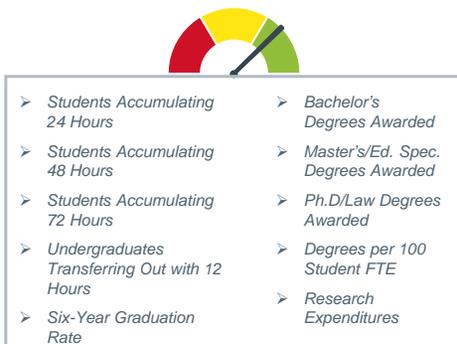
Reputational and Financial Levers Get Leaders’ Attention

## President’s Success Dashboards

- TN trustees use system-maintained dashboard of performance metrics as basis for chancellor evaluations

## Dean’s 360-Degree Program Review

- Handful of institutions including student success as criterion in academic program review, alongside scholarly and financial metrics



## Program Review KPIs







- 1 | Performance Funding 2.0 – Why It Might Work This Time
- 2 | Balancing Competing Goods – Challenging Questions in Designing Performance Funding Models
- 3 | Right Roles for System and College Leadership

## What Would a “Predictive” Campus Look Like?



And Which Activities Should Be Facilitated by Systems?

 <p><b>Early Warning</b></p> <p>Systems would automatically sense at-risk students and notify intervention teams, without relying on faculty alerts</p>	 <p><b>Advising</b></p> <p>Advisors would guide students based on proven patterns of success, customized to their individual needs and goals</p>
 <p><b>Admissions</b></p> <p>Admissions would identify which applicants have the best chance of graduating – and which need help right from the start</p>	 <p><b>Academic Programs</b></p> <p>Students would pick majors based not just on interest, but also on likelihood of graduation and career success</p>
 <p><b>Financial Aid</b></p> <p>Financial Aid would anticipate warning signs of financial distress and deploy targeted assistance at key moments</p>	 <p><b>Support Services</b></p> <p>Staff would precisely target customized services to students – before they even know that they need help</p>



## If Healthcare Is a Guide...

### Borrowing from Hospitals' Experience in PBF

- 1** Embed in Base Funding, Don't Frame as Add-On Bonus
- 2** Use Counts, Not Rates
- 3** Reflect Diverse Missions by Prorating Wieldy Set of Standard Criteria, Not Proliferating "One-Off" Metrics
- 4** Don't Be a First-Mover on Either Transfer Efficiency or Career Outcomes, but Do Transfers First If Needed
- 5** At Least 8% of State Funds Subject to Completion Metrics, without Restriction on How It's Spent
- 6** Don't Protect Schools by Lowballing PBF Ceilings, but by Gradual Phase-In Windows and Simulation Tools
- 7** Three-Year Forward Visibility in PBF Funding Levels
- 8** See if Existing Workforce Development Outcomes Tracking System Can Be Feasibly Extended to HE

# Demographics of the College Student Population in Iowa



*Presented to the Iowa Board of Regents  
Performance-Based Revenue Model Task Force  
on December 17, 2013 in Urbandale, Iowa.*

**David J. Peters, Ph.D.**  
*Assistant Professor of Sociology  
Extension Rural Sociologist*

# OVERVIEW

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## Information presented ...

- Demographic context in Iowa.
- Enumeration of the college student population.
- Socioeconomic characteristics of public college students.
- Historic and future trends.

## Data sources ...

- Focus is on *population* rather than *enrollment*.
- Microdata from US Census ACS PUMS, 2001-2011.
- Ability to track measures over time, and US/state comparisons.

**Purpose is to provide a demographic profile of college student populations in Iowa.**

## **CONTEXT**

### **Demographic Conditions in Iowa**

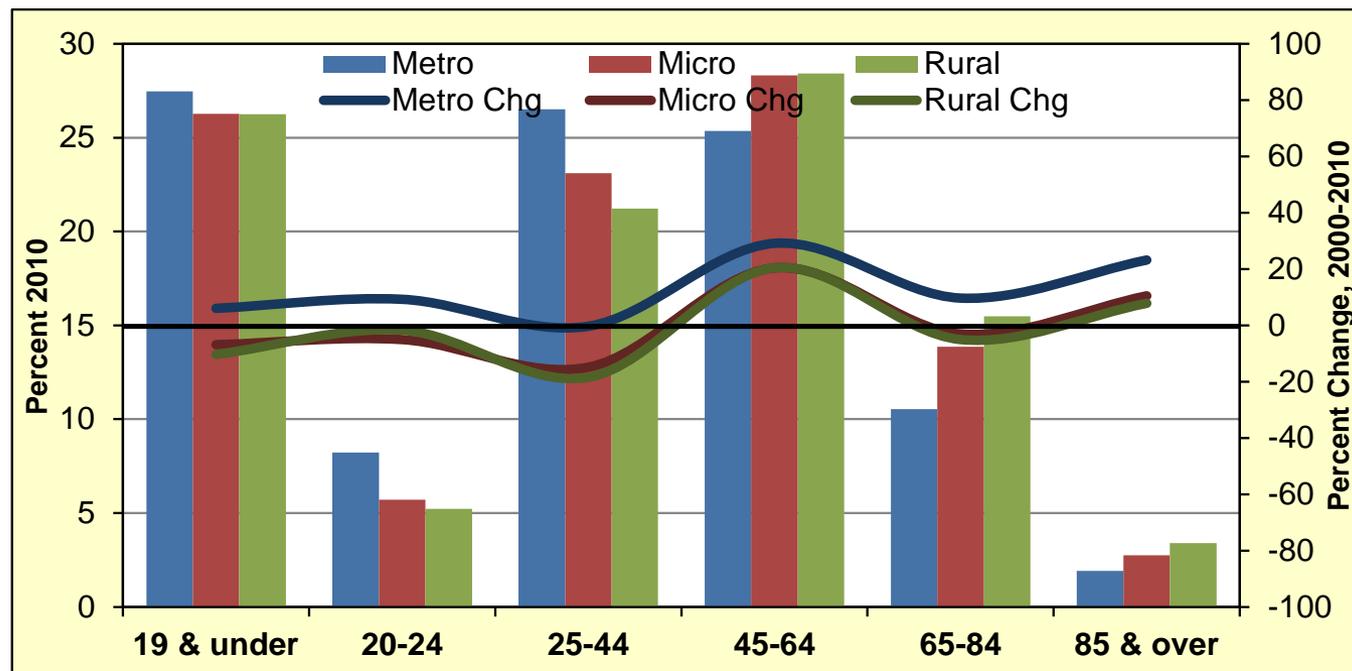
# CONTEXT

## Migration to metro Iowa ...

Metros younger and growing.

Rural/micros older and increasingly elderly.

Similar youth population, but metro is growing while others declining.  
Baby Boomers still dominate the population.



# CONTEXT

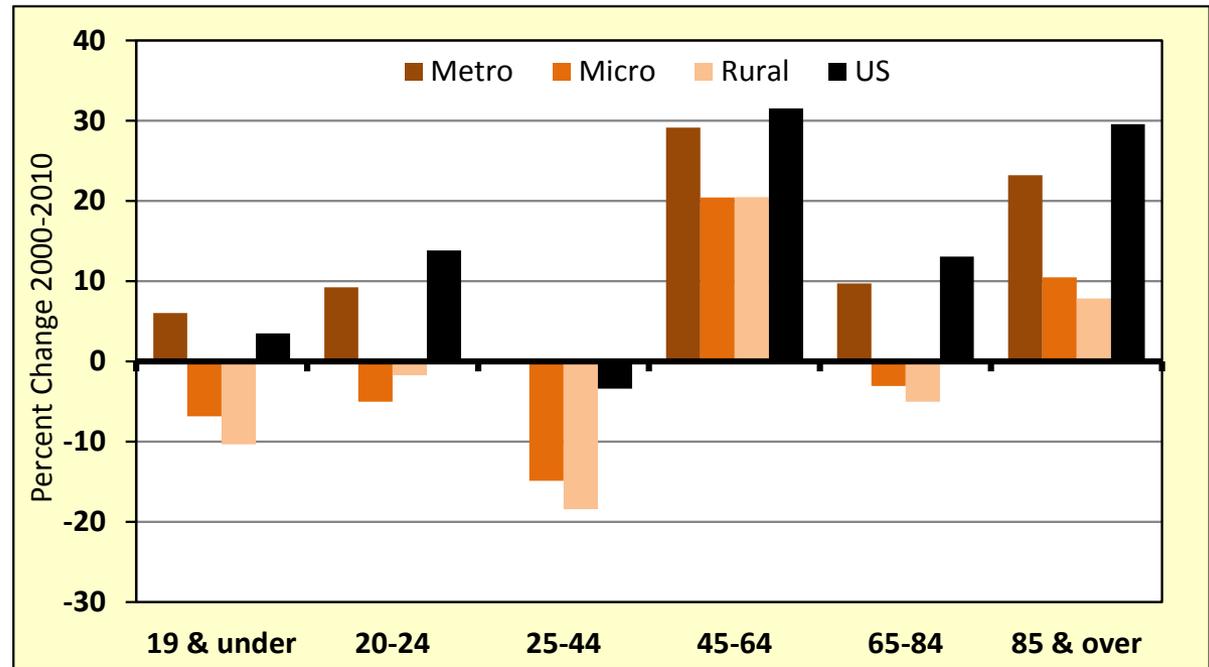
## Metros pacing, rural/micros lagging ...

Metros have growth near US averages.

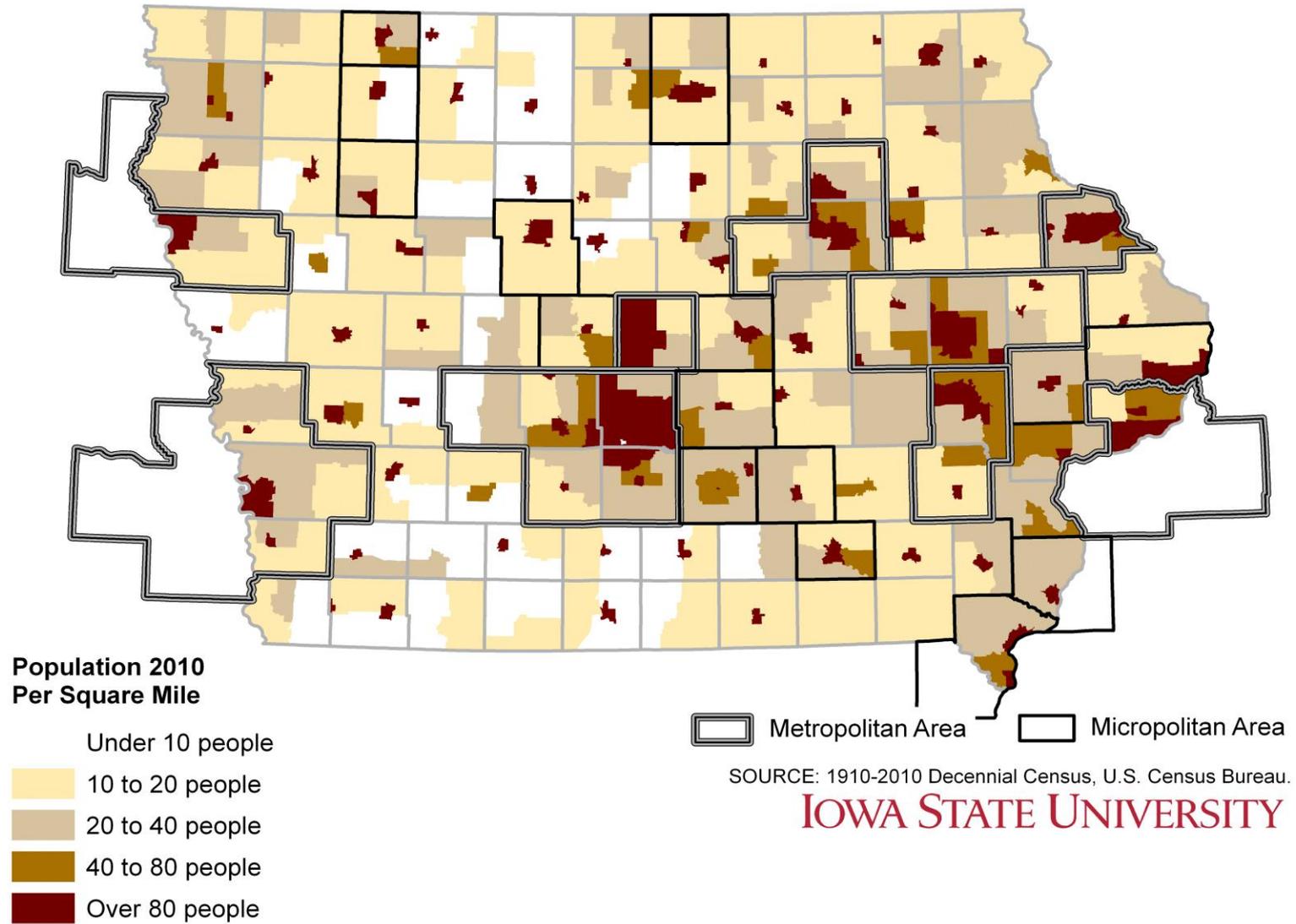
Outpaced US in key 25-44 workforce demographic.

Rural/micros lagging in all age groups except boomers and elders.

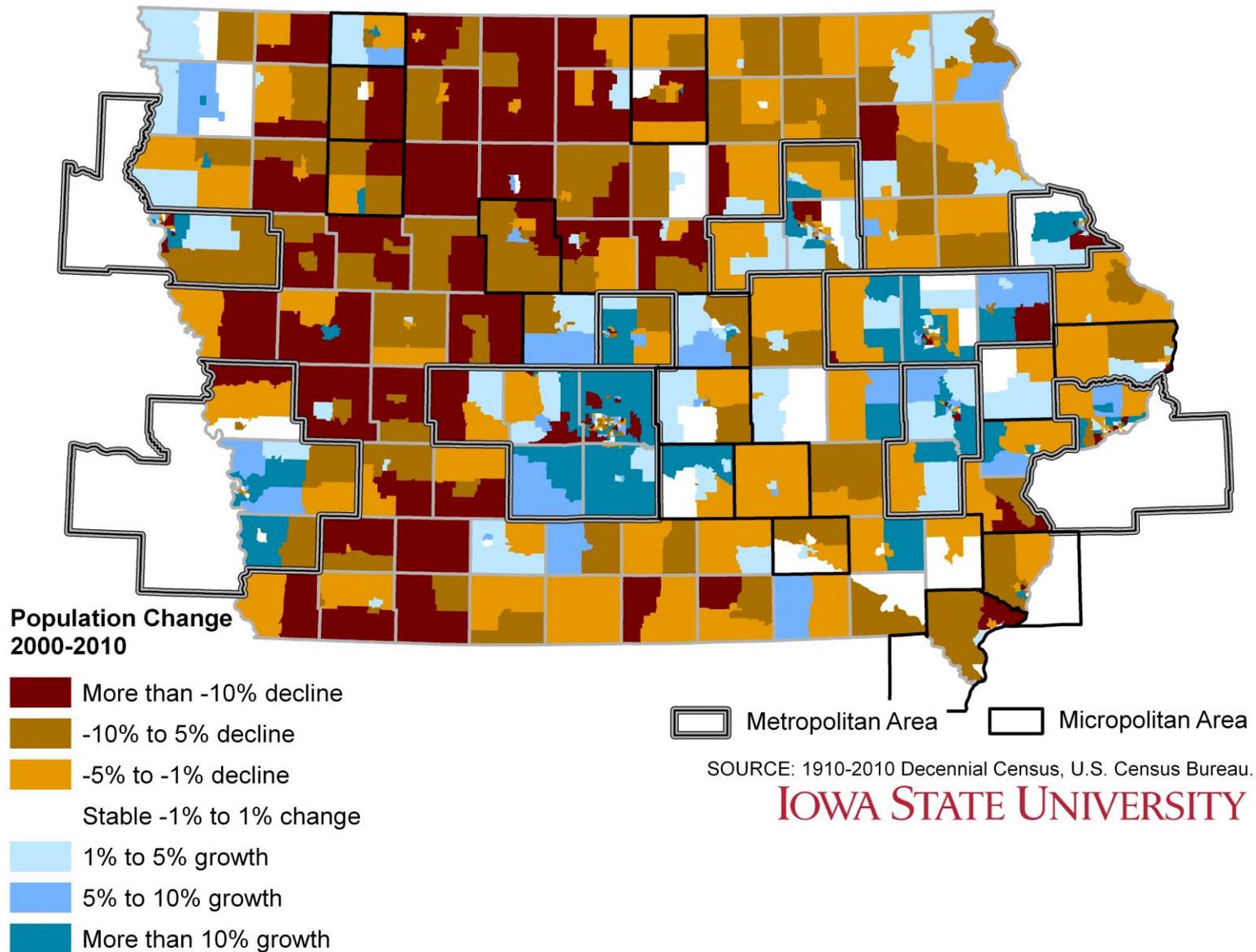
Sizable drops in youth population under 19.



# CONTEXT

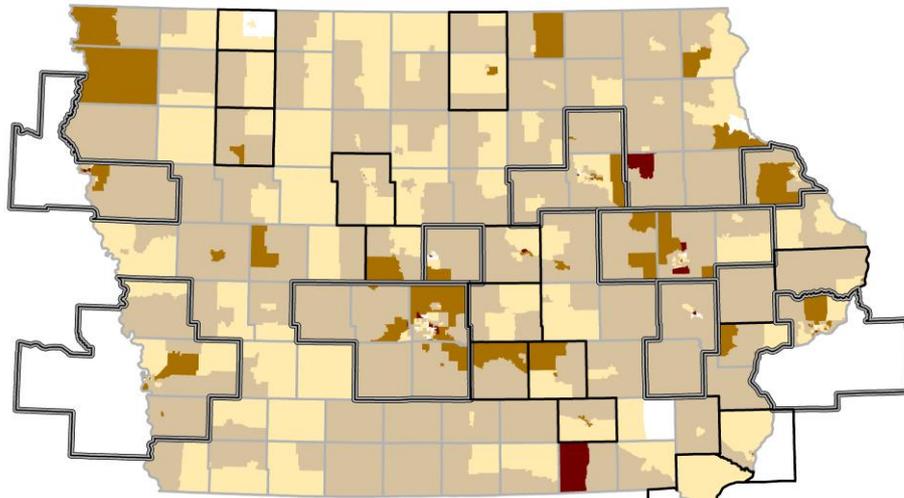


# CONTEXT



IOWA STATE UNIVERSITY

# CONTEXT



Ages 19 and younger  
Percent 2010

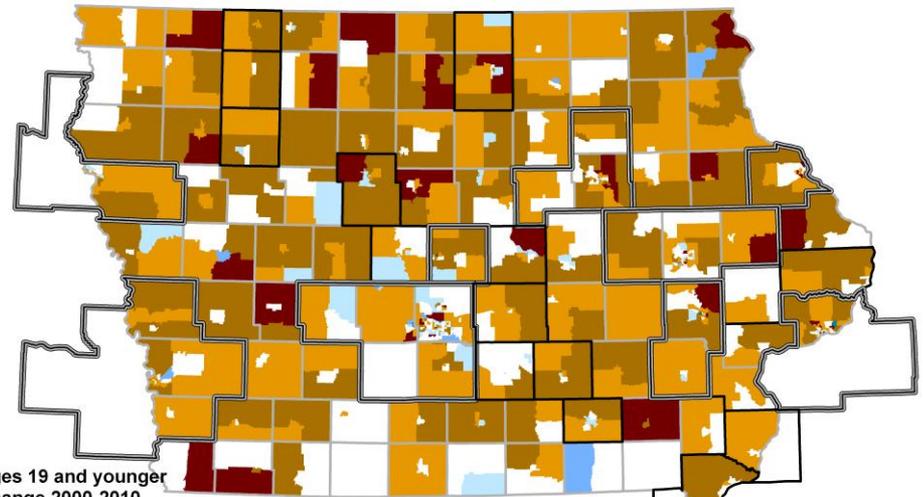
- Under 20%
- 20% to 25%
- 25% to 30%
- 30% to 35%
- Over 35%

Metropolitan Area    Micr

SOURCE: 1910-2010 Decennial Census, U.S.

IOWA STATE UNIV

*Future college students from Iowa will come from metro areas.*



Ages 19 and younger  
Change 2000-2010

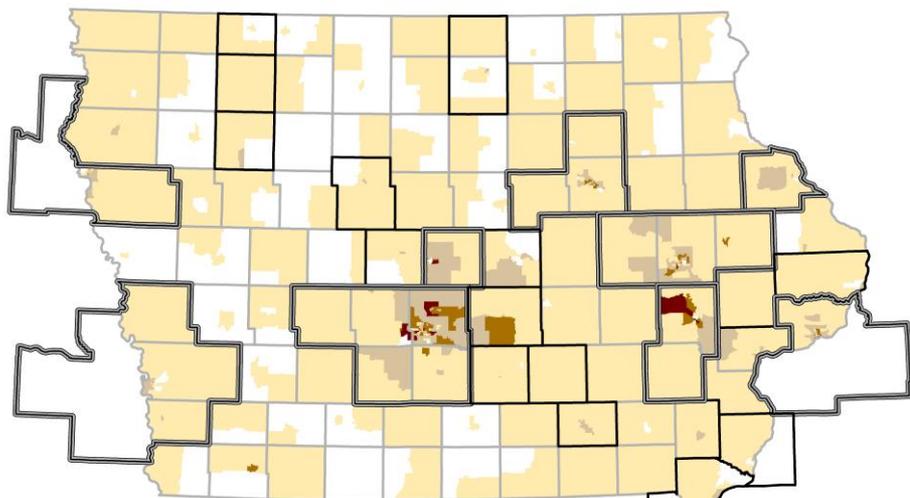
- More than -5% decline
- 3% to -5% decline
- 3% to -1% decline
- Stable -1% to 1% change
- 1% to 3% growth
- 3% to 5% growth
- More than 5% growth

Metropolitan Area    Micropolitan Area

SOURCE: 1910-2010 Decennial Census, U.S. Census Bureau.

IOWA STATE UNIVERSITY

# CONTEXT



Ages 25-44  
Percent 2010

- Under 20%
- 20% to 25%
- 25% to 30%
- 30% to 35%
- Over 35%

Metropolitan Area    Micr

SOURCE: 1910-2010 Decennial Census, U.S.

IOWA STATE UNIV

*Younger working-age population is in Des Moines and Iowa City.*



Ages 25-44  
Change 2000-2010

- More than -5% decline
- 3% to -5% decline
- 3% to -1% decline
- Stable -1% to 1% change
- 1% to 3% growth
- 3% to 5% growth
- More than 5% growth

Metropolitan Area    Micropolitan Area

SOURCE: 1910-2010 Decennial Census, U.S. Census Bureau.

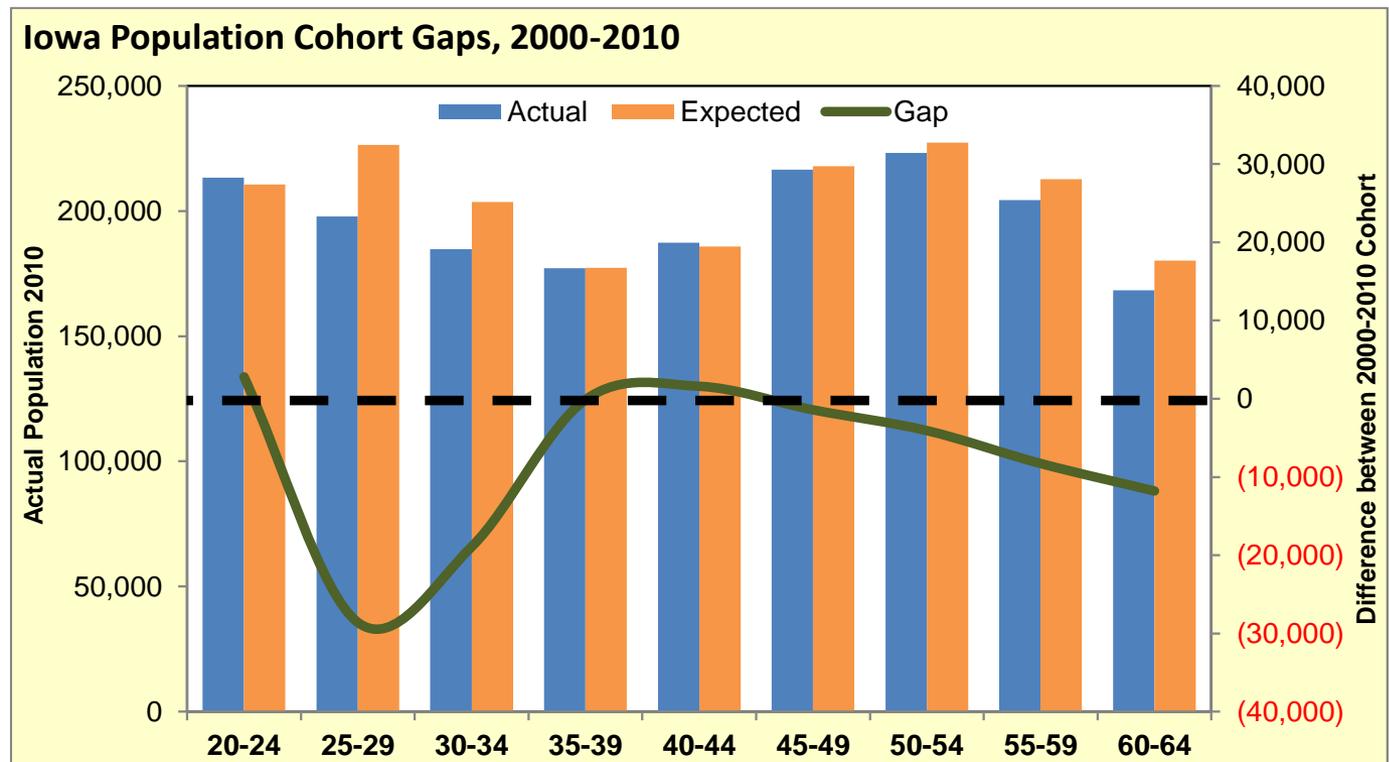
IOWA STATE UNIVERSITY

# CONTEXT

## Currently, youth stay and young adults leave ...

Most 20-24 yr olds today lived in IA 10 yrs ago (as 10-14 yr olds).

Of all 15-24 yr olds who lived in IA in 2000, -48k (-11%) had left the state as 25-34 yr olds by 2010.

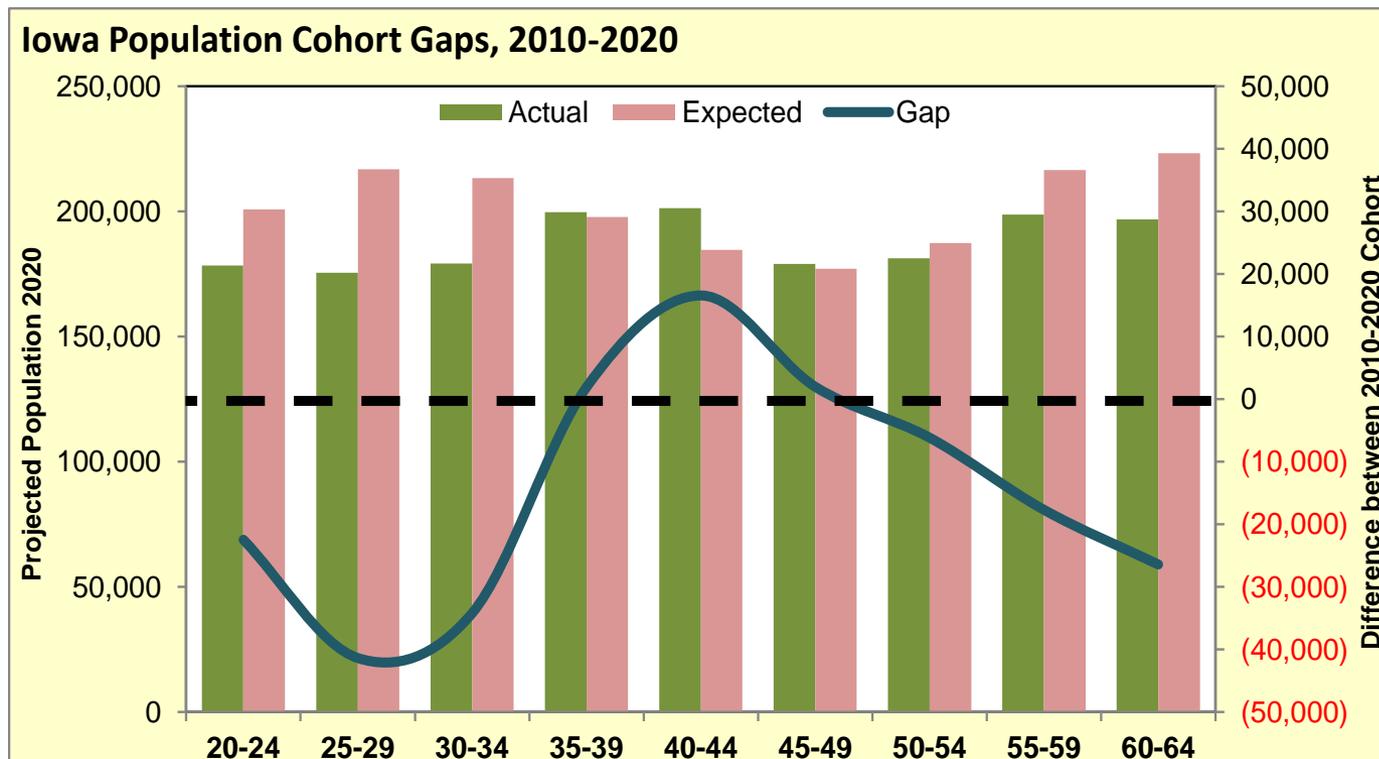


# CONTEXT

## In the future, both youth and young adults will leave ...

-23k (-11%) of 10-14 yr olds today will be gone as 20-24 yr olds by 2020. Turnaround from 2000-2010.

-76k (-18%) of 15-24 yr olds today will end up leaving as young adults age 25-34 by 2020. Worse from 2000-2010.



# ***DEMOGRAPHICS OF IOWA COLLEGE STUDENTS***

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## **COUNTS**

### **College Population in Iowa**

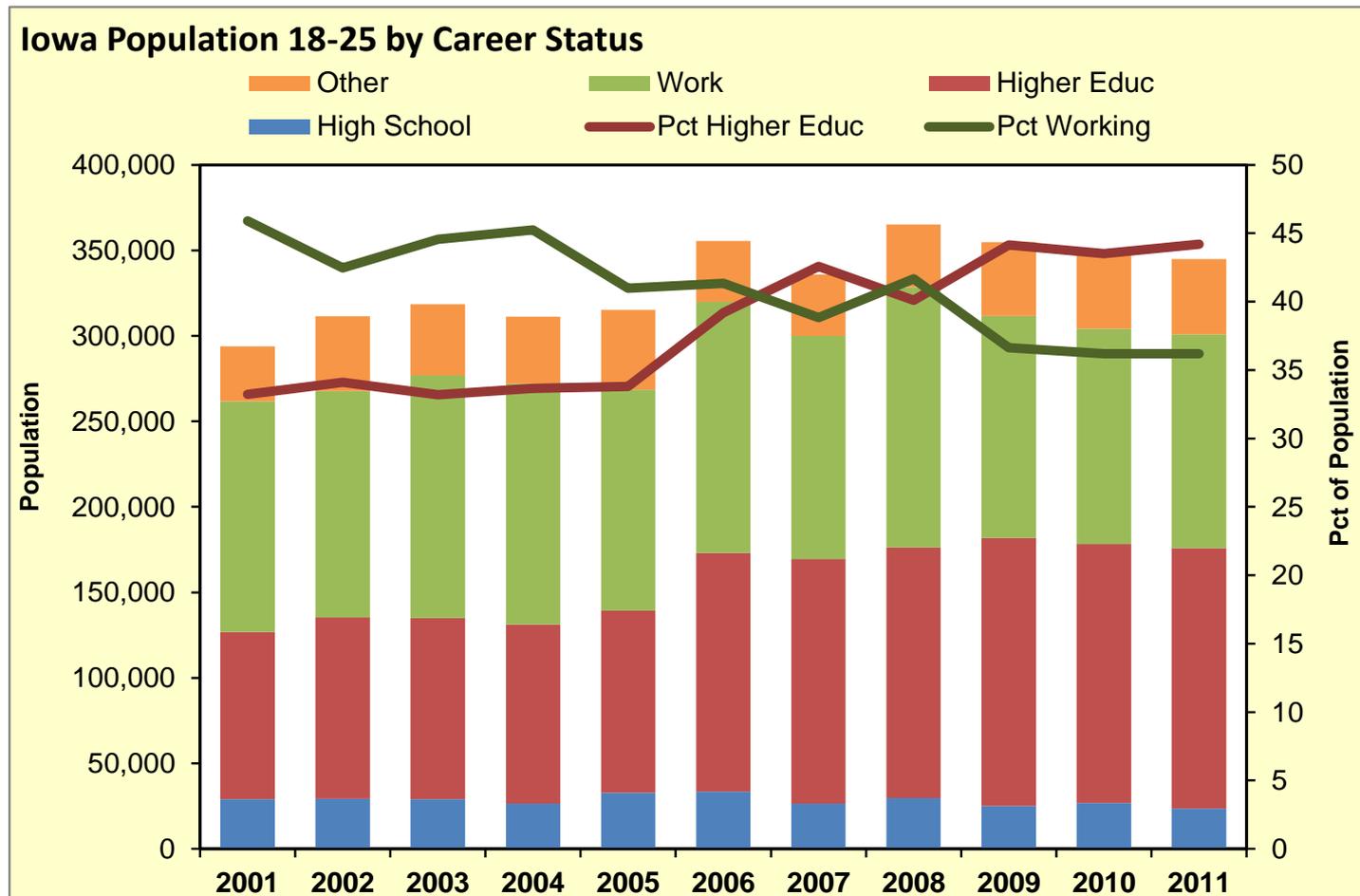
# COUNTS

## Choosing the college-track over the work-track ...

44% attend college (up 11%). 36% work (down -10%).

### Growth Rates 2010-2020 ...

College 1.1% p.a.  
Work -1.0% p.a.



# COUNTS

## Public-education state, but private growing fast ...

Today, 72% enrolled in public and 28% in private schools.  
By 2020, 67% public and 33% private (mostly UG).

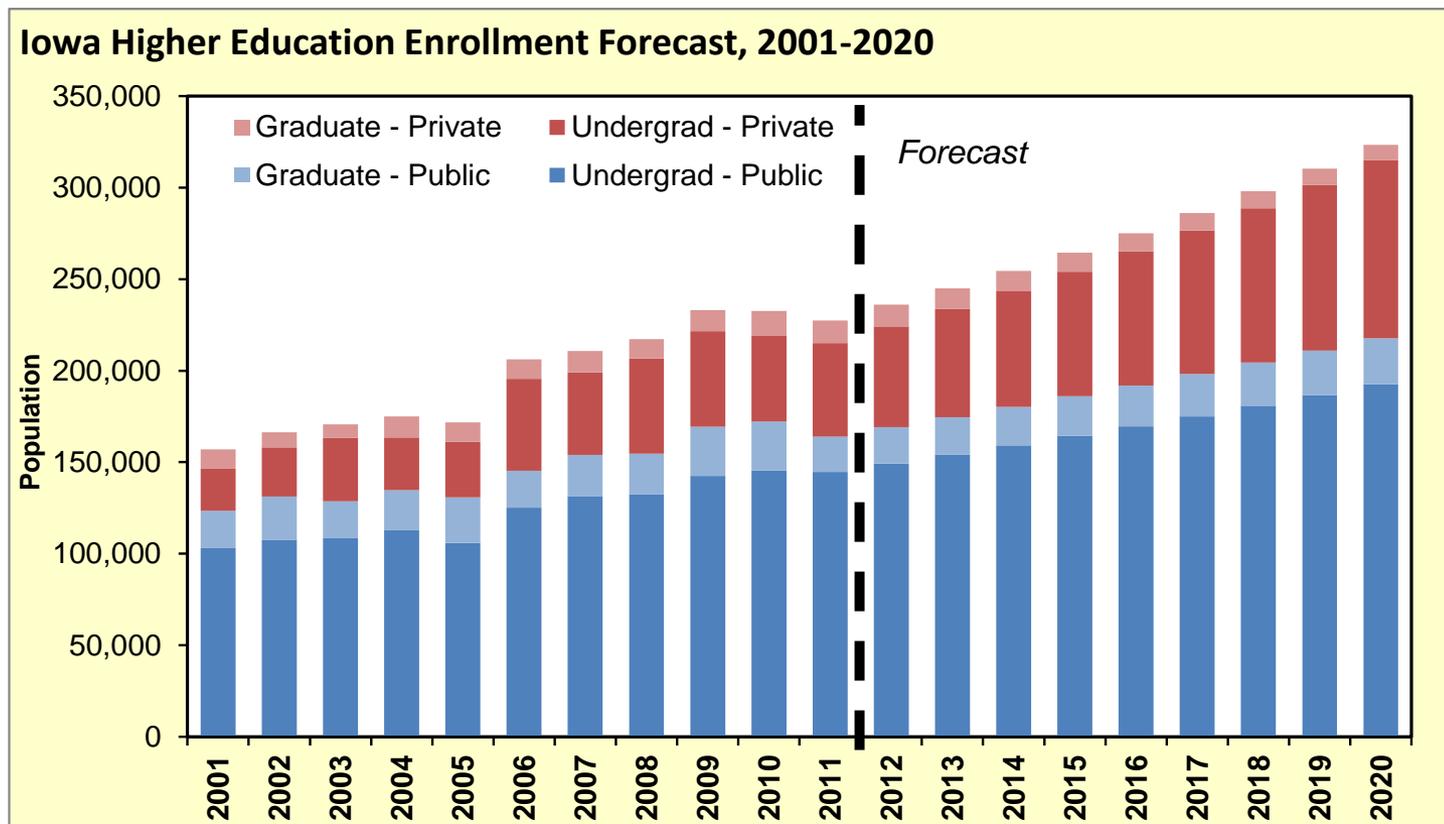
### Growth Rates 2010-2020 ...

#### *Public*

Undergrad 3.2% p.a.  
Grad 3.0% p.a.

#### *Private*

Undergrad 7.4% p.a.  
Grad -4.1% p.a.



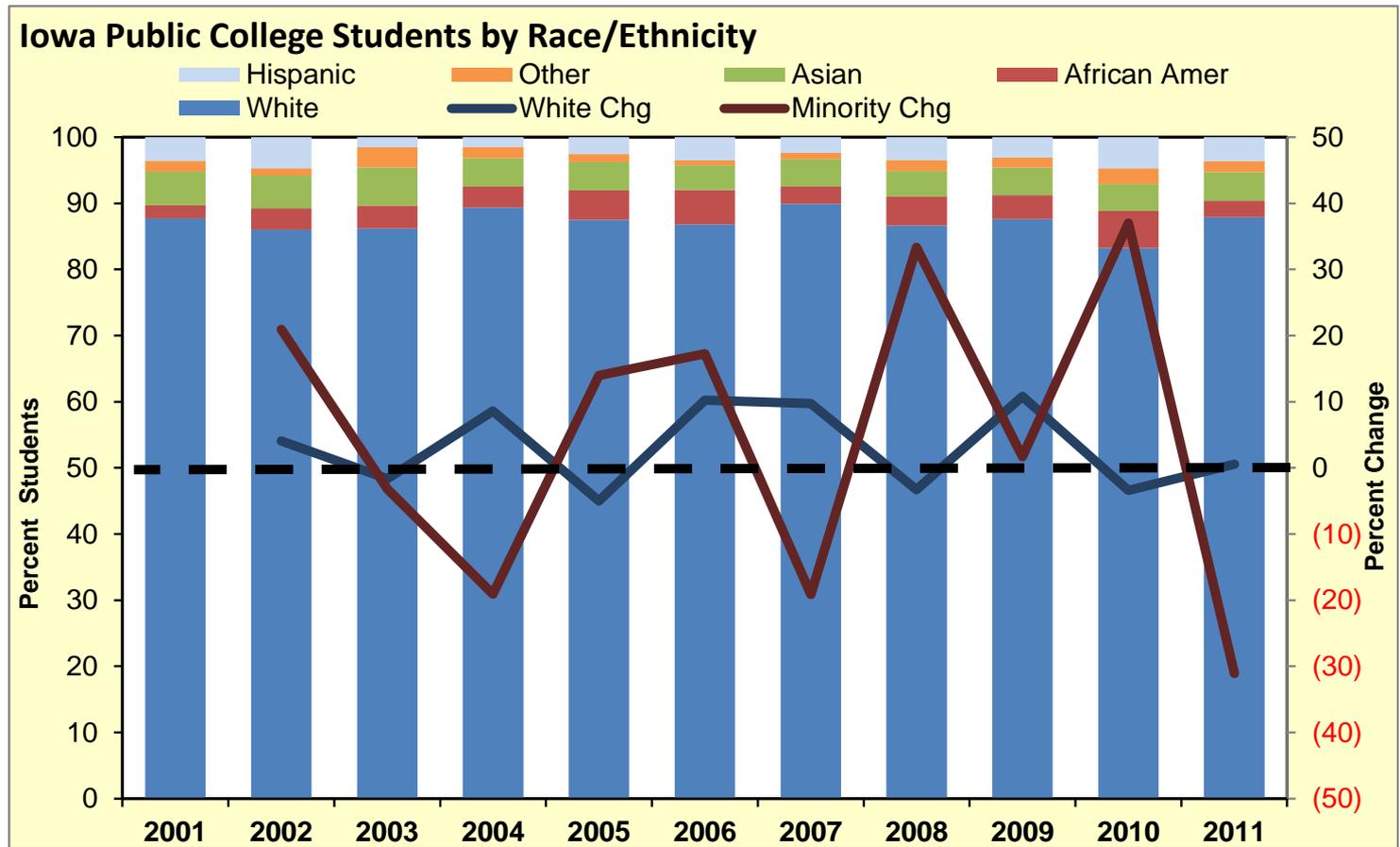
## **CHARACTERISTICS Public College Students in Iowa**

# CHARACTERISTICS

## Mostly white, but growing minority students ...

86% white (3.1% p.a.). 4.2% Asian (1.9% p.a.).

3.9% African-American (5.2% p.a.). 3.8% Hispanic (13.6% p.a.).

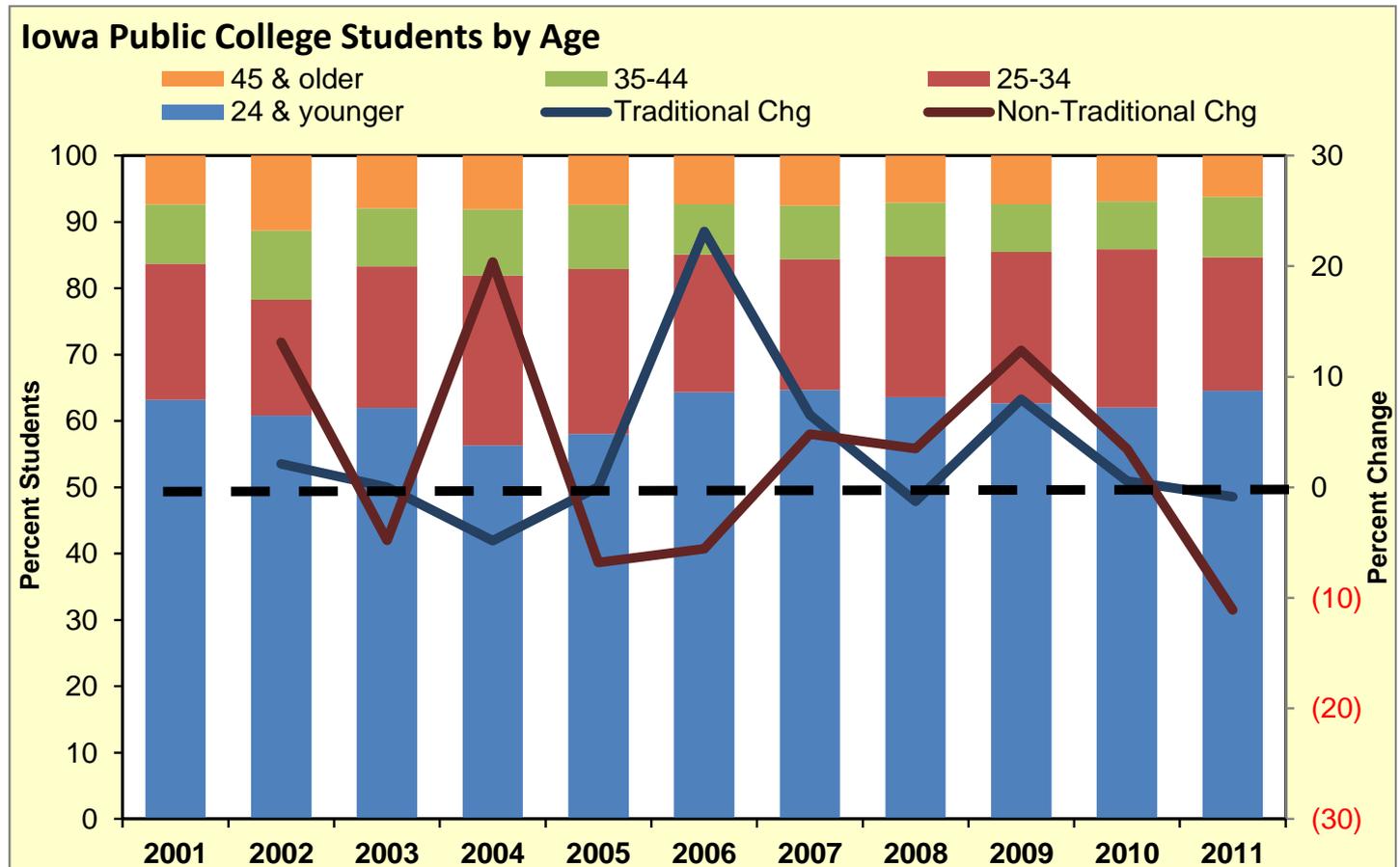


# CHARACTERISTICS

## Most are traditional college age ...

63% under 25. 22% between 25-34. 15% over 35.

Growth rate 3.3% p.a. for traditional, 2.9% p.a. for non-traditional.

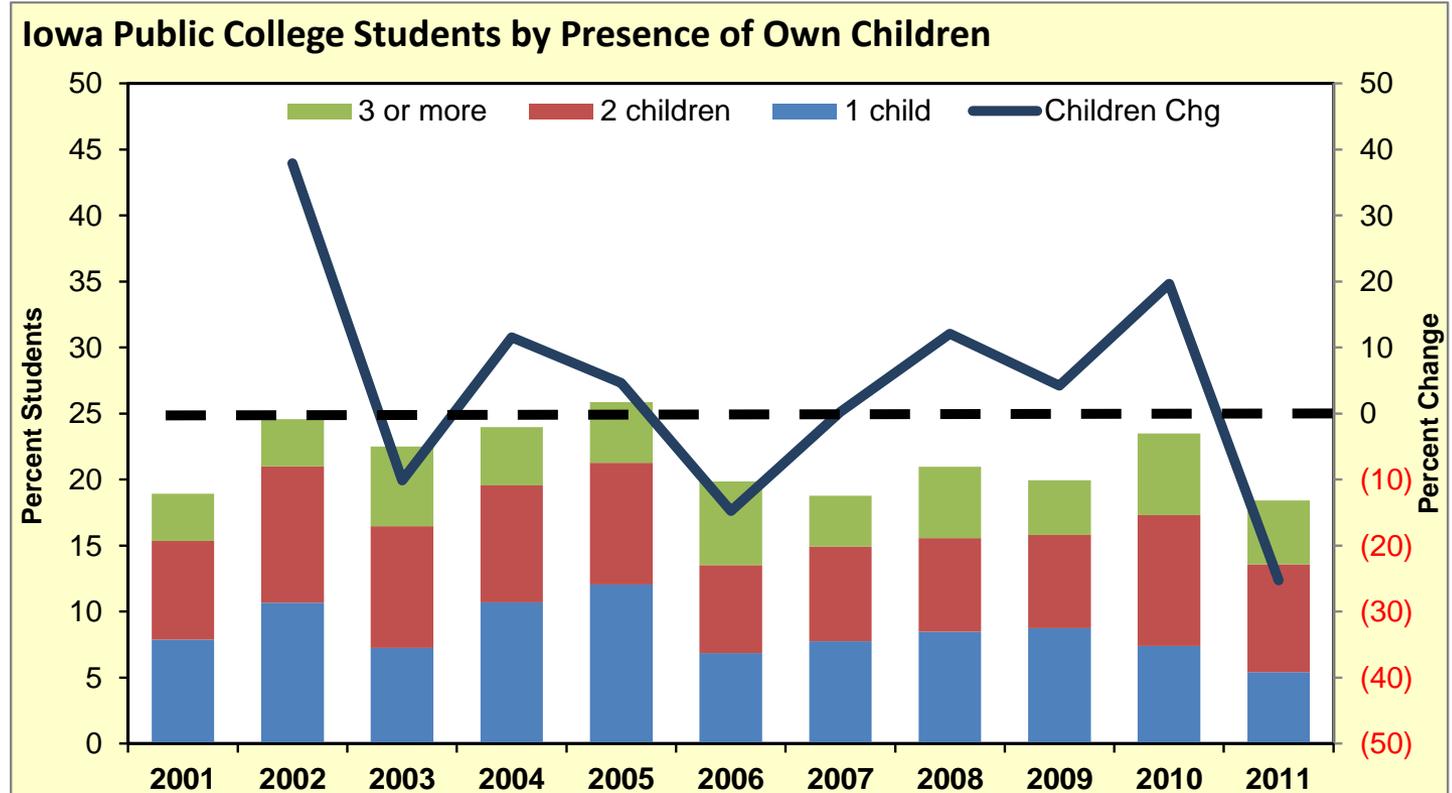


# CHARACTERISTICS

## Children on campus ...

21% have children in the HH. Trend erratic, but upward (~4% p.a.).

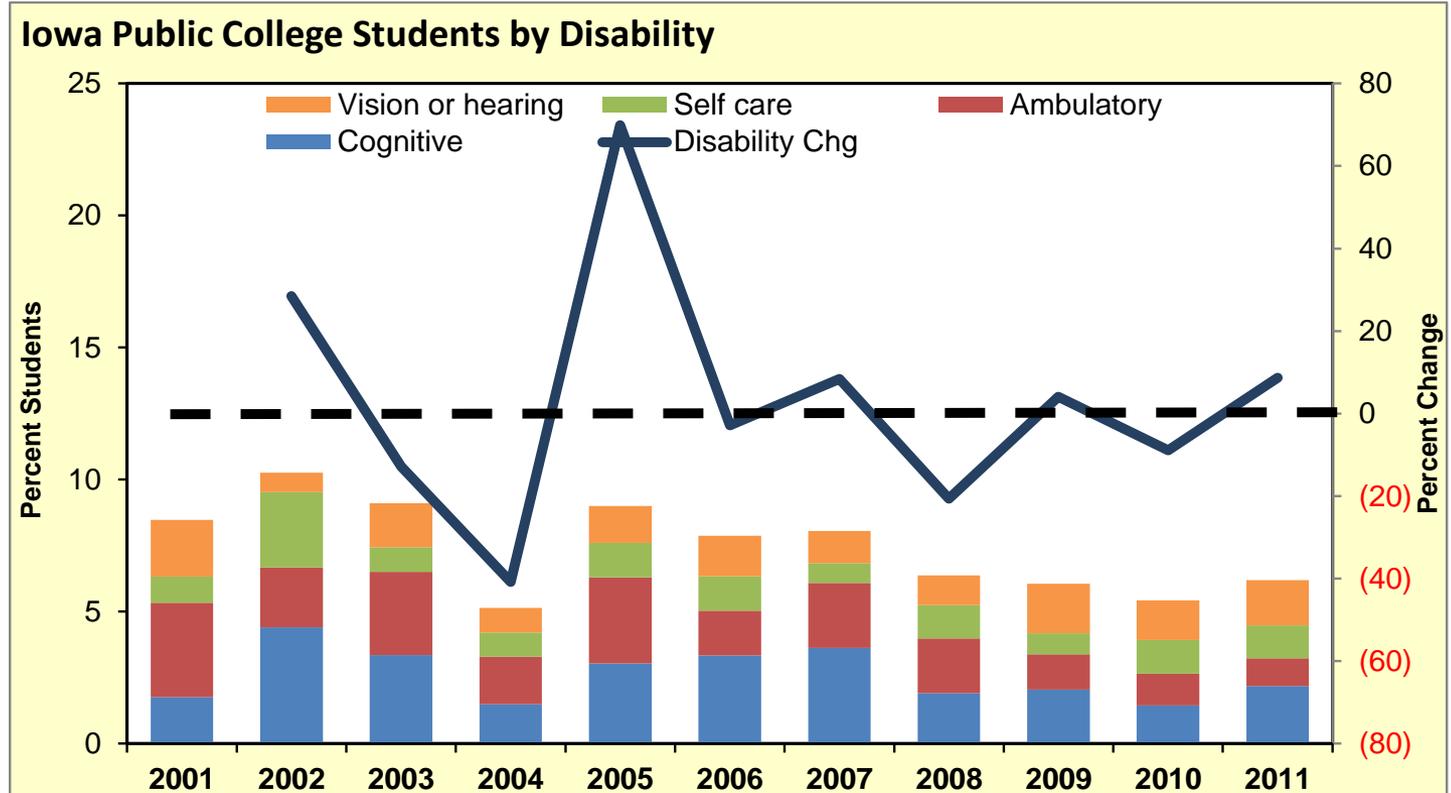
Most live on-campus (~90%) Many in married families (~65%). Few single (~18%). Growing single-headed families. About 22% in poverty, increasing fast.



# CHARACTERISTICS

## Stability in disability ...

6% have some type of disability ... mostly cognitive or hearing/vision.  
Fastest growth in cognitive and self-care disabilities.  
Trend erratic, but upward (~3% p.a.).



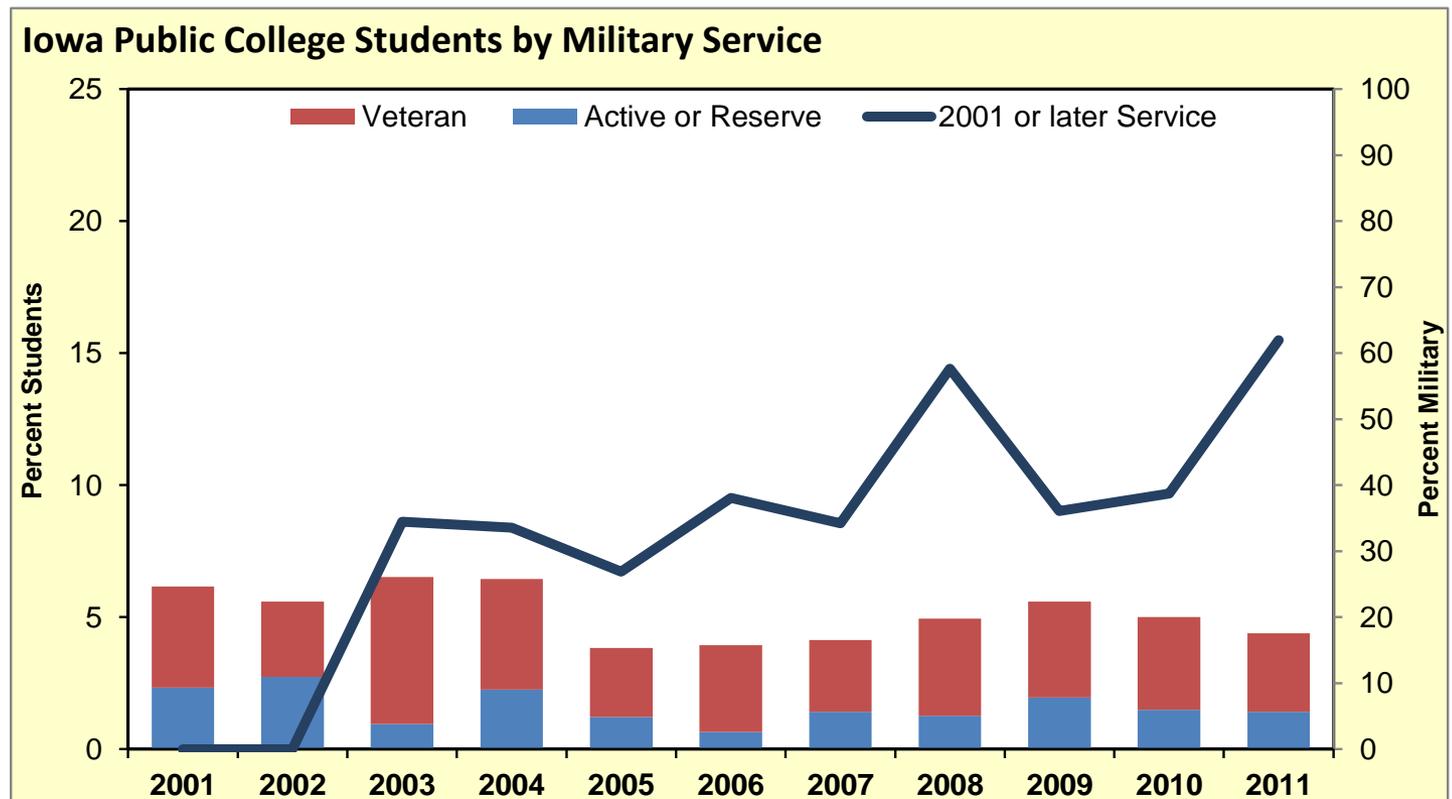
# CHARACTERISTICS

## Few veterans, most from GWOT ...

5% of students, slow growth rate of 1.6% p.a.

Faster growth of active duty, slower growth of veterans.

Majority served in GWOT, some will have post-war issues.



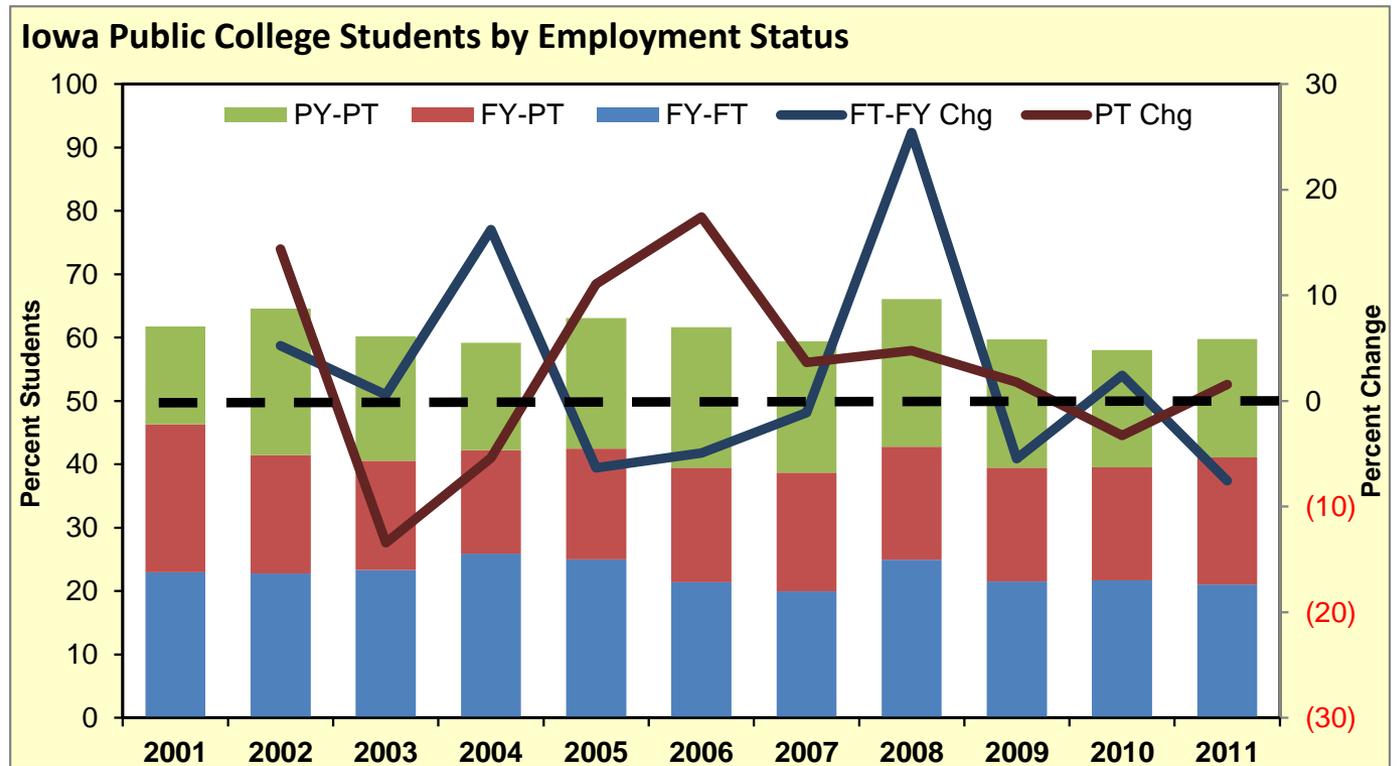
# CHARACTERISTICS

**Three-fifths work some type of job ...**

Most are part-time.

**One-fifth work full-time jobs ...**

Stable rates, slow growth. Spike at height of Great Recession.



# ***CHARACTERISTICS***

---

## **One-fifth work full-time jobs ...**

College completed ... 33% 1-year, 26% 4-years.

Workplace ... 55% private, 25% govt, 11% non-profit, 5% self-employed.

Occupation ... 20% management/business, 14% education, 10% sales, 9% office/admin, 7% health practitioner, 5% computer/math.

Industry ... 32% educ/health/social services, 14% trade, 14% manufacturing, 9% FIRE.

# **THANK YOU!**

*For more information*

David Peters

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[www.soc.iastate.edu/dpeters](http://www.soc.iastate.edu/dpeters)

IOWA STATE UNIVERSITY

# Student Debt: Is it too much? What Should We Do?

Tahira K. Hira, Professor HDFS

Roberta Johnson, Director, Office of Student Financial Aid  
Iowa State University

# Presentation Outline

- Current student loan environment
- Student loans, complex decision, good investment
- Student debt: are we asking the right questions
- Factors influencing student debt
- Financial aid and student debt in Iowa
- Confused students: need for financial education and loan counseling
- Relevance of Affordability and Accessibility committee's findings, recommendations, and progress
- References

# Current Student Loan Environment

- The volume of federal loans has increased rapidly
- With declining state support the increase in private sector loans is even faster
- Overall undergraduate enrollment in college has also increased significantly during the last decade
- There are questions about the validity of data: “when reporting student debt numbers by state (high and low), TICA are continuing to pursue a dated and unsustainable narrative.” Institute of Education Sciences

# Enrolling in & Borrowing for College is a Complex Capital Decision

- Enrolling in college is a complex decision, students and families lack sufficient information to make fully informed decisions
- For students it's a first encounter with formal major borrowing
- Student loans are one of the most complicated financial products
- Debt aversion is not always in the best interest of the student
- Due to the higher earning premium for college graduates it is a major capital investment decision both for college graduates and their parents

# Student Debt: a Good Investment

- The earning premium for a college degree relative to a high school degree nearly doubled in the last three decades
- There is no evidence that the earning premium has declined for college graduates in a weaker labor market
- The unemployment rate for college graduates (4.4%) is almost half of the high school graduates (7.6%)
- Some people worry that one form of cognitive bias impacting collegiate investments is attaching too much significance to extreme examples

# Student Debt: Too Much or Not Enough?

- Perhaps we should ask different questions: Do students borrow the “right” amount for college? Do they borrow from low cost sources?
- One in six full-time students at four year institutions who are eligible for student loans do not take up such loans thus forgoing the subsidy
- Students often misunderstand financial aid packages, they fail to understand the much greater cost of consumer loans (such as credit card debt) relative to student loans and they miscalculate the trade-off between academic study and market work
- There is little evidence to suggest that the average burden of loan repayment relative to income has increased in recent years (bench mark being 8%-10%)

# Complexity of The Current System

- The complexity of the current federal aid application process and programs undermines their effectiveness
- Students and families lack sufficient information about the outcomes to make fully informed decisions about which colleges to attend, financial aid packages, and borrowing costs
- Changes to financial aid programs have not consistently prioritized access and success for financially needy students
- Improvement in financial aid programs is desperately needed

# Factors Influence Student Debt Level

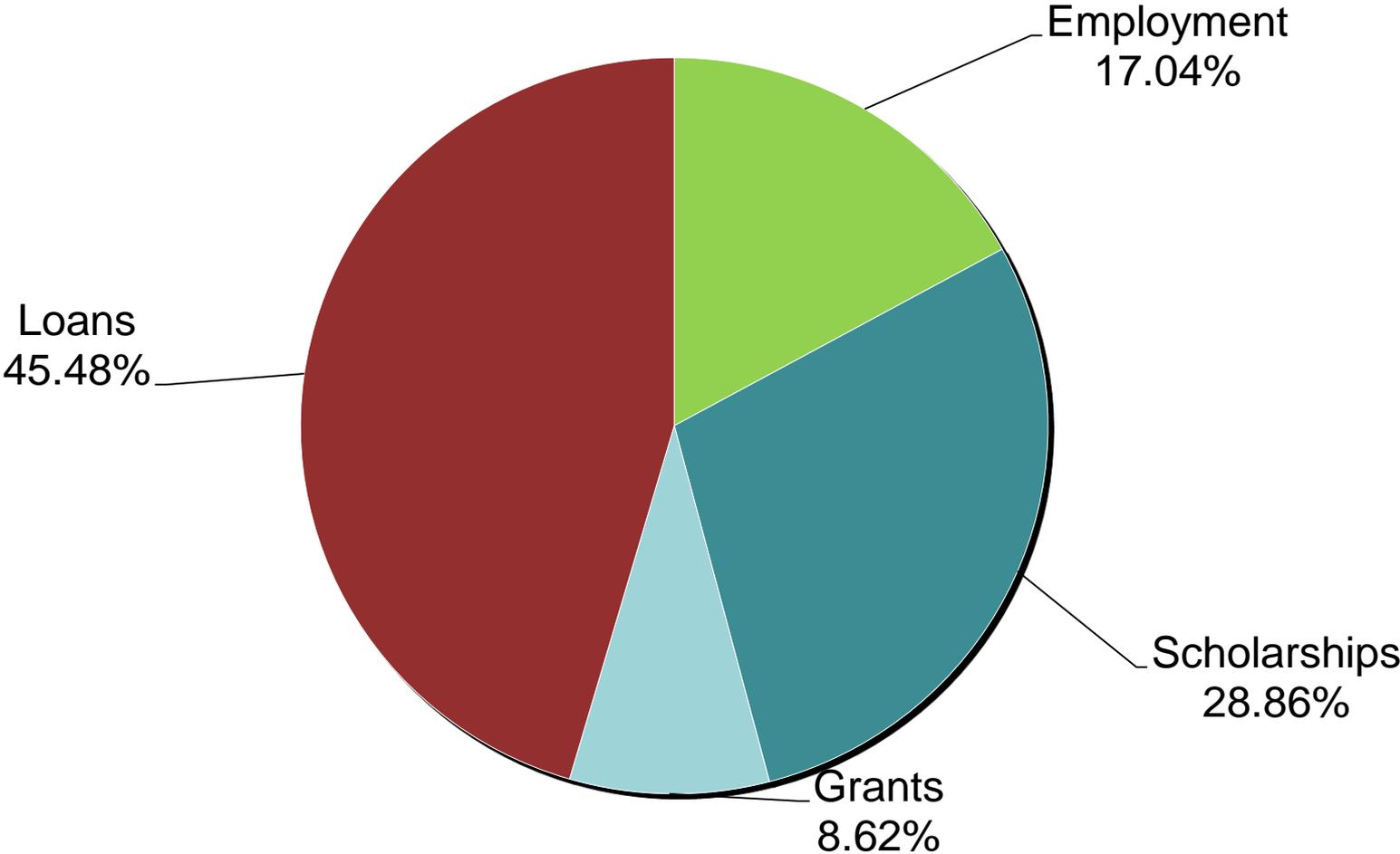
- Personal factors
  - The level of personal financial resources, willingness to borrow and ability to manage finances
  - Parents' ability and willingness to provide financial support
- Environmental factors
  - Cost of living, level of state support
- Institutional factors
  - Financial aid packaging policies
  - Tuition levels
  - Endowment resources available for financial aid
  - Extent of out-of-state enrollment
  - Time to graduation

# Student Financial Aid in Iowa

- Nationally, state governments provide \$1000 per capita grant aid; Iowa public universities receive \$115 per capita grant in aid
- The share of private loans has grown much more than in the country and the average private loan volume has also increased significantly
- Parents' loan capabilities have been underutilized in Iowa
- Iowa Work Study program allocations decreased by 96.6%
- The State of Iowa scholarship decreased by 100%

# Student Financial Aid Programs 2012-13

Total: \$396,092,553



# Some Students are Loan Confused

- About 13 percent of students reported that they did not owe any money, when in fact they did have student loan debt
- Over one third (37%) underestimated the amount they owed
- And one out of 10 underestimated their debt by more than \$10,000
- Compared with out-of-state students, in-state residents were nearly twice as likely to misunderstand whether they owed on student loans
- Females, students with financial need, and those deemed “financially independent” were less likely to be loan confused than those without

(Andruska, et al. 2012)

# Predictors of Financial Behavior

- There was a positive and significant relationship between knowledge and having taken a personal finance course
- There was a positive and significant relationship between knowledge and confidence
- Financial confidence scores were significant predictors of financial behavior
- Personality characteristics and confidence were significant predictors of financial behavior
- Gender and age also have some influence on financial behavior (older students and female students exhibited more responsible financial behavior)

Hira et al. 2013

# Student Loan Counseling is Needed

- Loan counseling must be individualized based on the borrower's specific situation and needs, and not consist of just disclosing general information and options
- It should be conducted when it is most likely to have an impact
  - **Entrance counseling:** before students commit to borrowing
  - **Interim counseling:** at key points when borrowers are likely to benefit, when they have borrowed over a certain amount or sought certification of a private loan
  - **Exit counseling:** point them toward specific repayment plans based on their plans and preferences

**Affordability & Accessibility  
Committee Report  
Findings, Recommendations,  
Progress**

# Findings

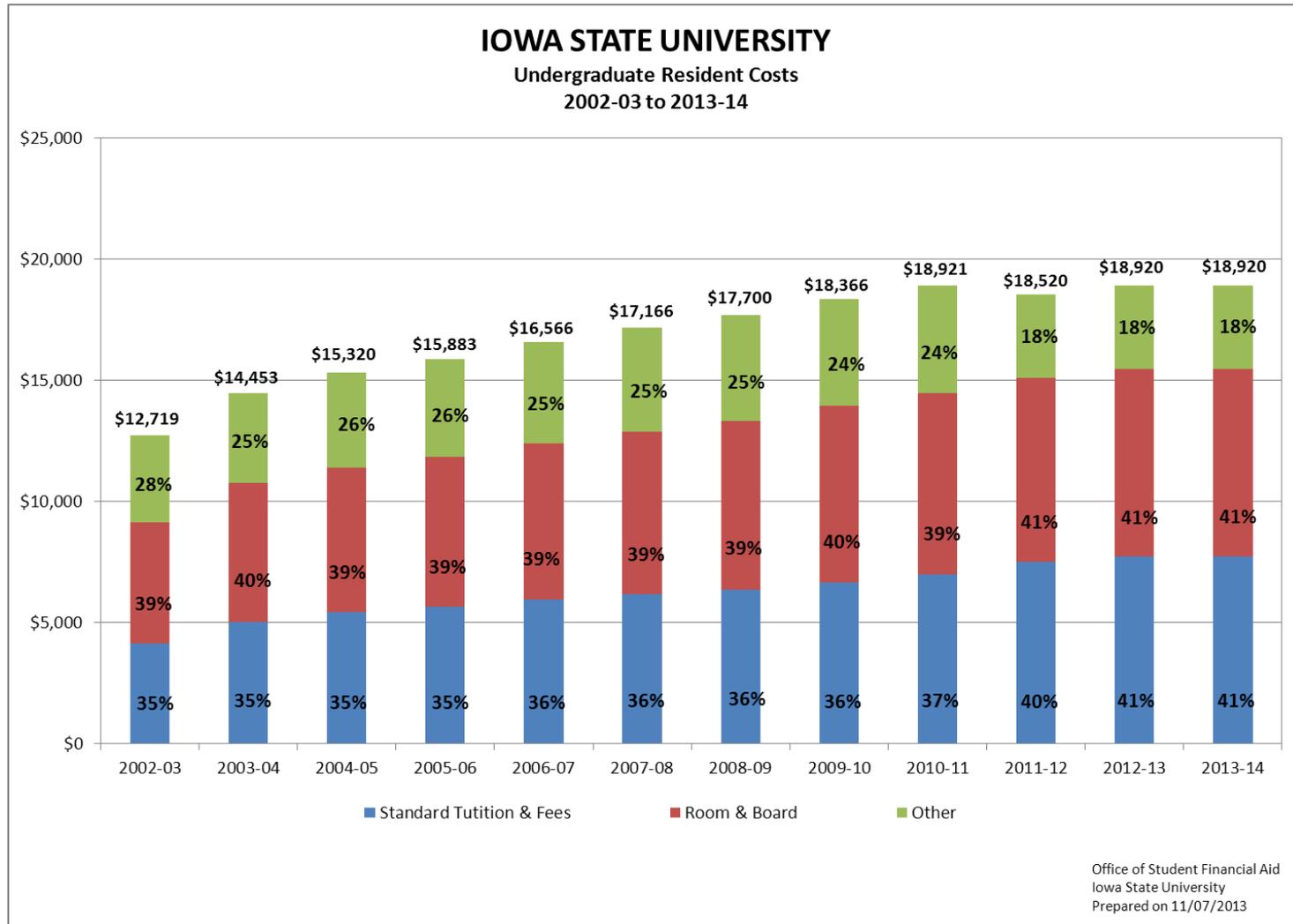
- Cost of attendance at Regents' universities for resident UG students has been going up in recent years but is still the **lowest** among their peers
- Ability to pay reflected by income level: Iowa median income rose by 8.4% but was **lower than US** median income by \$2,791
- Average time to finish degree is **4.5 years**
- State educational appropriations per FTE for public post-secondary institutions **is ranked 7<sup>th</sup> lowest** among Peer 11, and **lower than the national average by \$766**
- State of Iowa ***ranked lowest*** among the Peer 11 in terms of dollars and percentage of state need-based grant aid awarded to public post-secondary institutions

# Recommendations

- Create and adequately fund a need-based state grant program dedicated to students attending Iowa public universities
- Fund the Iowa Work Study program
- Maintain Iowa public university undergraduate tuition set aside at no less than current level
- Establish priorities to raise funds for need-based and merit-based scholarships
- Increase 4 year graduation rate (its now 4.5 Years)
- Increase qualified financial aid staff to provide student debt counseling
- Require all UG students to complete a financial education course

# Progress

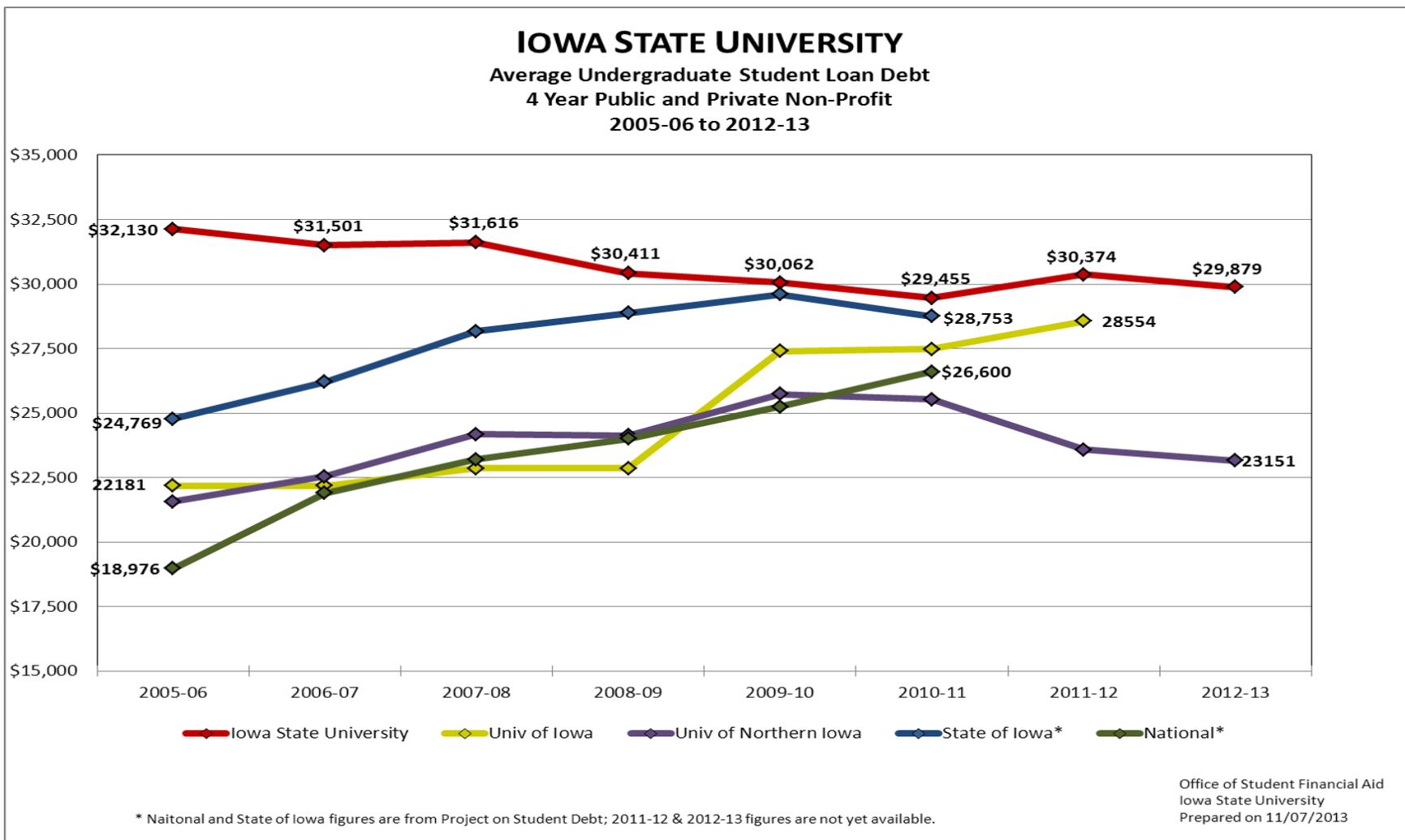
# Cost of Attendance



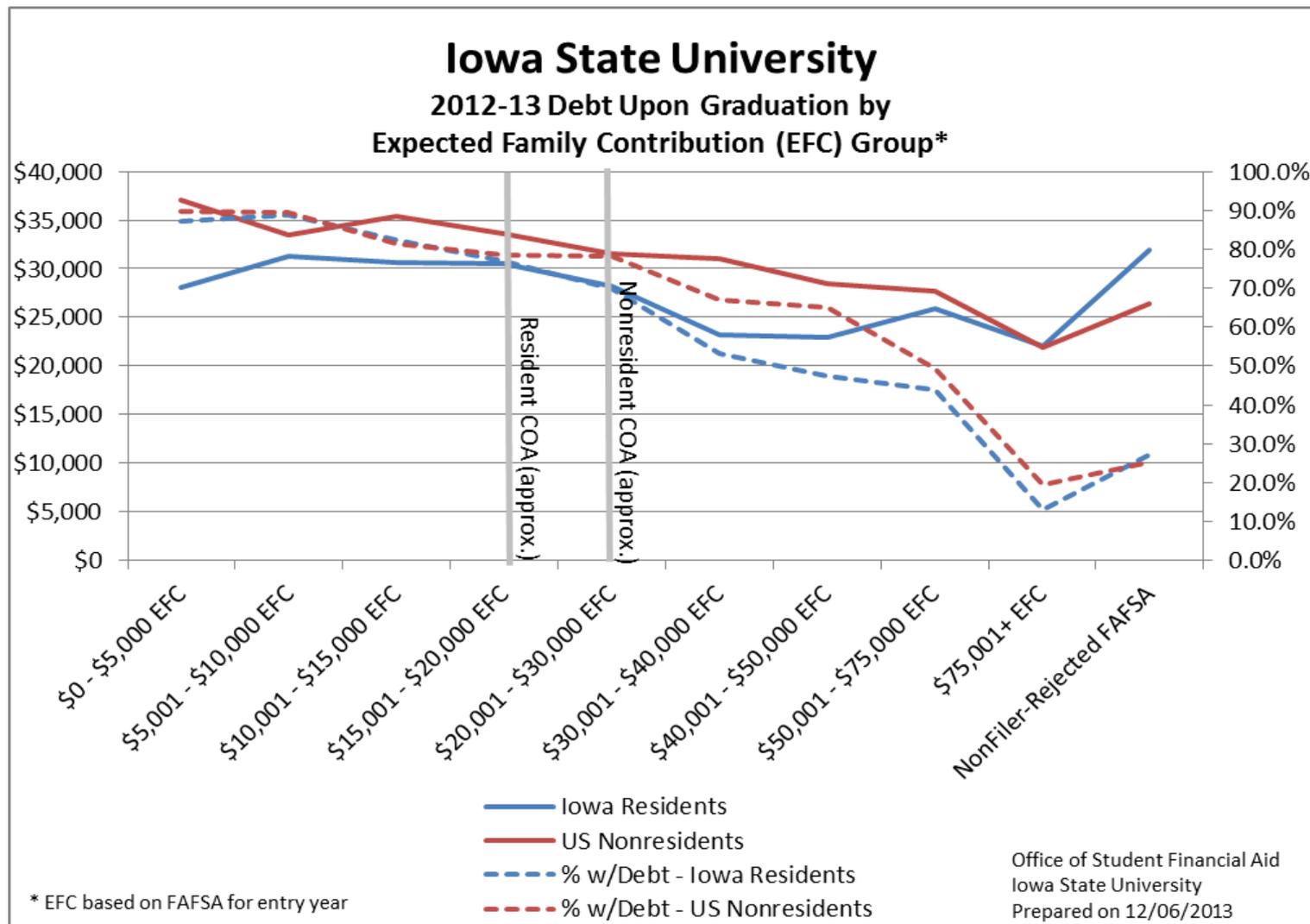
# Corporate and Private Support

Year	# of Awards	Average Award	Total Dollars
2006-2007	8,237	\$1,922	\$15,834,365
2007-2008	8,282	\$1,999	\$16,558,301
2008-2009	8,637	\$2,065	\$17,837,597
2009-2010	8,833	\$2,179	\$19,251,351
2010-2011	8,823	\$2,379	\$20,985,548
2011-2012	10,004	\$2,498	\$24,987,443
2012-2013	10,511	\$2,559	\$26,892,511

# Debt is Stabilized



# Debt by EFC



# References

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- Avery, C., & Turner, S. (2012). Student loans: do college students borrow too much-or not enough? Journal of Economic Perspectives , 26(1), 165-192.
- Baum, S., & Payea, K. (2011). Trends in Student Aid 2011. New York: College Board. Retrieved from [http://trends.collegeboard.org/student\\_aid/](http://trends.collegeboard.org/student_aid/)
- Cadena, B. C., & Keys, B. J. (2010). Can self-control explain avoiding free money? Evidence from interest-free loans . Manuscript submitted for publication. Revision Requested, Review of Economics and Statistics. Retrieved from <http://spot.colorado.edu/~cadenab/>
- Consumer Union report, May 2013
- Hira T, Wagner N, Hashinaga M & Nation J (10.7.2013) Financial Knowledge, Confidence & Personality & Financial Behavior Among College Students. HDFS Research seminar presentation (work in progress).

# Q/A Discussion

**BOARD OF REGENTS**  
**PERFORMANCE-BASED REVENUE MODEL TASK FORCE**

**AGENDA**

**Board of Regents Office**

**11260 Aurora Avenue**

**Urbandale, IA 50322**

**December 17, 2013**

**10:00 a.m. – 2:00 p.m.**

- I. Introductions & Welcome (10:00-10:05 am) David Miles, Chair
  
- II. Organizational Matters (10:05 – 10:15 am) David Miles
  - a. Minutes of October 18 Meeting
  
- III. Performance Funding 2.0 (10:15 – 11:45 am) Matt Pellish, Director of Strategic Research,  
Education Advisory Board
  
- BREAK (11:45 – 12:00 pm)
  
- IV. Iowa Demographics (12:00 – 12:30 pm) David Peters, ISU Asst. Professor  
Sociology - AGLS
  
- WORKING LUNCH – distribute box lunches (12:30 – 12:45 pm)
  
- V. Student Debt (12:45 – 1:15 pm) Tahira Hira, ISU Sr. Policy Advisor to President &  
Is It Too Much? What Should We Do? Professor Human Development & Family Services;  
Roberta Johnson, ISU Director Financial Aid
  
- VI. Discussion, Wrap Up & Next Steps (1:15 – 2:00 pm) David Miles

**Reminder: Next Meeting has been set for January 21 at the BOR Office; time TBD**



# Aligning State Investments for Postsecondary Educational Attainment

Considerations for Design, Development & Implementation of Performance-Based Funding Policies

**STRATEGY LABS**

State Policy to Increase Higher Education Attainment



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# IOWA BOARD OF REGENTS

## PERFORMANCE REVENUE MODEL TASK FORCE

Presented by: Martha J. Snyder, Senior Associate, HCM Strategists, LLC  
January 21, 2014

# Agenda

- Lumina Goal 2025 & State Policy Agenda
- Lumina Strategy Labs Network Overview
- Attainment Needs
- Building an Outcomes-Based Funding Model
- Recommendations/Considerations for Iowa

# Lumina Goal 2025

- To increase the proportion of Americans with high-quality degrees, certificates and other credentials to 60% by 2025.



# State Policy Agenda



**Improve Student  
Outcomes**



**Align  
Investments**



**Create Smarter  
Pathways**

Designed to help states increase higher education attainment and reach goal 2025. Three core elements and 20 evidence-based policies.

# Lumina Strategy Labs

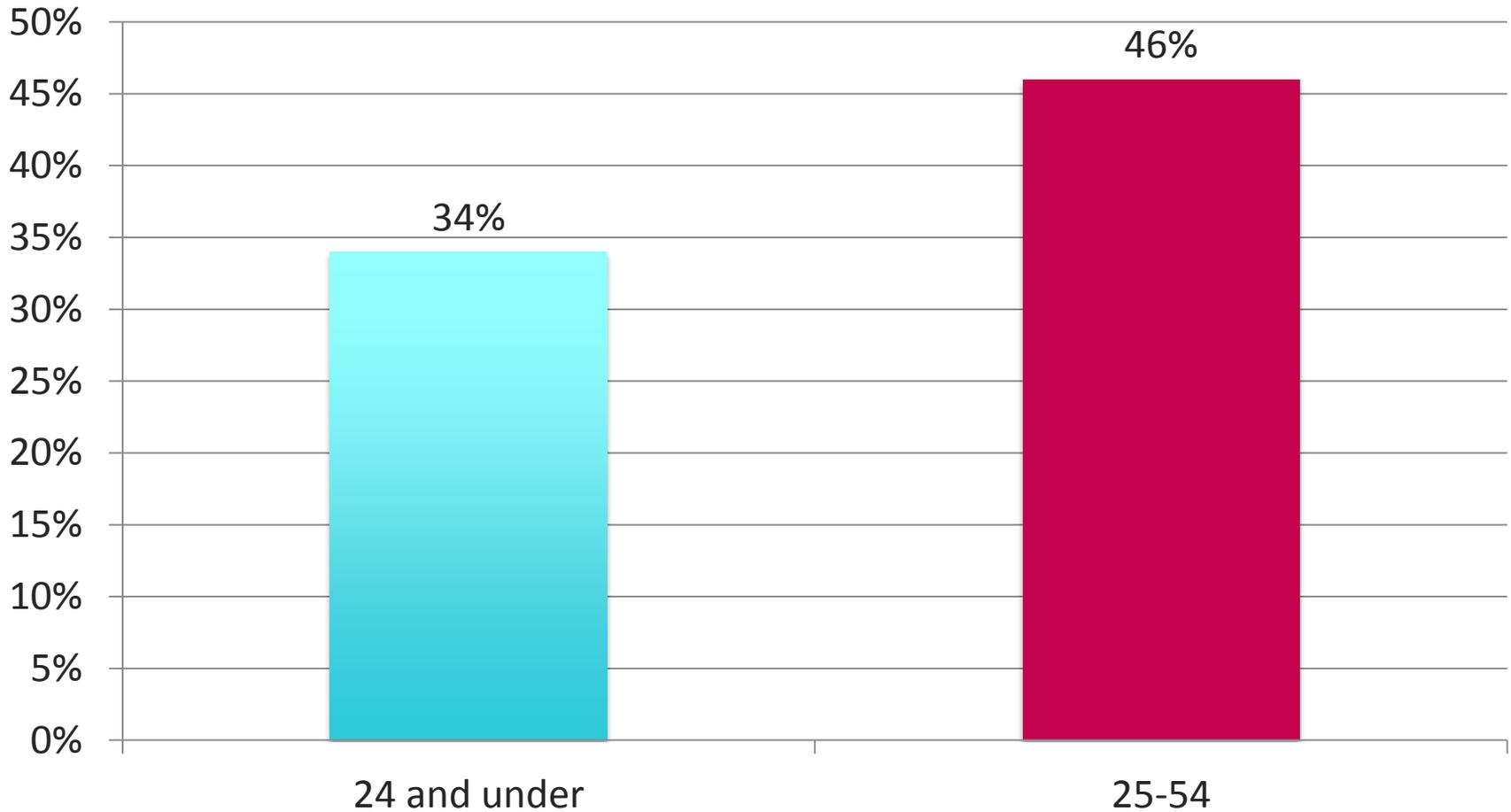
- an open platform for leaders & influencers in all 50 states to share research and data around the state policy agenda
  - Introduce new thinking and non-partisan research
  - Improve awareness of data, the needs of the state, and policy options; and
  - Build will to adopt, enhance and sustain public policies that can help improve student outcomes.



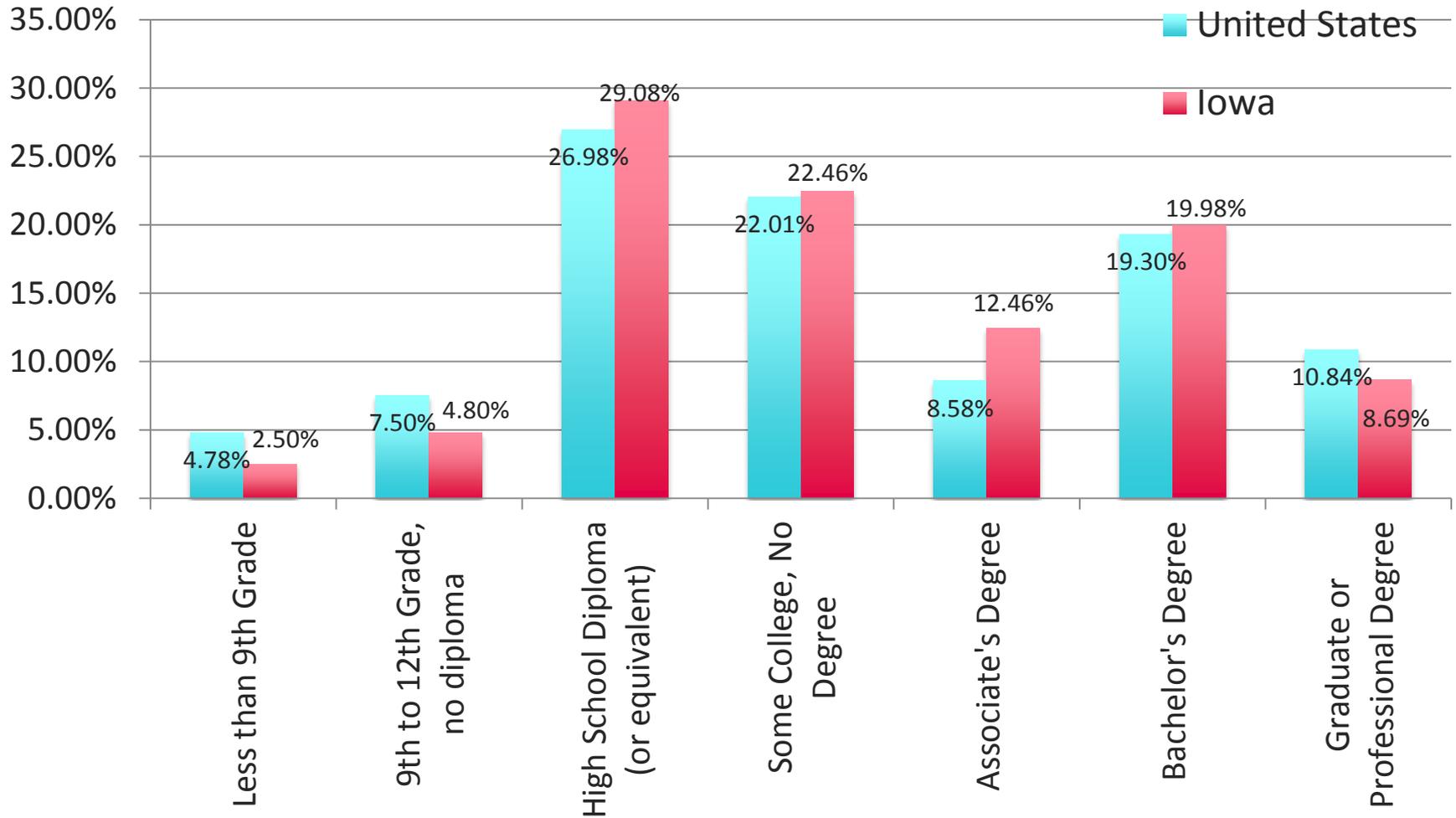
# Strategy Labs Network

- by-invitation group of 26 states supported by peers, experts and evidence and committed to Goal 2025.
- Network Support
  - Non-partisan, evidence-based support
  - Convening & Facilitation
  - Executive Support
  - Research

# % of Iowa Population by Age

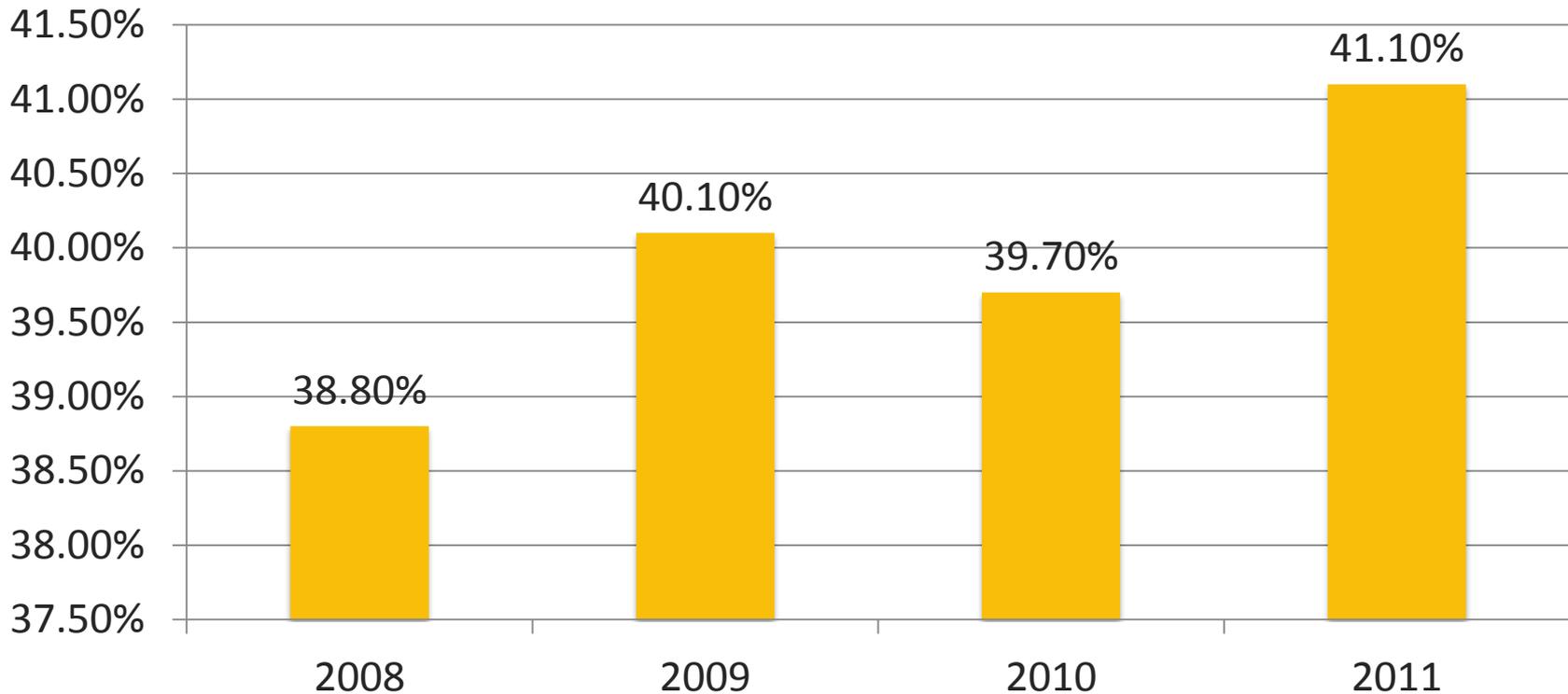


# Attainment Levels: Ages 25-64



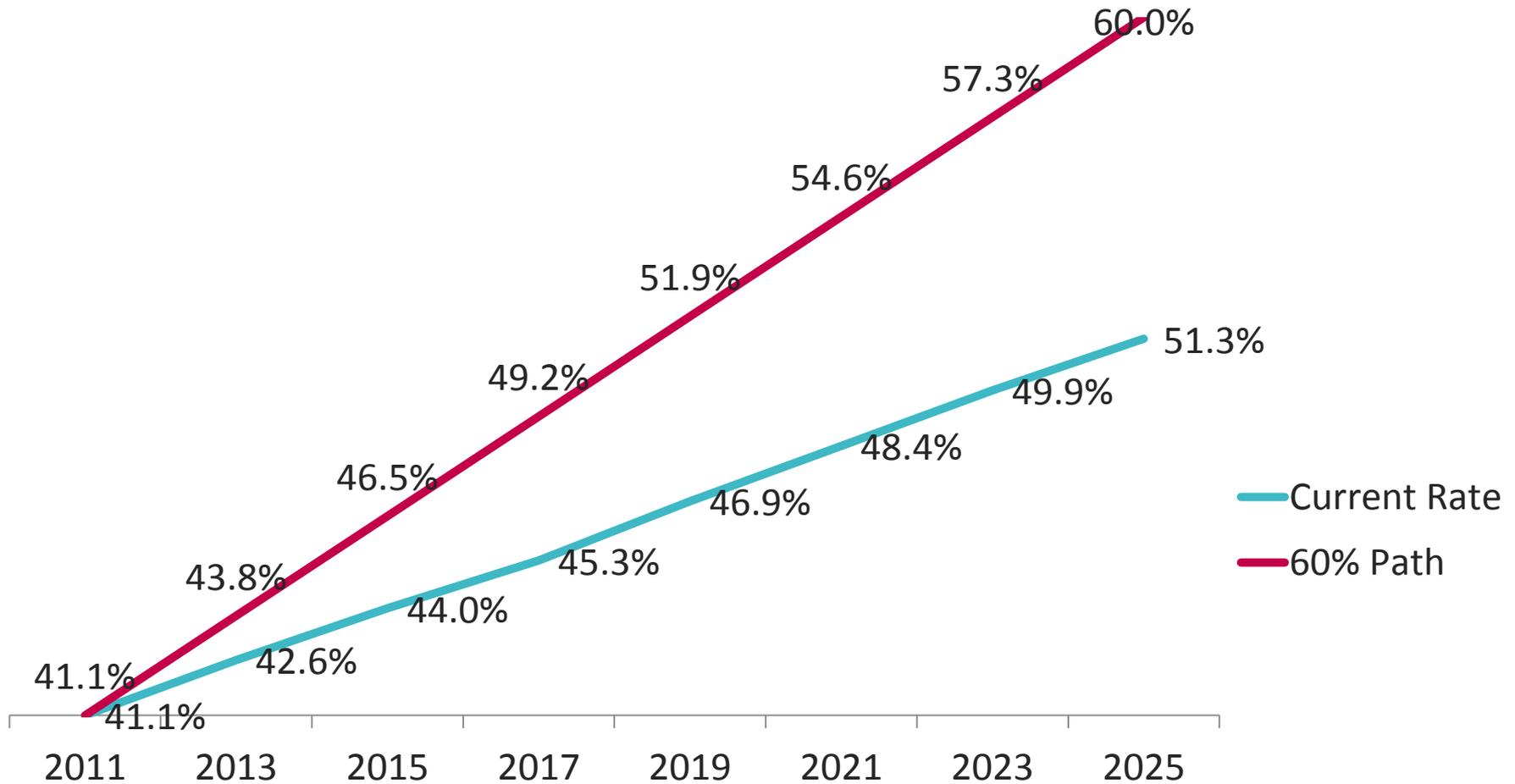
# Attainment Level: Trend

## % of 24-65 Iowans with College Degree

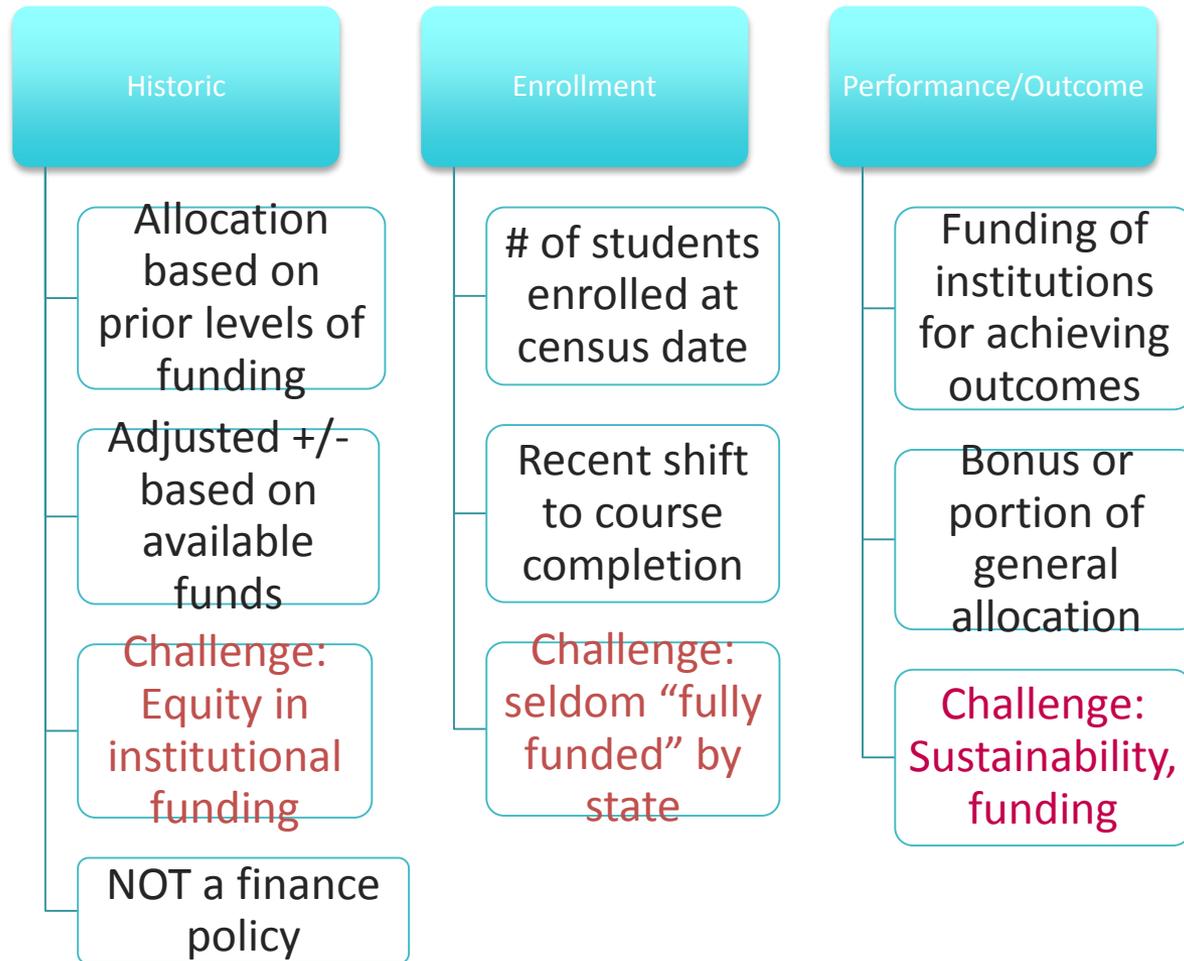


62% of Iowa jobs will require postsecondary education by 2018  
(Center on Education & Workforce, Georgetown University)

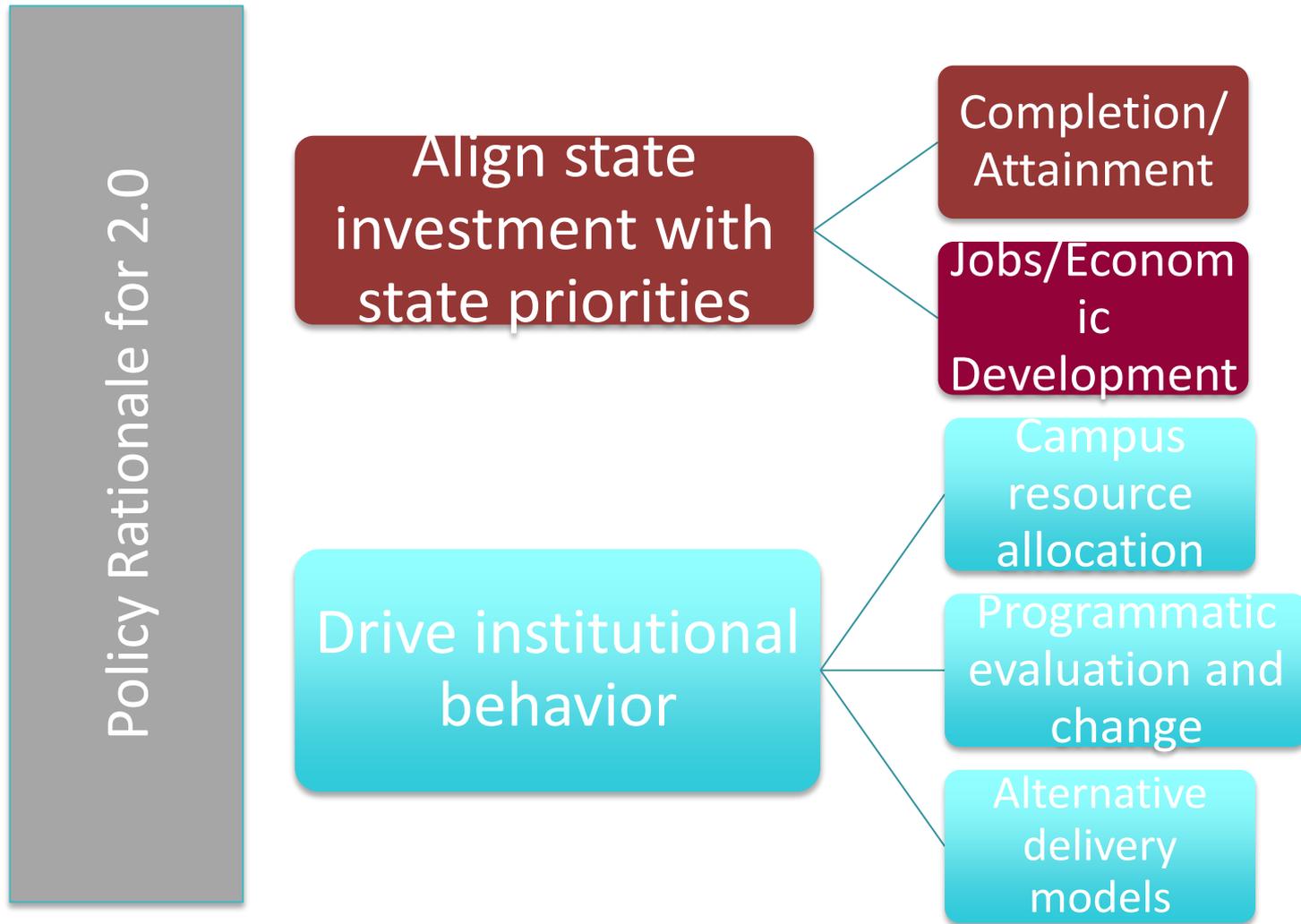
# Iowa's Path to 60 Percent by 2025



# Funding Models for Higher Education



# Policy Rationale for Performance Funding



# Performance Funding 1.0 Flaws

- **Multiple, unaligned priorities**
- **Complicated & Burdensome**
- **Lack of institutional consultation**
- **One-size-fits-all**
- **Funding challenges**
- **Competed w/Access Agenda**
- **Original policy supporters left**

# Design Principles for Outcomes-Based Funding

Begin with a state goal/clear policy priorities

Use a simple approach

Include only measurable metrics

Incent success of typically underrepresented students

Account for institution differences

Seek Stakeholder Input

Make the money meaningful

Phase-in  
(≠ Hold Harmless)

Plan to evaluate

# Development of Outcomes-Based Funding Tennessee

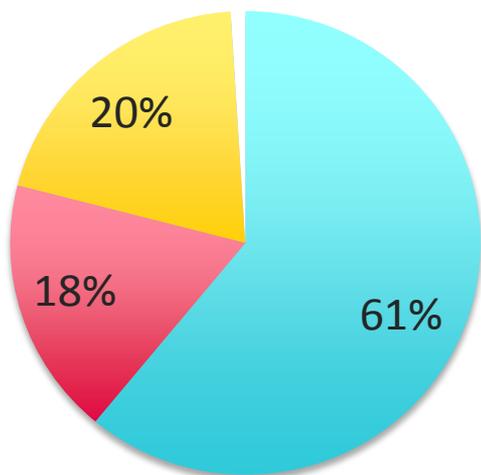
- **Long history of PF (1979)**
  - Refocused as Quality Control program
  - Bonus allocation
- **Complete College Tennessee Act (2010)**
  - Comprehensive legislation
  - Outcomes formula that completely replaced enrollment-based formula
- **Formula Review Committee**
  - Legislation provided framework; FRC technical analysis and development
  - Included extensive stakeholder input and collaboration on metrics and guiding development principles
    - Formula modeling done by THECB
  - HCM involvement as outside consultants/experts through Lumina Productivity Grant support (pre-Strategy Labs)

# Development of Outcomes-Based Funding: Ohio

- ✓ Began in 2009
  - ✓ aligned to state strategic plan for higher education
  - ✓ Three separate formulae across different sectors\
- ✓ Governor Kasich Funding Commission in 2012
  - ✓ University and Community College representation/leadership
  - ✓ Review formulae
  - ✓ Emphasize completion
  - ✓ Recommendations adopted by legislature in HB 59 (2013)

# Summary of Ohio University Formula

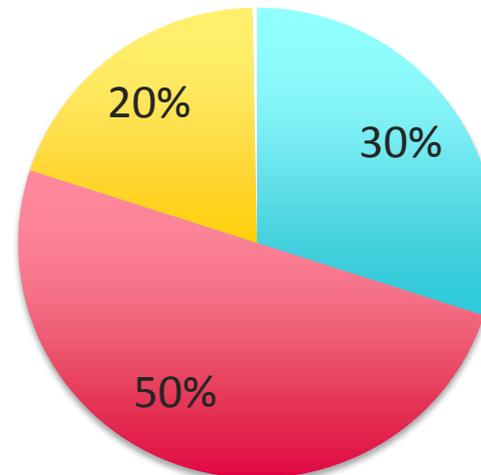
## FY 2013



- Course Completion
- Degree Completion
- Doctoral/Medical
- Set asides

97 % stop loss

## FY 2014 & Beyond



- Course Completion
- Degree Completion
- Doctoral/Medical
- Set Asides

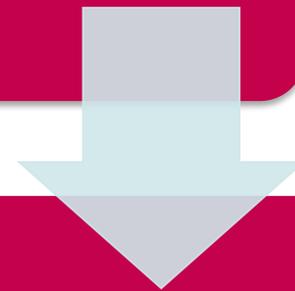
Stop Loss Removed  
STEM weights applied

Associated degrees counted (2015)

# Development of Outcomes-Based Funding: Ohio, Cont.

## Community College Formula Development

- Led by Ohio Association of Community Colleges
- Extensive HCM Facilitation
- March-December 2013
- Consultation Group: 21 of 23 institutions represented
- Working Group established in August



## Process

- Guiding Principles & Priorities
- Data Review
- Aligned Metrics
- Modeling of formula
- Final Recommendations/Report Development
- Communications

# Ohio Community College Funding Formula



## \*Access Categories Applied

- **Adult** (over age 24 at time of enrollment)
- **Low-Income**, Pell Eligible (ever in college career)
- **Minority**

# Mississippi: University Formula

- Legislatively guided
  - H.B. 875 (2012) → Research & Development
  - Passed legislature in 2013, hold-harmless in year 1
- At-risk categories:
  - Pell, Academically underprepared, Adult
- Priority fields: STEM, Health, Education



# Development of Outcomes-Based Funding: Indiana

- **Commission-led; aligned to strategic plan, goals and priorities**
- **Budgets with performance based allocations**
  - 2007, 2009, 2011
- **2013-15 budget includes revised formula resulting from 2011 legislative directive**
  - Researched other models
  - consulted with institutions
  - HCM Report
  - Identified three key areas of metrics for the 2013-15 budget:
    - **Completion, Progression and Productivity**
- **Performance metrics used to allocate 2010 mid-cycle budget cuts**
  - \$150 million (6 percent)

# Development Steps: Summary

## Step 1: Establish a framework

- ✓ Goals & Priorities
- ✓ Timeline for development & implementation
- ✓ Funding amounts

## Step 2: Establish Process for Stakeholder Input

## Step 3: Review Data and Choose Initial Metrics

## Step 4: Model various formula options

## Step 5: Implementation/phase-in options

## Step 6: Finalize recommendations

## Step 7: Communicate

# State Goal and Policy Priorities

- Overarching framework for planning, budgeting and policy initiatives
  - ✓ Quantifiable
  - ✓ Challenging
  - ✓ Long-Term Target Date
  - ✓ Closing Attainment Gaps
  - ✓ Based on workforce needs
  - ✓ Embraced by stakeholders

# Iowa Stated Attainment-Related Goals

- BOR Strategic Plan
  - increase the degree attainment of underrepresented minority students, the goal is to close the six-year graduation rate gap by 50% by 2016
- Iowa CC Completion Initiative
  - Increase the number of higher education credentials (degrees and certificates) earned by Iowa community college students by an order of magnitude similar to national goals for certificate and degree production. Iowa CC Completion Initiative
- Iowa College Student Aid Commission
  - Produce some 80,000 more college graduates by 2020 to meet President Obama's 2020 goal

# Other Strategic Plan Goals

- Increased 4-year graduation rates
- Increase distance education opportunities
- Increased efficiency and productivity
- Contribute to expansion and diversification of economy
- Students achieve identified learning goals (assessment outcomes)

# Next Steps for Iowa

- Establish: Clear goals and priorities you want funding model to aligned to.
- Decide: How will you engage stakeholders in process
- Develop: Timeline for development and framework for implementation
- Consider: Outside facilitation
- Plan: Communications strategy for various audiences

# STRATEGY LABS

State Policy to Increase Higher Education Attainment

[StrategyLabs.LuminaFoundation.org](http://StrategyLabs.LuminaFoundation.org)



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# IOWA STATE UNIVERSITY

School of Education, College of Human Sciences

## Performance-Based Funding: The National Landscape

Presentation at Iowa Board of Regents  
Performance-Based Funding Task Force  
January 21, 2014



# Presenters



**Janice Nahra Friedel, PhD**

Associate Professor  
School of Education  
College of Human Sciences  
Iowa State University



**Zoë Mercedes Thornton**

Doctoral Candidate, Higher Education  
Iowa State University

The recession and decline in state revenues has caused a shift in the proportion of public college revenues generated from state aid to tuition and fees.

Many policymakers are no longer satisfied with providing incremental funding increases or using enrollment-driven formulae for public colleges and universities.



Increasing accountability coupled with declining revenues has led many states to implement strategies to hold colleges accountable in meeting state needs and to ensure quality. These strategies range from uniform performance indicators to performance-based funding (PBF).

PBF is a key policy response to the call for greater transparency and accountability in public higher education.

# What is PBF?

- “A system based on allocating a portion of a state’s higher education budget according to specific performance measures.”

(Miao, 2012, p. 1)

- (PBF) “rewards institutions that meet state goals,...is based on outputs instead of inputs,...(and) the more goals that institutions meet, the more funding they receive.”

(Blankenberger, 2011, slide 12)

# Brief History of PBF

- The first state to attempt PBF was Tennessee in 1979, and as many as 30 states have implemented PBF or some consideration of performance in budgeting processes (Burke & Modarresi, 1999)
- Typical percentage of funding allocated based on performance ranged from 1-5% (Sanford & Hunter, 2011)
- South Carolina was the most extreme early example – 37 performance indicators and 100% of public funding (Alexander, 1998)

# Three Models of PBF

- Output-based Funding Formula
  - Fiscal incentives for positive improvement in specific metrics. Utilized within the state funding formula as a portion of the annual base appropriations. Often weighted for institutional mission. Allows institutions to increase their total appropriations through improved performance on identified metrics.
- Performance Set-asides
  - A percentage of the state funding is reserved to be awarded to high performing institutions. May be a portion of the annual base appropriation or separate bonus funding. Institutions compete with each other for the set-aside funding by achieving a targeted measure of performance set prior to the year.
- Performance Contracts
  - Funding is awarded if the institution meets the previously agreed upon performance goals set forth in the contract with the state.

(Miao, 2012)

# Types of Performance Indicators

- **General outcome indicators:** graduation rate, number of degrees/certificates awarded, number of degrees/certificates awarded per FTE, research or grant funding awarded, job placement rates, student success on licensing exams
- **Progress outcome indicators:** number of students completing 12, 24, 48 and 72 semester credits, developmental course completion, retention rates, gateway course completion, course completion after transfer, dual enrollment credit completion
- **Subgroup outcome indicators:** low-income status, at-risk status, Pell Grant recipients, nontraditional students, first-generation students, minority group identification
- **High-need subject outcome indicators:** STEM fields, nursing, job placement rates in high-need fields

(Dougherty & Reddy, 2011; Harnisch, 2011; Miao, 2012; NCSL, 2013; WHECB, 2011)

# Comparing Design Types

## PBF 1.0

- Often designed without input from higher education leaders
- Institutional goals and mission disregarded
- Emphasis on outcomes measures, minor attention to progress measures
- Small percentage of **bonus funding** - often new money

## PBF 2.0

- Joint planning process
- Alignment with the state's agenda and institutional priorities
- Soft landing: learning year and/or stop loss
- Progress and completion measures
- Weighted formula to ensure access and equity
- Percentage of base appropriations

# Performance-Based Funding: The National Landscape Policy Brief

EMARGO: the following issue brief is embargoed until 19 September 2013 at 12:01 CST

THE UNIVERSITY OF ALABAMA  
EDUCATION POLICY CENTER

EDUCATION POLICY CENTER

SEPTEMBER 2013

## Performance-Based Funding: *The National Landscape*

Janice Nabra Friedel and Zoë Mercedes Thornton, Iowa State University  
Mark M. D'Amico, The University of North Carolina at Charlotte  
Stephen G. Katsinas, The University of Alabama

### INTRODUCTION

On August 22, 2013 at the University of Buffalo, President Barack Obama squarely placed the issue of college affordability and performance metrics on the national agenda. "I think we should rate colleges based on opportunity: Are they helping students from all kinds of backgrounds succeed? How much debt does the average student leave with? How easy is it to pay off? How many students graduate on time? How well do those graduates do in the workforce? Because the answers will help parents and students figure out how much value a college truly offers." (Obama, 2013).

This issue brief provides an up-to-date analysis of the current status of performance-based funding (PBF) in the fifty states and the District of Columbia. It includes a section on the historical context of PBF emphasizing community colleges, the sector of U.S. higher education that has seen the most state-level legislative activity in recent years. Early PBF efforts dating to the 1970s are presented, as well as PBF 2.0 and more recent efforts spurred by the National Governors Association and other groups, particularly the philanthropic foundations and their funded advocacy groups. The issue brief concludes with discussion as to whether it works and lessons learned.

One focus is at the state level, federal policymakers are typically more concerned about ensuring federal student aid money is properly spent, and not burdening institutions with unnecessary regulations, a concern raised by Sen. Lamar Alexander (R-TN). Molly Corbett Broad, President of the American Council on Education, was encouraged that the administration had invited input from the higher education community, adding the "devil is in the details" as to how an outcome-based system would work (Adams, 2013).

Any federal efforts to create performance metrics will likely build upon what is already happening in the states. For this reason, we are pleased to offer this issue brief, *Performance-Based Funding: The National Landscape*. This issue brief takes no position on whether PBF models are good or bad, effective or ineffective, successful or unsuccessful. Rather, our purpose is simply to assess how many states use them and the form of that usage, as part of the Education Policy Center's continuing commitment to unbiased, non-partisan policy-related education research.

#### Table 1. PBF Activity by State

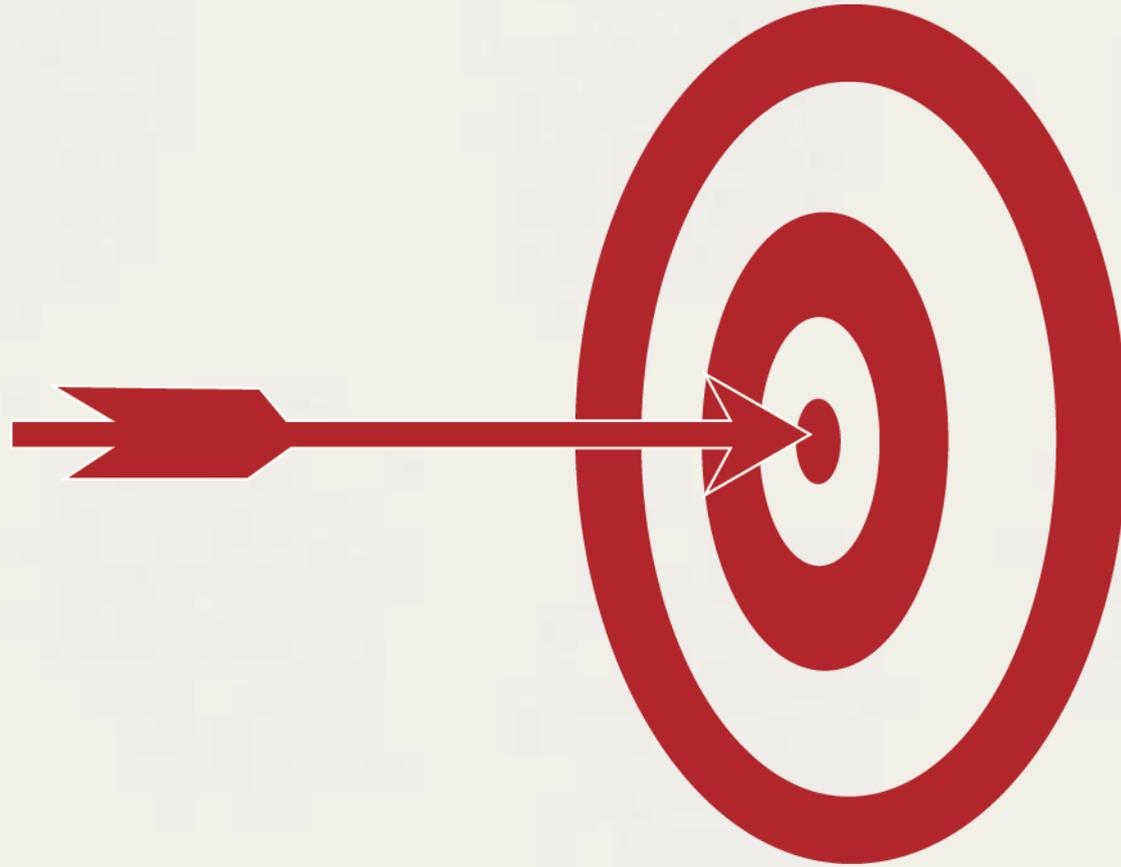
Performance-Based Funding Activity <i>(current as of September 2013)</i>	# of States
PBF in Place	22
Transitioning to PBF	7
Formal Discussions of PBF	10
No Formal Activity Fossil	*12*

Source of PBF Activity based on the February 2013 version developed by the National Conference of State Legislatures (NCSL) and has been modified and included with permission from NCSL, <http://ncsl.org/issues-research/educ/performance-funding.aspx>. \*Includes District of Columbia.

Education Policy Center | The University of Alabama | Box 870231 | 212 Calhoun Hall  
Tuscaloosa, AL 34587-0231 | (205) 348-2470 | <http://aedpolicy.ua.edu>

[http://www.uaedpolicy.ua.edu/uploads/2/1/3/2/21326282/pbf\\_9-17\\_web.pdf](http://www.uaedpolicy.ua.edu/uploads/2/1/3/2/21326282/pbf_9-17_web.pdf)

# PBF is a Moving Target



# Updates to PBF State Activity Table

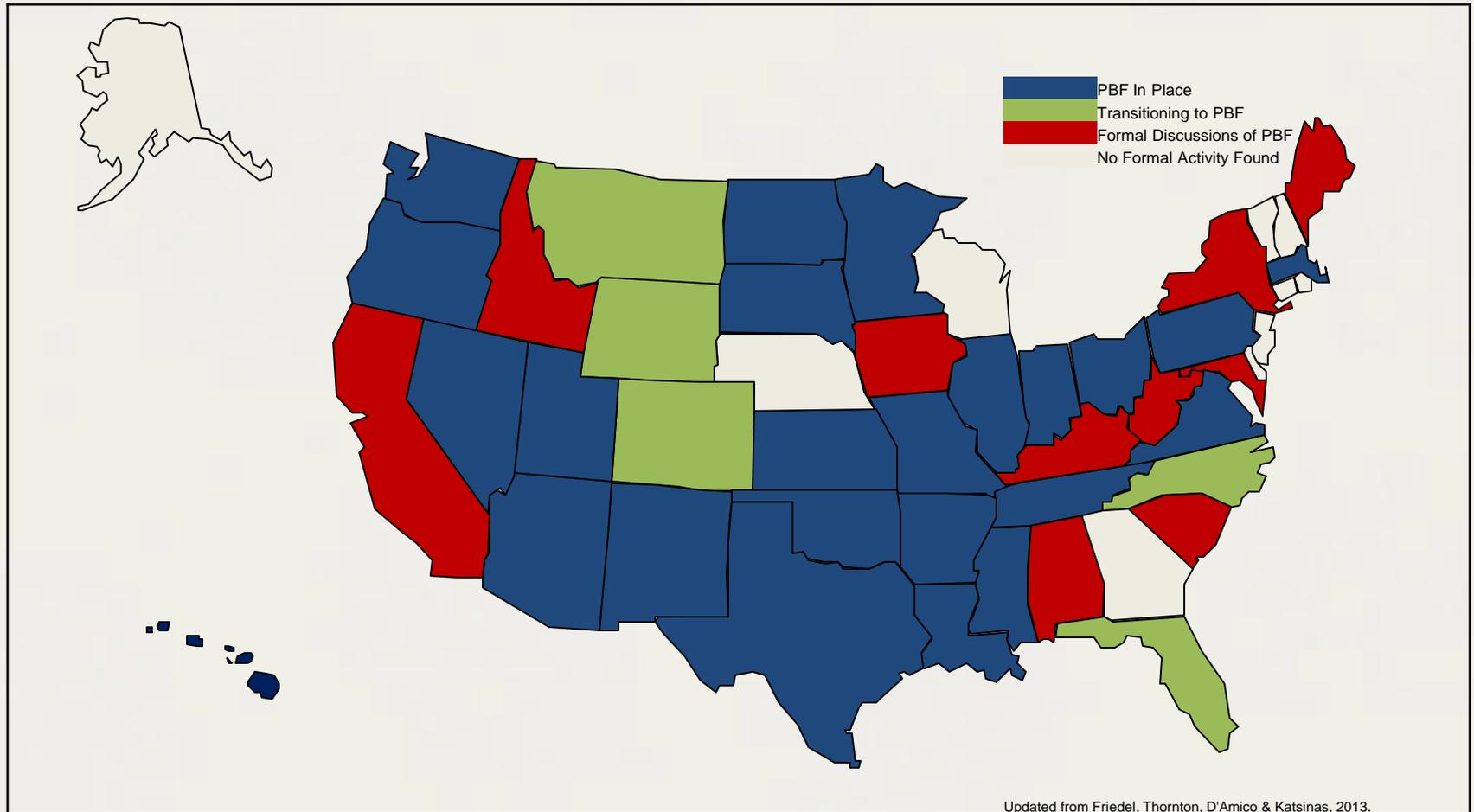
STATE	STATUS	AMOUNT OF PERFORMANCE BASED FUNDING	METRICS
<b>Alabama</b> UPDATED: 12-20-2013	Formal discussions		The Alabama Department of Postsecondary Education (overseeing community and technical colleges) commissioned a study in 2013 to propose a new funding formula to allocate state appropriations.
<b>Hawai'i</b> UPDATED: 11-17-2013	In place <a href="#">2008 HB2978</a>	Up to 2% of annual appropriations	Using 5 year averages as baseline data, public universities and community colleges metrics include the following: <ul style="list-style-type: none"> <li>• Number of transfer students</li> <li>• Number of graduates</li> <li>• Number of job placements in major workforce shortage areas</li> </ul>
<b>Iowa</b> UPDATED: 10-17-2013	Formal Discussions		The Board of Regents has formed a Task Force to review the effectiveness of the current funding formula. Performance-based funding options will be discussed.
<b>Kansas</b> UPDATED: 10-13-2013	In place <a href="#">Statute 74-3202d</a> <a href="#">Performance agreements</a>	New funds, in excess of total appropriations received the previous fiscal year, are available for performance funding	Institutions submit performance agreements every three years, which are evaluated annually for funding. Performance indicators for all sectors include: <ul style="list-style-type: none"> <li>• First year to second year retention rates</li> <li>• Number of certificates and degrees awarded</li> <li>• Graduation rates</li> <li>• Student performance on institutional assessments or quality measures.</li> </ul> <p>Additional sector-specific measures are also in place.</p> <p>Public universities:</p> <ul style="list-style-type: none"> <li>• STEM field degrees and certificates</li> <li>• Peer-related quality measures</li> <li>• Selected regional and national rankings</li> </ul> <p>Community and technical colleges:</p> <ul style="list-style-type: none"> <li>• Percentage of employed and transferred students</li> <li>• Graduate wages</li> <li>• Third-party technical credentials</li> </ul>

# State Activity

	<b>PBF Activity</b>	<b>Number of States</b>
	PBF in Place	25
	Transitioning to PBF	5
	Formal Discussions of PBF	10
	No Formal Activity Found	10

Updated from Friedel, Thornton, D'Amico & Katsinas (2013).

# Current PBF Status Across the States



# Future Updates

- National Conference of State Legislatures
  - <http://www.ncsl.org/research/education/performance-funding.aspx>

## Proposed Advantages

- Increased awareness and alignment of the institutional mission and goals with the state's agenda
- Increased college self-awareness of actual outcomes
- Increased healthy competition between colleges
- Increased use of data during institutional planning and decision making

## Possible Disadvantages

- Indicators measure only a portion of the entire institutional picture
- Potential negative effects on institutional quality, access, equity, mission, or stability
- Potential for additional loss of funds
- Disregard for institution-specific factors

# PBF Policy Recommendations

- Engage stakeholders in the discussion and planning
- Align the measures with the state agenda, particularly workforce and economic development goals
- Allow for the differentiation of institutional missions
- Phase in the new model and funding with a “soft landing”
- Commit solid and significant state dollars to incentivize the PBF system
- Include both outcome and progress measures
- Continuously evaluate the PBF system and formula

# A Note of Caution

- It is important to note that PBF is not the answer to the larger issue of declining support and funding for higher education, and thus should not be used to meet the greater funding issues of higher education.



# A PBF Bandwagon?

- Despite recent attention, there is not compelling evidence of the link between PBF and improved student outcomes at this time.



# PBF Questions for Further Study

- Does PBF work?
- What are the impacts of PBF on institutional policy? Impacts on institutional practice?
- What are the impacts of PBF on students? Impacts on programs?
- What organizational changes are made in response to state PBF policy?
- How is state PBF policy assessed and evaluated?
- How does PBF influence other state higher education policy?

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- Sanford, T., & Hunter, J. M. (2011). Impact of performance-funding on retention and graduation rates. *Education Policy Analysis Archives*, 19(33), 1-30.
- Washington Higher Education Coordinating Board (WHECB). 2011. *Performance-based funding* (Policy brief). Olympia, WA: Author.



# Tennessee's Outcomes-Based Funding Formula

Iowa Board of Regents

January 22, 2014



# Tennessee Finance Policy Reform

- Complete College Tennessee Act (2010).
- Drive to 55 (current effort).
- Both reform agendas centered around increasing the educational attainment of TN residents and better workforce preparation.



## Tennessee Finance Policy Reform

- Fundamental question for state government: How should taxpayer dollars be distributed to public higher education institutions?
- For decades, the answer in most every state has been enrollment.
- Basic disconnect between policy goal (completion) and finance policy (enrollment).



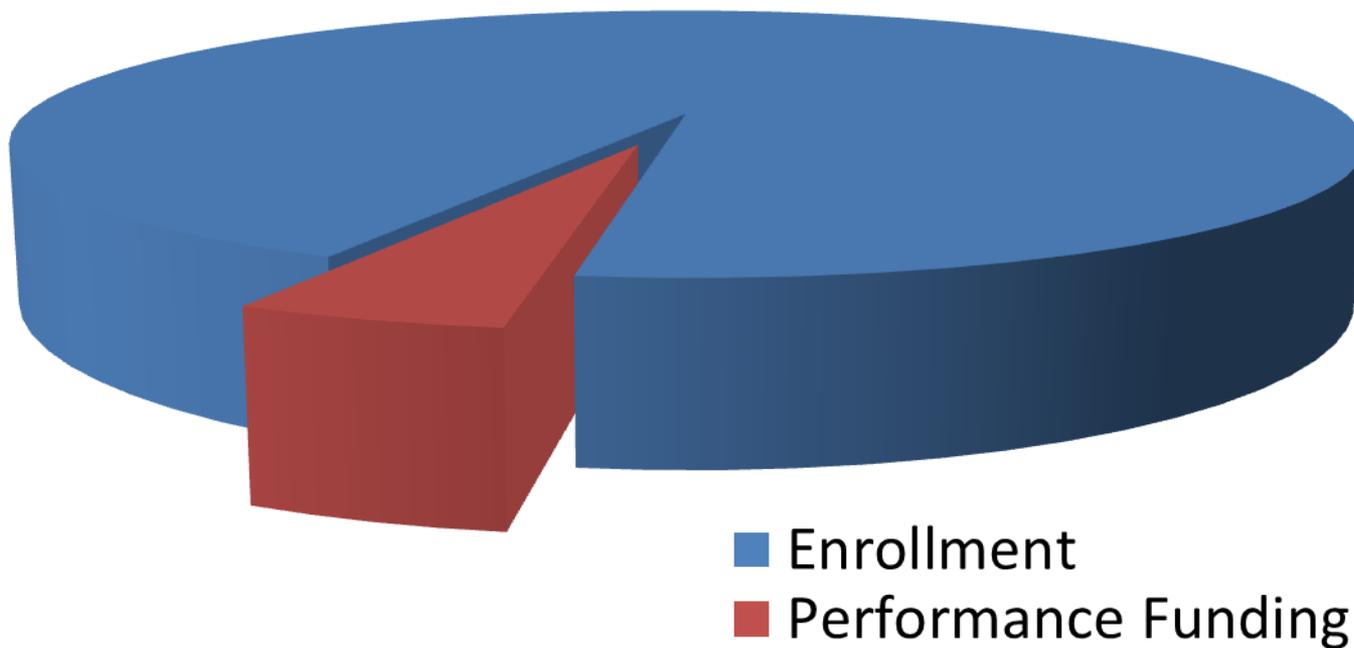
## Tennessee Finance Policy Reform

- In 2010, Tennessee discontinued its enrollment-based model and built a funding formula entirely based on outcomes.
- Enrollment, at either beginning or end of term, simply no longer factors into TN higher education state funding.



# Developing a New Formula Model

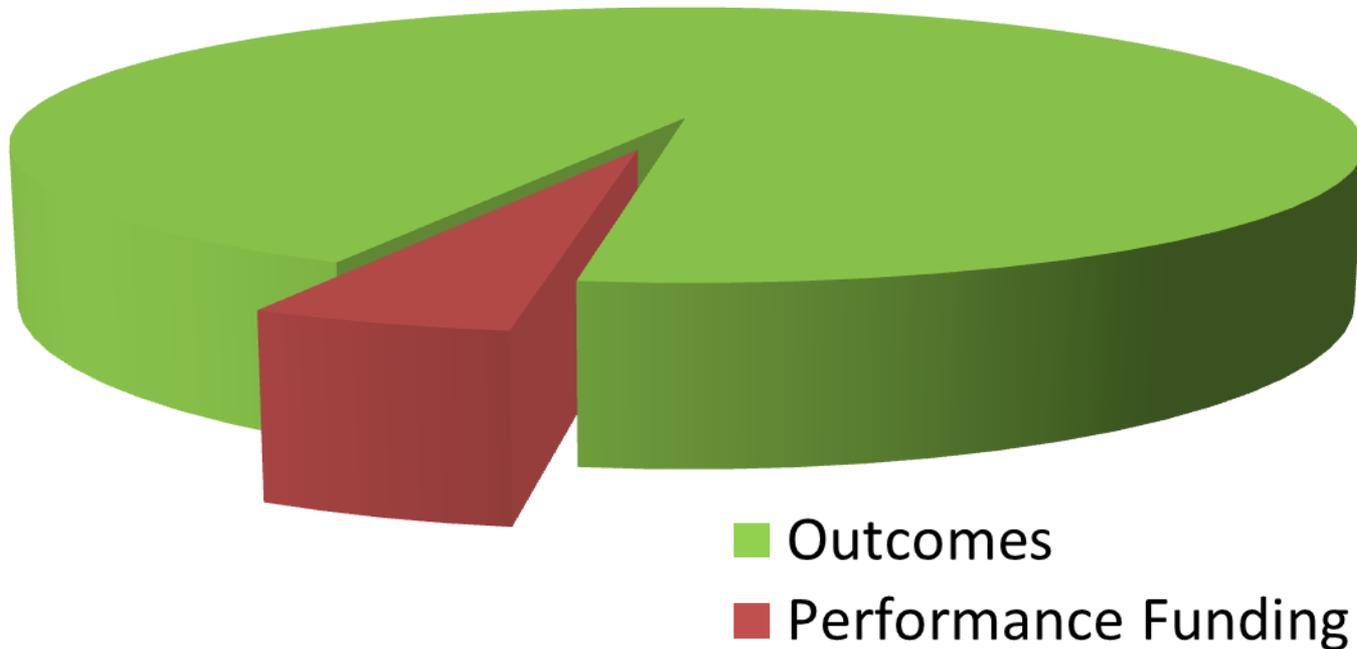
## TN Enrollment-Based Funding Formula, 1979-2011





# Developing a New Formula Model

## TN Outcomes-Based Funding Formula, 2011-Present





# Tennessee Finance Policy Reform

- Tennessee's outcomes model has two basic moving parts:
  - Exclusive use of outcomes without any use of enrollment;
  - An institution specific weighting structure that weights the outcomes differently to reflect institutional mission.



# Outcomes-Based Formula Model

## Community College Outcomes

<b>Outcome</b>
Students Accumulating 12 hrs
Students Accumulating 24 hrs
Students Accumulating 36 hrs
Dual Enrollment
Associates
Certificates
Job Placements
Remedial & Developmental Success
Transfers Out with 12 hrs
Workforce Training (Contact Hours)
Awards per 100 FTE



# Outcomes-Based Formula Model

## University Outcomes

<b>Outcome</b>
Student Progression: 24 Credit Hours
Student Progression: 48 Credit Hours
Student Progression: 72 Credit Hours
Bachelors Degrees
Masters Degrees
Doctoral/Law Degrees
Research/Grant Funding
Student Transfers
Degrees per 100 FTE
Graduation Rate



# Outcomes-Based Formula Model

## University of Tennessee, Knoxville

Outcome
Student Progression: 24 Credit Hours
Student Progression: 48 Credit Hours
Student Progression: 72 Credit Hours
Bachelors Degrees
Masters Degrees
Doctoral/Law Degrees
Research/Grant Funding
Student Transfers
Degrees per 100 FTE
Graduation Rate

**Step 1: Identify university outcomes for the formula model.**



# Outcomes-Based Formula Model

## University of Tennessee, Knoxville

Outcome	Data
Student Progression: 24 Credit Hours	4,179
Student Progression: 48 Credit Hours	4,687
Student Progression: 72 Credit Hours	4,759
Bachelors Degrees	3,946
Masters Degrees	1,573
Doctoral/Law Degrees	477
Research/Grant Funding	\$128.1M
Student Transfers	822
Degrees per 100 FTE	20
Graduation Rate	66%

**Step 2: Collect actual data from entire academic year on the various outcomes. Calculate a three-year average for each.**



# Outcomes-Based Formula Model

## University of Tennessee, Knoxville

Outcome	Data
<i>Student Progression: 24 Credit Hours</i>	<i>4,619</i>
<i>Student Progression: 48 Credit Hours</i>	<i>5,200</i>
<i>Student Progression: 72 Credit Hours</i>	<i>5,385</i>
<b>Bachelors Degrees</b>	<b>4,593</b>
Masters Degrees	1,573
Doctoral/Law Degrees	477
Research/Grant Funding	\$128.1M
Student Transfers	822
Degrees per 100 FTE	20
Graduation Rate	66%

*If 100 adult students get a bachelors degree, the model acts as if 140 degrees were produced.*

**Step 3: Award a 40% premium for the production of certain outcomes by a low-income or adult student.**



# Outcomes-Based Formula Model

## University of Tennessee, Knoxville

Outcome	Data		Scale Factor		Scaled Data
Student Progression: 24 Credit Hours	4,619	/	1	=	4,619
Student Progression: 48 Credit Hours	5,200	/	1	=	5,200
Student Progression: 72 Credit Hours	5,385	/	1	=	5,385
Bachelors Degrees	4,593	/	1	=	4,593
Masters Degrees	1,573	/	0.30	=	5,244
Doctoral/Law Degrees	477	/	0.05	=	9,540
Research/Grant Funding	\$128.1M	/	20,000	=	6,404
Student Transfers	822	/	1	=	822
Degrees per 100 FTE	20	/	0.02	=	989
Graduation Rate	66%	/	0.04	=	1,641

**Step 4: Rescale the data so it is somewhat comparable across variables. Sometimes data is scaled up, sometimes down.**



# Outcomes-Based Formula Model

## University of Tennessee, Knoxville

Outcome	Data	Scaled Data
Student Progression: 24 Credit Hours	4,619	4,619
Student Progression: 48 Credit Hours	5,200	5,200
Student Progression: 72 Credit Hours	5,385	5,385
Bachelors Degrees	4,593	4,593
Masters Degrees	1,573	5,244
Doctoral/Law Degrees	477	9,540
Research/Grant Funding	\$128.1M	6,404
Student Transfers	822	822
Degrees per 100 FTE	20	989
Graduation Rate	66%	1,641

**Step 4: Rescale the data so it is somewhat comparable across variables. Sometimes data is scaled up, sometimes down.**



# Outcomes-Based Formula Model

## University of Tennessee, Knoxville

Outcome	Data	Scaled Data	Weight
Student Progression: 24 Credit Hours	4,619	4,619	2%
Student Progression: 48 Credit Hours	5,200	5,200	3%
Student Progression: 72 Credit Hours	5,385	5,385	5%
Bachelors Degrees	4,593	4,593	15%
Masters Degrees	1,573	5,244	15%
Doctoral/Law Degrees	477	9,540	10%
Research/Grant Funding	\$128.1M	6,404	15%
Student Transfers	822	822	5%
Degrees per 100 FTE	20	989	10%
Graduation Rate	66%	1,641	20%

**Step 5: Apply a weight to each outcome that reflects the priority of the outcome and the mission of the institution.**



# Outcomes-Based Formula Model

## University of Tennessee, Knoxville

Outcome	Data	Scaled Data		Weight		Weighted Outcome
Student Progression: 24 Credit Hours	4,619	4,619	x	2%	=	92
Student Progression: 48 Credit Hours	5,200	5,200	x	3%	=	156
Student Progression: 72 Credit Hours	5,385	5,385	x	5%	=	269
Bachelors Degrees	4,593	4,593	x	15%	=	689
Masters Degrees	1,573	5,244	x	15%	=	787
Doctoral/Law Degrees	477	9,540	x	10%	=	954
Research/Grant Funding	\$128.1M	6,404	x	15%	=	961
Student Transfers	822	822	x	5%	=	41
Degrees per 100 FTE	20	989	x	10%	=	99
Graduation Rate	66%	1,641	x	20%	=	328
				<b>Total</b>		<b>4,376</b>

**Step 6: Multiply and sum the Scaled Data times the Weight to produce the “Weighted Outcomes.”**



# Outcomes-Based Formula Model

## University of Tennessee, Knoxville

Outcome	Data	Scaled Data		Weight		Weighted Outcome
Student Progression: 24 Credit Hours	4,619	4,619	x	2%	=	92
Student Progression: 48 Credit Hours	5,200	5,200	x	3%	=	156
Student Progression: 72 Credit Hours	5,385	5,385	x	5%	=	269
Bachelors Degrees	4,593	4,593	x	15%	=	689
Masters Degrees	1,573	5,244	x	15%	=	787
Doctoral/Law Degrees	477	9,540	x	10%	=	954
Research/Grant Funding	\$128.1M	6,404	x	15%	=	961
Student Transfers	822	822	x	5%	=	41
Degrees per 100 FTE	20	989	x	10%	=	99
Graduation Rate	66%	1,641	x	20%	=	328
				<b>Total</b>		<b>4,376</b>

**All steps are identical at each university. The only difference is the weight factor applied to each university.**



## TN Outcomes-Based Formula

- Institutional mission is a critical component of the CCTA and the outcomes-based formula.
- Some institutions do not focus on research and doctoral degrees, while others do.
- Some institutions focus on student access and are less selective in admissions.
- The weighting factors in the outcomes model address the issue of mission distinction.



# TN Outcomes-Based Formula

## University Weighting Structure

Weights Based on Institutional Mission	APSU	UTM	TTU	UTC	MTSU	ETSU	TSU	UM	UTK
Student Progression: 24 Credit Hours	3%	3%	3%	3%	3%	3%	3%	2%	2%
Student Progression: 48 Credit Hours	5%	5%	5%	5%	5%	5%	5%	3%	3%
Student Progression: 72 Credit Hours	7%	7%	7%	7%	7%	7%	7%	5%	5%
Bachelors Degrees	30%	30%	25%	25%	25%	25%	25%	25%	15%
Masters Degrees	15%	15%	15%	15%	15%	15%	15%	15%	15%
Doctoral/Law Degrees	0%	0%	5%	5%	5%	7.5%	7.5%	10%	10%
Research/Grant Funding	10%	10%	10%	10%	10%	12.5%	12.5%	12.5%	15%
Student Transfers	10%	10%	10%	10%	10%	5%	5%	5%	5%
Degrees per 100 FTE	15%	15%	10%	10%	10%	10%	10%	10%	10%
Graduation Rate	5%	5%	10%	10%	10%	10%	10%	12.5%	20%
	100%	100%	100%	100%	100%	100%	100%	100%	100%

Bachelors degrees; little  
research/doctoral degrees

Extensive doctoral degrees  
and emphasis on research



## TN Outcomes-Based Formula

- History of Performance Funding programs teaches the limits of small (5-10%) programs.
- All state funding in TN is distributed through the model (\$850 million).
- Institutional state appropriations must be earned anew each year.

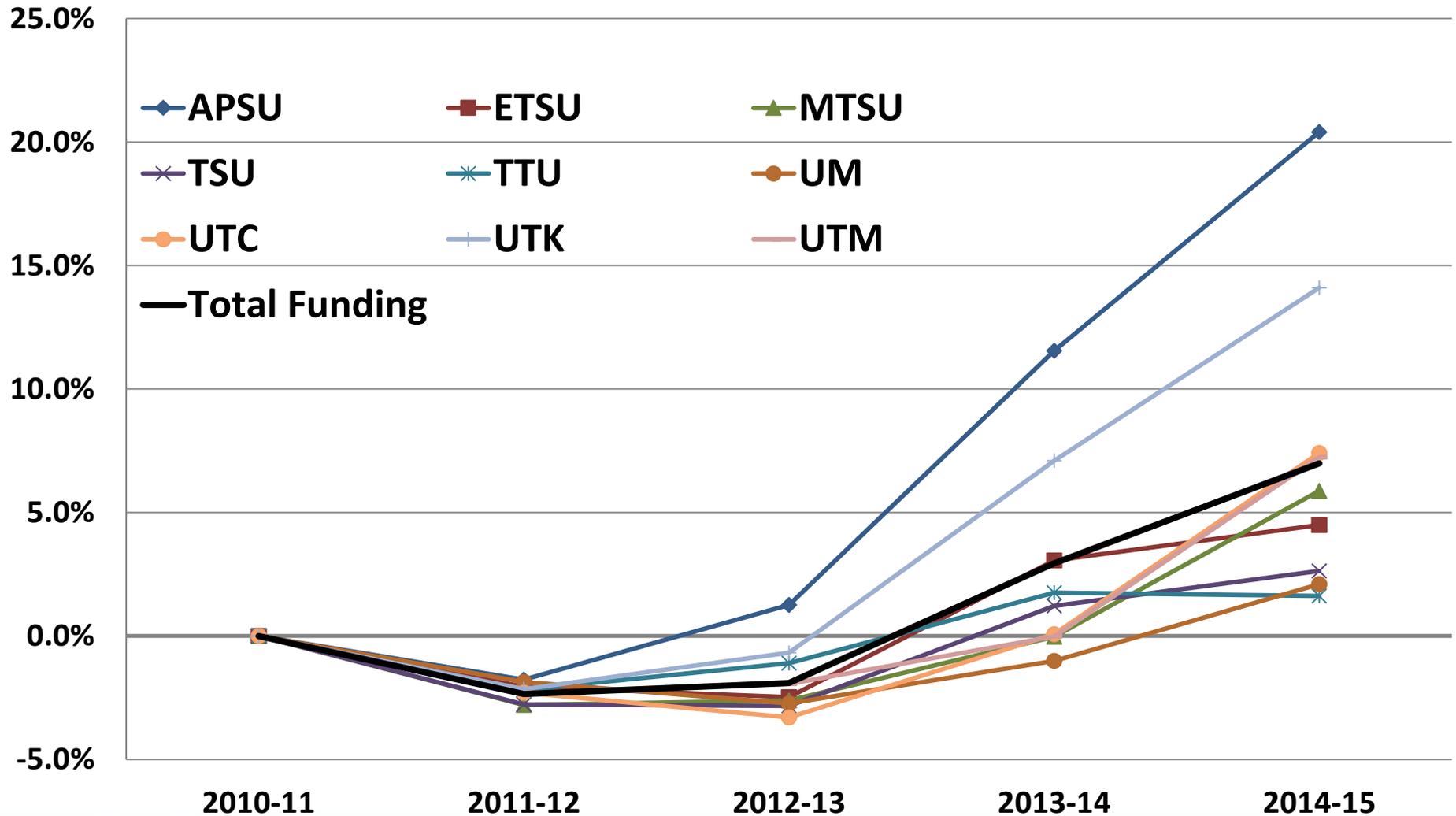


## TN Outcomes-Based Formula

- Extraordinary response from institutions.
- Abundant anecdotal evidence from presidents and campus leaders that the formula is impacting institutions.
  - New programs
  - Student Advising
  - Student Success Centers



# Cumulative Change in Appropriations at Universities Due to Formula





## TN Formula Process

- Formula Review Committee
- Broad membership
- Deliberate solicitation of feedback and input from institutions/presidents.



## TN Formula Process

- Institutions played a key role in the process.
- Campus presidents, CFOs and provosts were members of the Formula Review Committee.
- Presidents/chancellors were queried for their suggestions on what outcomes to include and the priority (weight) of the outcome.



## TN Formula Process

- Development took approximately one year.
- Extensive back-testing and model simulations.
- Regional town halls
- Staff background briefings with governing boards and state government officials.



# Tennessee's Outcomes-Based Funding Formula

Iowa Board of Regents

January 22, 2014

**BOARD OF REGENTS**  
**PERFORMANCE-BASED REVENUE MODEL TASK FORCE**

**AGENDA**

**March 13, 2014 8:00 a.m. – 11:00 a.m.**  
**BOR Office, 11260 Aurora Ave, Urbandale, IA 50322**

- I. Introductions & Welcome (8:00-8:05 am) David Miles, Chair
- II. Organizational Matters (8:05-8:15 am) David Miles  
a. Minutes of January 21 Meeting
- III. University Presidents present Concepts and Metrics for Performance-based Funding (8:15–9:45)
- Each president will have 30 minutes to present the following:
- Responses to questions the Task Force posed
  - Outline preferred approach to performance-based funding- where it would differ from a joint proposal; what metrics to be stressed; rationale for recommendations
- The order of presentations will be:
- President Mason
  - President Leath
  - President Ruud
- IV. Task Force Members Discussion (9:45 – 11:00)
- V. Discussion, Wrap Up & Next Steps David Miles

**Reminder: Next Meeting has been set for April 17, 2014 at the BOR Office; time approx. 9:00 - noon**

# PERFORMANCE BASED FUNDING (PBF)



The University of Iowa

The University **FOR** Iowa.

# PERFORMANCE BASED FUNDING (PBF)

## PROPOSED METRICS

- Student progress towards degree
  - Increase % of students who graduate within four years (BOR Strategic Plan Goal 3)
  - APLU's Student Achievement Measure (SAM)
- Institution's effort to lower cost of education
  - Affordability to qualified Iowa residents (BOR Strategic Plan Goal 1)
  - Scholarships raised

# PERFORMANCE BASED FUNDING (PBF)

- Quality of entering students
  - Prioritize quality  
(Regent Admission Index, RAI)
- Quality of academic programs
  - Ranking

# PERFORMANCE BASED FUNDING (PBF)

- Access of professional colleges to Iowa residents
  - Supports the Iowa economy (BOR Strategic Plan Goal 7)
  - Provides homegrown professionals, human infrastructure
- Job placement in Iowa
  - Expansion and diversification of the Iowa economy (BOR Strategic Plan Goal 7)

# PERFORMANCE BASED FUNDING (PBF)

- Educational access for place-bound Iowans
  - Increase distance education  
(BOR Strategic Plan Goal 4)
- Research and Economic Development
  - Boost Iowa Economy  
(BOR Strategic Plan Goal 7)

# PERFORMANCE BASED FUNDING (PBF)



The University of Iowa supports PBF.

# IOWA STATE UNIVERSITY

Office of the President

## Performance-Based Revenue Model Task Force Meeting

March 13, 2014



# Exciting Time at Iowa State

## Enrollment is Growing

- 30% growth in undergraduate enrollment over past 7 years
- Accomplished this while maintaining high-quality incoming classes of students

## Students are Succeeding

- Retention rates are up
- Average grade point averages are up
- Record number of bachelor degrees awarded

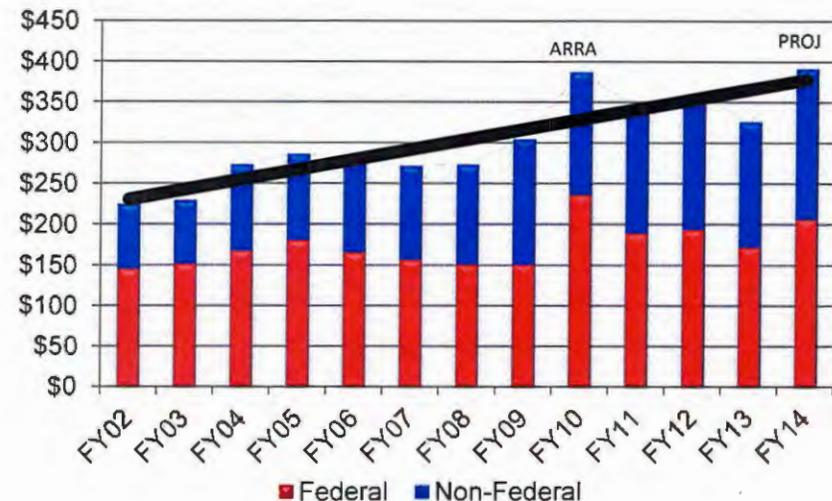
# Exciting Time at Iowa State

## Graduates are in high demand

- 94% placement rate

## Sponsored funding is growing

- Receive major investments from USDA, DOE, NSF, HHS



## Serving the state

- Manufacturers served by ISU reported making \$46 million in new investments and creating or retaining more than 5,600 jobs
- Extension training more than 40,000 Iowans annually

# Focusing on Mission

**“We’re trying to intentionally run a very lean operation and put as much into direct support of students and faculty as we can...”**

President Steven Leath, Des Moines Register, Feb. 7, 2014

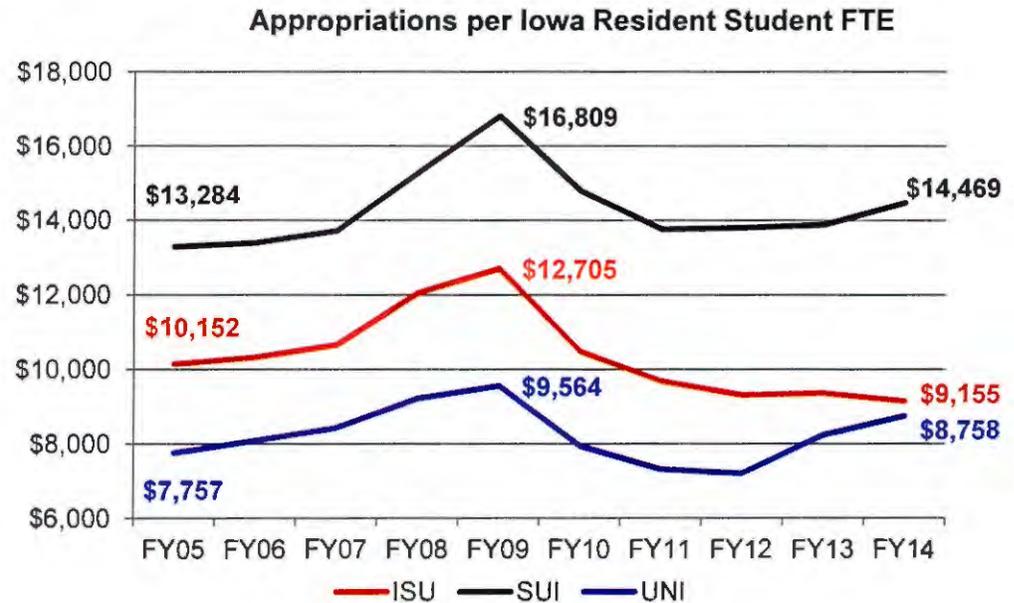
*The Des Moines Register*

**Slate**

**Washington**  
MONTHLY

# Challenges

- **Iowa resident student support at all time low**
- **Serving more Iowa students with needs**
  - 26% are Pell-eligible
  - 31% of incoming freshman are first generation
- **Faculty recruitment and retention**



# Guiding Principles

## 1. **Accountability to the Taxpayer**

- Common sense approach

## 2. **Expand Access for Iowans**

- Critical to the short and long term success of our state and nation

## 3. **Promote Student Success**

- Holds institutions accountable to their academic missions
- Raises expectations

## 4. **Advance R&D and Econ. Development**

- Incentivizes innovation and economic development missions

# Proposed Plan

Allocation Principle	%	Metrics	Justification
Accountable to the Taxpayer	60%	<ul style="list-style-type: none"> <li>• 3-year enrollment average (using total Iowa resident student FTEs)</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts for all education levels (UG, Grad, Prof)</li> <li>• Demand Driven: scales budgets according to demand</li> <li>• Promotes Access</li> </ul>
Expand Access to Iowans	15%	<ul style="list-style-type: none"> <li>• # of Iowa Pell-eligible students</li> <li>• % of minority students</li> <li>• # of Iowa community college transfers</li> </ul> <p><i>*BOR selects 2 or 3 uniform metrics</i></p>	<ul style="list-style-type: none"> <li>• Recognizes diversity goals</li> <li>• Promotes economic mobility</li> <li>• Promotes alternative degree attainment options</li> </ul>
Promote Student Success	15%	<ul style="list-style-type: none"> <li>• # of Iowa resident UG students completing 24, 48, 72 credits in years 1, 2 and 3</li> <li>• # of total Iowa resident degrees awarded</li> <li>• Other (unique to mission)</li> </ul> <p><i>*BOR selects 2 common, univ. selects 1</i></p>	<ul style="list-style-type: none"> <li>• Accounts for student progress</li> <li>• Accounts for degree completion</li> <li>• Acknowledges unique university missions</li> </ul> <p><i>STEM</i></p>
Advance R&D and Econ. Dev.	10%	<ul style="list-style-type: none"> <li>• Unique research, econ. dev., service metrics selected by universities</li> </ul>	<ul style="list-style-type: none"> <li>• Recognizes unique research and econ. dev. missions of each institutions</li> </ul>

# In Conclusion

- **Keep the model simple**
- **Apply model to total general education appropriation**
- **Metrics should utilize data that we already report**
- **Phase in implementation over a reasonable period of time**
- **Oversight of academic standards is appropriate**

**Any Questions?**

Allocation and Performance Based Revenue Model Task Force -----March 13, 2014 Presentation

**DRAFT**

**UNI**

- Philosophy that Iowa citizens/taxes should assist in the reduction of cost of instruction through lower tuition and appropriate state support. Graduate programs, high cost programs, professional schools, OOS programming may/should charge higher tuition to support that cost.
- Iowa Board of Regents currently have performance based metrics in their strategic plan: Affordability to Iowa residents; Increased degree attainment for underrepresented students; Increased graduation rates and degrees completed; Increased distance education options, Expand and diversify the economy; Reward efficiencies
- UNI has had a disparate impact over the last 25-50 years that affects a solid base budget
- There are two parts to adjust the model to move forward: 1) *Redistribution based on all in state resident enrollment; and 2) Performance Based funding model that is mission driven. These two parts should be fair and phased in over a three to five year time frame.*

<b>Current Funding:</b>	<b>UNI</b>	<b>SUI</b>	<b>ISU</b>
	\$83,222,819	\$222,041,351	\$173,986,353
/UG Resident Student	\$8,843	\$18,485	\$9,661
<b>/All Resident Students</b>	<b>\$7,676</b>	<b>\$13,966</b>	<b>\$8,765</b>

**Redistribution:**

All Resident Enrollment	\$111,524,418	\$163,542,402	\$204,183,702
Difference	\$28,301,599	<b>(\$58,498,949)</b>	\$30,197,349
/UG Resident Student	\$11,850	\$13,615	\$11,338
<b>/All Resident Students</b>	<b>\$10,286</b>	<b>\$10,286</b>	<b>\$10,286</b>

**UNI Draft Proposed Plan:**

<b>Allocation</b>	<b>%</b>	<b>Metrics</b>	<b>Why</b>
<b>Enrollment Of Iowans</b>	<b>75%</b>	<b>3-5 Year rolling average using all Iowa Students</b>	<b>Access all Iowans Taxpayer support Balances for spikes</b>
<b>Bridging the Gap And Access</b>	<b>10%</b>	<b>Close Achievement Gap for Pell and UR Students Close Access Gap For Pell and UR Students BOR picks 2, Univ. picks 2</b>	<b>Diversity Inclusion Access Mission Driven</b>
<b>Success</b>	<b>10%</b>	<b># Degrees Conferred #egress/UG FTE Student Persistence STEM Degrees BOR picks 2, Univ. picks 2</b>	<b>Degrees Conferred v. Grad Rate Allows Mission Driven</b>
<b>Mission Driven Option</b>	<b>5%</b>	<b>Univ. picks: Debt red., research, Economic dev. Etc.;</b>	<b>Allows Uniqueness of Univ.</b>

**Summary:** 1) Levels the playing field/mission driven; 2) Simple, testable, current, available metrics fitting BOR goals and unique to Univ.; 3) 3-5 year phase in for both reallocation and Performance Based Funding; 4) Hold Univ. to their mission and BOR goals; 5) New Strategic Plan should mesh/line up with Performance Based Funding Plan

**BOARD OF REGENTS**

**PERFORMANCE-BASED REVENUE MODEL TASK FORCE**

**AGENDA**

**April 17, 2014 9:00 a.m. – 1:00 p.m.**

**BOR Office, 11260 Aurora Ave, Urbandale, IA 50322**

- I. Introductions & Welcome (9:00-9:05 am) David Miles, Chair
  
- II. Organizational Matters (9:05-9:10 am) David Miles
  - a. Minutes of March 13 Meeting
  
- III. Discussion of Concepts and Metrics for Performance-based Funding (9:10-1:00)
  - a. Premises – An articulation of the values/assumptions that should inform our recommendations
  - b. Findings – What we have learned through this process
  - c. Potential Changes to the funding model
    - i. Should appropriations requests be tool to incent desired behaviors? If so, what behaviors should we incent?
    - ii. Metrics suggested by each task force member
    - iii. Standard measures for all institutions?
    - iv. How should we weight metrics by institution?
  
- IV. Determine areas of consensus around a *draft* set of recommendations
  
- V. Identify specific additional analysis sought from the Board Office
  
- VI. Preliminary thoughts on implementation
  
- VII. Discussion, Wrap Up & Next Steps David Miles

**Our intention is to finalize our recommendations at our next meeting, May 5, 2014 at the BOR Office; time TBD**

**BOARD OF REGENTS**

**PERFORMANCE-BASED REVENUE MODEL TASK FORCE**

**AGENDA**

**May 5, 2014 9:00 a.m. – 1:00 p.m.  
BOR Office, 11260 Aurora Ave, Urbandale, IA 50322**

- I. Introductions & Welcome David Miles, Chair
  
- II. Organizational Matters David Miles
  - a. Minutes of April 17 Meeting
  
- III. Review of Concepts and Metrics for Performance-based Funding (9:10-1:00)
  - a. Premises
  - b. Findings
  - c. Draft Metrics
  
- IV. Review Model of Proposed Metrics
  
- V. Discussion of Model and Proposed/Additional Metrics
  
- VI. Thoughts on implementation
  
- VII. Finalize Recommendations to the Board of Regents
  
- VIII. Wrap Up

Contact: Patrice Sayre

**REPORT OF PERFORMANCE-BASED REVENUE MODEL TASK FORCE**

**Action Requested:**

- ▶ Receive the report of the Performance-based Revenue Model Task Force.
- ▶ Consider approving the recommendations of the Task Force.

**Executive Summary:** While a growing concern exists nationwide regarding the affordability of a college education, the most significant impact has been a shift in costs from the state to the student. The Regents have resolved to serve the state better with a two-prong approach:

- Engaging an outside consultant to find efficiencies and transform the delivery of higher education; and
- Appointing a Task Force to examine state general education funding models that use performance metrics and make recommendations for Iowa's public universities.

At its April 13, 2013 meeting, the Board appointed former Regent President David Miles to head a Task Force to recast the state's funding formula for higher education. The Task Force was to gather information and research how to most effectively allocate the state's funds while ensuring that the needs of the universities are met. The Task Force was asked to complete its work by the June 2014 Board meeting.

The Task Force, chaired by David Miles, consists of the following members:

- Katie Mulholland, Board of Regents President Pro Tem;
- Len Hadley, retired CEO of the Maytag Corporation;
- Cara Heiden, retired co-president of Wells Fargo Home Mortgage; and
- Mark Oman, retired Senior Executive Vice President of Wells Fargo and Company and Vice Chair of the Board of Trustees of the UNI Foundation

The Task Force Report is attached. The recommendations of the Task Force begin on Page 11. Members of the Task Force believe these recommendations set a new standard for state funding of higher education and incentivize the universities to align with state and Regent higher education priorities.

Mr. Hadley voted "no" with respect to Recommendation Four and will submit a minority report.

## **Report of the Performance-based Revenue Model Task Force**

To: The Board of Regents, State of Iowa  
From: The Performance-based Revenue Model Task Force

The Task Force sincerely thanks the Board of Regents for the opportunity to study the funding of Iowa's Public Universities and to recommend a framework for future funding that will further the ongoing policy discussion on higher education with all stakeholders.

### **Summary:**

To meet the demands of the 21<sup>st</sup> economy, Americans have to have a 21<sup>st</sup> century education. It is projected that 65% of U.S. jobs – almost two-thirds – will require some form of postsecondary education by 2020.<sup>1</sup> The U.S. college attainment rate is just 42% - ranking us 13<sup>th</sup> among developed nations - not an enviable position in today's increasingly competitive global economy.<sup>2</sup> Increasing the number of college graduates in Iowa is a priority for Iowa's Public Universities. One approach is incentivizing these institutions through Performance-based Funding.

Over the last nine months, the Regents Performance-based Revenue Model Task Force has conducted an in-depth evaluation of the Board's process for determining its annual request from the State of Iowa for General Education Funding (GEF) for Iowa's Public Universities.

Our Task Force recommends that the Iowa Board of Regents move over time from its traditional "base-plus" budgeting methodology to a Performance-based Model weighted *initially* 60% to resident enrollment and 40% to outcome metrics explained in further detail in this report.

Based upon our survey of best practices across the nation and our review of the unique characteristics of Iowa's Public Universities, we believe the proposed Performance-based Model offers significant advantages over the existing approach in terms of:

- Equity across the universities
- Incenting the institutions to achieve the objectives of the State and the Board
- Appropriate governance of our outstanding institutions, and
- Effectively advocating to our elected State officials for appropriate funding

### **State Funding of Public Universities: A National Look:**

The primary source of direct taxpayer funding of higher education at public universities across the country is the states, which provide support for academic activities and operations primarily to defray a portion of the costs so that resident students have affordable access to a quality higher education.

Through the end of the Second World War, most states provided this funding largely through a political process without using any funding formula. Beginning in the 1950s, however, states began to depoliticize their funding by shifting toward formulas based on the number of students enrolled at each institution. In the 1960s and 1970s, many states began to add some measure of cost per student to the calculation. In the 1990s, in response to continuing calls for greater

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<sup>1</sup> *A Decade Behind*. Georgetown University Center on Education and the Workforce, 2012

<sup>2</sup> Organization for Economic Co-operation and Development

accountability, at least a dozen states began to fund their public institutions partially on the basis of performance measures, although this performance-based funding typically applied to a very small proportion of total funding.<sup>3</sup>

**The History of General Education Funding in Iowa:**

The Task Force reviewed the Iowa Board of Regents historic practice for determining its annual General Education funding (GEF) request to the Governor and the legislature. Tracking funding records back to 1946, the University of Iowa (SUI) and Iowa State University (ISU) received virtually the same amount of funding for their operations, with ISU receiving \$23,000 more. To our knowledge the allocation was not based on any formula, but on the needs of each university as approved by the Board of Regents and funded by the State. In 1950, ISU requested that its appropriation be separately allocated to its three missions of General Education, Agricultural Research and Extension Services, and the State complied. At that time, GEF appropriations were allocated 47% to SUI, 30% to ISU, and 23% to UNI. Again, this was not a formula, simply how the total added up.

While budgets have been presented in many different forms, the Regents funding requests to the Governor and the legislature over the years have - with few exceptions - relied upon a "base-plus" in methodology. From all evidence, that base has not been comprehensively revisited in decades.

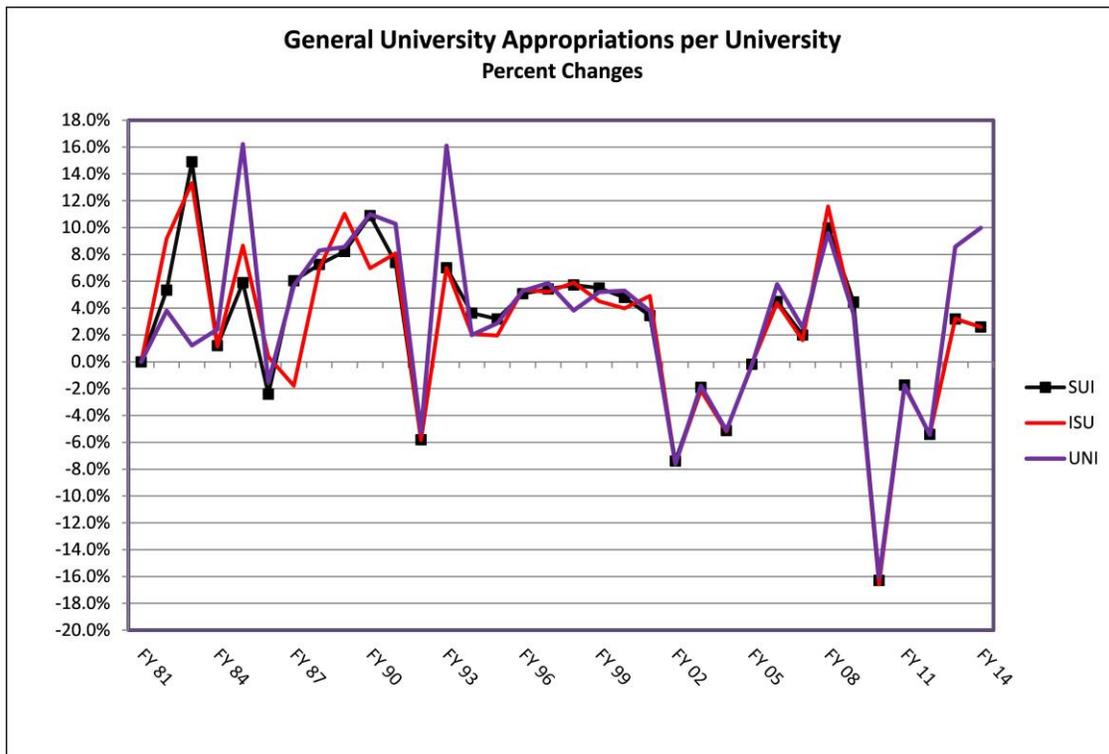
In general, the legislature has not distinguished between the universities when considering levels of incremental funding and has continued to allocate funds to the universities on the same percentage basis; that is, if incremental funds were available, each university received the same percentage increase. Chart One on the next page shows that only in a few cases were different percentage increases in GEF appropriations granted.<sup>4</sup> For instance, in 1993, UNI received a 16.1% increase, partly due to enrollment increases after all universities were cut the previous year; and recent increases have been received to address UNI's unique financial dependence on state funds.

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<sup>3</sup> *Using Institutional Incentives to Improve Student Performance* by Arthur M. Hauptman

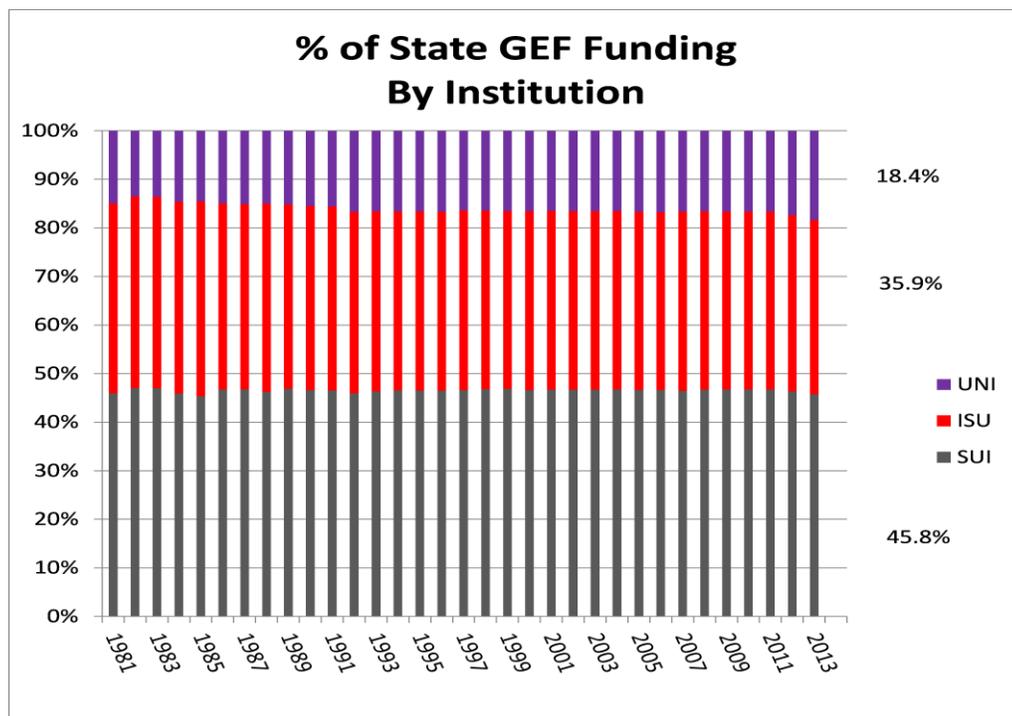
<sup>4</sup> While the actual GEF appropriation frequently falls below, occasionally dramatically below, the Regents' requested amount, we believe it is a sign of the strength of the system for funding public higher education in Iowa that the legislature entrusts the allocation of their GEF appropriation to the Board of Regents.

Chart One



By 1981, the GEF share to the institutions had settled at about 47%/37%/16%. These allocations have remained essentially static since that time. See Chart Two.

Chart Two



The universities, however, have changed a great deal – particularly as to their enrollments. The numbers are summarized in Table One below.

**Table One**

**SUI Headcount Enrollment**

	Undergraduate		Graduate-Masters		Doctoral/Professional		Total	
	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res
Fall 1981	14,258	4,398	2,171	1,188	2,813	1,637	19,242	7,223
Fall 2013	12,012	9,962	1,238	1,146	2,789	2,930	16,039	14,038
Change	-2,246	5,564	-933	-42	-24	1,293	-3,203	6,815

**ISU Headcount Enrollment**

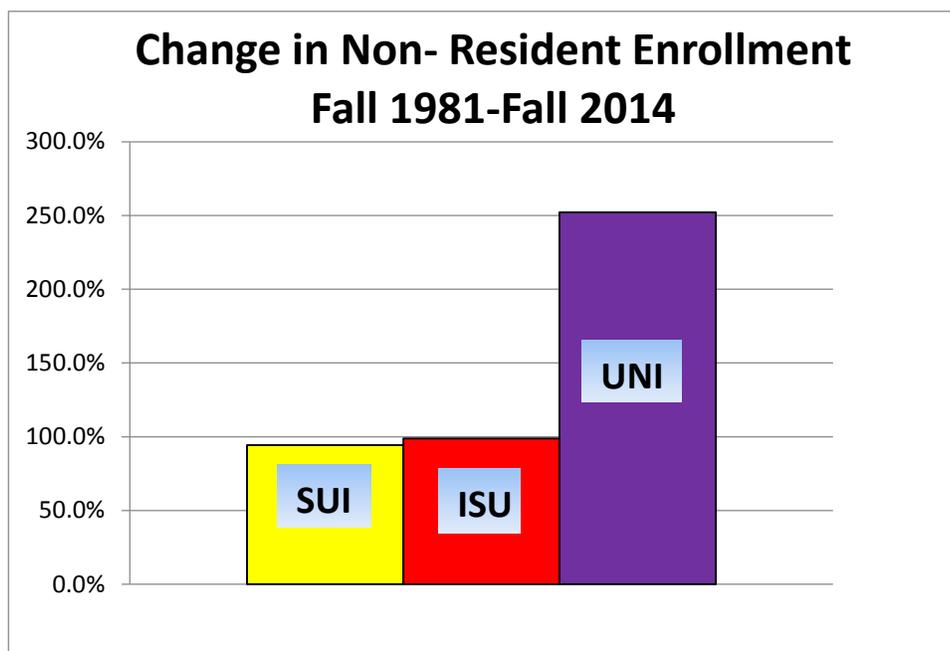
	Undergraduate		Graduate-Masters		Doctoral/Professional		Total	
	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res
Fall 1981	15,622	4,697	984	719	1,003	1,177	17,609	6,593
Fall 2013	18,009	9,650	1,178	1,444	663	2,011	19,850	13,105
Change	2,387	4,953	194	725	-340	834	2,241	6,512

**UNI Headcount Enrollment**

	Undergraduate		Graduate-Masters		Doctoral/Professional		Total	
	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res
Fall 1981	9,429	308	821	51	330	15	10,580	374
Fall 2013	9,411	969	1,015	268	416	80	10,842	1,317
Change	-18	661	194	217	86	65	262	943

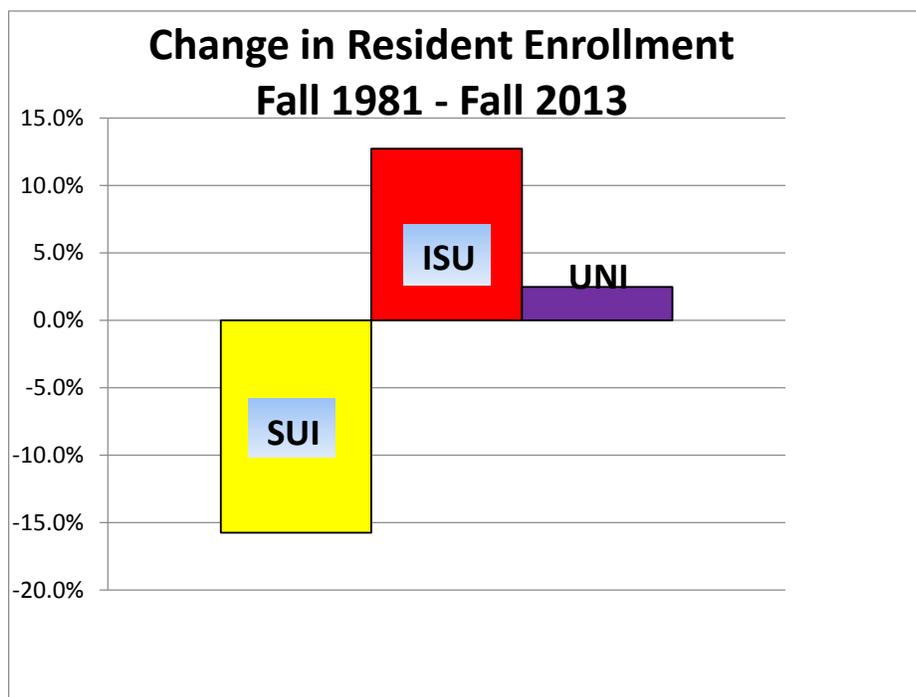
The most dramatic changes came in the growth of non-resident enrollment, with UNI generating a more than three and one-half fold increase in non-resident enrollment. See Chart Three.

**Chart Three**



But the data show divergent paths with respect to resident enrollment. See Chart Four.

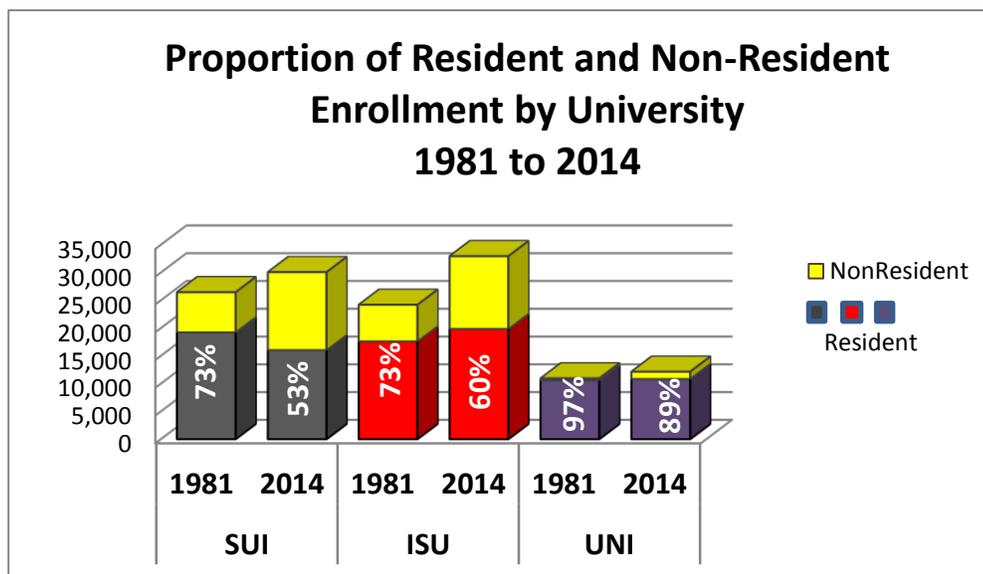
Chart Four



While UNI's resident enrollment was largely unchanged over the period, ISU's resident enrollment grew nearly 13%, and SUI's declined almost 16%. As Table One indicates, SUI actually enrolled 3,203 fewer Iowa residents in FY 2014 than they had 32 years earlier.

As a result, the mix of resident/non-resident students on our campuses had changed dramatically by 2014. There has been a net increase of 14,270 non-resident students and a decrease of 700 resident students over this time period. See Chart Five.

Chart Five



As noted above, the allocation of GEF appropriations has changed little for decades. With funding allocations remaining static, and resident enrollment numbers shifting, state

appropriations per Iowa resident student *by university* have changed considerably. See Chart Six.

**Chart Six**

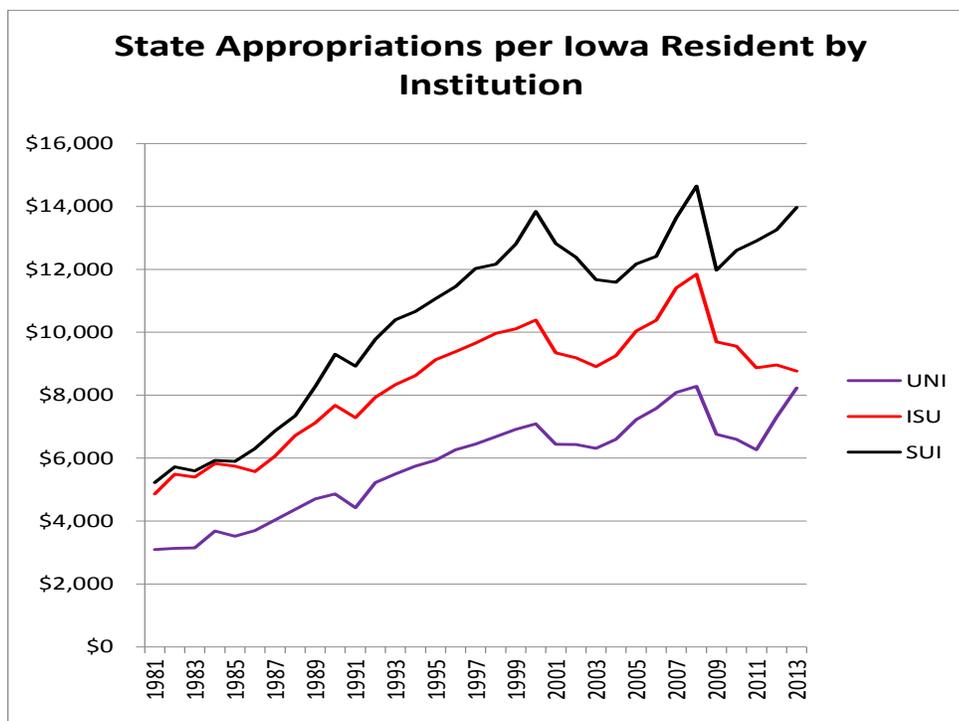


Table Two summarizes the dramatic shift in GEF appropriations per resident student by institution.

**Table Two**

**State GEF per Resident Student**

	UNI		ISU		SUI	
	\$	% of SUI	\$	% of SUI	\$	N.A.
Fall 1981	3,093	59%	4,863	93%	5,224	
Fall 2013	8,229	59%	8,765	63%	13,966	

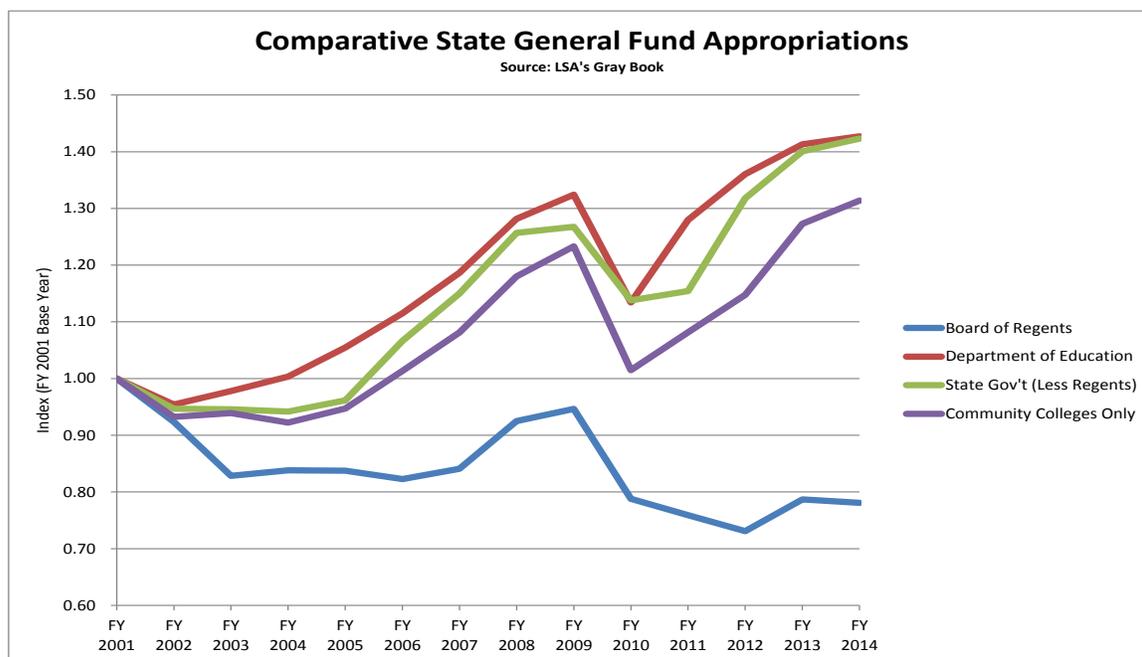
In light of the Iowa data presented and the review of budgeting practices across the country, the Task Force concludes that the Board’s long-time practice for determining its annual budget request is out of date. For too many years, the Board’s budget request has been developed using a “base-plus” methodology that uses the prior year’s allocation to each university’s general education budget as the starting point and seeks additional funding to address increased costs related to salary and other inflationary increases. Presently, the Board is perpetuating the priorities of yesterday rather than funding the priorities of today and tomorrow.

By relying for so long on a base-plus budgeting approach, the Board has failed to adequately leverage the most powerful tool of any governing body for influencing the behaviors of its executives and institutions – the institution’s budget – to achieve its priorities. No tool is more powerful than a clear statement of goals and priorities which is then translated into a budget that allocates resources on the basis of an organization’s abilities to achieve those priorities.

Further, experience causes the Task Force to wonder whether the Board’s long tradition of “base-plus” budgeting has caused the Regents’ case for higher education funding to successive Iowa governors and legislatures to be less and less compelling in recent years.

Since at least the early 1980’s, Iowa, like so many other states facing growing financial challenges, has used higher education funding as the balance wheel for its state budget. When times are bad, higher education – and in Iowa, particularly the Regent institutions – repeatedly suffer budget cuts that come earlier and are greater in percentage terms than other areas of the state’s budget. And when economic conditions improve they are rarely fully restored to prior levels. This funding cycle of lower highs (during the good times) and lower lows (during the bad times) has resulted in a dramatic net reduction in funding to Iowa’s public universities over the last thirty years. Again, Iowa is not alone in this, but Iowa’s Public Universities were hit particularly hard during the recent financial crisis, and despite the recovery, funding to Iowa’s public universities has not been restored to pre-crisis levels. See Chart Seven.

**Chart Seven**



**Review of Performance-based Funding**

As noted earlier, beginning in the 1950s, the majority of states began moving toward an enrollment-based funding model for GEF appropriations. Recently, many states have reconsidered those enrollment-based models (at least in part) and are instead aligning their funding models more closely with clearly articulated state goals and priorities. Today, twenty-five states—Arizona, Arkansas, Florida, Illinois, Indiana, Kansas, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Mexico, Nevada, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah and Washington—have a funding formula in place that allocates some amount of funding based on performance indicators such as course completion, time to degree, transfer rates, the number of degrees awarded, or the number of low-income and minority graduates. Five states—Colorado, Georgia, Montana, South Dakota and Virginia—are currently transitioning to some type of performance funding, meaning the Legislature or governing board has approved a performance funding program and the details are currently being worked out. Another ten states are in formal discussions (including Iowa), and only ten have no formal activity underway. See Chart Eight.



It is important to note that PBF is not the answer to the larger issue of declining support and funding for higher education, and thus should not be used to meet the greater funding issues of higher education.

The Task Force invited a number of experts to speak on state funding:

- Art Hauptman, Public Policy Consultant – National Trends and Issues in Funding Public Higher Education
- Matt Pellish, Director of Member Education, Education Advisory Board – Preparing for Performance-based Funding
- Martha Snyder, Sr. Associate, HCM Strategist, Lumina Foundation Strategy Labs Network Policy Lead – Performance Funding
- Jan Friedel, ISU Assoc. Professor, Education and Zoe Thornton, Registrar, Marshalltown Community College and ISU PhD Candidate – National Landscape for Performance-based Funding
- Russ Deaton, Assoc. Executive Director Fiscal Policy & Administration, Tennessee Higher Education Commission – Tennessee Metrics
- David J. Peters, ISU Asst. Professor, Sociology – Demographics of the College Student Population in Iowa
- Tahira Hira, Sr. Policy Advisor to President Leath and ISU Professor, Human Development and Family Services and Roberta Johnson, ISU Director of Financial Aid – Student Debt

The Task Force also reached out to the university presidents and asked them to present their thoughts and models for performance-based funding at a public meeting.

### **Premises**

After extensive fact-gathering and discussion, the Task Force adopted the following guidelines to be used in determining its recommendations to the Board:

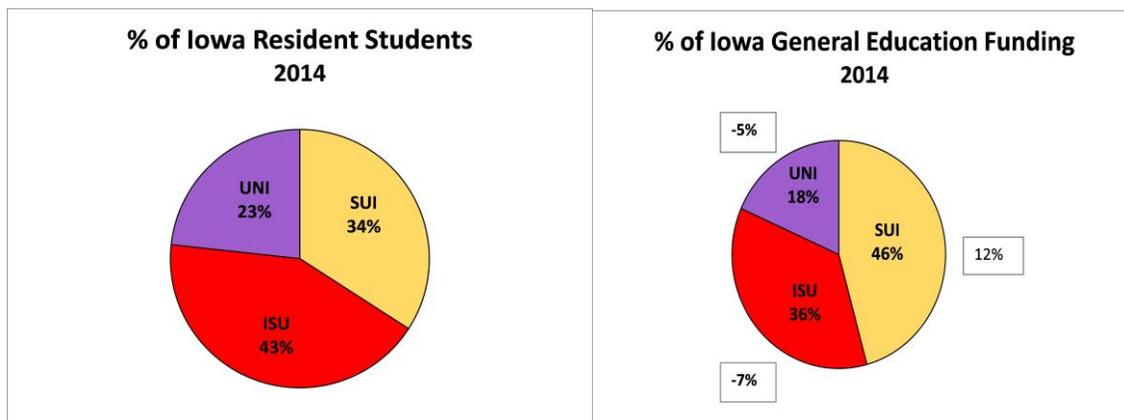
1. States provide funding for higher education because they recognize the public benefit of higher education for their citizens and their state.
  - a. Through time, the first and enduring principle for public funding of higher education has been to defray a portion of the costs so that resident students have affordable access to a quality higher education.
  - b. Therefore, the highest (though not necessarily the sole) priority for state appropriations is to fund the education of resident students.
2. A fundamental role for any governing board is the careful evaluation and approval of an annual budget and plan. For the Iowa Board of Regents, a critical element of this task is the submission of its annual request for appropriations to the State of Iowa.
3. The methodology for seeking state appropriation requests should:
  - a. Be equitable; it should not favor one institution over another, but it should also recognize the unique missions and contributions of each institution
  - b. Be fact-based
  - c. Link directly to the Board's priorities as articulated in the strategic plan and elsewhere
  - d. Be straight-forward, clear and readily understandable
  - e. Be consistent, reliable and predictable
  - f. Focus on a combination of outcomes and inputs
  - g. Provide a clear line of sight into how state appropriations are being utilized by Iowa's Public Universities to benefit Iowans
  - h. Demonstrate accountability to the legislature, governor, and the citizens of Iowa for the funds entrusted to the Board and its institutions
  - i. Reward each institution for achieving the objectives of the Board of Regents rather than emphasizing competition between them

**The Need to Align with Resident Enrollment**

The Task Force finds that the funding model for Iowa’s Public Universities needs to more closely link GEF appropriations to resident enrollment at the three universities. This is not simply a matter of equity, but a practical matter of providing adequate funding. Let us not forget that resident tuition does not cover the full cost of an Iowa student’s education at any of our universities. A university that admits 1,000 new residents but sees no increase in its GEF appropriation creates a funding deficit for each of those students that puts pressure on the entire institution. Conversely, a university that decreases its enrollment of resident students by 1,000 but sees no decrease in its state GEF funding frees up additional net resources to support its overall operations. And – at least under our historic funding model – an institution that adds 1,000 non-resident students in place of 1,000 resident students benefits doubly through retention of its prior year’s GEF funding and through much higher non-resident tuition revenues.

What is needed is a new financing arrangement that produces better results and is more equitable. See Chart Nine.

**Chart Nine**



The Task Force believes state appropriations per resident Full-time Equivalent (FTE) student should have more parity among the universities. In fact, the lack of such a direct link in our traditional funding approach creates an incentive to overlook Iowa resident students in favor of out-of-state students that pay higher tuition.

**Recommendations:**

The Regents’ Performance-Based Funding Task Force hereby recommends the following actions to the Iowa Board of Regents:

**Recommendation One:** The Board should formally acknowledge that the “base-plus” methodology for determining annual state appropriations requests – which uses the prior year’s allocation to each university’s general education budget as the starting point and seeks additional funding to address rising operating costs indicated by the Higher Education Price Index (“HEPI”) – has failed to keep pace with changing higher education realities and priorities at our outstanding institutions, and needs to be replaced with a more flexible system that links appropriation requests to the priorities of today and tomorrow.

**Recommendation Two:** As the starting point for its evaluation of general education funding (“GEF”), the Board should adopt as its first principle that the highest (though not sole) priority for state appropriations is to defray a portion of the costs of higher education so that Iowa students have affordable access to a quality higher education.

**Recommendation Three:** The Board should adopt a performance-based funding (“PBF”) methodology that:

- Provides essential funding to educate Iowa students;
- Supports the unique missions of each institution; and
- Incentivizes the institutions to align their activities with the priorities of the State and the Board, and rewards them for accomplishing those objectives.

**Recommendation Four:** The Performance-Based Task Force recommends the following metrics be adopted to determine the annual GEF appropriations request to the Governor and the Legislature (phased in over time per Recommendation 5 below):<sup>5</sup> All metrics will be calculated on Iowa residents, except for Job Placement or Continuation of Higher Education in Iowa – that will include all students.

<b>60% of state funding based on Resident FTE enrollment</b>	This would tie funds directly to supporting Iowa students using a 3-year rolling average.
<b>15% for Progress and Attainment</b>	<ul style="list-style-type: none"> <li>• 5% to be awarded based on achieving Student Credit Hour thresholds of 24-48-72.</li> <li>• 10% based on Degree Production. Measurement would be most recent year completed.</li> </ul>
<b>10% for Access</b>	Regent universities should have a diverse student body as measured by low-income students, minorities, Iowa community college transfers, and veterans. Measurement would be over a 3-year rolling average.
<b>5% for Job Placement or Continuation of Higher Education in Iowa</b>	Iowa’s public universities have a role to play in the economic development of the state. Measurement of this metric to be determined; until then, dollars weighted to mirror overall allocation. Suggested timeframe: 1-5 years.
<b>10% based on Regent Selected Metrics</b>	<ul style="list-style-type: none"> <li>• 5% to be awarded based on sponsored research for the most current year recognizing the boon to economic development that the public universities provide.</li> <li>• 5% to be customized metrics selected by the Board of Regents in conjunction with the universities. A suggested methodology for awarding dollars on these metrics which does not place the universities in direct competition is attached in Exhibit B.</li> </ul>

**Rationale**

**Metric One: 60% Based Upon Resident FTE Enrollment**

The most common method of allocating state general education funding is a direct link to enrollment. Indeed, this is the way that most states allocate the overwhelming majority of their GEF dollars. They do so because the primary reason for a state to fund public

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<sup>5</sup> This recommendation was approved by the Task Force on a vote of 4-1, with Mr. Hadley voting “no”. Mr. Hadley’s dissent will be distributed to the Board under separate cover.

higher education is that there is a public benefit to the entire state of having better educated residents, and by investing state dollars they can reduce tuition costs for their residents.

We find this reasoning to be compelling for the State of Iowa. Whether viewed as economic development or through the broader lens of having an informed and engaged citizenry, Iowa benefits by allowing its residents to pay a discounted tuition rate. The flip side of that coin, however, is that for students to pay a discounted level of tuition, the gap must be closed with state funding.

The Task Force considered a number of alternative methods of measurement. The primary options – based on a review of other states – were:

- Resident Undergraduate Enrollment
- Total Resident Enrollment
- Total Enrollment (including both resident and non-resident students)
- Resident Enrollment with a Higher Weight for Masters, Doctoral & Professional Programs

Though each Task Force member had their own views on this critical question, we ultimately settled upon Total Resident Enrollment as best representing the State's interest in funding public higher education. We chose resident enrollment because it is resident tuition that is being subsidized. By state law, non-resident tuition must cover no less than 100% of the cost of instruction; in practice, non-resident tuition typically pays for well more than the direct cost of instruction.

Counting only resident undergraduates was considered, particularly given that resident undergraduate tuition has been the primary focus of the Board's efforts to ensure affordability and access. Ultimately, we were persuaded by the state's need to produce more graduates with advanced degrees that we thought it important that GEF dollars link to total enrollment.

This latter concern – the need for more advanced degrees – caused us to consider giving a higher weighting to enrollment in advanced degrees. While the Task Force saw some merit in this, we noted that an Iowa resident who pursued their undergraduate and graduate education at any of Iowa's Public Universities receives a consistent tuition subsidy each year over what may be an extended period of years. We also noted that the additional potential earning power from an advanced degree allows our institutions to charge a higher, market-level of tuition for graduate programs. We thus did not place an additional weight on graduate enrollment.

The 60% / 40% weighting to resident enrollment / outcome metrics is meant to reflect a balance between providing necessary funding to pay the costs of educating our students and allocating sufficient weight to achievement of desired outcomes to incent the universities to achieve the strategic priorities of the Board and the State of Iowa. We view this weighting as a reasonable starting point. National experts recommend that no less than 15% of total general education revenues (not just state appropriations) be weighted to outcomes to create sufficient incentive to influence institutional behavior. Weighting 40% of GEF to outcomes equals about 14.5% of total general education revenue at our institutions.

As the Board gets more comfortable with this new funding model over time, we strongly recommend that consideration be given to re-balancing the metrics further toward desired outcomes.

**Performance-based Funding**

As noted earlier, dissatisfaction with the base-plus method of budgeting led the majority of states many years ago to move at least a portion of their funding to an enrollment-based model. The primary benefits of this approach are (1) it incents universities to increase enrollments, and (2) it should – at least in theory – provide funding to pay for newly enrolled students. [Too often in practice state legislatures do not fully fund the model, resulting in funding shortfalls].

Recently a flood of states have adopted – in whole or in part – what has come to be termed “performance-based funding” or “PBF”. Broadly, PBF describes a funding methodology which seeks to use the appropriation process to incent the institutions to achieve the outcomes desired by the State.

Though bringing the existing appropriations up to current enrollment realities on our campuses would be a big step forward, we believe that the Board should use this opportunity to move beyond measuring inputs to measuring and rewarding outcomes.

While enrollment is easy to measure, our analysis of the Board’s Strategic Plan tells us that raising enrollment in and of itself is not the Board’s priority. Enrollment is largely an input measure of how many students we have on campus. Enrolled students who are making slow progress toward their degrees, who are generating ever greater student debt, who may or may not graduate, are all counted as enrolled. Moreover, shifting to enrollment could spur an arms race among the public universities, and between the public universities and other higher education alternatives in Iowa, that wouldn’t be healthy for the Iowa higher education system overall, and again, may not produce any greater number of degreed Iowans.

Nor do we want to turn the focus of our universities overly inward, for three reasons. First, Iowa resident students benefit from the energy and diversity of students from other parts of the country and the world who choose to attend our institutions. Second, for many years Iowa has been distinguished as one of the top destination states for students entering college. We presently rank 7th among all 50 states for the “net importation” of college students. That students travel to Iowa to get a higher education is a testament to the quality of what we have to offer, is a great boost to our economy in the near term, and – since a number of them stay here – can help to grow our population of college-educated residents. Finally, and this unpleasant fact must not be ignored, the number of college-aged Iowa residents is projected to fall by 17% by 2030. Too narrow a focus on enrolling resident Iowans then would not be a positive step for our State.

By contrast, the budget model we recommend incents the universities to achieve the outcomes – starting with increasing credit hours and degrees awarded – that we need from Iowa’s Public Universities. While it is true that one way to achieve the identified outcomes may be to increase enrollments, it will not do so if the universities do not move a growing proportion of those enrollees quickly and cost-effectively to graduation.

The outcome measures we recommend are intended to reward alignment with the State’s priorities as articulated in the Board of Regents Strategic Plan and elsewhere.

**Metric Two: 15% Progress and Attainment**

The Task Force is pleased to suggest a weighting of 15% to two progress and attainment metrics – 5% awarded on student credit hour thresholds and 10% on degrees completed. The combination of these two measures is intended to accurately capture and reward the universities’ efforts to help students progress as rapidly as possible in their educational efforts, with the ultimate objective of achieving their degrees. Our

progress measures are focused on undergraduates, but we award degree attainment at all levels.

Metric Two aligns with the Regents' strategic goals to improve 4-year graduation rates, as well as the strategic plan priority of "Access, Affordability, and Student Success". By encouraging the universities to help students move more rapidly through their studies, and to generate more bachelors and advanced degrees, we should see improvement in the cost-per-degree, benefitting students and all Iowans through a more cost-effective educational delivery system.

**Metric Three: 10% Access**

The Iowa Board of Regents has long been committed to providing affordable access to quality higher education for Iowa residents. The Task Force recommended allocating 10% to this metric for two reasons. First, we believe it a transformative step to directly tie funding to ensuring access for targeted student groups. This shines a bright spotlight on ensuring access in a way that has not happened before. Second, as we bring focus to progress and attainment, we want to be clear that Iowa's Public Universities need to continue to work for all Iowans, not just a select few.

**Metric Four: 5% for Job Placement or Continuation of Higher Education in Iowa**

Iowa's Public Universities play a major role in the economic development of the State. We believe that they can contribute even more to growing our state's population of educated and engaged citizens by actively partnering with businesses and communities across the state to retain our graduates in Iowa upon graduation. Importantly, this metric will measure graduate retention of both residents and non-residents.

Accurate data on graduate retention is not available at this time. The Board office will work with the universities to identify a methodology. Until that is done we suggest that these dollars be allocated to mirror the sum of the remaining metrics.

**Metric Five: 10% for Regent Selected Metrics (with 5% Directed Toward Research)**

This metric breaks down into two measures:

- 5% related to university research. This measure is intended to reflect the unique research missions of SUI and ISU – both outstanding AAU universities – as well as UNI's more focused research efforts. It is simply the case that while research is often funded by outside parties, it does create additional infrastructure costs for the institution. The initial allocation recommended mirrors the total of the other metrics.
- 5% related to customized metrics selected by the Board of Regents in conjunction with the universities.

A growing practice nationally is for the governing board to identify specific goals that they particularly want each university to focus upon. Often those goals are unique to a certain institution, and ideas for those customized metrics frequently come from the institutions. A suggested methodology for awarding dollars on these metrics which does not place the universities in direct competition is attached in Exhibit C.

Outcomes

The benefits of the PBF model recommended include greater alignment between the Board's strategic plan and the actions of each university, greater transparency, a clearer line of sight into how state appropriations are being utilized by Iowa's Public Universities to benefit Iowans, improved understanding of the impact of state funding on the ability of the universities to accomplish their missions, and greater accountability to the legislature and the Governor.

A high level model of the potential financial implications of budgeting using these suggested metrics is attached as Exhibit A. We want to stress that while we have not been blind to the potential financial impacts of our work, we took seriously the charge to the Task Force to research and recommend changes to the funding model based on the merits. We have not engineered our recommendations to a particular financial result, and indeed proceeded with no preference for any particular outcome. That dollars may be allocated differently as a result of this approach is not surprising, but that outcome played no role in our deliberations.

**Recommendation Five:** Implementation of the new model should move forward in a careful manner that continues to provide essential support to all three universities. We recommend the following transition measures:

1. The recommendations of the Performance-Based Funding Task Force should be implemented beginning in Fiscal Year 2016.
  - a. Between now and October, the Board should work with Board office staff and the institutions to work through the implementation details of this model to ensure that the metrics are correct and will lead to the intended outcomes.
  - b. Beginning now allows the institutions a full-year to prepare for any changes in funding brought about by the Board's new funding methodology.
  - c. Each institution should be given the opportunity to present to the Board a plan for responding to the revised funding model.
2. Implementation of these recommendations should be paid for through restoration of State funding to Iowa's public universities.
  - a. The proposed PBF model creates a direct and transparent link between dollars invested by the State and achievement of the State's priorities. The improved educational outcomes generated by this new funding model merit additional State investment.
  - b. Despite considerable progress, State GEF funding in Fiscal Year 2013 remained \$98 million below Fiscal Year 2008 levels, meaning that all three institutions are already managing through significant funding reductions. A better funding model should benefit all of our universities; the State can play a critical transition role.
  - c. The abiding contribution of this new approach is to reward each institution for achieving the objectives of the State and the Board of Regents, not in creating competition between them. By funding the transition to PBF, the State can minimize any short-term disruptions caused by reallocations among the institutions, while sending a strong message of support to the Board of Regents for taking this much needed step.

3. The Board should transition to the new funding model over time – the Task Force suggests 2-4 years – keeping in mind the following:
  - a. The Task Force wants to be clear to this Board that while we believe strongly in the new funding model and its long-term benefits to the universities and the State of Iowa, nothing in this report should be taken as a criticism of any of our outstanding universities, each of which is investing the State's resources to provide a superior-quality education to their students, generate world-class research, and to serve the citizens of Iowa.
  - b. The model we recommend here is intended to enhance the institutions over the wide arc of time, not to address near-term funding issues.
  - c. A move to a new funding model – particularly when the former base-plus methodology has gone unchanged for so very long – requires the Board to balance competing factors. To the extent that the State provides less than full funding to implement PBF, we recommend that any reallocations of funding from any university be capped at 1%-2% of the institution's 2013 general education revenues per year.
  - d. Incremental funds will not accrue to a university whose funds are negatively reallocated until the percentages per university in the model are reached.
  - e. Concurrent with the implementation of PBF, we recommend that the Board actively explore the potential for differential resident-tuition among the institutions.

**Recommendation Six:** This move to PBF should be considered a first step. The Board should remain actively engaged to:

1. Revise the model based on experience;
2. Respond to any unintended consequences; and
3. Move a growing proportion of funding toward the achievement of desired outcomes.

Thank you for the opportunity to serve. We believe that recommendations advanced here will provide a clear line of sight into how state appropriations are being utilized by Iowa's Public Universities to benefit Iowans, and demonstrate accountability to the legislature, governor, and the citizens of Iowa for the funds entrusted to the Board and its institutions.

Exhibit A

Table A-1, on page 19, shows how the proposed metrics would redistribute funds if applied *in their entirety in a single year*, using FY 2014 appropriations. While the model is believed to be accurate based on FY 2014 data, a number of cautions are in order in reading this table:

1. This table is included to provide an understanding of the potential magnitude of the changes proposed, but it does not accurately portray our recommendations in two respects.
  - a. First, as we state clearly in Recommendation Five, we believe that the value to the State of Iowa of this new funding approach warrants additional state funding to pay for the transition to the new funding model. We do not believe – and this table should not be read to suggest – that current State GEF appropriations are adequate to meet the needs of any of our universities, including SUI. We do not endorse a wholesale transfer of State GEF appropriations from SUI.
  - b. Second, as we note in Recommendation Five, even if the State does not wholly address the funding needs of the universities, any necessary reallocations should be scaled in over time, with no more than 1-2% of SUI's 2013 total general education revenues (\$6.5 -- \$13 million) available for reallocation in any one year.
2. Table A-1 makes no allowance for changes that our universities may implement to respond to the new funding model. Given that the purpose of the model is to financially reward the universities for pursuing the Board's strategic priorities, we would expect the institutions to respond.
3. A reminder that *no* changes will go into effect for more than 12 months from the date of this report.
4. Finally, to provide a bit more context, Table A-2 illustrates the dollars that would be relocated if the existing base-plus model were replaced by a model that allocated 100% of state appropriations on *total enrollment* (including both resident & non-resident FTE students). Though we do not recommend this model due to our focus on providing State funding to reduce the cost of higher education to resident students, even this approach would reallocate \$30 million from SUI and \$7 million from UNI.

**Table A-1**

OUTCOMES	SUI	ISU	UNI	TOTAL
<b>Current Distribution of General University Appropriations</b>	<b>\$ 222,041,351</b>	<b>\$ 173,986,353</b>	<b>\$ 83,222,819</b>	<b>\$ 479,250,523</b>
Redistribution of Funds based on Task Force Metrics				
Enrollment	\$ 97,561,633	\$ 123,140,103	\$ 66,848,577	\$ 287,550,314
Student Progress	\$ 7,556,328	\$ 10,403,050	\$ 6,003,148	\$ 23,962,526
Degree Production	\$ 17,843,292	\$ 18,380,067	\$ 11,701,693	\$ 47,925,052
Access	\$ 15,720,353	\$ 19,843,756	\$ 12,360,944	\$ 47,925,052
Job Placement/Continued HE	\$ 8,147,259	\$ 10,064,261	\$ 5,751,006	\$ 23,962,526
Customized Metrics				
Sponsored Research	\$ 8,147,259	\$ 10,064,261	\$ 5,751,006	\$ 23,962,526
Regent/University Selected	\$ 8,147,259	\$ 10,064,261	\$ 5,751,006	\$ 23,962,526
<b>Redistributed Appropriations</b>	<b>\$ 163,123,384</b>	<b>\$ 201,959,759</b>	<b>\$ 114,167,380</b>	<b>\$ 479,250,523</b>
Variance	\$ (58,917,967)	\$ 27,973,406	\$ 30,944,561	\$0
		47%	53%	\$0

Percentage of Appropriations				
Current	46%	36%	17%	100%
Redistribution	<u>34%</u>	<u>42%</u>	<u>24%</u>	<u>100%</u>
	-12%	6%	6%	0%

Note: Metrics for Job Placement/Continued Higher Education and Customized Metrics have not been determined. The numbers in those fields on this model are based on the appropriations distributed from finalized metrics.

**Table A-2**

OUTCOMES	SUI	ISU	UNI	TOTAL
<b>Current Distribution of General University Appropriations</b>	<b>\$ 222,041,351</b>	<b>\$ 173,986,353</b>	<b>\$ 83,222,819</b>	<b>\$ 479,250,523</b>
<b>Dollars per Resident FTE</b>	<b>\$ 15,356</b>	<b>\$ 9,533</b>	<b>\$ 8,400</b>	<b>\$ 11,245</b>
Redistribution of Funds based on Task Force Metrics				
<b>Redistributed Appropriations</b>	<b>\$ 192,027,565</b>	<b>\$ 210,881,838</b>	<b>\$ 76,341,120</b>	<b>\$ 479,250,523</b>
Variance	\$ (30,013,786)	\$ 36,895,485	\$ (6,881,699)	\$0
Percentage of Appropriations				
Current	46%	36%	17%	100%
Redistribution	<u>40%</u>	<u>44%</u>	<u>16%</u>	<u>100%</u>
	-6%	8%	-1%	0%
<b>Dollars per Resident FTE</b>	<b>\$ 13,280</b>	<b>\$ 11,555</b>	<b>\$ 7,705</b>	<b>\$ 11,245</b>

**Exhibit B**

Suggested Point System for customized metrics selected by the Board of Regents in conjunction with the universities is outlined below.

1. Assign the same number of points to each university.
  - a. Points assigned only for goal achievement
  - b. No bonus points awarded for exceeding goal
  - c. Partial points for progress towards goal could be awarded at the Board of Regents' discretion
2. Multiply total points awarded for performance by a base weighting. An initial weighting which mirrors the sum of all prior factors is suggested as a starting point.
3. Add up all weighted points and divide each university's points by the total number of awarded weighted points to arrive at a percentage per university.
4. Multiply the percentage by the total appropriation pool (5%) to arrive at dollars awarded to each university.

Note: If the universities do not reach their full potential in points, the Board could determine how to reallocate unclaimed dollars.

Minority Report

MEMORANDUM

To: Iowa Board of Regents

From: Leonard Hadley

May 20, 2014

I would like to thank the Board of Regents for appointing me to serve on the Performance-Based Funding Task Force, and I would like to thank David Miles for his service as chair of our group.

As a retired business leader, I understand and appreciate the value of examining the funding model for Iowa's public universities. This is an important topic. The amounts we are talking about add up to nearly half a billion dollars of taxpayer funding, and the incentives built into the funding model will influence higher education in our state for years to come.

I am writing to ask the board to consider three modifications to the proposal submitted by the Task Force. I believe these modifications will help the funding model to better serve the needs of Iowans. Although I served as the University of Iowa representative to the Task Force, I am making these recommendations with the long-term success of all three Regents universities in mind.

Recommendation #1: assure appropriate funding for post-baccalaureate programs

There are significantly higher costs associated with graduate and professional degree programs. These programs provide the state with the professionals that it needs: physicians, dentists, veterinarians, pharmacists, nurses, attorneys, teachers, business leaders and other highly skilled people who contribute to the economic vitality of our state and the well-being of our people.

The current "base-plus" model of funding has for many years provided our universities with the resources that make it possible for Iowa students to obtain high-quality graduate and professional education at a relatively affordable cost. The model proposed by the committee does not provide adequate funding to support these needed programs.

The argument has been made that professionals earn higher salaries and therefore should be expected to pay higher tuition. This is true; our Iowa students who are working to become doctors, dentists, pharmacists, veterinarians, and so on do pay a higher tuition than students working to earn bachelor's degrees. We know that currently many of our young Iowans in these programs are graduating with large amounts of debt. We must be careful that the new funding model does not cause tuition to grow so high that our young professionals need to leave Iowa and move to large cities where they can earn salaries that will allow them to pay off larger loans.

If the model is implemented as proposed- with no additional funding to support graduate and professional programs - it will force the universities to make up the shortfall by doing some or all of the following:

- Reducing enrollment in graduate and professional programs
- Raising tuition and fees for Iowa students
- Reducing the number of seats reserved for Iowa residents in these programs, in order to attract more out of state students who pay higher tuition.

These are undesirable actions, but they would be rational responses that any business leader would take when faced with the same situation. I think we would all agree that it would not be good for our state and for our students if these occurred.

Fortunately, there is a relatively simple solution the board can adopt. It is to weight the allocation to account for the differences in costs associated with various types of programs as follows:

- Bachelor's degree students: 1.0
- Master's degree and JD students: 2.0
- Doctoral degree students: 3.0
- Health sciences professional students 5.0  
(for example, students in medical, dental,  
veterinary, nursing, pharmacy, etc.)

These weightings are based on the differential costs of providing each of these kinds of degree programs in Iowa. They are also consistent with the weightings used by other states.

Recommendation #2: include a fixed base component to the funding model

The cost structure of any higher education institution includes a large proportion of fixed costs (expenses that don't change much when inputs, like enrollment, change). Fixed costs include infrastructure support like IT, libraries and building maintenance. Every university needs to provide these kinds of services, and no university can quickly reduce these kinds of costs when enrollment fluctuates.

The proposed funding model does not take this economic reality into account. It places the entire state allocation "at risk." Only three of the other states that have adopted performance-based funding have chosen to make the entire state allocation variable. The majority have included a fixed amount of funding in their formulas.

To reduce the risk for our universities, I recommend that the board change the model so that each institution receives a guaranteed base amount of 20 percent of its current general education appropriation. This amount should be inflation-indexed so that it doesn't disappear over time. The remaining 80 percent of the appropriation could be split between enrollment and outcome measures in any way the board chooses (the table below shows my thinking).

	Task Force model	My recommendation
Enrollment-based	60%	40%
Outcomes-based	40%	40%
Fixed	0%	20%

A fixed component will provide a more stable and predictable funding stream for the universities, better allowing them to weather the cyclical variations in the marketplace. And a more stable revenue picture will also help assure that the universities can obtain more favorable interest rates when they need to issue bonds in the future. These benefits are good for taxpayers and good for students.

Recommendation #3: phasing in the changes

The Task Force has recommended that the model be phased-in over 2 to 4 years, and that an amount equal to 1 to 2 percent of general educational revenues will be moved in any one year. I support the idea of a gradual approach. It will give each institution time to identify and adopt new strategies, and it will also give students sufficient time to plan ahead for any changes that may affect them.

I ask the board to consider implementing the model in Fiscal Year 2017 (July 1, 2016) so that our universities have sufficient time to prepare. In addition, I recommend that the board phase in the changes in over 4 to 6 years, and limit the amount to be moved in a single year to no more than 2 percent of each campus's general education fund appropriation.

The new model will incentivize the campuses to do things that require time to achieve results such as improving graduation rates. And with the majority of the funding allocated on a three-year rolling average of enrollment, it is appropriate to give the campuses time to increase their enrollment.

Our three public universities are very good - but they can't turn on a dime, nor do we want them to. It is good public policy for the board to grant them the time to develop and implement sound, thoughtful strategies for responding to the policy directions that the board will establish.

Conclusion

In conclusion, although I have other concerns about the Task Force's proposal, I feel that the three recommendations above will address the most significant aspects of the model without affecting the board's purpose in adopting a new approach to funding our public universities. I thank the board for considering these modifications.

Board of Regents  
Performance-Based Revenue Model  
Approved June 4, 2014

<b>60% of state funding based on Resident FTE enrollment</b>	This would tie funds directly to supporting Iowa students using a 3-year rolling average.
<b>15% for Progress and Attainment</b>	<ul style="list-style-type: none"> <li>• 5% to be awarded based on achieving Student Credit Hour thresholds of 24-48-72.</li> <li>• 10% based on Degree Production.</li> </ul> Measurement would be most recent year completed.
<b>10% for Access</b>	Regent universities should have a diverse student body as measured by low-income students, minorities, Iowa community college transfers, and veterans. Measurement would be over a 3-year rolling average.
<b>5% for Sponsored Research</b>	5% to be awarded based on sponsored research for the most current year recognizing the boon to economic development that the public universities provide.
<b>5% Weighted for Graduate and Professional Students</b>	5% for a proportional weighting of all graduate and professional students based on FTE enrollment.
<b>5% Based on Regent Selected Metrics</b>	5% for customized metrics to be distributed by the Board of Regents.
<b>Other</b>	<ul style="list-style-type: none"> <li>• Transition to new funding model over period of 3 years.</li> <li>• Cap any reallocation at 2% of the institution's 2013 general education revenues per year.</li> </ul>

## Regents' aid formula was found to be lacking

By David Miles 11:16 p.m. CDT June 7, 2014



(Photo: Special to the Register )

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[The task force appointed by the Iowa Board of Regents](#) did not sit in judgment on the value or quality of the higher education provided by any of our institutions, which we believe to be consistently excellent.

Rather, we asked ourselves two simple questions: First, does the present methodology provide essential funding to equitably cover the gap at all three universities between the tuition paid by resident students and their fully allocated cost of instruction? Second, does the current approach incent our institutions to educate Iowans?

**THE REGISTER'S EDITORIAL:** [Regents right to change funding](#)

We found the "base-plus" methodology — used by successive Boards of Regents for decades — lacking on both counts.

We firmly support our universities' efforts to attract nonresident students. Iowa is already a destination state for higher education, ranking seventh nationally for the net importation of college students. Attracting students from across the nation and the globe enhances our campuses and contributes greatly to Iowa's economic development.

But the universities already have and will continue to benefit from a strong incentive to recruit nonresident students. In addition to the nonfinancial benefits of attracting these talented students to our campuses, each university prices nonresident undergraduate tuition at two to more than three times resident tuition, rates that well exceed their cost of instruction. That does not change under our proposal.

### **Impact of past practice**

The failure of the current budgeting methodology is that in practice the best financial decision for each university is to look past resident Iowa students to focus their recruiting on nonresidents. In 1981, the University of Iowa received \$4,956 per resident student in state appropriations, Iowa State University received \$4,323 and the University of Northern Iowa (which has been chronically underfunded), received \$2,981. This placed ISU's funding at 87 percent of the UI, and UNI's at 60 percent of the UI.

In the next 22 years, the UI reduced resident enrollment 3,203 students, and ISU increased its resident enrollment 2,241.

Appropriations have been increased over the years, but the base allocations among the institutions have changed little. As a result, the UI appropriation per resident increased to \$13,612, ISU's to \$8,543, and UNI's — thanks in part to the regents' third appeal for supplemental funding at UNI in the past 20 years — moved to \$7,481.

By increasing resident enrollment, then, ISU's funding per resident student fell in relation to the UI from 87 percent to 63 percent (while UNI fell to 55 percent).

We raise this point not to criticize any of our universities, but to make the simple point that the current model is not working. So, what we attempted to do was not to discourage the pursuit of nonresident students, but to create a similar incentive to pursue resident students.

### **Competition among universities**

We recognize that by holding static the allocation of state appropriations among the universities from year to year, the Board of Regents appears to be avoiding destructive competition among them. And we agree that the board should avoid unhealthy competition among the universities.

But in our view, the idea that competition between the institutions has been eliminated is mistaken. Competition between the universities for resources hasn't and really can't go away. Iowa's public universities are competing with one another, and with other colleges and universities across the country, for students. Today they compete fiercely for non-resident students. The UI, ISU and UNI have grown their nonresident enrollment 94 percent, 99 percent and 252 percent respectively over the past 22 years. We view this competition as healthy.

Similarly, we see redirecting a bit of that competitive spirit to the recruitment of Iowa residents as healthy. Keep nonresidents coming, but let's make it a win-win to enroll Iowa residents, too.

And surely there is nothing negative about a system that rewards all three universities for meeting the strategic priorities of the board. What the metrics in the new plan share in common is that the competition they foster is not in the form of arguing over who is entitled to what state dollars, but instead rewards the institutions for their results in enrolling resident students and meeting the board's goals.

### **THE AUTHOR:**

DAVID MILES of Dallas Center is a former president of the Iowa Board of Regents. He headed a five-member committee appointed by the board to make recommendations for allocating state aid for Iowa's three state universities. This column was written for the Register after the regents approved a new funding formula Wednesday. Contact: [dmiles@miles-capital.com](mailto:dmiles@miles-capital.com).



## THE REGISTER'S EDITORIAL

### Regents are right to change funding

The board's division of money among the three state universities had gotten out of balance.

**The Iowa Board of Regents made a historic change Wednesday in the way it will dole out money to the three state universities. If the new funding formula works, it almost certainly will change the three schools over time, and for the better.**

The regents' goal is to encourage the universities to enroll more students from Iowa, attract a more diverse student population and keep students on track to graduate on time. The universities will be rewarded financially for achieving those goals, or they will be penalized financially if they fail.

Since there is a limited amount of state aid to go around, which is not likely to grow substantially, the universities have a powerful incentive to work toward these goals.

The underlying goals of the Board of Regents' new funding formula are absolutely right in principle: The current process perversely discourages recruiting students from Iowa and rewards growth in enrollment regardless of whether the campuses are homogenous and regardless of whether students make meaningful progress toward a degree.

That is not good for Iowans who subsidize the universities. It is not good for the state, which benefits from an educated workforce. It is not good for students who leave school with too much debt regardless of whether they leave with a degree.

The new funding formula is the product of a yearlong study by a five-member task force led by former Board of Regents President David Miles. The regents have used the same method of allocating state aid to the universities for the past half century. That method was basically adding annual funding increases to the previous year's allocation. As a result, allocations to the three schools got out of balance over time.

Of the nearly \$500 million in state aid this year, 46 percent went to the University of Iowa, 36 percent to Iowa State University and 18 percent to the University of Northern Iowa. Thus, UI received \$50 million more than ISU, even though ISU has a larger overall enrollment and a larger enrollment of Iowa residents who pay less tuition. UNI is at a unique disadvantage because 90 percent of its students pay in-state tuition, which UNI must subsidize by taking money from other programs.

Some of the difference in the funding allocation is explained by costly graduate and professional programs at the University of Iowa, but not all of it. That's because graduate programs charge higher tuition. Still, the regents were rightly concerned about discouraging graduate enrollment and loading more student debt. Thus, they revised the task force recommendation to adjust the funding formula to account for the higher cost of graduate education.

It is a challenge to strike the right balance between in-state and out-of-state students, undergraduate, graduate and professional programs. How much weight should be put on opening doors to nontraditional students? Will the formula encourage universities to lower academic standards in the pursuit of state aid?

The formula approved Wednesday could have an unintended consequence if it closes the door to students from beyond Iowa's borders. The state of Iowa and the three universities are enriched by the presence of undergraduate and graduate students who come here from other states and other parts of the world. That should be encouraged.

It would be impossible to create a perfect formula for fairly allocating money among three very different educational institutions. The new formula approved by the Board of Regents last week appears to strike the right balance, but it is not the last word on the subject. Nor should it be.

As the impact of the new formula is phased in over three years beginning in 2016, the board should regularly review the formula and make adjustments if necessary to make sure academic quality is maintained at all three institutions.

Whatever the flaws of this formula, it is better than the current process that does nothing to make any connection between the goals of the regents' institutions and the amount of money they receive from the state.

Contact: Patrice Sayre

**FY 2016 OPERATING AND OTHER FUND APPROPRIATIONS REQUESTS**

**PART 1**

**Actions Requested:**

- Based on proposed spending and funding plans, approve the identified operating appropriations requests for FY 2016 totaling **\$649.0** million.
- Authorize actions by designated Regent staff to seek collaboration and partnerships between Regent institutions and other sectors of state government. The Regent legislative efforts are an integral part in successfully receiving requested funding.

**Executive Summary:** Iowa Code requires state entities to submit appropriations requests for the ensuing fiscal year to the State on or before October 1.

Regent appropriation requests are consolidated into seven major functional areas:

- Higher Education
- Special School Education
- UIHC Programs
- Iowa Public Radio
- Higher Education Legislative Special Purpose
- Economic Development
- Tuition Replacement

Total requested incremental Operating Appropriations are **\$22** million; 47% for Higher Education.

**Background:** The Board of Regents institutions touch the lives of Iowans and the world in the areas of the economy, medicine, agriculture, pre-K12 education, technology and the arts. Regent institutions provide knowledge and resources for all and are critical components for building Iowa's future.

Studies from the Georgetown University Center on Education and the Workforce predict that 55 million new American jobs will be created by the end of this decade. Of them, 40 million — more than 70%—will require a college-level certificate or degree. And by 2020, the Center says, 65% of all U.S. jobs will require a postsecondary credential.<sup>1</sup> According to the latest Census figures (2012), less than 40% of Americans hold at least an associate degree; in Iowa, the figure is 41.8%. Clearly, then, there is a wide gap between what we have in terms of college attainment and what we need as a nation.

The Iowa School for the Deaf and Iowa Education Services for the Blind & Visually Impaired (includes the Iowa Braille and Sight Saving School) provides equitable access to high quality services for all students in Iowa who are blind, deaf, or hearing- and/or visually-impaired.

Regent institutions will continue to transform their activities in ways that create greater efficiency and effectiveness as they build a new model to achieve their goals while making sure the transformation does not come at the expenses of its core values—affordability, accessibility. The institutions will continue to recruit highly talented students and faculty, concentrate on research and development activities, and work to facilitate public and private sector collaborations and an efficient system to transfer technology from the classroom to industry.

The partnership between the Board of Regents and the State defines the character and mission of Iowa's great public universities and special schools. This investment promotes access and affordability for Iowa residents and a bright future for the state.

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<sup>1</sup> Georgetown University, Recovery, Job Growth and Education Requirements through 2020; <https://georgetown.app.box.com/s/dl0zkxt0puz45hu21g6>

To maximize benefits to Iowans and other citizens, the Board of Regents advocates for adequate support for Regent institutions from all sources for high-quality educational opportunities accessible to Iowans, research and scholarship, service activities, and economic development efforts. We pledge to operate our public institutions in a way that is efficient as well as effective, transparent, and accountable. Iowans make a great investment in this endeavor, and we must spend those funds wisely.

To maintain a stable base for operations, the appropriations request incorporates:

- Continuation of recurring state appropriation levels
- Funding for initiatives to support the FY 2010-2016 strategic plan from state appropriations
- Tuition Replacement needs
- Support for Iowa Public Radio

**APPROPRIATIONS REQUEST**

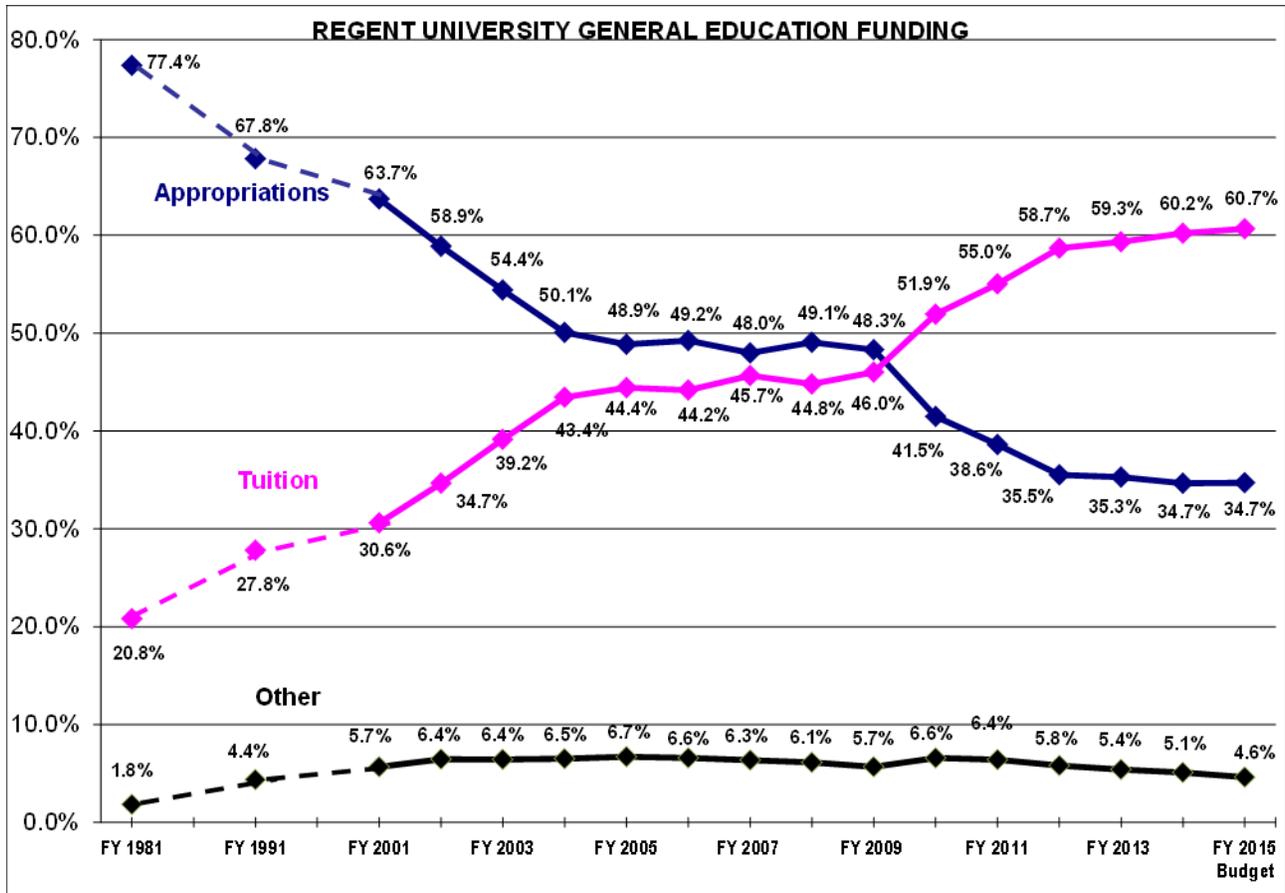
Board of Regents Proposed Operating Appropriation Request								
STATE APPROPRIATIONS	Regent Operations by Major Function				Total	Tuition Replacement	Iowa Public Radio	Grand Total
	Higher Education	Higher Education Legislative Special Purpose	Special School Education	Economic Development				
FY 2015 Recurring Appropriations	501,045,544	\$ 73,724,787	\$ 13,401,412	\$ 8,801,000	\$596,972,743	\$ 29,735,423	\$ 391,568	\$ 627,099,734
Incremental Funds	8,768,298	1,329,184	532,304	154,018	10,783,804	502,126	59,897	\$ 11,345,827
Strategic Initiatives for Progress	1,500,000	7,015,000	232,500	1,776,000	10,523,500	-		\$ 10,523,500
<b>Proposed Total Appropriations</b>	<b>\$ 511,313,842</b>	<b>\$ 82,068,971</b>	<b>\$ 14,166,216</b>	<b>\$ 10,731,018</b>	<b>\$618,280,047</b>	<b>\$ 30,237,549</b>	<b>\$ 451,465</b>	<b>\$ 648,969,061</b>
<b>Total Requested Appropriation Increases</b>	<b>\$ 10,268,298</b>	<b>\$ 8,344,184</b>	<b>\$ 764,804</b>	<b>\$ 1,930,018</b>	<b>\$ 21,307,304</b>	<b>\$ 502,126</b>	<b>\$ 59,897</b>	<b>\$ 21,869,327</b>

NOTE: UIHC Request is not included in numbers above. This will be determined at a later date

**HIGHER EDUCATION OPERATING APPROPRIATIONS REQUEST ..... \$509.8M**

This functional area combines the general education units of the three public universities.

State operating appropriations have historically provided the core operating funds for the Regent institutions. However, dynamic changes in state funding patterns significantly altered the proportion of revenue sources for higher education as seen in the chart below.



Last year’s Partnership for Student Affordability was a successful collaboration with the Governor and the Legislature that allowed the public universities to meet inflationary pressures and freeze tuition for Iowa undergraduates for a second year. In order to continue to be competitive for excellent faculty, staff and students and to maintain the quality of our programs, the Regent universities must address the rising cost of utilities, transportation, employee healthcare and wellness, and other supplies and services necessary for the development of an educated person. Further, bargaining agreements will be negotiated this year that will be in place in FY 2016; these agreements will increase institutional costs.

As analyzed by the University of Iowa Economic Research Institute, the likely course of inflation in the Higher Education Price Index (HEPI) for FY 2016 is a median rate of 2.4%. The Board of Regents is proposing a modest inflationary increase of 1.75%.

New funding will allow the Regent universities to:

- Preserve and strengthen educational quality and the student experience
- Continue improvement of retention and graduation rates
- Continue strong financial aid policies
- Improve administrative efficiency
- Improve student financial literacy

The higher education appropriations request incorporates the Regents commitment to affordability; student success; timely degree attainment, student outcomes assessment; diversity; and the quality of interdisciplinary education experiences for undergraduate and graduate/professional education.

The higher education request includes:

- Continuation of FY 2015 recurring appropriations of \$501.0 million
- Incremental funding increase of 1.75%, \$8.77 million, to support investment in student's instruction and academic support

**University of Iowa..... \$4,041,153**

The University of Iowa is a comprehensive research institution that provides a broad range of high quality educational opportunities. Many of the University's academic programs receive national recognition as leading programs in their fields such as speech pathology/audiology, physical therapy, and social psychology. Thanks to State support, Iowans have access to expert faculty, state-of-the-art facilities, and world class educational programs at reasonable tuition rates (second lowest in the Big Ten).

With a Fall 2013 enrollment of 31,065 students, the University's 11 colleges offer over 200 majors, minors and certificate programs. A 89-100% placement rate for new graduates (depending on program) and a 51% four-year graduation rate shows that the University's strategic plan for 2010-16, *Renewing The Iowa Promise* is producing results on Student Success and Affordability.

Graduates of Iowa's programs make up a significant percentage of professionals working in Iowa's business and not-for-profit communities. For example, SU1-trained graduates are:

- 79% of the state's dentists
- 50% of Iowa's physicians
- 48% of Iowa's pharmacists
- Teachers and administrators in 100% of Iowa's K-12 school districts

86% of recent graduates accepted job offers within the Midwest, with the majority accepting their first job in Iowa.

The University of Iowa seeks to advance scholarly and creative endeavor through leading-edge research and artistic production; to use this research and creativity to enhance undergraduate, graduate, and professional education, health care, and other services provided to the people of Iowa, the nation, and the world; and to educate students for success and personal fulfillment in a diverse world.

**Iowa State University ..... \$3,166,552**

Iowa State University has a long history of educating and graduating students who are creative, technologically adept, and culturally informed. Funding from state appropriations is used to support the university's efforts in ensuring student success. These efforts include hiring additional faculty, using learning analytics to assess student success, increasing personalized learning, hiring support staff in areas of advising and student support, upgrading classrooms and learning spaces, and enhancing the university's information technology infrastructure.

Enrolling 33,241 students for Fall 2013, the University is organized into 8 colleges offering a total of 99 Bachelors degree programs, one Professional degree (Doctor of Veterinary Medicine), 113 Masters programs, and 81 Ph.D. programs.

Student demand from Iowa, nationally, and internationally continues to be strong with the university experiencing its fifth consecutive year of record enrollment. The science-based curricula in engineering, agriculture and life sciences, and human sciences have been especially appealing to incoming students and their families. Over the past five years, total student enrollment has increased over 19%, while first-year retention rates of students admitted to the university as freshman improved by 3%, and second-year retention rates improved by 4%.

During FY 2013, graduates achieved a 94% placement rate within six months of graduation. Of those graduates, 67% of Iowa students and 22% of nonresident students remained in Iowa to begin their careers.

Iowa State University's mission is to create, share, and apply knowledge to make Iowa and the world a better place.

**University of Northern Iowa ..... \$1,560,593**

The University of Northern Iowa's mission is to provide transformative learning experiences that inspire students to embrace challenge, engage in critical inquiry and creative thought, and contribute to society. As the state's comprehensive university, UNI focuses on educating Iowans who tend to stay in Iowa to work and live; 90% of students enrolled Fall 2013 are residents.

While committed to its history in teacher preparation, the impact of the University of Northern Iowa extends well beyond these roots with a Fall 2013 enrollment of 12,159 students, and 4 colleges offering over 90 majors. In 2013, 90% of UNI graduates were employed or in graduate school within six months of graduation and 87% of them were in the state of Iowa.

**STRATEGIC INITIATIVES** ..... **\$10.3M**

The above funds represent the total of new initiative requests for FY 2015 and do not include the recurring funds for the Governor’s STEM Advisory Council Initiative, whose purpose and progress is noted below.

**GOVERNOR’S STEM ADVISORY COUNCIL INITIATIVE** ..... Current Level **\$5,200,000**

Since FY 2009, the universities have worked as a team to implement the STEM (science, technology, engineering and math) initiative. This effort has grown to become the Governor’s STEM Advisory Council as managed by the Iowa Mathematics and Science Education Partnership (IMSEP). The request is for continued funding at the current level.

- ❖ **Iowa’s STEM Challenge** – STEM workers drive Iowa’s innovation and competitiveness by generating new ideas, new companies and new industries, but our state and nation are facing a critical talent gap in science, technology, engineering and mathematics. For example, Iowa is below the national average in the number of post-secondary majors studying STEM at our colleges and universities. Only 11% of 2012 ACT test takers were college ready and interested in studying STEM. Of 41 states participating in the National Assessment of Education Progress, Iowa youth showed the least growth in math and science scores over the period 1992 to 2011. Iowa’s rapidly diversifying student population has profound implications for the STEM career pipeline. In addition, while Iowa’s under-represented ethnic and racial minorities account for 93% of the state’s population growth since 2000, our minority youth report much less interest in STEM post-secondary study.
- ❖ **Governor’s STEM Advisory Council** – Governor Branstad’s Executive Order 74 created the Governor’s STEM Advisory Council in the summer of 2011. The council’s overarching goal is to boost student interest and achievement in STEM. The council of leaders in education, business, non-profits, and government is administered by the *Iowa Math & Science Education Partnership*, a department at the University of Northern Iowa. Eight strategic priorities drive the Council’s programming spanning STEM policy, teacher training, technology integration, special populations, post-secondary readiness, and public awareness. A statewide STEM Network of regional hubs, regional managers, and regional advisory boards supports and disseminates programming to fulfill these priorities.

**Measures of Success** – In Year 2 (FY 2014) the Council’s programming engaged over 1,000 educators and 100,000 children within and outside of the school day. For FY 2015, there will likely be another 100,000 children engaged in more than 3,000 classrooms and clubs. Year 2 Evaluation by a triad consisting of the Center for Social and Behavioral Research at UNI, the Research Institute for Studies in Education at ISU, and Iowa Testing at SUI found:

- Over 40 percent of adult Iowans have heard of STEM.
- Three fourths of participating educators report greater skill and confidence in teaching STEM.
- All ten scale-up programs met the Council goals of increasing student interest in STEM study and careers.
- Over 700 partnerships between schools and businesses took place as part of the Scale-up program
- Almost 90% of participating educators reported increased student interest and awareness of STEM subjects. The full report is available at:

[http://www.iowastem.gov/sites/default/files/Iowa\\_STEM\\_Year\\_in\\_Review\\_Monitoring\\_Report.pdf](http://www.iowastem.gov/sites/default/files/Iowa_STEM_Year_in_Review_Monitoring_Report.pdf).

**SUI – THE BELIN-BLANK ACADEMY (SPECIAL PURPOSE) ..... \$1,500,000 (over 3 years)**

The University of Iowa proposes to establish a STEM (Science, Technology, Engineering and Math) Academy housed at the university’s nationally-recognized Belin-Blank Center. The Academy will provide accelerated, residential learning opportunities for Iowa youth who are advanced in their educational pursuits and demonstrate an interest in STEM subjects. The proposed academy expands upon the state-funded K-12 regional program managed by the University of Northern Iowa. The request is for \$1,500,000 to pay for creation and launching of a pilot academy and would cover student scholarships, faculty and staff salaries, and materials. The Academy will serve to retain Iowa’s high-ability students.

The newly released Governor’s STEM Advisory Council report makes salient the benefits of specialized programs in math and science in terms of building both interest and competency in STEM areas. Currently, there is great momentum in Iowa (and across the nation) to enhance STEM learning for students and professional development for teachers of STEM subjects.

The University is proposing that it build upon current momentum with one of its greatest educational strengths – The Belin-Blank Center. This would impact the long-term future of the importance of STEM in the lives of individual Iowans and for the state as a whole. The proposal is to establish a specialized Academy on the campus allowing more Iowans to benefit from the full array of resources at SUI and the Belin-Blank Center.

The Academy will integrate several long-standing programs at SUI including: the National Academy of Arts, Sciences, and Engineering (NAASE) which is an early entrance program for high school juniors; the Iowa Online Advanced Placement Academy (IOAPA) which provides online AP courses for all Iowa high school students; and the Secondary Student Training Program (SSTP) which allows high school students summer intensive laboratory experiences, which earn them 3 hours of college credit in the sciences at SUI. All these programs have strong math and science components.

The proposed Academy will be an on-campus, academic year program that offers high ability, high school-aged students a residential experience that blends the final two years of their high school experience and the first two years of college. Furthermore, the design and infrastructure of the academy would lend itself perfectly to other Belin-Blank Center and SUI outreach opportunities. The Academy will be supported by faculty in Engineering, Education, Liberal Arts and Sciences, Medicine, and Public Health. Equally important is the fact that all of programming from the Belin-Blank Center makes this an opportunity where pre-and in-service teachers and school counselors can benefit from the on-site opportunities afforded by an academy.

Much of the infrastructure for the Academy is in place. However, there is considerable new planning needed to augment the new dimensions. A grant of \$500,000 for three years is requested to pay for creation and launching of a pilot academy and to cover student scholarships, faculty and staff salaries, and materials. Longer term continuation of this program for Iowa students will be considered during this pilot program.

**SUI – LEADING THE COMING REVOLUTION IN AUTONOMOUS, INTELLIGENT MACHINES AND SYSTEMS  
(SPECIAL PURPOSE) ..... \$3,000,000 (over 3 years)**

By 2026, analysts predict autonomous vehicles will be mainstream on US highways, with 100% market penetration over the following two decades.<sup>2</sup> Having only passengers and cargo in cars and trucks will reduce traffic and pollution, increase safety and conserve energy, and bring independent mobility to the elderly and the physically challenged, while also increasing human productivity. Driverless cars and autonomous freight transport, however, are just two of many exciting examples on the road from automation to autonomy. We will see the continued rise of autonomous intelligent machines and systems in agriculture and aerospace. The University of Iowa is well situated to put Iowa in the lead of this coming technological revolution.

The University of Iowa requests \$1M per year for three years to establish a nonprofit, public-private institute focused on autonomous intelligent machines and systems (AIMS). Iowa is poised to become a world leader in AIMS if it leverages three of its unique assets to develop driverless vehicles and unmanned aircraft systems for precision farming:

- The state is home to several companies with their own cutting-edge autonomy programs, including John Deere, Kinze Manufacturing, and Rockwell Collins.
- Iowa has the ideal combination of soils, streets, spaces and skies to develop, test, and commercialize autonomous technologies.
- The University of Iowa has complementary research expertise and facilities including the National Advanced Driving Simulator, the Injury Prevention Research Center, and the Public Policy Center.

**Approach:** To take full advantage of this economic development opportunity, SUI will build long-term public-private partnerships around AIMS. Working closely with John Deere, Kinze Manufacturing, Rockwell Collins, Google, the Iowa Economic Development Authority (IEDA) and others, the University will recruit and hire prominent faculty members with relevant industry experience in driverless vehicles and unmanned aircraft systems (UAVs). Faculty incentives and evaluation will be based in part on their successes working with corporate partners to translate their research ideas into commercial products.

The University of Iowa will establish the AIMS Institute as a separate, nonprofit entity with a hybrid governing board consisting of industry and university representatives. It will be funded primarily through Federal grants aimed at supporting industry-academia partnerships. In the longer term, the Institute will be sustained by reinvesting royalties from commercialized or licensed products. The University will draft and implement flexible and innovative IP policies to ensure reinvestment in the partnering entity. The AIMS Institute would be located at the University of Iowa Research Park near the National Advanced Driving Simulator and the soon-to-be-completed Southeast Iowa Regional STEM Hub to foster collaboration and experiential learning.

**Outcomes:** An AIMS institute designed specifically to align the intellectual capital of the university with innovative Iowa companies is the ideal vehicle to grow the state's economy, create well-paying jobs, build an entrepreneurial culture among faculty, commercialize technology, and provide students the skills they need to succeed. Automation and robotics have become crucial enabling technologies in the new global economy, creating competitive advantage for manufacturers by lowering costs and increasing productivity. Soon, the second wave of the robotics revolution, enabled by machine learning, will take automation to truly autonomous intelligent machines and systems (AIMS), significantly affecting many of Iowa's major industries. This investment will allow our state to build the capacity and expertise it needs to become a national leader in the development of AIMS, rather than a follower.

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<sup>2</sup> <http://www.businessinsider.com.au/morgan-stanley-utopian-society-in-2026-2014-2>

**ISU – LEADING THE BIOECONOMY (SPECIAL PURPOSE) ..... \$5,000,000**

In 2003 Iowa State University (ISU) anticipated the emergence of a bioeconomy that would use crops and crop residues in the production of fuels and other biobased products. Over the next decade that vision became a national reality: fuel ethanol production in the U.S. grew from 2.1 billion to 13.2 billion gallons; biodiesel production grew from 20 million to 1.1 billion gallons; hundreds of thousands of jobs were created or supported by these industries.

Iowa became a leader in the U.S. bioeconomy, being first in ethanol production and third in biodiesel production. Net farm income in Iowa increased from \$44,368 to \$116,767 while crop value per acre increased from \$319 to \$855 per acre. The rest of the state also benefited from the bioeconomy - the unemployment rate is currently seventh lowest in the nation due in part to the biofuels boom. The bioeconomy has added \$13.1 billion dollars per year to Iowa's economic output and created and supported almost 50,000 jobs in the state. ISU also participated in this revolution as faculty directed their research efforts to address problems of growing, harvesting, and processing biomass into a variety of products ranging from fuels to plastics. In aggregate they attracted over \$100 million in research funding from federal and industrial sources. They also developed interdisciplinary academic programs to prepare students to work in the bioeconomy.

A decade later the bioeconomy, and Iowa's role in it, is at a crossroads. Decisions must be made on how best to address the challenges and opportunities facing the bioeconomy. The existing industry faces several challenges that will require innovative solutions. Ethanol production exceeds the ability of U.S. automotive infrastructure to accommodate it without major new investment or technology advances. The U.S. Environment Protection Agency is contemplating increasingly stringent environmental performance standards for both agriculture and biofuels production which must be addressed. At the same time, new opportunities are emerging that can help existing biobased industries grow and create new businesses in Iowa's bioeconomy. The first gallons of cellulosic ethanol were produced in Iowa in June, 2014; two additional cellulosic facilities are scheduled to come online later in 2014. Technologies are emerging for converting crops and crop residues into drop-in biofuels that are not constrained by the so-called ethanol blend-wall. Opportunities for producing biopower are also being developed in Iowa; a transition that will become increasingly important as the nation strives to meet the U.S. EPA proposal to reduce carbon dioxide emissions from power plants by 34% by 2025. Companies around the world are also commercializing and further exploring the production of biobased chemicals for use in a wide array of consumer and industrial products.

ISU received funds in FY2014 from the state legislature to explore these new challenges and opportunities through its *Leading the Bioeconomy* initiative. These funds were used to establish laboratories and programs to support research, education, and outreach relevant to Iowa's evolving bioeconomy.

ISU's Bioeconomy Institute, the NSF Center for Biorenewable Chemicals, and the BioCentury Research Farm had combined research investments of \$24.8 million tied directly to the original installment of the *Leading the Bioeconomy* Initiative in FY2014. To leverage the General Assembly's investment to the fullest, the three biorenewables units have submitted \$32.6 million in grant proposals in FY2014 alone. To date, \$4.5 million in external grant funding has been awarded and the units continue to aggressively seek external funding through FY2015 and beyond. The teams comprising the *Leading the Bioeconomy* initiative have also partnered, collaborated and assisted numerous Iowa businesses and companies, and helped train and educate ISU students and the broader workforce.

From the 2014 efforts, a vision has emerged for ISU's continuing partnership with the state to expand the biofuels and biobased products industries and create new economic opportunities for the people of Iowa. This vision includes four elements: (1) provide technical support to companies already part of Iowa's bioeconomy; (2) attract federal and other external dollars to Iowa for research and capital investment in next generation biorenewables technologies; (3) nurture new company creation and growth through biobased incubator programs; (4) educate the workforce for Iowa's biobased companies.

ISU requests \$5 million in recurring state appropriations to help assure Iowa's continuing leadership in the national bioeconomy through these four research, education, and outreach activities, as detailed below:

**Provide technical support to companies.** To maintain the competitiveness of Iowa's bioeconomy, Iowa companies need to be able to optimize their operations and continuously incorporate technological advances. Most companies individually are not able to provide the infrastructure and expertise required to stay on the cutting-edge of technological development. ISU will establish facilities that Iowa companies can leverage for assistance in addressing problems in biobased manufacturing.

**Attract external funding.** An important element of leveraging Iowa's investment in the bioeconomy is attracting external funds to the state. The combination of agricultural resource base and institutions with expertise in biobased technologies is a powerful draw for companies working in the bioeconomy. It is also attractive to federal agencies supporting advanced research in biorenewables. Having an excellent record for attracting research and development funds from both private and federal sources, ISU will expand upon this success by helping faculty prepare large grant applications, administer research contracts, develop new areas of research, and maintain biorenewable research facilities.

**Nurture new companies.** For Iowa to fully benefit from the bioeconomy through creating new companies and jobs, a vibrant innovation ecosystem is needed that brings together technological innovators, entrepreneurs, economic development experts, and venture capitalists. ISU has established the Biobased Foundry to encourage and support entrepreneurial activities in the bioeconomy.

**Educate the biobased workforce.** The bioeconomy will require a highly educated workforce, skilled in newly emerging technologies and comfortable with working across disciplines. Workers will need to be familiar with biomass feedstocks, biomass harvesting and logistics, new ways of processing biomass into value-added products, and policy and market forces. ISU has established a well-respected interdisciplinary graduate program in biorenewables and offers unique summer programs for K-12 students and teachers. As the bioeconomy expands, so must our educational efforts in biorenewables. We will increase our graduate course offerings across disciplines, offer more opportunities for undergraduate students to learn about the bioeconomy, and support Iowa's K-14 educational system in preparing students for careers in science, technology, engineering, and mathematics.

**ISU – AGRICULTURE EXPERIMENT STATION (SPECIAL PURPOSE)..... \$515,000**

Last year's appropriations increase to the Agriculture Experiment Station is strengthening Iowa agriculture and the state's economy through innovative science and technology. Those funds have been invested in research on efficient animal agriculture production and management that results in safe, healthy foods, and also in research to improve water quality and conserve soils, increase crop yields and improve pest management.

This year, additional funding for the Agriculture Experiment Station will allow ISU to deliver new levels of innovation and profitability to Iowa agriculture, and allow focused investments, including a new faculty scientist hire and supporting operational expenses, to address two key research areas:

Livestock odor management. An initiative will take a systems approach to address odor and greenhouse gas issues. Research will target field-level strategies that can be implemented to reduce odor, including further enhancement of ISU's Community Assessment Model for Odor Dispersion, a siting tool to help producers make informed decisions before building new facilities. New research will strengthen the tool by incorporating data on Iowa's terrain, an important factor affecting odor dispersion, and by expanding the model to include other livestock species.

Animal care and well-being. Improved scientific understanding of the care and well-being of farm animals is essential for Iowa's livestock industry. Research on farm animal stress and well-being will improve current management practices and develop new ways to alleviate animal stresses while maintaining efficient, economically viable animal production systems. Because animal care continues to be increasingly meaningful to consumers, research will examine animal well-being throughout each step of the production chain and provide science-based information for producers and to address consumers' expectations on how food is raised, handled, transported and processed.

**ISU – SMALL BUSINESS DEVELOPMENT CENTERS (ECONOMIC DEVELOPMENT) ..... \$276,000**

The Iowa Small Business Development Centers (SBDC), a program of the U.S. Small Business Administration (SBA), provides services through a network of fifteen regional centers hosted by Regents institutions and community colleges, along with a specialized center dedicated specifically to international trade and exporting. The program's purpose is to assist existing businesses and new entrepreneurs to grow their businesses and improve their internal operations to ensure their continued success.

Iowa SBDC has been operating on a very lean budget as a result of real declines in state and federal funding over the last 10 years. Federal funds are appropriated formulaically and are expected to decline or remain flat for the foreseeable future. Consequently, it is increasingly challenging to meet the needs of small businesses within Iowa.

Since 2007, the Iowa Small Business Development Centers have focused on increasing its efficiencies and generating more resources by:

- Reducing administrative costs. Through attrition, the SBDC has reduced the number of lead center personnel by two FTEs (from seven to five) while shifting and reorganizing duties to maintain or improve services. Only 23% of total program dollars are spent on administrative costs and SBA mandates, with the remainder being devoted to client services.
- Increasing the efficiency of delivery of services. Even with the reduction in personnel, the lead center at Iowa State University has been able to absorb some duties, such as marketing and market research, previously done by regional centers so that regional directors can devote more time to clients.
- Requiring more local match funding to support regional center operations. The local cash match requirement has been increased from 10% to 25%.

During the 2014 legislative session, the Small Business Development Centers were appropriated \$101,000 in new funds. There continues to be a strong need for additional funding above the \$18,154 inflationary increase to address the following:

- Reversing the real decline in operating funds for the regional centers in order to sustain current operations. The most recent SBA accreditation review found the Iowa SBDC program to be well run and poised for making substantial impacts on the state economy if additional funding is obtained. The reviewers also noted that with recent budget cuts at the state and federal levels, the program is running extremely lean and will likely have a difficult

time maintaining current service levels across the state. Funding will be distributed to, and directly benefit the services provided by, the regional centers in:

Ames	Burlington	Cedar Rapids/Marion
Council Bluffs	Creston	Davenport
Des Moines	Dubuque	Fort Dodge
Iowa City/Coralville	Mason City	Ottumwa
Sioux City	Spencer	Waterloo/Cedar Falls

- Replacing third-party specialty business counselor positions that have been eliminated due to years of decline in funding. In the past, the Iowa SBDC has used funds to retain specialty business counselors to leverage SBDC resources and provide clients with the time and expertise needed by them. Budget reductions have virtually eliminated the centers' ability to augment the specialty counselors' expertise and time. These specialty business counselors will enable the SBDC to offer the one-on-one counseling time that many business clients need to be successful. Studies by the SBA reveal that the greatest benefit of the SBDC program is realized by clients who receive five hours or more of one-on-one counseling time.

**UNI – BACHELOR OF APPLIED SCIENCES (GENERAL EDUCATION) ..... \$1,500,000**

The University of Northern Iowa (UNI) is committed to promoting economic development in the state of Iowa. As a result, UNI has developed a strong pathway for community college graduates to earn a four-year degree. Indeed, about a third of the UNI student body is comprised of transfer students. This commitment is reinforced by the fact that more than 90% of UNI's students are from Iowa, and the vast majority of UNI's graduates stay and work in Iowa. Thus, UNI can act as an important conduit for Iowa's community college students as they work toward their four-year degrees and ultimately enter the workforce.

To build on this, UNI intends to establish a Bachelor of Applied Science (BAS) degree with ongoing funding of \$1,500,000. This degree is designed for community college graduates who have earned an Associate's of Applied Science degree and are considering a four-year degree. The BAS degree would be of particular interest to those who are already in the workforce and who are looking to add skills and credentials in order to gain promotions and to move into leadership positions. The BAS degree would simplify degree attainment since those with an AAS degree who intend to complete a four-year degree at UNI are subject to an array of articulation agreements, which creates confusion for students. This is in contrast to the relatively easy transfer of students with Associates of Arts degree, which automatically are counted as an equivalent to UNI's Liberal Arts Core (essentially the first two years of a standard four-year bachelor's degree). BAS degrees have been successfully used in many universities for this purpose, including the University of Iowa, so there are good models to follow in developing these degree programs. Furthermore, we have already gauged interest via our Technology Management BA (which could be restructured as a BAS program) - this program recently started with a full cohort of students.

Nature of the BAS degree – The BAS degree program offerings will include areas that directly build upon the student's experiences in their profession, as well as their coursework from their community college AAS degrees. These will tend to be in the more "applied" or "professional" programs at UNI including:

- Industrial Technology
- Health Promotion and Exercise Science
- Criminology and Criminal Justice
- Business Management
- Early Childhood Education

Many of these program areas are particular strengths at UNI, which will make these programs more attractive to students, and more valuable to the state in terms of graduating skilled workers ready to move to leadership positions in the workforce. It is anticipated that these programs will be offered online, in order to provide maximum access to those in Iowa's workforce who are looking to advance their careers through additional college education.

Resource Needs – To successfully launch these programs under the new BAS degree, UNI will need additional resources. The funding is primarily to ensure that the participating departments have the faculty, staff, technology, and infrastructure in place to accommodate incoming students. Faculty and staff development will be needed, as curricula and courses are developed for the programs, which represent a significant expansion of UNI's ability to offer high-quality online degree programs.

Conclusion – UNI is confident that the new BAS degree, and the programs within it, will provide a valuable new pathway for the professional development of Iowa's workforce. Community college graduates who hold an AAS degree will be able to enhance their skills and knowledge so that they will be more effective in the workforce. UNI has a proud tradition of directly serving the state as the university for Iowa. This new BAS degree, and the set of BAS programs, will be able to reach working professionals across the state, and thus will contribute to the goals of access to education and economic development. The new BAS degree will also smooth the transition of students with AAS degrees from community colleges to UNI, reducing confusion and time-to-degree. This will serve to improve the relationships between UNI and the community colleges across the state.

**UNI – HELPING IOWA GROW ITS OWN – AN INITIATIVE TO SUPPORT ENTREPRENEURS AND SMALL BUSINESSES (ECONOMIC DEVELOPMENT) ..... \$1,500,000**

UNI proposes a combination of new and expanded services to better meet the needs of Iowa's entrepreneurs and small businesses. Services will be provided to entrepreneurs in all regions of Iowa and will also expand the culture of entrepreneurship on the UNI campus by serving students and faculty.

- **Advance Iowa (AI)** – The Battelle Memorial Institute is outlining economic development strategies for Iowa and specifically recommended expanding AI (second stage company support) as a strategic priority in the recently released “Economic Development Roadmap for Iowa.” UNI’s AI program is endorsed by the Iowa Economic Development Authority as Iowa’s economic gardening hub. Second stage companies are defined as having 10-99 employees and at least \$1 million in sales. Many of the new jobs created, and the resulting economic impact for the economy, come from second stage companies. These companies have grown past the startup stage, but have not yet grown to maturity and are poised for additional future growth by selling to national and global markets. UNI’s AI program has experienced initial success in the past year by delivering strategic assistance and support to 52 Iowa second stage companies. The companies have ranged from Sioux City Sprinkler in Sergeant Bluff to Good Blogs in Decorah to Circle Computing in Cedar Rapids. Additional funding is required to expand the service delivery channel by modestly increasing the staffing capacity through designated regional representatives and supporting entrepreneur roundtables. These expanded efforts will target companies within the state that have the greatest potential for job growth.
- **Business Concierge (BC)** – Small business owners need access to business intelligence (market, demographic, industry, customer, etc.) and appropriate referrals to Iowa service provider partners and resources. The BC has tested a statewide system of providing direct support to entrepreneurs and connecting 400 entrepreneurs within the past six months to the needed data or to the correct service providers. The pilot program, the first of its kind in the nation, has won national recognition from the University Economic Development Association and the International Economic Development Council. We propose adding three new initiatives within the BC program to more than double the number of small

businesses served each year. First, the BC will be directly linked to local economic development organizations and resource providers throughout Iowa. UNI will embed the I-Framed BC technology modules onto many of the 300 Professional Developers of Iowa members' websites to provide direct connections to companies through a trusted resource. Second, the BC will pilot a focused interaction with female entrepreneurs for greater awareness of BC Business Concierge (BC) –services with the intent of addressing Iowa's low ranking in female entrepreneurship. Third, another new initiative within the BC service is creating a Service Provider Referral Service. The referral service will provide an enhanced referral service to public and not-for-profit service providers who work with and/or are contacted regularly by entrepreneurs looking to increase the profitability and scalability of their business. Connections will also be made to effective programs such as IA SourceLink and the UNI AppsLab.

- **Additive Manufacturing** – Supporting the foundry industry has long been a unique service of the UNI Metal Casting Center. The installation of a large-format 3D sand mold printer has placed UNI in a unique position to help the castings industry innovate. More than 40 companies (mostly Original Equipment Manufacturers - OEMs) have already been assisted by producing sand cast molds and cores for projects that can reshore approximately \$30 million in castings. However, small- and medium-sized foundries and pattern shops in Iowa need technical assistance prior to effectively using 3D printing technologies. CAD designs and modeling are needed for these companies to effectively integrate 3D printing into their operations. The UNI Metal Casting Center is proposing a new initiative to provide direct technical assistance for design and virtual modeling for small companies and entrepreneurs to enhance their competitiveness and to improve the castings industry supply chain throughout Iowa. Design assistance and virtual reality modeling is the primary barrier preventing Iowa's small and medium companies from benefiting from 3D printing. This is yet another step toward the UNI Metal Casting Center becoming the premier Additive Manufacturing Center in the United States.

**HIGHER EDUCATION LEGISLATIVE SPECIAL PURPOSE APPROPRIATIONS REQUEST ..... \$75M**

Education is only one “product” of the Regent public universities. These universities are a complex bundle of enterprises, each with a unique mission and funding sources. The Special Purpose appropriations request includes:

- Continuation of FY 2015 recurring appropriations of \$73.7 million
- Incremental funding of 1.75% (\$1.3 million) to support units outlined below

These appropriations are for specific programs at each institution which provide statewide services. Requests for incremental funding below \$25,000 appear at the end of this section.

❖ **SUI – STATE HYGIENIC LABORATORY (SHL)..... \$77,046**

The State Hygienic Laboratory statutorily provides analyses and investigations in the areas of disease detection, newborn and maternal screening, environmental quality and disaster/terrorism response to improve and protect the quality of life for all Iowans.

- **Service:** The Laboratory performs over 570,000 tests per year which have a direct impact on the health of the citizens of Iowa and its environment – in many cases this includes responses to major disasters and outbreak events (e.g., the spring floods and water quality as well as last summer's cyclospora outbreak).
- **Education:** SHL designs and provides training and educational programs throughout Iowa and the nation for public health, clinical and environmental laboratory systems. Programs range from hands-on training to several on-line courses. SHL is active in Iowa's STEM initiatives. SHL educational programs affect more than 10,000 individuals each year, including K-12, undergraduate, graduate students and professional teachers and scientists.

- Research: Restricted grants are currently 25% of SHL’s budget. Much of this funding is centered on translational and applied research, enhancing public and environmental health laboratory sciences and solving practical issues in the field.

Public health laboratories develop and implement new analytical systems to provide state-of-the-art disease surveillance. There have been significant discoveries and growth in new detection technologies that SHL needs to adopt, particularly in the areas of bacteriology and virology. The laboratory needs new high-throughput instruments to quickly and accurately identify the causes of disease, allowing faster medical treatment, with decreased costs and increased staff productivity.

❖ **SUI – OAKDALE RESEARCH CAMPUS**..... \$38,265

The Oakdale Campus of the University of Iowa supports a variety of academic, research, service and outreach functions. For example, the buildings on this campus support laboratory research functions, painting studios for the School of Art and Art History, the Technology Innovation Center, the State Hygienic Laboratory, the University Data Center, and a variety of other activities.

The appropriation for this unit partially funds the operations and maintenance costs of the campus space. The University supports the remaining operating costs.

❖ **SUI – IOWA FLOOD CENTER** ..... \$26,250

The Iowa Flood Center (IFC) at the University of Iowa provides Iowans with accurate, state-of-the-art science-based information to help individuals and communities better understand flood risks. The IFC’s overarching objective is to improve flood monitoring and prediction capabilities in Iowa, while studying and developing strategies to reduce and manage floods.

The IFC appropriation, along with additional grant funding from agencies, support projects including the following:

- Host and continue to refine and add new tools to The Iowa Flood Information System (IFIS)—an easy-to-use online application to provide real-time information on watersheds, precipitation, and stream levels around the state;
- Deploy and monitor additional affordable stream stage sensors across the state (in conjunction with the Iowa Department of Natural Resources (IDNR));
- Continued development of high-resolution, web-based flood inundation maps (example communities in progress for FY15 include Fort Dodge and Humboldt);
- Development of floodplain maps for most of Iowa (in conjunction with the Iowa Floodplain Mapping Project funded by the IDNR);
- Conduct watershed-scale research to understand how small-scale mitigation projects can reduce flood damage in a watershed (in conjunction with the Iowa Watersheds Project);
- Educate graduate and undergraduate students; and
- Continued organization of public outreach programs, press releases, and other activities to share IFC tools and information with the general public.

❖ **SUI FAMILY PRACTICE PROGRAM** ..... \$31,295

The Statewide Family Practice Training Program provides financial, educational, and technical support to a network of seven community-based residencies that train physicians in the specialty of family practice. The residencies are dispersed into regions of the state to help improve the geographic distribution of family practice graduates and physicians in general. The training programs are located in Cedar Rapids, Davenport, Des Moines, Iowa City, Mason City, Sioux City, and Waterloo.

The program has an enrollment of 140 residents over the three-year residency, with approximately one-third of the trainees graduating each year. More than 30 medical colleges are represented in the trainee complement.

This program is a crucial asset to the health status of Iowans and has achieved continuous recognition for the past 25 years. It is Iowa's principal source of new family physicians. During the past 10 years, 68% of the family practice graduates entered Iowa practices, nearly half going to communities with populations under 10,000. The program has now attracted approximately 750 graduates into Iowa communities. This highly successful program is one of the reasons the University of Iowa's College of Medicine continues to rank among the nation's top five medical schools in producing graduates who enter family practice careers.

The training sites also provide valuable educational experiences for University medical residents, and experiences for pharmacy, dental and physician assistant students. These regional training centers serve as the backbone of the University's Statewide Medical Education System.

❖ **ISU – AGRICULTURE EXPERIMENT STATION** ..... \$523,020

Incremental funds are requested to support the on-going efforts of the Agriculture Experiment Station. Research supported by the Agricultural Experiment Station works to improve food, agriculture and the environment in Iowa. Agricultural sciences generate innovations, technologies and solutions to real-world needs in food security, human health, economic development and environmental sustainability. As world population growth continues, there is greater strain on resources to provide food sustainably, efficiently and in a manner that is socially acceptable. Previous investments in agricultural research have kept Iowa agriculture competitive through increased efficiency and sustainability; additional state investment will help Iowa lead the nation and the world in developing new science and technology necessary to meet global demands.

Additional state funding for the Agriculture Experiment Station is leveraged through the success of Iowa State University scientists in competitive external funding awards. Iowa State agricultural researchers have brought in \$187 million in external funding over the past four years, thanks to the vital state resources that support them and their labs. State resources also are significantly leveraged by investments in research made by the state's agricultural organizations, private industry and foundations. As a result, ISU is taking innovative approaches to improve feed efficiency in livestock and poultry, enhance genetic resistance to livestock diseases, sustain future corn cropping systems and manage disease threats in soybean fields.

❖ **ISU – COOPERATIVE EXTENSION SERVICES** ..... \$319,668

Incremental funds are requested to support the on-going efforts of ISU Extension and Outreach activities. Extension and Outreach works across ISU colleges, throughout the 99 counties, and with external partners to improve quality of life in the state. The demand for ISU Extension and Outreach services – particularly programs that serve small business owners, grow existing industry, and enhance rural communities – is increasing and challenging current resources. Iowans want clean water, a healthy environment, and a safe, sustainable, and affordable food supply. Extension and Outreach programs align with Governor Branstad's *Healthiest State Initiative* to help Iowa become the healthiest state in the nation by 2016. K-12 youth outreach develops Iowa's future workforce and helps fight the "brain drain" by connecting youth with opportunities here in Iowa.

New funds will be used to work with businesses and communities across the state to address food safety and security issues, address environmental issues throughout the food supply chain, improve health and well-being of Iowans with special attention to Iowa's aging population, engage more K-12 youth to build leadership skills and create more interest in STEM related careers, and broaden Iowans' entrepreneurial aspirations with education and technical assistance.

- ❖ **REGIONAL STUDY CENTERS** ..... \$204,967  
Incremental funds are requested for the Quad-Cities Graduate Study Center, Southwest Iowa Regents Resource Center; and Northwest Iowa Regents Resource Center. The regional study centers serve residents of Iowa who are geographically distant from the Regent campuses. Additional funds, \$200,000 are requested for the Northwest Iowa Regents Resource Center

More than 60 undergraduate and graduate programs are offered each year using distance delivery modes. In its strategic plan, the Board of Regents made it a priority for the three universities to expand the availability of distance delivery programs. After extensive evaluation and consultation with community leaders, the State Extension, Continuing, and Distance Education Council (SECDEC) determined that the more effective use of the limited resources provided to the graduate centers was to increase the partnerships with community colleges and, in particular, in co-locating services on Iowa community college campuses to provide increased services to students who desire to access distance education, especially in the western parts of the state.

This model was implemented in Council Bluffs with the relocation of the Southwest Iowa Regents Resource Center to the campus of Iowa Western Community College, working with both Iowa Western Community College and Southwest Iowa Community College. The Northwest Iowa Regents Resource Center (NWIRRC), which is located on the campus of Western Iowa Technical Community College (WITCC), was created by the 2013 legislature (HF 604) to serve the educational needs of students in northwest Iowa. Creation of the Center resulted from the requests and support of community leaders in Sioux City. The Center is part of the Regent Enterprise and includes the University of Iowa, Iowa State University, and the University of Northern Iowa. The Center also partners with WITCC and Northwest Iowa Community College.

The additional funds of \$200,000 will be used by the Northwest Iowa Regents Resource Center for hiring a faculty/coordinator salary, office equipment, telecommunications support, rent, promotion, and other similar expenditures. Current funds support two part-time community college staff.

**SPECIAL PURPOSE APPROPRIATIONS REQUESTS < \$25,000**

	<u>FY 2015</u>		<u>FY 2016</u>
	<u>Recurring</u>	<u>Incremental</u>	<u>Total</u>
<b>University of Iowa</b>			
SPECIALIZED CHILD HEALTH CARE SERVICES	\$659,456	\$11,540	\$670,996
PRIMARY HEALTH CARE	\$648,930	\$11,356	\$660,286
STATE HEALTH REGISTRY of IOWA	\$149,051	\$2,608	\$151,659
SUBSTANCE ABUSE CONSORTIUM	\$55,529	\$972	\$56,501
CENTER for BIOCATALYSIS and BIOPROCESSING	\$723,727	\$12,665	\$736,392
IOWA REGISTRY for CONGENITAL AND INHERITED DISORDERS	\$38,288	\$670	\$38,958
ONLINE AP ACADEMY	\$481,849	\$8,432	\$490,281
IOWA NONROFIT RESOURCE CENTER	\$162,539	\$2,844	\$165,383
<b>Iowa State University</b>			
LEOPOLD CENTER for SUSTAINABLE AGRICULTURE	\$397,417	\$6,955	\$404,372
LIVESTOCK DISEASE RESEARCH	\$172,844	\$3,025	\$175,869
VETERINARY DIAGNOSTIC LABORATORY	\$4,000,000	\$0	\$4,000,000
NUTRIENT RESEARCH CENTER	\$1,325,000	\$23,188	\$1,348,188
<b>University of Northern Iowa</b>			
RECYCLING & REUSE TECHNOLOGY TRANSFER CENTER	\$175,256	\$3,067	\$178,323
GOVERNOR'S STEM ADVISORY COUNCIL	\$5,200,000	\$0	\$5,200,000
REAL ESTATE EDUCATION	\$125,302	\$2,193	\$127,495
			\$0
<b>OTHER</b>			
BOARD of REGENTS OFFICE	\$1,094,714	\$19,157	\$1,113,871

**SPECIAL SCHOOL EDUCATION OPERATING APPROPRIATIONS REQUEST..... \$13.9 million**

The funding request for the two special schools, Iowa School for the Deaf (ISD) and Iowa Educational Services for the Blind and Visually Impaired (IESBVI) allows the Board of Regents to continue to provide high quality, individualized instructional opportunities to children and youth who are deaf or hard-of-hearing and to those who are blind or visually impaired. The Special Schools' request includes the continuation of the FY 2015 recurring appropriations totaling \$13.4 million for general operations, and incremental funding of 4% that would provide \$375,674 for Iowa School for the Deaf and \$156,630 for the Iowa Educational Services for the Blind and Visually Impaired. The amount requested will help to maintain parity with the level of funding appropriated to K-12 public schools.

The Special Schools' request will support the implementation of strategic goals to:

- Increase the number of students meeting or exceeding the state academic standards in reading and mathematics
- Support student outcomes assessments programs advancing student achievements of identified learning goals

Special School faculty members must have highly specialized teaching licensure with multiple endorsements for special education and grade level or content area licensure. The Schools must recruit and compete for teachers on a national level.

For the Iowa School for the Deaf and Iowa's Educational Services for the Blind and Visually Impaired, the requested increase will support the core programming for students who are blind or deaf in Iowa through the defined service delivery model currently being used, by ensuring:

- Full implementation of students Individual Education Program (IEP) in cooperation with the local school districts and Area Education Agencies
- Implementation of programs and activities to support the Expanded Core Curriculum for students who are blind or deaf in Iowa.
- Access to a language rich environment and early language development, essential for students who are deaf, at Iowa School for the Deaf.

**SPECIAL SCHOOL STRATEGIC INITIATIVE REQUEST ..... \$232,500**

**FY 2016 REGIONAL ACADEMIES FOR DEAF AND BLIND**

A recommendation to establish up to five Regional Academies for the Deaf and Blind came from the Feasibility and Planning Study Committee which was charged by the Board of Regents to examine the administrative and programmatic functions of the Iowa Educational Services for the Blind and Visually Impaired and the Iowa School for the Deaf and under the direction of the Department of Management as required by Iowa Code §270.

The recommendation of the Committee came from a thorough review of current services and student outcomes. It included a national review of service delivery options and was based on a recognition that educational services to children and youth who are deaf or blind are not provided consistently across the state. The Individuals with Disabilities Education Act (IDEA) requires a continuum of services. Currently there are gaps in that continuum, particularly in the more rural areas of Iowa. The regional academies are seen as a mechanism to enhance and improve access to a full continuum of services statewide.

The Board of Regents received and acted upon the recommendation in February 2013 leading to the development of a Leadership Team for Deaf and Blind for the purpose of planning for Regional Academies for Deaf and Blind. The Board directed the Leadership Team to describe the operation of the regional center, including the value of the site selected, financial implications, and the different funding sources available for the center.

The Leadership Team has worked in partnership with the Department of Education, Area Education Agencies, Vocational Rehabilitation and Department of the Blind to plan for the programming and fiscal needs of the first of five Regional Academies proposed to be implemented over time across the state. It is recommended by the Leadership Team that the Regional Academy operates primarily within current funding mechanisms; however, additional State support will be required to meet the total fiscal needs of the Academy. For the operation of the first Regional Academy, \$232,500 is sought - representing less than one-third the total costs (\$750,000) to operate.

**ECONOMIC DEVELOPMENT OPERATING APPROPRIATIONS REQUEST.....\$8.9M**

Iowa’s public universities seek an incremental 1.75% for the three segments of economic development:

- Economic Development - \$66,518 to meet projected inflation, and recurring appropriations of \$3.8 million for existing economic development units.
- Regents Innovation Fund - \$52,500 to meet projected inflation and recurring appropriations of \$3 million. This is an investment in critical research that will enhance the state’s economy and improve the health and well-being of Iowans.
- SUI Entrepreneurship and Economic Growth - \$35,000 to meet projected inflation and \$2,000,000 in recurring appropriations.

The economic development funding provided by the State of Iowa for the Regent institutions over the years has been critical to efforts in supporting the formation and growth of entrepreneurship educational activities, assistance to startup and existing Iowa companies, and faculty and student awareness of entrepreneurship and economic development. The translation of university innovations and technologies has proven to be critical and a driving force for innovation and job creation. More importantly, it is essential for the long-term growth of a sustainable, innovative economy that will position Iowa to be competitive in a global market.

Iowa’s public universities are committed to playing a leading role in catalyzing the economic transformation of the state and the nation. The universities have developed a rich variety of programs and partnerships aimed specifically at building working relationships among academia, industry, and government, and fostering an environment of creative innovation. Economic development is a high priority within the universities’ public mission, and sustaining these efforts is one of the important outcomes of maintaining a high quality academic enterprise.

This functional area includes operating funds for SUI – Entrepreneurship and Economic Growth Center, Advanced Drug Development, Oakdale Research Park, and Technology Innovation Center; ISU - Institute for Physical Research and Technology, Small Business Development Centers, and ISU Research Park; UNI - Institute for Decision Making and Metal Casting Center. Incremental funds are requested below:

❖ **SUI ECONOMIC DEVELOPMENT..... \$38,663**

The economic development operating appropriation at The University of Iowa supports activities of the Entrepreneurship and Economic Growth Initiative, the Center for Advanced Drug Development (CADD), the University of Iowa Research Park (UIRP) and the Technology Innovation Center (TIC). Incremental funds requested are:

- **Entrepreneurship and Economic Growth**      \$35,000

The John Pappajohn Entrepreneurial Center (JPEC) is responsible for implementing the entrepreneurship and economic development growth initiative. JPEC works closely with the Office of the Vice President for Research and Economic Development (OVPR&ED) and key university colleges including the Henry B. Tippie College of Business (Tippie), College of Engineering, College of Liberal Arts and Sciences (CLAS), and University of Iowa health science colleges. JPEC offers comprehensive entrepreneurial education programs to all Iowans. All SUI undergraduate students (both on campus and online) may earn a Certificate in Entrepreneurial Management in addition to their undergraduate degree. JPEC and the Department of Management and Organizations have teamed up to offer a BBA in Management with an Entrepreneurial Management Track to Tippie undergraduate students studying on campus or online. Beginning Fall 2014, JPEC and CLAS will partner to offer a BA in Enterprise Leadership for undergraduate CLAS students. Advanced entrepreneurship courses are offered to MBA students on campus and at several locations across the state of Iowa. JPEC and the Jacobson Institute for Youth Entrepreneurship work closely with the

Iowa K-12 system to advance youth entrepreneurship and STEM education. JPEC collaborates with the OVPR&ED to foster the creation of new businesses and support the expansion of existing Iowa companies. Whether providing one-on-one consulting services, directing SUI students on advanced field study projects and internships, or providing innovative training to the entrepreneurial community, JPEC and the University seek to support the next generation of Iowa entrepreneurs and business leaders.

- **Center for Advanced Drug Development (CADD)    \$1,639**

The Center for Advanced Drug Development (CADD) is a division of the University of Iowa, College of Pharmacy and a component of University of Iowa Pharmaceuticals (UIP). The Center offers contract analytical services to the pharmaceutical and biotechnology industry and is part of the UIP - the only comprehensive FDA registered facility in a College of Pharmacy in the U.S. UIP offers the unique capability to produce under contract limited quantities of new medicines under FDA regulations. The capacity is particularly valuable to firms wishing to bring new products through clinical trials.

- **University of Iowa Research Park (UIRP)    \$1,374**

The University of Iowa Research Park (UIRP) is home to start-up and technology-based businesses, typically with strong ties to the University of Iowa. The BioVentures Center (BVC), a wet lab business incubator, is located in UIRP and currently home to 15 start-up companies. An additional 11 companies are located on research park land. In FY 2014, there were approximately 1200 employees that worked at the research park. MediRevv, a healthcare accounts receivable management firm, opened a new 18,000 s.f. facility at the park in the fall of 2012. They employ over 180 employees and are currently expanding their presence at the park.

The UIRP is closely tied to economic development, technology transfer and the entrepreneurship mission of the University. The UIRP and affiliated economic development programs are a critical component to the University and the region's innovation ecosystem. Faculty-based startups, student entrepreneurs, and community entrepreneurs and businesses benefit greatly from locating their ventures at the research park.

UIRP is poised for future growth and will continue to have a significant impact on the region's economy. The University's technology commercialization efforts have increased 40% and are resulting in a more robust pipeline for start-up companies—many of which will launch their businesses in one of the business incubators. The planned Kirkwood Community College/University of Iowa STEM education facility will provide unique opportunities for technical education and collaboration with UIRP companies and University of Iowa research facilities.

- **Technology Innovation Center (TIC)    \$650**

The Technology Innovation Center (TIC) provides office space and a nurturing business environment and critical services to new technology-based ventures. Since 1984, more than 100 technology startups have become TIC tenants. Currently, there are 12 tenants in the TIC.

Along with the UIRP, this incubator has become an important part of the University's strategic plan for engagement, building ties with those off campus and participating in the economic vitality of the state.

Joint programming efforts between all University incubation programs and economic development and entrepreneurial organizations in the region should result in an acceleration of new company formation and existing company expansion.

❖ **ISU ECONOMIC DEVELOPMENT** ..... \$44,193

The economic development funding provided by the State of Iowa for the Regent institutions over the years has been critical to providing valuable and impactful business and technical assistance to both startup and existing Iowa companies, as well as to supporting the formation and growth of entrepreneurship educational activities. The translation of university discoveries and technologies has proven to be critical and a driving force for state-wide innovation and job creation. More importantly, it is essential for the long-term growth of a sustainable, innovation economy that will position Iowa to be competitive in a global market.

Iowa State University's Economic Development Network typically yields the following outcomes (on average) each year: new and retained jobs of over 7,500 individuals; a financial impact to the state of approximately \$375 million; workshops and client assistance to over 4,000 individuals; and entrepreneurial education to over 5,000 students

Incremental funding will be used to support the university's efforts to improve, connect, and leverage the strengths within the institution and allow better alignment of its economic development efforts with the state government and Iowa industries.

- **Small Business Development Centers** \$18,154

The Iowa Small Business Development Centers' purpose is to assist existing businesses and new entrepreneurs to grow their businesses and improve their internal operations to ensure their continued success. It achieves its purpose by providing educational opportunities through workshops, but primarily and most effectively, through one-on-one counseling. Such counseling is, by Congressional mandate, provided free of charge to the client.

In the last six years, the Iowa SBDC has counseled 15,582 clients which created or saved 10,090 jobs; helped companies attract over \$327,000,000 in new capital; helped companies grow sales by approximately \$334,000,000; and helped to create 1,010 new businesses. In 2013, Small Business Development Centers served 2,552 clients, spent 10,900 hours counseling clients, offered 140 training sessions with 1,779 attendees, and helped launch 209 new businesses. This program helped generate more than \$91M in sales increases, new investments, and cost savings, and created or saved 1,547 jobs.

- **Institute for Physical Research and Technology** \$23,898

In the last five years, the Institute for Physical Research and Technology's company assistance program helped more than 210 Iowa companies in 94 cities and towns, covering 55 Iowa program (IPRTCA) helped more than 347 Iowa companies in 67 Iowa counties. Companies have reported an annual economic impact of \$15.6M over the past three years.

- **Iowa State University Research Park** \$2,141

The Iowa State University Research Park (ISU RP) currently has more than 50 tenants with 1,300 employees, accounting for more than \$100 million annually in economic activity. Companies that started at the ISU Research Park have since expanded or relocated elsewhere in Iowa employing an additional 2,500 people. Workiva, a startup company founded in 2008, employs close to 400 individuals and recently announced Ames/ISU Research Park as their global headquarters following a significant facilities expansion. In the next five years, Workiva has committed to adding an additional 700 jobs to their ISU Research Park location.

The ISU Research Park is in the midst of its own significant expansion, which includes the addition of 200 acres of developable land and will house an economic services facility serving the needs of its tenants and representing Iowa State University's Economic Development Network to industry.

❖ **UNI ECONOMIC DEVELOPMENT**..... \$18,662

Three UNI programs, the Institute for Decision Making, Metal Casting Center and MyEntre.Net, have provided long-term and valuable economic development support to communities, businesses and entrepreneurs across the state. In FY 2014 and FY 2015, Advance Iowa (Economic Gardening) was added to UNI's base funding. Substantial progress is being made with Advance Iowa through economic gardening projects to help grow 2nd stage companies (10-99 employees) in all areas of Iowa. Incremental funding for these four programs requested at:

- **Institute for Decision Making**.....\$4,268
- **Metal Casting Center**.....\$1,005
- **MyEntre.Net**.....\$4,784
- **Advance Iowa (Economic Gardening)**.....\$8,605

❖ **REGENTS INNOVATION FUND** ..... \$52,500

The Regents Innovation Fund has helped leverage private and federal funds resulting in expanded economic development initiatives and enhanced programming for technology transfer, business incubation, and entrepreneurship at the public universities. Incremental funds will be matched by equal university financial commitments to maximize the impact of programs and services supported by this request. The Universities are committed to building upon existing capabilities to foster the translation of university research, strengthen partnerships with business and industry, support start-up company formation, job creation and economic growth. Incremental funding of \$52,500 is requested.

**University of Iowa**

The University of Iowa is requesting additional funds to strengthen its capacity to accelerate technology transfer, commercialization, job creation and economic development in Iowa. These funds will be matched one-to-one by the University of Iowa to maximize the impact of programs and services supported by this request. The University is committed to building upon existing capabilities to foster the translation of University research, strengthen partnerships with business and industry, support startup company formation, create jobs and grow the Iowa economy.

The Regent's Innovation Funds allow the University to produce high-value intellectual property that derives from faculty research and enhances technology transfer and commercialization through the concerted efforts of our integrated economic development model. The ultimate goal is to facilitate industry-academia partnerships in technology commercialization, cultivate student and faculty entrepreneurship, and continue to support and grow existing companies and create new companies in Iowa based upon UI technology.

Additional funds will be used to support:

- Proof-of-concept funding to further the development of highly promising SUI intellectual property/technologies. Additional funds are critical in order to advance discoveries into the marketplace, to increase opportunities for raising additional capital from the private sector, and to support licensing of technologies to existing companies or to launch new businesses.
- Campus-wide student, staff and faculty innovation, entrepreneurship and business support programs to stimulate innovation and new venture creation and to provide essential services during the initial business formation stages.
- Economic development centers targeted at providing on-site technical and business services to Iowa businesses and startups, IT and entrepreneurial workforce training and student internships with Iowa companies.

The University of Iowa has efficiently used its state economic development funds to stimulate technology commercialization, create startups and help expand existing businesses. Below are examples of such success:

- Iowa Approach, LLC is a medical device company founded in 2012 by Dr. Steven Mickelsen, cardiac Fellow at the University of Iowa Hospital and Clinics. The company, located in the University of Iowa Research Park, is developing a treatment for one of the most common heart disorders in the world – atrial fibrillation (irregular heart beat). Using ablation catheters, Iowa Approach can reduce procedure times, complications, and side effects. The company has raised approximately \$500,000 in seed funding, including \$250,000 in grants, \$100,000 from the Iowa Innovation Acceleration Fund, and a \$100,000 Wellmark Blue Cross Blue Shield investment. In July, Plains Angels invested an additional \$325,000. Iowa Approach has validated its prototypes and completed initial animal studies and will soon seek a \$5,000,000 Series A round to fund first-in-man efforts for 2016.
- Virtual Systems Engineering (VSE) was founded by Drs. Ibrahim Ozbolat and Timothy Marler in 2013. VSE's software system, PREVIEW, can significantly reduce PCB design-test cycles and production errors for devices from cell phones to military electronics. PREVIEW includes interactive 3D visualization of single and multi-board systems. Dr. Ozbolat and Dr. Marler received RIF funding from UIRF under the GAP Commercialization RFP. VSE is in negotiations with four major firms to beta test and partner on initial installations of PREVIEW.
- Pure Oleochemicals (POC) was founded in 2013 by Dr. Ned Bowden, Associate Professor of Chemistry. POC provides companies with the ability to produce highly pure fatty acids at significantly reduced costs. POC's unique technology portfolio is based on its disruptive, patent-pending nano-filtration membrane system that has been shown to be a significant improvement over other previously deployed and older technologies for purifying fatty acids. When compared to those older technologies the POC technology requires much lower capital costs, uses only a fraction of the energy, does not require or use solvents, operates at very low pressures and achieves higher levels of purity. This enabling technology will open up new markets that simply did not exist for fatty acids of lower purity and significantly higher cost. POC will target many partners from various industries who will develop refined downstream applications for these highly pure and cost-effective fatty acids. Dr. Bowden received \$40,000 in Regents' funding in 2014. POC received \$100,000 in IEDA grants and loans, followed by \$150,000 in private angel investment. POC is currently in the proof-of-application phase with several industrial clients.
- Higher Learning Technologies (HLT) was founded by several University of Iowa students. HLT creates customized mobile test prep applications to assist students in preparing for technical entrance and proficiency exams. The company now has six test applications on the market and plans to develop additional products in the coming year. HLT is expanding and moving its offices from the Technology Innovation Center to the BioVentures Center located at the University of Iowa Research Park. HLT received funding support through UI innovation competitions, secured a Demonstration Fund award from the Iowa Economic Development Authority, and has raised private equity capital to support future growth.

With continued state and private investment, the University will leverage its substantial extramural research funding, economic development funding, and expertise in technology transfer and entrepreneurship to advance technology commercialization, new venture formation, business expansion and job growth across Iowa.

**Iowa State University**

The Regent institutions have been instrumental in the evolution of Iowa's economic development programs into an innovation driven model, consistent with the Iowa Innovation Council (IIC). With focused state and private investment, Iowa can continue to capitalize on earlier investments and can realize significant growth in jobs related to Iowa's strongest industry clusters, develop a sustainable educated workforce, provide a statewide online community for entrepreneurs, and launch entrepreneurial initiatives that will enhance communities and regions within the state to support entrepreneurs.

Past years' appropriations have allowed Iowa State University to fund 95 projects in more than 55 companies, including 30 startups, of which 18 startup companies were formed using these funds as their first source of research funding and 13 have a license to Iowa State University intellectual property.

Additional state funding will help support:

- Proof of Concept Initiative (POCI) which allows Iowa State University to work together with the other Regent institutions and the State of Iowa for delivery of commercialization programming and services to enhance the development of early stage research and technology with potential for commercialization. The POCI is tied to the Governor's plan for economic development through the IIC and Iowa Integrated Innovation Commercialization Network (IIICN).
- Continue developing an infrastructure to advance research through proof of concept and towards prototype/testing stage, including incubation space, equipment, and technical assistance.

**University of Northern Iowa**

UNI's economic development and technology transfer programs assist thousands of Iowa companies, entrepreneurs and communities in all 99 counties. The Regents Innovation Fund (RIF) has helped Regent universities leverage private and federal funds resulting in expanded economic development initiatives and enhanced programming for technology transfer, business incubation, and entrepreneurship. Continued RIF support is needed by UNI to provide outcomes in four key areas: 1) technology transfer, business incubation and additive manufacturing, 2) MyEntre.Net and entrepreneurship outreach, 3) regional development and entrepreneurial communities, and 4) competitive and market intelligence.

**UIHC APPROPRIATIONS REQUEST**

**Payment For Care Provided to Prisoners**

**TBD**

The Eighth Amendment of the U.S. Constitution requires states to provide inmates with adequate medical treatment. Much of that state-required adequate medical treatment is delivered at the UIHC, but is unreimbursed. The UIHC and its physicians provide unreimbursed services associated with the adequate medical treatment of inmates and other residents of state institutions valued at approximately \$5M - \$7M annually, using Iowa Medicaid rates. Expecting UI Health Care to assume financial responsibility associated with the state's obligation to provide inmates and other residents of state institutions with adequate medical treatment represents a growing challenge to Iowa's only comprehensive academic medical center. A legislatively-mandated workgroup pursuant to CH. 1187, §128, Laws of the Eighty-second General Assembly, 2008 Session, recommended that, "Funding equal to the costs associated with the provision of care to state institution patients, drawing from sources not currently available to the Board of Regents, Carver College of Medicine, Department of Corrections, Department of Human Services, or the University of Iowa Hospitals and Clinics, must be found." While many prisoners may be eligible for coverage of inpatient care once in a twelve-month period (presumptive eligibility can only be used once every twelve months), there is currently no coverage for any outpatient care.

**Graduate Medical Education Payments**

**TBD**

Nationally, as well as within Iowa, concerns exist about the adequacy of the number of physicians being trained to serve future generations. Training more medical students is of limited value, however, given constraints on available residency positions new and existing residency programs face significant financial challenges.

UI Health Care is directly involved in 82 of the 83 Iowa ACGME residency programs, spanning the training of physicians in both primary and specialty care for Iowa. Studies show that physicians are more likely to practice in the area where they train. In recognition of this, UI Health Care offers more residency positions than it is authorized to operate under the Medicare cap. This means that UI Health Care must attempt to find other sources of support or self-fund residency positions above the cap in the amount of approximately \$21M annually. In today's environment funding these vital residency positions for Iowa without state support represents a major financial challenge.

**Pilot Project Linking Psychiatry and Primary Care Practices .....\$250,000**

A proposed pilot project:

- Will analyze the existing regional plans for adult and child psychiatric care in Iowa and address models of care delivery as well as workforce enhancements.
- Will use population health-based strategies to improve targeting of mental health care resources to Iowans who need these services.
- Will use evidence-based models of care to increase access to mental health care services, such as collaborative care which uses care managers to support mental health care delivery via primary care.
- Will use technology including telemedicine, telephone contact, and handheld applications to enhance patient engagement in mental health improvement.
- Will track quality and satisfaction outcomes.

**TUITION REPLACEMENT ..... \$30,237,549**

The 1969 General Assembly passed legislation (Iowa Code 262A) permitting the issuance of Academic Building Revenue bonds to fund capital projects at the Regent universities. The bonding program has enabled the Regents to finance critical academic constructions needs at Iowa’s public universities through the public sale of long-term bonds. The issuance of these bonds requires approval of the General Assembly and the Governor. Tuition replacement appropriations represent an ongoing commitment of the state to meet the debt service cost of Academic Building Revenue bonds.

The 2009 General Assembly authorized the Board to issue \$100 million in project proceeds of Academic Building Revenue Bonds to finance the repair, restoration, replacement, and mitigation of flood damaged buildings and facilities at the University of Iowa. In addition to the \$100 million authorization, the 2009 General Assembly redirected \$13 million originally authorized in 2007 for SUI Pentecrest renewal projects to flood recovery and mitigation. The June 2014 bond issue was the third series of bonds issued for flood recovery and mitigation. The remaining two “flood” series are expected to be issued in October 2014 and in October 2015.

It was understood that this authorization would increase the tuition replacement request. The tuition replacement request for FY 2016 is \$30,237,549, an increase of \$502,126 from FY 2015 to cover the debt service due on the bonds. This number factors in the savings from recent refundings. In addition, the current projected request for FY 2017 is \$33,473,351 and is based upon anticipated future issues and interest rates.

**IOWA PUBLIC RADIO ..... \$451,465**

Iowa Public Radio, Inc. (“IPR”) was created by the Board of Regents in 2004 to manage the public radio stations licensed to Iowa State University, the University of Northern Iowa and the University of Iowa. Today, the network includes 24 stations, serving 236,000 Iowans every week. IPR’s 24 stations cover most of Iowa and beyond, delivering News, Classical and Studio One music programming 24-hours a day.

Iowa Public Radio’s mission is to inform, enrich and engage Iowans through radio programming and other media. IPR enhances civic and cultural connections across the state, strengthening communities and reflecting Iowa’s sense of place. Programming is made up of three distinct streams:

- Iowa Public Radio News brings Iowans the best in national and local news programming. It’s not just headlines but probing stories and talk programming that promotes a dialogue about the issues and culture of Iowa.
- Iowa Public Radio Classical brings to Iowans 24 hours a day of classical music, including live and recorded performances from concert halls in Iowa.
- Iowa Public Radio Studio One provides an eclectic variety of music that stirs passions and showcases Iowa’s vibrant music scene.

Iowa Public Radio receives support from a mix of sources that includes listeners, businesses, foundations, the universities who own the stations (SUI, ISU, UNI), and the State of Iowa. IPR’s FY 2015 budget is \$7.5 million, with 37% coming from listener-members, 25% from business sponsorships, and 13% from Iowa State University, the University of Northern Iowa and the University of Iowa.

The operating appropriations request for FY 2016 is \$451,465, restoring funding to the 2010 appropriated level prior to Chapter 8.31 reductions. Public radio saw no increase in FY 2012, 2013, 2014 or 2015. This is an increase of \$59,897 over the \$391,568 appropriated for FY 2015. IPR will use the additional \$59,897 to invest in its fundraising capacity, helping IPR realize its goal of increasing private support for IPR by 10% each year for the next 5 years. This will help IPR create a stable and sustainable funding model for decades to come.

### **NON-APPROPRIATIONS REQUEST**

The Board of Regents strongly encourages Regent institutions to seek collaboration and partnerships between Regent institutions and other sectors of state government that result in improved productivity, more effective stewardship of state resources and enhanced economic development opportunities for Iowa's citizens. The Board also seeks relief from statutory and administrative state mandates that demonstrably impede the Regents' flexibility in governance, require unnecessary staff work or require significant reporting which no longer serves a critical state or Regent strategic purpose.

### **Salary Funding**

As the State develops its plan for supporting salaries for all employees, it is crucial that the Regent institutions participate in the salary pool.

The dollar amounts for incremental salary funding are not included in the Regent appropriations. Historically, a separate appropriations bill provides funding for new salary increases to all state agencies. This legislation typically requires that Regent institutions provide comparable salary increases for non-contract employees as provided for contract-covered employees. The Regent institutions request to participate in the salary bill.

Salaries comprise nearly 70% of the universities' general education expenditures. Full funding of salary needs for Regent institutions is key to keeping the Regent institutions the premier institutions of their type by:

- Allowing the universities to be competitive with their peers in recruiting and retaining top faculty in a global marketplace
- Implementing institutional strategic plans
- Providing exceptional learning opportunities for students
- Stimulating economic development by supporting new evolving technologies
- Disseminating knowledge
- Delivering valued public service that Iowans expect from the Regent universities

If salary funding is not provided, resources dedicated to student success and outcomes will have to be redirected to supporting and retaining quality faculty, professional and general employees.

**FY 2017 Appropriations Request** – The Governor has requested all state-funded programs to make a two-year appropriations request. At this time, it is proposed that all funding lines be increased by an inflation factor. We will use the projected FY 2016 HEPI midpoint of 2.4% as a base for FY 2017. It is projected that the Tuition Replacement fund will need to be increased to \$33,473,351 to cover debt service.

**FY 2016 OPERATING APPROPRIATIONS REQUEST**

**PART 2**

**Actions Requested:**

- Approve the request for supplemental funding of \$12,971,898 to implement the Performance-based Funding model. Distributed As follows:
  - \$6,366,298 (49.1%) to Iowa State University
  - \$6,605,600 (50.9%) to University of Northern Iowa

**Executive Summary:** At the June 2014 meeting of the Board of Regents, the Performance-based Revenue Model Task Force, led by David Miles, presented their recommendations to recast the state's funding formula for Iowa's public universities. The recommendations of the Task Force set a new standard for state funding of higher education and incentivize the universities to align with state and Regent higher education priorities.

The Task Force recommended that the Iowa Board of Regents move over time from its traditional "base-plus" budgeting methodology to a Performance-based Model weighted initially 60% to resident enrollment and 40% to outcome metrics explained in further detail in this report.

Based upon the Task Force's survey of best practices across the nation and review of the unique characteristics of Iowa's Public Universities, The Board of Regents adopted the proposed Performance-based Model as it offers significant advantages over the existing approach in terms of:

- Equity across the universities
- Incenting the institutions to achieve the objectives of the State and the Board
- Appropriate governance of our outstanding institutions, and
- Effectively advocating to elected State officials for appropriate funding

The adopted Performance-based Funding (PBF) model identifies \$46.5M to be reallocated from SUI to the other two universities. The Board adopted the Task Force's recommendation to set a maximum period (3 years) and maximum amount that can be redistributed in one year calculated based on 2% of FY 2013 operating revenues, which under this model becomes \$12,971,898.

The PBF model creates a direct and transparent link between dollars invested by the State and achievement of the State's priorities. The improved educational outcomes generated by this new funding model merit additional State investment. The Board approved the Task Force's recommendation that implementation of these model should be paid for through restoration of State funding to Iowa's public universities. The abiding contribution of this new approach is to reward each institution for achieving the objectives of the State and the Board of Regents, not in creating competition between them. By funding the transition to PBF, the State can minimize any short-term disruptions caused by reallocations among the institutions, while sending a strong message of support to the Board of Regents for taking this much needed step.

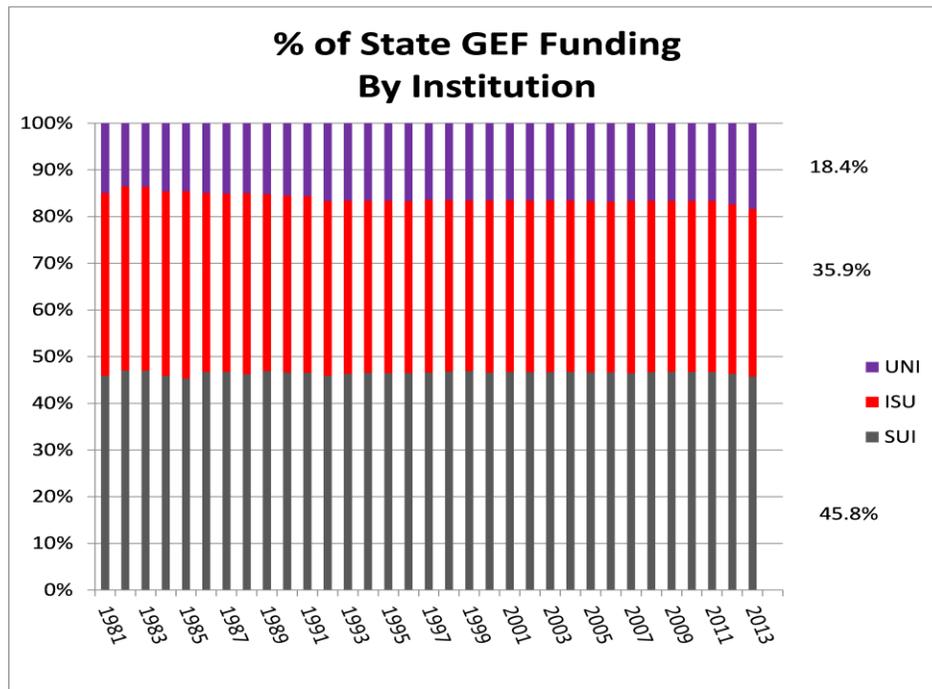
**Background:** The primary source of direct taxpayer funding of higher education at public universities across the country is the states, which provide support for academic activities and operations primarily to defray a portion of the costs so that resident students have affordable access to a quality higher education.

Most states provided this funding largely through a political process without using any funding formula. Beginning in the 1950s, however, states began to depoliticize their funding by shifting toward formulas based on the number of students enrolled at each institution. In the 1960s and 1970s, many states began to add some measure of cost per student to the calculation. In the 1990s, in response to continuing calls for greater accountability, at least a dozen states began to fund their public institutions partially on the basis of performance measures, although this performance-based funding typically applied to a very small proportion of total funding.<sup>3</sup>

In general, the Iowa legislature has not distinguished between the universities when considering levels of incremental funding and has continued to allocate funds to the universities on the same percentage basis; that is, if incremental funds were available, each university received the same percentage increase.

By 1981, the General Education Funds (GEF) share to the institutions had settled at about 47%/37%/16% respectively to SUI/ISU/UNI. These allocations have remained essentially static since that time. See Chart One.

Chart One



<sup>3</sup> *Using Institutional Incentives to Improve Student Performance* by Arthur M. Hauptman

The universities, however, have changed a great deal – particularly as to their enrollments. The numbers are summarized in Table One below.

Table One

**SUI Headcount Enrollment**

	Undergraduate		Graduate-Masters		Doctoral/Professional		Total	
	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res
Fall 1981	14,258	4,398	2,171	1,188	2,813	1,637	19,242	7,223
Fall 2013	12,012	9,962	1,238	1,146	2,789	2,930	16,039	14,038
Change	-2,246	5,564	-933	-42	-24	1,293	-3,203	6,815

**ISU Headcount Enrollment**

	Undergraduate		Graduate-Masters		Doctoral/Professional		Total	
	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res
Fall 1981	15,622	4,697	984	719	1,003	1,177	17,609	6,593
Fall 2013	18,009	9,650	1,178	1,444	663	2,011	19,850	13,105
Change	2,387	4,953	194	725	-340	834	2,241	6,512

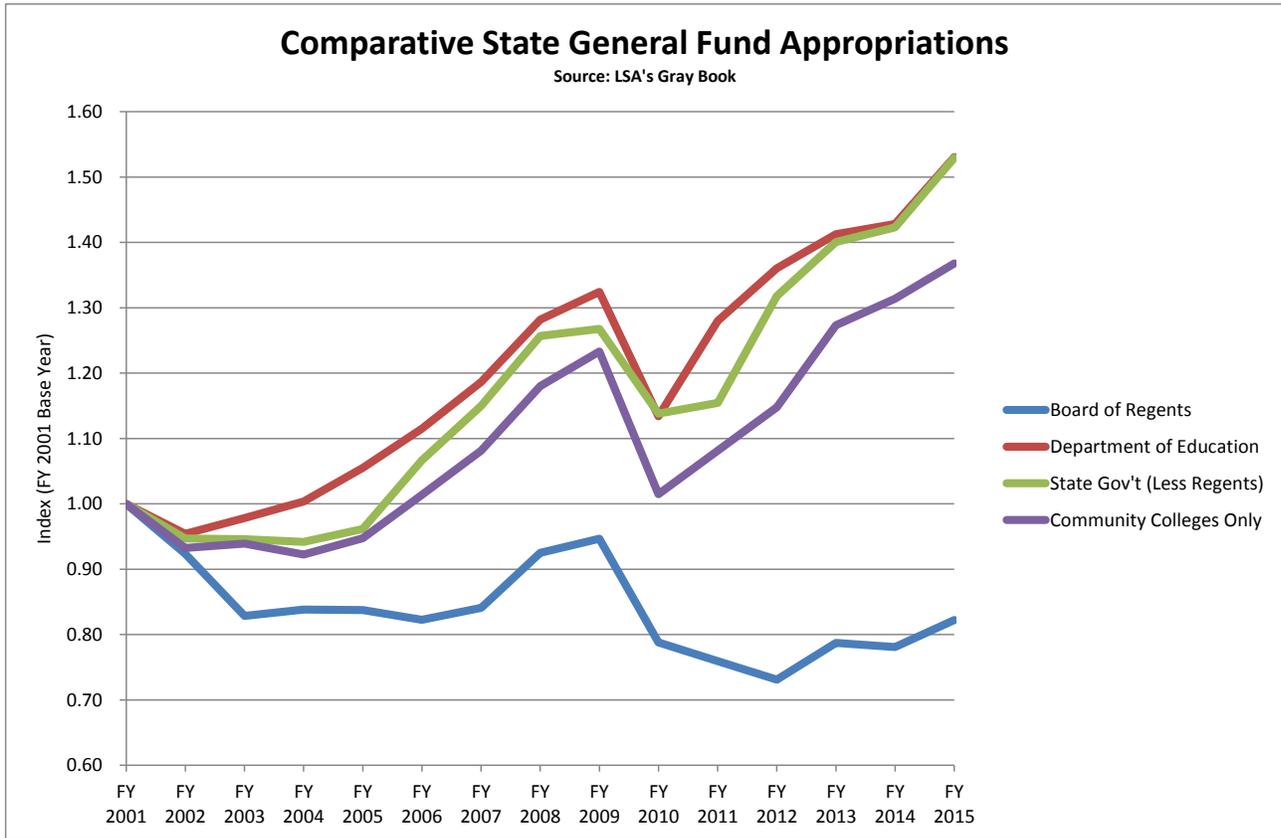
**UNI Headcount Enrollment**

	Undergraduate		Graduate-Masters		Doctoral/Professional		Total	
	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res	Resident	Non-Res
Fall 1981	9,429	308	821	51	330	15	10,580	374
Fall 2013	9,411	969	1,015	268	416	80	10,842	1,317
Change	-18	661	194	217	86	65	262	943

The Board’s long-time practice for determining its annual budget request largely using a “base-plus” methodology that uses the prior year’s allocation to each university’s general education budget as the starting point and seeks additional funding to address increased costs related to salary and other inflationary increases has not leveraged the most powerful tool of any governing body for influencing the behaviors of its executives and institutions – the institution’s budget – to achieve its priorities. No tool is more powerful than a clear statement of goals and priorities which is then translated into a budget that allocates resources on the basis of an organization’s abilities to achieve those priorities.

Iowa, like many other states uses higher education funding as the balance wheel for its state budget. When times are bad, higher education – and in Iowa, particularly the Regent institutions – repeatedly suffer budget cuts that come earlier and are greater in percentage terms than other areas of the state’s budget. And when economic conditions improve they are rarely fully restored to prior levels. This funding cycle of lower highs (during the good times) and lower lows (during the bad times) has resulted in a dramatic net reduction in funding to Iowa’s public universities over the last thirty years. Again, Iowa is not alone in this, but Iowa’s Public Universities were hit particularly hard during the recent financial crisis, and despite the recovery, funding to Iowa’s public universities has not been restored to pre-crisis levels as shown in Chart Two.

Chart Two



As noted earlier, beginning in the 1950s, the majority of states began moving toward an enrollment-based funding model for GEF appropriations. Recently, many states have reconsidered those enrollment-based models (at least in part) and are instead aligning their funding models more closely with clearly articulated state goals and priorities. Today, twenty-five states—Arizona, Arkansas, Florida, Illinois, Indiana, Kansas, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Mexico, Nevada, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah and Washington—have a funding formula in place that allocates some amount of funding based on performance indicators such as course completion, time to degree, transfer rates, the number of degrees awarded, or the number of low-income and minority graduates. Five states—Colorado, Georgia, Montana, South Dakota and Virginia—are currently transitioning to some type of performance funding, meaning the Legislature or governing board has approved a performance funding program and the details are currently being worked out. Another ten states are in formal discussions (including Iowa), and only ten have no formal activity underway. See Chart Three.



The following metrics will be used to determine the annual GEF appropriations request to the Governor and the Legislature (phased in over time per Recommendation 5 below): All metrics will be calculated on Iowa residents.

<b>60% of state funding based on Resident enrollment</b>	This would tie funds directly to supporting Iowa students using a 3-year rolling average.
<b>5% for Graduate and Professional Students</b>	5% for graduate and professional students based on Full Time Equivalent enrollment.
<b>15% for Progress and Attainment</b>	<ul style="list-style-type: none"> <li>• 5% to be awarded based on achieving Student Credit Hour thresholds of 24-48-72.</li> <li>• 10% based on Number of Graduates Measurement would be most recent year completed.</li> </ul>
<b>10% for Access</b>	Regent universities should have a diverse student body as measured by low-income students, minorities, Iowa community college transfers, and veterans. Measurement would be over a 3-year rolling average.
<b>5% for Sponsored Research</b>	5% to be awarded based on sponsored research for the most current year recognizing the boon to economic development that the public universities provide.
<b>5% Based on Regent Selected Metrics</b>	5% for customized metrics to be distributed by the Board of Regents.*
<b>Other</b>	<ul style="list-style-type: none"> <li>• Transition to new funding model over period of 3 years.</li> <li>• Cap any reallocation at 2% of the institution's 2013 general education revenues per year.</li> </ul>

\* - for the inaugural year, the Regents' customized metrics will be distributed in the same proportion as determined by the preceding metrics. This will allow the Regents to monitor the success of the new funding allocation and adjust customized metrics in the second year of the new allocation plan.

Performance-based Funding Model

The Board of Regents approved implementation of the Performance-based Funding Model for FY 2016 and directed the Board office staff and the institutions work through the implementation details of this model to ensure that the metrics are correct and will lead to the intended outcomes.

A set of definitions for all Metrics is attached (Attachment A). Applying those definitions to the General Education operating appropriations found in Part 1 of \$509,813,842 (base and incremental funds) allocates these funds as seen in the chart below:

<b>OUTCOMES</b>	<b>SUI</b>	<b>ISU</b>	<b>UNI</b>	<b>TOTAL</b>
<b>FY 2016 Current Distribution of General University Appropriations</b>	<b>\$ 234,964,158</b>	<b>\$ 184,112,359</b>	<b>\$ 90,737,325</b>	<b>\$ 509,813,842</b>
Redistribution of Funds based on Task Force Metrics				
Enrollment	\$ 104,150,723	\$ 128,781,077	\$ 72,956,504	\$ 305,888,305
Graduate & Professional Students	\$ 15,063,237	\$ 6,516,142	\$ 3,911,313	\$ 25,490,692
Student Progress	\$ 8,038,219	\$ 11,066,485	\$ 6,385,987	\$ 25,490,692
Number of Graduates	\$ 18,940,798	\$ 19,241,831	\$ 12,798,755	\$ 50,981,384
Access	\$ 16,845,287	\$ 21,686,469	\$ 12,449,629	\$ 50,981,384
Sponsored Research	\$ 16,038,188	\$ 9,277,346	\$ 175,159	\$ 25,490,692
Customized Metrics	\$ 9,425,081	\$ 10,345,754	\$ 5,719,856	\$ 25,490,692
<b>Redistributed Appropriations</b>	<b>\$ 188,501,533</b>	<b>\$ 206,915,104</b>	<b>\$ 114,397,205</b>	<b>\$ 509,813,842</b>
Variance	\$ (46,462,625)	\$ 22,802,745	\$ 23,659,880	\$0
		49.078%	50.922%	\$0

<u>Percentage of Appropriations</u>				
Current	46.0882%	36.1136%	17.7981%	100.00%
Redistribution	<u>36.9746%</u>	<u>40.5864%</u>	<u>22.4390%</u>	<u>100.00%</u>
	-9.1136%	4.4728%	4.6409%	0.0%

**IMPLEMENTATION**

FY 2013 GEF Actual Revenues	\$ 648,594,917
Maximum Annual Distribution	2%
FY 2016 Distribution	\$ 12,971,898

**Reallocation**

	<b>SUI</b>	<b>ISU</b>	<b>UNI</b>	
\$	-	\$ 6,366,298	\$ 6,605,600	\$ 12,971,898

**Use of Additional Funds from PBF Model**

**Iowa State University** will use the new funds of \$6.37M to strengthen programs, with emphasis on student success and college affordability.

**STUDENT SUCCESS**

Iowa State continues to offer its undergraduates a rich educational experience -- inside the classroom and out. An increase in state appropriations will help fund the following priorities to ensure students graduate on time.

- Hiring additional faculty. Over the past 15 years, the university's student-to-faculty ratio has increased from 13.7 to 19. Continuing to invest in hiring faculty, particularly in the university's signature areas in biosciences, value added agriculture, engineering, health, and information technology, will ensure that the university provides students with a high quality education.
- Using learning analytics to increase student success. The university has invested in learning analytics to enable faculty and academic advisors to efficiently monitor the progress made by students in coursework, and enabling faculty and staff to intervene early when a student is having difficulty in a course, particularly gateway courses like chemistry, physics, calculus, and computer programming.
- Increasing personalized learning. Student engagement leads to increased student retention.
  - Learning communities: Over a 15 year period the one-year retention rate for students involved in a learning community has averaged 8% higher than the rate for those students who do not participate in a learning community.
  - Opportunities for students to be engaged in research and creative experiences: Funding is needed to further develop infrastructure and on-line systems to manage and facilitate student engagement in undergraduate research, as well as to track the impact of those experiences and to provide professional development
  - Hiring support staff, particularly in the areas of advising and student support: Academic advisors play a key role in student success; helping students to get the right classes, stay on-track in completing requirements, seek out tutors for supplemental instruction, and pursue internships and study abroad opportunities
  - Enhancing information technology infrastructure: The university's growth in online instruction is coming both from "traditional" distance education students who take all or most of their classes online, and from students who are enrolled in a combination of on-campus and online courses. Iowa State saw a 6.5% increase in enrollment of traditional distance education students, and a 22% increase in students taking a combination of on-campus and online courses during FY13.

**COLLEGE AFFORDABILITY**

Iowa State has a four-pronged approach for ensuring that Iowa State students are provided with an affordable college education and provided with resources to help minimize their level of debt.

- Holding down costs. Iowa State is recognized widely for the quality of its academic programs and keeping administrative costs low. The university continues to improve efficiency and stretch the most value from tuition and state appropriated dollars. Merging major administrative computing systems and finding more cost-effective ways of providing services is one strategy for gaining operational efficiencies.

- Enhancing students' financial literacy. Greater understanding of personal finance, including student loans, is absolutely essential in order to reduce the level of student debt. Iowa State is one of only a few major universities that provides services for students designed to address reduction of student debt and financial planning.
- Identifying alternative and lower-cost paths to a degree. Iowa State continues to work on enhancing the articulation agreements with all Iowa community colleges. In June of 2014 a proposal was submitted to the U.S. Department of Education FIPSE First in the World program that, if funded, would support a collaborative effort with all 15 Iowa Community Colleges to recruit, support, enhance the academic success and graduate young Iowa people who are at risk of not continuing to post-secondary education.
- Increase opportunities for students to work. Paid internships provide students with not only high-paid employment to off-set student debt, but also important career-related experience that correlates to increased post-graduation success. The development of strong internship programs takes time by faculty and staff to develop the relationships and monitor student experiences in internships. As the student population grows, and student interest in participating in internship grows, it is critical that additional funding be available for staffing career services offices and internship programs to meet this growing need.

**University of Northern Iowa** will use new funds from the PBF model of \$6.6M to offset the loss of \$4M granted in one-time funds to mitigate the financial impact of funding cuts during the recent recession. These one-time funds are supporting the FY2015 budget. In addition, UNI will strategically use these funds to:

- Enhance Financial Aid. The University of Northern Iowa has historically lagged behind other Regent institutions in available funding for financial aid. New funding would be particularly focused on Iowa need-based students since the University has a higher population of students from lower income families. This funding would also be directed to diversity initiatives and first generation Iowa students.
- Improve Enrollment Management. Funds will be allocated to strategic enrollment management initiatives in the areas of recruitment, admissions, and student retention.
- Do Deferred Maintenance. Building repairs have been cut over the past years due to budget constraints. These funds will bolster the efforts to provide a quality academic experience for both students and faculty.
- Invest in TIER recommendations. Work being done by the transformation and efficiency consultant Deloitte has identified areas with potential savings over a timeframe of 18 to 24 months that will require up-front investment.

Attachment A

PERFORMANCE-BASED FUNDING DEFINITIONS

**All definitions apply to Resident students. Residency will be established at time of admission.**

- Resident Enrollment – Students will be counted in the following categories: Undergraduate, Master’s, Doctoral, and Professional with the following definitions:

Undergraduate – Full-time Enrollment based on a minimum of 12 credit hours

Master’s and Doctoral – Full-time Equivalent based on a minimum of 9 credit hours

Professional – Full-time Equivalent based on a minimum of 15 credit hours

Time period – 3-year rolling average using the most current available Fall enrollment report numbers. For the FY 2016 appropriations request, this will be Fall 2011, Fall 2012 and Fall 2013 enrollment data.

- Graduate & Professional Students – This will be derived from the data provided in the Resident Enrollment report defined above.

Time period – 3-year rolling average using the most current available Fall enrollment report numbers. For the FY 2016 appropriations request, this will be Fall 2011, Fall 2012 and Fall 2013 enrollment data.

- Student Progress – This measures the change in credit hours from the Fall enrollment report of one year to the next. Measured are the number of Resident full-time and part-time undergraduate students whose cumulative credits earned meet or exceed threshold benchmarks of 24, 48, or 72 student credit hours.

Actual count will be 24 to <48 credit hours, 48 to <72 credit hours and 72 to <97 credit hours (ranges allow for partial credit). This will include AP credit, CLEP credit, credits transferred in to the university. Non-degree resident students are also included.

Time period – most recent year data available. For the FY 2016 appropriations request, this will be Fall 2013 enrollment data.

- Number of Graduates–The Number of Graduates is a metric currently being captured, and is an unduplicated count.

Time period – most recent year data available. For the FY 2016 appropriations request, this will be Fall 2013 enrollment data.

➤ Access –:

- Financial Need - counted by the Number of full-time students with a calculated need based on Expected Family Contribution and part-time Pell Grant recipients. In order to avoid duplication, (1) EFC threshold includes those students in the fall cohort who were FT either in the fall or the spring semester of that year which includes the FT Pell Grant recipients; and (2) Part-time Pell Grant recipients as well as FT PG recipients if they were not in the fall cohort (transfer students, new students in the spring, etc.)
- Minority students- all Residents
- Transfer Students – counted as the number of undergraduate students that transfer from Iowa community colleges.
- Veterans – counted as veterans receiving benefits and those self-identified at time of admission who do not receive benefits.

Time period – 3-year rolling average using the most current available Fall enrollment report numbers. For the FY 2016 appropriations request, this will be Fall 2013 enrollment data.

➤ Sponsored Research – from university Audited Financial Statements – Statement of Revenues, Expenses and Changes in Net Position, line item “Research”.

*NAACUBO Financial statement expense classifications define this category as “all expenses for activities specifically organized to produce research, whether commissioned by an agency external to the institutions or separately budgeted by an organizational unit within the institution. Subject to those conditions, the classification includes expenses for individual and/or project research as well as that of institutes and research centers.*

*This classification does not include all sponsored programs nor is it necessarily limited to sponsored research, since internally supported research programs, if separately budgeted, might be included in this classification.*

*Expenses for departmental research that are separately budgeted are included in this classification. However, the research classification does not include expenses for departmental research that are not separately budgeted. Departmental research that is not separately budgeted is included in the instructional category.*

*The research classification includes the following three subclasses:*

- *Institutes and Research Centers*
- *Individual and Project Research*
- *Research Information Technology*

Time period – most recent year data available. FY 2013 financial statements will be used for the FY 2016 appropriations request.

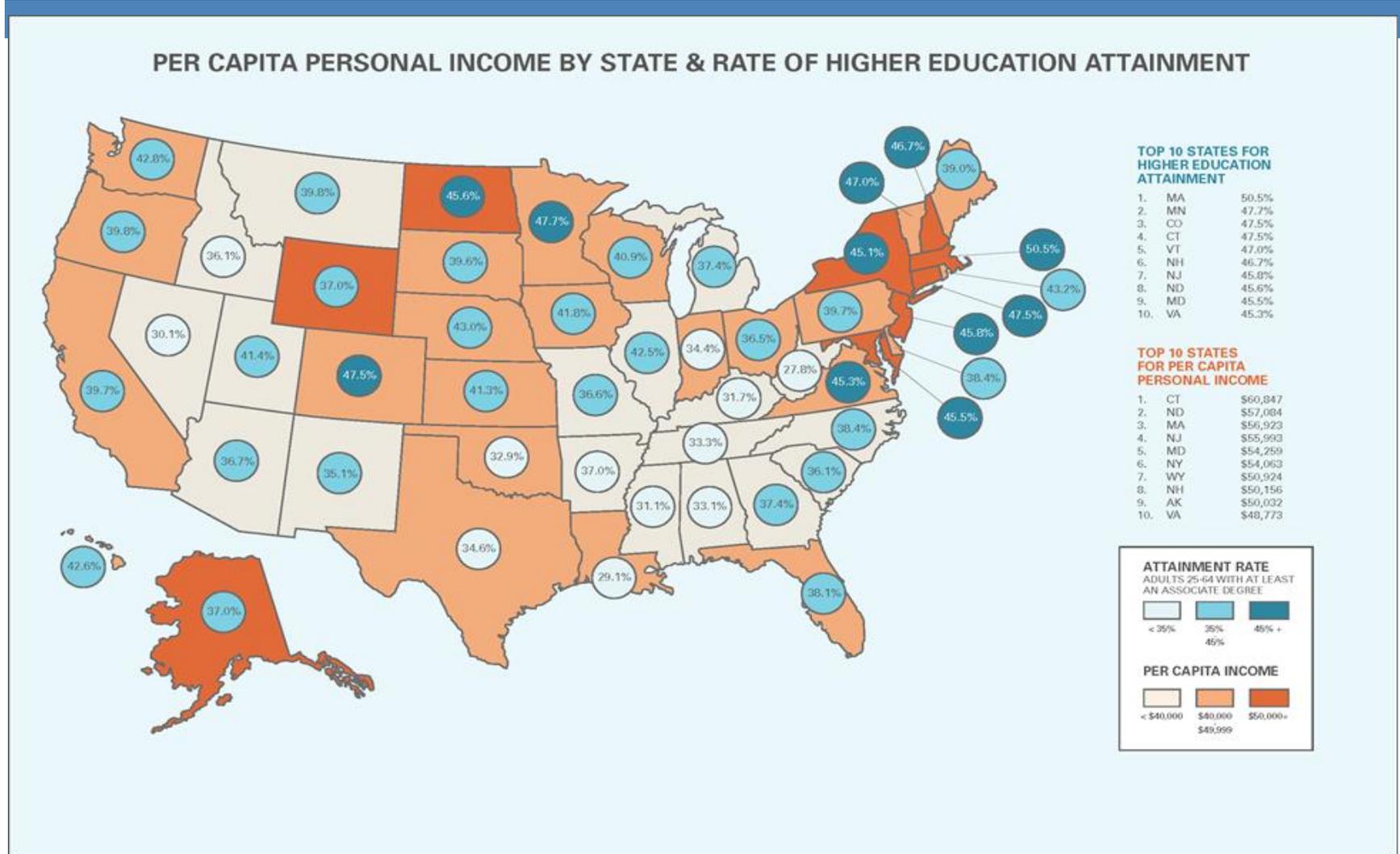


**BOARD OF  
REGENTS**  
STATE OF IOWA

# FUNDING THE FUTURE: STATE APPROPRIATIONS FOR IOWA'S REGENT INSTITUTIONS

Fiscal 2016

# Higher Education and Income Levels



# Job Recovery

The highest job growth post-recession has been for holders with a bachelor's degree or better.

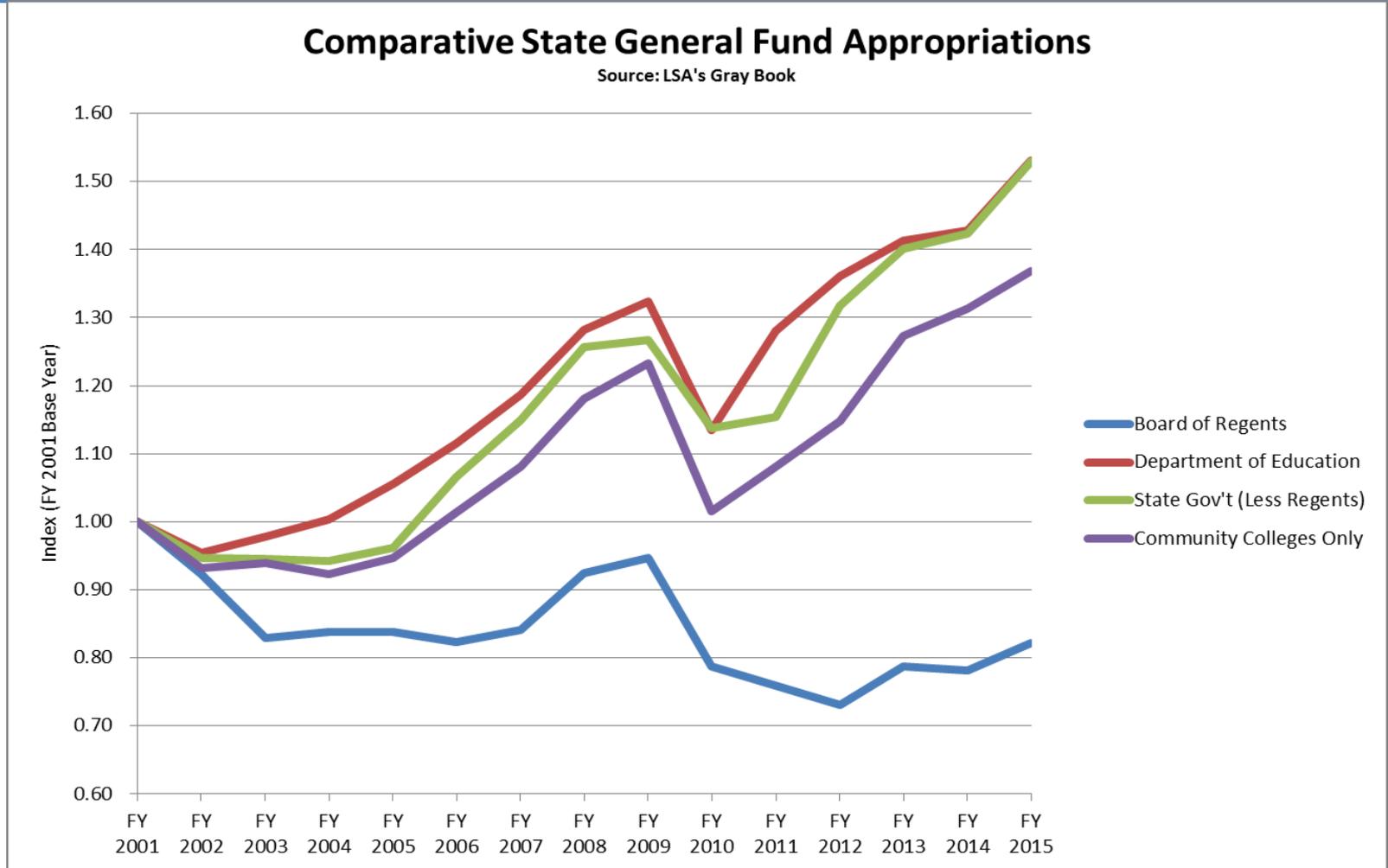
FIGURE 2: Jobs 1989–2012—by educational attainment



Note: Total employment of workers aged 18 and older is a CEW estimate from the CPS. Monthly employment numbers are seasonally adjusted using the U.S. Census Bureau X-12 procedure and smoothed using four-month moving averages. Areas shaded in gray indicate periods of recession as reported from the National Bureau of Economic Research.

# Comparative State General Fund Appropriations

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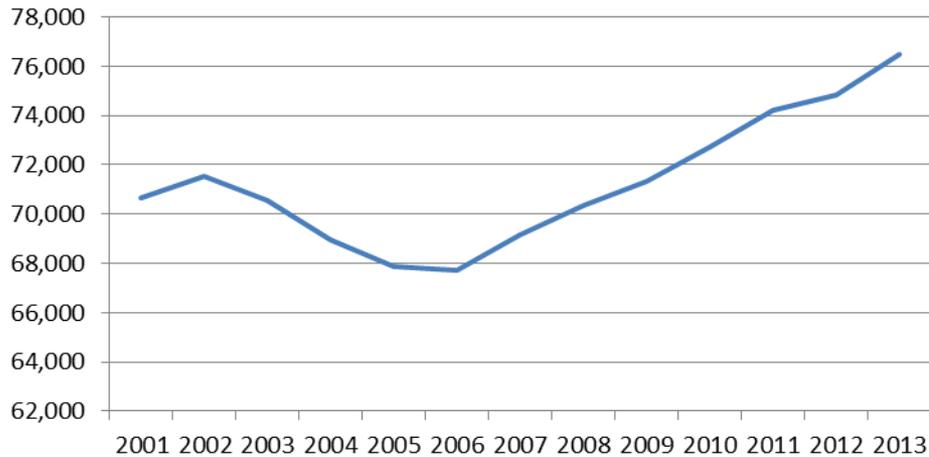


Source: LSA's Gray Book

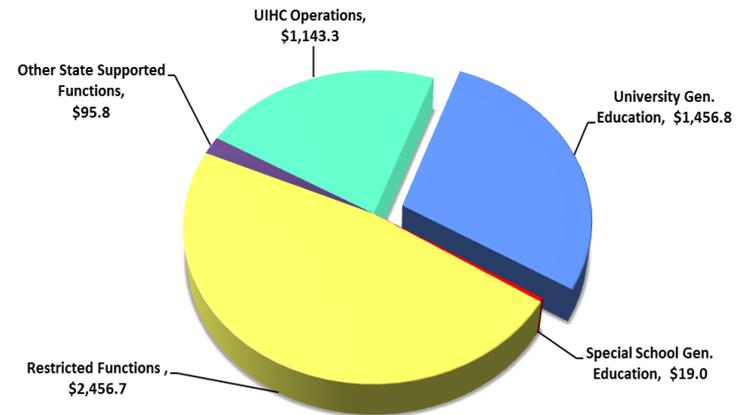
# Iowa's Public Institutions at a Glance

5

## Fall Headcount Enrollment



## REGENT FY 2015 ENTERPRISE ADOPTED BUDGET - \$5.2 billion

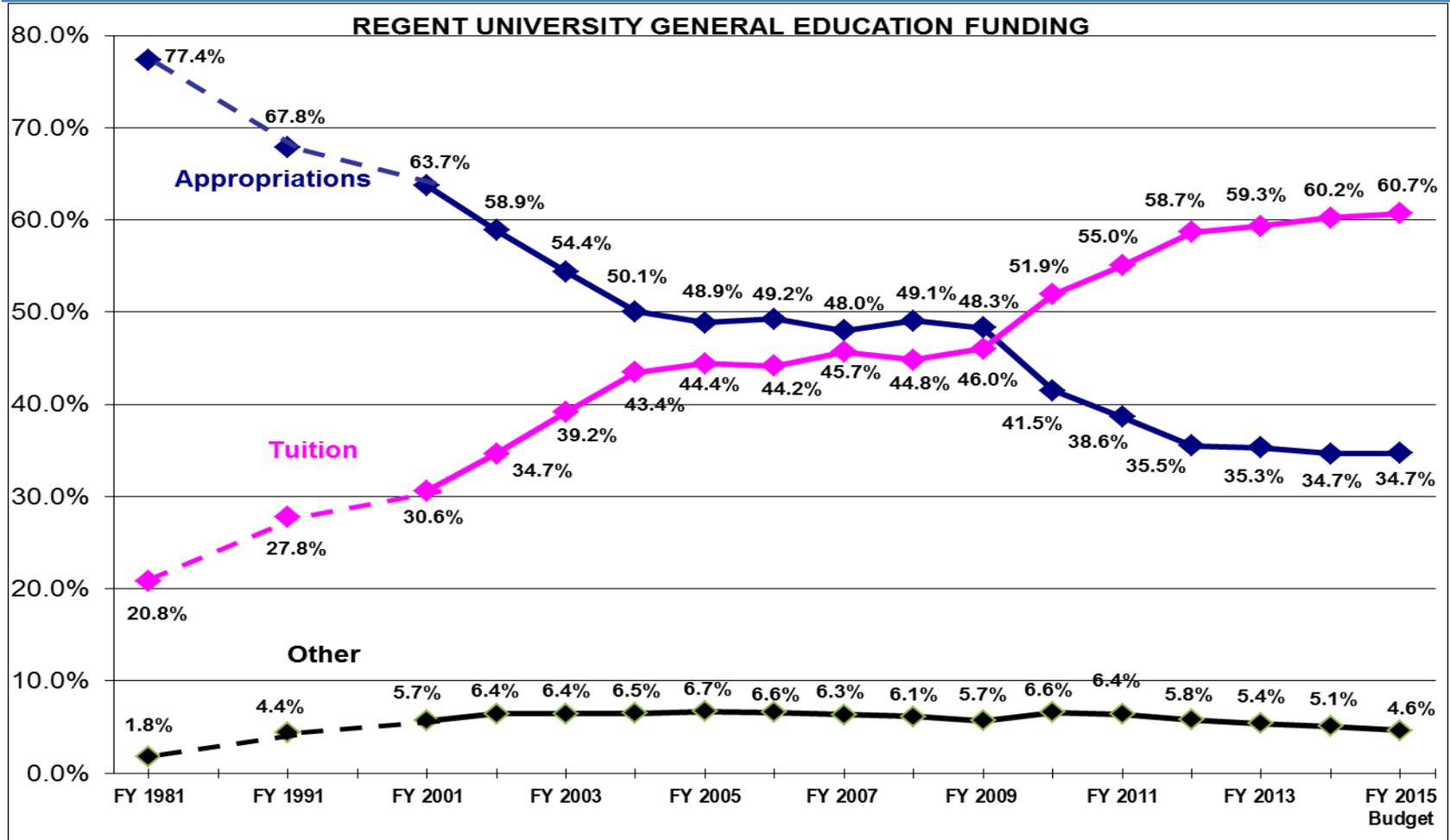


EDUCATIONAL VALUE	IN-STATE		OUT-of-STATE	
	Regent Universities	Public 4-Year Universities	Regent Universities	Public 4-Year Universities
Average Annual Tuition & Fee Increases from FY 2009 to FY 2014	15%	27%	17%	19%

Source: College Board's "Trends in College Pricing"

# Change in General University Funding Sources

6



# Higher Education Operating Appropriations Request

7

- *Highest Priority* – maintain base funding to support the public universities’ mission of education, outreach and public service **\$501.0M**
  - Incremental funding increase of 1.75% to cover projected inflation **\$8.8M**
- \$509.8M**

# Higher Education Special Purpose Appropriations Request

8

FY 2015 Recurring Appropriations	\$ 73.7M
Incremental Funds	<u>1.3M</u>
Proposed Total Appropriations	\$ 75.0M

# Strategic Initiatives

9

 SUI	• Belin-Blank Academy	\$500,000
	• Autonomous Intelligent Machines & Systems	\$1,000,000
 ISU	• Leading the Bioeconomy	\$5,000,000
	• Agriculture Experiment Station	\$515,000
	• Small Business Development Centers	\$276,000
 UNI	• Bachelor of Applied Sciences	\$1,500,000
	• Entrepreneur & Small Business Support	\$1,500,000
		<b>Total \$10,291,000</b>

# Special Schools

10

FY 2015 Recurring Appropriations	<b>\$ 13,401,412</b>
Incremental Funds	<b>532,304</b>
Strategic Initiative – Regional Center	<b><u>232,500</u></b>
Proposed Total Appropriations	<b>\$ 14,166,216</b>

# Economic Development & Commercialization

11

## **Selected Highlights FY 2013**

- ❑ \$791.7M in sponsored funding
- ❑ 206 new intellectual properties
- ❑ 185 new patent applications; 100 new patents awarded
- ❑ 274 new license and agreements on intellectual property
- ❑ \$49.6 million generated by Iowa companies as a direct result of university technologies
- ❑ 2,846 Iowans employed at 134 companies at the University Research Parks

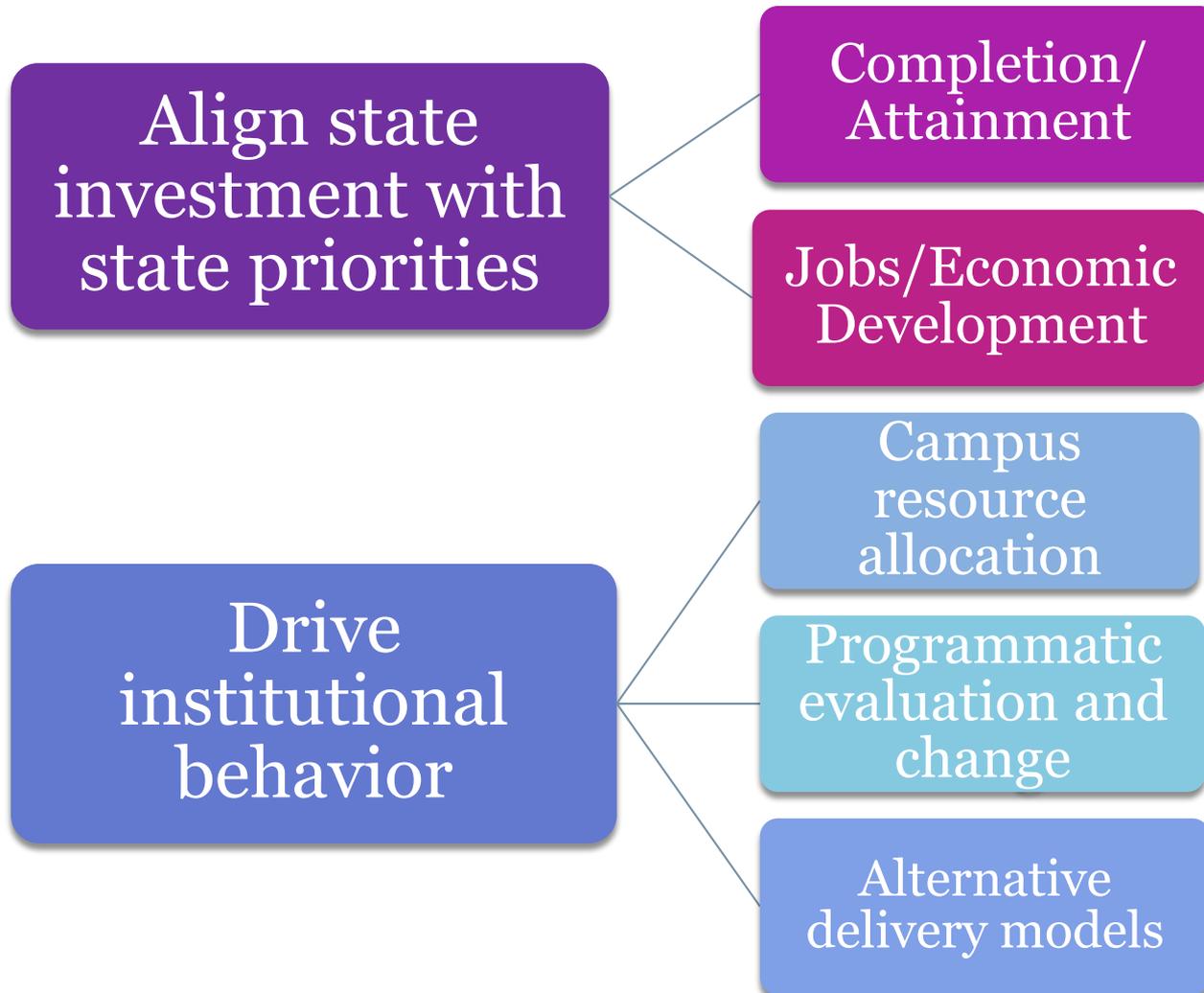
# Economic Development Request

12

FY 2015 Recurring Appropriations	<b>\$ 8,801,000</b>
Incremental Funds	<b><u>154,018</u></b>
Proposed Total Appropriations	<b>\$ 8,955,018</b>

# New Request for Performance-based Funding

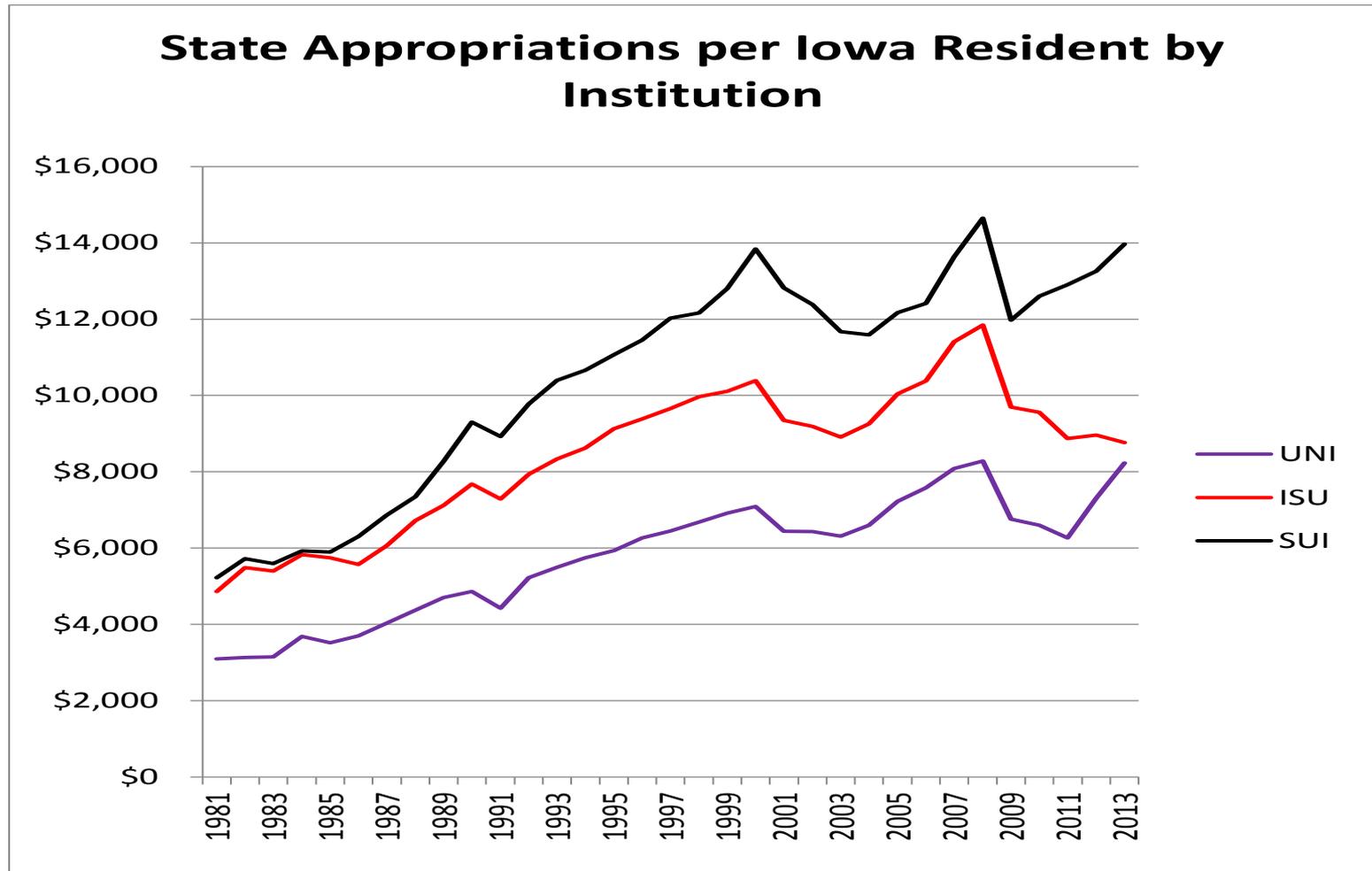
13





# Appropriations per University

15



# Performance-based Metrics

16

60%	ENROLLMENT
15%	PROGRESS AND ATTAINMENT
	▪ 5% Student Credit Hours
	▪ 10% Number of Graduates
10%	ACCESS
5%	GRADUATE AND PROFESSIONAL STUDENTS
5%	SPONSORED RESEARCH
5%	REGENT SELECTED METRICS
100%	

METRICS BASED ON IOWA RESIDENTS

# Applying Performance-based Metrics

17

## Percentage of Appropriations

	SUI	ISU	UNI
<b>Current Distribution</b>	<b>46.09%</b>	<b>36.11%</b>	<b>17.80%</b>
<b>Redistribution</b>	<b><u>36.97%</u></b>	<b><u>40.59%</u></b>	<b><u>22.44%</u></b>
	<b>-9.11%</b>	<b>4.47%</b>	<b>4.64%</b>

# Performance-based Funding Appropriations Request

18

Iowa State University	<b>\$ 6,366,298</b>
University of Northern Iowa	<b><u>6,605,600</u></b>
Proposed Total Funding for PBF	<b>\$ 12,971,898</b>

# Total General Fund Appropriations Request

19

FY 2015 Recurring Appropriations	\$627,099,734
University Incremental Funds	10,251,500
Special Schools Incremental Funds	532,304
Strategic Initiatives	10,523,500
Performance-based Funding	12,971,898
Iowa Public Radio Incremental Funds	59,897
Tuition Replacement Incremental Funds	<u>502,126</u>
Proposed Total Appropriations	\$661,940,959
Total Requested Increase	<b>\$ 34,841,225</b>

**Governing Iowa's public  
universities and special schools**

University of Iowa  
Iowa State University  
University of Northern Iowa  
Iowa School for the Deaf  
Iowa Braille and Sight Saving School  
Lakeside Laboratory Regents Resource Center  
Northwest Iowa Regents Resource Center  
Quad-Cities Graduate Center  
Southwest Iowa Regents Resource Center



**BOARD OF  
REGENTS**  
STATE OF IOWA

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Robert Donley, Executive Director

October 14, 2014

Honorable Members of the Iowa General Assembly  
State of Iowa  
State Capitol Building  
Des Moines, IA 50319

Dear Senators and Representatives:

We are writing to outline the Board of Regents new Performance Based Funding model adopted in September and to urge you to adopt a budget that reflects that model during the upcoming legislative session.

More than 30 states have now adopted some form of performance funding while several others are discussing the idea. These states have discovered there is no tool more powerful than constructing a budget that rewards public higher education for achieving the goals and priorities established by policy makers. With that in mind, the Board of Regents appointed a Performance-based Revenue Model Task Force chaired by former Regent David Miles. The task force spent several months hearing expert testimony from speakers from across the country and reviewing best practices in other states.

After considerable deliberation, the Task Force recommended a performance model that ties 60 percent of state funding to resident enrollment and 40 percent to outcome metrics that reflect the priorities of the Board and the state of Iowa. This model provides equity across the universities and creates a direct link between state taxpayer dollars and Iowa students. It moves away from the long-standing practice of determining the universities' annual budget request by simply seeking greater funding than the year before; a model that is outdated and no longer serves institutions or the taxpayers.

The Performance Based Funding model rewards the universities for improving timely graduation rates and access for veterans, minorities, and low-income families. It also recognizes the unique mission of each institution by including a metric for sponsored research and graduate and professional students. This approach is intended to reward each institution based on their strengths not to create competition between them.

Under the new formula the University of Northern Iowa would receive an additional \$23.6 million, Iowa State would receive an additional \$22.8 million, and the University of Iowa would see a decrease of \$46.4 million. In order to minimize the impact, the Board of Regents voted to cap reallocation annually at 2% of the University of Iowa's general education revenues, which is \$12.9 million in the first year. The Board requests the Iowa Legislature serve as a partner in the transition to Performance Based

Funding by providing supplemental funding of that amount to avoid any short-term disruptions caused by the reallocation.

We, the board and University Presidents, believe this new model is equitable and transparent while demonstrating accountability to the legislature, governor, and citizens of Iowa. We appreciate the Iowa General Assembly's consideration and welcome any questions over the coming weeks.

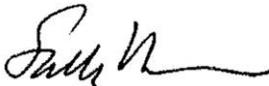
Sincerely,



Bruce L. Rastetter  
Board President



Katie Mulholland  
President Pro Temp



Sally Mason  
President  
University of Iowa



Steven Leath  
President  
Iowa State University



Bill Ruud  
President  
University of Northern  
Iowa