

Performance-based funding: What it is and why it's important

By Anne Krapfl
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Budget building underway now for the fiscal year that begins July 1, 2015, will use a new formula for sharing the general university appropriation from the state among the three public universities. The formula, which rewards the universities for meeting state Board of Regents priorities, was developed by a board-appointed task force and approved by the board in June. Since it would move tens of millions of dollars from the University of Iowa to Iowa State and the University of Northern Iowa, the model has created controversy. In this Q&A, Inside summarizes the new model and the funding inequity it corrects.*

How important is general university funding to Iowa State's overall budget?

Iowa State's FY15 general university allocation, \$180.9 million, represents about 28 percent of its operating budget (which excludes auxiliary units and restricted funds). By comparison, tuition revenues represent about 58 percent of the budget.

How has that funding traditionally been allocated?

Dating back to the 1940s, the schools shared the general university appropriation on a perceived 40 percent/40 percent/20 percent (Iowa/Iowa State/Northern Iowa) split. The actual allocations have deviated over time. For example, this year's (FY15) \$501 million appropriation is divided on a 46 percent/36 percent/18 percent split, mirroring at least the last 15 years. In real dollars, it sent \$230.9 million to Iowa, \$180.9 million to Iowa State and \$89.2 million to Northern Iowa this year.

Even a true 40-40-20 split, over the last five years alone would have sent \$85 million more in state support to Iowa State and \$66 million more to Northern Iowa. On average, about \$30 million each year was allocated instead to Iowa.

Responses in this Q&A were pulled from task force and board of regents documents and discussions. Assistant vice president for financial planning and budgets Dave Biedenbach also provided information.

What's the rationale for that split?

Neither the Iowa Code nor the regents' policy manual provides guidelines on allocating state appropriations. The current model is simply history-based. Funding increases or decreases each year are increments of the previous year's numbers.

Since the 1960s and 70s, many states have based at least part of their appropriations on student enrollment. Iowa never did; however, enrollment is the basis for 75 percent of each school's allocation in the new model.

How does an enrollment-based formula affect Iowa State?

Currently, it benefits Iowa State, which has both the largest student body and the highest in-state enrollment of the three regent universities. The chart below illustrates the inequity in this year's general university allocations, relative to the number of in-state students being served. The historical "base-plus" funding model is in place this year.

General university state support for resident students 2014-15

	UI	ISU	UNI
General University allocation	\$230,923,005	\$180,945,807	\$89,176,732
Resident students	16,916	19,850	10,842
Resident student FTEs	15,346	19,005	9,502
\$\$/Resident FTE	\$14,469	\$9,155	\$8,758

How does the new funding model correct the inequity?

Generally, it awards dollars to schools that are educating in-state students, including some high-priority student populations. Universities need to not only enroll resident students, but also graduate them.

If the funding formula were implemented in a single year, board data this fall indicates an estimated \$46.5 million would have to move from Iowa to Iowa State and Northern Iowa on July 1, 2015 -- and about \$22.8 million of that would come to ISU. However, to avoid dramatic revenue swings, the board's three-year implementation plan limits reallocations to 2 percent of a school's 2013 operating revenues. That translates to no more than \$12.9 million moving from Iowa to the other two universities in a single year. About \$6.3 million of that should come to Iowa State on July 1.

The board's FY16 funding request to the state (submitted in September) is based on the new model and actually asks the 2015 Legislature for \$12.9 million specifically to implement it without taking funds from Iowa. This request is part of a broader board strategy to recover about \$75 million in state support for the regents universities still not recouped from even deeper budget cuts and reversions during fiscal years 2010-12.

Does the new funding model need legislative approval?

The mechanics of the funding model do not require legislative approval. However, the Iowa Legislature has sole appropriating authority and must approve the allocation of state dollars to the three public universities.

What priorities does the funding model encourage?

The model's metrics reflect the board's current [strategic plan](#) (PDF), which has a focus on accessible, affordable education for Iowa residents, educational excellence and support for the state's economic development. The general university appropriation will be distributed using this formula:

- 60 percent: Universities' enrollment of resident students
- 5 percent: Universities' enrollment specifically of graduate and professional resident students
- 10 percent: Accessibility, measured by universities' enrollment of four targeted resident student populations (low income, ethnic minority, veteran and Iowa community college transfer students)
- 5 percent: Progress to degree by resident undergraduate students, measured by the number who have completed thresholds of 24-48-72 credit hours
- 10 percent: Degrees completed by resident students
- 5 percent: Sponsored research levels, recognizing universities' contributions to state economic development
- 5 percent: University-specific metrics set by the regents

What's happened with the new funding model since the board approved it?

The board approved the funding model on June 4, and over the summer representatives from the three universities and the board office recommended definitions for each metric. The board approved these [definitions](#) (PDF, pp. 38-39) at its Sept. 10 meeting. Associate vice president for business and finance Pam Cain and assistant vice president for financial planning and budgets Dave Biedenbach were Iowa State's members on this team.

On Oct. 27, the regents sent to every legislative member a [letter](#) (PDF) endorsing the performance-based funding model. In addition to board leaders, the three regent university presidents signed the letter. It states that "this model provides equity across the universities and creates a direct link between state taxpayer dollars and Iowa students." It concludes that the model "demonstrates accountability to the legislature, governor and citizens of Iowa."

The University of Iowa offers most of the state's professional programs, including dentistry, medicine, pharmacy and law. Given the additional expense inherent in these programs, should Iowa receive more state support?

Students enrolled in professional programs at both Iowa State and Iowa pay higher tuition to account for the higher cost of these programs. In nearly all cases, the tuition assessed to resident students does not cover the entire cost of the program, and some state support is necessary to fully fund the program. In the new funding model, the state subsidy counts graduate and professional students twice:

- The 60 percent allocation is based on all resident students -- undergraduate, graduate and professional
- An additional 5 percent allocation, which is based only on graduate and professional resident students, is intended to recognize the higher cost of their programs

Does the new model discourage universities from recruiting nonresident students?

No. Board policy mandates that tuition assessed to nonresident students must at least cover the cost of instruction. So, the revenue contributed by nonresident students through higher tuition rates should continue to meet or exceed the revenue contributed by resident students through tuition and state appropriations. There is not a financial disincentive to recruit nonresident students.

Nor is it behind the intent of the new model. In its [final report](#) (PDF) last May, the task force noted that "too narrow a focus on enrolling resident Iowans would not be a positive step for our state," for several reasons:

- Students from other parts of the country and the world bring diversity and energy that benefit Iowa resident students
- Iowa ranks seventh among the 50 states for its "net importation" of college students, which spurs the Iowa economy and – when graduates remain in Iowa – boosts the state's college-educated population
- Heated competition for resident students, either among the regent universities or between the regent universities, private colleges and community colleges, isn't healthy for the state's higher education system
- The number of college-age Iowa residents is projected to fall 17 percent by 2030

**The funding formula applies only to the state's general university appropriation. All three universities receive other state education appropriations for specific programs or units. Examples include the state hygienic lab and Center for Biocatalysis (Iowa), the Ag Experiment Station and livestock disease research (Iowa State), and the STEM collaborative initiative and Recycling and Reuse Center (Northern Iowa).*

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