

## AGENDA

Meeting of the Board of Trustees  
of Southern Illinois University  
Wednesday, February 13, 2019  
2:00 p.m., Birger Hall, Special Events Room,  
Southern Illinois University Edwardsville  
Edwardsville, Illinois

Roll Call

### OPEN MEETING ITEMS

- A. Public Comments and Questions
- B. Higher Learning Commission Report
- C. Export Control
- D. Discussion of Status of Fund Allocation Study
- E. Nursing in Carbondale Discussion
- F. Motion to Close the Meeting to the Public (Executive Session)

### EXECUTIVE SESSION

- A. Consideration of and information regarding certain matters stated in the meeting notice.

Adjournment

**Southern Illinois University System  
Funding Allocation Study**

**AGB Institutional Strategies  
Interim Draft Report  
December 24, 2018**

**Submitted By:  
Stephen T. Golding, AGB Senior Consultant  
On Behalf of the AGB Team**

## **BACKGROUND**

Southern Illinois University (SIU), a public university system of the State of Illinois, retained the Association of Governing Boards of Universities and Colleges (AGB) to assist its Board of Trustees in examining the University's current methodology for the allocation of its state appropriations to its campuses and administrative sub-units and to consider the exploration of alternative funding methodologies. The motivation for this review is primarily due to the impact of state funding cuts and the demographic and programmatic changes SIU's campus have undergone in recent years.

The SIU divides the System's GO budget into the following five units:

- SIU Carbondale (SIU-C), excluding the SIU School of Medicine
- SIU School of Medicine (SIU-SOM)
- SIU Edwardsville (SIU-E)
- University Administration (Board of Trustees Office, Office of the President, VP for Academic Affairs, VP for Financial and Administrative Affairs.)
- University-Wide Services (General Counsel, Internal Audit, Tax Compliance, Risk Management, Treasury, Shared Services)

The System's current allocation methodology dates back to before 1990 and parallels the method employed by the State in allocating appropriation funding to public universities/systems within the state. Funding for the core instructional activities of the University come through the System's General Operating (GO) budget. The System's GO budget consists of State appropriated funds and the Income Fund, a Fund made up primarily of tuition. Clinical operating revenues, with tuition and some state appropriation, support the professional programs in dentistry and medicine. Operating support for the University Administration and University-Wide Services primarily comes from an allocation of the state appropriation.

## **SCOPE OF SERVICES**

The AGB Southern Illinois engagement envisions a collaborative process, in consultation with SIU's Board of Trustees and key administrative leadership, involving review of the System and its Campuses and/or Subunits to determine:

- a) Additional key factors that may be considered in the allocation of state appropriations among the five SIU subunits;
  - What additional relevant allocation factors should be included in a funding allocation methodology – e.g., enrollment, deferred maintenance, and others AGB believes worthy of consideration;
- b) Provide recommended alternative funding methods that include using the key factors as determined by the Board;
  - How additional factors should be weighed /prioritized for each campus;
  - How a change in current allocation methods would impact campuses or system;
- c) Provide a plan for phased implementation of the final funding allocation method, if needed;
  - What a pathway to realigning to a new allocation distribution model or methodology would look like for each campus; and
- d) Provide SIU with the tools necessary to prepare the funding allocation in future years, as needed.

- How to phase-in a revised funding model approach that supports the System and Board's strategic priorities and accommodates campus needs and current operational structures?

### **INITIAL PHASE OF WORK**

AGB's initial phase of work included thirteen interviews with board members, the President, Chancellor of the Edwardsville Campus (SIU-E), the Provost and others from the Carbondale Campus (SIU-C), the Dean/Provost/CEO of the School of Medicine (SIU-SOM) and SIU Medicine clinical practice and representatives from the SIU System Office. The interviews took place over three weeks, including in-person and conference calls based upon individual availability. Each interview lasted approximately an hour and helped the AGB team gain a historical perspective of SIU's state appropriation and a status report of each of SIU's campuses (SIU-C, SIU-E and SOM). The AGB team further sought to hear individual interviewee's perspectives regarding the need for a funding formula and which elements interviewees felt should be include; as well as other any other topics that the interviewees wished to share regarding how best to move this project forward.

The AGB team members were impressed with the forthrightness of the interviews and the knowledge of the interviewees. From these interviews, the AGB team has prepared this "preliminary" report of what we heard, a list of some of the team's key observations and some thoughts about how the team believes phase two should proceed which will inform the balance of this report and recommendations for any changes to the funding model. The AGB team is sharing these with the SIU team to validate what the team heard and clarify where appropriate, as well as to ensure as the project moves to phase two we are operating with the same set of understandings and expected outcomes. The team further hopes these will frame our discussions moving forward in order to achieve the best results for SIU.

### **WHAT DID WE HEAR**

During the course of our interviews, the AGB team consistently heard that SIU historically has had no fixed formula for either the funding it receives from the state or the internal appropriation process for giving those funds to the campuses other than base plus annual increment. The team heard that when dealing with the state budget cuts over the last decade, the System Office assessed these on a pro rata basis as a percentage of the state funds received by an individual campus or operating unit. Moreover, the financial data shared with the AGB team highlighted the fiscal pressure individual campuses are currently experiencing as SIU's state funding has shrunk as a percentage of revenue and student tuition dollars now represents approximately fifty percent of the System's General Operating Budget.

Interviewees alluded to these financial pressures when noting that the current proposal of linking SIU's internal allocation of state funds to student population was a recently conceived notion that "might" have merit, but in most people's opinion required additional investigation. A majority of these individuals felt a formula held the potential of promoting greater transparency regarding the allocation of state funding, but emphasized any formula adopted had to be "fair", "equitable", "explainable", "justifiable" and "adaptable" to changing economic conditions. While agreeing that a funding formula had merit, several interviewees also raised a question as to whether a "Unitary" budget might better serve SIU and permit board members to better exercise their fiduciary responsibilities. They recognized this would represent a radical departure from past business practices, but interviewees wanted to underscore the limited resources available to the Board to strategically steer the System and incentivizes campuses to support Board priorities for the System.

When explicitly asked as to what they would like to see included in a funding formula, there was less consistency – after enrollment and deferred maintenance (see Footnote) – in the interviewees’ responses. Here the AGB team heard everything from (a) campus access and diversity, (b) deferred maintenance and size of physical plant, (c) research and research efficiency, (d) support for public service mission, (e) economic impact on local communities – e.g., jobs, regional cost of living, and costs associated with community-based program delivery, etc., to (f) graduation and retention rates. Some interviewees had a more extensive list, while others were more limited in scope. There was a recognition that the longer the list of variables the more complex the formula. The concern expressed was the potential negative affect on the desired goals of transparency and flexibility to adapt to changing economic and pedagogical circumstances. In summary, it would appear most interviewees saw that the real challenge for implementing any formula was to keep it simple enough to be transparent and understandable, while sufficiently multi-dimensional to represent the diversity of needs across the campuses and cost centers. The AGB team believes this last point is important. Most interviewees stressed that SIU-C and SIU-E have some distinctive characteristics, but there was not unanimity as to how they saw incorporating, if at all, these difference as part of a restructuring of the System’s internal funding allocation.

A number of interviewees also talked about the organizational dynamics of the Board. The AGB team heard that board members today more routinely represent individual campuses rather than the SIU System when carrying out board business. Interviewees felt this was a divergence from past historical practices and they expressed concern that this detracted from the Board’s ability to function and focus on strengthening SIU as a system and look for opportunities to diversify and grow revenues system-wide by prioritizing cross-campus collaborations that leverage the peculiar strengths of an individual campus. Several interviewees observed these tendencies periodically led to tension among the system office, current system leadership, SIU-C and SIU-E, individual board members and campus constituency groups. The concerns expressed related to the Board’s ability to reach agreement on any funding formula if these conditions persisted.

There were also conversations around certain tangential issues that the AGB team wanted to take note of and share with the SIU team. These included:

- A. Several interviewees raised concerns about the integrity of the data provided by the campuses and IBHE in terms of relying on it to inform a new funding formula and suggested this was an area requiring additional review.
- B. There was significant conversation about whether there will be a Higher Education Capital Bill with the new administration in Springfield and what that might mean for the SIU System and a new funding formula.
- C. Several of the interviewees believe the System Offices might perceptually be better located in Springfield and not so closely associated with Carbondale.
- D. A number of interviewees raised the issue of board member transition under the next administration and wondered whether potential changes might affect the scope of the project?
- E. There was interest among some interviewees in exploring the possible creation of incentive-based funding the Board could use to encourage campus program development and new revenue generation.

Footnote: In talking about Deferred Maintenance interviewees talked about both operating dollars and capital dollars to address the challenges facing SIU-C. Before adopting any funding formula, it will be important to understand exactly what the state operating appropriations is intended to support.

- F. Interviewees were clear that at present “inter-campus collaborations” were personality driven; they did not see them as integral to the Board’s strategic priorities and did not see the System Office as playing any significant role here.
- G. Noting F above, the AGB team heard about a number of opportunities for cross-campus collaborations – particularly with the School of Medicine.

A theme several of interviewees emphasized to the AGB team was that the Board should probably adopt a phasing strategy with any new funding formula so as not to exacerbate the challenges SIU-C is currently facing. Interviewees, however, were also clear that a new funding formula if adopted should not reward inaction, but rather provide incentives to complete the restructuring most felt needed to take place in a timely manner.

### **SUMMARY of KEY OBSERVATIONS**

- As a system, SIU is competitively stronger and enhanced if the Board focuses on developing System strategic priorities that leverage the strengths of individual campuses
- The SIU Board would be well served to articulate a clear vision for SIU as a system and develop concise statements as to how the individual campuses – SIU-C, SIU-E and SIU-SOM – contribute to achieving the Board’s strategic goals and objectives for the System as a whole
- Board agreement on a “fair”, “equitable”, “explainable”, “justifiable” and “adaptable” to changing economic conditions funding formula will be difficult to reach without clarity as to what the formula is supporting systemically and by individual campus and thus measurable
- A new funding formula, if adopted, should be simple enough to promote transparency and be understandable, while sufficiently multi-dimensional to represent the diversity among the campuses and cost centers.
- Any new funding formula adopted needs to incentivize institutionally promoted outcomes across a broad spectrum of activities – instruction, research, community outreach, student Success, etc.
- The Board cannot pursue system strategic priorities without resources; any funding formula the Board adopts should consider a carve out for board investment funds

### **NEXT STEPS**

Having listened to the interviewees and discussed their thoughts and observations, it is clear to the AGB team that implementing a funding formula for the SIU System and its campuses has merit. Having said that, it is also clear to the AGB team that what a funding formula methodology should look like and what variables to include, beyond enrollment and deferred maintenance, are still open questions. Additionally, the AGB team understands that any funding formula adopted that does more than “protect the base” will require accommodations on the part of individual board members, as well as SIU’s respective campuses and their constituency groups. AGB believes more groundwork is required to achieve the consensus necessary to adopt an effective funding formula.

This is important from the AGB team’s perspective because research regarding higher education funding formulas provides numerous examples of both good formulas and bad formulas. In almost all the cases, a good formula has a number of mutually agreed upon key performance based attributes that promote positive outcomes. These attributes must be both “substantive” and “operational.” Achieving these attributes within the SIU System require additional conversation with the SIU Board and campus

leadership. The first three substantive attributes, along with the operational considerations defined below, provide a simple framework for evaluating any proposed funding formula matrix that goes beyond enrollment as the primary driver.

- The first relates to **Alignment** with an institution’s policy goals and objectives. A funding formula needs to align with and incentivize institutional priorities and outcomes whether they be teaching, research, public service, etc. as a basic performance metric in determining the effectiveness of the formula. (See [Appendix A](#)) Having a well-articulated set of policy goals and objectives for a system and/or individual campuses is, therefore, critical to designing a funding formula that will achieve the desired outcomes.
- A second attribute is **Attainment** –i.e. to be effective a funding model needs to promote the attainment of explicitly stated educational goals and objectives, both a system as well as individual campuses. Being clear about educational priorities whether they be access, affordability, completion, quality, etc. is another basic performance metric in determining a formula’s effectiveness in achieving the desired outcomes.
- While a third attribute is **Quality**, which simplistically stated is not losing sight of the need to provide incentives to maintain institutional quality, while pursuing the first two goals and objectives. Therefore, having clearly articulated quality metrics and being able to measure them is another important component to building an effective funding formula.

As noted above, the first three attributes related to qualitative outcomes while the final three operational components are equally important in helping to define critical characteristics of any new funding formula the SIU Board may consider.

- The first of these is **Clarity** as discussed above, which is the resistance of building an overly complicated set of performance criteria to satisfy multiple-disparate constituency groups with the unintended consequence of falling into the trap of limiting the formula’s transparency and explainability.
- A second operational attribute, and an important one to consider, is **Differentiation** or for a funding model to be fair and equitable, it should have the ability to differentiate between various campuses given their different public policy and/or educational goals and objectives, etc.
- Finally, any funding formula adopted must have **Scale** – i.e. the resources allocation methodology must have sufficient size and stability to incentivize and promote the desired institutional outcomes.

AGB firmly believes that in order for the SIU Board to adopt a workable funding formula that is “fair”, “equitable”, “explainable”, and “justifiable” it will be essential that they reach agreement on a set of questions that fill in the following matrix. These questions include, but are not limited to the following:

1. Should the Board adopt a strategic goals and objectives for the System and each of the individual campuses? If so, what should these strategic goals and priorities include – i.e.
  - a. Campus access and diversity
  - b. Deferred maintenance and size of physical plant,
  - c. Research and research efficiency,
  - d. Support for public service mission,
  - e. Economic impact on local communities – e.g., jobs, regional cost of living, and costs associated with community-based program delivery, etc., and

f. Graduation and retention rates.

- How has the Board and campuses prioritized their own individual goals and objectives?
2. When evaluating outcomes, how does SIU’s Board and the individual campuses prioritize attainment goals such as access, affordability, completion, academic quality, etc.? Are System goals different from individual campus goals and should the System incentivize the campuses to adopt system-wide goals and objectives as a component of their operating plans?
  3. How would the Board and campus leadership define SIU’s quality metrics? Are these metrics different for SIU-C, SIU-E and SIU-SOM? If so, how so?
  4. From the SIU Board’s perspective, are transparency and explainability a higher priority than most of their substantive goals and objectives, such that adopting a more simplistic formula is politically more acceptable than trying to incentivize too many of the alignment and attainment goals?
  5. Does the SIU Board accept the notion that SIU-C, SIU-E and SIU-SOM each have their own unique characteristics that differentiate their role and mission? If there are unique characteristics, does the Board agree that any funding formula adopted should incorporate the philosophy of *Verticle Equity* – different treatment for different institutions versus *Horizontal Equity* –equal treatment of equal institutions?
  6. Does the SIU Board believe it should have its own investment pool to incentivize System goals and objectives? How large should this investment pool be? Should it be just SIU’s state appropriation or a percentage of the System’s total budget? For what should these funds be use – i.e. strategic grow, inter-campus collaboration, strategic restructuring, etc.?

**Board Matrix**

<b><u>ATTRIBUTES</u></b>	<b><u>SIU-SYSTEM</u></b>	<b><u>SIU-C</u></b>	<b><u>SIU-E</u></b>	<b><u>SIU-SOM</u></b>
<b>Alignment</b>				
<b>Attainment</b>				
<b>Quality</b>				
<b>Clarity</b>				
<b>Differentiation</b>				
<b>Scale</b>				

The three methodologies listed below, based on a review of the higher education literature, represent a majority of the funding methodologies currently used by either states or systems to allocate appropriation funding to public institutions across the country. The AGB team has not identified any one methodology as being better suited for SIU at this juncture, but once the SIU Board has completed the above matrix, it will then be possible to engage in a discussion as to which of the three funding methodologies below may best meet SIU’s needs. They could then be tested using institutional data to assess which provides the preferred outcomes.

- **Rate per Base Factor Unit Methodology** – using a base factor such as credit hour or full-time equivalent student, multiples this factor by a specific unit rate to give it a value. The unit rate has been established using analytical date and may differentiate based on discipline, level of instruction or type of institution



- **Percentage of Base Factor Methodology** – assumes there is a specific relationship between a certain base factor – e.g., faculty salaries and a specific activity – e.g., academic support.
- **Base Factor-Position Ration with Salary Rates Methodology** – based on a predetermined “optimum” ration between a base factor and the number of personnel – e.g., student-faculty ratio or credit hour per faculty ratio.

Each of these methodologies will require its own individual weighting algorithms, and this will require a separate discussion with the Board and Institutional Research in order to determine SIU’s values for each of the variable included in the formula related to all the other variables. The simplest example – how to link SIU’s enrollment data to instruction costs – i.e. faculty (could be broader) - and differentiating between SIU’s average cost of upper and lower course and the teaching of first and second year students versus juniors and seniors or masters and PhD. candidates. Interestingly, there is no one accepted formula for weighting these elements and in fact, the literature suggests there are as many weighting algorithms as there are funding formulas. The AGB team believes choosing the preferred methodology along with developing an appropriate set of weighting algorithms for SIU should probably wait until after the completion of Board Matrix highlighted above.

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**APPENDIX A**

<b>Components of Institutional Funding Formulas</b>	<b>Includes</b>	<b>Typical Models for Calculating Funding Levels</b>
<b>Instruction</b>	Activities associated with an institution's instructional programs	<ul style="list-style-type: none"> <li>• Conversion of student enrollment credit hours into FTE faculty positions using a ratio, then establishing a set amount of funding per faculty position (using various methods)</li> <li>• Calculate enrolled or completed student credit hours, then use a per credit hour cost matrix to establish funding levels (based on program cost analysis)</li> </ul>
<b>Operations &amp; Maintenance of Physical Plant</b>	Physical plant administration, utilities, building maintenance, custodial services, landscaping & grounds maintenance and repairs and renovations	<ul style="list-style-type: none"> <li>• Calculate funding based on actual building square footage</li> <li>• Calculate funding based on an estimate of square feet needed based on enrollment levels</li> </ul>
<b>Academic Support</b>	Support for the institution's primary academic mission such as IT equipment support, academic administration and curriculum development and support	<ul style="list-style-type: none"> <li>• Usually calculated as a specific percentage of the instructional support funding level (and therefore tied to enrollment levels)</li> </ul>
<b>Library Support</b>	Library services	<ul style="list-style-type: none"> <li>• Calculate funding based on student headcount</li> <li>• Calculate funding based on percentage of the instructional support funding level (and therefore tied to enrollment levels)</li> <li>• This can also be part of the Academic Support funding formula (and thus tied to faculty headcount)</li> </ul>
<b>Student Services</b>	Admissions, registrar, student services & activities outside of the classroom	<ul style="list-style-type: none"> <li>• Calculate funding based on a percentage of the instructional support funding level (and therefore tied to enrollment levels)</li> <li>• Calculate funding based on student headcount or enrollment</li> </ul>
<b>Institutional Support</b>	Central, executive-level activities related to management and long-range planning and all other non-academic administrative functions	<ul style="list-style-type: none"> <li>• Calculate funding based on a percentage of the instructional support funding level (and therefore tied to enrollment levels)</li> </ul>
<b>Public Service</b>	Institution based public services and community based outreach	<ul style="list-style-type: none"> <li>• Calculate funding based on a percentage of the instructional support funding level (and therefore tied to enrollment)</li> </ul>
<b>Research</b>	Support for institutional research activities	<ul style="list-style-type: none"> <li>• Calculate funding based on a percentage of the instructional support funding level (and therefore tied to enrollment levels)</li> </ul>