

July 10, 2014

Honorable Governor Terry Branstad
State Capitol
1007 East Grand
Des Moines, Iowa 50319

Dear Governor Branstad:

Re: Regent Funding Proposal

I've been planning to make this contact with you after the legislature had an opportunity to 'ver' the information. The morning paper moves this up.

You should be disappointed on a number of levels as the process was flawed.

The April 2013 Regent minutes show Chairman Lang making the assignment that:

- Funds support the three distinct missions
- Future funding needs for each campus be considered
- Link dollars more directly to priorities
- Help UNI adjust to recent budget cuts
- Large allocations would not move from one Regent university to the other
- Nine person task force would provide balance.

When asked, I volunteered to help with the project. My years of financial/budget experience at Maytag helped provide me with comfort as to the task at hand. NONE of the above happened as scripted. Enter Rastetter/Miles. The task force was 5 members with a quick 2 to 1 core (UNI/ISU) viewpoint developing. Additionally, the '2' had a professional relationship I would consider a conflict of interest. The assignment I thought I signed up for was quickly reduced to one word - redistribution.

The three Presidents were invited to our March task force meeting to give us their views on performance based budgeting. The meeting promptly morphed into a 2 to 1 with ISU/UNI proposing a \$50 million takeaway from UI to be split between them. I thought it was unprofessional and unwarranted and advised Chairman Miles of my disappointment. The Iowa resident only rationale had census numbers which helped them accomplish their goal. Discussion of 'why' UI had managed down to their student capacity following the 2008 flood was of no interest. The diminished base period suited their one goal - redistribution. Game over!

If this proposal met the Lang goals, and it provided reasonable funding increases to UNI and ISU, leaving UI alone, it would be acceptable.

The proposal's unintended consequences are starting to show. They appear 'politically' unacceptable:

- Spending competing tax dollars on marketing vs. teaching.
- Initiating border wars between the sister Regent schools, 15 community colleges and 27 privates, with a blanket of campuses all across the state.
- Just over 6,000 Iowa residents enroll at the three Regent schools each year. Divide that three ways and moving just a few hundred students has huge leverage from using such a small number as the basis of allocating \$450-\$500 million. It's significant 'bait' for mismanagement.
- My recent DSM Register Op Ed on return on investment, etc.

Jan Staller

UNI

- Declining enrollment
- Legacy competition w/2 regents, 30 private, 15 CC to achieve K-12 certification
- Aid to students - % of operating budget support = ½ of AAU support (? \$10M need)
- Resident tuition lock w/UI-ISU. Border state practice 10-20% lower for comprehensives (review w/budget model)
- Differential tuition opportunity – regent AAU’s 15 steps, UNI 4 steps
- Research grants – Rate – 50% of state allocation
- State support – 2009 – \$98M – 59% of Budget, 2014 - \$89M – 54% of Budget
- McKibben cost questions should precede this effort – 4 colleges ‘on review’. Also hourly salary %/Revenue – HIGH
- Residents only funding scheme proposed by Rudd – TAKE \$60 million from UI – split w/ISU very self-serving
- Most similar to K-12 funding system – imposed on AAU – most favorable to UNI
- Mission statement – Teachers college legacy – now broader – residency not mentioned
- Difficult structural position – lack of revenue sources – non-resident/differential tuition – grant admin.
- ? Divert registrations from ISU to UNI - ?Deloitte

ONE SIZE DOES NOT FIT ALL

This proposal should be defeated.

A better way to fund UNI is available.

ISU

- Land grant legacy – AAU accredited – Mission: teaching – research - service
- 2004 Enrollment declines – Geoffrey initiatives – recruiting, CC articulation, program excellence - Leath (2011) aggressively pursued from 26,000 levels – engr./ag. business gains
- Enrollment – problem self-induced – outrun headlights? – bldg., faculty, housing - ? refusal to share recruiting method
- Undergrad ratio to PhD/Prof. very different from UI. ISU undergrad census higher, PhD/Prof. lower. Weighted cost of instruction - undergrad costs per student lower – 1.0, 2.0, 3.5 (Calif. 5.0)
- State allocation has been 33% of operating budget
- Ratio of research grant dollars received to state allocation is 2X – Good – Economic Development
- \$ “Below” the GEF line to total state allocations = UI +5%, UNI +5% , ISU +31% (10% to Extension Service)
- Accounting anomaly – Ag Research station = partial allocations of 275 professors (\$28 million) outside of General Education Fund. This 17% should be IN the GEF to be consistent w/UI.
- Balance sheet inconsistency (2013) ‘fixed’ by state auditor.
- Collaborated w/UNI in ‘takeaway’ proposal of \$23M from UI – “Already has it”.
- A budget model using mechanics identical w/UI can work – generates needed \$ - eliminates arguing – level playing field

UI

- Mason hired 2007
- 2008 flood damaged/destroyed 20 buildings - \$750M – 2016 bldg. completion
- 2009-2012 – state allocation down \$67M
- Enrollment managed to decreased physical, financial capacity – Regent leadership critical of this?!?
- ? Validity of 1981 comparisons (? Market share of residents) – ISU only returned to 1981 resident count in 2012
- Legacy includes 5 health care colleges – limited seats – seat preference to Iowa residents – Mission: teaching – research - service
- Quality never discussed – UI 4-yr. grad rate 51%, UNI/ISU below 40% - PBB ‘penalizes’ UI for this
- ‘Top Ten’ challenge misdirected (research vs. under grad.)
- Proposed ‘takeaway’ is equivalent to Tippie Business Annual budget - \$47M - Pain – Have to? or Want to?
- Budget request – Hold – current allocation – 33% of operating budget
- Ms. Mason’s replacement – This funding issue ‘elephant in room’ – loss of quality resumes
- Economic development – grants over 3X state allocation – 40% of non-resident grads take 1st job in Iowa – brain gain
- UI and ISU research grant dollars are 21X UNI, emphasizing different missions – one size does not fit ALL.

So:

UNI declining – structural - subsidize
 ISU outruns its headlights – common accounting
 UI is supposed to ‘fix’ this?!?

Performance Based Budgeting

- Nice theory to focus on outputs – not inputs
- Most of the new proposal is inputs – enrollment – who is enrolled – etc.
- This was just cover for the real strategy – REDISTRIBUTION – presented in one meeting – not thought out – Devil in the details
- Takes authority away from Presidents – earmarking
- Where is the malperformance justifying UI pain?
- New study available from Columbia Univ. (Nov. '14)
- 27 states have tried it – half have dropped it – several in and out – no silver bullet
- Measurable positive outcomes not clearly established
- Iowa 40% PBB share not clearly established – near Tenn., Miss. (? Goal) – most newcomers do 'toe in the water' – 10%
- Many adopters are states with several UNI's and/or community college funding issues where mechanical budgeting is sought
- The Columbia Study found unintended consequences (rank ordered)
 - a) Admission restrictions – especially less prepared students
 - b) Weakening academic standards – grade inflation
 - c) Higher compliance costs – reducing \$ for teaching
 - d) Lessening of institutional cooperation – sister schools compete for budget dollars
 - e) Narrowing of missions – focusing on fewer programs
 - f) Reduced faculty morale – through less voice in academic governance

Iowa doesn't need/want to go there.

- Minnesota (H.S. grads decline 6,000), Illinois (elite), California (residents are denied seats to attract high tuition non-residents)
- Concerns for private and community college competition – AIB/UI
- Declining/flat H.S. graduating residents – 35,000, ISU study – 44%/4 yr. 15,400, current regent share 7,000, balance to privates, CC, exits
- ‘Pool’ availability – migration reality – Iowa best @ 4 ‘in’ vs. ‘out’ in Midwest 12-state survey
- “Iowa \$ for Iowa Scholars” already in place. Budgets for AAU = one third allocation. Students = over one half residents, no \$ available for non-residents, already compliant w/regent directives on non-resident tuition
- Management – if regents want more emphasis on residents, say so. Policy decision – not a budget hammer.
- Iowa students now have a DEAL - RAI access – prof. school admittance preferences - tuition \$3,000 below peer median – enabled by AAU non-residents - differential tuition - grant admin. funds
- Non-residents are good business as well as a ‘broader’ campus experience for Iowa kids. Encourage! Residents are an obligation - do what is necessary (UNI).
- Fixed/variable ‘Newton’ budget technique available – simple – flexible – places UI/ISU on common basis – UNI separate, as it’s not a research focused university ONE SIZE DOES NOT FIT ALL

Table/defeat – the barn is not on fire.

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REGENT FUNDING MODEL

Enrollment Rationale

The three mission statements make no mention of 'residency'. To support our great universities it is believed that partial state support for the whole university is appropriate. How taxpayer dollars are allocated does not control how spent. At UI and ISU the regent directive that state dollars not support non-residents is verified.

The "Performance Based Budgeting" concept is to focus on outputs (degrees granted, etc.). Enrollment is an input, and this is not "PBF". PBF has been used to sell something it is not. The basic rationale adopted by the regents is "redistribution", not PBF.

In using enrollment as a significant indicator of budget need, President Leath asked it to be calculated as a rolling three-year average. It is to level peaks and is recommended as good management.

P.C.F.T.E. – Col. 1

Health care and mental health institutions use the staffing costs for differing need levels of patient care. This sound practice works here in providing a variable budget base which weights undergrads as 1.0, Masters as 2.0 and upper-level PhD, Professional school students as 3.5. Cost information regularly reported to the BOR verifies these costs. California practices similar weighting, with the Professional students rated at 5.0. The mission differences of UI and ISU are highlighted here with ISU having more undergraduates and UI the larger census of PhD. – Professional. Two of the highest instructional costs/student programs are dentistry and vet medicine. "Acuity" creates P.C.F.T.E (Program Costed F.T.E.) the product of the three-year average X weighting = Column #1.

Fixed Allocation – Col. 2

It is recommended that some direct support for the common activities of libraries and IT departments be provided. Applying the overall state allocation percent to 'Fixed costs' on the three campuses yields the 'fixed' numbers shown in Column #2. California does this, recognizing the differing physical attributes (and size) of its 10 campuses. This practice reduces the enrollment impact to 80% at UI and ISU and 90% at UNI, and "dilutes PBF".

Accounting Commonality

The Ag Experiment Station faculty salary allocations at ISU have not been provided for in past General Education Fund calculations. They are an additional budget line items. At UI they are in GEF. Correcting the ISU allocation to include this activity moves \$28 million into GEF and clarifies the relative funding levels for UI and ISU.

Variable Cost – Col. 3

Variable cost per PCFTE can be 'locked together' for our two AAU research universities. It can generate the needed budget support. This number can be easily adjusted in the annual BOR recommendation, or 'forced' up or down to meet state revenue constraints. 'Fairness' between the two flagships can be policed. It can also be useful in determining tuition changes (or freezes). It is a strong argument for 'common' UI and ISU front door tuition rates for Iowa residents. The two research universities' 'extra income' above resident tuition are the enablers of the lowest in peer group tuition rates for Iowa resident undergraduates.

UNI

UNI has less opportunity for 'premium' tuition income.

- 1) Its enrollment is 90% resident vs.
 - UI @ 55% non-resident
 - ISU @ 60% non-resident
- 2) Extra costs (tuition income) for Masters/PhD/Prof. create PCFTE counts with the following multiples of undergraduates.
 - UI – UG X 2.3 – Heavy census at highest level
 - ISU – UG X 1.5
 - UNI – UG X 1.3
- 3) Differential tuition for undergraduates – examples: UI - fresh/soph pre-business vs. Tippie juniors/seniors, ISU – engr. fresh/soph vs. upper level.

The size, breadth and complexity of the research universities at UI and ISU creates differential tuition schedules with 15 steps at each school. UNI has 4.

The column #2 "fixed rate" proportion of 50% at UNI reflects the current overall level of their state allocation of revenue support.

The column #3 PCFTE multiplier exceeding \$6,000 is arbitrary, but supported by 'needs' outlined by the school that add \$10 million to previous levels of support. Because of the absence of income opportunities available at the research universities, Iowa taxpayers should make this commitment. It is ironic that the income opportunities exploited by the two flagships enables a resident tuition rate that is not only \$3,000 below their peer group median, but forces UNI to a level they cannot afford. A task force focus on future subsidizing UNI was not misdirected. Creating a 'takeaway' from UI is misdirected. The regents (and UNI administration) should be 'cut loose' from the base tuition rate enabled by UI and ISU.

UNI's greatest need (per President Ruud) is enrollment. 'Giving' them \$23 million (from UI) to address that is poorly directed.

Business Investment

From a 'business investment' point of view, grants received are an important value measurement. UI researchers receive grant dollars exceeding 2X the state dollar allocation. ISU grant dollars exceed state allocation. UNI grants are much less than state allocation. Diverting dollars from high return researchers to lower return educators is poor 'business'. UNI dollars must be justified (and are) on its own basis, not a UI takeaway. Research grants are an incredible economic development engine for the state. Additionally, research work opportunity is critical in recruiting the most highly skilled faculty to UI and ISU.

Legislative Allocation

The sum of column #5 would support the total legislative request. Those financial constraints can be easily adjusted in column #3. It can be done 'across the board', or individually by school. If this had been the method in 2009, UNI could have been treated more fairly, without detracting from UI and ISU.

This method could facilitate a UNI 'funding pattern' change in tuition. As a BOR policy change, if UNI had a front door Iowa UG resident rate (\$1,000?) less than UI and ISU, it would more closely mirror the flagship comprehensive tuition pattern of sister states. Rather than freezing all three tuitions, it could become the school of choice for Iowa families struggling to meet these costs. A lower tuition at UNI should not reflect a 'lower quality' degree. It should (my view) be based on 'choice' of course – major availability. The differential tuition schedule of UI/ISU = 15 vs. UNI = 4 highlights this.

The column #3 'rate' would have to be adjusted upward to cover further tuition increases. Installing by several annual steps could avoid disruptions, both enrollment trends and budget pressure.