

Overview of the Current University Funding Model

Open Briefing

April 27, 2015

Purpose

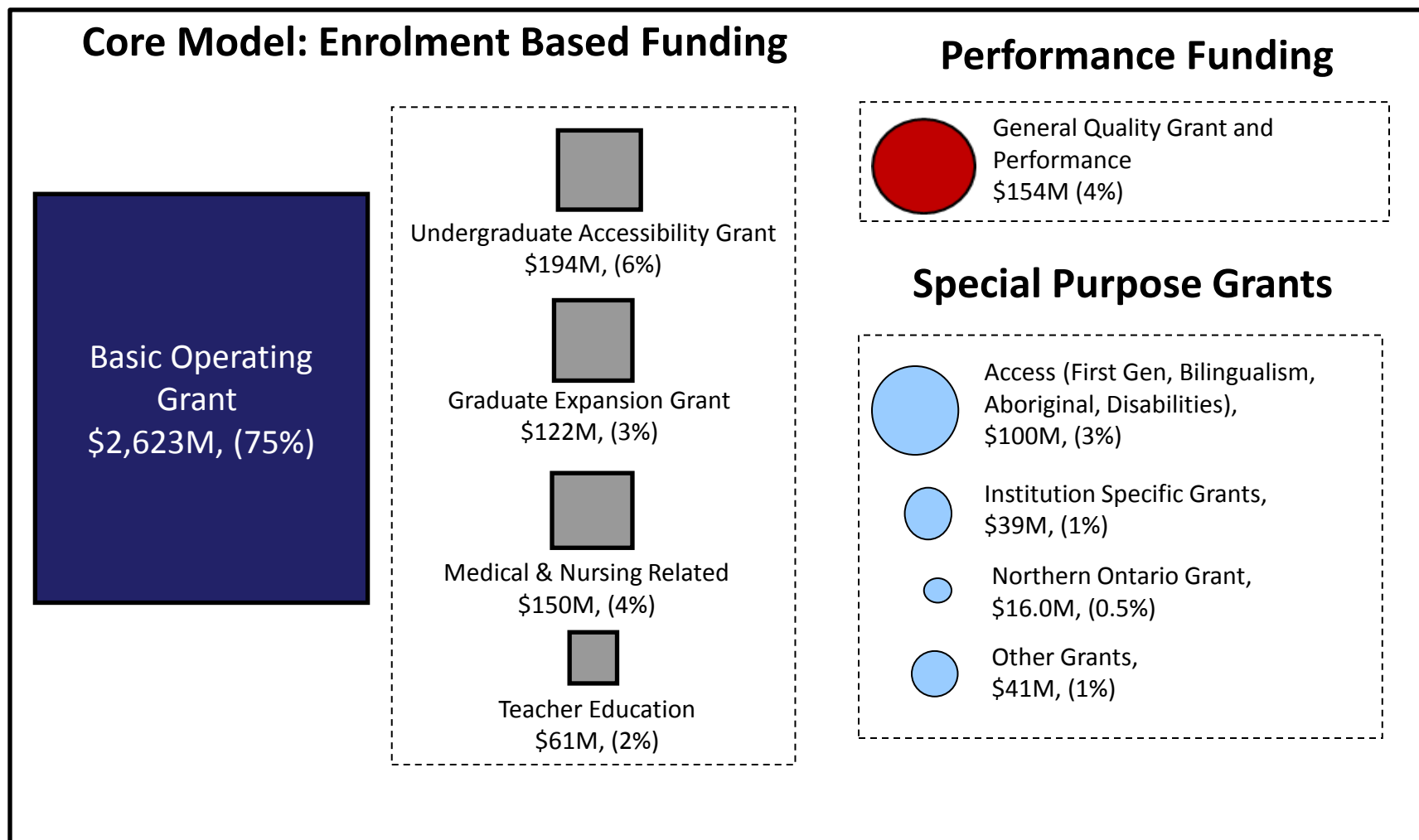
- The purpose of this package is to provide a high level overview of the funding model for universities.
 - » Overview of the operating grants to universities;
 - » Enrolment funding in the current model;
 - » Fundamental concepts and key variables re: enrolment based funding;
 - » Performance funding in the current model;
 - » Special Purpose Grants in the funding model; and
 - » Key strengths and weaknesses of the current model.

Overview of the Current University Funding Model

- Ontario universities are funded through an allocation model developed in 1967.
 - » While modifications have been made over the years, changes were often layered on, without fundamentally changing the core principles or the structure of the model.
- In Ontario, the government is allocating \$3.5 billion in operating grants to universities through a funding model that is made up of:
 - » Basic Operating Grant (BOG), which reflects historic enrolments and related funding levels;
 - » Grants Supporting Growth in Undergraduate and Graduate, as well as targeted grants for medical, nursing and teaching education spaces;
 - » Performance/Accountability Funding; and
 - » Special Purpose Grants (approximately 6% of overall funding) that provide institution specific funding, as well funding for key government priorities.

Overview of the Current Model

Total Projected Funding in 2015-16: \$3.5 billion



Section 1: Basic Operating Grant

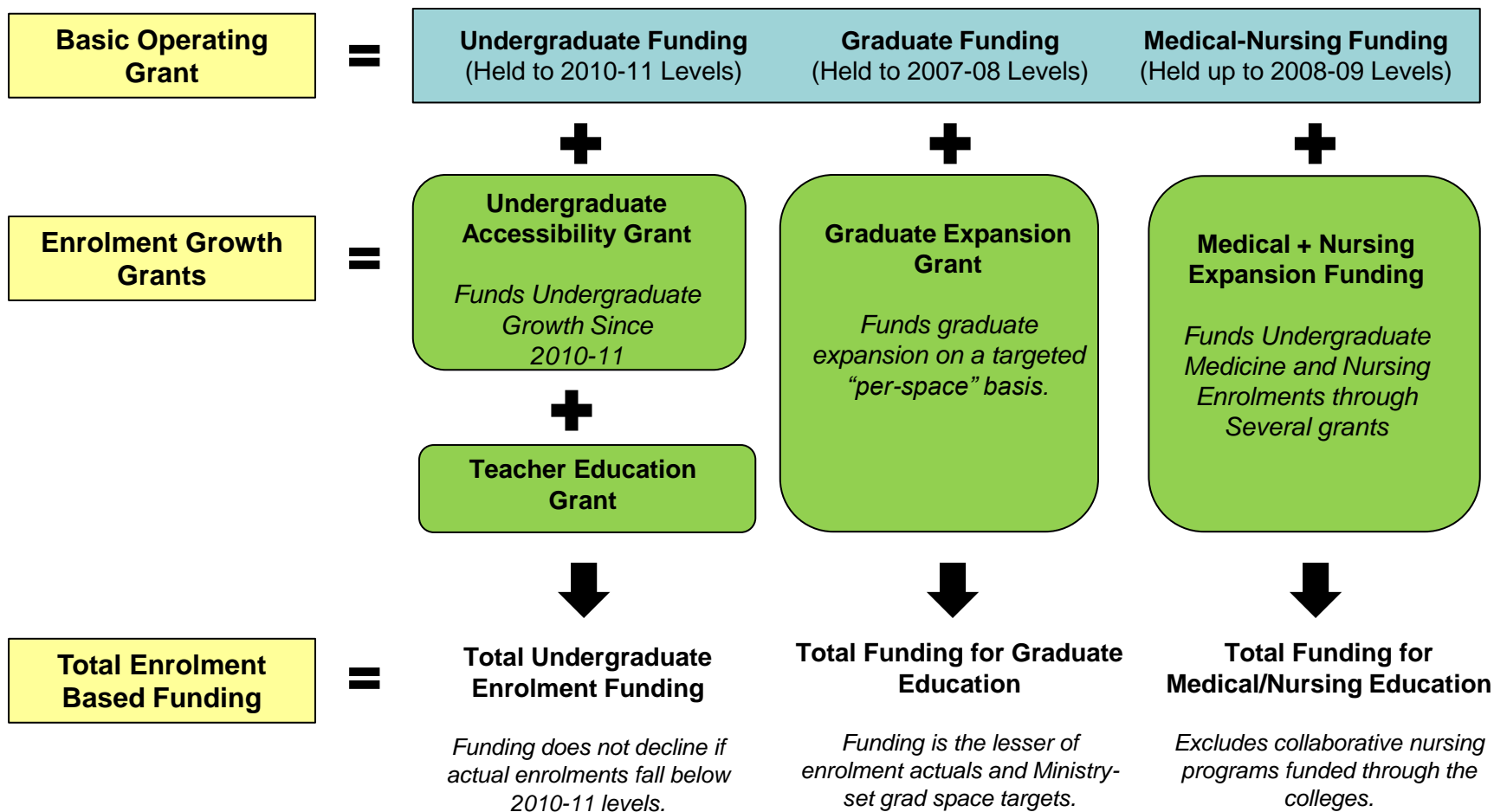
- **Basic Operating Grant (BOG):** Allocates \$2,623 million based on each university's baseline historic enrolments, including decisions, and “roll-ins” that have been made over-time. The institutions often see this component as the “base funding guarantee”.
- The current grant entitlements reflect:
 - » Undergraduate enrolment as of 2010-11;
 - » Graduate enrolment as of 2007-08; and
 - » Variable, institution-specific funding levels per student (variances reflecting a large number of decisions made by the government or the institutions since the introduction of the funding model).

Section 1: Grants supporting enrolment growth

- Improving access to postsecondary education has been a key component of the government's postsecondary education agenda. Since 2002-03, enrolment has grown by over 170,000 (over 40%) supported by the Reaching Higher Investments and the subsequent 2011 Budget Commitment.
- Enrolment growth and targeted enrolment disciplines are funded through:
 - » **Undergraduate Accessibility Grant (UAG):** Funds growth in undergraduate enrolment over 2010-11 levels (Projected to allocate \$194 million in 2015-16).
 - Undergraduate enrolment growth between 2004-05 and 2010-11 used to be funded through the UAG. This growth funding was rolled into the Basic Operating Grant in 2010-11.
 - All new enrolment funded at the same rate (system average).
 - Funding impacted by program mix as well as growth in the number of students.
 - » **Graduate Expansion Grant:** Funds actual growth in Masters and PhD enrolment over 2007-08 levels subject to a target number of spaces. (Projected to allocate \$122 million in 2015-16)
 - Funding for growth from 2004 to 2007 was added to the Basic Operating Grant at the end of 2007-08.
 - Since 2008, graduate spaces and funding are allocated on the basis of FTEs. The shift in the funding basis means that there would be redistribute impacts if the funding was rolled into BOG.
 - » **Medical and Nursing:** Supports enrolment growth in medicine and nursing (health-related human resources) programs. (Projected to allocate \$150 million in 2015-16)
 - Includes funding for expansion of undergraduate medicine programs, medical residency, nursing and clinical placements.
 - » **Teacher Education:** Starting in 2015-16, funding for teacher education programs is consolidated under a single stand-alone grant line (Projected to allocate \$61 million in 2015-16)

Section 1: Grants supporting enrolment growth

- Five grants - the Basic Operating Grant, the Undergraduate Accessibility Grant, the Graduate Expansion Grant, and the Medical and Nursing Grant, and Teacher Education Grant - in total allocate about 90% (\$3.15 billion) of the total operating funding to universities based on enrolment.



Section 2: Fundamentals of Current Enrolment Funding

- When the funding model was introduced, it was intended to:
 - » Capture total revenue (grants + tuition fees) for institutions to deliver programs (government set both grant and tuition levels in the system); and
 - » Provide funding for all students and all programs through a single grant.
- Under the model, the government determined the overall operating revenue the institution would generate for delivering education to its enrolment base (taking into account differences in program composition and costs), and then “back out” a proxy for tuition revenue to determine the grant funding requirements.
- The key variables in determining the amount of grant are:
 1. Basic Operating Income (BOI): Reflects the total revenue the institution would receive to cover the costs of delivering programs, calculated using:
 - Enrolment in each program in the base year;
 - Program Weights assigned to each program; and
 - Funding per unit program delivery.
 2. Reductions for the tuition revenue that institutions receive, calculated using enrolment and Formula Fees (proxies for tuition not based on actual levels).

Section 2: Fundamentals of Current Enrolment Funding

Complexity in the current model arises from the multiple versions of each element:

Funding Per Unit (BOI per BIU)			x			Weighted Enrolment (Enrolment * Program Weight)			-			Formula Fees* (Enrolment * Formula Fees)		
2015-16		Difference from Average	Program Weight	Examples of Program Type	% of Enrolment	Formula Fee	Type of Undergraduate Program	% of Enrolment						
AVERAGE	\$5,364													
O.C.A.D.	\$5,174	(\$190)	0.700	Preliminary Year	0.0%	\$0	Postgraduate Medical Residents	1%						
Trent	\$5,184	(\$180)	1.000	First Year Arts and Science	23%	\$2,362	All Undergrad Programs	89%						
Brock	\$5,224	(\$140)	1.250	Education - Northern Nishnawbe	0.0%	\$2,565	Engineering, Architecture	8%						
Nipissing	\$5,226	(\$138)	1.500	Upper Year Arts, Social Work	39%	\$2,576	Physician Assistant	0.03%						
Lakehead	\$5,229	(\$135)	1.700	Sci & Mgmt 5 year	0.0%	\$3,005	Medicine	1%						
UOIT	\$5,255	(\$109)	1.750	Combined Arts and Science	0.2%	\$4,508	Medicine (McMaster)	0.12%						
Ryerson	\$5,260	(\$104)	2.000	Upper Year Science, Nursing, Engineering, Architecture	35%									
Wilfrid Laurier	\$5,282	(\$82)	2.250	PharmD	0.0%									
York	\$5,290	(\$74)	2.500	Postgraduate Medical Residents	1.2%									
Guelph	\$5,323	(\$41)	3.000	Optometry, Physician Assistant	0.1%									
Waterloo	\$5,341	(\$23)	5.000	Veterinary Medicine, Medicine	1.1%									
Carleton	\$5,367	\$3	7.500	Medicine (McMaster)	0.1%									
Western	\$5,372	\$8												
Ottawa	\$5,395	\$31												
Toronto	\$5,442	\$78												
McMaster	\$5,445	\$81												
Queen's	\$5,457	\$93												
Windsor	\$5,460	\$96												
Laurentian	\$5,474	\$110												
Algoma	\$5,991	\$627												
Hearst	\$9,485	\$4,121												

* Formula fees were identical to tuition fees when the government set tuition. Following deregulation in 1996, formula fees could not be updated due to variable tuition fee levels across institutions.

Section 2: Challenges of the Current Funding Model

Differences in Per Student Funding Levels:

- Range of funding provided per student across institutions and programs reflects a combination of institutional decisions, as well as government decisions, that got crystalized over time.

Tuition Fee Policy Environment:

- From 1960s to mid-1990s, formula fees were a reasonable proxy for tuition revenues and allowed the Ministry to run a “total revenue model” for the university sector.
- When tuition was deregulated in 1996, institutions were allowed to set tuition levels. This resulted in a wide variation in the tuition levels charged for the same program across the system.
 - » The government provides the same level of grant funding for students in any given program even if the tuition levels vary – for example, University of Toronto charges \$30,710 in tuition for first year law students, while the University of Ottawa charges \$8,000, while both schools get the same amount of grant funding.

Section 3: Performance Based Funding

- Two grants in the University Funding Model, are intended to support accountability and incent focus on performance and outcomes (total of \$154 million).
 - » **General Quality Grant:** Allocates \$131 million to universities that successfully report on their Multi-year Accountability Agreements (MYAA), which includes performance indicators related to access, quality and accountability.
 - MYAAs were created to increase focus and transparency regarding class size, student satisfaction and retention. Once a satisfactory MYAA report is received, the funding is released.
 - Each institution's allocation is determined by the share of program weighted enrolments.
 - » **Performance Funding:** Allocates \$23 million to universities where key performance indicators exceed system benchmark. Key Performance Indicators used to determine funding are:
 - Graduation rate;
 - Employment rate six months after graduation; and
 - Employment rate two years after graduation.

This is the only truly outcomes based funding component of the current university funding model.

Section 3: Performance Based Funding

- A large number of jurisdictions are looking at performance based funding with a view to create funding allocations that strike a balance between funding inputs (key cost drivers) as well as improving outcomes.
 - » As of the end of 2013, 22 US states had some form of performance funding in place, 7 states were in the process of introducing a form of performance funding, and 10 states were initiating discussions .
 - » Based on current funding tied to performance and outcomes, Ontario is comparable to or ahead of many other North American jurisdictions.

Performance Funding Range 0-2% of Overall Funding

- Arizona (<1%)
- Illinois (<1%)
- Washington (<1%)
- Massachusetts (<1%)
- Oklahoma (approximately 1%, will grow as future funding growth to be tied to performance)
- South Dakota (1%)
- North Carolina (up to 2%)

Performance Funding Range 2-5% of Overall Funding

- Missouri (2-3%)
- Pennsylvania (2.4%)
- Michigan (3%)
- **Ontario (4%)**
- New Mexico (5%)
- Ohio – College System (5%)
- Minnesota (5%)
- Montana (5%)

Performance Funding Range Greater Than 5% of Overall Funding

- Indiana (6% in 2014, will increase to 7% in 2015)
- Arkansas (5% in 2013-14, growing in 5% increments per year to max at 25% of funding in 2018-19)
- Nevada (5% in 2015, growing to 20% by 2018)
- Texas (10%)
- Alabama (15%)
- Colorado (25%)
- Louisiana (25%)
- Ohio – University System (100% based on course completion, with degree completion component being phased in)
- North Dakota (transitioning to 100% of funding tied to credits completed)
- Tennessee (100%)
- Mississippi (100%)

Section 4: Special Purpose Grants

- These grants provide mission or institution specific funding, as well as funding to support key government priorities, such as improved access.
 - » Access-related grants (about \$100 million) - to enhance the ability of students from under-represented groups to access programs and services.
 - About \$59 million to seven universities for Francophone/Bilingual programming and supports
 - About \$24 million for programs and supports for students with Disabilities
 - About \$17 million for Aboriginal Initiatives and for First Generation
 - » Institution Specific Grants (about \$39 million) - to support institution missions and programs.
 - \$13.5 million to support UOIT's debenture payment
 - Differentiation Grant allocates \$7 million to three universities (Nipissing, OCAD and Trent)
 - \$11 million to support Agriculture Programs and Veterinary College at University of Guelph
 - \$7 million to support Algoma's transition to University Status and Hearst
 - » Northern Ontario Grant (about \$16 million) to support northern universities
 - » Other Grants (about \$41 million) – to support key initiatives (ex., Credit Transfer, Trillium Scholarship) as well as other commitments such as Municipal Tax Grant

Section 4: Special Purpose Grants

- A total of \$195 million is allocated through about 80 separate grants – based on a combination of allocation mechanisms.
 - » Formulaic approach – such as Research Overhead, Municipal Taxation;
 - » Historical amounts – such a Northern Ontario Grant, Differentiation Grant; and
 - » Individual Transfer Payment Agreements – such as funding for Aboriginal Initiatives, Mental Health Fund.
- Funding under some grants may have specific conditions and reporting requirements.
 - » For example, there are a few bursary and scholarship programs that may require matching funds.
 - » Several grants (First Generation Projects, Aboriginal Initiatives) are project based.
 - » OLE grants include federal-provincial matching components.

Section 5: Key Strengths of the Current Model

- Credible with the institutions it serves – Predictable funding; responsive to changes in enrolment and program mix; and reflects sector accepted proxy for differences in program cost.
- Has been an effective tool in supporting the access agenda.
- It includes performance based funding.
- It includes funding for government priorities:
 - » Students with Disabilities
 - » First Generation Students
 - » Aboriginal Students
 - » French-Language Education
- It provides funding for sector-wide initiatives (such as credit transfer, Ontario Online Initiative, etc.)

Section 5: Key Challenges with the Current Model

- It's complex – more complex than is necessary to provide predictable enrolment and performance based funding.
 - » Investments and incremental funding supports are often embedded in a number of different grants making it difficult to assess equity and effectiveness.
- The total revenue approach is no longer meaningful post tuition deregulation. Removal of archaic features, such as formula fees, would simplify the model, improve transparency and accountability.
- While some components of the funding model are not updated to reflect actual enrolments (for example, the Basic Operating Grant), the current model does not have a dedicated revenue stabilizer for universities that may face declining enrolment.
- Primarily focused on one activity (enrolment) and does not meaningfully reflect other significant institutional activities (e.g. research) or outcomes.