

GETTING WHAT YOU PAY FOR

Are You Getting What You Pay For? Understanding Higher Education Appropriations, Tuition, and Financial Aid

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Introduction

In 2001, the Western Interstate Commission for Higher Education (WICHE) received a grant from Lumina Foundation for Education titled *Changing Direction: Integrating Higher Education Financial Aid and Financing Policy*. The goal of this grant was to examine how to structure financial aid and financing policies and practices to maximize access, participation, and success for all students. Over four years, WICHE worked closely with 14 states to align their **appropriations**, **tuition**, and **financial aid** policies to help them achieve this concept of integration, which became known simply by the acronym ATFA, and refers to its three main components.

Many lessons were gleaned from the *Changing Direction* work, yet when the project ended, too few of the important messages had been conveyed to state legislators working and voting on these issues. As a result, WICHE and the National Conference of State Legislatures (an original project partner) are collaborating again with Lumina Foundation to resurrect, update, and present the *Changing Direction* agenda in a way that is specifically designed to reach out to the nation's state legislators. The new project, called *Getting What You Pay For: Understanding Appropriations, Tuition, and Financial Aid*, is intended to reach key decision makers in a continuing effort to expand access and success for all students.

The ATFA Challenge

In the early 2000s, states faced very uncertain fiscal futures. Challenging economic times required policymakers to be highly creative, so the timing was perfect for a thorough examination of how higher education appropriations, tuition, and financial aid policy is considered and adopted.

States vary in who makes decisions and how, but there is one commonality: too often, different policymakers make important decisions in different policy arenas without considering how they might affect related areas of policy. For instance, one legislative committee may decide how much to appropriate to higher education institutions, while another determines financial aid priorities and levels. Meanwhile, the system office is setting tuition rates. But rarely do these actors intentionally ask how one decision affects the others. In a disjointed higher education policymaking process, the student is often overlooked. Perhaps an easier way to think of this concept is to imagine a three-legged stool with each leg representing the three policy issues described above. If, as a policymaker, you only are concerned with one or two of the legs of your stool, you (or your state's students or institutions) just might end up sitting on the floor.

Once again, states face uncertain fiscal times. The challenge for state legislators in the next few years will be to maintain a high-quality higher education system that can meet changing needs, including competing in a global, knowledge-based economy and dealing with the challenges presented by rapidly changing demographics. Through creative thinking that is grounded in integrated financing policy, state

legislators have the potential to make significant progress in higher education.

Applying ATFA

Creating integrated policy can be challenging, particularly when decisions are made in different arenas (i.e. via the legislature, boards, institutional systems, or the federal government) and when issues have not been historically decided comprehensively. This compilation of policy briefs is an attempt to break down key topics critical to an ATFA discussion – including appropriations, tuition, financial aid, federal-state policy alignment, higher education as an economic development tool, mission differentiation, and productivity – without losing the interconnectedness that must be considered. The

Changing Direction project and the subsequent *Getting What You Pay For* work have resulted in several lessons that state legislators can employ as they consider higher education financing and financial aid policy:

Be cognizant of all legs of the three-legged higher education stool. In the seminal publication of the *Changing Direction* project, Dennis Jones, president of the National Center for Higher Education Management Systems, noted that finance policy, including the “three legs” of appropriations, tuition, and financial aid, is potentially the most powerful policy tool that states have in their arsenal to influence institutions, students, and employers to behave in a way that is consistent with broader public purposes. It is not often wielded effectively,

however. By considering and adopting more integrated higher education policy, state legislators will be in a better position to meet state goals and maximize access, participation, and success for all students.

Change the nature of higher education appropriations discussions. State legislators should remember that a change in one of the three policy areas – appropriations, tuition, or financial aid – will likely affect the other two. Moreover, more deliberate policymaking that includes moving the focus from each institution to overall state goals – as well as clearer communication to institutions about state performance goals, elimination of year-to-year incremental budget increases in favor of a more strategic process, and the elimination of the tendency for higher education appropriations to fluctuate depending on the state’s economy – will result in a more efficient, productive, and high-quality higher education system.

... state legislators are in a unique position to ask the tough questions that will ultimately lead to a better system that is aligned to your state goals and effective in promoting student access and success.

Establish tuition policy in concert with state goals. Many states have adopted master plans or public agendas that outline state goals for higher education. When making tuition policy, decision makers should do so in a way that promotes and communicates those goals so that all the stakeholders are moving forward in the same direction.

When contemplating the future of financial aid, ask the hard questions. Financial aid is integral to a successful higher education system. When considering the future of your state system, whether developing a new program or making changes

Tennessee – Considering ATFA Every Step of the Way

Tennessee began its participation in the *Changing Direction* project with a very ambitious agenda that included simultaneous action in three major areas: the development of a master plan for 2005-2010; the development of new standards for the 2005-2010 cycle of performance funding; and the development of a revised funding model for Tennessee higher education. All this was to be done while the state adopted and implemented a new financial aid program, the Tennessee Education Lottery Scholarship. The state accomplished a great deal in a very short amount of time, realizing its goals because of some key strategies, including: maintaining consistent leadership; involving a diverse group of key state policymakers; capitalizing on and maintaining momentum; comprehensive and ambitious thinking about state goals; and strategic use of national experts.

to the current strategy, state legislators are in a unique position to ask the tough questions that will ultimately lead to a better system that is aligned to your state goals and effective in promoting student access and success. These questions include:

- ▶ Do you know what you want from a student financial aid program and is this clearly reflected in the explicit goals and expectations embedded in state statute?
- ▶ Are all of the state finance policies aligned so that financial aid policies complement the others and cost effectively address state goals?
- ▶ Do you have a cogent blend between your grant, loan, savings, and work-study programs?
- ▶ Do current and prospective students and their families understand what it costs to go to college in your state and how they might benefit from the programs you offer?
- ▶ Do your state's financial aid policies take full advantage of the federal programs, consistent with your state objectives?

Consider how federal policy intersects with current and new state policy. By now the message is clear. Aligning state higher education appropriations, tuition, and financial aid policy is critical to maximizing student access and success. Through deliberate and well-thought-out policy, state policymakers can create and maintain a more efficient, high-quality higher education system. This deliberate type of policymaking, however, doesn't end at a state's borders. Examining and considering how state policy intersects with federal policy is also important. Too often, states adopt policies without regard to what is happening on the federal level. In other cases, state or federal policies change, and state policymakers don't reexamine their policies in light of those changes.

Use state workforce development policy to link higher education and economic development. As with ATFA decisions, within state legislatures, higher education and economic development policies are often made by different people in different committees at different times with little, if any, coordination. Legislatures are beginning to find ways to bridge these conversations more strategically and to make policy connections, but there is still more work to be done. Furthermore, legislators can more deliberately ensure that higher education institutions are key players in state economic development conversations and strategies

and more clearly articulate the state's economic development goals as a policy priority for higher education.

Consider productivity improvement in higher education as an achievable state and federal goal, one that depends on legislative actions and the policies they create. For the U.S. to be globally competitive in a knowledge-based economy, improvements in productivity in higher education must be part of the discussion. The business-as-usual approach is no longer a viable way to reach competitive educational attainment levels. Simply put, the demands on higher education

Hawaii – Maximizing Federal Investment
Before 2005, Hawaii did not have a significant statewide need-based financial aid program. Instead, it historically depended on the use of tuition waivers as its primary mechanism for increasing access to postsecondary education. In a climate of challenging fiscal times and rising tuition, state leaders realized that this approach was no longer an effective use of state dollars. University of Hawaii (UH) administrators believed that, to a certain extent, the tuition waivers accomplished the goal of increasing access to higher education. But this system would be impossible to sustain because of decreasing appropriations. In addition, UH was concerned that the state was leaving federal money on the table by relying on tuition waivers. Under the federal HOPE Scholarship or Lifetime Learning Tax Credits, students who receive tuition remission and also come from families in which they or their parents pay federal taxes could actually be losing out on a \$1,500 tax benefit. Thus, tuition waivers were, in essence, using state dollars to replace federal dollars. As a result, state lawmakers passed legislation that funded the B Plus Scholarship Program, a scholarship that is granted to any Hawaii resident who graduates from a Hawaii public high school with a GPA of 3.0 or better, qualifies for the free/reduced-price lunch program, and enrolls at a UH campus. The first B Plus Scholarships, awarded to students in the fall 2006 semester, reduced the state's reliance on tuition waivers and aligned state and federal policy.

have changed, and costs can be mitigated only if productivity is increased.

Think comprehensively about institutional mission, and work toward a balance between increased cost, service, and the public good. The challenge for state legislators is to understand the tradeoffs involved – increased cost for increased service –

Arizona – Differentiating Institutional Missions

While working to integrate the state’s appropriations, tuition, and financial aid policies as part of the *Changing Direction* project, the Arizona Board of Regents made significant changes to board policy. The board created a policy environment within which institutions were given more flexibility to differentiate their missions and gave institutions the tools to implement change in management practices. As a result the presidents of the three universities took bold steps to define unique and complementary missions for their institutions.

and determine whether the balance between these makes sense in terms of meeting the public good that institutions are charged to serve. For example, states that underinvest in research capacity may find it beneficial to establish additional research institutions. On the other hand, states that face substantial increases in demand for associate’s and bachelor’s degrees should be aware of the greater cost likely to be incurred if those degrees must be granted in expensive comprehensive or research universities.

State legislators are in a unique position to improve the nature and results of the higher education policymaking process by applying ATFA. Of course, this is not always easy, but it is well worth the effort. States, institutions, students, and employers all will benefit from the type of deliberate, comprehensive,

aligned policymaking that ATFA promotes. The fact is that making policy in the same way that it has been done for decades is no longer effective in a nation that is competing in a knowledge-based, global economy. The time for change is now, and state legislators can make it happen.

About the Author

Demarée K. Michelau is the director of policy analysis at the Western Interstate Commission for Higher Education (WICHE). The author of numerous education reports, policy briefs, and magazine articles, she has experience in higher education policy on issues such as accelerated learning options, adult learners, college affordability and access, K-16 reform, and postsecondary remedial education. Previously, she worked for the National Conference of State Legislatures as a policy specialist. Michelau received her bachelor’s degree in public law from Northern Illinois University and her master’s degree in political science from the University of Colorado at Boulder, where she is currently a Ph.D. candidate.

Endnotes

¹ Dennis Jones, “Financing in Sync: Aligning Fiscal Policy with State Objectives” in *Policies in Sync: Appropriations, Tuition, and Financial Aid for Higher Education: A Compilation of Commissioned Papers* (Boulder, CO: Western Interstate Commission for Higher Education, 2003), 5-22.

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