Financing higher ed – why before how

State’s goals

For students
- Opportunity for all who are able
- A productive workforce
- A high quality of life

For institutions
- An economic engine
- Public service institutions dedicated to promoting the public good

Achieved cost effectively
Prerequisite conditions to achieving your state goals

- Human capital
  - High school graduates who are college ready
  - High level of postsecondary participation
  - High level of postsecondary success
  - Relevance of education to state’s economy

- Physical capital
  - Basic institutional capacity
  - Specialized resources
Fixing higher ed ... finally. HOW!

The flow of funds

- Economy
  - Tax revenues
  - Income

- State and Local Government
  - Student aid
  - Appropriations/grants

- Students
  - Tuition
  - Scholarships & waivers
  - Student aid (restricted)

- Institutions
  - Research & other grants (restricted)

- Federal Government

- Donors Foundations Corporations
  - Gifts

Source: NCHEMS
The flow of funds for instruction

The flow of funds

Economy

State and Local Government

Students

Institutions

Tax revenues

Income

Student aid

Appropriations/grants

Tuition

Scholarships & waivers

Student aid (restricted)

Federal Government

Source: modified from NCHEMS original
The domain of state-level allocation decisions

- State
- Other Programs/Agencies
- Higher Education
- Students
- Institutions

- Student financial aid
- Tuition
- Institutional aid

- Allocation criteria
- Amounts

Source: NCHEMS
General approach

Appropriation leads

Tuition follows

Financial Aid fills in

Desired approach

Policies in sync

ATFA

Appropriations, tuition, and financial aid policies working intentionally together
What makes good ATFA policy

- Resource allocations reinforce state priorities, not...
- Resources sustain (and may even enhance) institutional capacity
- Resource allocations make higher ed affordable
  - To students, and
  - To state
- Resource allocations are fair
  - Shared contributions reflect shared benefit
- Resource policies are transparent
  - Legislators understand them
  - Citizens understand them
  - Providing institutions understand them
Different strokes for different folks

- The state’s objectives
  - Adequate to excellent institutional capacity
  - Productivity meeting state’s needs
  - Provided as cheaply as possible
Why State Policy Makers Wonder!

You think you’ve been holding up your end of the bargain

State & local tax appropriations per student, in constant 2001 dollars, FY1970 – FY2001

SOURCE NOTES:
- Finance data are from Grapevine and reflect appropriations of state and local tax funds for operating expenses of higher education. Dollars adjusted with CPI-U.
- FTE are from IPEDS as reported in the NCES Digest of Education Statistics 2002, Table 200, and reflect enrollment at all levels (undergraduate, graduate, and first-professional) in degree-granting public 2-year and 4-year institutions.

Total Educational Funding per FTE, Percent Change by State, FY 1991-2003

Notes: Total Educational Funding is the sum of Educational Appropriations plus Net Tuition Revenue. Constant 2003 dollars adjusted by SHEEO HECA.

Source: SHEEO SHEF
Different strokes for different folks

- The state’s objectives
  - Adequate to excellent institutional capacity
  - Productivity meeting state’s needs
  - Provided as cheaply as possible
- Student’s
  - Value
  - Affordability
Why Students Wonder!

Is “The Product” Improving by 1% Per Year?

**Net tuition**

**Instructional appropriation**

**SOURCE:** State Higher Education Executive Officers, State Higher Education Finance Survey.
Different strokes for different folks

- The state’s objectives
  - Adequate to excellent institutional capacity
  - Productivity meeting state’s needs
  - Provided as cheaply as possible

- Student’s
  - Value
  - Affordability

- Institution’s
  - Fair treatment
  - Stability
  - Both sustaining and enhancing support
Why Higher Education Wonders!

Just look at our diminishing share of state resources

State appropriations for higher education as share of state expenditures

Maintaining 7.3% high point: $21 billion


Author’s calculations based on data from Center for Higher Education and Educational Finance; Bureau of the Census, Department of Commerce.
And, it's more than just the size of the pie!

State appropriations for higher education per $1,000 of personal income

Maintaining $8.53/$1,000 high point: $13 billion


Author’s calculations based on data from Center for Higher Education and Educational Finance; Bureau of the Census, Department of Commerce.
Different strokes for different folks

- The state’s objectives
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- Institution’s
  - Fair treatment
  - Stability
  - Both sustaining and enhancing support
The domain of state-level allocation decisions

Source: NCHEMS
ATFA appropriations – allocation and amount

- Allocation
  - Base plus
  - Formula funding
  - Performance funding
  - Investment funding

- Amount – is enough ever enough?
Performance Relative to Total Funding per FTE – Overall Index Scores for State Higher Education Systems
Performance Relative to Total Funding per FTE—State Higher Education Systems
Pipeline Result, 2002

Total Funding per FTE (State, Local, Tuition & Fees, State Financial Aid—Adjusted for COL and Faculty Salaries)
ATFA Tuition

- Ad hoc tuition policy
  - Incremental increases
  - Politically derived increases
- Rational tuition policy
  - Index-derived increases
  - Gap-filling increases
- Seldom, however, are tuition and appropriations policies in sync
ATFA Financial aid

- State: out of sync
- Federal – an unintentional partner, if a partner at all
- Institutional
  - Filling the “need gap”
  - Or not
  - The new infatuation with merit aid
Relationship between “need-based” and “merit-based” aid
### The states’ recent redirection

<table>
<thead>
<tr>
<th>Type of aid</th>
<th>FY 1998</th>
<th>FY 2003</th>
<th>Change in $</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need-based</td>
<td>$2,786</td>
<td>$4,230</td>
<td>$1,444</td>
<td>52%</td>
</tr>
<tr>
<td>Non-need-based</td>
<td>$ 603</td>
<td>$1,554</td>
<td>$ 951</td>
<td>158%</td>
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</table>
And the Feds aren’t a reliable partner – the value of Pell continues to atrophy

Maximum Pell Grant as a percentage of average tuition, fees, and on-campus room and board: 1973-74 to 2002-03

Maximum and average Pell grant awards, in constant 2002 dollars: 1973-74 to 2002-03

Source: U.S. Department of Education, Pell Grant End of Year Reports.
Percentage of full-time undergraduates enrolled in 4-year institutions who received institutional aid and the average amount received in constant 1999 dollars, by income quartile: 1992-93, 1995-96, and 1999-2000

Public Institutions

<table>
<thead>
<tr>
<th>Year</th>
<th>Low</th>
<th>Middle</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>$1,900</td>
<td>$2,500</td>
<td>$2,400</td>
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<tr>
<td>1995-96</td>
<td>$2,500</td>
<td>$2,400</td>
<td>$2,700</td>
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<tr>
<td>1999-2000</td>
<td>$2,300</td>
<td>$2,700</td>
<td>$3,200</td>
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</table>

Requisites of integrating higher ed policy

- Clear understanding of state’s priorities
  - By all stakeholders
- Adequate capacity to do the job
- ATFA – policy alignment
- Respect
- Oh yes; there are a couple caveats
First Caveat: One size doesn’t fit all
Demands of Demography Vary Hugely

Percent Change in Number of Public and Nonpublic High School Graduates by State, U.S., 2001-02 (actual) and 2017-18 (projected)

Second Caveat: One size does not fit all
State fiscal projections – 2008

State and local surplus or shortfall as a percent of baseline revenues

Source: National Center for Higher Education Management Systems (NCHEMS)
Your Path To Chose:
To sync or sink

- Good Luck
- Good Planning
- Remember – intentionality matters
NCSL Education Finance Seminar
Napa, California
February 19, 2005

Presented by
David Longanecker
Executive Director,
Western Interstate Commission for Higher Education

www.wiche.edu