

CHANGING DIRECTION:



Integrating Higher Education
Financial Aid and Financing Policies

Integrating Financial Aid and Financial Policies: Case Studies from Five States

August 2003

WICHE



Supported by a grant from Lumina Foundation for Education

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Western Interstate Commission for Higher Education

The Western Interstate Commission for Higher Education (WICHE) is a public, interstate agency established to promote and facilitate resource sharing, collaboration, and cooperative planning among the Western states and their colleges and universities. Member states are:

Alaska	Idaho	Oregon
Arizona	Montana	South Dakota
California	Nevada	Utah
Colorado	New Mexico	Washington
Hawaii	North Dakota	Wyoming

WICHE's broad objectives are to:

- Strengthen educational opportunities for students through expanded access to programs,
- Assist policymakers in dealing with higher education and human resource issues through research and analysis, and
- Foster cooperative planning, especially that which targets the sharing of resources.

This publication was prepared by the Policy Analysis and Research Unit, which is involved in the research, analysis, and reporting of information on public policy issues of concern in the WICHE states.

This report is available free of charge online at http://wiche.edu/Policy/Changing_Direction/Pubs.htm.

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▲ Acknowledgements

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▾ Foreword

States and their institutions of higher education moved into the 21st century on a wave of high enrollments, strong state fiscal support, and a growing recognition that the need for higher education was imperative if most of their citizens were to enjoy greater prosperity and the benefits of social mobility. It did not take long, however, for shifting state economies to cast dark clouds on this picture. Declining state revenues saw most states turning to higher tuition increases to offset smaller or level funding in state appropriations. These decisions were not made easily; boards and legislatures came to their painful conclusions often only after heated discussions.

What did not also occur in most states during these conversations was a dialogue where financial aid, tuition, and financing policies were considered together, rather than as isolated issues. Double-digit tuition increases rarely benefited from accompanying discussion about how to protect access for low-income students through financial aid policies. States, for the most part, continued a pattern they had been using for decades: once tuition and appropriations were determined, policymakers looked at the budget dust to determine how much was left over for financial aid.

Changing Direction was designed to help states turn that age-old process on its head. To do that, we needed to work closely with a few states interested in going down this untested road. Five states—Arizona, Connecticut, Florida, Missouri, and Oregon—made that commitment.

This publication synthesizes some of the results of their work and lessons learned in the process. Individual state reports look more closely at the goals, strategies, processes, and activities from these states.

The *Changing Direction* project is a national initiative designed to help states and key constituents examine how to structure financial aid and financing policies and practices to maximize participation, access, and success for all students and to promote more informed decision-making on issues surrounding financial aid and financing in higher education. *Changing Direction* serves policymakers in the legislative and executive branches of state government and their staffs, higher education researchers, state executive agencies, governing and coordinating boards, educators, college and university leaders, and business and corporate leaders. This report is one of a series of documents produced to foster greater understanding of key issues surrounding a stronger alignment of financial aid and financing policies. Four complementary reports are:

- ▾ ***Policies in Sync: Appropriations, Tuition, and Financial Aid for Higher Education*** – A set of four commissioned papers that look into a system comprised of integrated financial aid and financing policies.
- ▾ ***Linking Tuition and Financial Aid Policy: The State Legislative Perspective*** – A summary of survey responses from legislative leaders in the U.S. on the degree

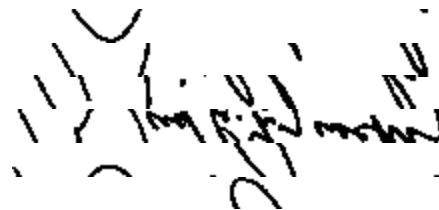
of alignment between tuition and financial aid policymaking, their role in the policymaking process, and their degree of satisfaction with the process.

- ▶ ***Tuition and Fees Policies in the Nation's Public Community Colleges*** – An analysis of tuition and fees policies among public community colleges in the U.S. with implications for public policy.
- ▶ ***Informing Public Policy: Financial Aid and Student Persistence*** by Dr. Donald Heller, Penn State University – A study of trends in the awarding of institutional and state-funded financial aid to undergraduates in public institutions, including an analysis of the relationship between institutionally-awarded and state-funded financial aid and persistence and policy implications.

The *Changing Direction* project has been successful in large part because of WICHE's collaboration with the American Council on Education (ACE) and the State Higher Education Executive Officers (SHEEO). ACE's Center for Policy Analysis and SHEEO have long-standing reputations for high-quality work on a wide range of issues, with a history of specializing in

financial aid and financing issues. WICHE and its partners also collaborate closely with the national Conference of State Legislatures (NCSL), a national, bipartisan organization that brings even more visibility to the project and provides additional expertise concerning the state legislative role in creating integrated higher education policy. The cooperation among the organizations has been especially valuable to this project.

WICHE is most grateful to Lumina Foundation for Education, a private, independent foundation that strives to help people reach their potential by expanding access and success in education beyond high school, for its generous support of this project. Without the Foundation's assistance and encouragement, this project would not be possible.



David Longanecker
Executive Director
Western Interstate Commission for Higher Education

▀ Executive Summary

This report is a collection of five state case studies comprising a major component of the first phase of a project titled *Changing Direction: Integrating Higher Education Financial Aid and Financing Policies*. In November 2001, with funding support from Lumina Foundation for Education, the Western Interstate Commission for Higher Education (WICHE), in partnership with the American Council on Education (ACE), the State Higher Education Executive Officers (SHEEO), and the National Conference of State Legislatures (NCSL), initiated the project to explore state-level strategies to better align financing and financial aid policies and support more informed decision making on issues surrounding financial aid and financing in higher education.

These case studies of Arizona, Connecticut, Florida, Missouri, and Oregon were designed to help equip policymakers and higher education leaders from all sectors more effectively address key public policy issues concerning the structuring of financing and financial aid to achieve goals of access to quality higher education. The overarching question the project hoped to address through the case studies and other project activities was: How can policymakers at all levels – most particularly those at the state level – more effectively integrate tuition, financial aid, and appropriations policies in ways that promote student participation and completion? The results of the states' work are linked back to the overall goals and objectives of the

Changing Direction project in an effort to illustrate how the integration of public policies around financing and financial aid might be approached. The overview chapter highlights a number of milestones and accomplishments:

- ▀ **States engaged key leadership.** Two complementary goals central to the larger *Changing Direction* project, and that have carried into the technical assistance states' work, are to expand upon the community of well-informed policy leaders on higher education issues and to equip them to address more effectively key public policy issues concerning the structure of financing and financial aid to achieve access. Most of the states in this cohort of technical assistance states reported success in this area.
- ▀ **States developed new policy.** By working closely with a few states, project staff hoped to observe a conscious effort to talk about issues of tuition and financial aid and appropriations in a more holistic manner, as opposed to the isolated conversations that historically characterize these policy conversations. Furthermore, staff anticipated that these states would begin moving toward more integrated public policies. The first of these expectations was observed in Arizona, Connecticut, and Oregon; evidence of the second appeared in Arizona and Connecticut.
- ▀ **States sustained a discussion and laid the ground for further work.** All states experienced success in not only initiating

but sustaining a discussion around the integration of state policies. As the initial state technical assistance period drew to an end in April 2003, it was clear to all of the case study authors that the states were continuing their work and planning for post-2003 session and pre-2004 session activities.

- ▶ **States commissioned special studies.** All of the five states participated in the data audit conducted by the national SHEEO office as a corollary activity supported by the *Changing Direction* grant. The results of that work documented the policy and operational resources in place to support better finance, financial aid, and pricing decisions. Additionally, a few of the technical assistance states elected to take a more in-depth look at the kinds of tuition, financial aid, and appropriations information they had and perhaps augment that information.

One of the central questions the *Changing Direction* case study authors asked in the final analysis as state observers is: within the context of the state, how important were the

achievements of the technical assistance states? Change is relative, and there is no attempt here to try to compare the states on the kind or degree of change that the case study authors observed. As a compilation of insights, however, the introductory synthesis and the individual state reports contain authors' and state coordinators' observations that shed light on the additional benefit of the year's work in the states.

The *Changing Direction* project has clearly provided an important platform in these five states for a new conversation – one that helps policymakers and higher education leaders think creatively and constructively about the relationships among appropriations, tuition, and financial. Most particularly, they are looking at these issues in a more holistic, coordinated manner than they have in the past. The individual state case study reports that follow provide much more detail and rich narrative on developments in the states. Updates on the states' activities as they continue their work toward *Changing Direction* will be posted on the project's Web pages at http://wiche.edu/Policy/Changing_Direction/index.htm.

▀ Five Case Studies: An Overview

This report is a collection of five case studies comprising a major component of the first phase of a project titled *Changing Direction: Integrating Higher Education Financial Aid and Financing Policies*. In November 2001, with funding support from Lumina Foundation for Education, the Western Interstate Commission for Higher Education (WICHE), in partnership with the American Council on Education, the State Higher Education Executive Officers (SHEEO), and the National Conference of State Legislatures (NCSL), initiated the project to explore state-level strategies to better align financing and financial aid policies and support more informed decision making on issues surrounding financial aid and financing in higher education. These case studies were designed to help equip policymakers and higher education leaders from all sectors more effectively address key public policy issues concerning the structuring of financing and financial aid to achieve goals of access to quality higher education. The overarching question the project hoped to address through the case studies and other project activities was: How can policymakers at all levels – most particularly those at the state level – more effectively integrate tuition, financial aid, and appropriations policies in ways that promote student participation and completion?

This opening chapter is an attempt to draw together some of the overriding ideas and expectations behind the major initiative in *Changing Direction* to promote better policy alignment by working closely with a handful of

states that were interested in the project's goals. This overview is a synthesis; it draws on the rich detail that follows in the chapters for each of the state case study reports. In the following pages, the results of the states' work is linked back to the overall goals and objectives of the *Changing Direction* project in an effort to illustrate how the integration of public policies around financing and financial aid might be approached. The five states – Arizona, Connecticut, Florida, Missouri, and Oregon – that generously agreed to take on this work are not models; but they do demonstrate different approaches that are grounded in their very different higher education governance structures as well as their very individual demographic and political environments. A major objective of this project is to provide other states with guidance and information on strategies they might consider in their efforts to increase the participation, access, and success of all students in higher education.

The Selection Process

In April 2002, WICHE sent a Call for Participation to SHEEOs in the 50 states, describing the project and inviting their participation in a small cohort of technical assistance states. States were asked to commit to participation during the first phase (November 2001 to April 2003) of the project with the understanding that involvement in Phase 2 (contingent upon continuation funding) was highly recommended in order to have time

to more fully develop the planning and groundwork achieved in Phase 1. As the grantee for this project, WICHE committed to provide technical support, advice, and staff as needed to promote a successful experience for each selected state. From the 17 state applications, the partner organizations selected Arizona, Connecticut, Florida, Missouri, and Oregon. These states were notified and began shaping their state work plans in May 2002. Each state SHEEO identified a coordinator for this project; the coordinator was either the fiscal officer or the academic officer in the state higher education agency.

Several factors went into the selection of this initial cohort of technical assistance states. As a national project, *Changing Direction* was designed to be responsive to concerns in all regions of the country and to reflect a variety of postsecondary education structures. To that end, states were chosen from each geographic region with both coordinating and governing board states represented, as were states with multiple educational sectors (e.g., public and private not-for-profit institutions, community colleges, four-year comprehensive, and research universities). Project staff also wanted to ensure that other characteristics, such as state size, demographic composition, and growth factors, were as varied as possible.

State Objectives

Each technical assistance state identified its objectives for Phase 1 of the project (May 2002 through April 2003). These are plans that the states outlined at the beginning of their work on *Changing Direction*. In two states – Missouri and Oregon – critical changes in the leadership

of the SHEEO offices dramatically altered the plans of these states; these cases are discussed later in this report.

During Phase 1 of the project, Arizona planned to convene key state leaders from education, government, and business; identify desired outcomes; examine successful models that use a more integrated approach; and draft a strategic plan for coordinating policies and decision-making processes in ways that would help increase affordability, participation, and completion of higher education.

Phase 1 of Connecticut's project would see the formation of a state leadership group to convene educational discussion sessions to look at current financing practices and major drivers of cost and review basic principles underlying the state's tuition, fee, and student aid policies. The result of this phase would be interim recommendations on modifications to policies for FY 2003–2005 budget development. In the second phase, Connecticut wanted to provide an in-depth examination of factors contributing to the growth in the costs of higher education, develop recommendations on strategies for cost containment, thoroughly review existing student aid programs and distribution models, develop additional policy modifications, and attain state policy leadership endorsement of and commitment to a more cohesive tuition and student aid policy that ensures affordable access for Connecticut residents.

With the assistance of the *Changing Direction* grant, Florida intended to build on existing initiatives by developing policy recommendations for inclusion in the state's long-range master plan. Staff and consultant

activities would include the design of a comprehensive inventory of financial aid resources available at all public and private institutions in the state; analysis of the impact of state aid levels on student matriculation; and analysis of changes in high school course taking and postsecondary enrollment activity since the inception of the state's merit-based scholarship program.

Faced with momentous economic, demographic, and political challenges that jeopardize financial access to the state's system of higher education, Missouri intended to use the *Changing Direction* project to work with policymakers in addressing the critical issues of college affordability and access in the state. Phase 1 was to include a comprehensive inventory and analysis of student aid in the state to look at the impact of aid on retention, performance, and completion. Also during this first year, Missouri planned to create or link to a Web-based clearinghouse on relevant policy developments and develop several sets of strategies for increasing need-based aid, for improving outreach and services to groups not currently served or not served well, and for improving the college participation and completion rates of at-risk students.

Working with recent and ongoing policy activity on governance and tuition pricing, in Phase 1 Oregon planned to establish an environment for stakeholders to focus on developing a vision of Oregon and the policy and resources needed to redesign the decision structures that build on previous work. Activities were to include reporting on the decision-making process and desired benchmarks for areas requiring restructuring, examining best practices in state higher education finance and financial aid, and

developing a proposal for a demonstration project in Phase 2 that describes the method or model by which restructuring would occur.

Accomplishments and Milestones

As the individual state case study reports suggest, most of these plans were realized, some completely and some in part. In Missouri and Oregon, external forces intervened to change the political dynamics just as the project was getting underway. Early in the technical assistance period, the SHEEOs in Missouri and Oregon resigned their positions. Fortunately, the new SHEEOs agreed to continue the state's participation in the *Changing Direction* project, but as the state transitioned into new leadership, the project plans were placed on hold. Additionally, higher education in all states has been reeling from the severe budget constraints and reduced revenues. In some states, the very difficult economic conditions served as an additional impetus for the complex and thorny conversations around financing and financial aid alignment that need to occur within the context of reduced resources. An additional concern for the states was how to effectively broaden the conversation and be inclusive for all sectors – two-year and four-year as well as public and private not-for-profits.

Nonetheless, case study authors and state coordinators have noted a number of milestones and accomplishments.

► States engaged key leadership at the board level, within the governor's office, and among legislators.

Two complementary goals central to the larger *Changing Direction* project, and that have carried into the technical assistance

states' work, are to expand upon the community of well-informed policy leaders on higher education issues and to equip them to address more effectively key public policy issues concerning the structure of financing and financial aid to achieve access. Most of the states in this cohort of technical assistance states reported success in this area. In Arizona, the chairman of the board of regents made this project his priority and involved regents in a year-long effort to bring about change. Additionally, Governor Janet Napolitano endorsed the board's ideas generally and the concept of a state-funded, need-based financial aid program in particular. Connecticut reported the involvement of key legislative leadership and interest from Governor John Rowland's office as the Department of Higher Education carried out the *Changing Direction* activities. Missouri eventually linked its work to a newly formed Commission on the Future of Higher Education created by Governor Bob Holden. Oregon's state-level roundtable, established to conduct the project, includes institutional presidents and board members.

► **States developed new policy.**

By working closely with a few states, project staff hoped to observe a conscious effort to talk about issues of tuition, financial aid, and appropriations in a more holistic manner, as opposed to the isolated conversations that historically characterize these policy conversations. Furthermore, staff anticipated that these states would begin moving toward more integrated public policies. The first of these expectations was observed in Arizona, Connecticut, and Oregon; evidence of the

second appeared in Arizona and Connecticut.

The Arizona Board of Regents, a governing board, made significant changes to board policy and created a policy environment within which institutions have more flexibility to differentiate their missions and the tools to implement change in management practices. The board also made a sea change in tuition policy by reversing decades of efforts to "remain as nearly free as possible." A key piece of the regents' success in raising tuition by 39 percent was the commitment from the institutions to set aside 14 percent of the tuition revenue generated by this action for need-based aid.

Connecticut saw legislation introduced on two issues. One bill would have required the Board of Governors for Higher Education to review and approve all tuition and fee increases in excess of current rates of inflation. While there was extended debate on this issue, heavy lobbying by the public institutions doomed the bill before it moved out of committee. A second bill that emerged would have required the Department of Higher Education to establish a statewide student financial aid database. Although the measure failed, the Appropriations Committee included funds in the department's budget to establish the database.

In Florida, a Higher Education Funding Advisory Council (HEFAC), created by the State Board of Education, met throughout the summer and fall of 2002, and recommended legislation intended to result

in better alignment of tuition and financial aid policies, given current fiscal realities. The legislative session ended before passage of the package containing the recommendations. However, several issues likely will be addressed as part of the appropriations process, which must be completed in a special session prior to July 1, 2003. A continuing priority is that all state aid recipients should be required to complete the Free Application for Federal Student Aid (FAFSA), which would significantly aid future research efforts.

In an unusual development on financial aid, Oregon Governor Ted Kulongoski has introduced the idea of placing financial aid for low-income students into the state's constitution. As noted earlier in this section, Oregon got a late start in its work, but once the state's roundtable was convened, its agenda clearly pointed toward the need to work toward policy alignment.

▲ **States sustained a discussion and laid the ground for further work.**

All states experienced success in not only initiating but sustaining a discussion around the integration of state policies. As the initial state technical assistance period drew to an end in April 2003, it was clear to all of the case study authors that the states were continuing their work and planning for post-2003 session and pre-2004 session activities. Even in a state like Arizona, which saw remarkable success during the very short start-up period between May 2002 and April 2003, discussions currently are underway to establish a state-funded, need-based financial aid program with a corporate match. Talks with the new

governor, key legislators, and a local community foundation have resulted in a fund-raising campaign and work toward identification of a dedicated state funding source. Efforts to pass legislation to establish the program will begin with the 2005 legislative session.

Connecticut, another state that reported legislative activity, reports major achievement in bringing issues of tuition and fee policy and the role of higher education in ensuring access and affordability to the state level. The initial meetings provided important opportunity for state leaders to raise concerns and learn more about current financing and student financial aid policy.

Florida used the Phase 1 period to focus on financial aid issues and to begin shaping issues for the state's first Master Plan for K-20 Education. As part of this effort, the state's *Changing Direction* leaders drew on the project's publication, "Policies in Sync: Appropriations, Tuition, and Financial Aid for Higher Education," and the author of the lead article in that report to identify critical factors and issues to consider in the design of an overall framework for finance policy. This work will be instrumental over the next year as the state shapes the K-20 master plan.

Missouri, although late in developing the local project, was successful in placing the concept of "shared responsibility" on the public policy agenda for financing the state's system of higher education. This is a new conversation for policymakers in the state. Associated with that development is

increased understanding by policy leaders of the role state student financial aid can have in financing institutional operations. Additionally, the state reports there is greater awareness that different results can be achieved, depending on how state appropriations flow to the state's institutions. Missouri also decided to link its work to Governor Holden's Commission on the Future of Higher Education in order to sustain the dialogue on these issues.

Oregon has used a state roundtable as the vehicle to establish and maintain discourse around key policy concerns with tuition and financial aid. By including representation from the business sector as well as all sectors of higher education, Oregon has assembled a broad-based, highly visible, and influential group of individuals to help shape and guide the discourse with policymakers. This was a particularly strategic move, given the arrival of a new chancellor for the Oregon University System, where this project is housed, and the inauguration of a new governor. Roundtable participants expect to have greater opportunity to link more formally with the governor and legislators this coming year.

► **States commissioned special studies.**

All of the five states participated in the data audit conducted by the national SHEEO office as a corollary activity supported by the *Changing Direction* grant. The results of that work documented the policy and operational resources in place to support better finance, financial aid, and pricing decisions. Additionally, a few of the technical assistance states elected to take a more in-depth look at the kinds of tuition,

financial aid, and appropriations information they had and perhaps augment that information. Florida took this approach by commissioning a financial aid leveraging analysis to assess the progress and efficiency of the state's three major financial aid programs (Bright Futures, Florida Student Assistance Grant, and Florida Resident Access Grant). Florida also completed a study of the amounts and types of financial aid available to students between 1997 and 2001, providing a better understanding of the relative contribution made by various parties that share responsibility for providing affordable and accessible postsecondary education. Connecticut took a slightly different tactic and focused on the need to establish a statewide student financial aid database. The legislature provided start-up funding for the database.

Value Added and a Look to the Future for Case Study States

One of the central questions the *Changing Direction* case study authors asked in the final analysis as state observers was: within the context of the state, how important were the achievements of the technical assistance states? Change is relative, and there is no attempt here to try to compare the states on the kind or degree of change that the case study authors observed. As a compilation of insights from the individual state studies, however, this introductory synthesis points out a few of the authors' and state coordinators' observations that shed light on the additional benefit of the year's work in the states.

Arizona's case study author notes that an outside observer might not see Arizona's

Changing Directions (a slightly different project name to reflect the broader scope of Arizona's project) as all that radical. From Arizona's perspective, however, the state is *changing directions*, substantially and doing so *appropriately* and *intentionally*. As noted by the state coordinator, Arizona created a radically different statewide policy environment for setting tuition and awarding need-based financial aid, and groundwork has been laid for a new state-funded, need-based financial aid program. Arizona policies were disjointed, as were its policymakers. No one thought of appropriations, tuition, and financial aid policy as an integrated whole. Although Arizona's approach is still an initiative in process, the case study author observed that much has already changed. Every Regent now thinks almost automatically of the three financing policies – state appropriations for institutional support, tuition, and financial aid – as an integrated whole, and understands that neither quality nor access can be maximized without blending these three together. The Arizona press has been remarkably supportive of the changes, even in the face of proposed substantial tuition increases. The new governor has been receptive to the changes, despite inheriting a board appointed almost entirely by her predecessor. The presidents of the three universities have taken bold steps to define unique and complementary missions for their institutions. Despite this progress, however, this initiative faces continuing challenges within the state. The disjointed governance structure, particularly with the recent decentralization of the community colleges, makes it difficult for the Board of Regents to present a comprehensive plan for postsecondary education in Arizona. The extreme fiscal distress facing the state makes it difficult to

sustain the vision for *changing directions*, and the relationship with the legislature remains tenuous.

Connecticut considered one of its greatest accomplishments the increased visibility of issues around tuition and fee policy and the role of public higher education in ensuring access and affordability. As described by the case study author, the public institutions operate with a considerable amount of autonomy, which they guard tenaciously; the Connecticut Department of Higher Education has little direct authority over the institutions. Despite this and other structural constraints, the Board of Governors for Higher Education established a special Tuition Policy Review Committee to conduct a review of its tuition and fee policy, and the Connecticut Department of Higher Education thus achieved the first several goals that it set for Phase 1. The Committee is gathering information, but it also plans to move ahead with drafting recommendations on changes to the current tuition policy. At this point, it appears that the Connecticut Department of Higher Education, the Board of Governors, and the Tuition Policy Review Committee will face stiff opposition from the constituent units (higher education institutions) if any of their recommendations impinge on the independence these institutions now enjoy. A key factor may be the extent to which other key policy actors – including the governor – buy into the committee's work and adopt its agenda.

Florida joined the *Changing Direction* project while a very fluid transition process was underway as the state was moving from a multiboard governance structure for higher education to a single K-20 board encompassing both K-12 and higher education. The added

benefit for the state was reflected primarily in the ability to target issues around financial aid and tuition with special studies. As the case study author noted, Florida has great ambitions for improving the capacity of its citizens to be educationally and economically successful. It also seeks to provide fair access to educational opportunity and to reward and motivate students for educational achievement. And it wants to achieve all of these without excessive taxation or abandoning entirely the state's tradition of low-priced public education. Florida is well-positioned to move ahead in a process of formulating and implementing strategies for pursuing its goals for postsecondary education. In some respects, the process used in the past two years has been ideal for engaging these difficult issues. At the same time, it would be difficult to overestimate the challenges still ahead. The gap between Florida's aspirations and its resources is significant, and the internal conflicts among policy values and opportunities are substantial. In Florida, as in every state, it is quite difficult to develop a political consensus on measures to increase taxes or change the state revenue structure. It seems unlikely that a grand solution will be found to resolve these conflicts among resources, goals, values, and opportunities. More likely a series of compromises will emerge over time to help resolve policy dilemmas. If the ultimate vision of widespread educational success and quality is held firmly in mind, a continuing process of goal setting, analysis, and public engagement will help the state make important progress toward its goals.

Four major events occurring after Missouri's initial *Changing Direction* plan was designed have had significantly impacted both the focus and the implementation of the state's work.

First, record turnover occurred among legislators in the November 2002 elections, resulting in a new cadre of legislators and legislative leaders with little history and experience. Next, Kala Stroup, the long-time leader of the Missouri Coordinating Board for Higher Education, resigned in mid-2002; Quentin Wilson served as acting interim commissioner and was appointed as commissioner in November 2002. Then, in January 2003, Governor Bob Holden established the Commission on the Future of Higher Education, a statewide advisory group to address the challenges facing higher education and to improve the link between higher education and economic growth in Missouri. Finally, Missouri was selected as a participant in a new initiative, the National Collaborative for Postsecondary Education Policy, examining serious reform of postsecondary education.

With the creation of the Commission on the Future of Higher Education and its focus on obtaining consensus and cooperation for a state higher education policy agenda, it became clear that the Commission would provide a framework and structure to continue the work of *Changing Direction*. The high visibility of the Commission, inclusion of legislators, and the timing of its formation, makes it a perfect place to shift the work initially envisioned in *Changing Direction*. The Missouri Department of Higher Education and the Coordinating Board for Higher Education will staff the Commission. While the state sees much progress in placing the concept of "shared responsibility" on the public policy agenda for financing the state's system of higher education, it also recognizes that what has not been accomplished to date is establishing an agreement about what share of that cost should be borne by students and their

families and the state. Some form of public policy will result, but not necessarily policy based primarily on informed discussion and debate about how best to achieve desired results for higher education and how to fund higher education to achieve those results.

Oregon saw the value of *Changing Direction* in providing an environment in which stakeholders could focus on the development of a vision of Oregon and the state policy and resources needed to redesign the decision structures. Using a state roundtable strategy to hold intensive discussions about state policy and how to best serve the public interest was a necessary first step. As the project coordinator noted, this has been a time of environmental turbulence and extreme financial pressures in Oregon: five special legislative sessions in 2002; voter approval to shift resources from need-based assistance for college students to K-12 schools; negative taxpayer vote for increased support for all services that resulted in substantial midyear tuition surcharges; and revenue projections that continue to decline. Since the legislature meets biennially and was in session in 2003, there was limited opportunity in this session to achieve all of their objectives toward improving the decision structure. Short-term solutions on financial aid funding and overall financing of higher education may be the best the roundtable can hope for in this session. Nonetheless, the 18 months before the 2005-2007 biennium will be critical if the group is to successfully establish the playing field and develop ground rules for achieving the comprehensive, long-term objectives of stable, predictable, and sustainable funding with sufficient financial aid to protect access for Oregon residents. During its first year, the project has gained significant traction in the

state and developed momentum that should sustain it through the very difficult months – perhaps years – needed to bring about the kind of change envisioned.

The *Changing Direction* project has clearly provided an important platform in these five states for a new conversation – one that helps policymakers and higher education leaders think creatively and constructively about the relationships among appropriations, tuition, and financial aid. Most particularly, they are looking at these issues in a more holistic, coordinated manner than they have in the past. The individual state case study reports that follow provide much more detail and rich narrative on developments in the states. Updates on the states' activities as they continue their work toward *Changing Direction* will be posted on the project's Web pages at http://wiche.edu/Policy/Changing_Direction/index.htm.

▲ Arizona Case Study

David A. Longanecker

State Policy Context

A number of circumstances make Arizona particularly ripe for *changing the direction* in which its public higher education is funded.

- ▲ The state faces a huge impending increase in the demand for higher education, with simple demographics increasing the number of prospective students by more than 40 percent over this decade. Desired increases in participation and success could well bolster this demand by another 25 percent.
- ▲ Because many of these new students will come from populations that Arizona higher education has traditionally not served well – the economically disadvantaged, communities of color, and nontraditional populations – the state’s higher education system must change its way of doing business if it is going to address this huge increase successfully.
- ▲ It is highly unlikely that the state will be able or willing to provide funding equivalent to past funding on a per student basis. Arizona is a fiscally conservative state that has always been frugal in its support of higher education. Today, the state faces substantial budget deficits, which are requiring reductions, not increases, in state support. This year, FY 2003, funding for higher education was essentially frozen, following a 2.8 percent cut in funding last year.

So Arizona faces the perfect storm from three cresting waves: unprecedented increase in demand, an increasingly difficult-to-serve clientele, and no money to serve these new students.

The way in which Arizona has organized its system of higher education presents a challenge as well. Although Arizona is well known as the home of America’s largest for-profit university, the University of Phoenix, only a small share of the state’s higher education students enroll in nonpublic institutions. Most University of Phoenix students enroll elsewhere in the U.S., and the state has only a few small private colleges. As a result, the burden falls disproportionately on the public sector to provide broad access to higher education in the state.

Until recently, the state’s higher education institutions were organized under two statewide boards: the Arizona Board of Regents (ABOR), which governs the three public universities, and the Arizona Community College Board, which coordinated the activities of the state’s broadly accessible and highly regarded community colleges. The 2002 Arizona legislature, however, abolished the state board for community colleges, so these colleges now operate separately under 10 separate local boards. Developing an integrated approach to addressing the state’s needs was difficult with just two boards; it is an even greater challenge with the newly decentralized community college governance structure. Local boards are much

more focused on local needs than on statewide concerns.

Arizona's governance structure has helped shape the state's disjointed funding structure for higher education. For the three state universities, the legislature provides an appropriation predicated on enrollment and historical funding patterns to ABOR, which has then traditionally allocated these funds to the institutions via a formula that closely parallels the rules governing the original systemwide appropriation. Until last year, state funding for the community colleges followed a similar process, though now each local board makes a separate request. The boards have the authority to establish tuition. In the past, they have traditionally waited until after the legislature has adjourned to set tuition, in part to avoid legislative retribution. Truth be told, however, even though the boards set tuition, they have always been sensitive to the interest of state government in keeping the price low and have thus traditionally taken into account what they perceive to be the legislature's and governor's interest in tuition policy.

Financial aid has been an afterthought in Arizona state finance policy. The state provides only paltry support for financial aid, ranking amongst the lowest nationally. This is not unusual in states with statewide governing boards, where the governing board is often given primary responsibility for financial aid as well as instructional support. The Arizona Board of Regents requires that the institutions attend to financial aid through the resources they received from the state and via tuition revenue. In total, however, financial aid support in Arizona falls well below national averages. This reflects the Western tradition of presuming that

low-tuition is the best avenue to college affordability, with relatively less focus on need-based aid than exists throughout the rest of the U.S. As a result, Arizona higher education receives, on average, lower revenue per student from the state, lower revenue per student from tuition, and lower financial aid per student for need-based financial aid. Compounding these relatively low levels of support, these three key funding policies have not been intentionally coordinated in a fashion that would maximize their effectiveness in supporting broad access to high-quality education for the citizens of Arizona.

It was within this context that Arizona chose to *change directions*. Three conditions appear to have driven Arizona to this action.

- ▶ First, though the demographic trends had been emerging for some time, the impending impact on higher education became more readily apparent over the past couple of years. In 2002, The Morrison Institute, a public policy institute associated with Arizona State University, prepared a report entitled *Five Shoes Dropping* that documented the negative economic impact on Arizona if the state fails to educate well the coming demographic bulge. This report helped transformed the argument from a social justice issue to one of economic viability, thus capturing the attention of many more policymakers in the state.
- ▶ Second, the impending fiscal crisis began to hit home. In the summer of 2002, the Board of Regents, on a closely contested vote, rejected the tuition increase proposed by its staff. The Board leadership felt that, absent a cogent approach to financial aid, further increases in tuition would erode access.

This set the stage for staff to bring forth ideas about how better to coordinate all parts of the finance package.

- ▲ Third, new life in the Board of Regents and in the executive level staff provided an avenue for looking at issues differently. The person who assumed the chair of the Board of Regents had led the opposition to the increase in tuition but made a commitment to finding a better way to finance the system. The remaining regents, including student regents, came together constructively to work with the new chair to look forward rather than backward. Additionally, the Board staff – headed by a relatively new executive director with a substantial background in public finance, and a cadre of three institutional presidents, two of whom were quite new – approached the task with a willingness to consider the whole and not just their parts.

This combination led to *changing directions* in Arizona, where a clear disconnect between the impending demand for services and the capacity to serve this demand prompted the Board of Regents to recognize that change was needed and to accept responsibility for leading this change.

State Actions

In Arizona, the Board of Regents became the agent of change. Under the leadership of Jack Jewett, ABOR chair, and Linda Blessing, ABOR executive director, the Board developed both a vision for future funding of higher education in Arizona and a process for gaining broad acceptance and ownership of this vision amongst other critical “stakeholders” in Arizona

higher education. The plan began with an ABOR retreat in August 2002. The retreat first focused on the major issues that future funding policies would have to address. These issues included:

- ▲ An imperative that Arizona find a way to sustain access and improve student success in the future, despite the financial challenges facing the state.
- ▲ A recognition that students would have to pay for much of the increasing costs because state resources would be limited.
- ▲ Further recognition that the first two points could not be achieved without much more substantial attention at the state and ABOR level to assuring that adequate need-based financial assistance would be available.
- ▲ An appreciation that the institutions would be better able to address these issues if they had greater autonomy to operate within a “coordinated” system. This autonomy was presumed to include greater autonomy in management flexibility, academic planning (within reason) and tuition setting authority at the institutional level. The new president of Arizona State University (ASU), Michael Crow, contributed substantially to this discussion by introducing the concept of moving from a traditional *state agency model* to an *enterprise model*, which would have the Board provide policy guidelines and the institutions manage these guidelines while being held accountable by the Board for achieving clearly established state goals.

The retreat then focused on developing a process by which it could actualize a reasoned response to these issues. This plan included:

- ▶ Establishing a timetable in which each of the institutions and the Board's executive staff could develop specific strategies to address each of these issues. It was felt that this plan must be completed in time to be presented to the 2003 legislature and new governor, which meant that there were only months left to complete the work.
- ▶ Identifying specific strategies for working with other stakeholders, the most significant of whom included: the new governor, the legislature, the business community, the community colleges, and the citizens of the state.

From this framework, the institutions began developing specific proposals for moving this agenda forward, and the Board's executive staff began developing state-level frameworks for guidelines and accountability. The Board continued its work, with monthly meetings focused on developing the policy framework for moving the agenda forward. Included were numerous visits to editorial boards, attended by Board leadership and institutional leaders, in which the general outline of a well-integrated set of new approaches to financing higher education – allocation of appropriations, tuition, and financial aid – was presented.

In October 2002, the Board received proposals from the three institutions, which included individual plans and their collective vision for integrating the three general finance policies into a bold new plan for Arizona. This included: building the case for state financial support, including state support for financial aid; a substantial increase in tuition (\$1,000, approximately a 40 percent increase) to provide needed instructional support; and a plan developed by Arizona State University and

the University of Arizona to assure adequate financial assistance to the most needy students in the event that the state was unable or unwilling to meet this obligation itself.

Observations

An outside observer might not see Arizona's *Changing Direction* project as all that radical. After all, it will remain a modestly funded system, with still relatively modest tuition (in the lowest third nationally), without a robust state financial aid program.

From the Arizona perspective, however, they are *changing direction* substantially. More importantly, though, they are doing so *appropriately* and *intentionally*. Like many states, Arizona in the past arrived at its policies more by accident and tradition than through substantial policy intent.

- ▶ Arizona was a low tuition state because it had always been a low-tuition state. Tuition, though it was a critical source of income was viewed more as a gap-filler than an integral part of the revenue structure for institutions.
- ▶ Financial aid was an afterthought, in part because no stakeholder had ever really taken ownership of it and helped others understand its importance to assuring access; low tuition was seen as the access tool, not financial aid.
- ▶ Arizona policies were disjointed, as were its policymakers. No one thought of appropriations, tuition, and financial policy as an integrated whole. The governor had her ideas about higher education, as did the legislature, as did the higher education

leaders, as did the Board of Regents. Each worked within their own sphere, sometimes in sync, sometimes at cross purposes.

- ▶ Not only did different constituencies not work together, they did not really trust each other nor did they appreciate each others' perspective.

Although *changing directions* is still an initiative in process, much has already changed in Arizona.

- ▶ Every Regent now thinks almost automatically of the three financing policies – state appropriations for institutional support, tuition, and financial aid – as a harmonized whole and understands that neither quality nor access can be maximized without blending these three together.
- ▶ The Arizona press has been remarkably supportive of the changes, even in the face of proposed substantial tuition increases.
- ▶ The new governor has been receptive to the changes, despite inheriting a board appointed almost entirely by her predecessor.
- ▶ The presidents of the three universities have taken bold steps to define unique and complementary missions for their institutions.

Despite this progress, however, this initiative faces continuing challenges within the state.

- ▶ The disjointed governance structure, particularly with the recent decentralization of the community colleges, makes it difficult for the Board of Regents to present a comprehensive plan for postsecondary education in Arizona.

- ▶ The extreme fiscal distress facing the state makes it difficult to sustain the vision for *changing directions*. Michael Crow at ASU and John Haeger at Northern Arizona University (NAU), as new presidents, face a particular challenge because they have become champions of this new plan but have yet to demonstrate to their institutional constituents that they can bring home the bacon. Simply not losing ground in tough times does not often satisfy the home crowd.
- ▶ The relationship with the legislature remains tenuous.
- ▶ And change is tough. Peter Likens, president, has chosen to use this plan to focus the University of Arizona on excellence, retaining only programs that are uniquely important to Arizona or that rank as amongst the best nationally. Yet unique importance and excellence are often in the eye of the beholder, and he is finding substantial resistance to his proposals for program elimination. Everyone agrees with him in theory, but not necessarily in practice.

Time will tell how much Arizona actually *changes directions*. But they stand a much better chance of doing so with the process they have developed and progress to date has been impressive.

▶ Connecticut Case Study

Jacqueline E. King

State Policy Context

Connecticut is one of five states participating in the *Changing Direction* project sponsored by the Western Interstate Commission on Higher Education (WICHE), State Higher Education Executive Officers (SHEEO), the American Council on Education (ACE), and the National Conference of State Legislators (NCSL). All state higher education executive officers in the U.S. were invited to participate in this project as a means to facilitate state dialogue and progress on crafting an integrated set of state tuition, institutional support, and financial aid policies that promote student access and success in higher education. Connecticut applied to participate in the project at least in part because the state coordinating board (called the Board of Governors in Connecticut) had asked the Connecticut Department of Higher Education (the SHEEO agency) to conduct a thorough review of current tuition and fee policies. Among the objectives that the Connecticut Department of Higher Education outlined for Phase I of the two-phase *Changing Direction* project were to:

- ▶ Appoint a task force to conduct this review and develop goals and timelines for its work.
- ▶ Conduct educational/discussion sessions with this group on current policies and the major drivers of rising costs at Connecticut public institutions.

- ▶ Review, modify, or affirm the basic principles underlying Connecticut's tuition, fee, and student aid policies.
- ▶ Develop interim recommendations on modifications to policies for FY 2003-2005 budget development purposes.

In Phase 2 of the project, the Department of Higher Education hopes to turn to the topics of costs, cost containment, and student financial aid with the goal of attaining endorsement among state policy leaders for a more cohesive set of tuition and student aid policies.

This case study report describes the state policy context in Connecticut, outlines the work completed so far, and assesses the outlook for Connecticut attaining its Phase 1 and Phase 2 goals.

The situation in Connecticut presents a number of challenges for policymakers seeking to establish a coordinated set of policies on tuition, institutional support, and financial aid. The public institutions operate with a considerable amount of autonomy, which they guard tenaciously; the Connecticut Department of Higher Education has little direct authority over the institutions and operates only one small state-wide grant program;¹ and the governor is leaving office and seems to have little interest in widespread reform of the state higher education financing system. The legislature is concerned about rising tuition, but is facing budget shortfalls and seems to have few tools at its disposal.

There are four public systems in Connecticut, which are referred to in local parlance as “constituent units.” These systems are the University of Connecticut, Connecticut State University, Community-Technical College System, and Charter Oak State College. As noted, the constituent units operate autonomously. They have the authority to establish their own tuition rates and retain their tuition revenue within the policies established by the Board of Governors. The Board of Governors can only review these rates and recommend them to the legislature. The Board does not have the authority to approve tuition rates. In making this review, the Board relies on a tuition policy that seeks to maintain a student share of costs at 30 to 35 percent at the four-year institutions and 25 to 30 percent at the two-year institutions; prohibits tuition differentiation at the undergraduate level (except for out-of-state students); and limits annual tuition increases to 15 percent. Tuition rates in Connecticut are among the highest in the nation but are not out of line with rates in neighboring New England states.

Institutional support is provided through block grants to the four constituent units. Funding decisions are largely incremental; no enrollment or other formulas are used to establish appropriation amounts. Institutions spend most of the block grants on personnel costs and, because Connecticut’s public institutions are highly unionized, collective bargaining agreements are a primary driver of institutional support levels.

Outside of federal financial aid, the primary financial aid programs for students at Connecticut institutions are housed within each

unit and are funded by a mandatory 15 percent set-aside of tuition revenue. The Connecticut Aid to Public College Students program is a legislative match to this set-aside. Currently, the legislature has only funded two-thirds of this amount. The set-aside and match programs require only that institutions award these funds to students with demonstrated need. Within that broad mandate, the individual units are free to award the aid as they see fit. The Department of Higher Education also operates a similar program for private institutions. The only statewide aid is a small (\$5.1 million) program administered by the Connecticut Department of Higher Education that awards grants to needy students with strong academic merit.

State Actions

Despite these structural constraints, the Board of Governors for Higher Education established a special committee to conduct a review of its tuition and fee policy. As part of this process, the Connecticut Department of Higher Education also hopes to review financial aid and institutional support policies. Such reviews are a common occurrence in Connecticut. The establishment of this committee marks the seventh such formal review of tuition policy since 1980. Moreover, the Board substantially revised its tuition policy twice during the 1990s.

The Board has appointed a special Tuition Policy Review Committee (TPRC) for this purpose. It is chaired by a former legislator and president of a state policy think-tank and consists of Board of Governors members, trustees (but not presidents) from the four constituent units,

legislators, a representative of the state budget office, and a private college official. This group met for the first time in September 2002.

The Board charged this committee to accomplish the following tasks:

- ▶ "Review and development of recommendations on the basic, underlying principles of Connecticut's tuition and fee policy for its public higher education system."
- ▶ "Review and discussion of the goals and purposes of a higher education system, and clarification of what is meant by access to Connecticut's public system of higher education."
- ▶ "Examination and discussion of the major drivers of tuition and fee increases, and a discussion of funding adequacy in [the] public system."
- ▶ "Development of interim recommendations on modifications to the Board's tuition and fee policy which preserve its underlying principles, but afford some flexibility to assure quality services during the current state financial downturn, for use by the Board in its review of tuition and fee rates in early 2003."
- ▶ "Examination of current need-based student financial programs for [the] public system, with special attention to the tuition set-aside requirement and the Connecticut Aid to Public College student grant program."

Informally, Commissioner Val Lewis, who is the SHEEO, stated that her goal for the committee is to raise awareness among legislators and other state policy and opinion leaders about what she calls the "cost spiral" at the public institutions and about the importance of strong financial

aid policies. She also would like to see the TPRC raise the profile of the Board of Governors and make it a more relevant player in state higher education policymaking.

The committee chair has established a novel approach for the work of the committee. He would like to lay out in a public document "the terms of the deal" between the state, the institutions, and students. In other words, what are the goals that the state pays the colleges to advance? As a first step, he would like the TPRC to recommend that the units issue a public statement about their missions and target populations so that the benefit to the public of funding public colleges and universities would be made, in his words, "transparent." He also would like the TPRC to identify the cost drivers in higher education, again with the goal of making the institutions more transparent to the public and policymakers. His ultimate hope is that the TPRC can develop a model that would allow policymakers to understand the impact of changes in state support on tuition and financial aid.

At the TPRC's January 22, 2003 meeting, the chairman submitted the following draft recommendation to the Board of Governors, Governor, and General Assembly for consideration:

- ▶ "The public policy goals served by state support for higher education should be clearly stated and associated with measurable outcomes in some form of annual report. In a sense, the "terms of the deal" between the systems/institutions and the state should be spelled out annually so all involved can understand the public benefit created by the state's investment

and the financial resources available to achieve that benefit.”

- ▶ “The forces driving higher education costs to increase faster than inflation for sustained periods of time should be identified. That would enable the state and the public to understand if these cost drivers are actually investments that provide a future benefit and if the state can assist the systems/institutions in decreasing the impact of those cost drivers not providing a measurable future benefit.”

The chairman believes that the “transparency” he seeks would mean no less independence or flexibility for the institutions. However, in its brief life, the committee has been the source of a great deal of concern among the constituent units. In her presentation to the committee at its first meeting, Commissioner Lewis asserted that the Board of Governors established the Tuition Policy Review Committee at the request of the units. However, the presidents of the units issued a joint letter denouncing the tuition policy review and asking that it be abandoned. Further, the Board of Governors chose to appoint institutional trustees to the review committee rather than unit CEOs, which may have exacerbated the units’ concern that the Board was attempting to take greater control of higher education finance policy by excluding unit presidents.

The committee took its first step toward achieving the transparency the chairman seeks at its March 25, 2003 meeting. At this meeting, the TPRC reviewed preliminary data from the constituent units on their target markets, including information on admissions competitiveness and on student income

distribution, racial/ethnic diversity, and geographic distribution. These data prompted discussions about “mission creep” at one Connecticut State University institution, the appropriate pricing of tuition at the state universities, and whether access should be a primary concern only at the community and technical colleges. The inability of some units to provide data that is comparable to that of other units also prompted TPRC members to discuss the need for better statewide data. In short, putting data on the market segments served by the various units in front of TPRC members prompted important conversations about the mission and appropriate pricing of the various units that are likely to influence the committee’s final recommendations.

The May 2003 meeting of the TPRC will take on an even more controversial topic: cost drivers in higher education. The committee plans to review faculty salaries, collective bargaining, faculty workload and productivity, changes in labor costs versus tuition changes over time, and duplication of programming, among other topics.

Observations

At this writing, the committee was still gathering information, as evidenced by its March 2003 meeting and May 2003 agenda, but it also plans to move head with drafting recommendations on changes to the current tuition policy. The chairman has asked the units for proposals on how they would want to see the current tuition policy changed. In addition, the chairman will draft his own proposal and the Department of Higher Education, working with its two Board of Governors representatives

on the TPRC, will come up with its own set of recommendations. It remains to be seen whether there will be enough overlap among these various proposals to move forward with a consensus approach.

The Connecticut Department of Higher Education has achieved the first several goals that it set for Phase 1: the committee exists and has been engaged in a review of tuition and fee policies, as well as cost drivers at institutions. It seems likely that the committee will review possible changes to the current tuition policy either at its May meeting or shortly thereafter.

It is very early to predict the outcomes for Phase 2 of the project. However, it seems reasonable

to assert that the Connecticut Department of Higher Education, the Board of Governors, and the TPRC will face stiff opposition from the constituent units if any of their recommendations impinge on the independence these institutions now enjoy. A key factor may be the extent to which other key policy actors, including the governor, buy into the committee's work and adopt its agenda.

Endnotes

¹ It should be noted that the Connecticut Department of Higher Education also is responsible for distributing state aid totaling \$33.4 million to both public and private colleges for need-based student aid that the institutions award.



▀ Florida Case Study

Paul E. Lingenfelter

State Policy Context

Decision-making structures

The formal structure for governing and coordinating higher education in Florida has been changing during the past two years. Before the recent changes Florida's public universities, currently comprising 11 campuses, were governed by the Florida Board of Regents; Florida's 28 community colleges were coordinated by the State Board of Community Colleges; and K-12 education was supervised by the Florida Board of Education, consisting of seven statewide elected officials, and by an elected Commissioner of Education who also served on the Board. In addition, the Postsecondary Education Planning Commission was abolished. Its staff and its role, which was expanded to include K-12 issues, were transferred to a new agency, the Council for Education Policy, Research, and Improvement, that reports to the legislature.

A constitutional amendment, passed by the voters in 1998, paved the way for eliminating the previous State Board of Education and implementing a K-20 governing/coordinating structure in Florida. The restructuring law, passed by the legislature and signed by Governor Jeb Bush did the following:

- ▀ Created the Florida State Board of Education, appointed by the governor, to oversee education from kindergarten through graduate school.

- ▀ Created a new Commissioner of Education, appointed by the State Board of Education, to be the chief executive officer for the board.
- ▀ Abolished the Board of Regents and the State Board of Community Colleges.
- ▀ Established boards of trustees for each of the public colleges and universities in the state and empowered the governor to name trustees.
- ▀ Abolished the Postsecondary Education Planning Commission.
- ▀ Established the Council for Education Policy, Research, and Improvement, which reports to the legislature.

During a period of transition over the past 18 months, the State Board of Education appointed Jim Horne as Secretary of Education to lead the Board's work. At the end of the transition period, January 7, 2003, Secretary Horne became Commissioner of Education. For all practical purposes, however, Commissioner Horne has been directing educational policy efforts in Florida since his appointment as Secretary of Education in June 2001.

The structure of educational policy making in Florida is still somewhat "in play" due to a referendum, passed by the voters in November 2002, which established the Florida Board of Governors to coordinate the state university system, replacing in some respects the role of the former Board of Regents. Since the Governor, who firmly supports the K-20 restructuring approach enacted previously,

appoints all members of the Board of Governors, it seems likely that the Florida State Board of Education will continue to be the most significant lay body involved in developing state policy for K-12 through higher education.

It is important also to recognize that the Florida Legislature historically and currently plays a very strong role in educational policy. The Governor and policy boards such as the State Board of Education and the Council for Educational Policy Research and Improvement (CEPRI) have played a major role in grappling with higher education policy issues. But at the end of the day, the legislature and the legislative process must agree for policy initiatives to move forward. In fact, the abolition of the Board of Regents seemed to be driven in part by policy disagreements between the Board and the legislature, as well as interest in achieving greater K-20 integration.

Historically, the legislature has been very active in funding and controlling tuition levels for higher education; it has taken the lead in developing performance measures for accountability and funding; and it has been active in other policy areas, such as the development of common course-numbering systems. The legislature also has been a very significant player in shaping recent policy changes, and it will surely determine the final parameters of future actions.

Current conditions

In some respects Florida is like every other state struggling with revenue shortfalls. But it has unique characteristics that add urgency and difficulty to the task of higher education policy development. These are some of the most salient factors:

- ▶ Florida's population is growing, and the demand for higher education enrollment at every level is growing even faster.
- ▶ The state has aspirations of increasing the number of citizens holding baccalaureate degrees and increasing the capacity and reputation of its research universities.
- ▶ Florida historically has been a low-tuition state.
- ▶ Florida's lottery-funded "Bright Futures" scholarship program has proved enormously popular and expensive; the growth of lottery revenues is leveling off.
- ▶ The state is struggling to balance demands for services with its current revenue base and traditions of public spending.
- ▶ A referendum passed in the November 2002 election mandates the reduction of class sizes in K-12 education; compliance with this requirement has an estimated additional annual cost to the state of \$3.5 billion.
- ▶ Increasing tuition in Florida to help deal with revenue issues is particularly challenging because the state has a popular tradition of low tuition; increasing tuition increases the cost of the very popular Bright Futures Scholarship program, which assisted 98,000 students of high or moderately high academic achievement in 2001-2002; and increasing tuition at an above-average rate would require major changes and cutbacks in the state's popular prepaid tuition savings plan.
- ▶ Florida is a wealthy state with a growing economy and great potential for future prosperity. The political leadership of the state will find it challenging, however, to find the right strategies and balance of public investment and private incentives to realize that potential.

State Actions

Two Florida organizations are members of SHEEO: the Florida Council for Education Policy, Research, and Improvement (successor to the former Postsecondary Education Planning Commission), and the State Board of Education. Both have been playing an active, collaborative role in addressing the financing issues targeted by the project. Other Florida organizations involved include the Office of Program Policy Analysis and Government Accountability and the Florida Council of Student Financial Aid Advisors.

The overall work in Florida has addressed three tasks:

- ▶ Assess the extent to which Florida's current major need- and merit-based grant programs are achieving their statutory purposes.
- ▶ Determine the extent to which the state's current tuition, financial aid, and appropriations policies interact and either contribute to or detract from the goals of the K-20 system, namely, high student achievement; seamless articulation and maximum access; creation of a skilled workforce and economic development; and high-quality, efficient services
- ▶ Adopt and implement tuition, financial aid, and appropriations policy changes, strategies, and action steps to maximize student access and success while enabling educational institutions to maintain/achieve the highest quality of service delivery.

The Council for Education Policy, Research, and Improvement (CEPRI) has discussed state financing issues at several of its meetings,

inviting Dennis Jones of the National Center for Higher Education Management Systems to provide a national and conceptual perspective on the issues. CEPRI has also launched a study to examine the relationship between Florida's Bright Futures Scholarship Program and student postsecondary enrollment choices, and it has participated materially in the work of the State Board of Education review of higher education funding policies described below.

The new Florida Board of Education's CEO, Jim Horne, formed the Higher Education Funding Advisory Council in February, 2002 to:

- ▶ Study and make recommendations regarding the demand for and funding of postsecondary education in Florida.
- ▶ Recommend improvements to the current system, based on available data, that will increase access, improve quality, minimize costs, and meet critical workforce objectives.

Eighteen members were appointed to the Advisory Council; they represented broad educational interests (public and private schools, school districts, community colleges, and universities), economic interests, and both houses of the Florida legislature.

The Advisory Council was created because it was clear to Commissioner Horne and the State Board that higher education finance was a critically important issue to Florida. Members were determined to examine and address these issues in the context of their overall agenda for building a stronger, better-integrated K-20 educational system.

The work of the Advisory Council involved an extensive process of data gathering and presentation to the Council, discussions, and a survey of Council members to identify issues of concern. Extensive information on the Council's work and the material submitted to it can be found on the Web site of the Florida State Board of Education. The links to a summary of its final report and a minority report are:

http://www.fl DOE.org/higheredfundadvCouncil/recommendations/HEFAC_FBOE_recs.pps

<http://www.fl DOE.org/higheredfundadvCouncil/recommendations/MinorityReport.pdf>

Eight key issues were addressed in the Higher Education Funding Advisory Council's report. Each of these is discussed *very* briefly below, based on the author's interviews with leaders in Florida and his observation of the final meeting of the Funding Advisory Council. A more complete description of the issues and the Council's deliberations may be obtained by reviewing the material on the State Board of Education Web site.

Baccalaureate Degree Production

Florida ranked 45th nationally on degrees per state resident aged 18 to 44 in 1999-2000, and increasing performance on this dimension is a clear priority. Unlike many states, Florida has an exceptionally strong data system for examining the flow of students through the educational "pipeline." It is clear that the state has both a sophisticated understanding of the factors involved in baccalaureate production and thoughtful, good ideas for improving performance. Prominent among these are efforts to improve retention and progression, especially through lower-division education. Clearly, learning achievement in the K-12 years,

as well as improved practices in post-secondary education are highly relevant to this goal.

The Council recognized the important role of all sectors – public, private, community colleges, as well as universities – in meeting this goal. It was clear from interviews that competition for students among these sectors tends to generate needed services but also presents management and planning issues for the state. What is the right size for four-year universities? How can community colleges be utilized most effectively for students seeking baccalaureate degrees? What is the role of the private institutions? What policies will help foster the effective, balanced use of all these resources?

Workforce Education Production

The Council's deliberations in this area focused on the need for postsecondary programs that meet the diverse needs of the state's economy and workforce, with a special focus on nontraditional students who have not pursued postsecondary education. Its recommendations include recruitment and need-based financial aid for part-time students and adults pursuing certificate credentials, incentives for dual enrollment, and increased enrollments in adult general education programs.

Education leaders also expressed concern about the state's need for people in high-demand fields, such as targeted technical fields, nursing and teaching. Encouraging enrollment and preparation in high-demand fields was also highlighted as a priority for the baccalaureate level.

Florida has had some success in using funding formulas to generate greater degree production in high-demand fields. It has not been possible,

however, for the state to fund fully its past performance-based funding formulas in this area. The state continues to fine-tune its funding formulas to deal with issues of incentives, workload, equity, and performance.

Research and Development

Educational, political, and civic leaders in Florida recognize the economic and civic benefits of having world-class research institutions. While Florida has a number of very large public universities, their collective ranking in funding for scientific and engineering research is not up to the state's aspirations. Florida ranks 10th among the 12 most populous states with regard to federally funded science and engineering research.

State leaders clearly recognize that the path to improvement on this dimension includes both strong advocacy and capacity building at the institutional level. They also recognize the need to balance the strategy of encouraging institutions to compete with the strategies of encouraging them to specialize, collaborate, and focus on areas of strength. Clearly, the state is not likely to have adequate resources to develop more than one or two distinguished, broadly comprehensive research universities.

Flexibility of Tuition and Fees

Historically, the legislature has tightly controlled tuition and fee charges at public institutions in Florida. The "standard" has been 25 percent of instructional costs, and tuition levels in Florida rank 48th in the nation for four-year institutions and 30th for community colleges.

Clearly, the State Board of Higher Education has recognized that the state's aspirations and

needs for higher education require resources and that low tuition may no longer be affordable in view of the state's financial situation. The Advisory Council recommended that, over 10 years, the state permit institutions to raise undergraduate tuition and fees to the national average. This would require increases substantially higher than inflation, even presuming a moderate increase in tuition charges in other states.

In addition to requiring students and their families to pay more, this policy recommendation has several consequences that offset the revenues it would generate and make it controversial:

- ▶ It would substantially increase the cost of the current Bright Futures Scholarship program.
- ▶ It would jeopardize the financial viability of the current prepaid tuition program in Florida.
- ▶ It will require increases in need-based student assistance.

Surprisingly, perhaps, student opposition to higher tuition seemed somewhat muted in Florida, so long as it was conceived as a means of protecting and enhancing the quality of education. The issues of Bright Futures and prepaid tuition programs have been more controversial.

Prepaid Tuition

Essentially, the financing of Florida's prepaid tuition program has been built on the assumption of low tuition, increasing slowly over time. A dramatic policy change to increase tuition in public institutions creates problems for current prepaid contracts and makes an

appropriately priced contract for future tuition costs much less attractive.

The business leader who promoted and nurtured the Florida prepaid tuition program was a member of the Advisory Council. He saw no possible compromise that could protect his vision for the prepaid tuition program, and he filed the minority report referenced above. A compromise is likely to be developed, due to the overwhelming pressure to increase tuition in Florida, but the impact of tuition increases on this program adds complexity and difficulty to policy development in Florida.

Financial Aid

Florida has a substantial state program of student aid, but most of it is merit based, not based on financial need. The Advisory Council report notes that among the 10 largest states, Florida ranks second in total student aid but next to last in grants to help financially needy students.

The Advisory Council report recommends that public institutions be required to allocate at least 20 percent of tuition and fee increases to need-based student aid and that private institutions be encouraged to do the same. It also recommends increases in state need-based student aid programs and support for aid for part-time students and nontraditional students seeking certificates. Educational leaders in Florida clearly recognize that increases in tuition add greatly to the importance of need-based assistance in order to achieve reasonable equity of educational opportunity.

The Bright Futures Scholarship Program is enormously popular in Florida. One source described vividly how parents credit this

program with motivating students to pay serious attention to academic work. The premise of rewarding talent and hard work has deep intrinsic appeal.

Despite its appeal, the program presents a serious problem to policymakers. It has been funded with lottery revenues, which are no longer growing. Yet the number of scholarship recipients is growing. If tuition increases without changes in the program design, its resource requirements will grow far beyond the state's financing capacity.

The Advisory Council recommended several changes to the program design to reduce its cost, capping the highest award to the statewide average tuition and fees and reducing the awards in two lower categories of achievement to the average tuition and fees in community colleges. In deference to the program's popularity, however, the Advisory Council recommended deferring the implementation of these recommendations so that students now in high school would not suffer unfulfilled expectations.

State-based merit scholarship programs generally are based on the premises that they motivate greater academic achievement, that they encourage able students to attend college in-state, and that they make an important statement about the value of hard work and academic achievement. All three are doubtlessly true, but in a climate of scarce resources, it is natural to ask how much merit scholarships contribute to the meeting of these goals, what is the contribution worth, and what are the implications for other priorities.

Florida is clearly asking these questions, looking both for empirical data to inform policy and thinking about trade-offs and relative values. Such balancing of evidence, values, and judgment is at the core of higher education policy development.

K-20 Accountability System/Performance-based Funding

The political leadership in Florida is deeply interested and committed to improving educational performance. The state is a national leader in developing data systems for educational policy analysis and accountability, and it has also been a leader in experimenting with performance-based funding as a means of improving educational outcomes. One source powerfully articulated the rationale for performance funding: "Money changes behavior, and a lot of money changes a lot of behavior."

The recommendations of the Advisory Council reflect this commitment. From the perspective of an external observer, they also reflect growing sophistication about the use of accountability and incentive systems in education. The recommendations include provisions to assure that performance goals are reasonably attainable and tailored to the circumstances of individual institutions and sectors. They also include a creative suggestion that funds not "earned" by meeting performance targets may be reallocated to implement an approved plan for improving performance. This approach maintains the incentive and accountability contributions of performance funding while providing a disciplined method of allocating the resources that could well be essential for improvement.

Observations

No state is confronting more compelling issues in higher education financial policy than Florida. The list of issues in the first section of this case study outline the dimensions of Florida's dilemma, and in Florida every one of them is of huge proportions.

As it should, the state has great ambitions for improving the capacity of its citizens to be educationally and economically successful; it has great ambitions for the quality of its research universities and the "currency" of degrees awarded by Florida colleges and universities; and it has great ambitions for the prosperity of its businesses and communities. It also seeks to provide fair access to educational opportunity and to reward and motivate students for educational achievement. And it wants to achieve all of these good things without excessive taxation or abandoning entirely the state's tradition of low-priced public education.

The State Board of Education and the Council on Educational Policy, Research, and Improvement have made an impressive start in confronting these issues. They have:

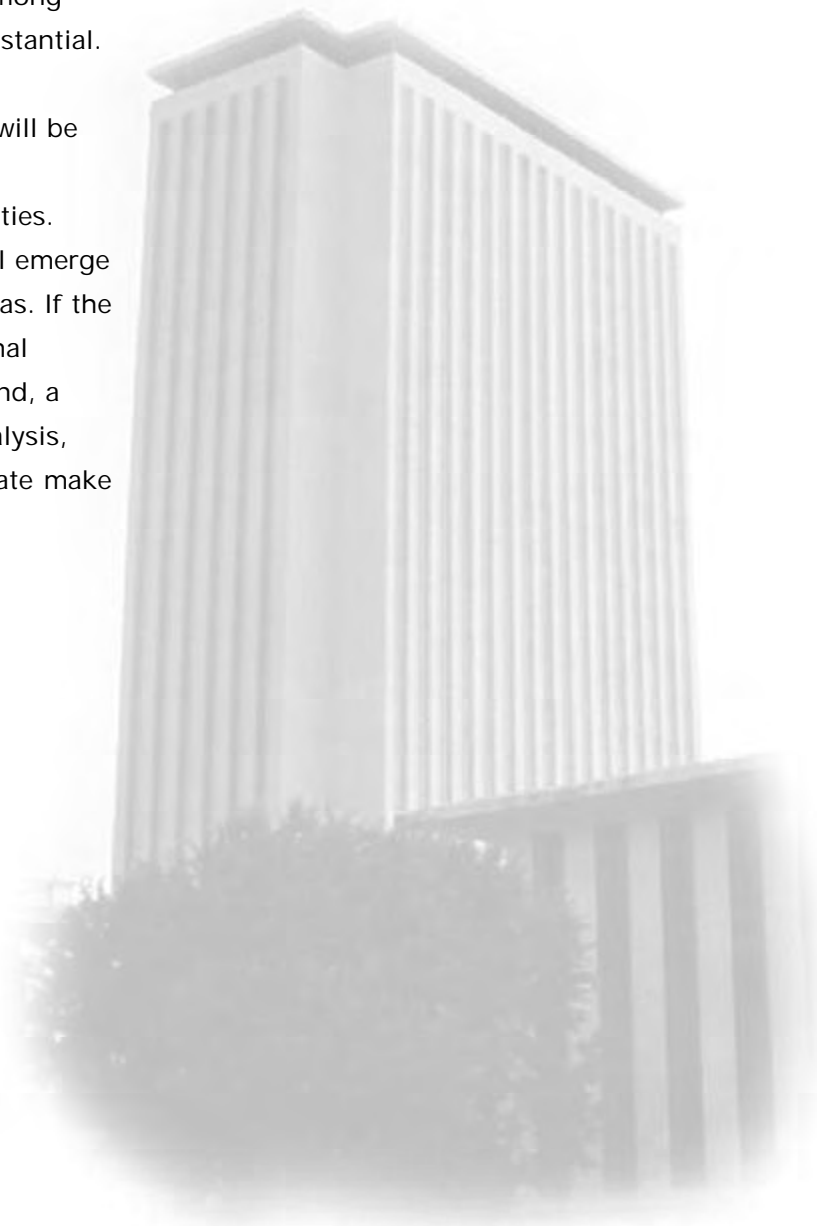
- ▶ Clearly articulated educational policy goals for the state.
- ▶ Made excellent use of the analytical capacities of the state's superb data systems.
- ▶ Worked to fill the gaps in their knowledge.
- ▶ Identified the central issues and worked to propose feasible approaches to resolving them.
- ▶ Engaged the public through various, highly visible planning activities to build

understanding and a basis for a new consensus.

Florida is well-positioned to move ahead in a process of formulating and implementing strategies for pursuing its goals for postsecondary education. In some respects the process used in the past two years has been ideal for engaging these difficult issues.

At the same time, it would be difficult to overestimate the challenges still ahead. The gap between its aspirations and its resources is significant, and the internal conflicts among policy values and opportunities are substantial.

It seems unlikely that a grand solution will be found to resolve these conflicts among resources, goals, values, and opportunities. More likely a series of compromises will emerge over time to help resolve policy dilemmas. If the ultimate vision of widespread educational success and quality is held firmly in mind, a continuing process of goal-setting, analysis, and public engagement will help the state make important progress toward its goals.



▀ Missouri Case Study

Julie Davis Bell

State Policy Context

Introduction

The Missouri proposal to participate in the *Changing Direction* project was submitted by the Missouri Coordinating Board for Higher Education in spring 2002. The focus of the Missouri work was to work to more closely align thinking and policymaking regarding funding and student aid; and to involve legislators and the governor in those conversations. Both the focus and audience of the work appealed to the selection committee and were significant reasons for the selection of Missouri as a participant in the project.

The Missouri proposal articulated concern with creating a public policy that emphasizes a relationship of “shared responsibility” among the state, parents, and institutions. As initially constructed, the Missouri workplan articulated three primary goals.

- ▀ Increased understanding of the connections between state appropriations for higher education, tuition policies, and financial aid policies.
- ▀ Increased conversations and strategy development among the interested parties about how to structure these connections in order to maximize educational access and affordability.
- ▀ Implementation of the proposed strategies in ways that sustain accessibility and affordability, and enhance successful educational outcomes.

The workplan detailed a largely legislative strategy, given some significant political changes that would be taking place in the state. In November 2002, term limits and redistricting would create a situation in the legislature where over one-half of the House and a third of the Senate would turn over. It was clear in spring of 2002 that the Missouri Coordinating Board for Higher Education would have significant work to do to inform and educate legislators on basic higher education issues, as well as on the big picture connections. The work was intended to help increase communication with new legislators and legislative leaders and to improve the understanding of the connection between state appropriations for higher education, tuition policy, and financial aid policy. The emphasis was on building opportunities for strategic development of state policy to serve two ultimate goals: sustaining access and affordability and enhancing student outcomes.

The Missouri Board was also interested in investigating several specific questions regarding state student financial assistance policy. First was the question of whether to consolidate and improve the administration of 28 state student financial aid programs (merit-based, need-based, and loan forgiveness programs) administered by 10 different state agencies. The centerpiece of Missouri’s student financial assistance is the Missouri Student Assistance Resource Services (MOSTARS) program. One question was whether all programs should be consolidated under

MOSTARS. A second question was how to increase funding for two of the state's need-based programs: the Charles Gallagher and College Guarantee program. Third, the Board was interested in revisiting the goals and outcomes of the state's merit-based program, Bright Flight. A recent study of the program suggested that it may have several unintended consequences, such as rewarding test taking at an excessive cost to the state.

Four major events occurring after the initial Missouri *Changing Direction* plan was designed have significantly impacted both the focus and the implementation of the Missouri work.

1. Turnover and takeover in the legislature.

Record turnover among legislators was anticipated in the November 2002 elections. However, the takeover of the majority in the House of Representatives by the Republicans for the first time in 40 years was not. The takeover resulted in brand-new leadership throughout the House. Brand new chairs were named to the House Education Committee; the K-12 and Higher Education Committees were merged into one committee; and a new chair was named to the Senate Education Committee. The intense change in members and in leadership has resulted in a new cadre of legislators and legislative leaders with little history and experience.

2. Changes at the Missouri Coordinating Board for Higher Education.

Kala Stroup, the long-time leader of the Missouri Coordinating Board for Higher Education, resigned in May 2002, stating in a *Chronicle of Higher Education* article that she had become frustrated with the lack of

support in the legislature for higher education. Stroup became commissioner of Missouri higher education in September 1995, she says, "during the time there was money in Missouri." She had been president of Southeast Missouri State University for five years. She was appointed by the late Democratic Governor Mel Carnahan. Upon her resignation in 2002, Quentin Wilson was named to serve as acting interim commissioner. Wilson had been cabinet director for Governor Bob Holden, and director of the Missouri Department of Revenue from 1998-2002.

In addition, a new Board chair was appointed in June 2002. She is Sandra Kauffman, a member of the Missouri House of Representatives from 1986 until 1998, serving on the House Budget and Appropriations committees.

3. Formation of a higher education advisory commission.

In December 2002, Governor Holden announced the establishment of a statewide advisory commission to address the challenges facing higher education and to improve the link between higher education and economic growth in Missouri. The Missouri Commission on the Future of Higher Education will include representatives from the legislatures, the business community, two- and four-year higher education institutions, nonprofits, and other community groups. The first meeting was scheduled for April 16, 2003.

The work of the Commission will clearly be focused on obtaining consensus and cooperation for a state higher education

policy agenda. The high visibility of the commission, inclusion of legislators, and the timing of its formation will make it a perfect place to undertake the work initially envisioned in *Changing Direction*. The Missouri Department of Higher Education and the Coordinating Board for Higher Education will house and staff the Commission.

4. Missouri's inclusion in national initiative.

Missouri is taking part in a new initiative, the National Collaborative for Postsecondary Education Policy, a new collaborative of the Education Commission of the States, the National Center for Public Policy and Higher Education, and the National Center for Higher Education Management Systems. The collaborative has received over \$1 million from the Pew Charitable Trusts to support four states examining serious reform of postsecondary education.

Higher Education Governance

Missouri's population is approximately 5.6 million people, of which 536,000 are college aged. Total higher education enrollment is approximately 350,000 students, and approximately 82 percent of those students are undergraduates. Missouri has a growing population of Latino students and other immigrant groups in nearly every county in the state. About one-fifth of the state's youth live in poverty.

The Missouri system of postsecondary education includes 13 public four-year college and university campuses, 19 public two-year campuses, one public two-year technical college, 25 independent colleges and universities, and 120 proprietary schools

serving more than 360,000 students.

Missouri has a statewide coordinating board and several institutional boards. The Coordinating Board for Higher Education is staffed by the Department of Higher Education. It was established in 1974 and has a nine-member board appointed by the governor with the consent of the Senate. Members serve six-year terms. The board has statutory responsibility for planning and coordination of public four-year institutions, community colleges, and private institutions; institutional budget review and recommendations; and program approval for all public institutions. The coordinating board is a cabinet-level agency, and its executive officer is appointed by the board and serves at its pleasure.

The institutional governing boards are:

- ▶ The Board of Curators of the University of Missouri, which oversees the university's four campuses.
- ▶ The Board of Curators of Lincoln University.
- ▶ Twelve boards of trustees over 12 community college districts.
- ▶ Seven boards of regents of state colleges and universities, with authority over four public regional and three public state institutions.
- ▶ The Board of Governors of Truman State University (formerly Northeast Missouri State University).
- ▶ The Board of Regents of Linn State Technical College.

Average tuition and fees in 2002 was \$3,878 at the public four-year institutions; \$1,482 at the public two-year institutions; and \$12,603 at the private four-year institutions, which includes Washington University in St. Louis. The

institutions have statutory authority to set tuition.

MOSTARS administers federal and state student financial assistance programs that provide approximately \$394 million to 120,000 students annually. Missouri has a mixture of need-based (approximately \$24 million) and non-need-based aid (approximately \$15 million).

Measuring Up 2002: The State Higher Education Report Card, published by the National Center for Public Policy and Higher Education, gave Missouri mediocre scores on the five study indicators:

- Preparation: B-
- Participation: C+
- Affordability: D+
- Completion: B-
- Benefits: D+

The grades are nearly identical to those earned on the 2000 report card, indicating little or no movement or progress over the two years.

Missouri has enjoyed relatively favorable state support of higher education and growth in state appropriations for higher education throughout the 1990s. The budget of approximately \$1 billion includes approximately \$42 million in state student financial assistance, about \$725 million for the public four-year institutions' operating budget, and approximately \$140 million for community colleges. As with all states, Missouri is experiencing a significant fiscal slump and a weak economy, causing cut-backs in state appropriations and rising tuition. Public higher education institutions faced a 10 percent reduction in state funding for FY 2003, triggering a nearly 14 percent increase in

tuition. For FY 2004 the Coordinating Board requested level funding.

State Actions

The first major activity of *Changing Direction* was a retreat of the Higher Education Coordinating Board, held in August of 2002. The retreat was intended to be an opportunity to refocus on some key questions and recommendations adopted nearly a decade before by the Missouri Coordinating Board for Higher Education. Because conditions have changed so much, a major goal of the retreat was to discuss how to rework this in the current political and economic environment. SHEEO's Paul Lingenfelter and WICHE's Cheryl Blanco attended the meeting and Lingenfelter provided facilitation. Several key policy questions framed the discussions held at the Board retreat:

- ▶ How can Missouri integrate funding recommendations for state appropriations, tuition revenue and rates, and state student financial aid programs into a coherent strategy for financing higher education?
- ▶ How can policymakers at all levels – most particularly those at the state level – more effectively integrate tuition, financial aid, and appropriations policies in ways that promote student participation and completion?
- ▶ What kind of information and research is needed to strengthen policies and ensure their continuing effectiveness?
- ▶ How well do the policies and practices of the student financing system serve the needs of different population groups? How do different population groups view the

effectiveness of the current student financing system?

- ▶ How do students currently pay for college? What are the implications of existing financing patterns for future policy improvements?
- ▶ What are the social returns of different policies?
- ▶ How do states establish an appropriate balance between direct support for high-quality education programs and a level of financial assistance that enables students to participate in those programs?

It was suggested that some specific questions the board might address include the following:

- ▶ What is an appropriate balance between state support for the operations of institutions; institutional, state, and federal student financial aid available to students to help them pay their tuition and other costs of higher education; and tuition and fee rates?
- ▶ What is an appropriate relationship between state funding policies related to institutional operations, state student financial aid programs, and tuition and fees to establish an integrated and coherent framework for financing Missouri's system of higher education?
- ▶ Does Missouri have an acceptable balance between need-based and merit-based student financial aid? Are changes to existing state student financial aid programs warranted or suggested, both in funding levels and assignment?
- ▶ What are the unintended consequences of a state policy of low tuition and low levels of funding for state student financial aid programs? How would a policy on tuition

and fees be linked family's ability to pay the cost of higher education?

- ▶ What values and trade-off conditions will need to be discussed, and who should the board engage in these conversations?

In December 2002, following the retreat and the elections, briefings on higher education financial issues were held with a few key legislators and the following month, a meeting was held with the governor and budget staff to discuss financial conditions of higher education in the state. Also in December, the Governor announced the creation of the Commission on the Future of Higher Education. It was clear that the Commission would provide a framework and structure to continue the work of *Changing Direction*. Lingenfelter made initial contact with the newly named interim board commissioner, Quentin Wilson; Wilson indicated his interest and support of the project and the work to be done in the months ahead. Staff of the Coordinating Board for Higher Education has been focused on the Commission and the work involved in making appointments and scheduling the first meeting.

For a large part of the late summer and early fall the case study author was out of contact with the Board staff in Missouri. The uncertainty of a successor to Kala Stroup seemingly created many uncertainties for the Board staff regarding leadership, direction, and how to move the *Changing Direction* project forward. However, in preparing for the January 2003 *Changing Direction* technical assistance workshop, contact with Board staff was re-established. A delegation of Board staff, including Commissioner Quentin Wilson and Board Chair Sandra Kauffman, attended and participated in the *Changing Direction* state meeting.

Observations

The Governor's Commission on the Future of Higher Education met for the first time on April 16, 2003. A second meeting occurred during the summer. The work of the Commission is scheduled to take about one year to complete. During this time, support, data analysis, and research will be provided by the National Collaborative.



▀ Oregon Case Study

Cheryl D. Blanco

State Policy Context

Higher Education Governance

Higher education in Oregon is composed of a wide range of institutions, including seven public universities, 17 public community colleges, 25 independent colleges and universities, and several proprietary institutions. Three governing bodies oversee the public sector: the Oregon State Board of Higher Education (OSBHE), the State Board of Education (SBE), and the Board for Oregon Health & Sciences University (OHSU), a public corporation since the 1990s.

The OSBHE is the statutory governing board of the Oregon University System (OUS). The Board appoints a chancellor to serve as the chief executive officer. The chancellor oversees the preparation, analysis, and submission to the OSBHE of the biennial budget requests on behalf of the institutions for consideration by the board as the budget request to the Governor. The SBE serves as the policy board for K-12 and community college services. The Department of Community Colleges and Workforce Development (CCWD), headed by a commissioner, is lodged within the SBE to oversee community college services. The commissioner submits community college budget requests and budget reports for the Department of CCWD to the SBE and the legislature.

The state created two other statewide postsecondary groups. At least once a year, the

State Board of Higher Education and the State Board of Education are required in statute to meet as the Oregon Joint Boards of Education to coordinate their activities and reach joint agreement on matters of education policy and opportunities of mutual interest to the two boards and to the populations they serve. In addition, the Joint Boards Working Group, consisting of a small subset of members from each board, meets bimonthly and sometimes monthly to develop common initiatives and plans and to foster working partnerships among the three sectors of public education. The boards also work with the governor's education and workforce policy advisor in developing a state comprehensive education plan, including postsecondary education, and in reviewing board programs and budgets.

It is important to note that both the Oregon University System and the Department of Community Colleges and Workforce Development have come under new leadership in the past two years. In August 2002, Richard Jarvis became the new chancellor of OUS; in 2001, Cam Preus-Braly was appointed commissioner for the Department of CCWD. Also, in November 2002, Oregon citizens elected a new governor, Ted Kulongoski.

Another key player in the state is the Oregon Student Assistance Commission (OSAC), through its work in financing and financial aid activities. OSAC administers a variety of state, federal, and privately funded student financial aid programs. Additionally, the mission of OSAC

is to assist Oregon students and their families in attaining a postsecondary education. Among its duties, OSAC makes financial aid awards, determines qualifications of recipients, makes recommendations to the legislature on establishing, administering, modifying, transferring, reducing, or canceling financial aid; collects and disseminates information on all types of available financial aid; reviews administrative practices; and evaluates the effectiveness of all public and private postsecondary financial aid programs in the state.

Finally, the overall state context must include a report issued by the gubernatorial Special Commission on Financial Aid. Released in 2000, the report identifies five principles on which to base State of Oregon student financial aid policy. The membership of the commission was broad based and included the OUS chancellor, CCWD commissioner, institutional presidents, legislators, members of the State Board of Education and State Board of Higher Education, a representative from OSAC, and students. This report is key in the Oregon context because it represents the current views of all major constituents in setting a financial aid policy for the state. Much of the *Changing Direction* discussion around financial aid has referenced this report. The overarching principles are:

- ▶ The top priority for student aid should be to reduce the financial burden for lower-income students.
- ▶ Oregon's commitment should be broad and sufficient to provide lower-cost tuition at public universities, need-based student assistance for students attending eligible institutions, and merit-based scholarships for students attending eligible institutions.

- ▶ Public policies and programs should aim to increase the participation of students of color and lower-income students underrepresented in postsecondary institutions.
- ▶ Public expenditures for scholarship programs that are not need based should be made in addition to, and not result in the redistribution of, existing resources.
- ▶ Financial assistance to students should not be detrimental to the existing support of public postsecondary institutions in Oregon.

In addition, the Commission made four specific recommendations to strengthen the Oregon Opportunity Grant, Oregon's principal need-based financial aid program:

- ▶ Year-round availability: Ensure need-based grants are available to eligible applicants who apply throughout the academic year.
- ▶ Increase awards: Increase the size of individual awards to students from an amount equal to 11 percent of annual student costs to an amount equal to 15 percent of annual student costs.
- ▶ Equal treatment: Equalize the eligibility threshold for students financially dependent on their parents and self-supporting adult students.
- ▶ Incent students: Fund scholarships that are not need based to meet state priorities.

Tuition and Financial Aid Policies

The Oregon Revised Statutes give tuition-setting authority to the Board of Higher Education for the seven public higher education institutions in the Oregon University System. In practice, tuition levels are negotiated with the legislature and governor. Policy decisions

associated with tuition, financial aid, and appropriations for higher education are established through biennial legislative sessions.

Community college governing boards, in cooperation with the State Board of Education, are charged with bringing together the resources necessary to meet the educational needs of the district, and the local board of trustees establishes tuition levels. Statutes state "the cost of education to the individual should be sufficiently low to permit students of low-income families to attend. This is particularly true of tuition costs. However, students should pay an amount sufficient to provide an incentive to profit from the instructional program offered." (Oregon Revised Statutes, 341.009 Sec.17). The State Board of Education approves biennial budget requests and allocates appropriated funds among the 17 community college districts. State appropriations for community colleges are made separately from those for other segments of education.

During this past year, the Joint Boards have emphasized a quality commitment relative to funding. Both boards have expressed preferences that maintain the right balance among the trio of policy variables: access, quality, and affordability. These two boards are collaborating on thinking about and promoting solutions to these issues, especially difficult in hard economic times.

Major issues that prompted the decision to move toward integrated policies.

The current problems facing higher education in Oregon have roots originating in the last decade of the 20th century. Several concerns, many embedded in the past, led the chancellor

and his staff to apply for participation in the first cohort of technical assistance states. In the early 1990s, Oregonians approved a property tax limitation (Measure 5) to equalize funding in K-12. One result was the redirection of state funds from other agencies to K-12; higher education took large cuts, as did other agencies across the state. In higher education, the ensuing shortfalls resulted in tuition hikes to fill the revenue gap following Measure 5. Skyrocketing tuition increases were followed by a six-year tuition freeze during the 1990s.

In addition to Measure 5, other tax and spending limitations on nonstate funds exacerbated the economic distress on campuses. A new resource allocation model emerged in the late 1990s that distributed state funds based on factors such as disciplines of study and level of instruction. Tuition dollars followed the students but there was little flexibility in other areas.

While many states are increasing tuition in the current economic downturn to maintain quality programs, it initially appeared that the Oregon legislature and former governor would not approve tuition increases beyond the levels approved in the 2001-2003 budget (about 7 percent total or 4 percent and 3 percent each year). This hope proved short lived, given increased resource requirements associated with strong enrollment growth and significant midterm budget reductions.

With the economic downturn starting earlier and lasting longer in Oregon than the rest of the country, a year of special legislative sessions provided no relief but only more reductions in state appropriations. State support for universities was cut by 11 percent

in the 2001–2003 biennium because of the economic downturn in Oregon and the nation’s highest unemployment rate. In the fifth of the special sessions in 2002, the legislature placed an income tax measure (Measure 28) on the ballot in a special election in January 2003. Oregon voters rejected Measure 28, which called for a three-year income tax increase. The need for replacement revenue forced a temporary tuition surcharge in midyear. This surcharge became permanent and other tuition and fee recommendations for 2003–2004 and 2004–2005 followed over the spring and summer. Tuition and fees at all seven Oregon public universities increased the past academic year, including some campuses that imposed two rounds of surcharges. The 2003–2004 increases over 2002–2003 will total as much as 32 percent this fall.

On the financial aid side, the governor has introduced a new concept that would place financial aid for low-income students into Oregon’s constitution. At this juncture, a popular vote is scheduled for November 2004 to approve the constitutional change. This need-based aid program, called Access Scholarships for Education Trust (ASET), would allow low-income students who attend public and private two- and four-year institutions to qualify (as is the case for the Oregon Opportunity Grant). The new funding would come from four potential sources: interest on tuition earned by OUS, interest on the state support fund (community colleges), contracted contribution by the independent institutions, and a dedicated portion of capital gains tax revenue. Issues being debated include: OUS students’ tuition interest providing funds to students attending private colleges; acceptability of voucher-like concept; the

administration of the program (i.e., the Oregon Student Assistance Commission or some other entity); and the contribution from the independent institutions. The proposed solution is a flat grant that would fund student access but not choice in the way that need-based grants have worked in Oregon (e.g., grants to low-income students attending private institutions were based on tuition levels of the colleges).

State Actions

In its application to participate in the state technical assistance cohort in Phase 1 of the *Changing Direction* initiative, Oregon planned to work from the momentum created by the Financial Aid Commission. A proposed group to examine higher education governance (SB 2015) in the 2001 legislative session appears dormant. Expected outcomes from Phase 1 included:

- ▶ A report providing a clear picture of the current status of the state’s higher education policy decision-making process that includes a list of desired benchmarks for those areas that require restructuring.
- ▶ A report articulating the results of research and analysis conducted to determine best practices in state higher education finance and financial aid.
- ▶ A written proposal outlining a demonstration project for Phase 2 of *Changing Direction* that would describe the method/model by which the restructuring will occur and methods/criteria necessary to secure appropriate leadership for the project.

This leadership would not only be able to create a vision for state restructuring in these areas but would also be able to guarantee long-term commitment from key stakeholders from initial buy-in through full implementation of Phase 2. Specifically, the state would identify the policy levers that affect these outcomes and develop a plan to engage policymakers and Oregon citizens in changing the direction of higher education policy to maximize participation, access (affordability), and success for all students. The critical instrument in this effort would be a roundtable whose members would be appointed to review state-level policy indicators that affect access, participation, and success and to consider how current policies and practices in Oregon should be aligned to increase value to Oregonians.

Observations

From the beginning, an important part of Phase 1 of *Changing Direction* involved providing an environment in which stakeholders could focus on the development of a vision for Oregon and providing the state policy and resources needed to redesign the decision structures. The project's leadership sensed that existing policies and decision structures had become ossified and no longer fit the needs of the state in the global economy. Intensive discussions about state policy and how to best serve the public interest were a necessary first step in articulating the vision and new decision structures. This high-level dialogue was conceived as a series of face-to-face meetings and "electronic chats."

The Oregon University System, the lead group on the *Changing Direction* project, was

committed to an inclusive, broad-based effort. In its initial planning, the chancellor's office sought participation from major players. In the education sector, that group included community colleges, public four-year institutions, independent four-year colleges, and the Oregon Student Assistance Commission. Outside of education, partners were secured from business community leaders, legislators, and the governor's office. In summer 2002, the chancellor's office initiated informal conversations with other education sectors in the state and key individuals from the business sector to establish a state *Changing Direction* roundtable. Members of the roundtable held their first meeting in early December 2002 in order to examine existing state policies and practices and consider how public policy should be crafted to maximize student access, participation, and success in higher education. Invitees included members of the Board of Higher Education and the Board of Education, the executive director of the Oregon Independent Colleges Association, presidents of community colleges and two state universities, the president of an independent college, representatives from the business community, the Oregon Student Assistance Commission, and the Oregon Student Association. Participants agreed that the roundtable was important and needed to continue, that access for low-income students was of primary importance, and that there was a definite need to find a better way to communicate the message about the value and costs of providing higher education in Oregon. There was less agreement about the solution to the problems and the nature of the public interest.

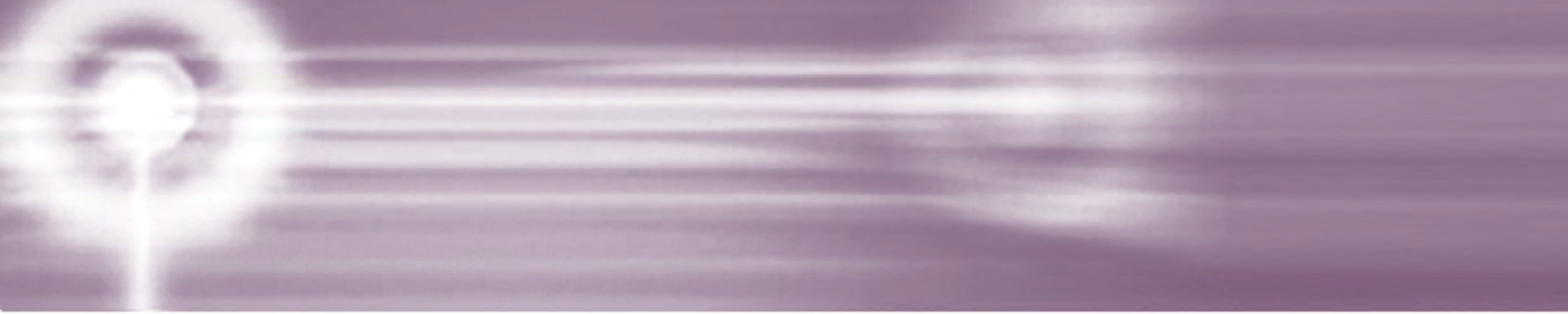
The next major step in the process developed as part of the larger *Changing Direction* project

during Oregon's participation in the State Technical Assistance Workshop on January 31-February 1, 2003. Each state in the technical assistance cohort in Phase 1 was invited to send a team of up to six individuals from the state's project. Oregon's team consisted of the chancellor, the associate vice chancellor for performance and planning (also the project coordinator), a member of the State Board of Higher Education, a corporate representative, a president of a community college, and a president of a state university—a good cross section of the roundtable. Throughout the workshop, the Oregon team met on several occasions to discuss issues that emerged during the first roundtable meeting, struggling to find an effective strategy to give the group a viable political foothold and a powerful message that would resonate with citizens and policymakers.

The roundtable met again in February 2003 to consider discussions from the state technical assistance workshop; discuss the challenges facing the state's primary need-based financial aid program (the Oregon Opportunity Grant) and strategies to address problems arising from the need to provide adequate coverage while serving a larger number of students; and focus on basic principles undergirding the roundtable's work. A key outcome of this meeting was a list of guiding principles, such as "Solutions to the current funding dilemma must be stable, predictable, and sustainable" and "Lower income students are the top priority for financial aid." Members agreed that the next roundtable meeting (tentatively scheduled for September 2003), should center on possible decisions that might flow from these principles.

Since the legislature meets biennially and was in session in 2003, there was limited opportunity in this session to achieve all of the objectives toward improving the decision structure. The immediate emphasis is on developing consensus across higher education sectors and the business community on the overall vision for higher education and articulating that to the public and policymakers. Short-term solutions on financial aid funding and overall financing of higher education may be the best the roundtable can hope for in the 2003 session. Nonetheless, the next 18 months before the 2005-2007 biennium will be critical if the group is to successfully establish the playing field and develop ground rules for achieving the comprehensive, long-term objectives of stable, predictable, and sustainable funding with sufficient financial aid to protect and expand access for Oregon residents.

During its first year, the project has gained significant traction in the state and developed momentum that should sustain it through the very difficult months (perhaps years) needed to bring about the kind of change envisioned. While the project initially appeared to be an offshoot of the Oregon University System, the chancellor and his staff effectively avoided the perception that this was a university project. The inclusiveness and strength reflected in the roundtable membership and the adeptness of the chancellor and his *Changing Direction* coordinator in building a cohesive, unified group around its common needs is leading to the development of a mutually crafted vision and set of strategies. In this next year, when the legislative budget process is behind Oregon, the roundtable will have greater opportunity to link more formally with the governor and legislators.



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