Western Policy Exchanges

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IN THIS ISSUE

In November 2001, the Western Interstate Commission for Higher Education (WICHE) and its partners – the American Council on Education's Center for Policy Analysis, the National Conference of State Legislatures, and the State Higher Education Executive Officers – launched a project titled *Changing Direction: Integrating Higher Education Financial Aid and Financing Policy*, funded by Lumina Foundation for Education. Designed around an integrated approach to restructuring higher education appropriations, financial aid, and tuition policies and practices, the project had the overarching goal of examining how to structure policies to maximize access, participation, and success in higher education.

Changing Direction has supported a variety of activities: targeted technical assistance to 14 states; national and multistate policy forums; commissioned papers; and policy publications. In addition, WICHE convened four leadership institutes for higher education governing board members, state legislators, governors' staff, and state legislative education staff from different states. The institutes, held in Chicago and Minneapolis, allowed participants to share information about challenges and strategies associated with the alignment of higher education financing policy. Several themes that emerged at these leadership institutes are the focus of this issue of *Exchanges*.

To view institute agendas and meeting materials, please visit:
http://www.wiche.edu/Policy/changing_direction/meetings.asp

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

Sharpening the Dialogue: Engaging Policymakers in the Alignment of Appropriations, Tuition, and Financial Aid Policy

ATFA is the Goal

Each year, state policymakers struggle with how to meet growing education needs through state allocations, how best to ensure shared and equitable responsibility for funding higher education, and how to maximize the use of subsidies, such as financial aid, to expand access and opportunity. Too often, these issues are dealt with as discreet questions rather than reflecting the interrelated nature of both higher education finance and financial aid policies. Further, the interrelated nature of state and federal efforts in these areas is often overlooked. As laid out in the seminal publication of the *Changing Direction* project "Policies in Sync: Appropriations, Financial Aid, and Financing for Higher Education," the culture and practices of appropriating money for postsecondary education are as varied as the 50 states. Each state has a unique culture, tradition, and practice; governance structure; public purpose and goal; and incentives available to the various actors to achieve their goals and objectives.

Appropriations
Tuition
Financial **A**id

Despite these differences, there is one similarity that states share: higher education financing policy begins with an appropriation from the legislature. Tuition usually follows, and financial aid often comes out of the budget dust. In *Policies in Sync*, Kenneth P. Mortimer, senior associate of the National Center for Higher Education Management Systems (NCHEMS), introduced a concept known as ATFA – standing for appropriations, tuition, and financial aid. ATFA is an integrated way of thinking about and making policy around these elements that has as its primary goal increased access to and success in higher education for all students. This has been the motivation behind *Changing Direction*, and it has led many states to rethink how they approach higher education policy.

The Changing Context: Demographics and Adult Learners

While *Changing Direction* works toward increasing access and success for all students, the nature of the student population continues to evolve. Two distinct trends in the U.S. – significant demographic shifts and the emerging necessity of serving adult learners – are prompting state policymakers to reexamine education policies and devise new ways to address postsecondary education financing and financial aid issues.

In discussions about the findings from *Knocking at the College Door: Projections of High School Graduates by State, Income, and Race/Ethnicity, 1988-2018*, Cheryl Blanco, former senior program director of WICHE's Policy Analysis and Research unit, notes that projections indicate that there will be approximately 3.2 million high school graduates in 2008-09 – 13 percent more than a decade earlier. In addition, there will be a 23 percent increase in the number of minority students between the class of 2002 and the class of 2008.

In general, the West and the South will see increases, while the Northeast and the Midwest will see little change. Not all states are projected to have the same future, however. Between the class of 2002 and the class of 2018, some states, such as Hawaii, Maine, Montana, and North Dakota, will face significant losses in the number of high school graduates, while other states, such as New Mexico, New York, Oklahoma, and Vermont, will encounter manageable loss. On the other side of this equation during this same time period, states like California, Connecticut, Illinois, and Oregon will experience manageable growth, while Idaho, New Jersey, South Carolina, and Virginia will face considerable growth. Significant growth is projected for states such as Colorado, Florida, North Carolina, and Texas. And finally, Arizona and Nevada are off the charts in terms of the growth they will face over the next decade or so. At the same time, about half of all high school graduates are projected to come from families that earn less than $50,000 per year. Whether states expect to face growth or decline in coming years, they will face challenges associated with this changing context.

Adding to the pressures placed on states by shifting demographics is the changing nature of the postsecondary student. Traditionally, college students have been between the ages of 18 and 24, have entered postsecondary education immediately after high school, and have been financially dependent upon their parents. Amy Sherman, director of policy at the Council for Adult and Experiential Learning, notes that today, 43 percent of postsecondary students are between 25 and 44 years old, and 82 percent of those work while enrolled. These students are predominately female and are most often enrolled only part time. The group overall is becoming more ethnically and racially diverse. The changing nature of the college student is another potential challenge for states that have historically developed policy with the traditional student in mind.

How Do We Achieve ATFA?

In light of the changing policy context and shifting demographics, achieving ATFA is challenging. Yet during *Changing Direction's* leadership institutes, several experts provided insight into how states might better align appropriations, tuition, and financial aid policies.

According to David Longanecker, executive director of WICHE, there are several requisites for sustained integration. First, all stakeholders must have a clear understanding of the state's priorities. Second, the state must have adequate capacity to do the job. Finally, those involved in the policy discussions must have respect for themselves and each other.

Longanecker, however, was careful to point out that one size does not fit all, a point reinforced by Dennis Jones, president of the National Center for Higher Education Management Systems (NCHEMS), who warned institute participants against adopting another state's solution, which may not address their own state's unique situation. Demographic demands vary tremendously, and they need to be dealt with accordingly. In addition, states are anticipating new challenges: NCHEMS cites data from the Nelson A. Rockefeller Institute of Government suggesting that by 2013, all 50 states will show structural budget deficits. In other words, given the revenues that will likely be generated by the current tax structure, no state will be able to maintain a constant level of support to eligible recipients of state services.

Requisites for Sustained Integration

1. Clear understanding
2. Adequate capacity
3. Respect

Discussions at the leadership institutes also suggested that P-16 may offer another way to integrate financial aid and financing policies. According to Charles Lenth, senior associate of the State Higher Education Executive Officers, over time, states have seen fairly constant expenditures per pupil in public elementary and secondary schools, even while enrollment has gone up. In terms of higher education, there has been a 14.4 percent growth in enrollments since 2000, and these enrollments have been much more diverse than before. Over the same period, total support for higher education (state appropriations and tuition revenue) per FTE has declined. Historically, after each recession in which funding to higher education has been cut, enrollments have flattened, and state support per FTE has rebounded. Since the most recent recession, however, despite reductions in higher education funding, enrollments have increased fairly rapidly. Further, historically, increased diversity in enrollments means that the students we will have to educate in the future are those who are more expensive to educate. This coupled with the fact that more students are now going to four-year institutions instead of two-year institutions, which are generally less expensive, creates several challenges for policymakers in the years ahead.

New Approaches to Appropriations, Tuition, and Financial aid

Despite the challenges associated with aligning appropriations, tuition, and financial aid policy, several states, both intentionally and unintentionally, are addressing the issues and approaching ATFA in new and interesting ways.

Appropriations: Colorado

One conversation dominating the national policy dialogue concerns Colorado's higher education voucher, or the College Opportunity Fund (COF). In 2004, Colorado adopted the Colorado Opportunity Fund Act, which provides a stipend to in-state undergraduate students (low-income undergraduate students in private institutions are also eligible) that pays for a portion of the total in-state tuition amount replacing a more traditional system in which the state funded higher education by appropriating dollars directly to the institutions. Specifically, the student's share is in-state tuition minus the amount of the COF. Colorado is the first state to adopt a stipend approach to higher education financing.

To view final, negotiated, and signed performance contracts in Colorado, please visit:
www.state.co.us/cche/performance/final.html

When examining Colorado's innovative approach, it is important to note that the state has a unique, complex set of circumstances in which it operates. Prior to adopting the stipend approach, the Colorado Commission on Higher Education (CCHE), a central policy and coordinating board appointed by the governor and confirmed by the Senate, determined the funding formula. There was a significant lack of transparency and frustration with the lack of accountability in terms of student transfer, graduation and employment, and institutional funding. Moreover, the state faces what is known as the "Colorado Paradox": it boasts the highest percentage of people with postsecondary degrees but simultaneously is plagued with low college participation. Tax policy in Colorado also contributes to the unique policy context. In 1992, Colorado voters passed the TABOR (Taxpayer's Bill of Rights) Amendment, a measure that limits taxing and spending. TABOR, in effect, counts all money coming into the state coffers, including not only general revenues but also tuition and fees. Once the state hits a certain revenue level, the state must return the money out of the general fund to the citizens. TABOR in effect restricted how much institutions could raise tuition. As a result of fiscal challenges in the late 1990s, Colorado looked to a voucher program as a way to fund higher education.

Three other important changes accompanied the adoption of the COF. First, TABOR allows for an entity to seek enterprise status. If an institution is declared an enterprise, it is not included in calculating the state's constitutional revenue and spending limitations. Enterprise status is granted if the entity receives less than 10 percent of its total revenues in state or local government grants. All higher education institutions have now been granted enterprise status; this provides a reprieve from the tuition restrictions imposed by TABOR, meaning that control over tuition has now slipped out of the hands of the legislature. Second, this new strategy requires that any institution who wants to participate in the COF must enter into a performance contract. Although the statute gave broad parameters, the contract must include provisions for increasing enrollments of underserved students. There is no explanation of enforcement, however. Finally, in an effort to fill in the formula gaps left by the implementation of the new system, institutions and CCHE now enter into fee-for-service contracts to fund programs such as graduate programs, nursing, and dentistry. The statute, however, is again silent about enforcement mechanisms. In 2005, institutions had to use at least 20 percent of tuition increases over the cost of inflation for need-based financial aid. Colorado's situation is unique, and as one participant noted, "Institutions won over where they were headed, but it's a dangerous path." In terms of the effect of this policy on students, the true effects of the higher education voucher remain to be seen.

Financial Aid: Indiana and Oklahoma

An emerging strategy for increasing access to higher education for underserved students is through early commitment financial aid programs, which are designed to provide economically disadvantaged students in middle school and early high school with a guarantee of financial aid for postsecondary education if they meet certain requirements. Two states – Indiana and Oklahoma, both of which have been highlighted at the *Changing Direction* leadership institutes – are examples of these programs.

Indiana initiated the 21st Century Scholars Program in an effort to help more students continue their education, reduce the high school dropout rate, prepare students for the workforce, decrease the use of drugs and alcohol among middle and high school students, improve individual economic productivity and the quality of life for all Indiana residents, and increase opportunities for low-income students to attend college. Created by legislative action in 1990, the program guarantees income-eligible 7th and 8th graders who fulfill a pledge of good citizenship to the state, graduate from high school, and maintain a 2.0 grade point average, four years of college tuition at any public Indiana college or an equivalent tuition award at any private Indiana college.

In Oklahoma, the program takes a different approach by including a requirement of participation in a core curriculum. The goals of *Oklahoma Promise* are to increase the number of college graduates and to encourage more students from families with limited income to aspire to college, prepare for it academically, and earn college degrees. To be eligible, students must enroll during the 8th, 9th, or 10th grade, and the family income may not exceed $50,000 at the time of enrollment. Further, students must:

- Complete a 17-unit core curriculum based on college admission requirements.
- Graduate from a public or private high school.
- Achieve a 2.5 cumulative grade point average in the required core and overall.
- Attend school regularly.
- Refrain from substance abuse.
- Refrain from criminal or delinquent acts.

In exchange, students receive the equivalent of public college tuition that can be used at private colleges and for some career-tech programs; they may receive this amount for up to five years or until the completion of a baccalaureate degree.

Tuition: Illinois

In 2003, Illinois adopted a plan known as "Truth in Tuition." Modeled after Western Illinois University's plan, the program guarantees that an entering freshman's tuition stays at the same rate for four years. The principle benefit of this program is that it lends predictably to one portion of student costs – tuition. Despite this clear benefit to students, there are a few challenges associated with the new approach. First, in Illinois, each institution's board of trustees sets tuition and must forecast four years ahead for cost increases and appropriations. Second, tuition is inflated to cover future costs: institutions contend that the plan puts them in an unfavorable light compared to other institutions in the Big 10, which do not have to raise tuition now to incorporate future cost increases. Finally, there is a concern about what happens to students when the guarantee expires: since the guarantee is only for four years, those students who take longer (even for legitimate reasons) face a significant tuition increase in their fifth year.

Autonomy: Virginia

In his discussion about the role of higher education in achieving state priorities, Daniel LaVista, executive director of the State Council of Higher Education in Virginia (SCHEV), carefully laid out the history of Virginia's policy environment. Several developments between 1994 and 2004 laid the groundwork for what became the charter initiative in the state. For example, in 1994, each senior institution of higher education, Richard Bland College, and the Virginia Community College System was required to submit a restructuring plan. The objective of the plan was to "effect long-term changes in the deployment of faculty, to ensure the effectiveness of academic offerings, to minimize administrative and instructional costs, to prepare for the demands of enrollment increases, and to address funding priorities as approved by the General Assembly." Where appropriate, the plans included specific decentralization initiatives designed to produce long-term savings through the sharing of resources or the reduction in administrative duplication.

The secretary of finance approved 11 decentralization plans that year, giving institutions additional autonomy in areas such as hiring, purchasing, and capital spending. In 1995, additional autonomy was granted to the "pilot institutions," including granting codified autonomy status to the University of Virginia (UVA) Medical Center and giving UVA more authority for capital projects, leases, risk management, and personnel matters. During this time, Virginia's colleges and universities also endured a "pendulum swing" of financial support from the governor and general assembly. Further, between 1994 and 2004, tuition

Virginia's Restructuring Act Requires All Institutions to Commit to Specific Statewide Goals for Higher Education:

1. Access – for all Virginians, including underrepresented populations
2. Affordability – regardless of individual or family income
3. Academic offerings – a broad range of programs meeting the state's needs
4. Academic standards – continuous review and improvement of programs
5. Student progress and success – improve retention and timely graduation
6. Community college articulation agreements – uniform across the Virginia Community College System
7. Economic development – work to stimulate Virginia's economy
8. Research – increase externally funded research and tech transfer
9. K-12 partnerships – work to improve achievements of students and teachers
10. Plans – prepare a six-year plan
11. Standards – meet financial and administrative standards set by governor
12. Campus safety – ensure the safety and security of the commonwealth's students on college and university campuses

and mandatory fees for in-state undergraduates were, at various times, capped, frozen, and reduced. Virginia was in a rare situation, with a somewhat unique governance structure: individual institutional governing boards govern 15 public four-year institutions, 23 community colleges are governed by one statewide board (the Virginia Community College System, and SCHEV serves as the planning and coordinating agency for both the two- and four-year institutions), which combined to create a context ready for change.

This gradual movement toward privatization eventually led to a charter proposal in 2003. The goal of the proposal, which originally included William and Mary, the University of Virginia, and Virginia Tech only, was to return authority (tuition and otherwise) to the boards of visitors; improve long-range planning; establish a more stable funding model; provide additional flexibility in operations; and focus on postaudit oversight and accountability. Through the work of a joint study commission, then Governor Mark Warner and legislative leaders conducted town meetings throughout the state to establish the priorities for higher education and to gauge public reaction to the proposal. In 2005, the plan was adopted.

Institutions now must develop a six-year plan and meet specific performance indicators and benchmarks to assess their progress towards meeting the state's goals. In exchange for new institutional responsibilities, boards may seek greater autonomy in their operations. Virginia has set clear indicators as a way to know when the plan is successful. Some of these include achieved cost savings through less bureaucracy and improved ability to plan; establishment of multiyear business plans; creation of tuition and fee predictability for students and parents; and demonstrated, measurable success on performance indicators and benchmarks related to state goals. As with all of these examples of state solutions, states need to proceed with caution when adopting other state's approaches; what works in Virginia may not work as well elsewhere.

Aligning State and Federal Policy

Changing Direction has as its main focus the integration of state-level higher education appropriations, tuition, and financial aid policy. The project also has raised the visibility of important issues related to the alignment of state and federal policy, however. According to David Longanecker, despite the widely accepted notion that higher education is the state's responsibility, federal and state governments form an unintentional partnership when it comes to the financing of higher education. The federal government invests about $90 billion annually (since most of it is in the form of student loans that are repaid, in reality this investment is only about $25 billion). States foot most of higher education's bill, but they often do not craft policy and practice in a way that maximizes the federal benefits available to them so that they can more efficiently accomplish state objectives. Longanecker described three important areas that state policymakers might consider.

Reauthorization of the Higher Education Act

The Higher Education Act was scheduled to be reauthorized in 2004, yet despite being temporarily extended several times, Congress has only addressed it in piecemeal fashion. Most notably, the Budget Reconciliation Act dealt with student loans and some definitions; the rest remains in process. Although it has not been reauthorized, the direction is clear. It will be incrementalist in nature; the authorized spending levels will increase slightly, but funding will not. In addition, the monitoring of higher education is almost certain to increase.

One area that state policymakers should pay attention to is the new definition of "an institution of higher education," which will now include all degree-granting, for-profit institutions. If a state uses (and many states do) the federal definition in its statute, there are likely to be consequences. Before the new definition was adopted, states were able to either intentionally or unintentionally avoid serving proprietary institutions with financial aid. Now that the definition has changed, these institutions are eligible for federal grant aid if the state uses the federal definition of a higher education institution; at the same time, if there are no new federal dollars,

Resources and Websites

Western Interstate Commission for
Higher Education's *Changing Direction* project
www.wiche.edu/policy/changing_direction

American Council on Education
www.acenet.edu

Lumina Foundation for Education
www.luminafoundation.org

National Center for Higher Education
Management Systems
www.nchems.org

National Conference of State Legislatures
www.ncsl.org

State Higher Education Executive Officers
www.sheeo.org

an increased number of institutions will compete for available funds.

Academic Competitiveness Grants

Also worth noting are the federal government's new Academic Competitiveness Grants, available for the first time for the 2006-2007 school year to first-year students who graduated from high school after January 1, 2006, and for second-year students who graduated from high school after January 1, 2005. In order to be eligible, students must complete a rigorous secondary school program of study and be eligible to receive a Pell Grant (students can receive both). Longanecker notes that in this first year, the federal government has been lenient about what it accepted as rigorous, but it will have more stringent requirements in future years. State policymakers need to begin planning now how to take advantage of this important funding source for low-income students.

***Changing Direction* Project**

Funded by Lumina Foundation for Education, *Changing Direction: Integrating Higher Education Financial Aid and Financing Policy* examines how to structure financial aid and financing policies and practices to maximize participation, access, and success for all students. Designed around an integrated approach to restructuring appropriations, tuition, and financial aid policies and practices, the project is based on better, more informed decision-making. Since its inception in 2001, the project has examined the socioeconomic-political environment in order to foster the kinds of major changes needed in the near future at multiple levels – campus, system, state, and national – and to initiate and promote those changes through public policy.

Tax Policy

Finally, it is important to remember tax policy, which has become more influential in higher education since the adoption of the federal HOPE Scholarship and the Lifetime Learning Credit. The HOPE Scholarship, worth $1,500, is for students in the first two years of college (or other eligible postsecondary training). Taxpayers are eligible for a tax credit equal to 100 percent of the first $1,000 of tuition and fees and 50 percent of the second $1,000 (the amounts are indexed for inflation after 2001). The Lifetime Learning Credit is for college juniors, seniors, graduate students, and working Americans pursuing lifelong learning to upgrade their skills. The family of those beyond the first two years of college or taking classes part time to improve or upgrade their job skills received a 20 percent tax credit for the first $5,000 of tuition and fees through 2002 and for the first $10,000 thereafter. If states have not reexamined their state policy since these measures were enacted in 1997, they may be leaving precious federal dollars on the table. For instance, a state that grants tuition waivers makes its students ineligible for these tax credits.

Conclusion

Through the work of this project, WICHE and its partners hope to assist state policymakers as they create state higher education appropriations, tuition, and financial aid policy that is more integrated and based on more informed decision-making. Intended to expose important constituencies to critical issues in higher education that affect access and success for all students, the leadership institutes for higher education governing board members, state legislators, governors, and state legislative education staff were an important component of the *Changing Direction* project.

The Western Policy Exchange is a long-term commitment by WICHE to support better informed decision making through collaboration with a wide range of partners. Updates on all WPE initiatives are available at www.wiche.edu or contact Demaree K. Michelau, project coordinator, policy analysis and research, at WICHE, 303.541.0223. Western Policy Exchanges is published by WICHE.

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