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Details: Informational hearing (3/10/2009)

(FORM UPDATED: 08/11/2010)

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PUBLIC HEARING - COMMITTEE RECORDS

2009-10

(session year)

Senate

(Assembly, Senate or Joint)

Committee on ... Economic Development (SC-ED)

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
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- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  - (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
  - (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

* Contents organized for archiving by: Gigi Godwin (LRB) (July/2011)

Eight Policy Briefs
to Help Legislators
Understand
Higher Education
Appropriations,
Tuition,
and Financial Aid

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

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The Nuts and Bolts of the Higher Education Legislative Appropriations Process

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Adult Learning in Focus

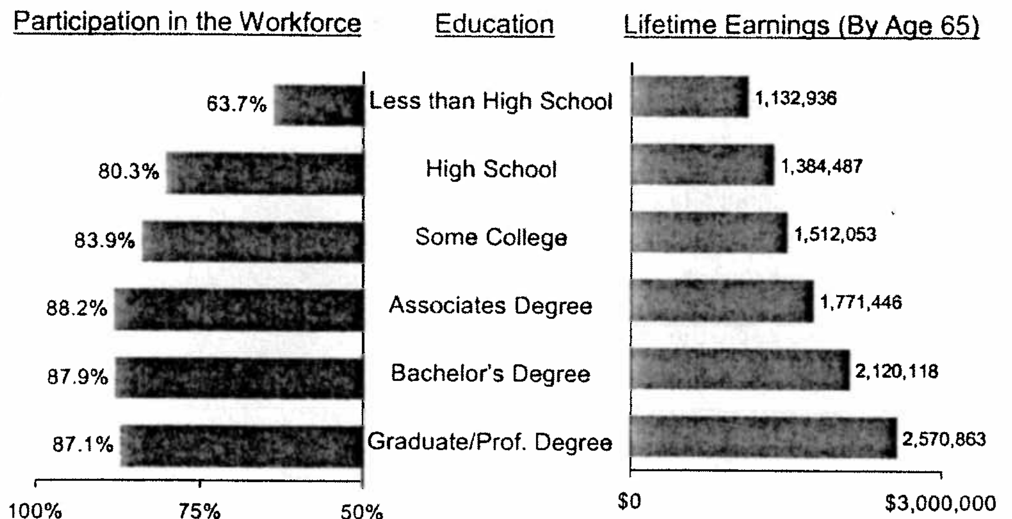
Wisconsin Profile of Adult Learners 2008

How Does Education Pay Off for Wisconsin?

In Wisconsin:

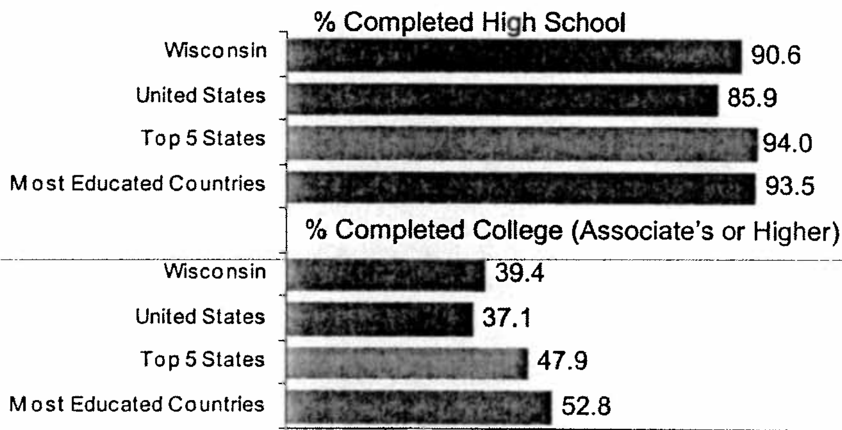
Working-age residents with college degrees are 38 percent more likely to participate in the workforce than those with less than a high school diploma.

And their earnings over a lifetime are almost twice as much – a substantial personal benefit as well as a benefit to the state with respect to more taxable resources, fewer health problems, lower rates of crime, and greater levels of civic engagement.



How Does Wisconsin Measure Up?

Wisconsin's Young Adults Compared to the U.S. and Best Performing Countries (Age 25 to 34)



In Wisconsin:

A higher percentage of young adults have completed high school than the U.S. average, but lower than the top states and the most educated countries.

A higher percentage of young adults have earned college degrees than the U.S. average, but lower than the top states and the most educated countries.

Note: The most educated countries in 2005 include Korea, Japan and Canada.

The Challenge: Wisconsin's Working-Age Adults (18 to 64) with No College Degree

Of 3,519,690 Working-Age Adults . . .

... **2,332,905** have not completed college (associate's degrees or higher) — **66.3** percent of all working-age adults in Wisconsin. Of these:

332,228 have not completed high school (or equivalent)

1,167,549 have completed just a high school diploma but have not entered college

833,128 have completed some college but no degree

47,314 speak little or no English

459,385 are living in families whose combined incomes are less than a living wage (twice the level of poverty)

Adult Learning in Focus

Wisconsin Profile of Adult Learners 2008

How Well Does Wisconsin Serve Adult Learners?

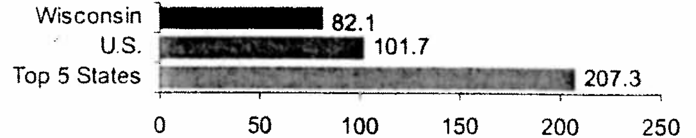
Addressing Basic Skills in Wisconsin:

State-administered adult education programs serve adults without a high school diploma at a lower rate than the U.S. average, and at a much lower rate than the top performing states.

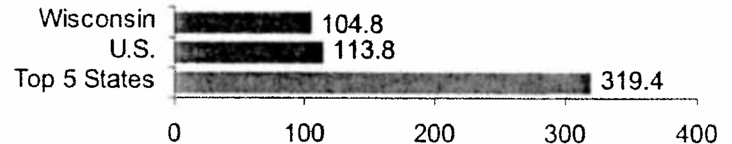
ESL programs serve the adult population lacking English proficiency at a lower rate than the U.S. average, and at a much lower rate than the top performing states.

Adults Served per 1,000 Adults Age 18-64:

Enrolled in State-Administered Adult Education Programs with Less than a High School Diploma

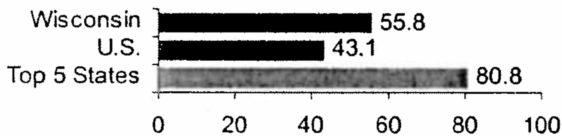


Enrolled in English as a Second Language Programs with Little or No English Proficiency

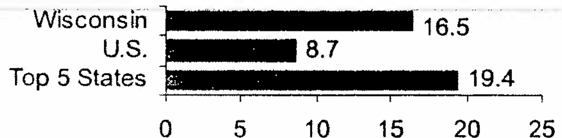


GEDs Awarded per 1,000 Adults:

18 to 24 Years Old with No High School Diploma



25 to 44 Years Old with No High School Diploma



Helping High School Dropouts in Wisconsin:

Adult education providers award GEDs to young adults without a high school diploma at a higher rate than the U.S. average, but at a lower rate than the top performing states.

Compared with the younger age group, GEDs are awarded to older adults without a high school diploma at a much lower rate. State performance is higher than the U.S. average for this age group, along with other top state performers.

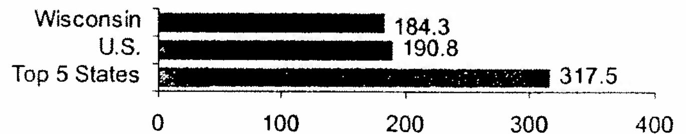
Pursuing Higher Level Skills in Wisconsin:

Postsecondary institutions serve young adults (25 to 39 year olds who only have a high school diploma) at a lower rate than the U.S. average.

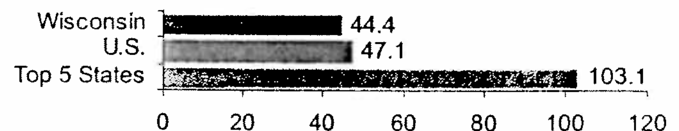
Institutions serve older adults (40 to 64 year olds with only a high school diploma) at a lower rate than the U.S. average.

College Participation per 1,000 Adults:

Age 25-39 with Only a High School Diploma



Age 40-64 with Only a High School Diploma



For the full report and access to the detailed state-by-state data, visit www.cael.org/adultlearninginfocus.htm

Produced by:

The Council for Adult and Experiential Learning (CAEL) and

The National Center for Higher Education Management Systems (NCHEMS)

With Support from **Lumina Foundation for Education**

Blue Ribbon Commission on Higher Education

National Conference of State Legislatures

A Policy Brief

September 2008

Education Strategies to Meet Workforce Needs

The Big Picture

Experts warn that emerging developments will affect the future of U.S. prosperity and global competitiveness. *America's Perfect Storm,* a 2007 report by the Educational Testing Service, for example, outlines three of the most significant challenges facing the nation:

- Substantial disparities in skill levels (reading and math);
- Seismic economic changes (widening wage gaps); and
- Sweeping demographic shifts (less education, lower skills).

These challenges threaten to increase inequity in U.S. wealth and damage the nation's economic position worldwide. The United States is losing its position as a world leader in college graduates at a time when the American economy requires more workers to have at least some postsecondary education or high-skill training.

Mitigating these emerging threats to maintain and increase U.S. prosperity will require a broader perspective on education and workforce development policy. Lawmakers may need to link the two sectors to meet current and future workforce needs. State higher education and workforce development systems no longer can operate as separate entities that interact sporadically. Rather, they must begin to operate in concert, frequently and seamlessly. We need to increase the number of students who earn degrees and certificates to better meet modern workforce requirements. At the same time, workforce development systems will need to become less compartmentalized and more responsive to both employer and employee requirements.

This brief focuses on two educational strategies—strengthening community college systems and targeting adult learners—to increase the number of college graduates and better coordinate between higher education and workforce development systems.

Strengthen Workforce Development Programs in Community Colleges

Community colleges are the primary higher education institutions associated with workforce development. The nation's 1,200 regionally accredited two-year colleges enroll almost half of all American undergraduates (6.6 million, or 46 percent). They award degrees to many of the nation's skilled and high-demand workers, including more than 50 percent of all new health care workers. Also important to workforce development are the noncredit courses and programs offered at community colleges. With a nationwide enrollment of approximately 5 million students, these programs are geared to meet emerging workforce demands by providing skills that meet both employer and student needs. Community colleges award approximately 820,000 associate degrees or certificates annually. This not only expands the social and economic prospects of their recipients, but also ensures a skilled labor pool for states and local communities. Because of the sheer number and diversity of students community colleges reach, they are an ideal place to focus on state workforce development.

Although community colleges are a key element in ensuring U.S. competitiveness, the National Commission on Community Colleges points out in its report, *Winning the Skills Race and Strengthening America's Middle Class: An Action Agenda for Community Colleges*, that these institutions are an overlooked asset for maintaining and growing a skilled workforce. The commission identifies four major issues that reduce the ability of community colleges to meet the nation's emerging challenges:

- Rising costs;
- A mismatch between demands and resources;
- An emphasis on access rather than success; and
- Difficulty monitoring results.

Not all these challenges can be resolved solely through state policy (for example, the federal government distributes some workforce and student aid funding), but several state actions are available to help community colleges support workforce development. These include sustaining state funding, making it easier to enroll and transfer credits, and focusing on data collection and analysis to determine workforce needs and measure student success.

State Funding

A recent Government Accountability Office study found that community college and workforce officials almost universally cite sustained state funding as one of the most important factors in community college workforce development activities. New Jersey finances its Workforce Development Program—which provides competitive grants to groups of businesses that formally partner with community colleges—through a dedicated state payroll tax on employers and employees. When a business or group of businesses identifies a training need in Texas, a state Skills Development Fund grant can back development of targeted, customized programs through a community college or technical school. Iowa community colleges are permitted to sell bonds to raise funds for training programs to enhance current workforce skill-levels. Michigan also is considering this approach.

Articulation and Transfer

The low tuition at community colleges makes them an ideal gateway for students entering higher education and the high-skills workforce. Clear, simple articulation and transfer policies between two- and four-year schools and credit and noncredit courses within community colleges are essential to maintaining this gateway. Two ways to encourage this are to:

- Develop statewide articulation agreements that set requirements and guarantee transfer from two- to four-year schools.
- Provide counseling for high school and community college students to help them learn what it means to be college-, transfer-, and workforce-ready.

Florida is known for its excellent transfer system, which consists of common course numbering, comprehensive online student advising, and guaranteed admission to state universities for most students who complete an associate's degree. North Carolina's comprehensive articulation agreement between the community college and university systems guarantees admission.

Data Collection and Analysis

High-quality data are needed to ensure that community college workforce development programs meet current and future workforce needs. It also helps determine the institutions' success in graduating students who fit these needs. In Oregon and Washington, for example, timely, customized labor market data are provided to community colleges by state analysts to identify local needs and trends. Formal committees that involve community college, business and labor leaders, (such as Washington's "skill panels") provide feedback on how well programs provide specific training for workforce needs. Additional resources may be needed to collect more and better information that will document the value—to both individuals and states—of noncredit workforce education at community colleges. Improved data can enable states, employers and individuals to make better informed decisions about where to invest resources.

Target Adult Learners

Many higher paying current and emerging jobs—such as information technology, energy and health care—will require advanced skills that can be achieved only through postsecondary education. Educational attainment of both younger and older U.S. workers currently are leveling off and even declining in some states. This trend translates to a decrease in educational attainment levels of the workforce when older generations retire, especially in states with a stable or declining young population. States will find it difficult to overcome knowledge and skill shortages by focusing only on the current K-12 educational system or immigrant workers. To remain internationally competitive in educational attainment, most states will need significantly more people with degrees than those earned by traditional college students. Thus, states will need to provide affordable, accessible postsecondary options for adult learners—who dropped out of high school, never went to college, or earned too few credits to complete a degree—to improve and update their skills.

Affordability

Low-income adults can benefit from additional postsecondary education or training, yet they can least afford it. Establishing scholarships, grants and other assistance for part-time learners is one approach states can take to help make postsecondary education affordable for working adults. Thirty-three states provide some level of need-based aid for part-time students. The Kentucky Adult Education system contracts with colleges and other organizations to deliver free programs. Its efforts increased adult enrollments by 135 percent between 2000 and 2005. Illinois' Monetary Award Program is available to low-income students who take a minimum of three credit hours at a time.

Finding new funding sources for adult learners is another way to help make postsecondary education affordable. Specialized accounts are one effective method to leverage existing funding sources and distribute the cost of providing education for adults among various stakeholders. One example is the Lifelong Learning Accounts (LiLAs) model designed by the Council for Adult and Experiential Learning. With these accounts, a worker can set up an individual asset account and his or her investment in education is matched by the current employer up to a specified annual amount. The money also can be matched with state funds, as is the case for Illinois health care workers. The money allows workers to enroll in courses to upgrade their skills and credentials. Several other states are testing such programs.

Accessibility

Affordable postsecondary education also must be accessible to adult learners. Adjustments to state funding mechanisms represent one powerful way to address access. Approximately half the states provide no funding to institutions for noncredit or workforce development courses, and others provide only partial funding. Because institutions that enroll a large number of part-time students typically are not fully funded, they may not be eager to enroll adult learners. Oregon funds noncredit adult education at the same level as credit classes, thereby removing the financial disincentive for providing workforce development and other education opportunities for adults.

State funding also can be used to provide incentives for institutions to offer adult learners greater assistance and support. Offering innovative financial packages to institutions that provide adult-specific assistance—such as flexible enrollment and class meeting times, online or distance learning, child care services and adult-specific advising—can enhance the number and quality of educational opportunities available to adults. Louisiana's Continuum for All Louisiana Learners (CALL) is designed to make it easier for working adults to enroll and earn a degree at a Louisiana public college or university. Originally tested in the northern third of Louisiana, the program now is more widely available—through online courses and innovative programming—to respond to specific adult learner needs at six institutions. The goal is to aggressively promote adult learning services and create convenient ways to earn postsecondary certificates and degrees.

For More Information

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GETTING WHAT YOU PAY FOR

What State Policymakers Should Know About Federal Higher Education Policy

David A. Longanecker

November 2008

NATIONAL CONFERENCE of STATE LEGISLATURES
The Forum for America's Ideas

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Introduction

Every state policymaker knows the mantra: education is a state responsibility, not the federal government's. But just how true is that? In higher education it is certainly true that the states provide the lion's share of funding for capital construction of public colleges and universities, as well as most of the funding (about $70 billion annually) for administrative and instructional purposes and a more modest $7 billion for student financial assistance. Yet the federal government is also a significant actor, providing roughly $25 billion annually in funding, primarily for student assistance and research.

As a result, whether they realize it or not, the state and the federal governments are significant partners in this American higher education enterprise. Therefore, it makes a lot of sense for state policymakers to understand the nature of the federal investment and the rationale behind it if they are to gain maximum advantage from synergies and avoid potential conflicts between state and federal investments. Harmonized state and federal efforts can complement each other. It simply makes good sense to design state policies in ways that maximize the take-up of federal dollars, both to benefit students and to relieve state fiscal pressures.

What Is the "Federal Interest" in Higher Education?

The federal role in higher education falls into three general categories: areas of federal responsibility, areas of national interest, and areas of particular political interest.

Areas of federal responsibility. The primary area in which the federal government has accepted major responsibility is in *ensuring equal educational opportunity*. The federal government became engaged in this area only about 50 years ago, with passage of the Higher Education Act (HEA) of 1965 as part of the Great Society programs, marshaled through Congress by President Lyndon Johnson. Though relatively new as a federal policy area, ensuring equal educational opportunity was tied back to the 14th Amendment of the Constitution, which ensures all citizens equal opportunity to benefit from the privileges of citizenship and equal protection against any abridgement of these privileges. Passage of the HEA, in essence, outlined the philosophy that citizens could not be ensured equal opportunity, as required by the Constitution, without being offered equal educational opportunity, because it had become evident that education was the primary avenue to equality, particularly for individuals who had traditionally been disenfranchised from full success in American society. Since the inception of the HEA, this federal responsibility has been pursued through two strategies: first, through enforcement of equal opportunity in education through civil rights rules, regulations, and litigation; and second, through the creation and support of a variety of federal student assistance programs.

Areas of national interest. The federal government's first foray into higher education actually came about as the result of a compelling

federal interest, rather than as a federal responsibility. The Morrill Act of 1862, which was the first federal engagement with higher education, provided an incentive for each state to establish a "land grant" institution to focus on advancing the industrial and agricultural revolutions of the time by preparing the high-skilled workforce and creating the applied research infrastructure necessary for this advancement. Many land grant universities remain among the most prestigious and invaluable state universities in the country today.

The dual federal interests of research and development (R&D) and workforce development have driven much of the federal interest in supporting higher education throughout history. The federal government continues to provide significant financial support for activities that it believes are in the national interest. Most significant among these is the area of federal research support. Federal funding for academic R&D currently amounts to $30 billion annually, with the greatest support coming from the National Institutes of Health and the National Science Foundation, along with significant affiliated research support coming from other federal offices, including the Department of Defense and the Department of Energy (though virtually every federal agency sponsors some level of R&D). Traditionally, these funds have been distributed to grantees through a peer-reviewed process, but in recent years an increasing share has been issued via proprietary earmarks designated by Congress in the appropriations process.

In the workforce domain, perhaps the most significant federal effort was the original G. I. Bill, which was designed not to do the right thing for veterans (as modern lore would have it), but rather to keep them out of the workforce, which simply could not have absorbed them without risking another depression. An added benefit came from the up-skilling of these veterans, whose college education allowed them to take on more productive jobs.

In the late 1950s, the federal government amped up its education efforts "in the national interest" with support of the National Defense Education Act, which was designed to address the perceived national threat to American leadership in science and technology – a threat underlined by the successful Soviet launch of the Sputnik, the first Earth-orbiting space satellite. The federal government still provides direct support to various efforts that it believes to be in the national interest. The HEA, for example, includes sections that provide support to international education, developing colleges and universities, historically minority-serving institutions, graduate education, and teacher preparation. While these have never been claimed as a federal *responsibility*, it is clear that they are of interest to the federal government and have received support to advance that federal interest.

Areas of political interest. The federal government also pursues a number of higher education initiatives that are neither a federal responsibility nor a broad federal interest but simply reflect the political dynamics of the time. Two recent examples of this are the federal concern about the increasing cost of college and the perceived gap (by some federal policymakers) in higher education accountability.

The cost concerns, often couched in terms of "affordability," have been addressed both through student benefits to reduce cost pressures and through regulatory schemes to prevent institutions from increasing costs too much. The various tax credits, deductions, and savings benefits for education that have recently been adopted, primarily to benefit the middle class, and the relaxation of limits on student grants to extend greater eligibility to the middle class do not truly address the federal responsibility of expanding educational opportunity: virtually all of the recipients would have gone to college anyway. But these benefits are politically popular.

With regard to accountability, Margaret Spellings, secretary of education under President George W. Bush, felt strongly that higher education was not being held accountable for how much students learned or for how likely it was that they would even graduate. She pursued federal initiatives to require greater accountability from institutions on the issue of student success. The results of her efforts are reflected in current practice and law, including a number of new reporting requirements and regulatory structures embedded in the HEA amendments passed in 2008, now to be known as the Higher Education Opportunity Act (HEOA).

Federal Interests and Responsibilities and the Law

This policy brief focuses primarily on the federal role in higher education as it relates to student financial assistance. The other major federal areas of activity touched on above, while certainly important and germane to state policy, are not as key to state and federal policymakers as financial aid policy is.

The Higher Education/Higher Education Opportunity Act. As previously mentioned, the primary federal role in American higher education is established by the Higher Education Act (HEA) of 1965, as amended. The HEA is periodically reauthorized to keep it contemporary. It was most recently reauthorized in August 2008. This new act renamed the Higher Education Opportunity Act of 2008, thus ostensibly reflects contemporary thinking on the federal role in higher education.

Truth be told, however, this long-awaited, reauthorized HEA/HEOA reflects only modest tinkering.

Many folks in the higher education policy community and within the federal government breathed a sigh of relief with the act's passage because the reauthorization process had been delayed for many years. Truth be told, however, this long-awaited, reauthorized HEA/HEOA reflects only modest tinkering. In part this is because the delays in progressing reauthorization – a process that should have taken no more than five years, but actually took 10 – forced Congress to embed many of the necessary changes to federal higher education policy into other bills, most notably the Budget Reconciliation Acts of 2006 and the Appropriations Act for Fiscal Year 2008.The major outcomes of the 2008 reauthorization were:

- Virtually no significant programs were eliminated, despite research indicating that a number of programs accomplished little, but a number of new pet programs were adopted. Some observers have expressed concern that these new programs expand the role of the federal government and thus may dilute the limited resources likely to be available for the core federal programs, particularly given the difficult budget years that probably lie ahead. If the past is prologue, however, these concerns are unlikely to be warranted; many of these new programs, though now authorized, will never be funded. And if they are funded, it will be at such low levels that it will not jeopardize either the integrity of the federal budget or other valued programs. There doesn't seem to be a groundswell of support for any of the new programs, nor do any of them suggest a radical new direction for the HEOA.
- Authorized funding levels for most of the programs in the act, such as the well- known Pell Grant program, were increased. It is unlikely, however, that these authorized levels will ever be reached. The current $4,731 maximum federal Pell Grant remains substantially below the former authorized $5,800 maximum, and far beneath the $8,000 stipulated in the recently reauthorized law. A 70 percent increase from the current $4,731 maximum to the authorized $8,000 maximum over the intended four- to five-year life of this reauthorization would be unprecedented and highly unlikely in the current federal fiscal environment.

The new act includes a number of new mandates for states and institutions to abide by, many of which are focused on the federal interests discussed earlier, regarding concerns about the increasing cost of college and the perceived lack of adequate accountability. Many of these mandates will prove relatively benign with respect to state policy, but not all. One provision, for example, would eliminate state eligibility for the relatively new College Access Challenge Grant (CACG) Program if states do not maintain their current level of funding for higher education. Given the fiscal dilemma facing our nation, this could jeopardize funding for this program in a number of states. Unlike the new pet programs, these new mandates will almost certainly be put into effect. Even though they do increase the administrative burden – both for the reporting institutions and states and for the Department of Education that must regulate them – they carry no "fiscal note," so do not need to pass through the legislative process again, meaning they simply fall to the Department of Education as an imperative implementation responsibility.

The appropriations process. While folks generally think of authorizing legislation as the guiding light

While folks generally think of authorizing legislation as the guiding light of public policy, at the federal level, appropriations law also greatly shapes the U.S. government's role in higher education.

of public policy, at the federal level, appropriations law also greatly shapes the U.S. government's role in higher education. Recently, in fact, the budget and appropriations processes have had a very significant influence on federal financial aid policy. This brief will not go into the complexities of those budget and appropriations processes, nor will it introduce you to the unique lexicon of federal budget terms. Rather, it will provide a fairly simple, straightforward analysis of how the budget and appropriations process have affected federal higher education policy in recent years and how this is particularly germane to state policy.

First, as alluded to earlier, federal appropriations are bounded by authorizing legislation, but appropriations are almost always substantially more frugal than would be allowed under that legislation. This should not be surprising. The authorizing committees come to passionately believe in the programs for which they are responsible, but the appropriations committees have to balance the passions of a variety of committees with the reality of available resources. So higher education programs, like almost all programs, receive less funding than they could receive under the parameters of the authorizing legislation.

As mentioned earlier, the major federal student grant program, the Pell Grant program, provides awards of up to $4,731 for the 2008-09 academic year, an amount that is reduced depending upon how much a family has been determined to be able to contribute to their student's education. This maximum award appropriated increased substantially in recent years, from $4,050 just three years ago. In addition, in the 2006-07 school year, Pell Grant recipients were eligible for an additional $750-$1,300 from the new Academic Competitiveness Grant during their first two years of college if they had taken a rigorous curriculum in high school. During their last two years of college, they were eligible for up to an additional $2,000 from the new SMART Grant, if they selected a science, technology, engineering, mathematics (STEM) or designated foreign language field of study. While the Pell Grant has been the primary program promoting the federal responsibility to expand educational opportunity, it has recently been blended with the federal interest in assuring that students prepare well for college and that more students focus on areas of critical need to our country.

One of the dilemmas with the Pell Grant program over time has been that its costs are highly sensitive to the nation's economic circumstances. When the national economy is sour, demand for Pell Grants increases substantially: many more students go to school because jobs for them simply aren't available. The result is that program costs soar at precisely the time when federal revenues become constrained. There may be a little politics at play here, as well; it seems that deficits in the Pell Grant program appear at the end of presidential terms, leaving the legacy of debt, and the responsibility for resolving this budget problem, to the new president. President George H. W. Bush, for example, left President Bill Clinton a $1.5 billion hole in the Pell Grant program budget upon entering office. And while President Clinton did not leave such a gap for his successor, President George W. Bush will leave a projected $6 billion deficit to repair.

One of the dilemmas with the Pell Grant program over time has been that its costs are highly sensitive to the nation's economic circumstances.

In addition to the Pell Grant program, the federal appropriations and budget processes have recently been the major vehicles for substantially changing the subsidy structures of the federal student loan program. Large increases in student borrowing in the 1990s and early 2000s drove the costs of the federal student loan programs up substantially. As a result, major changes have been made to reduce these costs without harming student borrowers. These changes have significantly altered the way lenders and guarantee agencies (including many state lenders and guarantee agencies) are recompensed for their services in managing student loans and the way in which students are subsidized for the benefits they receive.

In order to meet the limits imposed in the budget reconciliation and appropriations acts of 2006 and

2008, subsidies to lenders and guarantors of federal student loans have been substantially reduced – so much so, in fact, that many of the entities that have participated in the past have withdrawn or threatened to do so, either because they no longer find their student loan portfolio sufficiently profitable or because they simply can't afford to stay in business. While this has caused much consternation in the array of vendors that have participated in the program, it has not jeopardized access to federal student loans. Enough lenders, including the federal government through its Direct Student Loan Program, remain in the program to assure access to student loans for all eligible students, and large national guarantors are available to absorb the functions of smaller guarantee agencies that reduce or cease activity. Budget reductions and consolidations make good sense from the federal perspective because they retain equivalent service at a lower cost. But they have created havoc, particularly for states with programs that have benefitted substantially from the federal largess in the past.

Student borrowers have not been spared either. Part of the fix was to increase student loan interest rates modestly to rates that are more comparable to what was paid before the reauthorization act of 1998 reduced them. Some argue that these increases in interest rates did harm student borrowers, so it is not correct to contend that the actions of Congress protected students. Yet all students who were eligible for loans remain eligible, and the increased interest rate to 6 percent remains a reasonably good rate, compared to rates charged in the private sector. In fact, the variable rate loan structure established in the 1998 reauthorization bill (currently at 3.61 percent), combined with the fact that many students bear no interest on the loan while in school, has accounted, in part, for the exceptional increase in demand for such loans; with such generous terms, it was in the student's best economic interest to take advantage of such a loan whether they needed to or not.

Tax benefits also remain a substantial way in which the federal government addresses its political interest. Tax benefits have long helped both public and private higher education through a variety of provisions, such as: tax-exemption for public and nonprofit organizations; tax benefits for businesses that pay educational expenses for employees; research and development tax credits that encourage industries to support university research; tax deductions for children who remain dependent on their parents while attending college; and tax benefits for college savings.

But there is increasing scrutiny of these myriad tax benefits. For example, the Senate Finance Committee has been reviewing two features of federal tax law that could substantially impact state policy. First, they have been examining the legitimacy of tax-exempt status for public and nonprofit institutions that pay "exorbitant" salaries to their chief executives and selected other employees (coaches). Second, they have been contemplating why college and university foundations, as philanthropic organizations, should not be required to spend a portion of their resources each year, as all other philanthropic trusts and foundations must do.

Other tax benefits have also come under increased scrutiny. A number of political candidates during the 2008 election cycle suggested consolidating redundant federal tax credits and deductions for tuition costs and savings plans into a more easily understood system. Some policy analysts have also raised questions about whether these programs actually serve the federal role in higher education, given that the primary federal responsibility is to promote educational opportunity, not simply making it easier to go to college. And others have suggested that the grant, loan, and tax programs should be better integrated to reduce redundancy and increase efficiency. While this makes a great deal of sense, it is very difficult to accomplish because tax policy is handled by an entirely different set of congressional committees than the authorizing and appropriations committees. These efforts are so divorced that it is hard to imagine they could be reconciled.

States need to distinguish between myth and reality – the feds aren't going to solve your problems and challenges.

What This Means for State Policy

Four features of current federal policy need to be recognized as states develop their higher education policy.

- Incremental changes may sound benign, but they are not.
- States can use federal policy to maximize their own policies.
- States need to distinguish between myth and reality – the feds aren't going to solve your problems and challenges.
- The federal philosophy for higher education engagement is in flux, and it is not very federalist.

Incremental changes are not necessarily benign. Small changes can have pretty big effects, sometimes over a long period and sometimes almost immediately. Oftentimes, modest federal changes can have a significant impact on states. For example, the 1998 Reauthorization of the Higher Education Act created a modest new program known as GEAR-UP. Over the last 10 years, this program, which introduced the concept of early intervention to prepare at-risk youth for future success in postsecondary education, has become a mainstay of state policy around the nation. Likewise, the modest Academic Competitiveness Grant, implemented in the 2007-2008 school year, is a great incentive to high schools to provide – and to high school students to take – more rigorous courses, which research tells us will substantially improve those students' chances of attending and succeeding in college.

The most recent authorization also has a number of incremental changes that could have substantial effects – perhaps positive, perhaps not. A provision requiring that institutions providing distance learning must authenticate that students taking exams are indeed the students registered for the course may protect educational integrity but may also greatly impede the capacity to provide distance learning, if implemented in a way that hampers legitimate delivery of these services. Similarly, a "maintenance of effort" provision in the new CACG program, which is intended to dissuade states from reducing their support for higher education, could mean that many states facing substantial budget deficits, a portion of which will almost certainly redound to higher education as budget cuts, could lose their funding for this valuable new program. Also, increases in the required reporting that virtually all institutions will have to make to the National Center for Educational Statistics will, without doubt, boost institutional administrative costs – costs that will have to be funded either from state or tuition funding or be carved out of existing program costs.

What can states do? In some cases, working with your state congressional delegation to seek reasonable amendments may make sense. In most cases, however, coordinating state efforts to respond to these measures so that each institution isn't inventing its own solution could lead to lower aggregate costs and less aggravation.

> Perhaps the most common mistake that states make is wedding themselves to the federal need analysis for determining state financial aid.

Using federal policy to the state's advantage. The best recent example of how states missed the boat in this regard relates to federal adoption of the HOPE Scholarship and Life Long Learning Tax Credit and Deduction. This federal program, adopted in 1997 and first available to families paying taxes in 1999, provides more than $8 billion in tax relief to middle-income students and their parents each year. A family with income below $100,000 may claim a tax credit of up to $1,650 for each child attending college at least half time for the first two years (100 percent of the first $1,000 and 50 percent of the second $1,000 of tuition paid) as part of the HOPE Scholarship. The Lifetime Learning Credit provides up to $2,000 annually for students (20 percent of up to $10,000 of tuition paid).

The kicker is that you have to pay tuition to receive a tuition tax credit. Yet for years after adoption of this federal tax credit, many states with merit scholarships "for tuition" failed to recognize that eligibility for their program precluded eligibility for the federal program. Thus, the states were paying entirely for a benefit, though the federal government was willing to share the costs.

Most of the states have changed their policies to allow students to receive both the state and federal benefits. Yet many states and institutions still provide tuition vouchers for special categories of students – most often, for employees or dependents of employees. Yet again, simply restructuring these tuition vouchers would make the students eligible for the federal tax credit. Another example: The California Community Colleges, which, by charging virtually no tuition, leave a huge amount of federal

unclaimed benefit on the table. These colleges, on average, charge about $600 annually in fees. If they raised this amount to $1,000, it would increase their fees by millions of dollars, allowing them to better serve their students without increasing the net cost to virtually any students enrolled greater than half-time. Yes, middle income families would pay an additional $300 out of pocket, but their tax liability would be reduced by an equal amount.

Perhaps the most common mistake that states make is wedding themselves to the federal need analysis for determining state financial aid. Indeed, most states do this, believing that it makes no sense to replicate an assessment of need that has survived the test of time at the federal level. The problem is that the federal need analysis, which began as a reasonable assessment of what families could contribute, has been bastardized so much over time, primarily to incorporate more middle-income students and families and to accommodate to budget constraints and political interests, that it no longer truly reflects what students and their families can contribute.

Some states, however, have been quite wise in constructing their financial aid policies to take full advantage of the federal program. Oregon, for example, in creating its new shared responsibility grant program, has taken full advantage of all the aid available for its students but has fashioned its policy to meet need under its own estimates of what students and parents can contribute rather than following the federal methodology lockstep. Arizona has focused its university need-based aid, which is provided directly by its universities, on Pell Grant students, which effectively targets the aid on the financially neediest students. Similarly, Louisiana's new GO grant focuses on Pell Grant recipients, as well.

Many states are quite proud of their federal "partnership" activities in the student loan and 529 savings programs. In almost all cases, however, these states are simply vendors for private investment firms, providing no financial contribution to the programs and often relegating borrowers to investment instruments with notoriously low yields and high administrative expenses. Yet both loan and savings programs provide a unique opportunity for states to partner financially with the federal government and in so doing increase the value of their programs to the beneficiaries. States, for example, could provide tax advantages or simple repayment of loans to students who leave the state but return after graduation – a great way to get some other state to educate your citizens and future residents. States could offer matching contributions to savings plans for working-class families, so they have an incentive to plan for their children's education. There are many ways in which states can partner with the federal government, even if the federal government doesn't recognize that they are a partner with the states.

Distinguishing myth from reality. Perhaps the greatest myth regarding the federal role in higher education is that the federal government takes care of access, so the states don't have to worry about financial aid. This may have been close to true in the 1970s, shortly after implementation of the original HEA, when federal funds for student aid were more plentiful and tuition at public institutions was much more affordable. But it is certainly no longer true. As valuable as the Pell Grant program is, it will never again cover the share of educational costs that it once did. A number of states have come to realize this and have created strong need-based financial aid programs, which when blended with the federal programs provide a strong safety net for the neediest students.

The myth is that poor students are covered by the feds, rich students are covered by their parents or trust funds, but the middle class is screwed.

Yet more than half of all states still languish with no or insufficiently funded need-based programs. The result is that many students from low-income families still cannot afford to go to college without exceptional sacrifice on their own part or their family's. That's not what the current rhetoric is. The myth is that poor students are covered by the feds, rich students are covered by their parents or trust funds, but the middle class is screwed. Research, however, demonstrates clearly that this is a myth, not reality. Without doubt, many middle-income students face a greater burden from college costs than they did in the past. And it is not untoward to provide policies that help these students. But the students today that face true barriers to college attendance remain those students from very low-income families.

A second myth is that student access is all about cost. The truth is, poor academic preparation accounts for more students not going to college or not succeeding in college than does cost.

States can address both of these myths. A number of states are following the lead of Indiana and Oklahoma in creating scholarships for poor students who agree to take a rigorous set of courses in high school. These programs can effectively be blended with federal programs to increase their value. Likewise, some states, like Washington, build on the federal College Work Study program to offer state work study that can be blended into intentional cooperative work study programs, in which students earn their way through college in a program that blends their academic studies with work in the field for which they are preparing. These programs relieve pressure on traditional financial aid programs, provide relevance for the student in their academic pursuits, and are a great way of keeping students in the firms for which they work and, therefore, in the state that is paying handsomely to educate them.

Responding to a changing federal philosophy (one that's not very federalist). The implicit federal philosophy for higher education has been evolving in two ways since the inception of the HEA in 1965.

Perhaps the most significant shift has been away from helping the neediest students, consistent with the federal *responsibility* to ensure equal educational opportunity, to helping the middle class, consistent with the federal *political interest*. While many federal policymakers would be offended with this statement, the facts are clear. Today, through an array of federal programs – grants, loans, and tax credits – federal subsidies have shifted substantially away from the neediest to less needy students, and indeed the combination of tax credits and loan subsidies often provide greater overall benefits to middle-income students than to the lowest-income students.

This shift is not entirely inconsistent with implicit state policy. Virtually all states subsidize their prestigious research universities, which cater to the wealthiest students, much more heavily than community colleges, which serve the most academically and economically distressed students. And a number of states generously support merit scholarship programs, which also disproportionately serve the most advantaged students.

The workforce needs of the future, however, demand that we find ways to serve successfully a much larger share of our population in our state systems of higher education. Private and proprietary institutions can help (and can be incorporated intentionally in state policy to help), but the primary responsibility will fall on public institutions.

In addition to shifting its focus from the neediest students, the federal government has shifted away from a federalist approach to a much more federally controlled approach. Programs which used to be intentional federal/state partnerships have lost their verve, and more often the federal government appears to see itself as the director of activity, rather than as a partner. Examples include the diminished role of the explicit partnership programs, such as the Leveraging Educational Assistance Partnership (formerly the State Student Incentive Grant program – SSIG), nationalizing the student loan program, and usurping control of the National Postsecondary Education Collaborative. New relationships with states have taken on a much more federally paternalistic tint. As mentioned earlier, for example, the CACG carries strings that naively require states to maintain efforts that may be nearly impossible.

How can and should states respond? One way is to follow federal legislation more closely and maintain a close relationship with members of Congress who serve on relevant committees. In many, if not most, cases, members of Congress began their political service in state legislatures. Thus, they are kindred spirits – if only they know what you are interested in. Absent your colleagueship, though, they become captives to the federal process and frenzy. So remember your old friends and stay well acquainted.

Concluding Comments

Whether state or federal legislators realize it or not, the states and federal government are partners in providing access and quality in higher education. And from the state perspective, perhaps it is best if you recognize this more than your federal partners do, as it provides you with the ability to build upon federal efforts and use federal programs to maximize the intended impact of your state policies.

Being smart in this respect doesn't necessarily require carving out new ground. To some extent or another, you in your state and legislators in other states have already found clever ways to amplify

the positive effects of your state higher education policies by taking greater advantage of federal efforts. Sharing your ideas with your colleagues and borrowing from their intelligent efforts can make you a much more effective partner with the federal government, whether the feds realize it or not.

So pay attention to this federal stuff. It's mighty important to your state, even if higher education is a state responsibility.

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Introduction

Legislators are becoming increasingly aware of the important link between higher education's effectiveness and the state's economic strength. They are concerned about mediocre student outcomes in the higher education system and worry about the lost wages and revenue of students who drop out of the system before getting a degree. As state budgets tighten and less state funding is available for higher education, legislators want to ensure that funds are wisely invested and wisely spent. As states plan for jobs that will drive the economy in the future, they are looking to higher education to train and produce the workforce needed for these jobs.

As a result, many states are approaching higher education policy as an investment strategy. An investment in a strong, accessible, and high-quality higher education system is an investment in the economic development of the state, with significant payoffs down the road. Indeed, a state can benefit from wise investment in its human capital. When all citizens have the opportunity and resources to succeed in the education system, the state reaps the rewards of an educated and productive citizenry. The benefits of a highly educated citizenry include improving the state's economy, meeting future workforce needs, and improving the state's quality of life.

Higher education has often been primarily valued as a benefit for the individual, but an educated citizenry significantly benefits the state. That is the fundamental principle behind the higher education-economic development linkage.

Consider the following:

- Over a lifetime, a college-educated individual earns about $1 million more than a person without a college degree (about $450,000 more in today's dollars). This translates into increased tax revenue for the state.
- The gap between the median earnings of college graduates and the median earnings of high school graduates has increased significantly over the past 30 years.
- People with higher education also experience improved health, are more involved in voluntary organizations, and give more to charity than their less-educated counterparts – all of which is good for the economy.
- Unemployment rates are lower for adults with higher levels of education all across the country. The differences vary significantly by state and are larger in states with higher overall unemployment rates.
- A person who does not complete high school has only a 50 percent chance of becoming employed.
- Growth in per capita income has been more rapid in metropolitan areas, where high proportions of adults have four-year college degrees.
- The incarceration rate of adults with some college education is about one quarter of that for those with only a high school degree. It costs about $26,000 a year to maintain a prisoner; public four-

year colleges spend about $25,000 per student per year; public two-year institutions spend about $9,000 per year per student.

- The government spends between $800 and $2,700 per year less on social programs for individual 30-year-old college graduates than for high school graduates of the same age, gender, and race.[1]
- Estimates from a RAND study suggest that, overall, every dollar spent on equalizing college entrance rates across racial/ethnic groups would yield between $2 and $3 in public savings, with a third to a half of the benefits coming from savings on social programs and the rest from increased tax revenues.[2]

These are just some of the ways legislators can consider the return on investment for the state every time a citizen is successful in the education and higher education systems. Undereducated citizens and nonworkers cost the state more in terms of public services, lost wages, and lost revenue - in other words, lost economic productivity. As states face tight fiscal times in which little new revenue for higher education will be available, legislators are looking for strategies that will improve the productivity of the education system (that is, more students earning more degrees) and maximize the return on state investment.

State Policy Strategies

Below are some of the policy levers states are using to develop higher education policy that is linked to and coordinated with state economic development policy.

High School Reform

Improving high school graduation rates includes providing better supports for potential dropouts and employing successful early identification and intervention strategies. Research shows that "college ready" and "work ready" are the same thing.[3] In other words, a state can set high school standards that all students – regardless of whether they want to go to college or work upon graduation – need to meet. Most states are deciding that in today's global economy the standards necessary for all students to be successful are the same or very similar. For instance, beginning with the class of 2011, all Indiana high school students will be required to complete the Core 40 college and work readiness curriculum.

States also are incorporating more opportunities for students to prepare in high school for a career. Many students drop out of high school because they are primarily interested in going to work after high school, and high school opportunities do not fit their needs and interests well. Incorporating more options for students to pursue career and technical training in high school has proven to be a successful strategy for engaging these students. At least 13 states have implemented legislation to require development of graduation and post-high school plans for all students. A number of states have recently invested in strengthening the rigor of their career and technical education programs. Several states, including Virginia and Washington, have passed comprehensive legislation to help high school students obtain industry certification.

K-16 Policy

A high school diploma alone is not sufficient – some form of postsecondary education is needed. That is why many states are looking for ways to better link K-12 and higher education policy as one continuous system and better prepare students for college. Nearly all the states have dual enrollment programs which give high school students the opportunity to take courses at postsecondary institutions. Programs like Advanced Placement and International Baccalaureate also provide opportunities for high school students to earn college credit. States still are making adjustments to their dual enrollment programs to ensure that access is available to the greatest number of students possible and that credits earned will transfer to state community colleges and institutions of higher education. Several states have begun the process of implementing statewide high school academic standards for college readiness by aligning coursework, testing, and graduation requirements. About half of the states have implemented formal P-16 education councils or commissions.

Community Colleges

Community colleges are the primary higher education institutions associated with workforce development, but they are often overlooked as an asset for maintaining and growing a skilled

workforce. The nation's 1,200 regionally accredited public two-year colleges enroll almost half of all American undergraduates (6.6 million or 46 percent). They award degrees to many of the nation's skilled and high-demand workers, including more than 50 percent of all new healthcare workers. Also important to workforce development are the noncredit courses and programs they offer, geared to meeting emerging workforce demands by providing skills that fit both employer and student needs. Policies, such as the development of articulation arrangements between community colleges and four-year institutions, can help ease transfer for students between institutions and ensure that credits already earned are not lost but count toward a degree.

Adult Learners

Educating adults must be part of both state postsecondary and state economic development strategies. All states will need to do better in improving overall education attainment, but a focus on traditional students – those between 18- and 24-years-old – will not be sufficient. In order to make significant improvements in its educated citizenry, and thus its overall economic development, states also will need to focus on adult learners. These students – or potential students – are ages 25 and older. Some already are in the workplace and may require new or additional training. Others may have no college degree or certification. Still others may have earned significant postsecondary credits but not enough to actually complete a degree. Kentucky is targeting these adults as part of its strategy to improve adult literacy and double the number of working-age Kentuckians who hold bachelors degrees by 2020. This strategy is considered to be vital to raising the state's standard of living to the national average.

Nationally, about 43 percent of postsecondary students are adults between the ages of 25 and 44. Ninety million adults participate in formal or informal education. The state investment in these students can lead to significant economic returns. Many of these adults are receiving funding for retraining from employers, often with incentives from state policy. Does your state support this?

International Competitiveness

States will find it increasingly difficult to compete in the global economy without significantly improving the number of college degrees and certificates earned.

While the citizens of the United States are still among the best educated in the world, other countries are doing a better job of improving the educational attainment of their younger generations. The U.S. now ranks 10th among industrialized countries of the world in the proportion of the population age 25 to 34 with an associate's degree or higher.[4]

For the first time in our history, the younger population overall will be less well educated than the older generation. At the same time this trend is occurring in the United States, other countries are significantly improving their educational attainment levels. A continuation of this trend puts the United States at significant risk for future global competitiveness.

Focus on Underserved Students and Growing Populations

The fastest-growing populations – particularly Latinos and African Americans – are the populations that have been served the least effectively in higher education. Many states – particularly border states – are facing significant increases in these populations. Policymakers in these states realize that there are real economic development implications for not ensuring access and success in higher education for them. Developing college awareness programs that target these students, focusing need-based aid on traditionally underserved students, and rewarding institutions for successfully graduating these students are effective policy strategies.

The Aging Population and Retirements

The current population is aging. Halfway through the 21st century, close to 82 million Americans will be age 65 or older. As the population ages, they will place a greater strain on state Medicaid systems, and states may be tempted to borrow from postsecondary education to balance state budgets. At the same time, this population will be retiring and the state economy will lose their contributions. States will want to ensure that new workers are well

educated and well trained so the state economy can remain strong.

Engaging Business in Policy Analysis and Development

In this global economy, states often appear to be more like countries – that is, states have begun to specialize in certain skills and industries and to compete with each other for human and other resources. Many higher-paying current and emerging jobs will require advanced skills that can be achieved only through postsecondary education. Your business community can be an important resource in helping identify higher education reform. For example, what do business leaders find lacking in current college graduates? How do business leaders view their role in providing employee training and retraining opportunities in the higher education system? How do business leaders view the growing economic and job needs of the state? Sound policy considers the role higher education can and should play in these areas.

A Focus on Workforce Development

State policy focused on developing the workforce is a powerful strategy linking higher education and economic development. By workforce development we mean the spectrum of state policies that align to ensure that all citizens receive an education and gain the skills necessary to be employed and contributing members of society.

In legislatures, higher education and economic development policies are often made by different people in different committees at different times with little if any coordination. Legislatures are beginning to find ways to bridge the two conversations more strategically and to make policy connections. For example, North Dakota's interim committee on higher education recently met with the interim committee on workforce development to identify common interests and coordinate policy.

State legislatures can ensure that higher education institutions are vital players in state economic development strategies. Contributing to the state's economic development and diversification should be a clearly articulated policy priority for higher education.

When all citizens have the opportunity and resources to succeed in the education system, the state reaps the rewards of an educated and productive citizenry, which include meeting future workforce needs, improving the state's economy, and improving the quality of life for the state's residents.

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GETTING WHAT YOU PAY FOR

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

Demarée K. Michelau

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Introduction

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

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

The ATFA Challenge

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

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

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

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

Applying ATFA

Creating integrated policy can be challenging, particularly when decisions are made in different arenas (i.e. via the legislature, boards, institutional systems, or the federal government) and when issues have not been historically decided comprehensively. This compilation of policy briefs is an attempt to break down key topics critical to an ATFA discussion – including appropriations, tuition, financial aid, federal-state policy alignment, higher education as an economic development tool, mission differentiation, and productivity – without losing the interconnectedness that must be considered. The *Changing Direction* project and the subsequent *Getting What You Pay For* work have resulted in several lessons that state legislators can employ as they consider higher education financing and financial aid policy:

Be cognizant of all legs of the three-legged higher education stool. In the seminal publication of the *Changing Direction* project, Dennis Jones, president of the National Center for Higher Education Management Systems, noted that finance policy, including the "three legs" of appropriations, tuition, and financial aid, is potentially the most powerful policy tool that states have in their arsenal to influence institutions, students, and employers to behave in a way that is consistent with broader public purposes. It is not often wielded effectively, however. By considering and adopting more integrated higher education policy, state legislators will be in a better position to meet state goals and maximize access, participation, and success for all students.

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

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

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

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

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Tennessee – Considering ATFA Every Step of the Way

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

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

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

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

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

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

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Hawaii – Maximizing Federal Investment

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

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

Think comprehensively about institutional mission, and work toward a balance between increased cost, service, and the public good. The challenge for state legislators is to understand the tradeoffs involved – increased cost for increased service – and determine whether the balance between these makes sense in terms of meeting the public good that institutions are charged to serve. For example, states that underinvest in research capacity may find it beneficial to establish additional research institutions. On the other hand, states that face substantial increases in demand for associate's and bachelor's degrees should be aware of the greater cost likely to be incurred if those degrees must be granted in expensive comprehensive or research universities.

Arizona – Differentiating Institutional Missions

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

State legislators are in a unique position to improve the nature and results of the higher education policymaking process by applying ATFA. Of course, this is not always easy, but it is well worth the effort. States, institutions, students, and employers all will benefit from the type of deliberate, comprehensive, aligned policymaking that ATFA promotes. The fact is that making policy in the same way that it has been done for decades is no longer effective in a nation that is competing in a knowledge-based, global economy. The time for change is now, and state legislators can make it happen.

About the Author

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

Endnotes

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

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GETTING WHAT YOU PAY FOR

The Legislative Role in Improving Higher Education Productivity

Dennis Jones

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NATIONAL CONFERENCE *of* STATE LEGISLATURES

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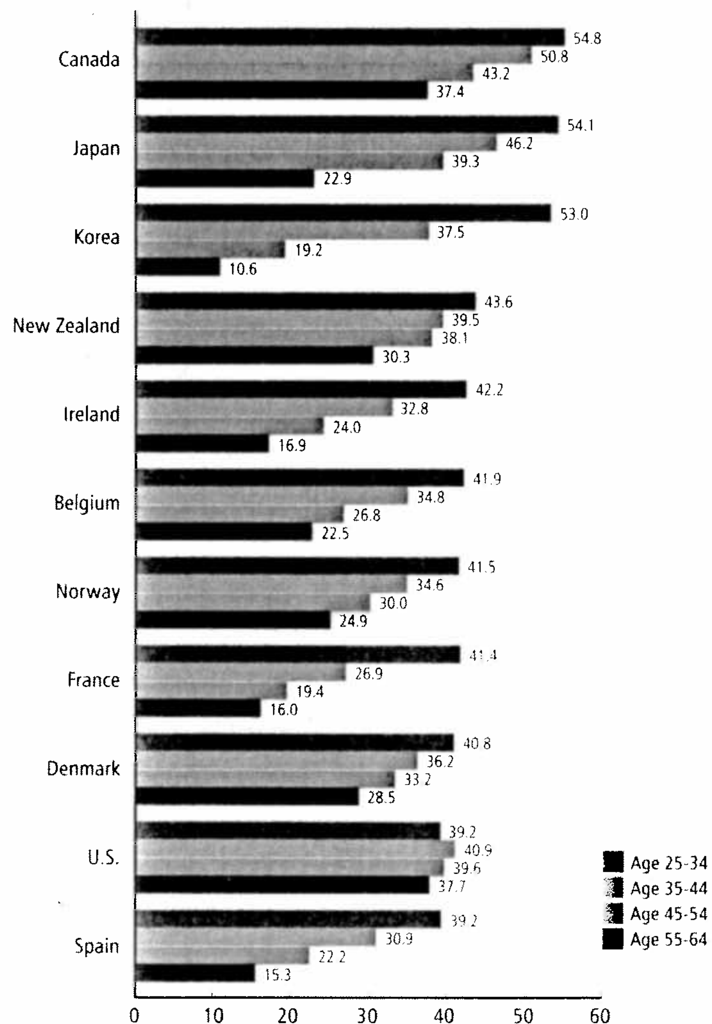
Introduction

There is now widespread acceptance of the fact that economic competitiveness in the global marketplace will largely be determined by the stock of educational capital embodied in a nation's workforce. Based on this yardstick, simply put, the U.S. is losing its competitive edge. While still having the second most highly educated workforce in the world (after Canada), this advantage is the result of the nation's head start in mass higher education. The edge is a function of the baby boomers attaining much higher levels of education than their counterparts elsewhere in the world. Among younger workers (ages 25-34), the picture is much different, with the U.S. lagging nine other countries in the proportion of its young workforce possessing at least an associate's degree (see Figure 1).[1] With the retirement of a highly educated portion of the workforce and their replacement with individuals who are, on average, less well educated, the U.S. will find itself in the unaccustomed position of lagging in the capital market that matters most: educational capital.

Figure 1. Percent of Adults with an Associate Degree or Higher by Age Group, U.S. and Leading OECD Countries

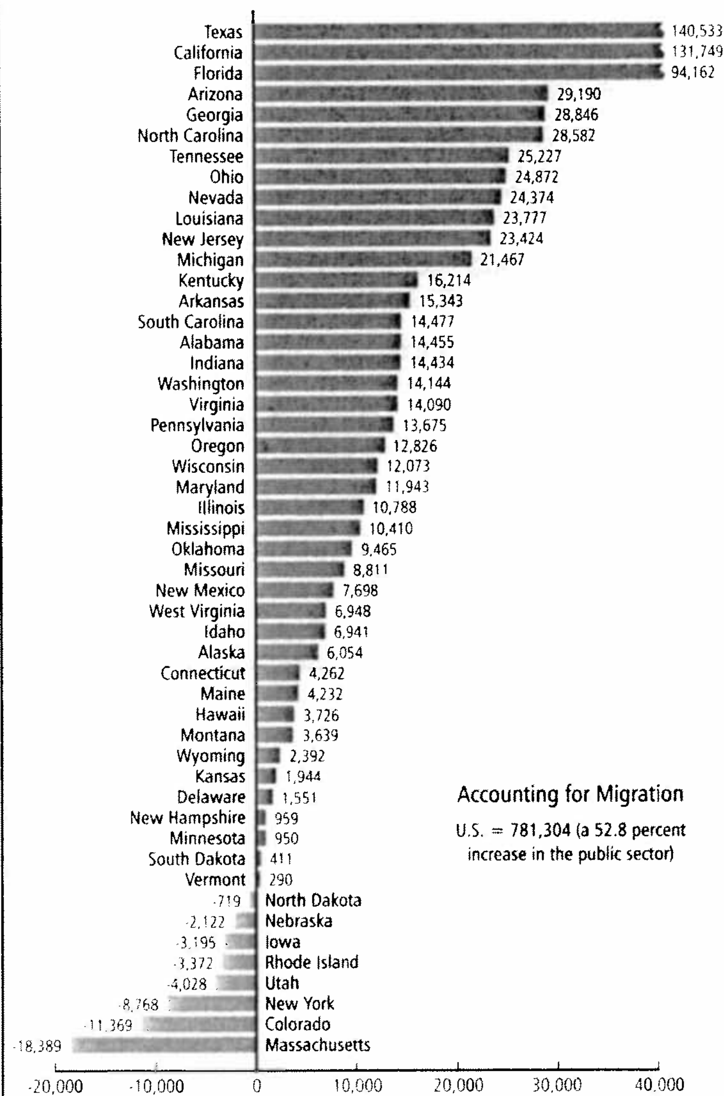


Source: OECD, Education at a Glance, 2008.

The magnitude of the challenge facing the U.S. is substantial. Estimates indicate that by 2025, 55 percent of the working-age population will need at least an associate's degree. If the nation's education enterprise continues to function as it does now – the same patterns of high school completion, college participation, and success – there will be a shortfall of about 16 million college graduates by 2025.[2] The shortfall will be even greater if the current levels of in-migration of college graduates are not sustained. This in-flow of educated talent cannot be guaranteed given the increasing opportunities now available in the countries from which talent has historically flowed.

Most states will share the problem faced by the nation. The majority will not achieve the 55 percent threshold doing business as usual. The shortfalls in the states vary dramatically (see Figure 2), but few will hit the target without a substantially increased output of degree-holders from their colleges and universities.

Figure 2. The "Gap" – Difference in Annual Degrees Produced and Annual Degrees Needed to Meet Benchmark



Sources: U.S. Census Bureau and National Center for Education Statistics Integrated Postsecondary Education Data System, 2005.

The costs of closing the gap are enormous. A rough estimate is that the states' collective support for higher education would have to increase by nearly 40 percent – an additional $32 billion on top of the $78 billion currently being invested. And this additional amount would have to be spent every year for the next 20 years; it is not a one-time infusion of operating funds that could be provided in a particularly robust economic environment. Given the health of the nation's and states' economies and the competing demands for state resources, it is impossible to envision a scenario in which this much money can be devoted to closing the education attainment gap.

The nation faces a dilemma – some would call it a crisis – regarding the demand for more graduates, and its institutions of higher education will be asked to respond to it. Since states, not the federal government, are responsible for higher education, the problem ultimately becomes one with which state legislatures must deal.

The task is vexing. States cannot reduce their expectations to meet the limitations of their budgets. Doing so would result in the equivalent of economic disarmament. Neither can they increase their budgets to meet their degree production requirements, given current institutional expenditure patterns. Taxpayers would revolt at the tax increases that would be required. If students were asked to foot the bill, so many would likely find college unaffordable that the required graduation numbers could not be achieved. So what is the solution?

Increasing Productivity

There is no single answer to this question. But a major part of the answer has to be increasing productivity – getting more output (degrees and certificates) produced for the resources being invested by states. Institutions will inevitably push back against this idea, arguing that they can't increase productivity without sacrificing quality. The evidence belies the argument. Figure 3 indicates that most state systems of higher education would

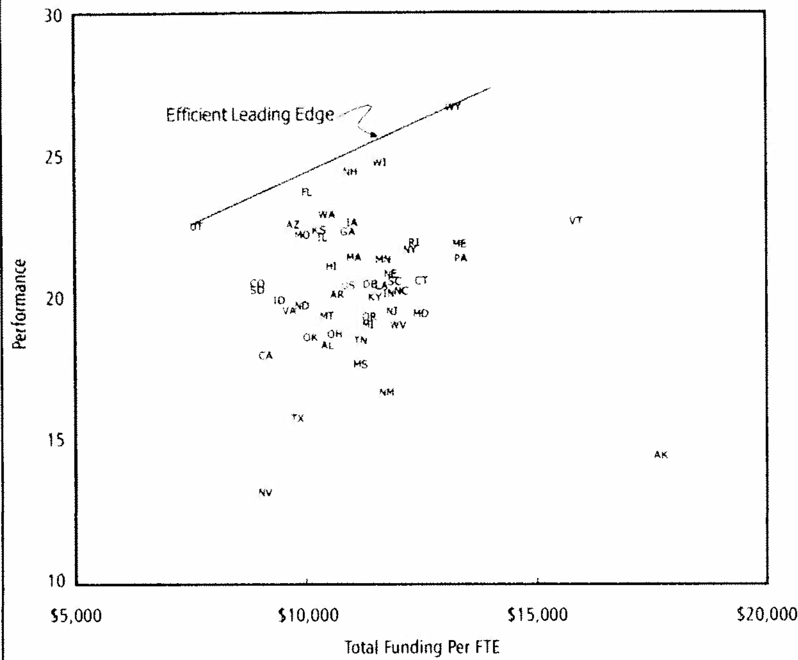


Figure 3. Undergraduate Credentials Awarded per 100 FTE Undergraduates, 2002-03

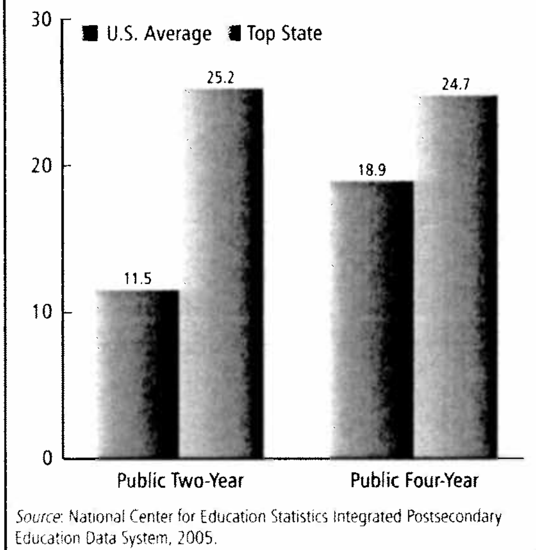


Figure 4. Undergraduate Degrees Awarded per 100 Full-Time Equivalent Students

Source: National Center for Education Statistics Integrated Postsecondary Education Data System, 2005.

have to produce many more degrees to be as cost-effective as those states that get the highest degree production for an equivalent investment (moving vertically on Figure 3 to a position on the "efficient leading edge").[3]

Figure 4 shows the relationships between degrees produced and college enrollments for the best performing state and the nation as a whole. The differences are substantial.

If state systems produced at the rate of the best-performing state, savings would be an estimated $38 billion, more than enough to cover the entire $32 billion needed. This level of performance by all states is unlikely; nevertheless, these calculations indicate that productivity improvement can make a large contribution to funding the output gap. In the end, achieving the globally competitive target will require additional investments, but it will also require legislatures to raise expectations regarding outcomes produced with the resources already in hand.

The Legislature's Role

Institutions of higher education operate within a policy environment established primarily at the state level. Therefore, one can argue that underperformance is at least partially due to the state policies and the way they are implemented. They either allow underperformance to continue or limit the extent to which performance can be enhanced. Legislatures would do well to call for a "policy audit" to identify those aspects of existing policy that negatively affect the pursuit of high productivity.

It also behooves legislators to better understand the ways in which their actions affect productivity enhancement. Legislative actions affect the productivity of a state's higher education system – both directly and indirectly.

Direct effects are most evident in decisions regarding the nature of the system of higher education created in the state. The most important contribution legislatures can make is to create a system of institutions that is inherently cost effective – investing in institutions that produce a lot of graduates relative to the investments made in them. This means investing in institutions that have instruction as their mission and that are encouraged to excel at this mission. This flies in the face of enormous pressure to invest in research universities, pressure from the institutions and their well-organized alumni groups, from communities that want their local campus to become one of the research university elite, and from legislators themselves who tend to perceive higher education through the lenses of the most prominent institutions in the state. The ability to resist such temptations and place a priority on funding institutions that can produce the most graduates for the money spent – not the institutions

with the best graduation rates but those with the best graduation rates per dollar – is ultimately the primary determinant of system productivity.

It is relatively easier to heed these admonitions in states that are growing rapidly. In such instances, it is possible to add necessary capacity by investing in those institutions that specialize in undergraduate education. This was the path taken by Nevada when it chose to create Nevada State rather than further expanding its research universities. The opposite strategy has been followed in California and Washington, where the capacity added has been in the highest cost systems and institutions in the state. Such decisions let local communities advertise the presence of the University of California or the University of Washington in their midst but do little to cost effectively serve a substantially larger number of students.

In states that are not growing, the strategies are more complicated – especially in light of political realities that make it nearly impossible to adjust capacity by closing institutions. The requirement is that all institutions be helped to enroll sufficient students so that they can operate at cost-effective levels. One approach is to engage in enrollment management at the system level – raise admissions standards at the most popular institutions to spread enrollments more evenly, for example. Another approach is to change the missions of one or more institutions so that they can serve audiences not currently being served (usually adults, but it could be high school students seeking courses that can't be offered by local schools, employees of certain types of companies, etc.).

Perhaps most important, institutions need to grow enrollments by reducing dropouts. This can't be directly affected by legislative action, but improvements in this arena can be assisted indirectly by the environment created by state policy.

The ways in which legislatures indirectly affect productivity are far too numerous to catalogue here. There are a limited number of tools that can be employed by state policymakers to influence the productivity equation (other than cutting funding and exhorting institutions to do more with less). The primary tool is financial – determining the rules by which funds are allocated to institutions. In almost all states, enrollments play a key role in determining funding levels; course and program completions seldom if ever become part of the equation. However, if degree attainment is the goal, then aligning all elements of financial policy – appropriations to institutions, tuition and fees, and financial aid – with this goal is obligatory. In funding institutions the emphasis on completion can be reinforced by funding on the basis of course completions rather than course enrollments or by putting a sizeable portion of the allocation into a performance pool that is distributed on the basis of degree completions. Tuition and fee policies can help to ensure affordability and create incentives for rapid progression through the system. The same is true for student financial aid policies.

Accountability mechanisms are another device for pushing the productivity agenda. For example, it is useful to track system productivity through use of such measures as:

- Degrees produced relative to enrollments benchmarked against best-performing states.
- Credits to a degree for transfer students versus native students (are there major inefficiencies in the transfer and articulation process?).
- Degrees produced relative to costs, for the system as a whole and for each of the sectors.

Asking the right questions is a critical legislative role. Asking questions not just about the money but about results obtained from the money spent is a necessary ingredient in enhancing productivity.

> Asking the right questions is a critical legislative role.

Regulatory mechanisms are the other major tool available to state policymakers. While as likely to be revealed by a policy audit as barriers to productivity (by mandating that funds be used in specified ways or establishing one-size-fits-all procedures), some regulatory actions can help enhance productivity. These include:

- Putting a cap on credits required for a degree.
- Supporting dual credit and other forms of acceleration programs.
- Mandating acceptance of an A.A./A.S. as the first two years of a baccalaureate program.

The list could go on.[4]

These regulatory actions represent examples, not recommendations for action in any particular state. The intended message is twofold:

1. The accumulation of policies creates a policy environment that can either promote or detract from efforts to improve productivity. A thorough review of existing policy with an eye toward removing those that are detrimental is a very worthwhile endeavor.
2. As part of each future policy action, the question should be asked, "Can we do this differently, in a way that would promote the productivity of the system?"

Productivity either happens or doesn't happen at the campus level. But the actions of state policymakers play a critical role in determining whether institutions will (or can) rise to the occasion.

Conclusion

This brief document has sought to make three key points.

1. **Productivity improvement in higher education is a state and national imperative**. There is no way to reach competitive education attainment levels within the limits of constrained resources if a business-as-usual approach to higher education continues.
2. **Productivity improvements are possible**. Some state systems and sectors are much more productive than others. It's a matter of doing rather than knowing what to do.
3. **Much depends on legislative actions and the policies they create**. Lack of productivity can't be blamed solely on institutions.

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Dennis Jones is president of the National Center for Higher Education Management Systems (NCHEMS), a nonprofit research and development center founded to improve strategic decision making in institutions and agencies of higher education. A member of the staff since 1969, Jones is widely recognized for his work in such areas as the changing environment for postsecondary education; the formulation of state and institutional policy in response to this change; and strategic planning for postsecondary education. Previously, Jones served as an administrator at Rensselaer Polytechnic Institute. He earned his graduate and undergraduate degrees from that institution in the field of engineering management.

Endnotes

[1] Organisation for Economic Co-operation and Development (OECD), *Education at a Glance 2008: OECD Indicators* (Paris: OECD, 2008).

[2] Travis Reindl, *Hitting Home: Quality, Cost, and Access Challenges Confronting Higher Education Today* (Boston: Making Opportunity Affordable Initiative, 2007).

[3] Patrick J. Kelly and Dennis P. Jones, *A New Look at the Institutional Component of Higher Education Finance: A Guide for Evaluating Performance Relative to Financial Resources* (Boulder, CO: National Center for Higher Education Management Systems, 2005/2007), 22.

[4] See Patrick M. Callan, Peter T. Ewell, Joni E. Finney, and Dennis P. Jones, *Good Policies, Good Practices: Improving Outcomes and Productivity in Higher Education – A Guide for Policymakers* for a much more robust set of ideas.

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GETTING WHAT YOU PAY FOR

Mission Differentiation vs. Mission Creep: Higher Education's Battle Between Creationism and Evolution

David A. Longanecker

November 2008

National Conference of State Legislatures
The Forum for America's Ideas

WICHE
Western Interstate Commission for Higher Education

With support from

Introduction

Legislators who work on higher education policy often face the unusually difficult but important task of helping to define the right mix of public institutions (and their requisite missions) to serve their state's interest. The difficulty arises because individual institutional interests, including those in a legislator's district, may not coincide with the best and most efficient interests of the state. The public purse can afford only so much of any public good, including higher education; thus, legislators must often balance the ambitions of "their" college or university against those of the state as a whole. Achieving this balance is critically important because higher education is an essential component in every states' agenda for progressing economic, social, and cultural vitality, and decisions by state legislatures about how to constitute the states' higher education system will help shape every state's future. Said slightly differently, mission is actually a finance issue and thus must be in sync with all other higher education finance policies – tuition, appropriations, and financial aid policies.

One policy effort often used to strike the right balance for this set of issues is captured by the term *mission differentiation*. Until recently, there was general agreement on what *differentiating institutional missions* meant: that within the rubric of public higher education there would be an array of types of institutions, each with a clearly designated mission, and a clear expectation that institutions would seek excellence but would do so within their designated mission. In recent history we have generally put institutions into three categories: community colleges, baccalaureate colleges or universities, and research universities. This model was either invented or solidified in 1964 in the California Master Plan, which adopted this tripartite approach to differentiating missions in California and led many other states to follow suit.

> ... mission is actually a finance issue and thus must be in sync with all other higher education finance policies – tuition, appropriations, and financial aid policies.

It became the modern way to define mission within the public system of higher education, with the system often organized to be overseen either by separate governing boards for each type of institution, by a coordinating board for the entire structure, or by some combination of both. To a great extent, this system has remained in force for the last half century, at least in terms of philosophy.

Prior to this intentionally differentiated system, however, American higher education had already established a hierarchy of institutions within the public sector. Most states had what would be considered a flagship research university, much as most do today. In addition, all states had a land grant college or university, established with federal assistance under the Morrill Act of 1862. States also had established a number of normal schools to prepare teachers, and some states and localities had established business and trade schools to prepare people

with the specific skill sets required in the unique work environment of their state or city.

It is easy to understand, therefore, how our current concept of mission differentiation evolved from these less intentional but still differentiated sets of institutions.

The impetus for more intentionality in defining missions evolved because of the rapid growth in the demand for higher education, both from individuals who sought higher levels of education and from a racing economy that required the higher skill levels associated with college-educated workers. As demand for more better-educated individuals emerged, the less intentionally differentiated system simply no longer met the needs of society. The original research universities, which were the most prestigious institutions within the public higher education hierarchy, were not particularly interested in providing pedestrian programs for rather average folks. They were more accustomed to serving the best students, offering the most notable programs and services.

As a result public institutions with less prestigious missions sought to expand their missions to service a greater share of the demand. Normal schools, which existed solely to prepare teachers, became baccalaureate colleges. Baccalaureate colleges became a new type of institution known as the "comprehensive research university," which focused on baccalaureate and graduate education but with only a modest research role.

Perhaps most significant, however, was the invention of the community college within the sphere of American higher education. Many community colleges evolved out of previous public trade and technical colleges. Others evolved as an expansion of locally controlled secondary schooling in the U.S., offering the first two years of general education toward the baccalaureate, culminating in an associate of arts or science degree, or up to two years of vocationally oriented education, ending in a certificate or applied associate degree.

As a result, over the past half century, public higher education in the U.S. expanded dramatically, mostly in an organized fashion, and in primarily two ways.

- First, many new institutions were created, with clearly defined missions.
- Second, the missions of many institutions were expanded, ostensibly to meet emerging needs, both with respect to student demand and to respond to increasing demands for multiple types of institutions to serve their community's economic development needs.

Why Mission Creeps

As mentioned above, one of the ways in which the increasing demand for higher education was met was by expanding the missions of institutions, a term that is often referred to as *mission creep*. In public policy circles, as with many other issues, two camps have evolved regarding the tendency for almost every institution to seek an expanded mission. There are those who believe *mission creep* resembles an invasive species; that is, it is evil, adapts readily to the environment, and expands voraciously, crowding out everything that is good. Others see *mission creep* as an inevitable and positive development that allows institutions to grow, consistent with the growing needs of their communities.

And as with most public policy disagreements, evidence from the past suggests there is merit to both perceptions.

Without doubt, institutional avarice, rather than state need, drives much of the interest of individual colleges and universities to broaden their mission. American higher education values a hierarchy of institutions, which thus entices institutions to wish to expand or redefine their mission to move up the hierarchy. College or university presidents want to make their institutions a better place under their leadership – and one of the most common ways in American higher education to become *better* is to climb up the hierarchy by changing the mission of the institution. The same can be said of the lay leadership of institutions – the governing board. Just like the president, they want the institution to improve under their watch, and one clear definition of improvement is expanded mission.

Forces outside the institution, however, also foster the expansion of mission, often with good cause. The communities served by an institution may be rapidly changing and need a broader array of services than reflected in the mission of their local college or university. Boise State University (BSU), for example, has expanded from a community college in the 1960s to a comprehensive university late in the last century to a major research university today, serving more students than any other

institution in Idaho and amassing a funded research portfolio nearly as robust as the state's flagship institution, the University of Idaho. Absent this growth at Boise State, it can be argued that Boise would not be the economically vibrant city that it is today. Understandably, the Boise community today is very appreciative of the expanded role, service, and prestige of Boise State. So, too, are the state legislators that represent the Boise community, many of whom helped justify and garner state support for this expanded mission over time.

Yet not all within Idaho have been ecstatic about the growth of Boise State's mission. Lost, for all practical purposes, has been the community college role and mission originally served by BSU – so much so that the state is now establishing a new community college in the region. Some wonder whether having two institutions do the job originally designated for one is the most efficient strategy for Idaho, while others argue that this is both the cost and advantage of growth. And without doubt, the expanded mission at BSU has led to overlap in the mission with Idaho's other two research institutions. Some believe this redundancy is an unnecessary and costly duplication of effort, while others see it as fostering productive competition between these three institutions. Again, one can build a legitimate case for either perspective, and the issue comes back to that difficult task of balancing the efficient use of limited public resources with the legitimate demands for growth in valued public services.

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Part of the demand for mission creep also comes from forces essentially beyond the control of either the institution or state policymakers. The increasing requirements of professions or specific disciplines can force a change in mission. Currently, for example, a number of fields of study that have traditionally resulted in an applied associate's degree are beginning to migrate to the bachelor's degree. Such fields include fire and police science and a number of allied health fields. Traditionally, these programs have been provided at the community college level. As a result, some community colleges may have to expand their mission regarding degree levels offered in order to maintain their mission with regard to preparing students in specific applied areas of study.

This is no less true at the four-year college and university level, where fields like pharmacy, nursing, and physical therapy have forced institutions into expanding their missions as these fields have required higher levels of degrees for those who work in them (sometimes legitimately but sometimes not). Similarly, some universities have been reluctant to offer applied baccalaureates, which they consider below their status; yet who is to offer these programs as they evolve and become desired within the workforce if institutions with the mission to do so refuse to accept their legitimacy? In such circumstances does a state make it clear that institutions that currently serve that mission must step up to the plate? Or does it let the missions of other institutions expand to bridge the gap?

The Consequence of Mission Creep

We see increasing pressure behind *mission creep* – community colleges seeking to become baccalaureate colleges, baccalaureate colleges seeking to become universities, modest universities seeking to become significant research universities, and research universities seeking to become "world class." Expanding institutional missions, however, comes at significant cost, of which every legislator should be aware and should weigh against the prospective benefits of expanded mission. The costs of expansion are not hypothetical; they are real, as proved by the experiences of institutions whose missions have been expanded in recent history. As missions expand, therefore, tuitions must increase, institutional appropriations must increase, and the need for financial aid thus increases. More costs more.

Expanding institutional missions, however, comes at significant cost, which every legislator should be aware of and should weigh against the prospective benefits of expanded mission.

When community colleges expand from offering associate degree programs to also offering baccalaureate degrees, two negative consequences

occur. As reflected in Table 1, the most obvious consequence is that the education at these institutions becomes more expensive, both to the state and to the students. Whether right or wrong, states provide substantially lower subsidies, per full-time equivalent student, to community colleges than they do to colleges and universities that offer higher levels of degrees. So it is axiomatic that increasing degree authorization will increase state support.

Table 1. Per-student Cost (Tuition and State Appropriations) at Various Types of Institutions of Higher Education

Type of Institution	Tuition	Appropriation/ FTE	Total
Community college	$2,272	$6,725	$8,997
Four-year	5,836	9,178	16,014
Research university	5,836	14,289	20,125

The recent expansion of the role and mission of Utah Valley University (UVU) provides an example. Originally a trade school designed to serve returning G.I.s after World War II, it became a technical college in 1967 and a comprehensive community college 1987. In 1993, it was granted baccalaureate degree-granting authority and became Utah Valley State College (UVSC), and in 2008 was granted authority to offer degrees at the master's level and became Utah Valley University. Without doubt, UVU is providing a much broader array of programs and services to its community and to Utah today than in the past, but it is also doing so at much greater cost. In 1987, when UVSC became a comprehensive community college, it operated on $5,755 per student (total unrestricted funding in 2007 dollars). Twenty years later, in 2007, shortly before gaining university status, UVSC was operating on $7,375 per student, a 28 percent increase over those two decades. And with the advent of its new university status, the state provided the new university with a $10 million (20 percent) bonus in state appropriation.

A delayed but almost inevitable effect of expanding the mission of community colleges is the loss of focus on the original mission of serving students interested in securing vocational and technical certificates and applied associate degrees. Boise State University provides one example; Fort Lewis College in Durango, Colo., offers another. Fort Lewis is an exceptional state baccalaureate college in the liberal arts tradition, recognized by *U.S. News and World Report*. Today, however, it would be virtually impossible to discern that this institution was once a community college with a traditional community college role and mission. No longer is this an "open admissions" institution, as it was as a community college. Today, it is reasonably selective in whom it accepts. No longer does the institution offer the associate's degree, and certainly no terminal trades programs remain. Without doubt Fort Lewis College serves its community and Colorado well. But it does so in very different ways than it did as a community college, and many of its former services are no longer available to the local community.

Mission creep is even more expensive when an institution moves from college to university status because teaching loads are reduced substantially. Typically, the teaching load for a full-time faculty member at a baccalaureate teaching college is four or five courses per term, compared to two or three courses per term at a master's-level teaching and research university and one or two courses per term at a research-intensive university. In exchange for the reduced teaching load, the state is ostensibly receiving a substantial increase in research scholarship, but it is doing so at substantial loss of teaching productivity.

Conclusion – Mission Creep Happens

Missions of institutions in your state will evolve. This will occur for a variety of reasons – some of which make sense for the institution but less sense for the state, others of which make sense for the state but less sense for the institution, and some of which make good sense for both the institution and state. Between 1995 and 2006 the number of research universities in the U.S. increased by 54, a 64 percent increase. This increase occurred primarily as a result of comprehensive universities expanding

> The challenge for state legislators is to understand the tradeoffs involved – increased cost for increased service – and whether the balance between these makes sense, in terms of the public good that these institutions are charged to serve.

their mission to include a stronger research focus. During that same period, the number of comprehensive universities actually declined by 80. The number of baccalaureate institutions increased by 60, a 70 percent rise, as a number of previously two-year, associate-degree-granting institutions – mostly community colleges – expanded their mission to offering the baccalaureate (Table2).

Table 2. Changes in the Number of Institutions by Type (1995-2006)

Institution type	1995	2006	Percent change
Associate-degree	951	1,059	11%
Baccalaureate	86	146	70%
Comprehensive	341	261	-23%
Research	85	139	64%

The challenge for state legislators is to understand the tradeoffs involved – increased cost for increased service – and whether the balance between these makes sense, in terms of the public good that these institutions are charged to serve. States that are underinvested, compared to others, in research capacity may find it beneficial to establish additional research institutions. On the other hand, states that face a projected substantial increase in the demand for associate and baccalaureate degrees should beware of the greater cost incurred if those degrees must be granted in expensive comprehensive or research universities. Nevada, which is facing the most precipitous projected increase in high school graduates of any state over the next decade, recently created a new baccalaureate college, so the state will be able to absorb a large share of the increased demand at a relatively cost-effective institution, rather than at the state's more expensive research-intensive universities.

Historically, balance has been achieved in state education policy through mission differentiation: defining clearly in state policy, practice, and financial support what the state believes institutions individually and the public system of higher education collectively should focus on in order to serve the state's best interests. This concept remains as viable today as it has in the past, yet it needs to be taken as a guide rather than as a mandate. The late Harold Enarson, who served as WICHE's executive director, as the president of Ohio State University, as a commissioner for the Colorado Commission for Higher Education, and as a wise counselor to many in the policy community, once said that the job of good policymakers is not to define the future but rather to "discipline the inevitable." Mission differentiation provides legislators with a strong tool to provide such discipline within their state system of higher education and still live comfortably with the inevitable outcome.

About the Author

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GETTING WHAT YOU PAY FOR

The States and Student Financial Aid: A Mixed Bag with Mixed Results

David A. Longanecker

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Introduction

Legislators face many difficult questions when considering what to do about state-supported student financial aid. The first question, of course, is whether to support it at all. After all, doesn't the federal government take care of that adequately through its Pell Grant and student loan programs? And whether it does or not, isn't it their (and not the states') responsibility? If the state does support financial aid, should it focus on grants, loans, savings, or work-study programs? And finally, should such aid be used to increase access for financially strapped students, reward meritorious academic accomplishment, attract and retain the best and brightest, or gratify the broad electorate?

All of these questions have been in play in most states in recent years. And the inevitable increases in tuition that appear to have become simply a matter of course in public higher education will continue to force such questions onto the public agenda. This policy brief provides information that is intended to be useful to legislators who want to find the right balance in policy discussions and actions.

Evolution of State-Based Grant Programs

In the 1960s, a number of states began to recognize that simply keeping tuition low was not a viable finance strategy for an egalitarian model of higher education. Too many students, particularly those from low- and moderate-income families, simply couldn't accumulate sufficient funds for tuition and related educational costs to send their children to college without exceptional sacrifice. This brought about the evolution of state-based grant programs, beginning with traditional need-based grants, which were followed by the advent of merit-based aid, and, eventually, the creation of blended aid programs, which consider both need and merit.

Traditional need-based grant programs. In response to the realization that low tuition was no longer the most effective way to finance higher education, a few states began to develop state need-based financial aid programs, providing state aid to assure that all capable students could afford college. This general strategy built on the new federal financial aid programs, particularly the Basic Educational Opportunity Grant (BEOG) Program, subsequently renamed the Pell Grant Program. But another federal program, the State Student Incentive Grant (SSIG) Program, recently renamed the Leveraging Educational Assistance Partnership (LEAP) Program, also increased state interest by providing matching funds for state investments in such programs.

In response, most states developed modest financial aid programs to capture the federal funds. A minority of states developed substantial programs, with a number of them balancing this policy move with a greater reliance on tuition revenue. Yet most states continued to rely principally on low tuition as their primary financial affordability tool.

To some extent these two differing philosophies – which became known as *high-tuition/high-aid* and *low-tuition/low-aid* – initially fell out along regional lines, with the Northeast and Midwest beginning to

move more toward the high-tuition/high-aid model and the South and West continuing to rely on a low tuition strategy. Over time, however, all states found it necessary to begin using tuition increases well above inflation as a way of expanding higher education. These increases were necessary, both to meet the increasing demand for higher education and to respond to increased operational costs, fueled in part by the expanding mission of many public institutions (see policy brief on mission creep). This left states in the South and the West at a distinct disadvantage in providing affordable higher education because most of them had very modest state need-based financial aid programs, which were insufficient to sustain true affordability. In the West, for example, only two states – California and Washington – had a strong tradition of providing adequate need-based financial aid. In the South, virtually no states had strong need-based programs.

Merit-based grant programs. In the early 1990s, a new financial aid philosophy began to catch hold, particularly in the Southern states. It focused on providing financial aid to all students who achieved at a high level academically, rather than relying on programs that only considered financial need, such as those that had evolved in the Northeast and Midwest. Georgia's HOPE Scholarship Program epitomized this movement. Although Louisiana's similar Tuition Assistance Program (TAP) predated the Georgia program, Georgia Governor Zell Miller's charismatic support of the program helped to popularize this new financial aid strategy. The program promised all high school students who achieved a 3.0 grade point average in high school (and maintained it in college) that the state would pay the students' tuition at any Georgia public college, technical institute, or university and provide an equivalent amount to any student selecting a private college or university in Georgia. Governor Miller believed that it was important to change the ethic of attending college in Georgia, which ranked relatively low in the share of high school graduates who went on to higher education and also lost many of its best and brightest students to private colleges and flagship public universities in bordering states.

The program almost immediately enhanced Governor Miller's popularity – a phenomenon easily recognized by other Southern governors – and within a very short period of time, other states began adopting the same idea. In addition to Louisiana and Georgia, Florida, Tennessee, South Carolina, Kentucky, West Virginia, Arkansas, and Mississippi adopted similar plans. Three Western states – Nevada, New Mexico, and South Dakota – followed suit.

Many policy analysts within the student aid community were quick to condemn these programs, arguing that they did little to expand educational opportunity, which many believed to be the core reason for providing student aid. Students from middle- and higher-income backgrounds disproportionately benefit from merit programs. These students attend better-resourced high schools and, on average, come from families with higher levels of education . In other words, merit programs disproportionately reward students who most likely can afford and will go to college anyway. In addition, many critics argue that providing merit aid erodes the funds available for need-based programs.

There are two problems with these often caustic castigations of merit programs. First, they presume that all financial aid programs should serve the singular purpose of expanding opportunity for the most financially needy students. While expanding opportunity is certainly the tradition of many student aid programs and is a worthy public purpose, it does not preclude a state from seeking other public benefits through the use of financial aid. Seeking to expand the ethic of college participation and inducing more of the best and brightest high school graduates to stay in their home states for college are also legitimate public purposes.

Second, the presumption that funding merit programs erodes funding for need-based programs has proven spurious. As mentioned earlier, virtually no Southern states had viable need-based programs, and most of the states that adopted significant merit-based programs were in the South. In fact, in only two states – New Mexico and West Virginia – is there any hard evidence that substantial increases in merit-based aid actually "eroded" need-based aid. While it is true that these increases could have been directed to the financially neediest student, no evidence suggests that these states had the inclination to provide substantial need-based aid. Furthermore, the neediest students did benefit considerably from these merit programs. While the merit awards didn't focus on financially needy students, many of these students did, in fact, qualify

for them. While the neediest students received a disproportionately small share of the merit awards, compared to their representation in the population, they still received substantially more than they had before the advent of the merit awards. In Georgia, for example, students with assessed financial need currently receive more than $50 million of the $350 million available through HOPE Scholarships. That is much more than the $2 million provided for need-based aid before the HOPE Scholarship Program began.

The more appropriate question is whether these merit programs achieve their intended purpose. In Georgia, the state goal was to increase overall participation and retain the best and brightest. Georgia is the only state in which a merit program has been seriously evaluated, and participation increased from 30 percent before the implementation of the HOPE Scholarship to 37 percent after five years. Prior to implementation only 23 percent of students scoring above 1500 on the SAT stayed in Georgia to attend college, whereas 76 percent were doing so five years later.

On the surface, therefore, it appears that merit scholars achieve their stated public purpose. Beware, though. Georgia had only a very modest ethic of college participation, so an initiative aimed at the middle-class made sense. In most states most middle-income and higher-income students already attend college, so merit programs are less likely to impact participation. In the language of economics, except for students from low-income backgrounds, there is very little "price elasticity of demand" for higher education.

Blended aid programs. About the same time that a number of states began adopting merit-aid programs, a small number of creative states developed another concept that wedded the principles of both the merit- and need-based programs. Indiana, through the 21st Century Scholars program, and Oklahoma, through its Oklahoma Higher Learning Access Program (OHLAP) (renamed Oklahoma's Promise), developed programs targeting low-income students in middle-school (8th grade) and promising them that the state would provide grants equal to tuition if they took a rigorous curriculum in high school, did reasonably well in that curriculum, and stayed out of trouble with the law.

These programs were designed to address two emerging realizations about the limitations of traditional financial aid programs. First, many prospective participants did not realize they would be eligible and thus abandoned higher education plans for fear of their costs. Second, many students were not succeeding once they got to college, not because of finances but because they simply were not well-prepared, due to the nonrigorous curriculum they had taken in high school. By combining a promise of state aid with a student commitment to study hard, these programs hoped to increase both awareness and preparedness for future success. Evaluations of these programs have suggested amazing success on both accounts. In both states the programs have required some adjustments, but the basic plan seems designed to address the states' purposes. As a result a number of other states have recently adopted this general concept, including Colorado and Washington.

Evolution of State-Based Student Loan Programs

Much like the state grant programs, state student loan programs have evolved primarily via federal leadership. One of the early features of the federal student loan program, known as the Stafford Federal Student Loan Program, was that the federal government would rely on state or nonprofit agencies to act as "the guarantor" for the loans. In truth, "guarantor" was a bit of a misnomer because these agencies weren't really guaranteeing the loan: the federal government provided the guarantee. These intermediaries represented the federal government in administering the guarantee on these loans. In essence, they helped banks provide and collect payment for the loans, assisted schools with managing the loans, and had primary responsibility for collecting on loans that eventually went into default. Some states chose not to establish state agencies but rather to contract for these services from nonprofit agencies. Over time, through consolidations and other actions, more and more states got out of the business of using a state agency to provide this service. In some instances, this was because a state agency was having difficulty providing good service and may have run into difficulties with the federal government. In other cases, it was because the state wanted to recoup substantial reserves that had accrued to these

agencies over the years by selling or closing them. As a result, today only 28 states actually retain state guarantee agencies, and many of these actually contract out much of the loan management function to third-party servicers. Eight states recognize a single national guarantor, USA Funds, as their designated state guarantor.

In addition to establishing state guarantee agencies, many states over the years have also established state student loan programs, which are actually involved in the lending rather than the guaranteeing of loans. Some of these programs act as lenders in the federal student loan program, acting either like a lending bank or providing a secondary market to assist banks in the state by purchasing loans from them once the loans have gone into repayment.

Other state loan programs, however, actually lend loans backed by the state to supplement the loans available through the federal government. One of the first such programs was Minnesota's Student Educational Loan Fund (SELF) Program, which in the mid-1980s took the reserves it had accumulated from participating in the federal program, officially left that program, and began a state program backed by those reserves. This program operates within a state agency, the Minnesota Higher Education Services Office, but requires no direct state funding, because the loans pay fully for the program's administrative and management costs.

These various loan programs have proven popular because they provide valuable services to the state and its citizens; accrue reserves because of the largess of the federal government; and generally cost the state nothing.

With recent changes at the federal level, however, the landscape has changed significantly for these businesses. Substantial reductions in federal subsidies to guarantee agencies and lenders have greatly reduced the financial viability of these state agencies. Furthermore, the tightening of the credit markets has made it increasingly difficult for state agencies to borrow sufficient student loan capital to continue lending to students in the same fashion they have in the past.

While these changes have not placed students who borrow through the federal programs at risk of not being able to borrow (because there remain sufficient numbers of large federal lenders, including the federal government itself), the reduced subsidies do jeopardize the future viability of many guarantee agencies. And current economic conditions clearly threaten access to nonfederal student loans.

Evolution of State-Based Savings Plans

The federal government also has enticed virtually every state to establish state-recognized agencies or related entities that provide opportunities to state residents to save for their children's or their own education. These plans, called Section 529 savings plans for the section of the federal tax code that provides for them, offer two ways for people to invest. One way is to prepay your college tuition up front – a sort of "futures" investment strategy, in which the investor buys tomorrow's college at today's prices. The second is simply to invest savings for college in a tax-deferred investment fund provided by the state.

These programs have proven popular to state government for much the same reasons as the state loan programs. Three dilemmas have evolved for these programs, however. First, the prepaid tuition plans, in several circumstances, have not yielded returns on investment sufficient to cover the actual increased costs of tuition, meaning that either the state has to supplement the funds or institutions are left on the hook to accept students with the amount provided, resulting in substantial loss of tuition dollars. Second, the prepaid tuition plan turns out quite well for the student who chooses the institution for whom the tuition plan was purchased, but students take a substantial loss if they ultimately choose to attend a different institution. Third, in the standard savings plans, administrative costs and risk-averse investment strategies often provide a yield that is less than the investor would have realized through an alternative savings strategy, even with the advantage of the tax deferral.

Modest State Efforts in College Work-Study

While the federal government has had a strong college work-study program since the inception of the Higher Education Act in 1965, only 14 states have developed such programs. And only five of them – in Colorado, Minnesota, New Mexico, Pennsylvania, and Washington – are very substantial. From a student's perspective, college work-study is hardly financial assistance. It generally involves hard work, often in less than ideal circumstances,

for modest wages. Yet research on the federal program demonstrates that college work-study can contribute substantially to student success. Given that more than three-quarters of all students are employed, the question isn't whether they should work or not but what kind of work best supports their needs. Research by the American Council on Education shows that students in work-study jobs, who work 15 hours or less per week, are much more likely to succeed in completing their education than students who work in other jobs, particularly off-campus jobs.[1]

A second type of college work study, cooperative work-study, in which students work for a company in their chosen field, has also proven very successful. No states have cooperative work-study programs, although Washington allows for students to participate in cooperative work-study jobs. A number of universities, however, have offered cooperative work-study opportunities. It is curious, given the strong work ethic of today's college students and the limited availability of public financial assistance, that this clearly prudent form of assisting students to finance their education has not entered the repertoire of more state financial assistance programs.

What Makes for Good State Financial Aid Policy Today?

Given this history of student financial aid and the panoply of programs, what makes sense in today's world? What should we keep from the past, and what needs to change? Six "principles" should help guide state legislators as they consider their financial aid policy.

Principle 1: Establish a clear philosophy and identify measureable goals. Every public policymaker knows this one, right? Well, not exactly, it turns out. A review of many state financial aid programs, be they grant, loan, or savings programs, suggest that it is not at all clear what their purpose is. Too often, state statute clearly details the operation of these programs but is less clear about the goals. In great part this is because so many programs evolved from incentives provided by the federal government. Thus, these programs may serve the federal government's purposes, but it is not clear that they are well-aligned with a state's public agenda.

It is important for the state – the governor, the legislature, and the higher education community – to periodically review just why the state is invested in financial aid. Are students the focus of these programs, and if so, is the purpose to advance access, to enhance student success in completing their education, or both? Are educational institutions the focus of these programs, and if so, is it to incentivize them to serve a more diverse student body or to attract a "higher caliber" of students? Are the state and its public agenda the focus of these programs? Or are the programs intended to address all of these, and if so, in what balance?

A clear philosophy can help a broader array of legislators better understand the value of these programs as it relates to achieving the state's agenda. Oregon, for example, was struggling a few years ago with a rather modest but long-standing traditional student grant program. It was a comfortable program for the state, but was losing ground financially over time, primarily because it was the "same old/same old." The assessment of funding needs was predicated on an outdated federal need assessment methodology, and the standard argument for support seemed to be "more is better, but never enough." This did not offer a compelling case. Through survey research, a group composed of various stakeholders – including the higher education community, the business community, the legislature, and the governor's office – discovered that Oregon lacked a transparent philosophy to support the state's investment in financial aid, particularly one that "fit" Oregon. They discovered that Oregonians believed everyone should be able to go to college but that students, as the principle beneficiaries of the education, should pay the lion's share of the cost. As a result, Oregon's Access and Affordability Working Group developed a concept, deemed "shared responsibility," that expects every student to contribute a reasonable amount from earnings, savings, and borrowing before expecting the state to contribute. Then, after also tapping out the student's parents and federal aid, "shared responsibility" calls on the state to fill in the gap, as it must do, if it truly believes in broad access. This shared responsibility philosophy hit a chord in Oregon, resulting in a nearly threefold increase in state need-based grants. In its first year of implementation, enrollment jumped 17 percent in the Oregon University System.

Principle 2: Align state financial aid programs with other state financing policies. It is not enough to have decent financial aid programs; these programs have to make sense in conjunction with the state's institutional financing policies and with tuition policy. Effective financial aid policies are strengthened if they are closely aligned with tuition policy. If tuition rises, on average, more than financial aid, access erodes. And percentages can be misleading in these comparisons. It is important to look at whether the net price (net price equals the gross price minus financial aid) for students is increasing or decreasing; that's the key to financial distress or redress. Furthermore, it does little good to provide a great financial aid system if institutions don't receive adequate financial support to provide a quality educational experience. Student access is a function of both demand and supply. Financial aid expands demand, as Oregon demonstrates. But the institutions must then be able to expand to serve this new demand, and that often requires additional resources.

Principle 3: Understand the significant partnership with the federal government in providing financial assistance. Many state financial aid programs evolved directly from federal incentives. Legislators need to understand the possibilities for building on these federal programs to achieve state objectives and to do so in the most cost-effective manner. For example, via the passage of the HOPE Scholarship and Lifetime Learning Credit in 1998, the federal government provided a substantial tuition tax credit for all middle-income families. But to receive a tuition tax credit, a family has to be paying tuition. Yet many states and public institutions continue to provide financial aid in the form of tuition waivers, particularly for merit scholarships, most of which go to middle-income students. Thus, many families who would be eligible for a tuition tax credit are receiving the equivalent value of this benefit at the expense of the state or institution rather than from the federal government. Simply changing the language of current policy – from "tuition waiver" to an "award" to defray a share of all educational costs – would provide an additional benefit to students' families, the institutions or states, or both. Aligning state and federal programs to better serve the states' objectives obviously makes sense.

Principle 4: Adopt clear metrics for measuring whether the goals established in Principle 1 are being achieved and assure that data is available to support these metrics. A clear guiding philosophy and accompanying goals, as described in Principle 1, are essential but not sufficient. You must also develop metrics to demonstrate movement toward accomplishing the goals. Texas, for example, has established a goal to "close the gap" in college participation and success for students of all colors within one generation.

To support good metrics, every state also needs to develop data systems that demonstrate whether the state as a whole, and the higher education institutions in it, are performing well or poorly in advancing the state's philosophy. Statewide databases are essential for achieving this objective because they are the only measurement tools that can demonstrate progress of students over time, thus allowing the state to clearly measure the consequences of performance.

Principle 5: As with all state programs, state financial aid programs must be both transparent and predictable. What exactly does this mean in the context of financial aid? Well, first it means that prospective students need to understand clearly what they are likely to be eligible to receive. Over and over, national and state surveys demonstrate that many students and their families have no idea how much college costs and how much student assistance they are likely to receive. And low-income families are the most uninformed. These prospective students and their families grossly overestimate the costs of college and greatly underestimate the likelihood of their receiving aid and the amount they're eligible to receive. Not surprisingly, many of these students presume they can't afford college and never seek to attend.

Step one is finding more effective communication and marketing strategies to help folks understand why and how the state invests in student aid. Equally important, however, is to have stable programs upon which people can rely. If funding is sometimes there and sometimes not, prospective students will assume that they cannot count on it. Similarly, colleges and universities need predictability so they can plan how to fill the financial gaps that always occur and how to expand or contract their offerings in response to the demand for higher education that financial aid drives.

Principle 6: Programs must be scalable. Many small successful aid programs seem to fail when taken to scale. This occurs for various reasons: the program may require a close community of support, which is difficult to maintain at the state level; the program may require a "champion," which may be unsustainable at the state level; the program may simply be too complex to manage when expanded, and so on. Therefore, it is extremely important to make sure that new state programs have either demonstrated capacity for expansion or a strong likelihood that they can expand, based on program plans. Certain conditions clearly contribute to being able to take an effective small program to scale:

- **The program needs to be based on a good prototype.** Too often, good ideas are adopted as broad programs before proof of concept has been established. Oregon could feel confident about its shared responsibility plan because it was built upon a similar concept that had worked exceptionally well in Minnesota for nearly 20 years. On the other hand, the federal government's relatively new Academic Competitiveness Grant Program, which supplements the Pell Grant for students who have taken a rigorous curriculum in high school, has suffered on implementation because though the idea was sound, the implementation plan was not, leaving much confusion amongst the institutions that had to certify student eligibility.
- **The program must be easy to administer.** If administration isn't simple and straightforward, not only will the administering agency or institutions have difficulty and face substantial cost associated when implementing the program, but those being served by the program will not have the transparency and predictability necessary to know what they need to know.
- **The program must have sufficient support within the state.** Strong support, especially from the legislature and the governor, is necessary for the program to be sustained beyond changes in leadership, particularly beyond the leadership of those who principally championed the idea.

Exemplars and Nonexemplars

There are several very effective state financial aid programs to build on, if a legislator or legislature is interested. There are also a lot of current ideas that are quite popular but seem not to meet the criteria established above. And there are some promising ideas, including some from other countries, that have not been tried in the U.S. but may well be worth exploring.

State Grant Programs. State grant programs, especially for the neediest students, remain critically important, especially now, given the rising costs borne by students and their families due to ever-increasing tuition and other higher education costs. Grant programs also provide an effective way to target funds to some students, without having to provide an equivalent subsidy to all students.

Traditional financial aid programs serve many states well, suggesting that not all states need to change just for the sake of changing. The programs in California, Washington, Minnesota, New York, Pennsylvania, and Illinois have a long tradition of serving the students in those states exceptionally well.

The various state merit aid programs certainly provide a great deal of financial aid that is assisting many students, but serious questions remain about how well these programs truly advance the states' long-term interests and how cost-effective these relatively untargeted programs are in efficiently distributing limited public funds.

Indiana's and Oklahoma's blended aid programs and the Oregon shared responsibility plans are innovative and effective new programs. They have proven effective because they target assistance to the specific public agenda of the states involved, they rest on strong philosophies, and they comfortably fit the political culture of the states in which they exist. They could easily meet the needs of other states: indeed, a number of states are already considering replicating them. Yet states should adopt the ideas of other states only if the conditions that led to the success of these programs match their own. Blended aid programs that guarantee financial aid for college if students prepare well in a rigorous high school course of study make a lot of sense in states that don't have a requirement that all students prepare well and those where low-income students are seriously underrepresented in college. These programs, however, obviously don't address the needs of older adults returning to college or of current college students who may be facing financial barriers to their continued success. The shared responsibility model, on the other hand, helps virtually all current

students, young or old, and can be designed to help middle- and high-school students better understand what will be available to them in the future. However, it does little to encourage more rigorous preparation in high school and may deter some low-income students because of the tough language about students making a significant contribution before expecting anyone else to do so. The bottom line: The culture and unique needs of various groups of students within a state should be taken into account when considering modifications to an existing grant program or the creation of a new one.

State Loan Programs. It is not clear that the traditional federal/state student loan partnership will survive the combination of recent reductions in federal subsidies and perturbations in access to credit capital in general.

In recent years, another partnership – loan forgiveness – has begun to evolve. This relationship is less reciprocally beneficial to both federal and state governments and not fully anticipated in the original federal programs. But it has become rather commonplace, with states agreeing to forgive students loans for service after graduation. A number of teaching, nursing, and other high-demand loan forgiveness programs have been created. They tend to be patterned after the original National Defense Service Loan (NDSL), which forgave federal loans for graduates who entered the field of teaching, and National Health Service loans, which forgive loans for medical services provided in medically underserved communities. These programs have intuitive appeal because they help graduates whose skills can benefit the state, and at the same time, students face less debt burden.

Unfortunately, there is little research to suggest that these programs successfully achieve their public purposes. The Lumina Foundation report *Workforce Contingent Financial Aid* examined the myriad state and federal loan forgiveness programs and found "... that very few studies evaluated the financial aid or the workforce aspects of these programs ... the growth of these programs seems to be based more on political appeal and appearances than on any real data demonstrating their effectiveness ..."[2]

While the recipients of loan forgiveness are clearly rewarded for providing a valued public service, it is not clear that the loan forgiveness was the reason these folks provided this service. Many students who receive loan forgiveness already have a predilection to serve in the field for which the loan is to be forgiven, and others end up serving the mininal requirement for loan forgiveness and then move on. What we don't know is how many actually enter the desired field and stay in that field because of loan forgiveness.

Some analysts have suggested that states should get into the business of helping students in loan repayment through programs akin to those in Australia, New Zealand, and England, in which students repay their loans through the state income tax system on an income-contingent basis. While this idea may have promise at the federal level, it would make no sense for individual states, both because state income tax structures are not well-suited for this type of scheme and because the mobility of college graduates would make it difficult to capture repayments from those who leave the state.

State Savings Programs. Recently, a clever idea has been suggested in the public policy literature, though no state has to date seriously explored it. The idea would be for the state to deposit funds into 529 savings accounts, on a matching basis, for students from low-income families; the amount would be similar to what would be provided in a blended aid grant program. This would provide a strong incentive for families to save for their children's education, even if their contributions were quite modest, and would also incent young people to stay on a college track; after all, they have savings to apply toward that college.

State College Work-Study Programs. It is surprising that more states haven't recognized the value of creating and supporting state-based college work-study programs. Perhaps the best such state program is Washington's, mentioned earlier, which helps subsidize employment for students on campus, in other public and nonprofit organizations, and in selected for-profit companies that tailor the jobs to be cooperative work-study positions. Cooperative work-study is a win/win for the state, the employer, and the student. The state benefits in a couple of ways. First, for a modest subsidy, the state can secure substantial private investment in funding the student's education. Second, because the student is getting experience in a local firm, they are less likely to migrate from the state upon graduation. The employer benefits because they receive highly capable and productive

college students and have the chance to develop a relationship they may wish to sustain after the student graduates, thus reducing their recruitment costs. The student benefits by gaining real world experience in their field of study and garnering the resources necessary to pay for their education. If a state moves into this arena, however, it must make sure that its other financial aid and financing policies work in sync with work-study. Today many financial programs, because of their lock-step allegiance to the antiquated federal need-analysis program, greatly penalize students for working.

Conclusion

This brief has described the history of state financial aid in the U.S., its strong relationship to federal financial aid, the recent evolution of new ideas, including blended aid programs and the shared responsibility concept.

As legislators contemplating the future of financial aid in your states, consider asking the following questions:

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

When you can answer all of these questions in the affirmative, the future of financial aid in your state will have a much higher chance for success.

About the Author

David A. Longanecker is the president of the Western Interstate Commission for Higher Education (WICHE) in Boulder, Colorado. WICHE is a regional compact between 15 Western states created to assure access and excellence in higher education through collaboration and resource sharing among the higher education systems of the West. Previously, Longanecker served for six years as the assistant secretary for postsecondary education at the U.S. Department of Education. Prior to that, he was the state higher education executive officer (SHEEO) in Colorado and Minnesota. He was also the principal analyst for higher education for the Congressional Budget Office. Longanecker has served on numerous boards and commissions. He has written extensively on a range of higher education issues. His primary interests in higher education are: access, promoting student and institutional performance, teacher education, finance, the efficient use of educational technologies, and academic collaboration in Canada, the United States, and Mexico. He holds an Ed.D. from Stanford University, an M.A. in student personnel work from the George Washington University, and a B.A. in sociology from Washington State University.

Endnotes

[1] Susan P. Choy, Access and Persistence: Findings from 10 Years of Longitudinal Research on Students (Washington, DC: American Council on Education, 2002).

[2] Rita Kirshstein, Andrea Berger, Elana Benatar, and David Rhodes, *Workforce Contingent Financial Aid: How States Link Financial Aid to Employment*, American Institutes for Research and the Lumina Foundation for Education (Washington, DC: February, 2005).

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GETTING WHAT YOU PAY FOR

Tuition Policy and Practice

Vincent Badolato

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Introduction

Tuition policy is receiving considerable public attention, as student and family budgets are strained by the rising price of higher education, which can have negative effects on student postsecondary access and success. How tuition is established and governed, as well as the causes of tuition increases, is critically important for policymakers to consider as postsecondary education becomes more of a requirement for people to be financially successful and for states and the nation to remain globally competitive in the 21st century. This brief examines state tuition policy and practice, the difference between the cost and price of higher education, some factors leading to rising student postsecondary costs, and key strategies state policymakers can use to address rising tuition, all in the context of an integrated approach to policymaking.

Tuition is part of a higher education finance system that links several key policies together, rather than part of a stand alone policy, represented by the sticker price of each public institution. Tuition can be thought of as one leg of the three-legged higher education finance stool, with the other two legs being state appropriations and financial aid. As the size, shape, and length of all three legs of a stool need to be considered in concert to ensure stability and functionality, integrating the three higher education finance policies is necessary to be effective in meeting postsecondary public policy goals. While this brief focuses primarily on tuition, it is important that the interconnectedness between the three policies does not get lost in the shuffle.

Tuition-Setting Philosophy

About half of the states use one of three authorities – the state constitution, state statute, or higher education board policy – to formalize their tuition philosophy. While not all states have a formal method, there are generally three categories of state-level tuition-setting philosophies for public institutions: high tuition, high aid; moderate tuition, moderate aid; and low tuition, low aid. States that follow a high-tuition, high-aid philosophy – examples include Minnesota, Pennsylvania, and Ohio – set tuition levels relatively high but utilize comparatively large appropriations for need-based financial aid to balance the price. Proponents of this method generally argue that providing large state subsidies for higher education to offset low tuition price tags is inefficient for fostering increased student access, as it indirectly subsidizes high- and middle-income students who would enroll in college anyway but who end up paying less for higher education than they could afford. This, in turn, impacts low-income students, as less state money is available to support their college participation and success. Setting tuition high, combined with high financial aid levels, could increase access, as those individuals who can afford all or most of the price are not subsidized by state government, which frees additional state funds to provide assistance to students who would not be able to enroll otherwise.

Low-tuition, low-aid states, on the other hand, provide large subsidies for higher education to help keep tuitions lower than the national

average but also have modest financial aid programs. States that have adopted this philosophy include Arizona, Tennessee, and Maine. Supporters generally believe that high tuition, even coupled with high financial aid, causes a large pool of potential students that feel that college is simply unaffordable. Keeping tuition levels as low as possible contributes to student access and success by keeping tuition affordable to most students, which encourages broad participation. For those for whom the price is still out of reach, there are some financial aid options, though limited ones.

Finally, moderate tuition, moderate aid states – such as Connecticut, Iowa, and Oregon – set tuition and financial aid levels close to the national average. States that use this model modify their tuition policies to be competitive with other states. This approach commonly follows a model where the tuition policy promotes a balance between the state's and the student's share of educational costs. Tuition levels should be high enough to support quality but at a level that still supports student access and success.

Integral to all three of these philosophies is a closely coordinated approach to designing finance policy as the careful interaction of appropriations, tuition, and financial aid – along with federal higher education policy.

Integral to all three of these philosophies is a closely coordinated approach to designing finance policy as the careful interaction of appropriations, tuition, and financial aid – along with federal higher education policy. The financial balance between the partners must be carefully maintained to reduce extra strain on one or more of the partners. The state must decide how much the student should be reasonably expected to contribute through tuition, how much the state should reasonably supplement that amount through appropriations and financial aid, and also how all three of these expenditures interact with substantial federal aid through Pell Grants and tuition tax credits. An uncoordinated approach can lead to some students being unnecessarily burdened with student loan debt or the state paying more than is necessary in the form of institutional subsidies or student financial assistance or both parties not taking full advantage of federal tax credits, which leaves federal benefit monies on the table.

Who Sets Tuition?

The players and their roles in the decision-making process of establishing state tuition policies are widely varied. In general, there are six entities that have tuition-setting authority:

- Legislatures.
- Governors.
- Statewide coordinating agencies.
- Individual system governing boards.
- Local district governing boards.
- Individual institutions.

In most states, one of these entities has the primary legal authority to set tuition, with at least one other taking an informal role in the process. Approximately half of the states have a decentralized tuition-setting system, with individual university system governing boards as the primary authority in a plurality of states.

In states where the tuition-setting authority is very decentralized, meaning individual institutions have the primary authority, institutions are provided with firm, moderate, or no external guidelines from a local or state agency. Most states that have a more decentralized tuition-setting authority fall in the moderate external guidelines category; examples include Colorado, North Dakota, and Virginia.

Four-Year vs. Two-Year Tuition

Affordability is a major goal of two-year institutions, or community colleges, as their primary missions relate to specialized workforce education and accessibility. Costs of instruction are also generally lower at community colleges. As such, tuition at two-year institutions is almost always lower than the four-years, and about 17 states have official guidelines that students should pay less to attend two-year institutions. California is notable, as the state has an official policy to keep the price of community college as low as possible by not charging tuition to in-state students; rather, students are charged a relatively modest credit fee of approximately $20 per credit hour.

Resident and Nonresident Tuition

The majority of states set resident tuition on a per-credit basis without regard to the number of credits a student takes. Other state resident tuition-setting policies include: a flat rate for full-time students taking a designated number of credits; a surcharge for every credit taken over a certain number; or no official state-level resident tuition policy. All states set nonresident tuition at a higher rate than in-state tuition. Commonly, nonresident tuition rates reflect a percentage of the cost of instruction or are indexed to the state's resident tuition, with these rates varying widely. In addition, some states have reciprocity policies with neighboring states, whereby students who live in one state are offered in-state tuition at an institution in another state under an agreement.

Fees and Other Student Expenditures

Fees are a key piece of the student price of higher education that is not reflected in tuition. There are typically two types of fees charged to students: mandatory and designated fees. Mandatory fees are charged to most students in addition to tuition and are used to help pay for campuswide programs or services, such as technology, athletics, career planning services, and administrative/capital construction. Designated fees refer to specific charges for certain courses or student activities and are charged to only those students who enroll in those courses or engage in those activities.

As with tuition, the entities with fee-setting authority vary widely by state. Fees are usually very decentralized and are determined by individual system boards or single institutions (for four-year colleges) in most states. Fees are regularly determined by local district governing boards for two-year institutions, with several states, such as South Carolina and California, officially designating smaller fees for two-year institutions to keep the overall price lower.

Fees are variable and may not be fully included in the sticker price of higher education; but they are one part of a slate of student costs that are not always considered when looking at price.

Fees are variable and may not be fully included in the sticker price of higher education; but they are one part of a slate of student costs that are not always considered when looking at price. Also included in this category are other student costs not represented by sticker price: room and board, texts, transportation, and other expenses. These expenses, on average, almost triple the amount of student expenditures for public higher education over tuition, according to an annual analysis by the College Board.[1] While most financial aid packages can be used to pay for these expenses along with tuition, the additional student costs need to be considered when examining tuition policy, as these costs significantly impact student access and success.

Innovative Tuition Policies

The dual challenges of fostering student access and success in higher education while maintaining or improving postsecondary education quality have led states and institutions to examine some innovative tuition policies.

Incentives. Some states or institutions offer tuition incentives in the form of credits or discounts if students commit to meeting certain goals, such as graduating on time or early, or not taking a course more than twice. Institutions in Texas make use of some of these tuition incentives, and Indiana recently adopted an on-time graduation rate incentive in the 2007-09 biennial budget.

Differential tuition. As opposed to a single tuition rate for all students, certain students are charged varying tuition prices through differential tuition policies. Some of the most common approaches to this practice are charging variable rates for upper- and lower-division courses, credit or noncredit courses, courses taken off-site, or for courses based on a student's major or study program.

Waivers. A large majority of states have been adopting tuition waivers for students who meet specific criteria. Most tuition waivers are for students who are military war veterans, family members of first responders who have died in the line of duty, foster children, and senior citizens.

A cautionary note when considering waivers: While they may increase access to higher education for

certain groups, waivers are difficult to sustain, especially during tight financial times when appropriations decrease. More importantly, providing waivers may prevent individuals from receiving $1,500 in federal Hope Tuition Tax Credits to help pay for tuition, which in effect uses scarce state dollars to replace federal dollars. This was an important lesson learned by Hawaii, where the state realized that its extensive use of waivers was an inefficient means of increasing access for underserved or specific groups

Tiered tuition. There are two main types of tiered tuition policies: different tuition levels for different types of institutions within a state, and different tuition levels within an institution for students who enter in different years. Utah, for example, has a two-tiered tuition model where the legislature sets the first tier for all institution categories while individual school regents can add a second tier to that base to leverage more funds for specific campus needs. Other states or individual institutions charge different tiers for students depending on their time in the institution, with incoming students paying more for tuition – and often seeing greater percentage rate increases – then incumbent students.

Freezes. A final innovative tuition policy is a freeze on, or guaranteed, tuition for the two or four years a student is enrolled in an institution. Under this model, the rate charged to incoming students is locked in for two or four years. Subsequent classes pay a new and likely higher rate. This model helps ensure that students know exactly how much higher education will cost them and can plan accordingly. A downside of this as a state policy is that individual institutions have less flexibility to adjust tuition rates in response to appropriation levels. Illinois was the first state to establish this policy for all public institutions, scaling up the program in 2003 in place at Western Illinois University.

Cost vs. Price

What a student pays in tuition and fees to attend a college or university is commonly referred to as the "cost" of college, which can imply that tuition and fees account for the cost of instruction. Using cost to describe tuition and fees, however, does not provide a complete picture of what it actually costs to provide instruction and services at a higher education institution (how much an institution spends per student) and the share of that cost covered by the student and the state. In fact, in no state do tuition and fees cover 100 percent of the cost of instruction; rather, students pay a share of that cost – the percentage of which varies considerably state by state – and the remainder is largely covered through state appropriations.

A more appropriate term for tuition and fees is "price," as in the price the student pays to cover the designated share of the cost of instruction and services. It is this student's share of the total cost that is increasingly becoming more important to examine as opposed to actual sticker price, as tuition rate increases have been recently outpacing institutional spending increases. Revenues from tuition have traditionally covered a relatively small portion of the total amount spent to educate students. The balance of responsibility of paying for higher education has shifted recently, however. A higher portion is increasingly being paid by students, relative to the share being paid by state and local appropriations.

> Using cost to describe tuition and fees, however, does not provide a complete picture of what it actually costs to provide instruction and services at a higher education institution ...

Why is Tuition Rising?

Rising tuition rates and the affordability of higher education are the subject of scrutiny from policymakers, university presidents, policy and advocacy organizations, the press, parents, and students. It is not uncommon to see annual tuition increases that are well above the rate of inflation; in fact, between 1988 and 2008, tuition and fees at public universities increased by 317 percent, while overall inflation rose by only 84 percent.[2] Rapidly increasing tuition is putting a strain on student budgets and is making higher education – especially at four-year institutions – seem out of reach for more and more students.

There are many institutional spending factors that contribute to tuition increases including: capital construction costs, technological and

service improvements, competition for faculty and students, the growing cost of healthcare and employee benefits, mission creep, and lack of spending transparency. While these and other factors increase operational costs that require more revenue, a recent analysis by the Delta Cost Project in Washington, D.C. shows that spending growth at public institutions has remained relatively flat.[3] Therefore, a large increase in institutional spending (the cost of educating a student plus general spending) is not the primary reason for tuition (price) increases.

This brings the discussion back to the balance of responsibility for paying for higher education. Along with presenting data that institutional spending has remained flat, the Delta Cost Project's analysis of trends in postsecondary education finance also demonstrates a close relationship between the increase in tuition and a decrease in state appropriations for higher education. Figure 1 displays the average change nationally in costs (spending), price (tuition), and subsidy (appropriation) for various public institutions between 1998 and 2005.

Using public research institutions as an example, costs rose a modest 3 percent during this time, but the student share of that cost rose 12 percentage points – from 35 percent ($4,602) to 47 percent ($6,328). This student share increase coincides closely with the average decrease in the state share through appropriations, from 65 percent ($8,516) in 1998 to 53 percent ($7,191) in 2005, or 12 percentage points. The shift in the student share of costs also occurs in the other public institutions. In master's institutions, the student share rose 9 percent; it rose 7 percent in public associate's institutions.

This national average decline in state appropriations is also demonstrated in the annual State Higher Education Finance (SHEF) report from the State Higher Education Executive Officers. Figure 2 is taken from the FY 07 SHEF report and presents the percent change by state in higher education appropriations per public FTE student – rather than by institution – between 2002 and 2007. On average, states decreased per student appropriations by 7.7 percent, and only 15 states actually increased support during this timeframe. The decrease in state support then shifts the higher

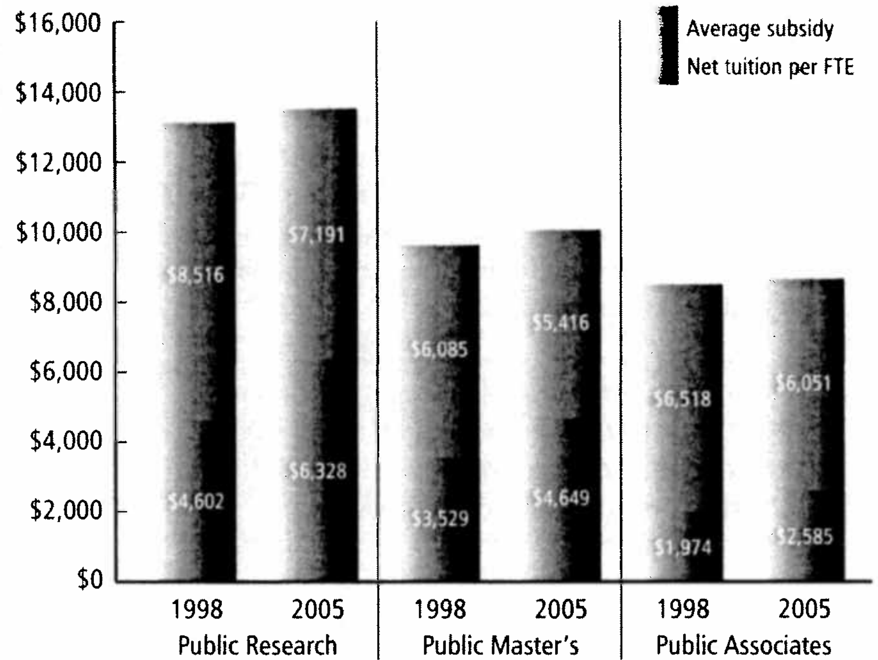

Figure 1. National Average Full Educational Cost per FTE at Public Institutions, 1998 and 2005

Source: Delta Project on Postsecondary Costs, Washington, D.C. 2008.

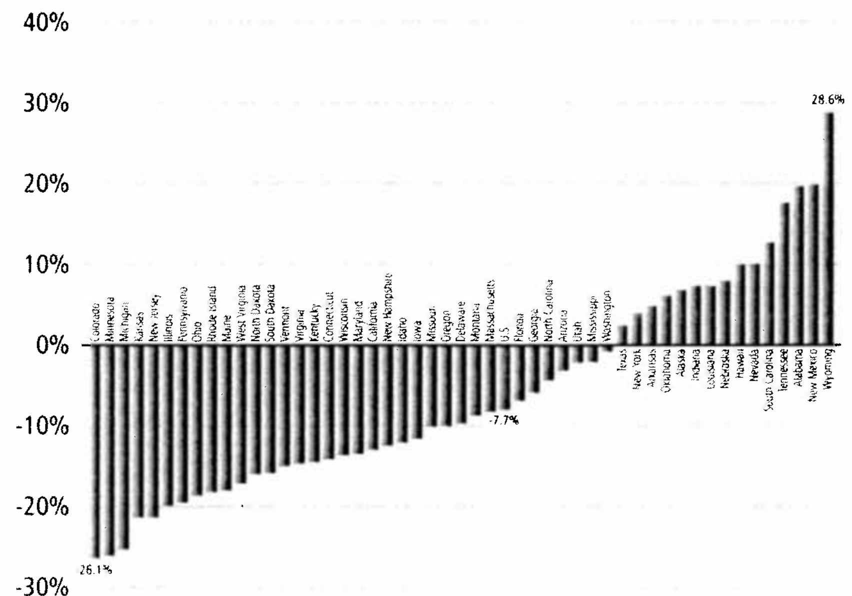

Figure 2. Educational Appropriations per FTE – Percent Change by State, 2002-2007

Source: State Higher Education Executive Officers. *State Higher Education Finance FY 2007.*

education cost burden to students and families, which is reflected in significantly higher tuition bills.

How Can Legislators Address Rising Tuition?

Examining tuition policy and practice is an important exercise as the rising price of higher education is a significant public policy issue for state legislators. As legislators are well aware, however, reigning in college prices while maintaining quality and increasing access is a difficult task. Many factors affect the price of higher education, making it impossible to implement a silver bullet solution to keeping costs down. Legislators can employ several strategies, however, to make decisions about tuition and other higher education financing policy that can help address rising tuitions.

Many factors affect the price of higher education at varied degrees, making it impossible to implement a silver bullet solution to keeping costs down.

Align appropriations, tuition, and financial aid policy. The major elements of higher education financing policy – appropriations, tuition, and financial aid – need to be considered in concert in order to address college affordability and student access and success. All three of these policies are intimately linked; decisions about one directly affect the other two. Typically, however, decisions regarding these policies are made independently. This is usually due to the fact that different committees within the legislature or a variety of entities outside of the legislature have the authority to make these decisions. This is particularly true for tuition policy as many states have a decentralized tuition-setting system where Boards of Regents or even individual institutions set tuition rates. As a result, decisions in the legislature regarding appropriations and/or financial aid can lead to undesirable or unintended changes in tuition or, even worse, higher education finance policies that work against each other.

Linking these three elements is essential for making strategic policy decisions that can contribute to student access and success while maintaining quality. There are several ways to encourage this link. First, bring the various stakeholders together to enhance cooperation, build trust, and make sure everyone is on the same page to avoid surprises. Second, ask some hard questions, such as: How will changes in appropriations affect price? Are some innovative or unconventional tuition programs financially viable options and should they be implemented? Does the state have a combination of financial aid packages and tuition rates that maximizes student access? Are fees being used to supplement tuition in a way that lowers affordability? Finally, keep the three-legged stool of higher education financial policy metaphor in mind when making decisions; all legs need to be adjusted together to maintain stability and functionality.

Establish tuition policy in concert with state goals. Many states have established goals for higher education, sometimes through a "public agenda" or "master plan" document, that defines a common interest, establishes a set of long-term goals and priorities for the state, and sets an accountability framework to meet those goals. Tuition policy should be determined to help the state meet those goals.

Examine instability in state funding. The issue of rising tuition and postsecondary affordability is the result of a confluence of various factors. While institutional spending and the rising cost of providing an education does impact price, tuitions have been rising higher and faster than costs and spending. Unstable state funding plays a more significant role in the constant increase in tuition.

As discussed in the appropriations brief, funding for higher education typically follows a cyclical pattern: it is higher when budgets are stable and reduced during lean budget times. This funding process, however, does not support a long-term strategy to increase student access and success. Reaching some level of funding stability and creating incentives for higher education funding are two ways legislators can help reduce the rate of tuition increases. This

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will require a shift in funding focus from revenues and inputs to costs and quality outcomes, which can make operations more efficient and contain – or even reduce – spending. Combining a focus on funding for outcomes with a relatively high level of both stability and predictability in state appropriations can help address the direct cost to students.

Consider federal policy when making tuition decisions. Finally, federal policy needs to be considered when making tuition decisions so that important and much-needed dollars are not left on the table. Two federal tax benefits are particularly significant: the HOPE Scholarship and Lifetime Learning tax credits (refer to the federal-state relationship brief in this packet for more information on these programs). As mentioned earlier, Hawaii discovered that its extensive use of tuition waivers was, in effect, supplementing federal dollars through the HOPE tuition tax credits with scarce state dollars, as not paying tuition made individuals ineligible for the federal credit. This puts unnecessary strain on the state's coffers and makes it impossible to sustain the waiver programs. Considering how state tuition policy intersects with federal policy is an important and worthy analysis in order to maximize benefits to the state and its citizens.

About the Author

Vincent Badolato is an Education Policy Specialist at the National Conference of State Legislatures with a focus on policy issues related to postsecondary and adult education. Prior to NCSL, Vincent served as the Program Associate at the Alliance for Quality Teaching, a non-profit organization with the mission to ensure teacher quality in all Colorado classrooms. Before moving to Colorado in 2003, Vincent was the Research Director at The Performance Institute, a private, nonpartisan organization in Arlington, VA, focused on improving government results through the principles of performance, competition, transparency and accountability. Vincent earned a B.A. in History from The George Washington University in Washington, DC, and an M.A. in Education Foundations, Policy and Practice from the University of Colorado - Boulder.

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[2] Calculation of tuition increase in current dollars was determined from numbers taken from Baum and Ma, *Trends in College Pricing 2008*, 10. Data from the Bureau of Labor Statistics, Department of Labor used to determine percentage increase in overall price inflation.

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GETTING WHAT YOU PAY FOR

The Nuts and Bolts of the Higher Education Legislative Appropriations Process

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Introduction

Appropriating money for postsecondary education is one of the most important roles state legislators play in public higher education policy. The appropriations process determines the level of state commitment to its institutions of higher education. Many different factors enter into decisions about how much funding should be appropriated – some of them straightforward and some of them complicated and disconnected. This brief examines the nuts and bolts of the state higher education appropriations process, especially in tough fiscal times. It is during these times that legislatures are particularly influenced by outside pressures. Higher education fiscal policy that is strategic and connected to state goals, as well as to tuition and financial aid policy, provides stability for students, institutions, and the state.

Education is the single-largest item in state budgets, comprising nearly half of all appropriations. On average, about 33 percent of state budgets go to K-12 education, and about 12 percent of state budgets go to higher education. With such significant revenue involved, it is small wonder that state legislators take appropriations decisions very seriously. But appropriations decisions for higher education are affected by many factors outside of higher education policy, such as the demands of other state budget items – primarily Medicaid, corrections, and transportation. Public attitudes toward taxation, the general state of the economy, and other state spending priorities also have an impact. The economy is particularly influential in determining higher education decisions: in good times higher education does well in state budgets, and in bad times it does poorly compared to other budget items.

You've probably heard higher education described as the "balance wheel" of state budgets. That's because many states determine the amount of appropriations to higher education by seeing what's left after other spending priorities have been taken care of. Legislators are able to approach higher education funding this way because, unlike all other budget items, higher education has a built-in revenue generator in the form of tuition. If the state funds higher education at a lower level than the previous year, legislators often assume that decreased revenue can be made up by increasing tuition. And, in fact, this is how most states determine higher education appropriations. What's often absent is a coherent, coordinated fiscal policy that is linked to specific, statewide higher education outcomes and objectives.

The results of this haphazard budgeting process have been particularly apparent in recent years. From 2000 to 2005, states witnessed record tuition increases. These tuition increases were due in large part to state budget cuts to higher education because of difficult economic times. Then, between 2006 and 2008, as state economies (and thus state budgets) recovered, state legislatures were able to make up for the earlier cutbacks and infuse additional dollars to higher education. This process of cutting back higher education in

bad times and increasing funding in good times is difficult for states and for students because:

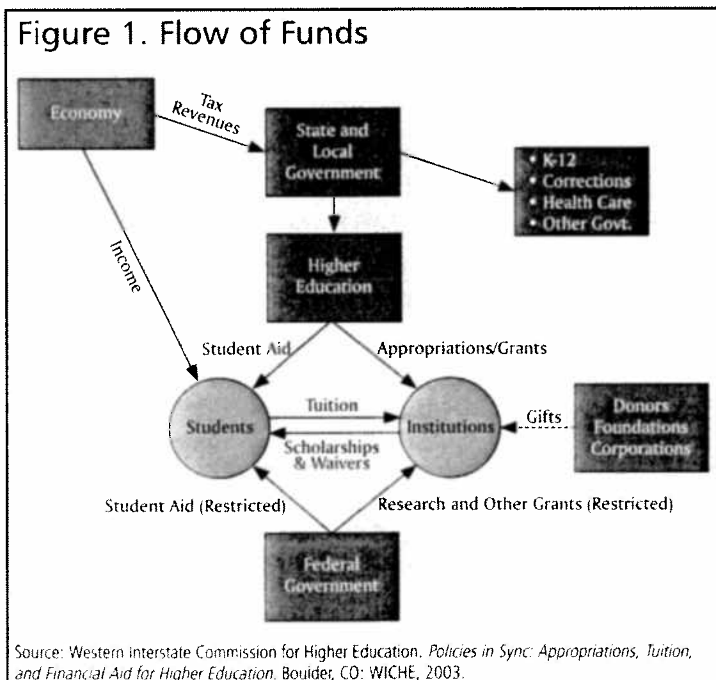
- Funding decisions are not connected to specific policy objectives.
- Institutions are not able to effectively plan from year to year or for the future.
- Students may experience significant tuition increases.

Tough economic times are not only hard on states but also are hard on students and families who may be priced out of higher education when tuition rises.

Higher Education Revenue and the State Role

Public institutions receive most of their funding from either the state (through appropriations) or students (through tuition). Institutions also receive small amounts of revenue from the federal government (primarily in the form of research grants) and from donors, such as corporations or alumni, but these funds are often restricted to specific purposes (see Figure 1).[1]

Figure 1. Flow of Funds



Source: Western Interstate Commission for Higher Education. *Policies in Sync: Appropriations, Tuition, and Financial Aid for Higher Education.* Boulder, CO: WICHE, 2003.

State and local governments provided $83.5 billion in direct support for general operating expenses of public and independent higher education institutions in 2007. In addition, public institutions collected net tuition revenue of $39.4 billion during that same year. The state is by far the largest contributor to state higher education, providing nearly 91 percent, with 88 percent coming from appropriations from state tax revenue. Three percent comes from non-tax appropriations such as state lotteries (a small-but-growing portion of state funds), 0.4 percent comes from state-funded endowments earnings, and 0.2 percent from oil and mineral extraction fees or other lease income.

On average, 79 percent ($65.9 billion) of the state higher education appropriation goes toward the general operating expenses of public higher education institutions; 12 percent is used for special purpose appropriations for research, agricultural extension, and medical education; 8.4 percent is set aside for student financial aid programs; and 0.3 percent directly supports independent or private institutions.[2]

State Higher Education Funding Approaches

Appropriations directed to institutions for support of general operating appropriations may be made in two categories: base institutional funding for the creation and maintenance of the educational capacity of the institution or special-purpose funding (often referred to as performance or incentive funding) intended to promote specific state priorities.

In determining these funding decisions, states use three basic approaches:

Base plus. The prior year's funding is the starting point, and adjustments are made to reflect cost-of-living and enrollment changes. Funding decisions are thus made incrementally and are primarily based on funding levels from previous years. This process creates stability for the state, institutions, and students but lacks a connection to specific policy priorities or other changes in the state.

Formulas. Higher education funding formulas are based on such things as the number of students served, facility maintenance costs, fee levels, and the number of out-of-state students and level of out-of-state tuition. This creates clear messages to institutions about what is valued and, thus, what is funded. State legislators need to make sure the elements of funding formulas connect to overall state priorities and don't create unintended consequences as institutions make decisions to maximize the amount of state funding.

Performance funding. A portion of funds are linked to reward specific performance outcomes, such as the number of students graduated (rather than enrolled) and the number of underrepresented students served. This allows states an opportunity to clearly articulate state funding priorities, but typically only a small portion of higher education funding (5 to 20 percent) is allocated in this way.

Policies in Sync: Connecting Appropriations, Tuition, and Financial Aid

Appropriations decisions affect tuition. In practice, appropriations and tuition policy decisions are not connected – they're made at different times by different people. In many states, the legislature, while controlling the state appropriations process, doesn't have a role in tuition setting. Furthermore, as tuition rises, more students require some form of financial assistance in order to attend college. It is clear the three fiscal *levers* – appropriations, tuition, and financial aid – are closely linked, but legislative policy *decisions* involving them are not. Typically, decisions about appropriations are made at one time by a legislative committee; decisions about tuition are made at another time by another committee or by entities from outside of legislatures – for example, boards of regents. Financial aid decisions often are made at different times and may be made by different actors. This diffuse process makes it very difficult (but not impossible) for legislators to consider the three important fiscal policy levers "in sync."

It is clear how the three fiscal *levers* – appropriations, tuition, and financial aid – are closely linked, but legislative policy *decisions* are not.

An important trend in higher education funding during the last 20 years has been the gradual-but-significant shift in the amount of higher education revenue funded by states through appropriations and the amount funded by students through tuition. A large part of this shift is due to difficult state budget conditions that have caused states to decrease contributions through appropriations to higher education. States make up for these decreases by increasing tuition.

Table 1. Change in Share of Higher Education Revenue from Tuition and State Appropriations

	1982	1997	2007
Appropriations	78%	69%	64%
Tuition	22%	31%	36%

Table 1 reports national averages; the national trend has been to decrease the state share of higher education funding (appropriations) and increase the student/family share (tuition). But, states vary widely in their philosophies about the balance between the state and student/family share of higher education, from a low of 11.5 percent derived from tuition in New Mexico to a high of 79.3 percent in Vermont.[3] States find this balance in different ways, largely based on culture and tradition. For instance, New Mexico's public policy is that tuition should be as low as possible to enable the largest number of students to participate. Vermont's public policy takes a different approach, emphasizing high tuition for those who can afford college and significant publicly provided financial aid for those who cannot.

Making strategic, well-connected higher education appropriations decisions is no easy task for state legislators. Legislative appropriations decisions are a responsibility of legislative budget committees, which weigh all of the different state budget needs. But it is the legislative education or higher education committees that typically make specific higher education policy decisions. In addition, appropriations decisions are made institution by institution. That is why the presidents of universities are a strong presence at legislative budget hearings, where they promote their institutions. Legislative alumni of different institutions often weigh in to protect their former colleges and universities.

Direct support of higher education is made primarily through state budget appropriations to institutions. But looking at appropriations alone will only reveal one important part of the picture. The state also contributes significantly to higher education by funding students through student financial aid programs. Financial aid, after all, allows many students to attend college who would otherwise not be able to.

Table 2. Perspectives on State and Local Government Higher Education Funding Effort, by State

State	Fiscal 2007		Fiscal 2005	
	Higher Education Support[1] Per Capita[2]	Higher Education Support per $1000 of Personal Income	Higher Education Support[1] (thousands)	Allocation to Higher Education
Alabama	$364	$11.24	$1,215,325	10.4%
Alaska	421	10.42	235,726	8.0%
Arizona	281	8.50	1,462,964	7.9%
Arkansas	287	9.55	667,259	8.3%
California	361	8.68	10,805,726	7.3%
Colorado	144	3.50	641,230	4.1%
Connecticut	264	4.87	787,967	4.1%
Delaware	262	6.45	203,478	5.8%
Florida	197	5.12	3,022,536	5.0%
Georgia	289	8.65	2,451,758	8.7%
Hawaii	392	10.00	409,727	7.4%
Idaho	252	8.08	350,259	8.3%
Illinois	278	6.90	3,316,264	6.7%
Indiana	230	6.83	1,417,478	6.6%
Iowa	285	8.15	784,526	8.0%
Kansas	348	9.45	887,032	9.4%
Kentucky	299	9.60	1,084,892	8.7%
Louisiana	340	9.78	1,287,849	8.9%
Maine	197	5.85	240,691	4.6%
Maryland	309	6.71	1,418,341	5.8%
Massachusetts	199	4.06	1,131,093	3.8%
Michigan	255	7.27	2,431,592	6.8%
Minnesota	269	6.57	1,273,328	6.0%
Mississippi	318	11.01	806,119	10.8%
Missouri	193	5.60	1,070,825	6.1%
Montana	185	5.71	156,024	5.7%
Nebraska	378	10.38	597,518	9.0%
Nevada	242	5.98	548,794	6.1%
New Hampshire	94	2.27	115,367	2.6%
New Jersey	251	5.09	2,082,506	4.8%
New Mexico	521	16.57	766,844	12.6%
New York	320	6.75	5,209,042	4.6%
North Carolina	401	11.92	2,936,456	10.8%
North Dakota	337	9.68	201,545	9.5%
Ohio	204	5.86	2,228,056	5.3%
Oklahoma	295	8.64	817,666	8.1%
Oregon	182	5.24	646,056	5.6%
Pennsylvania	182	4.69	2,117,998	4.5%
Rhode Island	186	4.70	184,604	3.8%
South Carolina	259	8.36	1,025,196	8.5%
South Dakota	226	6.67	163,452	7.4%
Tennessee	242	7.28	1,301,578	8.0%
Texas	286	7.68	5,905,955	8.4%
Utah	271	8.70	646,914	8.9%
Vermont	136	3.70	78,009	3.0%
Virginia	242	5.86	1,493,616	5.3%
Washington	252	6.24	1,411,664	6.1%
West Virginia	251	8.51	426,409	7.0%
Wisconsin	283	7.86	1,466,328	6.8%
Wyoming	705	16.30	298,590	11.2%
U.S.	$277	$7.19	$72,230,173	6.5%

[1] Higher Education Support = State and local tax and non-tax support for public and independent higher education. Includes special purpose appropriations for research-agricultural-medical. Source: SHEEO SHEF.
[2] Population and personal income data from U.S. Census Bureau and Bureau of Economic Analysis.

Source: "State Higher Education Finance FY 2007." State Higher Education Executive Officers (Boulder, CO, 2007) accessed 10/21/2008 from <http://sheeo.org/finance/shef_fy07.pdf>, 45.

Interpreting Trends in State Higher Education Appropriations

It is often difficult for state legislators to figure out whether state appropriations to higher education are increasing or decreasing. On the one hand, student groups and university presidents may claim that legislators have cut funding. On the other hand, legislators can see that the total dollars appropriated for state higher education has grown. How can legislators make sense of this?

Every time legislators make a decision to allocate public dollars to higher education – through the appropriations, tuition, or financial aid processes – they need to remember that a decision in one area will have implications for other areas.

Table 2 from the State Higher Education Executive Officers (SHEEO) shows different ways to consider and evaluate state higher education funding.[4]

To make sense of data on higher education spending, the best advice for legislators is to understand the different ways of looking at higher education funding and specifically the state contribution. National trends often hide important state trends. For example, states decreased per-student appropriations to public higher education by 7.7 percent on average during the five-year period from 2002 to 2007. But five states decreased appropriations by 20 percent or more. This ranged from a decrease of 26 percent in Colorado; to relatively slight changes (less than 5 percent) in Washington, Mississippi, Utah, and Texas; to an increase of 29 percent in Wyoming.[5]

Be aware also that trends of one indicator may be very different from those of another indicator – and people will use the particular measure that is supportive of their point of view. For example, while the share of state budgets devoted to higher education has decreased during the past several years, the amount spent by states on higher education has increased. It went from $67.8 billion in 2001 to $83.5 billion in 2007.[6] Enrollment has increased – from 7.4 million to 10.2 million since 1982. Meanwhile, higher education appropriations per FTE have grown 9.7 percent from 2005 to 2007.

Recommendations

Savvy legislators will pay attention to national trends because they are interesting and it is important to put state trends in a national context. State legislators should be aware of what other states are doing, especially neighboring states, because it could affect their students and institutions. But at the same time, they should consider the many ways states differ in the appropriations process and decision-making and the different ways of analyzing and measuring state support.

Every time legislators make a decision to allocate public dollars to higher education – through the appropriations, tuition, or financial aid processes – they need to remember that a decision in one area will have implications for other areas. A new and more strategic approach to determining state higher education appropriations decisions would:

- Move the focus from each institution to overall state goals and priorities.
- More clearly communicate overall state performance goals to institutions.
- Eliminate the year-to-year incremental budget increases and replace them with a more strategic process.
- Eliminate the tendency for higher education appropriations to fluctuate based on the economy.
- Better link the three primary postsecondary funding decisions – appropriations, tuition, and financial aid.

About the Author

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Endnotes

[1] Western Interstate Commission for Higher Education (WICHE), *Policies in Sync: Appropriations, Tuition, and Financial Aid for Higher Education* (Boulder, CO: WICHE, 2003), 7.

[2] State Higher Education Executive Officers (SHEEO), *State Higher Education Finance FY 2007* (Boulder, CO: SHEEO, 2008), 15.

[3] SHEEO, 28.

[4] SHEEO, 45.

[5] SHEEO, 31.

[6] SHEEO, 7.

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