Funding Public Higher Education

The Search to find “the right” funding approach
Good finance policy involves balancing the three components of finance to fund instruction:

- Appropriations to Institutions
- Tuition revenue
- Financial Aid to students

ATFA -- All contribute to access & quality
Seven Principles of Good State Finance Policy

All state finance policy should focus on State Goals

- Defining Goals
- Measuring Goal achievement and progress – Metrics and benchmarks
- Developing Strategy to incentivize progress and reward accomplishment

State policy should be formulated from perspective of the state & its citizens (individual and corporate).

- Institutions are means to the end, not ends in themselves
Principles of Good State Finance Policy

- State focus should be on the system of higher education, not individual institutions.
- The benefits of state higher education should accrue to all -- geographically and demographically.
- State policy must assure adequate funding to support quality education.
- Funding policy must assure affordability -- to students and to the state.
- The higher education system must be an “efficient” system – producing the outcomes specified in the goals at the lowest cost consistent with the ability to maintain quality.
How Does North Dakota Measure Up

On Goals – Pretty Good, but a couple of glitches

- Roundtable process – exemplary forum for broad engagement
- Roundtable’s Broad Goal:
Close Alignment on Goals

**Leg Staff Goals**
- Attainment
- Access
- Affordability
- Student Success
- Econ Development: Workforce capacity
- Econ Development: Research & Bus. Dev.

**NDUS Goals**
- Excellence/Attainment
- Access
- Funding Adequacy
- Imbedded in Excellence
- Economic Development
- Effectiveness
The Glitch -- Measures

Roundtable: 33 measures, 27 legislated
UNDS proposed strategic plan: 27 measurable objectives
  22 outcome measures, 5 process measures
  22 clear and measurable, 5 mushy
Leg Council draft goals: 13 measures
  A bit mushy
  Not all on mark
  Still too many
Generally right
  Few for the Policy Thought Leaders –Legis.
  More for the Policy Management Leaders-NDUS
So, How Is ND Doing On These Goals

- Attainment: Pretty Good
Undergraduate Credentials & Degrees Awarded at All Colleges per 1,000
Adults Age 18-44 with No College Degree, 2008

Source2: U.S. Census Bureau, 2008 American Community Survey (ACS) Public Use Microdata Sample (PUMS) File.

*University of Phoenix Online and Western International University are excluded from Arizona's results, but
included in the National total. Their awards are not representative of Arizona's performance as most first-time
undergraduates are out-of-state residents (University of Phoenix Online = 97.4% out-of-state, Western
International = 87.1% out-of-state - IPEDS fall 2008 Residence & Migration File).
So, How Is ND Doing On These Goals

On Access – A Mixed Bag
  - Fine in the aggregate
College-Going Rates—First-Time Freshmen Directly Out of High School as a Percent of Recent High School Graduates, 2006

Source: Tom Mortenson, Postsecondary Opportunity Via NCHEMS
On Access – A Mixed Bag

- Fine in the aggregate
- Not so great in serving the Native American Population
Difference Between Whites and Next Largest Race/Ethnic Group in Percentage of Adults Age 25-34 with an Associate Degree or Higher, 2000

Source: U.S. Census Bureau, PUMS (based on 2000 Census), Via NCHEMS
So, How Is ND Doing On These Goals

- On affordability
So, How Is ND Doing On These Goals

On student success & efficiency – A Mixed Bag
- Exceptional in 2 Year Institutions
Performance Relative to Funding: All Credentials Awarded per 100 FTE Undergraduates (Public Two-Year Institutions)

Source: NCES, IPEDS
On student success & efficiency – A Mixed Bag

- Exceptional in 2 Year Institutions
- About average on both in 4 year Institutions
Performance Relative to Funding: Bachelors Degrees Awarded per 100 FTE Undergraduates
(Public Bachelors and Masters)

Source: NCES, IPEDS
So, How Is ND Doing On These Goals

On student success & efficiency – A Mixed Bag
- Exceptional in 2 Year Institutions
- About average on both in 4 year Institutions
- Below average in both in research universities
Performance Relative to Funding: Bachelors Degrees Awarded per 100 FTE Undergraduates
(Public Research Institutions)

Source: NCES, IPEDS
Productivity: Total Funding per Degree/Certificate  (Weighted*, 2006-2007)

Sources: SHEEO State Higher Education Finance Survey 2008; NCES, IPEDS Completions Survey; U.S. Census Bureau, American Community Survey (Public Use Microdata Samples)

*Adjusted for value of degrees in the state employment market (median earnings by degree type and level)
So, How To Fund This Enterprise?
Three General Philosophies

- Core Adequacy
- Fair funding
- Performance based funding
So, How To Fund This Enterprise? Three General Philosophies

Core Adequacy

Underlying Philosophy: Enough is enough, but not enough isn’t . . .

Pluses

- Assures adequate funding

Minuses

- Provides no incentives for change or rewards for performance

Depends

- Reinforces the Status Quo
The Competing Funding Philosophies

- Fair funding – The current North Dakota Model

  Underlying philosophy: Fair formula derive fair distribution, including:
  - Internal equity
  - External competitiveness
  - Tiered funding to reflect mission differentiation
The Competing Funding Philosophies

Fair funding – The current North Dakota Model

- **Pluses**
  - Assures “fair” distribution of available funds
- **Minuses**
  - Provides no incentives for change or rewards for performance
  - Drives a negative perception: + or - average
- **Depends**
  - Presumes average funding is the right funding
  - Presumes the formula metrics are fair – the CC issue
The Competing Funding Philosophies

Performance Based Funding

Three types
- Performance funding
- Performance budgeting
- Incentive funding

Underlying Philosophy:
- Incentive funding: paying for what you hope for
- Performance budgeting/funding: paying for what you wanted and got
The Competing Funding Philosophies

Performance Based Funding

Pluses
- Gives greater transparency to legislature
- Provides clear signals of state goals

Minuses
- Incentive funding: Buying a pig in a poke.
- Performance funding via line items: Vulnerable to tough times
- Performance budgeting – you get what you pay for & are stuck if you buy the wrong thing – rates versus numbers
- The Power elites can drive the performance indicators

Depends – takes funding out of funding process/focuses on product
Performance Based Funding

Caveats if you go this direction

1. Don’t do it unless you can measure well good metrics for the goals you want (i.e., real completion, not usual graduation rate numbers)
2. Establish benchmarks and reward those achieve to expectations.
3. But also reward continuous progress (and don’t punish temporary setbacks – use multiyear averages).
4. Recognize & adjust for different missions.
5. Stay the course – minor modifications are fine, but don’t incentivize performance & then move the mark
North Dakota Higher Education Serves You Well.

But,

You aren’t all so sure because you don’t see it
And, even if it’s so, the status quo won’t be good enough for the future
And, You aren’t sure the current financing scheme provides the right impetus for change
What I suspect you want

1. The opportunity for your citizens, young & not so young, to continue their education.
2. And, that far more of them complete that education than is the case today – yes you do “comparatively” well, but that’s not good enough.
3. That most of those folks stay and work in North Dakota.
4. That this success is appreciated by all sectors of North Dakota, not just those from privileged backgrounds.
5. And, that they get a good education, to boot.
So,

If that’s what you want, why not pay for it?

You don’t need to punish any institutions – their doing well.

But you could make it clear to NDSU

- What you want.
- How you will measure that.
- And, then pay them for doing what you want.

Enough Already!