Trends and Issues in State/Federal Financing of Higher Education

What You Must Know By Noon

November 7, 2008
Denver, Colorado

David Longanecker,
President
Western Interstate Commission for Higher Education (WICHE)
Financing higher ed ... HOW!

The flow of funds

- Economy
  - Tax revenues
- State and Local Government
  - Appropriations/grants
  - Student aid
  - Tuition
- Institutions
  - Gifts
  - Scholarships & waivers
- Students
  - Income
  - Student aid (restricted)
- Federal Government
  - Research & other grants (restricted)
- Donors
- Foundations
- Corporations

Source: NCHEMS
Financing higher ed ... HOW!

The flow of funds

- Economy
- State and Local Government
- Students
- Institutions
- Federal Government
- Donors (Foundations, Corporations)

- Tax revenues
- Income
- Student aid
- Appropriations/grants
- Tuition
- Scholarships & waivers
- Gifts
- Student aid (restricted)
- Research & other grants (restricted)

Source: NCHEMS
Financing higher ed ... HOW!

The flow of funds

Economy

State and Local Government

Students

Institutions

Federal Government

Donors Foundations

Corporations

- Tax revenues
- Income
- Student aid
- Appropriations/grants
- Tuition
- Scholarships & waivers
- Gifts
- Student aid (restricted)
- Research & other grants (restricted)

Source: NCHEMS
**General approach**

A - Appropriation leads

T - Tuition follows

F - Financial Aid fills in

**Desired approach**

P - Policies in sync

ATFA

Appropriations, tuition, and financial aid policies working intentionally together.
Must Know #1: What makes good finance (ATFA) policy

- Resource allocations reinforce the State’s priorities
- Resource allocations make higher ed affordable
  - To students, and
  - To state
- Resources sustain (and may even enhance) institutional capacity
- Resource allocations are fair
  - Shared contributions reflect shared benefit
- Resource policies are transparent
  - Legislators and Governor understand them
  - Citizens understand them
  - Providing institutions understand them
Must Know #2: Basic Funding Models (Dave Longanecker’s Version)

- Base Funding (Something for nothing)
  - Enough To Do The Job
  - Payment for Services Rendered
- Incremental Funding (More Something for nothing)
  - Inflation Adjustments – more for the same
  - Average funding in a marginal funding industry
Must Know #2: Basic Funding Models -- Continued

- **Performance Funding**
  - Incentive funding
    - Inputs presumed to achieve desired outcomes
    - FIPSE like activities – funding good ideas
  - Reward funding (true performance funding)
    - Paying for desired performance on outcomes
    - Historic – enrollment funding
    - New Wave – success; success for access students
Performance Relative to Total Funding per FTE – Overall Index Scores for State Higher Education Systems (NCHEMS)
Fact or Fiction:

- The States Are Reducing Their Commitment to Higher Education
- Public Higher Education is Becoming Less Public
  - Because Students Are Paying More
  - Because other non-state resources are paying more
- The feds are shifting their resources from grants to loans
Fact or Fiction:
- Both the Feds and States are moving from Equal Opportunity to Middle-Income Appeasement
- Productivity is increasing, as average costs decline
#3 -- States Are Reducing Their Commitment – Fact or Fiction

- Proof of the Pudding
  - Share of State Funding to Higher Education
    - SHEEO/SHEF Report:
      - 7.7% in '02; 6.5% in '05
    - But:
      - 6.9% in '95
  - Some share and tell
  - So what about funding per FTE
#3 – Whether States Are Reducing Their Commitment Depends Upon One’s Perspective

Public FTE Enrollment, Educational Appropriations and Total Educational Revenue per FTE, United States – Fiscal 1982-2007

Note: Constant 2007 dollars adjusted by SHEEO Higher Education Cost Adjustment (HECA) Source: SHEEO SHEF
State & Local Public Higher Education Support per Full Time Student (NCHEMS/SHEEO)
#3: Public Higher Education Is Privatizing

- Because of Shift to Private Payer System
Indeed, there has been a shift to private pay, but not because of loss of state support.
#3: Public Higher Education Is Privatizing

- Because of Shift to Private Payer System
- Because of Other Revenue Sources
  - Feds
    - Research
    - Financial Aid
    - *Not Instructional Services*
  - Corporate America and Philanthropy
    - Customized Research & Training
    - *Not Regular Instructional Services*
  - Exception – the Reformers (CAT)
#3: Public Higher Education Is Privatizing

- Because of Shift to Private Payer System **YUP**
- Because of Other Revenue Sources **NOPE**
  - Feds
    - Research
    - Financial Aid
    - *Not Instructional Services*
  - Corporate America and Philanthropy
    - Customized Research & Training
    - *Not Regular Instructional Services*
  - Exception – the Reformers (CAT)
#3: The Feds Are Shifting From Grants to Loans

- Not Really:
  - Grants are up: Pell from $2,150 in ‘93 to $4,750 today
  - Loan volumes are up much more
    - 92 and 98 Amendments
    - That will moderate
  - Tax Benefits Are The Big Area of Growth

- Net/Net: Feds disproportionately increasing aid to middle-income
#3: States and Feds moving away from equity to merit (from opportunity to opportunism)

- The States
  - Five Year % Change
    - Non-need based Aid: 67%
    - Need based Aid: 43%
  - Five Year $ Change
    - Non-need based Aid: $850 million
    - Need based Aid: $1.65 billion
  - Total Amount in 2006-07
    - Non-need based Aid: $2.1 billion
    - Need based Aid: $5.5 billion
#3: States and Feds moving away from equity to merit (from opportunity to opportunism)

- The States -- The New Wave
  - Blended Programs
    - Early Intervention
      - 21st Century Scholars/ Oklahoma Promise (and many copycats arising)
      - Federal Academic Competitiveness Grants (ACGs)
#3: So, productivity must be increasing, right.

- Not so fast
  - Aggregate productivity could appear to increase, even if every sector is declining in productivity – depends upon enrollment loads.
  - Depends upon outcomes (successful completers who learned), not inputs (enrollments)
Must Know Number 4: The Prospects for a New Federalism

- I know this story, because I lived it once upon a time

- The arguments for a new federalism
  - There is precedence for feds to act *in the national interest*
    - *Morrill Act of 1862 – the Land Grant Movement*
    - *The National Defense Education Act – to protect the nation’s science superiority*
The arguments for a new federalism continued

- Declining global competitiveness creates a logical federal interest
- The changing nature of work – from brawn to brain – demands a new commitment to education
- Neither states nor feds can do it alone, so a New Federalism makes sense
Must Know Number 4: The Prospects for a New Federalism

- Factors mitigating against a new federalism
  - Feds are broke
    - Financially (witness the last few weeks & years)
    - In spirit (witness reauthorization of HEA, Spellings Commission, and campaigns)
  - States are broke
    - Financially
    - In spirit (witness anti-tax sentiments)
  - An absence of leaders
    - Because of an absence of followers
Must Know Number 4: The Prospects for a New Federalism

- Factors mitigating against a new federalism -- continued
  - And besides:
    - Education is a state responsibility, not a federal responsibility

- What do you think?

- I’m advising my states not to wait for a new federalism!