Fiscal Challenges Facing Higher Education

David Longanecker
President, Western Interstate Commission for Higher Education (WICHE)
The States Great Retreat from Higher Education Support

Woe is us
We can’t afford to operate
Our students can’t afford to come
Life isn’t fair
Note: Constant 2014 dollars adjusted by SHEEO Higher Education Cost Adjustment. Educational Appropriations include ARRA funds. (HECA)/Source: SHEEO
An Alternative Perspective

2001 was the high water mark or public support – is that a legitimate benchmark?

State Fiscal Support for Higher Education by State (Grapevine via SHEF FY 2013)

- FY 04 = 75.8
- FY14 = 74.2
- Delta = -2.1%
- Enrolment increase over period = +15%
- 2008 -- Nearly high water mark for history of mankind
FIGURE 8
EDUCATIONAL APPROPRIATIONS PER FTE PERCENT CHANGE BY STATE, FISCAL 2009-2014

NOTE: Dollars adjusted by 2014 HICP, Cost of Living Adjustments, and Enrollment Index
SOURCE: State Superintendents' Executive Officers
Total Educational Revenue per FTE Percent Change by State, Fiscal 2007-2012

FIGURE 10
TOTAL EDUCATIONAL REVENUE PER FTE PERCENT CHANGE BY STATE, FISCAL 2009-2014

NOTE: Dollars adjusted by 2014 HECA, Cost of Living Adjustment, and Enrollment Index. Total educational revenue excludes net tuition revenue used for capital debt service.

SOURCES: State Higher Education Executive Officers
Net Tuition As A Percent of Public Higher Education Total Education Revenue By State, Fiscal 2014

**FIGURE 9**
NET TUITION AS A PERCENT OF PUBLIC HIGHER EDUCATION TOTAL EDUCATIONAL REVENUE BY STATE, FISCAL 2014

SOURCE: State Higher Education Executive Officers
### State and Local Public Higher Education Support per FTE student -- 2011

<table>
<thead>
<tr>
<th>State</th>
<th>Support per FTE student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska</td>
<td>$14,000.00</td>
</tr>
<tr>
<td>Wyoming</td>
<td>$13,965.00</td>
</tr>
<tr>
<td>Hawaii</td>
<td>$10,378.00</td>
</tr>
<tr>
<td>Connecticut</td>
<td>$10,024.00</td>
</tr>
<tr>
<td>North Carolina</td>
<td>$8,643.00</td>
</tr>
<tr>
<td>New York</td>
<td>$8,696.00</td>
</tr>
<tr>
<td>New Mexico</td>
<td>$7,924.00</td>
</tr>
<tr>
<td>Illinois</td>
<td>$7,269.00</td>
</tr>
<tr>
<td>Nebraska</td>
<td>$7,343.00</td>
</tr>
<tr>
<td>New Jersey</td>
<td>$7,150.00</td>
</tr>
<tr>
<td>Nevada</td>
<td>$7,081.00</td>
</tr>
<tr>
<td>Louisiana</td>
<td>$6,904.00</td>
</tr>
<tr>
<td>Maryland</td>
<td>$6,888.00</td>
</tr>
<tr>
<td>Georgia</td>
<td>$6,783.00</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>$6,742.00</td>
</tr>
<tr>
<td>Texas</td>
<td>$6,621.00</td>
</tr>
<tr>
<td>California</td>
<td>$6,566.00</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>$6,530.00</td>
</tr>
<tr>
<td>North Dakota</td>
<td>$6,492.00</td>
</tr>
<tr>
<td>Kentucky</td>
<td>$6,491.00</td>
</tr>
<tr>
<td>Tennessee</td>
<td>$6,416.00</td>
</tr>
<tr>
<td>Maine</td>
<td>$6,339.00</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>$6,338.00</td>
</tr>
<tr>
<td>United States</td>
<td>$6,290.00</td>
</tr>
<tr>
<td>Idaho</td>
<td>$6,262.00</td>
</tr>
<tr>
<td>Missouri</td>
<td>$5,908.00</td>
</tr>
<tr>
<td>Arizona</td>
<td>$5,883.00</td>
</tr>
<tr>
<td>Arkansas</td>
<td>$5,810.00</td>
</tr>
<tr>
<td>Washington</td>
<td>$5,765.00</td>
</tr>
<tr>
<td>Delaware</td>
<td>$5,187.00</td>
</tr>
<tr>
<td>Kansas</td>
<td>$5,097.00</td>
</tr>
<tr>
<td>Mississippi</td>
<td>$5,025.00</td>
</tr>
<tr>
<td>Florida</td>
<td>$5,075.00</td>
</tr>
<tr>
<td>Utah</td>
<td>$5,008.00</td>
</tr>
<tr>
<td>Alabama</td>
<td>$5,315.00</td>
</tr>
<tr>
<td>Virginia</td>
<td>$5,225.00</td>
</tr>
<tr>
<td>Minnesota</td>
<td>$5,221.00</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>$5,205.00</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>$5,187.00</td>
</tr>
<tr>
<td>Michigan</td>
<td>$5,090.00</td>
</tr>
<tr>
<td>Iowa</td>
<td>$4,884.00</td>
</tr>
<tr>
<td>West Virginia</td>
<td>$4,829.00</td>
</tr>
<tr>
<td>South Dakota</td>
<td>$4,818.00</td>
</tr>
<tr>
<td>Indiana</td>
<td>$4,772.00</td>
</tr>
<tr>
<td>Montana</td>
<td>$4,631.00</td>
</tr>
<tr>
<td>Ohio</td>
<td>$4,490.00</td>
</tr>
<tr>
<td>Oregon</td>
<td>$4,427.00</td>
</tr>
<tr>
<td>South Carolina</td>
<td>$4,392.00</td>
</tr>
<tr>
<td>Colorado</td>
<td>$3,774.00</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>$3,667.00</td>
</tr>
<tr>
<td>Vermont</td>
<td>$3,025.00</td>
</tr>
</tbody>
</table>

Source: State Higher Education Executive Officers (SHEEO)
Composition of Public Higher School Graduates By Race/Ethnicity 2008-09 (Actual) and 2009-10 to 2027-28 (Projected)
Composition of Public Higher School Graduates By Race/Ethnicity 2008-09 (Actual) and 2009-10 to 2027-28 (Projected)
Total Higher Education Revenues per FTE Student -- 2011

Source: State Higher Education Executive Officers (SHEEO)
### National Student Clearinghouse Information on Student Completion in Six Years

<table>
<thead>
<tr>
<th></th>
<th>Completed</th>
<th>Not Enrolled or Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US</strong></td>
<td><strong>US</strong></td>
<td></td>
</tr>
<tr>
<td>Public Universities</td>
<td>63%</td>
<td>23%</td>
</tr>
<tr>
<td>Private Colleges &amp; Universities</td>
<td>74%</td>
<td>17%</td>
</tr>
<tr>
<td>Community Colleges</td>
<td>39%</td>
<td>43%</td>
</tr>
</tbody>
</table>
Credential & Degrees Awarded Per $100,000 of Education & Related Expenditures – Total: Public Colleges & Universities

1.84/$100,000 = $54,348/Degree
Credential & Degrees Awarded Per $100,000 of Education & Related Expenditures – Public Research Universities

1.82/$100,000 = $54,945/Degree
Credential & Degrees Awarded Per $100,000 of Education & Related Expenditures – Public Bachelor’s & Master’s Colleges & Universities

2.20/$100,000 = $45,455/Degree

Source: NCES, IPEDS Completion and Financing Survey; U.S. Census Bureau, American Community Survey (Public Use Microdata Samples)
1.58/$100,000 = $63,291/Degree
Why a new normal & not return to the old normal
- Can’t afford the old normal
  - Hyper-inflationary model is unsustainable (unaffordable)
  - Shouldn’t afford the old normal

What the new normal will look like
- Performance funding is the wave to be on
  - Makes sense at the state level
Outcomes-Based Funding: The Wave of Implementation (NCHEMS 9/14)

Implementing
Implementing in one Sector
Under Development
Active Interest
The New Normal for Funding

Why a new normal & not return to the old normal
- Can’t afford the old normal
  - Hyper-inflationary model is unsustainable (unaffordable)
- Shouldn’t afford the old normal

What the new normal will look like
- Performance funding is the wave to be on
  - Makes sense at the state level
- Seeping into institutional finance – RCM
The New Normal for Funding

- What the new normal will look like
  - Performance funding isn’t the only new dog in the hunt

- Expenditure strategies
  - The cheap way out -- $10,000 degree
  - Outsourcing
    - WGU expansion
    - Coursework outsourced
  - Enrolment Management

- Revenue enhancement strategies
  - Chase rich students
  - Chase any students
  - Rethink tuition discounting & financial aid
Financing Ideas in Play

Fantasy Land

College for Free

- Huge new investments or robbing Peter to pay Paul
- Say it's free, but don't really provide anything
- Something for nothing
Financing Ideas in Play—Jonesian Thought

The Nature of Additional Costs
- Funding for institutions to accommodate additional students
- Need-based student aid to ensure affordability for the (mostly low income) additional students
- Creating capacity needed for “other” goals – e.g., innovation and economic development

Sources of Revenue
- State and local government
- Students/families
  - Plus providers of grant aid

The Pressure Relief Factors
- Improved institutional productivity – additional degrees without proportional increases in enrollments
- Marginal costs of additional students < average costs
The Elements of a Financing Strategy

- Appropriations to institutions
  - Operating
  - Capital
- Tuition
- Student financial aid
- Improvements to institutional productivity
Approaches

Traditional Approaches
- Formulas
- Base plus (or minus)

Both Approaches
- Essentially designed to “equitably” reimburse institutions for costs incurred in providing services
- Budget discussions focused on what institution does
  - Number of units
    - Faculty
    - Staff
    - Energy
  - Price per unit
- Initiative came from institutions – state decision largely a function of how much of the “ask” could be afforded
- Operating and capital two separate processes
What’s Different

- Two components that explicitly reflect state priorities
  - Capacity building
  - Performance/outcomes – capacity utilization
- Old capital (bricks & mortar) → new capacity building fund that is driven by goals
  - Bricks and mortar (new/fitness for purpose)
  - Program creation/expansion
  - New delivery models
A Tad Bit on Financial Aid

Various public policy objectives

- Reward past performance
- Reward current performance
- Reduce barriers to college – make affordable
  - Incentivize enrolment
  - Incentivize completion
- Reduce burden – make more affordable
- Seduce target audience to you and yours
- Force partners to “comply”
A Tad Bit on Financial Aid

Various Methods
- Merit scholarships
- Need based grants
- Combined need/merit
- Need with performance

Shared responsibility–Need with performance
Five Partners Share Responsibility for Meeting the Cost of Attendance

1. Each student, as the principal beneficiary, is expected to contribute toward his/her own educational costs. Sources include: earnings, savings, borrowing, or scholarships.

2. The student’s parents contribute their share, which is determined by the federal methodology.

3. The model accounts for the federal government’s contribution (i.e., Pell grants, tuition tax credits).

4. The state grant award makes up the remaining difference.

5. The institution is responsible for any difference between the recognized COA and its own actual COA.

Source: WICHE
Recognizing the Difference in Costs Between Sectors

Two-Year Sector

- State
- Feds
- Family
- Student

Four-Year Sector

- State
- Feds
- Family
- Student

A cost to choice, linked to a reasonable borrowing expectation

Earnings, given a reasonable work commitment at minimum wage

Source: WICHE
The Bottom Line

Higher education finance policy needs to change
- To align with state priorities
- To align the various elements of state finance policy with each other

What this will take – building the budget around a new set of categories
- Maintenance of capacity
- Investment in new capacity
  - Bricks and mortar
  - Programs
  - Delivery methods
- Outcomes/performance
- Student financial aid

That’s Jonesian Philosophy of Higher Ed Finance
ENOUGH ALREADY