

As a fiscal analyst who has studied state budgets for the National

By **RiShawn Biddle**

The Complicated Dance of Higher Education Finance

State budget decisions affect access, affordability and quality. In a slowdown, stakes are high.

Conference of State Legislatures, Ronald Snell knows well that “higher education is always on the table when times are tough.” During and after the economic recession that began in 2001, the average state per-student spending on higher education nationally fell by \$650 in constant dollars, according to Rockefeller Institute of Government, an Albany, N.Y., public-policy think tank. Now another slowdown, driven by woes in the real estate and financial services sectors, has begun and is once again depressing state revenues from sales, income, capital gains and corporate taxes. Save for states such as Alaska, Texas and Wyoming (which can count on robust royalties from oil revenues), most will experience major fiscal headaches.

Thirty-one states and Puerto Rico collectively projected \$40 billion in budget deficits for the 2010 fiscal year, on top of \$48 billion in budget cuts made to balance 2008–09 budgets. That was before the Wall Street meltdown. The Center on Budget and Policy Priorities reported in October 2008 that 21 states were projecting an additional \$8.9 billion in mid-year budget shortfalls.

Higher education budgets will no doubt be affected. Tuition fees are likely to rise. One purpose of this brief is to explain the complex process that drives such spending decisions. Another is to illustrate that in almost every state, these decisions are disconnected from

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Finance *continued from p. 1* | larger state policy goals – such as increasing access to higher education, maintaining affordability for low-income students, or even maintaining quality. Budget decisions, experts say, can be the most powerful lever for achieving those goals if done properly. Done without thought, budget decisions can do much to harm access, affordability and quality. The final purpose of this publication is to enable journalists to shine a light on instances where this is the case.

Twelve states targeted public colleges and universities for 2008-09 spending cuts. For example, spending for the State University of New York was reduced by more than 6 percent for the 2009 fis-

cal year; the City University of New York, which serves New York City, had to forgo 4 percent of its funds from the previous year. Nevada reduced higher education spending by \$22 million, or about 3.4 percent.

► **SERVING THE COMMON GOOD**

Higher education is the third-largest category of spending in state budgets after K–12 education and Medicaid. Politicians like to spend lavishly on universities – a source of prestige, pride and economic development – when coffers are flush. Most legislators also recognize that in addition to conferring private benefits, higher education also serves the common good: States need an educated, skilled work force to retain middle-class jobs and the tax revenues that go along with them. More enlightened legislators also know that citizens who are educated are more civic-minded, take better care of their health, are more likely to vote, and pass on those values and behaviors to their children. Still, during tough times, college funding is perceived by many to be discretionary.

State legislators also may think it is easier to cut higher-education appropriations because colleges can raise money elsewhere – through tuition increases, donations, research grants – and price increases are unlikely to result in empty seats. In fact, when the economy stagnates, the demand for higher education

rises because fewer jobs and flat wages reduce the opportunity cost of being out of the labor market. Another source of revenue that’s becoming increasingly popular is for public colleges to recruit foreign and out-of-state students who can be charged more. The percentage of students who leave their home state to enroll in another state’s public schools has risen steadily. At the University of Vermont, for example, the majority of the undergraduates

are from out of state, which helps the school cope with weak state appropriations.

It is tuition increases that raise the most money and are the most likely to generate controversy. Tuition hikes may well be justified, however. Charging too little subsidizes

HIGHER EDUCATION FINANCING:
WHAT COLLEGE PRESIDENTS SAY

**JAMES VOTRUBA, PRESIDENT,
NORTHERN KENTUCKY UNIVERSITY**



“Organizations like universities ought to periodically re-focus and re-balance their budgets in light of priorities, and it’s hard to do so in the midst of confronting a fiscal crisis. We cut 30 positions and five programs this last fiscal year. It wasn’t easy, but they were programs that, while they were doing important work, had not produced in the way we hoped they would. It takes courage to say... these are our choices.”

middle-class and affluent students who could afford to pay more and denies universities a legitimate source of revenue that can be used to maintain quality programs. But journalists should always ask whether tuition hikes will be offset by increases in institutional aid administered by the colleges or state need-based financial aid (in those states that have such programs). Otherwise, college may become unaffordable for needy students. African-American and Latino students, who are more likely than white students to come from low-income households and less likely to attend college, may be hurt the most by tuition increases. When faced with cuts in appropriations, colleges often reduce their offerings, which can extend the time it takes students to complete their studies and add to the cost of an education. When college becomes more expensive, students tend to take out more loans and to work more, which contributes to dropping out. That can be a huge problem for debt-saddled students who don’t graduate with skills or credentials that help them pay off their loans.

These are important stories that journalists – especially those at statehouses – can and should cover. As the Western Interstate Commission for Higher Education concluded in a 2007 report, “Finance policy tends to be the strongest, most flexible policy tool available to promote state priorities (such as access and success).”¹

► THE ELEMENTS OF FINANCE

Financing decisions that affect college-going, affordability, and quality fall into four categories:

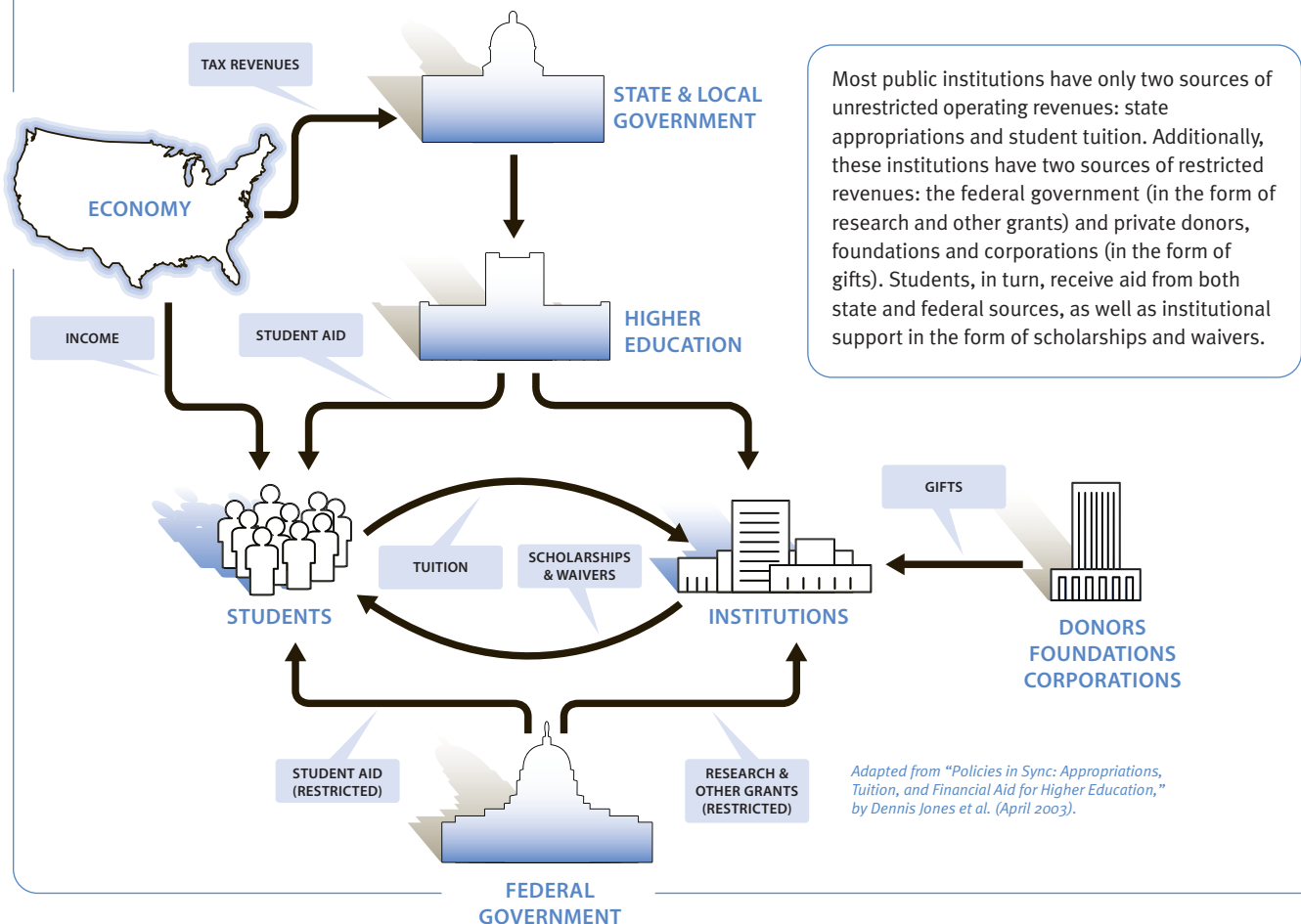
- **State appropriations:** Operating funds, matching funds and capital expenditures approved by legislatures.
- **Tuition:** May be set by the legislature, by a statewide higher education governing body, a system board, or, in 14 states, the institutions themselves. In only five states, however, can campuses establish tuition without outside influence. Tuition, plus fees for room and board, establishes the “sticker price” for college. The “net price” is the sticker price minus aid in various forms, including scholarships.²
- **State and federal student financial aid:** Grants, loans, tax credits and work-study programs that indirectly subsidize universities by helping students pay for college. Every state provides some aid to college students, but the nature and the amount of the aid vary greatly. For example, financial need was

a factor considered in about 60 percent of the aid awarded in 2006-07.³ About 20 percent of the \$9.3 billion in aid awarded that year was merit aid, based strictly on students’ academic achievements. The rest was awarded to students in certain categories, such as scholarships to those participating in the National Guard. Many states are developing aid programs that benefit low-income students who are academically accomplished, what experts call “blended” programs.

- **Institutional financial aid:** Tuition discounts or scholarships supported by donors or funds controlled by the college. Although such decisions are left to colleges themselves, legislatures can set policy guidelines to, for example, direct more of the money to low-income students.

“Financing policy related to higher education is really a set of policies that are usually independently developed but that must work in harmony if established priorities are to be achieved,” writes | *continued on p. 4*

Where Student Financial Aid Comes From



Finance *continued from p. 3* | Dennis P. Jones, president of the National Center for Higher Education Management Systems.⁴

Such complexity didn't exist during the post-World War II boom in college attendance and public investment in higher education. Back then, legislatures funded universities through an approach called base-plus funding, in which enrollment growth and expansion costs drove appropriations, then tuition was set and student aid programs were funded. This process "worked well because college wasn't for everybody and it focused on the middle-class student and the brighter lower-income student," said David Longanecker, president of the Western Interstate Commission for Higher Education, a regional organization that works to improve access to higher education and ensure student success.

That system does not work as well when states are trying to increase college-going and completion. The vast majority of jobs to be created over the next few decades will require some postsecondary education. After World War II, the United States became the global leader in college completion. But younger generations of Americans are no longer the best educated in the world. Just 39 percent of Americans age 25–34 have two- or four-year college degrees, according to the 2008

edition of the Organisation for Economic Co-operation and Development's "Education at a Glance," ranking the United States 10th in the world, tied with three other nations.⁵ To improve that ranking, the United States must increase postsecondary success among low-income and minority students, say Jones and other experts.

Such students are less likely to head to college immediately and are more likely to attend community colleges, work more than 20 hours per week, and attend part time. All of those factors are associated with higher dropout rates. Rising costs and the availability of fewer classes are major deterrents.

But public universities, driven by budget-cutting and ambitions to make themselves more selective and exclusive, are pricing themselves beyond the reach of many low-income and minority students; average tuition at four-year public universities increased by 375 percent between 1982 and 2005. For the poorest 20 percent of American households, the share of income needed to pay for a four-year public college degree (after considering financial aid) increased from 57 percent in 1992 to 73 percent in 2003, according to the National Center for Public Policy and Higher Education.⁶ The states where the net cost of a four-year degree rose the most were Ohio, New Jersey, Iowa, Oregon, Washington and Illinois.

WHAT REPORTERS SHOULD KNOW ABOUT HIGHER ED POLICY

- Financing policy – perhaps the greatest tool at states' disposal – should focus on end results but often does not.
- Higher education receives funds from various sources: state appropriations, tuition, federal aid, grants, and private donors.
- Different funding approaches produce different results, and each player (student, institution, state) has different needs.
- Funding policies should be tailored to each state's specific needs and goals. For example, a state with relatively few college graduates and high poverty requires policies different from relatively affluent states with well-educated populations.
- How higher education is governed is one factor that determines how well policies for tuition, appropriations and aid are integrated.
- Who makes decisions about tuition, appropriations, and financial aid shapes the decisions themselves.
- A set of goals, beliefs and reasonable assumptions should drive decisions.

Source:

Policies in Sync: Appropriations, Tuition, and Financial Aid for Higher Education (April 2003), available online at http://www.wiche.edu/Policy/Changing_Direction/documents/PoliciesInSync.pdf

► MERIT AID ON THE RISE

The share of total aid provided by colleges and states that goes to merit aid for academically gifted students is rising. An extreme case is Georgia, which has distributed more than \$3 billion in HOPE scholarships based on academic merit since their creation in the early 1990s. The policy has increased the gap in enrollment in the system between affluent and non-affluent students and between white and non-white students.⁷ Legislators and campus officials may argue that low-income students can start off in lower-cost community colleges. But such a response lets universities shirk their role in educating qualified students whose parents' taxes help support them. Also, there is mounting evidence that starting one's education in a community college reduces the likelihood of attaining a bachelor's degree.⁸

Experts such as Jones and Longanecker say improving college graduation rates requires greater integration of decisions about appropriations, tuition, aid and the use of institutional funds. Longanecker's organization, known in the acronym-friendly world of higher education as WICHE (pronounced wi-chee), examined this issue closely in a policy analysis project called "Changing Direction: Integrating Higher Education



Financial Aid and Financing Policy,” a project funded by Lumina Foundation for Education. (Lumina Foundation also is the sponsor of this publication.) They came up with the acronym “ATFA” to refer to the fact that legislators should consider all three of these elements – appropriations, tuition and financial aid – simultaneously. “If you’re interested in access and quality and success, those three all work together,” Longanecker said. “If you provide good access with low tuition and high financial aid and the colleges don’t have enough money to supply a quality education, you’ve provided a false promise.”

The project concluded that colleges and legislatures have to shift their priorities if they are going to increase the enrollment of low-income and minority students.⁹ They can do this by:

- **Making college affordable.** The cost of college must be viewed from the perspective of a student’s ability to pay (after subtracting financial aid) relative to their personal or family income. One source for monitoring this is the series of reports called “Measuring Up” issued by the National Center for Public Policy and Higher Education. The latest report is dated December 2008.
- **Improving quality.** Attending low-tuition colleges means little to students if they are not able to graduate in a timely fashion or with skills that enable them to attain higher paying jobs. To support quality, financing needs to be stable and predictable.
- **Expanding access.** Higher education funding should create financial incentives to encourage four-year colleges to admit lower-income students and make sure they graduate. For example, states could base a portion of the college’s funding on the graduation rate for low-income students or could augment the college’s budget based on how many low-income students are enrolled each year.
- **Coordinating federal and state aid.** If tuition rates are too low, or tuition is waived, students may no longer be eligible for federal Pell Grants, which means the state is leaving federal money on the table that could go for improving quality and expanding access.

A few states are taking tentative steps in this direction.

Last year, Oregon replaced its basic state grant program based on financial need with the Oregon Opportunity Grant Program, which stresses shared responsibility for

paying for college. The student, his or her family, the federal government, and the state (in that order) all share the burden. Starting this school year, Oregon colleges and universities will discount low-in-

come students’ tuition by \$1,750; the state will contribute funds toward tuition; and the student will pay the rest of the bill with a Pell Grant, loans, and earnings from a part-time job. The program will increase total state aid to low-income students from \$20 million to \$75 million and has already produced a 17 percent enrollment increase.

More widespread changes, however, will require legislators to adopt a different mindset, policy analysts say. Legislators often seem of two minds regarding tuition: They are comfortable shifting responsibility from the state to students in difficult times to generate needed revenue. But they will argue against tuition increases necessary to sustain sufficient revenue in better times. Financial aid is typically an afterthought. Institutional aid – and whether it is being used mainly to subsidize low-income students or to attract academically gifted affluent students – is not adequately monitored. Nor do lawmakers fully understand how capital projects and restricted fund-raising activities shift the attention of universities away from improving the overall quality of instruction.

► LOOKING OUT FOR THEIR OWN

Parochialism also is a factor in funding decisions. Legislators like to look after the campuses in their own backyard – by earmarking state money for capital improvement projects, for example – without adequately considering the needs of the entire system.

“It’s difficult for the Legislature to put those pieces together,” said Stan Jones, a former Indiana legislator who is the state’s commissioner for higher education. “The other thing is that higher education is the fifth or sixth thing they worry about. The philosophy [of reforming higher education

| continued on p. 9

HIGHER EDUCATION FINANCING: WHAT COLLEGE PRESIDENTS SAY

MARK YUDOF, PRESIDENT, UNIVERSITY OF CALIFORNIA

The Legislature did a magnificent job of protecting us this year [2008] by keeping our budget essentially flat, but I’m very worried now. I wish I could worry about the latest breakthrough in evolutionary psychology, but mostly it’s the finances and budgets occupying my time. If we have a prolonged or deep recession and tax collections go down, we’ll be hurt.”



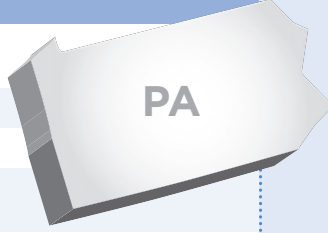
College Tuition and Financial Aid:

Who decides on tuition at public universities and colleges in your state? The legislature? A higher education commission? The campuses? Is there enough financial aid to make college affordable for low- and moderate-income families? Are tuition and state appropriations high enough to cover the cost of a quality education? The answers to these questions will vary by

state. Reporters can find out about the policies in their state from a survey conducted every three years by the State Higher Education Executive Officers group.¹ Another source is an annual survey of state student aid programs conducted by the National Association of State Student Grant and Aid Programs.² A good source of state-by-state data on all aspects of higher education

High Tuition, High Aid **Example: Pennsylvania**


Tuition is relatively high to maintain high quality and access to a comprehensive education. Student aid packages are high enough to make college relatively affordable.

State aid based on financial need as percentage of federal aid:	83%³	} Community college: ... 40% Four-year public university: ... 59%	
Change in state grant aid, 2002–2007:	+39%		
Average share of income needed by low- and moderate-income families to pay the net cost of attending a:			
Change in the percentage of a low-income family's budget to attend a four-year college, 1992–2007:		+28 percentile points	
Average annual borrowing by undergraduates (2006 data):		\$3,827 ... +28% 1992–2006	

States that adhere to this model:
Connecticut, Indiana, Kentucky, Massachusetts, New Jersey, New York, Oregon, South Carolina, Tennessee, Virginia, West Virginia.

High Tuition, Low Aid **Example: Missouri**

Tuition is relatively high to maintain quality. Aid is low, meaning that students bear a larger portion of the cost. Access and affordability suffer.

State aid based on financial need as percentage of federal aid:	10%	} Community college: ... 34% Four-year public university: ... 46%	
Change in state grant aid, 2002–2007:	+37.5%		
Average share of income needed by low- and moderate-income families to pay the net cost of attending a:			
Change in the percentage of a low-income family's budget to attend a four-year college, 1992–2007:		+15 percentile points	
Average annual borrowing by undergraduates (2006 data):		\$3,407 ... +14% 1992–2006	

States that adhere to this model: Alaska, Alabama, Colorado, Delaware, Iowa, Maine, Maryland, Michigan, Minnesota, Montana, Nebraska, New Hampshire, North Dakota, Ohio, Rhode Island, Vermont.

When Tuition Can't Keep Up, Cutbacks Are Sure to Follow

IN AN ECONOMIC DOWNTURN, COLLEGE PRESIDENTS MAKE TOUGH CHOICES THAT MERIT SCRUTINY.

By Liz Willen

In tough economic times, college presidents halt everything from hiring to major construction projects. That's why the hands of college presidents rose nearly in unison at a New York press dinner in fall 2008 when asked if the credit crisis on Wall Street would strain finances.

What would they cut? Some presidents would eliminate existing academic programs, others would

freeze hiring and defer campus maintenance projects. The answers provided a window into where reporters should look to see how reductions in state appropriations (or a decline in the value of endowments) will affect operations in a downturn.

William E. "Brit" Kirwan, chancellor of the University System of Maryland, said reporters should



States' Policies Follow a Pattern

is the “Measuring Up” report from the National Center for Public Policy in Higher Education. The newest report is dated December 2008.

Policy analysts have identified four different patterns of state tuition and financial aid policies. Each model affects accessibility, affordability and quality differently.

¹ Accessible at <http://dev.sheeo.org/finance/tuitsurv-home.htm>

² Accessible at <http://nassgap.org/viewrepository.aspx?categoryID=3>

³ Meaning that, on average, students receive 83 cents of state aid for every dollar of federal aid. Most of the data in this table is from the 2006 “Measuring Up” report from the National Center for Public Policy for Higher Education. <http://measuringup.highereducation.org/>

Low Tuition, High Aid

Example: Nevada

Access and affordability are the main goals of tuition and aid policy. But costs to taxpayers may be unsustainable in an economic recession, leading to tuition hikes and a drop in affordability.

State aid based on financial need as percentage of federal aid:	24%
Change in state grant aid, 2002–2007:	+96.9%
Average share of income needed by low- and moderate-income families to pay the net cost of attending a: } Community college: 41%	
Four-year public university: 43%	
Change in the percentage of a low-income family’s budget to attend a four-year college:	NA
Average annual borrowing by undergraduates (2006 data): \$3,671	+28.5% 1992–2006

States that adhere to this model: Florida, Georgia, Illinois, Louisiana, New Mexico, Oklahoma.



Low Tuition, Low Aid

Example: California

Ensuring affordability and access is the primary goal. But quality can suffer because colleges cannot generate enough revenue to provide basic classes students need.

State aid based on financial need as percentage of federal aid:	53%
Change in state grant aid, 2002–2007:	+48.4%
Average share of income needed by low- and moderate-income families to pay the net cost of attending a: } Community college: 41%	
Four-year public university: 51%	
Change in the percentage of a low-income family’s budget to attend a four-year college:	NA
Average annual borrowing by undergraduates (2006 data): \$4,089	+25% 1992–2006

States that adhere to this model: Arkansas, Hawaii, Idaho, Kansas, Mississippi, North Carolina, Texas, Utah, Wyoming.



ask colleges about what they’re doing to become more efficient. “How are they using technology and online education to lower costs? What are they doing to create administrative efficiencies? Are they entering into purchasing consortia to save money?”

Kirwan found ways to educate 6 percent more students while cutting operating costs by 3 percent, saving \$38 million in 2007 alone. He said an increasingly skeptical public wants – and deserves – answers from its public colleges about their spending. “We tend to ask for more and more money, and we aren’t as good at finding out ways to pare back and streamline,” Kirwan said. “Higher education needs to be more cost conscious in our delivery.”

One predictable response to tough economic conditions is tuition increases. Gabriel E. Kaplan, a professor at the University of Colorado, conducted case studies of how eight states reacted to reductions in revenues. Tuition increases were the most common response of public colleges.¹ Kaplan also found that institutions favored short-term cuts in spending instead of thoroughly examining priorities and reorganizing the institution accordingly; they favored temporary fixes such as freezing hiring and salaries rather than permanent moves such as layoffs or shutting down programs. Colleges in the states studied – Colorado, Massachusetts, Missouri, Nebraska, Oregon, Virginia, Washington and Wisconsin – tended to postpone | *continued on p. 12*

Case Study: How Finance Reform Can Go Awry

OKLAHOMA WANTED TO INCREASE COLLEGE ENROLLMENTS AND GRADUATION, BUT TUITION HIKES INTERVENED.

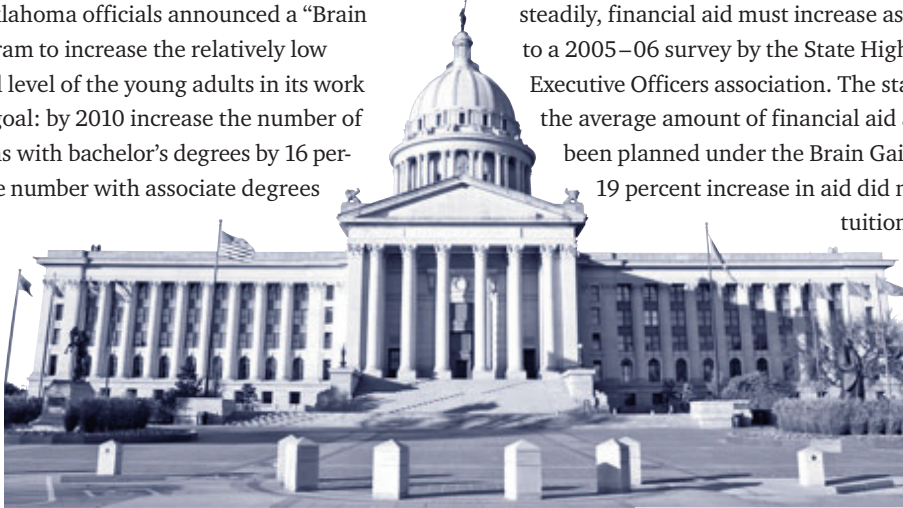
By RiShawn Biddle

In 1999, Oklahoma officials announced a “Brain Gain” program to increase the relatively low educational level of the young adults in its work force. The goal: by 2010 increase the number of Oklahomans with bachelor’s degrees by 16 percent and the number with associate degrees by 41 percent. To do that, more of the state’s young people had to enroll and graduate. And for that to happen, state officials recognized, college had to become more affordable.

With two years left in its decade-long effort, the results are mixed. True, more degrees are being awarded. Oklahoma colleges conferred 17 percent more baccalaureate degrees in 2006 than in 2000. Associate degrees are up 26 percent. But the percentage of 25- to 34-year-olds with an associate degree or higher has inched up only 1 percentage point, to 30 percent, according to the U.S. Census Bureau. Among traditional college-age residents, the story is worse. In 2005, the percentage of the state’s 18- to 24-year-olds enrolled in college was 28 percent, down from 32 percent six years earlier.

Oklahoma is a relatively poor state: 13 percent of its families live below the poverty line, according to the U.S. Census Bureau. So, affordability is the key to college attainment.

The state recognizes that “as tuition is increasing



Oklahoma Capitol. Photo credits page 12.



Bizzell Library, University of Oklahoma. Photo credits page 12.

steadily, financial aid must increase as well,” according to a 2005–06 survey by the State Higher Education Executive Officers association. The state did increase the average amount of financial aid awarded, as had been planned under the Brain Gain effort. But the 19 percent increase in aid did not keep up with tuition, which rose four times as fast for both the community colleges and the four-year universities.

The cost of attending a four-year college in Oklahoma consumed 51 percent of an average low-income family’s budget in 2006, compared to 38 percent five years earlier (after accounting for aid). The percentage of an average poor family’s budget needed to pay for community college rose from 38 percent to 49 percent during that period.

Why hasn’t the state met its goal? One reason is that the state Legislature has little power to impose its priorities on the state’s public colleges and universities. A 1941 amendment to the Oklahoma Constitution requires the Legislature to appropriate money for higher education in a lump sum. That money is divided among university and community college campuses by the Oklahoma State Regents for Higher Education, a nine-member board appointed by the governor for nine-year terms.

“If we put something into a bill that the regents didn’t want, they wouldn’t do it,” says Randy Dowell, a fiscal analyst for the Oklahoma Senate Appropriations Committee. “It’s just not something that we do here.”

Even after the 1941 amendment, the Legislature retained the power to set tuition. In 2001, however, the Legislature handed that authority over to the regents. The Legislature also passed a law to allow the regents to increase in-state undergraduate tuition by as much as 7 percent annually for five years. Two years later, the Legislature allowed the regents to increase tuition to the average charged by other universities in the Big Twelve Conference. This spurred a series of tuition hikes that the Legislature couldn’t afford to offset | *continued on p. 10*



Finance *continued from p. 5* | funding] goes out the window if you can't deal with the politics.”

Other decision-makers often are unwilling or unable to step into the leadership vacuum. Governors, for example, rarely get into the details, although they may set aside money for specific purposes – such as improving teacher training, math and science education or work force development. Most governors have advisers on K–12 issues but few have advisers on higher education. One governor who has gotten involved is Gov. Ted Strickland of Ohio, who persuaded the Legislature to let him appoint a chancellor for the state's higher education system who would be a member of the governor's cabinet. Another example can be found in Indiana, where in April 2008 Gov. Mitch Daniels put forth a tuition-assistance proposal that would provide about \$6,000 to all Indiana college students from families with incomes of \$55,000 or less, essentially covering the cost of a community college education plus a year at a four-year institution.

Amy Supinger, a consultant to the California Assembly's Budget Committee, and Steve Boilard of the state's Legislative Analysts Office, have observed the Golden State's disjointed decision-making firsthand. Seven billion dollars a year is distributed to the University of California, and California state and community college systems without a comprehensive funding formula or strategy. The state's Cal Grants student-aid program for low-income students is an afterthought. The state sets the tuition for the community colleges – the lowest in the nation. Colleges are required to waive even that minimal amount for low-income students. Although the California Postsecondary Education Commission oversees higher education policy, it cannot enforce its decisions, and the various campuses tend to ignore it.

“We normally walk away flummoxed. Everything costs money. So we tend not to do anything,” said Supinger. She has these suggestions for journalists:

- **Ask about priorities:** A budget is a statement of priorities for how to use scarce resources. Ask the key

legislators what priorities are expressed in the appropriations for higher education. Said Supinger: “If they

don't answer the question, it's telling.”

- **Learn about expectations:**

Do legislators have expectations for how universities should spend money appropriated to them? What are they? How are they communicated? Can they be enforced?

- **Ask the right questions:** Reporting the percentage cut in state appropriations does little to explain how colleges and students will be affected. Some other facts to report: Will enrollments be limited? How much will tuition, fees, room and board increase? Will student aid be increased? How much is the state spending on campus capital projects? How will the decisions affect how much federal aid students receive?

- **Get past the chatter:** University leaders often suggest that funding cuts will make it harder to admit low-income and minority students, who are more likely to need financial aid. They also claim that they will have to lay off faculty members if appropriations are cut. But are these statements true?

- **Look at the facts:** What is the proportion of low-income and minority students admitted to your state's four-year colleges? Are they receiving tuition waivers and grants? Are they getting the most federal money they could? Are they graduating? Are they burdened by huge loans when they finish? Colleges should be able to provide breakdowns.

All of this creates dilemmas for college officials. Take the experience of Keith Bird, the chancellor of the Kentucky Community and Technical College System. Bird is expected to keep his colleges affordable while increasing enrollments and transfers to the University of Kentucky. At the same time, he is expected to aid local companies by offering more work force training. In June 2008, KCTCS launched 33 new work force-related courses – including an associate degree

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HIGHER EDUCATION FINANCING: WHAT COLLEGE PRESIDENTS SAY

**LOIS DEFLEUR, PRESIDENT,
STATE UNIVERSITY OF NEW YORK,
BINGHAMTON**



Both in good times and difficult times, decisions are not in our hands and we don't have flexibility. We are a state agency. Tuition and fees are the largest source of revenue, and the last time tuition was raised was five years ago. I can't simply make a decision to raise tuition. Our priority has to be first and foremost to educate the students. We are trying to bring in as much revenue as possible through cooperative purchasing and new entrepreneurial activities, but there are tough times ahead. We don't have a huge endowment and the yield on our endowment is down, so we are going to have a lot of challenges.”

Finance *continued from p. 9* | program in mining technology – funded by state grants or private support.

But the Kentucky system doesn't have enough money to provide the remedial and basic college courses that low-income and minority students need. Last year, KCTCS cut general fund spending by \$6.8 million to help the state close a \$434 million budget deficit. The state wanted to impose another 12 percent cut this year. Educators managed to persuade the Legislature to provide a 2 percent increase. But it wasn't enough to cover increased costs.

The state's Council on Postsecondary Education, which must approve tuition, gave Bird only half the 18 percent increase he requested. "One of our board members said, 'Well, it's just a community college,'" Bird recalled. In June, the system eliminated 140 full-time and adjunct professorships and slashed its course offerings. One set of legislative decisions encouraged Bird to expand the system's work force training efforts, which generate income. Another forced him to cut core programs that do not generate income. This helps explain why transfers from the system's campuses to four-year colleges increased by only 11 percent between 1997–98 and 2006–07.

On the flipside is a six-year effort by the University of Hawaii to double tuition charges while expanding access and maintaining affordability. The 10-campus system is creating courses that will generate credits that will transfer to four-year campuses. At the same time, Hawaii is quintupling the amount of aid given based on financial need and hiring more financial-aid counselors. Policy experts say Hawaii made a good move by actually eliminating the tuition waivers that were given to nearly 40 percent of students. The state replaced the waivers with a student financial aid pro-

gram, with the result that far more students now are receiving federal aid.

Neither the story in Kentucky nor in Hawaii is easy to tell in 12 inches or 90 seconds on the evening news or a blog entry. It's far simpler to report the percentage reduction in the state higher-education appropriation and the negative reaction of educators and college administrators. But connecting fiscal decisions to public policy goals, as well as demographic and economic trends, will yield stories of far greater depth and importance. Such stories will help explain what is now largely an opaque process. That's what journalists should aspire to do. ■■

¹ Cheryl D. Blanco, Dennis P. Jones, David Longanecker and Demaree K. Michelau, "Thinking Outside the Box: Policy Strategies for Readiness, Access, and Success" (Western Interstate Commission for Higher Education, March 2007).

² Angela Boatman and Hans L'Orange, "State Tuition, Fees, and Financial Aid Policies 2005-2006" (State Higher Education Executive Officers, November 2006), <http://dev.sheeo.org/finance/tuitsurv-home.htm>.

³ More information is available from the National Association of State Student Grant and Aid Programs at www.nassgap.org.

⁴ Dennis P. Jones, introduction to "Thinking Outside the Box."

⁵ Accessible from the Organisation for Economic Co-operation and Development at http://www.oecd.org/document/9/0,3343,en_2649_39263238_41266761_1_1_1_1,00.html#1.

⁶ The 2006 "Measuring Up" report from the National Center for Public Policy in Higher Education is available at <http://measuringup.highereducation.org/nationalpicture/>.

⁷ Susan Dynarski, "Hope for Whom? Financial Aid for the Middle Class and Its Impact on College Attendance," *National Tax Journal* 53, No. 3 (2000), <http://www.nber.org/papers/w7756.pdf>.

⁸ Bridget Terry Long and Michael Kurlander, "Do Community Colleges Provide a Viable Pathway to a Baccalaureate Degree?" (National Bureau of Economic Research, September 2008), <http://papers.nber.org/papers/w14367>

⁹ Dennis P. Jones, "Financing in Sync: Aligning Fiscal Policy With State Objectives" (Western Interstate Commission for Higher Education, April 2003).

Case Study *continued from p. 8* | through appropriations. In 2004, for example, the Legislature increased institutional aid by 4 percent in order to stave off an increase in tuition; the regents boosted tuition charges anyway at many of its campuses, including a 28 percent increase at the University of Oklahoma.

Two years later, amid complaints from families about the hikes, the Legislature passed a bill to reclaim its tuition-setting powers. But Gov. Brad Henry vetoed the bill, arguing that a nonpartisan body should make tuition decisions.

As a result, the Legislature's decisions about appropriations and aid are disconnected from decisions

about tuition. Oklahoma colleges have become more dependent on tuition than ever. Between 2001 and 2008, state aid as a percentage of university revenues declined from 62 percent to 50 percent, according to the regents; the share of revenues from tuition rose from 24 percent to 37 percent.

The Western Interstate Commission for Higher Education praised the Oklahoma regents in a 2008 report for pushing for increased student aid and stable college funding. But WICHE also noted that legislative leaders had to deal comprehensively with issues of access, affordability and quality. That would require a change in the state's constitution. ■■



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WEB SITES

College Board

<http://www.collegeboard.com>

Education Commission of the States

<http://www.ecs.org>

Grapevine: An Annual Compilation of Data on
State Appropriations for the General Operation
of Higher Education
<http://www.grapevine.ilstu.edu>

Institute for Higher Education Policy

<http://www.ihep.org>

National Association of College and University
Business Officers
<http://www.nacubo.org>

National Association of State Budget Officers

<http://www.nasbo.org>

National Association of
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<http://www.nassgap.org>

National Center for Public Policy and
Higher Education
<http://www.highereducation.org>

National Conference of
State Legislatures
<http://www.ncsl.org>

National Governors Association
<http://www.nga.org>

NCHEMS Information Center for
State Higher Education
Policymaking and Analysis
<http://www.higheredinfo.org>

Rockefeller Institute of Government
<http://www.rockinst.org>

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<http://www.sheeo.org>

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Cuts *continued from p. 7* | faculty searches, keep positions vacant longer, and hire less-expensive adjunct professors temporarily.

Parents and students often respond angrily to tuition increases. Those reactions are newsworthy, of course. But it's also important to find out what a college has done to cut costs, if anything, before deciding to raise tuition. Has quality suffered? What data was used to identify potential savings? Is the elimination of courses or course sections making it harder to graduate in four or five years? Were the cuts based on strategy?

"Often, cuts are silent cuts managed at the campus level by a department chair, dean, provost or president," said Mark Yudof, president of the 10-campus University of California. Yudof anticipates all of the campuses will be looking for savings for 2009–2010, if not earlier.

Some college leaders have developed a strategy for reducing expenditures, in case it became necessary. Northern Kentucky University President James Votruba, for example, scrutinized every course and program offered on the campus of 15,300 in anticipation of a downturn.


"I've asked my staff, 'Is everything we are now supporting and investing in more important than what we will need to invest in?' The answer is always 'No,' and that is what guides us," said Votruba. "The work that is done when there isn't a financial crisis is the work to prepare for one."

Public universities usually have less flexibility to move money between budget lines than do private schools, said John Bassett, president of Clark University in Worcester, Mass. Bassett chaired a National Association of Independent Colleges and Universities task force that

called for greater transparency in college costs.

Some costs, such as the salaries of tenured faculty, debt payments and wages determined by union contracts, are difficult to scale back. That's why colleges look for savings in smaller buckets: restrictions on supplies, travel and strategic investments, he said.

Within the Kentucky Community and Technical College System, enrollment data and the popularity of programs drive Chancellor Keith Bird's decisions on what will be eliminated in tough times.

"We have to focus on new areas that will bring in revenue for the future and help free us from dependence on state revenue and tuition increases," he said. At the State University of New York's 15,000-student Binghamton campus, President Lois B. DeFleur said she is examining every single vacant position before deciding to fill it and instituting a temporary hiring freeze. "We are delaying large purchases such as equipment," she said. "We will not be doing as much maintenance. We had some new programs we were trying to mount and now we can't. What I tell everyone is these reductions impact our ability to make progress." 

¹ Gabriel Kaplan, "State Fiscal Crises and Cuts in Higher Education: The Implications for Access, Institutional Performance, and Strategic Reengineering" (September 2006), available online at http://www.wiche.edu/policy/ford/Kaplan_paper.pdf.

LUMINA FOUNDATION and WICHE

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