

**POLICY DISCUSSION SUMMARY**  
Higher Education Finance: Trends and Issues  
September 14, 2009

Council Members Present: Bob Ashby, Gilbert Bland, Whittington Clement, James Dyke, Mary Haddad, Christine Milliken, G. Gilmer Minor, Katharine Webb, and Alan Wurtzel

Speakers: Paul Lingenfelter, President of the State Higher Education Executive Officers (SHEEO) organization; Julie Davis Bell, Education Program Director for the National Conference of State Legislatures (NCSL) and Vincent Badolato, Education Policy Specialist, NCSL (via video conference); and Robert Shireman, Deputy Under Secretary for Postsecondary Education, U.S. Department of Education (via video conference)

SCHEV Executive Director Dan LaVista introduced the speakers and offered that the perspective of each would further the Council's understanding of the challenges higher education is facing, as well as the emerging strategies other states may employ for future funding of public higher education.

Mr. Shireman spoke about the Obama Administration's interest in increasing postsecondary degrees – liberal arts and sciences, occupational, and applied degrees – by 2020. To achieve this goal, action at all levels of education will be required. Improving completion rates is the biggest gap currently, and the Administration has an agenda that involves early childhood education to build networks and world class standards to better prepare students and to improve teaching and data systems.

Because federal financial aid programs are mostly entitlement programs, states' interests are best served by ensuring that all students who can benefit do participate in these programs. Anyone who is determined to be eligible is entitled to the aid. The American Opportunity Tax Credit would provide as much as a \$2500 reduction in federal taxes, and the Administration would like to ensure that as many eligible citizens as possible are taking advantage of this program.

The Administration is working with Congress to bolster the federal Pell grant, mostly to students below \$40,000-50,000 family income. A common misperception is that Pell grants are not available to part-time students.

Mr. Shireman emphasized that many upper-middle-income families do not think that they are eligible for financial aid. Any student can receive a student loan, but federally-guaranteed loan programs are better than private loans because the government loans have a fixed interest rate and provide a form of insurance in cases of disability. The government loan programs also provide income based repayment to help students who take out loans and cannot find jobs at expected salary levels after graduation.

A bill is being proposed in Congress that seeks to make federal loans directly rather than guaranteeing them through banks. The result would help save federal tax dollars that

could be reinvested in higher education and bolster Pell grants to increase them at rates higher than the rate of inflation. (This bill was to be discussed on the House floor later that week.)

Mr. Shireman said that the legislation would make \$40 billion available to states on a competitive basis for innovation around student persistence and completion. In the coming months if Congress moves forward, institutions could try new ways to improve remedial education. It would allow for flexibility in the kinds of programs that could be used to help improve student retention – student support services, etc. As a result, opportunities would be provided to encourage creativity during these difficult times of state funding. Some of the funds would be aimed at community colleges for their role in student transfer as well as workforce development.

From an accountability and transparency standpoint, the federal government, the 50 state governments, and the “ranking” magazines should look at student debt issues to avoid putting students in situations where they need to take out more loans than for they are approvable or are available to them.

Mr. Lingenfelter began by addressing the importance of global competitiveness, noting that by 2018, a full 63% of all U.S. jobs will require postsecondary education or training.

In addressing the question of whether states can adequately support higher education, Mr. Lingenfelter said that while state support declines in a recession, states have experienced more volatility recently. Every state should look at its capacity and its per-capita tax revenue. Virginia is richer than the national average in terms of taxable resources per capita, but problems remain due to structural deficits driven by Medicaid, the aging of the population, and a tax structure that continues to tax goods over services in an increasingly service-based economy. He claimed that if states were to reallocate just 1% of state resources to higher education (in Virginia, that would mean an 11.8% increase), many of states’ higher education funding problems would be solved.

Mr. Lingenfelter also addressed trends in state financial aid, acknowledging a substantial increase from 2005 to 2008. He briefly discussed the Oklahoma Promise program, which provides full tuition at a public institution (and an equivalent amount at a private institution) in Oklahoma if a secondary-school student meets certain income eligibility requirements, maintains a certain grade point average, takes college prep courses, and “stays out of trouble.” The record of achievement for those students is better than students who are not in the program.

Mr. Lingenfelter talked about the path toward greater productivity and indicated a need for state-level simplicity and efficiency to increase college completion rates. He listed seven important steps in the path toward greater productivity:

- Improving preparation in K-12
- Focusing sharply on priorities to guide reallocation – do less with more
- Reducing the leaks in the educational pipeline

- Redesigning the delivery system to make better use of technology
- Recognizing un-credentialed learning to accelerate degree completion
- Re-engaging adults with some college but no degree
- Changing policies that delay or add unnecessary cost to degree completion

Julie Davis Bell and Vincent Badolato from the National Conference of State Legislatures (NCSL) explained the NCSL's role and mission. NCSL is a membership organization for all state legislatures, and its mission is to promote legislatures' effectiveness.

Dr. Bell indicated that higher education is funded with the times, i.e., when the economy is good, funding goes up; when the economy is bad, funding goes down. She said that a bipartisan group of legislators was assembled to study trends in higher education and focus on what legislators have done to exacerbate problems and what can be done to get improve the situation. Senator Chichester was a member of that national commission.

Dr. Bell asserted that clearer understandings of public higher education's goals and outcomes should be provided to state legislatures. She contended that states must better link appropriations, tuition, and financial aid policy for the best results. Performance funding was discussed, with Dr. Bell indicating that approximately 12 states are pursuing this model at various levels or to various degrees, the most extensive of which include Ohio, Indiana, and Texas.

The speakers offered some discussion of the potential privatization of public higher education. Dr. Bell offered that, while a need exists to balance increased autonomy with accountability; she did not feel that privatization was the answer. She indicated that discussions have begun with private institutions as well as for-profit institutions, technology-based institutions, and community colleges to determine what each of these sectors can bring to the table to help balance increased success with no new funding.

Mr. Badolato then addressed tuition issues and said short-term reliance on out-of-state tuition should not be a solution to solving fundamental problems of access for students. He spoke of various tuition models in different states, including:

- Tiered tuition (sets tuition based on the program)
- Tuition freezes (instituted in Maryland to offset the price of going to college but lowers revenue for institutions)
- Increased charges for upper division courses and high demand programs (medicine, law)
- Cutting enrollments rather than raising tuition (California). A better approach would be to build reserves by raising tuition and offering more financial aid.

Mr. Badolato discussed trends in online education and its potential effects on institutional budgets. He indicated that it is unusual for a student to take an entire curriculum online. While online instruction has a high start-up cost, if it is good, it can pay for itself over time. Tennessee uses computers and coaching to help students succeed in remedial

education. The Virginia Tech math emporium was also mentioned as a very successful model.

The speakers also offered some discussion of public higher education governance, identifying a critical need for governing boards to pay attention to the public vision. While coordinating boards typically lack power, the Governor and the legislature could give coordinating boards enough leverage to recommend and implement public policy.

Student completion was also discussed; it was mentioned that no negative consequences – and therefore no institutional incentives – currently exist for institutions to increase course completions. Perhaps a change should be made in the way in which completed courses are counted. It was suggested that such changes cannot work by applying a formula. Instead, a sharing of power and common purpose is needed.

The final recommendation from the speakers was that policy decisions should be made “in synch” (appropriation, tuition and financial aid) and that trends, including tuition trends, should be explored.