

Higher Education Finance Policy Discussion: State Council of Higher Education for Virginia



NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas



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Presentation Overview

- State financial situation and future ability to fund higher education.
- Predominant state funding models.
- Legislative trends in higher ed funding.





National Conference of State Legislatures

- Bipartisan membership organization for the 50 state legislatures (and territories).
- Promotes the effectiveness of state legislatures.
- Provides information and professional development for legislators and staff.
- Advocates for state authority before the federal government.





Current State Financial Situation

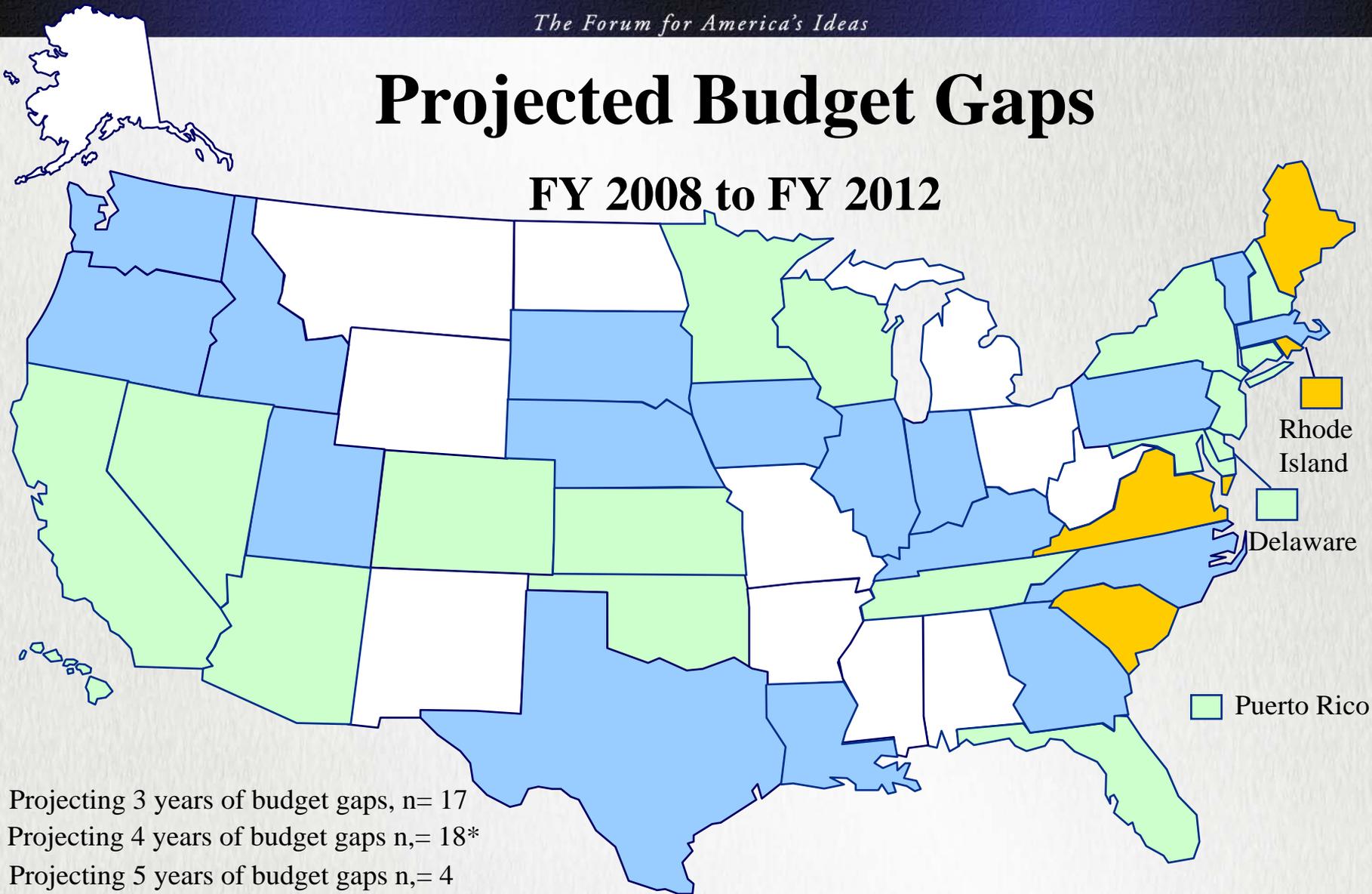
- The state fiscal situation is growing increasingly dire.
- The current revenue situation is nearly unprecedented, at least in recent decades.
- To date, states have reported a total estimated budget gap of \$348.3 billion (FY 2008 through FY 2012).
- States are bracing for prolonged fiscal problems.





Projected Budget Gaps

FY 2008 to FY 2012



- Projecting 3 years of budget gaps, n= 17
- Projecting 4 years of budget gaps n,= 18*
- Projecting 5 years of budget gaps n,= 4

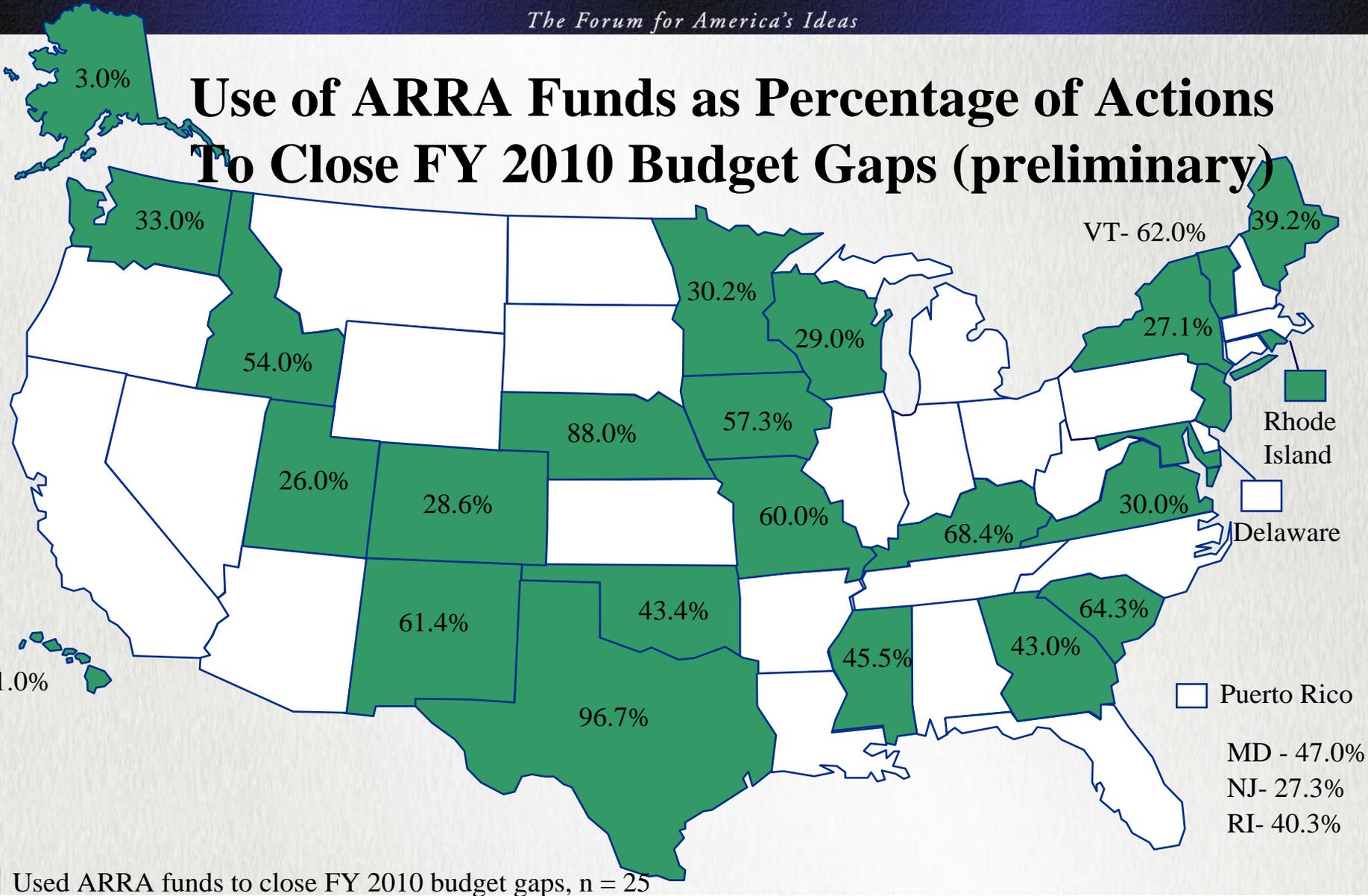
Source: NCSL survey of state legislative fiscal offices, various years.

*Includes Puerto Rico





Use of ARRA Funds as Percentage of Actions To Close FY 2010 Budget Gaps (preliminary)





Economic Projections

- The states are facing a "cliff" once ARRA funding ends.
- State governments will face severe budgetary problems at least 12-24 months after the US recession ends.
- Lawmakers' endurance to resolve massive budget gaps will be tested in the coming years.





State Budget Impacts on Higher Education

- Higher education represents 10.5% of state expenditures nationally in FY08.
- Other priorities (K-12, healthcare, public safety) crowding out higher education.
- Traditionally the "balance wheel" of state budgets.
- FY09 cuts to higher education almost universal; many states double digits (tuition hikes and ARRA as backfill).
- More cuts to higher education likely in FY10 and beyond.





Predominant State Funding Models

- **Base Plus**
 - Prior year's funding is starting point with COLA and enrollment adjustments; incremental funding decisions.
- **Formulas**
 - Based on variety of factors: enrollments, facilities, tuition and fees.
- **Performance-Based**
 - A portion (usually 5-20%) of funds linked to desirable outcomes: students graduated, underrepresented students served, etc.
- **Vouchers (Colorado)**
 - State money directed to students - rather than institutions - to be used to pay for in-state higher education.





NCSL's Blue Ribbon Commission on Higher Education

- To study the trends and issues in state higher education, especially impacting access and cost and to make recommendations about legislative roles and responsibilities.
- To enhance the dialogue among state legislators on the "big picture" issues regarding appropriations, tuition, and financial aid and the impact of legislative decisions on college affordability and access.
- To offer recommendations about the roles and responsibilities of state legislators (and the roles and responsibilities of the state and federal government) in higher education reform.





NCSL Blue Ribbon Commission: Legislator Roles and Responsibilities

- Budgets and Appropriations
- Goals and Expectations for Higher Education
- Higher Education as a Legislative Priority
- Legislative Leadership





NCSL Blue Ribbon Commission Recommendations

- Budgets and Appropriations
 - Budgeting for higher ed is too reactive to the economy
 - Higher ed is the balance wheel of state budgets
 - Budgeting is too incremental and institution-based
 - Legislatures haven't given higher ed clear signals
 - Funding is not based on state goals or priorities

- So... Legislators Need to Rethink Funding
 - Link appropriations, tuition and financial aid policy
 - Be results/performance oriented in funding
 - Focus on productivity





Performance-Based Funding

- Performance funding is a strategy for legislators to be more strategic about state higher ed funding. It links funding to outcomes.
- Performance funding 2.0:
 - Greater percent of budget devoted to performance
 - Different outcomes are rewarded
- 10-12 States Have some performance funding -- each system is different.
 - The most extensive new programs are:
 - Ohio
 - Indiana
 - Texas





Privatization of Higher Ed?

- A few states are having some conversations about the privatization of higher ed
 - Colorado
 - Arizona

- Other states are looking for trade-offs to increase autonomy and accountability
 - Virginia





Future Realities for Public Financing

- 2009 year of panic; 2010-11 must be years of strategic planning and investment.
- New conversations between states and institutions about the role of state support for higher education will lead to new funding/accountability models.
- Projected budget gaps + competing priorities = Declining state support for higher education into the future.
- Imperative that policies be made in sync to maximize investments
 - Maintain access (affordability) with focus on quality
 - Meet state and national goals





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Thank you!

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