

ED 365 236

HE 027 028

TITLE Higher Education Finance Issues: Briefing Paper. -
 INSTITUTION Washington State Higher Education Coordinating Board,
 Olympia.
 PUB DATE Dec 91
 NOTE 15p.; For related documents, see HE 027 027-033.
 PUB TYPE Reports - Evaluative/Feasibility (142)

EDRS PRICE MF01/PC01 Plus Postage.
 DESCRIPTORS Budgeting; Comparative Analysis; *Costs; *Educational
 Finance; Enrollment Trends; Fees; Financial Support;
 Guidelines; Higher Education; *Public Colleges;
 *State Aid; Student Financial Aid; Trend Analysis;
 *Tuition; *Undergraduate Study
 IDENTIFIERS *Washington

ABSTRACT

This document provides a review of the major trends affecting the financing of public higher education in the state of Washington and establishes a set of general principles that can be used in evaluating specific proposals potentially under consideration in the 1992 legislative session. Reported trends include findings that: (1) state support for higher education has declined relative to the total state budget and to other state functions; (2) state support per full-time equivalent student has increased over the past decade; (3) the costs of attending public institutions of higher education have increased continuously over the past 10 years; (4) resident undergraduate tuition and fee charges lag peer group averages in 1991-92 academic year; (5) since 1975-76, the number of needy students has increased both numerically and as a percentage of the total; and (6) the state is educating a smaller percentage of the adult population in 1991 than it did in 1981. An appendix provides statistical data on the relationship of Washington tuition and fee rates to peer groups for the 1991-92 academic year. (GLR)

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Briefing Paper:

Higher Education Finance Issues

NE 027 028

Higher Education Coordinating Board

December 1991

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I. Introduction

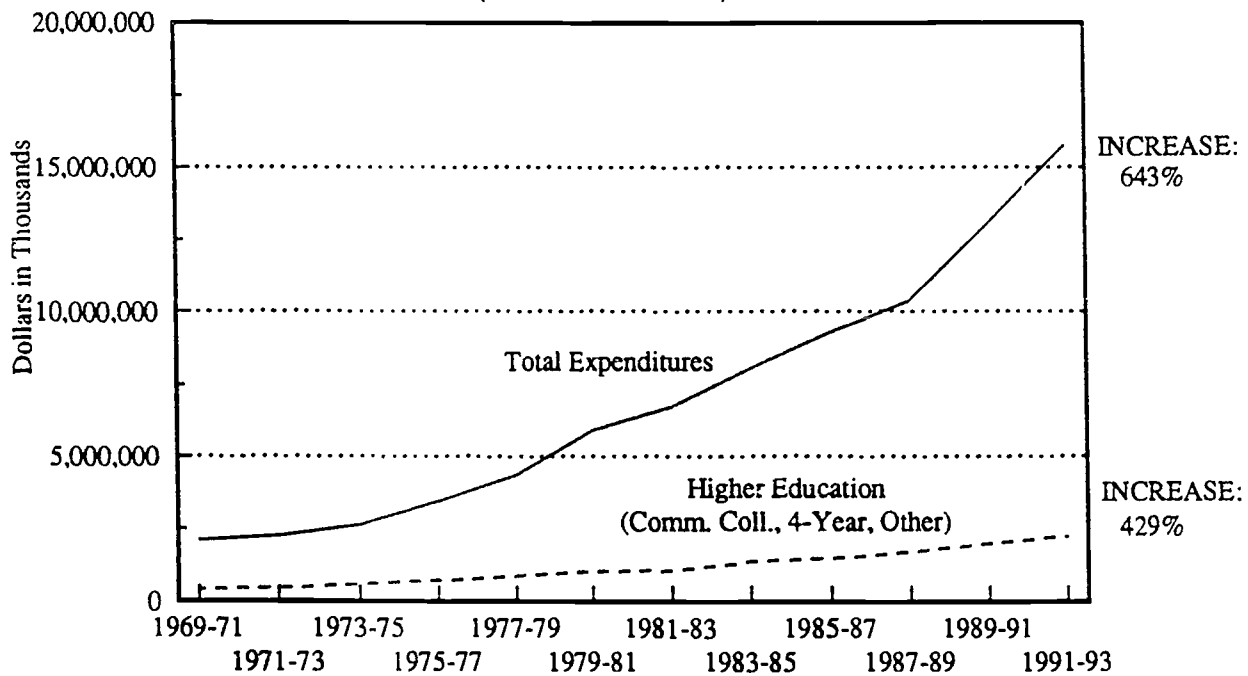
This document has two purposes: first, to review major trends affecting the financing of public higher education in Washington; and second, to establish a set of general principles that can be used to evaluate specific proposals that may be considered in the 1992 legislative session.

II. THE CONTEXT

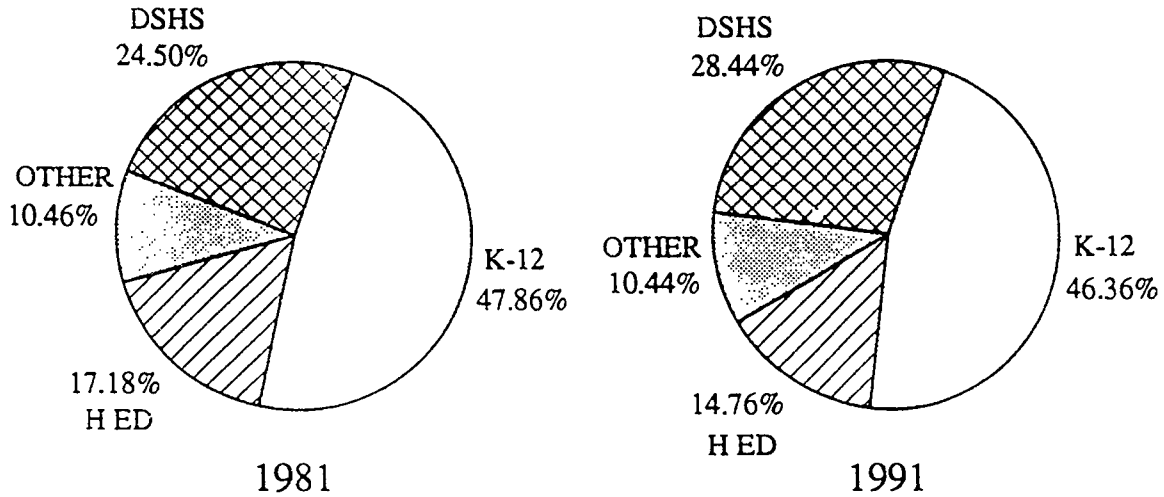
Major trends in higher education financing in the State of Washington are reflected in the following graphs and charts.

1. State support for higher education has declined relative to the total state budget and to other state functions.

A. GENERAL FUND-STATE EXPENDITURES
Total Compared to Higher Education
 (Dollars in Thousands)

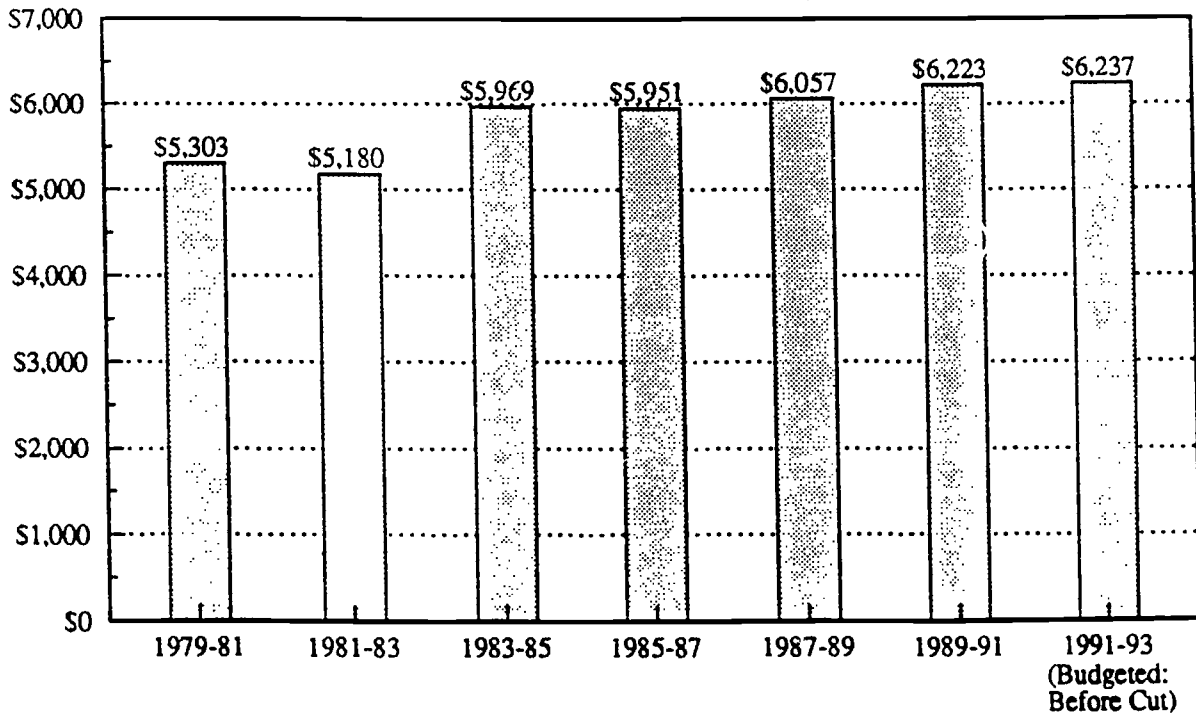


B. SHARE OF STATE GENERAL FUND BY GOV'T FUNCTION



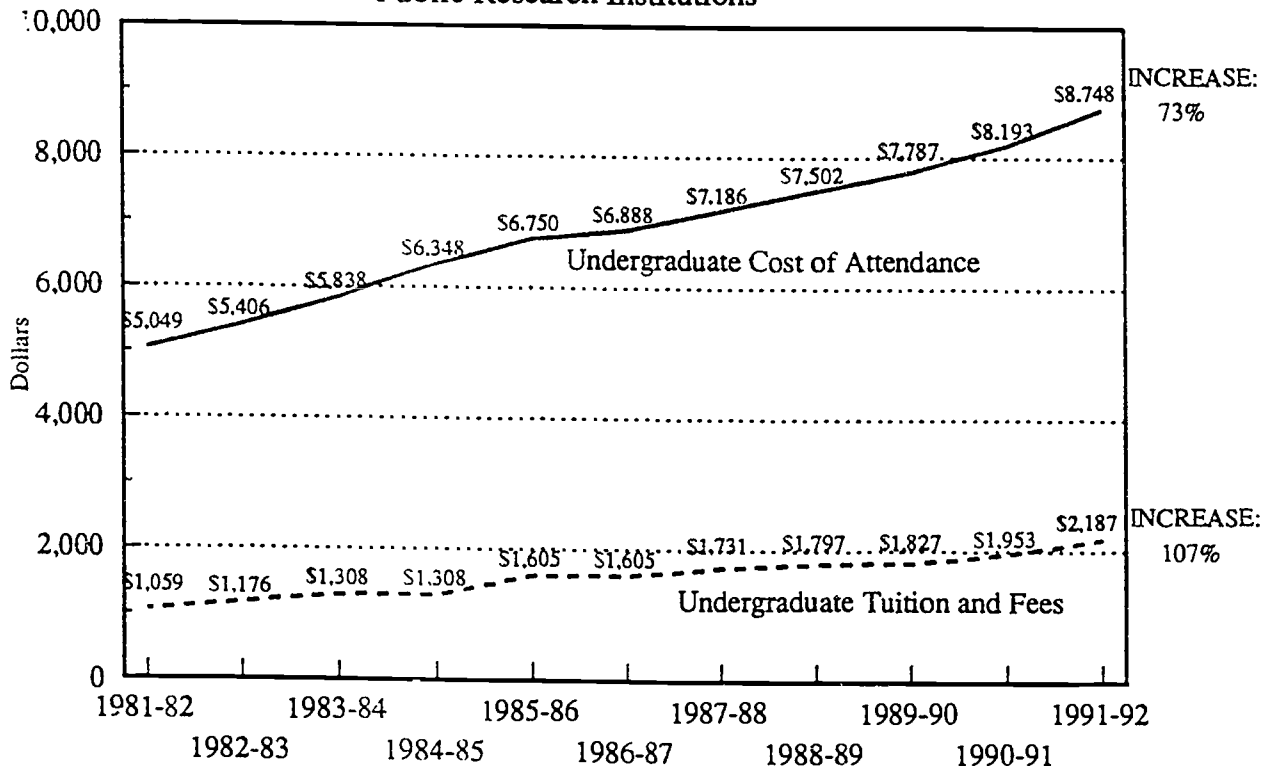
- State support per FTE student has increased over the past decade but most of the gain was in the 1983-85 biennium.

STATE EXPENDITURES PER AVERAGE ANNUAL FTE Public Higher Education Based on Constant 1991 Dollars (HEPI)



- Costs of attending public institutions of higher education have increased continuously over the past 10 years.

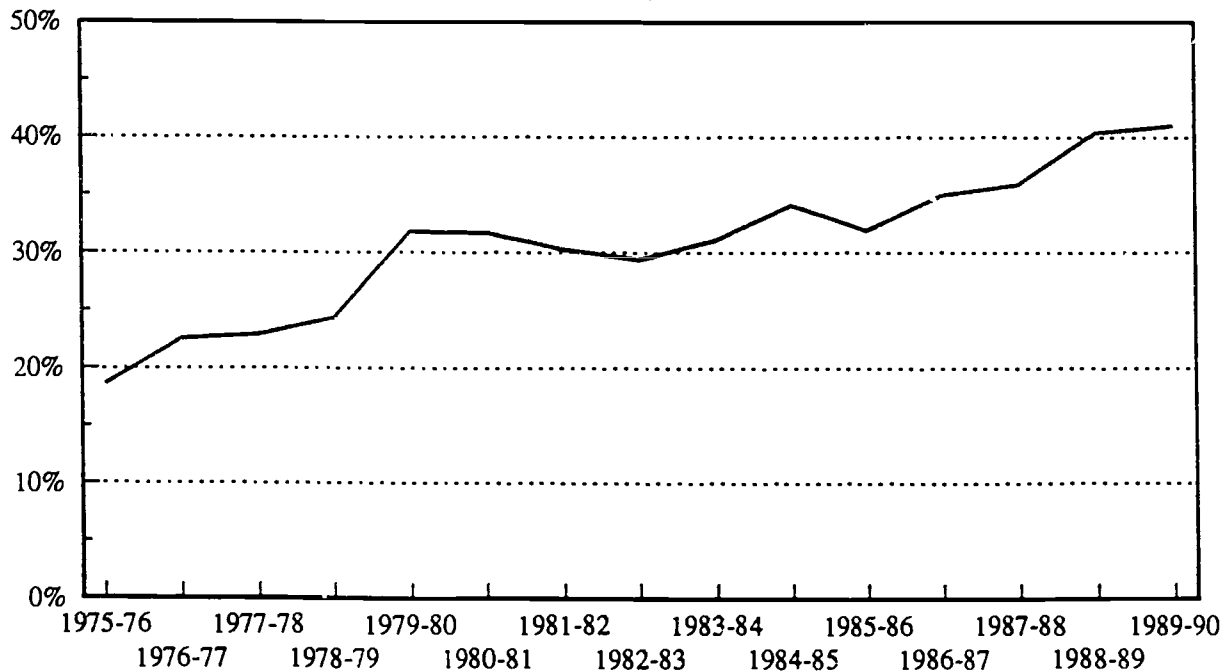
**UNDERGRADUATE TUITION AND FEES
COMPARED TO COST OF ATTENDANCE**
Public Research Institutions



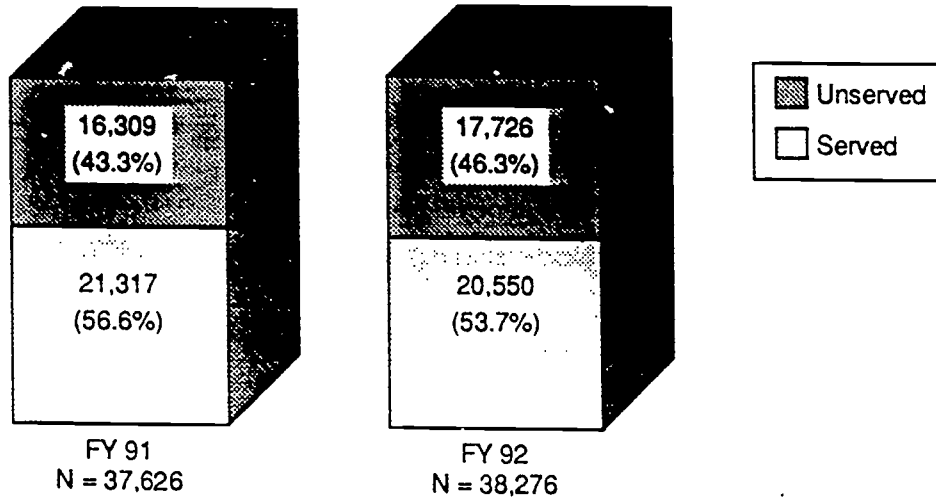
Total Cost of Attendance = Tuition & Fees + Room & Board + Books & Necessities

4. Resident undergraduate tuition and fee charges lag peer group averages in 1991-92 academic year, from a low of 9.3 percent at Washington State University to a high of 22.9 percent at The Evergreen State College. Specific data regarding the comparisons of tuition for each student level and status at each institution and in the community/technical college system can be found in Appendix I.
5. Since 1975-76, the number of needy students has increased both numerically and as a percentage of the total.

A. FULL-TIME FINANCIAL AID RECIPIENTS AS A PERCENTAGE OF FULL-TIME ENROLLMENTS
1975-76 to 1989-90



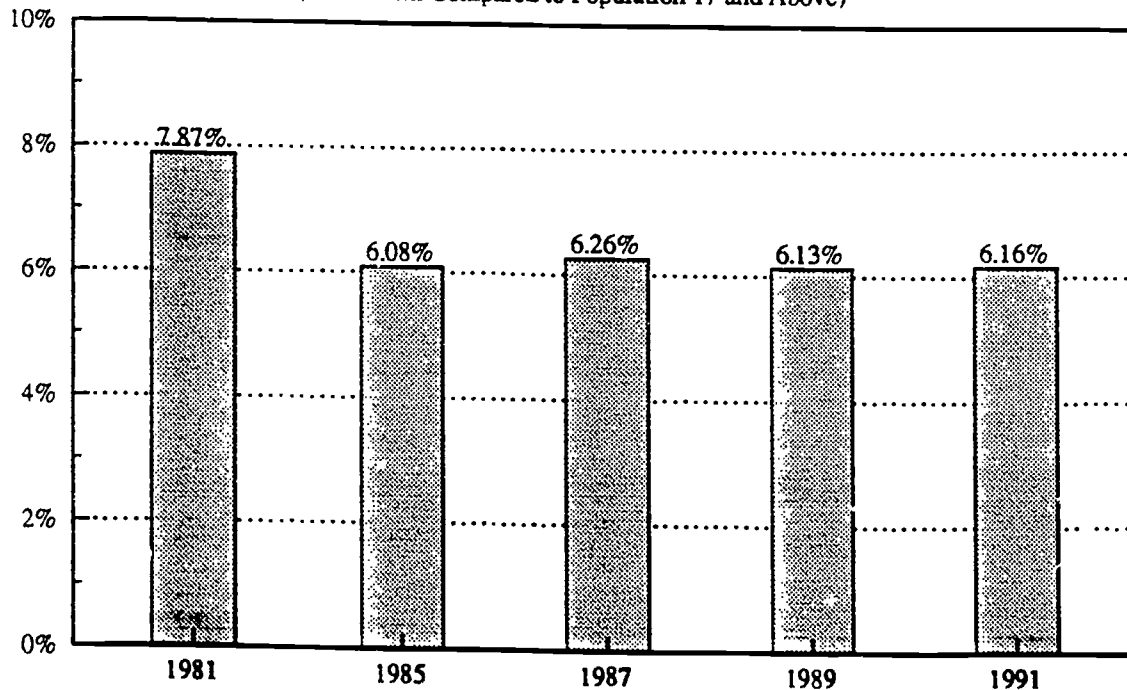
B. Percentages of Eligible* Students Served by the State Need Grant Program.



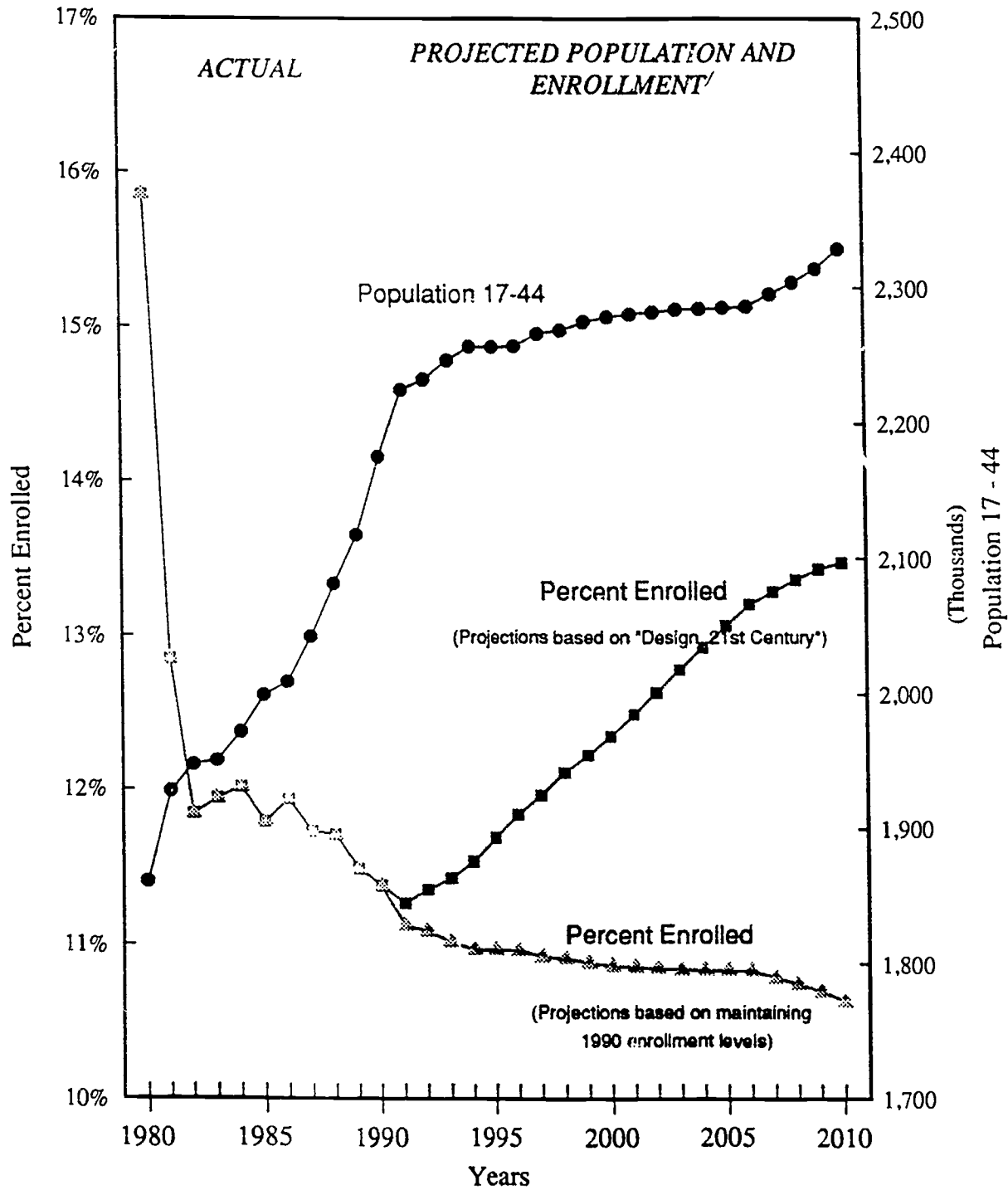
*Eligible means both financially eligible to receive a grant and enrolled in a Washington post-secondary institution.

6. The state is educating a smaller percentage of the adult population in 1991 than it did in 1981.

PUBLIC PARTICIPATION RATES: TWO & FOUR-YEAR
(Enrollment Compared to Population 17 and Above)

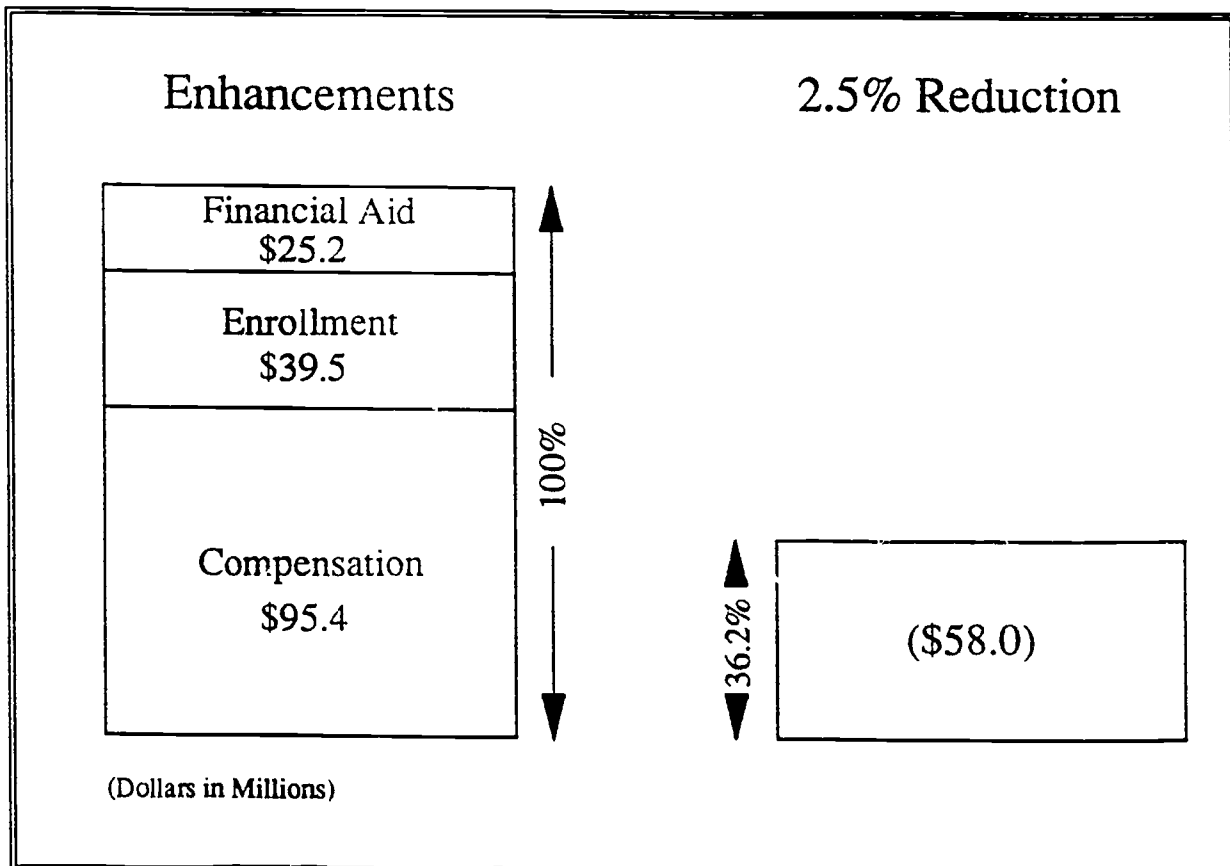


ALTERNATIVE ENROLLMENT FORECASTS FOR THE POPULATION AGED 17 - 44



7. The original 1991-93 operating budget increase of 12.7 percent for higher education included 4.6 percent to cover carry-forward costs from the 1989-91 biennium and 8.1 percent (\$160.1 million) to fund enhancements. The December 1 budget cut reduced enhancements by 36.2 percent (\$58 million).

1991-93 Budget Increase Percentage Over 1989-91 (\$ in Millions)			
Carry-Forward	--	Salary bow wave/inflation	109.9
Reductions from Base			(18.6)
		<i>Subtotal</i>	91.3 4.6%
Enhancements	--	Compensation	95.4
	--	Enrollment/Branches	39.5
	--	Financial Aid/Other	<u>25.2</u>
		<i>Subtotal</i>	160.1 8.1%
		TOTAL INCREASE	251.4 12.7%



III. GUIDING PRINCIPLES

A. Purpose

Declining state revenue has sparked renewed interest in ways that higher education can contribute additional revenue, especially if such revenue can be used to mitigate the size of budget reductions that might otherwise have to be absorbed by higher education.

The major source of revenue from higher education is tuition. It is expected, therefore, that the Legislature will consider ways to increase tuition revenue, both by increasing rates and by reducing or limiting tuition waivers.

Tuition policy thus is placed on the legislative agenda because of the need for more revenue; once on the table, however, significant policy questions will follow.

It will be critically important in addressing a near-term crisis for us to avoid long-term policy mistakes, however inadvertent. Therefore, the Higher Education Coordinating Board offers the following principles for higher education generally and for tuition policy specifically.

B. Principles for Financing Public Higher Education

Proposals to change the system of funding higher education should be measured against objectives formulated to achieve statewide goals. After reviewing higher education finance issues, the following goal was established in the 1987 Master Plan:

To establish a system of public higher education that allocates adequate resources to institutions, provides flexibility in applying those resources to produce quality education, and holds institutions accountable to the public for the results.¹

A new funding process was proposed in the Master Plan to achieve this goal, "predicated on a balance between coordinated institutional autonomy and performance accountability."² This funding process posited certain principles which are summarized below:

1. **Stability:** Because of the long-term nature of its costs, responsibilities and activities, higher education needs a reliable, predictable revenue stream over time.

¹*Building a System: The Washington State Master Plan for Higher Education*, p. 20.

²*ibid.*, p. 20

Further, because of the difficulty in absorbing intermittent but significant cuts that result from the state's uneven economic performance, the higher education revenue stream needs to be insulated, to a greater degree than is now the case, from erratic swings in state general tax collections.

2. **Adequacy** -- Adoption of an acceptable standard by which to evaluate the adequacy of state support for higher education was advocated in the Master Plan. The HECB subsequently adopted a standard based on peer comparisons and a goal of achieving a level of state funding support equivalent to the 75th percentile of total dollars per FTE at peer institutions by 1996. The HECB also adopted goals for increasing access to higher education, aimed at achieving the 90th percentile nationwide by the year 2010. The Board continues to believe that adequacy should be viewed as a level of funding that provides access to quality higher education.
3. **Focused Excellence** -- Creation of an incentive program for "focused excellence" in higher education was recommended in the Master Plan. The Board supported this grant program to encourage colleges and universities to undertake innovative programs to improve the quality of instruction in areas of special need or emphasis.
4. **Institutional Autonomy/Accountability** -- A basic tenet of the Master Plan was to devise a system of higher education funding that substituted reliance on outcomes assessment and accountability for detailed, complex fiscal controls. The HECB advocated in the Master Plan that institutions have "latitude to deploy educational resources for maximum effect." This union of management flexibility and institutional accountability merits preservation and expansion.

These principles provide appropriate guidance for evaluating any proposals to change the current system of higher education finance.

C. Principles for Determining Tuition in the Public Sector

Public education presumes a public benefit. As stated in the Master Plan:

*Higher education benefits everyone. Those who participate in higher education benefit directly. They, in turn, benefit society by participating in the political, social, and cultural life of the state; through their economic productivity; and by the quality of the experience, judgment, and understanding they bring to their communities.*³

³ *idem.*, p. 2.

Thus, at a minimum, tuition policy in the public sector defines the appropriate distribution of cost between those who benefit directly (students) and those who benefit indirectly (the general public). Tuition policy also enhances or preserves student choice among public institutions and impacts the mix of students at each institution.

In addition to the overall finance principles described above, tuition policy should be evaluated on the basis of:

- **Balance** -- Washington's current tuition policy creates a balanced system that defines the relationship between funding support provided by the state and that required of the student. The state's policy also balances relationships among public institutions, among levels of students (including undergraduates, graduates, and professionals), and between resident and nonresident students.
- **Fairness (Equity)** -- The HECB consistently has advocated for sufficient state financial aid to ensure that all educationally qualified students are assured access to higher education regardless of individual economic means. Current policy recognizes the link between increased tuition rates and increased need for student financial aid.
- **Predictability** -- The Legislature created a system for setting tuition rates which ties increases in rates to increases in the cost of education. For the past decade, the state has avoided determining rate increases solely on the basis of state revenue fluctuations. This has created a predictable system, which can be maintained as long as the amount of increase is tied to an objective measure (such as the cost of education or peer relationships).

IV. EVALUATION OF CURRENT SYSTEM OF FINANCING HIGHER EDUCATION

Through development of the Master Plan and subsequent actions, the HECB has advocated creation of a stable, adequate system of financing public higher education. The HECB believes such a system should encourage innovative efforts to improve the quality of education and simultaneously enhance institutional autonomy and accountability. It also should incorporate a tuition policy that is balanced, equitable, and predictable.

The HECB has identified both strengths and weaknesses in the current finance system in the following evaluation.

1. Overall funding is NOT stable.
2. Overall funding is NOT adequate as measured by progress toward peer funding or other objective measures.

3. Overall funding is NOT adequate to keep pace with current or projected enrollment demand.
4. The "focused excellence" incentive program has NOT been funded.
5. Institutional management is constricted by an array of budget provisos and other regulations (e.g., enrollment bands, provisos dictating expenditures, and limits on generation of local revenue, etc.)
6. While progress has been made on assessment and accountability, assessment efforts should be tied more directly to resource allocation.
7. Tuition rates are predictable.
8. Tuition policy explicitly addresses balance between educational cost and student share.
9. Tuition policy is fair in concept because it links tuition rate increases to student financial aid funding, although in practice financial need greatly exceeds available aid.

V. APPLICATION OF PRINCIPLES (BOARD PHILOSOPHY): THE CRITICAL QUESTIONS

As solutions to the state's economic downturn are explored during the 1992 legislative session, HECB anticipates a proliferation of proposals which individually or cumulatively will change the system for funding public higher education. To help evaluate those proposals, HECB suggests use of the following critical questions.

1. Does the proposal contribute to greater stability of funding for higher education institutions?
2. Does the proposal advance or lead to the advancement of the state's goals for the quality of its higher education system?
3. Does the proposal address current or projected enrollment demand?
4. Does the proposal include incentives to improve the quality of education?
5. Does the proposal enhance institutional management flexibility?
6. Does the proposal advance objective evaluation of or provide accountability for the educational performance of higher education institutions?

7. Does the proposal preserve or improve opportunities for underrepresented or poor residents to attend a higher education institution?
8. Does the proposal appropriately balance the obligations of students and the public at large for the financing of higher education?
9. Does the proposal provide tuition policies that are predictable, balanced, and fair?
10. Does the proposal balance the needs of the various institutions of higher education in the state?

APPENDIX I

RELATIONSHIP OF WASHINGTON TUITION AND FEE RATES
TO PEER GROUPS
1991-92 ACADEMIC YEAR

	<u>UW</u>	<u>Peer Average</u>	<u>UW Percent Variance</u>	<u>Peer 75th Percentile</u>	<u>UW Percent Variance</u>
UNIVERSITY OF WASHINGTON (25 institutions)					
Resident Undergraduate	2178	2593	-16.0%	3044	-28.4%
Resident Graduate	3387	3107	9.0%	3574	-5.2%
Nonresident Undergraduate	6075	7806	-22.2%	9552	-36.4%
Nonresident Graduate	8472	7977	6.2%	9541	-11.2%
WASHINGTON STATE UNIVERSITY (23 institutions)					
	<u>WSU</u>	<u>Peer Average</u>	<u>WSU Percent Variance</u>	<u>Peer 75th Percentile</u>	<u>WSU Percent Variance</u>
Resident Undergraduate	2178	2402	-9.3%	2535	-14.1%
Resident Graduate	3387	2682	26.3%	3410	-0.7%
Nonresident Undergraduate	6075	6738	-9.8%	7482	-18.8%
Nonresident Graduate	8472	6484	30.7%	7447	13.8%
COMPREHENSIVE UNIVERSITIES (212 institutions)					
	<u>CUs</u>	<u>Peer Average</u>	<u>CUs Percent Variance</u>	<u>Peer 75th Percentile</u>	<u>CUs Percent Variance</u>
Resident Undergraduate	1698	1943	-12.6%	2403	-29.3%
Resident Graduate	2700	2091	29.1%	2716	-0.6%
Nonresident Undergraduate	5970	4841	23.3%	5835	2.3%
Nonresident Graduate	8187	4912	66.7%	6290	30.2%
THE EVERGREEN STATE COLLEGE (26 institutions)					
	<u>TESC</u>	<u>Peer Average</u>	<u>TESC Percent Variance</u>	<u>Peer 75th Percentile</u>	<u>TESC Percent Variance</u>
Resident Undergraduate	1698	2203	-22.9%	2411	-29.6%
Resident Graduate	2700	2471	9.3%	3306	-18.3%
Nonresident Undergraduate	5970	5541	7.7%	6024	-0.9%
Nonresident Graduate	8187	5688	43.9%	6790	20.6%
COMMUNITY COLLEGES (state average)					
	<u>CCs</u>	<u>Peer Average</u>	<u>CCs Percent Variance</u>	<u>Peer 75th Percentile</u>	<u>CCs Percent Variance</u>
Resident	945	1,053	-10.3%	1,335	-29.2%
Nonresident	3,717	3,088	20.4%	3,992	-6.9%