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# educational considerations

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## Foreword

### Mary P. McKeown-Moak, Guest Editor

This edition of *Educational Considerations* is devoted to the issues impacting on higher education at the beginning of the 21st century: declining revenues from all sources; increasing demands for accountability; increasing costs leading to increases in tuition and fees; enrollment management; and the changing role of state governments. The articles are intended to provoke discussion and raise the awareness of the higher education community.

By many accounts, higher education is facing the worst set of conditions in 20 years: declining revenues from state governments, mid-year budget cuts from bases that were lower than the prior year, demands for accountability and demonstrated performance, and strong enrollment demand. Caruthers calls this combination of factors “higher education’s perfect storm.” He lays out a very depressing picture for higher education potentially for the next decade, which comes from the conflux of six trends that form a swirling perfect storm: strong enrollment demand; deteriorating macroeconomic conditions; weakened microeconomic environments; shifting political support in state governments; new competitive pressures; and structure barriers within higher education itself.

Lapovsky and Hubbell provide some advice on coping with the strong enrollment demand component of the perfect storm. In their discussion of enrollment management, they delineate how a college or university can maximize college or university revenues while at the same time enrolling a class of a certain size and with certain characteristics, ensuring access.

McKeown-Moak examines the deteriorating macroeconomic and microeconomic conditions that are contributing to the perfect storm. She notes that the National Governors Association maintains that nearly every state is in a fiscal crisis, and spending pressures are continuing to increase, even as revenues decline. The crisis is shown most clearly on state appropriations to higher education, which did not increase nationally for the first time in 20 years. As a result, tuition and fees are increasing at alarming rates, and financial aid is not keeping pace with increased need. The mounting crisis in funding, however, has not seemed to lower higher education leaders’ expectations.

Layzell chronicles the changing financial and policy roles of state governments, adding more evidence to Caruthers’ contention of the perfect storm. He raises some difficult questions to focus the debate on higher education funding:

- Is higher education a “basic” function of state governments? If so, what is the state’s appropriate financial and policy role in providing this function?
- What is the necessary “mix” of higher education provided within the state (e.g., four-year, two-year, comprehensive, specialized) and how best to maximize access to this for all state residents?
- What are the tradeoffs and possibilities regarding the overall “supply” of higher education provided in a state at varying levels of state financial support?
- What price should state residents pay to access higher education?
- What is higher education to be held accountable for, to whom, and by what means?

These are difficult and perhaps uncomfortable questions for both state policymakers and higher education leaders to answer.

Burke and Minassians contribute some evidence on how higher education currently is being held accountable and conclude that accountability for the performance of higher education is here to stay, but how academic departments will be held responsible remains unclear. All of the articles raise uncomfortable issues and note that in the 21<sup>st</sup> century, higher education will be challenged as never before.

– Mary P. McKeown-Moak is a Partner with the MGT Consulting Group, Austin, Texas.

# Public Higher Education's Perfect Storm

J. Kent Caruthers

October 1991. It was "the perfect storm" – a tempest that may happen only once in a century – a nor'easter created by so rare a combination of factors that it could not possibly have been worse.<sup>1</sup>

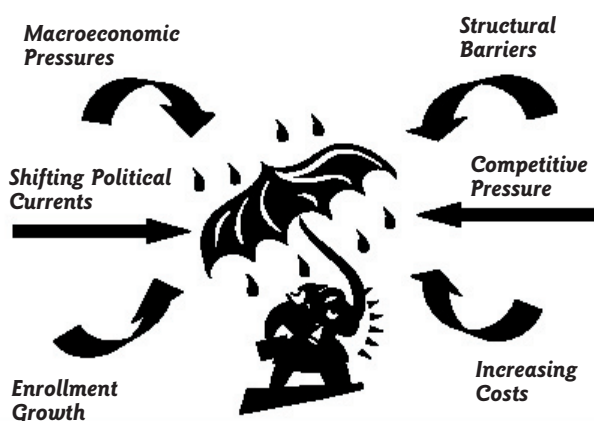
## Introduction

The 1991 perfect storm, which occurred off the coast of Gloucester, Massachusetts and became widely known by the book and motion picture of the same name, was a combination of three distinct storms combined into one. Today, a confluence of six sets of trends are serving to create what is likely to become regarded as the "perfect storm" for funding of public higher education.

The six separate, but interrelated, trends are strong enrollment demand, deteriorating macroeconomic conditions, a weakened microeconomic environment, shifting political support, new competitive pressures, and structural barriers that impede effective response. Figure 1 depicts how these six factors have become a swirling storm around campus leaders.

**Figure 1**  
**Pressures Surrounding Public Colleges**

Some of these six trends have been noted in earlier reports. For instance, the Education Commission of the States, in its *State Education Leader*, recently described the need for a "balancing act" by postsecondary education leaders to deal with "the tension between fewer resources and increased demand for higher education."<sup>2</sup> Similarly, an article in



**J. Kent Caruthers is Deputy Chief Executive Officer and Senior Partner for MGT Consulting Group, a national, public sector, management consulting firm.**

the *NACUBO Business Officer* noted that "Higher education institutions have been hit with a triple whammy – cuts in funding from state revenue, reduced gifts, and decreased earnings on investments."<sup>3</sup> We believe the situation may be even worse than described in such earlier reports in that we are observing six distinct trends that are each causing storm-like conditions for the higher education community.

## Trends in Enrollment Demand

The first trend impacting on the higher education community is increasing student demand at public, private, and proprietary (for-profit) institutions. The current and projected growth in the numbers of students pursuing a post-secondary education is unparalleled since the early 1970s when the baby boom generation arrived on campuses across the nation.

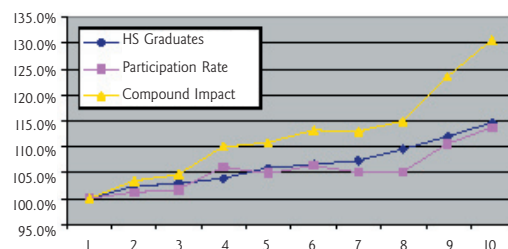
A major factor in the recent surge in enrollment levels is the growing size of the traditional college-aged population cohort. The number of high school graduates in the United States is projected to increase by 15.2% between 1999 and 2009, after being relatively stable for much of the preceding decade. Some have referred to this cohort as either a "baby boomlet" or the "baby boom echo."<sup>4</sup>

Also, the nation has been experiencing an increase in the rate of college participation. Between 1988 and 1997, the proportion of recent high school graduates enrolled in college increased from 59% to 67%—a significant gain, representing 14% more students from a fixed student cohort.<sup>5</sup>

Figure 2 summarizes the impact on enrollment levels of the combination of these two demographic trends. The three line graphs in the exhibit depict the projected percentage growth rates in traditional college-aged population, a continuation of the trend of increasing rates of college participation, and the resulting 30% potential growth in enrollment of the traditional college population that can be expected over a future ten-year period.

A third factor underlying the rapid growth in enrollment is the expanding definition of the makeup of the college age population. Although the tendency continues for public policymakers to discuss public higher education as a service for 18-22 year-olds, about half of today's college students are older than 22. Indeed, some states are beginning to base their higher education master plans on the needs of state residents aged 18-44 for educational opportunity. Older students will continue to be a major component of the strong enrollment demand facing most public colleges and universities.

**Figure 2**  
**Trends in High School Graduation and College Enrollment**

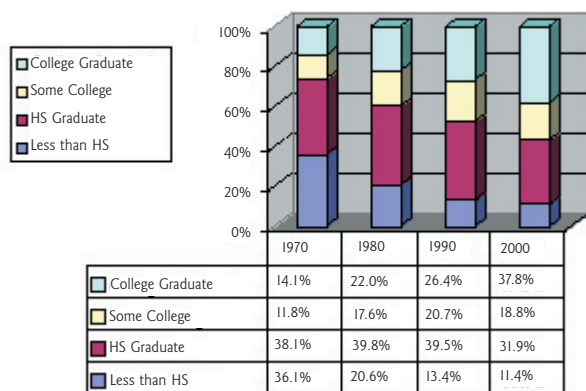


Source: NCES, *Digest of Education Statistics 2001*, <http://www.nces.ed.gov/pubs2002/digest2001>.

Clearly, one factor in the aging of the student body is the current weakness in the national economy. Numerous studies have found that enrollments in both community colleges and graduate programs run countercyclical to employment opportunities in the economy. Community college enrollments have soared in the past few years, and, according to an American Association of Community Colleges spokesperson, "is at record levels across the country."<sup>6</sup> Graduate enrollments have accelerated their long-term growth pattern after the fall of the "dot.com" economy and loss of lucrative starting salaries for recent baccalaureates entering the job market.

However, we believe that the aging student population is more than just a temporary reaction to the current economic climate and represents a much longer-term phenomenon. Along with the general acceptance of the notion by both potential employees and their employers that a college degree has become the basic entry-level job requirement for career positions is the even stronger belief that today's workers must continuously update their skills to remain competitive for career advancement. Figure 3 shows how the educational level of the American workforce has changed over time. Over the past three decades, the proportion of the workforce holding a college degree has expanded from 14% to 38%, and a majority of workers have now earned at least some college credit.

**Figure 3**  
**Educational Attainment of National Labor Force**



Source: Calculated from data in the *Statistical Abstract of the United States*, U.S. Census Bureau.

In summary, the recent national average enrollment growth of 2% to 3% per year, which has been much higher in some states and at some institutions, has added significant workload for many colleges and universities. Projections of continued strong growth in enrollment will continue to create funding pressures for public institutions for the foreseeable future.

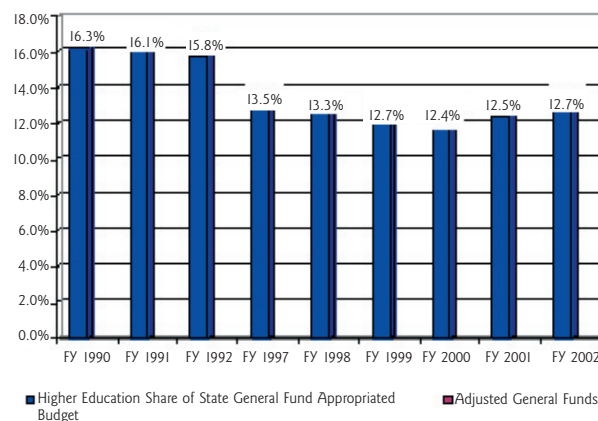
**Deteriorating Macroeconomic Conditions**

According to a recent report from the National Governors Association (NGA), "Fiscal Year 2004 will be the third year in a row of major state fiscal problems, making this the worst fiscal crisis since the Second World War."<sup>7</sup> Already in the current 2003 fiscal year, the report notes that more than half the states have made program cuts that include K-12 and higher education.

The NGA report continues: "State revenues were down 6.3% in 2002, the first full year that states have witnessed a decline in revenues for as long as credible statistics are available back to the Second World War."<sup>8</sup> The revenue shortfalls have contributed to lower appropriations for most state programs and functions, including those for public colleges and universities.

As bad as the general pattern of state budget cutbacks seems, the impact on colleges and universities is even more severe in most states. This is because higher education is usually regarded as the biggest discretionary item in a state's budget. Thus, lowered state appropriations for higher education also are due to colleges receiving a smaller slice of the state budget pie. In particular, higher education is competing for legislators' attention with rising costs for healthcare (especially Medicaid), anti-terrorism initiatives, and constitutionally mandated programs. Figure 4 shows that the share of the state general fund budget appropriated to colleges and universities in Kansas, for example, has shrunk from 16.3% in 1990 to 12.7% in 2002.

**Figure 4**  
**Trends in Share of State Budget**



Source: MGT of America, Inc., *Kansas State Funding for Higher Education (2002)*.

The weakened national economy also has adversely affected other sources of funding for colleges and universities. Beyond lower state appropriations, development officers are noting a pattern of reduced or deferred private gifts. According to a report in the *Chronicle of Higher Education*, "Even the most grizzled of fund raisers, people who have been in the game for decades, can't recall another period marked by such jagged highs and lows."<sup>9</sup>

The ripple effects of the floundering stock market and the poor economy also have had an impact on total contributions to higher education as giving fell slightly in the 2002 fiscal year. The dip is the first in 14 years. A sharp drop in gifts from alumni was the primary source of the 1.2% decline, according to the Council for Aid to Education, which conducts the annual "Voluntary Support of Education" survey. Alumni giving, which the council calls "the bedrock" of higher-education support, was off by nearly 14%, or about one billion dollars, in 2002.<sup>10</sup>

Coupled with curtailed private giving is the lower rate of return from endowments built from gifts in earlier years. Virtually every college has experienced a lower rate of return on its investments, and most

have even seen a net reduction in portfolio value. The 2002 NACUBO Endowment Study recorded an average 6% decline in portfolio value over the 12 months ending June 30, 2002.<sup>11</sup>

Overall, the outlook for external funding of higher education is bleak. State government finances, in general, are facing their greatest crisis in most peoples' memories, and higher education is losing even its relative share of this shrinking pie of state funds. Private giving, a second major external source of funding for colleges, is also an increasingly unreliable and unstable stream of revenue.

### Weakened Microeconomic Environment

Not only are colleges and universities enduring shortfalls in their funding from external sources, they also are facing difficulties in controlling their rate of expenditure growth and in maintaining the flow of revenue from sources that are more likely to be under their own internal control.

Unlike many industries, the higher education industry has yet to realize significant internal savings from increased productivity. A major factor in this lower growth in productivity is that colleges have very people-intensive production functions. Salaries typically represent three-fourths or more of total institutional expenditures – a comparatively high rate among major industrial groups.

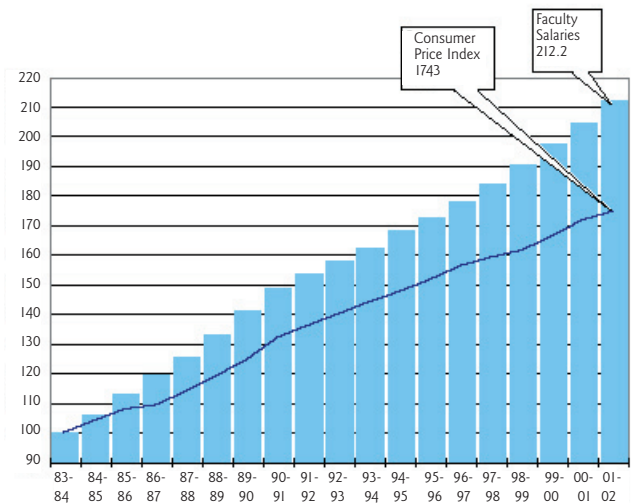
Colleges and universities, as compared to other industries, have not been able to use technology to replace personnel in their core functions, especially in terms of serving more students with fewer personnel. Instead, the principal value of technology has been to enhance quality of service. As such, technology expenditures have tended to increase costs rather than to increase productivity in public colleges.<sup>12</sup>

Faculty salaries, in particular, are the largest single item of expense at most colleges and universities, representing approximately 40% of the total education and general budget. For many years, average faculty salary rates have risen more rapidly than most broad measures of inflation such as the Consumer Price Index (CPI). In fact, according to the *Chronicle of Higher Education's* coverage of the *Annual Report on the Economic Status of the Profession* by the American Association of University Professors, average faculty salaries nationally grew by 3.8% in 2001-02, which was the largest increase in 11 years.<sup>13</sup> Faculty compensation was experiencing its greatest growth in over a decade during the same year that state revenues were experiencing their greatest shortfall since the Second World War.

One of the reasons that faculty salary rates continue to rise during an otherwise weak economy is that many colleges are facing a growing number of retirements from their professorial ranks. Faculty who were recruited in response to the growing enrollment caused by the baby boom generation in the late 1960s and early 1970 are now completing thirty years of service and reaching peak benefit levels in their retirement plans.

Other major components of the college budget are also not immune from rapidly escalating costs. The Higher Education Price Index (or HEPI), which measures trends in the cost of a hypothetical market basket of goods and services purchased by colleges and universities, has historically risen faster than the Consumer Price Index (CPI), which is based on a similar market basket approach for measuring inflation facing American households. The costs of library resources and technology have been especially strong factors in the higher HEPI inflation rate. Figure 5 demonstrates how the rate of faculty compensation outpaced the CPI by 22% during the past two decades.

**Figure 5**  
**Increases in Faculty Salaries and the CPI, 1984-2002**



Source: *Chronicle of Higher Education*, <http://www.chronicle.com>.

As discussed above, most revenue for public colleges and universities come from external sources (governments, donors) over which the institutions are able to exercise little control. The major revenue source that is subject to some internal control is student tuition. Although college tuition rates have increased rapidly during the past few years, further significant growth from this internal source of revenue no longer may be as possible as in the recent past. Colleges are facing increasing opposition to double-digit tuition increases from both parents and political leaders, who are becoming less willing to grant colleges the freedom to control their own tuition rates. A U.S. Congressman, in fact, has announced that “he plans to introduce legislation that would punish colleges that raise their tuition too much.”<sup>14</sup> Taken as a whole, the internal economics of colleges and universities represent yet another major funding challenge. Colleges are facing strong internal cost pressures and are losing control of their primary source of internal funding.

### Shifting Political Support

Coupled with problems of reduced external financial support for public higher education are issues related to shifting political support. Increasingly, governors and state legislatures are not as understanding of the cost pressures facing colleges and universities. A spokesperson for the National Governors Association, for instance, was quoted in the *Chronicle of Higher Education* as saying that governors are asking: “Why are colleges unique among public services that their costs have to go through the roof?”<sup>15</sup>

More broadly, among elected leaders there appears to be a strong anti-tax sentiment to salvage weak state budgets. Many politicians have expressed their philosophy that the states must live within their means rather than increase taxes to maintain current levels of service. Some leaders, in fact, even support lower taxes as a long-term solution to economic recovery for their states.

Instead of finding additional revenues to balance the budget, fiscal conservatives long have expressed interest in privatization of various state functions and programs as a strategy for cost control. In some cases, privatization also has been touted as a vehicle for service enhancement as well as savings. Increasingly, variants of privatization



and outsourcing are being seen as a means to address educational matters. For K-12 education, there is growing support for funding charter schools and voucher programs. For higher education, vouchers have begun to be discussed in Colorado as a means for providing state citizens with higher education opportunity.<sup>16</sup>

Increasingly, governors and legislatures are more closely scrutinizing how colleges and universities are performing and using their state-appropriated funds. In some states, their efforts are taking the form of calls for greater accountability. (See related article by Joseph Burke in this issue.) In other instances, political leaders are actively pursuing proposals aimed at reducing costs of higher education, including efforts to merge institutions or consolidate their administrative functions.

Unfortunately, in recent years one of the more popular vehicles for targeting state funds for the support of higher education students – merit-based scholarships – tends to undermine institutional finances. Known by various names, such as the “HOPE” scholarship in Georgia, many states have redirected state funds that might have been used for general state appropriations to subsidize student tuition payments.

In general, the HOPE-type scholarship programs cover the cost of tuition for students who had moderately high grades (e.g., a “B” average) in high school. Research has shown that the biggest beneficiaries of these programs tend to be students from upper middle and high-income families.<sup>17</sup> This means that state funds that could have been available to support greater state appropriations for institutions are instead being used to lighten the tuition burden on relatively wealthy families.

Such merit scholarship programs surely have made public colleges more attractive to some students who otherwise might have left the state or attended a private college, thus increasing tuition income for the public colleges. Hopefully, these scholarship programs have enabled many low-income students to pursue a college education who otherwise might not have been able to afford college. Overall, however, the state merit scholarship programs have served to weaken the financial base of public colleges and universities. The net tuition income from the relatively few additional students attracted by these programs does not nearly match the amount that has been diverted from general institutional support to provide scholarships for students who already have the financial means to attend college.

### **New Competitive Trends**

Concurrent with all the other pressures now facing public colleges is the emergence of new competitors, particularly regionally-accredited proprietary institutions (e.g., the University of Phoenix) that offer baccalaureate and graduate degrees. Although the full impact of these new types of entities on public colleges is yet to be determined, accredited proprietary institutions create a further unwelcome pressure in an already troubling environment.

At least two types of pressure on public institutions are foreseen. The most obvious impact is the direct competition for students, although the impact is likely to be much greater than losing a limited number of students and tuition dollars to another institution. This is because program offerings at proprietary colleges tend to be in areas with relatively high student demand and comparatively low costs. To use the vernacular of the business world, proprietary colleges are skimming public colleges students who would have been among the most profitable to serve. Since public colleges use their “profits” from lower cost programs to subsidize those that cost more, the impact of

losing a few students to competing proprietary programs will have an adverse ripple effect throughout the public or private institution.

A second type of impact is likely to be on new and different expectations for operating standards. Most proprietary colleges have developed highly efficient techniques for delivering both direct instruction and essential support services. Their delivery model meets minimum acceptable academic standards, but falls short of providing the full range of services found in the traditional college. A possibly analogous situation can be found in the airline industry where discount carriers have found that many customers prefer lower fares and timely flights to meals, assigned seating, and other amenities. To the extent that the marketplace – either students or state funding officials – fails to recognize or appreciate the value of the different service levels provided by more traditional institutions, public colleges will be expected to become even more efficient in how they serve their clientele.

### **Structural Issues**

The basic structure and organization of public colleges is contributing to the perfect storm. Administrative practices in public higher education are often characterized by a strong sense of turf protection and traditionalism – traits that are not necessarily strengths in surviving a crisis. Many state colleges and universities, particularly those that offer the baccalaureate and above, were created in a different era and were purposefully located in rural settings presumed to be more appropriate for student development. As the migration of the population from farm jobs to city jobs occurred over the last half of the 20th century, many states have discovered that their public colleges are not located in the most geographically convenient locations to serve the citizenry – especially the growing numbers of adult working students who live in metropolitan areas.

To compound the matter, many newer institutions created in the more populous locales in the past few decades do not have the full range of program authority needed to respond to local educational needs. This is because the policies of many state higher education boards have been designed to control competition among institutions, thus inadvertently limiting the ability of many colleges to respond to local needs.

Within the individual institutions, one often finds a general resistance to change. Staffing commitments for faculty, which often are made for a lifetime, impede the flexibility needed to respond to fluctuating enrollment demand. The traditional committee-based decision making process, which typically is slow and sometimes self-serving for individual committee members, provides yet another barrier to responsiveness. Conditions in the current market and funding environment require more dynamic approaches to decision-making than are often found in public colleges.

### **Future Possibilities**

Will the typical college or university survive this perfect storm? And, if so, how? Since the storm conditions will have different strengths in different states, survival strategies will need to vary. However, those colleges and universities that will weather the storm most successfully are likely to share a number of common characteristics. To weather the storm, public and private colleges and universities should:

- Establish and operate under a sound enrollment management plan;

- develop more diversified funding sources;
- implement more efficient academic and administrative support systems;
- become more accountable for educational outcomes to financial sponsors and reinforce the public value of public higher education;
- focus plans and resources on their core strengths; and
- create more flexible and dynamic planning and policy systems.

#### Footnotes

<sup>1</sup> Sebastian Junger, *The Perfect Storm: A True Story of Men Against the Sea*, (New York: Harper Mass Market Paperbacks, 1998) [Excerpt taken from promotional copy on back cover].

<sup>2</sup> Terese Rainwater, *State Education Leader*, 20 (Fall 2002): 18.

<sup>3</sup> “Hit With Triple Whammy, Institutions Raise Tuition,” *NACUBO Business Officer*, 36 (December 2002): 10.

<sup>4</sup> U.S. Department of Education, *Growing Pains: The Challenge of Overcrowded Schools Is Here to Stay*, <http://www.ed.gov/pubs/bbecho00>.

<sup>5</sup> National Center for Education Statistics, *Digest of Education Statistics 2001* (Washington, D.C.: U.S. Department of Education, 2002) <http://www.nces.ed.gov/pubs2002/digest2001>.

<sup>6</sup> Megan Rooney, “A Surge of Students,” *Chronicle of Higher Education*, November 1, 2002, A33.

<sup>7</sup> National Governors Association, “The State Fiscal Crisis,” February 22, 2003, <http://www.nga.org/nga/legislativeUpdate>.

<sup>8</sup> Ibid.

<sup>9</sup> John L. Pulley, “Struggling Against the Tide,” *Chronicle of Higher Education*, February 28, 2003, A29.

<sup>10</sup> Goldie Blumenstyk, “College Fund Raising Dips for the First Time Since 1988,” *Chronicle of Higher Education*, March 21, 2003, A29.

<sup>11</sup> For details, go to [http://www.nacubo.org/accounting\\_finance/endowment\\_study](http://www.nacubo.org/accounting_finance/endowment_study).

<sup>12</sup> Our references to increasing productivity address only the quantitative aspects or numbers of students served. Clearly, a strong case can be made that improving the quality of the product increases productivity.

<sup>13</sup> Robin Wilson, “Faculty Salaries Rise, for Now,” *Chronicle of Higher Education*, April 19, 2002, A10.

<sup>14</sup> Stephen Burd, “Bill Would Penalize Colleges that Increase Tuition Sharply,” *Chronicle of Higher Education*, March 6, 2003, A22.

<sup>15</sup> Jeffrey Selingo, “The Disappearing State in Public Higher Education,” *Chronicle of Higher Education*, February 28, 2003, A22.

<sup>16</sup> Ibid.

<sup>17</sup> “Refocusing Student Financial Aid,” *Postsecondary Opportunity*, April 1999.

# Enrollment Management and Tuition Discounting<sup>1</sup>

Lucie Lapovsky and Loren Loomis Hubbell

Enrollment management is critical to the success of all colleges and universities, and especially in times when state appropriations are not increasing, the endowment is not producing at historical levels, and gifts are not keeping pace with inflation. Enrollment management is thought of as enrollment planning, recruitment, enrollment, and retention of students to achieve a student body that meets the goals of the college or university. Enrollment management is a very complex undertaking that presents significant challenges to all institutions.

Through enrollment management, institutions attempt to accomplish the following:

- Enroll a class of a certain size;
- Enroll a class with certain characteristics;
- Provide access to students;
- Maximize net revenue.

It is very difficult to accomplish all of these goals simultaneously, given limited college and university budgets, and especially when enrollment demand is increasing and appropriations or other sources of revenue are decreasing. In addition, maximizing these goals may run counter to some philosophic precepts that institutions have. For example, some institutions believe that all qualified students should be provided access to their institution irrespective of ability to pay; this requires meeting the full financial aid need of all admitted students, a policy which is very expensive and most schools are no longer able to provide.

Institutions have many tools to accomplish their enrollment goals. These tools include criteria for admission, both academic and non-academic, academic program offerings, facility decisions, etc. Some schools have found they can increase their enrollment by allowing freshmen to bring cars or by changing their policies toward social life on campus.

In this article, we will concentrate on the financial tools that an institution has to manage enrollment. These tools are:

- Setting the tuition price;
- Establishing financial aid policies;
- Allocating need-based financial aid;
- Allocating characteristic-based financial aid.

## Setting the Tuition Price

All institutions spend a great deal of time in establishing their tuition. An institution's tuition is one of the few things on which a board of trustees will normally vote. Tuition usually does not vary too much from year to year, except in cases like the current economic

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environment where some universities are increasing tuition at rates in excess of 10%.<sup>2</sup>

In determining the tuition, institutions usually look at what they charged for the last several years, at the tuitions charged by those institutions with whom they compete, and at the institutions in their area. Given this data, most institutions raise their tuition 1% to 5%. Up until the current fiscal year, tuition increases have been averaging between 3% and 5%.<sup>3</sup> A few institutions will make a significant change in their tuition either up or down to reposition themselves in relation to their peers, or institutions they wish to have as peers. This is relatively risky and is not done often.

## The Enrollment Funnel

An institution will usually begin an analysis of its enrollment strength by analyzing the "enrollment funnel." Table 1 represents an example of the funnel with two columns: one for the institution in question and the other for peers. Peers are institutions with which the institution compares itself and against which it benchmarks its results. It is often useful to look at what the peers do in order to assess the institution's efficiency.

**Table 1**  
**Assessment of Applicant Pool and Enrollment Results**

	<i>Your Institution</i>	<i>Peers</i>
Inquiries	28,500	
Applicants	2,000	
Conversion Rate	7%	9%
Accepted	1,650	
Acceptance Rate	83%	75%
Enrolled	465	
Yield	28%	30%
Discount Rate	41%	38%

The funnel begins with the inquiries that an institution receives. The first thing an institution will do is look at how many prospective students inquire about the institution and then work to convert the inquiries into applicants. It is important for an institution to ensure that it quickly discern which of the inquiries that it receives are serious so that the institution does not invest too many resources in pursuing students who have no intention of attending the institution.

An institution will often compare its conversion rate of inquiries to applicants with that of its peer institutions to assess its efficiency. In this example, this college received 28,500 student inquiries which resulted in 2,000 applicants. The conversion rate is the number of inquiries which actually applied; for this institution the conversion rate is 7%. By comparison, its peer institutions were able to convert 9% of inquiries into applicants. It is often more cost-effective to reduce the number of inquiries and increase the conversion rate. This requires an analysis of where the most productive inquiries come from and to stop advertising or recruiting in areas that generate inquiries but no applicants.

One can see that this institution accepted 1,650 of the 2,000 applicants for an acceptance rate of 83%. This means that most of the students who applied to this institution were acceptable to it, i.e., met the criteria for admission. By comparison, its peer institution accepted

only 75% of its applicants. As institutions become more selective, the acceptance rate usually falls.

Of the 1,650 students who were accepted, 465 enrolled giving the college a yield rate of 28%. By comparison at the peer institutions, 30% of the accepted students enrolled.

There is one additional piece of information on this table and that is the discount rate. As one can see in this example, the discount rate for the enrolled students at the institution is 41% compared with 38% at the peer institutions.

### Discount Rate Defined

The discount rate is defined as the financial aid that an institution awards from its own funds divided by the gross tuition revenue, as follows:

$$\text{Discount rate} = \frac{\text{Institutional Financial Aid}}{\text{Gross Tuition Revenue}}$$

The tuition discount rate for an institution can also be calculated in the following way:

$$\text{Discount rate} = \frac{\text{Percentage of students receiving aid}}{\text{Average grant as percent of tuition fees}}$$

For the purposes of this article, the tuition discount is calculated using all institutional grant aid; the source of the money is not relevant. The aid may come from the general revenues of the college or university, from restricted endowment funds, and/or from gifts. In addition, the discount rate is calculated using only gross tuition revenues, not room and board revenues. This is done because the data that will be presented later are based on this definition. The rationale for collecting data this way is that the percentage of students who live in college/university housing can vary substantially among institutions, and therefore using room and board in the denominator decreases the comparability of the data.

### Applicant Pool Assessment

All colleges and universities rate students from most desirable to least desirable. The characteristics that make a student “most desirable” versus “least desirable” to an institution will differ from institution to institution, but all institutions will have such a definition. Institutions will rate students on some sort of scale according to their desirability to the college. The factors going in to the rating and the rating structure may be quite simple or extraordinarily complex. In our example, we have used a scale with four rankings: A, B, C, and D with A being most desirable and D being least desirable. (See Table 2.)

**Table 2**  
**Assessment of Applicant Pool by Reader Rating**

<i>Read Rate</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>Total</i>
Applications	300	600	600	500	2,000
Admits	300	600	550	200	1,650
Acceptance Rate (%)	100	100	92	40	83
Enrolled Yield (%)	45	20	24	40	28
Discount Rate (%)	75	38	15	30	41

At this institution one can see how the 2,000 applicants are categorized from A to D. All of the applicants in categories A and B are accepted while 92% of those with a C rating are accepted, and 40% of those with a D rating are accepted. This makes up the overall college acceptance rate of 83%.

Among the students with an A rating, 135, or 45%, enrolled while only 20% of those with a B rating enrolled. Among those rated C, 24% enrolled and 40% of those rated D enrolled. This gives the college its overall yield rate of 28%. This result by itself seems somewhat strange. One would have predicted a lower yield rate among the A students and higher yield rates among the less highly rated students as they are likely to have fewer institutions interested in them.

The discount rate is thought to explain a good part of the yield rate although there certainly are other factors that can impact the yield rate. For example, an institution may have a special honors program that is very attractive to the highest ability students; or there may be other special programs that are only available to certain categories of students, which would make this school stand out for these students.

In this example, the discount rate for the A-rated students is 75%. This means that these students only pay 25% of the tuition. The discount rate for the B rated students is 38% while it is 15% for the C rated students and 30% for the D rated students. It is curious that the discount rate for the D students would be higher than the rate for the C students. This anomalous result may occur due to the awarding of institutional aid based on both merit and need. The higher-rated students are likely to be getting merit-based aid whereas the lower rated students are likely to be getting need-based aid.

Table 3 shows the net tuition paid by students with different quality ratings. The published tuition at this institution is \$12,000; that is the full price or the price paid by “full pay” students. A “full pay” student is one who does not receive any institutional financial aid. None of the students rated A or B pay full price. The average price paid by the A rated students is \$3,000. The average price paid by B rated students is \$7,440 while it is \$10,200 for C rated students and \$8,400 for the D rated students. Overall, the average tuition paid by students at this institution is \$7,080. The last column of this table shows that only 9% of the students at this institution pay the published price of \$12,000; thus 91% of the students are receiving some institutional aid.

**Table 3**  
**Analysis of Freshman Class Quality by Net Tuition**

	<i>Quality Rating</i>				<i>Total</i>	
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>No.</i>	<i>%</i>
Net Tuition						
\$12,000 (full pay)	0	0	20	22	42	9.0
\$10,000–\$11,999	0	0	71	19	90	19.4
\$8,000–\$9,999	0	42	24	9	75	16.1
\$6,000–\$7,999	0	68	10	7	85	18.3
\$4,000–\$5,999	23	5	3	8	39	8.4
\$2,000–\$3,999	90	4	1	7	102	21.9
\$1–\$1,999	20	1	1	8	30	6.5
\$0	2	0	0	0	2	0.4
<b>Total</b>	135	120	130	80	465	100.0
<b>Average Net Tuition</b>	\$3,000	7,400	10,200	8,400		

**Recent Trends in Discounting**

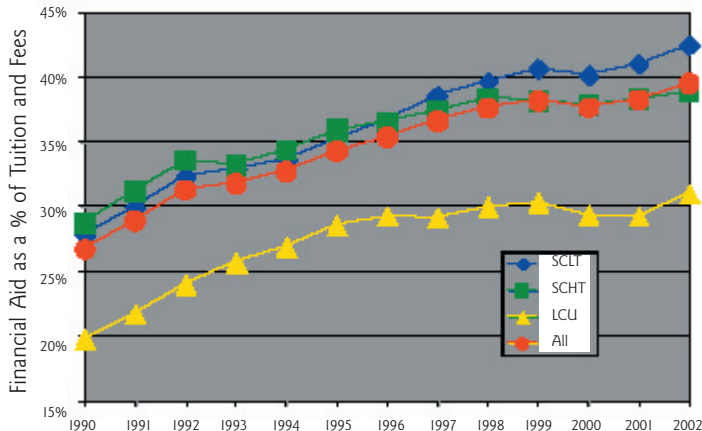
For the last several years, we have been questioning where the higher education industry is moving in terms of its pricing and financial aid strategies. Is tuition going to continue to increase? Are schools going to continue their practice of providing scholarships to significant numbers of students? Will the published price continue to lose meaning and if “yes,” what will the consequence of this be? What impact do pricing and discounting strategies have on access to higher education?

There now exist 13 years of tuition, financial aid and enrollment data from a large sample of independent institutions which has been collected by the National Association of College and University Business Officers (NACUBO). The data show that on average, and for an overwhelming majority of the individual institutions, decisions have been made to increase financial aid faster than stated tuition rates, resulting in real revenue (net tuition) growth which has been decidedly lackluster if not, in many instances, negative. (See Figure 1.) The data are divided among three types of institutions, based upon the size of the institution’s freshman enrollment and tuition, as follows:

	<b>Freshman Enrollment</b>	<b>Tuition</b>
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Small Colleges Low Tuition (SCLT)	<850	<\$21,000
Small Colleges High Tuition (SCHT)	<850	>\$21,000
Large Colleges and Univer (LCU)	≥850	

**Figure 1  
Freshman Tuition Discount**

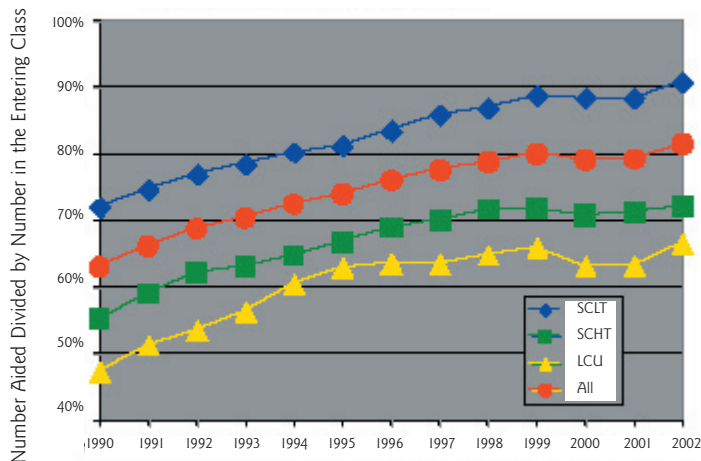


In fall 2002 the average discount rate across participating institutions was 39.4%. Tuition discounting on average has increased from 26% in fall 1990 to a 2002 level in excess of 39%. The discount is made up of two components, the percentage of students receiving financial aid and the average size of the grant as a percentage of the institution’s tuition.

The percentage of freshmen receiving institutional aid continues to grow and now more than 80% of all students at private institutions receive institutional aid. (See Figure 2.) At SCLTs, more than 90% of the students receive aid. This represents significant increases in the percentage of students aided since 1990, when on average less than 65% of the students received institutional financial aid; this represents

an increase of almost 30% in the share of students receiving aid. On the other hand, the average grant as a percentage of tuition has remained relatively constant. It has increased only 12% over this period from 43.9% of tuition to 49.3% of tuition.

**Figure 2  
Percent of Freshmen Receiving Institutional Aid**

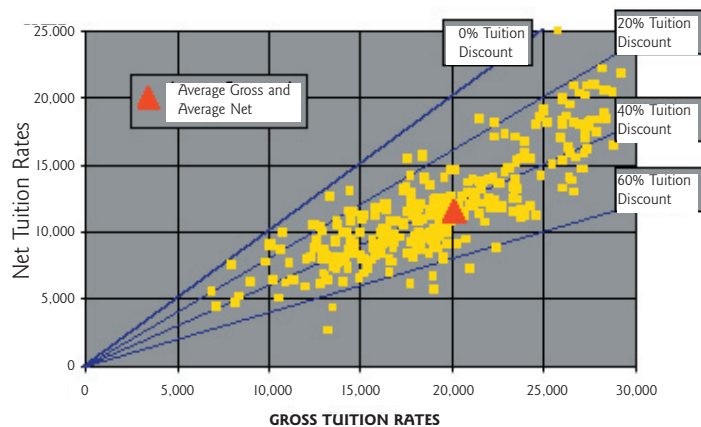


Institutional aid used to be granted primarily to students to enhance access to higher education for those without the financial resources to attend. This is still true at the most elite institutions in the country, but most institutions are providing institutional grants to shape their classes. Today many, if not most, institutions employ financial aid as a necessary tool to recruit and retain students.

**What Is Happening to Gross and Net Tuition?**

Between 1990 and 2002, the published tuition price at the independent colleges in this data base has increased from \$10,253 to \$20,085, an increase of 95.9%. (See Figure 3.) Net tuition has grown from \$7,481 in 1990 to \$12,235 in 2002, an increase of 63.5%. Less and less of the stated price of attending a college or university is ultimately reflected in real income available to purchase educational services. In 1990, the average net tuition was 73% of the average gross tuition; while in 2002, the average net tuition rate represents only 61% of the gross tuition.

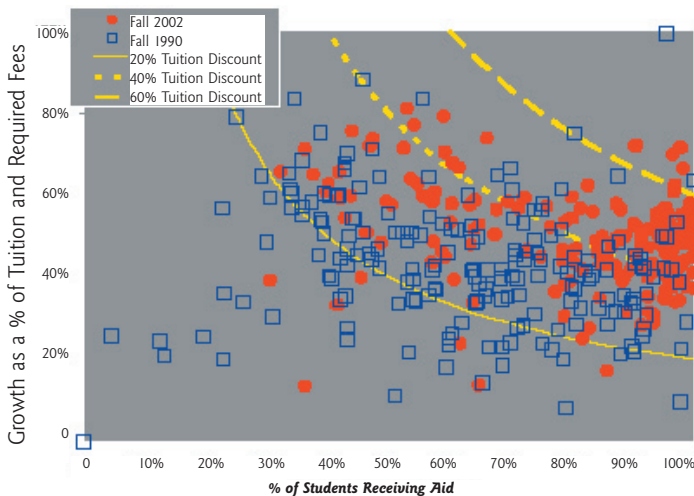
**Figure 3  
Gross and Net Tuition Rates  
Full-Time Freshmen, Fall 2002**



Discussing averages masks the significant differences in the way institutions operate. Figure 3 shows different combinations of net and gross tuition. The vertical axis has the net tuition on it and the horizontal axis has the gross or published tuition price on it. The 90 degree line represents those places where net and gross tuition are the same; institutions on this line are not providing any institutional aid. There are no institutions on this line. Each square represents an institution. Thus if one draws a line up from \$15,000 on the horizontal axis, one can see the various net tuition charges at different institutions. The net tuitions range from about \$6,000 to about \$13,000; thus, the discount rates range from 15% to 60%. Thus, knowledge of the published price is not a particularly good indicator of what the average student will pay at the institution.

To complicate the issue further, institutions can use various combinations of average grants and aid a different percentage of the freshman class and still have the same discount rate. In Figure 4, the vertical axis represents the average grant as a percentage of tuition, and the horizontal axis represents the percentage of students receiving grants. The three curved lines going from the axis out represent different discount rates: 20%, 40% and 60%. The squares represent fall 1990 and the dots represent fall 2002.

**Figure 4**  
**Relationship Between Grants as a Percentage of Tuition and Fees and the Percentage of Students Receiving Grants**



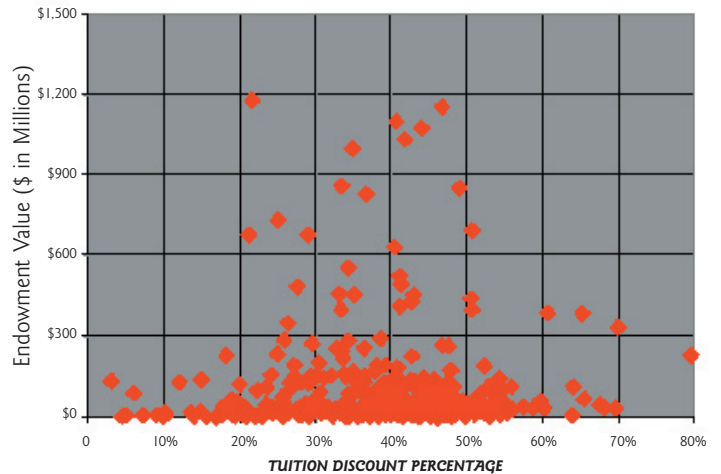
If one travels along the 20% discount curve, one can find an institution which aids almost 100% of its students with an average award of 20% to each student. One also can find institutions which award 25% of their students with grants that equal 80% of the tuition. Both sets of institutions will have average discount rates of 20%, but they will be using very different strategies to arrive at this discount rate.

This graph very clearly demonstrates how the discount rate has risen over the last 13 years and how most of the increase is attributable to an increase in the percentage of students receiving aid rather than increases in the average award.

Finally, Figure 5 demonstrates that there is no significant relationship between endowment size and the tuition discount. Put more simply, relative institutional wealth or poverty does not sharply affect the level of financial aid. Institutional aid is an enrollment management tool. The granting of aid to a significant percentage of the class is a

necessary tool to fill the class with the number and quality of students that are necessary. Most institutions today are unable to enroll an adequate number of qualified students at their published price. We must continue to ask if we are on a pricing merry-go-round or is the pricing strategy which is being employed a rational method for most appropriately attracting the best mix of students to each institution?

**Figure 5**  
**Relationship Between Endowment Size and Tuition Discount**



Historically, the wealthiest colleges and universities in the country espoused “need blind” admissions policies and promised to meet the full need of all accepted applicants. “Need blind” admissions policies meant that a student’s ability to pay was not considered in the admissions process. Today at many institutions the new term is “need aware” admissions policies, meaning that an applicant’s financial need is a consideration in the admissions process.

Meeting full need meant that an institution would provide all aid that one of the accepted formulas for calculating need stated was required by that student to attend the institution. Today, most institutions engage in what is called “strategic packaging.” This means that an institution will consider both the financial need of the student and the attractiveness of that student to the institution in meeting its enrollment goals in developing the package of aid which will be offered to that student. Students with similar financial need but different academic or other characteristics are likely to get different aid packages; the student who is more desirable to that institution will be awarded significantly more grant aid than the other student who may be offered much more of his package as a loan.

Some institutions take the concept of strategic packaging beyond a sorting for academic credentials to attempt to explicitly measure willingness to pay and to adjust aid up or down on the basis of probability of enrollment. A strategic use of discounting is often referred to as “financial aid leveraging.” Leveraging, as it is practiced in colleges and universities, seeks to award just the right amount of aid or discount in order to enroll a particular student and in the aggregate, just the right amount of aid to enroll a class of a planned size with specific characteristics.

There are many systems, from simple to complex, to do this. At the most arithmetically sophisticated level, regression formulas which combine data on groups of students from previous years are used to predict the enrollment behavior of prospective students based, in part,

on variations of grant (or discount) awarded. The use of strategic packaging/ financial aid leveraging has spawned a whole industry of sophisticated consultants who are helping institutions attract the class they want and maximize their net revenue.

The discounting strategies used in higher education raise many questions and the jury is still out. Is it a zero sum game? Has it increased total revenue in higher education by increasing the number of students attending college? Has it diverted needed revenues from programmatic expenditures to unnecessary financial aid expenditures? Has it spread around the brightest students to more institutions and thus helped raise the quality of these institutions?

These are just the beginning of an endless number of questions that can be raised about the enrollment management and tuition discounting practices that institutions of higher education are engaged in today. It should be noted that these strategies are being widely adopted in the public sector especially by the public flagship institutions.

### **Footnotes**

<sup>1</sup> Data for this article were collected as part of the National Association of College and University Business Officers (NACUBO) tuition discounting survey.

<sup>2</sup> See, for example, reports in the *Chronicle of Higher Education*, <http://www.chronicle.com>.

<sup>3</sup> The College Board. *Trends in College Pricing 2002*, <http://www.collegeboard.com>.

# Financing Higher Education in Fiscal Year 2003: The State of the States

Mary P. McKeown-Moak

Nearly every state is in fiscal crisis. Amid a slowing national economy, state revenues have shrunk at the same time that spending pressures are mounting.<sup>1</sup>

## Overview

So begins the 2002 *Fiscal Survey of the States* from the National Governors Association. Nearly every state has reduced budgets and cut expenditures in light of reductions in anticipated state revenues. In this environment, state appropriations to higher education reached \$63.7 billion in Fiscal Year (FY) 2003, an increase of \$31.3 million or less than .001% over FY2002 original appropriations, the lowest increase in the past decade.<sup>2</sup> The increase also was lower than the increase in the inflation rate, which was 2% for the 12 months ending in October 2002.<sup>3</sup> Total state general fund appropriations for all government services increased by 1.3% over FY2002, continuing the trend of the increase in higher education appropriations being less than the increase in total state general fund appropriations. Actual 2003 state revenues are coming in well below forecasts, and states had already significantly curtailed spending in 2002. Medicaid funding grew at the fastest rate of growth since 1992. The combination of these two trends means that it is somewhat of an understatement to say that increased competition for limited state resources is likely in FY2004.<sup>4</sup> About 66% of the states also report that mid-year budget reductions are likely during 2003. A significant number of states already have announced their budget cuts, resulting in significant tuition increases.<sup>5</sup> Total state appropriations to higher education declined to 12.7% of state budgets in FY2002, after two years in a row of increases in higher education's share of state general fund budgets.<sup>6</sup>

A mix of issues were addressed in the 2002 legislative sessions, including an increase in the use of performance measures and other accountability requirements, and an interest in non-need based financial aid programs. On the student aid front, average levels of student indebtedness at graduation continued to increase alarmingly, and loans comprised over 60% of all student financial aid.<sup>7</sup>

Budget reductions, performance-based funding, affordability, reorganization, and calls for eliminating some colleges or combining programs

in the name of efficiency are the top issues facing higher education on state legislative agendas in 2003.<sup>8</sup> Because there are new governors in 24 states, and about one-third of all state legislators are new, college and university officials will have to re-educate their elected officials, who may have different priorities than those officials that preceded them.<sup>9</sup> When combined with reductions in state revenues, increasing competition for state resources, especially from Medicaid, and other health care programs, increased demands for no increases in tuition rates, and an influx of new students, 2003 promises to be a challenging legislative year for higher education officials. Or, in Caruthers' words, found in another article in this issue, the perfect storm may hit higher education.

## State Appropriations

FY2003 state operating budget appropriations for higher education reached the highest levels ever, according to data collected in the annual survey of State Higher Education Finance Officers (SHEFOs) conducted for *Grapevine*, but enthusiasm over the "highest level ever" must be tempered with the reality of the national and state economic picture of fiscal crisis cited by the National Governors Association.

Total state appropriations for FY2003 totaled \$63.7 billion, an increase of only \$31.3 million, less than .001% over FY2002 original appropriations, and a \$3.1 billion, or 5.1%, increase over FY2001. (See Table 1.) Data are presented for two years because many states have biennial budgets in which large appropriations occur in the first year of the biennium with no, or small, increases in the second year.<sup>10</sup> Any mid-FY2003 budget cuts are not reflected in Table 1, but FY2002 mid-year reductions are reflected in the column: "Rev. FY02 State Higher Education Approp." The 34 states that experienced mid-2002 reductions are highlighted in Table 1.

Appropriations to higher education increased 0.0% nationwide, compared to a 1.3% increase in total state budgets. In 16 states, increases in appropriations to higher education outpaced increases in the total state budget; but, in 13 states, FY2003 higher education appropriations were less than FY2002 appropriations when the total state budget had not been reduced. In addition, 21 states reported reductions in state appropriations for higher education from FY2002 to FY2003. Missouri reduced appropriations to higher education by 16.6% between FY2002 and FY2003, and Oregon by 15.5%. In contrast, Wyoming increased its state appropriations to higher education by 11.7%. Between FY2002 and FY2003, total state budgets decreased in 15 states.<sup>11</sup> Unlike other periods for which data are available, over the two-year period FY2001 to FY2003, ten states reported a decline in total state appropriations for the support of higher education,<sup>12</sup> and 15 states reported a decline in the total state budget. Nationally, appropriations for higher education increased 5.1%, compared to a 2.6% increase in total state budgets.

At the national level, total state general fund budgets increased 1.3% in FY2003 over FY2002 and 2.6% over FY2001. Unlike FY2000, when every state reported general fund balances at the end of the year and projected fund balances or "rainy day funds" for FY2001, in FY2002 six states projected no fund balances and two states, Maine and New Hampshire, reported budget deficits.<sup>13</sup> States where increases in higher education funding were the greatest over the two years have experienced increases in enrollments or have gone through major restructuring of the governance or funding of higher education. These include Louisiana, Texas, and Wyoming, all of which had increases greater than 20%.

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However, a report prepared by the American Association of State Colleges and Universities (AASCU) maintains that “the other shoe has dropped” relative to state funding for higher education. AASCU reports:

Economic downturns and tight state budgets usually spell trouble for higher education, and the current period is proving to be no exception. Because colleges and universities are not likely to enjoy protection from mid-year budget trimming in most states, institutions are cutting back and implementing efficiency measures, and expect to continue this activity in the year ahead.<sup>14</sup>

Moreover, FY2003 projected surpluses are billions less than FY2002 actual surpluses, even with reductions made to FY2002 surpluses. FY1998 was the year in which fund balances reached their peak as a percentage of expenditures (9.2%). In contrast, FY2003 fund balances are projected to be 3.6% of projected state expenditures.<sup>15</sup>

In FY2003, higher education’s share of state general fund operating budgets decreased from 13% in FY2000 to 12.7%.<sup>16</sup> In FY1987, higher education was allocated 15.5% of state general fund budgets for current operations. Higher education’s share dropped to 12.9% in FY1997 and to 12.09% in FY1998, before increasing in to 13% in FY2000. State general fund budgets as reported by NASBO reflect tax rebates and reductions and include capital spending and budget surpluses as expenditures.

Conversely, appropriations per full-time equivalent (FTE) student in constant dollars continue to increase but have not returned to the high levels of 1986 through 1988. Since 1993, state appropriations per FTE student have increased in constant dollars, according to data from Research Associates of Washington. In the years between 1988 and 1993, state appropriations per FTE student fell by more than 15%, but have now recovered to 1984 levels.<sup>17</sup>

When compared to increases in the Consumer Price Index (CPI)<sup>18</sup> over the time period FY2002 to FY2003, state appropriations to higher education did not keep pace with increases in the CPI, 0.0% compared to 2.0%. However, over the ten years between FY1993 and FY2003, state appropriations to higher education increased 60.2%, significantly greater than the CPI increase of 35.5%. Over the one-year time period FY2002 to FY2003, appropriations for higher education did not keep pace with projected increases in the CPI in 32 geographically diverse states.<sup>19</sup>

### **Regional Changes**

Table 2 displays regional changes in higher education appropriations. When changes in appropriations are examined by region of the country, where region is defined by the National Association of State Budget Officers, there are significant variations in the percentage change in appropriations.

The southwest states—Arizona, New Mexico, Oklahoma, and Texas—experienced by far the greatest average increase from FY2001 to FY2003, 20.4%, in large part because of the significant increase in Texas, which can be interpreted to skew the results for the region. These states experienced the second largest regional increase from FY2002 to FY2003 (1.2%).

The far west states—Alaska, California, Hawaii, Nevada, Oregon, and Washington—had substantial variation in the rate of change in appropriations: Oregon experienced a one-year appropriations decrease of 15.5%, while Nevada had a 6.8% increase. The plains states—Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South

Dakota—were the hardest hit region between FY2002 and FY2003, experiencing a 4.1% reduction in appropriations and a 2.2% reduction over two years.

When compared to the national average appropriation increases of 0.0% between FY2002 and FY 2003 and 5.1% between FY2001 and FY2003, only the far west states, southwest states, and the mid-Atlantic states experienced above-average increases for both time periods.

### **Pricing and Financial Aid Trends**

#### **Pricing**

According to the National Association of College and University Business Officers, colleges and universities have been hit with a triple whammy consisting of cuts in state appropriations, reduced gifts from private donors and alumni, and decreased earnings on investments and endowments. Because all these major funding sources have been limited, institutions have had no choice but to make up the balance of operating funds by increasing tuition.<sup>20</sup>

Undergraduate resident tuition and fees rose 9.6% in 2002-2003 at public universities, and 7.9% at community colleges, increasing from an average of \$3,725 to \$4,081 at four-year public universities, and from \$1,608 to \$1,735 at two-year public colleges.<sup>21</sup> (See Table 3.) These increases exceed the increase in the CPI by more than 8%. Room and board charges at four-year public college and universities increased 6.0%, from \$5,266 to \$5,582. Tuition and fees tend to be higher in the Northeast and Midwest, and lower than average in the South and Southwest. Total cost of attendance (COA) at a public four-year college or university typically is \$12,841 for an undergraduate in-state student who lives on campus and \$13,463 for a commuter student. At two-year public colleges, the typical cost of attendance for an in-state student during 2002-2003 is \$9,731.

Average public four-year in-state tuition rose 75% in current dollars or 38% in constant dollars over the time period FY1993 to FY2003. Similarly, average public community/technical college in-state tuition rose 55% in current dollars and 23% in constant dollars over the same period. In contrast, median family income has risen only 20% since; and the average cost of attendance (at public four-year colleges) as a share of family income has increased significantly for low and middle income families.<sup>22</sup> For families whose income is in the lowest fifth of the distribution, average cost of attendance has increased from 40% to 62% of family income; and for families who are in the middle quintile, the COA increased from 12% to 17% of income. For families whose income is in the highest quintile, average cost of attendance remained at about 5% of family income. Growing income inequality in the nation compounds this problem.

Academic year 2000-2001 was the first in which colleges and universities were required to report data on college costs, using standardized definitions for tuition and fees and the cost of attendance as required by the 1998 reauthorization of the Higher Education Act. Additionally, a national longitudinal study of college and university expenditures has begun that will provide trend information on tuition and fees compared to the CPI, and financial aid. Prospective students and their parents can find a wealth of information, including tuition and fee information, on the Web site of the National Center for Education Statistics (NCES)<sup>23</sup> or on college and university Web sites. In addition, the U.S. Department of Education produced *Managing the Price of College: A Handbook for Students and Families*, which aims to reduce the mythology surrounding costs of college attendance.<sup>24</sup>

**Table I**  
**State Appropriations and Budget Balances**

State	FY01 State Higher Education Approp.	FY02 State Higher Education Approp.	Rev. FY02 State Higher Ed. Approp.	FY03 State Higher Education Approp.	% Change Over FY2002	2 Year % Change Over FY2001	State Budget 1 Yr. % Exp. Change**	State Budget 2 Yr. % Exp. Change**	FY2003 Balances State Funds**	FY2003 Balances as a % of Expend.**
Alabama	1,159,193	1,116,129	1,115,999	1,148,152	2.9%	-1.0%	1.6%	4.5%	261,000	4.8%
Alaska	190,573	204,837	204,706	212,747	3.9%	11.6%	-13.6%	-9.2%	1,940,000	94.6%
Arizona	892,621	949,926	884,175	907,227	-4.5%	1.6%	-2.7%	-3.2%	526,000	8.5%
Arkansas	618,127	653,386	625,112	625,987	-4.2%	1.3%	4.2%	1.9%	0	0.0%
California	9,017,418	9,468,062	9,473,522	9,590,129	1.3%	6.4%	-0.2%	-1.7%	3,545,000	4.6%
Colorado	743,483	783,421	756,809	817,236	4.3%	9.9%	-2.7%	-2.3%	116,000	1.8%
Connecticut	710,339	761,942	753,681	762,600	0.1%	7.4%	1.4%	6.0%	0	0.0%
Delaware	185,840	189,228	186,398	192,889	1.9%	3.8%	2.4%	3.4%	464,000	18.5%
Florida	2,829,525	2,822,083	2,725,210	2,916,595	3.3%	3.1%	1.1%	1.1%	0	0.0%
Georgia	1,600,329	1,699,438	1,707,734	1,764,481	3.8%	10.3%	4.5%	5.1%	2,160,000	13.4%
Hawaii	339,030	349,159	349,231	369,649	5.9%	9.0%	4.9%	13.6%	73,000	1.9%
Idaho	298,210	330,776	323,340	305,337	-7.7%	2.4%	-1.6%	6.7%	2,000	0.1%
Illinois	2,699,067	2,922,599	2,904,184	2,787,048	-4.6%	3.3%	0.5%	-0.5%	501,000	2.1%
Indiana	1,283,197	1,321,191	1,321,191	1,326,682	0.4%	3.4%	7.8%	11.5%	355,000	3.4%
Iowa	851,124	830,226	786,640	769,854	-7.3%	-9.5%	-3.1%	-8.8%	141,000	3.2%
Kansas	680,313	715,585	712,923	712,027	-0.5%	4.7%	-0.5%	0.3%	83,000	1.9%
Kentucky	1,001,625	1,084,605	1,063,668	1,094,599	0.9%	9.3%	2.7%	3.3%	58,000	0.8%
Louisiana	880,064	997,813	997,813	1,055,455	5.8%	19.9%	1.5%	5.6%	261,000	3.9%
Maine	228,917	239,892	239,002	242,082	0.9%	5.8%	4.9%	2.6%	-229,000	0.0%
Maryland	1,174,603	1,297,406	1,282,690	1,301,845	0.3%	10.8%	-3.5%	3.5%	390,000	3.7%
Massachusetts	1,145,029	1,009,921	1,017,564	989,019	-2.1%	-13.6%	-0.3%	2.8%	815,000	3.6%
Michigan	2,231,607	2,273,532	2,257,732	2,263,572	-0.4%	1.4%	0.2%	-5.5%	68,000	0.7%
Minnesota	1,349,137	1,382,576	1,379,832	1,419,395	2.7%	5.2%	6.1%	8.9%	636,000	4.6%
Mississippi	881,827	805,964	765,014	775,243	-3.8%	-12.1%	-0.7%	-2.8%	203,000	5.8%
Missouri	1,027,548	1,049,504	974,646	875,070	-16.6%	-14.8%	2.8%	1.7%	231,000	2.9%
Montana	141,688	149,738	149,8838	146,034	-2.5%	3.1%	-5.7%	0.8%	30,000	2.3%
Nebraska	526,041	525,220	521,316	520,691	-0.9%	-1.0%	0.9%	5.8%	93,000	3.5%
Nevada	316,613	346,845	346,845	370,593	6.8%	17.0%	6.9%	9.7%	132,000	6.5%
New Hampshire	98,695	107,608	107,573	111,135	3.3%	12.6%	2.9%	12.7%	-6,000	0.0%
New Jersey	1,670,911	1,794,946	1,751,643	1,791,323	-0.2%	7.2%	8.9%	1.4%	110,000	0.5%
New Mexico	568,295	611,173	611,175	620,718	1.6%	9.2%	-4.2%	1.6%	328,000	8.5%
New York	3,452,636	3,574,159	3,602,215	3,823,188	7.0%	10.7%	-2.4%	1.4%	1,426,000	3.5%
North Carolina	2,398,489	2,442,690	2,442,690	2,449,659	0.3%	2.1%	4.4%	6.6%	0	0.0%
North Dakota	184,631	201,497	201,497	201,497	0.0%	9.1%	15.0%	13.8%	0	0.0%
Ohio	2,206,398	2,205,481	2,084,535	2,112,609	-4.2%	-4.3%	5.5%	7.8%	138,000	0.6%
Oklahoma	779,672	824,891	796,312	811,474	-1.6%	4.1%	-5.6%	-1.5%	63,000	1.3%
Oregon	667,236	714,837	679,831	604,330	-15.5%	-9.4%	8.3%	-2.8%	0	0.0%
Pennsylvania	2,005,364	2,035,092	2,011,695	2,011,110	-1.2%	0.3%	-0.4%	4.2%	318,000	1.5%
Rhode Island	162,842	174,939	174,473	169,438	-3.1%	4.1%	0.8%	7.5%	102,000	3.8%

**Table 1 (continued)**  
**State Appropriations and Budget Balances**

State	FY01 State Higher Education Approp.	FY02 State Higher Education Approp.	Rev. FY02 State Higher Ed. Approp.	FY03 State Higher Education Approp.	% Change Over FY2002	2 Year % Change Over FY2001	State Budget 1 Yr. % Exp. Change**	State Budget 2 Yr. % Exp. Change**	FY2003 Balances State Funds**	FY2003 Balances as a % of Expend.**
South Carolina	880,120	896,773	856,200	830,305	-7.4%	-5.7%	5.2%	-1.3%	186,000	3.4%
South Dakota	134,803	141,973	143,163	148,588	4.7%	10.2%	3.3%	9.2%	79,000	9.0%
Tennessee	1,039,373	1,073,136	1,071,515	1,153,989	7.5%	11.0%	4.0%	11.6%	99,000	1.3%
Texas	4,029,799	5,074,633	5,135,147	5,209,765	2.7%	29.3%	1.1%	6.5%	1,008,000	3.3%
Utah	543,691	608,644	586,208	566,431	-6.9%	4.2%	-4.4%	-5.4%	10,000	0.3%
Vermont	67,753	73,195	71,354	75,455	3.1%	11.4%	0.8%	-0.2%	18,000	2.0%
Virginia	1,629,776	1,681,646	1,631,856	1,545,680	-8.1%	-5.2%	1.6%	-2.0%	498,000	4.1%
Washington	1,333,911	1,373,895	1,370,342	1,375,255	0.1%	3.1%	0.0%	3.7%	401,000	3.6%
West Virginia	387,432	392,051	392,051	393,695	0.4%	1.6%	10.8%	14.9%	62,000	2.0%
Wisconsin	1,170,122	1,192,913	1,194,852	1,220,788	2.3%	4.3%	-2.9%	-1.3%	145,000	1.3%
Wyoming	153,582	169,929	161,917	189,786	11.7%	23.6%	18.3%	5.5%	33,000	4.4%
National Total or Average	60,568,619	63,647,105	62,905,059	63,678,456	0.0%	5.1%	1.3%	2.6%	17,873,000	3.6%
High	9,017,418	9,468,062	9,473,522	9,590,129	11.7%	29.3%	18.3%	14.9%	3,545,000	94.6%
Low	67,753	73,195	71,354	75,455	-16.6%	-14.8%	-13.6%	-9.2%	-229,000	0.0%

Note: Dollars in thousands.

\* Source: *Grapevine*. Figures for 2002 revised from prior year report.

\*\* Source: National Association of State Budget Officers

Nevertheless, the mythology this year is the reality: college costs have increased significantly, and may have prevented thousands of students from attending. Because state appropriations for higher education have leveled off, or dropped sharply in some states, colleges and universities are responding by increasing tuition and fee charges, in some states at rates that are called "startling."<sup>25</sup> In Massachusetts, tuition increased 24%, and the Arizona University System announced tuition increases of over 30% in one year. In addition, Texas increased tuition and fees by 20%; North Carolina by 19%; and Ohio by 17%. At community colleges in ten states, tuition and fees rose more than 10%, with the largest increases occurring in Massachusetts and South Carolina at 26%.<sup>26</sup>

### Financial Aid

In Academic Year 2001-2002, an estimated total of \$90 billion in student financial aid was awarded to students attending post-secondary institutions, an increase of 11.5% over Academic Year 2000-2001, or 10% after adjusting for inflation as measured by the CPI. The federal government provided about 66% of total aid, and over 57% of total aid was awarded as loans. (See Figure 1.)<sup>27</sup> Not included in the totals are student wages that are not a part of work-study programs, or any of the state tax credit programs. Federal tuition tax credits alone were estimated at \$5 billion and are included in the total federal government

financial aid of \$62 billion. Total student financial aid exceeded state appropriations to institutions of higher education, and federal student financial aid alone almost was equal to state appropriations.

Over the last ten years, total financial aid increased about 117% in constant dollars although increases in loan programs accounted for over 67% of the increase (and grant programs only 23%). Loans from all sources totaled \$46.9 billion or 52% of all aid in 2001-2002, compared to 47% in 1992-93 and 41% in 1980-81. The greatest increases have occurred in the unsubsidized loan programs that comprise 45% of all federal student loans. Average indebtedness at graduation has increased to alarming levels. A report by the State Public Interest Research Group's Higher Education Project calls on Congress to increase spending on Pell Grants, make loans more affordable for students, and maintain flexible repayment options to prevent defaults. The report notes that students are going deeper and deeper into debt to pay for college.<sup>28</sup>

State grant funding increased by about 100% in constant dollars over the past ten years, but still comprises only 5.6% of total student aid. Although institutional aid has more than doubled since 1991, available grant aid has not offset relative declines in federal grants, nor has total aid increased as fast as increases in the cost of attendance. As a result, the cost of attendance consumes a greater share of personal income, as mentioned earlier.

**Table 2**  
**Regional Changes in Higher Education Appropriations**

<b>States</b>	<b>FY2002 State Appropriations</b>	<b>FY2003 State Appropriations</b>	<b>% Change over FY2002</b>	<b>2 Year % Change over FY2001</b>
<b>Southeast:</b>				
Alabama	\$1,116, 129	\$1,148,152	2.9%	-1.0%
Arkansas	653,386	625,987	-4.2%	1.3%
Florida	2,822,083	2,916,595	3.3%	3.1%
Georgia	1,699,438	1,764,481	3.8%	10.3%
Kentucky	1,084,605	1,094,599	0.9%	9.3%
Louisiana	997,813	1,055,455	5.8%	19.9%
Mississippi	805,964	775,243	-3.8%	-12.1%
North Carolina	2,442, 690	2,449,659	0.3%	2.1%
South Carolina	896,773	830,305	-7.4%	-5.7%
Tennessee	1,073,136	1,153,989	7.5%	11.0%
Virginia	1,681,646	1,545,680	-8.1%	-5.2%
West Virginia	392,051	393,695	0.4%	1.6%
Subtotal, Southeast	15,665,714	15,753,840	0.6%	2.9%
<b>Mid-Atlantic:</b>				
Delaware	189,228	192,889	1.9%	3.8%
Maryland	1,297,406	1,301,845	0.3%	10.8%
New Jersey	1,794,946	1,791,323	-0.2%	7.2%
New York	3,574,159	3,823,188	7.0%	10.7%
Pennsylvania	2,035,092	2,011,110	-1.2%	0.3%
Subtotal, Mid-Atlantic	8,890,831	9,120,355	2.6%	7.4%
<b>New England:</b>				
Connecticut	761,942	762,600	0.1%	7.4%
Maine	239,892	242,082	0.9%	5.8%
Massachusetts	1,009,921	989,019	-2.1%	-13.6%
New Hampshire	107,608	111,135	3.3%	12.6%
Rhode Island	174,939	169,438	-3.1%	4.1%
Vermont	73,195	75,455	3.1%	11.4%
Subtotal, New England	2,367,497	2,349,729	-0.8%	-2.6%
<b>Great Lakes:</b>				
Illinois	2,922,599	2,787,048	-4.6%	3.3%
Indiana	1,321,191	1,326,682	0.4%	3.4%
Michigan	2,273,532	2,263,572	-0.4%	1.4%
Ohio	2,205,481	2,112,609	-4.2%	-4.3%
Wisconsin	1,192,913	1,220,788	2.3%	4.3%
Subtotal, Great Lakes	9,915,716	9,710,699	-2.1%	1.3%

**Table 2 (continued)**  
**Regional Changes in Higher Education Appropriations**

<b>States</b>	<b>FY2002 State Appropriations</b>	<b>FY2003 State Appropriations</b>	<b>% Change over FY2002</b>	<b>2 Year % Change over FY2001</b>
<b>Plains:</b>				
Iowa	830,226	769,854	-7.3%	-9.5%
Kansas	715,585	712,027	-0.5%	4.7%
Minnesota	1,382,576	1,419,395	2.7%	5.2%
Missouri	1,049,504	875,070	-16.6%	-14.8%
Nebraska	525,220	520,691	-0.9%	-1.0%
North Dakota	201,497	201,497	0.0%	9.1%
South Dakota	141,973	148,588	4.7%	10.2%
Subtotal Plains	4,846,581	4,647,122	-4.1%	-2.2%
<b>Southwest:</b>				
Arizona	949,926	907,227	-4.5%	1.6%
New Mexico	611,173	620,718	1.6%	9.2%
Oklahoma	824,891	811,474	-1.6%	4.1%
Texas	5,074,633	5,209,765	2.7%	29.3%
Subtotal, Southwest	7,460,623	7,549,184	1.2%	20.4%
<b>Rocky Mountain:</b>				
Colorado	783,421	817,236	4.3%	9.9%
Idaho	330,776	305,337	-7.7%	2.4%
Montana	149,738	146,034	-2.5%	3.1%
Utah	608,644	566,431	-6.9%	4.2%
Wyoming	169,929	189,786	11.7%	23.6%
Subtotal, Rocky Mountain	2,042,508	2,024,824	-0.9%	7.7%
<b>Far West:</b>				
Alaska	204,837	212,747	3.9%	11.6%
California	9,468,062	9,590,129	1.3%	6.4%
Hawaii	349,159	369,649	5.9%	9.0%
Nevada	346,845	370,593	6.8%	17.0%
Oregon	714,837	604,330	-15.5%	-9.4%
Washington	1,373,895	1,375,255	0.1%	3.1%
Subtotal, Far West	12,457,635	12,522,703	0.5%	5.5%
<b>TOTAL</b>	<b>\$63,647,105</b>	<b>\$63,678,456</b>	<b>0.0%</b>	<b>5.1%</b>

*Access Denied*, the report of the Advisory Committee (to the U.S. Congress and the Secretary of Education) on Student Financial Assistance, takes Congress and state legislatures to task for the status of the nation's commitment to equal educational opportunity.<sup>29</sup> The Advisory Committee notes that the proportion of high school graduates from families earning less than \$25,000 per year who go to college is 32% less than the proportion from families earning more than \$75,000 per year. Compounding the problem is the fact that the cost of education has risen sharply as a percentage of family income only for low income families; yet aid for middle-income students (in the form of tax credits) and merit have begun to displace access as the focus of student financial aid policies.

Enactment of the Taxpayer Relief Act of 1997 provided new federal "student aid" through the use of income tax credits, savings incentives, and limited deductibility for interest paid on student loans. These programs were projected to cost about as much as all other existing federal financial aid programs combined and represented a significant shift in how the federal government provides funding for higher education.<sup>30</sup> The federal tax credits (and state programs that copy the federal) are not need-based; represent revenue foregone rather than expenditures; and benefit primarily middle and upper-middle income students and their families. Tax credits are capped, however, for family incomes above \$100,000. Lower income students who owe no federal taxes will not benefit, and those students whose family

**Table 3**  
**Average College and University Prices, 2002-2003**

	Two-Year Public Colleges	Four-Year Public Colleges
In-State:		
Tuition and Fees, 2002-2003	\$1,735	\$4,081
Tuition and Fees, 2001-2002	\$1,608	\$3,725
Percent Change	7.9%	9.6%
Room and Board, 2002-2003	N/A	\$5,582
Room and Board, 2001-2002	N/A	\$5,266
Percent Change	N/A	6.0%
Books and Supplies	\$727	\$786
Transportation, Commuter	\$1,104	\$1,013
Transportation, Resident	N/A	\$749
Other Expenses	\$1,462	\$1,853
Total Budget, 2002-2003		
Resident		\$12,841
Commuter	\$9,731	\$13,463

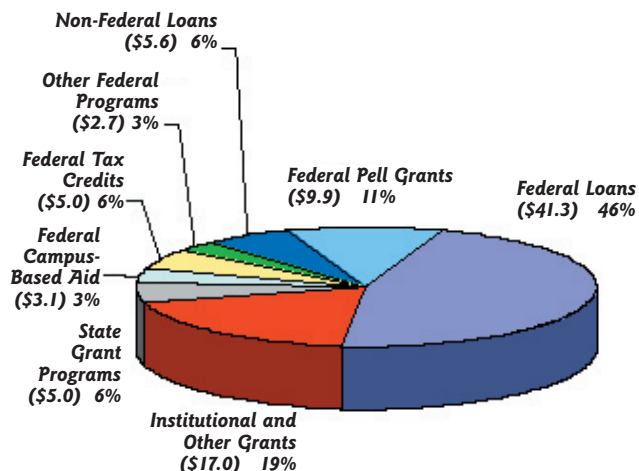
Source: The College Board, *Trends in College Pricing 2002*.

tax bill is less than the credit will receive partial benefits. For these reasons, the Advisory Committee on Student Financial Assistance has attacked the program as contributing to the denial of access. Despite the dire predictions that these programs would result in reductions of other aid and cost over \$10 billion, it is estimated that the federal program provided about \$5 billion of tax relief for middle income families in 2002.

Since 1998, more than 60% of states adopted some merit-based scholarship program, copying the Georgia Hope Scholarship in most cases.<sup>31</sup> While many higher education analysts criticize this program, it has been enormously popular with legislatures, as are college savings programs and prepaid college tuition programs.<sup>32</sup> All of the prepaid college tuition or college savings programs and the federal Hope and Lifetime Learning programs represent tax expenditures, or foregone revenues, to the federal and state governments. Significant questions have been raised about the trend of governments subsidizing the clients of higher education (students and their families) as opposed to subsidizing the institutions. The impact of these programs on access and equity issues is unclear although the Advisory Committee on Student Financial Assistance blames these programs for reductions in access.<sup>33</sup>

Since 1981, current funds revenues of public higher education institutions have experienced a shift in the proportions of revenues from state appropriations and tuition. In 1981, state appropriations contributed about 44% of total revenues at public four-year institutions, and tuition made up 12.9% of revenues. In 1998, the latest year for which data are available, state appropriations' share declined to 30%, while tuition's share of current revenues had climbed to 20.4%.<sup>34</sup> Over half of the states constrain by state policy colleges and universities to limited increases in tuition. In 12 states, tuition increases cannot exceed the increase in the CPI or the Higher Education Price Index (HEPI).<sup>35</sup> When the economy experiences a downturn, as it has now, freezes on tuition increases coupled with little or no increase in state appropriations

**Figure 1**  
**Estimated Student Aid by Source FY2002**  
**Total Aid Awarded: \$89.6 Billion**



(Dollars in Billions)

Source: The College Board, *Trends in Student Aid 2002*.

require reductions in services or quality or an increase in productivity. It was for that reason that Connecticut removed its freeze on tuition increases. Only time will tell if other states follow suit.

**Other Issues**

During the 1990s, nine states fundamentally changed their higher education governance structures, and at least 20 other states studied and debated the issue.<sup>36</sup> In Massachusetts, the new governor has proposed significant changes in governance that will have a negative impact on state funding. The proposal would privatize the University of Massachusetts Amherst Campus and cut state appropriations accordingly. In Colorado, vouchers to students, as opposed to appropriations to higher education institutions, have been proposed by the state legislature. It is unclear if this bill will be passed into law, but it certainly has raised the stakes for the funding of higher education.

During 2002 legislative sessions, several states discussed additional flexibility as a trade-off to performance indicators or funding. The National Association of State Budget Officers (NASBO) has called performance-based budgeting and funding the most significant trend in state budgeting.<sup>37</sup> Elsewhere in this edition, Burke and Minassian point out that the drive to accountability has swept the country and appears likely to continue.

**Emerging Issues in 2003 Legislative Sessions**

With the national economy showing signs of crisis, higher education leaders are cautious and even somewhat pessimistic about the results of 2003 legislative sessions. Many higher education leaders are hoping to prevent additional outright budget reductions. Others are prepared to argue that new research funding and workforce development programs are the key to improving the economy in their states. Budget cuts have forced many institutions to defer expansions of programs, including cooperative programs with elementary and secondary education.<sup>38</sup> Higher education is one of the few discretionary items in state budgets

and always is vulnerable to funding reductions; institutions likely will continue to face actual budget reductions in the next two years. The fiscal forecast for state spending indicates that states likely will face additional significant fiscal deficits.

As Caruthers has indicated, the “perfect storm” may have hit higher education. The good times were good while they lasted, and may continue for a lucky few institutions or states. However, for the majority of others, this year likely will be a time of focusing on doing more with less, and seeking to survive. Tougher decisions will demand more of college and university leaders. The easy cuts have been made to budgets, and now decisions about programs, and the primary missions of the institutions will come to the forefront.

### Footnotes

<sup>1</sup> National Governors Association (NGA) and National Association of State Budget Officers (NASBO), *Fiscal Survey of the States* (December 2002), <http://www.nacubo.org>.

<sup>2</sup> James Palmer, *Grapevine* (Bloomington, Illinois: Illinois State University, 2003), <http://www.coe.ilstu.edu/grapevine>. *Grapevine* reported adjusted FY2002 appropriations so that numbers shown here do not match appropriations reported in the Fourth Annual State of the States.

<sup>3</sup> Michael Arnone, “State Spending on Colleges Increases at Lowest Rate in a Decade,” *Chronicle of Higher Education*, December 13, 2002, A28.

<sup>4</sup> NGA and NASBO, *Fiscal Survey of the States*.

<sup>5</sup> Education Commission of the States, *ECS e-Clips*, November 26, 2002, <http://www.ecs.org/ecs/e-clips>.

<sup>6</sup> NGA and NASBO, *Fiscal Survey of the States*.

<sup>7</sup> The College Board, *Trends in Student Aid 2002*, <http://www.collegeboard.com/press/cost02/html/CBTrendsAid02.pdf>.

<sup>8</sup> Michael Arnone, Sara Hebel, and Peter Schmidt, “Another Bleak Budget Year,” *Chronicle of Higher Education*, January 3, 2003, A21.

<sup>9</sup> Ibid.

<sup>10</sup> Complete information on state-by-state appropriations for higher education over the ten year period FY1993 to FY2003 can be obtained at <http://www.ilstu.edu/grapevine>. Information on state budgets, expenditures, and fund balances can be obtained at <http://www.nasbo.org>.

<sup>11</sup> These included Alaska, Arizona, California, Colorado, Idaho, Iowa, Kansas, Maryland, Massachusetts, Mississippi, Montana, Oklahoma, Pennsylvania, Utah, and Wisconsin, but higher education budgets did not decrease in five of those states: Alaska, California, Colorado, Maryland, and Wisconsin.

<sup>12</sup> These included Alabama, Iowa, Massachusetts, Mississippi, Missouri, Nebraska, Ohio, Oregon, South Carolina, and Virginia.

<sup>13</sup> NGA and NASBO, *Fiscal Survey of States*.

<sup>14</sup> American Association of State Colleges and Universities (AASCU), *State Issues Digest 2002*, April 2002, [http://www.aascu.org/policy/sid\\_02/default.htm](http://www.aascu.org/policy/sid_02/default.htm).

<sup>15</sup> Ibid.

<sup>16</sup> Calculated by MGT from data reported by the National Association of State Budget Officers and *Grapevine*. Data on percentage share for FY1987 to FY1997 from AASCU came from, American Association of State Colleges and Universities, *State Fiscal Conditions* (Washington, D.C.: August 1998) 4.

<sup>17</sup> Kent Halstead, communications with the author, February, 2003.

<sup>18</sup> U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Price Indexes*, <http://www.bls.gov/cpi>.

<sup>19</sup> These included: Arizona, Arkansas, California, Connecticut, Delaware, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Montana, Nebraska, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Vermont, Washington, West Virginia, and Wisconsin.

<sup>20</sup> National Association of College and University Business Officers, “Hit With Triple Whammy, Institutions Raise Tuition,” *Business Officer*, 36 (December 2002): 10.

<sup>21</sup> The College Board, *Trends in College Pricing 2002* (New York: 2002).

<sup>22</sup> Ibid.

<sup>23</sup> Go to: <http://nces.ed.gov>.

<sup>24</sup> National Institute on Postsecondary Education, Libraries, and Lifelong Learning, *Managing the Price of College: A Handbook for Students and Families*. (Washington, D.C.: U.S. Department of Education, U.S. Government Printing Office, November 2000), <http://www.ed.gov/pubs/collegecosts/cover.html>.

<sup>25</sup> William Trombley, *The Rising Price of Higher Education*, National Center for Public Policy and Higher Education, Winter, 2003.

<sup>26</sup> Ibid.

<sup>27</sup> The College Board. *Trends in Student Aid 2000* (New York: 2000).

<sup>28</sup> Stephen Burd, “Report Says Congress Must Act to Minimize Students’ Mounting Loan Debt,” *Chronicle of Higher Education*, March 28, 2001.

<sup>29</sup> Advisory Committee on Student Financial Assistance, *Access Denied* (Washington, D.C.: U.S. Congress and Secretary of Education February, 2001), [http://www.ed.gov/offices/AC/ACSFA/access\\_denied.pdf](http://www.ed.gov/offices/AC/ACSFA/access_denied.pdf).

<sup>30</sup> Kristin D. Conklin, *Federal Tuition Tax Credits and State Higher Education Policy* (Washington, D.C.: National Center for Public Policy and Higher Education, 1998).

<sup>31</sup> *State Higher Education Executive Officers (SHEEO)/MGT Survey of State Higher Education Finance Officers (SHEFO)*.

<sup>32</sup> Jeffrey Selingo, “Many Freshmen Lose Eligibility for Georgia’s HOPE Scholarship, Report Says,” *Chronicle of Higher Education*, April 20, 1999.

<sup>33</sup> Advisory Committee on Student Financial Assistance, *Access Denied*.

<sup>34</sup> Calculated from data from National Center for Education Statistics, Digest of Education Statistics 2002 (Washington, D.C.: U.S. Government Printing Office, 2002).

<sup>35</sup> AASCU, *State Issues Digest 2002*.

<sup>36</sup> Ibid.

<sup>37</sup> NGA and NASBO, *Fiscal Survey of the States*.

<sup>38</sup> Arnone et al., A21.



# The Changing Financial and Policy Role of State Governments Regarding Higher Education and Prospects for the Future

**Daniel T. Layzell**

Higher education in the United States grew rapidly in the post-World War II era, more than doubling the total number of degree-granting institutions (1,851 to 4,084) and increasing the total number of students enrolled more than five-fold (2.7 million to 14.8 million) between 1950 and 2000.<sup>1</sup> State governments have had a significant financial role in this expansion. According to data published by the National Center for Education Statistics (NCES), in 1949-50 state governments accounted for an average 21% of the annual operating revenues of all colleges and universities (public and private). This ratio grew during succeeding decades to a high of one-third by the end of the 1970s.<sup>2</sup> While a major aspect of this role has related to the development and expansion of systems of public colleges and universities, states also have been active in funding student financial aid programs, direct assistance for private institutions, and various grant programs targeted to specific state priorities (e.g., economic development, minority student achievement, research).

Along with this increased financial investment in higher education during the past fifty years has been a continually changing policy role for state policymakers as well. This role has evolved over time from a primary focus on meeting the access needs of a growing college-age population in a rational and coordinated manner to include a focus on accountability. The concept of public accountability for higher education has changed as well from a focus on ensuring fiscal/programmatic efficiency to a more recent emphasis by governors, legislators, business leaders, and the public at large on the need to demonstrate in a tangible manner the outcomes of a college education.

The current economic downturn and related negative impact on state budgets resulted in the lowest overall increase in state spending for higher education (for fiscal year 2003) since fiscal year 1993.<sup>3</sup> The state "share" of institutional operating revenues also has declined since the end of the 1970s to around 20% in total, the same proportion as right after World War II.<sup>4</sup> In the short term, the decline in the state share has renewed concerns about the continued ability of state governments to adequately support the impressive system of higher education that has built up and matured over the past half-century, including a wide array of public colleges and universities, student

financial aid programs, and other initiatives. This situation also has raised questions about the appropriate long-term policy role of state government with regard to higher education, particularly if states' "equity stake" in higher education continues to decline.

This article will explore trends in state support for higher education since the mid-1960s, the evolution of the policy roles of state governments with regard to higher education during that period, and prospects for the future on both fronts.<sup>5</sup> It should be noted at the beginning that while trends in state financial support for higher education and state higher education policy issues have varied over time among the individual states, the focus of this analysis is on broad patterns occurring within the states as a "whole."

## **Trends in State Financial Support for Higher Education: Various Perspectives**

This section examines trends and patterns in state support for higher education from a variety of perspectives, including absolute trends in state funding for higher education, state higher education funding relative to overall state spending, and state funding relative to total public institution revenues.<sup>6</sup>

Trends in state tax support for higher education. Figure 1 shows the trend in state tax appropriations for higher education operating expenses between Fiscal Years 1965 and 2003, both in current and constant dollars (FY 2003). State funding grew steadily in current dollars until the recession of the early 1990s, then declined briefly before growing again throughout the rest of that decade into the new century. In constant dollars, there were three clear breakpoints in continuing growth corresponding with the early 1980s, early 1990s, and the most recent beginning in FY 2002. These breakpoints also correspond with varying degrees of national economic downturn, illustrating the close relationship between the relative health of state funding for higher education and the health of state and national economies.

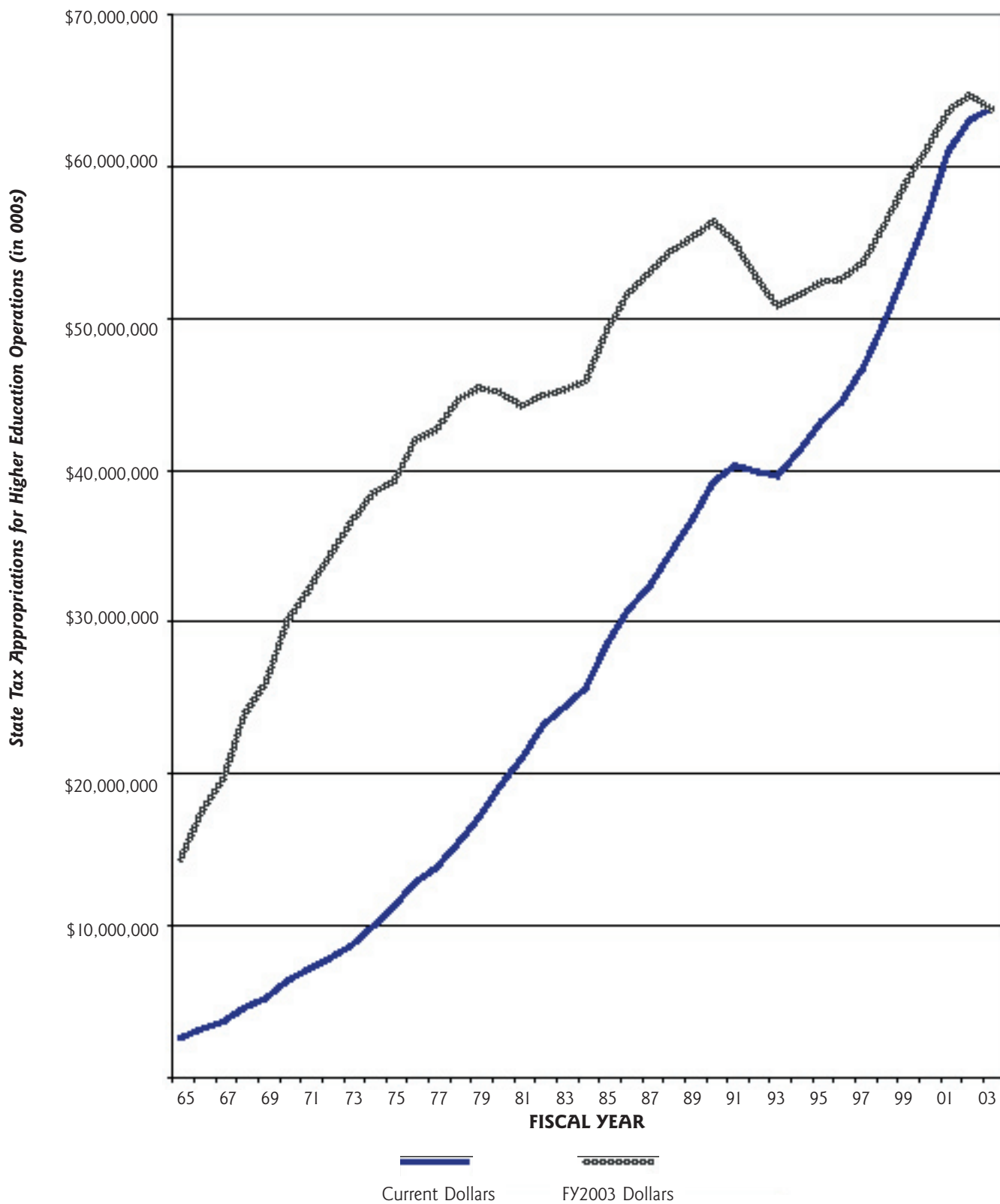
Table 1 presents the same data, but illustrates the average annual change in five-year increments. Clearly, the halcyon days of state funding for higher education were during the mid- and late-1960s and into the early 1970s, driven in part by the doubling of enrollment in public colleges and universities nationally from 4 to 8 million.<sup>7</sup> Again, the constant dollar figures illustrate a clear break in funding growth in the early 1980s, with a much more severe break during the recession of the early 1990s. There was some improvement in funding during the extended period of national economic growth following this recession, although this too appears to have come to an end with the current economic downturn.

An alternate view of the trend in state funding for higher education is presented in Figure 2. This graphic shows the (U.S. average) state tax appropriations for higher education per \$1,000 personal income (STAHEPPI) since fiscal year 1965, and juxtaposes state funding for higher education with the relative wealth of the population. STAHEPPI grew rapidly through the mid-1970s, before slowly declining in stair step fashion through the 1980s and 1990s. STAHEPPI declined steadily since fiscal year 2001 to its lowest level during this 38-year period since fiscal year 1968. In short, even in the periods of relative economic prosperity, state tax support for higher education has not kept pace with personal income growth – a fact of particular interest given that 42 states have a personal income tax.<sup>8</sup>

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**Figure I**  
**Trend in State Tax Appropriations for Higher Education Operations (U.S. Total)**



**Table 1**  
**Changes in State Tax Appropriations for Higher Education Operations Since Fiscal Year 1965**

Fiscal Year	Current Dollars			FY 2003 Dollars		
	Amount	Average Annual Change Between Fiscal Years		Amount	Average Annual Change Between Fiscal Years	
		\$	%		\$	%
1965	\$2,438,666	-	-	\$14,261,205	-	-
1970	6,190,389	750,345	20.5	29,905,261	3,128,811	16.0
1975	11,101,848	982,292	12.4	39,091,014	1,837,151	5.5
1980	19,102,817	1,600,194	11.5	44,947,805	1,171,358	2.8
1985	28,409,534	1,861,343	8.3	49,066,553	823,750	1.8
1990	39,109,108	2,139,915	6.6	56,272,098	1,441,109	2.8
1995	42,973,194	772,817	1.9	52,215,303	(811,359)	-1.5
2000	56,591,115	2,723,584	5.7	61,047,589	1,766,457	3.2
2003	63,648,456	2,352,447	4.0	63,648,456	866,956	1.4

Source: Center for the Study of Education Policy, Illinois State University.

**Table 2**  
**Changes in Average Undergraduate Tuition and Fees by Sector Since Academic Year 1975 (in FY 2002 Dollars)**

Academic Year	Public Four-Year		Public Two-Year	
	Average Rate	Avg. Annual % Change	Average Rate	Avg. Annual % Change
1974-75	\$1,502	-	\$963	-
1979-80	1,712	2.7	824	(3.1)
1984-85	2,091	4.1	994	3.8
1989-90	2,406	2.8	1,193	3.7
1994-95	3,239	6.1	1,569	5.6
1999-00	3,581	2.0	1,756	2.3
2002-03	4,081	4.5	1,735	(0.4)

Source: The College Board, *Trends in College Pricing, 2002*, Table 5.

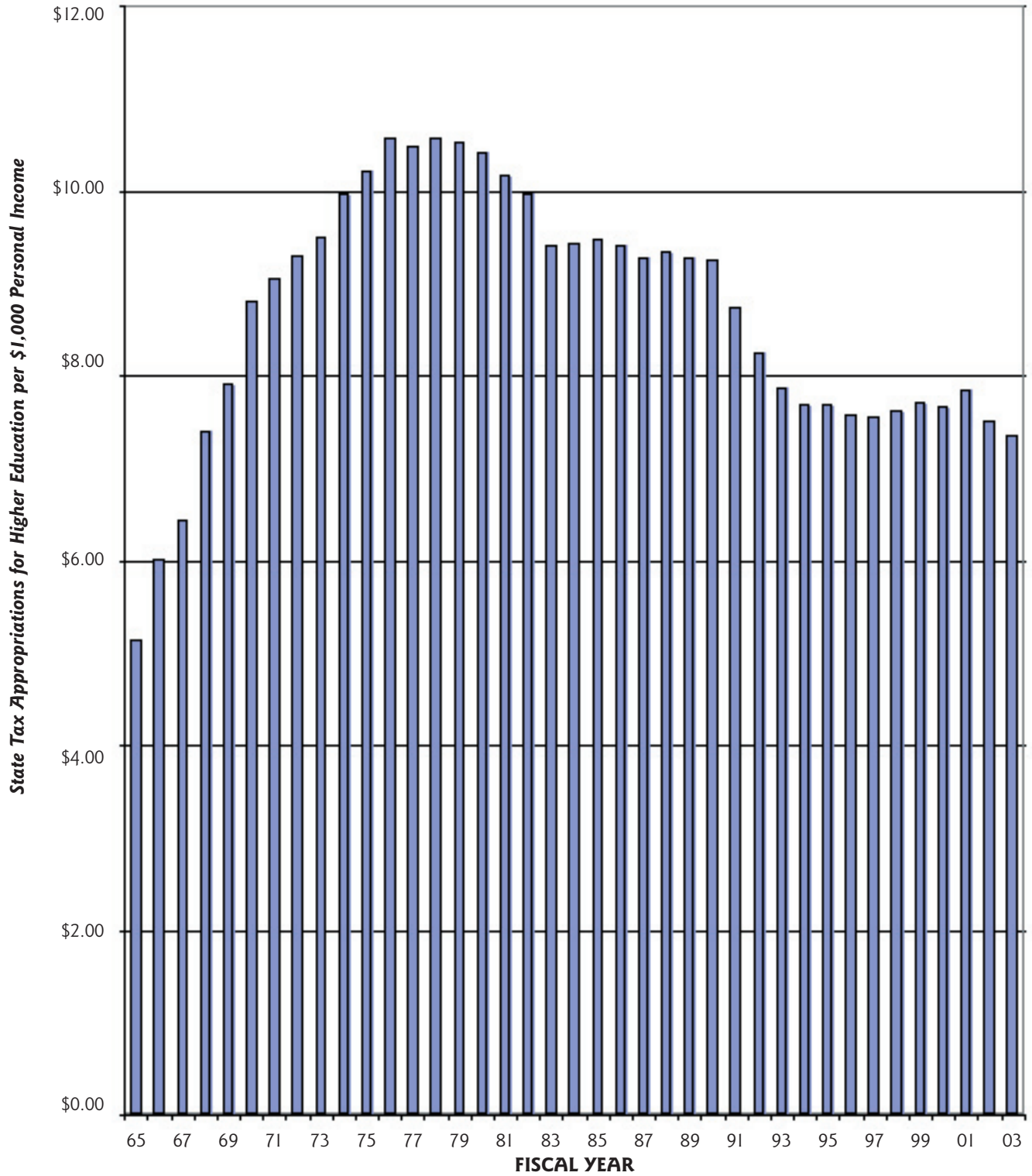
State spending for higher education relative to other budget areas. Higher education is one of the largest expenditure areas for state governments, and is often the largest area of “discretionary” funding for governors and state legislators.<sup>9</sup> It is “discretionary” in that unlike with many social/health services, corrections, and even K-12 education, typically there are no state or federal laws, regulations, or constitutional provisions requiring specific state funding levels for higher education. When paired with the requirement that all states have to operate with a “balanced budget,” when a state faces budget problems due to spending pressures in other areas and/or revenue shortfalls, higher education is often one of the first areas to face scrutiny for reductions.

Hovey referred to higher education as the “balance wheel in state finance.”<sup>10</sup> What this means is that state support for higher education has typically risen or fallen disproportionately with the health of state budgets. The reason for this, according to Hovey, is that public colleges and universities are perceived by governors and legislators to

have managerial flexibilities, including the ability to raise revenue from other sources, i.e., tuition and fees, to deal with temporary adversity that other state agencies/functions do not.

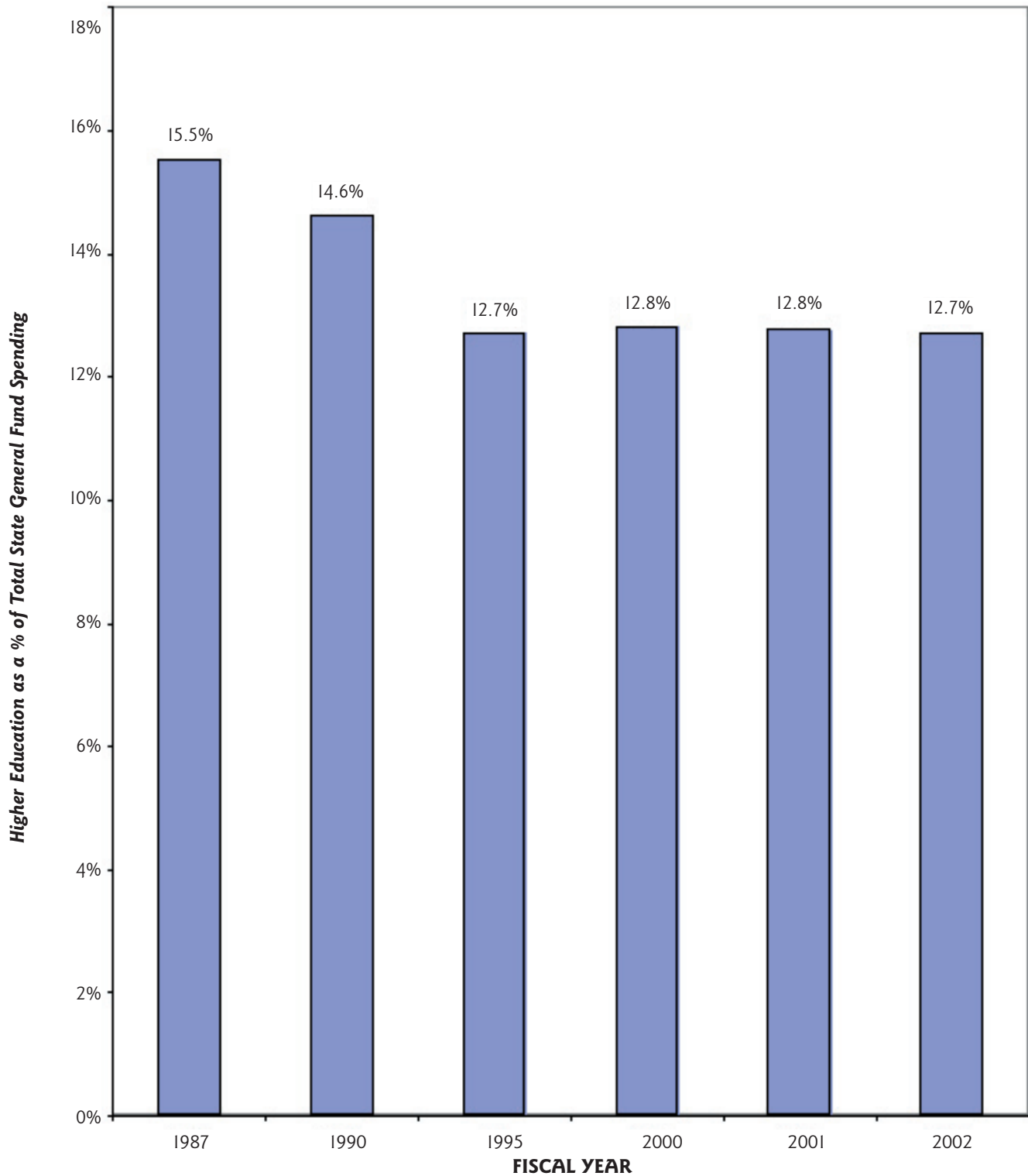
Figure 3 presents the trend in total state general fund spending for higher education as a percentage of total state general fund budgets (U.S. average) since fiscal year 1987. The general fund is the primary “checkbook” used by state governments to meet annual operating expenses across all functions and program areas, and accounts for more than one-half of state spending on higher education (both operating and capital) on an annual basis.<sup>11</sup> State general fund expenditures for higher education declined from 15.5% of total general fund spending in 1987 to just under 13% in fiscal year 1995, but then leveled off. The significant drop-off in the early 1990s once again reflects the impact of the recession during that period, but also illustrates the increased pressures on states to fund Medicaid (the health insurance program for the poor and medically needy), prisons, and other social services.<sup>12</sup>

**Figure 2**  
**Trend in State Tax Appropriations for Higher Education Operations per \$1,000 Personal Income (U.S. Average)**



Source: Center for the Study of Education Policy, Illinois State University.

**Figure 3**  
**Trend in State General Fund Spending for Higher Education as a Percent of Total State General Fund Spending**



Source: National Association of State Budget Officers, *State Expenditure Report* (various years).

**Table 3**  
**The Evolution of Major State Higher Education Policy Themes and Issues**

<i>Period</i>	<i>Major Theme</i>	<i>Specific Issues of Interest/Concern</i>
1960s	Growth	<ul style="list-style-type: none"> <li>Addressing enrollment pressures through expansion of existing institutions and establishment of new institutions.</li> <li>Development of rational state-level planning and budgeting models to facilitate statewide coordination of higher education services.</li> </ul>
1970s	Efficiency and Retrenchment	<ul style="list-style-type: none"> <li>Ensuring the effective and efficient use of resources at the state and institutional levels.</li> <li>Responding to fiscal stringencies.</li> </ul>
1980s	Educational Reform and Quality	<ul style="list-style-type: none"> <li>Setting a state-policy agenda</li> <li>Creating incentive, competitive, or targeted funding initiatives.</li> <li>Formalizing the assessment of student learning.</li> <li>Performance-oriented accountability reporting.</li> </ul>
1990s	Performance and Productivity	<ul style="list-style-type: none"> <li>Formalizing the linkage between performance outcomes and funding.</li> <li>Faculty workload and productivity, particularly with regard to involvement in undergraduate education.</li> </ul>
2000s	Performance, Outcomes, and P-16 Linkages	<ul style="list-style-type: none"> <li>Continued refinement of performance measurement and other accountability mechanisms for higher education.</li> <li>Demonstrating student learning outcomes (i.e., knowledge, skills, abilities).</li> <li>Improving P-16 education linkages; creating "educational capital."</li> </ul>

Source: Created by the author (in part) from Aims C. McGuiness, Jr., *The Functions and Evolution of State Coordination and Governance in Postsecondary Education*, in *State Postsecondary Education Structures Sourcebook* (Denver, Colorado: Education Commission of the States, 1997), 1-48.

**Table 4**  
**Trend in the Number of States With Performance Funding, Performance Budgeting, and/or Performance Reporting for Higher Education**

<i>Type of Accountability Program</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Performance Funding <sup>1</sup>	10	13	16	17	19	18
Performance Budgeting <sup>2</sup>	16	21	23	28	27	26
Performance Reporting <sup>3</sup>	NR	NR	NR	30	39	44
<sup>1</sup> Ties specified state funding directly and tightly to the performance of public campuses on individual indicators.						
<sup>2</sup> Policymakers consider campus achievement on performance indicators as one factor in determining allocations for individual campuses.						
<sup>3</sup> Involves the collection and publication of data on campus performance on specified indicators, but not formally linked to budget/funding process.						

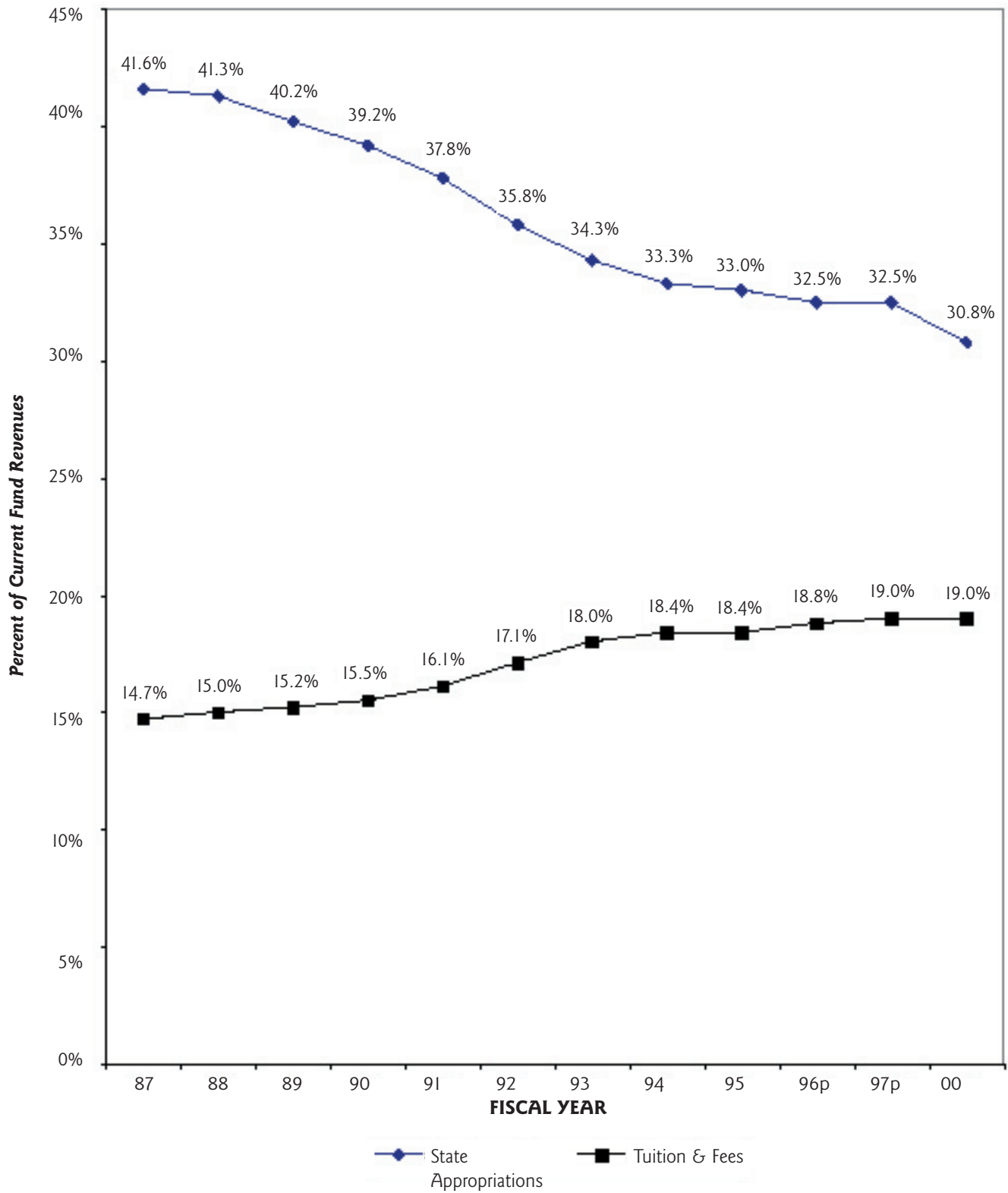
Source: Burke and Minassians, *Performance Reporting: The Preferred "No Cost" Accountability Program*, 2002.

State funding as a percentage of total public college and university revenues. State appropriations traditionally have represented the largest proportion of public college and university annual operating revenues.<sup>13</sup> As illustrated in Figure 4, however, state appropriations for public institutions have declined from 41.6% of total current funds revenues in fiscal year 1987 to just under 31% in fiscal year 2000 (preliminary data). During this same period, tuition and fee revenues (the second largest source of operating revenue) grew from 14.7% to 19% of the total for public colleges and universities.

A well-observed pattern in higher education finance is that, to the extent allowed by state law and/or policy, public colleges and universities will increase tuition and fee rates to offset (to some extent) the impact of shortfalls in state financial support. Table 2 presents data on changes in average tuition and fee rates (in constant dollars) for public four-year and public two-year institutions between academic years 1974-75 and 2002-03.

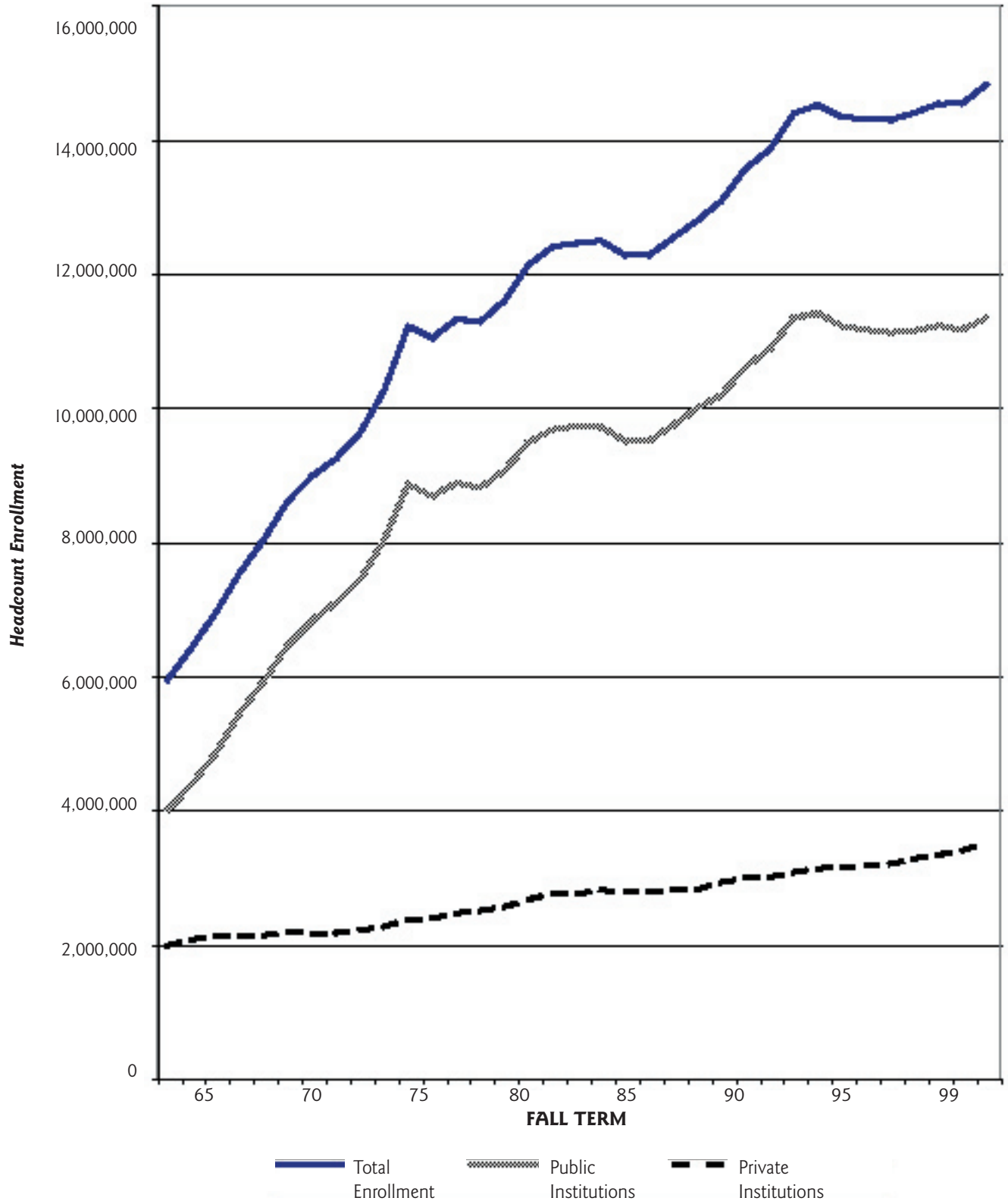
As indicated, "peaks" in average annual rates of change at public four-year institutions occurred at the same period as the "valleys" in average annual rates of change in state appropriations illustrated ear-

**Figure 4**  
**Trends in State Appropriations and Tuition & Fees as a Percentage of Total Public Institution Current Funds Revenues (U.S. Average)**



Source: National Center for Education Statistics Integrated Postsecondary Education Data Systems (IPEDS) "Finance" surveys (various years).

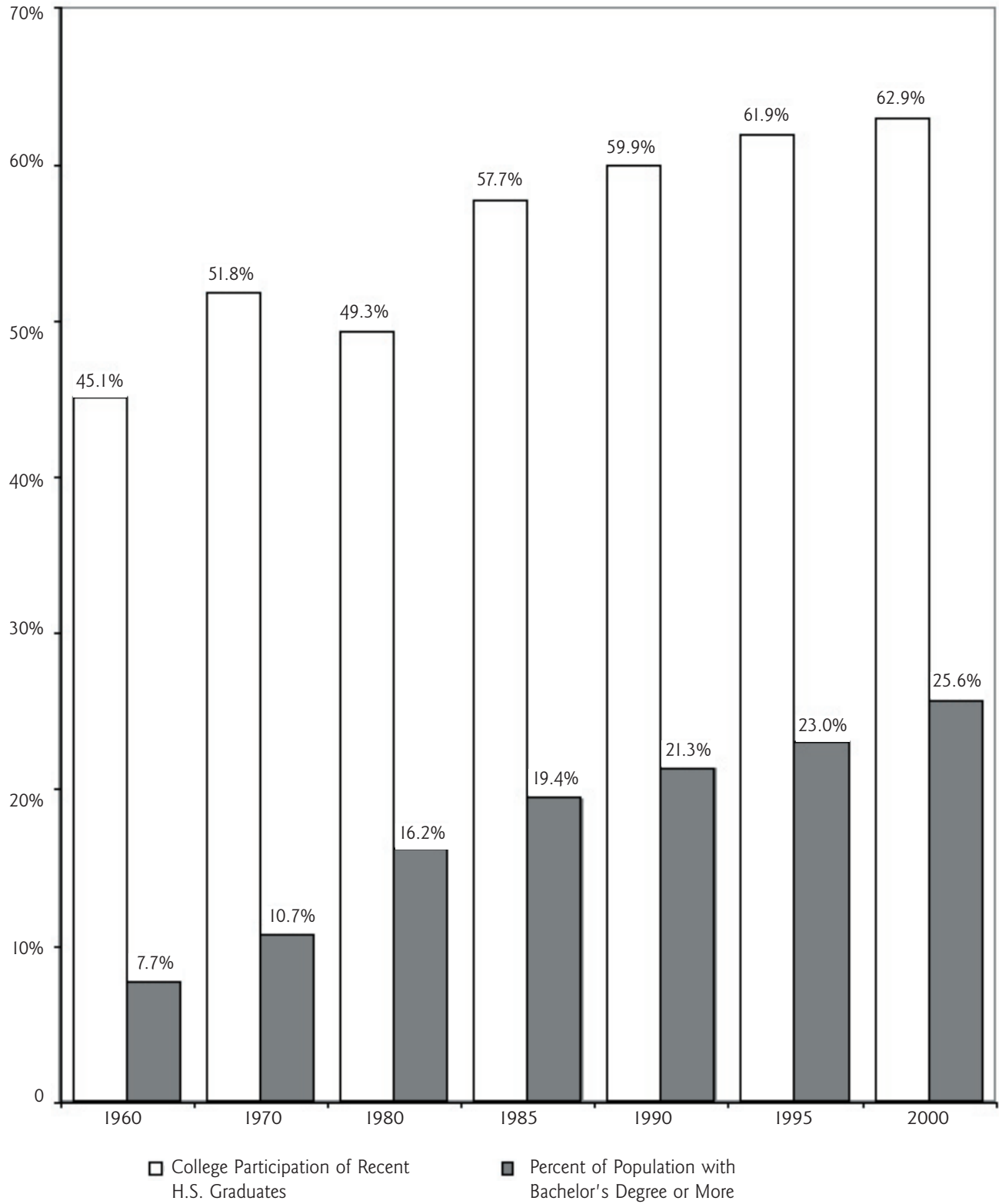
**Figure 5**  
**Trends in Fall Headcount Enrollment by Sector (U.S. Total)**



Source: National Center for Education Statistics, *Digest of Education Statistics, 2001*, Table 172.



**Figure 6**  
**Trends in College Participation and Educational Attainment (U.S. Average)**



Source: U.S. Census Bureau, *Statistical Abstract of the United States, 2001*, Tables 216 and 262.

lier in Table 1. A recent analysis published by the National Center for Public Policy and Higher Education found that, in response to fiscal year 2003 budget cutbacks, 16 states increased tuition and fees by more than 10% at their public four-year institutions (with a high of 24% in Massachusetts.)<sup>14</sup>

This relationship is somewhat less evident for public two-year institutions, due in part to the fact that in many states local tax support provides an alternate (and significant) source of funding for community colleges, accounting for 14% of total community college revenues on average in fiscal year 2000.<sup>15</sup> Many community colleges also view promoting access to residents through low tuition as a significant part of their mission, and are reluctant to levy large tuition increases, even in times when state funding is reduced. Even so, the National Center for Public Policy and Higher Education's analysis found that 10 states increased tuition and fees by more than 10% at their public two-year institutions (with a high of 26% in Massachusetts and South Carolina).<sup>16</sup>

### State Higher Education Policy Themes Since the 1960s

There was an evolution in state higher education policy during this period as well, with different themes emerging as priorities each decade for governors, state legislators, and other state policymakers.<sup>17</sup> Table 3 presents an overview of the key themes each decade between the 1960s and now.

As noted earlier, there was significant growth in enrollment during the 1960s and into the first part of the 1970s, particularly in the public sector (see Figure 5), which corresponded with the significant growth rate in state funding for higher education. This resulted in concerns by policymakers about adequate responses to these enrollment pressures to provide access to higher education for all state residents as well as taking a coordinated approach to planning and financing this growth in capacity. By 1970, 47 states had established some form of statewide governance or coordination through a board or agency to address statewide higher education planning and related issues.<sup>18</sup>

In the early 1970s, state policymakers still were concerned about access and capacity, but also were focusing on efficient and effective use of the increasing state investment in higher education. In part, this was driven by an emerging period of economic downturn, inflation, and the energy crisis, but in part also was in response to projections of enrollment decline by the end of the decade and a resulting "oversupply" of higher education. Concerns were raised about the ability of state higher education systems to respond in a timely manner to changes in demand and redirect scarce resources from institutions/programs with stagnant or declining demand to areas of increasing demand.

As part of the 1972 amendments to the Higher Education Act, Congress included a requirement that all states establish an entity (the so-called "1202 Commissions") dedicated to comprehensive state higher education planning to ensure the effective and efficient use of all resources – federal, state, and private.<sup>19</sup> This action greatly strengthened the statewide higher education planning and coordination movement that had developed through the 1960s.

In the 1980s, the dominant state higher education policy issues were quality and educational reform.<sup>20</sup> In part, this was "spillover" from emerging concerns about the quality K-12 education in the United States, highlighted in reports such as *A Nation at Risk*. Policymakers began to question the quality of postsecondary education as well during this period. Many governors and state legislatures were taking a more

"activist" role in addressing higher education policy issues in their states, seeing higher education as integral to economic development and to addressing various social problems. And unlike the past, political leaders were less likely to be in "awe" of academics, many having been highly educated themselves, and thus less likely to automatically defer to higher education leaders to address these concerns.<sup>21</sup> Not coincidentally, this was also a period when state policymakers began to experiment more broadly with initiatives that tied funding for higher education to specific state goals or other desired policy outcomes.<sup>22</sup>

The 1990s began with a focus on productivity and efficiency and ended with broad-based interest across the states in relating funding for higher education to performance, both directly and indirectly. The focus on productivity, particularly faculty productivity, was a continuance of the earlier concerns about the quality of undergraduate education, and was spurred on by critiques such as Profscam. Another key factor was a recession that resulted in state budget shortfalls from coast to coast. As illustrated in Figure 1 earlier, this was the first recorded instance of an actual decline in state funding for higher education in total from one fiscal year to the next (FY 1991 to FY 1992). The significant investment by states in higher education combined with tight budgets resulted in widespread and intense published critiques of higher education's values and practices, ranging from concerns about "light" faculty teaching workloads and over-attention to research to administrative "bloat."<sup>23</sup>

These concerns about the efficiency and productivity of higher education continued as the states began to emerge from the recession in the mid-1990s and in fact entered a period of relative fiscal health in the latter part of the decade, where the inflation-adjusted growth in state tax revenues was five to ten percent each year.<sup>24</sup> The concept of "performance funding" (tying state funding for colleges and universities to performance on specific indicators) took hold, first in South Carolina and then in many other states. In some states, performance funding is limited to a relatively small proportion of overall state funding for higher education, but in others it is more expansive. As noted in Table 4, a less direct form of this approach (performance budgeting) also gained popularity during the 1990s with some states employing both approaches. At the same time, it is important to note that state funding for higher education also benefited from the strong state budgets during the last half of the 1990s. As noted earlier in Table 1, inflation-adjusted state higher education appropriations grew 3.2% per year on average between fiscal years 1995 and 2000, compared with -1.5% per year between fiscal years 1990 and 1995. Figure 3 showed that higher education spending as a percentage of total state general fund spending remained constant during this period as well. Thus, while governors and state legislatures increased their focus on the performance of colleges and universities, they did not appear inclined to "penalize" higher education through reduced financial support during this period.

The interest in both performance funding and performance budgeting appears to have leveled off in recent years, while the interest in performance reporting, which is not tied to higher education funding either directly or indirectly, has grown substantially. One observer suggests at least two possible reasons for this growth: (1) the publication of both *Measuring Up: 2000* and *Measuring Up: 2002*, the national higher education "report card" produced by the National Center for Higher Education and Public Policy<sup>25</sup>, which spurred states to become more proactive in performance reporting; and (2) state policymakers see performance reporting as a "no cost" alternative to

the more controversial (at least within higher education) performance funding and budgeting approaches.<sup>26</sup> There is also some evidence that support for both performance funding and budgeting is waning among governors and state legislatures due to the current fiscal crisis facing states, with attention being directed to addressing the basic operating needs of public colleges and universities, student financial aid needs, and other higher education programs within diminishing state tax resources.<sup>27</sup>

### **Where Are We Now?**

At present, state policymakers remain focused on higher education's performance with an increasing interest in student learning outcomes as well as improving the linkages between elementary-secondary education and higher education (Table 3). An underlying factor driving this interest is the view of many governors that higher education is a key to developing the "human/educational capital" necessary to meet the challenges of an increasingly knowledge-based economy.<sup>28</sup>

A study published in December 2000 found that 29 states had some form of state-level assessment of student learning outcomes ranging from the requirement that public colleges and universities have an assessment program in place to a common statewide test for college students.<sup>29</sup> As noted earlier, this is in part a natural outgrowth of the significant assessment activities engaged in by states at the K-12 education level; i.e., "if it is good for elementary and secondary education, why shouldn't it work for higher education as well?" particularly as states attempt to create more connections between K-12 and higher education.

There is also strong sentiment for assessing college student learning coming from other groups as well, including business and the general public.<sup>30</sup> A 2001 public opinion survey conducted by the National Center for Postsecondary Improvement found that one-fifth of the respondents felt that the single most important priority for colleges and universities was "ensuring students work hard to achieve high academic standards," second only to a related "attracting the best faculty" among eleven potential priorities.<sup>31</sup> The impressive success in improving both participation in higher education and educational attainment in the United States during the past forty years (See Figure 6) has also raised the entry credential "bar" for many employers and occupations, making a college degree a mandatory requirement for the better-paying jobs in government, business, and industry. As higher education becomes a requirement for larger numbers of occupations, it is natural that employers would want some assurance that college graduates are prepared to enter the workforce. Likewise, as the cost of college attendance continues to rise, the public wants evidence regarding the "dividends" from this significant personal (and public) investment.

At the same time, there is no uniformity in state approaches to assessment, resulting in a lack of nationwide, comparable data by which to assess student learning outcomes.<sup>32</sup> The challenges to implementing statewide assessment programs also are significant, ranging from the political/organizational (e.g., institutional opposition, accounting for diverse institutional missions and outcomes in assessment programs), to the technical (e.g., lack of adequate assessment instruments, lack of student motivation).<sup>33</sup> Despite these difficulties, the focus on college student learning outcomes is likely to continue in the future, as will be discussed further in the next section.

### **What of the Future?**

The fiscal crisis currently facing state governments is not going to subside in the near future and could continue throughout the next decade, even after the economy begins to emerge from the current recession. This is due primarily to two factors: (1) significant spending pressures as a result of rapidly growing Medicaid caseloads; and, (2) underlying "structural" problems in the ability of states to generate sufficient revenue through existing income and sales taxes.<sup>34</sup> The National Association of State Budget Officers (NASBO) has projected that if the current growth rate for Medicaid spending continues, it will grow from 20% to 34% of all state spending in ten years.<sup>35</sup> At the same time, state spending on higher education will drop to 9.4% of the total even if it maintains its current growth rate.<sup>36</sup>

Further, it is likely that states will have spending pressures as well from other areas such as K-12 education. Another potential problem is that the relatively strong growth in state funding for higher education during the economic boom of the late-1990s could create a perception among governors and state legislators that higher education has had its "turn" recently and perhaps can "afford" a few years of funding cuts, or at least stable funding, particularly when compared to the needs of Medicaid and other basic human services. As was noted earlier, the fact that higher education has the ability to generate its own revenue to cope with these cuts (i.e., tuition) also does not go unnoticed during times of fiscal downturn.

As noted in the Caruthers' article in this issue, higher education's ability to secure additional funding from state governments will be severely tested during the next several years, likely increasing the reliance of public colleges and universities on tuition and fee revenue and other sources to fund operating costs. In addition, enrollment in higher education is projected to grow between 12% and 19% by 2012, which will place further stress on state and institutional resources.<sup>37</sup> "Traditional" higher education institutions will face increasing competition for this growing market from for-profit educational providers, on-line offerings from other colleges and universities around the world, and "corporate universities" that train their own employees.<sup>38</sup> Prospective college students will be faced with a wide array of course and program choices in a greatly expanded higher education marketplace and will require additional information in order to differentiate among these choices in order to make an informed consumer decision.

There is also growing pressure from members of Congress and the Bush Administration to consider student learning outcomes as part the next reauthorization of the Higher Education Act. This could place further pressure on state policymakers to move toward more widespread, formalized testing for college students, similar to that required in the federal *No Child Left Behind* legislation.<sup>39</sup> As a result, the pressure on institutions to provide tangible evidence regarding college student learning outcomes from state policymakers likely will continue as well, spurred on by employers, parents/students, and the general public. In short, the dominant theme for the next several years is likely to be one of stagnant state funding at best coupled with demands for more accountability by higher education's stakeholders.

## Summary and Conclusion

This article has explored the changing financial and policy role of state governments regarding higher education during the past 40 years. While the total financial investment made by states in higher education has grown in both nominal and inflation-adjusted dollars during this period, it has not kept pace with either total state spending or institutional operating costs. It also is clear that state spending on higher education is a direct function of the health of state economies, benefiting in good times and suffering in poor times.

The policy role of state governments in higher education has evolved from one of simply focusing on the best way to address access and capacity needs for a growing college population to demanding evidence regarding the educational outcomes of the college experience. This evolution is a natural one – as state systems of higher education have “matured” through their earlier growing pains, it is logical that state policymakers would want information on the “results” of their significant investment in higher education, particularly as governors, legislators, and others look to higher education as a key to future economic prosperity for their states. It also is understandable that the major consumers of higher education – employers, students/parents, and the general public – would want assurance as the relative size of their investment grows (i.e., the rising price of attendance).

Nobody can predict the future with any great accuracy, particularly in the uncertain economic and political times we now face. The tongue-in-cheek admonition of Benjamin Franklin that nothing is certain in this world except death and taxes seems to be especially true at this point in time. Nonetheless, if past patterns hold true we can predict with some certainty that the next few years will prove to be a period of austerity for higher education, at least as far as state financial support is concerned. It also appears that the focus on demonstrating student learning outcomes will continue, drawing support from business and the public at large.

At the same time, it seems unlikely that state governments will move to “disinvest” from support of higher education, even in these very difficult fiscal times. Statements by governors, legislators, and their national associations make clear that many state political leaders understand the value of higher education to their constituencies and also in addressing the complex social and economic challenges faced by states. However, as states come out of the recession and attempt to address the structural problems underlying their budgets while also responding to funding needs in Medicaid, K-12 education, and other areas, governors and state legislatures will look for hard evidence to support funding decisions across all areas, especially “discretionary” areas such as higher education.

The current (and future) focus by policymakers on the overall performance of colleges and universities, student learning outcomes, and creating linkages to other educational sectors provides an excellent opportunity for higher education leaders in every state to engage governors, legislators, and other public leaders in a fundamental discussion about the relationship and mutual expectations between state government and higher education. These discussions, while necessarily different in scope and substance for each state, should encompass the following interrelated questions at a minimum:

- Is higher education a “basic” function of state governments? If so, what is the state’s appropriate financial and policy role in providing this function?
- What is the necessary “mix” of higher education provided within the state (e.g., four-year, two-year, comprehensive,

specialized) and how best to maximize access to this for all state residents?

- What are the tradeoffs and possibilities regarding the overall “supply” of higher education provided in a state at varying levels of state financial support?
- What price should state residents pay to access higher education?
- What is higher education to be held accountable for, to whom, and by what means?<sup>40</sup>

These are difficult and perhaps uncomfortable questions for both state policymakers and higher education leaders to answer, and will be driven as much by the personalities involved as by underlying policy concerns. However, it is imperative that they be addressed so that state governments have a clear and compelling policy rationale for the continued investment in higher education and that higher education has a clear sense of what is expected and why.

## Footnotes

<sup>1</sup> National Center for Education Statistics (NCES), *Digest of Education Statistics, 2001*, <http://www.nces.ed.gov/pubs2002/digest2001>, Table 171.

<sup>2</sup> *Ibid.*, Table 334.

<sup>3</sup> “State Spending on Colleges Increases at Lowest Rate in a Decade”, *The Chronicle of Higher Education*, December 13, 2002, p. A28.

<sup>4</sup> NCES, Table 330.

<sup>5</sup> This period of time was chosen due to the availability of longitudinal data on state tax support for higher education from the Center for the Study of Education Policy at Illinois State University (i.e., the “Grapevine” database.)

<sup>6</sup> This analysis looks only at state funding for higher education’s annual operating expenses. State funding for higher education capital projects is excluded given that these projects are typically funded through a different revenue source (i.e., bond issuance proceeds) than are operating budgets (e.g., taxes, fees).

<sup>7</sup> NCES, Table 172.

<sup>8</sup> National Governors Association (NGA) and National Association of State Budget Officers (NASBO), *The Fiscal Survey of States* (Washington, D.C.: November 2002), Table A-9.

<sup>9</sup> Brian M. Roherty, “The Price of Passive Resistance in Financing Higher Education,” in *Public and Private Financing of Higher Education*, Patrick Callan and Joni Finney, Eds. (Phoenix, Arizona: Oryx Press, 1997), 3-29.

<sup>10</sup> Harold A. Hovey, *State Spending for Higher Education in the Next Decade: The Battle to Sustain Current Support*, National Center for Public Policy and Higher Education, Report No. 99-3, July 1999.

<sup>11</sup> National Association of State Budget Officers (NASBO), *State Expenditure Report, 2001*, <http://www.nasbo.org/Publications/PDFs/nasbo2001exrep.pdf>, Table A-3. Includes all fund sources.

<sup>12</sup> Roherty, “The Price of Passive Resistance in Financing Higher Education.”

<sup>13</sup> Private institutions are not included in this analysis given that only a limited number of states provide direct support for private colleges and universities. In total, state appropriations account for less than one percent of total current fund revenues for private institutions. State financial aid program dollars received by students attending private colleges and universities are typically categorized as tuition and fee revenue for those institutions.

<sup>14</sup> William Trombley, "The Rising Price of Higher Education," in *College Affordability in Jeopardy*, National Center for Public Policy and Higher Education, Winter 2003, [http://www.highereducation.org/reports/affordability\\_supplement/index.shtml](http://www.highereducation.org/reports/affordability_supplement/index.shtml).

<sup>15</sup> NCES, *IPEDS Finance Survey for FY 2000* (unpublished preliminary data).

<sup>16</sup> Trombley, "The Rising Price of Higher Education."

<sup>17</sup> See Aims C. McGuinness, Jr., "The Functions and Evolution of State Coordination and Governance in Postsecondary Education," in *State Postsecondary Education Structures Sourcebook* (Denver, Colorado: Education Commission of the States, 1997), 1-48.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

<sup>21</sup> William Zumeta, "Public Policy and Accountability in Higher Education: Lessons from the Past and Present for the New Millennium," in *The States and Public Higher Education Policy: Affordability, Access, and Accountability*, Donald E. Heller, ed. (Baltimore, Maryland: Johns Hopkins University Press, 2001), 155-197.

<sup>22</sup> Edward R. Hines, *Higher Education and State Governments: Renewed Partnership, Cooperation, or Competition?* ASHE-ERIC Higher Education Report No. 5, (Washington, DC: Association for the Study of Higher Education, 1988).

<sup>23</sup> Zumeta, "Public Policy and Accountability in Higher Education."

<sup>24</sup> Scott Pattison, NASBO, "Fiscal State of the States: Where are We Now?" Presentation to the Forum on State Policy Implementation, National Center for Higher Education and Public Policy, Annapolis, Maryland, November 21, 2002.

<sup>25</sup> Both "report cards" can be viewed at <http://measuringup.highereducation.org/>.

<sup>26</sup> Joseph C. Burke and Henrik Minassians, *Performance Reporting: The Preferred "No Cost" Accountability Program* (Albany, New York: Rockefeller Institute of Government, 2002).

<sup>27</sup> Ibid.

<sup>28</sup> See the issue brief, "Higher Expectations" at the National Governors Association website [http://www.nga.org/center/divisions/I,1188,C\\_ISSUE\\_BRIEF^D\\_1509,00.html](http://www.nga.org/center/divisions/I,1188,C_ISSUE_BRIEF^D_1509,00.html).

<sup>29</sup> Peter Ewell and Paula Ries, *Assessing Student Learning Outcomes: A Supplement to Measuring Up 2000*, December 2000, <http://measuringup.highereducation.org/assessA.htm>.

<sup>30</sup> Paul E. Lingenfelter, "Educational Accountability," in *Focus on Educational Accountability*, SHEEO Network News, 20 (November 2001).

<sup>31</sup> National Center for Postsecondary Improvement, "A Report to Stakeholders on the Condition and Effectiveness of Postsecondary Education: Part II, The Public," in *Change*, 33 (September/October 2001): 23 - 38.

<sup>32</sup> Peg Miller, "Measuring Up on College-Level Learning," in *Focus on Assessment of Student Learning*, SHEEO Network News, 21 (January 2002): 1-2.

<sup>33</sup> Peter Ewell, "Statewide Efforts to Assess Student Learning," in *Focus on Assessment of Student Learning*, SHEEO Network News, 21 (January 2002): 3-5.

<sup>34</sup> See, Donald Boyd, "State Fiscal Outlook - Update to the projections in State Spending for Higher Education in the Next Decade, 1999," (Albany, New York: Rockefeller Institute of Government, October 2002).

<sup>35</sup> Scott Pattison, NASBO, "Fiscal State of the States: Where are We Now?" Presentation to the Forum on State Policy Implementation, National Center for Higher Education and Public Policy, Annapolis, Maryland, November 21, 2002.

<sup>36</sup> Ibid.

<sup>37</sup> National Center for Education Statistics, *Projections of Education Statistics to 2012*, 31<sup>st</sup> Edition, NCES 2002-030 (Washington, D.C.: U.S. Department of Education, October 2002).

<sup>38</sup> Frank Newman and Lara Couturier, "The New Competitive Arena: Market Forces Invade the Academy," *Change*, 33 (September/October 2001): 10-17.

<sup>39</sup> David Ward and Terry Hartle, "The Trouble with Measuring Quality," *Trusteeship* (January/February 2003), 8-13.

<sup>40</sup> For a more detailed discussion of accountability, see Lingenfelter, "Educational Accountability".

# Performance Reporting: The Preferred "No Cost" Accountability Program

**Joseph C. Burke and  
Henrik P. Minassians**

For the last six years, the Rockefeller Institute of Government at the State University of New York at Albany has been surveying the State Higher Education Finance Officers (hereafter referred to as budget officers) regarding state activities in higher education performance funding and budgeting. This article describes performance budgeting, funding, and reporting, as well as reports the results of the Sixth Annual Survey.

## Performance Budgeting and Performance Funding

Traditional considerations in state allocations to public colleges and universities measure current costs, student enrollments, and inflationary increases. These are input factors that ignore outputs and outcomes, such as the quantity and quality of graduates and the range and benefits of services to states and society. Performance funding and budgeting add institutional performance to the mix of measures. Some states previously adopted programs that front-ended funding to encourage desired campus activities, which we call initiative funding. Performance funding and budgeting depart from these earlier efforts by allocating resources for achieved rather than promised results.<sup>1</sup>

The authors of previous surveys and studies did not clearly distinguish what we call "performance funding" from "performance budgeting" and often used the terms.<sup>2</sup> Lack of clear definitions led policymakers to confuse these two concepts. Although earlier surveys identify a generic direction in budgeting, they fail to clarify how state governments, coordinating boards, or college and university systems actually use campus achievements on performance indicators in the budgeting process.

Our annual surveys distinguish performance funding from performance budgeting by using the following definitions:

- Performance funding ties specified state funding directly and tightly to the performance of public campuses on individual indicators. Performance funding focuses on the distribution phase of the budget process.
- Performance budgeting allows governors, legislators, and coordinating or system boards to consider campus achievement on performance indicators as one factor in determining allocations for public campuses. Performance budgeting concentrates on budget preparation and presentation, and often neglects, or even ignores, the distribution phase of budgeting.

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In performance funding, the relationship between funding and performance is tight, automatic, and formulaic. If a public institution or agency achieves a prescribed target or an improvement level on defined indicators, the agency receives a designated amount or percentage of state funding. In performance budgeting, the possibility of additional funding due to good or improved performance depends solely on the judgment and discretion of state, coordinating, or system officials. Performance funding ties state funding directly and tightly to performance, while performance budgeting links state budgets indirectly and loosely to results.

The advantages and disadvantages of each is the reverse of the other. Performance budgeting is flexible but uncertain. Performance funding is certain but inflexible. Despite these definitions, confusion often arises in distinguishing the two programs. Moreover, at times, the connection between state budgets and campus performance in performance budgeting almost disappears.

Performance budgeting offers political advantages to policymakers that may explain its preference over performance funding in state capitals. Performance funding produces fiscal consequences at the cost of campus controversies. State legislators may champion, in theory, altering campus budgets based on institutional performance, but in practice legislators often resist programs that may result in budget losses to colleges or universities in their home districts. Performance budgeting offers a political resolution of this troublesome dilemma. Policymakers can gain credit for considering performance in budgeting without provoking controversy by actually altering campus allocations.

Performance funding and performance budgeting do not suggest that campus performance is replacing traditional considerations in state budgeting for public colleges and universities. Current costs, student enrollments, and inflationary increases will- and should - continue to dominate such funding, since these factors represent real workload measures. The loose link between performance and budgeting in the case of performance budgeting, and the relatively small sums provided in performance funding, mean that both programs have only a marginal impact on campus budgets. However, the current programs of performance budgeting and funding seem to indicate - at least until this year - the growing sense in state capitals but not on public campuses that performance should somehow count in state budgeting for public higher education. The new sense from budget officers that state legislators are beginning to see performance reporting as a no cost alternative approach to accountability gives it an obvious edge over performance budgeting.

Performance funding, budgeting, and/or reporting may exist under three different circumstances:

- Mandated/Prescribed: legislation mandates the program and prescribes the indicators.
- Mandated/Not Prescribed: legislation mandates the program but allows state-coordinating or governing agencies to propose the indicators in cooperation with campus leaders.
- Not Mandated: coordinating or system boards in collaboration with campus officials voluntarily adopt the plan without legislation.

Legislation mandated many of the early programs in performance funding; and in many cases also prescribed the indicators. Now over 60% of the funding programs are not mandated and 78%

are not prescribed. Performance reporting has an equal number of mandated and non-mandated programs, but just two of the 44 plans prescribe the indicators. Performance budgeting is also equally divided between mandated and non-mandated programs, and just one of its 26 initiatives prescribes the performance indicators.

Mandates and especially prescriptions clearly undermine program stability. They are imposed from state capitals and ignore the importance of consultation with coordinating, system, and campus leaders. On the other hand, "Not Mandated" programs can leave state policymakers without a sense of ownership in the initiatives. No consultation means no consent, especially on college campuses and in state capitals. New management theories suggest that government officials should decide state policy directions for public higher education and evaluate performance, but leave the method of achieving designated goals to coordinating or governing boards, college and university systems, and campus officers.

### The Survey

Staff members of the Higher Education Program at the Rockefeller Institute of Government have conducted telephone surveys of budget officers or their designees for the last six years, with an annual response rate of 100%. Previous polls came in June and July, while the Sixth Survey occurred in August. The questions focus on the current status, future prospects, and perceived impact of performance funding, budgeting, and reporting in the 50 states. (See Appendix for the questionnaire.)

The interviews begin with definitions that distinguish performance funding from performance budgeting. The questioner then asks whether a state currently has performance funding, budgeting, or reporting. If it has one or more of these programs, the interviewer asks the budget officer to predict whether the program or programs will continue for the next five years. If no program exists, the question changes to the likelihood of adopting the policy. "Highly likely," "likely," "unlikely," "highly unlikely," and "cannot predict" constitute the choices to answer all of these questions. Interviewers also ask whether legislation mandates performance funding, budgeting, or reporting and whether the legislation prescribes indicators. In addition, respondents identify the primary initiator of these programs, choosing from governor, legislature, coordinating or governing board, university or college systems, or "other." Two years ago, the survey started asking respondents to assess the effect of the three programs on improving campus performance. The options offered are "great," "considerable," "moderate," "minimal," "no extent," or "cannot assess" the extent.

The Rockefeller Institute began the surveys in 1997 based on the belief that the maxim of "what gets measured is what gets valued" was really only half right. The drive for accountability in the 1990s convinced us that only what gets "funded," "budgeted," or "reported" attracts attention on college campuses and in state capitals.

The surveys first questioned budget officers on the existence or interest in performance budgeting and performance funding in the 50 states.<sup>3</sup> From the beginning, we sought – with far from full success – to differentiate "performance funding" and "performance budgeting," based on the direct as opposed to indirect connection of state allocations to campus performance. The task over time has become ever more trying, since new initiatives borrowed from both programs.<sup>4</sup>

In 1999, we added questions on the third leg of accountability for higher education: performance.<sup>5</sup> Performance funding, budgeting, and reporting represent the main methods of assuring state accountability

for public higher education in a decentralized era of managing for results rather than controlling by regulations. Although the relative popularity among these performance policies shifts with changing conditions in state revenues and campus funding, the surveys show a surge toward accountability across the country.<sup>6</sup> Today only Delaware and Montana have no performance program.

State after state accepted the need for accountability, although the preferred approach to achieving this elusive goal remained in doubt until the last year. The results of the 2002 survey stressed the economic advantage of performance reporting, based on the perception that it achieved accountability at no cost. Apparently, state policymakers increasingly viewed publicizing results as a sufficient consequence without the need for budgeting or funding.

### Survey Results

The Sixth Annual Survey results demonstrate the triumph of performance reporting and the trials of performance budgeting and funding. The bad budgets for higher education that emerged during 2001 spurred the rapid advance of performance reporting and stifled the steady climb of performance budgeting and funding. Nearly 90% of the states now have some form of performance reporting, a leap of nearly 50% in just two years. Publication of *Measuring Up 2000 – the State-By-State Report Card On Higher Education* – renewed interest in performance reporting, but bad budgets in 2001 and 2002 added another argument for adoption.<sup>7</sup> Budget officers suggest that a number of state legislators see performance reporting as a "no cost" alternative to performance funding and budgeting.

The 2002 Survey results reveal some slippage in support for performance budgeting and performance funding. For the first time since the Surveys began in 1997, the steady increase in the number of performance funding initiatives stopped, as one state dropped its effort. The decline in the number of states using performance budgeting continued in 2002. Last year, it looked as though tight budgets might encourage performance funding.<sup>8</sup> This year, state budgets for higher education became so bad that legislators balked at allocating even small sums to campus performance.

In the 1990s, some policymakers felt, while others feared, that performance reporting would lead inevitably to performance budgeting or funding. Reporting seemed merely the initial stage on a path to budgeting and funding, which carried – or at least considered – financial consequences for good or poor performance. The budget officers' responses this year reveal that bad budgets have reversed this perception. They indicate that some state leaders – especially legislators – believe that performance reporting gives the "same bang in accountability for no bucks in budgeting."

The rise in performance reporting represents the real phenomenon of this year's survey. Five new programs were initiated in 2002 and 14 in two years. Publication of *Measuring Up 2000* obviously stirred interest in performance reporting. No fewer than 44 states (88%) now require performance reporting, up from 25 in 1999 – a 76% increase in four years. A comparison with performance budgeting shows the swift spread of performance reporting: 23 performance budgeting programs were reported in 1999 – just two less than performance reporting. The number of states reporting use of performance budgeting rose to 28 in 2000 but fell to 26 programs in 2002. Despite this decline, the number of performance budgeting programs increased 63% since 1997. Although the number of performance funding programs dropped from 19 programs in 2001 to 18 this year, performance funding increased

80% since 1997. The popularity of performance reporting and to a lesser extent performance budgeting stems in part from the perception that these programs assess results without the controversy of requiring cuts in campus allocations or the necessity of providing additional funding.

To date, performance programs appear to come in combinations. Nine states have all three programs, compared to 10 in 2001. Fourteen states with performance budgeting and eight with performance funding also have performance reporting. New York (The SUNY System) alone has only performance funding, while just Arkansas, Nebraska, and Nevada have only performance budgeting. Nearly two-thirds of the 44 states with performance reporting also have at least one other performance program. The number of states with only performance reporting likely will increase if bad budgets persist and policymakers continue to believe that reporting gives the same benefits without the cost of performance funding and budgeting. This year's results supply some supporting evidence for this prediction. Two of the five new reporting initiatives this year come in states with no other performance program. Moreover, only one of those five (Oklahoma) had performance funding that requires state allocations.

**Performance Funding**

In 2001, the start of new programs in performance funding in Arkansas and Idaho and the predicted re-adoption in Kentucky suggested a revival of performance funding. The addition of two new programs, stability in current programs, and some slide in policies of performance budgeting led us to suggest that bad budgets might favor performance funding over performance budgeting.<sup>9</sup>

In 2002 steep budget shortfalls "hurt" both performance funding and budgeting and "helped" performance reporting. States reported a net loss of one performance funding program, from 19 to 18 and also showed renewed volatility. Oklahoma launched a new performance funding effort, but budget problems led Arkansas and the Community College System in California to drop their funding projects. Last year the budget officer from California said he could not predict whether the Community Colleges would continue performance funding. This year's Survey gave the answer: California Community College System abandoned the program, because the state no longer promised increased funding.

In addition, the Arkansas legislature decided to shift from performance funding to performance budgeting to avoid the requirement of providing increased funding due to improved performance. Public higher education in Arkansas suffered two budget rescissions in FY 2001-02 and no increase in the FY 2002-03 budget.<sup>10</sup> Arkansas dropped performance funding because a depressed budget for public colleges and universities left no money for the required allocations. This shift suggests a return to the traditional instability of performance funding.<sup>11</sup> Arkansas originally adopted its program in 1994, abandoned it in 1997, renewed it in 2001, and shifted to performance budgeting in 2002.

Our Fifth Survey Report in July of 2001 predicted that relating state resources to campus results through either performance funding or budgeting represented a trend. This Year's Survey raises considerable doubts about that prediction. Last year, it seemed that the mild recession that began in 2000 actually increased the number of states adopting the program. The budget rescissions during FY 2001-02 and the severe budget reductions for FY 2002-03 have led to slight reductions in both performance funding and performance budgeting. Tight budgets may encourage performance funding that allocates usually

small sums automatically, but steep shortfalls clearly work against the program.

Statistics on the likelihood of continuing existing programs show surprisingly that budget officers consider more states highly likely to retain performance funding than the previous year. But a disturbing note is the prediction that Missouri is unlikely to continue its long-time initiative. Observers often cite this program as one of the most successful and stable efforts at tying state funding to campus results in the country.<sup>12</sup> Abandonment of performance funding by Missouri could start a trend away from the program. Again, reduced budgets are the culprit.

A number of states, including Missouri, New York, Ohio, and South Carolina maintained their programs in 2002, but suspended all or some of its funding. Suspension of funding can work for perhaps a year, but longer periods spell problems for initiatives that tie resources to performance. The prediction of "unlikely to continue" for Missouri is unsettling. Although budget officers on a few occasions have said they could not predict the future of performance funding in one or two states, this is first time in the six years of our survey that a budget officer called continuance of a performance funding program unlikely. The move of Ohio and New Jersey from "likely to continue" to "cannot predict" also spells trouble for performance funding should the budget problems persist. Table 1 displays the states reporting performance funding from 1997 to 2002 while Table 2 describes the characteristics of state performance funding programs. Table 3 displays the predicted likelihood of continuing the programs in 2001 and 2002.

**Table 1  
States With Performance Funding**

Surveys	Number (%)	States
First April, 1997	10 states (20%)	Colorado, Connecticut, Florida, Kentucky, Minnesota, Missouri, Ohio, South Carolina, Tennessee, Washington
Second June, 1998	13 states (26%)	Colorado, Connecticut, Florida, Illinois*, Indiana, Louisiana, Missouri, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Washington
Third June, 1999	16 states (32%)	Louisiana, Missouri, New Jersey, New York**, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Virginia
Fourth June, 2000	17 states (34%)	California*, Colorado, Connecticut, Florida, Illinois*, Kansas, Louisiana, Missouri, New Jersey, New York**, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas
Fifth 2001	19 states (38%)	Arkansas, California*, Colorado, Connecticut, Florida, Idaho, Illinois*, Kansas, Louisiana, Missouri, New Jersey, New York**, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas
Sixth 2002	18 states (36%)	Colorado, Connecticut, Florida, Idaho, Illinois*, Kansas, Louisiana, Missouri, New Jersey, New York**, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas

\* 2-year colleges only

\*\* State University System only



**Table 2**  
**Characteristics of State Use of Performance Funding**

<i>State</i>	<i>Adoption Year</i>	<i>Mandated</i>	<i>Indicators</i>	<i>Initiation</i>
Arkansas	2001	Yes	No	Legislature
California	1998	No	No	Community College System
Colorado	2000	Yes	No	Legislature
Connecticut	1985	Yes	No	Coordinating Board
Florida	1994	Yes	Yes	Governor, Legislature
Idaho	2000	No	No	Coordinating Board
Illinois	1998	No	No	Coordinating Board, College System
Kansas	2000	Yes	No	Governor, Legislature
Louisiana	1997	No	No	Coordinating Board
Missouri	1991	No	No	Coordinating Board
New Jersey	1999	No	No	Governor, Coordinating Board
New York	1999	No	No	University System
Ohio	1995	Yes	Yes	Coordinating Board
Oregon	2000	No	No	Coordinating Board
Pennsylvania (State System)	2000	No	No	University System
South Carolina	1996	Yes	Yes	Legislature
South Dakota	1997	No	No	Governor, Legislature, Coordinating Board
Tennessee	1979	No	No	Coordinating Board
Texas	1999	Yes	Yes	Legislature

**Table 3**  
**Likelihood of Continuing Performance Funding\***

<b>2001</b>		
Highly Likely	37% (7)	Colorado, Florida, Idaho, Illinois, Pennsylvania, Tennessee, Texas
Likely	58% (11)	Arkansas, Connecticut, Kansas, Louisiana, Missouri, New Jersey, New York, Ohio, Oregon, South Carolina, South Dakota
Cannot Predict	5% (1)	California
<b>2002</b>		
Highly Likely	55.6% (10)	Colorado, Connecticut, Florida, Idaho, Louisiana, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas
Likely	27.8% (5)	Illinois, Kansas, New York, Oregon, South Carolina
Unlikely	5.6% (1)	Missouri
Cannot Predict	11.1% (2)	New Jersey, Ohio

\* Percent based on number of states without Performance Funding program.

**Table 4**  
**Likelihood of Adopting Performance Funding\***

2001		
Highly Likely	9.5% (3)	Kentucky, Oklahoma, West Virginia
Likely	13% (4)	Alaska, Utah, Virginia, Wisconsin
Unlikely	26% (8)	Arizona, Indiana, Maryland, Nebraska, Nevada, New Mexico, Washington, Wyoming
Highly Unlikely	16% (5)	Delaware, Iowa, Montana, New Hampshire, North Dakota
Cannot Judge	35.5% (11)	Alabama, Georgia, Hawaii, Maine, Massachusetts, Michigan, Minnesota, Mississippi, North Carolina, Rhode Island, Vermont
2002		
Likely	6.3% (2)	Alaska, West Virginia
Unlikely	28.1% (9)	Georgia, Maryland, Mississippi, Montana, North Carolina, Utah, Vermont, Washington, Wyoming
Highly Unlikely	37% (12)	Alabama, Arizona, California, Delaware, Iowa, Kentucky, Nebraska, Nevada, New Hampshire, North Dakota, Rhode Island, Wisconsin
Cannot Judge	28.1% (9)	Arkansas, Hawaii, Indiana, Maine, Massachusetts, Michigan, Minnesota, New Mexico, Virginia

\* Percent based on number of states without Performance Funding program.

Table 4 displays the budget officers' predictions of the likelihood of adopting performance funding also suggests problems for the program's future. Kentucky listed as "highly likely" to adopt performance funding in 2001 has moved all the way to "highly unlikely". Wisconsin has gone from "likely" to "highly unlikely", Utah from "likely" to "unlikely", and Virginia from "likely" to "cannot predict". West Virginia also slipped from "highly likely" to only "likely". Moreover, states in the "highly unlikely to adopt" category have doubled and those in the "cannot predict" have declined. In a single year, the prospects for performance funding fell from three states "highly likely" to adopt to none. Clearly, budget problems in the states have stopped the growth of performance funding and threatened its future prospects.

### Performance Budgeting

The number of states with performance budgeting rose steadily from 1997 to 2000, moving from 16 to 28 states, with a net annual increase of three programs (Table 5). Table 6 provides information on the characteristics of performance budgeting programs in 28 states. In 2001, one program was eliminated, followed by another in 2002. Although the number of performance budgeting programs has tended to remain fairly stable, in 2002 Arkansas and Vermont adopted the program, but Alabama, Oregon, and Washington abandoned theirs. Arkansas dropped its new program in performance funding for an experimental budgeting program adopted for 10 state agencies and for public higher education. Alabama launched a pilot project of performance budgeting last year, but this year the legislature eliminated the program due to a budget shortfall. Oregon and Washington leaders felt that the bad budgets left no money for consideration of performance. Instead, they opted for performance reporting, which stresses accountability for results without paying for performance.

Tables 7 and 8 also suggest a slide in the certainty of continuing performance budgeting since last year. Replies in the "highly likely to continue" category slid from 63% to 50%. None of the states without performance budgeting report that they are "highly likely to adopt"

although four states – two more than last year – are considered "likely" to do so. The number of states considered "highly unlikely to adopt" declined, but those "unlikely to adopt" have doubled. The number of responses "cannot predict" dropped significantly. The statistics on continuance or adoption suggest slippage in future support for performance budgeting.

As expected in a period of revenue shortfalls, Table 9 also suggests some slide in the perceived effect of performance budgeting on campus funding. Although the budget officers' sense of impact remains from moderate to minimal, the move is clearly downward. Budget officers say the current recession and budget shortfalls produced this reduction, which is likely to continue if fiscal problems persist.

The last two SHEFO surveys noted some convergence between performance budgeting and funding, as many of the new budgeting programs earmarked specific sums for state allocation for campus results.<sup>13</sup> Specified funding in budgeting erased the major distinction between the two performance programs. The budget officers' responses in 2002 suggest that budget problems may have stopped this movement. Just four of the 26 states with performance budgeting earmark dollars for performance. Indeed, performance budgeting at a time of restrained funding may be moving closer to performance reporting, which has no official link to state funding. In performance budgeting, policymakers merely consider performance for funding, without the necessity of actually making allocations. (See Table 10.)

Over the years, the movement to mandate performance budgeting for all or some state agencies led to the increase in performance budgeting for higher education. This year, the number of states reporting performance budgeting for state agencies increased from 25 to 27 (see Table 11). This overall statistic conceals considerable volatility. Actually five states eliminated performance budgeting for their agencies, while seven added the program. This volatility may restrict the growth of performance budgeting, since 85% of programs for higher education come in states with this policy for government agencies.

**Table 5**  
**States With Performance Budgeting**

<b>Surveys</b>	<b>Number (%)</b>	<b>States</b>
First 1997	16 states (32%)	Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Mississippi, Nebraska, North Carolina, Oklahoma, Rhode Island, Texas, West Virginia
Second 1998	21 states (42%)	Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Mississippi, Nebraska, North Carolina, Oklahoma, Oregon, Rhode Island, South Dakota, Texas, Washington, West Virginia
Third 1999	23 states (46%)	Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Massachusetts, Michigan, Nebraska, New Jersey, New Mexico, North Carolina, Oklahoma, Oregon, Texas, Virginia, Washington, West Virginia
Fourth 2000	28 states (56%)	Alabama, California, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, North Carolina, Oklahoma, Oregon, Texas, Utah, Virginia, Wisconsin
Fifth 2001	27 states (54%)	Alabama, California, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Maryland, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, North Carolina, Oklahoma, Oregon, Texas, Utah, Virginia, Washington, Wisconsin
Sixth 2002	26 states (52%)	Arkansas, California, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Maryland, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, North Carolina, Oklahoma, Texas, Utah, Vermont, Virginia, Wisconsin

### State Report Cards Spur Performance Reporting

Performance reporting represents a third method of demonstrating public accountability and encouraging improved performance. These periodic reports recount the results of public colleges and universities on priority indicators, similar to those found in performance funding and budgeting. On the other hand, since performance reports have no formal link to funding, they can have a much longer list of indicators than performance budgeting and especially performance funding. Performance reports usually are sent to governors, legislators, and campus leaders, and often to the media and use publicity rather than funding or budgeting to stimulate colleges and universities to improve their performance.<sup>14</sup> (See Tables 12 and 13.)

In the last two years, the number of states with performance reporting jumped from 30 to 44. This large increase undoubtedly stems from the concerns that both preceded and followed the publication of *Measuring Up 2000*.<sup>15</sup> That Report Card graded states from A to F on each of the five categories of college preparation, participation, affordability, completion, and benefits. It gave an incomplete to all states on a sixth category, student learning, since its authors determined that no reliable and comparable national data existed for assessing performance in this area. Nine states initiated performance reporting in 2001, the year following the issuance of the first Report Card, and five adopted it this year.

In June of 2000, we asked budget officers about the level of concern in their agencies over the impending publication of *Measuring Up 2000*. "Very concerned" was cited by 3.4% and 35% said "moderate concern," while 24% claimed "only minimal," and 7% "no concern." The others could not assess the concern or did not respond to the question. Whatever those responses, the publication of the report cards clearly reawakened interest in performance reporting.

Continuance of the current reporting programs seems beyond doubt, but the number of states that seem "highly likely" to continue performance reporting has dropped, since budget officers from California and Colorado now rate continuance as only "likely". The 2002 Survey shows just six states without performance reporting. Montana is "highly likely" and New York "likely" to adopt it, while Delaware and Nevada are "unlikely", and Arkansas and Nebraska "highly unlikely" to start it. Delaware is one of two states without at least one performance program and is perennially among the least likely to adopt a program. (See Tables 14 and 15.)

In the past, performance reporting seemed to set the stage for performance funding and to a lesser extent performance budgeting. For example, performance reporting preceded initiation of performance funding in 13 of the 18 states that currently have a performance funding program. Tennessee started both in the same year, and New York has no reporting program. The other three states began performance reporting after funding. Reporting also preceded budgeting in 15 of the 26 programs in place in 2002. Some of the comments from budget officers this year suggest that the reverse is beginning to occur. State leaders confronted with budget shortfalls are starting to substitute performance reporting for performance funding and budgeting as an alternative that creates no requirement or even expectation for increased funding whatever the performance levels.

The perceived impact of performance reporting on campus allocations in colleges and universities shown in Table 16 is surprising. Performance reporting has no formal connection to funding; indeed the absence of this link is seen as an asset of the program that explains its popularity. Although this policy has no official connection to budgeting, budget officers claimed this year that coordinating or system governing boards in 47% of the states with performance reports consider the results when making campus allocations.

**Table 6**  
**State Use of Performance Budgeting for Public Higher Education**

<i>State</i>	<i>Adoption Year</i>	<i>Mandated</i>	<i>Indicators</i>	<i>Initiation</i>
Alabama	2000	Yes	Yes	Governor
California	2000	No	No	Governor, System Boards
Connecticut	1999	Yes	No	Governor, University System
Florida	1994	Yes	No	Governor, Legislature
Georgia	1993	Yes	No	Governor
Hawaii	1975	Yes	No	Governor, Legislature
Idaho	1996	Yes	No	Legislature
Illinois	1984	No	No	Coordinating Board, University System
Iowa	1996	Yes	No	Governor
Kansas	1995	No	No	Coordinating Board
Louisiana	1997	Yes	No	Legislature
Maine	1998	Yes	No	Governor
Maryland	2000	No	No	
Massachusetts	1999	No	No	Legislature, Coordinating Board
Michigan	1999	No	No	Governor
Mississippi	1992	Yes	No	Legislature
Missouri	1999	No	No	Governor, Coordinating Board
Nebraska	1991	No	No	Coordinating Board
Nevada	2000	No	Yes	Governor
New Jersey	1999	No	No	Governor
New Mexico	1999	Yes	No	Legislature
North Carolina	1996	Yes	No	Governor
Oklahoma	1991	No	No	Coordinating Board
Oregon	1998	No	No	Coordinating Board
Texas	1991	Yes	Yes	Legislature
Utah	2000	No	No	Legislature, Coordinating Board
Virginia	1999	No	No	Governor
Washington	1999	Yes	Yes	Legislature
Wisconsin	2000	No	No	Coordinating Board

**Table 7**  
**Likelihood of Continuing Performance Budgeting**

<i>2001</i>		
Highly Likely	63% (17)	Connecticut, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Michigan, Mississippi, Nebraska, Nevada, New Mexico, North Carolina, Oklahoma, Texas, Utah, Virginia
Likely	26% (7)	Alabama, California, Hawaii, Maryland, Missouri, Oregon, Wisconsin
Cannot Judge	11% (3)	Florida, Georgia, Washington
<i>2002</i>		
Highly Likely	50% (13)	Connecticut, Georgia, Idaho, Illinois, Iowa, Kansas, Louisiana, Michigan, Mississippi, Nevada, North Carolina, Oklahoma, Utah
Likely	38.5% (10)	California, Florida, Hawaii, Maine, Maryland, Nebraska, New Mexico, Texas, Vermont, Wisconsin
Cannot Judge	11.5% (3)	Arkansas, Missouri, Virginia

**Table 8**  
**Likelihood of Adopting Performance Budgeting\***

<b>2001</b>		
Likely	9% (2)	Alaska, West Virginia
Unlikely	17% (4)	Delaware, Montana, New York, South Carolina
Highly Unlikely	17% (4)	Arizona, New Hampshire, North Dakota, Rhode Island
Cannot Predict	57% (13)	Arkansas, Colorado, Indiana, Kentucky, Massachusetts, Minnesota, New Jersey, Ohio, Pennsylvania, South Dakota, Tennessee, Vermont, Wyoming
<b>2002</b>		
Likely	16.7% (4)	Alaska, Montana, Tennessee, West Virginia
Unlikely	33.3% (8)	Alabama, Arizona, Delaware, Kentucky, North Dakota, Rhode Island, South Carolina, Washington
Highly Unlikely	12.5% (3)	Colorado, New York, South Dakota
Cannot Predict	37.5% (9)	Indiana, Massachusetts, Minnesota, New Hampshire, New Jersey, Ohio, Oregon, Pennsylvania, Wyoming

\* Percent based on number of states without Performance Budgeting program.

**Table 9**  
**Effect of Performance Budgeting on Funding**

<b>2001</b>		
Considerable Extent	11% (3)	Hawaii, Illinois, Missouri
Moderate Extent	37% (10)	Connecticut, Florida, Idaho, Louisiana, Maine, Maryland, Michigan, Nevada, Oregon, Utah
Minimal Extent	26% (8)	California, Iowa, Mississippi, Nebraska, North Carolina, Virginia, Washington
No Extent	11% (3)	Alabama, New Mexico, Wisconsin
Cannot Judge	15% (4)	Georgia, Kansas, Oklahoma, Texas
<b>2002</b>		
Considerable Extent	3.8% (1)	Illinois
Moderate Extent	34.6% (9)	California, Hawaii, Idaho, Louisiana, Maryland, Michigan, Oklahoma, Utah, Vermont
Minimal Extent	34.6% (9)	Connecticut, Florida, Georgia, Kansas, Missouri, Nebraska, Nevada, North Carolina, Virginia
No Extent	15.4% (4)	Iowa, Mississippi, New Mexico, Wisconsin
Cannot Judge/No Answer	11.5% (3)	Arkansas, Maine, Texas

**Table 10**  
**Does Performance Budgeting Earmark Dollar Amount or Percent of State Support in 2002?**

Yes, EARMARK	15.4% (4)	California, Louisiana, Missouri, Texas
No, Do not Earmark	84.6% (22)	Arkansas, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Maine, Maryland, Michigan, Mississippi, Nebraska, Nevada, New Mexico, North Carolina, Oklahoma, Utah, Vermont, Virginia, Wisconsin

**Table 11**  
**States with Performance Budgeting for State Agencies**

<b>2001</b>
Alabama, Arizona, Arkansas, Florida, Hawaii, Idaho, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Mississippi, Missouri, Nevada, New Hampshire, New Mexico, North Carolina, Oklahoma, South Dakota, Tennessee, Texas, Virginia, Washington, Wisconsin
<b>2002</b>
Alabama, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, Oklahoma, Oregon, Rhode Island, Tennessee, Texas, Vermont, Virginia, Wisconsin

**Table 12**  
**States with Performance Reporting**

Year	Count	States
2000	30 states (60%)	Alabama, Arizona, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Kentucky, Louisiana, Maryland, Massachusetts, Mississippi, Missouri, New Jersey, New Mexico, North Dakota, Oregon, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Washington, West Virginia, Wisconsin, Wyoming
2001	39 states (78%)	Alabama, Alaska, Arizona, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming
2002	44 states (88%)	Alabama, Alaska, Arizona, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming

A possible explanation is that 11 of the 20 states reporting that they consider reporting results in campus allocations also have performance funding. In contrast, only five of the 24 states recorded as not considering performance reports in campus allocations also have performance funding. Budget officers saying yes to the question of considering allocations possibly did not separate the impact of performance funding from performance reporting. Indeed, several states, such as Missouri, South Carolina, and Tennessee, use the same indicators for both performance reporting and performance funding.

#### **State Performance Programs and the State Report**

An obvious, although not necessarily fair, question is how did the states with performance reporting fare on the state report cards in *Measuring Up 2000*. Such comparisons are unfair, because the report cards from the National Policy Center assess statewide performance, while the state performance reports tend to stress institutional results along with statewide performance. Despite this difference, in 2001, we compared the states with one or more of the performance policies of budgeting, funding, and reporting to see if they fared better in the scoring than states without these programs. The results reveal that states with one or more of these performance programs received no better grades than those without them.<sup>16</sup>

Many states with performance programs did poorly on the report cards, in part because their indicators – unlike *Measuring Up 2000* – do not reflect statewide needs, such as high school performance, college going rates, college cost as a percent of family income, adult degree attainment, and the state's economic and civic benefits from higher education. Our study of the indicators used in 29 state performance reports show only three included adult degree attainment, two high school course taking, and one tuition and fees as a percent of family income, although seven included college going rates.<sup>17</sup>

A number of states, including Kentucky, revised their performance reports to include these statewide indicators, undoubtedly in preparation of the second Score Card issued in September 2002, *Measuring Up 2002*. Of course, different indicators would not necessarily raise the state grades, since researchers for The National Policy Center concede that race and ethnicity explains about 10% of the state scores and wealth and economic vitality about 25%.<sup>18</sup>

In 2002, we asked budget officers about the likelihood of their state revising its performance reports based on *Measuring Up 2000*. Only one

state (two percent) said "highly likely" and nine states (20%) "likely", while a third claimed "unlikely" and 9% "highly unlikely". One-third of the budget officers could not predict their state's response. Actual revisions occurred less often than predicted. In response to another question on whether their state had changed its performance report based on *Measuring Up 2000*, five budget officers replied yes: Indiana, Oklahoma, Tennessee, Texas, and West Virginia. Only Oklahoma and West Virginia described the revision as considerable. Indiana claimed only minimal revisions. Actually, Oklahoma and West Virginia adopted the categories and the indicators of *Measuring Up 2000* as their own. In addition, external evidence suggests considerable revisions in Kentucky and Missouri. (See Tables 17 and 18.)

Clearly, *Measuring Up 2000* spurred the growth of performance reporting, but apparently has had only a modest impact in changing the indicators used in state reports. Our 2002 Survey occurred before the publication of the second Report Card, *Measuring Up 2002*. Only time will tell whether the second report card – which suggests little significant improvement in all the categories but preparation – will have an impact on the performance reports.<sup>19</sup> Unfortunately, the history of performance reporting in the states suggests the first report creates a stir that subsides as the series continues.

The state performance reports and the national report cards should support each other. The state performance report should include systemwide as well as institutional results. The national report card should not ignore institutional results, since statewide results are unlikely to improve without highlighting the connection between statewide and campus performance. Statewide results are the culmination of a performance chain that begins on campus.

*Measuring Up 2000* created considerable concern among state coordinating officials for higher education, but campus leaders may well feel they got a "bye" on accountability in the first round of report cards, since they did not include institutional results. Indeed, two of the essays in *Measuring Up 2002* seek to generate more interest by campus presidents and academic leaders in the report cards (pp. 64-68). The Kentucky Council On Postsecondary Education recognizes that some of the indicators must evaluate performance at the state level, such as college going, educational attainment, and high school course taking, while other measures should set institutional objectives to encourage changes directed toward the system wide goals.<sup>20</sup> Although *Measuring Up* is directed at state policymakers, it

**Table 13**  
**State Use of Performance Reporting for Public Higher Education**

<b>Mandated/Prescribed Programs</b>	<b>Adoption</b>	<b>First Report</b>
Alaska	2000	2000
Colorado	1996	1999
Florida	1991	1993
New Jersey	1994	1996
South Carolina	1992	1996
Texas	1997	1999
Washington	1997	1999
West Virginia	1991	1992
Wyoming	1995	1997
<b>Mandated/Not Prescribed</b>	<b>Initiated</b>	<b>First Report</b>
Arizona	1995	1997
California	1991	1992
Connecticut	2000	2001
Georgia	2000	2001
Hawaii	1996	1997
Iowa	2001	
Kentucky	1997	1997
Louisiana	1997	2001
Maryland	1991	1996
Massachusetts	1997	1998
Michigan	2000	2001
Minnesota	2000	2000
Mississippi	1992	
North Carolina	1991	1999
North Dakota	1999	2000
Utah	1995	1997
Vermont	2002	
Virginia	1995	2001
<b>Not Mandated</b>	<b>Initiated</b>	<b>First Report</b>
Alabama	1982	1983
Idaho	1991	1999
Illinois	1997	1999
Indiana		2002
Kansas		2001
Maine	2000	2001
Missouri	1992	1993
New Hampshire	2002	
New Mexico	1998	1998
Ohio	1999	2000

continued on next page

**Table 13 continued**  
**State Use of Performance Reporting for Public Higher Education**

Oklahoma	1997	2000
Oregon	1997	1999
Pennsylvania	1997	2000
Rhode Island	1998	1998
South Dakota	1995	2001
Tennessee	1989	1990
Wisconsin	1993	1996

**Table 14**  
**Likelihood of Continuing Performance Reporting**

<b>2001</b>		
Highly Likely	85% (33)	Alaska, Arizona, California, Colorado, Connecticut, Florida, Georgia, Idaho, Illinois, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Mississippi, Missouri, New Mexico, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia, Wisconsin
Likely	10% (4)	Alabama, Hawaii, Massachusetts, New Jersey
Unlikely	2.5% (1)	Wyoming
Cannot Judge	2.5% (1)	Washington
<b>2002</b>		
Highly Likely	70.5% (31)	Alabama, Alaska, Arizona, Connecticut, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Utah, Virginia, West Virginia, Wisconsin
Likely	25% (11)	California, Colorado, Maine, Maryland, Massachusetts, New Hampshire, North Carolina, Oregon, Texas, Vermont, Washington
Cannot Judge	4% (2)	Hawaii, Wyoming

**Table 15**  
**Likelihood of Adopting Performance Reporting\***

<b>2001</b>		
Highly Likely	18% (2)	Iowa, Oklahoma
Likely	18% (2)	Nebraska, New York
Unlikely	36% (4)	Delaware, Montana, Nevada, New Hampshire
Cannot Judge	27% (3)	Arkansas, Indiana, Vermont
<b>2002</b>		
Highly Likely	70.5% (31)	Montana
Unlikely	33% (2)	Delaware, Nevada
Highly Unlikely	33% (2)	Arkansas, Nebraska
Cannot Predict	16.7% (1)	New York

\* Percent based on the number of states without Performance Reporting Programs.



lets governors and legislatures “off the accountability hook” by not including a graded indicator of state funding for higher education. After all, the level of funding represents the most critical state policy decision for higher education. Our new book on performance reporting seeks to fix responsibility for performance results by suggesting a limited list of common indicators for use in the national, state, system, and institutional reports on performance. Such a common list would allow policymakers at every level to track the sources of successes and shortcomings in higher education performance down and up the performance chain.<sup>21</sup> *Measuring Up 2000 and 2002* gives the state scores on its extensive list of indicators, but the lack of a common set of indicators for state, systems, and institutions means that it cannot identify the source of the problems.

### Impact on Campus Performance

Of course, the bottom line in assessing performance funding, budgeting, and reporting is the extent to which each improves the performance of colleges and universities. A realistic assessment is still premature, since many of these programs are products of the mid to late 1990s, and most have been implemented for only a few years. However, it is not too early to begin a preliminary assessment of their effect on performance.

Last year, 42% of the budget officers claimed it was too early to evaluate the effect of performance funding on institutional improvement. This year that figure dropped to 28%. The other comparisons between the responses of the impact of performance funding on improvement in 2001 and 2002 remain similar, except for moderate extent, which shows a sizeable increase. These results are down from those in 2000 when 35% claimed great or considerable impact on improvement. Undoubtedly, better funding explains the greater impact in 2000. In that year, budget officers from South Carolina and Tennessee cited “great extent”, while those from Connecticut, Missouri, Ohio, and Oklahoma claimed “considerable extent.” In 2002, Connecticut still appeared in “great extent” and Ohio in “considerable extent”, but Tennessee had slipped to “considerable extent” and Missouri and South Carolina had fallen to “moderate extent.” Undoubtedly, budgetary problems that suspended or reduced allocations for performance funding explain this lowered assessment of impact on performance. (See Table 19.)

Program longevity and funding seems to make a difference since Tennessee, Missouri, Ohio, and South Carolina have had performance funding for some time and have supported programs with sizeable sums, at least in past years. Although Florida’s effort has existed for six years, its university sector has received scant funding in the last few budgets. (The new statewide governing agency proposes to end this practice by allocating ten percent of state support to campus results). Even respondents rating their program’s effect on improvement as “low” say that performance funding has caused campus leaders to concentrate more on institutional performance.

This year’s responses on the impact of performance budgeting on campus performance reveal only a slight slip in impact since 2001. No budget officer now claims “great extent” in performance improvement, but “moderate extent” is slightly higher. More respondents say they cannot judge the impact, while fewer claim “little” or “no impact.” The responses for budgeting show somewhat less impact on campus improvement than performance funding. (See Table 20.)

The perceived impact of reporting on performance has remained fairly constant for the last two years despite rapid growth in the number of

programs. The surprise is that budget officers think that performance reporting has had slightly more effect on improvement than performance budgeting and only marginally less effect than performance funding. This result would seem to support the claim of some state leaders that performance reporting gives them nearly the same or more impact on improvement than performance funding or budgeting, without the required or expected cost of those two programs.

One question is whether the budget officers can discriminate the varying impacts on improvement of performance funding, budgeting, and reporting in the states that have one, two, or all three of these programs. For example, nine states have all three programs: Connecticut, Florida, Idaho, Illinois, Kansas, Louisiana, Missouri, Oklahoma, and Texas. Our analysis suggests that budget officers can discriminate between the multiple impacts of the individual performance programs, since they rate each of the funding, budgeting, and reporting initiatives differently in assessing their impact on improvement. It is certainly too soon to conclude that performance reporting gives state policymakers at least or nearly as much “bang” for “no bucks,” especially in a year when states had few bucks for performance funding. But the 2002 Survey suggests that budget officers – in a bad budget year – perceive that reporting has slightly more impact on improvement than budgeting and slightly less than funding.

Still, bad budget years – when some states have suspended allocations for performance funding – is hardly a fair time to test the relative impact of reporting, funding, or budgeting on improvement. In 2000, when states provided additional allocation for higher education, budget officers said performance funding had improved campus results to a great or considerable extent in over 35% of the states with that program. Conversely, performance budgeting had a similar impact in only 18% of the states, and performance reporting in just 17%. In other words, in periods of better budgets, budget officers considered the great or considerable impact of performance funding on campus improvement as double that of performance reporting and nearly double that of performance budgeting. (Table 21).

Results from our previous surveys of state and campus leaders and our other studies on performance funding and performance reporting reveal a common fatal flaw. Those surveys show that both programs become increasingly invisible on campuses below the level of vice presidents, because of the failure to extend performance funding and reporting to the internal academic units on campus.<sup>22</sup> These studies conclude that performance funding and reporting are unlikely to improve substantially the performance of colleges and universities unless they extend funding and reporting programs down to academic departments. The anomaly of all three accountability programs – funding, budgeting, and reporting – is that they hold states, systems, and colleges and universities responsible for performance, but campus leaders do not apply that same responsibility to the internal divisions that are largely responsible for producing institutional results.

### Findings

Three general findings dominate the Sixth SHEFO Survey: the spread of performance reporting, the impact of bad budgets, and the predominance of accountability programs. More specific findings include the following:

- Performance reporting has become by far the preferred approach to accountability;
- *Measuring Up 2000 and 2002* continued to spur interests in statewide performance reporting;

**Table 16**  
**States that Consider Performance Reporting in the Allocation of Resources to Colleges and Universities**

<b>2001</b>		
Yes	48% (19)	Alaska, Colorado, Hawaii, Idaho, Illinois, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Missouri, New Mexico, North Dakota, Rhode Island, South Carolina, South Dakota, Texas, Utah, West Virginia
No	43.5% (17)	Alabama, Arizona, California, Connecticut, Florida, Georgia, Kansas, Mississippi, North Carolina, Ohio, Oregon, Pennsylvania, Tennessee, Virginia, Washington, Wisconsin, Wyoming
Don't Know	2.5% (1)	New Jersey
No Response	5% (2)	Michigan, Minnesota (did not respond to this question)
<b>2002</b>		
Yes	45.5% (20)	Alaska, Colorado, Florida, Idaho, Illinois, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Missouri, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, Texas, Utah, West Virginia
No	54.5% (24)	Alabama, Arizona, California, Connecticut, Georgia, Hawaii, Indiana, Iowa, Kansas, Kentucky, Michigan, Mississippi, New Hampshire, New Jersey, New Mexico, North Dakota, Oklahoma, Rhode Island, Tennessee, Vermont, Virginia, Washington, Wisconsin, Wyoming

**Table 17**  
**How Likely Your State Will Revise Performance Report Based on Measuring Up?**

Highly Likely	2.2% (1)	Oklahoma
Likely	20.5% (9)	Alaska, Illinois, Kentucky, New Hampshire, New Mexico, North Carolina, Oregon, Texas, West Virginia
Unlikely	34.1% (15)	Alabama, California, Georgia, Iowa, Maine, Maryland, Mississippi, New Jersey, Pennsylvania, South Dakota, Tennessee, Utah, Vermont, Virginia, Washington
Highly Unlikely	9.1% (4)	Minnesota, North Dakota, Rhode Island, Wisconsin
Cannot Predict	34.1% (15)	Arizona, Colorado, Connecticut, Florida, Hawaii, Idaho, Indiana, Kansas, Louisiana, Maine, Michigan, Missouri, Ohio, South Carolina, Wyoming

**Table 18**  
**Has Your State Revised Performance Report Based on the Report Card Measuring Up?**

Yes	11.4% (5)	Indiana, Oklahoma, Tennessee, Texas, West Virginia
No	86.4% (38)	Alabama, Alaska, Arizona, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Dakota, Utah, Vermont, Virginia, Washington, Wisconsin
Don't Know	2.3% (1)	Wyoming
<b><i>If Yes, to what extent?</i></b>		
Considerable Extent	4.5% (2)	Oklahoma, West Virginia
Minimal Extent	2.3% (1)	Indiana
No Answers	93.2% (41)	Alabama, Alaska, Arizona, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Wisconsin, Wyoming

**Table 19**  
**Extent of Performance Funding that Improved the Performance of Public Colleges and/or Universities**

2001		
Great Extent	5% (1)	Missouri
Considerable Extent	16% (3)	Ohio, South Dakota, Tennessee
Moderate Extent	16% (3)	Connecticut, Idaho, South Carolina
Minimal Extent	16% (3)	Florida, Louisiana, Oregon
No Extent	5% (1)	New Jersey
Cannot Judge	42% (8)	Arkansas, California, Colorado, Illinois, Kansas, New York, Pennsylvania, Texas
2002		
Great Extent	5.6% (1)	Connecticut
Considerable Extent	16.7% (3)	Ohio, South Dakota, Tennessee
Moderate Extent	27.8% (5)	Colorado, Idaho, Louisiana, Missouri, South Carolina
Minimal Extent	16.7% (3)	Florida, Oregon, Pennsylvania
No Extent	5.9% (1)	Kansas
Cannot Judge	27.8% (5)	Illinois, New Jersey, New York, Oklahoma, Texas

**Table 20**  
**Extent of Performance Budgeting that Improved Performance of Public Colleges and Universities**

2001		
Great Extent	3.7% (1)	Missouri
Considerable Extent	7.5% (2)	Louisiana, Maine
Moderate Extent	33.3% (9)	Connecticut, Hawaii, Idaho, Illinois, Iowa, Maryland, Michigan, Oklahoma, Oregon
Minimal Extent	18.5% (5)	Florida, Mississippi, Nebraska, New Mexico, Virginia
No Extent	15% (4)	Georgia, Nevada, Washington, Wisconsin
Cannot Judge	22% (6)	Alabama, California, Kansas, North Carolina, Texas, Utah
2002		
Considerable Extent	7.7% (2)	Louisiana, North Carolina
Moderate Extent	38.5% (10)	California, Hawaii, Idaho, Maryland, Michigan, Missouri, Nevada, New Mexico, Utah, Vermont
Minimal Extent	15.4% (4)	Connecticut, Illinois, Nebraska, Virginia
No Extent	7.7% (2)	Georgia, Mississippi
Cannot Judge	30.8% (8)	Arkansas, Florida, Iowa, Kansas, Maine, Oklahoma, Texas, Wisconsin

- State policymakers, especially legislators, see performance reporting as a “no cost” alternative to performance funding and performance budgeting;
- Budget problems since our 2001 Survey are eroding support for performance funding and budgeting;
- Budget officers’ predictions suggest that the persistence of deep budget problems will further diminish prospects for performance funding and perhaps performance budgeting; and
- A connection is needed between the statewide focus of *Measuring Up 2000* with the state and institutional emphasis of the state performance reporting.

**Conclusion**

After six years of surveys, some conclusions are clear, although each year seems to produce surprises that cloud that clarity. The drive toward accountability for performance in higher education has swept the country. Performance reporting is clearly the preferred program. It has spread to nearly all of the states, while the number of states with performance budgeting and funding has declined slightly. Bad budgets have spurred interest in state capitals in performance reporting as a “no cost” alternative to performance funding and budgeting. Only time will tell whether reporting is really a “no cost” approach to accountability or merely wishful thinking of legislators in bad budget times.

An obvious problem is how to provide the missing link between the statewide focus of the state report cards and the institutional emphasis of the state performance reports. We suggest a limited list of common indicators to connect the chain of performance campuses to states.

**Table 21**  
**Extent of Performance Reporting that Improved Performance of Public Colleges and/or Universities**

<b>2001</b>		
Considerable Extent	13% (5)	Kentucky, Michigan, Missouri, South Carolina, West Virginia
Moderate Extent	36% (14)	Hawaii, Idaho, Illinois, Louisiana, Maryland, New Jersey, New Mexico, North Carolina, Pennsylvania, South Dakota, Tennessee, Utah, Virginia, Wyoming
Minimal Extent	15% (6)	Arizona, California, Florida, Massachusetts, Mississippi, Wisconsin
No Extent	8% (3)	Alabama, Rhode Island, Washington
Cannot Judge	28% (11)	Alaska, Colorado, Connecticut, Georgia, Kansas, Maine, Minnesota, North Dakota, Ohio, Oregon, Texas
<b>2002</b>		
Considerable Extent	13.6% (6)	Iowa, Michigan, North Carolina, South Carolina, Tennessee, West Virginia
Moderate Extent	34.1% (15)	Alaska, Colorado, Florida, Hawaii, Illinois, Kentucky, Louisiana, Maryland, Missouri, New Mexico, South Dakota, Utah, Vermont, Washington, Wisconsin
Minimal Extent	22.7% (10)	California, Connecticut, Idaho, Massachusetts, New Hampshire, New Jersey, Oklahoma, Oregon, Pennsylvania, Wyoming
No Extent	4.5% (2)	Arizona, Mississippi
Cannot Judge	25.0% (11)	Alabama, Georgia, Indiana, Kansas, Maine, Minnesota, North Dakota, Ohio, Rhode Island, Texas, Virginia

At this point, one conclusion is clear. None of the performance programs of accountability for higher education and colleges and universities will ever work unless they reach down to the units really responsible for many results – the academic departments.

#### Footnotes

<sup>1</sup> Joseph C. Burke and Andreea M. Serban, *Current Status and Future Prospects of Performance Funding and Performance Budgeting for Public Higher Education: The Second Survey* (Albany, New York: Rockefeller Institute of Government, 1998.); and Joseph C. Burke, Henrik P. Minassians, and Po Yang, "State Performance Reporting Indicators: What Do They Indicate?" *Planning for Higher Education*, 31 (2002): 15-30.

<sup>2</sup> See, for example, Melodie E. Christal, *State Survey on Performance Measures: 1996-97*. (Denver, Colorado: State Higher Education Executive Officers, 1998); and Mary P. McKeown, *State Funding Formulas for Public Four-Year Institutions* (Denver, Colorado: State Higher Education Executive Officers, 1996).

<sup>3</sup> Joseph C. Burke, and Andreea M. Serban, *Performance Funding and Budgeting for Public Higher Education: Current Status and Future Prospects* (Albany, New York: Rockefeller Institute of Government, 1997).

<sup>4</sup> Joseph C. Burke, Jeff Rosen, Henrik Minassians, and Terri Lessard, *Performance Funding and Budgeting: An Emerging Merger? The Fourth Annual Survey* (Albany, New York: The Rockefeller Institute, 2000).

<sup>5</sup> Joseph C. Burke and Shahpar Modarresi, *Performance Funding and Budgeting: Popularity and Volatility -The Third Annual Survey* (Albany, New York: Rockefeller Institute of Government, 1999).

<sup>6</sup> Joseph C. Burke and Henrik P. Minassians, eds., "Reporting Higher Education Results: Missing Link in Performance," *New Directions in Institutional Research*, No. 116 (San Francisco, California: Jossey-Bass, 2002).

<sup>7</sup> The National Center For Public Policy And Higher Education, *Measuring Up 2000: The State-By-State Report Card For Higher Education* (San Jose, California: The National Center for Public Policy and Higher Education, 2000).

<sup>8</sup> Joseph C. Burke and Henrik P. Minassians, *Linking Resources to Campus Results: From Fad to Trend: The Fifth Annual Survey: 2001* (Albany, New York: The Rockefeller Institute, 2001).

<sup>9</sup> Ibid.

<sup>10</sup> Peter Schmidt, "State Spending on Higher Education Grows by Smallest Rate in 5 Years," *The Chronicle of Higher Education*, January 18, 2002, A20.

<sup>11</sup> Joseph C. Burke and Andreea M. Serban, eds., "Performance Funding for Public Higher Education: Fad or Trend?" *New Directions for Institutional Research*, 97 (Spring 1998), (San Francisco: Jossey-Bass); and Joseph C. Burke and Associates, *Funding Public Colleges and Universities for Performance: Popularity, Problems, and Prospects* (Albany, New York: The Rockefeller Institute, 2002).

<sup>12</sup> Joseph C. Burke and Shahpar Modarresi, "To Keep or Not to Keep Performance Funding: Signals from Stakeholders," *The Journal of Higher Education* 71 (July/August 2000): 432-454; and Burke et. al., *Funding Public Colleges and Universities for Performance*.

<sup>13</sup> Burke et al., *Performance Funding and Budgeting: An Emerging Merger?*

<sup>14</sup> Burke and Minassians, "Reporting Higher Education Results."

<sup>15</sup> The National Center For Public Policy And Higher Education, *Measuring Up 2000*.

<sup>16</sup> Burke and Minassians, "Reporting Higher Education Results."

<sup>17</sup> Ibid.

<sup>18</sup> The National Center For Public Policy And Higher Education, *Measuring Up 2002: The State-by-State Report Card For Higher Education* (San Jose, California: 2002).

<sup>19</sup> Ibid.

<sup>20</sup> Kentucky Council On Postsecondary Education. *Key Indicators of Progress Toward Postsecondary Reform*, Agenda Item D-2, March 19, 2001.

<sup>21</sup> Burke and Minassians, "Reporting Higher Education Results"; see also Burke et al., "State Performance Reporting Indicators."

<sup>22</sup> Ibid. See also Andreea M. Serban, "Performance Funding for Public Higher Education: Views of Stakeholders," in Joseph C. Burke and Andreea Serban, eds., *Performance Funding and Budgeting for Public Higher Education: Current Status and Future Prospects* (Albany, New York: The Rockefeller Institute, 1997).

## APPENDIX

SURVEY OF STATE HIGHER EDUCATION FINANCE OFFICERS PERFORMANCE,  
REPORTING, FUNDING, AND BUDGETING  
JULY 2002

NAME:			
STATE:		PHONE #:	

**DEFINITIONS:**

*Performance funding:* Ties specified state funding directly and tightly to the performance of public campuses on performance indicators.

*Performance budgeting:* Allows governors, legislators, and coordinating or system boards to consider campus achievement on performance indicators as one factor in determining public Campus allocations.

**SECTION ONE: Performance Funding**

- 1) Does your state currently have **performance funding** for public colleges and/or universities? Yes  No

**If Yes,**

- 2) What is the percent of funding allocated to **performance funding** for public colleges and/or universities in your state? .%

- 3) Was it mandated by legislation? Yes  No

- 4) Were the indicators prescribed by legislation? Yes  No

- 5) Of the following, what individual or group(s) initiated **performance funding**?

- Governor
- Legislature
- Coordinating board or agency
- University system(s)
- Other (please specify)

- 6) In your opinion, to what extent has **performance funding** improved the performance of public colleges and/or

universities in your state?

- Great Extent
- Considerable Extent
- Moderate Extent
- Minimal Extent
- No Extent
- Cannot Judge

- 7) How likely is it that your state will continue **performance funding** for public higher education over the next five years?

- Highly Likely
- Likely
- Unlikely
- Highly Unlikely
- Cannot Predict

- 8) How likely is it that your state will adopt **performance funding** for public higher education in the next five years?

- Highly Likely
- Likely
- Unlikely
- Highly Unlikely
- Cannot Predict

**SECTION TWO: Performance Budgeting**

9) Does your state currently have **performance budgeting** for public colleges and/or universities? Yes  No

**If Yes,**

10) Was it mandated by legislation? Yes  No

11) Were the indicators prescribed by legislation? Yes  No

12) Of the following, what individual or group(s) initiated **performance budgeting**?

Governor

Legislature

Coordinating board or agency

University system(s)

Other (please specify)

13) In your opinion, to what extent has **performance budgeting** improved the performance of public colleges and/or universities in your state?

Great Extent  Considerable Extent  Moderate Extent

Minimal Extent  No Extent  Cannot Judge

14) How likely is it that your state will continue **performance budgeting** for public higher education over the next five years?

Great Extent  Considerable Extent  Moderate Extent

Minimal Extent  No Extent  Cannot Judge

15) Does the **performance budgeting** program earmark a certain dollar figure or percent of state support for allocation to colleges and universities? Yes  No

16) How would you describe the actual effect of **performance budgeting** in your state on the funding of public colleges and universities?

Great Effect  Considerable Effect  Moderate Effect

Minimal Effect  No Effect  Cannot Judge

17) How likely is it that your state will adopt **performance budgeting** for public higher education in the next five years?

Highly Likely  Likely  Unlikely

Highly Unlikely  Cannot Predict

18) Is **performance budgeting** used in your state for other state agencies besides higher education? Yes  No

**SECTION THREE: Performance Reporting**

19) Does your state currently have **performance reporting** for public higher education?  
 Yes  No

**If Yes,**

20) Was it mandated by legislation? Yes  No

21) Were the indicators prescribed by legislation? Yes  No

22) Of the following, what individual or group(s) initiated **performance reporting**?

- Governor
- Legislature
- Coordinating board or agency
- University system(s)
- Other (please specify)

23) In your opinion, to what extent has **performance reporting** improved the performance of public colleges and universities in your state?

- Great Extent  Considerable Extent  Moderate Extent
- Minimal Extent  No Extent  Cannot Judge

24) How likely is it that your state will continue **performance reporting** for public higher education over the next five years?

- Highly Likely  Likely  Unlikely  Highly Unlikely  Cannot Predict

25) Do the coordinating and/or system governing boards consider **performance reports** in the allocation of resources to colleges and universities? Yes  No

26) Has your State revised its **performance report** based on its scores on the state-by-state report card *Measuring Up 2000*, published by the National Center for Public Policy and Higher Education? Yes  No

**If Yes,** to what extent?

- Great Extent  Considerable Extent  Moderate Extent
- Minimal Extent  No Extent  Cannot Judge

27) How likely is it that your state will revise its **performance report** in the future based on *Measuring Up 2000*?

- Highly Likely  Likely  Unlikely  Highly Unlikely  Cannot Predict

**If no performance reporting,**

28) How likely is it that your state will adopt performance reporting for public higher education in the next five years?

- Highly Likely  Likely  Unlikely  Highly Unlikely  Cannot Predict

**Comments:**

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