

Recession, Retrenchment, and Recovery: State Higher Education Funding & Student Financial Aid

Symposium October 20, 2006 Summary

On October 20, 2006, the results of the Recession, Retrenchment, and Recovery (3R) project were presented at a symposium in Chicago, Illinois. Participants from 15 states included representatives of national higher education centers, regional commissions, state higher education coordinating boards, state student financial aid organizations, and public universities. The purpose of the symposium was to obtain comments and suggestions on the results of the 3R project, to consider other current studies related to student access to college, and to identify common issues and challenges. The symposium was organized into three sections—presentation and discussion of the 3R project, a panel on other projects focusing student access, and discussion of issues and challenges.

Recession, Retrenchment, and Recovery

The results of the Recession, Retrenchment, and Recovery project were summarized by the project team. The full report and state profiles were provided to recipients. In general, the results of the project were well received. The project was described as “useful” and “interesting”. More than one participant said they planned to use the reports as the basis for discussions with their constituents. (In addition to reports, the data will be available on the project’s webpage.)

Reactions Sandy Baum, Professor of Economics at Skidmore College and Senior Policy Analyst at the College Board, noted that policymakers place high priority on workforce development but tend to underestimate the substantial contribution that higher education makes toward this priority. In addition, higher education does not demonstrate efficiency and tends to under-value access for students. “We care about equity but we can’t afford it now.”

While states share common goals, they differ substantially in diversity, demographic characteristics, higher education structure, and political environment. Access needs to be looked at in a more unified way. The federal government should do more to provide incentives to states.

It is not just the level of tuition and fees that is important. The net price needs to be more transparent to potential students and student financial aid needs to be simpler. What makes a difference is who gets the aid rather than the distinction between need-based and merit aid.

Stephen Bragg, Vice President for Finance and Planning at Illinois State University, noted that although states were the unit of analysis in the study, the findings and recommendations of the 3R project are applicable, with minor modifications, to individual institutions. Like states, institutions have experienced the "roller-coaster funding." Since the 1970, each recession has been deeper and it has taken longer to recover. Faculties now understand that they cannot wait for the state to restore funding to previous levels. Increased tuition and raised admission standards are strategies to deal with declining state appropriations although these strategies tend to reduce participation of low-income and under-prepared students. Despite tuition increases, students continue to enroll and there are few complaints. Faculty members favor better-qualified students and increased tuition revenues have been allocated to faculty salaries. The challenge is to get faculty to buy-in on holding tuition levels down in order to serve more diverse students. A truly comprehensive program to improve access and choice will have to include institutions.

David Longanecker, Executive Director of the Western Interstate Commission for Higher Education (WICHE), suggested that the effects of the 2001 recession might not be as bad as earlier thought. Further, several states are addressing concerns about financial access for students in the aftermath of the recession with new, extensive need-based aid programs.

While the effects of recessions on states differ, "we are all in distress...we complain all the time whether we are in trouble or not." Higher education loses credibility when it focuses solely on appropriation levels. In addition, the average cost may not be the right rubric because it does not recognize economies of scale. On the other hand, tax caps can have a terrible effect on access for students and they often come right after a recession, at the low point in the resource base.

Not everyone wants to help the poor. There is some hostility to providing student financial aid for low-income students. In response to this concern, Oregon has developed a program that requires low-income students to work their way through college while also providing a substantial increase need-based aid.

"And still they come." Students keep showing up, particularly well-prepared students. Quality is not eroding. Higher education is not at risk like other sectors.

Discussion During the discussion, symposium participants raised concerns about access for low-income students and the “middle-class backlash” to rising tuition costs. It was also noted that not all types institutions can feasibly raise tuition to fill in the gaps in state funding or change the types of students served.

Participants and reactors indicated that further study should be directed to:

- ◆ Collaborative between the state and public institutions in designing and delivering student financial aid programs.
- ◆ Production levels of higher education over time.
- ◆ Trends in total public funds going to higher education
- ◆ Effects of structural relationships (e.g., distribution of enrollment between 2- and 4-year institutions) on financial access
- ◆ Trends in funding for community colleges and universities separately and the effects of the shift in enrollment to lower cost institutions
- ◆ Trends in merit and need-based aid and the extent to which the purpose of aid programs are achieved
- ◆ Metrics to gauge the effectiveness of various state approaches to providing access.
- ◆ Effects of time to degree on college costs and related factors (e.g. dual enrollment, transfer, college readiness)

Several points related to the limitations of the data were noted. The 3R project focused on appropriations per full-time equivalent students and enrollment changes were a significant factor, particularly following recession. However, the project did not consider the marginal cost of additional students. Public colleges and universities are supported by local taxes, federal funds, and other sources in addition to state appropriations.

Access Projects

Changing Directions: Aligning Tuition, Student Financial Aid, and Appropriations David Longanecker described the Changing Directions project, undertaken by WICHE with SHEEO and other organizations, which examined policies and decision-making practices in 14 states. He noted that education directly supports states’ goals for the economy. Educational objectives—high school graduation, college preparation, college participation, persistence and degree completion, degree production in critical fields—lead to high-skill, high wage jobs and a productive economy.

In higher education, instruction is funded primarily by the state and students (other sources of funds may support other functions of institutions). However, decision-making related to key elements—appropriations, tuition, and financial aid (ATFA)—is often fragmented. ATFA policies and practices need to be in sync.

The decision-making process is complex and the interests are diverse. The state wants to provide capacity with the highest productivity and the least possible cost. Students want high value at an affordable cost. For institutions, fairness in the distribution of funding and stability are important. "More is better, but never enough."

Tuition policy—whether incremental, politically derived, indexed, or filling the gap—is seldom rational linked to appropriations and student financial aid at the state level. Although the federal student aid programs are significant, federal administrators rarely think of themselves as partners with states in addressing access issues. Institutions use tuition to fill the gap. They are interested in merit aid to attract high quality students.

Intentional efforts do make a difference. States need a clear understanding of priorities, adequate higher education capacity, and most importantly, rational alignment of appropriations, tuition, and student financial aid decisions. Higher education needs to bring others into the discussion, build support and respect among citizens, organizations and governmental leaders.

Private Scholarships Count Cortney McSwain of Institute for Higher Education Policy described a study of private scholarship programs. Based on the study it was estimated that \$3 billion in private scholarships were available in 2003. Typically, recipients were middle income, traditional aged students attending four-year institutions full-time. There are also a number of programs target to certain groups, low income and minority students, people in foster care, for example. There are over 4,000 scholarship providers. They have a broad range of methods for selection of students and some use need as a criterion.

Rethinking Student Aid: Developing New Approaches to Equitable and Efficient Public Policy Sandy Baum of The College Board described efforts to rethink student financial aid. A group has been convened to consider how student aid should be structured and plans to conduct hearings and commission papers on a number of student financial aid related topics. In addition, a study funded by the Lumina foundation "Fixing the Formula" has recently been completed on restructuring the needs analysis formula for independent students.

Distributional Consequences of Federal Assistance for Higher Education Elaine Maag of The Brookings Institute and Urban Institute described a study of the higher education tax policies such as the Hope and lifetime learning tax credits. The study estimated that a total of \$11.8 billion in tax credits were granted in 2003, an amount similar to the \$11.4 billion allocated to the Pell program that year. (A total of \$20.1 billion were allocated to Pell and other federal student aid programs in 2003.) Since families get a tax credit only if they

have a tax liability to offset, 50 percent of the credits went to households with incomes of \$50,000 or more.

During discussions about the access-related projects, it was noted that there are legitimate purposes for non-need-based student financial aid. While tax credits do not generally serve low-income students, methods and programs should be matched to the population to be served. State policies could be developed to take advantage of tax credits. The goal is to increase access and opportunity but programs and objectives need to be balanced to avoid dysfunctional behavior.

Measuring Up

Joni Finney of the National Center for Public Policy and Higher Education described where the nation, and Illinois as an example state, stands in the performance of higher education based on *Measuring Up 2006*. Students are better prepared for college than they were 15 years ago. Although there is a long way to go, 45 states improved on measures of preparation.

Access and participation has been flat since the early 1990s. Fewer students entering ninth grade are enrolling in college four years later. There are disparities in participation by income and there has been a 12 percent decline in participation of adults (age 25-49) in higher education.

As reported in *Measuring Up 2006*, 43 states received a failing grade for affordability. Where one lives matters a great deal in affordable access to college. Although there has been an increase in the number of degrees earned, the increase is primarily in non-degree certificates.

The key is shared responsibility. All players—states, institutions, students, and families need to know their roles and do their part to make college affordable.

Challenges and an Agenda for the Future

Cheryl Maplethorpe, of the Minnesota Office of Higher Education and the National Association of State Student Grant and Aid Programs noted that there are three levels of aid—federal, state, and institutional. States create the environment in which students make decisions. Institutions determine placement and provide information. Students make choices. With each level the world is smaller. The 3R project has demonstrated that more communication is needed. Students need earlier information and direction. Higher education organizations and leaders should let institutions know their opinions about the relative importance of need-based and merit-based aid. They should work with states to increase need-based aid and take the message to congress about federal programs.

Paul Lingenfelter of the State Higher Education Executive Officers noted that the bottom line is to increase participation and success in college. Lower SES students must be the focus. Higher education should not use deceptive statistics, misleading data, and exaggerated metaphors. States have steadily increased support for higher education. The percentage of Gross Domestic Product has been steady or has risen.

The following needs to be done: 1) provide sufficient funding to education programs, 2) improve academic productivity, 3) focus financial aid dollars on low income students, 4) provide incentives for improved academic preparation for college, 5) provide better support for students who are not well prepared, 6) increase the Pell grant, 7) focus on academic progress, and 8) persuade states that an increase in productivity would provide funds for reallocation to achieving goals.

In conclusion, a symposium participant suggested that the 3R report was timely and relevant.