



THE
CHANGING
ECOLOGY OF
HIGHER
EDUCATION

FINANCE POLICY
AND BROAD-ACCESS
PUBLIC COLLEGES
AND UNIVERSITIES:
OPPORTUNITIES
TO SPUR INCREASES
IN STUDENT SUCCESS

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Delta Project on Postsecondary Costs

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Introduction

Finance policy plays an important role in supporting success in higher education, though this role is often poorly understood. Most state finance policies have been developed primarily to address selective research and flagship universities, and they are often understood in relation to these universities rather than to broad-access public institutions that admit the vast majority of their applicants. This brief examines higher education finance as it relates specifically to broad-access institutions and finds that existing fiscal policies provide disincentives for these colleges and universities to improve student success. The brief also identifies opportunities for fiscal policy to promote better student performance at these institutions.

Broad-access public colleges and universities enroll about half of all postsecondary students in the United States, including the majority of low-income and working-age adult students. These institutions are comprised mainly of public community colleges and state universities that offer master's but not doctoral degrees. In contrast, more selective institutions include nonprofit private colleges and public and private research universities. Given the reach of broad-access institutions, their success in maintaining access to college and increasing the completion of credentials is essential to any agenda to increase degree attainment rates in the United States.

Key Findings: Finance Policy as it Relates to Broad-Access Public Institutions

The key findings below are drawn from a wide range of research on higher education finance. Taken together, they suggest that state finance policy, in many cases, provides disincentives for broad-access public colleges and universities to improve student success.

1. The revenue sources of broad-access public institutions are limited.

State finance policy often provides disincentives for broad-access public colleges and universities to improve student success.

Broad-access public colleges and universities are primarily dependent on state and local appropriations and student tuition for their revenues. They do not have access to the diverse sources of revenues that are characteristic of research universities, such as gifts, research grants, and investments. As a result, when state and local revenues are in downward cycles and state policymakers respond by limiting support for higher education, students at broad-access public institutions often bear the bulk of the consequences because these institutions are not as flexible as research universities in finding other sources of revenues.

Employer support for vocational and technical programs is sometimes reported as a potential source of funding for broad-access institutions. These programs, however, typically have higher costs than core academic programs, and funding for academic programs is likely being used currently to pay for higher-cost vocational programs. Potential support from employers does not appear likely to cover even the additional costs required for vocational programs. In addition, there is no evidence that broad-access colleges and universities are able to find new revenue sources to pay for essential academic offerings such as developmental education, lower-division education, English, math, writing, history, and social sciences.

2. State funding formulas were developed based on spending patterns at research universities, and as a result can have unintended and pernicious effects at broad-access public institutions.

a. State funding formulas provide fewer resources for the instruction of undergraduate students in general and students in lower-division courses in particular. This low

level of funding across the sectors for undergraduate and lower-division students likely contributes to the high rates of attrition in broad-access public institutions.

Many of the state funding formulas that have dominated allocations to public higher education have been influenced by Bowen's research (1980), which identified the following weights based on instructional spending patterns at public research universities. In state formulas, the weights are combined with enrollment and other factors to calculate funding levels.

- Lower-division students (freshmen, sophomores) = 1.0
- Upper-division students (juniors, seniors) = 1.5
- Professional students requiring at least two years of work = 2.5
- First-year graduate students = 2.1
- Graduate students beyond the first year = 3.0
- Noncredit education = not addressed

The use of these weights by states to allocate funds across all sectors of public higher education presumes that lower-division courses require the same level of resources at broad-access institutions as they do at research universities. At research universities, however, lower-division courses are taught primarily through large lecture classes and supplemented with graduate teaching assistants. To the extent that this low-cost method of instruction "works" at research universities, it is primarily because these institutions serve students who are well-prepared for college and receive a wide range of supplemental supports associated with attending residential institutions. In contrast, very few broad-access colleges and universities are residential, and most students at these institutions are not well-prepared for academic success, as measured by their need for remedial education.

b. Funding formulas often reflect spending in credit-bearing instructional activities only, which means that the supplemental supports that most students in broad-access institutions need are chronically underfunded.

Instruction that is not credit bearing, such as developmental education, is often ignored by cost-based formulas and is supported primarily through Pell Grants and tuition. Developmental education has historically been one of the lowest cost areas in public broad-access institutions, and a classic "cash cow" as a source of cross-subsidies to other programs. Institutions do not have fiscal incentives to keep these funds in developmental education, where different investments might lead to better student success. Likewise, since student services and academic support come "out of the hide" of the instructional program, broad-access institutions that serve large numbers of underprepared students are disadvantaged by these formulas; the additional needs of these students are not accounted for.

In addition, funding is allocated based on full-time equivalent (FTE) enrollment, rather than headcount enrollment (the total number of students enrolled full- or part-time). Allocating funding based on full-time equivalency further disadvantages broad-access public institutions, which serve high proportions of students who are enrolled part-time. In many areas such as academic counseling and education planning, part-time students need as extensive support as full-time students. A more equitable method of allocation would be to base workload formulas for student support services on headcount enrollment, possibly adjusted further for the proportion of students who are eligible for Pell grants.

c. Funding formulas, combined with the course credit system commonly implemented in public colleges and universities, reinforce traditional methods of instructional delivery.

Some colleges and universities are experimenting with innovative instructional delivery methods that show promise for underprepared and at-risk students. These include interdisciplinary, short-course, and intensive tutorials that can be delivered in flexible formats, including outside of traditional classroom settings and based on the learning pace of students. However, funding formulas are based on levels and modes of instruction, and state regulatory systems typically require credit-hour

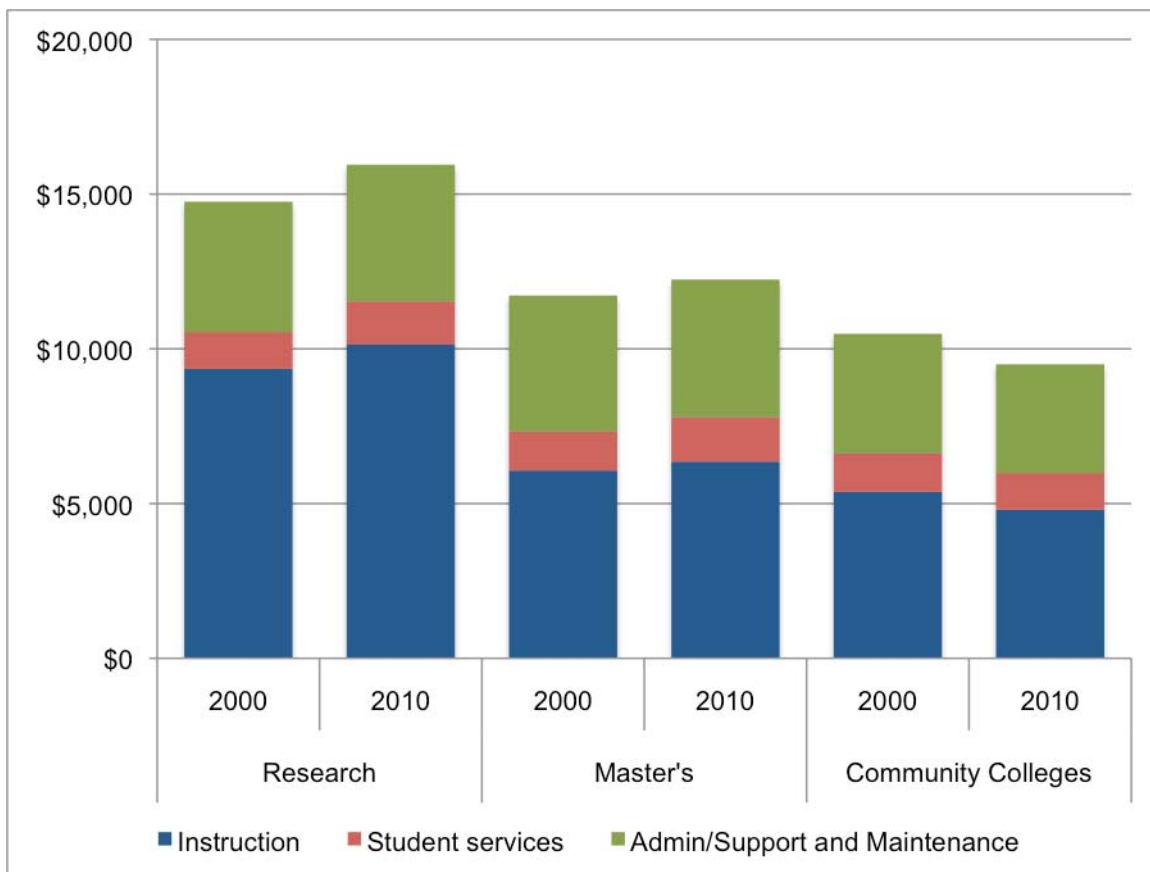
calculations. These systems reinforce discipline-defined and traditional time- and classroom-based delivery of instruction. Some creative administrators have been able to “work the system” to support innovative instructional models, but the funding formulas and inertia of big systems create disincentives for these innovations in public institutions. Private nonprofit colleges do not have these constraints, and many of them measure student progress in course credits rather than credit hours, a practice that allows for greater flexibility in instructional delivery. They translate the course credits to credit hours in transcripts, but credit hours are not used for workload or funding calculations.

3. In broad-access public institutions, instructional spending accounts for about half of educational and related spending, well below levels in public research

universities. Within the instructional function, broad-access institutions have met demands for reduced budgets by relying more on part-time faculty.

Broad-access public colleges and universities are primarily focused on the delivery of instruction rather than research. This focus is represented in their spending patterns: the highest proportion of spending is dedicated to instructional salaries. Even so, these institutions spend too much of their limited resources in areas that are only tangentially contributing to student success, including institutional support and operation and maintenance of the physical plant. Spending on instruction (excluding overhead, student support, and related academic and institutional support and maintenance) among broad-access public institutions is about 50% of educational and related spending, considerably less than at public research

Average education and related spending per FTE student in public institutions (in 2010 dollars)



Source: Delta Cost Project at American Institutes for Research, 2012.

universities (see Figure 1). In addition, public master's institutions, when compared with research universities and community colleges, maintain the highest proportion of faculty who are full-time. But both public master's institutions and community colleges have increased their reliance on part-time faculty as they have faced budget reductions over the past decade.

4. State funding models drive behaviors in ways that perpetuate the status quo, particularly in a constrained budget environment.

Formula-based funding models tend to change only incrementally over time. This makes it difficult for program managers at colleges and universities to plan strategically to shift resources away from low-performing institutional functions and into those functions that have more promising academic outcomes. Particularly in a time of budget reductions, staff and faculty at broad-access institutions can begin to feel disempowered by their everyday challenges: they serve some of the most underprepared and at-risk students in higher education, yet they do not have enough funding to maintain even basic instructional and academic support services, they do not seem to control the money they do have, and their budgets are being cut year after year. Even so, these institutions have become comfortable places for many people to have safe careers, particularly among support, administrative, and maintenance positions. This is not the case for the large and increasing numbers of adjunct and part-time faculty, who do not qualify for benefits and have little or no employment security. Reducing costs in the growth of employee benefits—beginning with the huge liabilities in retiree health care—could be a promising area for cost-cutting. But most of these institutions either do not control these costs or do not believe they can control them.

5. Broad-access public institutions generally have low costs per student, but that is not the same as being cost effective.

Costs per student in postsecondary education are generally lowest among public community colleges, but cost *effectiveness* requires a measurement of outcomes,

rather than inputs, in relation to costs. Community college costs per degree are not similarly low because of the high number of at-risk students in community colleges (*not necessarily because the institutions are inherently “underperforming”*). Nonetheless, policymakers interested in keeping costs low in higher education need to look at both costs per student and costs per outcome, since moving more students into community colleges may end up driving up costs per degree.

Policy Implications: Integrating Good Academic Policy with Good Fiscal Policy

The fiscal pressures facing broad-access public institutions are intense and likely to remain so. Yet public demand for college is at an all-time high, with considerably more enrollment pressure on broad-access public institutions than most can accommodate. The collision between student demand and available revenues appears likely to lead these institutions to reduce access and quality, unless they are able to reshape their cost structures. Reductions in access have already begun: California reported one-year enrollment losses of 165,000 students in 2010, with the majority of these losses in the community colleges and the California State University system. Cal State, a broad-access university system that enrolls the majority of community college transfers in California, has reduced transfer enrollments by 30%, or about 20,000 students, since 2007.

A strong case can be made to reconsider the adequacy of funding for broad-access public colleges and universities, which receive the lowest levels of resources per student yet enroll higher proportions of underprepared students. In California, funding per student is lower in the public community colleges than it is in the state K-12 system. Nonetheless, it is unlikely that states will substantially increase funding for broad-access colleges and universities in the foreseeable future. Successful advocacy for even small increases in resources will require broad-access colleges to pay more attention to institutional efficiency and cost effectiveness in order to justify their requests for additional investment. Better cost

effectiveness might be accomplished by streamlining the academic program, reducing administrative expenses, and focusing spending on areas most likely to improve student completion of certificates and degrees. That is, broad-access public institutions need to make substantial improvements in integrating good academic policy with good fiscal practice. This effort will require better use of data, so that institutions know where to focus resources to improve student success.

Finance policy is an important tool for improving institutional performance. As identified in this brief, however, several existing fiscal policies create disincentives for institutions to increase student success. Each state is unique in its opportunities to address policy changes, but the following overall areas should be considered to spur institutional action to improve student outcomes. In each of these areas, the goal should not exclusively be institutional fiscal viability, but rather the use of public resources to advance public needs for access and performance in higher education, with a clear focus on broad-access public colleges and universities.

“Advocacy for small increases in resources will need to be accompanied by much more attention to better institutional efficiency and cost effectiveness.”

1. Eliminate restrictions that prevent broad-access public institutions from using resources more effectively.

States should examine their regulations and budget restrictions to incentivize broad-access public institutions to improve student success. This should include allowing institutions to use resources holistically, blending funds for instruction, student services, and academic support, at least for students in their first two years of college. Where pertinent, budget formulas should

be revised to fund these functions together. To support these efforts, workload for student services should be measured by headcount rather than FTE enrollment, and noncredit courses should be counted equally with credit-bearing courses.

Institutions should be encouraged to develop reallocation and reinvestment strategies to find savings and to direct resources toward services that have high potential to improve student success. For example,

- States should move away from credit and course-level funding requirements, to encourage institutions to support programs with a high potential to improve learning and outcomes. This would help to break through regulatory and reporting problems that discourage innovative practices in developmental education.
- Institutions already working toward these ends should be identified and encouraged to participate in further efforts (such as those underway among a group of public community colleges in California) by freeing them of some state spending regulations to encourage more effective use of resources.

2. Revise funding formulas to encourage and support good academic practice and improved student performance.

States should examine their funding formulas to determine the extent to which they support broad-access public institutions in improving student success. This should include attention to how money is spent at these institutions, so as to improve knowledge about the connections between resource use and improved student outcomes. Institutions that show evidence of reducing administrative and support expenses, along with improvements in student success, should be recognized and rewarded. States should also consider adjustments in funding formulas to adequately support lower-division undergraduates at broad-access public institutions.

In addition, states that have not moved toward funding that is based partly on performance should do so,

Areas for Further Inquiry

Analyses of institutional spending in higher education have historically focused on overall revenues and information from audits, and not on the connections between resources and student performance or institutional decision-making. The world of K-12 finance, by contrast, is much more developed. Action in the following areas would be beneficial for broad-access public colleges and universities.

1. Develop optimal measures for student services, academic support, and administration. The primary impediment to progress in cost analysis relates to measuring the effectiveness of instructional, research, and public service functions of institutions rather than to student services, academic support, and administration. These latter functions represent “low-hanging fruit” for the identification of optimal service levels, whether that is counseling support per 100 students, internet service needs, or financial-aid staff levels. Experts in cost benchmarking from outside higher education should work with leaders in student services, academic support, and business management to identify opportunities and develop recommendations for new ways to measure efficiency and effectiveness in these areas.

2. Create cost models for developmental education. Based on student outcomes, it appears that developmental education may be the least effective instructional service in broad-access public institutions. Funding and regulation of developmental education are part of the problem, yet have not seen commensurate attention. Researchers and policymakers should explore new approaches to developmental education and pay explicit attention to creating new funding and regulatory models, as well as changes in delivery. They should give particular consideration to removing the pernicious incentives now in place for institutions to starve developmental education to create

using student progress metrics appropriate to broad-access public institutions. These rewards might include additional compensation for working with large proportions of underprepared students or reducing early attrition, and the creation of investment pools to support high-impact educational practices such as first-year learning communities, first-year seminars, common intellectual experiences, writing-intensive courses, and academic course redesign.

3. Support consolidation of administration and operations across institutions.

State, regional, and district-level initiatives should be created to streamline the delivery of administration and operations across multiple broad-access institutions. Several public multi-campus systems have consolidated some administrative functions, and lessons from these efforts should be used as models by

administrators and policymakers. In particular, administrators and policymakers should improve the flow of students among broad-access colleges and universities, such as through common admissions and placement processes. In addition, institutional research offices can consolidate, both to centralize processing for data submissions (for example, for the Integrated Postsecondary Education Data System) and to improve the development and use of information across institutions (such as the creation of common benchmarks and other metrics to help institutions assess their performance). The creation of these initiatives should involve experts from outside higher education, including leaders familiar with administrative practices in business and those with understanding of state and local regulations. Both of these groups can be helpful in developing and supporting recommendations for legislative changes, if needed.

4. In supporting cost-cutting, take action to reduce the rising costs of employee benefits.

As a first step in supporting cost-cutting, states and broad-access public systems of postsecondary education can work together to tackle the rising cost of employee benefits. Institutions are beginning to develop initiatives to limit rising costs in this area, including the University of Maine’s “Bend the Trends,” which reduced the growth in health benefits by half. Similarly, the University of Nebraska has worked to eliminate unfunded liabilities for retiree health costs. Information kits about benefits should be prepared for governing boards, to educate them about the consequences of current trends and to encourage institutional action and legislative advocacy.

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