Fashioning Effective Higher Education Finance Policy

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The Management Cycle in a Public Institution

- State
- Planning
- Institution
- State
- Assessment
- Institution
- Resource Allocation
- Institution
State Policy Objectives

- High Rates of High School Completion of Students Who Have Taken an Academically Rigorous Curriculum
- High Levels of College Participation of Both Recent High School Graduates and Adult Learners
- High Rates of College Degree Completion
- High Levels of Degree Production in Selected Fields
- An Economy That Employs a High Proportion of College Graduates
The Flow of Funds

- Economy
  - Tax Revenues
- State and Local Government
  - Student Aid
  - Appropriations/Grants
- Students
  - Tuition
  - Scholarships & Waivers
  - Student Aid (Restricted)
- Institutions
- Federal Government
The Domain of State-Level Decisions Regarding Financing of Higher Education

State

Higher Education

Other Programs/Agencies

Students

Institution

Amounts
Allocation Criteria

Student Financial Aid

Appropriations

Tuition

Institutional Aid

Amounts
Allocation Criteria
Alignment of Policies

Regarding:

- Appropriations to Institutions
- Tuition and Fees
- State Student Financial Aid
- Institutional Student Financial Aid
- Use of Funds from Other Funders
Alignment Means…

- Appropriations, Tuition and Financial Policies Working Intentionally Together

- Not—as Is Usually the Case:
  - Appropriation Leads
  - Tuition Follows
  - Financial Aid Tries to Keep Up
Criteria for Effective Policy

- Reinforce State Priorities
- Maintain Necessary Institutional Capacity
- Contributions Required Are Affordable—State and Students
- Viewed as Being Fair
- Transparent
- Incentives for Institutional Responsiveness and Entrepreneurship
Criteria from Perspective of Different Stakeholders

State
- Maintenance of Institutional Capacity
- Promotes Achievement of Priority Outcomes
- Affordable

Students
- Affordability
- Value

Institutions
- Adequacy
- Equity
- Stability
The Two Purposes of State Funding Policy

- Build Core Capacity—General Purpose Funding
- Promote Capacity Utilization Around State Priorities—Special Purpose Funding
Basic Questions at State Level

- How Much to Allocate
- To Which Recipients—Students or Institutions
- Using Which Mechanisms
The Domain of State-Level Allocation Decisions

- **State**
  - **Other Programs/Agencies**
- **Higher Education**
  - **Students**
    - **Student Financial Aid**
      - **Amounts**
      - **Allocation Criteria**
  - **Institution**
    - **Tuition**
    - **Institutional Aid**
      - **Amounts**
      - **Allocation Criteria**

**Allocation Criteria**
- **Tuition**
- **Institutional Aid**

**Amounts**
- **Student Financial Aid**
- **Institutional Aid**
## Finance Policy—The Options

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<th>Student Focused</th>
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Funding to Institutions—Core Capacity

- Base-Plus
- Formulas
- Investment Funds
Funding to Students—Core Capacity—Revenue Generation

- Base Institutional Tuition
- Mandatory Fees
- Out-of-State Tuition
- Differential Tuition
- Scholarships and Fellowships
Funding Institutions—Capacity Utilization

- Performance Funding
Funding Students—Capacity Utilization

- Need-Based Aid
- Merit-Based Aid
Relationships Between “Need-Based” and “Merit-Based” Aid

![Diagram showing the relationships between Need-Based and Merit-Based Aid](https://via.placeholder.com/150)
Conclusions

Cost-Effective Policy Requires:

- Clear Understanding of Priorities
- Creation/Maintenance of Necessary Capacity
- Alignment of Policies Concerning:
  - Institutional Support
  - Tuition and Fees
  - State Student Financial Aid
  - Institutional Support
  - Tuition and Fees
  - Institutional Student Financial Aid
- Incentives for Entrepreneurship