



PROGRESS REPORT ON HIGHER EDUCATION FUNDING AND GOVERNANCE IN WASHINGTON

**To the Washington Learns Advisory
Committee on Higher Education**

May 23, 2006

The study directive calls for:

- *Analysis of the efficiency and effectiveness of Washington's methods of funding postsecondary education and training.*
- *Identification of options for a new funding system that will be stable and meet demographic and workforce needs.*
- *Review of the effectiveness of higher education governance with respect to state funding policies.*

Questions posed by the Committee members also are considered:

- *How can Washington use comparisons across states, and by extension across nations, to assess and improve its funding system?*
- *What are some of the alternatives for increasing funding for higher education?*
- *How does the system measure performance relative to funding?*
- *What are the barriers to efficiency in the higher education funding procedures? What flexibility do institutions have within this framework?*
- *What are the pros and cons of different governance models related to funding?*

This is our last scheduled progress report prior to presentation of the draft report to the Higher Education Advisory Committee at its June 28, 2006 meeting.

Part I focuses on funding and looks at aspects of adequacy, stability, and alternative funding approaches.

Part II considers aspects of governance related to fiscal policy.

Part I: Aspects of Higher Education Funding

Comparison States

The comparison states used are Washington's Global Challenge States [GCS]:

- » **California**
- » **Colorado**
- » **Connecticut**
- » **Maryland**
- » **Massachusetts**
- » **Minnesota**
- » **New Jersey**
- » **North Carolina**
- » **Virginia**
- » **[Washington]**
- » **[Plus the GCS and U.S. Averages]**

International comparisons also are used in the study, e.g., countries approaching, equaling, or surpassing U.S. education attainment include:*

**Australia
Canada
Czech Republic
Finland
Ireland
Japan
Korea
New Zealand
Norway
Slovak Republic
Sweden
Switzerland
United Kingdom**

***SHEEO: The Public Agenda, Accountability, and Money, Paul Lingenfelter, November 2005**

One big reason for the international comparisons: education attainment corresponds with income and economic performance.

Bachelor Degree or Above Attainment and Personal Income Per Capita. (Circles denote Global Challenge States.)

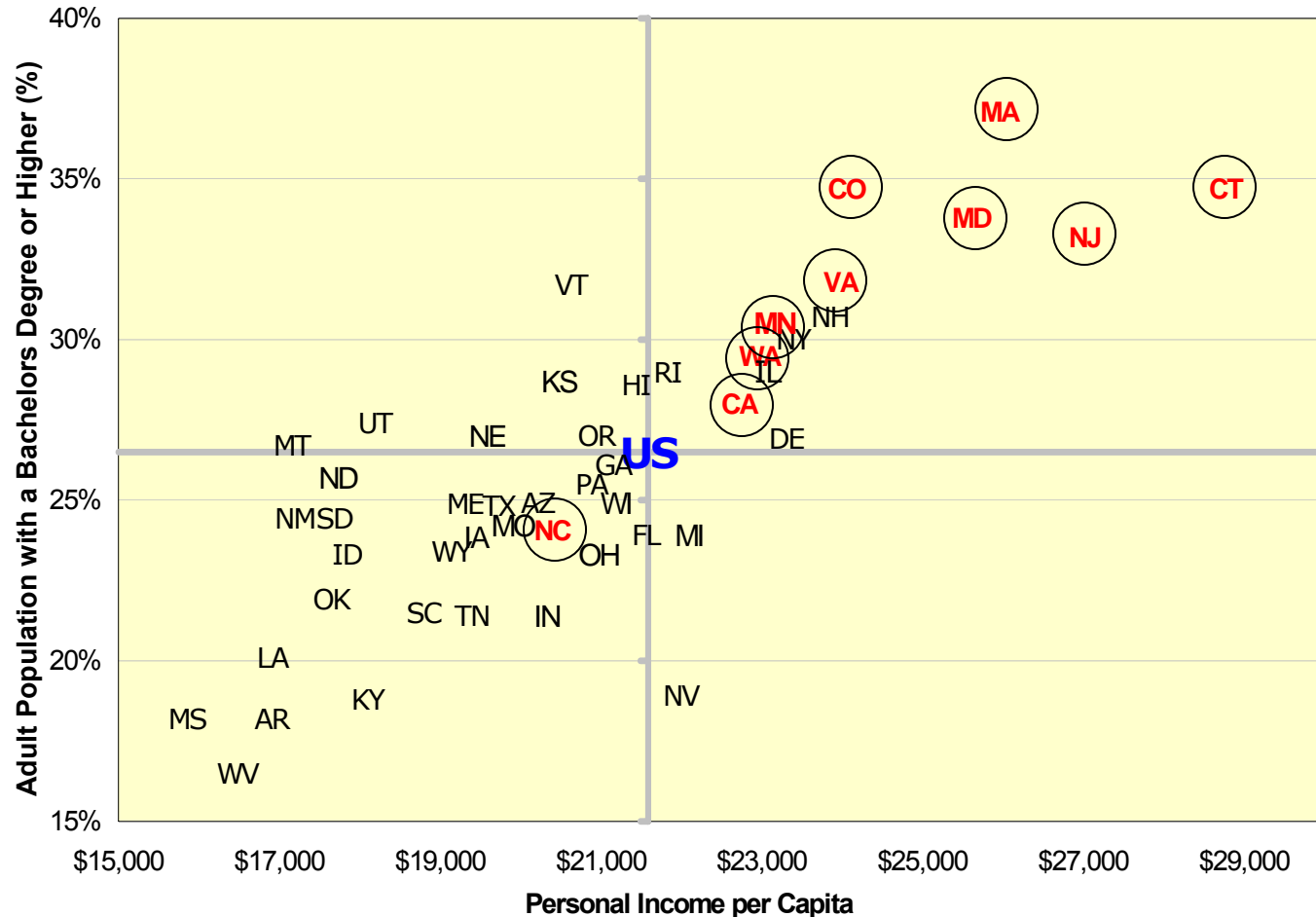


Chart Source: Paul Lingenfelter, SHEEO, op. cit.

Part I: Aspects of Higher Education Funding

Adequacy

Higher education funding is a perennial issue in Washington

The share of state appropriations for higher education fluctuates from year to year, contributing to views that state funding efforts are unstable, unpredictable and inadequate.

Comparisons offer clues, and balance, but they must be used sensibly.

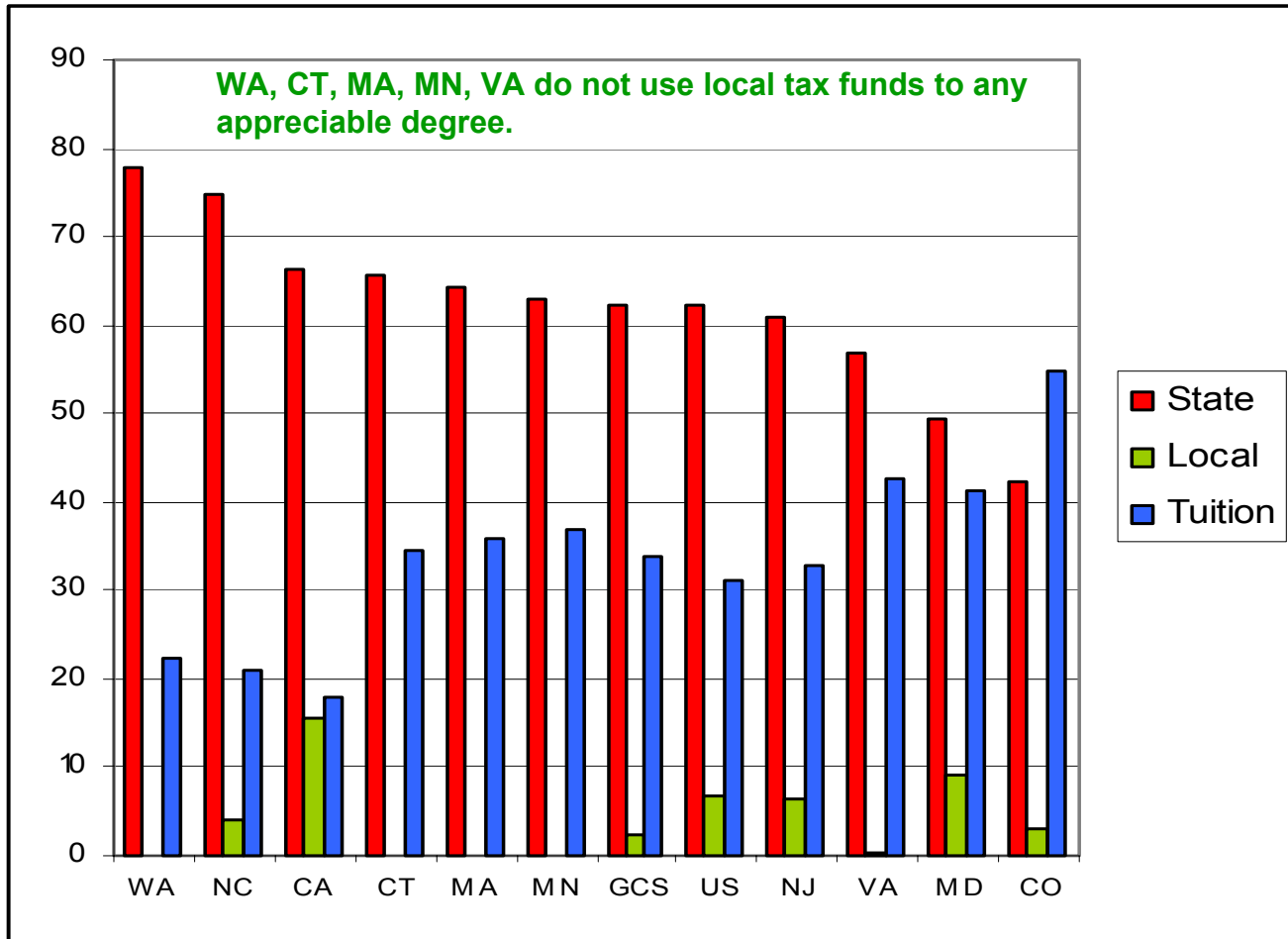
For example:

- ***Connecticut, Massachusetts, Minnesota, and Washington do not utilize local fund sources for community colleges***
- ***California, Colorado, Maryland, New Jersey, North Carolina, and Virginia do.***
- ***Thus, Washington leads the ten Global Challenge States and the national and GCS averages in State share of total revenues for higher education, as shown on the next chart.***

State, Local, and Tuition Revenue for Higher Education Operating Expenses

FY 2004

Source: SHEEO

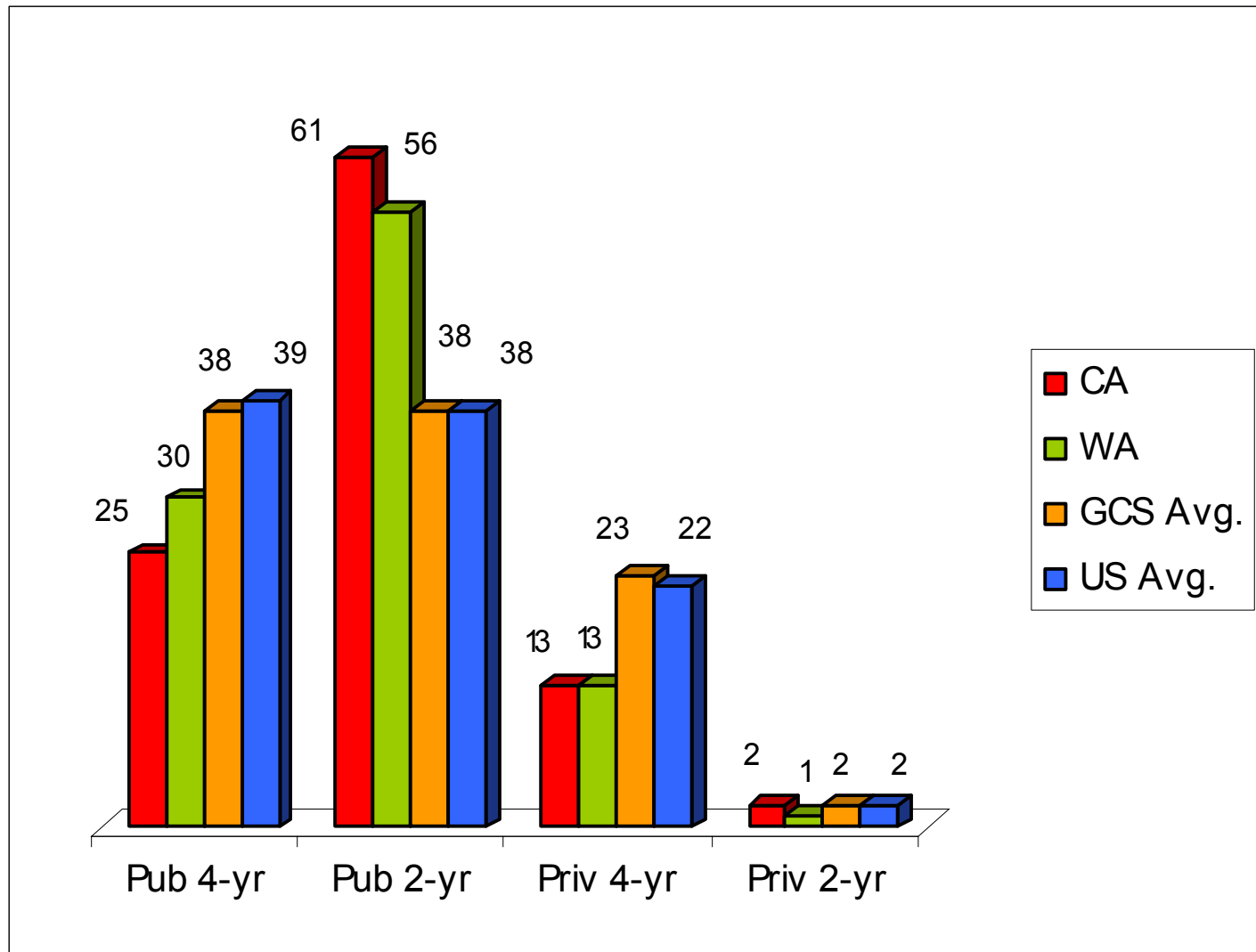


California and Washington do some higher education things more similarly than others within the GCS group.

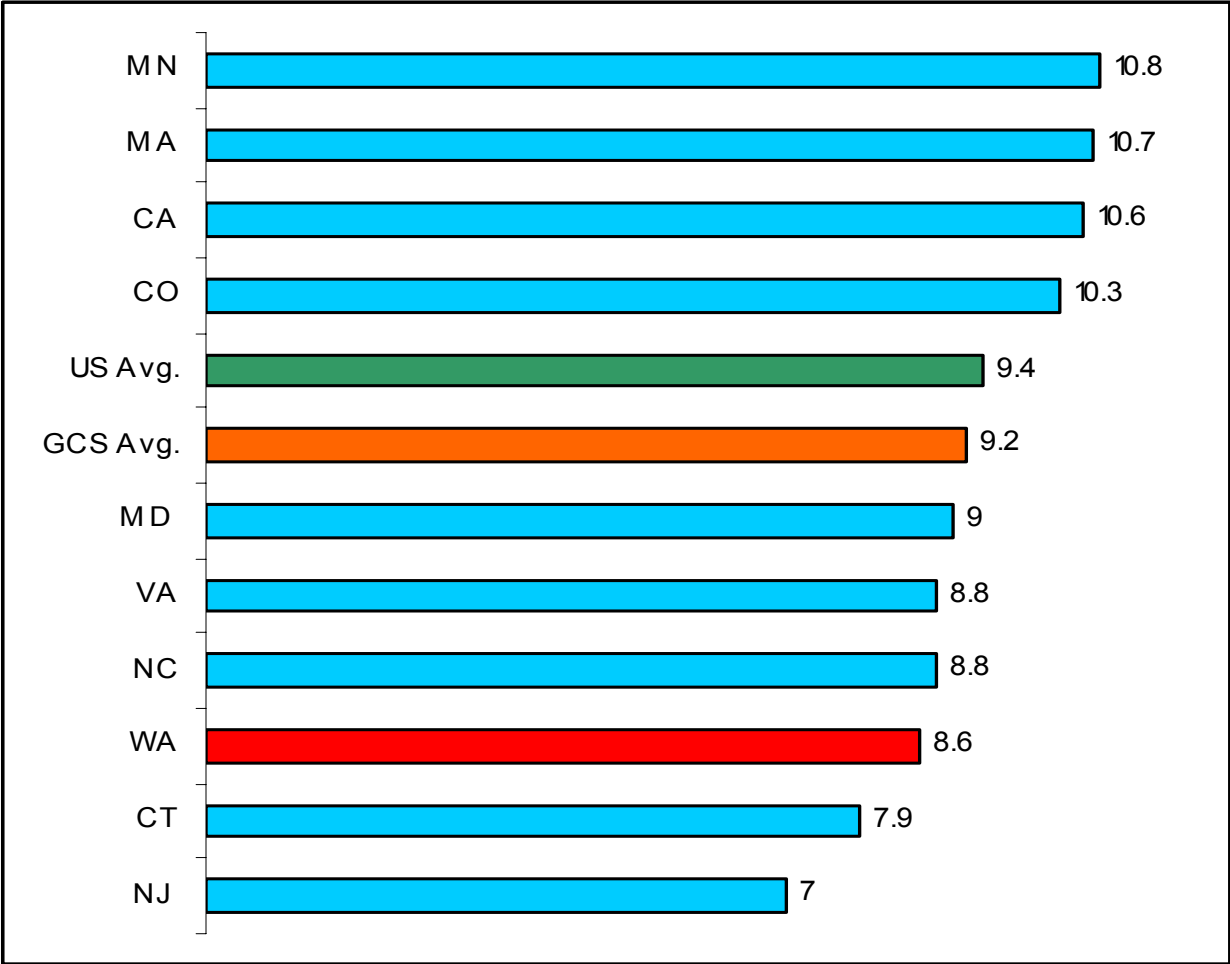
2-year institution funding and enrollments patterns represent one example, but California also utilizes multiple funding sources to support these institutions, while Washington does not.

Percent Higher Education Enrollment by Sector, Fall 2002

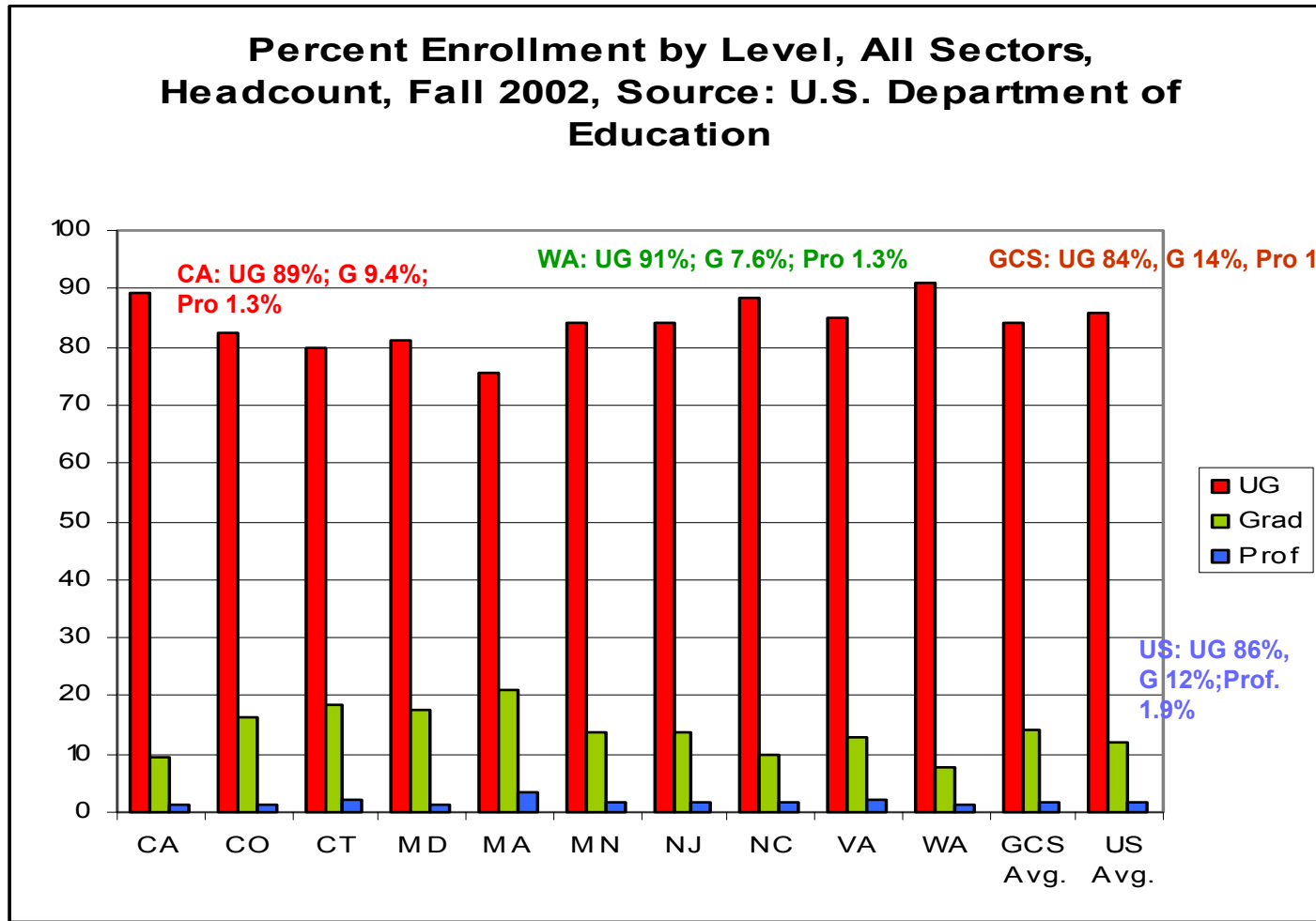
Source: USDE



With respect to total enrollments as a share of the adult population, Washington ranks sixth among the GCS and below this peer group and the U.S. averages:



Washington's enrollments also distribute by program level a little differently:



The differences in approaches among states explain some of the variances in performance patterns and some of the differences in funding.

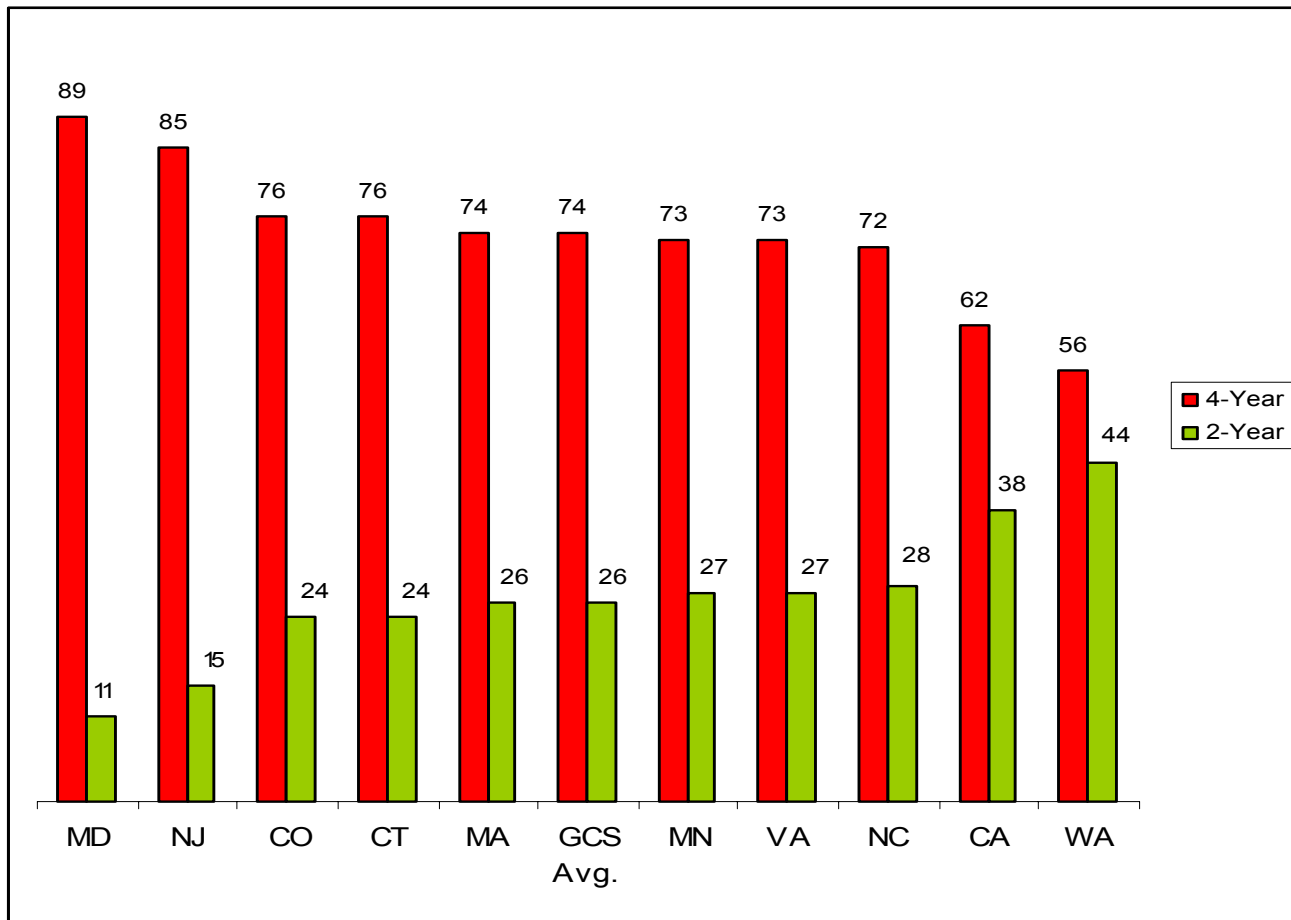
Appropriations of State Tax Funds for Operating Expenses of Higher Education Institutions

FY 2005-06

Percent of Total

Ranked by Four-Year Institution Shares

Source: Grapevine, MNSCU



**State FY06 Appropriations Per \$1,000 in Personal Income and
Appropriations Per Capita
Ranked by Per \$1,000 Personal Income
Source: Grapevine**

State	Per \$1000	Per Capita	Rank
North Carolina	11.09	336.86	1
California	7.25	266.45	2
Minnesota	7.22	266.03	3
Washington	6.87	243.69	4
U.S. Avg.	6.56	225.26	5
CGS Avg.	6.04	228.66	6
Virginia	5.55	210.72	7
Maryland	5.40	223.76	8
New Jersey	5.35	232.29	9
Connecticut	4.96	235.46	10
Colorado	3.40	127.47	11
Massachusetts	3.28	143.47	12

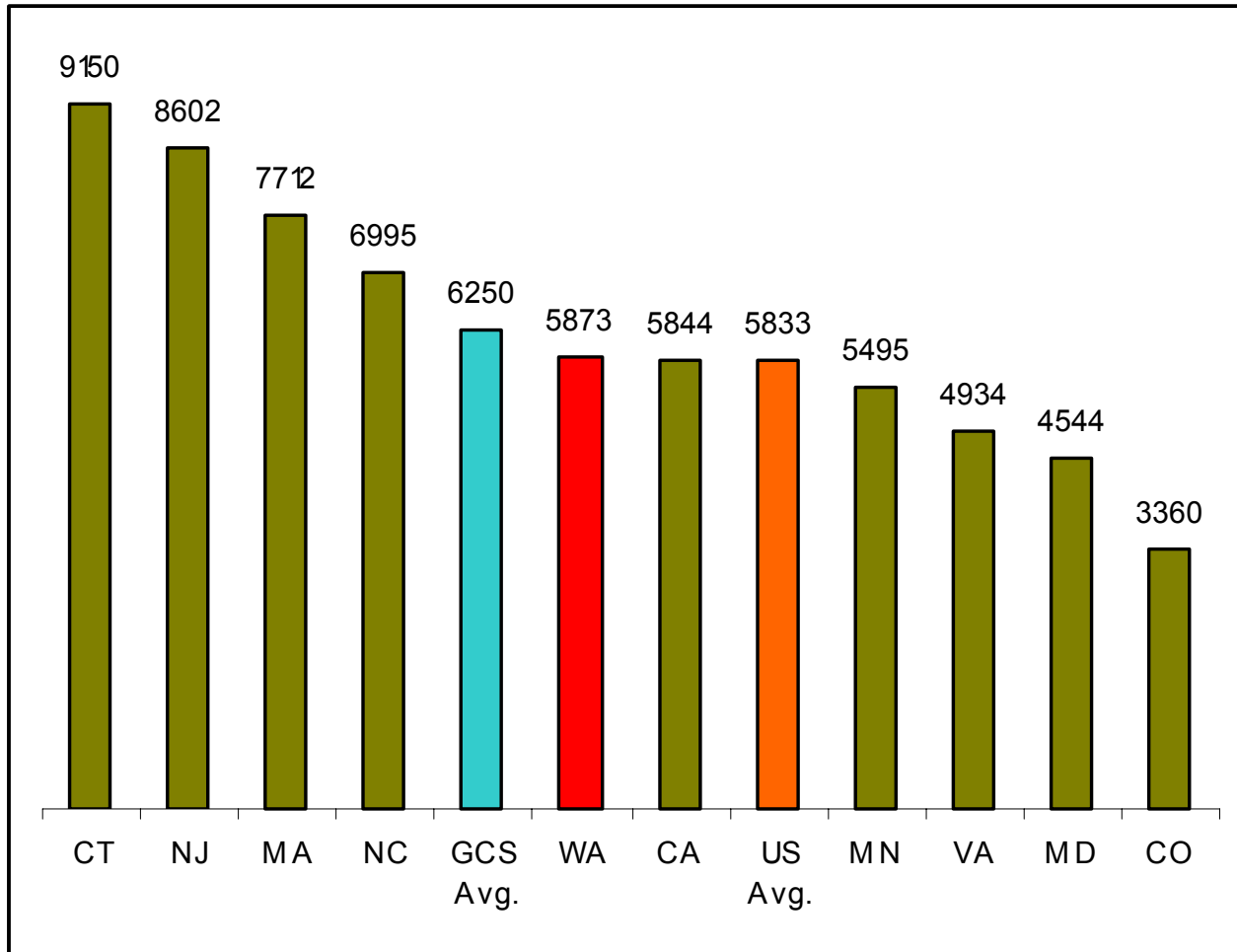
Washington also ranks 25th nationally in terms of the appropriations per \$1000 of personal income rankings. It rises to 19th nationally when ranked on a per capita appropriations basis.

It ranks 5th among the GCS in public higher education appropriations/FTE, along with CA between the GCS and U.S. averages.

Appropriations for Public Higher Education Per FTE Global Challenge States and US Average

FY 2005

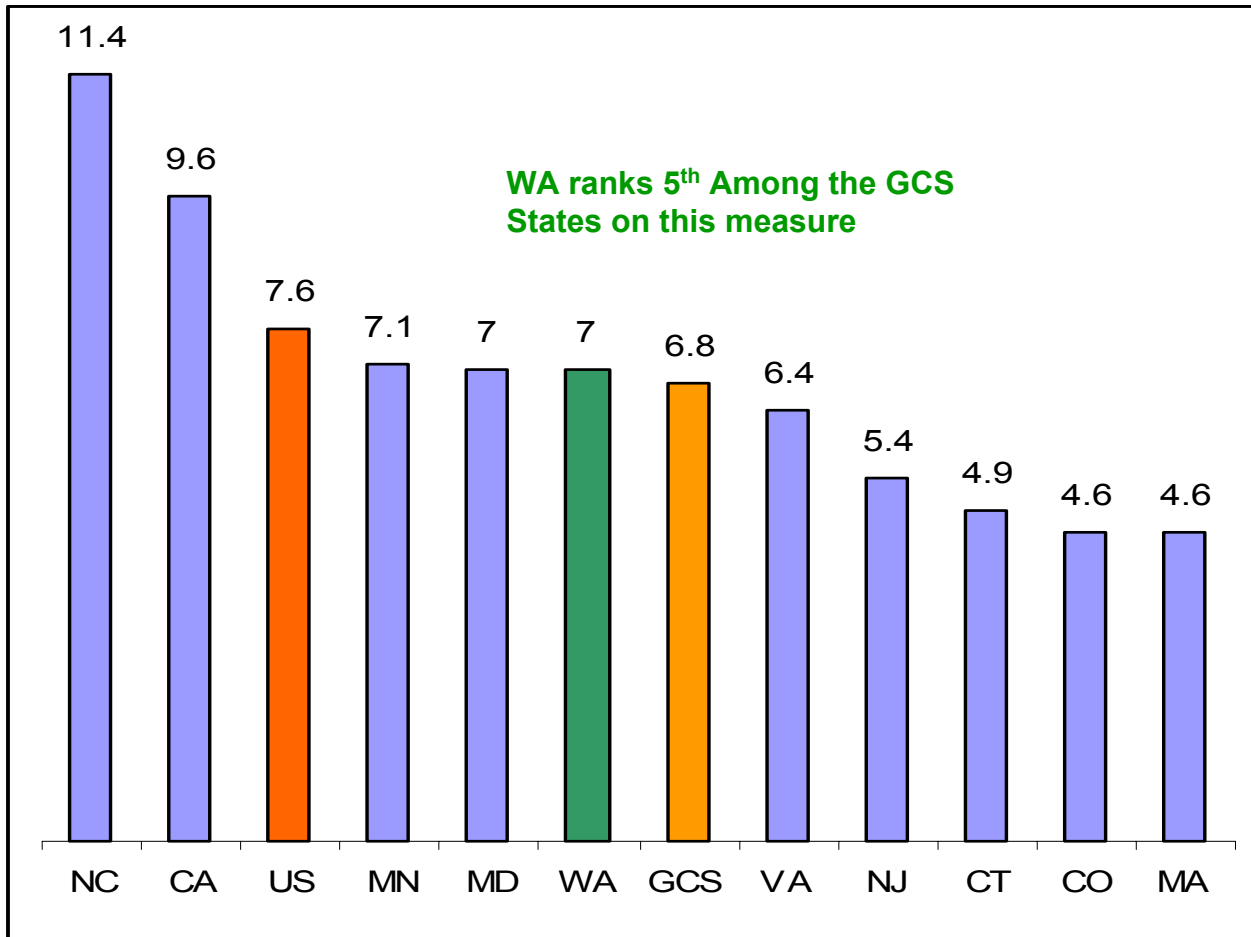
Source: SHEEO, NCHEMS



Percent Allocations of Total State Tax Revenues to Higher Education

FY 2000

Source: SHEEO



Many believe we could do a little better:

State Cost of Living and Relative Cost of Each State's Public Higher Education System Indexed to the National Average, 2004

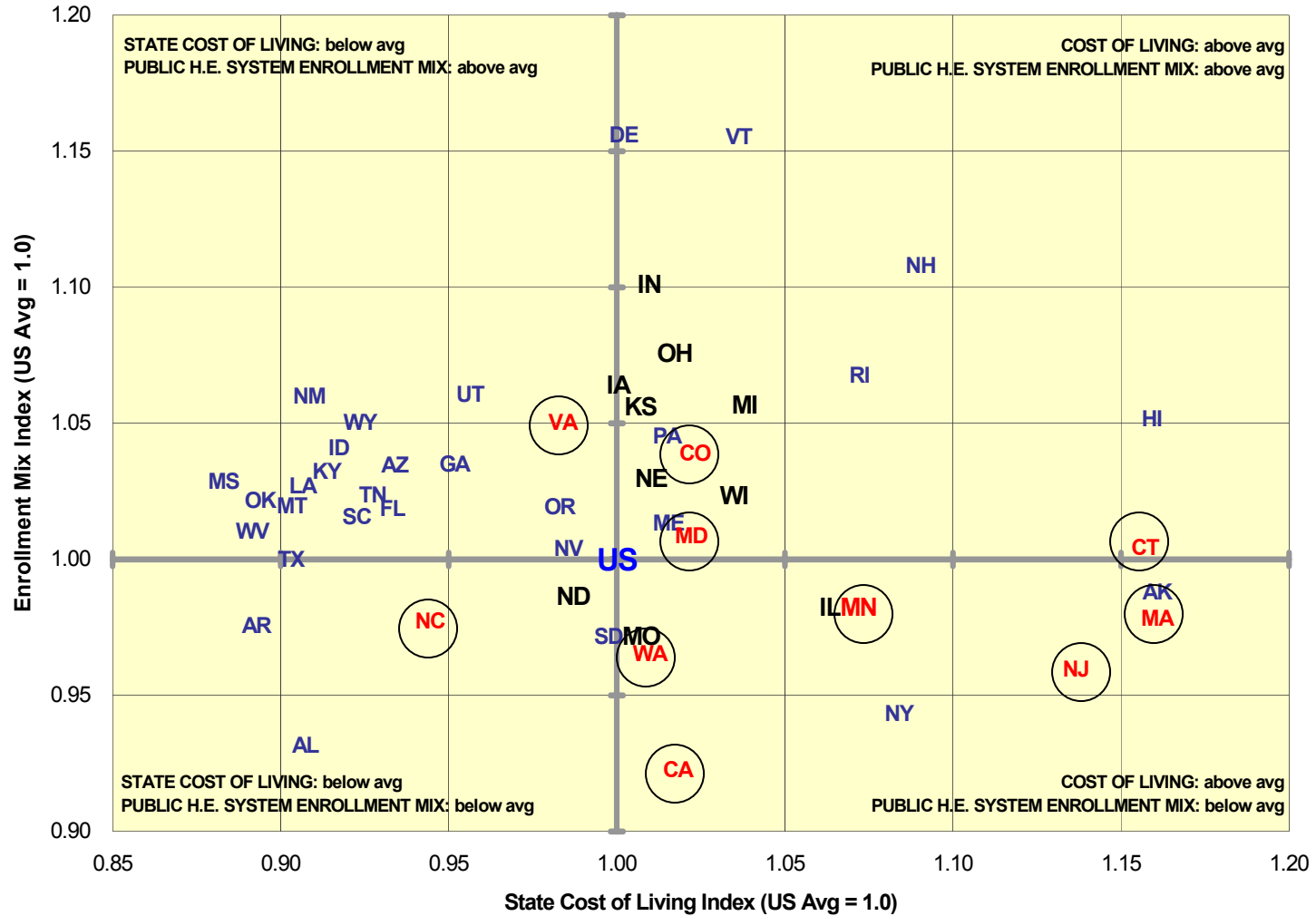


Chart Source: Lingenfelter, SHEEO, op. cit.

Total Educational Revenues per FTE by State: Percent Change and Current Standing Relative to U.S. Average

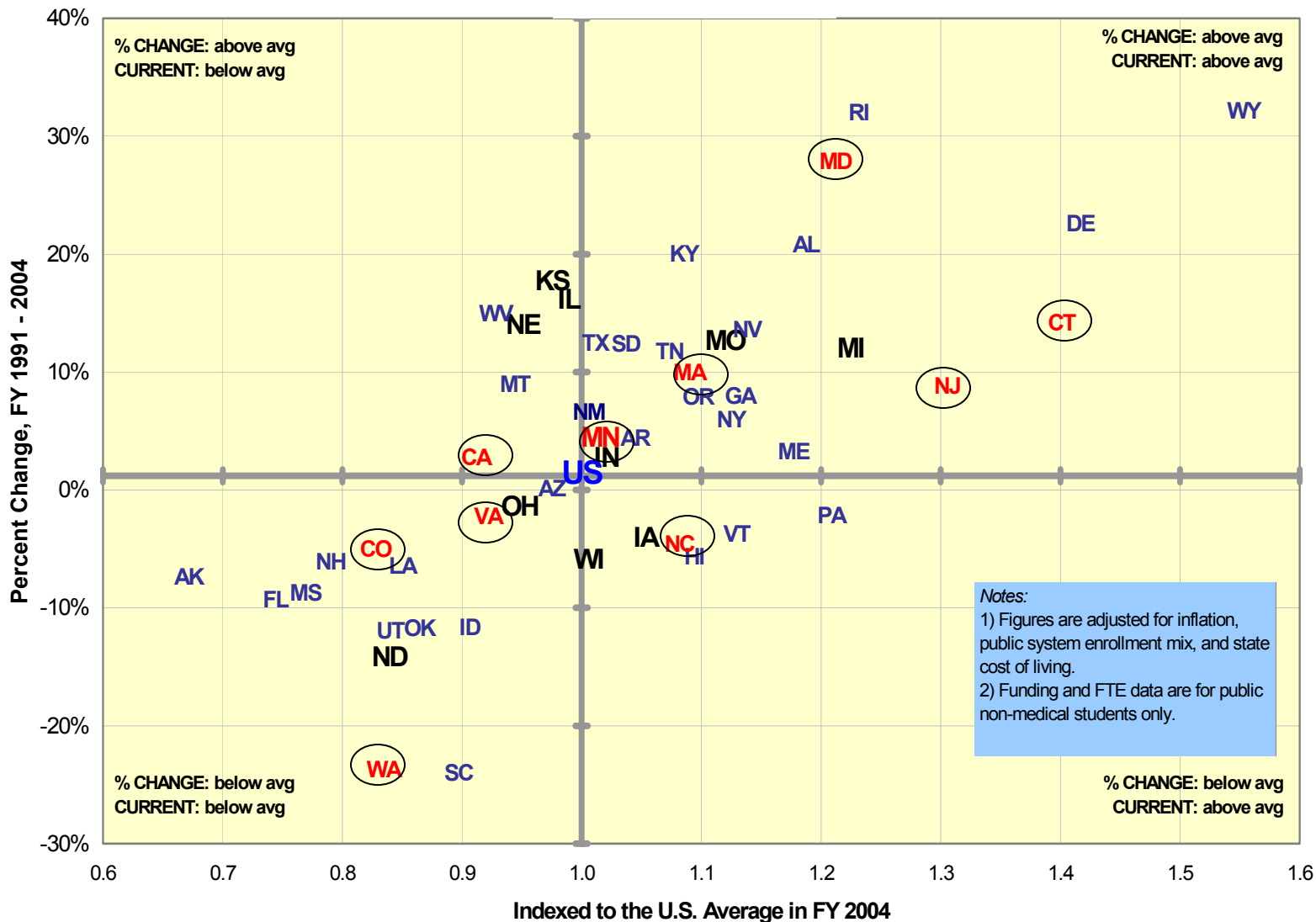


Chart Source: Lingenfelter, SHEEO, op. cit.

Washington does very well comparatively in some aspects of higher education funding. One has been an ability to keep student aid increases out in front of tuition increases.

Comparison of 1979-2003 Percent Changes in Total State Student Aid to Percent Changes in Average Four-Year Public Tuition

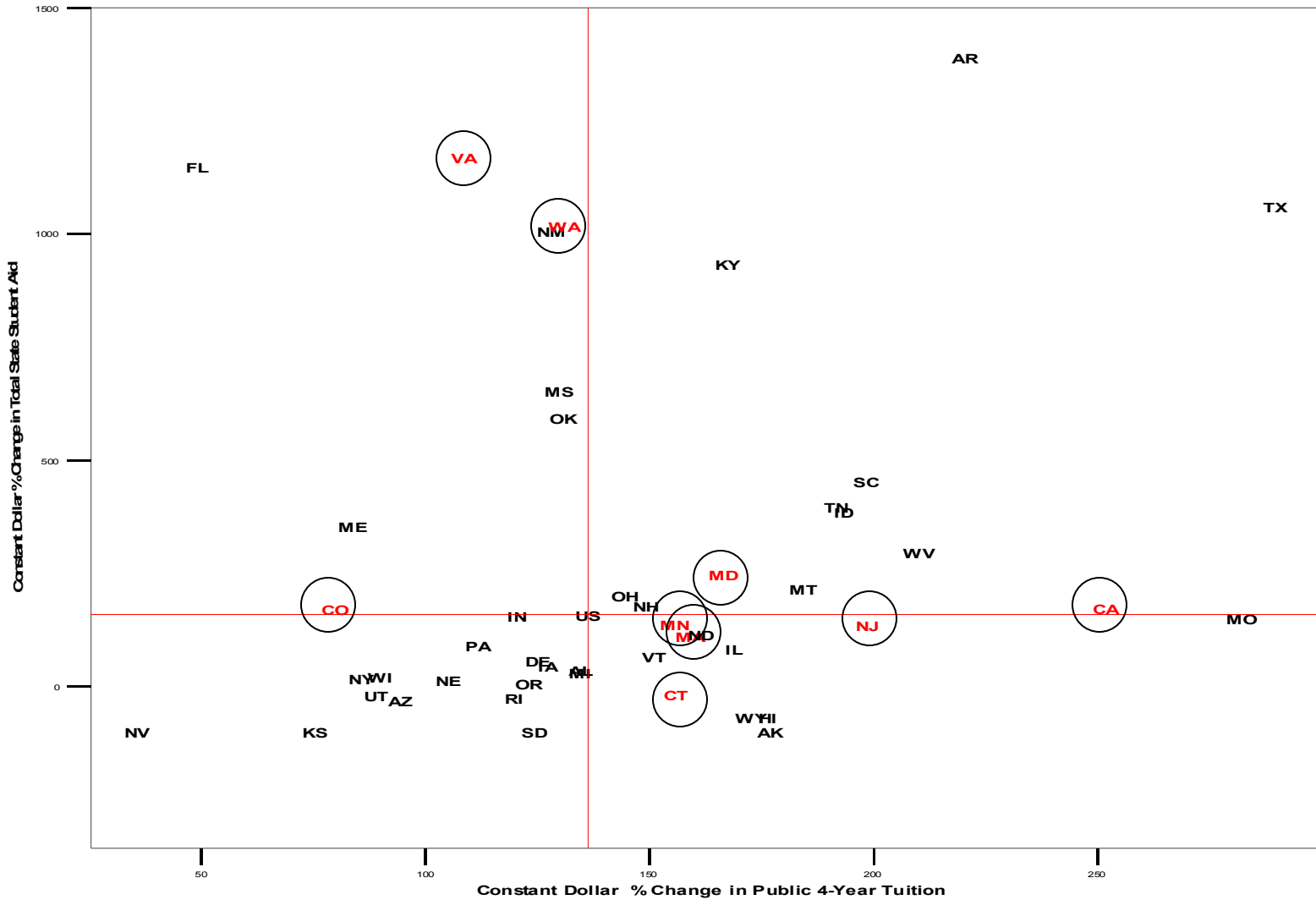
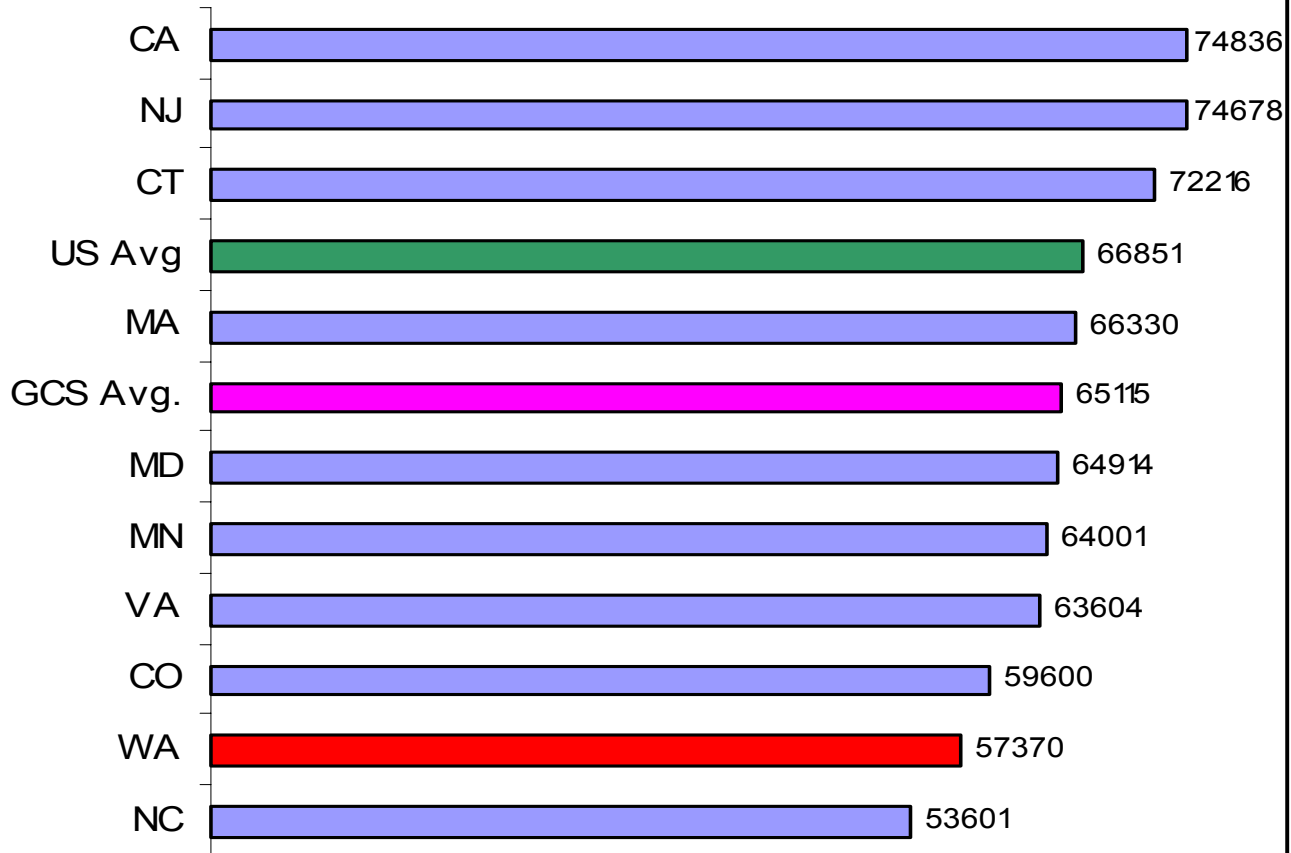


Chart Source: NASSGAP/NCHELP, op. cit., NC Not Shown

Salaries comprise the largest component of institutional operating funds

Comparatively speaking, Washington may have a problem.

**Average Salaries for Faculty in Public
Institutions on 9/10 Month Contracts, 2004-05,
Source NCES, IPEDS Salary Survey, 2004-05**



- *At the two-year level, Washington ranks seventh among the GCS peer states and below the GCS and U.S. Averages.*
- *At the comprehensive university level it ranks ninth among the GCS, and also below the GCS and U.S. Averages.*
- *At the research university level it ranks sixth among the GCS; better, but still below the GCS and U.S. Averages.*
- *In pay for professors in research universities it ranks ninth among the GCS, and below the GCS and U.S. Averages.*

The next table further illustrates the extent to which Washington is losing ground relative to the other Global Challenge States with respect to faculty salaries in four-year institutions.

- Washington has moved from next to last to last place in terms of the average salary of full professors in these institutions.***
- It fell an additional six percent behind the average of the GCS states.***

REPRESENTATIVE FACULTY SALARY CHANGES

Global Challenge States 1993-94 to 2003-04

	<u>1993-94</u>	<u>1993-94</u> <u>RANK</u>	<u>2003-04</u>	<u>2003-04</u> <u>RANK</u>	<u>Change</u>	<u>Percent</u> <u>Change</u>
California	78,006	2	122,272	1	44,266	57%
Colorado	62,386	10	92,941	8	30,555	49%
Connecticut	75,702	3	106,660	3	30,958	41%
Maryland	69,306	5'	103,710	4	34,404	50%
Massachusetts	70,492	4	90,715	9	20,223	29%
Minnesota	67,802	7	103,516	5	35,714	53%
New Jersey	86,228	1	111,145	2	24,917	29%
North Carolina	67,498	8	100,540	6	33,042	49%
Virginia	68,022	6	98,569	7	30,547	45%
Washington	65,675	9	87,042	10	21,367	33%
 AVG. - ALL GC STATES **	 71,112		 101,711		 30,599	 43%
 WA percent of average	 92%		 86%		 70%	 76%

Part I: Aspects of Higher Education Funding

Stability

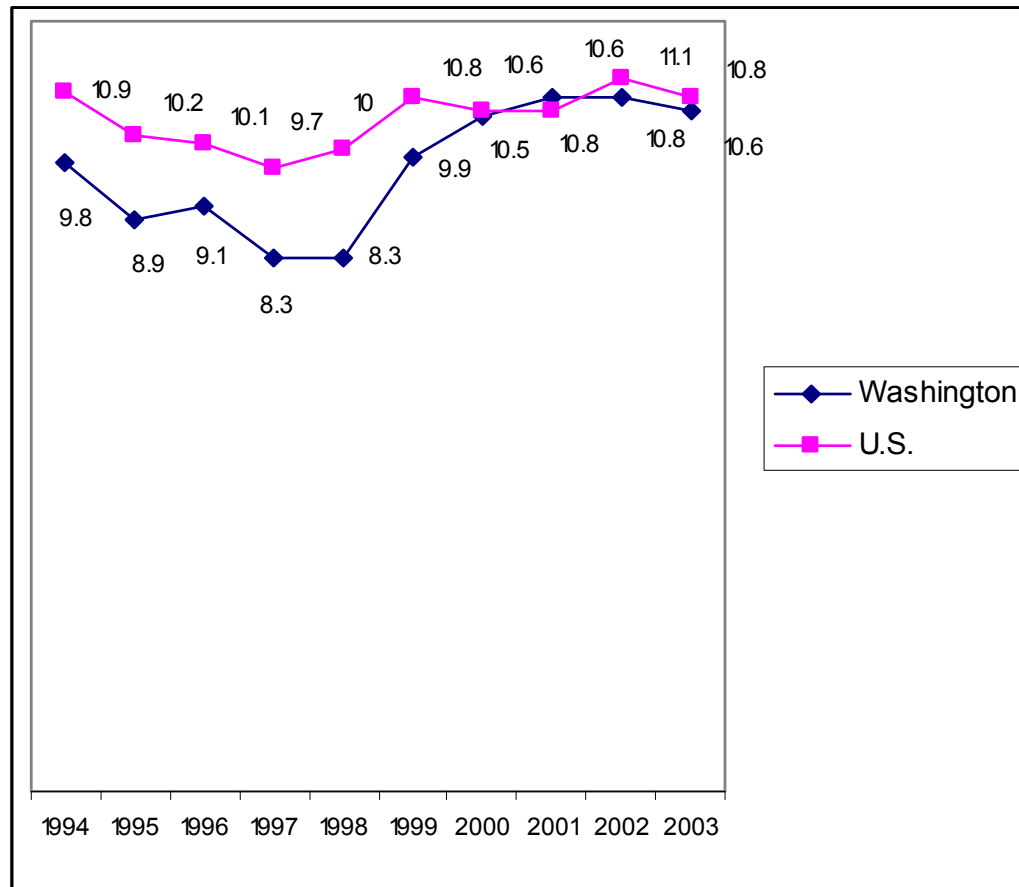
- **Funding stability and predictability have become important higher education issues for many in WA.**
- **Annual shares of General Fund appropriations to higher education since 1994 have varied but were generally greater during the years 1999-2003 than they were in the five preceding years going back to 1994.**

Higher Education Appropriations as a Percent of Tax Revenue

FY94-FY03

Source: NCSL, WICHE

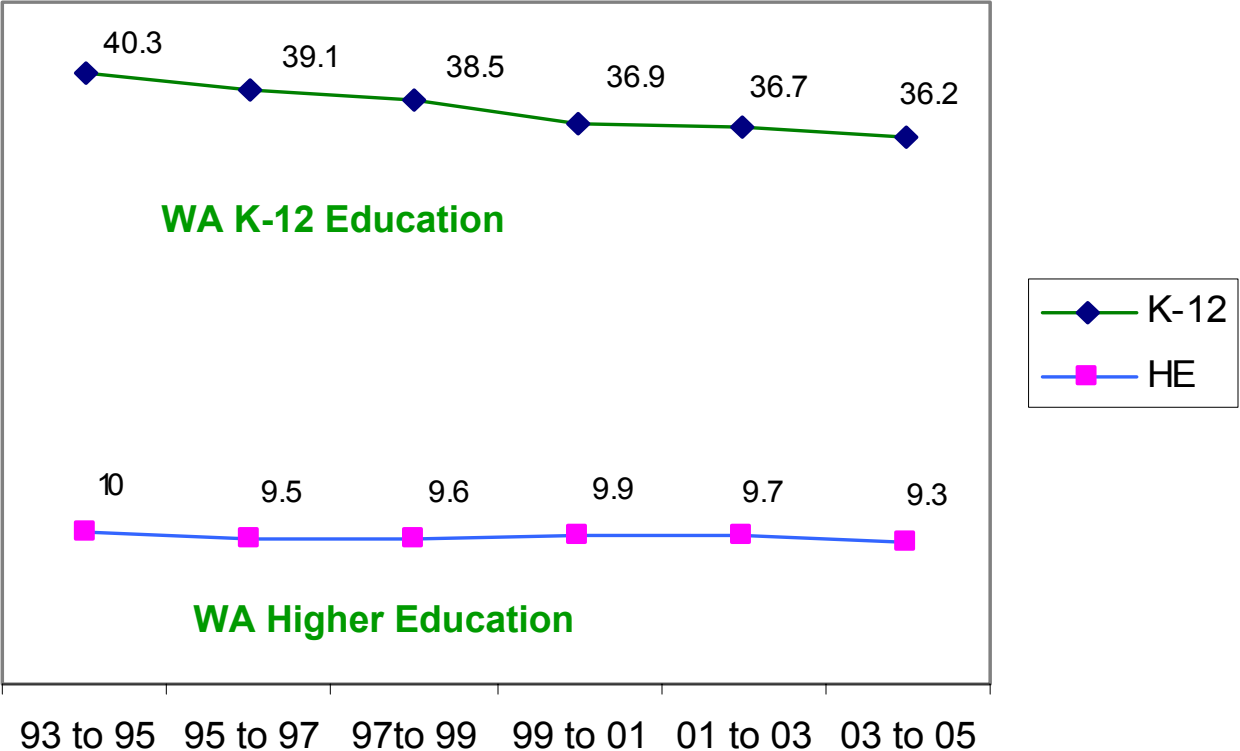
(U.S. Averages Shown Above Curve; Washington's Below)



- **In the quest for greater stability, a “Paramount Duty” standing for higher education similar to that of K-12 has been suggested.**
- **In terms of stability [next chart], K-12 has not been immune from a decline in funding share.**
- **K-12’s portion of state funds has dropped about ten percent during the past decade, compared with about seven percent for higher education.**

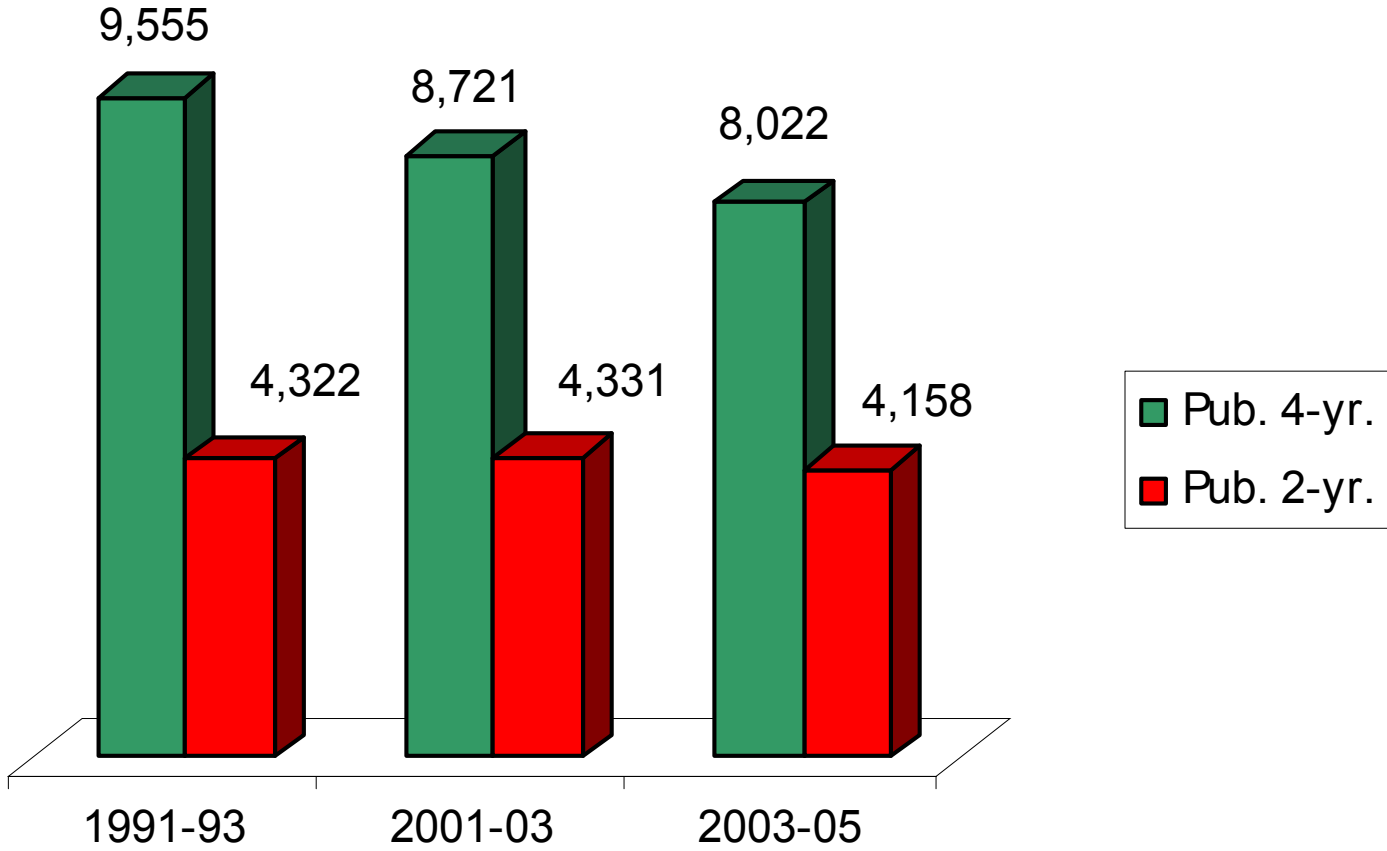
Biennial Budget Shares, K-12, and Higher Education

% of State Funds
Source: LEAP Data



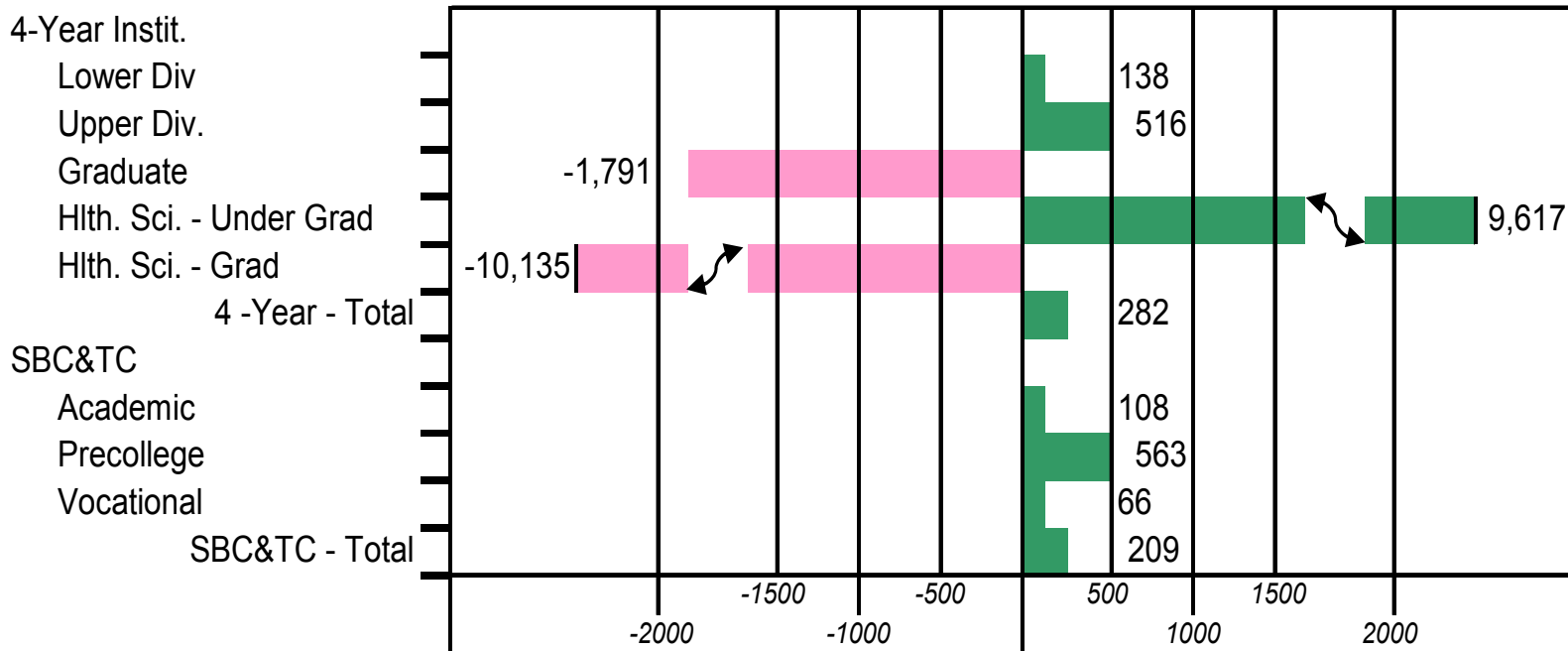
In higher education, General Fund appropriations per FTE are down somewhat from 1991-93. For the public four-year institutions the decline is 16%; for the community and technical colleges it is about four percent.

General Fund Appropriations Per Budgeted FTE, 2004-05 Dollars, Source: HECB



Still, during the 1994-2004 decade, funding improved in most instructional areas, graduate education and the health sciences represent the exceptions (NCES data).

**HIGHER EDUCATION SECTOR
CHANGE IN PER STUDENT FUNDING, 1994 - 2004
(Expressed in 2004 Dollars)**



Part I: Aspects of Higher Education Funding

Alternative Funding Systems, Budget Development Methodologies, and Allocation Models

There are about five macro budget approaches, more or less, with combinations among them comprising a sixth class.

All involve incremental budgeting, i.e., they start with the current appropriation and factor on that.

Washington's budget model is one example.

Zero-based budgeting remains a theoretical exception.

Different states take different approaches:

- *Budgeting According to Costs or Ratios* (e.g., instruction cost/FTE: NM, TX, AZ, GA, MD, OK)
- *Formula Budgeting* (e.g., AL, FL, LA, NC, TN, WV)
- *Peer Institution Funding*
- *Performance Funding* (e.g., Portion of base funds tied to specified outcomes: SC)
- *Portable Student Subsidies as an Approach to Funding* (e.g., CO vouchers)
- *Blends* (e.g., three-year averages; funding based on institution type).

Combinations probably comprise the best approach if they include:

- ***Base funding support for core activities;***
- ***Incentives to pursue specified state goals; (e.g., economic growth, access for disadvantaged, etc.);***
- ***Reasonable measures of workload, inflation and funding for incentives.***

An important study focus is on ways to align funding with the public higher education agenda.

This begins with an understanding of how the state is investing its education dollars.

A tool with potential is the “Education Budget Overlay”

- Called a “Chalkboard,” the format was initiated by John Topogna for the Oregon Business Council.***
- It represents an effort to look at all of education as one budget category in order to illustrate where education dollars are being invested and how these can change over time.***

- *As do all other states, Washington utilizes separate budgets for each of the education sectors (e.g., K-12 and higher education).*
- *There is no "Education" budget, which may make it difficult to think of Education as a unified policy paradigm, e.g. K-20.*
- *The Chalkboard represents an attempt to surmount this hurdle.*
- *It is still a work in progress (copies have been placed on the meeting materials table).*

Washington PreK-20 Education Budget, 2003-04 School Year

Program	Number of Full Time Equivalent Students Served	Estimated Expenditures Per Full Time Equivalent Student Served					Total State and Local Government Investment
		State	Local	Federal and Other Grants	Tuition and Fees	TOTAL	
PreK-12 Stand Alone Programs							
Pre-Kindergarten / Head Start							\$ 26,837,043
Early Intervention for Children Ages 0-5 Years Old							
Grades K-5 Regular Instruction, Administration, and Support (less Special Ed regular enrollment)	400,219	\$ 4,351	\$ 1,295	\$ 635		\$ 6,281	\$ 2,513,578,991
Grades 6-8 Regular Instruction, Administration, and Support (less Special Ed regular enrollment)	203,585	\$ 3,989	\$ 1,187	\$ 582		\$ 5,758	\$ 1,172,317,018
Grades 9-12 Regular Instruction, Administration, and Support (less Special Ed regular enrollment)	257,423	\$ 3,968	\$ 1,181	\$ 579		\$ 5,729	\$ 1,474,745,072
Alternative Education Programs	31,067	\$ 4,103	\$ 1,221	\$ 599		\$ 5,923	\$ 183,996,706
Special Education Outside of the Regular Education Setting (FTE Enrollment)	34,429	\$ 14,828	\$ 4,414	\$ 2,164		\$ 21,407	\$ 737,005,189
Remedial Programs / Developmental Education	265,000	\$ 933	\$ 278	\$ 136		\$ 1,346	\$ 356,792,257
PreK-12 Supplements to Regular Education							
Special Education in Regular Education Settings	109,457	\$ 4,103	\$ 1,221	\$ 599		\$ 5,923	\$ 648,267,533
English as a Second Language	61,147	\$ 808	\$ 241	\$ 118		\$ 1,166	\$ 71,322,023
K-12 Student Transportation	500,000	\$ 407	\$ 121	\$ 59		\$ 588	\$ 293,993,195
Adjustment for duplicate student/program counts Basic Ed.:Categoricals)							\$ (59,951,756)
Subtotal - PreK-12							\$ 7,418,903,272
Higher Education							
Four-Year Institutions:							
Lower Division	38,242	\$ 2,667	-	-	\$ 3,145	\$ 5,812	\$ 101,998,363
Upper Division	34,022	\$ 7,239	-	-	\$ 3,118	\$ 10,357	\$ 246,278,031
Graduate Programs	11,992	\$ 11,237	-	-	\$ 5,332	\$ 16,569	\$ 134,757,174
Health Sciences							
Undergraduate	1,380	\$ 23,651	-	-	\$ 6,245	\$ 29,896	\$ 32,629,850
Graduate	4,439	\$ 16,331	-	-	\$ 11,535	\$ 27,866	\$ 72,492,651
Subtotal - Four-Year							\$ 588,156,069
State Board for Community & Technical Colleges							
Academic Programs	56,513	\$ 3,578	-	-	\$ 1,297	\$ 4,875	\$ 202,203,514
Precollege Programs	31,589	\$ 3,002	-	\$ 270	\$ 1,088	\$ 4,360	\$ 94,830,178
Vocational Programs	49,435	\$ 4,267	-	\$ 277	\$ 1,546	\$ 6,090	\$ 210,939,145
Subtotal - SBCTC							\$ 507,972,837
Student Assistance:							
HECB State Need Grant Program	54,208	\$ 2,107	-	-	-	\$ 2,107	\$ 114,199,994
Subtotal - All Higher Education							\$ 1,210,328,900
GRAND TOTAL PREK - 20							\$ 8,629,232,172

source: NORED calculated using data provided from SPI, HECB, SBCTC and OFM

The funding part of the presentation closes on this note.

The presentation on the fiscal efficacy of higher education governance will follow the break

Part II: Governance and Fiscal Policy

Aspects of Washington's Approach

As noted earlier, a major study focus is on initiatives that align funding with the public higher education agenda.

- ***Washington has a mixed but essentially decentralized budget system.***
- ***Budget requests and appropriations for the four-year institutions are institution-specific.***
- ***The SBCTC compiles a total system budget and disperses appropriated funds for the institutions that comprise that sector. It is the only centralized higher education budget entity in Washington.***

- *The HECB, Washington statewide higher education agency, is a coordinating board focused essentially, but not exclusively, on the four-year sector.*
- *It is responsible for developing and monitoring a strategic master plan for higher education.*
- *The HECB does not have direct higher education budgeting authority.*

There are three broad forms of statewide agencies distinguished in large part by their governance and fiscal authority.

- consolidated governing boards***
- coordinating boards, and***
- state higher education planning agencies.***

24 are “Governing Board” states, 24 are “Coordinating Board” states; and 2 are states with planning/service agencies but no other central board.

- ***Higher education budget authority is 'centralized' in 38 states.***
- ***In most of these 'centralized budget states', 28, higher education budget authority is exercised by a statewide governing board.***
- ***Coordinating boards have central budget authority in 10 states.***

- ***Agencies with central budget authority generally are classified as “regulatory boards.”***
- ***Those without are categorized as “recommending boards.”***
- ***Central budget authority, a powerful tool, does not appear to be a sine qua non for effective strategic planning and plan accomplishment.***

- ***Six of the Global Challenge States -- CA, CT, MN, NJ, VA, and WA -- have coordinating boards without central budget authority.***
- ***Three of the GCS -- CO, MD, and MA -- have coordinating boards with central budget authority.***
- ***One of the GCS – NC -- has a statewide university governing board with system budget authority.***

Many of the conditions that applied when many statewide coordinating boards were established are changing

States are delegating more management control back to the institutions in order for them to adapt and respond to new economic conditions and tie their activities more closely to state priorities.

There is less talk of “master planning” and more of aligning higher education policy and funding.

Terms such as “The Public Higher Education Agenda,” “Public Investments,” “K-20 Systems,” “Pipelines,” “Deregulation,” and “Decentralization” dominate the conversation

It is in this context that Performance and Accountability Agreements between the state and its institutions are emerging as policy instruments.

Global Challenge States have been in the forefront. The concept was first presented in Massachusetts. Maryland was the first state to employ the idea; Colorado was next.

Another Global Challenge State, Virginia, followed last year.

Virginia refined and advanced the idea, and the Virginia Model is a good example of an effort that is intended to link funding and institutional performance with the public agenda.

We will turn to that now as the progress report continues and concludes with a report from Peter Blake on the Virginia experience.

Part II: Governance and Fiscal Policy

The Virginia Performance Agreement Model