Leveraging Finance to Achieve State Goals

NCSL Higher Education Institute

October 5, 2017
STATE INVESTMENTS IN CONTEXT: REVENUES & EXPENDITURES
State and Federal funding for higher education are revenue sources from the perspective of institutions but are expenditures from the perspective of taxpayers.

There are multiple missions of higher education (instruction, research, public service, etc). Missions differ by state and sector. Institutions’ revenues and expenditures reflect these missions.

Other funding conversations (e.g. pensions, K-12 education) may have consequences that effect higher education funding.
Institutions are responding and aligning practices to a variety of revenue streams – many with different incentives and priorities.
Expenditures

The way in which institutions spend their money is even more varied and further illustrates the diversity of the system.
Student Demand (Enrollment) Tends to Track with Economic Cycles

When enrollment levels are highest, states typically have the least capacity to pay for it. Ideally states are planning for these cycles as part of their budgeting and policy decisions, but few, if any, do.

May-May Unemployment Rate Change as Predictor of Fall CC Enrollment Change: Still Closely Correlated

Source: Integrated Postsecondary Education Data System summarized by Postsecondary Analytics; Bureau of Labor Statistics and Digest of Education Statistics

StrategyLabs.LuminaFoundation.org
STATE INVESTMENTS IN CONTEXT:
Total Educational Revenue has Increased in Recent Years. The Source of Funding Has Shifted.

State appropriations account for less of the total educational revenue than in the early and mid-years of this century.

In FY 2006, appropriations accounted for 63.4% of per FTE revenue compared to just over 52.4% in 2016.

Tuition revenue has filled the hole left by lower levels of state appropriations per FTE.
Several factors can determine levels of funding and types of investments in higher education

**Revenue Availability**
- Taxes/economy
- Federal Tax Reform

**Competing Priorities/Obligations**
- E.g., K-12; healthcare, pensions

**Demand/Enrollment**
- Tuition revenue

**Strategic Initiatives**
- Investment in specific projects/strategies

**Political Considerations**
- View of policy leaders on priority/role of higher education
Higher Education Spending in Perspective

The share of state spending on higher education has decreased as Medicaid costs continue to increase and crowd out available resources.
Crowding Out will Continue: Projected Percentage Point Change in Higher Ed Spending as Percent of Total (through 2024)

States with the highest share falls are those that have the largest Medicaid increases from non-economic factors. Medicaid spending will grow faster than average with no corresponding increase in revenues.

Source: Moody’s Analytics

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Source: Moody’s Analytics
BUILDING A STRATEGIC FINANCE PLAN
Investing for the Future

✓ Do states need to find more revenue for postsecondary learning? **YES**

✓ Do states need to target their investments more strategically toward goals and priorities: **YES**

✓ Do institutions need to be more efficient in supporting students to completion: **YES**
ATTAINMENT GOAL

Analysis:
What is needed to reach attainment goal

TALENT PLAN
AFFORDABILITY BENCHMARK

ADVOCACY

Policy
Investment/Budget Priorities
Pathways
COMPONENTS OF A STATE TALENT FINANCE PLAN

Goal Assessment & How Many Degrees
Assessment of Cost
What Kind of Degrees?
How Finance/Who Pays?
Investments/Strategies that Produce Outcomes
Goal Assessment: What is needed to reach state attainment goal and close equity gaps?

- What is the your states attainment goal?

- What are the current attainment levels and equity gaps (race/ethnicity; age; regional)?

- How many additional degrees will be needed to reach the goal and close the gaps?

- What are the needs of the target “non-student” population?

- What types of credentials are needed?
State finance policy needs to consider these students and be oriented to address their needs, support institutions to access and create incentives to advance their success.

How Many People Do Not Have a Degree?
Focus States: All | Not in School | 18-24, 25-34, 35-44

<table>
<thead>
<tr>
<th>Highest Attainment</th>
<th>0M</th>
<th>1M</th>
<th>2M</th>
<th>3M</th>
<th>4M</th>
<th>5M</th>
<th>6M</th>
<th>7M</th>
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Underrepresented Minority Groups are Less Likely to Have Degrees

These gaps across racial and ethnic groups need to be considered in context of state goals.

States can not achieve attainment goals without better serving these populations.

Investments need to be targeted in ways that reflect this equity imperative.

How Does Race/Ethnicity Vary by Attainment?

<table>
<thead>
<tr>
<th></th>
<th>Hispanic, any race</th>
<th>American Indian, Alaska Native, Native Hawaiian or Other Pacific</th>
<th>Asian</th>
<th>Black or African American</th>
<th>Two or More and Other</th>
<th>White</th>
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<tbody>
<tr>
<td>Degree (Assoc+)</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
<td>50%</td>
</tr>
<tr>
<td>Degree (No Degree)</td>
<td>40%</td>
<td>30%</td>
<td>20%</td>
<td>10%</td>
<td>5%</td>
<td>1%</td>
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% of Total Population
Virginia: Regional Attainment Gaps

Source: Lumina Foundation
http://strongernation.luminafoundation.org/report/2017/#nation
Virginia: Additional Need to Reach Goal by Age

Different funding strategies, policy considerations will be needed to affect outcomes for these populations.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>With a Degree</th>
<th>With a Certification</th>
<th>Additional Need by 2030</th>
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<tr>
<td>18-24</td>
<td>138,716</td>
<td>33,164</td>
<td>412,640</td>
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<td>25-34</td>
<td>549,838</td>
<td>46,077</td>
<td>216,190</td>
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<td>35-44</td>
<td>551,632</td>
<td>44,215</td>
<td>183,089</td>
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<td>45-55</td>
<td>532,566</td>
<td>47,092</td>
<td>250,339</td>
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Oregon: Gap for One Cohort of 17-Year-Olds = ~17,000 Degrees and High-Quality Certificates (Based on 40-40-20 Goal)

Est. Additional Degrees Needed

- **Underrepresented Gap**
  - High-Quality Certificates: 971
  - Associate Degrees: 2,892
  - Bachelor's Degrees: 2,949

- **All students gap**
  - High-Quality Certificates: 3,863
  - Associate Degrees: 10,270
  - Bachelor's Degrees: 2,871

**Legend**
- High-Quality Certificates
- Associate Degrees
- Bachelor's Degrees
National Profile of Non-Student “Goal” Population

- ~57 million residents age 18-44, no degree, not currently enrolled
- 44% underrepresented minorities
- 14% non-citizens
- Most work full time (avg. 35 hours, vs. 20 for same-age students)
- 80% earn less than $30,000, 100% less than $50,000
- 55% have children*; 25% have children under 5
- 4% active military / 5% veteran / 2% reserves or National Guard
Workforce Needs: What types of credentials will be needed?

- Requires stakeholder input and discussion over preciseness of analysis.
- What kinds of credentials will these be?
- What programs/majors should the degrees be in?
How much will it cost?

• National level goal:
  – 60 by 2025 = 16.4 Million More Credentials

• Estimating Costs
  – Wide variation by institution, major, type of student, sector, level of degree, etc.
  – State and national averages are much more consistent and useful for high-level benchmarking
  – Averages calculated for 10-year average using measures of core revenues & expenditures

• $30 billion more…
What are the resources that can be leveraged to meet these costs?

• Shared Responsibility
  – State (financial aid, institutional support)
  – Institutions (efficiencies, pathways)
  – Federal (tax credits, loan, Pell, workforce, social benefits)
  – Private (business, philanthropy)
  – Students/families (tuition)
What investment policies are most aligned to needed outcomes?

• What types of investments are most likely to lead to more graduates from underserved populations and in needed credential areas?

• How can identified resources be aligned to advance state toward goals and need to increase equity and affordability?

• What principles guide policy and investment decisions: student-focused, outcome-based, impact access and equity through affordability.
State and Federal Resources to Increase Affordability

- Student contribution (tuition, fees and other costs of attendance) can be met through combination of resources
  - Student/Family Contribution
  - State Financial Aid
  - Federal Financial Aid (Pell)
  - Federal Loans
  - Private Scholarships
  - Other public benefits programs (e.g., SNAP, TANF, Child Care subsidies)
Despite decreases in state support, appropriations to institutions are the biggest “scholarship” students receive and remain the largest \textbf{SINGLE} source of funding for institutions.

\textbf{APPROPRIATIONS CAN KEEP TUITION DOWN GENERALLY OR TARGET GAPS SPECIFICALLY.}
Outcomes-Based Funding: Directing investments to advance outcomes and increase equity

- Begin with a state goal/clear policy priorities
- Use a stable and simple approach that supports continuous improvement
- Include only measurable metrics, prioritizing credential completion
- Promote success of typically underrepresented students
- Reflect institutions' missions
- Seek Stakeholder Input
- Make the money meaningful
- Phase-in (≠ Hold Harmless)
- Sustain over several years, and plan to evaluate
Outcomes-Based Funding in FY 2018

Data collected as of January 2018
Not all OBF Created Equal: Varying levels of design and implementation aligned to key core principles

- State funding systems vary significantly in design, focus and sophistication.
- HCM Strategists has developed a typology for Outcomes-Based Funding ranging from Type I (Rudimentary) to Type IV (Advanced).

Type IV
- State has completion/attainment goals and related priorities
- Recurring/Base funding
- High level of state funding (25% or greater)
- Differentiates by institutional mission
- Total degree/credential completion included
- Outcomes for underrepresented students prioritized
- Formula driven/incents continuous improvement
- Sustained for two or more consecutive fiscal years
OBF in FY18, By Type: 2-Year Sectors
OBF in FY18, By Type: 4-Year Sectors

Data collected as of January 2018
How can pathways and efficiencies be leveraged as a resource for financing the plan?

- How many more graduates could be expected from increasing productivity of the system?

- What systems efficiencies can help drive access and success for target populations?

- Are there roles for alternative providers to fill gaps not met by current system?
Thank you.

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