

INCREASING ACCOUNTABILITY IN AMERICAN HIGHER EDUCATION

American Enterprise Institute

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The collected papers from this conference are
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Higher Education Finance and Accountability

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Forthcoming in:

***Best in the World? Accountability and
Unaccountability in American Higher Education***

The Call for Finance Accountability

- Rising Tuition Prices
- Meanwhile substantial government subsidies
 - Are the price increases justified?
 - Many in Congress think not.
- Low graduation rates: Only about 60 percent of students at 4-year colleges graduate within 6 years
 - Are college resources focused on student needs?

Chapter Overview

- Goals: Consider the role of finance in accountability systems, and discuss how an effective financing system tied to improving productivity and learning outcomes might be designed
- Chapter Outline
 - Measuring college finances
 - Key elements of accountability systems based on higher education finance
 - Past experiences with performance funding
 - Lessons learned from states
 - Considerations for the future

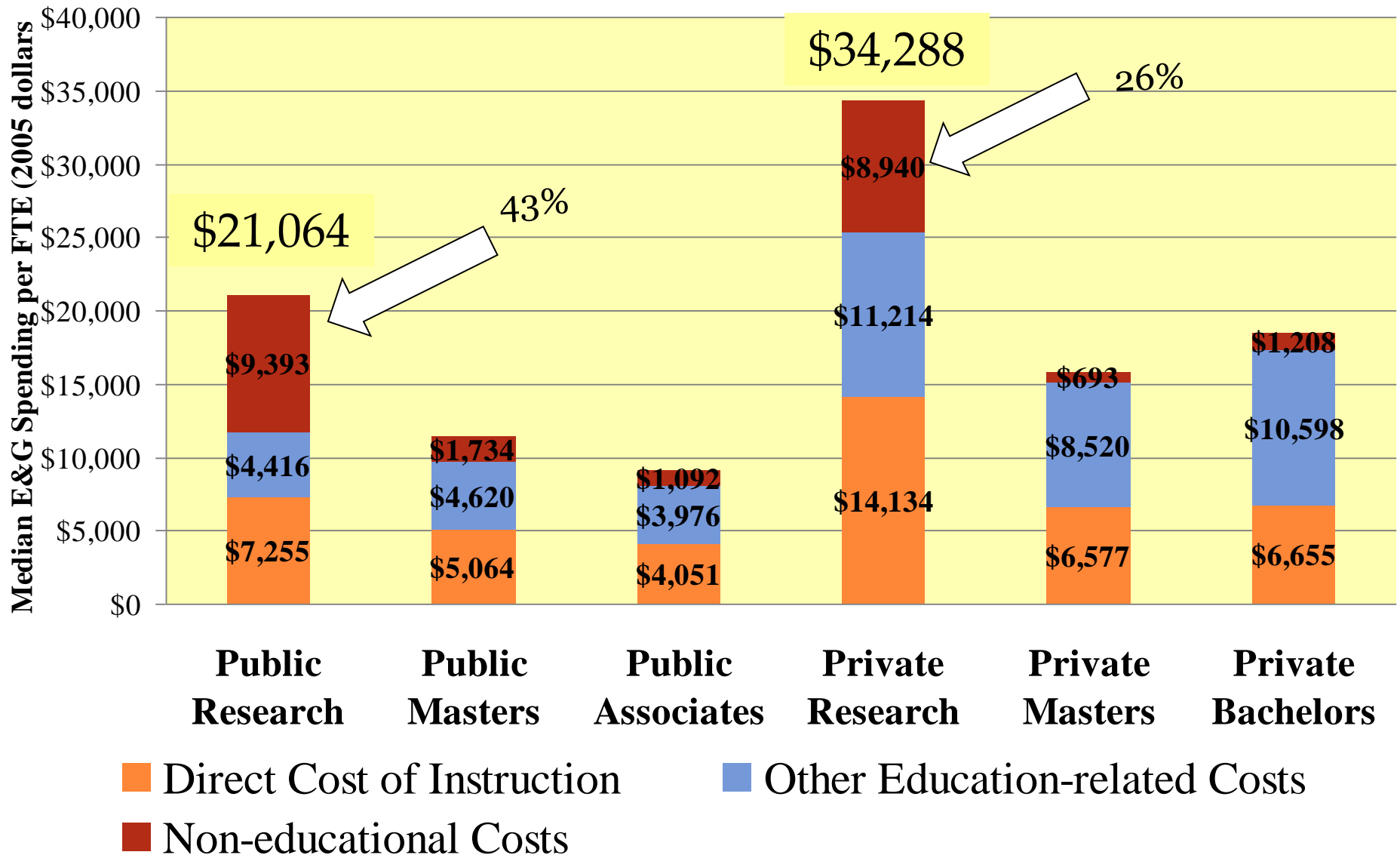
Measuring College Spending: *Inherent Difficulties*

- The problem of joint products: Multiple missions of colleges are not easily separable (e.g., teaching versus research) making allocation of costs hard
- Outputs are also inputs (e.g., students as peer influences)
- How should one define costs?
 - Direct versus Indirect Costs
 - What should be attributed to instruction?
 - Role of capital costs?
 - FASB versus GASB

Measuring College Spending: *Data Availability*

- Delaware Study of Instructional Costs and Productivity
 - Data on teaching loads by faculty category, instructional costs, and externally funded scholarly activity
 - At the level of academic discipline
 - For over 300 four-year institutions
 - Direct instructional cost/credit hour taught
- Integrated Postsec. Ed. Data System (IPEDS)
 - Example: **Delta Cost Project**: Spending at nearly 2,000 public & private colleges for 2002-06

Median Education and General Spending per FTE Student, 2005



Measuring College Spending: *Limits of Current Data Sources*

- Aggregated → Difficult to isolate the costs of particular activities or get sense of spending efficiency
 - Delta Cost Project: “aggregate data are not a substitute for the more granular analysis that institutions and states need to perform regularly to examine their own spending patterns” (p. 6)
- Often does not distinguish between expenditures by discipline or level (remedial vs. undergrad vs. grad)
- Institutional aid and tuition discounting not reported as spending in IPEDS
- Difficult to link costs to particular students

Other Considerations for Finance Accountability Systems

- Measures still require some interpretation and judgment about what are good versus bad uses for resources
- Difficulty in judging what is:
 - “Effective” (bring about good student outcomes)
 - “Efficient” (minimize waste and focus on producing good results)
- Expenditure levels – How much is enough? Too much?
- Must be applied to institutions with differing missions, student bodies, and goals

Other Considerations for Finance Accountability Systems

- Central question: *Why is there a need for some kind of higher educ. accountability?*
 - Lack of Incentives/Laziness?
 - Colleges lack sufficient funds to meet the standards demanded?
 - Colleges lack a clear sense of best practices?
→ Each viewpoint leads to different policies
- *Sticks versus Carrots*
- *Size of the Incentives*
- *Sustainability of Incentives*

Past Experiences: *Criteria Used*

Same criteria for all

ARKANSAS

- Retention, including overall, minority, and transfer
 - Quality (rising Junior exam; licensure/exit exams by discipline)
 - Efficiencies, including program productivity
 - Workforce Development
 - Diversity of Faculty/Staff
 - Graduation Rates
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Different criteria by college level

FLORIDA

Two-year colleges

- # of degree completers
- Completers who fit special categories
- Time to degree
- Placements, Transfers, & partial completers

Four-year colleges

- Six-yr grad rate for 1st-time students
 - Four-yr grad rate for AA transfers
 - % of students graduating with total credits $\leq 115\%$ of degree req.
 - % who enroll in grad school in the state
 - Externally sponsored research and training grant funds \div State research funds
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Some shared criteria, some developed by institutions

KENTUCKY

- 26 common indicators (mandatory)
 - Institution-specific indicators: effective use of resources, global perspectives in academic programs; review of gender issues; cooperative academic degree programs; alternative educational delivery; level of gifts, grants, and contracts funding; EEO plan implementation
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Type and Timing of Incentives

Reward

- TENNESSEE: Institutions are capable of earning up to 5.45 percent of their state operating appropriations.
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Maintenance plus inflation

- MISSOURI: To receive inflationary increases in state funds, schools needed to abide by the “Funding for Results” (FFR) recommendation by the Missouri Coordinating Board for Higher Education
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Penalty

- KANSAS: Schools that do not meet performance goals lose money. In 2006, all but three schools received full funding.
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Timing

- FLORIDA: The community colleges criticized WDEH because of the way it left colleges uncertain about their funding due to its holdback feature
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Amount of Incentives

Too little at stake

- ARKANSAS: The reward was only a modest sum of total state appropriations
- ILLINOIS: Funds equaled 0.4 percent of state appropriations to community colleges in 2000-01 and were in addition to the main enrollment-based state funding.
- MINNESOTA: Up to a one percent increase in the non-instructional budgets of systems that met the performance indicators and standards established by their governing boards

Large enough

- FLORIDA: WDEF ranged up to 5.6 percent of state appropriations. State withheld 15 percent of the prior year's workforce appropriations, and community colleges/tech institutes were then required to earn that money back based on their performances on certain indicators.
- MISSOURI: From FY 1994 to FY 2001, "Funding for Results" (FFR) had an increase to \$66 million in funding to institutional core budgets.

Increases over time

- FLORIDA: The community colleges criticized the lack of increases in state funding despite improvements in performance
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Sustainability

Budget Cuts

- FLORIDA: When there were cuts, colleges preferred to cut incentive funding rather than enrollment-based funding
 - ILLINOIS: Program cut due to state's fiscal crisis in 2002
 - MISSOURI: Due to fiscal stresses, governor did not fund either inflationary or "Funding for Results" (FFR) dollars.
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Incentives small relative to Appropriations

- MINNESOTA: When appropriations to higher education increased due to improvement in the economy, the interest in performance funding declined. It was replaced with performance reporting.
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Disappearing political support

- FLORIDA: Champions of WDEF no longer around
 - ILLINOIS: Loss of key champions in the state community college board; New governor lacked interest; Lack of significant support from other key constituents
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The Relative Power of colleges

- KENTUCKY: When governors started to be limited to one term, campus presidents and local boards of trustees gained greater influence and helped to kill the policy.
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Impatience

- KENTUCKY: While the higher education commission and university presidents debated appropriate criteria, the governor lost confidence
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Past Experiences: State Examples

Lessons Learned

- Size of the incentive matters → If it is not large enough, it will not have an effect.
- Funding for systems must be maintained and from a source not susceptible to easy reductions
- Sustainability is threatened by political changes
- Uncertainty about funding can wreak havoc
- Without informative basic indicators and a system that helps to interpret that information, it is difficult for an accountability initiative to be successful
- Measures chosen can also be problematic: states have tended to focus on aggregated measures with little attention to important factors like student learning

Higher Education Finance and Accountability: *What is Possible?*

1. Foremost, good information systems need to be created.
2. With more information, institutions must do a better job explaining how these resources relate to specific goals, populations, and outcomes.
3. There must be a commitment from the state in the form of adequate incentives.
4. The commitment to making accountability work must be held by multiple stakeholders and sustained.

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