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TIMELY DATA CIRCULATED WHILE CURRENT

Reports on state tax legislation; state appropriations for universities, colleges,
and community colleges; legislation affecting education beyond the high school.

NATIONAL ADVISORY COMMITTEE FOR GRAPEVINE ESTABLISHED. 2040

STATE BUDGETING FOR HIGHER EDUCATION: IS THERE AN
IDEAL APPROACH?. 2041-2045

Dr. William Pickens, State Higher Education Finance Officer, California, presented this paper at a conference on "Transition Points in Higher Education," November 10, 1985, held at Temple University in Philadelphia and sponsored by Pennsylvania universities and educational agencies. This paper proposes a budgetary relationship between states and institutions that might foster and encourage innovative budgetary practices.

California revises the report of FY1985-86 appropriations . . . 2046
for operating expenses of higher education to nearly \$4.5 billion, making the percentages of gain over two and ten years 38% and 190%, respectively.

Pennsylvania's State System of Higher Education received 2046
\$268,156,000 in FY1985-86 for operating expenses of the fourteen state universities.

* * * * *

"A state's higher education system is often a measure of its quality of life. The state that ignores its public colleges is going to suffer in the long run. It's going to suffer economically, and its image is going to suffer."

--Governor Thomas H. Kean, New Jersey,
Change, 17:6 (1985), page 14.

NATIONAL ADVISORY COMMITTEE ESTABLISHED

In September 1984, the first annual meeting of a National Advisory Committee for GRAPEVINE was held. The Committee was formed in order to provide GRAPEVINE with technical assistance and to enhance communication with both the providers and users of state higher education finance data. The State Higher Education Finance Officers (SHEFO) are primary providers of data for GRAPEVINE and are a key component of the Advisory Committee. Other members include representatives of national organizations affiliated with GRAPEVINE, in some cases since its founding over 25 years ago (AASCU and NASULGC).

The advice and assistance of the Committee has been invaluable and GRAPEVINE has implemented some of the Committee's recommendations. Presently under way is the revision of data from former years in order to improve their historical accuracy. Another plan is to include analytic essays contributed by state higher education finance officers and others, as space permits (see the contribution of Dr. William Pickens on pages 2041-2045, this issue). Future efforts will include expanding the data to include local tax appropriations for higher education as well as other state non-tax appropriations. Also planned for GRAPEVINE is the development of a network for information-sharing and communication on matters of mutual interest.

Current Members of the National Advisory Committee

Brenda Albright, Tennessee SHEFO, 1984-85 National Coordinator of SHEFO

Garven Hudgins, Director of Communication Services, National Association
of State Universities and Land-Grant Colleges

Aims McGuinness, Associate Executive Director, Education Commission of
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Bernie Waren, Deputy Director for Governmental Relations, Illinois
Board of Higher Education

William Webb, Texas SHEFO, 1985-86 National Coordinator of SHEFO

STATE BUDGETING FOR HIGHER EDUCATION:
IS THERE AN IDEAL APPROACH?
by William H. Pickens

A NEW APPROACH TO BUDGETING AND ACCOUNTABILITY

Ten years ago, state budget practices for higher education divided along three lines. Some states used a simple approach which provided a certain amount of dollars per student (generally total State Dollars divided by Full-Time-Equivalent Students). This amount was adjusted each year by a flat percentage, sometimes known as a "Cost-of-Living Adjustment" (COLA), which was specified through statutes or in budget practice.

Other states preferred to negotiate with the institutions over their final budgets by reviewing the increases and new programs requested by the institutions without such a direct relationship to enrollment. This has been called the "incremental" approach. In these states, the final appropriation for higher education was often that amount which remained at the end of the budget process and which legislators believed had been justified on a case-by-case basis.

Finally, many states had formulas which used historical costs and complex calculations. In addition to the formulas for higher education, some imposed the same restrictions on expenditures and management which they did on state agencies. Recently, several of these states have either abandoned or radically modified this approach because: (a) the notion of using "costs" as the dominant factor in budgeting has been undermined by the reality that a relatively wide range of expenditures can support the same activity, depending on tenure ratios, the age of the faculty, the student/faculty ratio, average salaries, and the like; and (b) despite the continuous efforts to refine formulas and improve budget controls, the results in most states have been disappointing when measured in terms of education and service to the public. There is no conclusive evidence that the institutions which were most subject to formulas were any better managed, more productive, more honest, or more responsive than were their less-controlled peers.

States throughout the nation are, to a large extent, questioning all three of these approaches. Those states with the "COLA" or "incremental" approach are recognizing that the real needs of the institutions are not identified adequately during the budget process, nor are the state's goals for higher education made explicit. In the "formula" states, the trend is toward more autonomy for the institutions through simplifying the budget process and providing more fiscal independence. In several instances, the new attitude is to insist that, as part of the price for more autonomy and flexibility, the governing boards and administrations make difficult decisions, and not simply petition the legislature for additional funds. They must establish priorities, often painfully, by denying some of the constituencies on campus. "We are starting to see a real contribution to this institution from flexibility," an official in Colorado stressed. "However, these contributions have not come easily. . . . If there is not the capacity or the desire to make tough decisions by the administration and the governing board, you should avoid the [major changes toward more autonomy developed in Colorado during the early 1980s]" (Pickens and Glenny, p. 5).

If these three approaches are losing credibility, then where are we heading? Obviously, there is no single direction, but I believe that four elements characterize the most positive reforms in the budget process: (a) clearer indications by the state of its goals and expectations for the institutions; (b) some collective understanding of tangible benchmarks so that progress toward them can be evaluated; (c) efforts to establish an adequate "base" for institutions, often by using comparison institutions; (4) an annual review of certain indicators (tuition levels, student financial aid, student performance, research results, and the adequacy of overall support and progress in special programs).

AN IMPROVED APPROACH TO STATE BUDGETS

At the state and institutional level, the budget process should be more than a routine means of allocating resources--it should incorporate the planning process and provide ways of insuring accountability for results. However, there are some practical lessons from the history of state and institutional relationships: (a) before establishing any budget approach, states should clearly articulate their objectives for the institutions of higher education through "mission statements" and other formal understandings; (b) the state budget itself is an awfully blunt instrument for fine-tuning the institutions or for "promoting quality" directly. We should probably be satisfied if the budget process allows us to estimate systematically the adequacy of resources while taking into account the missions of the institutions, monitor special programs, and eliminate disincentives for performance and good management (see Brinkman, State Funding).

To be more specific, I believe that those states with the best process for budgeting higher education have--

- A. defined the mission and role of tax-supported colleges and universities;
- B. established general policies for access to these institutions and to private colleges to the extent that the state wishes to offer that choice through financial aid, capitation grants, etc. This is done through--
 1. playing an active role in setting tuition (by defining some acceptable range or process by which student charges are set and annually adjusted);
 2. linking the provision of student financial aid to tuition levels;
 3. establishing explicit policies regarding new campuses and off-campus instruction.
- C. defined which services the state is willing to support and which enrollment levels it is willing to fund;
- D. defined the state's general policies regarding the priorities and goals for the institutions;
 1. This should follow a comprehensive study by population trends and projections, estimates of future educational needs, and descriptions of existing educational opportunities.

2. An effort should be made to establish quantitative goals (a) for the institutions to achieve; (b) for state funding to help the institutions achieve these goals.
- E. developed a budgeting system which is stable and can define adequate resources for the institutions, based on their different missions.
1. States should consider "differential funding," which identifies a limited number of fundamentally different activities and establishes appropriate methods of measuring their need for funds each year.
 2. Some continuing measures of fiscal adequacy should be developed between the institutions and state agencies by defining benchmarks, peer institutions, capital outlay replacement targets, etc. This part should be the budget "core" or multi-purpose component.
 3. The budget should also contain some "categorical programs," which "enable the state to support worthy programs without proliferating or duplicating them throughout the state system and with institutionalizing them for an indefinite period" (Jones, Higher Education Budgeting at the State Level: Concepts and Principles, pp. 88-89). This approach is ideally suited for the experimental programs with non-traditional links between institutions that bridge the transition points.

NEW INITIATIVES TO IMPROVE THE QUALITY OF COLLEGES AND UNIVERSITIES AND THEIR LINKS WITH OTHER INSTITUTIONS

As part of this trend toward new budgeting practices and different kinds of accountability, several states have recently undertaken some new directions of interest to this conference (see especially National Governors' Association, Technology and Growth; Education Commission of the States, Catalogue; and Folger, ed., Financial Incentives).

Outcome Measures and Performance Criteria

These are efforts to develop measures of instructional outcomes or "value added" results--and to provide budget rewards accordingly. The areas typically emphasized are academic achievement, test placement, student performance on licensing exams, and employers' opinions.

Examples:

- Tennessee - Instructional Evaluation Schedule
- Florida - Indicators of Progress Toward Excellence in Education
- South Dakota - Performance Funding

Advantages:

- Requires the state and institutions to decide on performance goals and objective benchmarks
- Provides a clear incentive to emphasize program improvement rather than just enrollments
- Can become permanent by augmenting the core budget

Disadvantages:

- Can be expensive and time-consuming to implement
- Difficult to agree on specific performance measures
- Requires extensive and continuing documentation

Competitive Grants or Categorical Programs

This approach allocates funds through competition by peer review of proposals, where the program's objective can be either (a) to recognize currently outstanding programs, or (b) to provide "seed" money for promising efforts. Sometimes, these are separately identified funds whose expenditure is restricted in order to accomplish certain state objectives. The trend now is toward cooperative programs between higher education and the public schools, or with business/industry/labor. Some programs require a match from outside the educational institutions. Many establish a consortium arrangement or inter-institutional committees.

Examples:

- Pennsylvania - Ben Franklin Fund
- Arizona - Center for Excellence in Engineering
- Tennessee - Matching Funds for Endowed Chairs
- Ohio - Challenge Grants for Selective Excellence
- California - Transfer Centers at Community Colleges with funding in four-year institutions for staff relations
- Minnesota - Program to allow juniors/seniors in high school to enroll tuition-free in colleges

Advantages:

- Can provide support directly to faculty and program managers, those immediately in contact with students
- Usually permanent if relating to an important constituency
- Encourages diverse institutions to cooperate toward achieving state objectives
- Can allow institutions to select priorities and strategies in concert with others

Disadvantages:

- Substantial resources required to be effective
- Often creates "empires" within organizations
- Programs usually stay outside the mainstream and do not affect the institution as a whole
- Can divert resources away from adequate funding "core" programs
- If continued too long, can become institutionalized and routine

Changes to De-Emphasize Enrollment Funding

Many states are making their formulas or budget approach less sensitive to relatively small changes in enrollments. The specific ways they are doing so include buffering (no budget change in the current year), multi-year averaging (enrollments funded by a three-year average), de-coupling (only the instructional portion of the budget is funded by enrollments), marginal cost (amounts added or subtracted based on the actual costs of each additional student).

Examples:

- California - Buffering
- Wisconsin - Fixed and variable costs
- Indiana - Marginal cost
- Washington - Specified minimum must be spent on instruction

Advantages:

- Reduces incentives for "body hustlin'" and lower standards
- Recognizes high fixed costs
- Encourages higher standards and improving student services

Disadvantages:

- Can reward inefficient and unpopular institutions
- Although fixed costs are high in the short run, most costs are variable in the long run
- Budgets should be workload driven to some extent and students are the most objective measure of workload in most cases.

CONCLUSION

I believe that the approach described here, which might be called "Responsibility Budgeting," can help foster these innovations because, unlike the more traditional approaches, (a) it emphasize explicit goals and effective performance rather than just the traditional budget measures, and (b) it encourages new ways to link institutions through the budget.

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CALIFORNIA. Table 45 is an update of Table 100, page 2008, GRAPEVINE (July 1985).

Table 45. State tax-fund appropriations for operating expenses of higher education in California, fiscal year 1985-86, in thousand of dollars.

Institutions (1)	Sums appropriated (2)
University of California	1,646,441
California State University	1,505,726
California Community Colleges	1,188,504
Hastings College of Law	11,274
CA Maritime Academy	5,831
Student Aid Commission	90,998
Review of Masterplan	533
Postsecondary Ed Commission	3,224
Total	4,452,531

The percentages of gain over two and ten years become 38% and 190% respectively

PENNSYLVANIA. Table 46 supplements Table 17, page 2016, GRAPEVINE (August 1985).

Table 46. State tax-fund appropriations for operating expenses of the Pennsylvania State System of Higher Education, fiscal year 1985-86, in thousands of dollars.

Institutions (1)	Sums allocated (2)
State System of Higher Education	
Indiana University of PA	37,752
West Chester	27,022
Bloomsburg	20,235
Millersville	20,002
Edinboro	19,158
Slippery Rock	19,085
Shippensburg	17,976
Clarion	17,969
Kutztown	17,877
California	16,370
East Stroudsburg	14,921
Cheyney	13,261
Mansfield	11,293
Lock Haven	11,016
Chancellor's office	1,319
System reserve	200
Minority recruitment	200
Deferred maintenance	2,500
Subtotal, SSHE, \$268,156	

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