Presentation Overview

- State financial situation and future ability to fund higher education.
- Predominant state funding models.
- Legislative trends in higher ed funding.
National Conference of State Legislatures

- Bipartisan membership organization for the 50 state legislatures (and territories).
- Promotes the effectiveness of state legislatures.
- Provides information and professional development for legislators and staff.
- Advocates for state authority before the federal government.
Current State Financial Situation

- The state fiscal situation is growing increasingly dire.
- The current revenue situation is nearly unprecedented, at least in recent decades.
- To date, states have reported a total estimated budget gap of $348.3 billion (FY 2008 through FY 2012).
- States are bracing for prolonged fiscal problems.
FY 2010 Highest Budget Gaps as a Percentage of General Fund Budget

Source: NCSL survey of state legislative fiscal offices, April, June and July 2009.

- More than 10% = 35
- 5% to 9.9% = 5
- 1% to 4.9% = 5
- Less than 1% = 1
- Not applicable or not reporting = 5

- Puerto Rico: 13.6%
Projected Budget Gaps
FY 2008 to FY 2012

Source: NCSL survey of state legislative fiscal offices, various years.
*Includes Puerto Rico
Use of ARRA Funds as Percentage of Actions To Close FY 2010 Budget Gaps (preliminary)

Source: NCSL survey of state legislative fiscal offices, July 2009.
Economic Projections

- The states are facing a "cliff" once ARRA funding ends.
- State governments will face severe budgetary problems at least 12-24 months after the US recession ends.
- Lawmakers' endurance to resolve massive budget gaps will be tested in the coming years.
State Budget Impacts on Higher Education

- Higher education represents 10.5% of state expenditures nationally in FY08.
- Other priorities (K-12, healthcare, public safety) crowding out higher education.
- Traditionally the "balance wheel" of state budgets.
- FY09 cuts to higher education almost universal; many states double digits (tuition hikes and ARRA as backfill).
- More cuts to higher education likely in FY10 and beyond.
Predominant State Funding Models

- **Base Plus**
  - Prior year's funding is starting point with COLA and enrollment adjustments; incremental funding decisions.

- **Formulas**
  - Based on variety of factors: enrollments, facilities, tuition and fees.

- **Performance-Based**
  - A portion (usually 5-20%) of funds linked to desirable outcomes: students graduated, underrepresented students served, etc.

- **Vouchers (Colorado)**
  - State money directed to students - rather than institutions - to be used to pay for in-state higher education.
NCSL's Blue Ribbon Commission on Higher Education

- To study the trends and issues in state higher education, especially impacting access and cost and to make recommendations about legislative roles and responsibilities.

- To enhance the dialogue among state legislators on the "big picture" issues regarding appropriations, tuition, and financial aid and the impact of legislative decisions on college affordability and access.

- To offer recommendations about the roles and responsibilities of state legislators (and the roles and responsibilities of the state and federal government) in higher education reform.
NCSL Blue Ribbon Commission: Legislator Roles and Responsibilities

- Budgets and Appropriations
- Goals and Expectations for Higher Education
- Higher Education as a Legislative Priority
- Legislative Leadership
NCSL Blue Ribbon Commission Recommendations

- Budgets and Appropriations
  - Budgeting for higher ed is too reactive to the economy
  - Higher ed is the balance wheel of state budgets
  - Budgeting is too incremental and institution-based
  - Legislatures haven't given higher ed clear signals
  - Funding is not based on state goals or priorities

- So...Legislators Need to Rethink Funding
  - Link appropriations, tuition and financial aid policy
  - Be results/performance oriented in funding
  - Focus on productivity
Performance-Based Funding

- Performance funding is a strategy for legislators to be more strategic about state higher ed funding. It links funding to outcomes.

- Performance funding 2.0:
  - Greater percent of budget devoted to performance
  - Different outcomes are rewarded

- 10-12 States Have some performance funding -- each system is different.
  - The most extensive new programs are:
    - Ohio
    - Indiana
    - Texas
Privatization of Higher Ed?

- A few states are having some conversations about the privatization of higher ed
  - Colorado
  - Arizona

- Other states are looking for trade-offs to increase autonomy and accountability
  - Virginia
Future Realities for Public Financing

- 2009 year of panic; 2010-11 must be years of strategic planning and investment.

- New conversations between states and institutions about the role of state support for higher education will lead to new funding/accountability models.

- Projected budget gaps + competing priorities = Declining state support for higher education into the future.

- Imperative that policies be made in sync to maximize investments
  - Maintain access (affordability) with focus on quality
  - Meet state and national goals
Thank you!

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