



*A Framework for Higher Education
Financing Policy in Kentucky*

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Presented to the

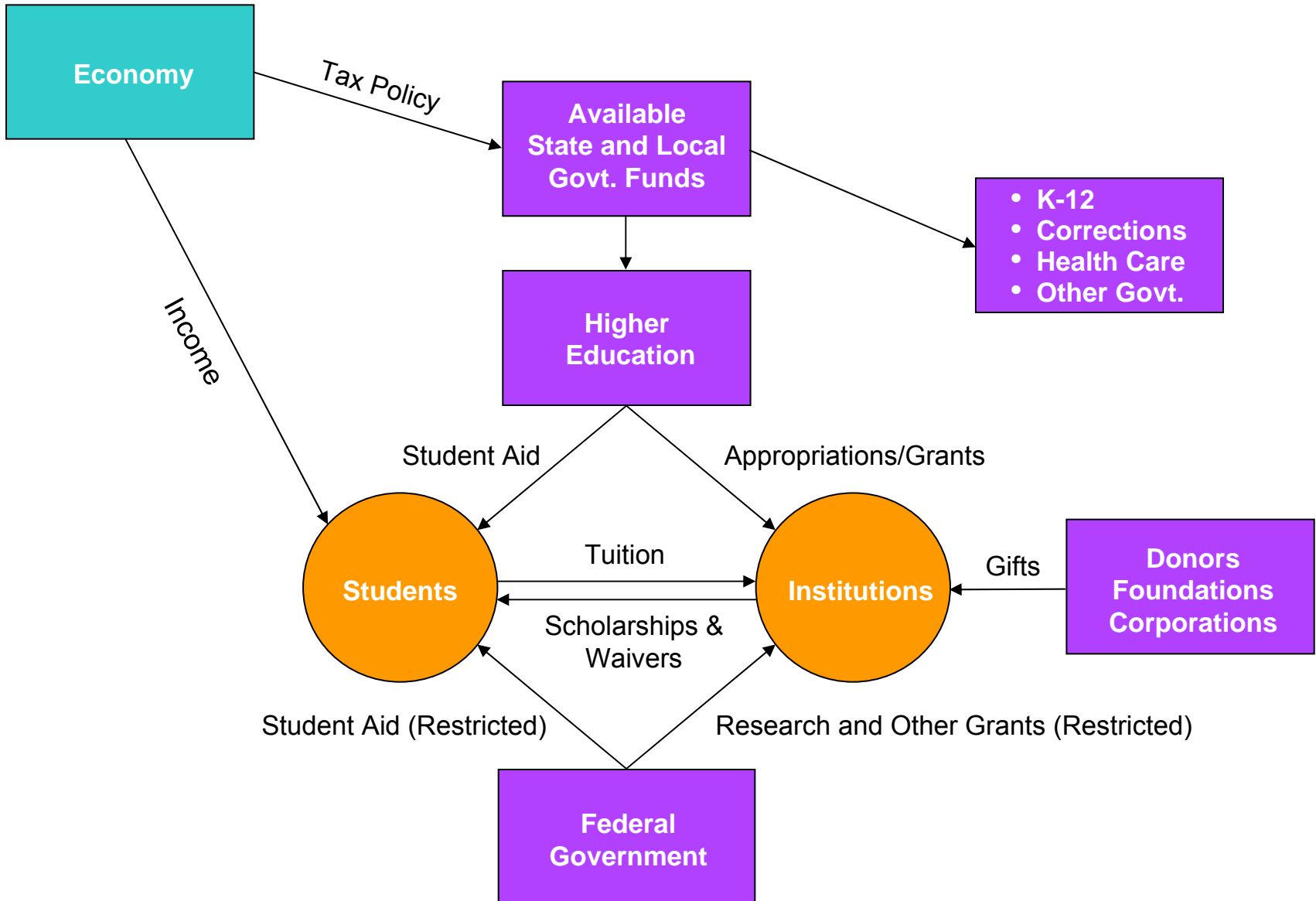
Kentucky Council on Postsecondary Education
Frankfort, Kentucky

January 8, 2007

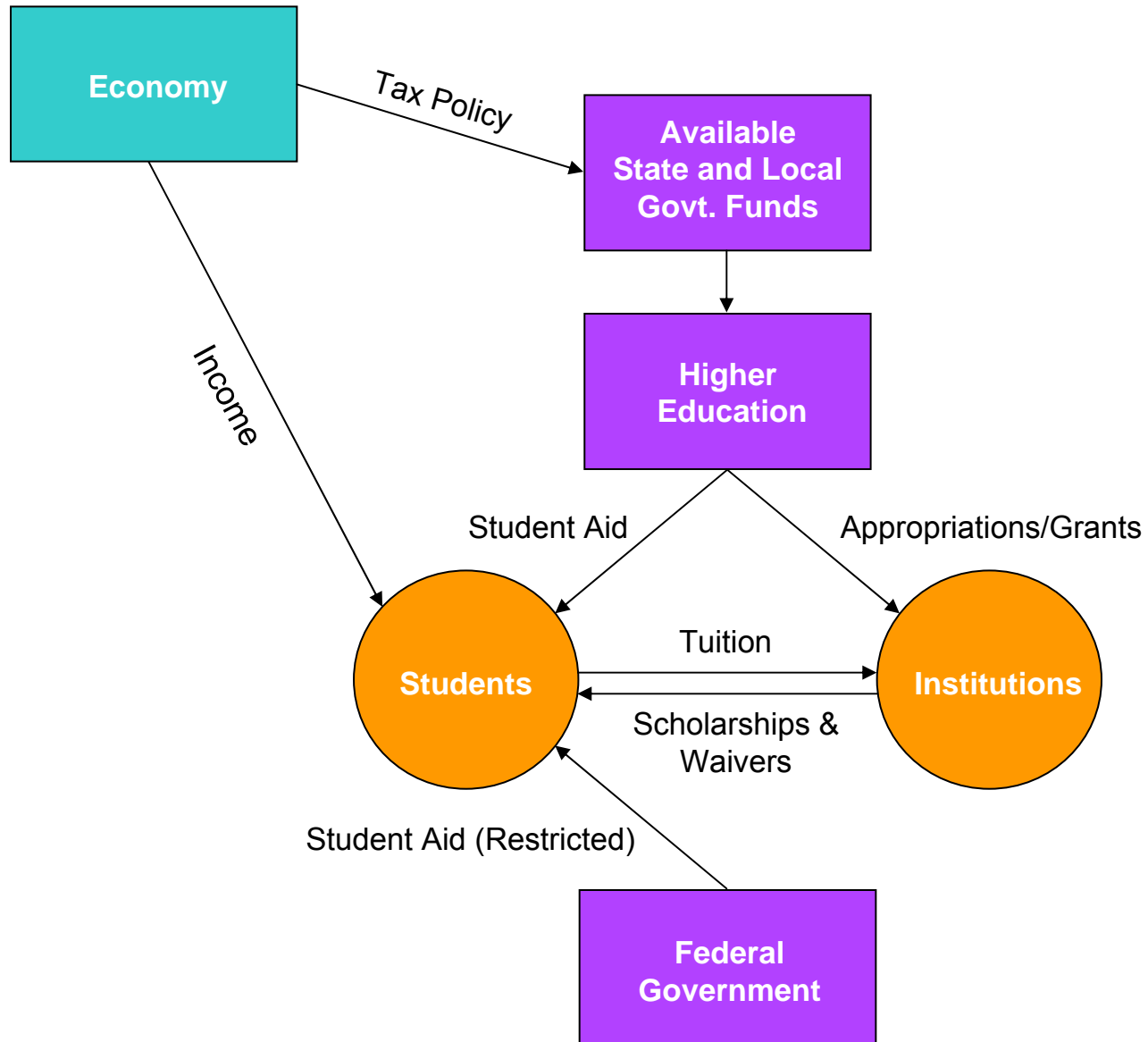


National Center for Higher Education Management Systems
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The Flow of Funds



The Flow of Funds





Alignment of Policies

Regarding:

- Appropriations to Institutions
- Tuition and Fees
- State Student Financial Aid
- Institutional Student Financial Aid



Basic Questions at State Level

- How Much to Allocate
- To Which Recipients—Students or Institutions
- Using Which Mechanisms



Criteria for Effective Higher Education Finance Policy

- Create and Maintain Necessary Institutional Capacity
- Reinforce Utilization of Capacity to Achieve State Goals
- Contributions Required Are Affordable—to Both State and Students
- Viewed as Being Fair
- Transparent

Criteria from Perspective of Different Stakeholders

State

- Maintains Institutional Capacity
- Promotes Achievement of Priority Outcomes
- Is Affordable

Students

- Is Affordable
- Provides Value Consistent with Investment

Institutions

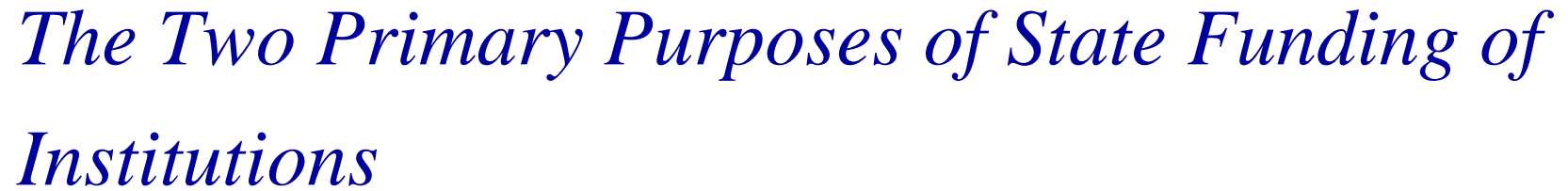
- Yields Adequate Levels of Support
- Is Equitable
- Is Relatively Stable



State Financing of Institutions

The Major Policy Questions Regarding Institutional Funding

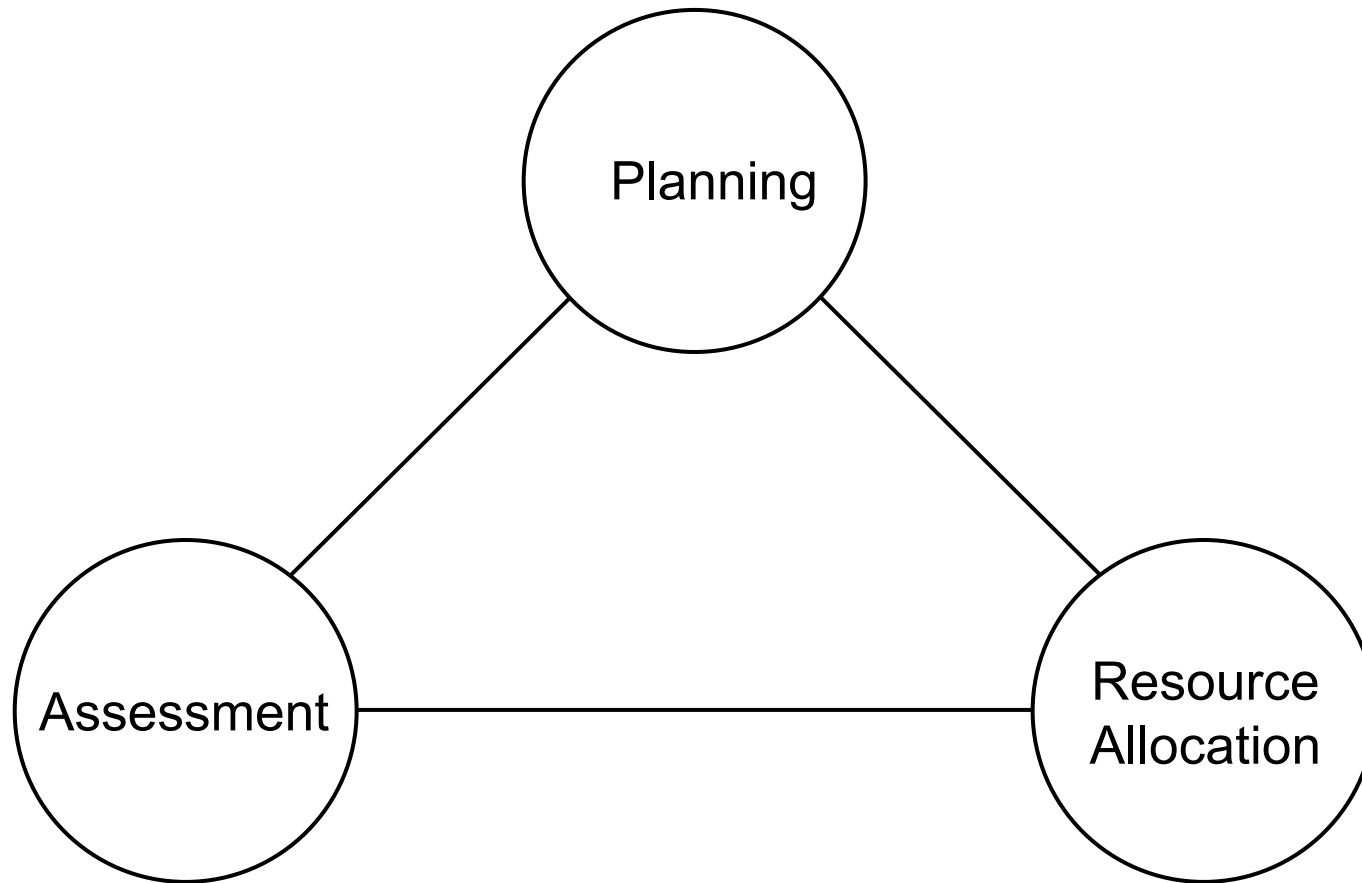
- At What Level Should Institutions Be Funded?
- How Should These Funds Be Provided:
 - ▶ Who Should Pay What Share?
 - ▶ Using What Mechanisms



The Two Primary Purposes of State Funding of Institutions

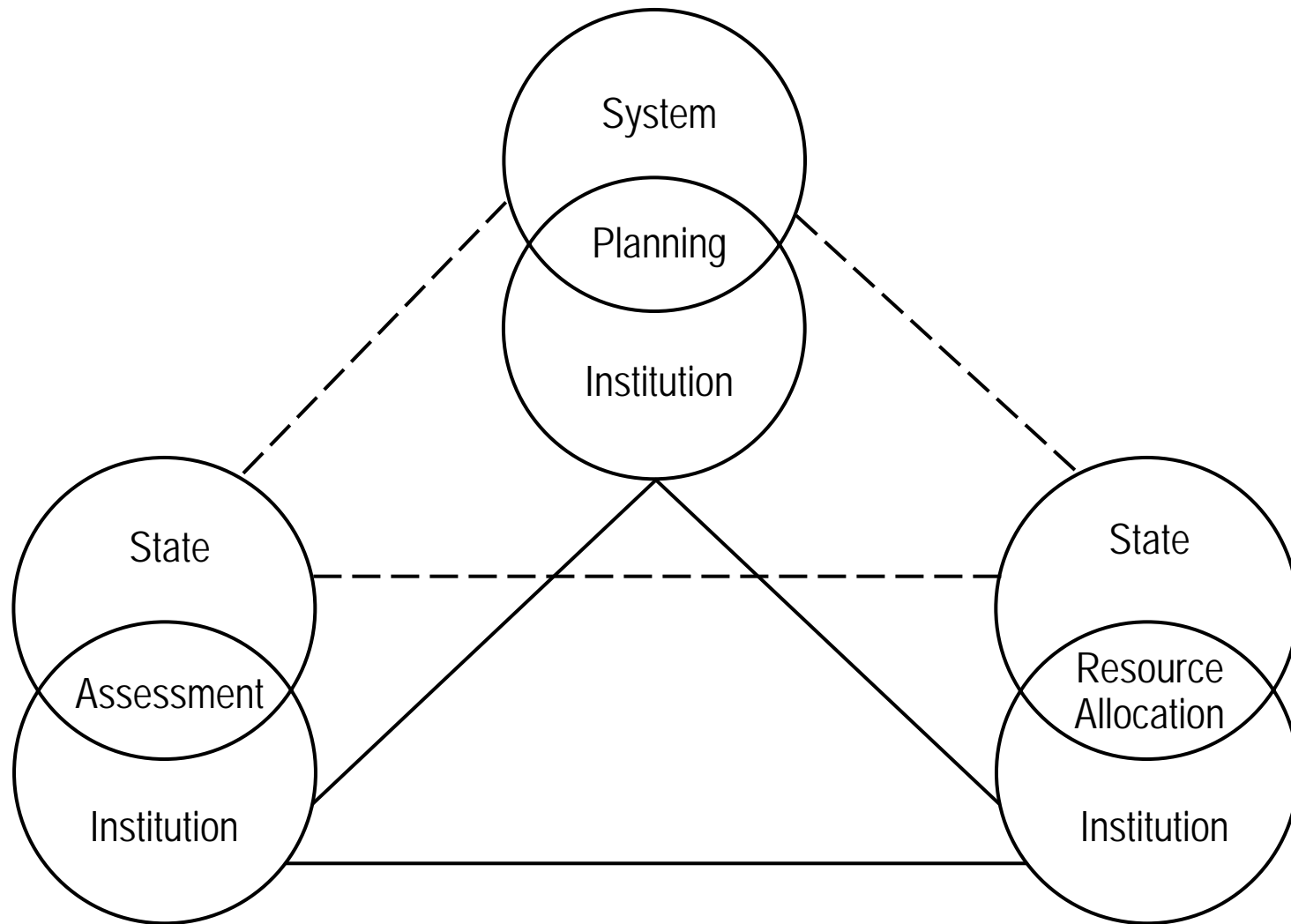
- Create and Maintain Institutional Capacity—the Educational Assets of the State
- Promote Utilization of this Capacity in Ways that Contribute to Achievement of State Goals


Management Cycle



Strategic Management —The allocation of resources to programmed activities calculated to achieve a set of goals.

The Management Cycle in a Public Institution





Resource Allocation Mechanisms
Are Key Devices for
Implementing Plans/Pursuing Goals



State Goals Regarding Capacity

- Seamless, Integrated System of Postsecondary Education Strategically Planned and Adequately Funded to Enhance Economic Development and Quality of Life
- University of Kentucky—Top 20 Comprehensive Research University
- University of Louisville—Premier, Nationally-Ranked Metropolitan Research University

(continued)

State Goals Regarding Capacity (cont.)

- Regional Universities
 - ▶ Statewide Access to Baccalaureate and Masters Degrees of a Quality at or Above National Average
 - ▶ Nationally Recognized Program of Distinction
- Community Colleges
 - ▶ Efficient, Responsive, Coordinated
 - ▶ Delivery of Services of Quality and Quantity Comparable to National Average



State Goals Regarding Utilization of Capacity

- Kentuckians Prepared for Postsecondary Education
- Postsecondary Education Is Affordable
- More Kentuckians Have Certificates and Degrees
- College Graduates Are Prepared for Life and Work in Kentucky
- Kentucky's People, Communities, and Economy Are Benefiting

BOTTOM LINE

More Degree Holders in Population, Yielding a Per Capita Income Equal to National Average



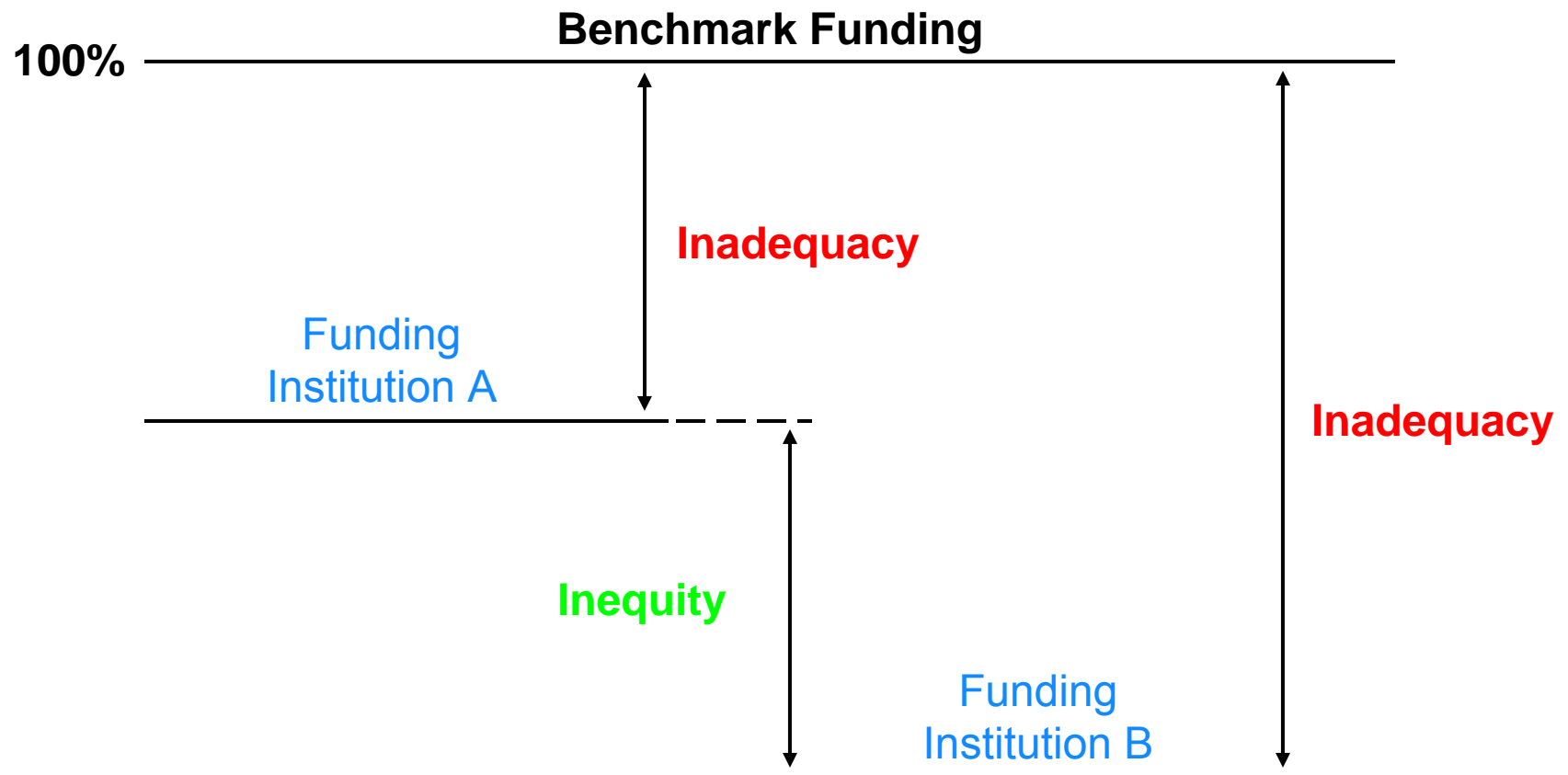
Approaches to Creating/Maintaining Institutional Capacity

- Base-Plus
- Formulas
- Investment Funds

Typical Objectives for Institutional Funding

- Adequacy—Funding Sufficient to Fulfill Assigned Mission
- Equity
 - ▶ Institutions Are Funded to Same “Proportion of Adequacy”
 - ▶ All Institutions Equally Over/Under Funded

Adequacy and Equity



Regardless of Approach...

A Need to:

- Establish a Funding Level that Is Determined to Represent Adequacy
 - ▶ Benchmarking
 - ▶ Formula
- Establish a Mechanism to Reduce/
Eliminate Inequities

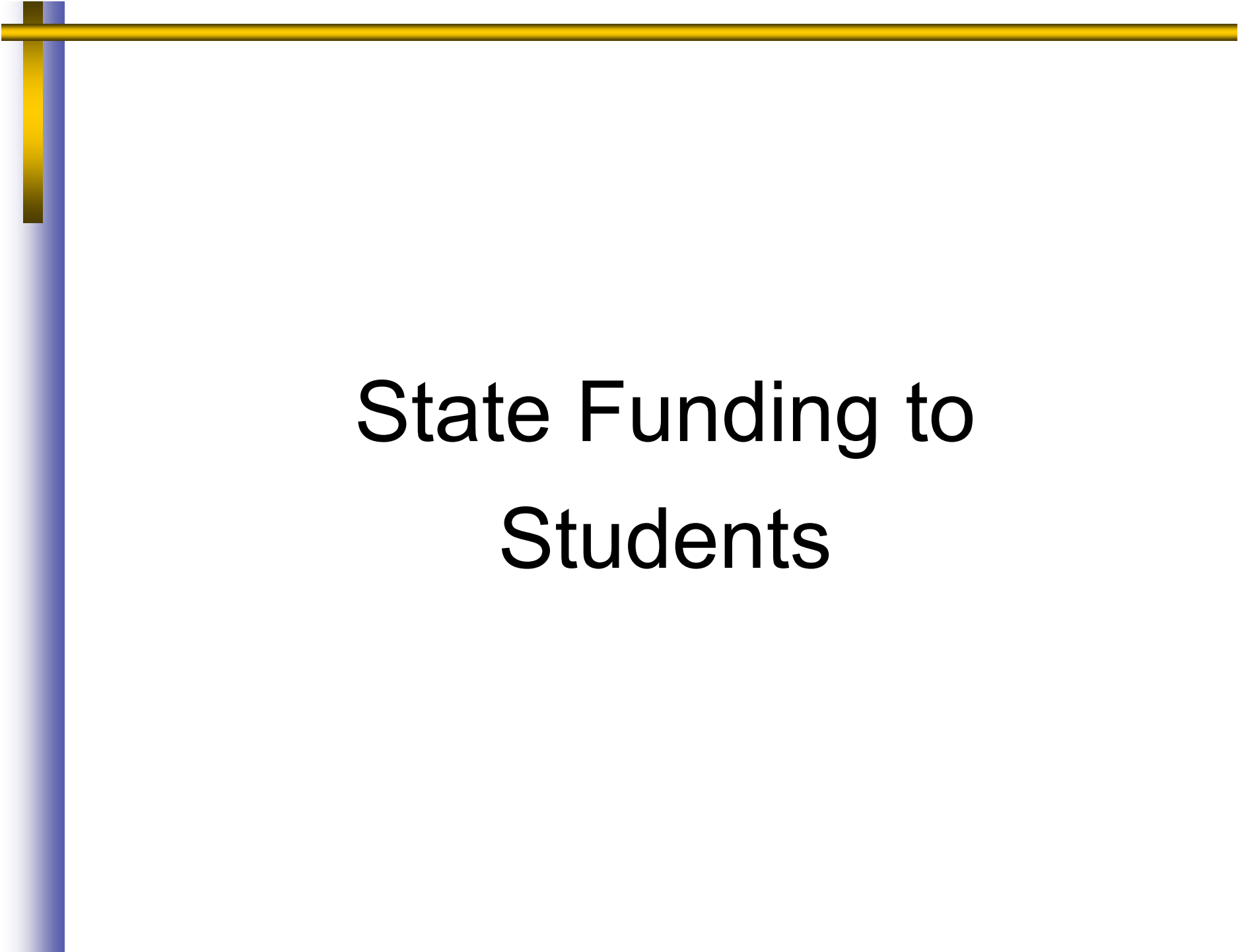


State Funding to Encourage Utilization of Capacity to Achieve State Goals

- Performance Funding
- Incentives to Promote Internal Reallocation of Funds

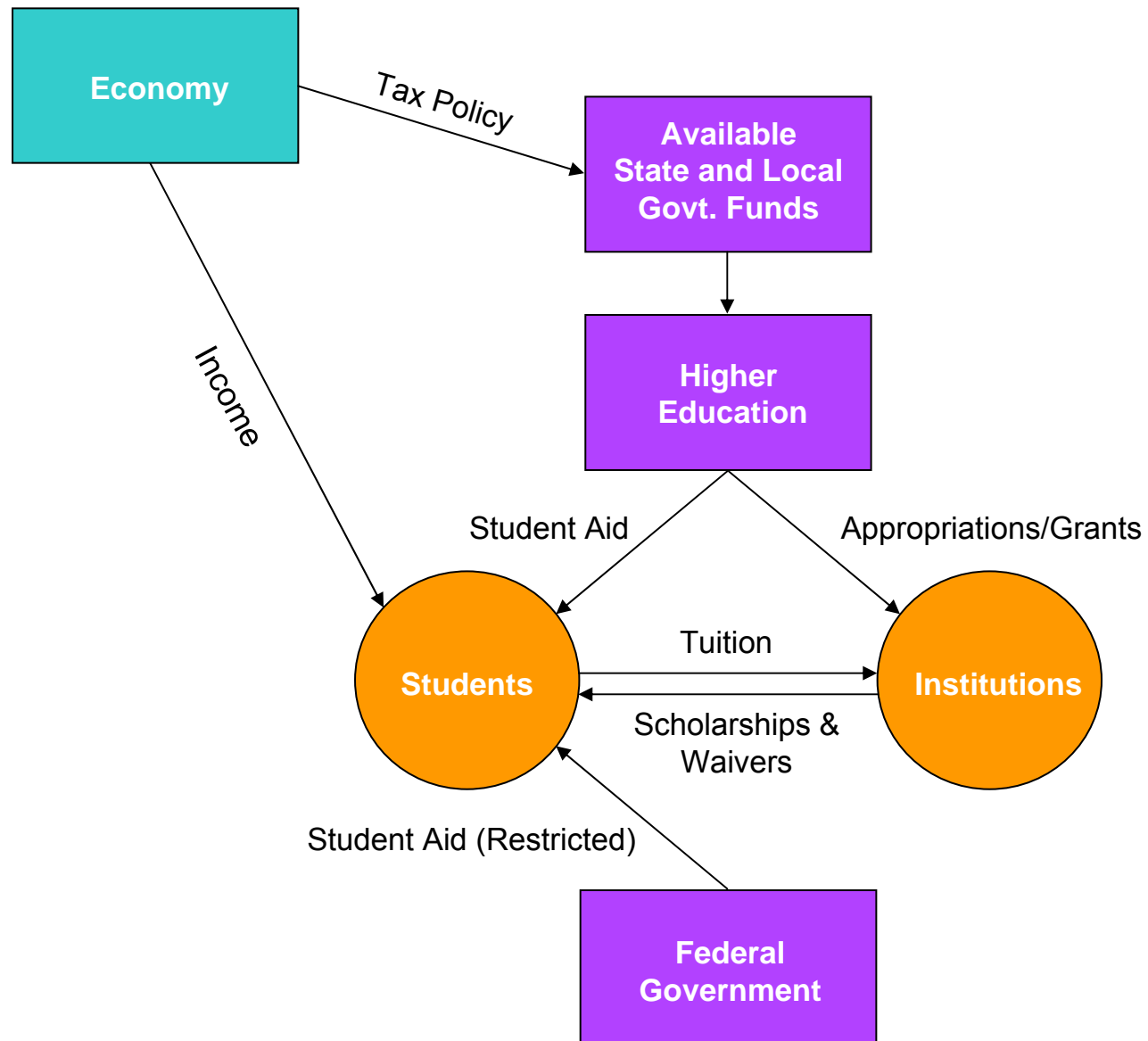
How Should Funding Burden Be Shared Between State and Students?

- A Policy Decision—No Right Answer
- Typically Student Share Smaller at Community Colleges and Larger at Research Universities
- Criterion—Affordable to Both State and Students



State Funding to Students

The Flow of Funds



Policy Directed at Creating/Maintaining Core Capacity

- Share to Be Born Through Net Tuition Revenues
- Specific Policies Regarding Tuition and Fees
 - ▶ Base Tuition
 - ▶ Mandatory Fees
 - ▶ Out-of-State Tuition
 - ▶ Differential Tuition (Program/Level)
- Specific Policies Regarding Financial Aid and Fee Waivers
 - ▶ State
 - ▶ Institutional



Key Criteria

- Generate Revenues
- Maintain Affordability

Tuition and Aid Policy Focused on Attaining Specified Outcomes

- State Aid Programs with Criteria Aligned with Stated Objectives
 - ▶ Income Levels—Remove Economic Barriers
 - ▶ Coursetaking—Preparation Criteria
 - ▶ Intensity—Completion of x Credits in Freshmen and Sophomore Years
 - ▶ Completion in Specified Fields—Rebates/Loan Forgiveness
 - ▶ In-State Employment in Certain Occupations

- Matching Funds for Aligning Institutional Aid with State Goals




Assessment/Accountability

Coupling

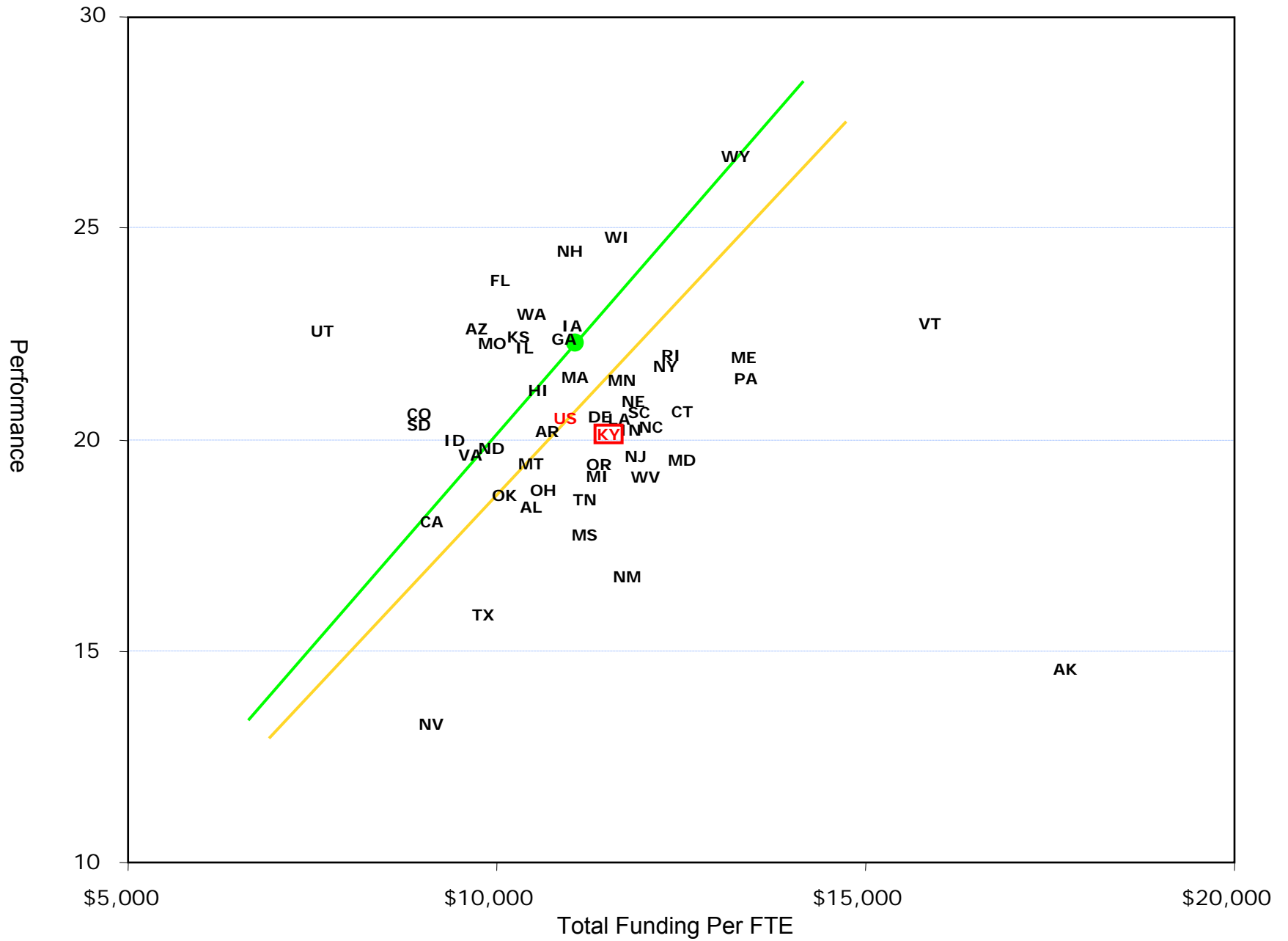
Adequacy of Funding

with Adequacy of Performance

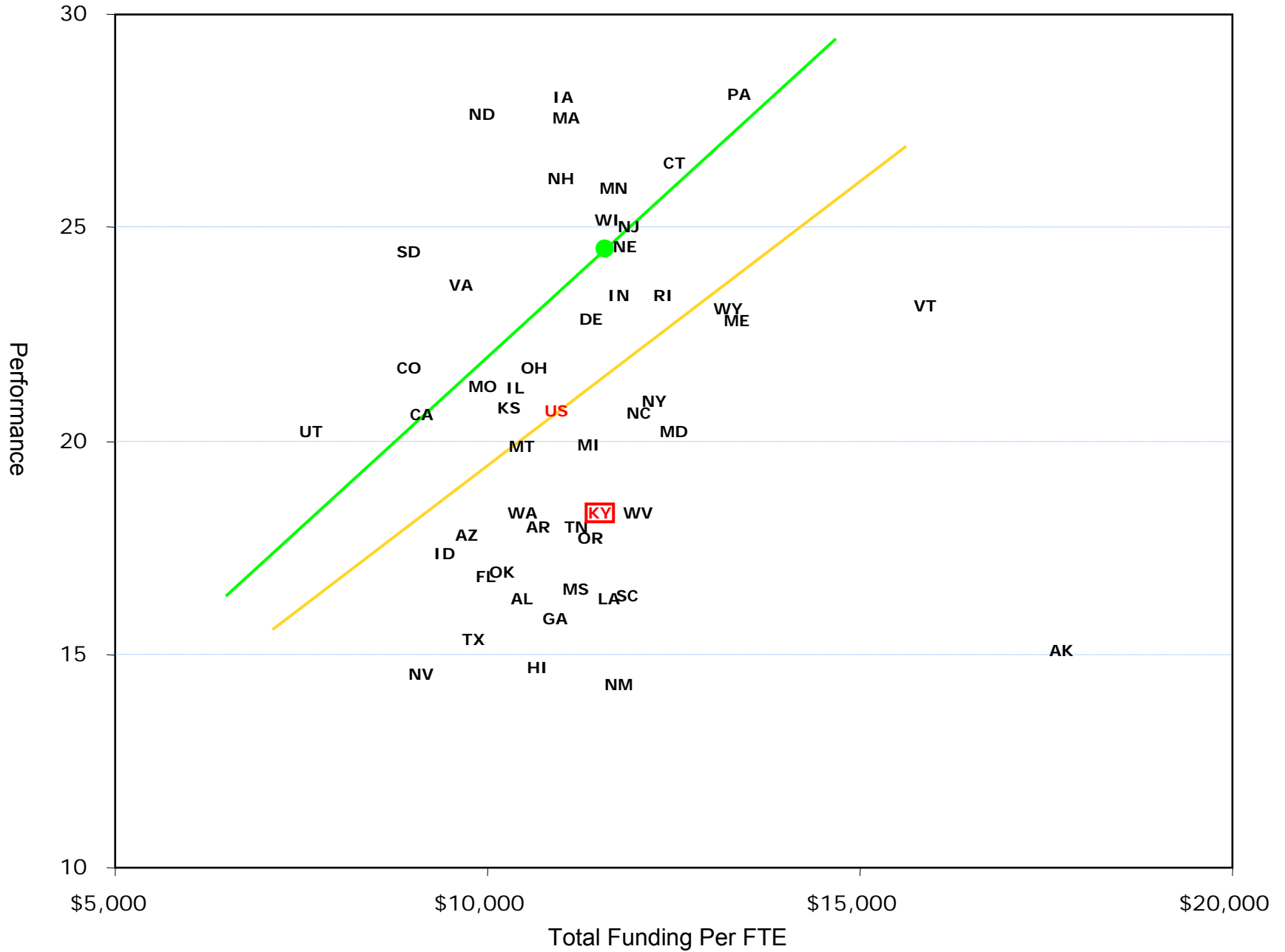


State Systems of Higher Education

Undergraduate Credentials Awarded per 100 FTE Undergraduates, 2002-03



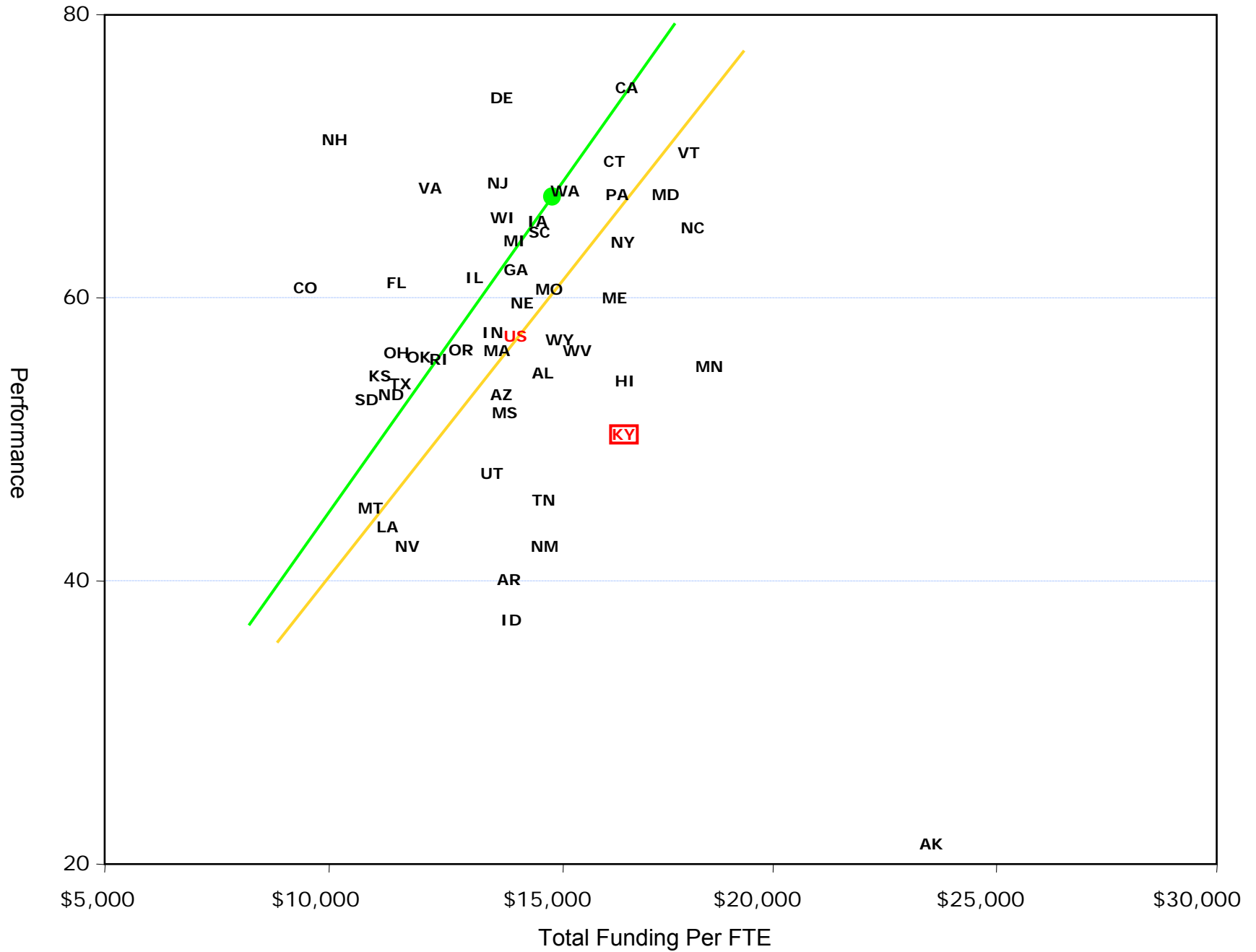
Student Pipeline Result, 2002



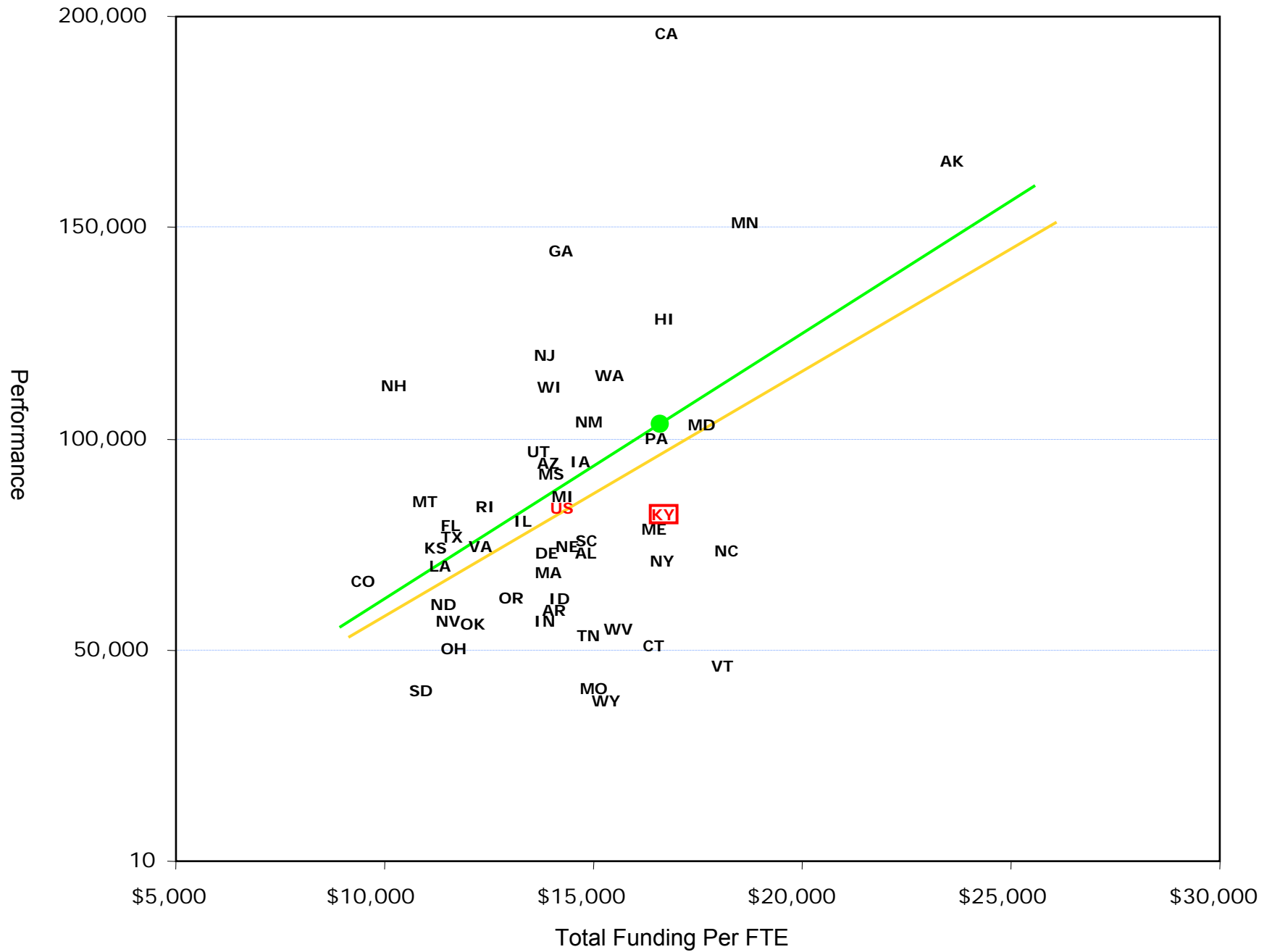


Public Research Institutions

Six-Year Baccalaureate Graduation Rate, 2003



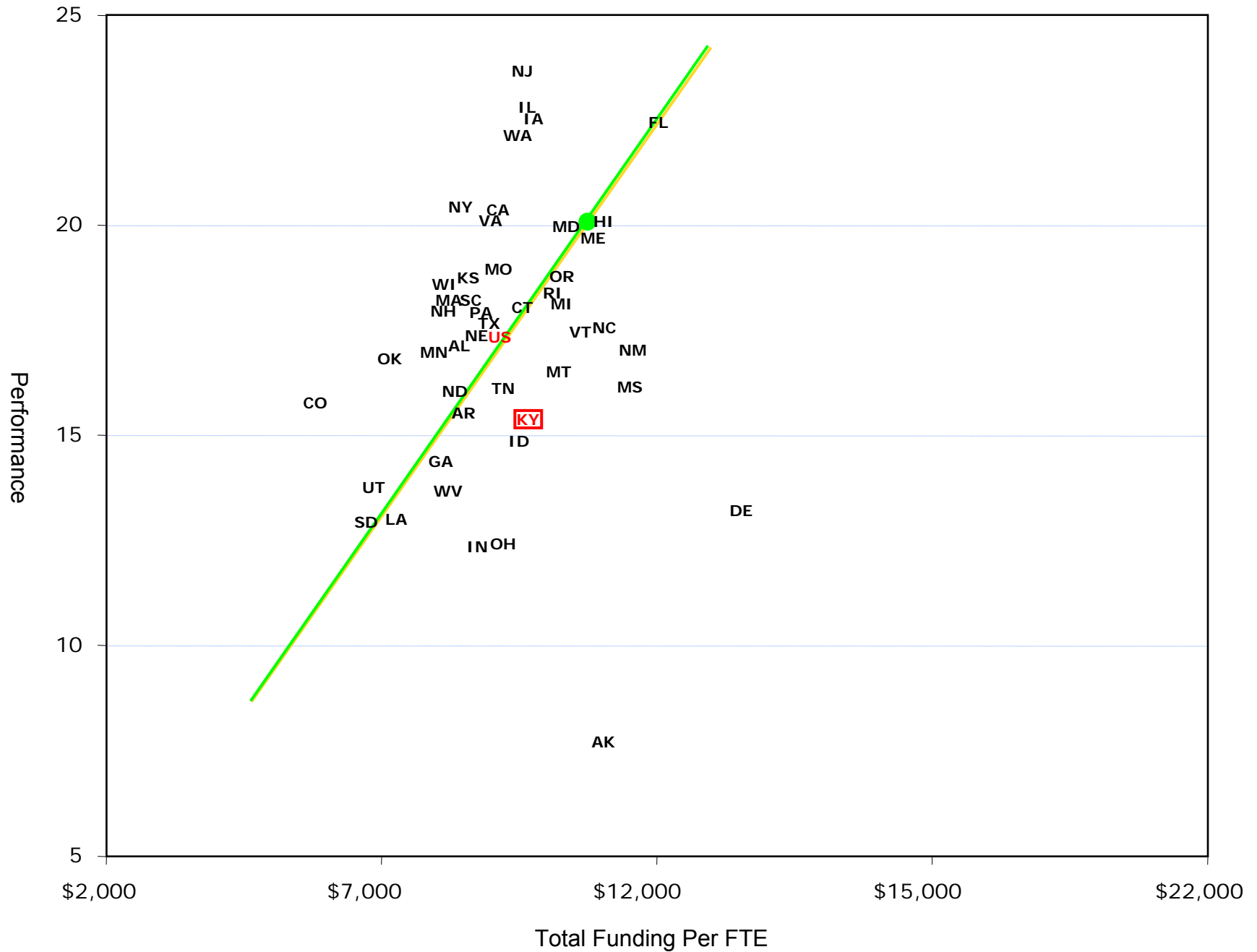
Research Expenditures per Full-Time Faculty (\$), 2003



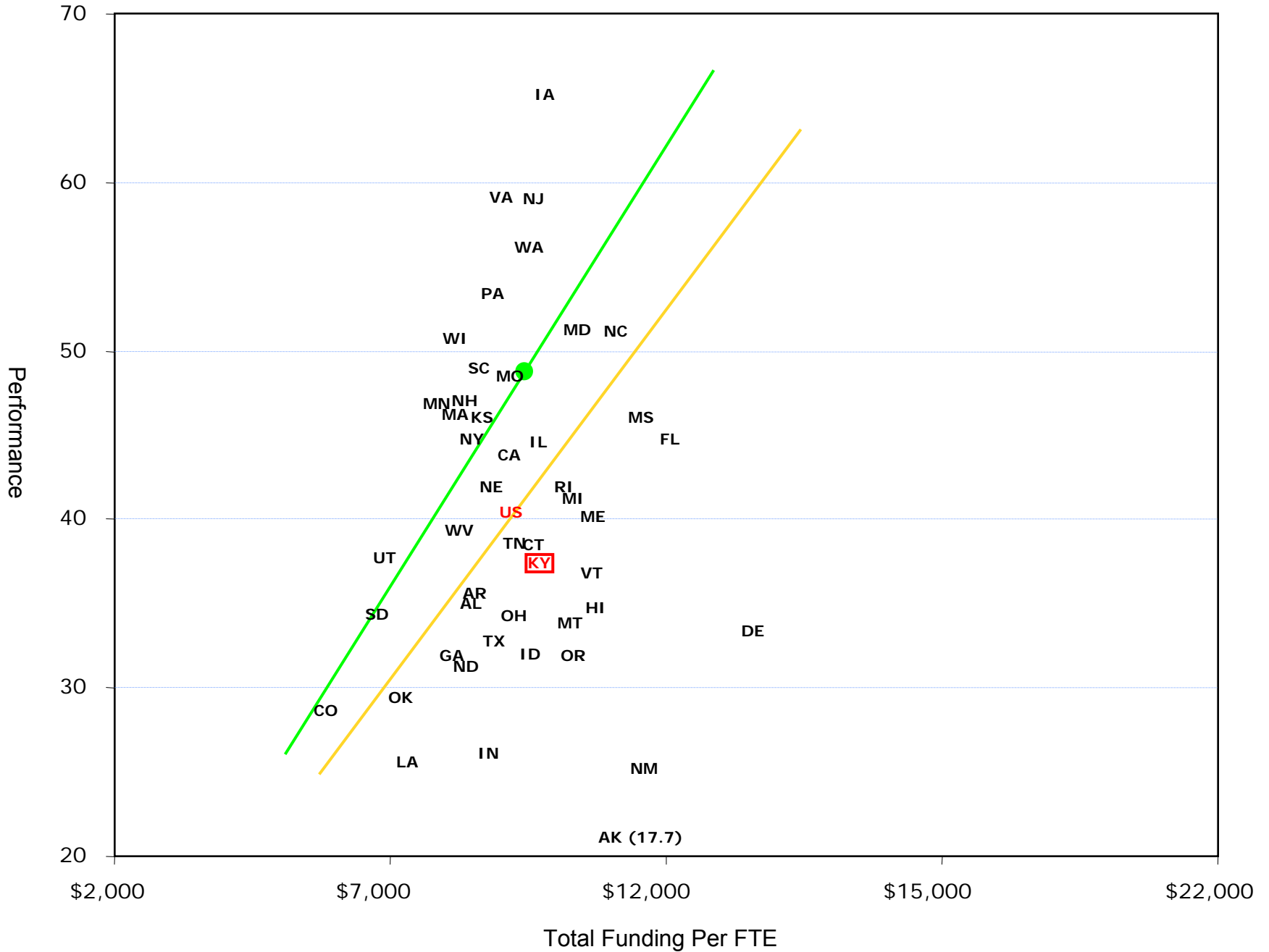


Public Baccalaureate and Masters Institutions

Bachelor's Degrees per 100 FTE Undergraduates, 2002-03



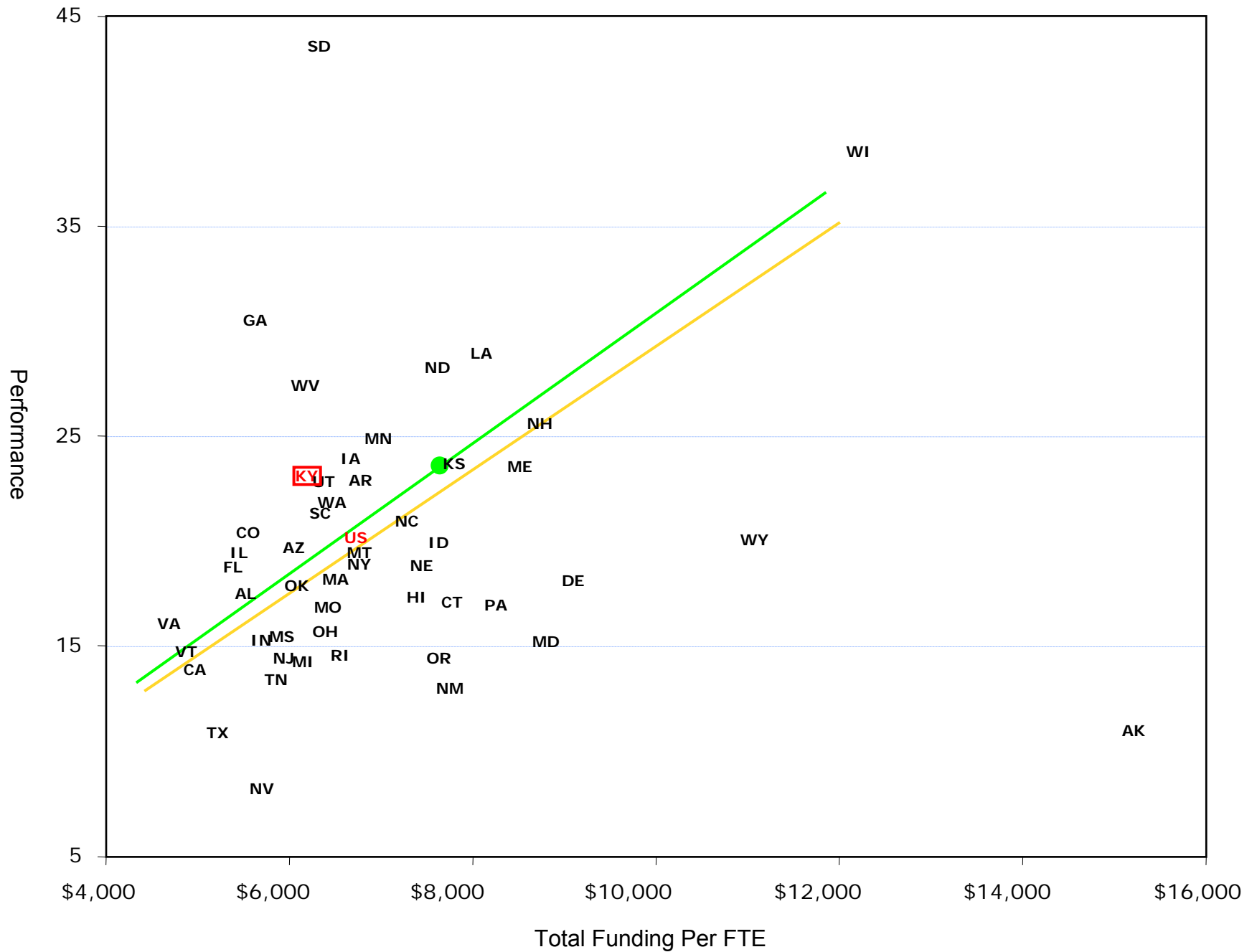
Six-Year Baccalaureate Graduation Rate, 2003



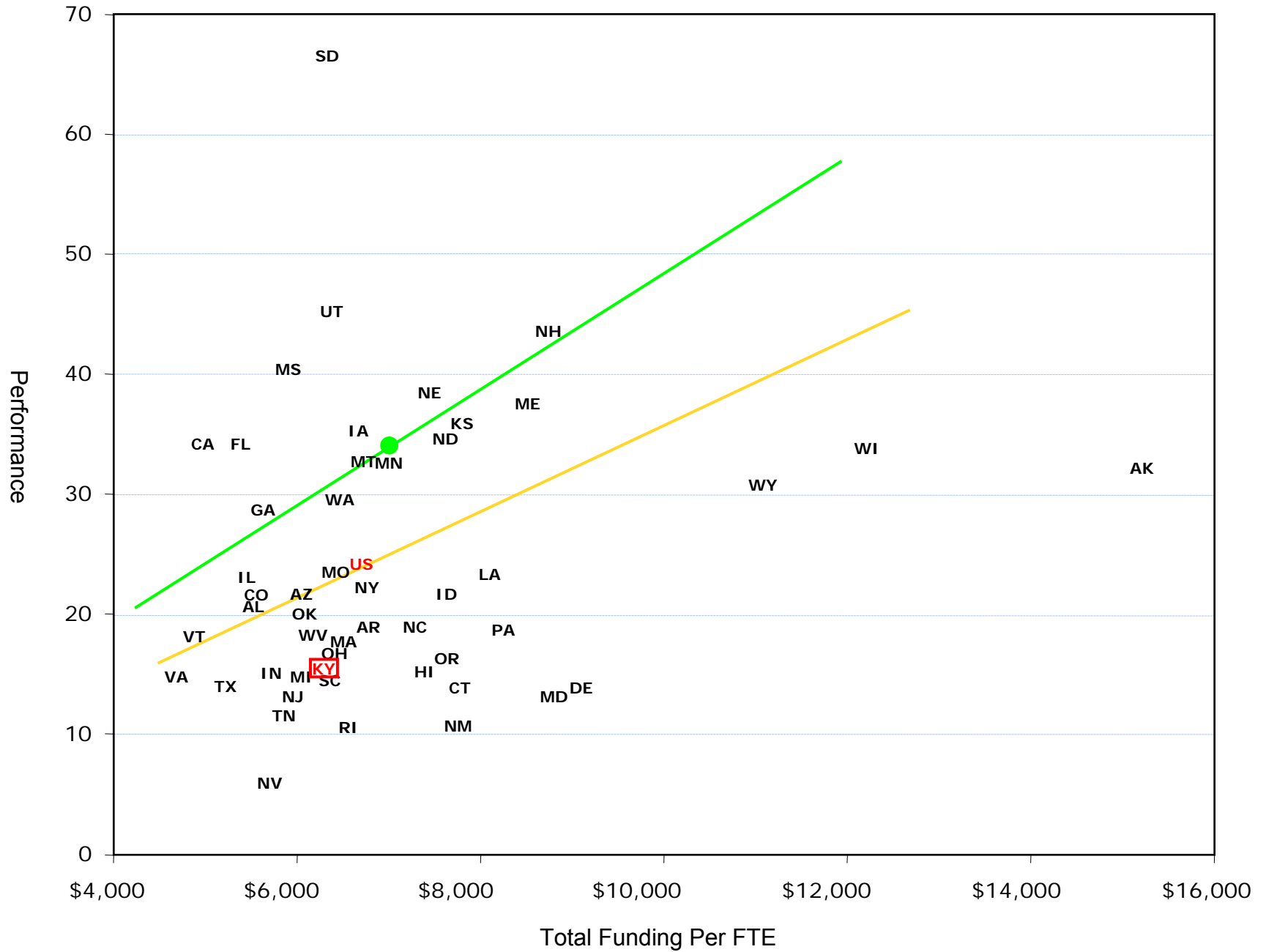


Public Two-Year Institutions

Total Credentials Awarded per 100 FTE Undergraduates, 2003



Three-Year Associate Graduation Rate, 2003



Conclusions

Cost-Effective Policy Requires:

- Clear Understanding of Priorities
- Creation/Maintenance of Necessary Capacity
- Alignment of Policies Concerning:
 - ▶ Institutional Support
 - ▶ Tuition and Fees
 - ▶ State Student Financial Aid
 - ▶ Institutional Student Financial Aid
- Attention to Outcomes as Well as Funding