

Report Examines State-Level Funding Practices in Higher Education

[By Hunter B. Martin, NASFAA Staff Reporter](#)

Many people have pointed to state funding cuts for higher education as the main reason for increased tuition rates on the heels of the Great Recession, and as a result, have blamed states' disinvestment for low-income students struggling with college access and affordability. While increases in state funding would help ease college affordability issues, to achieve state-specific goals of success, higher education funding policies, financial aid appropriations, and tuition-setting need to work in tandem, according to a new issue brief.

As a result of the Great Recession in 2008, many states made substantial funding cuts to higher education. Despite economic recovery in more recent years and increases in student enrollment, most states have not increased higher education funding to their pre-recession levels, according to a new [issue brief](#) by Ithaka S+R, "The Strategic Alignment of State Appropriations, Tuition, and Financial Aid Policies." In response to decreases in state-level funding, many public colleges have had to increase tuition rates, making a higher education more difficult for many students.

"While spending has recovered somewhat in recent years, there is still the expectation that public colleges must do more with less," the issue brief said. "Although much of the conversation about state financing of public colleges since the Great Recession has focused on undoing dramatic budget cuts, restoring higher education funding is not sufficient."

The issue brief also argues that increased state funding will improve higher education access for historically underserved students, which will in turn allow those students to contribute more to the economy and be less likely to be reliant on social services later in life. Investing in higher education is "a wise investment for policymakers seeking to improve the financial health and outlook of their state," the issue brief said.

State appropriations and tuition-setting policies also have to work alongside state financial aid policies to create equitable access for low-income students. According to the issue brief, states usually allocate grants using academic merit and financial need. However, some scholars say that merit-based aid programs often disadvantage low-income students and students of color due to discrepancies during K-12 education.

"Shifting funds from need-based grant programs to merit-based programs likely widens existing enrollment gaps by income and race," the issue brief said. "Need-based grants, however, increase the likelihood that lower-income students will enroll in college and improve their chances of graduating."

Tuition policies in higher education are often based on the promotion of access and affordability, but tuition needs to be considered in relation to state financial aid programs and state appropriations, according to the issue brief.

In the past there have been three common models states use to fund higher education: incremental funding, formula funding, and outcomes-based funding (OBF).

Before World War II and the introduction of the GI Bill, incremental funding — funding based on a model of increasing the percentage based on the previous year's funding — was the most common model for state funding. But with incremental funding, "if over time, the annual

percentage increase lags behind the increase in students enrolled, then per-student funding will naturally decline,” the issue brief said.

Formula funding was meant to be an improvement on incremental funding, by being responsive to the amount of students enrolled. However, critics of formula funding point out the lack of nuance to reach the unique needs of all institutions.

Now, state lawmakers are increasingly using OBF models based on factors such as completion rates, workforce readiness, research, and affordability, among other things.

However, as the issue brief points out, OBF models may lead to “a shortcut to improve student outcomes, colleges and universities may reduce the academic rigor of programs, enroll fewer students — like lower-income and underrepresented students — who are less likely to graduate, and encourage students to pursue credentials instead of associate or bachelor’s degrees.”

Overall, lowering tuition rates is not enough because the net price of college remains unaffordable for many low-income or first-generation students.

“The use of state financial aid can be an effective tool to reduce net price and increase the enrollment of historically underserved students,” the issue brief said.

State funding models and practices differ widely from state to state, but in all states it is an essential part of public higher education funding. Policies increasing financial aid and tuition-setting need to be aligned with state-specific goals to achieve targeted success.

“It is important for states to maintain adequate funding so colleges can serve their students and target aid programs to those least likely to enroll and persist,” the issue brief said.

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