

# State Efforts to Assure Affordability in the New Normal

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Good morning and thank you for the opportunity to testify before you today. I am David Longanecker, president of the Western Interstate Commission for Higher Education (WICHE), a federally chartered interstate compact of the 15 Western states with the mission of expanding access to high-quality postsecondary education for the citizens of the West.

We are here today to talk about “improving college affordability” – more specifically, to talk about the strategies for improving college affordability that are being designed and implemented at the state level. WICHE is very pleased to have the opportunity to join in this discussion because there are a number of very promising state initiatives in the West and elsewhere dedicated to making college more affordable.

But in addressing this set of policy initiatives, we must first define what we mean by “affordability.”

Since about the turn of the century, we at WICHE have been looking at the concept of affordability in a new way – and very differently than it had been defined in the last century.

Traditionally, the concept was quite simple. Affordability meant colleges charge tuition that was affordable to those citizens who wished to be students. The standard policy response, therefore, was to keep tuition as low as possible. Many states even imbedded the concept that college should be either free or as close to free as possible in state law. This was particularly true in the West, where the traditions of private higher education are not as strong as in other regions of the country and where most higher education was provided with public funding through public institutions.

In the middle of the last century both the federal government and the states embellished the original concept in two important ways. First, through the Higher Education Act of 1965 and amendments of 1972, which established most of the current array of federal student aid programs, the federal government recognized that individual affordability varied, depending upon a family’s financial circumstances, and public policy responded by developing the concept of need-

based financial aid. Second, it recognized that costs other than tuition (living expenses, books, fees, etc.) also affected affordability and needed to be taken into account. Following the federal lead, state public policy also recognized these two qualifying conditions to individual affordability and universally established state-level need-based financial aid programs.

Truth be told, however, the states were not nearly as committed to this new concept of affordability as the federal government was. Many of the states created their need-based programs only to receive the matching federal funds available through the State Student Incentive Grant Program (SSIG). So while every state ostensibly established a “need-based” program, only about a dozen established robust efforts. In the West only California and Washington established serious need-based grant programs; most states continued to abide by the original concept, equating affordability with low tuition.

The 21st century has brought a new way of thinking about what affordability means, at least at the state level. Affordability now refers both to what students and their families can afford and to what taxpayers can afford. Three factors have shaped this new concept of affordability. First, the rapid increase in the demand for higher education, driven by our nation’s need for more well-educated people in the workforce and the increase in individual returns on investment from higher education, has strained budgets and pushed legislators to look at how much their states can afford to pay. Second, an evolving change in philosophy about who should pay for higher education has shifted policy in a number of states from an assumption that higher education is primarily a public good that should be paid for primarily with public funds to a political philosophy that assumes that higher education has great benefits as both a public good and a private good and that its cost should be more equally shared by students and government. Some have seen this as a shift toward the privatization of public higher education, but in truth it is more of a balancing of costs between beneficiaries. Third, the exceptional financial difficulties that states have faced as a result of two recessions in quick succession at the beginning of this century have created what is commonly referred to as the “new normal,” in which all public services, including higher education, must do more with less and in which evidence-based results are the

metric. The result of these three new ways of thinking about affordability in higher education has led to state policy that relies more significantly on students paying a larger share of the costs of college.

The dilemma, of course, is that the new focus on what the states can afford has tested the limits of what students and their families can afford – and it is concern about this aspect of affordability that you are really focused on today. I just encourage you to recognize that affordability is now confounded by the financial limits of state government than it traditionally has been.

Today, I will share with you some of the most promising state policies and practices intended to assure higher education affordability, as we now define it. Some of these policies and practices are supply-side interventions, focusing on changing institutional behavior. Others are demand-side interventions, focusing on changing student behavior. And yet others combine interventions focused both on institutional (supply-side) and student (demand-side) behaviors.

### **Promising State-level Supply-side Interventions**

It should be acknowledged that many of the activities of states to increase productivity and efficiency in order to maintain affordability have been fostered by the generous support of Lumina Foundation and the Bill & Melinda Gates Foundation. A Lumina Foundation project, originally dubbed “Making College Affordable,” provided substantial funding to a bevy of states, which have provided the test bed for many of the affordability initiatives referenced below. The Complete College America organization has furthered these efforts by engaging more than half of the states in developing clear metrics and methods for improving their productivity.

Perhaps the most popular current strategy, both at the state legislative and governance level, involves the use of performance funding to reward and induce greater affordability. Examples include the following.

- Many states are adopting performance funding strategies that will reward institutions for graduating more students. While this may not appear to be an affordability strategy, it truly is. Institutions realize that students who

can't afford college are much less likely to enroll in the first place and less likely to graduate if they do enroll. Thus, for the institutions to reap the rewards of graduating more students they must assure students that higher education is affordable. In the West Colorado's new Master Plan for Higher Education will reward institutions for greater success in reducing equity gaps in graduation rates and numbers, as will Nevada's new funding formula.

- The Washington State Community and Technical College system has developed a performance-funding process that rewards institutions based on the success of their students in achieving various persistence benchmarks. Again, while this may not seem like affordability policy, it is, because students who persist at higher rates reach their educational goals quicker and thus more affordably.
- Oregon is exploring a performance-funding strategy that, if adopted, will tie funding to institutions based on their delivering education at a highly efficient threshold, comparable to the most productive competitors in the higher education marketplace.

Other states are providing incentive funding for institutions that adopt programs designed to focus on affordability.

- South Dakota provided funding for institutions to adopt programs developed by the National Center for Academic Transformation, which promotes the use of hybrid (technology-enhanced) classroom instruction that has demonstrably increased student learning at a lower cost.
- The California Legislature is considering a designating special funding to enhance student success in the California Community Colleges through a variety of academic and student support services.

### **Promising State-level Demand-side Interventions**

Traditionally, affordability initiatives have focused on reducing the cost to students through financial aid, and this remains fertile ground for state policy innovations and interventions.

- Washington State, which traditionally has had one of the most generous and economically rational sets of state finance policies, has embellished its robust state need-based financial aid program with a new public/private partnership intended to reward lower and middle income students who chose to major in STEM (science, technology, engineering, and math) fields of study.
- Massachusetts has developed a pilot program to see if providing grants to needy students who commit to taking more credits each term will enhance their persistence and completion. This program will test whether such pay-for-performance approaches – which have worked at the institutional level, according to some research – can be taken to scale at a state level.
- A number of states have developed blended programs that combine the best principles of both need-based and merit financial aid programs. The Oklahoma Promise Scholarship, for example, assures eighth graders who come from low- and moderate-income families that if they take a rigorous curriculum in high school, get decent (but not necessarily exceptional) grades, and stay out of trouble they will have their tuition paid for at any state institution. A unique feature of this program is that legislature is required to fund this program before considering the budget any other state services.

### **Promising State-level Interventions Blending Supply and Demand Efforts**

WICHE has encouraged the states with which it works to integrate all of their finance policies, so that they work in sync to assure affordable access to and success in high-quality educational opportunities.

- In the past Washington’s finance policies were perhaps the most in sync. The state has traditionally balanced a comparatively high tuition structure (high by Western standards) at both the two-year and four-year level with a strong need-based financial aid program. As mentioned above, the state has recently enhanced this approach with a new public/private partnership program – the Washington Opportunity Scholars – to assure even greater

affordability for students seeking degrees in the urgently needed STEM fields of study. And it has placed a requirement in legislation that institutions that increase tuition above recommended levels must meet the additional financial need that such action causes.

- Similarly, Arizona in the early years of the new century adopted integrated policies that sought to assure that the state's three public universities would have sufficient funding to thrive through the combination of state support and tuition revenue and that increases in tuition would be matched dollar for dollar by institutional funds for students with financial need (defined as Pell Grant recipients).
- Oregon's recently adopted Shared Responsibility Program is perhaps the most innovative new initiative to blend supply- and demand-side strategies. Built upon a similar program in Minnesota, Oregon's program creates a state policy based on an overall higher education financing partnership among the following players.
  - The state, which is responsible for supporting the public good;
  - The student, who as the principle beneficiary of the education is responsible for contributing what she/he is able to provide.
  - The student's family, which has an obligation to contribute what it reasonably can before it asks others to do so.
  - The Federal Government, which is a significant partner through the Pell Grant Program, the Direct Student Loan Program, and the Federal Hope Tax Credits and Deductions.
  - The institutions of higher education, which have a responsibility for operating as efficiently as possible to sustain affordability.

This program fashions a partnership that defines in policy the expected responsibility of each of these five partners and specifies how the sum of their contributions will equal the desired whole. Originally conceived primarily as a financial aid policy, the program is now being viewed as the framework for all higher education funding: state appropriations, tuition revenues, and state-based and privately provided financial aid.

## **Concluding Remarks: A Changing World for Affordability at the State Level**

The unique times we face, dubbed the new normal, have forced the states to become quite creative in fashioning ways to preserve financial access for their students, using a variety of new approaches. While the changes wrought by new approaches are uncomfortable for many because they break from traditional concepts of affordability, they are necessary if we're to assure our students that they can afford to go to college, and they're sufficient to the task. Observing these changes in the West has been particularly interesting. The recent economic distress hit many of the Western states more severely than of the rest of the nation, while affecting others much less. And yet the affordability change agenda is nearly universal in the West in one fashion or another. Those states most significantly impacted by the economic downturns of the new century have focused primarily on supply-side approaches, forcing greater productivity and efficiency reforms among their institutions of higher education or combined supply- and demand-side interventions. States that have weathered the recent economic malaise well have also focused on improving affordability. Alaska and Wyoming, for instance, have maintained their traditions of low-tuition but created new, blended financial aid programs that reward students for preparing well for college and performing well while in college, with a particular focus on the most financially needy students.

The unfinished agenda, however, is for the various partners – students, families, institutions, and state and federal governments – to work more in sync to ensure that their various strategies blend well and assure affordability in a world of limited resources. The federal government could provide a major impetus for such a partnership if its major student financial assistance programs required a stronger partnership between federal and state governments and institutions. With limited resources at every level of government, it simply makes sense to assure that these partners, along with students and their families, work together as a team to win the higher education affordability game.