

Higher Education Policy and the State Budget

Briefly

A skilled workforce is vital for Washington's economy, but higher education's state funding has been cut significantly over the past several years. Gov. Inslee's budget proposal has set up some choices for the Legislature: Should institutions have the ability to set tuition? Is a low-tuition model preferable to one which provides more state aid?

In 2013, the Washington Student Achievement Council (WSAC) set goals for 2023: that all 25- to 44-year olds in Washington will have a high school diploma or the equivalent and that at least 70 percent of 25- to 44-year-olds will have a postsecondary credential (WSAC 2013a).

Indeed, a skilled workforce is vital for Washington's economy. By 2020, 70 percent of jobs in Washington will require postsecondary training (Carnevale et al. 2013). Nonetheless, higher education's state funding has been cut significantly over the past several years. This is in line with the national experience.

A study from the liberal Center on Budget and Policy Priorities (CBPP) found that 48 states are spending less per student on higher education than before the recession. The report notes that one way higher education institutions have responded is by increasing tuition, which has "accelerated longer-term trends of reducing college affordability and shifting costs from states to students" (Mitchell et al. 2014).

In Washington, according to the CBPP report, state funding for higher education decreased by 27.8 percent from 2008 to 2014 (the 14th largest decrease nationally). Washington increased tuition from 2008 to 2014 by 60.7 percent (the 6th largest increase).

Why has higher education funding decreased, despite its importance to our

economy? In Washington, funding for basic education, debt service and many human services programs, for example, is mandatory and cannot legally be cut by the Legislature. Higher education spending is discretionary. Basically, according to the WSAC,

K-12 is constitutionally protected, and allocated based on enrollment "caseload." Each student's allocation is based on a highly detailed formula. In higher education, budget writers need not use a formula at all, and there is no responsibility to act if enrollment rises or falls. Instead, the state simply provides a block of funding to the institutions, which are generally left to manage their operations using a combination of tuition and state funds. (WSAC 2013b)

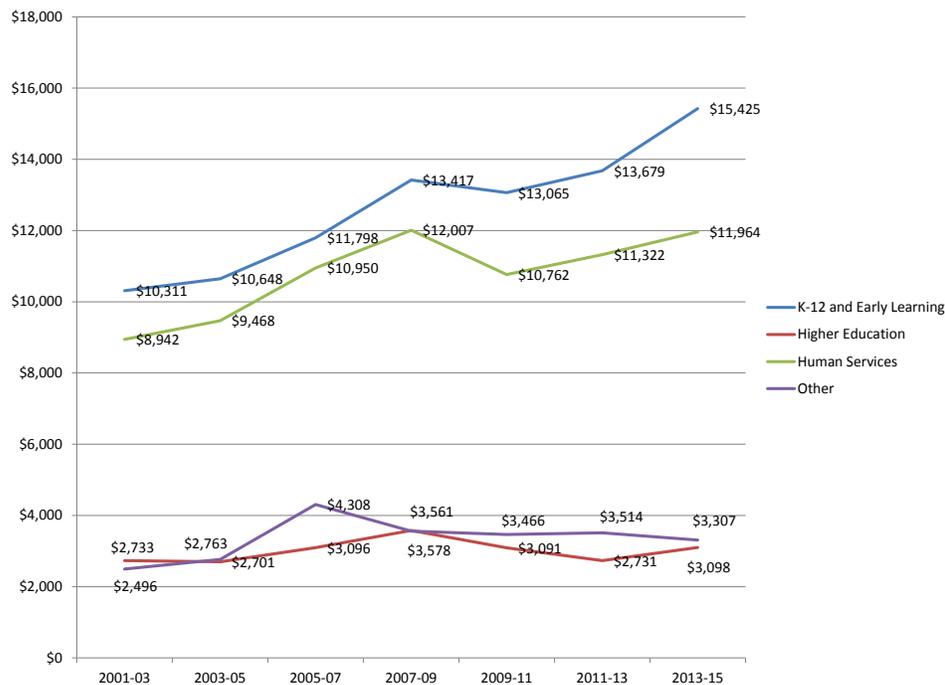
When spending must be cut, discretionary programs bear the brunt of the reductions. This was borne out in the aftermath of the recession. Higher education's near general fund-state plus opportunity pathways (NGFS+) budget was reduced each biennium since 2007-09, until 2013-15, when the Legislature increased appropriations.

Governor Inslee's 2015-17 budget proposal includes funding increases for higher education and would freeze tuition.

Higher Education Funding in Context

For 2013-15 (including the 2014 supple-

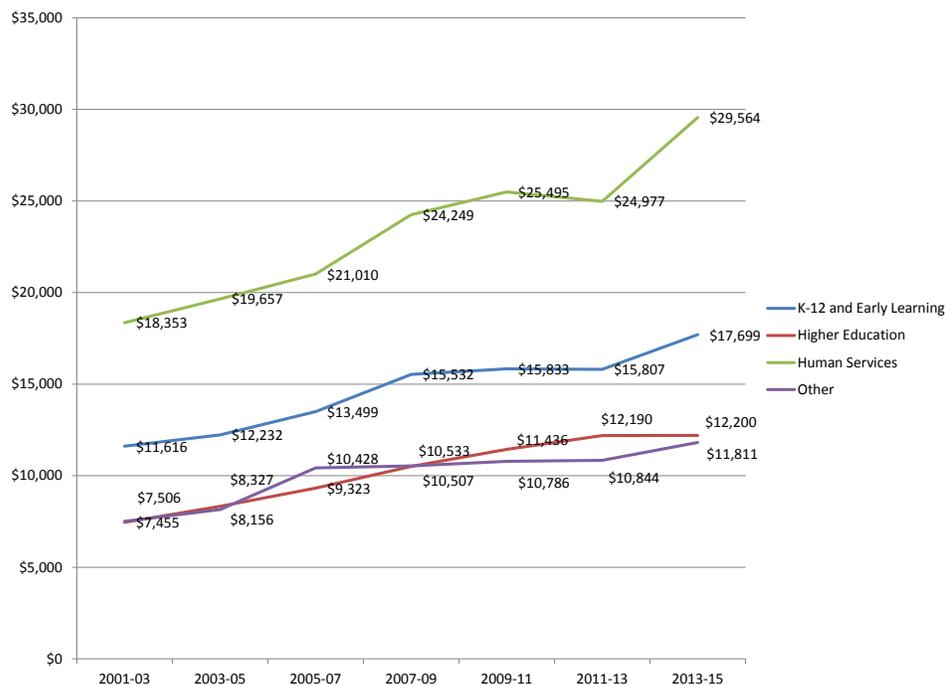
Chart 1: NGFS+ Operating Spending (Dollars in Millions)



mental), the state Legislature appropriated \$3.1 billion in NGFS+ spending for higher education (including financial aid). That represents 9.2 percent of the NGFS+ budget, compared with 11 percent in 2007–09. Since the state’s spending high in 2007–09, \$473.9 million has been cut from higher education. (That’s a decrease of 13.4 percent, compared to an increase of 15.0 percent for K–12 and early learning, a decrease of 0.4 percent for human services, and a decrease of 7.1 percent for all other.)

The higher education system receives a significant portion of its funding from non-state sources, including tuition and grants. In terms of total budgeted spending, higher education funds totaled \$12.2 billion in 2013–15, up from \$10.5 billion in 2007–09. (That’s an increase of 16.1 percent, compared to an increase of 21.9 percent in human services, an increase of 14.0 percent in K–12 and early learning, and an increase of 12.1 percent in all other.)

Chart 2: All Funds Operating Spending (Dollars in Millions)



The Institutions

Washington has six public baccalaureate institutions (two research and four comprehensive) and 34 public community and technical colleges. The research institutions are the University of Washington (UW) and Washington State University (WSU) and the comprehensive institutions are Eastern Washington University (EWU), Central Washington University (CWU), Western Washington University (WWU) and The Evergreen State College (TESC). How each institution uses its funds varies.

For example, UW’s total spending dwarfs that of the rest of the institutions, and it spends a significant portion (25.7 percent) on its unique hospital system. For both UW and WSU a high proportion of spending goes to sponsored research. By contrast, the community and technical college system (CTCS) and comprehensives spend the bulk of their budgets on instruction and libraries, and much less on research. (See charts 3 and 4 on page 3.)

Chart 3: Operating Expenditures, 2011–13 (Dollars in Millions, Percent of Institution's Budget)

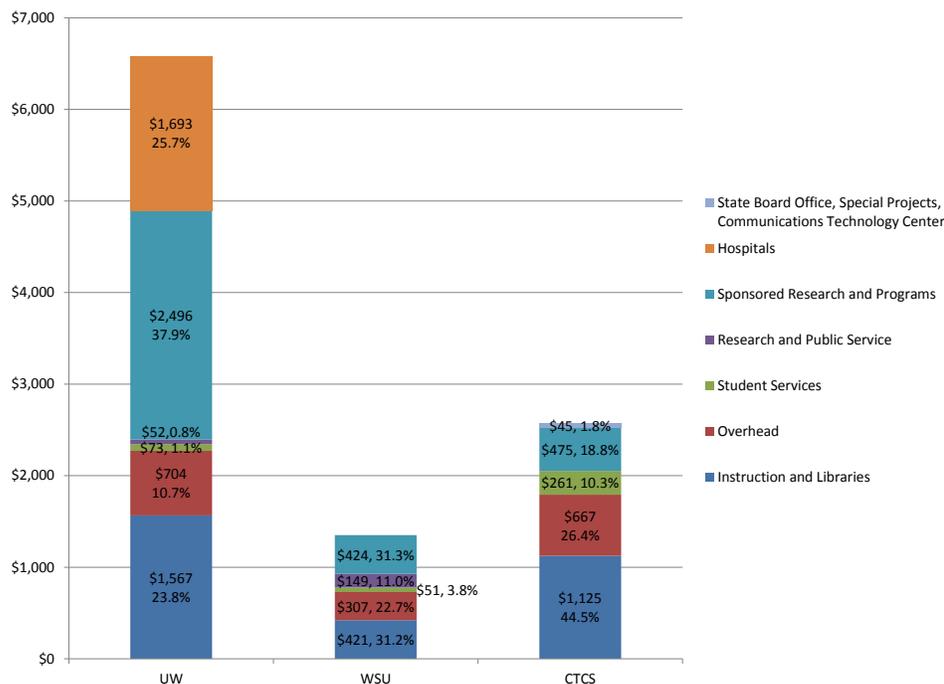
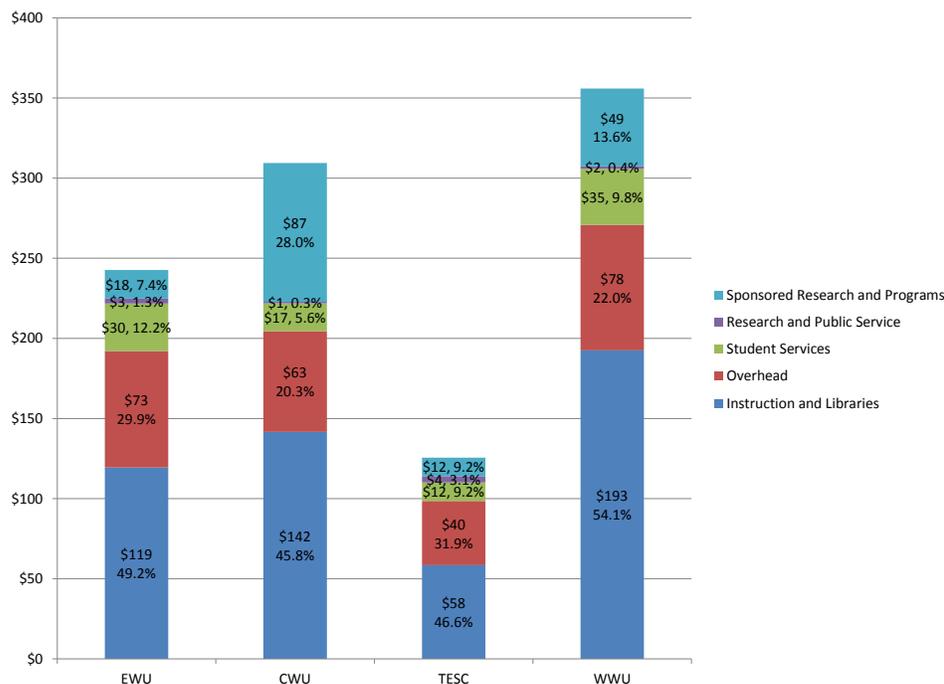


Chart 4: Operating Expenditures, 2011–13 (Dollars in Millions, Percent of Institution's Budget)



Similarly, the sources of funding for the different institutions vary. Again, UW's hospitals contribute a large portion. UW and WSU get a larger share of funds from grants than the comprehensives, who receive much higher proportions from tuition. UW and CTCS are outliers on the share of funding from the NGFS+ (UW at the low end and CTCS at the high end). (See charts 5 and 6 on page 4.)

Largely, NGFS+ funds are used for instruction. As noted in a state audit of the University of Washington's accounting,

The University is supported in part by State 'General Operating Funds' characterized by UW as 'State Funds.' Although UW has significant discretion over the use of State Funds, by policy it assigns these funds to instructional costs—primarily salaries, benefits, and related expenses of providing instruction to University students. (SAO 2014)

Of the 2013–15 NGFS+ higher education budget, 40 percent went to the CTCS and 23 percent was for financial aid. (See chart 7 on page 5.)

State Financial Aid

In addition to providing general support to higher education institutions, the state funds several financial aid programs. The largest of these is the state need grant (SNG). Of the financial aid appropriated in the original 2013–15 budget, 90.9 percent was for the SNG (WSAC 2013c). State support for the SNG grew by 81.5 percent from 2007 to 2013, while direct support for higher education institutions was reduced by 24.9 percent over the same period (overall higher education support decreased by 14.0 percent). Despite the increase in funding, in 2013–14 more than 33,500 students were eligible for the SNG but did not get it "due to insufficient funds" (Sharpe 2014). (More than 70,100 received SNG funding.)

The Legislature appropriates funds for the SNG to the WSAC, which distributes the funds to the students through the various institutions. (See chart 8 on page

Chart 5: Sources of Operating Funding, 2011–13 (Dollars in Millions, Percent of Institution's Funding)

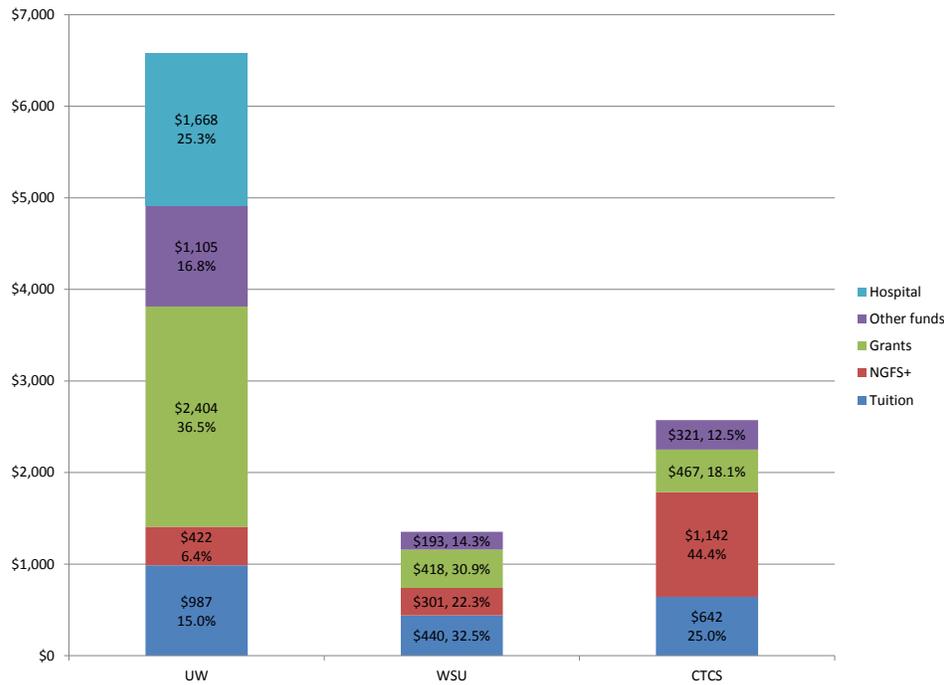
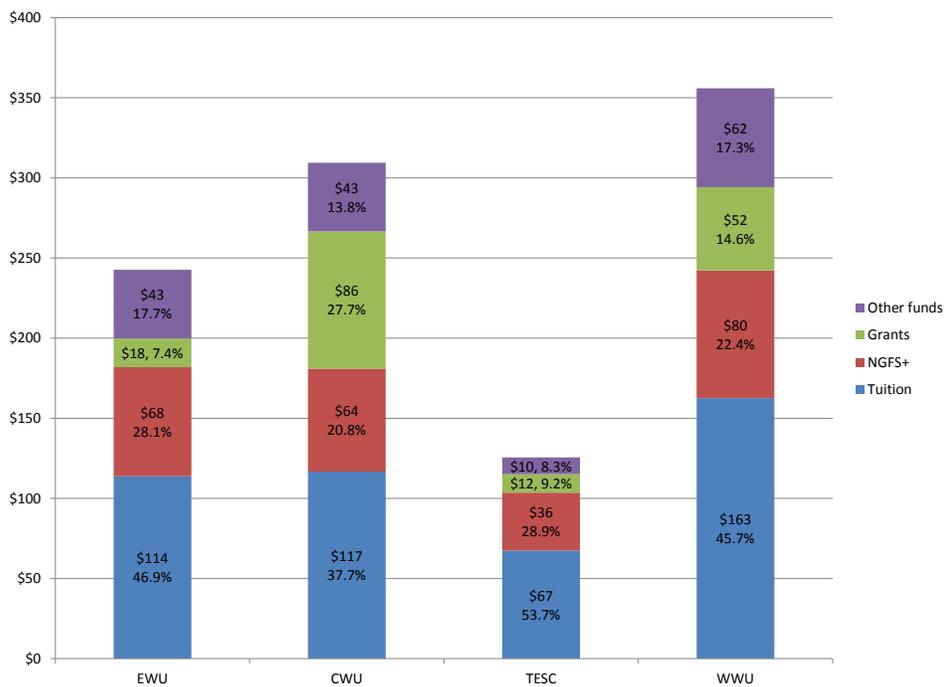


Chart 6: Sources of Operating Funding, 2011–13 (Dollars in Millions, Percent of Institution's Funding)



5.) Students may use the funds for tuition or for other expenses (e.g., room and board). When these funds are used for tuition, they show up in the institution's sources of operating funding data as tuition.

Financial aid and tuition go hand in hand. As the WSAC notes,

Grant awards have traditionally moved with tuition increases, and that connection was largely maintained during the budget crisis years of 2009-13. As a result, a greater proportion of higher education funding now goes to students than ever before.

Funding for aid went from about 12 percent of the higher education total in 2008 to 22 percent today, and Washington is now notable for having a generous financial aid system but very low per-pupil funding for institutions of higher education. (WSAC 2013b)

Tuition

Except for in 2013–15, the state budgets of recent years have assumed significant tuition increases for resident undergraduates. (See table 1 on page 6. If an institution increases tuition above the levels assumed in the budget, it must mitigate the increase for needy students.)

According to the WSAC,

Since fiscal year 2007-08, the annual full-time tuition levels at public colleges and universities have increased by an average of nearly 70 percent The increase has been 49 percent at the two-year community and technical colleges, 71 percent at the regional universities, and 85 percent at the research universities. (WSAC 2013c)

Tuition increased significantly relative to general fund–state spending in the mid-1990s, due to Initiative 601's spending limit: "By this time tuition has been placed outside of the General Fund and so tuition increases provided a means of increasing support for higher education that was not subject to the limit" (WRC

Chart 7: 2013–15 Higher Education NGFS+ Operating Budget (Dollars in Millions)

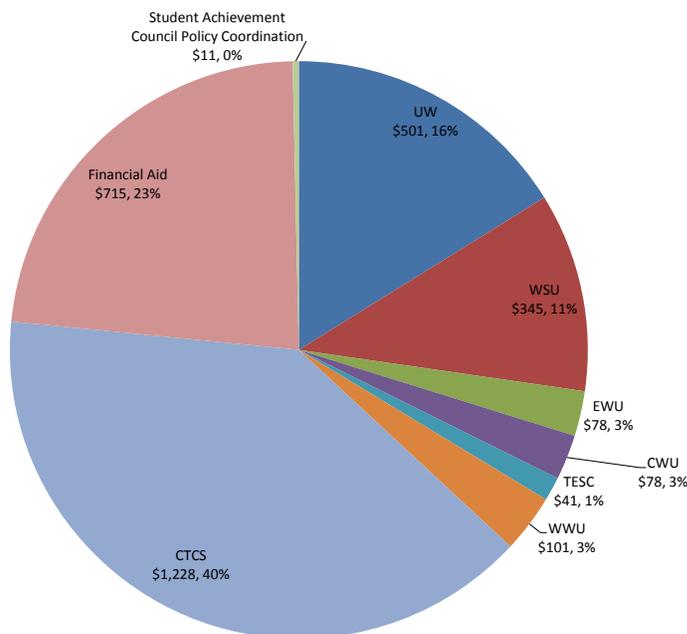
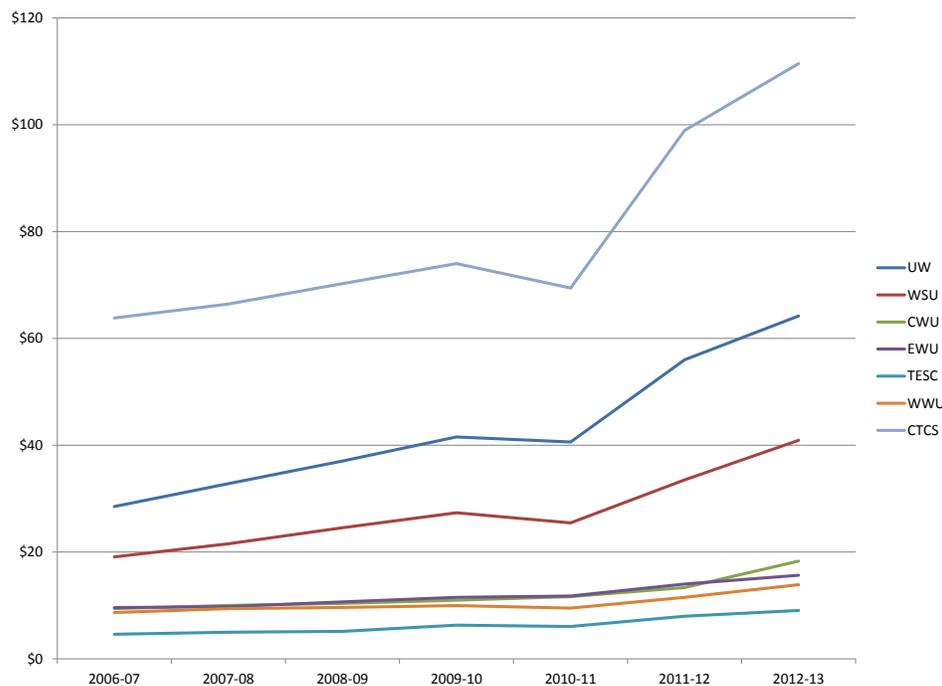


Chart 8: State Need Grant (Dollars in Millions)



1999).

Over time, Washington’s tuition has also risen relative to other states. For example, tuition and fees at Washington’s flagship institution ranked 25th highest in the country in SY 2008–09 and 12th highest in 2013–14 (Webster 2014). (See table 2 on page 6.)

There has been a sea change in who pays the majority of instructional costs. As the Higher Education Coordinating Board recounts:

In the 1960s and 70s, the state paid more than 90 percent of instructional costs. From the 1980s to 2008, we steadily reduced the state’s share to an average of about 65 percent. But, with the most recent round of budget cuts, we have reached a nadir: the state now pays an average of 35 percent of instructional costs while students and families pay 65 percent. (HECB 2012)

Tuition (including tuition students pay from financial aid) now exceeds direct state funding for the four-year institutions, but direct state funding still exceeds tuition for the community and technical colleges. (See the appendix.)

For many years tuition was set by the Legislature rather than the institutions. As we noted in 2001, Gov. Locke’s 2020 Commission on the Future of Post-Secondary Education recommended that institutions have tuition-setting authority. According to the Commission,

Central tuition setting by the state Legislature has served to protect the public from unreasonable price increases. But legislatively established tuition levels conceal the real costs and the market value of various courses of study. . . .

The ability of publicly funded institutions to be entrepreneurial and to deliver education efficiently should not be inhibited by their inability to set prices. . . . The ability to set prices locally can, in many instances, work to reduce cost to students. Institutions

should be free to generate revenue from programs with high market value without raising costs for students in less lucrative fields. (2020 Commission 1998)

We agreed and wrote that

It is fair for students attending programs that are particularly costly to offer and whose graduates are paid particularly high salaries to pay higher tuition that those students who choose to pursue less costly and less remunerative programs.

But equally important, the ability to charge more for such high cost and

high demand programs will allow schools to respond more quickly to the needs of students and the demands of the employment market. (WRC 2001)

In 2011, E2SHB 1795 gave public four-year institutions full tuition-setting authority for 2011–13 through 2017–19. (As noted above, if an institution increases tuition above the levels assumed in the budget, it must mitigate the increase for needy students.) For school year (SY) 2011–12, UW raised tuition by 20 percent, exceeding the amount authorized (HECB 2012).

In SY 2013–14, tuition did not increase for the first time since 1986 (GET 2014). Further, the institutions were prohibited from using their tuition setting authority for SY 2013–14. The 2014 supplemental extended that prohibition to 2014–15.

GET Program

In order to help families pay the rising cost of higher education, the Guaranteed Education Tuition (GET) program was started in 1998. It is a "529 plan," meaning that the earnings of the account are not taxed when used for qualified educa-

Table 1: Resident Undergraduate Tuition Increase Assumptions

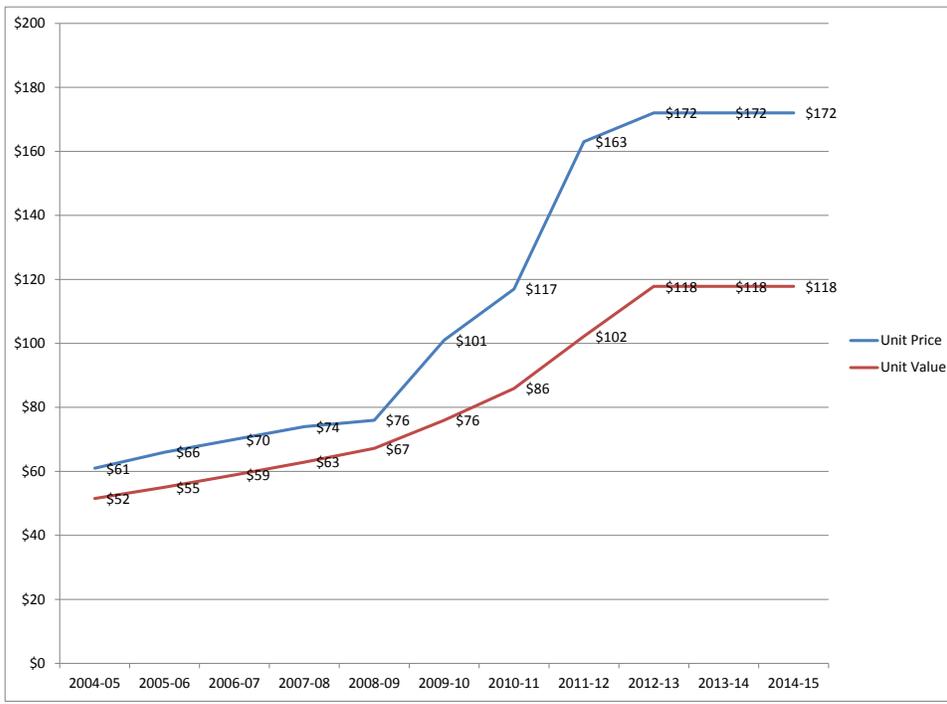
	2007-09	2009-11	2011-13	2013-15
UW	7%	14%	16%	0%
WSU	7%	14%	16%	0%
WWU	5%	14%	16%	0%
CWU	5%	14%	14%	0%
TESC	5%	14%	14%	0%
EWU	5%	14%	11%	0%
CTCS	2%	7%	12%	0%

Table 2: Resident Undergraduate Tuition and Fees

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Flagship Institution						
Washington	\$6,697	\$7,692	\$8,701	\$10,574	\$12,155	\$12,397
WA's Rank	25	24	22	15	11	12
GCS Average	\$9,232	\$9,570	\$10,461	\$11,180	\$11,562	\$11,944
National Average	\$7,489	\$7,956	\$8,577	\$9,208	\$9,647	\$9,946
Comprehensive Institutions						
Washington	\$5,051	\$5,731	\$6,856	\$7,665	\$8,582	\$8,600
WA's Rank	30	29	21	16	12	15
GCS Average	\$6,753	\$7,227	\$7,722	\$8,309	\$8,746	\$8,963
National Average	\$5,867	\$6,260	\$6,664	\$7,173	\$7,544	\$7,766
CTCS						
Washington	\$2,730	\$2,925	\$3,135	\$3,542	\$4,000	\$4,000
WA's Rank	24	26	27	19	14	16
GCS Average	\$2,786	\$3,003	\$3,216	\$3,433	\$3,625	\$3,744
National Average	\$2,867	\$3,021	\$3,172	\$3,396	\$3,591	\$3,690

Note: The flagship institution is the University of Washington; the comprehensive institutions are the average tuition and fees of CWU, EWU, and WWU; and the global challenge states (GCS) are California, Colorado, Connecticut, Maryland, Massachusetts, New Jersey, and Virginia.

Chart 9: Guaranteed Education Tuition



tion expenses (IRS 2014). In state law, GET is considered “an essential state governmental function. Contracts with eligible participants shall be contractual obligations legally binding on the state . . .” (RCW 28B.95.050). As of September 30, 2013, 152,126 accounts had been opened since GET was established (GET 2014).

Students may use their GET funds at schools outside of Washington, but the value of their accounts is based on the cost of resident undergraduate tuition at Washington’s most expensive public university at the time they use the funds. One year of tuition and fees at that institution equals 100 units. The 2014–15 unit price is \$172 (up from \$61 in 2004–05), while the payout value is \$117.82 (up from \$51.54 in 2004–05). For 2014–15, the unit price includes the expected tuition cost (\$124.74), operating expenses (\$5.93), reserve (\$20.51), and amortization (\$20.82).

In 2012, the unit price increased 39 percent:

GET director Betty Lochner said the price was raised to build up reserves

because GET is underfunded; if everyone tried to cash in at the same time, it would be able to pay out only about 83 percent of benefits. . . .

GET is underfunded because the value of its investments declined during the recession, much as many pension funds’ values declined. (Long 2012)

Essentially, GET investors are betting that tuition will continue to increase. In 2012, it wasn’t looking like the best bet. Indeed,

Financial experts say families should weigh the high price of GET units carefully against other college-tuition investments, because the gap between the value of the units and the cost to purchase them has grown. (Long 2012)

The Legislature considered closing the program, but GET has since recovered:

For the first time in program history, the GET unit price did not increase for the 2013–14 enrollment period. This can be attributed in part to the fact that tuition was held at Washington public universities, adjusting future tuition increase assumptions. Recent strong investment returns and an improving funded status also reinforced the decision to hold the unit price. (GET 2014)

A report from the State Actuary found that the GET program was 105.8 percent funded as of June 30, 2014 (OSA 2014).

Comment

In December 2014, Governor Inslee put forth a budget proposal for the 2015–17 biennium that would increase NGFS+ spending on higher education by \$334 million (including maintenance level spending). Of that, it would provide \$100 million for the Opportunity Scholarship program. It would freeze resident undergraduate tuition for the biennium, and—contra recent policy—it “assumes future tuition decisions will be made in the state’s budget, which will not allow institutions to increase tuition above state-recommended levels” (OFM 2014).

Keeping college affordable is an important factor in attracting students. Lower tuition is one way to do so, but so is increasing state funding of financial aid. In 1997, the WRC argued

The general tuition subsidy should be reduced and need-based aid increased. Currently, very few qualified undergraduate applicants cannot find a spot in the state's system of higher education. The more pressing access issue is financial aid. Many of the students at our four-year institutions could afford to pay significantly higher tuition. The state should target state subsidies to those who most require financial assistance. Further, institutions should have the flexibility to set their own tuition rates in response to market demands. (WRC 1997)

Legislators will have to decide what method of funding higher education makes the most sense in light of what promises to be another challenging budget-making session—if other priorities and mandates don't continue to crowd out funding for the discretionary higher education system.

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Appendix

Chart A1: UW NGFS+ and Tuition Support, Per Enrollment

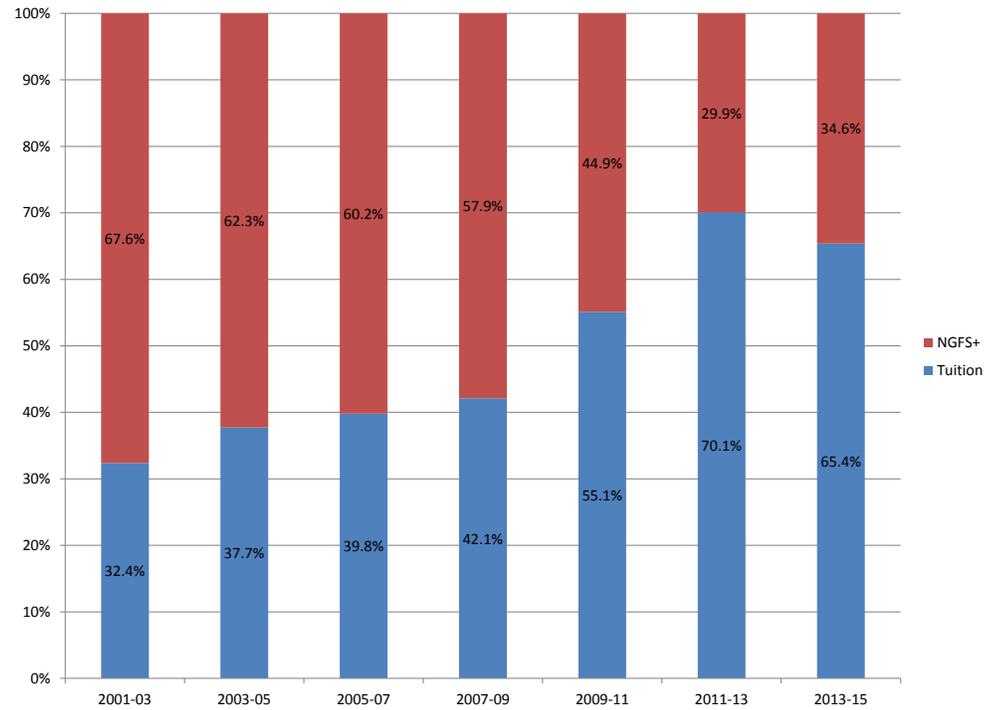


Chart A2: WSU NGFS+ and Tuition Support, Per Enrollment

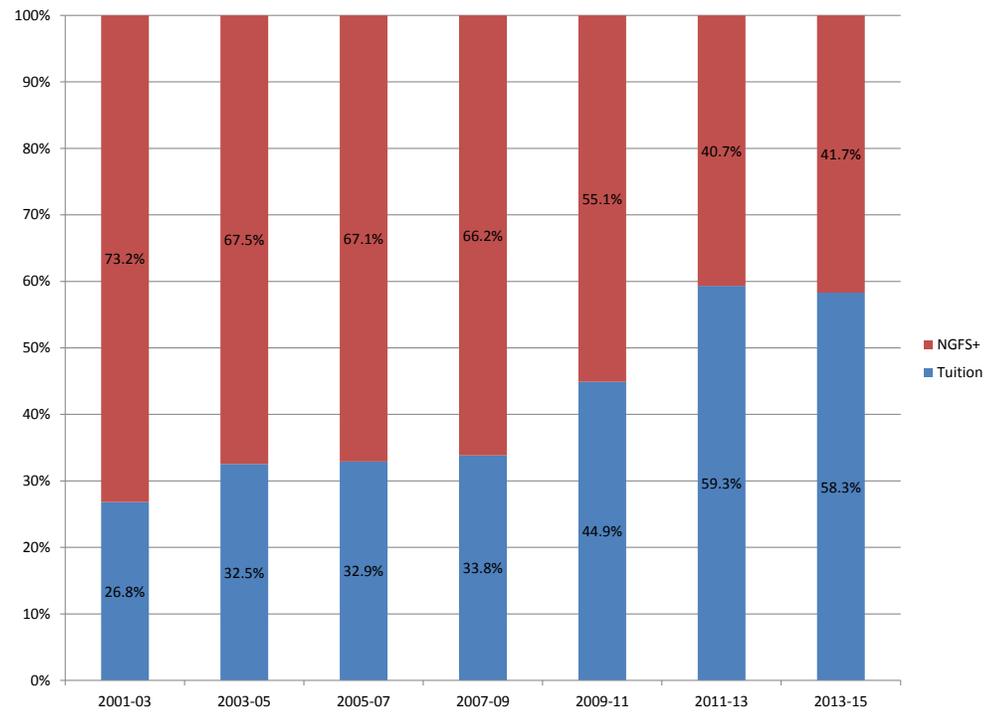


Chart A3: EWU NGFS+ and Tuition Support, Per Enrollment

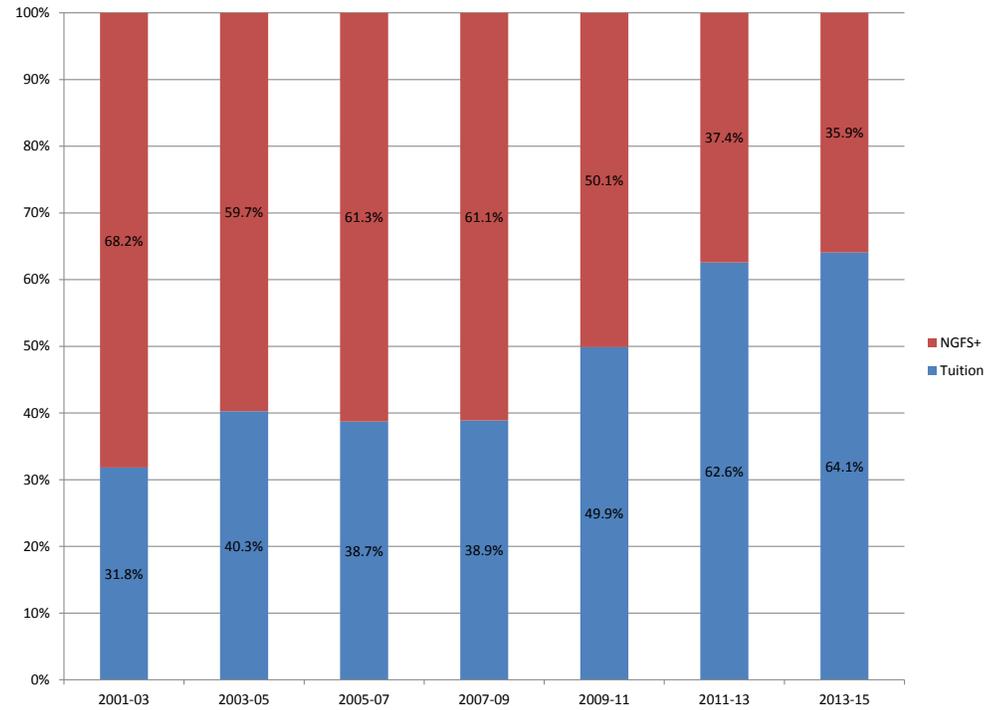


Chart A4: CWU NGFS+ and Tuition Support, Per Enrollment

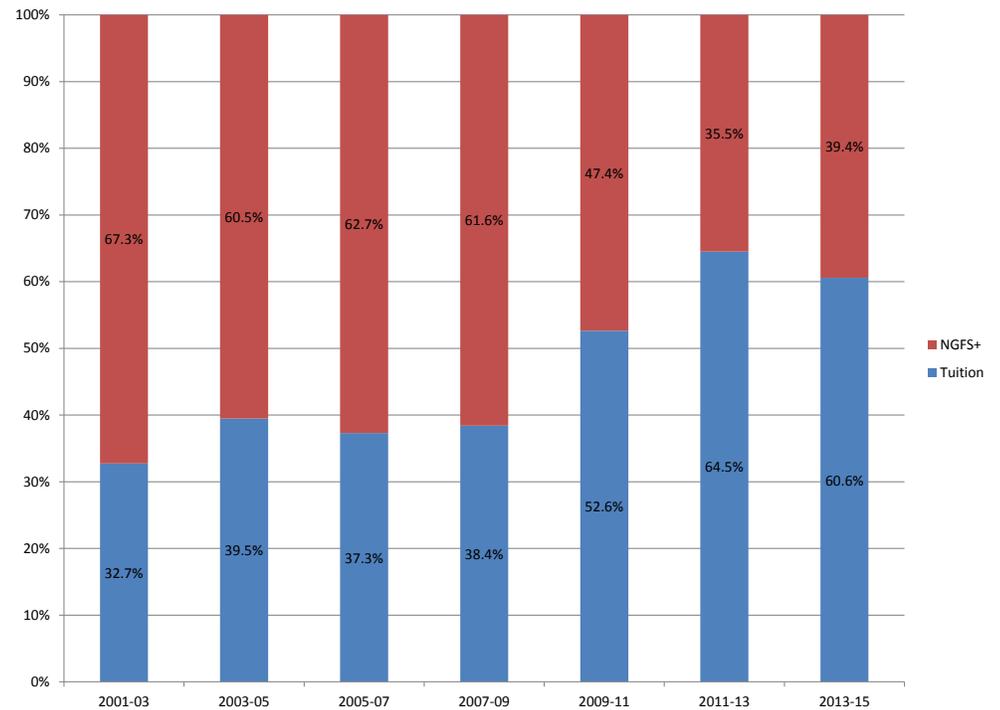


Chart A5: TESC NGFS+ and Tuition Support, Per Enrollment

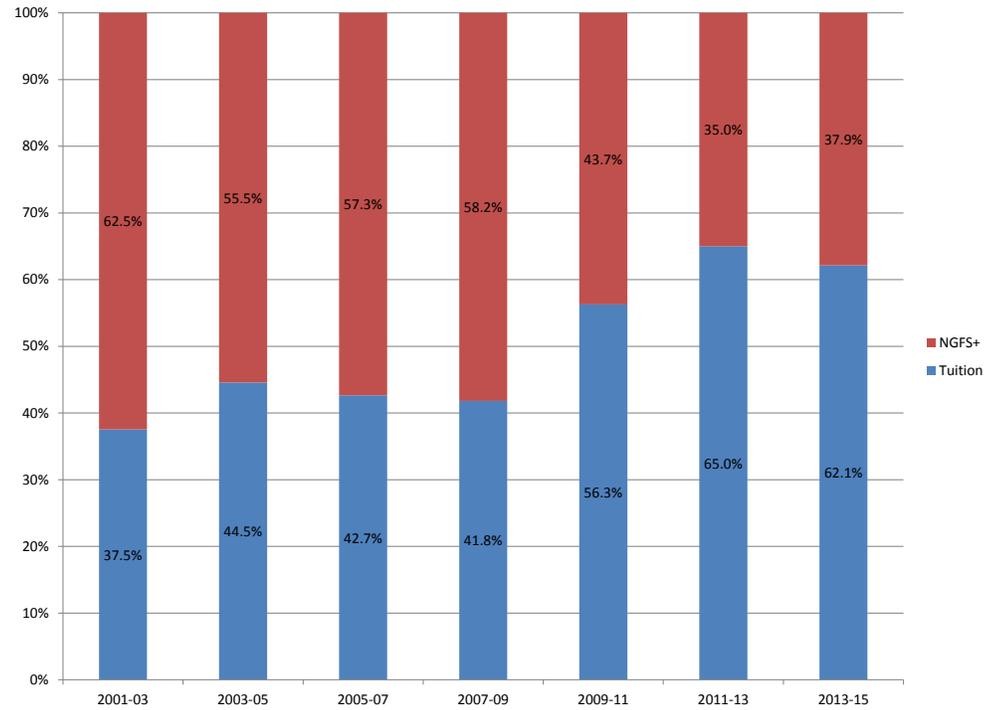


Chart A6: WWU NGFS+ and Tuition Support, Per Enrollment

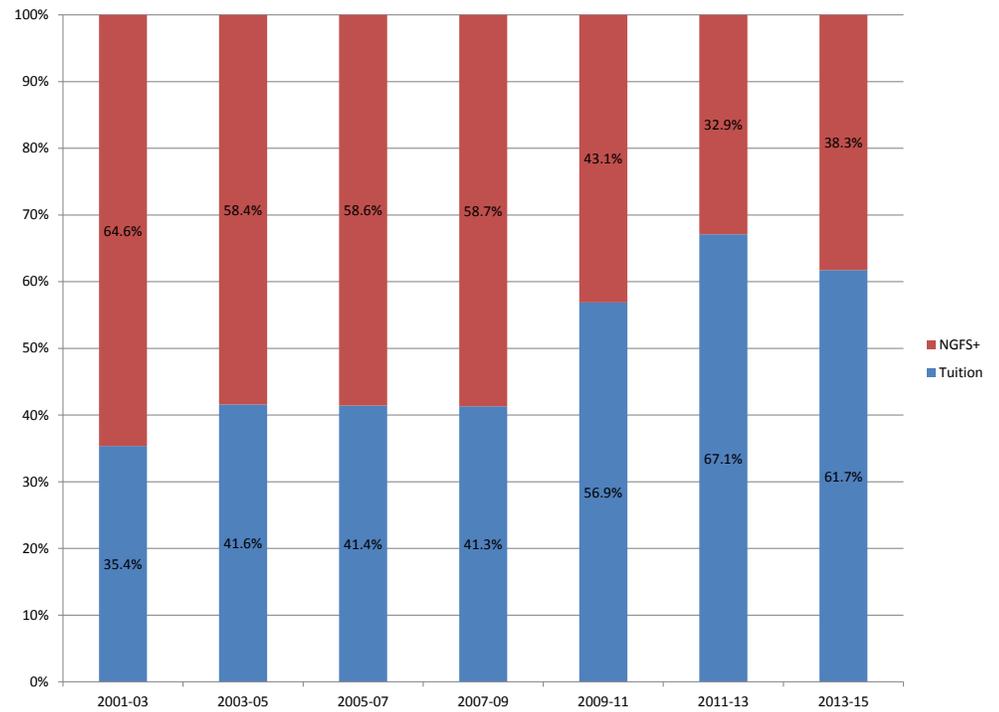


Chart A7: CTCS NGFS+ and Tuition Support, Per Enrollment

