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Examining the Federal-State Partnership in Higher Education

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Each state has its own system of public higher education. States design, regulate, and fund the public colleges and universities that educate the states' residents. In many states, local governments also provide funds, particularly for community colleges. At the same time, the federal government provides a growing share of the funding for these institutions, and with the funding come motivation and responsibility for monitoring quality and outcomes. This trend raises difficult questions about how federal and state governments should work together to ensure the efficient and equitable use of public funds to provide high-quality widespread postsecondary educational opportunity.

The partnership between the federal government and the states has developed without a clear blueprint. Should the federal government continue to focus on putting financial aid dollars in students' hands, with only limited attention to the practices, policies, and outcomes of institutions, or on the state policies that guide the institutions? Does the variation in funding and educational opportunities across states enrich the system or make it inequitable? Should the federal government attempt to influence the level, targeting, and stability of state funding for higher education? Is the current division of responsibilities between federal and state governments the most equitable and efficient approach to ensuring the nation's educational future?

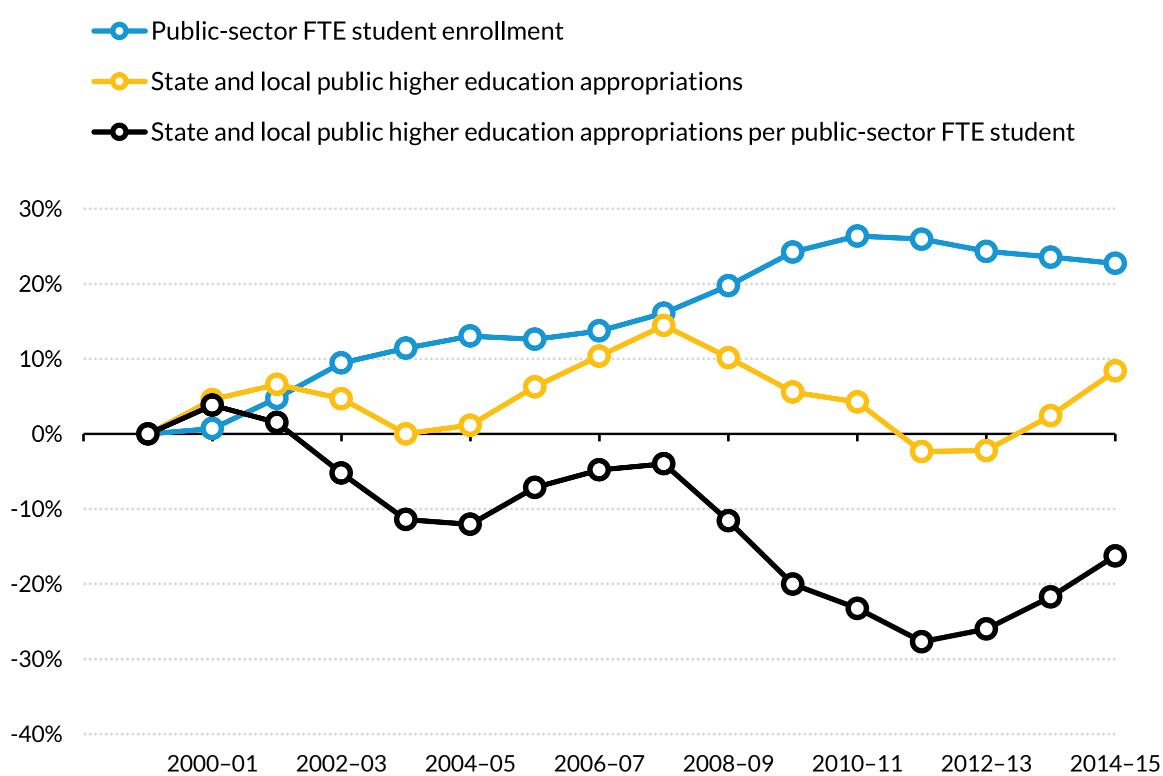
This brief provides background information and perspectives to help foster a productive national conversation about the federal-state partnership. It asks what the main problems facing the current system are and what the goals of any efforts for reform should be. Drawing on three recent papers from the Urban Institute, this brief provides background for developing constructive strategies, focusing on potential pitfalls. The argument does not support wholesale reform or a shift to a more centralized, federalized system of higher education. But it does support a more conscious and nuanced role for the federal government and greater coordination across state lines to improve educational outcomes for students across the nation.

The Problems

State funding for higher education ebbs and flows with economic cycles and has not kept up with increasing enrollments. State and local appropriations per full-time equivalent student were 16 percent lower in 2014–15 than in 1999–2000. Rising enrollments and declines in funding during recessions have created significant fluctuations in funding levels and have led to the general downward trend (figure 1).

FIGURE 1

Change in Total Appropriations, Enrollment, and Appropriations per Full-Time Equivalent Student, Relative to 1999–2000, in Inflation-Adjusted Dollars



Source: "Understanding College Affordability: Changes over Time," Urban Institute, accessed April 28, 2017, http://collegeaffordability.urban.org/cost-of-educating/appropriations/#/changes_over_time.
Note: FTE = full-time equivalent.

Increases in federal student aid have filled some of the gaps left by state funding. Total federal grant aid and tax credits to students more than tripled in inflation-adjusted dollars between 1999–2000 and 2014–15, doubling in the seven years from 2007–08 to 2014–15. Even if we do not consider loans, federal aid grew from 23 percent of state and local appropriations in 1999–2000 to 72 percent in 2014–15. Adding federal education loans raises the federal total to 84 percent more than the state and local total (Conklin and Baum 2017).

College prices are rising throughout the nation, making access to higher education difficult for low- and moderate-income students. The unstable funding environment has contributed to rapidly rising tuition prices. In 11 states, published tuition and fees at public four-year colleges and universities rose 20 percent or more (after adjusting for inflation) between 2011–12 and 2016–17.[1] At the same time, published prices declined in two states and rose 5 percent or less in seven states.[2] Nationwide, published tuition and fees at public four-year colleges increased 9.4 percent, from $8,820 to $9,650 over these five years (Ma et al. 2016, table 2).

Too many students are enrolling in college but leaving without earning a credential, frequently borrowing to fund this effort. Among students who first enrolled in a postsecondary institution in fall 2010, only 55 percent completed a degree or certificate within six years. Completion rates are lowest at for-profit and public two-year institutions, among part-time students, and among black and Hispanic students (Shapiro et al. 2017). Aside from not realizing the earnings associated with higher levels of education, noncompleters default on their loans at almost three times the rate for completers and account for a significant portion of unpaid student debt (Looney and Yannelis 2015).

States vary considerably in funding levels, institutional structures, prices, and student aid, generating very different educational opportunities for residents of different states. In 2016–17, published tuition and fees for in-state students at public four-year institutions range from $5,100 in Wyoming to $7,700 in Vermont.[3]

In Colorado and Vermont, where state funding is particularly low, more than half the government revenue for public higher education came from the federal government in 2014–15, with these states providing one-quarter or less. In Connecticut and Wyoming, the federal government provided 20 percent or less of the funding (including federal Pell grants), with state governments providing about three-quarters of the government funds (McPherson and Baum 2017, figure 1.b).

In California, Illinois, and Wyoming, about 60 percent of undergraduates attending public colleges and universities are enrolled in community colleges, not four-year institutions. But Alaska does not have a community college system and in Montana and South Dakota, 20 percent or fewer of the students are in these two-year institutions (Chingos and Baum 2017, figure 3).

The availability of state grant aid and the presence of high-quality research universities are also dramatically different across states.

There are no clear routes, applicable at scale, to improving efficiency and productivity in higher education, enabling us to offer more high-quality degrees at lower cost. Defining and measuring productivity in higher education is challenging. But increasing the share of the population with high-quality postsecondary degrees will require us to provide education in less resource-intensive ways. Whether the question is the average total cost of producing a degree, how much students learn while they are in college, or the variation in the value of education across institutions, a national effort to improve outcomes at manageable cost is necessary. As a first step, we need better ways of measuring these outcomes.

Even if states operate their systems efficiently—an optimistic hypothesis—the rigid lines between states may lead to significant inefficiencies from a national perspective. Competition among states may divert resources from a focus on meeting national needs for high-quality undergraduate and graduate education, as well as a strong and productive research agenda.

Partly because of uneven population trends, some states have excess capacity in their higher education systems, and others strain to accommodate student demand. Despite some regional agreements to discount full out-of-state prices for students from neighboring states, students depend on the offerings within their state of residence if they are to benefit from lower in-state tuition prices. The combination of this reality with the prestige and economic benefits that accompany top-ranked research universities means that each state strives to offer as many degree options as possible and to develop research-intensive centers. This may be efficient from each state's perspective, but it is not the optimal allocation of resources nationally. Moreover, federal research funding is concentrated in a few states, and students in other states do not have equal access to the opportunities generated by major research universities (McPherson and Baum 2017).

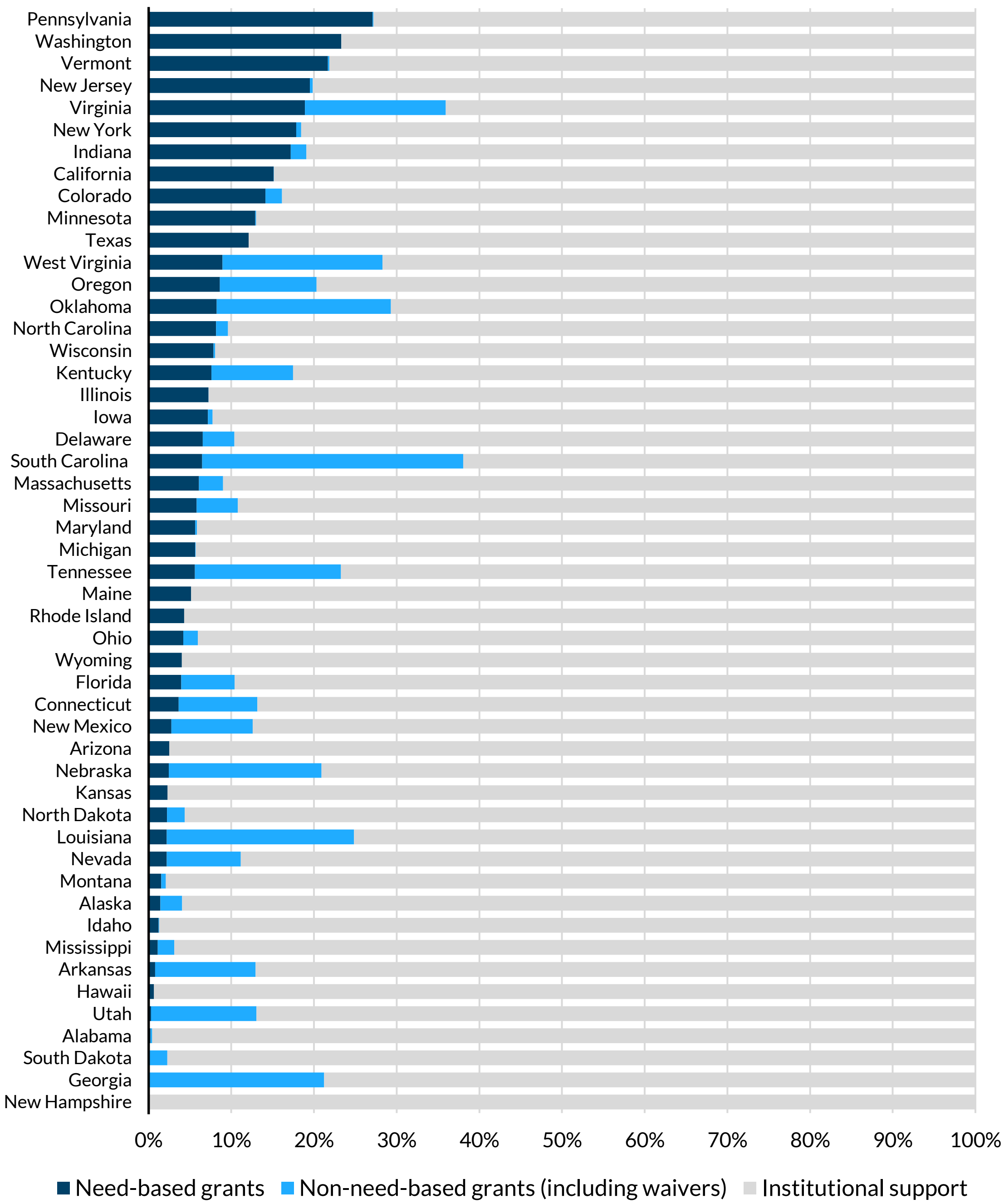
State and federal policies are not well coordinated; state policies sometimes reinforce national goals but sometimes work at cross purposes. The federal government focuses on financial aid to individual students to help them pay bills, but states provide most of their funding directly to institutions. Most states do, however, have state grant programs. These vary in the share of state dollars going to financial aid and in the breakdown between need-based aid and aid allocated without regard to recipients' financial circumstances. Need-based financial aid generally serves the same purpose as federal grant programs, but some states' aid systems are designed to achieve different goals. They may, for example, seek to keep talented students in the state, increase the prestige and selectivity of universities, or diminish college affordability concerns among the middle class.

New Hampshire and Georgia do not have need-based grant aid and in nine other states, less than 2 percent of state funding goes to need-based aid. But in Pennsylvania, Vermont, and Washington, more than 20 percent of state funding goes to these programs. Twenty states have no non-need-based grant programs, but in Georgia, Oklahoma, and South Carolina, more than 20 percent of state funding goes to such programs (figure 2).

State and federal governments might pursue different goals and design their policies accordingly, but policies at one level of government can diminish the effectiveness of funding from another level. For example, large state grant programs targeting high school academic achievement may, even combined with federal Pell grants, generate larger subsidies for students from more affluent families than for students from low-income families. High tuition at public institutions may dampen the effectiveness of federal need-based aid in making college financially accessible to students with limited resources. And inadequate funding of the public institutions educating most at-risk students may hinder the national imperative to increase postsecondary opportunity and attainment, particularly among underrepresented and disadvantaged populations.

FIGURE 2

Need-Based Grant Aid, Non-Need-Based Grant Aid, and State Appropriations to Institutions, by State, 2014–15



Source: Matthew Chingos and Sandy Baum, "The Federal-State Higher Education Partnership: How States Manage Their Roles" (Washington, DC: Urban Institute, 2017), figure 7.

Goals for Reform

The higher education system in the United States is well established and works well, despite its shortcomings. Political realities and uncertainty about the results of major changes dictate that any modifications to the federal-state partnership should be incremental and carefully thought out. But the significant increase in the role of federal funding creates a strong argument for national efforts for more coordination and cooperation among states and between states and the federal government.

One goal of public higher education is to increase economic mobility, providing opportunity for people from all backgrounds to invest in themselves and increase their lifetime prospects. This involves some redistribution of resources, which the federal government generally has the greatest capacity to accomplish. The provision of services, in contrast, is frequently best performed at the state or local level, but differences in services based on local resources can be problematic. Because of the social benefits of an educated population, particularly in a society in which mobility across state lines is common, it may not be in the national interest for some states to offer inferior public higher education or to limit access to higher education to a small segment of the population.[4]

Another issue is that state tax systems are less progressive than the federal tax system. Asking states to raise all public funds for higher education means asking people in the bottom half of the income distribution—many of whom have not gone to college and whose children are likely to get less higher education than those from the upper end of the income distribution—to bear a disproportionate share of the financing burden. The progressive federal income tax system can raise funds in a way that involves less transfer up the income scale.

The federal financial aid system reflects national goals. Since the implementation of the Pell grant program in the early 1970s, a strong bipartisan consensus has developed supporting a federal role in increasing access to postsecondary education for people with limited capacity to pay. It is reasonable that the federal government would want to ensure that its money is paying for education of value. Finding ways to accomplish this goal has been difficult. But that is not an argument for abandoning it.

The federal government should not micromanage higher education or run colleges and universities, but it should continue to pursue effective means of monitoring the outcomes of the public, private nonprofit, and for-profit institutions to which students take their federal student aid dollars.

Insights and Challenges from Experience in Other Areas of Federal-State Interaction

Federal-state partnerships in other domestic policy areas hold lessons for higher education. The federal government provides significant funding for highways and imposes considerable regulation on the states and localities using those funds. In particular, the federal government is concerned about safety, but states seek ways to avoid costly compliance with all the federal standards.

The Medicaid program provides federal matching funds for states subsidizing low-income residents' health care. In contrast to federal funding for higher education, states receive additional federal funds when they spend more of their own money.

The federal government's efforts to increase their influence over elementary and secondary education through the No Child Left Behind Act led to widespread dissatisfaction and the rolling back of the federal role. Yet, the new Every Student Succeeds Act preserves some significant elements of the earlier law, notably measuring test score improvement by subgroups of a school's population and requiring each state to have an accountability plan with federally specified provisions.

Welfare reform and the replacement of Aid to Families with Dependent Children with the Temporary Assistance for Needy Families program, a block grant program for the states, shifted responsibility from the federal government to the states. It also led to a dramatic decline in the funds available to support low-income families and to the diversion of some funds away from their core purpose.[5]

Tensions in federal-state partnerships include state resistance to federal standards, difficulty maintaining adequate funding at the state and federal levels, and the need for flexibility to adjust a national framework to states' circumstances and priorities.

Strategies for Reform

The nation might come closer to meeting its higher education goals if there were better-defined, stronger partnerships among states and between the federal government and state governments.

Reasonable new directions for the federal government to pursue include the following:

- Providing incentives for states to allocate funds across institutions and across students in ways that reduce disparities between students from disadvantaged backgrounds and those with more resources. This is likely to involve more generous funding of the broad-access institutions that educate most students from the lower half of the income distribution. One option might be to use different matching rates depending on the financial circumstances of the students benefiting from the state subsidies.
- Restricting the use of federal student aid funds so there will be fewer opportunities for fraud and abuse and fewer students wasting time and money at institutions unlikely to help them achieve their goals.
- Using federal funds to provide states incentives to offer need-based aid, along the lines of the now-defunct LEAP (Leveraging Educational Assistance Partnership) program.
- Using federal funds to provide institutions incentives to serve more low- and moderate-income students well. The federal government might, for example, provide subsidies to colleges and universities based on the Pell grant eligibility of students who succeed.

Constructive new directions for states include the following:

- Leveraging funds from employers and other private sources to supplement state resources
- Broadening cooperation with other states to avoid unnecessary duplication of programs and facilities and to widen the range of institutions students can attend at in-state prices
- Allowing state financial aid funds to be used at out-of-state public and private institutions

Conclusion

Federal financial aid has grown rapidly in recent years, while per student state appropriations for public colleges and universities have declined. Despite the increasing role of the federal government in funding higher education, it has no direct lever to influence state behavior, which raises fundamental questions about the federal-state partnership.

There are good arguments for the federal government to provide states stronger incentives to strengthen and better target their funding and to diminish the gaps in educational opportunities across states. There are also good reasons the federal government should not take primary responsibility for colleges and universities or impose extensive new regulations. But the federal government should ensure that its funding achieves its goals.

The federal interest is primarily in ensuring access to high-quality postsecondary opportunities regardless of individual ability to pay and in supporting a productive research agenda to promote social, economic, and intellectual progress.

The variety of postsecondary institutions in the United States and the different circumstances under which state higher education systems operate require flexibility. The federal focus should be on better incentives for states and institutions to work toward national goals and on making the system more transparent and simpler to navigate.

Much of the concern about educational opportunities has focused on rising tuition levels. But tuition is only one piece of the puzzle. Being able to pay the price of enrollment is only a small part of what it takes to earn a college degree. Federal investments in students create more value in states that provide the necessary resources to create high-quality public institutions than in those that have very limited funding or focus only on low tuition.[6]

Federal and state governments should work together to improve educational opportunities, particularly for students with limited financial capacity. Improvement will require a stronger federal role in influencing states to provide more reliable funding and in facilitating cooperative efforts to develop a more flexible higher education system that provides the highest-value opportunities for students nationwide.

Notes

1. The 11 states with these large increases were Alaska, Colorado, Connecticut, Hawaii, Kansas, Louisiana, Mississippi, Oklahoma, Tennessee, Virginia, and West Virginia. The largest five-year increase was 59 percent in Louisiana, but increases ranged from 20 to 27 percent in the other 10 states (Ma et al. 2016, table 5).
2. Average prices declined in real terms in Maine and Washington State between 2011–12 and 2016–17 and rose 2 to 5 percent in Indiana, Iowa, Minnesota, Missouri, Montana, Ohio, and Wisconsin (Ma et al. 2016, table 5).
3. "Understanding College Affordability: Tuition and Fees," Urban Institute, accessed April 28, 2017, http://collegeaffordability.urban.org/prices-and-expenses/tuition-and-fees/#/variation_across_states.
4. See McPherson and Baum (2017) for a more complete discussion of these issues.
5. See Conklin and Baum (2017) for a more complete discussion of these issues.
6. See Chingos and Baum (2017) for a more complete discussion of these issues.

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