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A Proposed Federal Matching Program to Stop the Privatization of Public Higher Education

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The American Higher Education Finance System is Broken

State Disinvestment in Public Higher Education is Contributing to a College Affordability Crisis

The withdrawal of state funding for public postsecondary institutions has shifted the burden of paying for college. An increasing share of college costs are borne today by students and families—through tuition and mandatory fees—and the federal government—through the Pell Grant and other forms of student aid. Left unchecked, this disinvestment by states in public higher education will continue to decrease college affordability and could eventually lead to a complete privatization of public higher education.[1] Further, the downward trend in states' investment in higher education will have profound repercussions on our nation's and states' economic competitiveness, the vitality of our democracy and our communities, along with the aspirations of millions of Americans.

Numerous measures illustrate states' disinvestment in public higher education over the past quarter-century. The 25-year (1987–2012) trend in states' fiscal commitment to public higher education reveals the following:

- State appropriations per full-time equivalent (FTE) student has declined 30 percent, adjusted for inflation, from $8,497 to $5,906;[2]
- State fiscal support per $1,000 of personal income has plummeted 37 percent, from $9.32 to $5.89. If, in 2013, states had invested their personal income at the 1980 rate, states would have appropriated $135 billion for higher education instead of the $72 billion they actually did;[3]
- State higher education spending as a share of states' general fund budgets has dropped 16 percent, from 12.3 to 10.3 percent.[4]

About this Paper

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Enrollment Growth and State Funding of Public Higher Education Institutions

25-Year Trend (Inflation-Adjusted Dollars)

While total state funding for public higher education has increased slightly during the past quarter century, several measures signal a notable disinvestment by states in their public higher education systems. This disinvestment is especially pronounced when factoring in the significant student enrollment growth that has occurred.

Full-Time Student Enrollment

1987	2012
7.1 million	11.5 million

% change

+62%

State Appropriations per Full-Time Equivalent Student

$

1987	2012
$8,497	$5,906[1]

% change

-30%

State Fiscal Support per $1,000 of Personal Income

$

1987	2012
$9.32	$5.89

% change

-37%

State Higher Education Spending as a Share of States' General Fund Budgets

$

1987	2012
12.3%	10.3%[2]

% change

-16%

Sources: State Higher Education Executive Officers, Pell Institute for the Study of Opportunity in Higher Education, National Association of State Budget Officers.

[1]Both the 1987 and 2012 figures calculated utilizing Higher Education Cost Adjustment.

[2]Fiscal 2011 figure.

The cuts made by states in public higher education funding have in turn led to fast-rising tuition prices and deeper student debt burdens, making a college education less affordable. According to The College Board, the average published price of tuition and fees at public four-year colleges increased 50 percent between 2003–2004 and 2013–2014. During the same ten-year period, the lower, average net price of tuition and fees (factoring in all sources of grant aid) at public four-year colleges grew 62 percent.[5] Meanwhile, FTE student enrollment increased 62 percent between 1987 and 2012,[6] underscoring the continued strong demand for affordable, accessible public colleges and universities.

A New Way Forward: Shared Responsibility for Keeping College Affordable through a Federal-State Partnership

The Federal Government Must Leverage Its Investment in Student Aid Programs to Encourage Increased State Higher Education Funding

Responsibility for paying college costs has historically been a shared partnership among multiple stakeholders, including the federal government, the states, employers, philanthropic organizations, institutions of higher education, parents and students. Despite its *ad hoc* and uncoordinated nature, this model worked quite well through much of the post-War period, allocating costs to the various participants in the financing system in a satisfactory manner. Beginning in the mid-1970s, however, rising college costs, federal and state budget woes, stagnant family incomes and inadequate coordination among the stakeholders began to cause significant dysfunctions in the public higher education financing system. Partners who had independently contributed resources to reduce out-of-pocket costs to students began to pull back or simply failed to keep up with escalating costs or increased demand. As out-of-pocket costs increased, the federal government, facing enormous budget deficits, turned to student loans as its primary policy tool for assisting students with financing a college education.

The debt-financing of higher education has created a path of least resistance for cost-shifting, with students being assigned an ever-increasing share of the financial burden through massive—and arguably unsustainable—borrowing. The primary shift has been a sizeable reduction in the states' share of college costs and their transfer of these costs to students through tuition hikes. Not only has the federal government's significant investments in federal student aid programs not negated state disinvestment; they might have inadvertently opened a path of least resistance for reducing state investment in higher education. Even if federal and state policies were not viewed as working at cross purposes, the absence of a clear policy alignment between federal and state funding practices would still stand out as one of the core dysfunctions of the American higher education financing system. A new approach to financing higher education is required; one that re-aligns state and federal policies and provides meaningful incentives for states to invest in public higher education.

The American Association of State Colleges and Universities (AASCU) proposes using existing federal resources to create a new federal matching grant program that leverages federal funds to incentivize states to boost operating support for public higher education, in turn mitigating tuition price increases and improving college affordability. These federal dollars will encourage states to both maintain their existing financial commitments toward public higher education access and affordability, and to make further investments in public colleges and universities. The integration of strong federal financial incentives will encourage governors and legislative leaders to reconsider cutting higher education funding and raising tuition as a budget balancing mechanism. A federal matching program will re-balance the state-federal responsibility for ensuring student access to high-quality, affordable college opportunities.

Recent Precedent Illustrates the Strength of Federal Incentives to Encourage State Investment in Public Higher Education

Since the reauthorization of the Higher Education Act (HEA) in 2008, the federal government has attempted to influence state higher education funding levels through "maintenance of effort" (MOE) provisions in federal law. These provisions require states to maintain funding levels for public institutions of higher education (excluding research funding or capital outlays) at or above a specified threshold in order to be eligible for federal funds. While federal MOE provisions are relatively new to higher education, K-12 programs such as Title I and the Individuals with Disabilities Act (IDEA) have had longstanding MOE requirements.

The historical lack of MOE requirements affecting state higher education funding can be attributed to the federal government's "voucher" approach to student financial aid, in which grant dollars are distributed through the student to the institution of their choice (public, not-for-profit or for-profit), thus bypassing state government. Nevertheless, short-term MOE provisions have been included in the 2009 American Recovery and Reinvestment Act and the 2010 Education Jobs Fund. The only longer-term higher education law with an

MOE provision is the College Access Challenge Grant (CACG), which was appropriated $150 million annually at its peak, far below the $10 billion single-year appropriation for the Education Jobs Fund and the nearly $48 billion allocated over three years through the federal stimulus legislation. The CACG, which started in fiscal year 2008, is set to expire in fiscal year 2014.

Recent Federal Measures to Leverage States' Fiscal Commitment to Public Higher Education

Federal Legislation	Federal Appropriation	Maintenance of Effort Requirement
College Access and Completion Grants (2008)	$66 million in FY 2008 and 2009, $150 million in FY 2010–2012 and $142 million in FY 2014	State must provide operating support for higher education equal to or greater than the average amount provided over the prior five fiscal years.
State Fiscal Stabilization Fund included in the American Recovery and Reinvestment Act (2009)	$48 billion	State must maintain operating support for higher education for fiscal years 2009, 2010 and 2011 at least at the level of such support in fiscal years 2006.
Education Jobs Fund (2010)	$10 billion	Three alternative maintenance of effort requirements.

Analyses conducted by AASCU in 2010 and 2012 demonstrate that the MOE provision included in the American Recovery and Reinvestment Act of 2009 did in fact encourage state lawmakers to be mindful of federal requirements when deliberating higher education funding.[7] Moreover, these federal funding incentives served as an effective policy tool in maintaining states' fiscal commitment to higher education, as evidenced by the number of states that funded higher education at just above the minimum threshold. AASCU's analysis found that in the stimulus legislation:

- Three states cut to within 1 percent of their minimum MOE threshold in fiscal year 2009;
- Fifteen states cut to within 1 percent of their minimum MOE threshold in fiscal year 2010, including 11 states to within .25 percent of the threshold;
- Twelve states cut to within 1 percent of their minimum MOE threshold in fiscal year 2011, including five to within .25 percent of the threshold.

While recent federal MOE provisions that included strong incentives have been effective at encouraging states to maintain their funding levels in the short-term, these efforts have not been strategic or part of a longer-term approach to increase states' fiscal commitment to public higher education. Further, these efforts have only sought to "maintain" existing state funding levels, regardless of whether a state's per-student funding is low or high. As designed, recent MOE provisions have not rewarded—and even may have discouraged—states from increasing their long-term financial support of public colleges and universities. A new model is needed that acknowledges existing levels of per-student state support for public higher education and that strategically leverages federal dollars to incentivize additional state investment.

A New Federal-State College Affordability Partnership

AASCU proposes a ***Federal-State College Affordability Partnership,*** a federal matching grant program that incentivizes states' investment in public higher education and aligns the federal government's commitment to student aid with states' fiscal support of public colleges and universities. Benefits of the Federal-State College Affordability Partnership include:

- ***A strong link between state and federal investment in higher education.***
  The proposed model re-balances state and federal financial commitments to public higher education by linking increases in the maximum Pell Grant award to state investment, providing an incentive for states to boost their financial commitment and a disincentive to cut higher education funding. As a result, future increases in the Pell Grant will retain their capacity to reduce college costs for low-income students, and not merely serve as an offset to higher tuition prices.

- ***Improved stability and predictability of state higher education funding.*** Higher education often serves as the "balance-wheel" in states' budget—steeply reduced in lean economic times and increased in periods of economic growth. State funding of higher education can therefore be volatile, hampering institutions' long range planning efforts and students' and families' ability to plan for financing a college education. This federal program will put public higher education financing on a path toward long-term sustainability.

- ***A meaningful solution to the affordability crisis in public higher education.*** State funding is the primary driver behind changes in tuition prices at U.S. public colleges and universities. If state disinvestment continues, college affordability will decrease further for low- and middle-income students. Additionally, it will impede the competitiveness of our nation's workforce, inhibit economic development and hinder numerous other individual and collective benefits of a well-educated society. The Federal-State College Affordability Partnership will stem the tide of state disinvestment and keep college affordable.

How the Federal-State College Affordability Partnership Would Work

As a preliminary point, we note that the following proposal is intended as an incentive-based framework to link federal and state policy. As such, the proposal has significant elasticity and is not meant to operate with mechanistic causality. The proposal thus relies on reasonable political reaction, likely constituent demands and general consensus that investment in higher education is a reasonable course of conduct.

The proposed Federal-State College Affordability Partnership is a federal matching grant program capped at $15 billion, a figure equal to almost 25 percent of total state operating support in fiscal year 2012 ($63.5 billion).[8] Based on the outcomes of the State Fiscal Stabilization Fund contained in the 2009 American Recovery and Reinvestment Act, which provided an amount equal to approximately $15 billion annually to states to maintain education funding, the proposed expenditure of this federal investment is sufficiently compelling to change states' higher education funding behavior. The federal expenditure in the first year of the program would be approximately $10.6 billion, allowing room for growth in the program in subsequent years.

In a departure from previous federal MOE provisions aimed at incentivizing increased state investment in public higher education, the program would focus solely on per FTE student operating subsidies for public colleges and universities, because these are the state dollars that keep tuition affordable.[9] The funding formula would be indexed to the federal government's level of support for low-income students—the Pell Grant maximum award—as opposed to each state's unique funding history.[10] In other words, the federal grant award for each state would be calculated based upon how much money the state provides for public higher education operating support, on a per FTE student basis, compared to the Pell Grant maximum award.[11] States that provide per FTE student operating support for public higher education at a level between 50 percent and 150 percent of the Pell Grant maximum award would receive an annual block grant.

The allocation of federal monies would be distributed to states utilizing a five-tier formula, representing equal categories (quintiles of 10 states in each category based on their level of per FTE student operating support). The formula includes an increasing match rate in each of the first four funding tiers for every $1 in state per FTE student operating support for public higher education, thus incentivizing increased state investment. Much like income tax rates, the matching amount would be calculated on a marginal basis, meaning that a state that provides enough money on a per FTE student basis to qualify for the federal match rate in tiers 2 through 5 will also receive the matching amounts tied to the lower tiers.

The initial thresholds and the ratios tying state operating support to the Pell Grant maximum award were chosen to divide the states into quintiles in order to provide an analytic framework for the normative direction of the federal-state partnership. Within this framework, the top and the bottom quintiles would capture outlier states, and the middle three quintiles would represent the mainstream continuum along which the proposed program would seek to mainly influence state funding policy.

The federal funding formula incentivizes states to invest in public higher education. The more fiscal support states provide per FTE student, the higher the federal match rate, with the peak match reaching $.60 for each dollar of state investment per FTE student, as shown in the illustration below. As a measure of fiscal efficiency in the federal formula, the match rate in tier 5 (states with the highest per-student spending) is reduced to $.10. The ten states in tier 5, as an example, will receive the match rate for each state dollar spent per FTE student for tiers

1 through 4, yet will still receive an ongoing level of support for each additional dollar they spend per FTE student above the tier 5 funding floor.

Formula for the Federal Block Grant Award

State Per Full-Time Equivalent (FTE) Student Funding for Public College and University Operating Support

X

Marginal Federal Match Rate Based on State Per-FTE Student Funding as a Percentage of the Pell Grant Maximum Award

X

State FTE Student Enrollment

=

Federal Block Grant Award

Federal Block Grant Allocation Table

	State Per FTE Student Funding as a Percentage of the Pell Grant Maximum Award ($5,550)	Federal Match Rate
	Below 50% – No Federal Award	
Tier 1	Between 50 – 76.5% ($2,775 to $4,249)	$.25
Tier 2	Between 76.6 – 95% ($4,250 to $5,269)	$.40
Tier 3	Between 95 – 109% ($5,270 to $6,063)	$.50
Tier 4	Between 109 – 131.7% ($6,064 to $7,312)	$.60
Tier 5	Between 131.7 – 150% ($7,313 to $8,325)	$.10
	Above 150% – No Additional Federal Award (Match Rate Capped)	

Providing an annual block grant to states that includes a scaled federal award based on a state's current level of per FTE student funding, coupled with an incentivize to increase this investment, is the most assured method by which to stop the decades-old trend toward the privatization of public higher education. Using this proposed funding formula as its foundation, the Federal-State College Affordability Partnership will provide the financial support to public colleges and universities requisite to mitigate rising tuition prices and make college affordable.

Sample Calculation of a State's Federal Award

As an illustration of a state's calculation of the federal matching grant, let's suppose a state's per FTE student operating support is $5,765, placing it in the third funding tier, and has an FTE student enrollment of 225,000. The state would be awarded a $.25 federal match for each state dollar allocated within tier 1 ($4,249–$2,775 = $1,474), a $.40 match rate for each state dollar allocated within tier 2 ($5,269–$4,250 = $1,019), and a $.50 match rate for each state dollar allocated within tier 3 ($5,765–$5,270 = $495). The cumulative federal match rate is then multiplied by the state's FTE student enrollment figure.

Tier 1 match rate:	$.25 X $1,474 ($4,249–$2,775)	=	$368.50
+			
Tier 2 match rate:	$.40 X $1,019 ($5,269–$4,250)	=	$407.60
+			
Tier 3 match rate:	$.50 X $495 ($5,765–$5,270)	=	$247.50
	Total per-FTE student federal match	=	$1,023.60
X			
225,000 FTE students =	Total Federal Match		$230,310,000

First Year Simulation of Federal Block Grant Matching Funds to States

In a simulation of the first annual award of the federal block grant, states would collectively receive approximately $10.6 billion in matching funds (see Appendix), a figure equal to 17 percent of states' aggregate investment in higher education operating support in fiscal year 2012. The amount of the federal block grant will vary considerably by state, based on its level of investment in public higher education operating support, and to a lesser degree, fluctuations in student enrollment. For any state, growth in the amount of the federal block grant in subsequent years could be significant, depending on the increase in per FTE student operating support it provides. In the first year simulation, which uses fiscal year 2012 state spending and enrollment data for consistency, New Hampshire is the only state that would not receive a federal block grant award. However, given the increase in public higher education operating support the state provided in fiscal year 2013, it would likely be close to qualifying for a federal award based on its new level of investment. On the other end of the spectrum, several states would receive significant federal block grants in the first year, including Texas ($1.32 billion), California ($1.21 billion), New York ($816 million), North Carolina ($834 million) and Illinois ($814 million).

A further simulation in which all 50 states increase their per FTE student operating support for higher education by 12 percent generates a total federal program expenditure of still less than the proposed $15 billion spending cap. This illustrates that states could boost their investment in higher education significantly at the outset of the program and yet would continue to benefit from increased federal matching dollars in subsequent years.[12]

Illustrative Three-Year Horizon State Simulations

The amount of the annual federal matching grant awarded to states will vary based on a state's higher education funding level, the extent to which state lawmakers reinvest the federal matching dollars back into higher education, and fluctuations in FTE student enrollment. Three hypothetical scenarios are shown below in which the Federal-State College Affordability Partnership program is simulated for a three year period.

Michigan: If Michigan lawmakers were to direct the entire federal matching grant for the first three years of the program to public higher education operating support—with the assumption that FTE enrollment declined by one percent annually—the state's investment in public higher education would increase 23.5 percent on an aggregate basis and 27 percent per FTE student. This would reverse a trend in which the state's higher education funding has been cut 21.5 percent during the past five years.[13] At the end of three years, the new, higher level of per FTE student funding would propel Michigan into the second tier in the federal funding formula, thereby increasing the federal match rate. A funding increase of this magnitude would arguably negate the need for tuition increases at the state's public colleges and universities.

Virginia: In a scenario in which the state's lawmakers allocate 50 percent of the federal matching grant dollars to higher education annually and FTE enrollment simultaneously increases by one-half percent, the state's aggregate investment in higher education operating support would increase 15 percent after three years, and per FTE student funding would increase 13.7 percent. This would reverse a nearly 10 percent decline in state higher education funding witnessed in the past half-decade in Virginia.[14] Like Michigan, after three years, the level of per FTE student funding in Virginia would move the state into the higher federal match rate associated with tier two of the program's funding formula. The additional revenue generated by the program would greatly reduce the likelihood of increases in tuition rates.

Oklahoma: An alternative scenario in which the state's lawmakers do not allocate any of the federal matching grant dollars toward higher education and FTE enrollments increase two percent annually would see aggregate funding for higher education remain unchanged after three years (in non-inflation adjusted dollars), while per FTE student funding would decrease 5.7 percent. Oklahoma would drop from tier 4 to tier 3 in the federal funding formula and at the end of three years would receive approximately $11 million less in the federal matching grant. This demonstrates that not allocating any of the federal matching monies for public higher education would result in the continued erosion of state investment in higher education (on a per FTE student basis) and the likely continuation of increasing tuition prices and decreasing college affordability at the state's public colleges and universities.

Defining State Operating Support

As previously mentioned, only dollars specifically allocated for public higher education operating support are used in the calculation of state per FTE student funding for the purposes of the federal match formula. The formula does not include state monies allocated for student grant aid programs, capital outlay, deferred maintenance, research and development, or extension related activities. The exclusion of capital outlays and state student grant programs, in particular, may prove puzzling. As we explain in discussing potential unintended consequences, capital outlay funding remains a concern, but one that is not insurmountable. In contrast, state grant programs represent a more complicated challenge. While state monies allocated for student aid programs help the subset of a state's student population that receives this support, these programs have over time provided political cover for tuition hikes by allegedly neutralizing their effect on needy students. What was initially sold to state policymakers as a more rational economic allocation model, i.e., high tuition/high aid, has thus degenerated into high tuition/low aid in many states, with much of the aid now diverted into merit-based models that do nothing for college access.[15]

In addition, tying annual federal incentive payments to state per FTE student operating support—as opposed to state aggregate funding levels—mitigates potential gaming of the system and ensures adequate funding for enrollment increases. One shortcoming of the year-over-year federal MOE model that has been used in recent years is that it unfairly penalizes states that have historically been more generous in their fiscal support of public higher education—i.e., states that have traditionally provided more funding for public postsecondary education are held to a higher standard (a higher minimum MOE funding threshold), while states with a poorer history of investment are held to a lower standard of funding support (a lower minimum MOE threshold). In addition, the use of a moving (and hopefully increasing) index like the Pell Grant maximum award further encourages state investment over time by fully aligning state funding in support of broad-based college affordability with federal efforts targeting students' financial need.

Federal Penalty for State Reductions in Public Higher Education Operating Support

This federal matching program will incentivize states to increase funding for public higher education and, likewise, provide a disincentive for reducing investment. A full dollar-for-dollar reduction in a state's federal grant award would be applied to any state that reduced its per FTE student operating support for public higher education in a given fiscal year. This amount would be calculated as the dollar difference in state per FTE student funding between the two years multiplied by the number of students in the state. This amount would be subtracted from the federal grant distributed to the state. States will not lose money beyond the possibility of not receiving a federal grant in a given year.

An Additional Incentive to States—Complete Discretion over Federal Block Grant Monies

No strings would be attached to the federal grant in terms of how states utilize the federal block grant dollars. States would have full discretion over the federal award monies earned in this program; they could utilize them for any purpose, whether or not it is related to higher education. This approach provides needed flexibility to states' allocation of resources, while ensuring that additional federal dollars are only provided in response to increases by states in public higher education operating support.

Addressing Unintended Consequences of a Federal Matching Grant Program

A federal matching program is best when it is simple in system design and free of bureaucratic or reporting burdens. Still, in designing an effective program, careful attention must be given to any consequences involving state funding decisions, whether intentional or unintentional, that may impact the access to and quality of public higher education. It will be important to ensure that increases by states in public higher education operating support that are designed to increase the federal matching block grant award do not generate negative funding repercussions in other areas affecting public colleges and universities, such as states' fiscal support for campus deferred maintenance and capital outlay needs. Certainly, state capital outlay dollars affect institutional capacity, and this capacity has direct consequences for the ability of each state to serve its citizens. We have chosen to exclude state-provided capital outlay dollars in the federal funding formula primarily because their linkage to tuition pricing is far more tenuous than direct state operating support dollars, but also because we believe capital projects have their own strong advocates within each state.

Additional Considerations

Because the proposed program's federal funding formula consists of a series of "step functions," it is theoretically susceptible to gaming near the margins. It would thus be mathematically possible for a state at the threshold of a higher matching tier to increase its aggregate federal award by reducing enrollments in order to artificially increase its per FTE student operating support. Realistically, this type of gaming strikes us as politically unfeasible and unlikely, given the consequences of reducing college access.

There are opportunities for added customization in this proposed federal program, should the discretionary gaps in the proposed policy prove alarming. One possible change would include algorithmically tying federal incentive awards directly to tuition. We have chosen not to do this because we believe that state policymakers would be unlikely to tolerate significant tuition increases at the same time they increase funding for higher education.[16] Those who have a less charitable view of state behavior and those who subscribe to the revenue theory of tuition inflation may find the lack of formulaic prescription inadequate. Other possible modifications of this proposal include a mandate that a certain percentage of federal award dollars be allocated directly for public higher education operating support or that tuition increases be formulaically mitigated in proportion to newly added state dollars.

Financing a Federal Matching Grant Program

The Federal-State College Affordability Partnership program would cost a relatively modest amount in the overall context of the federal budget and in comparison to the amount of state funding it would leverage. It is recommended that the program's annual block grant expenditure is capped at $15 billion, although a lower cap could also be put in place. The program could be funded through a reallocation of the federal government's current higher education expenditures. Repurposing existing federal dollars can be done through better gatekeeping of institutional eligibility to participate in federal student aid programs, including the elimination of waste, fraud and abuse in the for-profit sector, as well as improved risk-sharing in federal student loan programs. Furthermore, changes to educational tax credits could also produce adequate offsets to fund the proposed program. However, given the innovative nature of this program and the potential transformative effect it could have on college affordability, new federal monies to finance it should also be considered.

The Value Proposition—Creating a More Effective Public Higher Education Financing Model and Improving College Affordability

The federal government, state governments, institutions, and students and families all play a role in financing a college education. Public colleges and universities must strive to restrain growth in per-student spending and be held accountable for dollars allocated through the federal and state government, and those received through students' tuition payments. However, it is the investment made by states in public higher education that is the most effective mechanism for assuring college affordability. As a nation, we must strengthen the foundation of this state investment.

The Federal-State College Affordability Partnership aligns federal and state responsibility for funding public higher education to help ensure that a public college education remains affordable. It also synthesizes national and state workforce development and economic competiveness interests. The federal matching grant formula achieves this alignment by only rewarding states that *supplement* funding for public higher education operating support, thus discouraging states from using federal dollars to *supplant* state investment.

Moreover, by encouraging federal and state dollars to work together to fund higher education, the matching grant program helps ensure that all available resources are used to facilitate students' access to affordable and high quality postsecondary education. Given the looming college affordability crisis, states' appropriately ambitious college completion and educational attainment goals, and the vital importance to America of a highly educated and competitive workforce, our nation needs this joint commitment in order to remain a world economic leader. Now is the time to give serious consideration to an alliance such as the Federal-State College Affordability Partnership program.

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Appendix: Simulation of First Year Federal Matching Block Grant Awards to States

	Per-FTE Student State Operating Support FY 2012	Public Higher Education FTE Student Enrollment	Aggregate State Operating Support FY 2012	Percent of Pell Maximum ($5,550)	Marginal Spending Above Tier Baseline	Total Federal Block Grant Award	Award as Share of Aggregate State Appropriation
TIER 1 = 50% to 76.58% of Pell (25% Match of Marginal Spending above Quintile Baseline) Spending $2,775 to $4,249.99							
New Hampshire	$2,115	39,099	$82,697,778	38%		$0	0%
Colorado	$2,810	192,541	$541,127,382	51%	$35	$1,706,527	0%
Arizona	$2,937	275,238	$808,336,000	53%	$162	$11,137,638	1%
South Carolina	$2,943	176,416	$519,257,804	53%	$168	$7,425,851	1%
Oregon	$3,068	170,351	$522,672,944	55%	$293	$12,487,230	2%
Vermont	$3,196	21,765	$69,559,315	58%	$421	$2,290,360	3%
Pennsylvania	$3,564	369,046	$1,315,432,138	64%	$789	$72,832,372	6%
Michigan	$3,655	423,198	$1,546,632,500	66%	$880	$93,064,513	6%
Ohio	$4,126	455,507	$1,879,572,694	74%	$1,351	$153,884,915	8%
Virginia	$4,246	325,517	$1,382,072,481	77%	$1,471	$119,690,702	9%
Total			$8,667,361,036			$474,520,106	5%
TIER 2 = 76.6% to 94.9% of Pell (40% Match of Marginal Spending above Quintile Baseline) Spending $4,250 to $5,269.99							
Washington	$4,250	253,902	$1,079,125,659	77%	$0	$93,642,591	9%
Missouri	$4,259	196,360	$836,334,530	77%	$9	$73,129,071	9%
Wisconsin	$4,322	233,284	$1,008,184,614	78%	$72	$92,713,937	9%
Rhode Island	$4,644	31,729	$147,340,823	84%	$394	$16,697,019	11%
Florida	$4,732	638,018	$3,019,239,688	85%	$482	$358,332,818	12%
Montana	$4,855	40,847	$198,326,949	87%	$605	$24,953,109	13%
Indiana	$4,909	261,765	$1,285,098,558	88%	$659	$165,564,113	13%
Kansas	$5,014	142,967	$716,860,983	90%	$764	$96,419,217	13%
Tennessee	$5,138	203,596	$1,046,036,324	93%	$888	$147,376,846	14%
Iowa	$5,148	132,423	$681,716,439	93%	$898	$96,398,126	14%
Total			$10,018,264,567			$1,165,226,846	12%
TIER 3 = 95% to 109% of Pell (50% Match of Marginal Spending above Quintile Baseline) Spending $5,270 to $6,063.99							
South Dakota	$5,271	33,540	$176,785,709	95%	$1	$26,066,931	15%
Minnesota	$5,325	214,055	$1,139,881,276	96%	$55	$172,171,543	15%
California	$5,343	1,495,868	$7,992,395,000	96%	$73	$1,216,491,066	15%
Idaho	$5,544	58,980	$327,006,303	100%	$274	$53,903,183	16%
Utah	$5,642	126,594	$714,252,937	102%	$372	$121,882,345	17%
West Virginia	$5,653	80,193	$453,321,882	102%	$383	$77,641,777	17%
Delaware	$5,710	34,672	$197,982,466	103%	$440	$34,561,764	17%
Georgia	$5,737	379,004	$2,174,442,277	103%	$467	$382,934,492	18%
Louisiana	$5,842	181,589	$1,060,822,060	105%	$572	$192,971,570	18%
New Jersey	$5,983	278,868	$1,668,467,244	108%	$713	$316,025,348	19%
Total			$15,905,357,154			$2,594,650,020	16%
TIER 4 = 109% of to 131.7% Pell (60% Match of Marginal Spending above Quintile Baseline) Spending $6,064 to $7,312.99							
Oklahoma	$6,065	146,518	$888,628,459	109%	$1	$172,060,534	19%
Maryland	$6,106	242,955	$1,483,503,549	110%	$42	$291,301,509	20%
Massachusetts	$6,215	170,221	$1,057,933,487	112%	$151	$215,224,537	20%
Texas	$6,375	972,911	$6,201,882,544	115%	$311	$1,323,238,106	21%
Kentucky	$6,388	159,305	$1,017,642,663	115%	$324	$217,953,494	21%
New York	$6,428	586,204	$3,768,086,600	116%	$364	$816,059,475	22%
Mississippi	$6,469	142,031	$918,774,946	117%	$405	$201,207,340	22%
Arkansas	$6,597	125,981	$831,037,979	119%	$533	$188,122,897	23%
Maine	$6,827	37,897	$258,722,203	123%	$763	$61,830,234	24%
Alabama	$6,901	205,317	$1,416,892,617	124%	$837	$344,099,692	24%
Total			$17,843,105,047			$3,831,097,820	21%
TIER 5 = 131.7% to 150% of Pell (10% Match of Marginal Spending above Quintile Baseline) $7,313 to $8,325							
Nevada	$7,313	64,697	$473,148,326	132%	$0	$124,423,532	26%
Illinois	$7,366	422,261	$3,110,470,401	133%	$53	$814,316,068	26%
New Mexico	$7,586	97,742	$741,473,161	137%	$273	$190,640,483	26%
Nebraska	$7,716	83,861	$647,030,417	139%	$403	$164,652,229	25%
North Carolina	$8,557	412,349	$3,528,609,888	154%	$1,012	$834,736,018	24%
North Dakota	$8,890	37,503	$333,409,706	160%	$1,012	$75,918,954	23%
Connecticut	$10,858	85,683	$930,333,812	196%	$1,012	$173,451,824	19%
Wyoming	$11,766	26,174	$307,953,519	212%	$1,012	$52,985,167	17%
Hawaii	$12,507	40,612	$507,923,064	225%	$1,012	$82,212,638	16%
Alaska	$16,363	21,819	$357,025,101	295%	$1,012	$44,169,151	12%
Total			$10,937,377,395			$2,557,506,065	23%
Grand Total First Year Federal Block Grant Award			**$63,371,465,200**			**$10,623,000,857**	**17%**

Endnotes

[1]For a projection of when states' higher education investment will reach zero based on funding trends from 1980 through 2012, see *The Race to Zero: State Fiscal Support for Higher Education FY1961 to FY2012* in the February 2012 edition of Postsecondary Education Opportunity, published by The Pell Institute for the Study of Opportunity in Higher Education.

[2]*State Higher Education Finance Report—Fiscal Year 2012.* State Higher Education Executive Officers, 2012.

[3]*Postsecondary Education Opportunity Newsletter,* (February 2013). The Pell Institute for the Study of Opportunity in Higher Education.

[4]*Improving Postsecondary Education through the Budget Process,* (Spring 2013). National Association of State Budget Officers.

[5]*Trends in College Pricing,* (2013). The College Board.

[6]*State Higher Education Finance Report—Fiscal Year 2012.* State Higher Education Executive Officers, 2012.

[7]See AASCU "Policy Matters" Policy Brief publications. *"Maintenance of Effort," An Evolving Federal-State Policy to Ensuring College Affordability,* (April 2010), and *Update on the Federal Maintenance of Effort Provision: Reinforcing the State Role in Public Higher Education Financing,* (July 2012).

[8]State funding data for public higher education operating support supplied by the State Higher Education Executive Officers association. For the purpose of this proposed federal program model, state operating support is defined as that which is provided to institutions for operations and does not include state monies provided for student grant aid programs, capital outlay, deferred maintenance, research and development, or extension related activities.

[9]The full-time equivalent (FTE) of students is a single value providing a meaningful combination of full time and part time students.

[10]Some have argued that states have used increases in the federal Pell Grant maximum award as justification for cutting higher education budgets. This program will reduce the likelihood of that occurring.

[11]For consistency and fairness, the federal formula calculation would use the same fiscal year when determining the federal Pell Grant maximum award and states' per FTE student operating support. The simulation in this proposal utilizes fiscal year 2012 data for both the Pell Grant maximum award and states' per FTE student operating support.

[12]As proposed, the initial federal formula used to calculate the block grants provided to states would need to be adjusted via a ratable reduction at the point at which the program's $15 billion spending cap is exceeded. Adjustments in the federal allocation formula could take many forms, including realignment of the federal match rate or of the tiers that tie state FTE student operating support to the amount of the Pell Grant maximum award.

[13]*Five-year Percent Change in State Fiscal Support for Higher Education, FY2008–FY2013,* Grapevine, Center for the Study of Education Policy, Illinois State University.

[14]Ibid.

[15]The trade-off of state merit-based programs for operating subsidies strikes the authors as reasonable and highly defensible. What to do about state need-based programs from a policy perspective would be a more complicated matter. While the authors are comfortable excluding state need-based programs from the federal matching formula, they would point out that any attempt to credit the states for them would entail huge operational challenges, not least of all the creation of a federal definition for qualifying what constitutes a need-based program.

[16]Skeptics may object that under the proposed program the states could receive a first-year windfall based on their prior-year funding levels, and that, if they so choose, could spend the federal award monies on purposes other than higher education. We believe that the economic incentive to invest the new federal dollars in public higher education, and to thus become eligible for even more funding the following year would prove sufficiently compelling that a federal mandate on the use of the federal award monies is unnecessary.

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- We are institutions of access and opportunity. We believe that the American promise should be real for all Americans, and that belief shapes our commitment to access, affordability and educational opportunity, and in the process strengthens American democracy for all citizens.

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