Reimagining State Higher Education Funding

Recommendations from the Ithaka S+R Convening

James Dean Ward
Elizabeth Davidson Pisacreta
Benjamin Weintraut
Martin Kurzweil

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Introduction

The effects of the COVID-19 pandemic are still unfolding, but already the pandemic seems likely to have an unprecedented impact on higher education finances. In response to declining tax revenues, states are beginning to curtail higher education funding, a key source of revenue for many public colleges and universities.[1] Changing enrollment patterns and rising unemployment has softened demand for some colleges, which can negatively affect tuition revenues.[2] Limitations on in-person activities and increased health-related costs are shrinking auxiliary revenues, a revenue source residential colleges and universities increasingly relied on after the Great Recession.[3]

Much like the pandemic itself, these financial shocks have the greatest impact on the students and institutions with the greatest needs.[4] Colleges and universities that are more reliant on state funding or more sensitive to softening demand are making ever-deeper cuts to expenditures in order to balance their budgets. The colleges that enroll disproportionate shares of lower-income students and students of color are most affected, and the cuts they are imposing have an outsized impact on the quality of those students' college experience and their likelihood of graduating. Gaps by race/ethnicity and income in students' access, affordability, and outcomes pre-date the global pandemic and the Great Recession, but both of these events have put state policymakers in an increasingly precarious position to address them.

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Yet, higher education is essential to a state's economic recovery, both because colleges and universities fuel many local economies and because higher education attainment is vital to individual prosperity and state economic productivity. States that invest in higher education today are more likely to see a greater payoff in months and years of recovery to come.

In fall 2019, Ithaka S+R, with support from the Joyce Foundation, convened a group of experts to identify and discuss the weaknesses in current higher education funding models and develop new ideas and approaches to improve upon current models or revamp the funding system. These experts included researchers, state administrators and policy staff, foundation officials, and institution and system leaders who all have significant knowledge of postsecondary funding. While the world has changed significantly since that meeting, many of the insights that emerged

[1] Sophie Nguyen, Rachel Fishman, Dustin Weeden, and Thomas Harnisch, "The Impact of COVID-19 on State Higher Education Budgets," New America, November, 2020, https://www.newamerica.org/education-policy/reports/state-budget-cuts.

[2] "Fall 2020 Enrollment," National Student Clearinghouse, November, 2020, https://nscresearchcenter.org/stay-informed/.

[3] Lilah Burke, "Alternatives to Austerity?" *Inside Higher Ed*, 14 October 2020, https://www.insidehighered.com/news/2020/10/14/college-staff-face-layoffs-some-argue-against-budget-cuts.

[4] Paul Fain, "Higher Education and Work Amid Crisis," *Inside Higher Ed*, 17 June 2020, https://www.insidehighered.com/news/2020/06/17/pandemic-has-worsened-equity-gaps-higher-education-and-work.

have even greater resonance in a post-COVID context. This brief adapts the findings and recommendations of that discussion to today's environment.

This brief puts forward four recommendations for how states should approach higher education funding to make it more equitable and cost effective in a time of financial upheaval: prioritizing education funding, targeting investments to prioritize equity in access and outcomes, raising new revenues and building partnerships, and improving efficiency and equity of existing resources.

Recommendation 1: Prioritize Funding for Education, including Higher Education

State spending on higher education has long-term economic benefits for individuals and for states. Increases in appropriations are associated with increases in educational attainment, debt repayment, home and car ownership, and credit scores.[5] In turn, improved health outcomes, higher levels of civic engagement, decreased incarceration rates, and fiscal returns to federal, state, and local governments are linked to these higher levels of attainment.[6]

Investments in higher education are even more essential at a time when unemployment is skyrocketing and a sustained recession is looming. COVID-19 has disproportionately impacted the health and economic security of lower-income workers and communities of color.[7] The financial impacts of this pandemic may widen postsecondary opportunities for those historically underserved by colleges and universities by affecting their ability to pay for postsecondary training at a time when they may be seeking opportunities to upskill or retrain.

Yet, recent history suggests that states will use higher education funding as the balancing wheel for constrained budgets.[8] As the Great Recession drove more students towards higher education, states cut higher education allocations leading to a shift in costs to students.[9] This trend lasted for years and has created a new normal in the distribution of the burden of college costs, shifting away from the state and towards students and families.[10]

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[5] Rajashri Chakrabarti, Nicole Gorton, and Michael Lovenheim, "State Investment in Higher Education: Effects on Human Capital Formation, Student Debt, and Long-Term Financial Outcomes of Students," National Bureau of Economic Research, Working Paper 27885, 10 October 2020, https://www.nber.org/papers/w27885.

[6] Philip Oreopoulos and Uros Petronijevic, "Making College Worth It: A Review of Research on the Returns to Higher Education," National Bureau of Economic Research, Working Paper 19053, May 2013, https://www.nber.org/papers/w19053.

[7] Samrachana Adhikari, Nicholas P. Pantaleo, Justin M. Feldman, Olugbenga Ogedegbe, Lorna Thorpe, and Andrea B. Troxel, "Assessment of Community-Level Disparities in Coronavirus Disease 2019 (COVID-19) Infections and Deaths in Large US Metropolitan Areas," *JAMA Network Open* 3, no. 7 (2020): e2016938-e2016938.

[8] Jennifer A. Delaney and William R. Doyle, "State Spending on Higher Education: Testing the Balance Wheel Over Time," *Journal of Education Finance* (2011): 343-368.

[9] Andrew Barr and Sarah E. Turner, "Expanding Enrollments and Contracting State Budgets: The Effect of the Great Recession on Higher Education," *The ANNALS of the American Academy of Political and Social Science* 650, no. 1 (2013): 168-193.

[10] Michael Mitchell, Michael Leachman, and Kathleen Masterson, "A Lost Decade in Higher Education Funding State Cuts Have Driven Up Tuition and Reduced Quality," Center on Budget and Policy Priorities, 2017.

In balancing their budgets, states should consider cuts in areas that have lower returns on investment, such as spending on prisons and law enforcement, where spending in the past several decades has far outpaced education.[11] From 1990 through 2013, state and local spending on higher education has remained relatively flat, compared to an 89 percent increase in spending on corrections.[12] Mass incarceration, and the costs associated with it, is the driving force behind corrections receiving a growing share of state revenue. The crowding out of education funding is likely to strengthen the school-to-prison pipeline rather than interrupt it. By adequately funding public colleges, a state can increase attainment and thus lower crime rates, decrease spending on social services, boost the state economy, draw new businesses to state, and increase tax revenue through higher spending and individual and corporate income.[13]

States should also maximize federal support for essential services wherever possible; 15 states, for instance, have yet to expand Medicaid, which could offset state spending on pandemic-related public health and increase tax revenues.[14]

Recommendation 2: Target Investments, Prioritizing Equity in Access and Outcomes

When spending is constrained, states should make investments in higher education that are most likely to improve, or at least maintain, students' access and outcomes. States should spend and cut based on the needs of students and institutions rather than take an across-the-board approach.

Shift from merit- to need-based aid

On average, states spend 30 percent of their state grant aid on non-need-based programs, for an average of $57,860,000 per state and nationally, $2,950,970,000.[15] Merit aid typically flows to students from wealthier families who would attend college, and likely complete a degree, even in the absence of that aid. Repurposing those dollars to need-based aid programs would provide more financial resources to help the students who need it to attend and graduate college, which, over the long-term, can improve statewide attainment rates.

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[11] "State and Local Finance Initiative," The Urban Institute (n.d.), https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/state-and-local-backgrounders/police-and-corrections-expenditures.

[12] Stephanie Stullich, Ivy Morgan, and Oliver Schak, "State and Local Expenditures on Corrections and Education: A Brief from the US Department of Education, Policy and Program Studies Service," *Office of Planning, Evaluation and Policy Development, US Department of Education* (2016), https://www2.ed.gov/rschstat/eval/other/expenditures-corrections-education/brief.pdf.

[13] James Dean Ward, Ben Weintraut, and Elizabeth Davidson Pisacreta, "Examining the Economic Impact of Increased Attainment," Ithaka S+R, forthcoming.

[14] Jesse Cross-Call and Matt Broaddus, "States That Have Expanded Medicaid Are Better Positioned to Address COVID-19 and Recession," Center on Budget and Policy Priorities, 14 July 2020, https://www.cbpp.org/research/health/states-that-have-expanded-medicaid-are-better-positioned-to-address-covid-19-and.

[15] Authors' calculations based on data in Sophie Quinton, "Some States Move Toward Financial Aid Based on Need Rather Than Merit," PEW, 10 December 2019, https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2019/12/10/some-states-move-toward-financial-aid-based-on-need-rather-than-merit.

Two common aspects of states' need-based grant aid programs work together to inhibit the aid available to the state's neediest students. First, state need-based aid programs are often "last dollar," meaning that students can only use the money after they have exhausted other sources of aid (e.g., federal Pell grants). Second, in many states, state grant aid can only apply to students' tuition and fees, which only account for a portion of the total cost of attendance. For many students, especially those who attend community colleges, federal grant aid covers most of their tuition and fees, and the state prohibits them from using any state grant aid on other education-related expenses, like food and housing. So, despite being eligible for state grant aid, many lower-income students cannot use it to offset the cost of attending college.

We recommend, instead, that state grant aid be "first dollar" and applicable to non-tuition expenses, so that students can combine sources of aid to cover the total cost of attendance.

Invest in historically underserve d students and institutions

The strategic investment in students, particularly those historically underserved, is a key way to improve efficiency on a larger scale by providing students with long-term opportunities for larger contributions to the economy and society. By using public dollars where they will have the greatest impact, we suggest states can improve their return on investment when they fund programs that improve opportunities for historically underserved students. This efficient use of student-focused dollars can help reduce equity gaps and build a more capable labor force. Additionally, by targeting public dollars to those most at need, colleges can close gaps in graduation thus markedly increasing the number of degrees produced and potentially lowering the cost per credential.

Regional public colleges, community colleges, and Minority Serving Institutions (MSIs) disproportionately serve historically underserved students including lower-income, racial and ethnic minority, and first-generation students. Additionally, these institutions efficiently graduate students. Research suggests that public master's institutions are, on average, cost efficient in their production of undergraduate degree.[16] Public MSIs are more efficient than their private counterparts;[17] similarly, community colleges have greater cost efficiencies than two-year for-profit colleges.[18] However, broad access institutions and colleges that serve disproportionate numbers of lower-income and racial and ethnic minority students receive less funding and have lower spending on education and related expenditures. State funding is disproportionately concentrated among wealthier white students.[19] A funding system that more

[16] Marvin A. Titus, Adriana Vamosiu, and Kevin R. McClure, "Are Public Master's Institutions Cost Efficient? A Stochastic Frontier and Spatial Analysis," *Research in Higher Education* 58, no. 5 (2017): 469-496, https://doi.org/10.1007/s11162-016-9434-y.

[17] G. Thomas Sav, "Minority Serving College and University Cost Efficiencies," *Journal of Social Sciences* 8, no. 1 (2012), https://doi.org/10.3844/jssp.2012.54.60.

[18] G. Thomas Sav, "For-Profit College Entry and Cost Efficiency: Stochastic Frontier Estimates Vs Two-Year Public and Non-Profit Colleges," *International Business Research* 5, no. 3 (2012): 26, https://doi.org/10.5539/ibr.v5n3p26.

[19] Nicholas Hillman, "Why Rich Colleges Get Richer & Poor Colleges Get Poorer: The Case for Equity-Based Funding in Higher Education," Third Way, 20 November 2020, https://www.thirdway.org/report/why-rich-colleges-get-richer-poor-colleges-get-poorer-the-case-for-equity-based-funding-in-higher-education.

equitably invests in students and provides colleges serving historically underserved groups with additional dollars stands to benefit the state through increased attainment. Such a shift might include funding community colleges based on headcount, rather than on full-time equivalency, as the costs to serve students do not perfectly disaggregate by full- or part-time status. States should also consider achieving equity in spending on educational and related expenses by providing colleges with the fewest resources additional state dollars.[20]

Help students earn their degrees more efficiently

Since the 1980s, postsecondary credentials have become increasingly valued in the labor market relative to the high school diploma, though the gap in the wage premium may be stabilizing.[21] Increased attainment levels, therefore, can help improve state and local economies. States should both invest in adults who return to postsecondary education to boost their labor market potential and in high school students who are transitioning from high school to college, especially community college.

To assist adult learners in earning a credential, we suggest two policy solutions. First, improving articulation of credit in the transfer process helps students keep credits. One study shows that less than one-third of students who try to transfer credits successfully transfer all of them, and nearly 40 percent were unable to transfer any credits.[22] Improving credit articulation would eliminate inefficiencies of state dollars being used to fund excess course taking. Second, states should consider engaging some-college, no-degree students. Earning a credential provides more labor market opportunities than credits alone.[23] These additional benefits to the individual also represent additional public return on investment in the form of increased economic productivity and increased tax revenue. Policies that provide clear pathways back to college for some-college, no-degree students help improve the overall efficiency of public investment in higher education.

There are three related strategies for improving efficiencies in the transition from high school to community college: ensuring that students from all backgrounds have access to high-quality dual enrollment programs, supporting high schools in offering associate's degree programs, and combining high school and community college funding streams. By accelerating students along the path to an associate's degree, states can reduce the time and money that students spend on their education.

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[20] Ibid.

[21] Robert G. Valletta, "Recent Flattening in the Higher Education Wage Premium: Polarization, Skill Downgrading, or Both?" in *Education, Skills, and Technical Change: Implications for Future US GDP Growth*, University of Chicago Press (2018), pp. 313-342, https://www.nber.org/system/files/working_papers/w22935/w22935.pdf.

[22] Sean Anthony Simone, "Transferability of Postsecondary Credit Following Student Transfer or Coenrollment. Statistical Analysis Report, NCES 2014-163," *National Center for Education Statistics*, August 2014, https://files.eric.ed.gov/fulltext/ED546652.pdf.

[23] Mina Dadgar and Madeline Joy Trimble, "Labor Market Returns to Sub-Baccalaureate Credentials: How Much Does a Community College Degree or Certificate Pay?" *Educational Evaluation and Policy Analysis* 37, no. 4 (2015): 399-418, https://doi.org/10.3102%2F0162373714553814.

From 2002-03 through 2010-11, there was a 68 percent increase in dual enrollment students in American high schools.[24] Dual enrollment students are more likely to matriculate into a postsecondary institution, earn a credential, and have higher grades.[25] Yet, gaps by race/ethnicity and income in enrollment in these programs persist.[26] Expanding access to these programs and ensuring their high quality could have increase attainment, especially for historically underserved students.

In addition to offering discrete courses through dual enrollment programs, states should consider extending the high school curriculum by one year to allow high school students to graduate with an associate's degree. Many US high schools have long histories of providing career and technical education (CTE) to students who plan to enter the labor market immediately after graduation. Some states also have early college high school programs, designed for students to earn an associate's degree in high school, geared especially for those students who intend to earn a bachelor's degree.[27] As of July 2020, 11 states have launched new high schools that offer associate's degrees, using the P-TECH model, and districts in two states, Colorado and Texas, have launched new early college high schools.[28] Investments in dual enrollment and early college programs can increase attainment and lower costs for students of all backgrounds.

Streamlining and, in some cases, combining the curriculum and programs offered at high schools and community colleges can also provide opportunities for the state to streamline or combine funding for these sectors. Like secondary schools, the typical community college receives the largest share of their revenue from local sources, so many states can also reduce the bureaucratic costs associated with having multiple funding mechanisms.[29] The state could reinvest any efficiencies gained by this approach to expand programmatic offerings and further increase attainment. Of course, community colleges' offer more than traditional associate's degree programs—broad community education, pathways for adult students returning to

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[24] Kelly Field, "The Rise of Dual Credit," *Education Next*, 22 September 2020, https://www.educationnext.org/rise-dual-credit-more-students-take-college-classes-high-school-degree-attainment-rigor/.

[25] Jill D. Crouse and Jeff Allen, "College Course Grades for Dual Enrollment Students," *Community College Journal of Research and Practice* 38, no. 6 (2014): 494-511, http://dx.doi.org/10.1080/10668926.2011.567168.

Steven W. Hemelt, Nathaniel Schwartz, and Susan M. Dynarski, "Dual-Credit Courses and the Road to College: Experimental Evidence from Tennessee," 29 July 2019, https://ssrn.com/abstract=3427620.

[26] Katherine L Hughes, Olga Rodriguez, Linsey Edwards, and Clive Belfield, "Broadening the Benefits of Dual Enrollment," James Irvine Foundation, July 2012, http://ccrc.tc.columbia.edu/media/k2/attachments/broadening-benefits-dual-enrollment-rp.pdf.

[27] Jennifer Dounay, "Early Colleges/Middle Colleges," Education Commission of the States (n.d.), http://ecs.force.com/mbdata/MBstprofileNB?Rep=ECP&st=North%20Carolina#:~:text=11.,programs%20to%20grant%20associate's%20degrees.

[28] Joel Vargas, Caesar Mickens Jr., and Sarah Hooker, "Early College Expansion Partnership," JFF (n.d.), https://www.jff.org/what-we-do/impact-stories/early-college-expansion-partnership/.

Trish Hall, "IBM Deepens Its Commitment to Social Justice by Increasing Work Opportunities for Graduates of Special STEM Program," IBM (n.d.), https://newsroom.ibm.com/P-TECH-1000-internships.

[29] James Dean Ward, Cindy Le, Elizabeth Davidson Pisacreta, Jesse Margolis, "The Strategic Alignment of State Appropriations, Tuition, and Financial Aid Policies," Ithaka S+R, 2 October 2019, https://doi.org/10.18665/sr.311966.

college, and short-term re-skilling programs—so any effort to combine or streamline funding should account for this diversity in mission.

A final intervention to improve the efficiency of postsecondary degree completion relates to the academic calendar rather than the programs offered. Currently, most colleges and universities organize their academic calendars around the traditional two-semester school year. While, many colleges offer courses and financial aid outside of the traditional academic calendar, transitioning the full suite of coursework, and associated financial aid and student services to encourage students to enroll year round. This transition may help low-income students—who rely on these services and who may not return home over the summer—progress to their degree faster and more affordably. From the state's perspective, improving completion rates lowers the cost per credential, which both improves efficiency and increases attainment.

Align postsecondary spending with other public spending

Food and housing insecurity on college campus are increasingly prevalent, and many colleges have stepped in to address students' need by providing them with food through on-campus food pantries or offering them shelter on-campus.[30] While these are vital services to students, colleges are not always the best providers of these services. In many cases, state and federal programs, like Supplemental Nutrition Assistance Program (SNAP) or Temporary Assistance for Needy Families (TANF), are available to support these students' needs, but students are not accessing them or they are insufficient. States, instead, should step in to align the student services offered by the college to the public benefits available to the college's students. This alignment could serve dual purposes: connect eligible students to available benefits and improve the efficiency of state funding.

Recommendation 3: Change Funding Formulas to Improve Efficiency and Equity

Especially at a time when resources are constrained, states need to examine funding policies to identify opportunities for efficiencies that improve both quality and equity. Over the last decade, states' innovations in funding policy have largely centered on performance-based funding (PBF), an approach that allocates at least some portion of state appropriations based on a set of pre-determined institutional outcomes. Yet, most evidence suggests that PBF has done little to improve outcomes, while at the same time worsening access to college for students from underrepresented groups.

In the prior section, we identify some opportunities for states to combine aspects of funding across the entire K-16 education pipeline and streamline higher education spending with other public sectors, like social services. In this section, we recommend changes to states' higher

[30] Katharine M. Broton and Sara Goldrick-Rab, "Going Without: An Exploration of Food and Housing Insecurity Among Undergraduates," *Educational Researcher* 47, no. 2 (2018): 121-133, https://doi.org/10.3102%2F0013189X17741303.

education funding policies, like PBF, that can reinforce gains in efficiency and equity achieved by these other efforts.[31] We recommend three related funding policy adjustments: 1) strengthen the equity considerations of PBF policies to mitigate perverse incentives and equitably allocate funding, 2) promote efficiency by targeting investments to discrete expenditure categories and eliminating earmarks, and 3) account for regional cost differences for students and institutions.

Strengthen equity considerations in performance-based funding policies

Without careful attention, states' performance-based funding (PBF) policies can penalize those colleges and universities that enroll larger shares of historically underserved students.[32] These financial penalties create incentives for colleges and universities to enroll fewer students from racial and ethnic minority groups or lower-income backgrounds. States' COVID-19-related revenue shortfalls may magnify these incentives and widen gaps in access and success between student groups. If states are going to continue using PBF models, they should modify their policies in three key ways in order to minimize perverse incentives while also promoting equity and efficiency.

First, states should expand their PBF formulas to include "equity premiums," which provide larger weights for outcomes measures for specific groups of historically underserved students. Equity premiums provide added incentives to serve these groups of students and counteract perverse incentives to focus on students with higher proclivities of graduating.[33]

Second, states should use performance metrics in combination with institutional characteristics to target resources to institutions serving students with the most need. Under most PBF models, low-performing institutions risk losing funding thus hamstringing their ability to serve students. Instead, similar to the K-12 sector, states can shift to a formula that targets resources, at least in part, based on students' need, and use performance outcomes as one metric to determine need.

Finally, states with PBF programs should expand the outcomes they use to determine funding allocations. Currently, most all states use credential production as the cornerstone of their PBF policy. We recommend that states normalize any outcome measures they use to account for institutional characteristics. For instance, states can generate predictions of credential production for each institution based on its student characteristics, and then determine which

[31] For a more robust discussion of states' funding formulas and their implications, see our first brief, "An Overview of State Higher Education Funding Approaches," Ithaka S+R, 10 December 2020.

[32] Kevin J. Dougherty, Sosanya M. Jones, Lara Pheatt, Rebecca S. Natow, and Vikash Reddy, *Performance Funding for Higher Education*, JHU Press, 2016, https://doi.org/10.1353/book.47910.

Mark R. Umbricht, Frank Fernandez, and Justin C. Ortagus, "An Examination of the (Un)intended Consequences of Performance Funding in Higher Education," *Educational Policy* 31, no. 5 (2017): 643-673, https://doi.org/10.1177%2F0895904815614398.

[33] Denisa Gándara and Amanda Rutherford, "Mitigating Unintended Impacts? The Effects of Premiums for Underserved Populations in Performance-Funding Policies for Higher Education," *Research in Higher Education* 59, no. 6 (2018): 681-703, https://doi.org/10.1007/s11162-017-9483-x; Robert Kelchen, "Exploring the Relationship Between Performance-Based Funding Design and Underrepresented Student Enrollment at Community Colleges," *Community College Review* 47, no. 4 (2019): 382-405, https://doi.org/10.1177%2F0091552119865611.

institutions are over- or under-performing relative to those estimates. Whichever metrics they choose, state policymakers should anticipate and mitigate any unintended consequences.

Promote spending efficiency by targeting appropriations and eliminating earmarks

Many states currently allocate appropriations with no specifications or restrictions on how institutions can spend those funds. The effect of this is wide variation in the amount of money colleges spend on teaching and related activities, as opposed to research and public service.[34] Rather than a lump sum, states should allocate funding to institutions according to discrete expenditure categories, such as teaching, research, or non-educational expenses. For instance, appropriations allocated to teaching could cover expenses like instructional staff salaries and technology or facilities costs for classrooms. Allocating appropriations in discrete categories rather than a lump sum gives policymakers some modest control over institutional expenditures and helps ensure that public funds fulfill public missions. This modest control may satisfy lawmakers who want more institutional accountability, while also preserving institutional autonomy and financial efficiency. Of course, different institutions have different missions, and such an approach should reflect this.

The discrete appropriations categories, however, should not be overly specific or require spending on specific line items or projects through earmarks. In fact, we recommend states eliminate funding through earmarks altogether. Earmarks can increase inefficiencies in institutional spending by resulting in the duplication of services or programs or the inability to streamline expenditures across departments. They may also politicize appropriations and expenditures, which can prolong and complicate the budgeting process and introduce instability, both of which make long-term financial planning more difficult.

Account for regional differences

Students and colleges have different needs depending on their geographic location. For instance, colleges in larger cities may have costlier real estate and higher labor costs than suburban or rural colleges. Rural colleges, on the other hand, may have higher transportation costs and fewer opportunities to achieve economies of scale. In some cases, rural students may have lower incomes and fewer job opportunities, which makes affording tuition and related expenses more difficult. To account for these unique needs, states should adjust funding formulas and make investments—like affordable housing for students and cost of living supplements for faculty in high-rent areas and accessible satellite campuses in rural towns—to help more students affordably attend college.

[34] John J. Cheslock, "Examining Instructional Spending for Accountability and Consumer Information Purposes," The Century Foundation, 28 February 2019, https://tcf.org/content/report/examining-instructional-spending-accountability-consumer-information-purposes/.

Recommendation 4: Raise New Revenue and Build Partnerships

The three recommendations above—preserve education spending; target investments according to need; increase efficiencies through policy—are necessary but insufficient to offset states' impending revenue declines due to COVID-19. After the 2008 Great Recession, contractions in state budgets led to rising tuition and to students and families shouldering a greater burden of the cost of education. To avoid a similar outcome now, states must look for new sources of revenue to bolster spending across the board, including on higher education.

In this section, we outline three possibilities for raising new revenue for higher education: raising taxes in a progressive manner, investing in auxiliary services, and building new partnerships.

Raise or levy taxes, progressively

Over the past four decades, the wealth gap between those at the bottom of the income distribution and those at the very top has widened.[35] Stagnating wages for those at the bottom of the income distribution and federal tax cuts for those at the top are partly to blame.[36] State policy-makers can moderate these trends by increasing state income tax rates on high-income earners and implementing or strengthening progressive tax schedules.[37] Currently, 43 states tax residents' incomes, but the type of income subject to state tax and the tax rates and brackets vary significantly across states.[38] At the very least, these efforts can increase state revenues and redistribute those funds to increase college access and attainment for lower-income students, especially in states with relatively low or regressive tax burdens.

Despite vocal opposition from some political leaders, raising taxes on the wealthy and corporations is a broadly popular political position. A majority of US residents (58 percent) support raising income taxes on households that earn above $250,000 per year and only 16 percent believe these high earners should pay less in taxes. An even larger share of the public, 68 percent, believes corporations should pay more in taxes, and 62 percent of those who hold that view believe that corporations should pay "a lot" more in taxes.[39] States that have the legal authority to do so should take advantage of these popular beliefs to shore up their essential

[35] Juliana Menasce Horowitz, Ruth Igielnik, and Rakesh Kochhar, "Most Americans Say there is too Much Economic Inequality in the U.S., but Fewer than Half Call it a Top Priority," Pew Research Center, 9 January 2020, https://www.pewsocialtrends.org/2020/01/09/trends-in-income-and-wealth-inequality/.

[36] Leonard E. Burman, "Taxes and Inequality," *Tax Law Review* 66, (2013): 563-592, https://www.urban.org/sites/default/files/publication/22421/413067-Taxes-and-Inequality.PDF.

[37] Elizabeth Mcnichol, "How State Tax Policies Can Stop Increasing Inequality and Start Reducing It," Center for Budget and Policy Priorities, 15 December 2016, https://www.cbpp.org/research/state-budget-and-tax/how-state-tax-policies-can-stop-increasing-inequality-and-start.

[38] "State Individual Income Tax Rates 2000-2020," Tax Policy Center, 24 February 2020, https://www.taxpolicycenter.org/statistics/state-individual-income-tax-rates-2000-2020.

[39] "In a Politically Polarized Era, Sharp Divides in Both Partisan Coalitions," Pew Research Center, 17 December 2019, https://www.pewresearch.org/politics/2019/12/17/7-domestic-policy-taxes-environment-health-care/.

services, especially at a time when the health and financial impacts of the pandemic have disproportionately fallen on lower wage earners and communities of color.

Invest in auxiliary services

States should encourage and support colleges to increase revenues through additional positive-net-revenue auxiliary offerings. Revenue from medical services, patents, business incubators, and other sources may help individual institutions augment their funding, and state leaders can help facilitate or lower any oversight barriers that may exist. In addition to providing additional revenue sources, these services may help an institution fulfill its mission. For example, a research university that expands hospital offerings may provide much-needed health care to local communities, and a community college that rents its facilities to local camps or cultural organizations provides community enrichment opportunities.

Shifting financial reliance onto auxiliary enterprises, however, comes with three primary drawbacks. First, not all institutions can build revenue from these sources, and flagship research institutions are likely to develop the most lucrative opportunities. This concentration of new revenue at well-resourced campuses may exacerbate inequities in access and success across colleges. Second, the increased commodification of higher education may encourage mission drift, a turn away from the public function of education, thus potentially shortchanging students in their educational experiences and the public's benefits from research and public services.[40] Third, the revenues from such sources are likely only a near-term fix and may not be able to augment public funding sufficiently in the long term. The pandemic has made these investments risky even in the near term, as colleges are currently losing revenue because they cannot lease their facilities or host events.

Build new partnerships

Partnerships between colleges and the private sector and between the state and federal government can raise new revenue to improve student outcomes, meet state labor market needs, and increase affordability.

States' economic development and higher education agencies should collaborate to facilitate partnerships between colleges and individual companies or industry coalitions. These partnerships can expand colleges' program offerings and improve alignment between students' skills and labor market needs. For instance, local companies can subsidize training programs that prepare students for jobs in their industry; a community or technical college can train students to perform the tasks needed at a local manufacturing plant; a college can collaborate with a coding boot camp to develop a training program. These arrangements bring in new revenue, lower upfront and on-going costs, and provide local employers with a larger pool of skilled employees.

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[40] Sheila A. Slaughter and Gary Rhoades, *Academic Capitalism and the New Economy: Markets, State, and Higher Education*, JHU Press, 2004.

In addition to these collaborations, some colleges may opt to acquire or create separate entities that offer complete courses of study or degree programs, and offer those entities under their brand. For example, Purdue University established Purdue Global and the University of Arizona established their Global Campus by acquiring for-profit colleges. In these arrangements, the for-profit college typically continues to provide the educational content and deliver instruction, but the public institution provides the infrastructure and brand to expand enrollment and therefore, shares in the revenue. If the private entity's educational quality is low or it has undue influence over the college's operations, then these arrangements can weaken the public institution's brand and divert the public institution from fulfilling its educational mission. Moreover, when public institutions pursue these opportunities, institutions, policymakers, and taxpayers must determine if such arrangements fulfill the public missions of these schools.

We also recommend the creation of a federal-state partnership to obtain additional federal funding while incentivizing states to continue investments into higher education. Such an arrangement, however, would need strong incentives on both sides: the federal government would supplement (not supplant) state spending through a matching grant and the state would commit to maintain their pre-partnership level of effort. The level of matching and the specific allocations (e.g., need-based financial aid or general appropriations) could vary depending on the state's needs; ideally, these allocations will directly improve opportunities for historically underserved students.

The State Higher Education Executive Officers (SHEEO) and The Institute for College Access and Success (TICAS) both released guidelines for establishing federal-state partnerships to help ensure adequate public funding for colleges.[41] SHEEO recommends that states use the money to help students afford their student loan repayments whereas TICAS recommends that states use the money to protect colleges from fluctuations in year-to-year appropriations. We support the priorities of both organizations and also recommend that federal-state partnerships focus on providing adequate support to lower-income students and colleges that serve disproportionate shares of historically underserved students.

Federally provided COVID-related relief dollars may help ease the financial burdens created by the pandemic. However, it is important that these short-term relief dollars are treated as a temporary stopgap and do not crowd out state investment into higher education. Lumina Foundation has highlighted examples of strategic uses of Governor's Emergency Education Relief (GEER) funds, which includes preserving need-based aid programs and expanding technological and internet resources for students.[42]

[41] David Tandberg, Sophia Laderman, and Andy Carlson, "A Federal-State Partnership for True College Affordability," *State Higher Education Executive Officers*, June 2017, https://files.eric.ed.gov/fulltext/ED589770.pdf.

Michele Streeter and Jessica Thompson, "Better Together: How a Reimagined Federal-State Partnership to Fund Public Higher Ed Could Help Bring College Within Reach for All," The Institute for College Access and Success, 2019, https://ticas.org/wp-content/uploads/2019/10/Better-Together.pdf.

[42] "Higher Ed Policy in the COVID Era: Equitable Funding and Financing," Lumina Foundation, November 2020, https://www.luminafoundation.org/wp-content/uploads/2020/11/equity-funding-and-financing.pdf.

Conclusion and Next Steps

The financial pressures facing states and colleges have evolved over time, will likely worsen in the coming years, and are being accentuated by the current pandemic. Meanwhile, postsecondary funding policies have not kept up. College is becoming less affordable, the cost burden is shifting decidedly towards students and their families, and disparities in opportunities for students increasingly are divided on income and wealth lines. While not all ideas will succeed, and those that do may not be a panacea for the financial issues facing higher education, this issue brief presents four potential solutions to our growing funding issue. These recommendations include prioritizing education funding, targeting investments to prioritize equity in access and outcomes, raising new revenues and building partnerships, and improving efficiency and equity of existing resources.

These recommendations were derived from a convening hosted by Ithaka S+R and the Joyce Foundation with a group of higher education funding experts. We do not present any single idea as a silver bullet to the funding crisis facing American colleges, nor do we suggest this is a comprehensive list of potential remedies. The solutions most effective for each state depend on the severity of the funding issues, political will, economic and social context of the state, and labor and postsecondary market characteristics. The roadmap of ideas included in this brief should serve as a starting point for institutional, system, and state leaders to discuss the goals of their postsecondary systems, the necessary levels of funding needed to meet these goals, and politically palatable solutions.