

Grapevine

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TIMELY DATA CIRCULATED WHILE CURRENT

Reports on state tax legislation; state appropriations for universities, colleges
and community colleges; legislation affecting education beyond the high school.

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COMPARATIVE HIGHER EDUCATION FINANCE MEASURES. 3028

Comparative higher education finance measures are used widely by researchers and analysts in making comparisons among states in effort for higher education. Two of the more commonly used such measures are appropriations per capita and per \$1,000 of personal income. These two measures are displayed on the following page.

Caution must be exercised in utilizing and interpreting these two comparative measures, because they use only state tax appropriations as a single revenue source. While state tax appropriations are the largest revenue source in the public sector and are an important revenue source in the private sector, a more complete analysis needs to incorporate more sources of revenue such as local taxes, student tuition and other non-tax sources.

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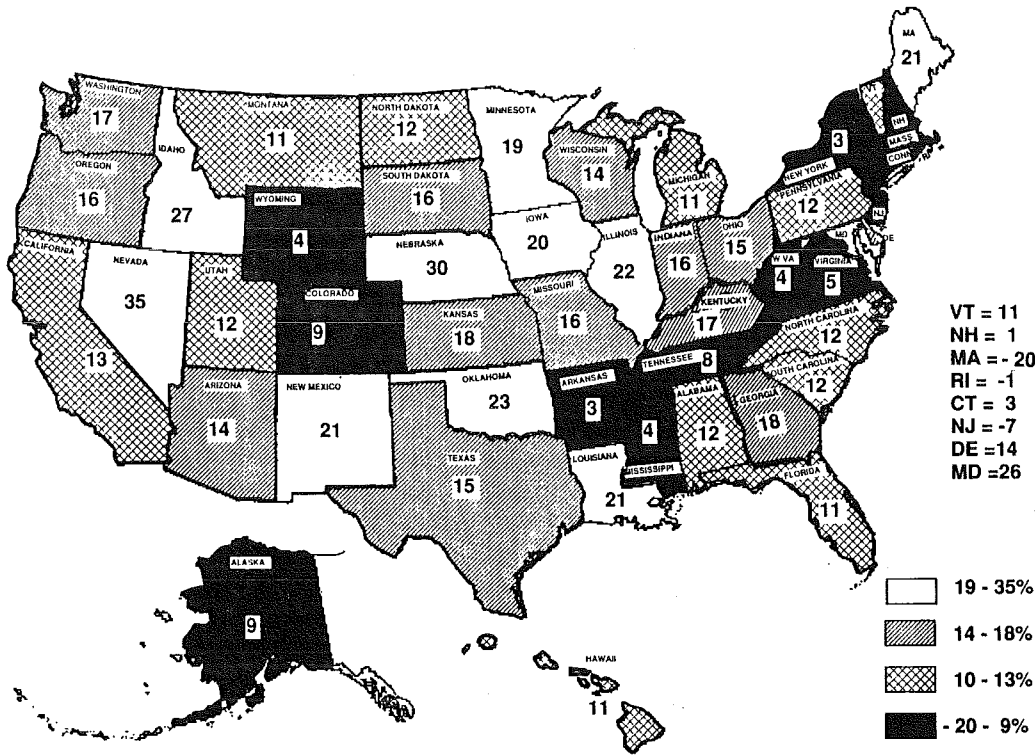
by Daniel T. Layzell and Jan W. Lyddon

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One Dupont Circle, Suite 630
Washington, DC 20036

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PERCENTAGES OF TWO-YEAR GAINS IN APPROPRIATIONS OF STATE TAX FUNDS FOR ANNUAL OPERATING EXPENSES OF HIGHER EDUCATION IN THE FIFTY STATES, FISCAL YEAR 1991 OVER FISCAL YEAR 1991



PENNSYLVANIA: The tabulation below is a revision of Table 47, Page 3017, Grapevine, (September-October 1990). The revisions were received after the November first deadline for earlier reports. The percentages of gain over two and ten years become 13% and 83%, respectively. These new data do not appear in the table on page 3029.

PENNSYLVANIA

State tax-fund appropriations for the operating expenses of higher education for fiscal years 1988-89, 1989-90 and 1990-91 in Pennsylvania.

(in thousands of dollars)			
Institutions	1988-89	1989-90	1990-91
(1)	(2)	(3)	(4)
State-related Universities:			
Pennsylvania State U	216,405	232,278	234,222
Medical School	4,188	4,481	9,413
Subtotal, PSU	220,593	236,759	243,635
Temple University	115,781	123,167	127,912
Medical School	7,863	8,413	8,606
Subtotal, TU	123,644	131,580	136,518
U of Pittsburgh	107,706	122,671	127,357
Medical School	5,907	6,320	6,465
Subtotal, Pitt	113,613	128,991	133,822
Lincoln University	8,814	9,446	9,896
Tuition Challenge (est)		7,783	14,597
Subtotal, Commonwealth Segment	466,664	506,776	538,468
State System of Higher Ed*	319,594	345,282	367,876
Community Colleges (est)	95,641	97,344	106,037
Stevens State School of Tech	3,874	4,333	4,412
Private, State-aided Institutions:			
University of Pennsylvania	23,816	24,711	25,027
Medical School	4,295	4,596	4,596
School of Veterinary Med	7,481	8,005	8,005
Subtotal, U of P	35,592	37,312	37,628

Continued in the next column)

PENNSYLVANIA (Continuation of private, state-aided insts:)

Thomas Jefferson U	9,925	10,720	10,720
Drexel University	5,466	5,849	5,849
Phila Coll Osteopathic Med	5,240	5,607	5,607
Hahnemann Med College	5,571	6,061	6,161
Medical College of Penn	3,796	4,212	4,512
Penn College of Optometry	1,553	1,662	1,662
Penn Coll of Podiatric Med	1,191	1,269	1,369
The University of the Arts	1,047	1,120	1,120
Phila Coll of Tex & Science	522	559	559
Del Val Coll of Sci & Ag	438	624	659
Berean Training & Indust Sch	1,029	1,194	1,194
Johnson School of Technology	195	209	209
Williamson Sch Mech Trades	97	76	76
Subtotal, Pvt, State-aided,	71,662	76,474	77,325
Other Higher Education Aid:			
Penn Higher Ed Scholarships	116,160	127,780	140,558
Institutional Assist Grants	24,043	26,447	29,092
Student Aid-Matching Grants	6,350	6,350	6,350
Equal Oppor Prof Education	750	750	750
Computer Training	2,769	2,880	2,880
Loan Forgiveness	1,000	2,049	2,922
Higher Ed for Disadvantaged	6,899	7,175	7,497
Ed at Correctional Insts	82	117	122
Deaf, Blind Students	50	50	50
Ethnic Heritage Studies	200	200	200
Higher Ed-Rural Initiatives	1,245	375	254
College of Physicians	100	100	100
Rural Postsec Ed Improvement			150
Higher Education Equipment	14,100	6,602	5,000
Interdepart Transfers (est)	146,510	147,250	148,723
Subtotal, other	320,258	328,125	344,648
Total	1,277,693	1,358,334	1,438,766

*Unrevised from earlier reports

RANKINGS OF THE STATES ON APPROPRIATIONS OF STATE TAX FUNDS FOR
OPERATING EXPENSES OF HIGHER EDUCATION, PER CAPITA AND
PER \$1,000 PERSONAL INCOME, FY1990-91

State	Higher Ed Appropriations		Appropriations Per \$1,000s		
	(\$1,000s)	Per Capita (\$)	Rank	Income (\$)	Rank
(1)	(2)	(3)	(4)	(5)	(6)
Alabama	866,989	210.54	7	15.45	4
Alaska	181,834	345.04	1	15.94	3
Arizona	613,806	172.61	22	10.92	19
Arkansas	319,014	132.59	43	10.28	24
California	6,100,728	209.91	8	10.53	21
Colorado	516,793	155.80	29	8.88	37
Connecticut	485,846	150.00	32	6.08	47
Delaware	122,391	181.86	15	9.84	29
Florida	1,632,302	128.82	44	7.30	44
Georgia	961,283	149.36	33	9.30	34
Hawaii	297,625	267.65	2	14.49	7
Idaho	183,997	181.46	16	13.24	12
Illinois	1,722,530	147.76	35	7.85	41
Indiana	876,162	156.65	28	9.93	27
Iowa	576,924	203.14	10	13.12	14
Kansas	458,895	182.61	14	11.07	18
Kentucky	607,445	162.98	24	11.86	15
Louisiana	585,729	133.67	42	10.35	22
Maine	195,912	160.32	26	9.86	28
Maryland	885,085	188.56	12	8.97	36
Massachusetts	697,248	117.92	48	5.32	49
Michigan	1,486,694	160.33	25	9.19	35
Minnesota	1,028,528	236.28	4	13.38	10
Mississippi	443,597	169.25	23	14.43	8
Missouri	637,378	123.55	46	7.58	43
Montana	116,648	144.72	37	10.28	23
Nebraska	329,121	204.30	9	13.23	13
Nevada	163,324	147.01	36	7.63	42
New Hampshire	72,959	65.91	50	3.25	50
New Jersey	1,055,893	136.49	41	5.74	48
New Mexico	335,466	219.55	6	16.71	2
New York	3,142,943	175.09	19	8.31	39
North Carolina	1,484,279	225.88	5	14.86	5
North Dakota	129,756	196.60	11	14.49	6
Ohio	1,520,055	139.37	40	8.51	38
Oklahoma	509,471	158.02	27	11.16	17
Oregon	420,047	148.95	34	9.36	31
Pennsylvania	1,421,710	118.08	47	6.84	45
Rhode Island	141,139	141.42	39	7.88	40
South Carolina	644,726	183.58	13	13.47	9
South Dakota	91,415	127.85	45	9.34	32
Tennessee	743,821	150.57	31	10.25	25
Texas	2,579,342	151.81	30	9.67	30
Utah	295,884	173.34	20	13.25	11
Vermont	59,830	105.52	49	6.45	46
Virginia	1,077,934	176.77	17	9.34	33
Washington	840,231	176.48	18	10.00	26
West Virginia	262,731	141.48	38	11.46	16
Wisconsin	843,543	173.32	21	10.54	20
Wyoming	120,719	254.15	3	17.54	1
Totals	40,887,722	165.11		9.39	

Sources: Appropriations data from Grapeline. Population from Census Bureau, estimate of resident population, July 1, 1990, as reported in "Almanac," Chronicle of Higher Education, September 5, 1990. Personal Income, 1988-1989, from U.S. Department of Commerce, Bureau of Economic Analysis, August 22, 1990, Table 8.

BUDGETING FOR HIGHER EDUCATION AT THE STATE LEVEL

by

Daniel T. Layzell and Jan W. Lyddon

Executive Summary

Budgeting for higher education at the state level involves a complex set of activities, various competing interests and diverse issues. In the broadest sense, the primary objective of all budgeting is to target resources to meet specific policy objectives. The budget spans the distance between present choices and future options (Caiden 1988). While the federal government provides substantial support to higher education in the form of student aid and research grants, state governments bear the principal responsibility in budgeting for higher education operations, and thus in shaping the present and future direction of higher education within the state.

The simplicity of this description belies the underlying interplay of both human and external forces and factors laced throughout the budget process. Higher education is both similar to and different from other policy areas in state government such as transportation or corrections. It is similar in that it must compete with these other areas for its share of a sometimes shrinking budget pie. It is different in that higher education is relatively autonomous from the state.

This report presents and analyzes the various factors that determine the political economy of state budgeting for higher education from a perspective embracing the complexity of the process including the environmental context of budgeting, the budgetary process itself, and the outcomes of the process.

What Are the Environmental Factors That Frame the State Higher Education Budget Process?

The environmental context is made up of interrelated historical, political, economic and demographic factors. Historical factors include traditional values and preferences of state residents regarding higher education as well as state government's historical involvement in higher education governance matters. Previous budgets also comprise part of the historical context. Political factors include the structure of higher education, gubernatorial influence, and legislative influence, as well as interest groups and citizen influences on states. Economic factors include the general economic condition of a state, state tax capacity, and state revenue availability. Demographic factors include the level and composition of a state's population, higher education enrollment levels, and student participation rates in higher education.

About the Authors: Dan Layzell is the Higher Education Research Analyst-Fiscal Analyst for the Joint Legislative Budget Commission of the Arizona Legislature. Jan W. Lyddon is the Director of Institutional Research at Saginaw Valley State University, University Center, Michigan.

How Do These Factors Affect State Budgeting For Higher Education?

In part, these factors help explain the wide variance in higher education funding among the states, although by no means do they explain all of the variance. The historical traditions of a state act as "behavioral regulators" for the participants in the state budget process. If higher education has traditionally been highly valued by state residents, it will also generally be valued by state policy makers and vice versa. Political factors determine the extent to which the power of higher education is centralized at the state level (i.e., coordinating agency) or diffused among the individual institutions, and the predominance of the governor and the legislature in the budget process. In general, in recent years, governors have become much more deeply involved in higher education and hence the budget process. Legislators have also become increasingly sophisticated in their understanding of higher education policy issues. Consequently, as state level involvement in higher education has increased, so have fears of diminished autonomy within the academy.

State support for higher education is directly related to the general condition of a state's economy, state tax capacity, and revenue availability. If a state's economy is in bad shape, then its capacity to raise revenues and thus the level of revenue available is diminished substantially. Further, as state economies worsen, demands on the state budget from other service areas such as public aid and corrections will also increase. Demographic forces such as the aging of the population and the growth of the number of non-white ethnic groups will affect state budgeting for higher education as state governments strive to meet the special needs of these individuals. Traditionally, enrollments and higher education participation rates have been important factors in determining the level of funding provided to higher education, however there is some evidence that the significance of these factors may be decreasing.

What Are the Primary Elements of the State Higher Education Budget Process?

The elements of the state higher education budget process include the participants, timing, and resource allocation strategies. The major actors in the process are the governor, the legislature, their staffs, and the higher education community. Both governors and legislatures are asserting themselves more strongly in this process, albeit for different reasons, as a result of increasing sophistication, concern about higher education outcomes, and recognition of the economic importance of higher education. The governor must represent the broad spectrum of state needs while legislators are more concerned with specific constituent or regional needs. The higher education community is composed of the state-level coordinating or governing agency (if any) and the various sectors of higher education, both public and private.

As important as the governor, legislature, and the higher education governing and coordinating boards are the staffs of these entities. Almost two decades ago it was observed that these individuals were the "anonymous leaders of higher education" (Glenny 1972). If

anything, this is even more true today. Staff handle technical details, distinguish the important from the trivial, and generally serve as "gate keepers" in the budget process.

The timing of the budget process presents numerous issues as well. Over time, most states have shifted from biennial budgeting, to annual budgeting, to annual budgeting with midyear alterations. Legislatures are meeting with greater frequency, economic conditions are shifting rapidly, and demands for state budget dollars have increased in number and intensity. Even states that still have biennial budgets meet midterm to make alterations. These timing changes have altered the utility of long-term planning exercises for higher education. Further, there are differences in the time-frame perspectives of participants in the state higher education budget process. Politicians generally focus on short time frames while the higher education community has a longer time frame in meeting objectives. Tensions arise when politicians want quick-fix solutions to problems that require long-term commitments. Resource allocation techniques for higher education vary within and between states. Several use a funding formula approach for some or all of the higher education budget. The effectiveness of funding formulas in meeting funding objectives is essentially unknown. Almost half of the states use peer groups composed of similar states and/or institutions for decision making and budget justification in funding libraries, faculty salaries, and staffing levels to give a few examples. Some states approach the funding of higher education from a more programmatic basis.

How Does the State Higher Education Budget Link Resources With State Higher Education Policy Objectives?

The state higher education budget sets forth the major state policy preferences for higher education. Major higher education policy concerns in recent years have been accountability; costs, productivity, and quality; affordability; economic development; access for minority and non-traditional students; and equity for independent higher education.

Accountability. Over time, the focus of accountability has evolved from a fiduciary to an outcomes orientation. As a result, accountability mechanisms have begun to evolve from data collection instruments to instruments of change. Future accountability mechanisms will likely be integrated into the state budget process for in order to emphasize feedback.

Cost, Productivity, and Quality. These concepts are seen as being inextricably linked. Higher education costs are increasing rapidly as a result of a number of factors including the lack of internal resource constraints and the propensity of colleges and universities to grow rather than reallocate to meet needs. At the same time, little agreement on outcomes measures leaves state policy makers concerned about productivity, or the lack of it, in higher education. Even more troublesome has been the goal of maintaining quality in higher education. In an effort to enhance quality, several states have devised incentive funding programs in areas such as undergraduate education and

research. It remains clear, however, that the key to keeping costs down and productivity up, while maintaining quality in higher education, lies in the ability to formulate specific goals, exercise resource constraints, and encourage innovation.

Affordability. As tuition outpaced general price inflation during the 1980s, the affordability of higher education took on greater significance. Some states have attempted to address this issue by linking tuition levels to external factors such as price indices. This serves to minimize the traditionally inverse relationship between public institution tuition and state appropriations for higher education. A second policy lever has been through the funding of state student financial aid programs. States that have high tuition usually have well funded student aid programs. A more recent development has been the advent of state tuition prepayment and savings programs, although the effectiveness of these programs in addressing affordability issues is questionable. Evidence suggests that few states closely link student aid, tuition, and institutional support policies which would indicate a great deal of inefficiency in the state financing of higher education.

Economic Development. States have also begun to involve higher education in economic development efforts. State-funded economic development activities include research programs, involvement in work force education and training programs, and fostering partnerships with business for the purpose of technology transfer. The effectiveness of these activities remains unclear. Numerous potential problems exist including the highly political nature of economic development and the fundamental differences between higher education and business.

Minority and Non-Traditional Students. Minority and non-traditional students present special concerns for state policy makers. Although minorities have increased as a percentage of the population, they have generally declined as a percentage of higher education enrollment. Most states have initiated programs designed to increase minority student retention and achievement and some have been effective. Non-traditional students are becoming the new majority in higher education, however, neither state policy makers or those in the higher education community have done much to change the structure of higher education in order to meet the special needs of these students.

Independent Higher Education. State policy makers realize the important tangible and intangible benefits provided to the state by independent higher education. As a result many states provide financial support to the independent sector in the higher education budget through student aid and direct institutional aid programs. Because these programs are highly valued by the independent sector, they represent an important policy lever for the state.

What Do We Know About Higher Education Budgeting At the State Level and What Are the Implications?

After synthesizing the literature available on this topic, we know that the process is complex and multifaceted. As states become even more involved with higher education, the budget process will become even

more important in initiating new policies and policy changes. At the same time, our analysis of the literature indicated several areas requiring further research. For example, there is a need to know more on the cultural and political context of budgeting for higher education. There is also a need to evaluate the effectiveness of higher education policies initiated through the budget process, including incentive funding for quality and economic development efforts. The implications are twofold. First, it is evident that all participants in the state higher education budget process would be well-served to view the process in the "big picture." Understanding why certain things happen in the budget process can greatly improve the effectiveness of participants in achieving objectives. Secondly and simply, state budgeting for higher education is an area ripe for research.

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