Presentation to the Maryland Commission to Develop the Maryland Model for Funding Higher Education
June 4, 2007

Good morning. My name is Spud Van de Water. I am president of Van de Water Consulting LLC, the firm hired by the Maryland Higher Education Commission in November 2005 to create a framework to guide Maryland's public investments in postsecondary education in the coming decade.

My assignment today is to share the highlights of our work with you. Before I do, I want to take a few minutes to share the perspective that underlies the report's analysis. Several points are important.

- First, the world is changing rapidly and we must continually adapt to changing conditions. The litany of change is familiar to you:
  . . . global competition,
  . . . demographic shifts,
  . . . outsourcing of jobs,
  . . . rapid expansion of knowledge,
  . . . changes in family structure,
  . . . advances in technology.

  This kaleidoscope forms the backdrop for our recommendations.

- Second, as policy leaders you do not face change alone:
  - You can draw on the history of those who have gone before you;
  - You have colleagues in other states facing similar issues, and
  - You have the benefit of research and analysis to illuminate our problems.

  We drew on all these sources in our work.

- Third, we can't know the future so we must prepare broadly and react nimbly to take best advantage of new discoveries, new inventions, new opportunities, and new classes of jobs. This, too, was on our minds as we prepared the report.

- Fourth, in my view, the future success of our society depends on five factors:
  - An active, engaged citizenry that keeps democracy strong;
  - A broad level of prosperity that is shared by all;
  - A shared sense of responsibility to succeeding generations;
  - Multiple avenues of opportunity leading to productive lives; and
  - A helping hand for those committed to bettering themselves.

Now, turning to our report - there are several points required to put it in proper context.

First, our report is one component of MHEC's process to examine how appropriations, tuition, and student financial aid work to achieve the State's goal of sufficient, affordable places at quality postsecondary institutions. As such, our report succeeds only insofar as it creates dialogue and further analysis leading to commitment and action aimed at meeting the State's goal.

Second, in February and March of 2006 I conducted 36 interviews with Maryland's higher education and political leaders. At that time, four things stood out:

- Maryland leaders supported the goals of the 2004 State Plan, although institutions were more invested than legislators.

- Maryland leaders did not perceive that postsecondary education was in crisis. Rather, the prevailing view was that the state had slipped into a pattern of raising tuition and fees during times of public budget constraints without being guided by a widely understood and accepted model for balancing public and student support.

- Leaders were concerned that rising tuition levels are closing the door on higher education opportunity for an increasing number of citizens.

- Aside from the tuition issue, leaders were generally satisfied with the way higher education is financed in Maryland. Given that, our approach was to "build on strength" rather than "wipe the slate clean".

My third contextual point is that Maryland's past efforts place it in a strong position.

- Its diverse array of institutions operate in a supportive political environment that recognizes and fosters the benefits of postsecondary education.
- The state has a well-articulated plan for building a higher education system responsive to student and state needs.
- Maryland is a national leader in developing and delivering distance learning.
- The state has a record of close collaboration among different institutional types and across education levels, primarily through the statewide K-16 Council.
- And, the emerging array of regional higher education centers brings high-demand programs to placebound students in support of workforce development efforts.

Fourth, our work was completed one year ago. I know there were several new policy initiatives under consideration at that time and there have probably been additional ones since. Our analysis and recommendations should be reviewed in light of these recent changes.

Three additional factors are important when considering a model for financing higher education.

- By 2014, Maryland's high school graduating class will be "minority-majority" due to the rate of growth in the black, Hispanic and Asian-Pacific Islander populations (WICHE, 2005).

- While Maryland's median income is above the national average, the median incomes of the lower quintiles are similar to the national average.

- With growth in the 18-24 age group, improved high school preparation and increased participation rates among adults, enrollment in Maryland's public colleges and universities is expected to increase by at least 55,700 or 22% by 2015 (MHEC, 2006).

Fifth, these conditions point to three challenges ahead:

- Increasing the number and proportion of Marylanders entering college, persisting and completing degrees.

- Assuring financial access for low income and minority students.

- Accommodating enrollment growth and optimizing capacity.

Sixth, from a financial perspective, states use a variety of approaches to address these challenges. Some states have developed a high tuition/high aid approach on the theory that higher education is predominantly a private good that should be paid for by the user. Other states view higher education as primarily a public good and thus seek to keep tuition at the lowest possible level to encourage enrollment. Maryland has been drifting toward the former model in recent years with tuition increases outpacing student aid increases. Going from "drift" to pursuing clear goals is at the heart of our report to MHEC.

Seventh, we chose a peer group analysis approach as the best way to show how other states approach higher education funding issues and to demonstrate Maryland's position relative to states with similar characteristics.

Nine peer states – CT, IL, MA, MN, NJ, NY, PA, VA, WA – were chosen based first on their personal income and public, four-year tuition and fee levels and then on their aid-to-tuition ratio (that is, aid dollars per $100 of weighted average tuition). This ratio is not a measure of affordability, but a way to compare trends across states and time on two variables over which state policy makers have influence or control.

- Compared to its peers, Maryland ranks
  - First in minority population
  - 7th in state appropriations/FTE

   - 10th in higher education “effort”, i.e., the increase in higher education appropriations relative to general fund revenues; and
   - 10th in aid-to-tuition ratio (dollars of aid per $100 of weighted average tuition)

- Among all 50 states, Maryland ranks
   - 38th in appropriations/$1000 personal income
   - 25th in state appropriations/FTE
   - 7th in public four-year tuition & fees
   - 11th in public two-year tuition & fees
   - 20th in state need-based aid as a % of federal aid
   - 34th in % enrollment of low income students

After examining the approaches in the peer states plus current research on higher education finance, we arrived at four criteria for developing a model for Maryland:

1. The model should define specific priorities that are consistent with Maryland’s goals for higher education as defined in the *2004 Maryland State Plan for Postsecondary Education*.

2. The model should recognize Maryland’s political culture and recommend changes only to address major flaws.

3. The model should build upon existing budget development and decision-making processes.

4. The model should incorporate features used by peer states to successfully fund higher education and maintain financial access for students.

Using these criteria, we developed our recommendations.

Recommendation 1.
Set Specific Goals for Access and Affordability

The goal here is to define affordability so that decisions focus on priorities and progress can be measured.

Our action recommendation is to adopt specific objectives to support implementation of the 2004 State Plan for Higher Education and monitor progress annually. Examples of specific objectives include:

- The participation rate of low-income students will increase by at least 1% a year until the average of the peer group is reached. (See Table A-13, Participation by Income, in Appendix 1)

- Reducing the gap between low- and high-income students in college-going and degree-completion rates by at least one percentage point per year. (Table A-13, Participation by Income, in Appendix 1)
- The percentage of unfunded students who apply by May 1 and new two-year public college students who apply by August 1 will decrease by 20% annually over the next five years.
- EAG awards as a percent of public tuition will increase to 80% for students in Maryland's lowest 20th percentile of family incomes by FY2010.
- Bringing Maryland to the average of peer states on the ***Measuring Up*** overall affordability index. (See Table A-15, Affordability of Higher Education, in Appendix 1)
- Allocations to need-based aid will be increased until Maryland reaches the average among peer states in dollars of need-based aid per $100 of tuition. (See Table A-6, Need-based Student Aid per Public FTE Enrollment, in Appendix 1)
- Increasing the share of higher education costs funded by state appropriations by 1% each year until the average share of peer states is reached. (See updated Table 4 below)

Updated Table 4
Maryland and Peer States
Comparison of Funding Components
FY 2006

	Total State Tax Appropriations (000)	Gross Tuition & Mandatory Fees (000)	Gross Tuition & Fees as % of Total Approps + Gross Tuition	State Funded Student Aid for Public Institution Tuition & Fees	Aid as % of Gross Tuition & Fees
US	$68,402,697	$46,170,202	40%	$4,453,840	10%
Maryland	1,264,432	1,346,299	52%	66,991	5%
Peer States Total/Average	$18,390,486	$12,813,492	41%	$1,415,626	11%
Connecticut	$831,496	476,558	36%	-	-
Illinois	2,641,164	1,647,113	38%	206,498	13%
Massachusetts	1,232,289	912,090	43%	67,760	7%
Minnesota	1,365,500	1,055,725	44%	70,245	7%
New Jersey	2,029,443	1,591,056	44%	165,687	10%
New York	5,112,546	2,485,301	33%	456,138	18%
Pennsylvania	2,047,114	2,614,385	56%	200,167	8%
Virginia	1,594,605	1,401,609	47%	96,581	7%
Washington	1,536,329	629,655	29%	152,550	24%

Source: State Higher Education Executive Officers, April 2007. *State Higher Education Finance 2006,* Tables A-1 and A-4.

Recommendation 2. Strengthen Coordination of Planning and Budget Development

The goal here is to improve coordination of planning and budget development and communications among decision makers.
Our action recommendation is to strengthen coordination of planning and budget development by:

- Amending the schedule and process for developing budget requests so that the University System and MHEC keep each other informed and the decisions about budget requests, tuition and fees, and student financial aid can be coordinated.

- Directing MHEC staff to provide the Governor with analysis of the implications of proposed appropriation levels on tuition and fees and student aid during the budget preparation cycle.

- Providing, in accordance with MHEC's mission, timely policy analysis to the Governor and Legislature on how well the total budget request for higher education fulfills the goals of the state plan.[1]

Recommendation 3. Align State Appropriations, Tuition, and Student Aid

The goal here is to develop methods for aligning state funding, tuition and student aid so priorities can be established, decisions can be informed and progress toward goals assessed.

Nationally, student payments represent about 40% of the sum of state appropriations and tuition and fees. To put it another way, for every dollar that students pay in tuition and mandatory fees, the state invests $1.48. Included in the average state appropriation is about $.10 in state student financial aid for every dollar students pay in tuition. Among the high-tuition peer states, tuition represents 41% of the total revenues and state student aid is equal to 11% of tuition. In Maryland, tuition represents 52% of the sum of state appropriations and tuition and fees while the state appropriates about $.05 in student aid for every dollar students pay in tuition at public colleges and universities. In 2006, bringing Maryland up to the average of the peer group would have required decreasing tuition receipts by $276 million with a corresponding increase of $276 million in appropriations and an increase of $52 million for need-based student aid in public institutions. (See updated Table 5 below)

[1] "The mission of the Maryland Higher Education Commission is to ensure that the people of Maryland have access to a high quality, diverse, adequately funded, effectively managed, and capably led system of postsecondary education. It accomplishes this mission through the provision of statewide planning, leadership, coordination and advocacy for the State's postsecondary educational institutions and through the administration of State financial aid programs." From the MHEC web site (http://www.mhec.state.md.us/higherEd/about/mission.asp).

Updated Table 5				
The Peer-State Model for Maryland in FY 2006 using 2006 Peer State Distribution				
	Maryland FY2006 Actual (millions)	2006 Peer State Model Percent	Maryland with 2006 Peer State Distribution	Difference (millions)
Estimated Higher Education Funding Needs	$2,610	100%	$2,610	_
State Tax Appropriations	1,264	59%	1,540	276
Gross Tuition & Mandatory Fees	1,346	41%	$1,070	-276
State Student Aid to Public Institutions	66	11% of tuition	118	52

Source: Funding data for Maryland and Peer States are from State Higher Education Executive Officers, *State Higher Education Finance FY 2006*, April 2007.

Our action recommendation is to link appropriations, tuition and student financial aid by adopting the peer state model as a guideline for budget development and direct MHEC to provide analyses based on the model to inform governmental and higher education leaders prior to budget decisions being made.

Recommendation 4.
Use Student Aid to Make
Postsecondary Education Affordable for All Citizens

The goal here is to increase funding for need-based aid at a rate faster than tuition costs and enrollment growth, place priority on serving low-income students, increase awareness of student aid through outreach efforts, and encourage and support preparation for and enrollment in postsecondary programs for underserved students.

Action recommendations in this section include:

Need-Based Aid

- MHEC should seek funding to increase EAG award maximums to equal average tuition and fees at public two-year institutions and average tuition and fees at public four-year schools. For independent institutions, set the maximum award equal to that at public-four year institutions.
- Work toward an application deadline date of May 1 for all renewal students and first-time applicants at four-year institutions, and August 1 for first-time applicants at two-year institutions. The cost of achieving these deadlines can be estimated annually and additional funding should be phased in to support all eligible students who apply by the March 1 deadline and for the campus-based EAG program. Once funding is adequate, the two programs can be merged along with the Part-Time Grant program.

- Focus EAG funds on providing access for lower-income students and families. Establish an EFC cutoff of $10,000 or college cost cap that effectively eliminates from eligibility families with incomes near or above the state median.

- Set a benchmark for the level of remaining need to be covered by the EAG grant for students with the least ability to pay (or students from the lowest income quintile). Establishing the benchmark should take into account expected earnings during the school year, the amount low-income students are expected to borrow, and institutional aid received as a proportion of the total college costs.

- Improve differentiation of awards by EFC through a payment table or sliding scale that indicates the amount of remaining need to be covered based on the EFC and allows students with lower EFCs to qualify for larger awards.

Program Administration

- The state should maintain one large, highly visible state student aid program based primarily on financial need that allows students to know their eligibility status as early as possible. Couple this with announcing awards on a first-come, first-served basis beginning in early March using estimated tuition and fees if institutions are unable to establish actual rates by that time.

- Consider decentralizing the EAG program in a manner similar to Washington State's approach after funding for the maximum award and application deadline is sufficient to achieve 90 percent of the recommended levels. At that point, the combination of EAG and campus-based EAG funding should be adequate to provide allocations to institutions based on their students' proportion of need without disenfranchising previously eligible students.

Special Purpose Programs

- Continue efforts to consolidate financial aid programs including evaluating the success of the Guaranteed Access Grant to determine if the program is meeting statutory intent. Otherwise, consider implementing modifications to result in the desired intent or merge funding into the EAG program.

- Simplify the application process for special-purpose programs by consolidating them into fewer and more comprehensible programs and allowing students to apply through one application form.

Outreach

- Use focus groups with target populations – students and parents – to determine how to best target marketing efforts to be successfully reach first-generation students, low-income students, underrepresented minorities and students with disabilities.

We made recommendations in only four major areas on the belief that if you get the big issues correct, other decisions fall readily into place. Most reports are not done this way. Speaking of other reports, I want to touch briefly on a series of higher education reports that were released immediately following the submission of our report to MHEC in early September 2006.

First, the federal Commission on the Future of Higher Education ("A Test of Leadership: Charting the Future of U.S. Higher Education" by the Commission on The Future of Higher Education) concluded: "Our yearlong examination of the challenges facing higher education has brought us to the uneasy conclusion that the sector's past attainments have led our nation to unwarranted complacency about its future."

In the access and affordability sections, the Commission draws the following conclusions:

> "1. Every student in the nation should have the opportunity to pursue postsecondary education. We recommend, therefore, that the U.S. commit to an unprecedented effort to expand higher education access and success by improving student preparation and persistence, addressing non academic barriers and providing significant increases in aid to low-income students.
>
> Public providers of student financial aid should commit to meeting the needs of students from low-income families. . . Our higher education financing system is increasingly dysfunctional. State subsidies are declining; tuition is rising; and cost per student is increasing faster than inflation or family income.
>
> Too few Americans prepare for, participate in, and complete higher education—especially those underserved and nontraditional groups who make up an ever-greater proportion of the population. The nation will rely on these groups as a major source of new workers as demographic shifts in the U.S. population continue. . .

> Need-based financial aid is not keeping pace with rising tuition. . . We are especially troubled by gaps in college access for low-income Americans and ethnic and racial minorities. Notwithstanding our nation's egalitarian principles, there is ample evidence that qualified young people from low-income families are far less likely to go to college than their similarly qualified peers from high-income families."

Other recommendations include:

> "In our view, correcting shortcomings in educational quality and promoting innovation will require a series of related steps, beginning with some of the accountability mechanisms that are summarized below and discussed at greater length later in this report. In addition, we urge postsecondary institutions to make a commitment to embrace new pedagogies, curricula, and technologies to improve student learning. . .
>
> We believe that improved accountability is vital to ensuring the success of all the other reforms we propose. Colleges and universities must become more transparent about cost, price, and student success outcomes, and must willingly share this information with students and families.
>
> We recommend that America's colleges and universities embrace a culture of continuous innovation and quality improvement."
>
> (The full report is available on the web at http://www.ed.gov/about/bdscomm/list/hiedfuture/reports/pre-pub-report.pdf)

Next, the National Center for Public Policy and Higher Education released **Measuring Up 2006**, the national report card on higher education. In it Maryland gets good ratings except for affordability where it earns an "F", saying

- "Net college costs for low- and middle-income students to attend community colleges represent 36% of their annual family income. (Net college costs equal tuition, room, and board after financial aid.) For these students at public four-year colleges and universities, net college costs represent 47% of their annual family income. These two sectors enroll 87% of college students in the state."
- "The state makes a very low investment in need-based financial aid compared with leading states, despite increasing this investment since 1992."

(Reports for all 50 states are available at http://www.measuringup/highereducation.org)

- Third, **"Mortgaging Our Future"** – report of the US Department of Education's Advisory Committee on Student Financial Assistance (Washington, Sep 2006) uses a global competition argument to call for increasing need-based student aid.

> "Although academic preparation appears to have improved, early information and student expectations to attend college have certainly expanded, and financial aid

forms and processes have been greatly simplified over the last decade and a half, bachelor's degree completion rates by family income show no sign of improving. Financial barriers in the form of record level work and loan burden caused by rising college prices and insufficient need-based grant aid continue to undermine advances in other areas."

(The full report is available on the web at http://www.ed.gov/about/bdscomm/list/acsfa/mof.pdf)

- Fourth, the ISU/SHEEO/NASSGAP report, "**Recession, Retrenchment, and Recovery**" (Oct 2006) analyzed the effects of recessions on financial access to college during the 25 year period 1979-2003. It found:

    - Higher education appropriations did not keep pace with states' economic growth during this period
    - Tuition increased faster than student aid
    - Family income did not keep pace with tuition increases
        - In states that preserved financial access, leaders cited the following factors:
        - Clearly defined goals
        - Highly credible leadership
        - Clear and consistent messages regarding the importance of financial access
        - Excellent working relationships with other leaders
        - A focus on students
        - Outstanding collaboration and coordination among higher education leaders

    (A summary of this report is available on web at http://www.sheeo.org/about/pd_pres_05/Ross_ISU2.doc)

Fifth, NCSL's October 2006 report, "Transforming Higher Education: National Imperative – State Responsibility", provides an urgent call to action:

"There is a crisis in American higher education . . . Too many students are falling through the cracks . . . It is up to the states – and specifically state legislatures – to alter the course of higher education. . . We call on state legislators to be at the center of a nationwide movement to identify strengths and weaknesses of the current system, determine a public agenda for higher education for the future, set clear goals for the state and higher education, and hold institutions accountable for performance." (p.1)

(A summary of the report is on the web at http://www.ncsl.org/programs/pubs/summaries/013160-sum.htm)

- Sixth, the Educational Testing Service's new report (Jan 2007), "America's Perfect Storm", is an excellent overview of what we are facing. Here's a brief summary quote:

"Put crudely, over the next 25 years or so, as better-educated individuals leave the workforce they will be replaced by those who, on average, have lower levels of education and skill. Over this same period, nearly half of the projected job growth will be concentrated in occupations associated with higher education and skill levels. This means that tens of millions more of our students and adults will be less able to qualify for higher-paying jobs. Instead, they will be competing not only with each other and millions of newly arrived immigrants but also with equally (or better) skilled workers in lower-wage economies around the world."

(From "America's Perfect Storm: Three Forces Changing Our Nation's Future", Education Testing Service, January 2007, p. 4. Available online at http://www.ets.org/Media/Education_Topics/pdf/ExecSummAmPerfectStorm.pdf)

- Seventh, **Creating A Win-Win: The Mutual Benefits Of Linking Economic Development And Educational Opportunity Strategies** (a new report due in July 2007 from the University of Texas at Austin) takes the following perspective:

"Americans, from political leadership to board rooms and factory floors, increasingly understand the new reality: higher education matters. Education economist Anthony Carnevale has made a career of examining America's need to improve education to keep pace with the knowledge economy. All that experience leads to this conclusion:

> The inescapable reality is that ours is a society based on work. Those who are not equipped with the knowledge and skills necessary to get, and keep, good jobs are denied full social inclusion and tend to drop out of the mainstream culture, polity and economy.
>
> The economic pressure for increasing access to education has been building over the past half century. The economic value of human capital has accelerated, and skill requirements on the job have increased markedly since the end of World War II, constantly upping the ante on education and training for good jobs.

(The Carnevale quote comes from Anthony P. Carnevale and Donna M. Desrochers, "Why Learning? The Value of Higher Education to Society and the Individual", Working Brief No.5 from **Keeping America's Promise**, **A Report on the Future of the Community College.** The full report may be retrieved from http://www.ecs.org/clearinghouse/53/09/5309.pdf.)

- Finally, the "Tough Choices or Tough Times" report from the New Commission on the Skills of the American Workforce is blunt:

"Whereas for most of the 20th century the United States could take pride in having the best-educated workforce in the world, that is no longer true. Over the past 30 years, one country after another has surpassed us in the proportion of their entering workforce with the equivalent of a high school diploma, and many more

> are on the verge of doing so. Thirty years ago, the United States could lay claim to having 30 percent of the world's population of college students. Today that proportion has fallen to 14 percent and is continuing to fall. . .
>
> If we continue on our current course, and the number of nations outpacing us in the education race continues to grow at its current rate, the American standard of living will steadily fall relative to those nations, rich and poor, that are doing a better job. . .
>
> . . . [M]ost of the people who will be in our workforce are already in it, and if they cannot master the new literacy at high levels, it will not matter what we do in our schools."
>
> (From The New Commission on the Skills of the American Workforce, "Tough Choices or Tough Times". The executive summary may be downloaded at http://www.skillscommission.org/pdf/exec_sum/ToughChoices_EXECSUM.pdf)

While particulars may vary, the thrust of all of these reports supports the recommendations in our report. There appears to be a broad consensus on the direction we need to take in this country.

CONCLUSION

Finally, because I grew up on a farm, I often see analogies to agriculture in my policy work. If you plant seeds in fertile soil with abundant sun and regular water, there will be plentiful crops; but neglect just one of the required ingredients and the crops wither. The parallel in higher education is this: where the key ingredients – preparation, access and affordability, academic quality, and retention to degree – are well tended, students flourish. Take away any one and your citizens are hampered and your economy suffers. Maryland's K-12 system is hard at work on preparation issues. Maryland's postsecondary campus leaders are focused on academic quality and retention to degree. The work you have undertaken will be crucial to promoting access and affordability. I hope our recommendations are helpful to your work.

Thank you, Mr. Chairman. I will be happy to address any questions you or Commission members may have.