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ABSTRACT

The trend toward greater state regulation of public higher education is discussed, along with alternative structures or models for state financing of public institutions. The situation in Washington State is briefly described as an illustration. It is proposed that interests of the state, college, and student can be enhanced by allowing colleges more operational independence. At the same time, the state's financial liability can be controlled by refocusing the budgetary decisions to the amount of state tax funds to be provided and eliminating or minimizing the effect of local decisions on the level of investment of public resources. The four alternative models for state financing range from a high degree of state control and little institutional flexibility to one of maximum institutional flexibility and little direct control by the state. Characteristics of the models are illustrated by a checklist consisting of eight major components: budgeting; expenditure oversight; accountability expectations; tuition, fees, and pricing policy; financing options; salary administration; enrollment policy; and program review/approval. The checklist can be used to develop a profile of the financing relationship with a state. (SW)

PUBLIC HIGHER EDUCATION AND THE STATE:

MODELS FOR FINANCING, BUDGETING, AND ACCOUNTABILITY

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PUBLIC HIGHER EDUCATION AND THE STATE: MODELS FOR FINANCING, BUDGETING, AND ACCOUNTABILITY

The Uneasy Partnership

The relationship between public higher education and the state can be characterized as one of continuing tension. Although certain federal requirements apply equally to public and non-public institutions, the full force and effect of state government regulation is felt by the public sector which receives the majority of its support from that source. The expansion of public higher education since World War II has been accompanied by an increased involvement of state governments in the operation and management of colleges and universities. This trend is reflected in a number of publications devoted to this subject:

- Citing erosion of autonomy and "intrusion into the internal affairs of institutions of higher education" by the state, the Committee on Government and Higher Education issued its 1959 report, "The Efficiency of Freedom."[1] The report outlined a case for institutional independence from intrusive regulation and recommended "remedial lines of action" to achieve that objective.

- In 1976, the Carnegie Foundation viewed the relationship between public higher education and state government as one in which the independence of institutions of higher education had "been eroding rapidly...at the hands of the states and the federal government." The report went on to comment that, "Guerilla warfare now goes on all across the nation over what belongs to the institution and what to the state."[2]

- The 1980's have not seen a reduction of the tension. Ernest Boyer noted in 1981 that "Higher education and government at both the state and federal levels are at a point of enormous instability." After warning of a relationship "which becomes more like a war of nerves, a marriage that has gone sour," he outlined the challenge as one of finding "a middle ground between surly surveillance and arrogant independence."[3]

- State regulation of higher education continues to be of major concern across the country. James Mingle, et al, (1983) summarized the continuing ebb and flow of state/institutional relationship in his report, "Management Flexibility and State Regulations in Higher Education." The Southern Regional Education Board publication presents examples of steps taken by the states of Maryland, Kentucky, Wisconsin, and Colorado to reverse the trend of increasing regulation.[4] In a similar vein, the New York Independent Commission on the Future of the State University found that the State University of New York "is the most over-regulated university in the nation"[5] and called for dramatic reforms.

- Perhaps the most poignant reminder that the stress has increased rather than diminished is the 1985 re-release of "The Efficiency of Freedom" by the AASCU. In the foreword, Allan Ostar states:

> "The committee's findings after two years of deliberation and study so cogently expressed in its report, are as relevant to the panoply of relationships between state governments and public colleges and universities today as they were when *The Efficiency of Freedom* was published twenty-six years ago. If anything, the committee's insights carry more force in the mid-1980s than was true in an era when there were far fewer public postsecondary institutions, state bureaucracies were much smaller, and the federal presence on the higher education landscape could scarcely be discerned."[6]

Why the Tension?

American higher education is a pluralistic enterprise. The most visible example of this pluralism is the fact that public, tax-funded institutions exist side-by-side with independent colleges and universities which receive little or no direct tax support. Although the earliest American colleges were "private," state universities can trace their origins to the same roots. This dualism has resulted in common traditions which stress a maximum degree of freedom and independence of action. The concept of "autonomy" sets higher education apart from any other public service sponsored by government.

Since World War II there have been dramatic changes in higher education. Enrollments have grown eight-fold and the predominate increases have been in public institutions. In 1940, enrollments were approximately the same in public and independent colleges and universities. Now, nearly eighty percent of enrollments are in public institutions. This growth in public higher education is even more pronounced when viewed in financial terms. As John Millett (1984) points out, "State government support of public institutions of higher education increased from $445 million in 1950 to $18 billion in 1980. This increase was one of more than forty times."[7] Even after adjusting for inflation, the growth in financial support was one and one-half times greater than the growth in enrollment. Public higher education had moved from a relatively modest role in society to a major instrument of social change and a major component of state budgets. At the same time, its commitment to autonomy was unchanged. However, that commitment was challenged by state budget, coordinating and control agencies with increased power and well-trained professional staff.

The expanded role of public higher education occurred at the same time that most states were modernizing and centralizing their executive (and subsequently their legislative) budget processes. The growth of strong, executive budget agencies paralleled the rapid post-war expansion of public higher education. In the 1960's and 1970's, they were joined by new or expanded higher education coordinating agencies and upgraded and highly professional legislative staffs. By the 1980's, few would lay claim to untrammeled autonomy. As Boyer (1981) put it, "We can no longer talk about autonomy; none of us is autonomous, but we can talk about integrity, the development of a climate that would allow our institutions to keep the freedom they need to manage their own affairs while proving to the public that they are serving consumers in an adequate and effective way."[8]

The Experience in the State of Washington

The changing relationship of Washington state government to public higher education reflects the trends outlined above. Prior to the 1960's, institutions of higher education in the state of Washington were accorded substantial flexibility and were exempt from most state government controls. Community/junior colleges and vocational-technical institutes were under the jurisdiction of local school boards and received state aid on a formula basis. Although the public four-year colleges and universities were primarily funded by state appropriations, accountability and reporting requirements were general in nature. In practice, Washington's four-year colleges and universities were treated as if they had separate constitutional status.

The 1960's represented a transition period in the relationship between Washington state government and public higher education. In 1959, the Legislature enacted the State Budgeting and Accounting Act, which created a central budget agency and a system of state fund allotments. Institutions of higher education (along with elected officials) were exempted from most of the provisions of this Act. This exemption was also granted in the case of the state civil service law which was passed by the 1961 Legislature.

The decade of the '60s was a dynamic growth period in Washington public higher education. In 1960, head count enrollment in four-year institutions totaled slightly more than 32,000. By 1970, that number had grown to approximately 67,000. This era of unparalleled growth brought with it an associated need for substantially increased funding and, as a consequence, increased scrutiny by the governor and the legislature. In 1963, the State Central Budget Agency contracted with a former legislative auditor, Dr. Paul W. Ellis, for a series of reports on financing public higher education. The Ellis reports recommended a greater standardization of accounting and reporting processes to facilitate interinstitutional comparisons. They also recommended modifications in faculty staffing formulas and in procedures for calculating salary requirements.[9]

The Ellis studies prompted a substantial increase in cooperation among the four-year institutions. The Interinstitutional Committee of Business Officers accelerated efforts to harmonize the budget formulas and salary comparison practices used by the universities and colleges. By 1965, agreements had been reached on a single formula for faculty staffing and a standardized approach to budgeting for plant operation and maintenance. However, by 1967 the agreement on a common faculty staffing formula had broken down and the state colleges based their requests on different formula factors than the two major universities. In the face of this lack of agreement, the Central Budget Agency advised the colleges and universities that if they could not reach agreement on standardized formulas for the various operating budget programs the budget agency would develop and apply formulas themselves.

During the late 1960's, two important developments occurred: First, responding to the Central Budget Agency directive, the colleges and universities developed a jointly funded office to develop interinstitutional agreements on budget formulas, resulting in agreements for the major budget programs; and, second, the Legislature created the Temporary Advisory Council on Public Higher Education, a "blue ribbon committee" to serve as an independent advisor to the Legislature and the governor on steps which should be taken to plan for and respond to the growth of public higher education. Between 1967 and 1969, the Legislature responded to the Advisory Council's recommendations by creating one new four-year state college, a comprehensive community college system, a Council on Higher Education as a permanent planning and coordinating body, a state student financial aid program, and a higher education personnel system.

It is important to note that with the exception of the establishment of a personnel system for higher education, there were few direct intrusions of state government into the operations of institutions of higher education in the 1960's. Even the higher education personnel system which was adopted was separate from the state personnel system and was de-centralized, e.g., no central testing or certification lists. Both the executive and legislative branches clearly preferred to accord higher education a separate status from other state functions. This situation was to change markedly in the 1970's.

The 1970's: A Period of Expanded Control

While the state's interest in higher education in the 1960's was in expansion, the trends of the 1970's were to increasingly standardize budgeting processes and to exert increased executive and legislative oversight and control of higher education operations. In 1970, public institutions of higher education were:

- Exempt from most state allotment controls;
- Allowed to retain student fee income;
- Allowed a range of flexibility in establishing tuition and fee rates;
- Allowed to retain and utilize all indirect cost revenues;
- Provided with lump sum appropriations;
- Given flexibility in the transfer of funds among programs; and were
- Not faced with direct or indirect penalties for over-enrollment.

By 1980, all of those areas of flexibility had been eliminated! In addition, more controls had been imposed. Minimum average faculty/classroom contact hours were mandated, transfer of funds between program specific appropriations was limited and required prior review, and specific guidelines and limitations were imposed on sabbatical leaves.

By the end of the decade, the requirement that student fee income be deposited in the state general fund as general revenue made virtually all of the instructionally related functions dependent upon state appropriations. Even though an institution might enroll more students than were budgeted, an additional appropriation would be required even to use the additional student fee income to meet incremental costs. For example, the 1980 Legislature refused to appropriate additional receipts to the community colleges when those institutions had over-enrolled. This action clearly indicated that the status accorded to, and the flexibility enjoyed by, public institutions of higher education in the state of Washington prior to the 1970s had ended.

In retrospect, there is no single reason for the dramatic increase in state controls which took place in such a short time. In the early 1970s, decreased state revenue left the Legislature without the wherewithal to fully fund the expansions they had earlier authorized. This fact, in conjunction with sudden short term enrollment declines at regional universities and unanticipated enrollment growth in community colleges, prompted a call from both the Legislature and the governor for a re-examination of the budget process. In addition, the steps taken by institutions of higher education to cope with enrollment fluctuations and expenditure reductions resulted in legislative criticisms that funds were not properly budgeted nor were being spent in the manner they intended. These criticisms, at least in part, were justified. The tradition of relative autonomy in budgeting and in the use of state funds had been continued in a period in which that autonomy was being questioned. The legislative response was to impose allotment controls, elaborate systems of budgeting for enrollment changes, partial state capture of indirect cost revenues and, ultimately, the deposit of student fees in the state general fund. The relationship clearly had deteriorated into one of suspicion and distrust.

Another factor was the new coordinating agency for higher education. The Council on Higher Education had initiated program reviews and a variety of policy and financial studies, most at executive or legislative request. These reviews and studies greatly increased the availability of information about higher education and reduced its "mystique." Schmidtlein and Popovich (1978) indicate that this factor adversely affected the competitive ability of higher education in the 1970's. They note: "For several reasons, higher education has lost the aura it once had, and this loss has diminished the importance previously associated with higher education. In a sense, higher education's priority has been a victim of its own success."[10]

While some growth of regulation can be associated with the activities of the coordinating board, another and more substantial factor was the increased strength of executive and legislative staffs. As Lyman Glenny points out, "Perhaps more culpable than the coordinators are the state budget office of the governor and the various analytic and budget staffs of the legislative committees. These agencies are newer and can be much more powerful than the coordinating ones because on a day-to-day basis their analyses and recommendations on proposed legislation go directly to the lawmakers."[11] It is clear that this was the case in the Washington House of Representatives. Partly in response to the political strength previously held by the State Senate, the House expanded its fiscal staff and pioneered the use of technology in budgetary and fiscal oversight. By implementing a sophisticated, automated information system which reported the monthly spending of each state agency, including each college or university, the House altered the state's approach to budgeting and greatly expanded the legislative capability to oversee higher education.

Although specific reasons will differ among the states, it is evident that the pattern around the country was to increase state control of higher education. As John Millet assessed the situation in 1982, "We do not conclude that institutional independence in the twenty-five states of this study was alive and well in 1982. On the contrary, institutional independence was under substantial threat. The first threat was the chronic economic stagnation in America that had existed since late 1973 and was particularly evident in 1982. The second threat was the precarious financial condition of state government finances, especially in states such as California and Massachusetts where taxpayer revolts had been successful. A third threat was the loss of public concern with higher education as a major economic asset and as a major contributor to economic welfare. The growing state government control of higher education was a reflection of these forces."[12]

The Emerging Dialogue

Recent events suggest that that trend toward greater state regulation of public higher education is being increasingly questioned. In the past three years several states have initiated changes in their procedures of higher education financing, budgeting, and/or accountability. Changes have ranged from substantial in Colorado and Kentucky to relatively modest, as in Washington and Idaho. Other states in which recent changes toward lesser regulation have been made include Connecticut, Maryland, Florida, Pennsylvania and Wisconsin.[13]

New York represents one of the most noteworthy current examples of the emerging dialogue on the issue of regulation versus flexibility. The Independent Commission on the Future of the State University recommended numerous measures designed to end the "over-regulation" of the state university. The Commission's findings resulted in legislation, enacted in July, 1985, which provides the university with some authority to reallocate appropriations among campuses and programs and provides for streamlined purchasing procedures and some relaxation of pre-audit requirements.

One of the main reasons reduced controls are being considered is financial. In the early 1980s, most states experienced severe fiscal problems. Colleges, universities, and state systems of higher education were called on to make major administrative and program decisions, often with significant political consequences, under severe time constraints. As Jones (1984) points out, the stability of fiscal relationships between the state and its institutions was "crumbling." He notes, "Not only is the fiscal pie getting smaller in real terms, the size of the pieces are changing. At best, higher education . portion is staying constant. In many states, however, its share is clearly decreasing (McCoy and Halstead, 1984). This has prompted many state and institutional administrators to trade in their pie cutter for the fiscal hatchet."[14] According to a 1983 Education Commission of the States report, a record twenty-eight states reported mid-year reductions to higher education appropriations ranging from .2 to nearly 20 percent in 1982-83.[15]

In attempting to respond to budget cuts, administrators often found themselves hampered by state control and regulations. As Mingle (1983) noted, "Now college presidents find themselves in a tug of war with governors and budget officers who are searching for their own flexibility by capturing what savings they can from the various state agencies."[16] Fortunately, in many states, governors and budget officers were willing to listen to requests for de-regulation and more flexibility in meeting savings targets.

An additional (and somewhat related) reason for reconsidering regulatory policies is the growing concern for productivity and quality. In numerous states there appears to be an increased recognition that preoccupation with the details of management prevents states from focusing on matters of policy significance. It is clear that there are not fewer questions for higher education, but that their orientation is more toward results and assessment, rather than process.

The fact that some states have recently reversed the pattern of increased regulation and budget control should not be construed as a new trend or a forecast for the future. The time is past when the historical prerogatives of higher education could be cited as a rationale for exemption from state controls. Now that governors and legislatures have exercised their authority in higher education, it will take well reasoned arguments and a demonstration of probable benefits to secure flexibility in management and in financial affairs. Accountability for details will not be simply eliminated, but it can be replaced by accountability that has meaning; both for higher education and the state.

To accomplish any lasting change in the relationship between public higher education and the state, it is clear there needs to be a dialogue. It must be kept in mind that no matter what the past differences have been, both the state and higher education share a common concern, providing advanced educational services to those who can benefit. Those services are provided in a context of public policies and service expectations and an arrangement in which both parties have responsibilities: the state to adopt policies on the extent and type of services and provide funding, while the institution provides the services consistent with its mission and must inform government as to its activities and how the funds were expended. Governance structures are developed (or evolve) to delineate the interests of the two parties in executing these basic responsibilities.

There are two types of governance applicable to public higher education. (For this discussion, we are not considering the internal structure, which involves the campus community). The first, structural governance, is the most visible and is most commonly thought of when the term is used. In this context, "governance" specifies the relationships between chief executive officers, their boards (either single or multi-campus), and state governing, regulatory, or, in some cases, coordinating boards and, ultimately, the governor of the state. In this context, governance is reflected in a reasonably discernable linear relationship. The second type of governance, the subject of this paper, is exercised through procedure, rule, or regulation of governmental entities outside the formal governance structure and can be termed "financial governance." It is most often typified by the budgetary relationship between the state and its public institutions of higher education.

As Jones (1984) points out: "The budget is often the most tangible and direct link between state government and its educational institutions. However, the structure and purpose of that budget are often shaped by the governance relationships that exist between the state and these institutions. Although perhaps not immediately apparent on a day-to-day basis, these governance arrangements have a pervasive influence on how the budget is conceived and implemented. These relationships can be complex and, moreover, can differ greatly from state to state."[17] In addition, the relationships can vary within a state for different types of institutions. For example, in California, community colleges are treated as local governmental entities while the university and state college and university system are treated as state operations and subject to different budget procedures.

As discussed above, it has become increasingly difficult for most states to provide the resources needed by higher education, either through appropriations or tuition increases. It is, therefore, imperative that both the institutions and state planners and decision-makers have a clear understanding of the financial governance relationship which exists within the state. Such an understanding will aid in the dialogue over the extent to which freedom of action can be provided to higher education in providing services within the state's policy framework.

The Models

The approach developed by the authors categorizes the relationships between the state and its public institutions of higher education in terms of clearly defined alternative structures or "models" for state financing of public higher education. The models reflect points along a continuum ranging from a high degree of state control and little institutional flexibility to one of maximum institutional flexibility and little direct control by the state. The four models which have been identified; the State Agency, State Controlled, State Aided, and Corporate or "Free Market" models, were originally developed as part of the state-wide planning effort in the state of Washington. Subsequently, they have been used to provide a framework for reviewing and identifying any state system's financial governance relationship. The term "state controlled" and "state aided" models are taken from Dennis Jones' 1984 description of the author's earlier work.

1. The "State Agency" Model

Under the "state agency" model, the executive and legislature assumes greater operational responsibility forced by a concern with all aspects of institutional operations. Decision making tends to flow to the Legislature since local latitude is extremely limited. There are few incentives for improved management since savings are quickly "recaptured." Since the Legislature assumes responsibility for funding all operations, greater attention is paid to matters of operational detail and less to long-term policy objectives. The application of the "state agency" model in all aspects of institutional operation would create stress between the on-campus governance and the financial governance relationship since those with responsibility for decisions would lack authority to carry them out. The major features of the "state agency" model are:

- All funds, including receipts from auxiliary enterprises and federal research grants and contracts, are deposited in the state treasury and are subject to appropriation control and detailed allotment;

- Student tuition and fees are prescribed by the legislature;

- Spending requests are detailed and focus on the objects of expenditures; adherence to these budgets is expected unless conditions change substantially and deviations must receive prior approval from a control agency;

- Unexpended funds are returned to the general fund at the end of the fiscal year and funds are routinely "recaptured" at shorter intervals through the allotment system;

- Pre-audit control is exercised over decisions with long-term fiscal impact, such as salary increases, the acceptance of grants and contracts and other aspects of institutional operations. For example, prior approval must be secured for purchasing, personnel, out-of-state travel and engineering services.

- The focus of oversight is directed at process, with little consideration given to effectiveness.

2. <u>The "State Controlled" Model</u>

Under the "state controlled" model, there is some flexibility but management incentives are relatively limited. The executive and legislative branches are involved in mid-level operational decisions such as allocation of salary increases and distribution of funds among programs. Budget provisions are often regulatory, specifying amounts per student or student-faculty ratios. The "state controlled" model is characterized by a st[illegible] of continuing tension between state government and the institutions of higher education since the state's responsibility for all budgeted funds leads to enactment of controls to reduce the risk of additional appropriation requirements in the future. This, in turn, creates a preoccupation by state government with monitoring operational details of institutions and consequently for institutions to engage practices to avoid these controls. The major features of the "state controlled" model are:

- Tuition revenues are deposited in the state general fund, similar to general tax funds, and are appropriated along with tax funds and subject to allotment controls;

- The rates for most student tuition and fees are set formally by the various governing boards but are subject to legislative formula or specific guideline;

- All "budgeted" expenditures, regardless of fund source, are subject to allotment control. This includes general tuition and fee income, grants and contracts, the institutions "share" of indirect cost reimbursement revenues and non-restricted miscellaneous revenues as well as appropriated funds;

- Student services fees, auxiliary enterprise revenues and athletic revenues are retained locally and are exempt from detailed allotment control;

- Detailed budget requests are prepared by institutions although major funding decisions are primarily based on enrollment levels and summary budget formulas. However, the funding formulas are often perceived by the Legislature as spending plans rather than funding vehicles;

- State funds remaining unexpended at the end of each fiscal year are returned to the general fund unless certain extenuating circumstances exist. However, "recapture" at less than annual intervals is rare and is contingent on the existence of major fiscal problems;

- The major focus of oversight tends to be directed at process issues and relatively little attention is given to the effectiveness of the services provided.

3. <u>The "State Aided" Model</u>

Under the "state aided" model, the institution would remain publicly controlled, but assumes greater responsibility for its own operations. Decentralized control and governance is a feature of this approach. A key element is that the scope of the state's financial responsibility is limited to the extent of state appropriations, not the entire budget, and institutional actions do not affect the extent of the state's level of commitment except in specific cases either set forth in a "memorandum of understanding" or clearly understood by the institutions and state government. The "state aided" model is based upon a shared responsibility between the institution and the state to provide higher education services. This model allows the retention of year-end savings with carry forward flexibility. The accountability focus is on policy goals and their accomplishments as opposed to process concerns. The major features of the "state aided" model are:

- All funds raised by the institution are retained locally and are not subject to appropriation controls.

- Tuition and fees and other student fees and charges for services are set by institutional governing boards, possibly within a policy framework established by the Legislature or its designee.

- Only state general funds are subject to state appropriations and allotment.

- Budget requests are keyed to the basis of appropriations and contain less expenditure detail. A greater proportional emphasis on plans and objectives is reflected in the requests. Generalized formulas are used to ensure stability of funding and consideration is given to special purpose requests.

- Fiduciary accountability for state tax funds appropriated is accomplished through periodic audits and ultimate financial responsibility for errors. Program accountability is achieved through adherence to approved program plans and accomplishment of objectives on which budget planning was based and communicated to state government. Allotment control is only at the most generalized levels.

- Local fund balances carry forward and do not affect the extent of state appropriations. In addition, limited carry-forward of state funds is allowed.

4. The "Corporate" Model

Under the "corporate model," each institution of higher education would be granted independent status as a non-profit institution with opportunities to provide postsecondary education services through specified degree levels. As envisioned, the "corporate model" would be similar to systems used in other public service activities such as health care and certain social services. Research universities, regional universities and community colleges would be chartered to provide services consistent with their defined roles and missions. Within these broad guidelines, institutions would have freedom of action. The state's interest in terms of providing educational opportunities for state residents would be maintained through a system of contracting for state subsidized student "spaces," and specific research and public service activities. A voucher system might also be used. Under the "corporate model" the state would free itself from operational responsibility for higher education services and concentrate exclusively on making those services available to state residents and business and industry. Institutional flexibility would only be constrained by the type of corporate charter and the contracting process. Satisfactory performance of contractual obligations would be the primary vehicle for accountability. The major features of the "corporate" model are:

- Institutions of higher education have total control of all funds, including tuition, fees, and charges for services.

- State appropriations are made to a third-party state agency for the purpose of contracting with institutions for particular services, including a designated number of student spaces in particular kinds of institutions. (Role and mission of institutions is constrained by state charter.)

- Contract amounts are determined by using an external index, e.g., peer institution norms.

- Access is ensured through substantial state student financial aid funding.

- Accountability provisions focus on effectiveness (student performance, assessment measures, etc.) rather than on process.

<u>The Checklist</u>

The following pages provide additional examples of the various characteristics of each of the models. These characteristics are displayed within a framework of the eight major components developed by the authors and organized in the form of a checklist:

1. Budgeting
2. Expenditure Oversight
3. Accountability Expectations
4. Tuition, Fees and Pricing Policy
5. Financing Options
6. Salary Administration
7. Enrollment Policy, and
8. Program Review/Approval

The checklist provides the researcher or analyst with a tool which can be used to develop a profile of the financing relationship with a state. Normally, this profile will range, to an extent, along the continuum of relationships but will cluster around one of the models. The use of the profile information both clarifies the existing relationship and identifies components which are distinctly different. The use of this approach as part of an effort to promote a dialogue between public higher education and state government will both facilitate understanding and provide an opportunity for a more objective discussion of possible changes.

I. Budgeting

A. The "State Agency" Model

1. Are institutions required to follow standard budget instructions for all state agencies with no exceptions?

2. Are budget requests, whether incremental or formula, required to reflect detailed spending plans?

3. Do detailed workload measures heavily influence the decision on institutional requests?

4. Are appropriations highly specific; either line item, or with extremely detailed spending limits or requirements?

B. The "State Controlled" Model

1. Are institutions allowed some exemptions from standard budget instructions?

2. Do budget requests involve aggregate formulas or generalized relationships and focus on total support levels which are perceived as aggregate spending plans?

3. Are both workload and output measures used in evaluating institutional budget requests?

4. Are appropriations somewhat specific, e.g., by category or in lump sum with some limitations on expenditures?

C. The "State Aided" Model

1. Are special budget instructions used for institutions of higher education?

2. Is the focus of the budget request on state tax fund requirements (often involving a general allocation formula) with the overall budget perceived as a funding plan as opposed to a spending plan?

3. Are output measures/expectations a major factor in evaluating budget requests?

4. Is the appropriation provided on a lump sum basis with few, if any, specific provisions?

D. The "Corporate" Model

1. Are there only a limited number of procedural instructions for submitting requests for funds?

2. Does the budget concentrate on services to be provided with no consideration given to process issues?

3. Are contract amounts for services determined through external indices and negotiation with emphasis given to prior performance?

4. Are appropriations aggregated and often made through an executive intermediary for purchase of services?

II. Expenditure Oversight

A. The "State Agency" Model

1. Is expenditure oversight exercised at the department or division level?

2. Are pre-audit controls exercised over receipt and expenditure of federal funds including indirect cost allowances?

3. Must funds remaining unexpended at the end of any fiscal quarter be returned to the state unless justification is given to allow rescheduling of those funds, and do they revert to the general fund at the end of the fiscal year?

4. Are institutions expected to file detailed expenditure plans (e.g., by department/division, program, object of expenditure and fund source) by month or quarter?

5. Is prior approval required by a state control agency for such activities as purchasing, personnel, out-of-state travel, etc.?

B. The "State Controlled" Model

1. Is expenditure oversight exercised at the program level or not more than one level below the level of appropriation?

2. Is there some flexibility given to institutions regarding receipt of federal grants and contracts and use of indirect cost allowances?

3. Are restricted fund activities, e.g., auxiliary enterprises, inter-collegiate athletics, exempted from detailed allotment control although all other unrestricted expenditures regardless of fund source are subject to allotment?

4. Are institutions allowed flexibility in purchasing, personnel, out-of-state travel and engineering, but subject to general state guidelines?

C. The "State Aided" Model

1. Is the institution free to accept non-state funds with no external restrictions?

2. Are institutional allotment plans generalized and not subject to control agency revisions except in cases of overall state revenue shortfalls?

3. Are institutions ultimately responsible for repayment of state tax funds if indicated by post-audit?

4. Are all positive fund balances allowed to carry-forward to the succeeding fiscal period?

D. The "Corporate" Model

1. Are the institutions subject only to post-audit?

2. Is a periodic payment or letter of credit system used to provide funds to the institutions, i.e., no allotment system?

3. Are the institutions free to spend state funds for any lawful purpose as long as the terms of the agreement with the state is maintained?

III Accountability Expectations

A. The "State Agency" Model

1. Is accountability expressed in process considerations such as record-keeping and reporting of workload measures?

2. Are elements such as class size, room use, and faculty/classroom contact hours reported on a routine basis?

3. Are reports required providing the results of grant and contract activities and research activities?

4. Is the institution required to stay within a staffing table and report any deviations?

B. The "State Controlled" Model

1. Is accountability expressed through some combination of workload and output measurements?

2. Is activity reporting at a summary level, e.g., enrollments, student credit hours?

3. Is some flexibility granted to institutions in staffing patterns or number of staff years?

4. Is expenditure accountability primarily on a post-audit basis?

C. The "State Aided" Model

1. Is accountability primarily expressed in terms of program effectiveness measures?

2. Has a system been established to provide for reporting of accomplishments, e.g., is some form of assessment system in place?

3. Are institutions provided freedom in determining staffing levels?

4. Is expenditure accountability strictly on a post-audit basis?

D. The "Corporate" Model

1. Is payment of state funds to the institution in any way contingent upon meeting contract provisions for production?

2. Is assessment of program effectiveness a part of the funding process?

3. Is there a clear written agreement between the institution and the state or its agent as to the accountability requirements?

IV. Tuition, Fees, and Pricing Policy

A. The "State Agency" Model

1. Are all general tuition and related fees prescribed by the legislature?

2. Is all fee revenue, including normally restricted fund revenue, deposited in the state general fund?

3. Are there strict rules governing charges for self-sustaining courses, laboratory fees, etc.?

4. Is there a very specific legislative pricing policy?

B. The "State Controlled" Model

1. Are institutions allowed to set tuition and general fees within a range authorized by the legislature (or in conjunction with state budget policy)?

2. Does deposit of fee income vary by type of revenue, e.g., are some revenues such as student services fees retained locally while general tuition payments are deposited in the state general fund?

3. Is the institution given some flexibility in establishing rates for self-sustaining courses, laboratory fees, etc.?

4. Is there a specific pricing policy which may or may not be legislated?

C. The "State Aided" Model

1. Are general tuition and fees set by the institutions?

2. Are institutions allowed to retain all tuition and fee collections locally?

3. Does increased or reduced local revenue through tuition or fee collections have any effect on the level of state support, either in the current fiscal period or the succeeding fiscal period?

4. Is there a general pricing policy, normally not legislated?

D. The "Corporate" Model

1. Does the institution have total control of all funds, including tuition, fees, and charges for services?

2. Is the institution free to set tuition and fees subject only the terms of a contract with the state?

V. Financing Options

A. The "State Agency" Model

1. Has the state assumed total responsibility for funding all operations of the institutions?

2. Does the state treat the mix of funds (taxes, student fees, and grants and contracts) on an interchangeable basis?

3. Are there no incentives for raising additional revenue? In other words, does all added revenue offset state tax funds?

B. The "State Controlled" Model

1. Has the state assumed responsibility for funding all education and general operations (including hospitals where applicable)?

2. Does the state consider differences between sources of funding in its financing policy, i.e., are grants and contracts considered separately from student fee and tax-fund considerations?

3. Are there few incentives for raising additional revenue? In other words, is there some allowance for use of the additional revenue without loss of appropriation?

C. The "State Aided" Model

1. Has the state assumed responsibility only for state tax fund support?

2. Are institutions free to vary the mix of funding sources in determining their operating levels?

3. Do several incentives exist for attracting and retaining additional income?

D. The "Corporate" Model

1. Has the state assumed no responsibility whatsoever for the maintenance of the institution of higher education?

2. Does the institution have freedom to raise funds for operations and endowments subject only to the terms of the contract with the state?

VI. Salary Administration

A. The "State Agency" Model

Are salary levels and the method of distribution of increases dictated by a state control agency?

2. Are all salary savings recaptured by the state?

3. Are all personnel, including faculty, encompassed within a centralized state personnel system?

B. The "State Controlled" Model

1. Are institutions given some degree of flexibility in distributing salary increases to faculty and exempt staff?

2. Are institutions allowed to utilize salary savings to provide additional salary increases?

3. Are faculty and professional administrators exempt from civil service?

C. The "State Aided" Model

1. Are salary increases factored into the overall state tax funds provided to institutions with institutions allowed complete flexibility in setting salary levels?

2. Are institutions completely free to augment state-funded salary increases with additional local funds without affecting carry forward cost levels?

3. Is the civil service system institutionally based or highly decentralized?

D. The "Corporate" Model

1. Is salary administration strictly an institutional matter?

VII. Enrollment Policy

A. The "State Agency" Model

1. Does the legislature dictate the number and type of enrollments (resident, non-resident, undergraduate. graduate, transfer, new) by institution?

2. Are there strict penalties for under- or over-enrolling?

3. Has the state enacted statutory admissions requirements for each institution?

B. The "State Controlled" Model

1. Does the legislature set the aggregate number of students by institution?

2. Is a tolerance range provided to institutions in attempting to adhere to legislative enrollment assumptions?

3. Do institutions have flexibility to establish admissions requirements under some form of external supervision?

C. The "State Aided" Model

1. Does the state have an enrollment policy which is related to aggregate service levels as opposed to individual targets for each institution?

2. Does over- or under-enrollment have no effect on the level of state tax fund support in the current fiscal period?

3. Does the institution have complete authority to establish its own admissions standards?

D. The "Corporate" Model

1. Is the relationship between the state and the institution one of providing a pre-determined number of student spaces for its residents with overall enrollment at institutions strictly the prerogative of those institutions?

VIII. Program Review/Approval

A. The "State Agency" Model

1. Does a non-higher education state control agency have the power to approve new programs?

2. Does a non-higher education state control agency have the authority to eliminate programs?

3. Does a non-higher education state control agency have the authority to direct institutions to initiate new programs?

B. The "State Controlled" Model

1. Does a state higher education agency have the power to approve new programs?

2. Does a state higher education agency have the authority to eliminate programs?

3. Does a state higher education agency have the authority to direct institutions to initiate new programs?

C. The "State Aided" Model

1. Is there a sense of partnership between the state higher education agency and the institution in review of new programs. In other words, are all affected institutions involved in the process and concensus building is attempted?

2. Is the review of existing programs primarily oriented to institutional self-study with general state oversight?

3. Is the initiation of new programs a matter that either the institution or the state (through contracting) might establish?

D. The "Corporate" Model

1. Is program development initiation and continuation strictly a matter of institutional concern?

Summary

Over a decade ago, the Carnegie Commission on Higher Education concluded its landmark studies with an outline of "priorities for action." In its final report, the Commission provided a number of observations on governance which are germane to this discussion. The Commission pointed out that "To begin with, higher education is not a 'government.' It has no coercive power to collect taxes or enforce the law -- power from which no one can escape. It is more a 'service' that people can choose to obtain under certain conditions, and they can choose to forego it."[18]

The Commission went on to set forth certain broad principles for governance, the first five of which are relevant to this discussion of financing:

- Continuation of state responsibility for higher education as against the creation of a national system as occurs in so many other countries; and maintenance of the degree of independence that private institutions have historically enjoyed.

- The exercise of state responsibility for coordination through broad instruments.

- The establishment of clear lines of demarcation between what belongs to the state and what belongs to higher education.

- The distribution of state funds on the basis of general formulas and rewards for performance, rather than on the basis of line item budgets and specific controls.

- The preservation (or creation) of strong and independent boards of trustees with basic responsibility for the welfare of institutions of higher education.[19]

The theme of the principles suggested by the Carnegie Commission is that higher education needs a large measure of independence of operation within a framework of state responsibility for establishment of public policies for publicly financed education beyond the high school. Keyed to this is a system which will encourage the best decision-making possible in the pursuit of well understood and communicated objectives.

We suggest some additional principles for use in consideration of alternative financing systems. These are:

(1) The state, representing the public interest, has a significant responsibility in determining the extent and distribution of public support for higher education services, the diversity of services to be provided, the accessibility of those services to the public, the roles to be performed by the institutions it has established to provide the services, and the degree to which those services benefit the public. The decisions made by state policymakers should focus on these significant concerns. In other words, the essential interests of the public in financing higher education can be enhanced with greater attention on "program effectiveness accountability" and lesser concern with "process accountability."

(2) The institutions of higher education, within a system of reasonable coordination, need the flexibility to make the decisions which will best lead to the accomplishment of the objectives they have set forth, communicated, and reached agreement on with those at the state policy making level.

(3) The quality of decision-making is enhanced with a system which rewards efficiency and effectiveness and penalizes inefficiency and redundancy.

(4) The system of financing should be designed so that the exercise of flexibility in institutional decision-making does not in any way affect the decisions made at the state policy-making level nor create an obligation, expressed or implied, for increases in the investment of public funds.

The final principle deserves further explanation. As we have seen, the trend of the 1970's was toward an ever-increasing level of state control over higher education operations. This increase in state control did not suddenly materialize, but was based on two major factors: (1) Decreases in funds available for higher education due to both increased competition from other state services and decreased revenue availability; and (2) Executive and legislative response to real or perceived institutional deviations from "approved" budget levels. *It is clear that when the focus of budget decisions is on total operations, including locally generated revenues which interact with state appropriations, institutional decisions and estimates have a direct affect on the amount of state funds required to maintain current service levels.* Therefore, decisions to accept more students than are assumed in the budget or to transfer funds between activities within an institution are often perceived as attempts to justify additional state funding. In addition, when local revenue is underestimated, it produces a need for additional state appropriations when the focus of decision-making is at the level of the total budget as opposed to the level of state fund investment.

During the 1970's, the legislative response was to enact an increasing array of controls designed to limit the state's fiscal liability. At the same time, these measures produced an increased level of detailed oversight which focused on <u>how</u> higher education operates and not on <u>why</u> public funds are provided to higher education to achieve <u>what</u> objectives.

It is our contention that the state's the institution's, and the student's interests can be enhanced by affording institutions a greater degree of operational independence. At the same time, the state's financial liability can be controlled by refocusing the budgetary decisions to the amount of state tax funds to be provided and eliminating or minimizing the effect of local decisions on the level of investment of public resources. A dialogue between state and institutional leaders will be needed to achieve this objective. It is our hope that the information gained through the use of the checklist and the models in this paper will help decisionmakers develop the most productive financial relationship possible.

ENDNOTES

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