DOCUMENT RESUME

ED 400 887 JC 960 656

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TITLE Zero Sum or Variable Sum: Competition or Cooperation among Higher Education Segments in the Pursuit of State Funding Support. AIR 1996 Annual Forum Paper.
PUB DATE May 96
NOTE 13p.; Paper presented at the Annual Forum of the Association for Institutional Research (36th, Albuquerque, NM, May 5-8, 1996).
PUB TYPE Viewpoints (Opinion/Position Papers, Essays, etc.) (120) -- Speeches/Conference Papers (150)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Budgets; Educational Cooperation; *Educational Finance; Educational Planning; Financial Support; *Government School Relationship; Institutional Cooperation; Postsecondary Education; Public Support; *School Funds; *State Aid
IDENTIFIERS *Maryland

ABSTRACT

During the first crisis of the early 1990s, higher education institutions in Maryland experienced a decline in public funding and were consequently forced to compete for scarce resources. By 1992, higher education appropriations as a percentage of the state general fund had fallen to 11.1%; a decrease of 2.4% in just 2 years. Some improvement had been made by fiscal year (FY) 1995: Adjusting state funding support by full-time equivalent enrollments for FY 1995, community colleges had realized significant gains in their funding level from 1990 and independent institutions had recovered their level of support. Public four-year institutions, however, still remained significantly below their 1990 levels. The 1995 state legislative session resulted in further decreases for the four-year institutions. In response to the general frustrations over funding, leaders from the three segments developed a coordinated strategy in 1996 to focus on the total general fund support rather than individual shares. The ultimate goal of the group was to increase the average general fund appropriations and increase the state's higher education investment to 14% of its general fund budget by FY 2002. While the coordinated strategy was not completely implemented, it did result in an increase in general fund support for FY 1997 by $33 million from FY 1996 and conflict between the segments has been reduced. (TGI)

# Zero Sum or Variable Sum: Competition or Cooperation Among Higher Education Segments in the Pursuit of State Funding Support

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Paper presented at the Thirty-sixth Annual Forum of the
Association for Institutional Research
May 5-8, 1996
Albuquerque, New Mexico

## ABSTRACT

With public funding of higher education continually threatened by competing state priorities, colleges and universities find themselves in competition for scarce state resources. This paper reviews Maryland's support of higher education by examining general fund, capital, financial aid, and other state funding by segment - four-year public, community colleges, and independents - over a ten-year period. The analysis shows how each sector fared during the fiscal crisis of the early 1990's. The paper concludes with a discussion of a cooperative intersegmental effort to increase the total state appropriation to higher education.

*Public/private collaboration is so valuable when achieved, but so difficult to achieve.*

Gardner, Atwell, and Berdal

### *Background*

Legislation enacted in 1988 reorganized higher education in Maryland, creating a new University of Maryland System among other structural changes. Concurrent with the reorganization, the state made a commitment to substantially increase funding of higher education. During the reorganization, the funding mechanisms for the institutions of higher education were clarified to include: 1) base level funding plus special initiative funding for the four-year public institutions; 2) formula funding for community colleges composed of a fixed grant based on the prior year's appropriation, plus a marginal cost grant based on FTEs *from two years prior* and adjustments for college size and county wealth; and 3) formula funding per FTE for independent institutions based on 16 percent of the state aid per FTE at selected four-year public institutions for the prior fiscal year. In keeping with the state's commitment, funding for higher education in Maryland increased significantly in Fiscal Year 1989 and reached an all time high of $842 million in Fiscal Year 1990. These appropriations for higher education reached a total of 13.5 percent of state general fund expenditures, and the state seemed to be on its way toward fulfilling its commitment to higher education.

### *Fiscal Crisis*

This level of support for higher education quickly dissipated once the fiscal crisis in the early 1990's hit Maryland. By 1992, higher education appropriations as a percentage of the state general fund had fallen to 11.1 percent; a decrease of 2.4 percent in just two years. At a national level, "as a proportion of state spending, higher education appropriations decreased from 14.5 to 13.5 percent in the five years between 1989 and 1993" (Marcus, 1995, p.11). The table below shows the decrease in general fund support by higher education segment between Fiscal Year 1990 and Fiscal Year 1992; the two significant years of the recession in Maryland. In two years the four-year public institutions lost almost $75 million (a decrease of 12.6 percent), the community colleges lost $16 million (a decrease of 13.6 percent), and the independent institutions lost $2 million (a decrease of 8.4 percent). Thus, funding for all segments of higher education was drastically reduced and all institutions were launched into a state of turmoil.

**Decrease in General Fund Support**
**FY90 - 92 Recession**

| | | | FY90 - 92 Change | |
|---|---|---|---|---|
| | FY90 | FY92 | Dollars | Percent |
| Four-year Publics | $591,110,112 | $516,586,245 | (74,523,867) | -12.6% |
| Community Colleges | $117,781,631 | $101,784,954 | (15,996,677) | -13.6% |
| Independents | $23,237,520 | $21,286,430 | (1,951,090) | -8.4% |
| Total | $732,129,263 | $639,657,629 | (92,471,634) | -12.6% |

### *Recovery*

Recovery of institutions from the recession has been disparate. As shown below, in current dollars, the community colleges and the independent institutions have regained and exceeded the general fund support they received in Fiscal Year 1990. However, recovery from the decreases in the early 1990s has been relatively non-existent for the four-year public institutions.

**Change in General Fund Support, FY90-95**
***Current* Dollars (Index FY90 = 100)**

| | FY90 | FY91 | FY92 | FY93 | FY94 | FY95 |
|---|---|---|---|---|---|---|
| Four-year Publics | 100 | 98 | 87 | 88 | 88 | 92 |
| Community Colleges | 100 | 103 | 86 | 110 | 106 | [illegible]0 |
| Independents | 100 | 110 | 92 | 95 | 111 | 1[illegible] |

The increase for the independents was largely the result of significant increases in enrollment. Enrollment in the community colleges fell steadily over the five years, while enrollment in the four-year public institutions remained fairly stable, with slight increases over Fiscal Year 1990.

| **Change in Full-time Equivalent Enrollment, FY90-95 (Index FY90 = 100)** | | | | | | |
|---|---|---|---|---|---|---|
| | **FY90** | **FY91** | **FY92** | **FY93** | **FY94** | **FY95** |
| Four-year Publics | 100 | 102 | 104 | 103 | 103 | 104 |
| Community Colleges | 100 | 102 | 100 | 99 | 97 | 95 |
| Independents | 100 | 103 | 104 | 106 | 106 | 112 |

Adjusting state funding support by FTE enrollments, the community colleges realized significant gains over their funding level in Fiscal Year 1990. The independent institutions recovered to their Fiscal Year 1990 general fund support per FTE level. At the same time, the four-year public institutions remained significantly below their Fiscal Year 1990 funding level.

| **Change in General Fund Support per FTE, FY90-95** ***Current*** **Dollars (Index FY90 = 100)** | | | | | | |
|---|---|---|---|---|---|---|
| | **FY90** | **FY91** | **FY92** | **FY93** | **FY94** | **FY95** |
| Four-year Publics | 100 | 96 | 84 | 86 | 85 | 89 |
| Community Colleges | 100 | 101 | 86 | 111 | 110 | 116 |
| Independents | 100 | 107 | 88 | 89 | 103 | 101 |

Adjusting general fund support for inflation revealed an even gloomier picture. By Fiscal Year 1995, the four-year public institutions had made no progress recovering from the Fiscal Year 1991-92 recession. The community colleges and the independent institutions made some progress and were moving toward their level of support in Fiscal Year 1990. All three segments remained below their Fiscal Year 1990 funding levels in terms of buying power from state aid.

| **Change in General Fund Support, FY90-95** ***Constant*** **Dollars (Index FY90 = 100)** | | | | | | |
|---|---|---|---|---|---|---|
| | **FY90** | **FY91** | **FY92** | **FY93** | **FY94** | **FY95** |
| Four-year Publics | 100 | 93 | 80 | 79 | 76 | 78 |
| Community Colleges | 100 | 98 | 79 | 98 | 92 | 93 |
| Independents | 100 | 104 | 84 | 85 | 97 | 95 |

Fiscal Year 1995 general fund support remained below Fiscal year 1990 levels when the state aid in constant dollars was adjusted by FTE enrollments. Even the community colleges, with their declining enrollments and increased funding, had not returned to Fiscal Year 1990 general fund support per FTE in constant dollars. The independent institutions were well behind their Fiscal Year 1990 level of support and the four-year publics received less real aid per student than they had at the depths of the recession.

**Change in General Fund Support per FTE, FY90-95**
***Constant* Dollars (Index FY90 = 100)**

| | FY90 | FY91 | FY92 | FY93 | FY94 | FY95 |
|---|---|---|---|---|---|---|
| Four-year Publics | 100 | 91 | 78 | 76 | 74 | 75 |
| Community Colleges | 100 | 96 | 79 | 99 | 95 | 98 |
| Independents | 100 | 102 | 81 | 80 | 89 | 85 |

***Segmental Shares of Funding***

Not only have the four-year public institutions continued to lose ground in general fund support, but they have lost their segmental share of the higher education pie. In Fiscal Year 1990, the four-year publics had 81 percent of the general fund support for higher education. By Fiscal Year 1995, this percentage had fallen to 78 percent. The four-year publics had lost ground to the community colleges (18 percent in Fiscal Year 1995) and to the independents (4 percent).

**Segmental Shares, FY90 - FY95**
**General Funds**

| | FY90 | FY95 |
|---|---|---|
| Four-year Publics | 81% | 78% |
| Community Colleges | 16% | 18% |
| Independents | 3% | 4% |

In his article *A Framework for Reexamining State Resource-Management Strategies in Higher Education*, St. John (1991, p. 271) stated that "states need to consider more than appropriations levels when addressing resource-management questions." In his resource-management framework he suggested that "coordination of five types of strategies is needed for a comprehensive approach to state-level resource management in higher education - program and facilities planning, cost management, institutional subsidies, student aid, and enrollment management." While not all of this information was available in the public domain, data on capital improvement funds and student financial aid, in addition to general funds, were available. When these three sources of funding were combined and adjusted for FTE enrollments, the community colleges were shown to be funded well beyond their Fiscal Year 1990 level. The four-year public institutions remained well behind the other segments and the independent institutions were slightly beyond their Fiscal Year 1990 level of funding.

**Change in Total State Funding per FTE, FY90-95**
***Current* Dollars (Index FY90 = 100)**

| | FY90 | FY91 | FY92 | FY93 | FY94 | FY95 |
|---|---|---|---|---|---|---|
| Four-year Publics | 100 | 94 | 83 | 85 | 84 | 87 |
| Community Colleges | 100 | 101 | 91 | 117 | 126 | 134 |
| Independents | 100 | 108 | 92 | 92 | 105 | 104 |

When total state funding per FTE was adjusted for inflation, the community colleges continued to be funded beyond their Fiscal Year 1990 level. However, the four-year publics and the independent institutions had not returned to the total funding levels they enjoyed in Fiscal Year 1990.

**Change in Total State Funding per FTE, FY90-95**
***Constant* Dollars (Index FY90 = 100)**

| | FY90 | FY91 | FY92 | FY93 | FY94 | FY95 |
|---|---|---|---|---|---|---|
| Four-year Publics | 100 | 89 | 76 | 76 | 73 | 73 |
| Community Colleges | 100 | 96 | 83 | 104 | 110 | 114 |
| Independents | 100 | 103 | 85 | 82 | 92 | 88 |

Part of the reason that total funding for the public institutions had not improved was because their segmental share of capital improvement funds fell dramatically over the Fiscal Year 1990-95 period. The community colleges picked up the largest increase (from 7 percent to 31 percent), while the independents remained relatively stable (from 6 to 7 percent).

| Segmental Shares, FY90 - FY95<br>Capital Improvement Funds | | |
|---|---|---|
| | FY90 | FY95 |
| Four-year Publics | 87% | 62% |
| Community Colleges | 7% | 31% |
| Independents | 6% | 7% |

Segmental shares of student financial aid revealed a somewhat different story. Again, the community college share increased from 7 percent in Fiscal Year 1990 to 14 percent in Fiscal Year 1995. Not only did the four-year public institutions lose a portion of their share, but the independent institutions lost a significant share of student financial aid funds during a time of significant increases in state scholarship funding.

| Segmental Shares, FY90 - FY95<br>Student Financial Aid | | |
|---|---|---|
| | FY90 | FY95 |
| Four-year Publics | 61% | 59% |
| Community Colleges | 7% | 14% |
| Independents | 32% | 27% |

*Setting the Stage for Cooperation*

All of these changes in funding and the absence of promised increases in state support for higher education contributed to increasing tension between the three higher education segments as the 1995 General Assembly session began. However, with a new Governor, a former County Executive and tenured political science professor at the state's flagship university, higher education in Maryland anticipated a new era of support. This support was not immediately realized; when the 1995 legislative session ended, the four-year public institutions realized a net decrease in funding for Fiscal Year 1996 because of an increase in the number, and size, of the mandates imposed by the Governor and a minimal general fund increase of 1.6 percent. This was not the only disappointed segment in higher education. The community colleges had been frustrated by a history of under-funding and the independent institutions were concerned because their formula funding was based on appropriations to the four-year public institutions. In *Cooperation and Conflict: The Public and Private Sectors in Higher Education*, Gardner, Atwell, and Berdahl (1985, p. 40) reported that, in Maryland, "over the years there has been a good deal of inter-institutional cooperation across the sectors-sometimes in an informal bilateral manner and sometimes through formal consortium. But, as would also be expected from healthy, ambitious institutions, there is considerable competition for students, state dollars, and new academic programs, and occasionally competition develops into conflicts." During this time of scarce resources after the recession, competition between the segments continued to escalate toward possible conflict as the 1995 legislative session ended.

### *One Voice*

As a result of this disappointing legislative session, plus the explicit suggestion of the Chair of the Senate Budget and Taxation Committee that the higher education community come together to support steady, predictable funding, leaders from each segment of higher education in Maryland met during the summer of 1995 to coordinate a strategy for increasing funding for higher education. During the preceding 1995 legislative session, legislators had continually reminded the higher education segments that the higher education pie was not fixed and that if one segment received a larger increase, this did not mean that another segment would get a smaller increase. Thus, the segment leaders decided to cooperate and focus on the total pie for higher education, not just their individual slice. However, the challenge facing this united "One Voice" strategy was formidable. For most states, including Maryland, education is one of the few discretionary items in the Governor's budget and is constantly threatened. Therefore, "if public colleges and universities are to receive adequate state funding in an era of scarce resources and increasing demands, they must be as concerned about the size of the total revenue pie as they are about their individual slice" (Jones, 1984, p. 11). In Maryland, the independent institutions shared this concern because of the formula-driven aid that they receive from the state. The focus of this intersegmental group was on general fund support. The group did not mention capital improvement grants nor was there any discussion on student financial aid.

### *Goals and Strategies*

The stated goal of this group was to "strengthen the quality and accessibility of higher education by ensuring sufficient, stable, and predictable funding from the State of Maryland." Sufficient, stable and predictable funding had not characterized general fund support for higher education over the past ten years. Instead, the increases and decreases in support had been quite unpredictable. To achieve this goal, the group identified several strategies that they thought would be effective: (1) have all the segments speak as a unified voice in Annapolis; (2) establish an attainable target for the percentage of the state budget invested in higher education; (3) focus on higher education's total share, not shares of individual segments or institutions; (4) develop support among the state's political leadership; and (5) encourage advocacy of higher education by external constituencies (e.g. business leaders). Out of these meetings, the group agreed on an ultimate goal of exceeding the average general fund appropriations for higher education in the Southern Regional Education Board (SREB) states. This average in Fiscal Year 1994 was 15 percent, while Maryland was 11.5 percent. Since Maryland had never come close to dedicating 15 percent of its general funds to higher education, the short-term goal of the intersegmental group was for Maryland to increase its investment in higher education to 14 percent of its general fund budget by Fiscal Year 2002. In order to achieve this goal, the appropriation would have to be increased by 9 percent annually. The group knew this would be a tremendous challenge given the pressures on the state budget.

In support of these strategies, the group proposed several tactics: (1) preparation of briefing materials outlining the group's message and using comparative data (from SREB) to highlight the problem; (2) planned meetings of teams of representatives from all three segments with selected individual legislators, state leaders, and business executives; (3) marketing higher education's successes and challenges to citizens across the state; and (4) holding a meeting with the Governor, the secretary of higher education, legislators, and the entire group of college and university presidents to emphasize the group's unity and concern.

### *Outcomes*

Prior to the 1996 legislative session, the One Voice group had made modest progress in their plan. The briefing materials were developed and disseminated, the materials were shared with the secretary of higher education, and a letter was sent to the Governor requesting a time and date for a group of presidents to meet with him and share the briefing materials as well as the group's strategies. The Governor's support and attention was vital because "Maryland is a state where the executive budget is the main policy vehicle of the state" (Gardner et al., p. 42) and in most states, the governor is the single most important person in higher education (Kerr, 1985). Even though this meeting with the Governor never took place, and no further One Voice activities took place during the 1996 legislative session, there were several significant outcomes of this session for Fiscal Year 1997. Overall, general fund support for higher education increased $33 million or 4 percent over Fiscal Year 1996. A new community college funding formula that will increase funding in steps over the next five years was passed by the legislature and signed by the Governor. Funding of independent institutions increased nine percent; the result of budget transfers within the funding formula and continued enrollment growth. Finally, funding for the four-year public institutions increased 3 percent; less than the intersegmental group's goal of 9 percent.

### *Discussion*

Even though One Voice never implemented its full set of collaborative action plans, higher education fared relatively well in the 1996 session. The intersegmental working group had succeeded in muting conflict. However, "not everyone agrees intersector cooperation always produces the best results. The vast majority probably see the value of desiring greater public/independent harmony both for its own sake and as a means of getting more funds from public authority to support higher education" (Gardner et al., p. 58). However, in their AGB study, Gardner, et al. "found that a significant minority suggest that higher education might actually profit more when its institutions, segments, and sectors aggressively compete against each other-even to the point of publicly criticizing each other" (p. 58). While they admit that their study does not prove or disprove either perspective, the authors take the view that "it is better for universities and colleges in both sectors to make conscious efforts to keep their competition with other institutions healthy rather than destructive, and to go beyond this, where possible, to develop positive cooperative efforts in their relations with state government" (p. 59).

Most of the participants in One Voice probably would agree with this sentiment expressed by Gardner et al. (p. 9):

> Our mixed system has served us well. The great majority of respected leaders in both public and private institutions are disturbed and embarrassed by the displays of antagonism. Mutually destructive rivalry is unbecoming to institutions that share high and honorable purposes. If it continues all of our colleges and universities will suffer diminished respect in the eyes of the public and legislators.

It remains to be seen if the cooperative spirit manifested in One Voice survives. With both the community colleges and the independent institutions linked by formula to the four-year publics, perhaps the united effort will continue. However, sustained increases in state aid remain unlikely and competition may resurface. And "that competition often is intense within the much larger public sector - say between two-year and four-year institutions and between "flagship" public institutions and regional state institutions - than between public and private institutions" (Gardner et al., p. 17).

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| Corporate Source: | Publication Date: May 1996 |

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| | Date: July 12, 1996 |