



Postsecondary Education Spending Priorities for the American Recovery and Reinvestment Act of 2009

Policy Advisory to State Fiscal Policymakers

“By 2020, America will once again have the highest proportion of college graduates in the world.”

--President Barack Obama, February 24, 2009

The Funding Crisis in Higher Education

The collision between constrained public funding and the need to increase postsecondary access and degree attainment is by now well documented. The problem stems from structural pressure on state budgets, growing dependency on tuition revenues that harm access and opportunity, and institutional cost structures that require unsustainable funding increases.

The postsecondary funding gap has been growing in most states for some time, and is reaching crisis proportions with the economic collapse of 2008-2009. The economic crisis will push higher education in understandable but predictable directions—tuition increases, cutbacks in enrollments, and rollbacks in programs designed to reduce attainment gaps and increase degree production.

While states and institutions are facing difficult times, this crisis cannot be construed as a reason to abridge historic commitments to affordability, access, and investment in instructional improvements needed to meet future needs for educational attainment.

ARRA Provides an Opportunity to Leverage Change

The American Recovery and Reinvestment Act of 2009 (ARRA), signed into law by President Obama on February 17, 2009, provides an unprecedented opportunity for states to use this significant infusion of one-time federal funds to protect access and quality while improving cost effectiveness and increasing degree productivity. While ARRA contains strong directives to promote improvements in K-12 education, no similar direction is given regarding funds for higher education.

States and institutions will be under great pressure to spend ARRA resources to base budget gaps, thereby creating funding dependencies that cannot be sustained and missing the opportunity to invest in long-term improvements.

Under these circumstances, structural budget problems will be postponed rather than resolved, and the opportunity to use the crisis to make decisions that would be impossible under other circumstances will be lost.

It is essential for state policymakers and higher education leaders to recognize that:

ARRA is temporary. ARRA state stimulus funds cannot be construed as providing major sources of “free” new money to higher education. The funds will be available for three years at most, and the law requires states to use them to bring state appropriations for higher education up to a maximum of FY 2008 or 2009 levels (whichever is higher), or a floor of FY 2006 levels. States that cannot get to the lowest level required by law may seek a waiver from the Secretary of Education.

ARRA dictates funding levels, not how the funds are to be used. Although the law specifies funding levels, it does not specify how the resources must be used within higher education. Funding is to be allocated at the state level, and states are free to reallocate funds between systems or to different functions within particular institutions. Additionally, states have considerable flexibility to spend resources differently in 2010 and 2011 than in 2009, should they choose to exercise it.

Recommendations for ARRA Spending on Higher Education

While we recognize that the ARRA funding levels for higher education are yet to be determined, our organizations offer the following guidance to state fiscal policymakers for making maximum use of this opportunity to protect access and success in higher education, and to better position institutions for the future.

- *Promote investment, not maintenance.* Funding decisions should be animated by an investment mentality rather than maintenance or a retrenchment mentality. If the choice is between spending money to save a program that is no longer performing at optimal levels and investing resources in another area that is better aligned with current priorities, then some budget cuts are preferable, even if that means loss of jobs in one area, so long as jobs are created by the new investments. Every institution has high cost, low-performing programs in areas that do not contribute to state economic or workforce needs. Eliminating these programs is very difficult in normal fiscal circumstances, and the current crisis presents an opportunity for selective pruning of academic programs that must not be squandered.
- *Consider strategic reallocation.* States are not obligated to use ARRA funds to treat all sectors or institutions equitably. States should consider reallocating scarce public subsidies to institutions with the greatest potential to provide undergraduate access in cost effective ways. That potentially includes investing in private not-for-profit and for-profit institutions, as well as public two- and four-year institutions that pursue undergraduate teaching as their first priority.

- *Condition funds on accountability for meeting priorities.* Institutions accepting ARRA funds should be required to meet state policy priorities as a condition of receiving those funds. In addition to meeting federal requirements, these priorities should include:
 - Protecting affordability for all students. Tuition increases should be held to a minimum, and any tuition increases should be accompanied by an appropriate increase in state need-based financial aid.
 - Assure access, with entering students who are most at risk of being left out as the first priority. Institutions that accept ARRA funds should be required to ensure that qualified entry-level students are accommodated *and served* somewhere in the state. Offering access to institutions that do not have the resources to ensure that students can enroll in courses is a false promise. Public institutions should be required to work cooperatively to ensure that any first-time student who is denied admission in one institution is accommodated in another within the geographic area that makes attendance possible for the student.

- *Use ARRA funding as a bridge to a long-term fiscal plan.* States should use the stimulus funds to best position the states and the institutions for long-term fiscal sustainability. Toward that end, states should insist that as a condition of accepting ARRA funds, public higher education systems must by 2011 present a plan for long-term financing that emphasizes increasing access, closing achievement gaps, and increasing attainment of certificates and degrees. These plans should be developed according to the following parameters:
 - Tuition increases at levels averaging no more than increases in per capita personal income;
 - Need-based financial aid to ensure affordability for low-income students;
 - Increases in state appropriations necessary to fund enrollment growth but within conservative expectations regarding revenue growth; and
 - Productivity enhancements that balance increases in revenues from tuition and state appropriations.

- *Avoid creating unsustainable funding dependencies.* States should urge institutions to avoid spending one-time funds in areas that will create greater long-term dependencies that cannot be sustained. Any commitment requiring more than two years of funding needs to be accompanied by a revenue plan to sustain funding post-ARRA.

- *Use funds to improve educational quality and productivity enhancements.* States should encourage use of resources in ways that will meet the requirements of the law to create jobs, while improving educational quality and contributing to productivity enhancements in the future. For example:
 - Use capital investments to increase physical plant efficiency. This includes retrofitting buildings for energy efficiency; reducing the backlog of deferred maintenance, extending the life and utility of existing buildings rather than adding

new ones; and making the replacement of dated, less functional space a priority for new construction.

- Make investments in course redesign and other curricula changes that will make for a more cost-effective curriculum, to be in place no later than 2011. This includes redesigning large undergraduate courses, creating cost-effective developmental education modules that can be delivered statewide; and redesigning the general education curriculum to enhance community college transfer.
 - Extend the educational improvement agenda to graduate education. Graduate education costs two to three times as much as undergraduate education, but attrition rates for many doctoral programs far exceed those for undergraduate programs. Institutions cannot continue to raid undergraduate education to subsidize unproductive graduate programs of marginal quality.
 - Put students to work by creating opportunities for unemployed students to earn and learn, through paid internships, expansion of work-study and undergraduate research assistantships. Invest economic development funds in community services that involve students as volunteers and workers.
- *Create investment pools for longer-term reforms.* Economic recovery will likely not be swift, and some important responses need more analysis and discussion than can be conducted quickly. If possible, states should use ARRA to create modest investment pools for longer-term reforms that may not be ready for funding in 2009.

The Delta Project on Postsecondary Education Costs, Productivity, and Accountability is an independent, non-profit organization based in Washington, DC, whose mission is to help improve college affordability by controlling costs and improving productivity. Its work is animated by the belief that college costs can be contained without sacrificing access or educational quality through better use of data to inform strategic decision making.

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The National Center for Higher Education Management Systems (NCHEMS) is a private non-profit (501)(c)(3) organization based in Boulder, Colorado, whose mission is to improve strategic decision making in higher education for states and institutions in the United States and abroad.

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