UNDERSTANDING HIGHER EDUCATION FINANCE

INTERVIEW WITH MARTHA SNYDER
DIRECTOR, HCM STRATEGISTS

As part of a project on higher education finance supported by the Bill and Melinda Gates Foundation, Nate Johnson interviewed a number of experts and leaders to gather different perspectives on how major budget choices are made. The interviews have been condensed for publication so that the key insights are available to anyone who is interested.

This interview with Martha Snyder, a national expert on outcomes-based funding and other finance policies to improve higher education attainment, ranged across a variety of topics: how the federal government is able to get movement on its policy goals through funding; a possible shift in the way that states perceive their financial role or responsibility in postsecondary education; revenue drivers and incentives; and the importance of language to describe the kind of change that's needed in higher education finance.

To what extent the federal government is able to get movement on its policy goals through those funding streams and is that different or the same through K-12 and higher ed.?

Historically, it's easier to do it on the K-12 side. Obviously, you have to go through the ebbs and flows of the political orientations at any particular time. It's kind of a push and pull in terms of how much accountability or how much structure is put into legislation in terms of the accountability elements or the policy priorities that are filtered through that legislation. From my perspective, when we are talking about institutional accountability, K-12 is a little bit easier or has been politically.

It's really been politically where the accountability from a federal perspective has aligned. In terms of higher education, the historic perspective of the federal government's role in higher education is less direct.

That being said, I think if you follow the national trends or the history of federal investment in higher education, they certainly are reflective of national priorities at any given time. For example, the GI Bill was to provide access and opportunity to veterans; the Pell Grant supports access for low-income students. All of those things are obviously reflective of national priorities, but in terms of policy directives written into legislation, I think that is much more obvious in the K-12 space.

You can be very directive with your accountability, as we've seen recently or at least over the last 30 years in the K-12 space, and whether or not that's been successful, we can discuss. Or you can be more signal oriented in terms of building priorities into what you're funding, which I think is the way we've gone with higher education at the federal level. I would say institutions have responded to that kind of priority setting, but again it's not necessarily as direct a link in the eye of the general public. The priorities aren't necessarily as clearly established, but they are there.

The other thing is accountability—there has historically been more of a hands-off approach for higher education, both by the federal government and by states. There has been a general belief that when students get to postsecondary institutions they can find their way and should be responsible for their learning and their outcomes. Increasingly this view is starting to shift, recognizing that there are barriers for students that artificially inhibit ability to progress and receive a degree and have nothing to do with the academic rigor or quality of the institution. This particularly affects first-generation students and students from other backgrounds who do not have the resources and benefits of prior experience to support their access, persistence and success. The national discussion increasingly recognizes these challenges and that there is some accountability for institutions to remove these barriers and support students. We are seeing this reflected in policies, such as outcomes-based funding, transfer policies, and an overall focus on increasing transparency in data and reporting on student outcomes.

A lot of supports for students with disabilities get cut off when you turn 18. That extends in some ways to how we fund the postsecondary education system. It's almost backwards from what you would want or expect to be just in terms of the funding, the capacity to close gaps and help the people who need the most assistance.

I totally agree. It's not clear what the reason for that is. I think it's a combination of things, but I agree that this focus on the need, that certain students require more support, and those supports require more direct or targeted investment—there seems to be some sort of divide in that mentality and certainly a misalignment in terms of particularly how states support higher education. Certainly, I think the whole universe of higher-ed. finance is misaligned with the idea that underserved students oftentimes require more resources to be successful. Unfortunately, the general direction of state (and other) investments result in institutions with better prepared and often times wealthier students receiving greater share of support and resources.

Have you seen a shift in the way that states perceive their financial role or responsibility in postsecondary education?

Yes and no. Certainly, in some states, there's a recognition that some of it relates to why there's a disinvestment at the state level. For the most part, all states had to reduce their investments in higher education and shift the expectations toward tuition, in response to the recession. Layered on that in some states is just an overall political response that's much more directed at institutions and efficiency and this mentality that higher education should be doing more with less.

Then you have a good number of states where there's a recognition that higher education and postsecondary attainment are important. That, in fact, attainment needs to increase and, perhaps even more critical in an era of restricted investments for higher education, is the need to strategically align and target that investment to support what the state needs. In those states, a state like Tennessee, a state like Ohio perhaps, and a handful of others, you've seen the shifting toward outcomes-based funding and a much clearer alignment that the state investment in higher education needs to be aligned with the need to increase completion and close equity gaps.

I think it's a mixed bag. You still have major disconnects in a number of states between what and how the state is investing and what the state's needs are. In some states, you have that kind of political overlay, an antagonistic relationship between policymakers and higher education. This stems from a lack of belief that higher education is producing what the state needs. Some state policymakers respond to that as a reason to reduce investment in higher education versus a response that the investment will continue, but will be directed in a way that is aligned with what the state needs.

There has not been a time I've been aware of where there hasn't been some concern about the efficiency of colleges in attempts to keep cost under control. When that share is less than 100% and especially as it kind of gets down to, in many cases 30%, 20%, 10% or less, then it seems like you really need to be asking, "What is the role of our chunk of this funding that is not covered by tuition revenue or federal financial aid or federal

research grants or private philanthropy? What are we buying that wouldn't happen without this remaining state investment?" That doesn't just seem to be happening in a lot of cases.

I think that's a good way of putting it. There's just a lack of connection or understanding of—broadly—regardless of what the various breakdown is in terms of percentages of state tuition, other revenue sources. There's a lack of understanding of what those revenue drivers are and the incentives that are built within them and how the state should be investing in that to get what it needs out of higher education versus in many cases being redundant of other revenue sources that are already dealt with in the system.

I also think if we are talking about an era of reduced state investment, there tends to be a mentality in several states or an overall mentality that you can't change the how when you are reducing your investment. If we are using outcomes-based funding, there is a major challenge for states to shift to an outcomes-based funding environment or shift from an enrollment to whatever, whether it's outcomes-based or whatever it is you want to fund. Making that shift is a lot more difficult in an era where you are reducing state investment from a political standpoint.

In reality it's probably even more important than ever that the state target that limited investment even more strategically and more directly toward what they need. It's a very tangled web in terms of understanding the whole makeup of institutions, revenue sources, and the higher-ed. finance ecosystem, and what's driving these incentives or what the incentives are within the system, and understanding what's missing. Then there's that secondary step of, even if you do understand what's missing, shifting that focus when your percentage is becoming even less. There's a political challenge that needs to be overcome in that, and I see that all the time in terms of policymakers or states being willing to change things if they can't add new money to it.

Is "outcomes funding" or "performance-based funding" the right language for the kind of change that's needed in higher-education finance?

Good question. I don't know if it is the right language. I do think how we describe it, how we articulate it, there is room for improvement in terms of what we are talking about for what we think is an effective way for states to direct their investment in higher education. It is more about providing support for institutions to counter some of the other—I'm using the word "incentives" in a little bit of different way than I think you are just using it—incentives within the business model to be able to do the thing that they probably want to do but that come at a cost. They need to have a revenue source associated with them.

How we describe that? I think of it much more needing to have a business model that allows institutions to focus on these things that will lead to increased student success. It's not that institutions don't intrinsically want students to be successful. They do, but they are countering a lot of different pressures to increase revenue and to respond to those pressures. It needs to be the kind of focus on outcomes, and the focus on student success needs to be allowed to be more of a central part of where institutions focus again from a financial perspective, from a business-model perspective. Whereas, the way that performance funding is often done in states and often why it's not successful is because it's more of a signaling device.

It is more of a kind of an incentive, a bonus on top of, "We'll pay you to focus on this particular element" that never really gets fully incorporated into the operating structure of an institution. It's a challenge for how we describe that and how states should ultimately fund that. I do think some of the research that's out there is probably right in saying that performance funding for the way that most states are doing it is not going to be successful because it is paying institutions the extra bonus for meeting certain goals versus changing the underlying business structure that institutions are operating on or at least shifting some of that so that they can focus more broadly on student success and the supports that are necessary for students to be successful. What we call it? I'm not sure, but there's certainly a challenge that we have in figuring out how states should best support and best counter some of the business model that institutions are often responding to.

In the states that you've worked in, do you see examples of either of those, the institutions that are driven to go after enrollments because of the tuition or enrollment formula dollars or that are complacent because there's nothing they can do to affect the allocation?

I think we see both. There's other evidence out there too that institutions—again not necessarily because they are seeking to make things difficult for students or don't place value on students being successful, but simply because they need to respond to the revenue incentives that are built within the financing system—there's certainly a target toward enrolling more students and finding ways to get more students. Beyond just enrollment and increasing enrollment, there's been other structures, other things that have been put in place, that probably are counter to a student-success model.

My argument would be that a lot of those things are driven by a very heavily enrollment-dominated revenue structure, so increases in number of credit hours for certain programs. That has benefits under a model that is supported by strong enrollment-revenue streams, both in terms of tuition and state funding. If you are looking at the reverse of it, what we increasingly know about remedial education, there's a cost to institutions to switch from a multi-term remedial education structure to a progressive one that is a co-requisite structure.

I do think we've seen institutions respond to an enrollment-driven funding structure as you would expect any entity to respond to revenue incentives. In terms of the base-plus, or historical funding, I think absolutely you've seen complacency or despondency. In some of the states I've worked with, one of the things in a base-plus environment is after years and years of operating under that structure, you see significant disparity across institutions. Often the institutions that are growing and serving increasing proportions of underserved students are the institutions that become more vocal and that are oftentimes the proponents of shifting to an outcomes-based funding model. The potential of an outcomes-based funding model to increase share of state support is more promising compared to the historical funding approach. They can't change and control those funding decisions which are too often a result of when the institution got established and their political clout or ability to successfully lobby.

In the base-plus environment, it's often those institutions that you might think wouldn't be asking for outcomes-based funding that are some of the leaders because they recognize that, they are so inequitably served right now, or so inequitably funded right now. The prospect of establishing a funding model that's well structured, focused on outcomes and particularly on outcomes of underserved students, they can only benefit from that. Absolutely, there's a general feeling that in a base-plus environment there is nothing to worry about in terms of state policy and state priorities, and you just become complacent or despondent.

Is there something that you would like to see out there in the field as a next step in state or state and federal higher-education finance?

I would like to see states supported by whoever needs to support them in the analysis, but states really take a step back and get a better understanding of what students are being left out when you are looking at the current finance structure of higher education. That would be both how the state is investing in institutions as well as who they are supporting in student aid, and then again factor that into what is increasingly becoming a tuition-dominant environment. First is supporting states in an analysis, and from there translating that into a recognition that state investment needs to be so much more targeted on success and particularly success of certain students, be it low-income, racial and ethnic minorities, academic, underprepared, however a state needs to define it, but those students that we know require more resources and are very often the ones that are least resourced in terms of state finance policy.

Martha Snyder is a Director at HCM Strategists, where she leads a team focused on postsecondary education finance. She previous worked as a senior policy advisor to the U.S. Department of Education and as an associate director for the White House Domestic Policy Council.