



InformEd States

HIGHER EDUCATION POLICY INITIATIVE

The landscape of state higher education funding formulas

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Not pictured: Alex Cassell, Sam Riggs, Yahya Shamekhi, Nick Voorhees

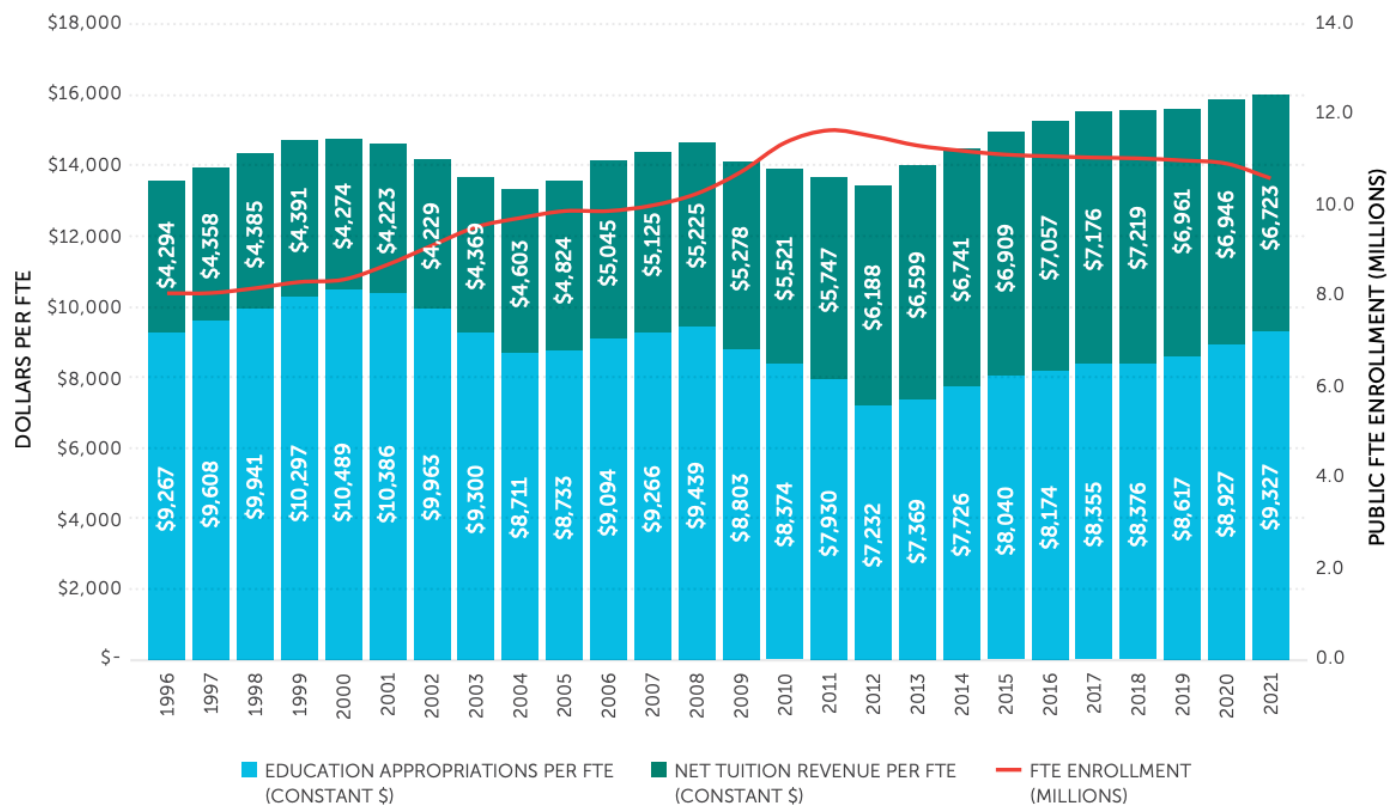


Funding for higher education

- Public colleges enroll 3 out of 4 students in U.S. higher education (de Brey et al., 2021)
- In FY2021, state and local governments allocated nearly \$86 billion to public colleges and universities (Laderman & Kunkle, 2021)

Funding for higher education

PUBLIC FTE ENROLLMENT, EDUCATION APPROPRIATIONS PER FTE, AND NET TUITION REVENUE PER FTE, U.S., FY 1996-2021 (CONSTANT DOLLARS)



- State appropriations per FTE have risen over last 9 years, held up in 2020 & 2021 by federal stimulus funds
- Funding levels remain lower than peaks in 2000 & 2008 (Laderman & Kunkle, 2021)

Funding for higher education

- During recessions, higher education often serves as a source of discretionary funding that states use to balance their budgets (Delaney & Doyle, 2018)
- Yet state funding for higher education has been shown to promote college enrollment & completion (Bound et al., 2019; Deming & Walters, 2017), particularly among Black and Latinx students (Monarrez et al., 2021)

Funding for higher education

- Most state support for higher education is through direct appropriations to colleges
- But we know little about the mechanisms states use to allocate funds
- Most research focuses on performance funding, but this represents ~10% of state appropriations to higher education (Rosinger et al., 2021)
- Prior work offers:
 - Snapshots of funding formulas, often in a single year or sector (Layzell, 2007; Mullin & Honeyman, 2007; Syverson et al., 2020)

Funding for higher education

- InformEd States research team has worked over the last 2.5 years to develop a systematic longitudinal database of state funding formulas & how they have changed over time
 - Look for our State Funding Formula Dataset in late April!!

Formula components

- **Base-adjusted:** funding adjusted from prior year allocation (e.g., for enrollment, performance, or changes in revenue); system incorporated a protective mechanism to guarantee set portion of prior allocation
- **Enrollment:** funding adjusted for increases/decreases in no. of enrolled students. We documented whether funding was adjusted based on FTE enrollment, headcount, field, or level of study (may have protected base)
- **Performance:** funding adjusted based on student outcomes, such as retention or degree completion (may have protected base)
- **No funding formula:** no documented formula or specified way of allocating funds

Data collection

- Data collected for FY2004-2020
- 50 states, formulas coded at the state-sector level for each year
 - 59 four-year sector systems
 - PA: PASSHE and state-related institutions have different funding processes
 - CA: California State University and University of California systems
 - 60 two-year sector systems
 - GA: Technical College System of Georgia and two-year colleges in the University System of Georgia

Data collection

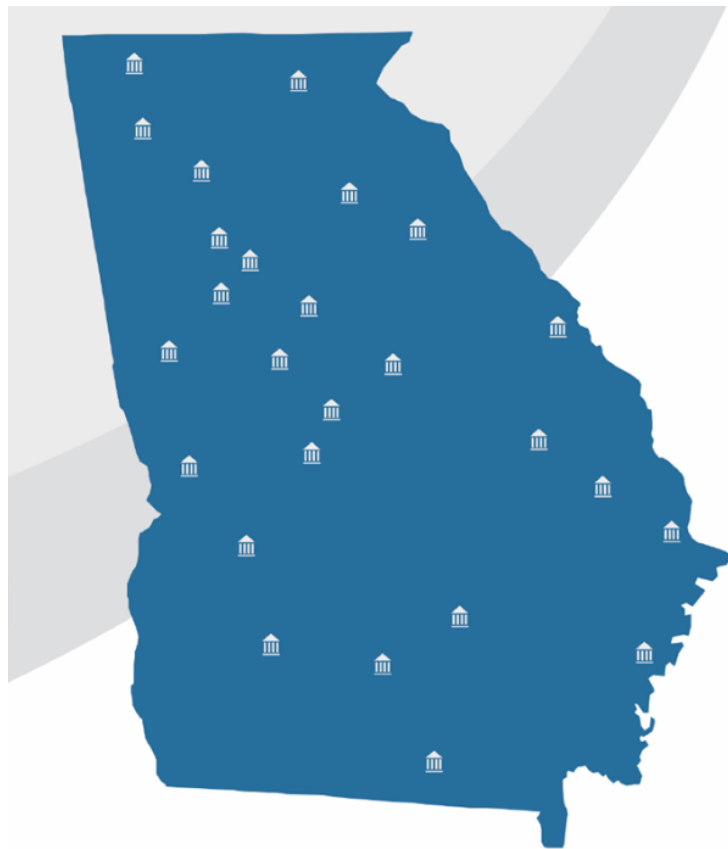
- Collected and reviewed more than 2,000 state and system policy documents (budgets, legislation, and audit reports, higher education board reports, financial statements, and other documents)
- Weekly meetings to review interpretation of documents and coding decisions
- Reached out to state higher education executive officers and others in state systems to clarify or locate information (thank you!!)

Example 1: PASSHE



- FY04-14: formula includes base appropriation (**coded as base**), adjustment for small universities (**coded as equity**), instructional costs weighted by field & level per FTE student (**coded for enrollment, field, level, & FTE**), PBF with equity metric (**coded for PBF & equity**)
- FY15-on: formula includes E&G costs (**coded for base**) and enrollment (**coded for enrollment**), instructional costs weighted by field & level per FTE student (**coded for field, level, & FTE**), PBF with equity metric until paused in FY2019 (**coded for PBF & equity**)
- Data comes from historical PASSHE Board of Governors meeting minutes

Example 2: University System of Georgia

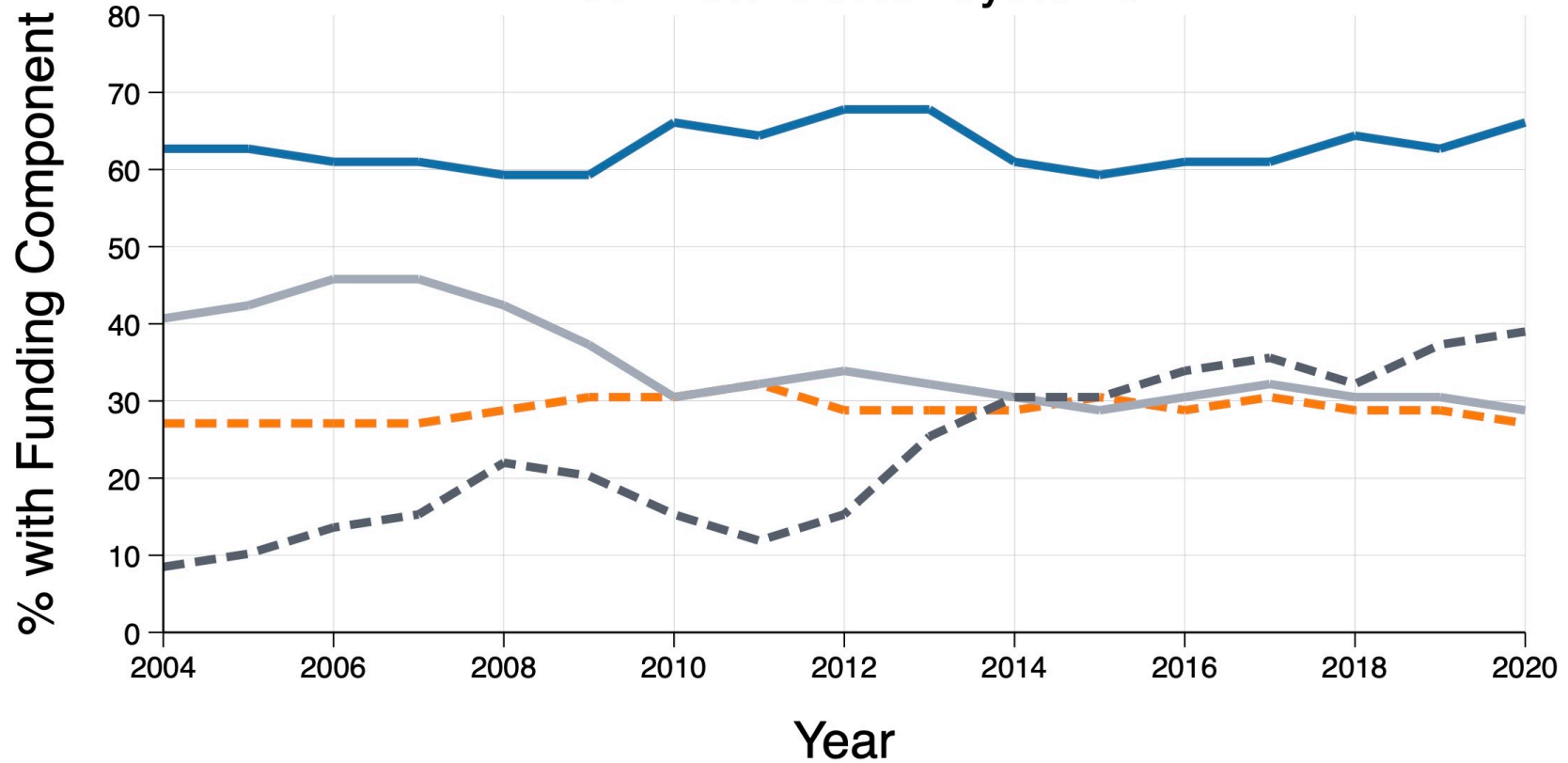


- FY04-20: formula includes operating needs/adjustments for sq. footage (**coded for base**) & enrollment growth (**coded for enrollment & FTE**)
- USG allocates funds to institutions using formula (80%), performance metrics, and other considerations (**not coded for PBF based on communication with state**)
- Data comes from historical USG Business Procedures Manual

A national view of funding formulas

- Four-year sector

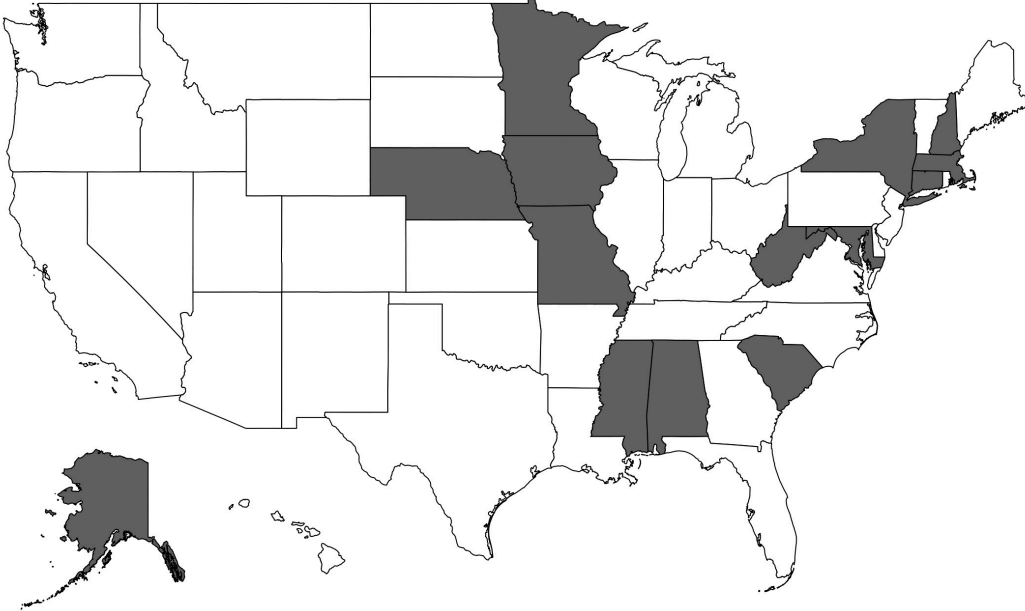
Four-Year Sector Systems



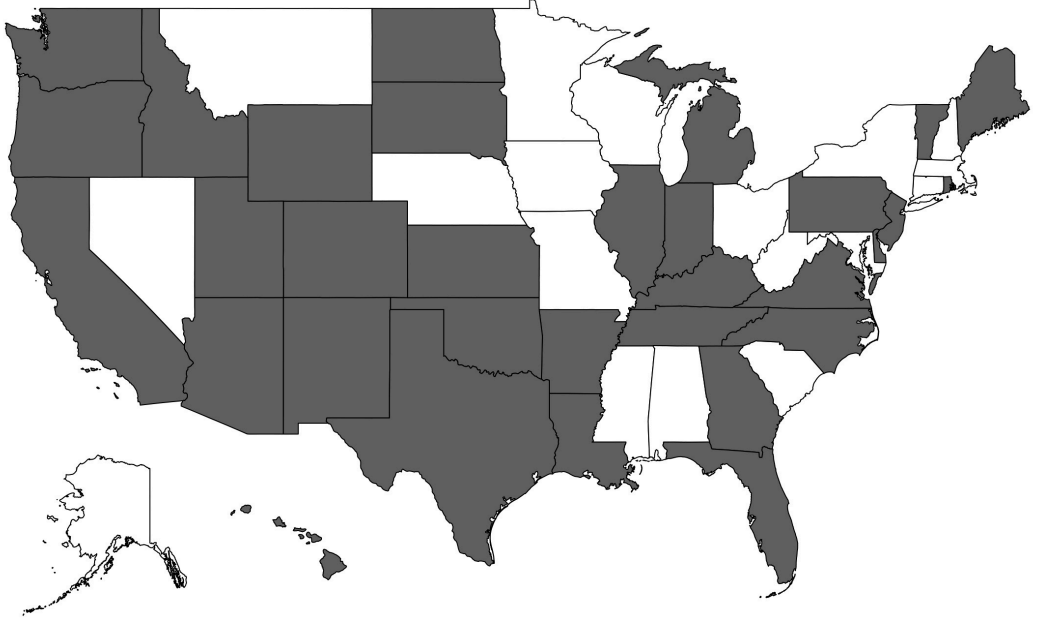
- Base-adjusted funding
- Enrollment funding
- - - No funding formula
- - - Performance funding

Four-Year Sector, 2020

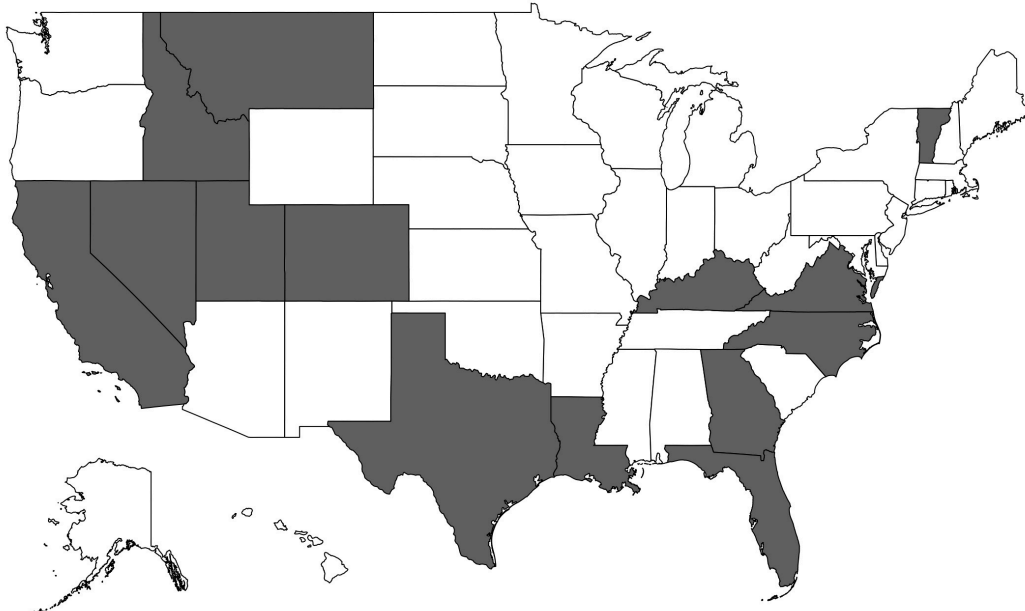
No Funding Formula



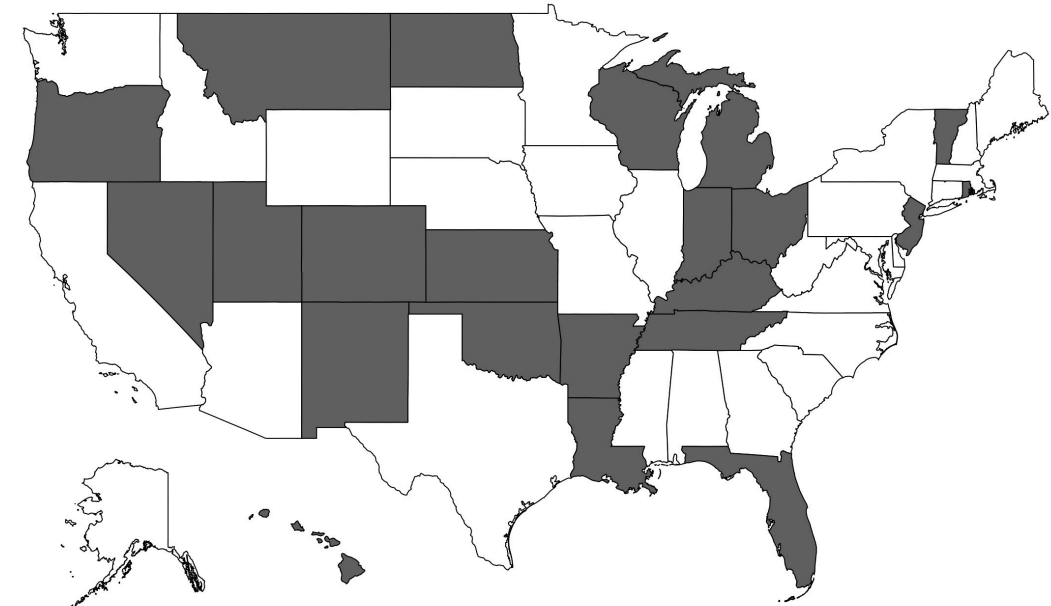
Base Component



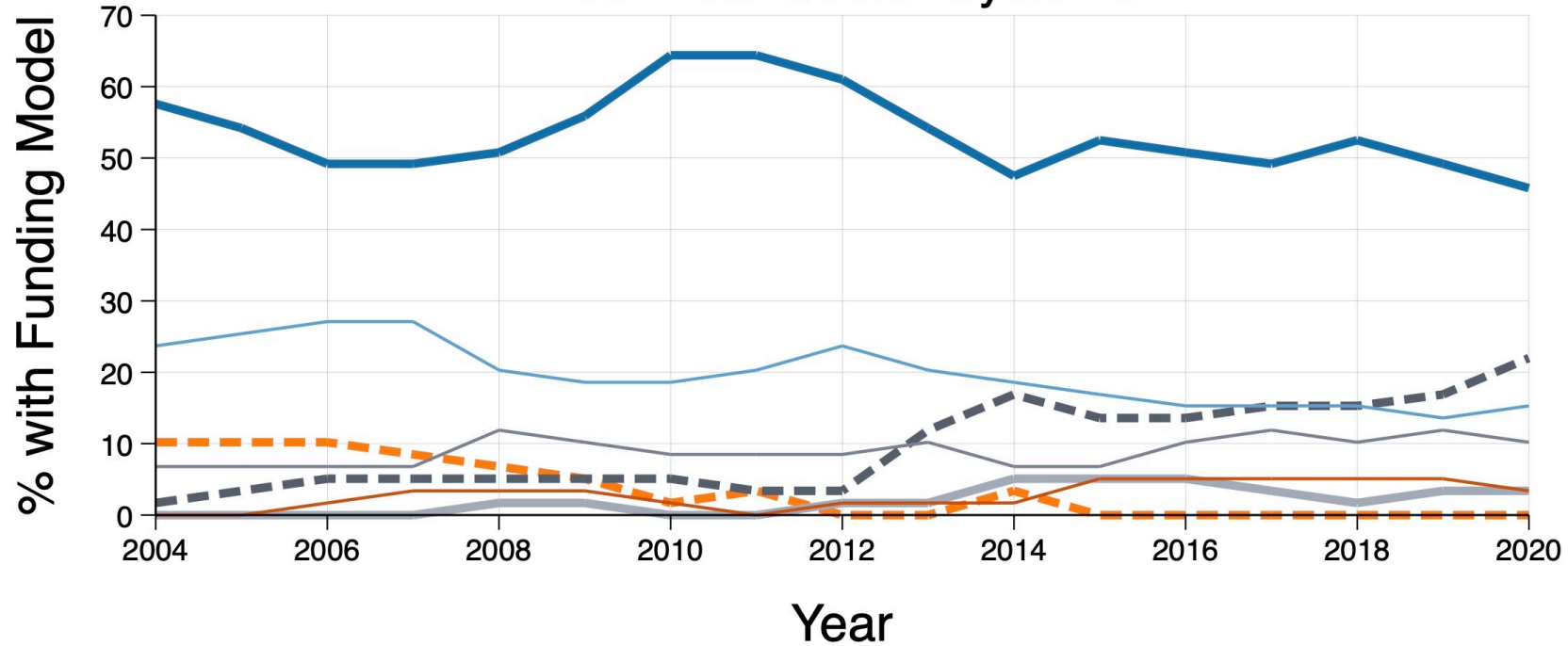
Enrollment Component



Performance Component



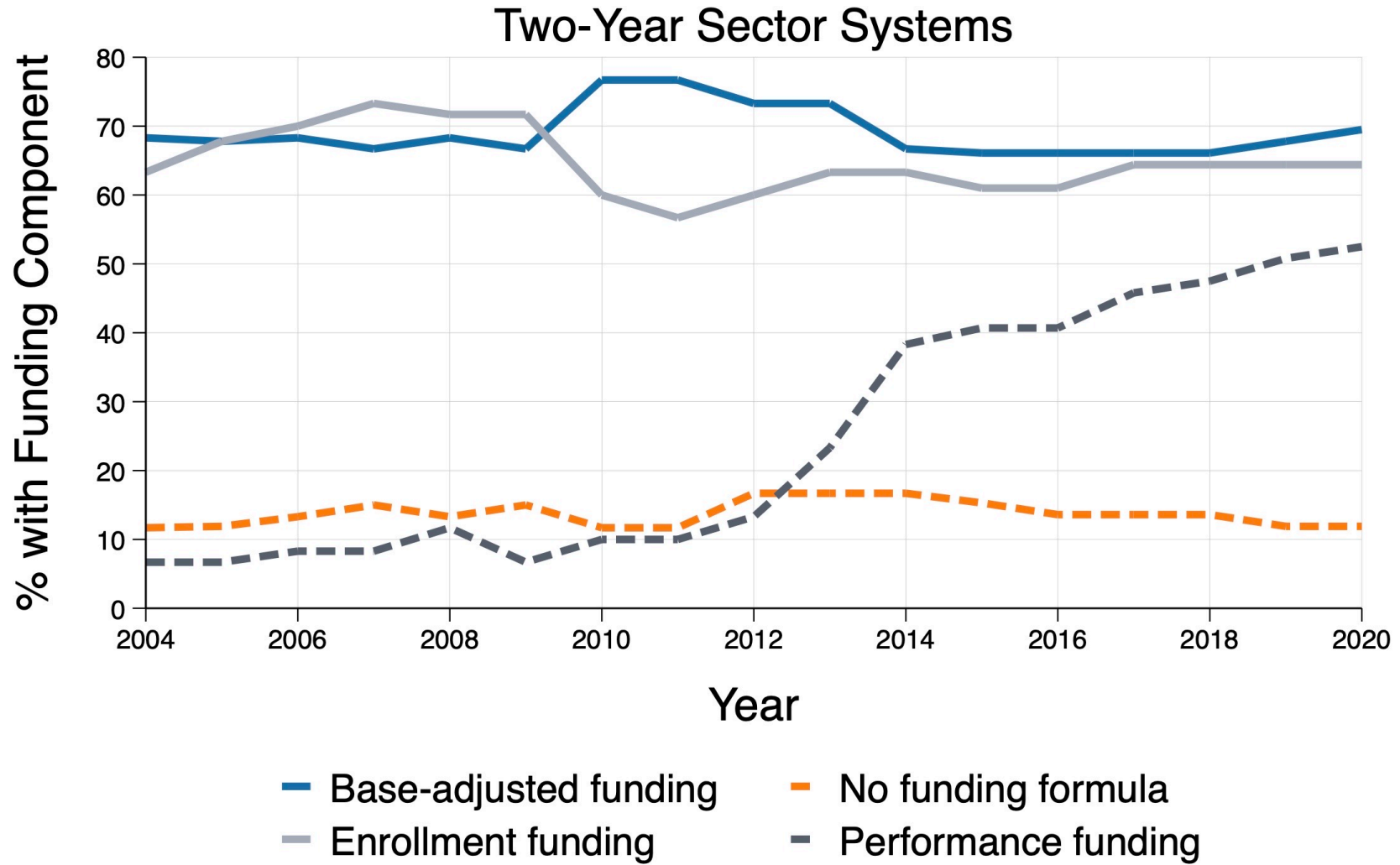
Four-Year Sector Systems



- Base/no formula
- Performance only
- Base & enrollment
- Base, enrollment, & performance
- - Enrollment only
- - Base & performance
- Enrollment & performance

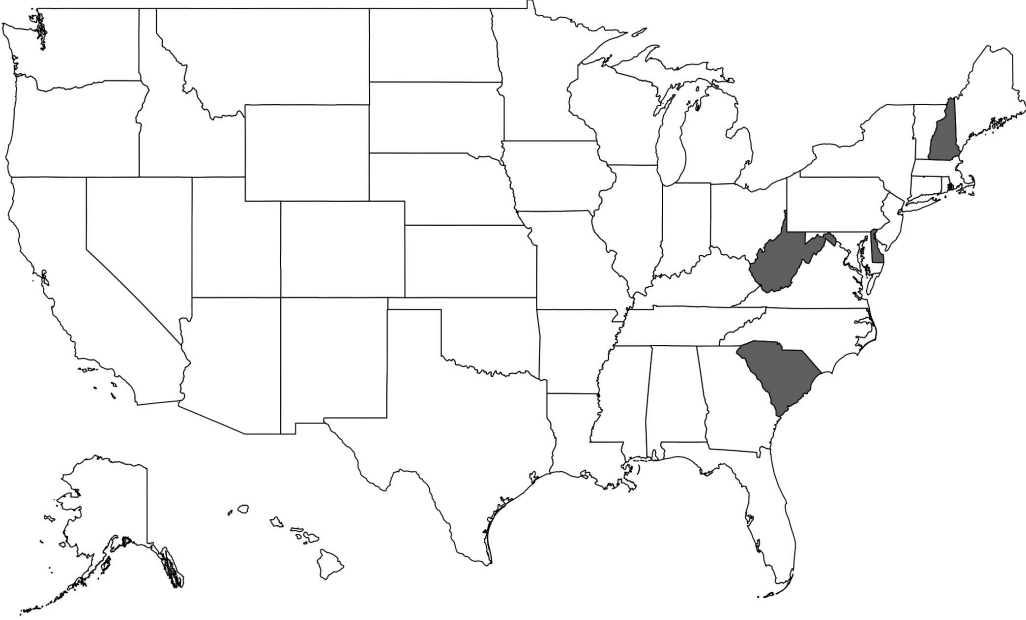
A national view of funding formulas

- Two-year sector

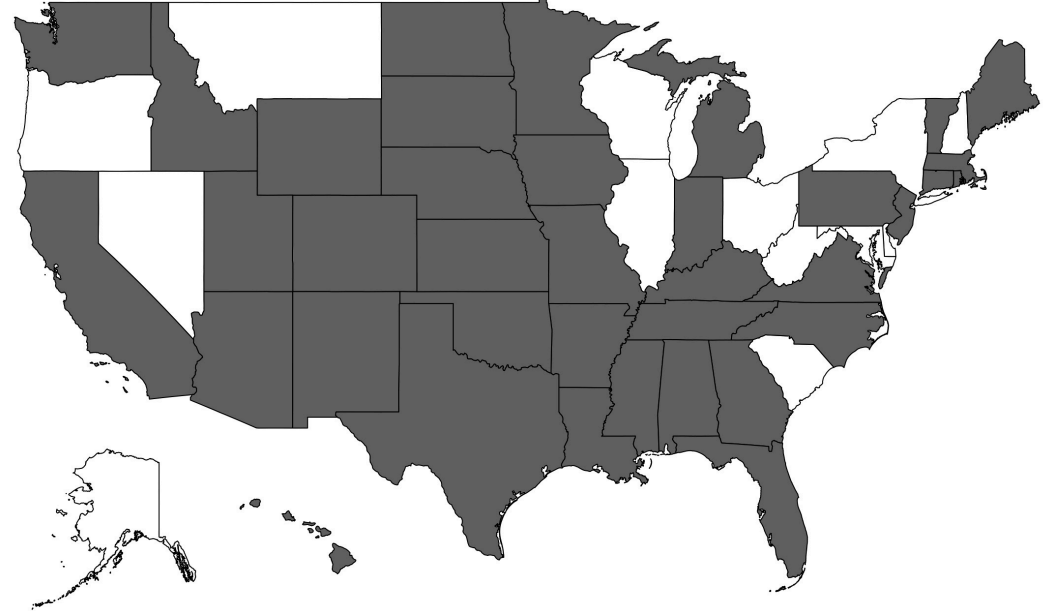


Two-Year Sector, 2020

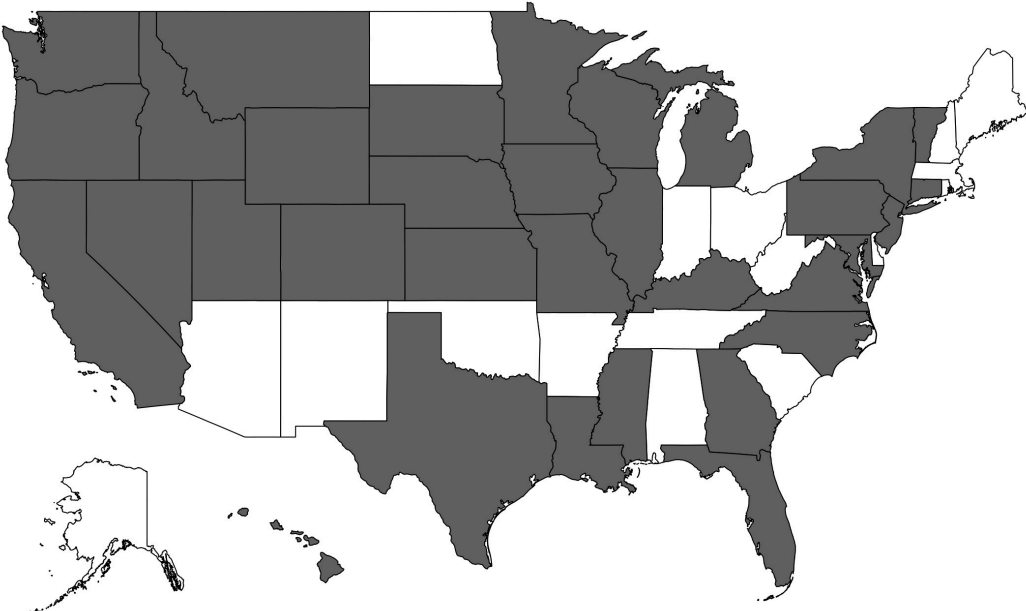
No Funding Formula



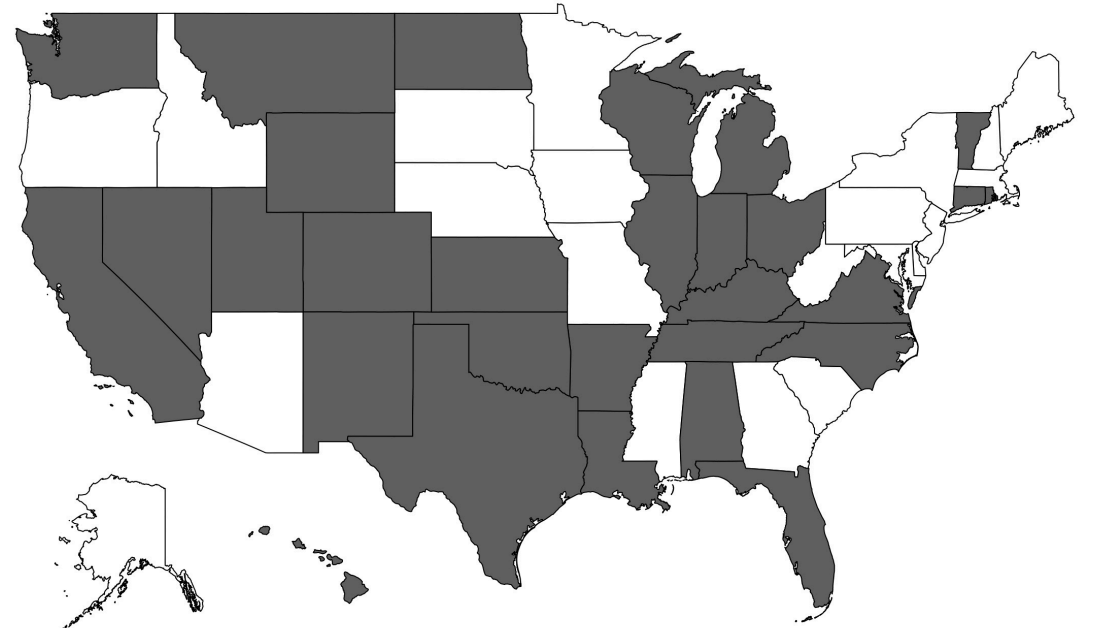
Base Component



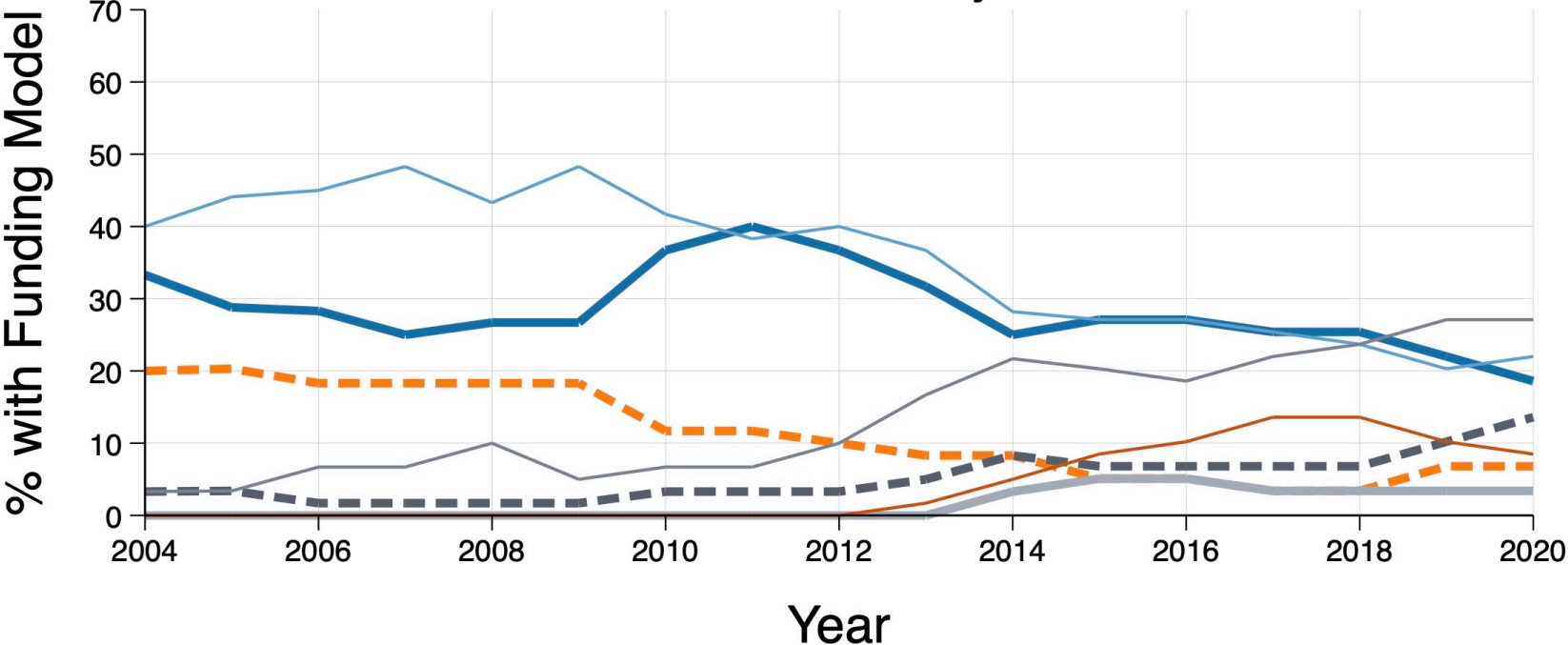
Enrollment Component



Performance Component



Two-Year Sector Systems

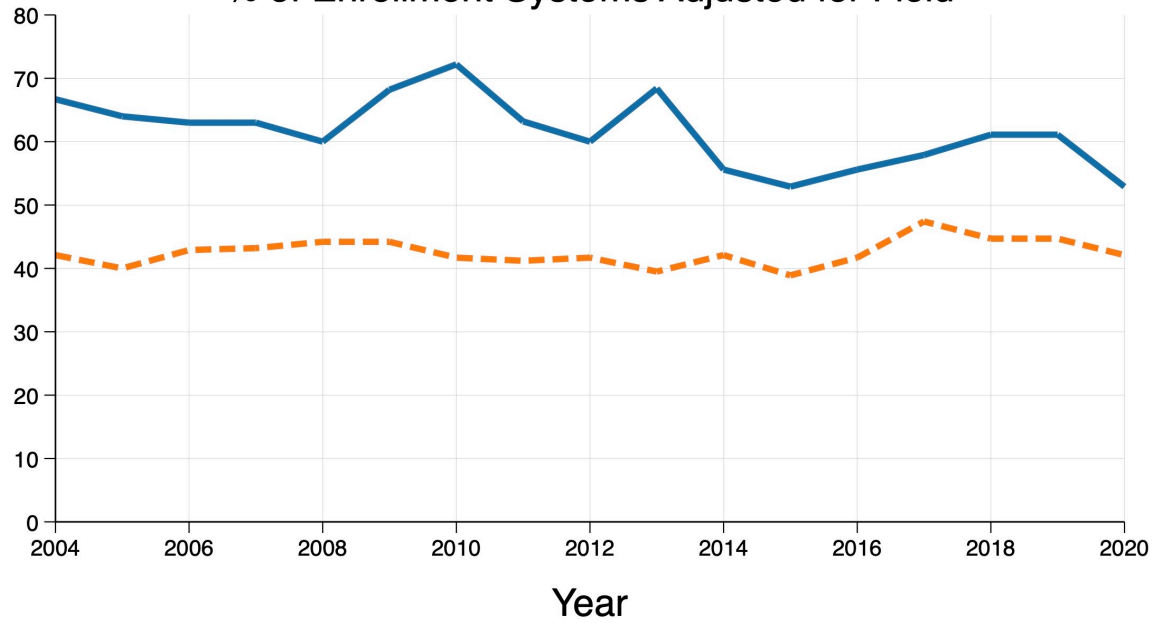


- Base/no formula
- Base & enrollment
- Base, enrollment, & performance
- - Enrollment only
- - Base & performance
- Enrollment & performance

Common enrollment metrics

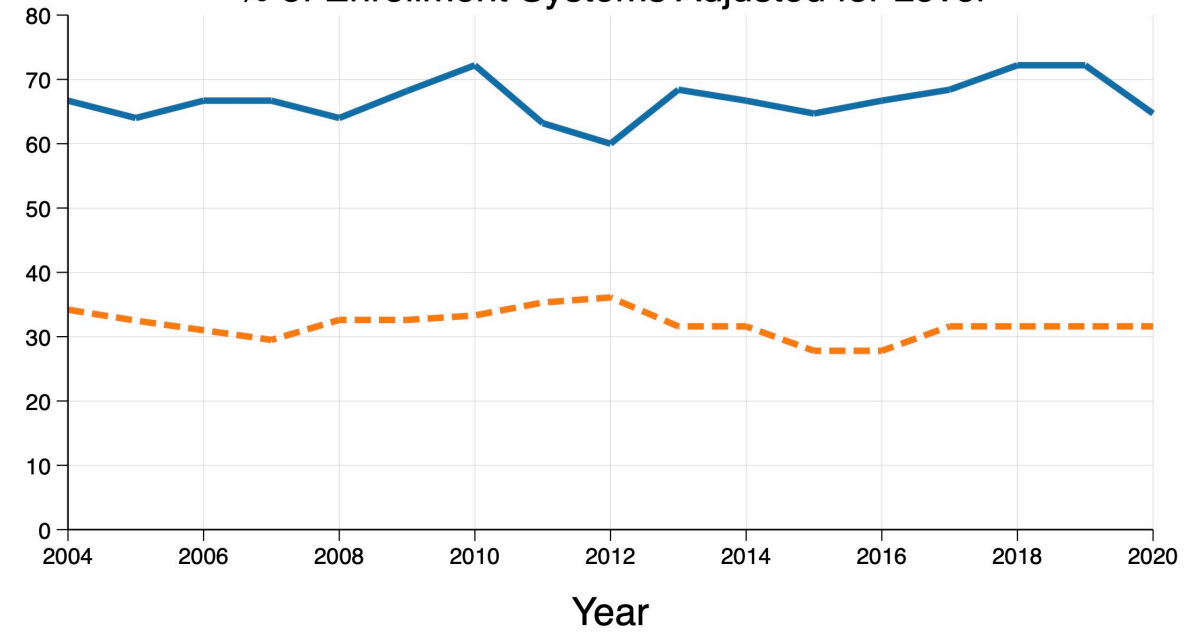
- FTE vs. headcount
 - FTE is more common; if headcount is used, it's often in funding for student services
- Sometimes adjusted for field (e.g., high instructional cost, high-demand fields)
- Sometimes adjusted for level (e.g., developmental, associate, bachelor's, or advanced degree levels)

% of Enrollment Systems Adjusted for Field



— Four-year sector - - - Two-year sector

% of Enrollment Systems Adjusted for Level



— Four-year sector - - - Two-year sector

Common performance metrics

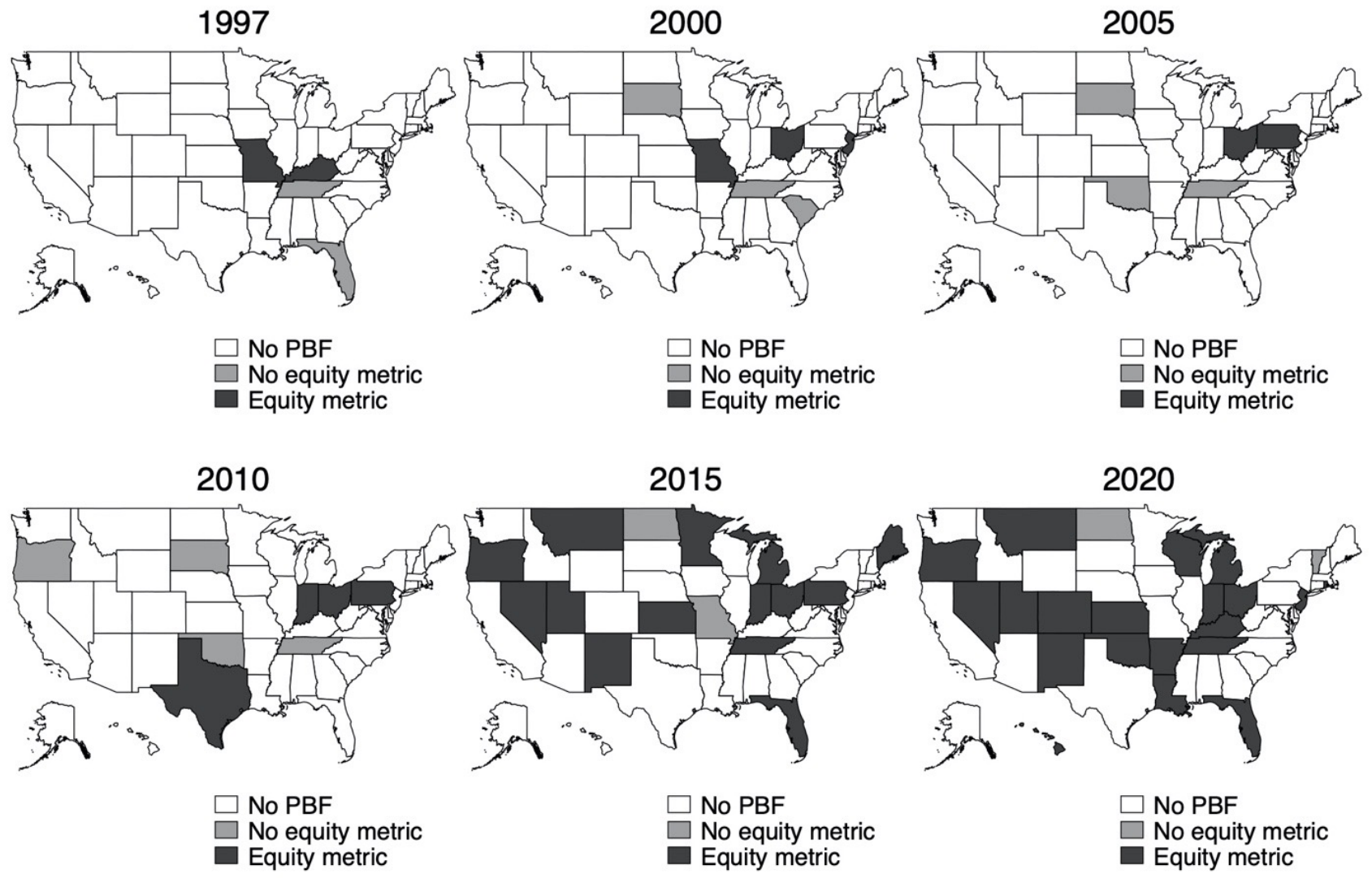
- Credit hour completion
- Progression to degree
- Transfer
- Time to degree
- Number of completions
- STEM degrees (sometimes health & other high-demand fields)
- Labor market outcomes (earnings, employment rate)

Equity considerations

- Focus on institutions
 - Small school adjustments
 - Funding for HBCUs (sometimes resulting from legal cases)
 - Equalization aid for districts with lower local tax base
- Focus on students (often within PBF)
 - Enrollment and/or completion among low-income, racially minoritized, adult, & academically underprepared students
 - PBF systems more likely to include metrics for low-income students than racially minoritized students (Rosinger et al., 2021)

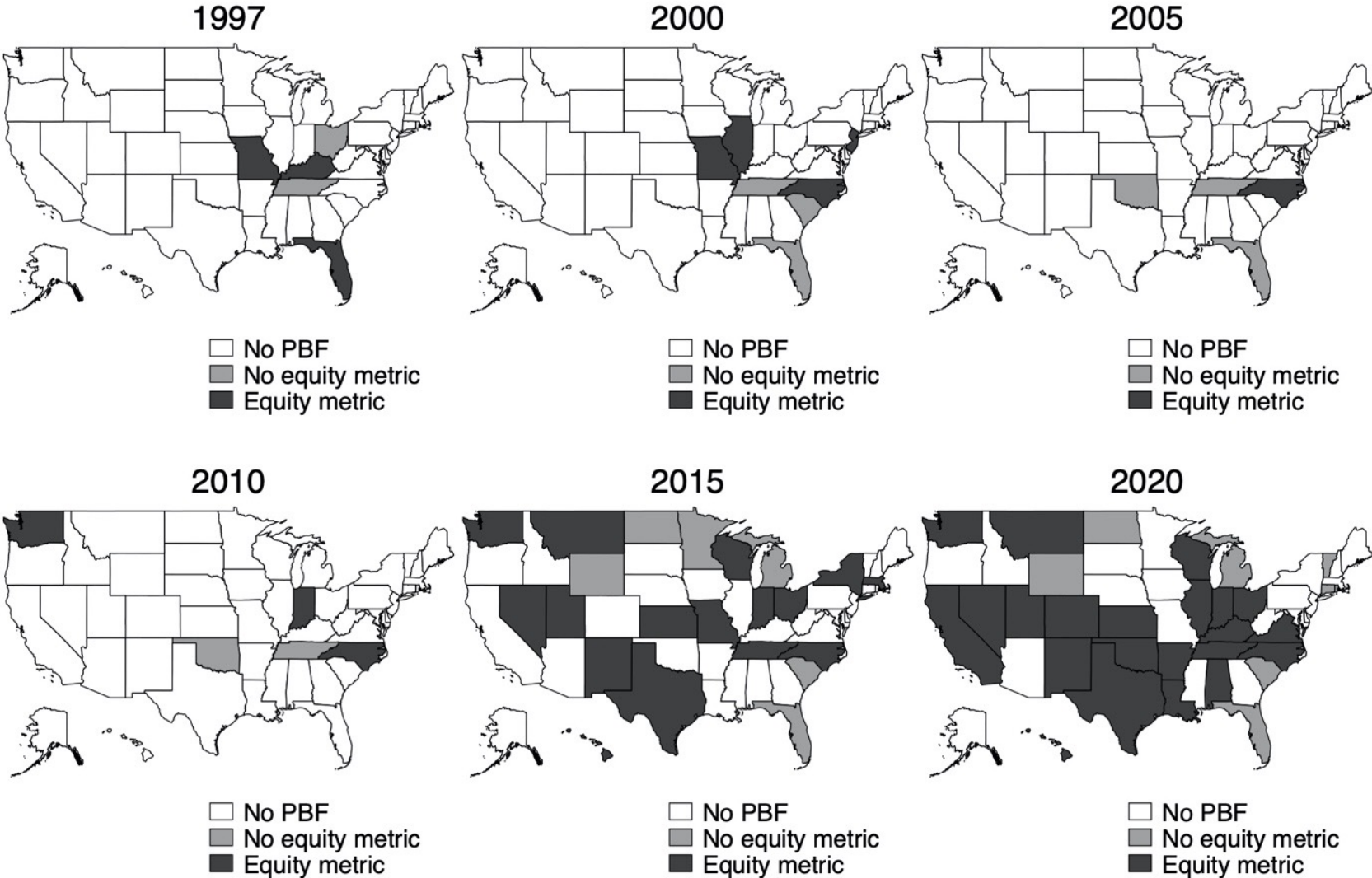
Equity in PBF

Four-Year Sector



Equity in PBF

Two-Year Sector



Key takeaways

- Around 60% of four-year & 70% of two-year systems include base component; fairly stable over time
- Enrollment component is more common in two-year sector, has declined in four-year sector, and drops in both sectors in post-recession years
- Share of systems in both sectors with enrollment component has declined/fluctuated while share with performance component has increased
- Four-year systems with enrollment component are more likely to adjust for field & level of study
- PBF is a common way states build equity into funding formulas, but not all states include metric for racially minoritized students

Implications of different funding approaches for equity

- Base adjustments: bakes in inequities in funding by institution type
- Enrollment: focus on FTE disadvantages two-year colleges (Romano & D'Amico, 2021); shift to base funding during recessionary periods when enrollments often increase
- Performance: PBF has not improved degree completion but has led to restricted enrollment among underserved students & disparities in funding across institution types (Ortagus et al., 2021)

Considerations for designing funding formulas

- Build equity into the model
 - Institutional equity: small school adjustments, equalization funds, support for minority-serving institutions
 - Student equity: metrics for enrollment among underserved students, particularly racially minoritized students (and not just as part of PBF)
- Regular review of funding model to examine disparities in funding across institution types

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Thank you!



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% of funds at stake under state PBF policies for the four-year sector

Source: Authors' review of state policy documents. Statewide PBF dosage is the share of state general funds allocated to performance.

