



Forum

Reexamining the Structure and Funding of Public Higher Education in Wisconsin

October 26, 2006

Executive Summary

Overview

On October 26, 2006, WISCAPE hosted this forum on the University of Wisconsin–Madison campus as part of an ongoing series examining the relationship between states and their public universities. The program focused on two major issues: 1) levels of state support for higher education, and 2) the structure of public higher education systems in terms of their relationships to their states.

The forum consisted of two main public presentations. During the morning session, Philip Trostel, WISCAPE Visiting Scholar and Professor of Economics and Public Policy at the University of Maine, presented the results of the work he and WISCAPE Project Assistant Justin Ronca undertook in developing a new and improved measure of state support for higher education. Bob Hanle, Team Leader in the Wisconsin State Budget Office, and Andrew Reschovsky, Professor of Public Affairs and Applied Economics at UW–Madison, commented on Professor Trostel’s presentation.

In the afternoon session, Lara Couturier, a higher education consultant and doctoral candidate at Brown University, presented her account of the recent restructuring of the public higher education system in Virginia. Following Couturier’s presentation, UW System President Emerita Katharine Lyall offered remarks on what such a restructuring could mean for Wisconsin.

Simplifying and Improving the Measurement of State Support for Higher Education

Trostel began the discussion with his presentation of an improved measure of state support for higher education. He explained that discussions of state financial support for

higher education are confusing because different participants in the debate rely on a variety of measures that compare different variables. To help alleviate this confusion, Trostel and Ronca created what they believe to be a simple, accurate, precise, and unbiased measure of state support for higher education.

According to Trostel, most measures of state support for higher education are based on one of two principles guiding government expenditures: 1) a state's *ability to pay* for postsecondary education and a state's *need* for postsecondary education support. *Ability to pay* is determined by dividing a state's funding for postsecondary education by its personal income, or:

$$S = F / I$$

where: S = State Support for Higher Education
 F = State Postsecondary Education Funding
 I = State Personal Income

A state's *need* is determined by dividing a state's funding for postsecondary education by its number of full-time equivalent students enrolled in public postsecondary education, or:

$$S = F / E,$$

where: S = State Support for Higher Education
 F = State Postsecondary Education Funding
 E = Public Full-Time Equivalent (FTE) Enrollment

However, using *need*, as determined in the above formula, as a basis for a measure of state support is problematic because levels of state support can significantly affect *public FTE enrollment* by influencing several factors, such as the number of students that enroll in college, persist to a degree, attend full time, attend public institutions, and attend college in state. Since *public FTE enrollment* is not independent of *support* (it *endogenously* depends on *support*), using it as a basis for the index creates a biased measure. Thus, the *need* for state funding cannot be accurately forecast without taking into account how state funding will affect enrollment. In other words, the funding need depends on the funding.

To solve the problem of endogeneity, Trostel and Ronca used *potential college students*, as determined by the number of high school graduates in the preceding four years, rather than *public FTE enrollment* to create the formula:

$$S = F / G$$

where: S = State Support for Higher Education
 F = State Postsecondary Education Funding
 G = High School Graduates in the Preceding Four Years

Trostel and Ronca combined this *need* measure with an *ability-to-pay* measure to create a simple, unbiased measure of state support for higher education. The new measure is:

$$S = F / (i \times G),$$

where: i = State Per Capita Income

A more detailed explanation of this formula can be found in Trostel's presentation. To download a copy of the slides, please visit: <http://www.wiscapewisc.edu/calendar/details.asp?id=431>.

Using this measure, Trostel showed that nationally, funding was fairly steady between 1991 and 2000 but has decreased since then. Funding in Wisconsin increased from 1991 to 1995, decreased from 1995 to 2000, remained fairly constant from 2000 to 2003, and then decreased from 2003 to 2004. Compared to other states, Wisconsin was above the national average in funding for higher education from 1991 to 2004, but had a larger-than-average percent decrease in funding over this time period. Trostel compared the results of this new measure with results implied by other established measures, such as those used by State Higher Education Executive Officers (SHEEO). This comparison demonstrated that, even for an individual state, the use of multiple measures could imply vastly different levels of relative funding.

Trostel also suggested that this new measure could potentially be used for quantifying the affect of changes in state support on enrollment. While qualifying his claim with a reminder that correlation does not imply causation, he presented data suggesting a strong correlation between college attendance and the level of a state's support for higher education.

While Trostel recognized it can be worthwhile to use multiple measures to examine different angles of state support for higher education, he explained that a lack of a "bottom-line" measure hinders public policy discussion. While there are caveats and assumptions associated with his new measure, as with any formula, he expressed hope that it would be generally accepted as an accurate, unbiased measure of state support for higher education that could be used to make comparisons across states.

Following Trostel's presentation, Reschovsky offered his comments on the new measure. While Reschovsky was largely complimentary of Trostel and Ronca's work, he questioned whether having one single measure was appropriate. He noted that different measures answer different, equally valid questions and suggested that, in light of this, it may be useful to have different measures.

He also complimented the researchers for dealing with the endogeneity problem inherent in other measures by using potential enrollees rather than currently enrolled students, but

noted that this solution creates other problems. Reschovsky explained that some states have a relatively high percentage of high school graduates who attend private colleges or out-of-state colleges. Thus, a state could look like it was providing relatively little support in terms of high school graduates but may be providing a great deal of support in terms of public college enrollees. He also noted that the assumption imbedded in this measure, that undergraduate education needs are proportional to other postsecondary needs (i.e., research, extension services, etc.), may be false.

Finally, Reschovsky expressed concern about the application of the measure. Trostel and Ronca suggest that the new measure could potentially be used to determine a state's effectiveness in getting students into college. Reschovsky, however, warns that legislators could overlook Trostel and Ronca's caveat that correlation does not imply causation and give too much credence to the implications of their states' effectiveness as determined by this measure.

Hanle continued the discussion with comments about how he and other staff at the Wisconsin State Budget Office function at the intersection of politics and policy. Hanle noted that legislators may not actually desire one, simple, credible measure of state support as such a measure may not serve legislators well in making their case for a particular cause. Hanle discussed a "culture gap" between what he called the "elected branch" and the "tenured branch." He noted that while members of the "tenured branch" may be primarily concerned with objectivity, members of the "elected branch" may value metric flexibility.

According to Hanle, the issue most crucial to legislators is access to higher education, not levels of state support. He reasoned that few constituents are calling their legislators to protest the quality of higher education in the state and the level of state funding, but many call to complain about their son or daughter being denied admission to UW–Madison. He concluded by discussing the challenges of explaining the need for investment in education to legislators who are concerned with minimizing expenditures and maximizing access.

What Wisconsin Can Learn from Virginia's "Great Experiment"

Couturier moved the discussion topic from the level of state support for higher education to the structure of public higher education systems. She outlined the many funding challenges facing public higher education institutions, including increased competition, a "war of amenities," increased use of merit aid to attract top applicants, the emergence of new providers (i.e., for-profit, online, etc.), globalization, and new technologies. She noted that, as a result of these forces, the higher education policymaking environment has changed and some universities feel the need to restructure their relationships with their states in order to maintain current levels of service to students and the public.

A case in point is the experience of Virginia, which began the complicated process of restructuring its public higher education system in 2004. Couturier described the evolution of a joint request from the University of Virginia, Virginia Tech, and The College of William and Mary for greater autonomy from the state, especially in the area of tuition-setting authority, in exchange for accountability that applied to all public universities in Virginia. Her account of this process was based on her report, *Checks and Balances at Work: The Restructuring of Virginia's Public Higher Education System*, which was published in June 2006 by the National Center for Public Policy and Higher Education.

Couturier briefly described the new state-university relationship in Virginia, which now consists of a tiered system affording different levels of autonomy to different institutions, annual accountability benchmarks, management agreements, and more explicit tuition-setting authority for universities. Finally, Couturier imparted a number of lessons learned from an examination of Virginia's restructuring experience.

A more detailed explanation of this restructuring process, and the lessons learned from the experience, can be found in Couturier's presentation. To download a copy of the slides, please visit: <http://www.wiscapewisc.edu/calendar/details.asp?id=431>.

In addition, *Checks and Balances at Work: The Restructuring of Virginia's Public Higher Education System* is available online at: http://www.highereducation.org/reports/checks_balances/.

Couturier called for more conversations about what states need from higher education and what level of support institutions will require in order to achieve these goals. She reasoned that discussion about accountability is here to stay and that more restructuring can be expected in the future. In conclusion, Couturier warned of the bureaucracy that can result from the restructuring process and urged postsecondary institutions to prevent this from overriding the ultimate goal of greater access to higher education.

Lyll drew on her own experiences as president emerita of the UW System in her response to Couturier's presentation. Lyll agreed with Couturier's claim that the higher education policymaking environment has changed and asserted that the UW System is on the road to privatization. She pointed to several drivers of this privatization trend, including a "small government" philosophy, competing claims on state budgets from K-12 education and Medicaid, a propensity to regard the benefits of higher education as private rather than public, and an outdated state budget structure. Lyll worried that privatization would fundamentally change the constituencies to which public universities respond, alter the incentive and disincentive structure by which states seek to operate their universities, and redefine the goals the universities seek to attain. She urged the UW System to follow Virginia's lead by gathering key Wisconsin policymakers to better define what the state wants from its public universities.

WISCAPE Forum Executive Summary

CFO22: *Reexamining the Structure and Funding of Public Higher Education in Wisconsin*

Download at: <http://www.wiscapewisc.edu/calendar/details.asp?id=431>

To view a DVD copy of this forum, contact the WISCAPE office.

Much like the changing role of boards in Virginia, Lyall pointed to the potential for a changing role for higher education systems in this new environment. She reasoned that university systems could work to facilitate accountability and ensure college access throughout their states as resources grow tighter. She noted that university systems, because of their collaborative organization, could ensure risk taking that could lead to innovation, particularly for smaller institutions.

To ensure access and accountability, Lyall called on the UW System to pay attention to the educational pipeline, or how students statewide move through K-12 schools, two-year institutions, four-year institutions, and graduate programs. She stressed the importance of collaboration between these links in the pipeline to ensure the efficient and effective operation of the other parts. Lyall closed by reminding the audience of the progressive nature of Wisconsin and urged the university to be inspired by the Virginia experiment to reinvent its own state-university relationship.

Conclusion

Well-attended by faculty, students, staff, administrators, researchers, and policymakers, this forum successfully facilitated discussion amongst these key groups. Participants no doubt left with a greater understanding of trends in state support for public higher education and the structures of higher education systems, particularly the innovative restructuring that recently occurred in Virginia and the lessons that can be learned from that experience.

Discussions following both presentations focused on the lack of consensus among legislators on the role the university should play in serving the state. Respondents and audience members alike mentioned the need to better define state expectations for the university, and it is hoped that this forum was a step in that direction.

Related Web Links

The National Center for Public Policy and Higher Education

<http://www.highereducation.org/>

State Higher Education Executive Officers (SHEEO)

<http://www.sheeo.org/>

WISCAPE Forum Executive Summary

CF022: *Reexamining the Structure and Funding of Public Higher Education in Wisconsin*

Download at: <http://www.wiscape.wisc.edu/calendar/details.asp?id=431>

To view a DVD copy of this forum, contact the WISCAPE office.

Agenda

Public Lecture

Improving the Measurement of State Support for Higher Education

10:00 a.m. – 11:45 a.m.

Pyle Center Auditorium

Introduction

Noel Radomski

Director

WISCAPE

Presenter

Philip Trostel

Associate Professor

Department of Economics and

Margaret Chase Smith Center for Public Policy University of Maine

Respondents

Bob Hanle

Team Leader

Wisconsin State Budget Office

Andrew Reschovsky

Professor of Public Affairs and Applied Economics

Robert M. La Follette School of Public Affairs

University of Wisconsin - Madison

Discussion

Break

11:45 a.m. – Noon

Pyle Center Auditorium Lobby

(Continued on following page)

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Public Lecture

What Wisconsin Can Learn from Virginia's "Great Experiment"

Noon – 2:00 p.m.

Pyle Center Auditorium

Introduction

Noel Radomski
Managing Director
WISCAPE

Presenter

Lara Couturier
Higher Education Consultant and
Former Director of Research, The Futures Project
Brown University

Respondent

Katharine Lyall
President Emerita
University of Wisconsin System

Discussion

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