Understanding federal and state government funding of postsecondary institutions

Nicholas Hillman
University of Wisconsin-Madison
Assistant Professor
Educational Leadership & Policy Analysis
Shared responsibility? Students, government, & philanthropy

- $300+ billion enterprise
- 2% of US GDP
- This excludes: tax benefits ($18 b), veterans benefits ($15 b), loans ($96 b)
- ~19 million fall 2015 headcount
- Net tuition alone is $120 b...
  or the size of Ukraine’s GDP

Author’s calculations using SHEF, NSF, College Board, & Delta Cost data
Do we have a cost, subsidy, or price problem?

Costs rise very slowly...

Author's calculations from Delta Cost Project (E & G expenditures)
Do we have a cost, subsidy, or price problem?

Costs rise very slowly...

...students’ share of them rises quickly

Tuition’s share of E&G expenditures
Public research universities
(Delta Cost Project, 2016)
Do we have a cost, subsidy, or price problem?

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2008

Student, 28%

Subsidy, 72%

Tuition’s share of E&G expenditures
Public research universities
(Delta Cost Project, 2016)
Do we have a cost, subsidy, or price problem?

Costs rise very slowly...

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Tuition’s share of E&G expenditures
Public research universities
(Delta Cost Project, 2016)
Consequences of rising prices

- State-level shift is well documented
- Campus-level shift is not
- What are the consequences?
  - More student loan debt
  - Longer time to degree
  - Pressure on aid programs
  - Alternative revenue generation
  - Wider resource inequity by campus
  - Greater push for “performance”

Source: author’s calculations using SHEF data.
Performance funding: state & federal policy

• 32 states now use it

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• Renewed interest since ’09
Performance funding: state & federal policy

• 32 states now use it

• Renewed interest since ’09

• Affects 52% of community college and 39% of public 4yr colleges

• What is “it” and how does it differ from the old?

Performance funding: state & federal policy

• We see versions of PBF proposed or implemented at the federal level:

  America’s College Promise – states must tie “significant amounts” to PBF
  College Rating System – tie federal aid to college performance rating
  Gainful Employment – low-performing programs leave students worse off
  Cohort Default Rate – colleges with CDRs > 30% face possible sanctions
  Risk Sharing – colleges pay back share of defaulted debt according to performance
  Pell Grant – performance-based aid as incentive for students to persist
### What have we learned from PBF research?

<table>
<thead>
<tr>
<th>Authors</th>
<th>Outcome</th>
<th>Years studied</th>
<th>Effects on outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Volkwein &amp; Tandberg (2008)</td>
<td>Accountability score</td>
<td>2000-06</td>
<td>Null</td>
</tr>
<tr>
<td>3 Shin (2009)</td>
<td>Graduation rates &amp; research funds</td>
<td>1997-07</td>
<td>Null</td>
</tr>
<tr>
<td>4 Sanford &amp; Hunter (2011)</td>
<td>Graduation &amp; retention rates</td>
<td>1995-09</td>
<td>Null</td>
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<tr>
<td>5 Rabovsky (2012)</td>
<td>Revenues &amp; expenditures</td>
<td>1998-09</td>
<td>Mix, mostly null</td>
</tr>
<tr>
<td>7 Hillman, Tandberg, &amp; Gross (2014)</td>
<td>Bachelor's degrees</td>
<td>1990-10</td>
<td>Null</td>
</tr>
<tr>
<td>8 Tandberg &amp; Hillman (2014)</td>
<td>Bachelor's degrees</td>
<td>1990-10</td>
<td>Null, some + over time</td>
</tr>
<tr>
<td>9 Tandberg, Hillman &amp; Barakat (2015)</td>
<td>Associate's degrees</td>
<td>1990-10</td>
<td>Mix, mostly negative</td>
</tr>
<tr>
<td>11 Umbricht, Fernandez, &amp; Ortagus (2015)</td>
<td>Degrees, diversity, &amp; admissions</td>
<td>2003-12</td>
<td>Null, more selective, less diverse</td>
</tr>
</tbody>
</table>

- Well documented literature
- Old and new models
- State-level & states case study
- Often null or negative effects
- Short-term certificate growth
What have we learned from PBF research?

Pay-for-performance works when:
- tasks are simple/routine
- goals are measurable
- agents have capacity to respond
- agents would shirk w/o oversight
- organizations are not complex

Research outside higher ed shows:
- little to no impact on outcomes
- short-term impacts don’t stay
- high-performers do best
- crowd-out effects
- gaming persists

A quick look at the exemplar, Tennessee
If it’s here to stay, what’s next

• Just like merit-based aid, PBF is merit aid to colleges
• It will trickle down to campus decision-making units
• What about need-based aid to colleges?
• Help build their capacity to “perform”
  - Technological infrastructure to serve students
  - Thorough evaluations of existing campus interventions
  - Improve student support services, professional development
  - Assist with debt management and repayment
  - Look to ASAP as an example
Thank you!

Nick Hillman
Assistant Professor
Educational Leadership & Policy Analysis
University of Wisconsin-Madison

nwhillman@wisc.edu