

Citizens' League Questions

Minnesota Private College Council

July 29, 2004

1. What public goods should be served through state support of higher education? What is the public purpose of financial support for financial aid?

Higher education is both a public and private good. For individuals, there are great personal and financial benefits to attaining postsecondary education. Societies benefit from having a well-educated citizenry, and the benefits are economic, cultural and civic.

As the state seeks its interest, it should try to provide funding that will maximize the public good while expending public funds as efficiently as feasible. An effective system will recognize that leverage is an important tool: private individuals will commit their own resources in pursuit of their own interests, and public dollars can provide incentives for private spending toward public interests.

Also, providing too many public resources to individuals who are or should be willing to spend their own resources in pursuit of their own interests is inefficient, whether in higher education or in any other policy area.

An effective system must also take into account that individuals have different interests, and are more or less able to pursue those interests given their own histories and backgrounds – financial, educational attainment, ability, etc. A fair and just system must commit more resources to individuals with less ability to pursue their interests, and fewer resources to those who have the means to exercise their choices. In Minnesota, you shouldn't have to be rich or privileged to achieve your potential.

By closely tying the distribution of public resources to the ability of individuals to pay for their own education as they are able, we can reserve public resources as they are needed for those who most need them and better maximize the impact of public investment.

The providers of the public good in higher education can be either public or private. For the public interest, the tax status or corporate organization of the institution providing the public good is less important than is ensuring that the service received by the student is in the public good. A fair, just system will be both student-focused and cognizant of the state's needs. A flexible, targeted need-based financial aid system should be an essential part of the foundation of sound public policy.

However, there are limits to this policy direction. Some of the goods provided by higher education – particularly public higher education – are only affordable due to state investment. Research and graduate education at the University is the most obvious example. Technical education within MnSCU is another, in programs that have high capital equipment costs and for safety purposes must have low student-to-teacher ratios.

Balance between a student-based funding approach and public institution funding needs is needed.

We believe that given the future demographic makeup of our state and the economic wherewithal of future potential college students, more must be done to help low- and middle-income students have realistic access to the program or institution which best serves their needs. We also need a renewed effort to prepare lower-income students for the rigor of postsecondary education. Access and preparation will be important not only for those students who need the help, but also for the increasing demands our state's workforce will have in the near future.

2. What are the long-term trends in higher education funding, both in Minnesota and in the nation?

For better than a decade now, the percent of public funds committed to higher education has been falling. This is true in nearly every state and is projected to continue. Citizens have K-12 education, health care, transportation, crime prevention and punishment, and low taxes as higher priorities than public funding for higher education programs. Elected officials react to their constituents' wishes, and we fear that higher education spending as a percentage of overall state spending will continue to decline.

Luckily for low- and middle-income Minnesotans, our state has a commitment to need-based financial aid that most states do not have. Other states with significant need-based aid commitments are Indiana, Illinois, California, Vermont, and New York.

But in facing the challenge of providing higher education access to its citizens, each state will have to assess its own situation and its own needs. For example, most states do not rely on private higher education like Minnesota does. Private colleges produce over one-third of all baccalaureate degrees in Minnesota, which ranks our state 12th in reliance on private higher ed. for degree production. Also, the number of high school graduates in the decade ahead will increase in the southern and western U.S. while falling in Minnesota and the upper Midwest. Individual states will react to their own demographics, their own strengths and needs.

We think rather than asking how other states react to this reality, a better question is to ask how Minnesota should react given the state's current and future needs.

Minnesota should commit more of its available resources to low- and middle-income students, while asking students from higher income households to pay more of their own way. Given the demographic shifts that we will see in the state in the decade ahead and given the postsecondary production needs that our state's businesses will require, this is the only way to ensure that enough educated people will be available to meet employer demands and provide social stability.

3. What should be the major categories of financial support?

In particular, we would advocate for separate funding for the University of Minnesota's research and graduate education mission. Research performed by the U, and the application of that research, will be critical to our state's economic vitality in the future. This function at the University should not only be protected from budget cuts, but there should be provision in law to ensure that these functions see strategic increases.

4. What specific financial model do you think will best serve the future needs of Minnesota?

Perhaps the most important testimony heard by the panel thus far has been given by State Demographer Tom Gillespie. He spoke about the significant demographic shift that will affect higher education in the future.

Current projections indicate there will be a ten percent reduction in the number of high school graduates by 2013, and nearly a 20 percent reduction in white high school graduates. This means that the available population of high school graduates will not look like the students we now enroll in college throughout Minnesota's higher education enterprise. The Class of 2013, who will enter fifth grade this fall, will be a smaller cohort made up of students who are less likely to attend postsecondary education than those who graduated from high school this spring. For those who do move on to postsecondary education, these students will have much higher financial needs than the state's current college students.

We believe that the state should move, over time, to a financial model in which about 30 percent of the state's higher education spending should be dedicated to students in the form of State Grants, Work Study, Postsecondary Child Care and other programs that may be designed to increase the likelihood that low- and middle-income people obtain some form of postsecondary training. The remaining 70 percent should be spent at public institutions for the U of M research and graduate education mission, and to subsidize the public colleges' other operations as they deem necessary. All public funding mechanisms should be focused on and accountable to the state's needs, not institutional self interest.

As state budgets become tighter and competition for state dollars becomes more fierce, it is a given that all sectors of higher education will rely more heavily on tuition than we have in the past. This is a consequence of economic and demographic factors – not a goal by itself.

Certainly, all colleges and universities – no matter how they are organized – have increasing budget demands each year. Employee compensation, utilities, even the price of carrots in the cafeteria will all be more expensive next year than last. If colleges are not more efficient and do not utilize a variety of revenue sources, they will have to cannibalize their quality in order to stay in business. So from an operations quality standpoint, it's better to raise tuition than freeze it and cut too deeply.

We must also recognize that tuition increases affect different students differently. It should not bother anyone when tuition rises for students who come from wealthier households; it should bother *everyone* when a low- or middle-income student cannot continue their education because they are priced out.

It is hard to imagine a future where there is enough public money to have inexpensive college for everyone. But we feel that there will be enough to ensure that those who are most affected by tuition increases are protected from the full brunt of those increases.

Going along with this financial change must be a change in the way in which the Legislature interacts with the public colleges. For most other states, their legislatures set tuition levels. Minnesota higher education is rare – and better – for having our state Legislature take a hands-off approach in determining public college tuition. Unfortunately the Legislature isn't so hands-off in interfering with other policies that the Board of Regents and Board of Trustees should have the power and authority to determine.

Strong public college boards will be able to steer their institutions through what appears to be a challenging future. These boards should be held accountable for their work, but should not be subject to undue interference and micromanagement by the Legislature. The Governor can play a role to ensure that this doesn't happen.

In sum, Minnesota will need more college graduates in the near term and most of that supply must be the result of additional success among low-income students. State policy, funding mechanisms and institutional performance must be adapted to ensure these results. In addition, the state must be more strategic in marshalling resources to ensure a continuous flow of basic research to help the state's economy remain competitive.