MEETING OF THE FACULTY SENATE

THURSDAY, DECEMBER 5, 2002

2:30 - 5:00 PM

25 Mondale Hall--Twin Cities Campus
305 Selvig Hall--Crookston Campus
Kirby Student Center Garden Room--Duluth Campus
Behmler Hall Conference Room--Morris Campus

This is a meeting of the Faculty Senate. There are 178 voting members of the Faculty Senate. A simple majority must be present for a quorum. Most actions require only a simple majority for approval. Actions requiring special majorities for approval are noted under each of those items.

1. ANNOUNCEMENTS
(2 minutes)

2. TRIBUTE TO DECEASED MEMBERS OF THE UNIVERSITY COMMUNITY

FACULTY/ACADEMIC PROFESSIONALS/STAFF

Mary A. McEvoy
Professor
Educational Psychology
1953 – 2002

Paul G. McGovern
Professor
Epidemiology
1953 – 2002

3. ADMINISTRATIVE RESPONSES TO SENATE AND ASSEMBLY ACTIONS
Information

Faculty Senate

Resolution to Eliminate the Waiting Period for the Faculty Retirement Plan
Approved by the: Faculty Senate October 3, 2002
Approved by the: Administration **PENDING (Response due date January 3, 2003)**
Approved by the: Board of Regents – no action required

4. FACULTY CONSULTATIVE COMMITTEE REPORT
(5 minutes)

5. SENATE COMMITTEE ON FACULTY AFFAIRS
Policy on Voting
Action by the Faculty Senate
(15 minutes)

MOTION:

To adopt the following policy. All language is new.

POLICY ON VOTING

--Only tenured full professors may vote on whether to recommend a candidate for promotion to full professor with tenure. The tenured full professors may consult other tenured faculty, non-tenured faculty, P&A and term faculty, adjunct faculty, students, and any others they wish. The meeting at which the final deliberations and vote take place, however, shall be open only to the tenured full professors in that unit.[1]

--Only tenured associate and full professors may vote on whether to recommend a candidate for promotion to associate professor with tenure. The tenured associate and full professors may consult other tenured faculty, non-tenured faculty, P&A and term faculty, adjunct faculty, students, and any others they wish. The meeting at which the final deliberations and vote take place, however, shall be open only to the tenured associate and full professors in that unit.

--Only tenured faculty may vote on whether to recommend a candidate for tenure. The tenured faculty may consult non-tenured faculty, P&A and term faculty, adjunct faculty, students, and any others they wish. The meeting at which the final deliberations and vote take place, however, shall be open only to the tenured faculty in that unit.

COMMENT:

The Tenure Subcommittee was asked by the Senate Committee on Faculty Affairs to consider issues associated with voting on faculty appointments, promotions, and tenure. The Subcommittee, after discussion over several meetings, recommended a proposed policy to the Committee on Faculty Affairs. The Committee on Faculty Affairs, and the Faculty Consultative Committee, offered a number of suggestions that were incorporated in the policy. The Committee on Faculty Affairs and the Tenure Subcommittee recommend that the Faculty Senate adopt the policy

This policy is intended to be supplemental to the tenure regulations. We believe that the provisions of this policy are implicit in the tenure code but that additional clarification cannot hurt.

DANIEL FEENEY, CHAIR
FACULTY CONSULTATIVE COMMITTEE

JOHN FOSSUM, CHAIR
SENATE COMMITTEE ON FACULTY AFFAIRS

WILLIAM GARRARD, CHAIR
TENURE SUBCOMMITTEE

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[1] The provision in this and succeeding paragraphs that "the meeting at which the deliberations and vote take place, however, shall be open only to . . . " explicitly bars all others except, as a department may wish, a senior staff member, trusted and discreet, who is also responsible for academic personnel matters in the department. It is expected that ALL individuals participating in, or privy to, deliberations on these personnel matters will keep them confidential. Minnesota law requires confidentiality.

6. AD HOC COMMITTEE ON GOVERNANCE
Academic Governance Policy
Discussion by the Faculty Senate
(30 minutes)

Since this report is a working draft, the most current version will be distributed at the meeting. Prior to the meeting, current drafts will be available on the web at:
http://www1.umn.edu/usenate/fcc/governance.html

7. RETIREMENT SUBCOMMITTEE
Post-Retirement Health Care Savings Plan
Discussion by the Faculty Senate
(30 minutes)

Draft Recommendation from the Working Group on the Faculty Post-Retirement Health Care Savings Plan

November 27, 2002

The merits of a post-retirement health care savings plan (PRHCSP) are evident. A key concern to present (and certainly future) retirees is the cost of health care, which now comes from their post-tax dollars. This is often a rude awakening for faculty entering retirement, as during employment the University not only covers the major portion of the cost, but also any additional costs come from an employee's pre-tax dollars.

A PRHCSP has the advantages that each of our present 401a, 403b and 457 plans have; all University and employee contributions come from pre-tax dollars and earnings on the balance invested are not subject to income taxes. The contributions can be invested in one or more funds chosen by the employee from a select group of investment options. A PRHCSP has another very important advantage; upon retirement or termination of employment from the University, withdrawals to pay for health insurance premiums and other appropriate health care costs are not considered to be taxable income. Thus, the PRHCSP avoids taxation of contributions as they go in, does not tax accumulating investment earnings, and does not tax post-employment distributions when used for health care. Furthermore, if one dies before exhausting the funds in the PRHCSP, the remaining balance becomes part of the decedent's estate, and if the total value of the estate is below the taxable threshold, the residue and its distribution to heirs will not be taxed.

We believe there is no question that the University should embrace this plan. However, there are questions about the amounts to go into the savings plan and the source of these funds. The rules of the program say that each individual in a given "class" must put in the same amount ($ or % of salary). This "class" cannot be directly defined by age. However, those nearing retirement would probably want to (and certainly should) put in more than younger faculty as they have fewer years to put in funds or have the earnings accrue.

Recommendations:

1) For those in the Faculty Retirement Plan (FRP) the "class" is defined as the number of years employed full time at the University.

2) All faculty participants in the FRP would have a basic contribution each year to the PRHCSP of one and a half percent (1 1/2%) of salary. This would be over and above any other contributions by the individual or the University to a retirement plan.

3) All FRP participants who in fall 2003 have served seven years or more would contribute an additional amount as a catch-up provision. Additional contributions from those starting their eighth (8th) or later year in fall 2003 should be in steps of 0.2% per service year up to those in their 25th year of employment at the University when it would reach 3.6%. This additional 3.6% contribution, over and above the one and a half percent new contribution from the University, would be the same for all eligible employees with 24 or more years of service in Fall 2003. For a given individual these contributions would be frozen at the percentage dependent on their service at the U up to fall 2003. It should be clear that the contributions to the new fund would be mandatory; each member of each specific class (years of service with our definition) must contribute in the same manner. The recommended input by faculty members with different degrees of service should be reexamined at least once every three years.

4) Of the additional money, 0.2% to 2.0% of salary would come from the individual's present 2.5% contribution to the basic (401a) plan, reducing the input to that plan by the amount going into the PRHCSP. This is not a reduction to the individual's total retirement funds, rather a transfer to a more tax advantaged plan (PRHCSP). If the individual wishes to make up for the smaller amount going to the 401a plan, additional funds could be contributed to either of the Optional Retirement plans (403b or 457) up to the maximum permitted. Based on years of full time employment beyond seventeen, an additional (tax sheltered) contribution, graduated from 0.2 to 1.6 % of salary, would be made by the individual to the plan.

The rationale for these contributions is to provide a reasonable sum of money at the time of an individual's retirement. Though people now very close to retirement can never completely catch up to accumulate enough money to pay for a significant fraction of their health care premiums, these additional steps will help and would perhaps be sufficient for those who still have a fair amount of time left before retirement. The goal is to have the accumulated savings in this plan reach something in the order of magnitude of an individual's last year's salary within +/-25%, though this is unrealistic for those with less than 10 to 15 years to retirement. Even one year's salary would probably not provide (based on an annuity analysis) all of the funds for health care insurance, but could provide a significant fraction.

It should be noted that reduced salary to the participants would reduce the University's Social Security and Medicare payments. These savings should be re-invested in the salary pool

5) We also believe that a separate faculty class could consist of those in Phased Retirement. For this class we propose a significant increase in the individual's input (essentially taken from the University's contribution to the basic Faculty Retirement Plan) to the PRHCSP, tentatively 10 % of salary. This would greatly help those now approaching retirement through the Phased Retirement Plan. This contribution would be reviewed periodically when the entire plan is reviewed and may eventually be phased out.

6) For faculty in either a Phased Retirement or a Terminal Leave program, there should be a change in how the University pays the additional health care coverage after leaving the University (two or more years depending on eligibility for Medicare benefits). At the time a faculty member ends regular employment at the University, a sum equal to the University cost of faculty health care (either single or family coverage) for the total time involved should be placed in the individual's PRHCSP fund. This would not represent a change in the present University rule, which provides health care benefits for retirees during the phased retirement period.

Summary:

A recurring annual contribution of one and a half percent (1 1/2%) of salary would be made by all participants in the FRP. An additional contribution by each individual who has been here for seven years (i.e. in the eighth year of service) would be 0.2% of salary. For those who have been here longer this would rise by 0.2% for every year of service until the 25th year of service (after 24 years) when the individual's contribution would be 3.6%. This (3.6%) would be the same for those with still longer service. Thus the maximum input to an individual's PRHCSP would be 5.1% of salary. Those in phased retirement would make still larger contributions. Those leaving the University through Phased Retirement or Terminal Leave would receive whatever funds due for future health care as a lump sum into their PRHCSP account.

RICHARD GOLDSTEIN, CHAIR
RETIREMENT SUBCOMMITTEE

8. PRESIDENT'S REPORT
(10 minutes)

9. QUESTIONS TO THE PRESIDENT
(10 minutes)

Questions to the President should be submitted in writing to the University Senate office no later than Tuesday, December 3, 2002.

10. OLD BUSINESS

11. NEW BUSINESS

12. ADJOURNMENT

MEETING OF THE STUDENT SENATE

THURSDAY, DECEMBER 5, 2002

11:30 AM - 1:30 PM

25 Mondale Hall--Twin Cities Campus
305 Selvig Hall--Crookston Campus
Kirby Student Center Garden Room--Duluth Campus
Behmler Hall Conference Room--Morris Campus

This is a meeting of the Student Senate. There are 52 voting members of the Student Senate. A simple majority must be present for a quorum. Most actions require only a simple majority for approval. Actions requiring special majorities for approval are noted under each of those items.

1. ANNOUNCEMENTS
(2 minutes)

2. MINUTES FOR OCTOBER 31, 2002
Action
(2 minutes)

MOTION:

To approve the Student Senate minutes, which are available on the Web at the following URLs. A simple majority is required for approval.

http://www1.umn.edu/usenate/ssen/021031stu.html

CAROL WELLS, CLERK
UNIVERSITY SENATE/
TWIN CITIES CAMPUS ASSEMBLY

3. STUDENT SENATE CHAIR REPORT
(5 minutes)

4. DISCUSSION WITH CHERYL MAPLETHORPE
Higher Education Service Office Budget Request
(11:45-12:30)

5. STUDENT SENATE CONSULTATIVE COMMITTEE CHAIR REPORT
(5 minutes)

6. CAMPUS REPORTS
(5 minutes)

7. STUDENT SENATE CONSULTATIVE COMMITTEE

Resolution Welcoming President Bruininks
Action
(5 minutes)

To be distributed prior to the meeting.

8. PRESIDENTIAL SEARCH PROCEDURES
Discussion
(15 minutes)

9. OLD BUSINESS

10. NEW BUSINESS

11. ADJOURNMENT

Information for Item 7 on the December 5, 2002, Student Senate Agenda, "Resolution Welcoming President Bruininks"

RESOLUTION WELCOMING PRESIDENT BRUININKS

WHEREAS, the University of Minnesota Student Senate, representing students across all four campuses, offers our congratulations to President Robert Bruininks for his well deserved selection as the next President of our fine University. Students recognize that his vast experience and commitment to students during his tenure as a Professor, Dean, and Executive Vice President and Provost are attributes that make him an outstanding President for the University.

WHEREAS, the University has a long and proud history of student involvement in the governance of the University. In keeping with this tradition, we invite President Bruininks to the first Student Senate meeting of the spring. To encourage continuous communication with students, from all four campuses, we invite President Bruininks to regularly attend Student Senate Consultative Committee meetings.

THEREFORE, BE IT RESOLVED THAT we, the students at the University, are optimistic about President Bruininks' presidency and we look forward to continuing to work with him. As to be expected, students and administration will not always see eye to eye. However, it is our hope that the relationship is open and honest and ,most importantly, it is based upon respect. We, the students of the University of Minnesota, look forward to working with President Bruininks to further the student experience here at the University.

Approved by the Student Senate Consultative Committee, December 4, 2002

JUDY BERNING, CHAIR
STUDENT SENATE CONSULTATIVE COMMITTEE

November 21, 2002

DRAFT

POLICY ON FACULTY RESPONSIBILITY IN ACADEMIC DEPARTMENT GOVERNANCE[1]

PREAMBLE

Academic freedom is "the right of a professor to follow an argument whithersoever it may lead" in either research or teaching.[2] Tenure in American universities exists to ensure and advance academic freedom. As a consequence, faculty members who are granted tenure and are thus able to exercise fully the academic freedom essential to a great university have a unique and distinct set of rights and responsibilities delegated to them by the Board of Regents. The objective of this policy is to affirm the authority of the tenured and tenure-track faculty to discharge those responsibilities vested in their appointments in matters of curriculum, unit governance, and academic personnel.

The University makes substantial commitments to the tenured and tenure-track faculty. It conducts nation-wide searches for tenure-track candidates. It subsequently conducts an extensive, usually six-year review of their research and teaching accomplishments, confers tenure upon those who meet this high standard, and asks those who do not meet it to leave their department after a terminal year.

In return for the grant of tenure, or the prospective grant of tenure, the University expects from the tenured and tenure-track faculty wise and effective contributions to the functioning of their departments. They are expected to be responsible for academic personnel, governance, and curriculum and cannot delegate that responsibility to others who are not tenured or tenure-track. Thus tenured and tenure-track appointments are not the same as other kinds of faculty and professional appointments. The tenure policy of the Board of Regents describes the conditions and criteria that must be met in order to obtain a tenured or tenure-track appointment. Those who do not go through that appointment process and meet those criteria do not have the same obligations, the same privileges, or the same protection as do the tenured faculty.

Because of the close link between academic freedom and tenure, the tenured and tenure-track faculty bear ultimate responsibility for the instructional, research, and service mission of the University. As University enrollment has grown and as research in many disciplines has increased in volume and complexity, some instruction and some research and service activities have been assigned to talented and valued colleagues who hold non-tenured/non-tenure track

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[1] An "academic department" is defined as a department or similar unit in which there are tenured or tenure-track faculty; it will also usually be a unit that adopts a Section 7.12 statement as required by the Regents' policy "Faculty Tenure." A school, college or division that is not further subdivided is also an academic unit. This policy will sometimes use the term "department" to refer to academic units.

[2] Brubacher, J. S., & Rudy, W. 1999. Higher Education in Transition, p. 308.

clinical, adjunct, term, or contract faculty appointments or other professional titles. The tenured and tenure-track faculty recognizes and lauds the work of these individuals because they perform tasks essential to carrying out the University's mission. This allocation of duties does not diminish or change the central responsibilities of the tenured and tenure-track faculty, however. Indeed, because of the special obligations of those holding or seeking tenure, and because tenure provides the necessary protection against infringements of academic freedom, the tenured and tenure-track faculty may not abdicate those responsibilities.

Governance at the department level thus must be lodged in the tenured and tenure-track faculty of the department. It must be understood that as the tenured and tenure-track faculty protect their own academic freedom, they also protect the academic freedom of their departments and of their colleagues who do not have tenure. In departments where some of the departmental research and teaching missions are entrusted to colleagues who are not tenured or tenure-track faculty, departments may provide for participation of those individuals in departmental decision-making processes, consistent with the provisions of this policy. These colleagues' experience is invaluable to the operation and well-being of many departments. In making provisions for such participation in the decision processes of the department, however, the tenured and tenure-track faculty retain final responsibility and authority for changing these procedures.

Finally, it must be understood clearly that the University values deliberation, fair procedures, and effectiveness in the governance of its departments.

POLICY

Within the limits of the authority delegated by the President to deans and department heads, decisions on curricular policy, academic personnel, and all other department-level policy matters germane to the research, teaching, and service missions of departments are the collective and final responsibility of the tenured and tenure-track faculty in that unit. At the same time, these responsibilities may be exercised in concert with other colleagues in the department. Indeed, it is expected that all who play a role in the instructional, research, and service missions of a unit will be afforded the opportunity to participate in the deliberative processes by which the tenured and tenure-track faculty exercise their responsibilities.

This policy shall be implemented by procedures approved by the President with the advice of the Faculty Senate.

PROCEDURES

1. Final authority over curriculum policy rests with the tenured and tenure-track faculty. Departments may, however, make decisions about curriculum policy, other curricular matters, degree/major requirements, and the like in whatever manner they wish, consulting with or including in their deliberations and decision-making process whichever colleagues they deem appropriate.

2. To the extent that departments may choose to vote on issues, or may need to vote on issues, the tenured and tenure-track faculty members have voting rights. Voting rights on certain issues may be extended to colleagues who are not tenured or tenure-track faculty.

a. Individuals other than tenured and tenure-track faculty who have teaching and/or research responsibilities in a department may be granted voting privileges in a department according to written criteria established by the tenured and tenure-track faculty in the department. The total number of votes held by non-tenured/non-tenure track faculty may not exceed one-fourth the number of votes in the department as a whole.[3] (In the event that the number of non-tenured/non-tenure-track faculty would comprise more than one-fourth of the number of votes in the department, if those faculty were all granted voting rights, the mechanism for deciding which non-tenured/non-tenure track faculty participate in department votes shall be decided by the department.)

b. Voting rights granted by this Section 2 do not include participation in the final deliberations and vote on any academic-personnel decision or recommendation concerning tenured or tenure-track faculty.

c. Exceptions to the provisions of Section 2(a) of this policy for individuals who hold probationary/continuous P&A-faculty appointments may be recommended by the Tenure Subcommittee and approved by the Faculty Consultative Committee on request from a college, division, or department. The Tenure Subcommittee shall certify categories of person as a class (not individuals), provided that the total number in that class plus those individuals granted voting privileges under Section 2(a) of this policy do not exceed one-third of the number of tenured and tenure-track faculty in that academic unit.[4] Individuals must then be certified as properly within the class by the unit and the Executive Vice President and Provost or his or her designee. A class of person will normally be eligible for certification only if it has previously been established by an accrediting association or by the established practice of the discipline. The limitation set forth in the penultimate sentence of Section 2(a) will also apply in the case of any exceptions granted under this Section 2(c).

3. At a minimum, a two-thirds-majority vote of the tenured and tenure-track faculty in that unit, after due deliberation and consultation, is required for adoption or amendment of any college or department constitution.[5, 6]

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[3] That is, no more than 25% of the total when all voting members of the unit are counted. At least 75% of the votes in a unit must be held by tenured and tenure-track faculty.

[4] That is, there is an overall limit of 25% of the total, whether granted to P&A faculty under the provisions of either Section 2(a) or (c).

[5] It is the intent of this policy and these procedures that there is one vote per faculty member; on all matters referred to in this policy, a faculty member exercises authority (or votes, as the case may be) in the department where his or her tenure resides. In instances referred to in this policy where votes are to be taken, the fraction of the tenured and

4. The tenured and tenure-track faculty in the unit have final authority to approve the processes governing faculty hiring, promotion, tenure, post-tenure review, and merit review. The search process for the head of any academic unit (department, division) must be approved by the tenured and tenure-track faculty in the unit.

5. Only tenured or tenure-track faculty may serve as head, chair, or director of an academic department. This does not bar interim or acting appointments, for up to one year at a time, of a faculty member not tenured or not on the tenure track. In no event, however, may a non-tenured/non-tenure track interim department head play a significant role in decisions concerning the hiring, promotion, tenure, post-tenure review, and merit review of tenured and tenure-track faculty.

6. Department governance must conform to this policy and these procedures. It is the responsibility of the Executive Vice President and Provost to ensure that colleges adopt constitutions that conform to the provisions of this policy and these procedures.

7. The Senate Committee on Faculty Affairs shall have the responsibility for advising the administration on interpretations of this policy and these procedures.

COMMENT

The ad hoc Committee on Governance (of the Senate Committee on Faculty Affairs), the Senate Committee on Faculty Affairs, and the Faculty Consultative Committee recommend this policy for adoption by the Faculty Senate, the administration, and, in the case of the "Policy" section, the Board of Regents.

This document speaks to an issue that has arisen directly or indirectly at least three times in the last decade: in the tenure debate of the mid-1990s, in the prolonged development of the academic-appointments policy, and in recurring discussions at Senate committee meetings in recent years. That issue is the role and responsibility of the tenured and tenure-track faculty in institutional decision-making at the unit and college level.

In any number of cases there are good reasons to incorporate adjunct, contract, term, and clinical faculty in the life of an academic unit. It may be appropriate and useful to include these colleagues in some elements of unit governance. It is not acceptable, however, for the non-regular faculty in any unit to play a dominant role in academic and administrative decision-making. We are concerned about the extent to which non-tenured/non-tenure-track faculty can exercise the independence and academic freedom that comes only with a grant of tenure.

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tenure-track faculty required includes faculty who are on leave. In addition, in all instances in this policy where a vote is required, a department or college may set a higher standard.

[6] Any constitution now in place which has not been approved by at least two-thirds of the tenured and tenure-track faculty must receive such a vote of approval within one year of the adoption of this policy.

Individuals appointed on annual or even multi-year contracts cannot, in the nature of their appointments, have the same academic freedom that the grant of tenure provides. In well-run colleges and departments, this distinction will have no meaning. But not all departments and colleges are well-run at all times. In those periods when they are not, those who serve at the pleasure of the senior administrator may be unable to exercise the independence of judgment necessary for a high-quality research university.

Section 2 (c) is included because some units accord a form of security to P&A faculty that is similar to tenure, thus establishing for such faculty the independence, long-term commitment, and continuity that are the foundation for the governance role they have shared with tenure-track faculty in those units. The committees recognize that because of accreditation or other external requirements, or long-established practice in the field, such exceptions may be appropriate. (For example, the Law School is required by its accreditation standards to give clinical faculty "substantially similar" job protection and conditions of employment to those of the tenured and tenure-track faculty. The Law School has implemented this requirement by appointing full time clinical faculty to probationary/continuous appointments under the University Administrative Policy on Academic Appointments and according them voting rights on curricular and other matters, though they may not vote on tenure and tenure-track appointments or promotions.) The committees recommend that the Tenure Subcommittee review requests for exceptions and advise the Faculty Consultative Committee on whether to approve or disapprove them.

It should also be noted that this policy and accompanying procedures do <u>not</u> require units to establishing voting procedures where they now act by consensus in discussion with colleagues of many different kinds of appointments. If units rarely vote on issues, these procedures do not require them to do so except for college (and, should the college or faculty choose, department) constitutions and amendments thereto. Other policies require faculty to vote on academic personnel issues; those requirements are not reiterated in this document.

The committees wish to make clear several points.

This policy does not denigrate or devalue the work of colleagues who are not tenured or tenure-track, who make enormously valuable contributions to the University.

It is, however, the tenured faculty who constitute the core of a major university. The distinction between tenured and tenure-track faculty, and all other employees of the University, is not an arbitrary distinction without meaning. The assessment of the quality of an institution is based primarily on one factor: the quality of the tenured and tenure-track faculty. The quality of the University, and the delivery of its three missions, will most certainly be impaired if the tenured and tenure-track faculty do not have the rights and discharge the responsibilities required to maintain institutional quality.

The Minnesota Private College Council (MPCC)
High Tuition/High Aid Proposal

Introduction

The Minnesota Private College Council (MPCC) is proposing that 30 percent of the state's higher education budget be dedicated to need-based financial aid by 2006. This would only be possible if the state were to reduce appropriations for the University of Minnesota by $100 million and the Minnesota State Colleges and Universities (MnSCU) by $100 million and increase funding for need-based financial aid by $200 million. About half of this $200 million would probably flow to private institutions without any increase in their enrollments.

Here is some of what MPCC President David Laird had to say in a recent issue of the Citizens League's Minnesota Journal.

> *The state spends nearly 50 percent of its annual budget on public education—$1.3 billion per year on higher education. We must make the results worthy of the investment.*
>
> *No factor holds more potential for leveraging change than the way Minnesota finances higher education. The current system is inefficient, bears no relationship to quality performance, assures high subsidies to those who need them least, is unresponsive to the most important student and public needs, and applies no pressures or incentives to meet the challenges of a competitive future.*

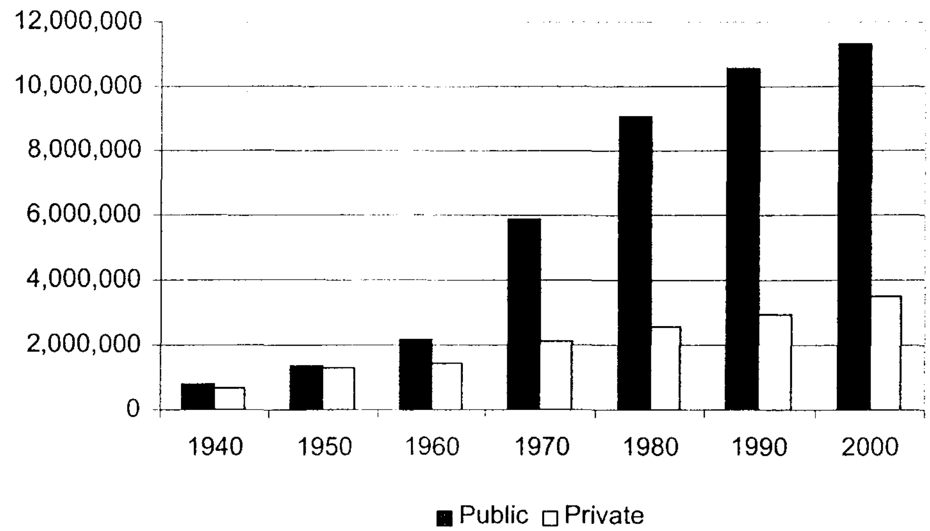
- The first of the four attachments to this report provides the full text of David Laird's opinion piece.
- The second is an excellent response from Ken Keller.
- The third is an excerpt from a campaign flyer from the Coalition of Minnesota Businesses, which advocates positions similar to those of the MPCC.
- The fourth is the current issue statement on higher education and the University of Minnesota from the Citizen's League, which has long argued for some of what the MPCC advocates.

Brief Analysis

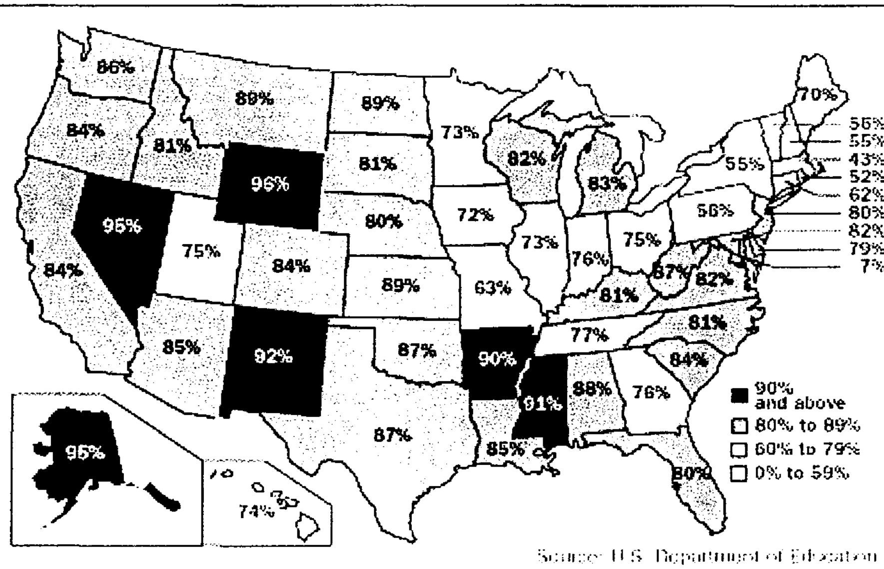
The University of Minnesota has always been a strong advocate for the state's need-based financial aid programs. But it is important that state support for need-based financial aid does not come at the expense of strong support for Minnesota's public institutions.

The great expansion of higher educational opportunity following World War II fueled the tremendous economic development that is the foundation of today's society. Most of this expansion was in public higher education institutions, where many of today's leaders received their education. The nation would not be able to provide broad access to higher education were it not for public institutions. Just look at the figure and data map below.

U.S. Higher Education Enrollment by Public/Private Sector



Proportion of College Students Who Are Enrolled at Public Institutions, Fall 1999



Much of what the MPCC advocates is standard high tuition/high aid public policy. There is nothing new here, except the recommendation that Minnesota make a radical change in a very short period of time. Twenty years from now higher education may in fact resemble what the MPCC advocates. But only if it happens in all states and only after all states decide how best to fund not only undergraduate education (the MPCC's only concern), but also graduate and first professional education, University-based research and research support, and public service activities such as the Minnesota Extension Service.

There are two things about the MPCC proposal that are troubling.

1. First, rather than simply advocating for a much better funded state financial aid program, the MPCC has questioned the quality of public institutions and implied that somehow quality would improve if state funding for public institutions were decreased while tuition was increased significantly. They claim that higher tuition would increase competition and that students would move to higher quality institutions. Implicit in the argument is the suggestion that many students might choose a higher quality private institution—even though they have no capacity! Moreover, the claim that private colleges are better than public colleges and universities because they cost more is quite fallacious.

2. Second, even if it were true that the public higher education sector would be better off with a high tuition/high aid model, it is not at all clear, as a matter of public policy, why a different method of funding public higher education should result in a financial windfall for private institutions. Yet clearly the MPCC expects that changes would be made in such a way that private colleges would benefit. Why else would they make such a radical proposal? Indeed, I believe that the MPCC is arguing that need-based financial aid should be 30 percent of the higher education budget rather than 10 percent because this is the increase necessary for the State Grant Program to recognize actual tuition and fees at private institutions ($24,000) rather than the current tuition maximum ($8,000). Under such a scenario, tax payer support for the neediest students in private colleges would be significantly more than tax payer support for the neediest students in public colleges and universities. This would make no sense, as a matter of public policy. State support for students in private institutions is justifiable as a matter of public policy, because a baccalaureate degree is of value to the state whether earned in a public or private institution. But it would not make sense for the state to provide greater support to a student in a private institution than what it would provide to the same student in a public institution, considering both state appropriated dollars and financial aid.

I think it is clear that private colleges fear the future or at least future demographics. Their advocates always talk about how an ever-increasing percentage of high school graduates in Minnesota will be students of color, and they assume these students will be from lower income families. Private colleges set tuition at rates far above the actual cost of instruction in order to generate the revenue they need for large institutional aid programs. Students from higher income families heavily subsidize students from lower income families. In the future, as the MPCC foresees it, there will be fewer students from higher income families, and private colleges will have an increasingly difficult time providing institutional aid to lower income students and maintaining their enrollments—unless there is an increased source of financial aid from some other source, namely the state.

Consequences

Listed below are some likely consequences if the MPCC proposal were actually adopted.

- Tuition for the University's undergraduate students would roughly double, from $6,000 to $12,000.

- The disparity in tuition between Minnesota and reciprocity states would force an end to the state's reciprocity agreements—something Minnesota's private colleges would welcome and something that would be very damaging to the University.

- Many more students from middle and upper-income families would leave the state, since the nonresident tuition rate in other states would be close to the Minnesota rate for resident students. This would have nothing to do with institutional quality. Many students like to go away to college, and more would do so if there were no longer a strong financial incentive to keep them in state.

- The tuition rate for nonresident students would be so much higher than in other states that few if any nonresident students would come to Minnesota. Protecting nonresident students would simply make the resident tuition rate even higher.

- The "sticker shock" for first-generation students would actually deter the participation of low-income students in higher education—despite the availability of much higher grant awards.

- Tuition in graduate programs and in some first professional programs would actually be less than in undergraduate programs.

- Students from families who want them to borrow to pay for their education would be shut out by federal limits on how much undergraduate students can borrow.

- Middle and upper-income families who have paid significantly more in taxes for the past twenty years, both because of their income and a progressive income tax, might wonder why they must now pay so much more for higher education.

- Private colleges might use the $100 million financial windfall for purposes other than financial aid. The state has no control here. The increase in state financial aid dollars might simply offset institutional aid, freeing institutional aid dollars for some other use (e.g., faculty salaries, subsidies for cut-rate M.B.A. and M.Ed. programs). This is not far-fetched. See the various articles by F. King Alexander, a former faculty member in education at the University of Illinois and currently president of Murray State University.

Conclusion

Given how radical the MPCC proposal is, one would assume it is designed to address a huge problem. So, what is the problem? Is there something wrong with higher education in Minnesota? Is the state falling behind on important measures? Actually just the opposite is true. Minnesota's demographic profile is the best in the Midwest and one of the best in the nation. As a state we enjoy good high school graduation rates, low poverty levels, high levels of educational attainment, and high personal income.

Minnesota has one of the best records of any state in providing access to higher education for low income students and currently ranks second among all states in the chance for students to access higher education by age 19, a key measure (see "Chance for College by Age 19 by State in 2000," Postsecondary Educational Opportunity Newsletter, October, 2002). While no one factor is responsible, higher education is certainly a major factor. And so, "if it ain't broke, don't fix it."

You cannot fund public higher education institutions, especially the nation's great public research universities, indirectly by funding only needy students. No state does this and any state that tried would quickly decimate its higher education infrastructure and waste the wise investment made by prior generations.

The public interest in higher education is not just in helping lower income students receive a higher education, important as that may be. College graduates are important to the state regardless of their economic background. Public institutions provide educational opportunity for students from all economic backgrounds. And they provide programs that private colleges do not (e.g., engineering).

What we most need to fear is that policy makers will reduce their support for public institutions and fail to fund financial aid. The MPCC proposal, which can only divide the higher education community, increases this possibility by promoting a very simplistic argument: fund students, not institutions.

Attachment 1
Facing the Challenges in Higher Education

by David B. Laird, Jr., Minnesota Journal, Volume 19, Number 4, April, 2002

Recent issues of the Minnesota Journal have spotlighted Minnesota's evolution and the need for our state to adapt to a radically altered future. Ted Kolderie has urged us to focus on the fundamentals. Lyle Wray has appealed for a prospective vision rooted in reform. The Minnesota Business Partnership and the Citizens League have put forth the Principles for Reform. These voices and others call us to act today to ensure that Minnesota's vital interests are well served tomorrow. It is a paradox that in recent decades Minnesota has prospered, at home and abroad, yet we have not faced this magnitude of required change since the end of World War II.

Higher education has played an important role in bringing Minnesota to this point of success, yet this sector of our society is ripe for reform and new principles. Put simply, the continuation of the status quo in higher education is an equation for future economic decline, and the current methods of funding virtually assure that little will change.

The forces that dictate a critical review of higher education and its financing are rooted in demographics and current performance. As we merge rapidly into a knowledge-based economy, Minnesota's supply of well-educated people is not secure.

Demographic trends signal our challenges. As baby boomers retire, we will lose the talents and commitments of a gifted generation. Currently, we are not producing enough educated people to replace them in the workforce. Within the next two decades the 10 – 19 age cohort, our primary college going population, will decrease; and, the white portion of that cohort, the group most likely to enroll in college, will decline. All the growth within the 10 – 19 cohort will occur among students from families and communities for whom success in K-12 education is far from assured and completion of higher education is a daunting challenge. Within the next decade, the state demographer projects we will have a crossover point when our 55 and older population will exceed those aged 0 – 15. For a state whose economy is highly dependent on a skilled and adaptive work force, these are stunning and challenging facts.

Minnesotans are unusually confident of the durability and resiliency of our economy. Our economy is diverse, integrated in important segments, competing in the global marketplace, and is undeniably dependent upon a renewable source of well-trained and broadly educated people. All of this notwithstanding, our confidence in the resiliency of our economy in the future should be limited.

If we look at the current performance of the educational system from the singular perspective of the need to produce college-educated personnel for our economy, the nervousness of some of our leaders appears well founded. One indicator of our current education "productivity" can be derived from known "progression rates"—on time graduation from high school, enrollment in a Minnesota college or university, and completion of a degree program within six years. In Table B, we use these rates to trace the predicted progression of students by ethnic background through our educational system following ninth grade. The resulting proportions of those who would earn a bachelor's degree within 10 years are significantly lower in all categories than most of us might think. Business leaders looking to schools, colleges and universities as the principal source of their future workforce are appalled and alarmed by the implications of these indicators. Clearly, the status quo in K-12 and higher education is not producing the results we will need.

The state spends nearly 50 percent of its annual budget on public education—$1.3 billion per year on higher education. We must make the results worthy of the investment.

No factor holds more potential for leveraging change than the way Minnesota finances higher education. The current system is inefficient, bears no relationship to quality performance, assures high subsidies to those who need them least, is unresponsive to the most important student and public needs, and applies no pressures or incentives to meet the challenges of a competitive future.

Carleton College Professor Jenny Wahl provides a thoughtful and comprehensive assessment of the economics of our higher education system in a recent study, "A Bigger Bang for the Public Buck," commissioned by the Minnesota Private College Research Foundation. If her thesis is not an entirely new argument it is because achieving efficiency and equity in higher education are not new objectives. Minnesota and other states have been at this a long time, so far with little effect. Wahl's paper updates the evidence, re-ignites long-smoldering issues, and makes the argument central to the success of tomorrow's Minnesota. To wit:

> *Minnesota struggles to maintain a low tuition, taxpayer-subsidized system to fund higher education, even though tuition increases seem inevitable because of other demands on state budgets. Putting a cost-based tuition, need-based aid policy into place explicitly is certainly better than letting tuition and aid fluctuate yearly with the budget. Acknowledging honestly that higher public tuition is a fact of life, rather than surprising people with large percentage increases on an artificially low base, will help shape families' expectations about the true costs of higher education.*

Professor Wahl's objective is not to raise tuition; that is simply the means to an end. Her objectives are greater efficiency in how we fund higher education, more equity in the opportunities and benefits provided, higher quality through consumer choice and market-based accountability, and wiser, more purposeful use of public funds. Wahl's evidence and argumentation on each of these points is overwhelming and relevant.

Citing study after study, Wahl strips away the common assumption that equates low public college tuition with broad access and equity in higher education. That assumption was never well founded. Today, it is shortsighted and outdated. A tragic symptom of the dysfunction of our current system is that only one quarter of high-ability, low-income high school graduates ever enroll in higher education. Given our growing needs for high-quality educational choices for an increasingly diverse population, well-targeted student financial aid is far more efficient and effective. As an academic economist, Wahl does not say this, but we will: Lacking economic, social or educational justification, it becomes clear that the reasons for low tuition have more to do with "good politics" than sound public policy.

Wahl cites state and national studies and recent analyses demonstrating that the highest income students tend to go to the most highly subsidized institutions. As seen in a recent joint report by the Minnesota Higher Education Services Office and the Department of

Children, Families and Learning, the income profile and median income of students at the University of Minnesota (U of M) campuses substantially exceeds that of private college students in the state. And, while our technical and combined technical/community colleges attract more lower income students, we should not overlook the fact that median family incomes in what the report identifies as "pure" community colleges are similar to the U of M's. Both are topped by the average incomes of Minnesota students who take advantage of the tuition reciprocity programs with Wisconsin and other neighboring states. Talk about hidden subsidies for our least needy families; this is a throwback to an era of special access for higher income students at a time when resources are scarce and we need to expand participation for lower income students and families.

If Wahl's first finding is that low tuition does not equalize access, her second is that over time it lowers quality. Based on empirical studies as well as economic theory, Wahl argues that the current system of tuition subsidies in public higher education distorts consumer choice, contributes to the under-allocation and misallocation of private and public resources, and has insidious but pervasive effects on the quality of the services provided. These are technical studies and theories, but the findings have a good, intuitive ring. We get what we pay for, and are not willing to pay more for education than it is currently worth.

This aspect of Wahl's paper is strikingly parallel with the ideas and motivations behind the principles put forward by the Citizen's League and Business Partnership for all areas of state services. We should work together to begin applying these principles in higher education. The problem is that on one hand, low tuition has built-in political appeal, while on the other, paying for higher quality does not. This should compel us to ask: "What is in the best interests of our students and our state?"

Minnesota has had the argument about low tuition versus need-based aid before. It is time to abandon old assumptions and find new solutions. We need a system of funding higher education that encourages better preparation and higher enrollment in post-secondary education and training of all types, enhances the quality and accountability of all providers, and serves Minnesota's vital interests in the next decade.

We have reviewed the current economic and demographic data and reached two broad conclusions:

- Minnesota faces a chronic, long-term shortage of educated people which will not be ameliorated by limited short-term adjustments; and
- A statewide discussion about our economic and social future is urgently required.

To initiate that discussion, we offer four policy goals which are designed to respond to conditions that, if left unattended, will undermine Minnesota's vital interests. They are:

- Increase the statewide high school graduation rate from 79 percent to 90 percent by 2010.
- Increase the in-state post-secondary participation rates within one year after graduation from 43 percent to 65 percent by 2010.

- Increase higher education degree completion for associate, bachelor's, master's and professional degrees by 25 percent by 2010.

- Increase state support for need-based student aid to 30 percent of total state expenditures for higher education by 2006.

We believe the achievement of these goals could provide the first significant step toward addressing the present and future challenges for higher education as well as our economic competitiveness and social stability. We believe these goals are entirely congruent with the reform principles adopted by the Citizens League and the Minnesota Business Partnership. We believe it is necessary for every sector in the education system to perform at its best, particularly public and private colleges and universities, if we are to achieve these goals. We believe and understand that the achievement of these goals will be difficult for some stakeholders, and that the political leadership in the state will need considerable assistance in reaching a comfort level with the depth and extent of change that is required. Reflecting the urgency with which the MPCC board views the achievement of their four policy goals, Mark Chronister, managing partner of PricewaterhouseCoopers and chair of the board's Public Policy Committee, said, "I do not think we have a choice. If we hope to remain competitive in the next decade, meeting these goals is the minimum of what we must accomplish."

Attachment 2

State Investment in Higher Education Benefits Individuals and Society

by Ken Keller, Minnesota Journal, Volume 19, Number 6, June, 2002

David Laird and I have, in the past, more often than not agreed on such matters as the value of higher education and the need to place heavy emphasis on quality in delivering that education. So it was all the more surprising to me to find myself in such strong disagreement with many of the arguments in his recent piece in the Minnesota Journal. Laird argues that not only is low tuition higher education a thing of the past, but that its demise is a good thing because low tuition inexorably leads to low quality, inappropriate "subsidies", and "inefficiencies" in higher education spending. I've put certain of those terms in quotation marks because the terms themselves are so arbitrary in their meaning and so subject to abuse. Laird concludes that, as a policy matter, we need to embrace a new strategy of high tuition in our public institutions coupled with high financial aid based on need. This, he says, will lead to better quality in higher education, increased accessibility, and improved graduation rates.

I don't agree with the conclusion and I think the argument misses the main point. In the face of fairly broad agreement that higher education is *increasingly* important to the State's economy and well-being, the State has been *decreasing* its commitment to higher education— from 1987 to 2002, the percentage of the State budget devoted to it dropped from 15.5% to under 10%. On the other hand, the fraction of the actual cost of their education paid by undergraduate students at the University of Minnesota has increased continuously for several decades— from about 25% in the mid-60s to fully 50% next fall! High tuition is not a hypothetical plan for the future, but a reality today, a fall-back strategy that the University has had to embrace to preserve educational quality in the face of a decreasing State commitment.

Given those facts, it appears to me that Laird is busy rearranging the furniture on the deck of a sinking ship. Unless the overall funding trend is reversed, there would not be enough money to achieve his goals even if all undergraduates at the University paid the full costs of their education. Indeed, a significant shift of the small remaining amount of direct educational costs now paid for by the State to need-based financial aid would not only result in supporting fewer students, but it would likely provide that added support primarily to middle class students attending private schools. That is, depending on the design of the financial aid system, when the much higher tuition charged by most of our private schools is included in the "need" of a student from a middle class family, he or she will often qualify for more aid than they would have received in so-called direct subsidy at one of the State's public institutions.

However, the larger question is, even if there were a greatly increased amount of public money available in the system, would the proposed policy be fairer, more equitable, and more effective? I think not, and to understand why, one has to examine the assumptions and beliefs that formed the basis of the paper by Jenny Wahl, on which Laird depends so heavily. Wahl argues that we should adopt a Milton Friedman approach to decide on how or whether to invest public money in higher education and that we should look more closely at who pays and who benefits. According to her, society's benefit from higher education "...pale(s) in comparison with (that) associated with K-12 schooling... (Indeed) most of the benefits of higher education go to the individual." Further, she cites, approvingly, the assertion by one writer that "...higher education may function more as a screening mechanism for employers than a way of increasing knowledge."

That might have been true in the 19th century when we, as a nation, first realized that there were social benefits to ensuring an adequate level of education for our citizens by providing free education through high school. Post-secondary education, then, was more of a personal privilege, available to very few people even after the Morrill Act. To argue that little has changed in 150 years in the distribution of benefit between the individual and society seems extraordinary, certainly counter to my belief and, I would have thought, to David Laird's. Clearly, the Citizens League has recognized how higher education benefits the State today.

By assuming that the public benefit of higher education is relatively small, Wahl can treat any expenditure on higher education as a "subsidy" rather than an "investment." Moreover, with a narrow view of what higher education is about, the term "efficiency" can be substituted for "cost-effectiveness", because there isn't much to measure with respect to effectiveness. Finally, this approach allows her to think of public policy strategies in terms of a highly simplified market model although, even on its own terms, the model fails to explain what actually happens in higher education.

The subsidy concept is, perhaps, most troubling, and reflects Professor Wahl's total misunderstanding of the budget of a research university. In her paper, she takes the State appropriation to the University of Minnesota (which is less than a third of its total budget, by the way), divides it by the number of full-time students, and reports the resulting figure as a subsidy of some $11,000 to each University student. In fact, the support to undergraduates is closer to $5,000 a student. Her mistake is in assuming that all of the State's appropriation relates to or supports classroom instruction. Money for the Agricultural Extension Service, or to maintain the research capacity of the University (thereby attracting many times that amount in federal research dollars) or to support the transfer of research outcomes to businesses in the State is all, in her view, merely a subsidy to the University's undergraduates.

It is, of course, more than a mistake. It is a framework for thinking about a public policy issue that focuses not on ways of promoting institutional synergies and cooperation and positive outcomes, but narrow bookkeeping. If we accept that kind of thinking, we would be led to viewing the free use of the University's libraries provided to Professor Wahl and her colleagues (and her students) as a subsidy to her and to them by the University's students. The various arrangements by which specialized courses at the University are made available at "public" tuition rates to private colleges who collect tuition for the courses at their regular rates, would be no more than a subsidy from the University to those schools. Seed money research support, the operations and maintenance of research facilities, and the premium paid to attract and retain faculty who can and do draw in millions of dollars of research support, would also, in this narrow view, be a public subsidy rather than an investment.

Wahl and Laird's endorsement of a market approach to higher education to achieve efficiency and quality is also flawed. Their argument is that low public tuition leads to poor quality because the "consumer" values the bargain and the "subsidy" more than the quality of the education delivered. Therefore, the consumer is willing to accept a low quality education and the institution delivering the education has no incentive to make it better than mediocre.

There are, of course, no data to support that argument and many observations that contradict it. Few would argue that an education at UC Berkeley, where tuition is low, is inferior to, say, an education at the University of Southern California where tuition is quite high. Or that an education at Oxford, where there is no tuition, is inferior to one at a regional private school in the U.S. Or that the quality of education at Minnesota's private colleges is proportional to their tuition, (which covers quite a wide range). Tuition and quality are not highly correlated. Tuition depends on what other sources of support a school has,, the nature and organization of the curriculum and the particular needs and desires of the students who attend the school. Quality is certainly a factor, but not the only one.

Curiously, after asserting that the education consumer will be more influenced by price than quality, Wahl and Laird suggest that the same consumer would be astute enough to choose quality over price in the absence of "subsidization". But quality, per se, is not so self-evident. It may mean one thing to the parents of an applicant, another to the students at an institution, and still something different to the graduates of an institution. Universities struggle to measure it and to assume that the market is better at it calls into question why post-secondary institutions put so much money into advertising and marketing.

The real benefit of the range of institutions in Minnesota is not the differences in quality, but the differences in kind, the characteristics that make one kind of school more suitable to one kind of student than another— size, location, specializations, flexibility, social life, athletics, autonomy, nurture. Some kinds of education are inherently more expensive and require higher tuition; some often equally good for the right kind of student, can be organized in such a way that cost and tuition can be kept lower. Or, the State may see enough benefit to itself in encouraging students to take up a particular field that it makes investments in keeping the tuition low in that field. Market is much less able to capture such differences, many of which may even be dismissed as "externalities" in economic models.

Which brings me to my last point: the shortcomings in relying on market and some notion of efficiency in serving the needs of the State in higher education. In education, efficiency does not lead to an expansion of opportunity but, in fact, to a contraction. An efficient institution would not offer courses in foreign languages that attract few students— Finnish or Japanese or Sanskrit, for example. But it is important to our State and nation to have people who are capable of speaking them. If we adopted a model that assumed that "most of the benefit of higher education accrues to the individual", the price of those courses would be such that no one could afford them.

Similarly, there are some programs— Veterinary Medicine, for example— where the financial pay-off to the individual following graduation could not come close to justifying tuition payments that approximated the cost of delivering the program, even if he or she could nominally "afford" it. Yet, the State obviously needs veterinarians. Can, or should we, assume that there is no State interest in making such education feasible and attractive? The private schools in the State do not offer engineering programs because no market model, even with financial aid, would allow them to recover their costs. Should our public institutions apply the same reasoning and come to the same conclusion?

I think Professor Wahl is simply wrong in denigrating the gain to the State that comes from higher education. Since that is a key premise in the rest of her argument, I think it, too, is wrong. She might be better off paying less attention to Milton Friedman and more to Thomas Jefferson, who expressed it quite well when he said that the purpose of a public university was "...to avail the state of those talents, sown equally among the poor as the rich, which perish without use if not sought for and cultivated." He would not have viewed the public's investment in higher education as merely a "subsidy" and he did not delude himself into thinking that the market alone would meet society's needs. Neither should we.

Attachment 3

Coalition of Minnesota Businesses

How Minnesota can do more with less

Shift funding from higher education to direct student financial aid: Transfer a portion of the $2.8 billion the state will allocate to higher education institutions next biennium to direct student aid, then let institutions compete for those students and their tuition.

A few facts and figures

State spending on higher education increased from $1.9 billion in 1990-91 to $2.8 billion in 2002-03, a 47% increase. (MN Dept. of Finance)

Increasing aid to higher education, however, failed to hold down tuition and fees, which shot up anywhere from 58% to 82% between 1990 and 1999 at Minnesota's public institutions. That increase was on par with increases at private institutions, which do not receive direct state aid. (MN Higher Education Services Office, MHESO)

Of that $2.8 billion allocated to higher education in 2002-03, a mere $260 million (9%) went to student financial aid. (MN Dept. of Finance)

Helping low-income families invest in higher education pays off. Median incomes for people with four-year degrees are 60% higher than those with high school diplomas. (MHESO)

Attachment 4
Vision Statement for the University and Higher Education in Minnesota

The Citizens League has had a long interest in the structure and quality of Minnesota's system of post-secondary education. Numerous citizen-based committees have grappled with higher ed issues over the past 30 years. In 1971, the League urged the creation of a new kind of urban college, which resulted in the establishment of Metro State University. Since that time the League has produced seven additional reports dealing with various elements of higher education.

The state's general fund support for higher education has declined as a percentage of general fund expenditures over the past 15 years. Cost pressure on Minnesota's post-secondary system will continue to grow. Tuition increases have exceeded per capita income during this same period. Nearly 90 percent of the state funding has gone to the University and MnSCU; with only 10 percent in the form of direct student aid. The state's institutional subsidies that "write down" tuition across-the-board disproportionately favors students who are relatively well-off, while fewer and fewer low-income and minority students can afford college.

In addition, there is a mismatch in the location of institutions and the location of students. forty-three, or 75 percent, of the state's 57 public post-secondary institutions are outside the metropolitan area while more than half of likely students are in the metro.

The most recent League report on the University concluded that, in the emerging knowledge economy, the premium on a well-educated, high-skilled workforce is greater than ever before. The state, and its residents, needs a well-coordinated higher education system that responds to today's conditions.

Research universities are vital in the economic health of regions and states. The University of Minnesota is an important asset for our region's competitiveness. While the University remains generally well-regarded its reputation in advanced degree programs has declined. The University must establish clear priorities to improve graduate and professional education and research programs and commit the necessary resources to support those priorities.

Below is an outline of the principles that the Citizens League believes must guide state decisions about higher education and especially the University of Minnesota:

Systemic change for higher education

- Target subsidies directly to people who have financial need. That means reducing the share of support provided via appropriations to institutions, and increase the share provided directly to needy students. View students as competitors for public funding, and discontinue public tuition write-downs if performance is unsatisfactory.

- Make institutional appropriations for instruction, research and other activities contingent on performance and consider long-term economic growth to be one of the objectives of state spending.

- Allow prices to reflect instructional costs and offset the possible increases through increased state grants and lifetime learning grants appropriated to students.

- Create incentives that encourage people to save for college.

- Allow "chartered" higher education programs that encourage instructors and researchers to form alternative programs. Permit other private and public producers of non-instructional services to compete for the systems' business.

- The people who run higher education should be accountable for performing their respective responsibilities. The state should not micro-manage operations but should set clear standards of accountability about the mission of each of the systems.

Improving quality at the University of Minnesota

- Eliminate low-quality and low-priority programs and reallocate resources to higher priorities and meeting student and state needs through cooperative ventures. The state needs to decide if the University can be all things to all people.

- Develop a measurement system to evaluate the quality in all advanced degree programs and then produce report cards for each program, which came be used to reward program achievement.

- Strengthen advanced degree programs by concentrating on areas that offer significant pay-offs for improved quality, such as, high admissions standards to advanced degree programs and expanding grant programs and fellowship commitments.

- Improve human resource training and management to unleash the university's human capital resources. Faculty will drive quality improvements at the University. Therefore, faculty members must be properly involved, managed and rewarded for improved quality and productivity.

Creating a higher education system using these principles will not be easy. But the current budget discussion indicates that the state is on a path of declining quality or higher costs, or both. The choice for Minnesota is clear. There is no option not to change. The state should choose major reform now and leave a legacy of better value for future generations.

REVISED DRAFT
RESOLUTION WELCOMING PRESIDENT BRUININKS

WHEREAS, the University of Minnesota Student Senate, representing students across all four campuses, offers our congratulations to President Robert Bruininks for his well deserved selection as the next President of our fine University. Students recognize that his vast experience and commitment to students during his tenure as a Professor, Dean, and Executive Vice President and Provost are attributes that make him an outstanding President for the University.

WHEREAS, the University has a long and proud history of student involvement in governance at the University.

THEREFORE, BE IT RESOLVED THAT in keeping with this tradition, we invite President Bruininks to the first Student Senate meeting of the spring. To encourage continuous communication with students, we extend President Bruininks an open invitation to attend Student Senate and Student Senate Consultative Committee meetings.

THEREFORE, BE IT RESOLVED THAT we, the students at the University, are optimistic about President Bruininks' presidency and we look forward to continuing to work with him. As to be expected, students and administration will not always see eye to eye. However, it is our hope that the relationship is open and honest and, most importantly, it is based upon respect. We, the students of the University of Minnesota, look forward to working with President Bruininks to further the student experience here at the University.

JUDY BERNING, CHAIR
STUDENT SENATE CONSULTATIVE COMMITTEE

NETWORK NEWS

SHEEO

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FOCUS ON FINANCE POLICY, ACCESS, AND AFFORDABILITY

In This Issue

. . . *Network News* examines issues related to finance policy, access, and affordability. The first article, a commentary by David Longanecker, sets the stage and instructs us about why finance policy is important. The next two articles provide background for readers, presenting a series of national studies on the cost of postsecondary education and the impact of student financing on access. *Network News* then takes a brief look at national data sources on finance, and it concludes with a commentary by Michael Mullen who examines changes in accounting standards and reporting mechanisms over time and their impact on state budgetary analysis.

Ensuring Access Through Integrated Financing Policy: Observations by David A. Longanecker

Financing policy really matters, according to David Longanecker, executive director of the Western Interstate Commission for Higher Education (WICHE) and former assistant secretary for postsecondary education at the U.S. Department of Education. In this commentary, Dr. Longanecker describes what policymakers must do in tough times to ensure access for needy students.

If past is prologue, we can predict what the near-term financial future will look like for American higher education–and it isn't a pretty picture. Most states are facing big-time financial difficulties. At least 39 states have implemented or are considering budget cuts or holdbacks to address fiscal problems, according to the National Conference of State Legislators. You know what that means. States, unlike the federal government, have no choice but to balance their budget, and they generally choose one of two approaches: either cutting discretionary items across the board (to share the pain) or focusing cuts where they can best be handled (to be wise and strategic).

Either strategy can prove mighty difficult for higher education to handle. Across-the-board cuts lead to reductions for both institutional support and state financial aid line items. As a result, both access and quality are placed at risk. Strategic cuts, on the other hand, often end up targeting higher education because we have a safety valve, tuition. Either way, higher education loses. Not all institutions are equally hard hit, but those who are the biggest losers financially actually lose twice–for in our increasingly market-oriented higher education industry, these circumstances breed nefarious competition for faculty, students, leadership, and prestige.

How should we respond?

We may righteously argue that higher education can't be cut. Don't those people in the legislature and the governor's office understand that this is an investment, not a cost?

continued on page 2

IN THIS ISSUE

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continued from previous page

Yet the fact is that higher education will be cut. Indeed, it must be cut, because the budget has to be balanced. Sure, higher education is an investment, and a valuable one. But - as with personal finances–you can only invest what's left after you've paid the bills, and when state resources diminish there is less to invest. This is fairly simple economics. So we need to "get over it" and make the best of the situation at hand.

In fact, there may indeed be ways to turn the situation to our advantage.

In part, what leads to the unfortunate counter-cyclical impacts of financial cutbacks is the absence of intentional integration in our state and federal financing policies. Integrating finance policies is not easy because relatively few states intentionally align their institutional subsidies, tuition, and financial aid, even those states that appear to have reasonable balance between the three. The primary victims of this lack of integration: our citizens.

When states suffer financially, their citizens are suffering too; yet too often our policies exacerbate rather than relieve our citizens' financial difficulties. Just when they can least afford it, we increase tuitions. We argue that we must do so to offset the loss in public funds to protect educational quality–and that may be true. But it nonetheless compounds the problem for those we serve–students and their families. And yet it may also provide an opportunity. While advancing positive public policy in the chaos of budget cutting is difficult, it actually may be easier than in good times, when the status quo is hard to dislodge.

When states suffer financially, their citizens are suffering too; yet too often our policies exacerbate rather than relieve our citizens' financial difficulties.

What, then, might this intentional policy integration look like?

First, it should recognize that reducing institutional support provides opportunities, but also creates real problems. On the opportunity side, it creates an avenue for eliminating moribund and redundant academic and student services and a way to recast necessary but inefficient activities. But budget cuts also take a real toll. Institutions of higher education are organizations; thus they behave like organizations. When creative people fear that there is no future for creative activity where they are, they begin to look elsewhere. So colleges and universities facing substantial budget problems can expect to have their faculty and administrative ranks raided. Though many public policymakers will–often legitimately–call on higher education to increase its productivity and efficiency, creating the climate for positive change is tough in times of retrenchment.

While advancing positive public policy in the chaos of budget cutting is difficult, it actually may be easier than in good times, when the status quo is hard to dislodge.

Second, a plan for intentional policy integration should provide some capacity or incentive for institutions to plan ahead for variations in state funding. Today, if institutions accumulate reserves, most state legislatures are "clever" enough to find a way to capture them. Thus, most of our public institutions have little ability to weather substantial funding fluctuations without reducing services in one fashion or another.

Policy regarding institutional subsidies needs to take into account that less means less–though higher education can certainly stand some belt tightening, cuts in funding will usually result in cuts in service. Still, we can use this circumstance to invent new strategies for the future that would provide greater funding stability during periods of substantial fluctuation. We squandered the opportunity to do this during the past few very good years, in part because good times provide little incentive to act prudently. I am intrigued with a variant on Kristin Conklin's idea (reflected in the May/April 2002 edition of *Change*) that would allow institutions, within reason, to bridge funding reductions by borrowing and then repaying this indebtedness in better times. My original reaction to this idea was quite negative, because I have always believed that borrowing to cover operating costs is a cardinal sin. But if we can't politically allow our public institutions to generate reserves, at least out in the open, perhaps allowing them to borrow modest amounts to ensure funding stability on the downside of our periodic funding cycles could lead to more rational budgeting.

Lastly, integrated financing policy should ensure that state policy and practice with respect to institutional support are in sync with state tuition and financial aid policies and practices. When institutional support diminishes, it is not necessarily untoward for tuition and fees to increase. Many of our institutions charge far less in tuition today than most students can afford, even in tough times, and certainly far less than the education is worth to them. The tradeoff between higher price and reduced service is likely well worth the additional price.

But if we do raise tuition, state financial aid policy must protect those students from low-income families who simply can't bear increased costs. This is an area where research is clear. Students from middle- and higher-income families will attend college whether the price increases or not; they won't like it, and they may even choose a less expensive institution, but they will go to college. In economic terms, there is virtually no price-elasticity of demand for these students. But participation of students from low-income families does decline as the price of college increases. Good, well-integrated policies, however, can address this. You simply need to protect these price-sensitive students by offsetting any increase in price with increased financial aid.

This requires two policy imperatives. You must have a viable state financial aid policy. Unfortunately, few states currently do: NASSGAP's most recent annual report shows that only 12 states exceed the national average of $431 of grant aid/FTE undergraduate student. And nearly half of all states offer less than half this amount. So financial access is essentially illusory in nearly half of the country. The first lesson, therefore, is that to have a rational financial aid policy, many states will have to create and fund a real financial aid program.

Second, once you have a viable program, it must be integrated with state tuition policy and federal financial aid so that you intentionally secure financial access. When tuition increases, financial aid must go up. And when federal aid fluctuates, state aid should take that into account. The absence of such intentionally integrated policies in most states means that in tough times, when tuition logically increases, financial aid either declines or remains stagnant. States that truly value access for financially needy students can't let that happen.

The choices before us are clear. For most states, increasing state support to cover the costs of new students and to protect the academic enterprise at past levels is not likely to happen. That means we can reduce institutional expenditures or increase other revenues. Given the largess many experienced over the past couple of years, there is probably a little slack in the system to absorb some reduction in resources, though large or enduring cuts will mean reductions in either access, quality, or both. This leaves the revenue side.

Frankly, the naive calls for higher education to fill the gap with private funds don't realize that private funds don't fund general instruction. Which means that once again, just when students and their families face the most difficult time paying for college, we are going to have to charge them more. Given the likelihood that we will do this, let's be smarter about it this time than in the past; let's make sure that we provide adequate need-based financial aid to protect the most needy students.

If we actually do this, after this downward trend in the economic cycle is over, we will actually have a more rational higher education state finance system than we have today. And, all will be well with the world.

The opinions expressed above are those of the author. Dr. Longanecker can be reached at dlonganecker @wiche.edu.

If we do raise tuition, state financial aid policy must protect those students from low-income families who simply can't bear increased costs.

Let's make sure that we provide adequate need-based financial aid to protect the most needy students.

NCES Releases National Study of College Costs and Prices

Even with future improvements in definitions and data collection strategies, cost analysis studies will always provide only partial answers to questions about price increases at colleges and universities.

In the 1998 Amendments to the Higher Education Act (HEA), Congress directed the National Center for Education Statistics (NCES) to conduct a new study of the higher education costs paid by institutions and prices paid by students and their families. Congress directed that the study address the following specific questions:

- How have tuition and fees changed over time compared with inflation?
- How have the major expenditure categories changed over time?
- How are expenditures related to prices?
- To what extent does institutional aid affect tuition increases?
- To what extent has federal financial aid been used to offset increases in institutional aid?

NCES has just released the results of their study in a new report ***Study of College Costs and Prices, 1988-89 to 1997-98***. The first volume presents the findings of the first phase of the study. Some highlights include the following:

- A close relationship between college costs and prices did not exist for most groups of higher education institutions during the 1990s.
- Average tuition charges increased at a faster rate than most institutional cost (expenditure) categories in both the public and private not-for-profit college sectors.
- The factors associated with changing prices varied considerably for public and private not-for-profit colleges and universities.
- For public 4-year institutions, revenue from state appropriations remains the largest source of revenue and is the single most important factor associated with changes in tuition.
- No evidence was found of a relationship between most student aid variables (federal grants, state grants, and student loans) and changes in tuition in either the public or private not-for-profit sectors.

The Executive Summary concludes that available national data can be used to explore aggregate trends in revenues, costs, and prices for broad groups of institutions and that related models can also point out associations between revenue/expenditure variables and tuition. However, these statistical models cannot lead to definitive conclusions regarding the relationships among changes in variables over time. Ideally, new models would need to explore the simultaneous direct and indirect effects of costs, revenues, financial aid, market conditions and other external influences, family resources, and college prices. Finally, even with future improvements in definitions and data collection strategies, cost analysis studies will always provide only partial answers to questions about price increases at colleges and universities.

Volume 2 of the report contains commissioned papers from experts in the higher education community to provide a framework for the study's analyses. It also includes a summary of the invitational meeting convened by NCES to discuss the commissioned papers.

This report is available through the NCES web site at:
http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2002157.

Major National Policy Studies on Access and Affordability

The recent NCES report is the latest in an active field of inquiry. In fact, over recent decades, there have been numerous commissions and studies on the cost of post-secondary education and the impact of student financing on access. Indeed, it can be challenging to sort them all out. This article presents a suggested reading list for "Finance Policy 101," a short list of recent prominent studies on higher education finance policy and its impact on access and affordability. Where applicable, we have provided some context for evaluating the studies' perspectives and conclusions.

▶ ***Looking Back, Going Forward: The Carnegie Commission on Tuition Policy***, Jane V. Wellman, The Institute for Higher Education Policy (IHEP), January 2001.

In 1973, the influential Carnegie Commission on Higher Education published the seminal report *Higher Education: Who Pays? Who Benefits? Who Should Pay?* This 2001 report, *Looking Back, Going Forward*, provides a retrospective analysis of the Carnegie report, designed as "a refresher to those who are familiar with the Carnegie Commission framework and as a primer on its core values and tenets for a new generation of education policy leaders." The 2001 report was prepared as background for IHEP's New Millennium Project on Higher Education Costs, Pricing, and Productivity, begun in 1997 "to improve understanding and facilitate reform of the complex system for financing higher education."

Looking Back, Going Forward presents a concise summary of the Carnegie Commission report. The 1973 report contained: (1) a framework for thinking about higher education finance and the role of tuition as revenue, (2) a look at "who pays"–an analysis of revenue and expenditure patterns, (3) a look at "who benefits"–an examination of the range of personal and societal benefits accrued from investment in higher education, and (4) a look at "who should pay"–recommendations on optimal pricing policies and overall strategies to achieve greater equity and productivity in higher education. The report developed eight general principles to guide financing decisions, among them:

- Higher education is both a public and private good, and investment in higher education should reflect both dimensions.
- Student tuitions should reflect the cost of programs.
- Student loans should be available to enable students to attend high cost programs.
- Responsibility for ensuring economic access to college is a broad-based public responsibility and should be funded from the widest source of revenue.

Looking Backward, Going Forward assesses the impact of the Carnegie report over time. One of its most lasting effects was its recommendation about how to think about higher education finance in terms of prices (what students and families pay), costs (what institutions spend), and subsidies (general purpose revenues from government or endowment sources). In examining what has changed since 1973, the 2001 report concludes that privatization–the shift in responsibilities for funding away from government and toward students and families–is the strongest single theme.

Looking Backward, Going Forward concludes: "... the basic questions about purpose and equity that were underlying the work of the Carnegie Commission are at least as important in 2001 as they were in the 1970s. " Rising college prices are one of the more "daunting challenges" facing today's higher education leaders, and "The most enduring problem may well be invisible, in the lowered expectations for a generation of potential first-time college students, who may conclude that they will not be able to afford to go to college, and as a result do not try to excel academically."

This report is available at www.ihep.com/Pubs/PDF/Carnegie.pdf.
For more information on the New Millennium Project, visit
www.ihep.com/Projects.php?parm=Projects/NewMillenium.html.

Responsibility for ensuring economic access to college is a broad-based public responsibility and should be funded from the widest source of revenue.

The financial value of a college education has increased dramatically over the past two decades.

Policymakers need to think in terms of "probabilistic" models of student behavior, not "deterministic" ones. There is no direct and invariable result between policies and actual student behavior.

▶ ***The Impact of Paying for College on Family Finances***, Joseph E. Stiglitz, et.al., Sebago Associates, November 2000.

This study, commissioned by Upromise, Inc., seeks to provide a clear picture of the ability of American families to pay for a college education. It summarizes the literature on the importance of college, examines evidence on the barriers to college attendance, makes projections of the future costs of college, looks at how families save for college and retirement, and provides illustrative calculations for hypothetical families at seven different income levels trying to save for college and retirement. Appendices provide an overview of federal aid policies and state-level data on college tuition levels and growth.

Among the findings of the study are:

- The financial value of a college education has increased dramatically over the past two decades. For example, the median college worker earned 76 percent more than the median high school worker in 1999, up from a 38 percent differential in 1979.
- Even after adjusting for inflation, college tuition has increased by 91 percent between 1978 and 1998. Higher levels of income inequality, furthermore, mean that college tuition represents a large and growing burden for lower-income and middle-income families.
- A significant number of families do not appear to be well prepared to meet college costs.
- Inadequate savings force families to adopt various strategies for financing college, including taking on an extra job, working more hours, using retirement funds, or taking out a second mortgage.

This report is clearly written, well-documented, and filled with data tables and charts. It provides excellent background material for a wide audience.

This paper is available at www.sbgo.com/UPromise%20Final.pdf.
For information on the other work of Sebago Associates, an economic and public policy consulting firm, visit www.sbgo.com. For information on the sponsor of this paper, visit the Upromise website at www.upromise.com.

▶ ***Designing a State Student Grant Program: A Framework for Policy-Makers***, Jerry Sheehan Davis, Lumina Foundation for Education Synopsis, September 2001.

This brief paper is designed to help state-level policymakers address the fundamental question: "Who should receive how much aid to attend which kinds of institutions for what purposes?" It attempts to help policymakers identify the many purposes for which state grant programs exist, reconcile the sometimes conflicting purposes among them, and guide development of programs to better achieve intended goals.

The paper systematically discusses a series of key issues:

- Why award state grants? There are many purposes, including enhancing student access to postsecondary education, enhancing student choice among institutions, enhancing student retention, rewarding talent, equalizing tuition, and affecting student career choice.
- Who should receive state grants? The answers to this question typically fall into two categories: awarding grants on the basis on financial need, and awarding grants according to non-financial criteria, such as academic performance or intended major or career.
- Which kinds of institutions should state grant recipients attend? Giving state grants to students attending public institutions helps maximize effectiveness of state revenue overall. However, giving grants to students attending private col-

leges is also efficient as long as the grant amounts are less than what the state would have paid in direct subsidies and grant awards for recipients to attend public institutions. Programs offering "choice," however, will help fewer students than programs emphasizing "access" to lower-cost institutions.

- How much state grant aid should students receive? Policymakers need to think in terms of "probabilistic" models of student behavior, not "deterministic" ones. There is no direct and invariable result between policies and actual student behavior.

- How are program goals and outcomes related? Programs with different goals should look different. Davis presents a table delineating six possible program goals, along with suggested outcomes along eight dimensions.

The paper concludes by noting that no single state grant program is likely to achieve all goals for all students. States need multiple programs, and policymakers need to pay careful attention to many interrelationships in order to optimize their goals, resources, and intended outcomes.

This paper is available at
www.luminafoundation.org/Publications/pdfs/Synopsis%20Sept01.pdf.
Other Lumina Foundation documents may be accessed at
www.luminafoundation.org/Publications/publications.shtml.

Unless reversed, [current] patterns will lead to income-related widening of the gaps in participation, persistence, and completion.

Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity, A Report of the Advisory Committee on Student Financial Assistance, February 2001.

Established by Congress with the passage of the Higher Education Amendments of 1986, the Advisory Committee on Student Financial Assistance serves as an independent source of advice and counsel to Congress and the Secretary of Education on matters of student financial aid policy. Since its creation, the Committee has identified improving access as its primary focus. This report presents the results of a recent series of public meetings focused on access issues.

The committee found that three interrelated factors threaten to precipitate an "access crisis:"

- Shifting priorities of policymakers–from low-income need to middle-income affordability and merit.

- Spiraling unmet need of low-income students.

- Educationally counterproductive student decision-making–the frequent decisions of low-income students to abandon plans of full-time, on-campus attendance, and shift to part-time attendance, long work hours, and heavy borrowing.

Unless reversed, the report concludes, these patterns will lead to income-related widening of the gaps in participation, persistence, and completion.

The report calls for a renewal of the nation's access strategy, under federal leadership. The Administration and Congress should:

- Reinstate the goal of providing all Americans the opportunity to earn a bachelor's degree through full-time attendance.

- Increase need-based aid to authorized levels; use the Pell Grant program as the primary vehicle for reducing unmet need.

- Strengthen and expand the other Title IV programs steadily to respond to rapidly growing demands.

- Rebuild and revitalize federal, state, and institutional partnerships in support of access and need-based student aid.

"Immediate action on these fronts can ensure progress on the access problem that low-income students face and can work to promote the security of our nation's economic future."

A recent article in the *Chronicle of Higher Education* (January 25, 2002) provides additional perspective on this report. While the Advisory Committee focuses on infusing more money into federal student financial aid, there is another side in the political arena that emphasizes the need to improve the preparation of low-income students. For example, Arthur M. Hauptman, independent policy consultant, noted that "handing out financial aid to students who are not adequately prepared to go to college is setting them up for failure." He argues that the government would do better to improve the quality of public schools, raise academic standards, and significantly expand early intervention programs for disadvantaged students, like GEAR UP and TRIO.

Access Denied is available at www.ed.gov/offices/AC/ACSFA/access_denied.pdf. For more information about the committee's work, visit www.ed.gov/ACSFA. Subscribers to the *Chronicle of Higher Education* can access the article cited above at http://chronicle.com (user name and password required).

While the Advisory Committee focuses on infusing more money into federal student financial aid, there is another side in the political arena that emphasizes the need to improve the preparation of low-income students.

- ***Unequal Opportunity: Disparities In College Access Among the 50 States***, Samuel M. Kipp III, Derek V. Price, and Jill K. Wohlford, Lumina Foundation for Education New Agenda Series, Volume 4, Number 3, January 2002.

Higher education is more important than ever to our nation--both for individuals and for society, and all qualified students should have the opportunity to attend college. Based on these assumptions, this report challenges state policymakers to examine the extent to which current higher education systems provide access to college for their residents, and offers the data to help them. The report provides detailed analysis and classification of over 2,800 two- and four-year public and private colleges according to their "accessibility" to typical residents; "accessibility" has two components: admissibility (based on college admission standards) and affordability (based on cost of attendance and student financial aid programs). Very briefly, the study concludes that "access to higher education is unequal among states and within states, depending on a student's income and dependency status." In particular, low-income students, compared to median-income students, have far fewer options, and they are more often required to borrow to achieve affordability. The authors call for us, as a nation, to address these inequalities.

While this study echoes themes of earlier reports, it goes a step further in rating and comparing institutions and states, and its release has been controversial. In particular, the National Association of Independent Colleges and Universities (NAICU) has been vocal in its criticism. NAICU President David L. Warren commented: "The Lumina Foundation's findings on the state of accessibility and affordability at colleges and universities misrepresents reality, misleads readers, and harms the very families the foundation is trying to help."

Network News encourages readers to examine the Lumina report, found at www.luminafoundation.org/monographs/index.shtml, as well as the NAICU analysis found at www.naicu.edu/news/releases/LuminaFacts.html.

- ***Explaining College Costs: NACUBO's Methodology for Identifying the Costs of Delivering Undergraduate Education***, National Association of College and University Business Officers, February 2002.

Although this report focuses more on improving accounting methods than on public policy, it provides a fitting closing to our brief review of finance studies. In fact, the context for NACUBO's work and the broader purpose its methodology serves speak to public policy concerns about access and affordability.

Explaining College Costs begins by noting that opinion polls have repeatedly shown that the public overestimates the price of college and doubts that college is affordable for most Americans. In 1997, Congress established the National Commission on the Cost of Higher Education to investigate cost-price issues. One section of the commission's final report, *Straight Talk about College Costs and Prices*, called upon academic institutions to develop better consumer information–to "annually issue to their constituent families and students information on costs, prices, and subsidies." In response to this, in fall 1998, NACUBO established the Ad Hoc Committee on College Costs to develop a common methodology for calculating the cost of an undergraduate education. The goal was to provide institutions with "an effective mechanism by which to generate information about costs and prices that would be useful to students, families, policy makers, and other constituents."

Explaining College Costs describes the work of NACUBO's Ad Hoc Committee as well as its final product, a one-page template that can be used by colleges and universities to present cost and price information in a uniform way. The text report provides detailed information on the Cost of College Project and on the components of the methodology; companion pieces to the report are an Excel template designed for people who actually gather the information as well as detailed instructions for completing it.

After rigorous testing, the committee concluded that the methodology does work for its intended purposes and can be used by any institution to explain its undergraduate costs. It concluded: "Making institutional data more transparent will not correct all of the public's misperceptions about higher education. However, it is a step in the right direction. By increasing the understanding of their finances, colleges and universities can create a clearer context in which to explain their tuition rates and call attention to rising costs or reductions in support. Absent such information, students, parents, the media, policy makers, and the public will remain uninformed and be more likely to believe erroneous explanations of the reasons for tuition price increases."

This report is available at
www.nacubo.org/public_policy/cost_of_college/final_report.pdf.
Other information on NACUBO's Cost of College Project, including the Excel template and instructions for completing the NACUBO methodology, is found at
www.nacubo.org/public_policy/cost_of_college.

"Making institutional data more transparent will not correct all of the public's misperceptions about higher education. However, it is a step in the right direction."

New Financial Aid Initiative Sponsored by Lumina Foundation

Changing Direction: Integrating Higher Education Financial Aid and Financing Policy, a new initiative sponsored by the Lumina Foundation, will examine how to structure financial aid and financing policies and practices to maximize participation, access, and success for all students. Through a cooperative effort of the Western Interstate Commission for Higher Education (WICHE), the American Council on Education (ACE), and SHEEO, *Changing Direction* will help policymakers and higher education leaders address financing and financial aid issues more effectively, and promote linkages among state, federal, and private-sector institutional policies and programs, along with regional and national collaboration. Led by an advisory board, these goals will be achieved through surveys, case studies, roundtables, and regional and national forums.

For more information, contact Rick Voorhees at rvoorhees@sheeo.org.

National Data Efforts Related to Postsecondary Finance

In addition to policy studies, there are numerous data sources related to postsecondary finance as well. With the advent of the World Wide Web, data sources related to postsecondary costs, access, and affordability are only a click away–for those who know where to look. The SHEEO/NCES Network is pleased to provide a gateway to many of these data sources through our searchable online guide, the *Compendium of National Data Sources on Higher Education*, a component of the SHEEO Online Access to Resources (SOAR). To illustrate the variety and richness of available information, we offer three examples of finance data sources described in the *Compendium*:

- **Grapevine**: This annual report from the Center for Higher Education and Educational Finance at Illinois State University addresses state effort for higher education, providing detailed information on state tax appropriations. (www.coe.ilstu.edu/grapevine)
- **Postsecondary Education Opportunity:** This monthly research letter by Tom Mortenson provides information on issues and conditions that affect the opportunity for participation in postsecondary education. (www.postsecondary.org)
- **National Postsecondary Student Aid Study (NPSAS):** This comprehensive NCES study, issued periodically, explores how students and their families pay for postsecondary education, how this has changed over the years, and how costs and financial aid influence student behavior. (http://nces.ed.gov/surveys/npsas)

We encourage readers to search the *Compendium National Data Sources on Higher Education* for many other data sources on finance topics such as affordability, tuition and fees, student financial aid, government finances, and institutional finances. The *Compendium* is found at www.sheeo.org/soar/compendium.asp?compid=2.

Finance Concerns from the State Perspective
by Michael J. Mullen

We conclude our examination of finance policy with an analysis by someone who has been "in the trenches" for a number of years. In this commentary, Michael Mullen, Chancellor of the West Virginia Higher Education Policy Commission and chair of the SHEEO Financial Policy committee, takes an in-depth look at shifts in the way we measure higher education finances. He examines changes in accounting standards and reporting mechanisms over time and their impact on state budgetary analysis.

In 1984 Bruce Springsteen provided advice that may be more relevant today than when he released "Glory Days." As we respond to budget cuts, enrollment changes, and demands for accountability, it's appropriate to reflect on his message:

> Glory days well they'll pass you by
> Glory days in the wink of a young girl's eye
> Glory days, glory days.

The ebb and flow of the business cycle will always affect support for higher education, and our expectations for support are often clouded by our remembrances of previous "glory days." Many of us know the pattern well and for some of us, this is the fourth or fifth business cycle to impact state funding for colleges and universities. But this time, public demand for higher education is reaching unprecedented heights. That makes the analysis of higher education's financial needs extremely serious business.

It's time to acknowledge the magnitude of the evolutionary shifts that have taken place over the last 40 years and recognize that our historic measuring rods may no longer

It's time to acknowledge the magnitude of the evolutionary shifts that have taken place over the last 40 years and recognize that our historic measuring rods may no longer be sufficient.

be sufficient because of changes in accounting standards and national reporting mechanisms. Many states have developed benchmarking techniques or peer-equity approaches to funding that reflect assumptions about what is right or adequate. In addition to challenging some of these basic assumptions, we may also need to rethink our reliance on national data and audited financial statements.

Borrowing heavily on documents provided by Larry Goldstein, Senior Fellow at NACUBO, I have attempted to summarize the significant changes in public college financial statements and changes already implemented in IPEDS. Some of these changes will be viewed simply (and naively) as technical accounting decisions, but almost all will have serious impact on national, regional, and state budgetary policy analysis.

The changes in our financial statements will be significant, and many of the changes will present a more accurate picture of the fiscal health of our institutions. These changes will not be uniform across institutions or states but similar impacts may be observed based on institutional mission and scope. A simplified look at the changes reveals:

1. Tuition and fee revenues must be reduced by scholarship and fellowship amounts that already have been recognized as revenues, unless they result in a cash payment to the student.
2. Basic financial reporting structure will switch from a funds perspective to an entity-wide perspective. The distinction between restricted and non-restricted revenues and expenditures is no longer required and has already been deleted from the IPEDS report.
3. Expenditures for capital assets are not reported and, instead, depreciation must now be recognized and reported as an expense.
4. Infrastructure (roads, bridges, sewer systems, etc.) must be capitalized and depreciated.
5. The balance sheet must be classified between current and non-current assets/liabilities.
6. The activities statement must differentiate between operating and non-operating revenues/expenses and display the net income from operations.
7. State appropriations must be classified as non-operating revenue. The same is true for gifts and investment income.
8. Financial statements must include a statement of cash flows prepared using the direct method.
9. Programmatic (functional) reporting of expenses is no longer required. At the institution's option, they can elect to report expenses by natural (object of expenditure) or functional classification.
10. Revenues and expenses for summer session (or any term that crosses a fiscal year) must be allocated between years based on when the revenue is earned; expenses must be matched with the revenue.

In summary, revenues and expenditures will be reduced to reflect net tuition and unfunded scholarships or waivers, there will be shifts in operating and non-operating revenues and expenditures, and expenses for depreciation will alter balanced budgets and valuation of assets. Our finance offices will have to develop new ways to compare states and institutions.

I am not declaring that "the sky is falling" but we do need to understand that Enron may not be the only challenging situation presented to the nation by our accounting partners. The majority of the impact and workload will fall on campuses, but SHEEO organizations need to be prepared for the impact of these new reporting and auditing guidelines.

The opinions expressed above are those of the author. Dr. Mullen can be reached at mullen@hepc.wvnet.edu.

The changes in our financial statements will be significant, and many of the changes will present a more accurate picture of the fiscal health of our institutions.

Our finance offices will have to develop new ways to compare states and institutions.

Personnel Changes at SHEEO

We are pleased to welcome Rick Voorhees and Tricia Coulter to SHEEO.

Rick joined SHEEO in March 2002 as the Director of Education Policy Initiatives. He will be responsible for working with state higher education executives and academic officers to design initiatives that address critical policy issues in areas such as quality assurance, enhancing student participation and achievement, teacher capacity and quality, diversity, new educational delivery systems, and student preparation for postsecondary education.

Rick most recently was Associate Vice President for Instructional and Student Services at the Community Colleges of Colorado system. Previously he worked at Black Hills State University in South Dakota, and Arapahoe Community College in Littleton, Colorado. Rick is President-elect of the Association for Institutional Research (AIR). Rick holds a Ph.D. from Arizona State University in Higher and Adult Education. His master's degree in Counseling and Guidance and bachelor's degree in Elementary Education were both earned at the University of North Dakota.

Tricia joined SHEEO in January 2002 as a Policy Analyst. In this position she will work on a variety of issues related to teaching and teacher quality, including the Title II program Preparing, Training, and Recruiting High Quality Teachers and Principals and the Teacher Quality Initiative. Tricia will also be involved in various database and K-16 projects.

Prior to coming to SHEEO, Tricia worked for the University and Community College System of Nevada System Administration Office as a Research Analyst. She also has experience teaching at both the undergraduate and graduate levels at the University of Nevada, Reno College of Education. Tricia completed her Ph.D. in Counseling with a specialty area in Consultation at the University of Nevada, Reno in December 2000.

And a good-bye from Alene Russell, Senior Research Associate at SHEEO and Editor of Network News.

On a personal note, I will be leaving SHEEO at the end of this month after 11 years of employment, and this will be my last issue of *Network News*. I want to express my appreciation to the great colleagues I've worked with over the years at NCES, in the state agencies, and elsewhere. I've learned a great deal from all of you, and I hope you have learned from the work we have done.

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Comparison of Actual Tuition and Fees and Past procedure at UM-TC and Private Four-Year 2002-2003

This chart shows the financial gain for the public U of M-TC student and the lack of financial gain for the four-year private college student both taking an expensive program from their respective colleges. It shows that although the University of UM-TC college student is now constrained by the tuition maximum of the Minnesota State Grant, the U of MN-TC student still benefits from the new state policy of using the student's actual tuition and fee amount.

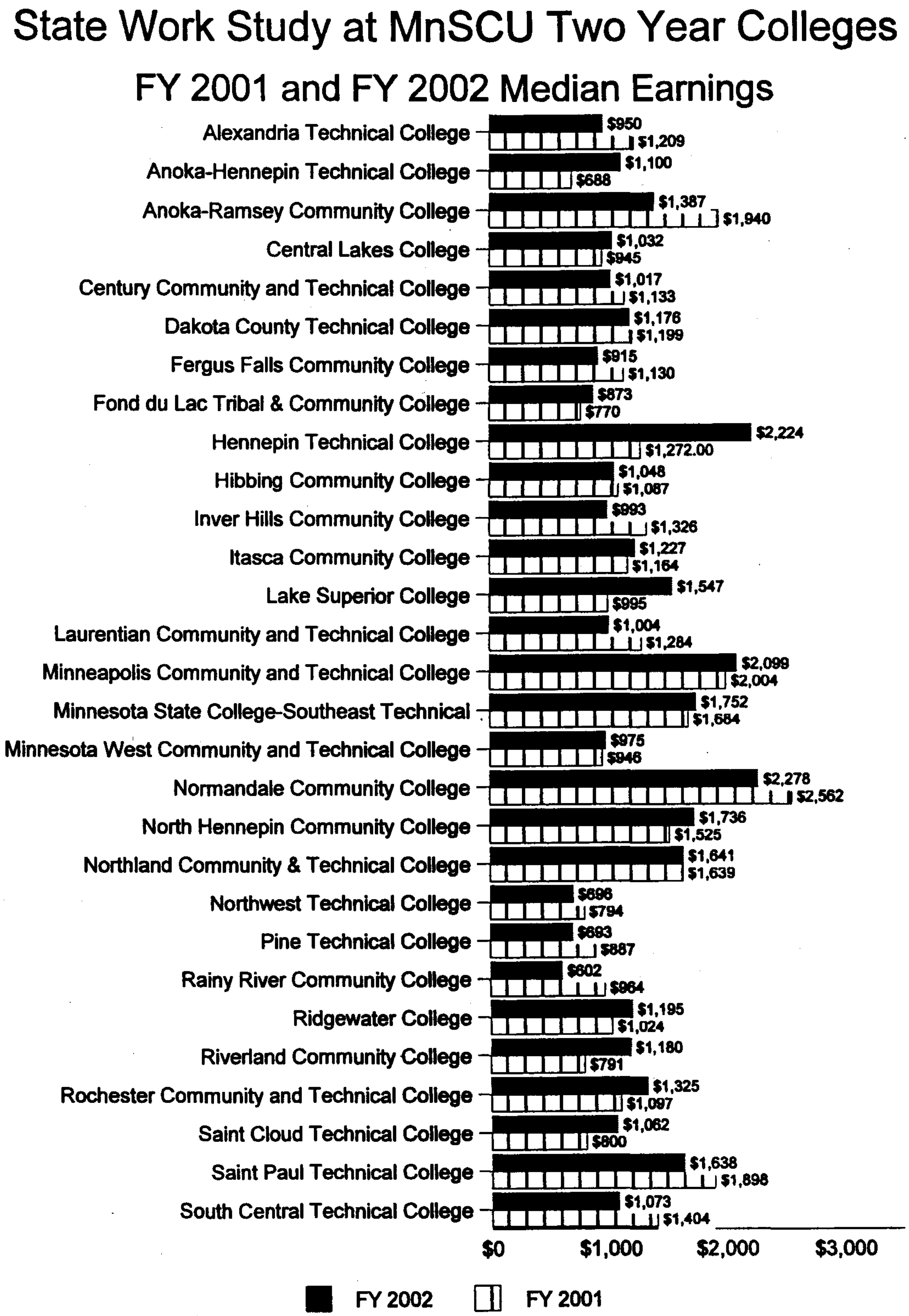
	U of MN-TC		Private Four-Year College (Gustavus)	
Calculation	Old Method	With New Actual Tuition and Fees Policy	Old Method	With New Actual Tuition and Fees Policy
Tuition and Fees	$9,000	$9,000	$25,730	$25,730
Tuition Maximum	$6,430 (average tuition for college was used)	$8,983	$8,983	$8,983
LME	$5,405	$5,405	$5,405	$5,405
Total Budget	$11,835	$14,388	$14,388	$14,38[illegible]
- Student Share (46%)	$5,444	$6,618	$6,618	$6,618
- Family Contribution	$500	$500	$500	$500
- Pell	$3,500	$3,500	$3,500	$3,500
State Award	$2,391	$3,770	$3,770	$3,770
Amount student must cover that is not taken into account by State Grant Calculation budget	$2,570	$17	$16,747	$16,747
Total net cost remaining for student (student share plus unrecognized tuition)	$8,014	$6,635	$23,365	$23,365
financial gain with new policy	$1,379		$0	

Minnesota State Work Study Median Student Wages and Earnings by Campus, Fiscal Year 2002

November 6, 2002

Minnesota State Work Study Median Student Wages and Earnings by Campus, Fiscal Year 2002

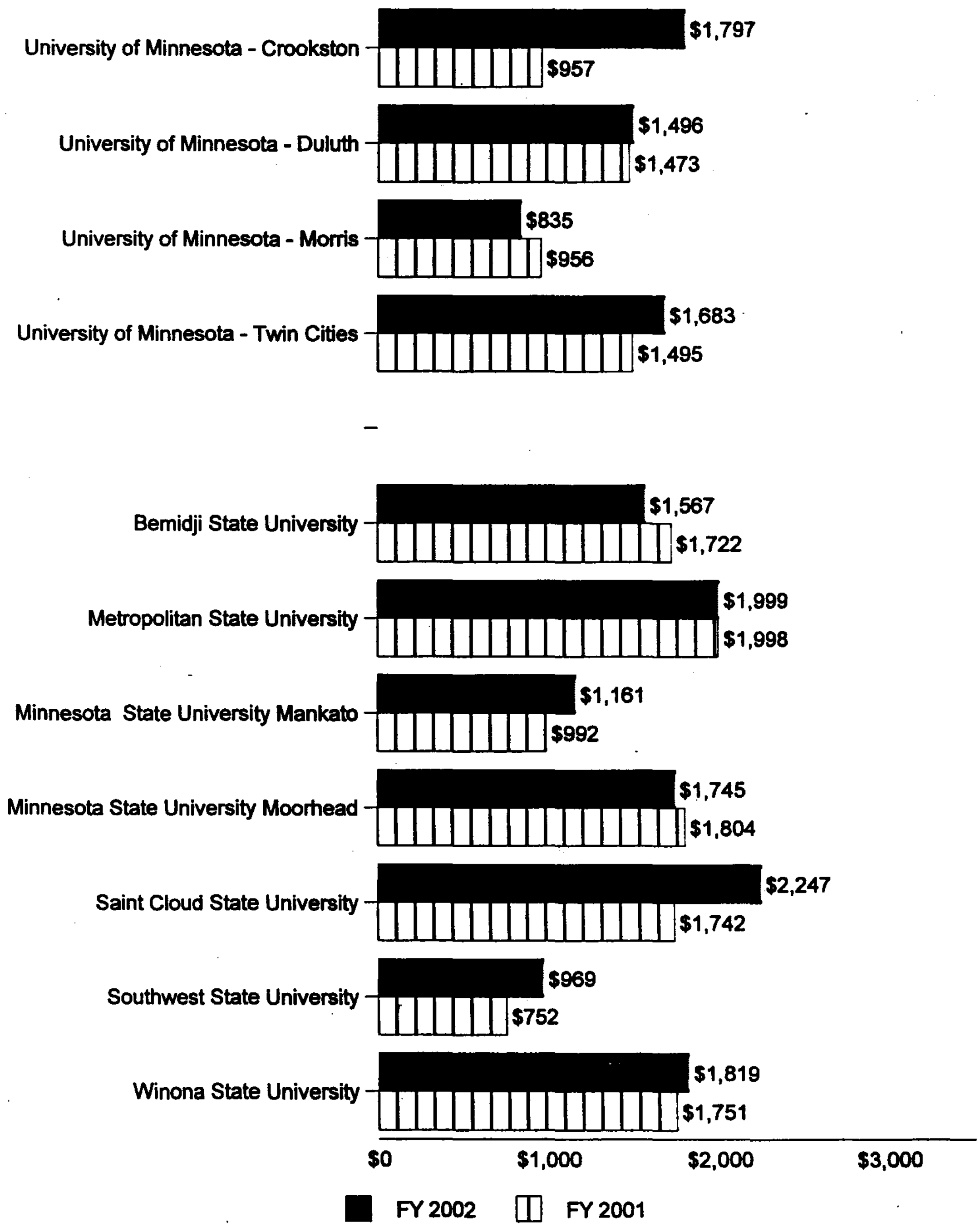
- The data in this report is from the Final Report for the Minnesota State Work Study Program for the 2000-2001 Academic Year - Fiscal Year 2002.
- The data reported are medians - half of the recipients at each campus earned the reported amount or less, and half of the recipients earned the reported amount or more.



Source: Minnesota Higher Education Services Office

State Work Study at Public Four Year Universities

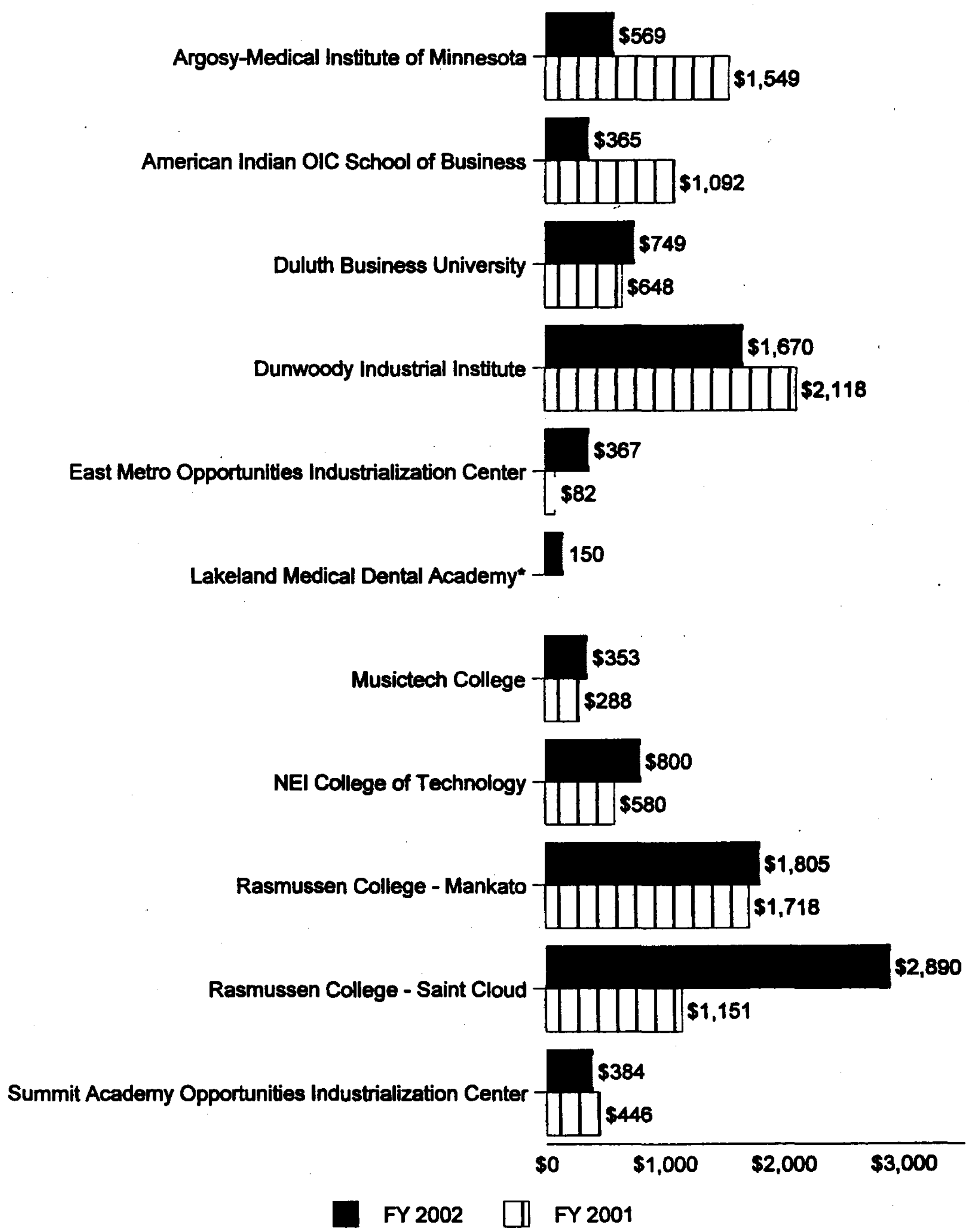
FY 2001 and FY 2002 Median Earnings



Source: Minnesota Higher Education Services Office

State Work Study at Private Two Year Institutions

FY 2001 and FY 2002 Median Earnings

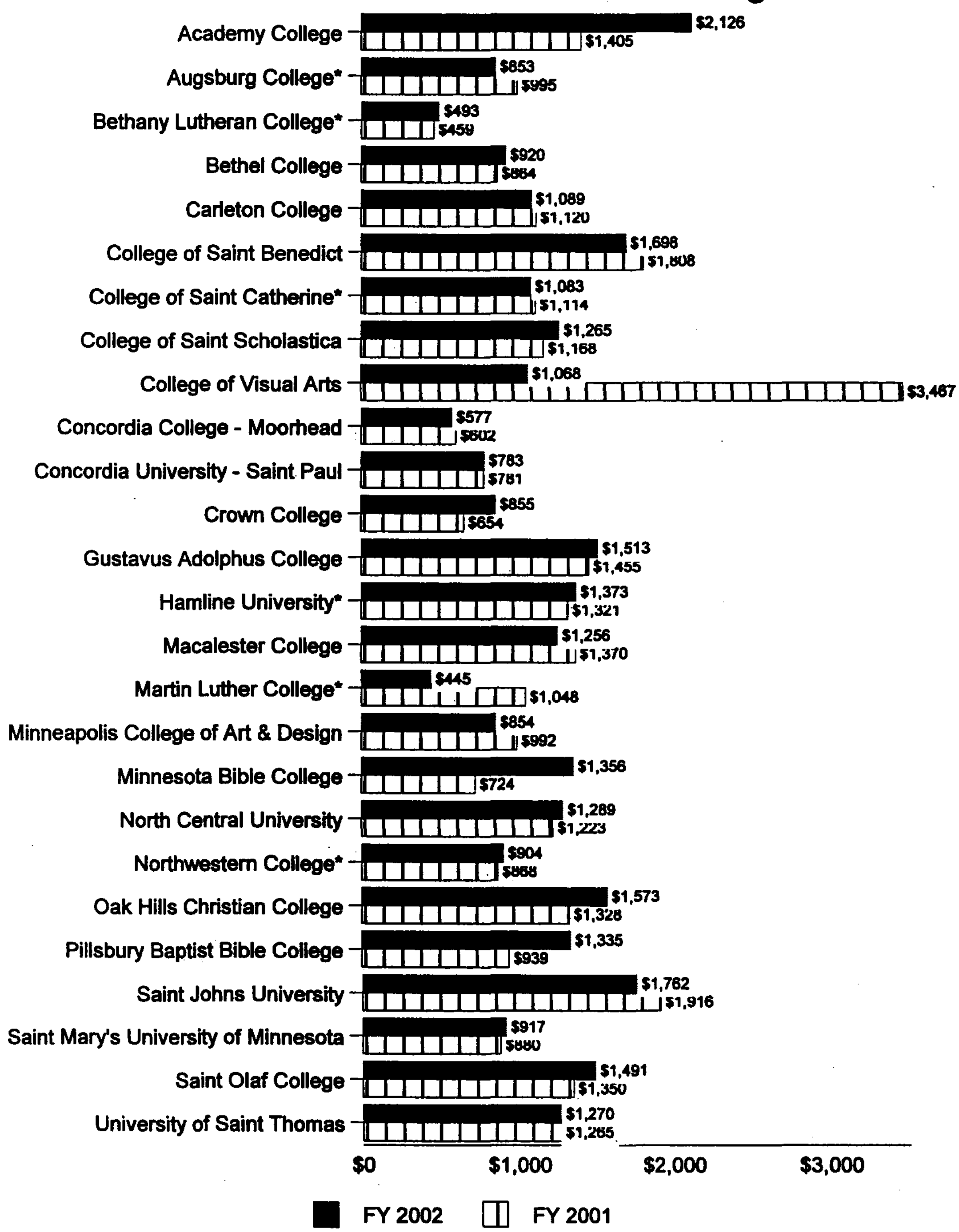


*Institution used the new State Work Study formula for some recipients.

Source: Minnesota Higher Education Services Office

State Work Study at Private Four Year Institutions

FY 2001 and FY 2002 Median Earnings

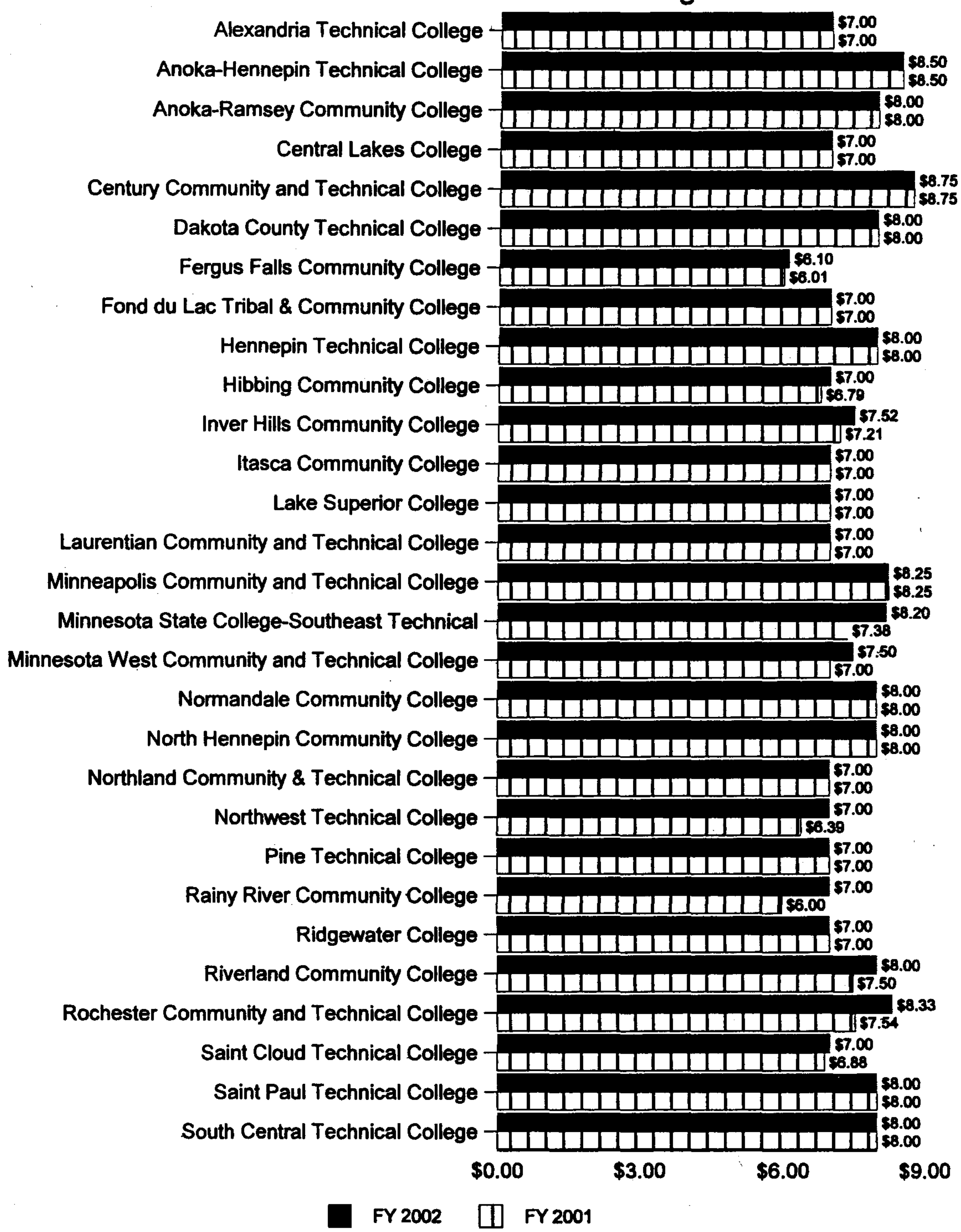


*Institution used the new State Work Study formula for some recipients.

Source: Minnesota Higher Education Services Office

State Work Study at MnSCU Two Year Colleges

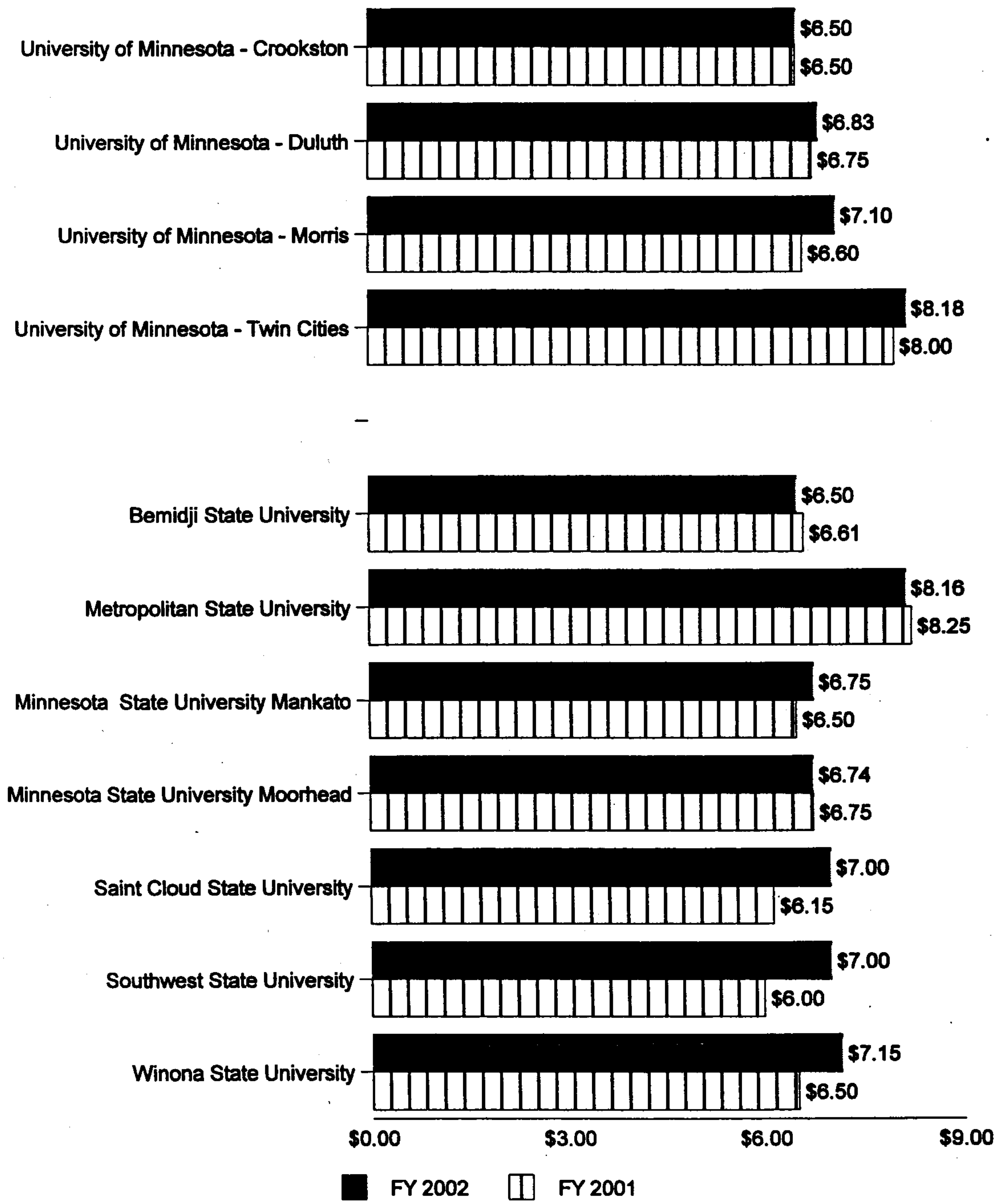
FY 2001 and FY 2002 Median Wages



Source: Minnesota Higher Education Services Office

State Work Study at Public Four Year Universities

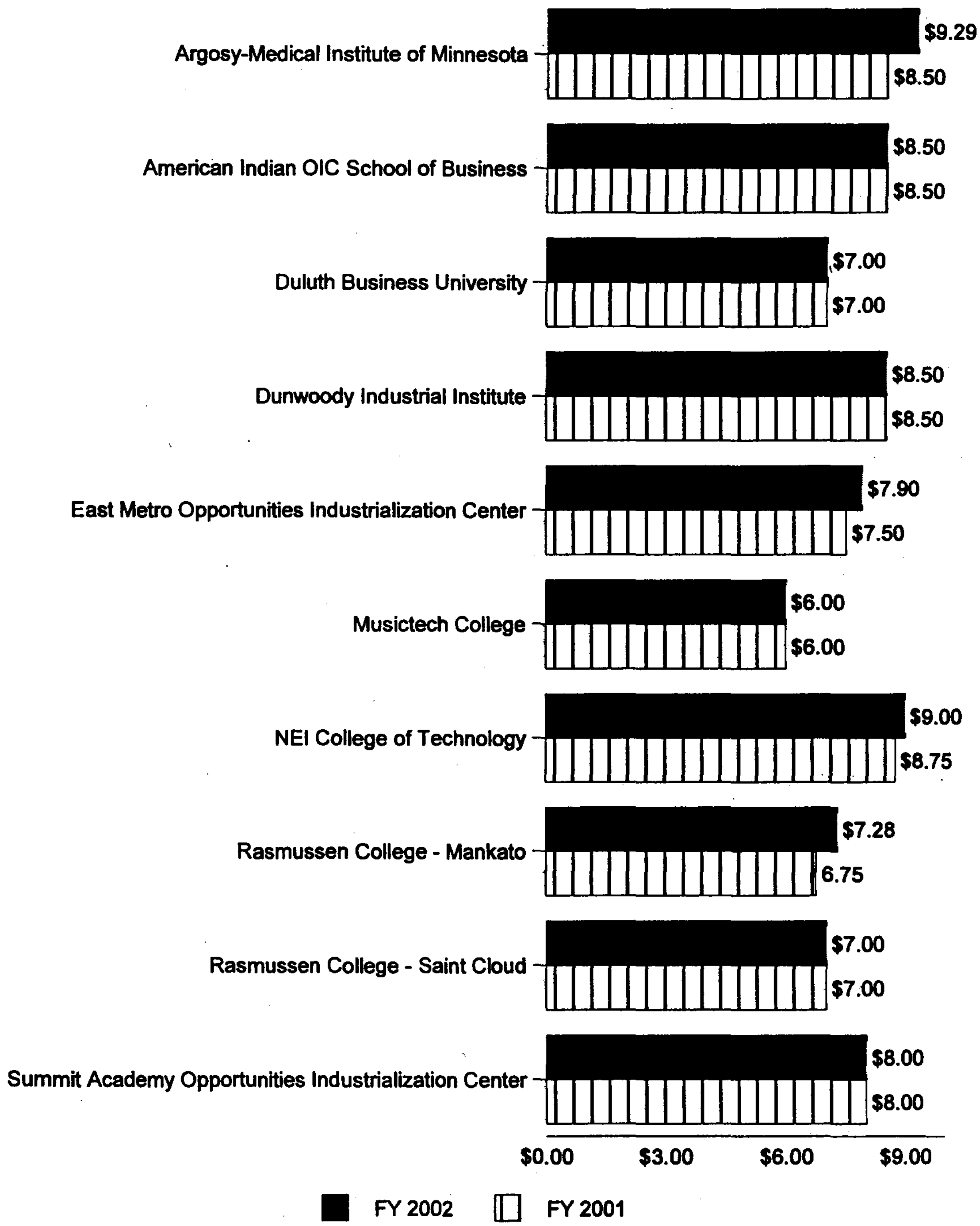
FY 2001 and FY 2002 Median Wages



Source: Minnesota Higher Education Services Office

State Work Study at Private Two Year Institutions

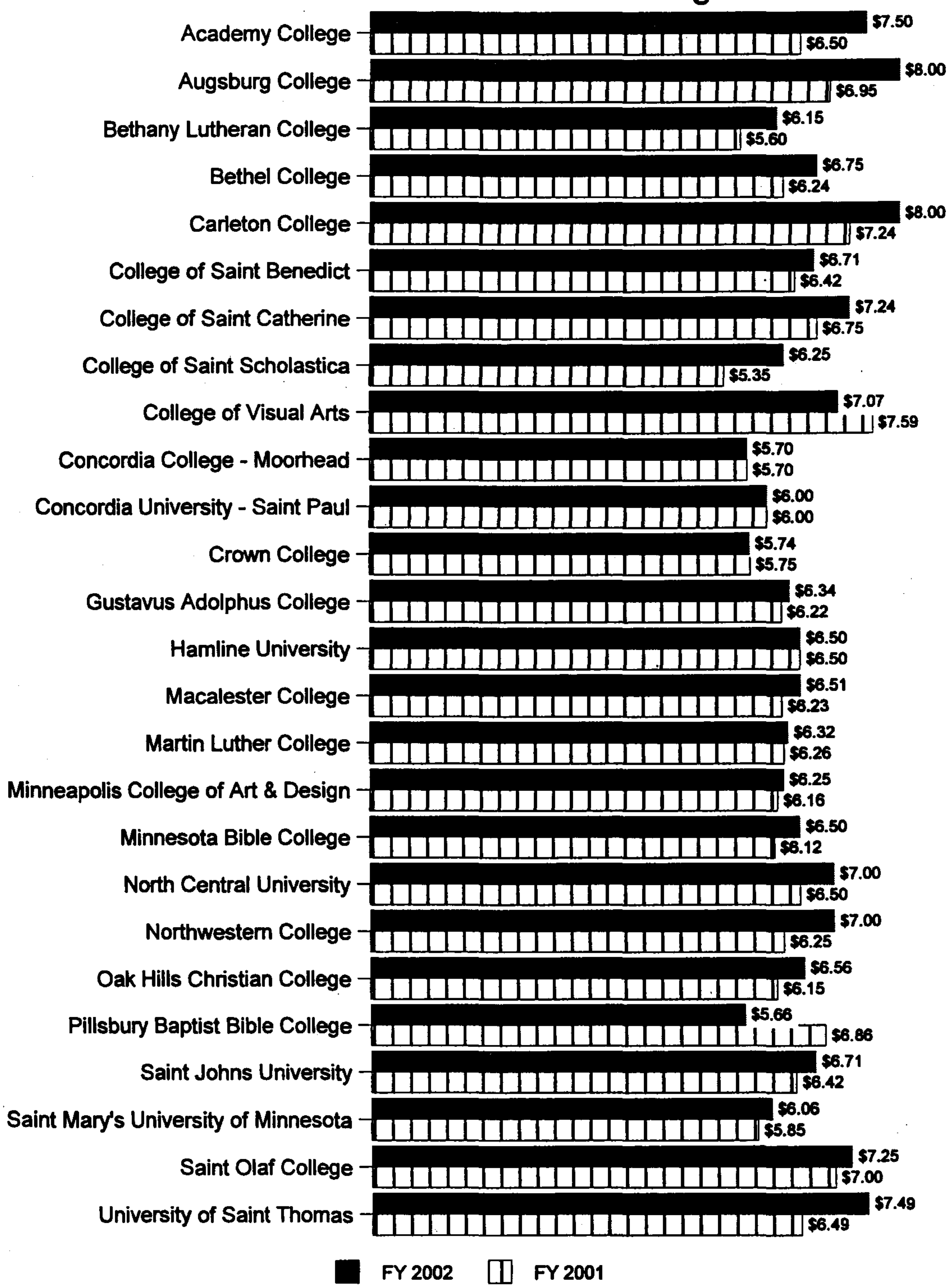
FY 2001 and FY 2002 Median Wages



Source: Minnesota Higher Education Services Office

State Work Study at Private Four Year Institutions

FY 2001 and FY 2002 Median Wages



Source: Minnesota Higher Education Services Office

History of State Grant
LME and Tuition Caps

Academic Year	Living & Miscellaneous	4 Year Private Max	2 Year Private Max
1984-85	$2,750	$4,063	$3,752
1985-86	$2,850	$4,973	$3,940
1986-87	$2,960	$5,271	$4,215
1987-88	$2,985	$5,875	$4,568
1988-89	$2,995	$6,024	$4,684
1989-90	$3,300	$7,037	$4,839
1990-91	$3,465	$7,663	$5,146
1991-92	$3,750	$7,663	$5,898
1992-93	$4,033	$7,663	$5,898
1993-94	$4,115	$7,663	$5,898
1994-95	$4,115	$7,663	$5,898
1995-96	$4,115	$7,665	$5,900
1996-97	$4,200	$7,665	$5,900
1997-98	$4,500	$7,860	$6,050
1998-99	$4,885	$8,055	$6,200
1999-00	$5,075	$8,300	$6,390
2000-01	$5,405	$8,550	$6,580
2001-02	$5,405	$8,764	$6,744
2002-03	$5,405	$8,983	$6,913

ARTICLE 5
HIGHER EDUCATION

Section 1. Minnesota Statutes 2000, section 136A.121, subdivision 7, is amended to read:

Subd. 7. [INSUFFICIENT APPROPRIATION.] If the amount appropriated is determined by the office to be insufficient to make full awards to applicants under subdivision 5, before any award for that year has been disbursed, awards must be reduced by

(1) adding a surcharge to ~~the contribution of~~ the applicant's ~~parents, and~~ assigned family responsibility, as defined in section 136A.101, subdivision 5a; and

(2) a percentage increase in the applicant's ~~contribution~~ assigned student responsibility, as defined in subdivision 5.

Sec. 2. [STATE GRANT APPROPRIATION.]

$5,000,000 is appropriated from the general fund to the higher education services office to make state grants. This appropriation is added to the appropriation in Laws 2001, First Special Session chapter 1, article 1, section 2, subdivision 2, for fiscal year 2002.

The higher education services office, by July 1, 2002, must make a determination of the projected sufficiency or deficiency in state money available for the state grant program to make full state grant awards through fiscal year 2003. If it is determined that a deficiency is projected, then, notwithstanding Minnesota Statutes, section 136A.121, subdivision 7, the higher education services office shall immediately transfer to the state grant appropriation from the work study appropriation and notwithstanding Minnesota Statutes, section 136A.125, subdivision 4c, from the child care grant appropriation in Laws 2001, First Special Session chapter 1, article 1, section 2, the amount necessary to make full state grant awards in fiscal year 2003. If state money available for the state grant program continues to be insufficient to make full state grant awards after the initial transfers, subsequent transfers must be made before any reduction in state grant awards under Minnesota Statutes, section 136A.121, subdivision 7, is made.

Sec. 3. [EFFECTIVE DATE.]

This article is effective the day following final enactment.

HIGHER EDUCATION SERVICES OFFICE
2004-2005 Biennial Budget Proposal
Dollars represented in Thousands e.g. $123,000 = $123,000,000

Agenda Item # 6
October 11th, 2002

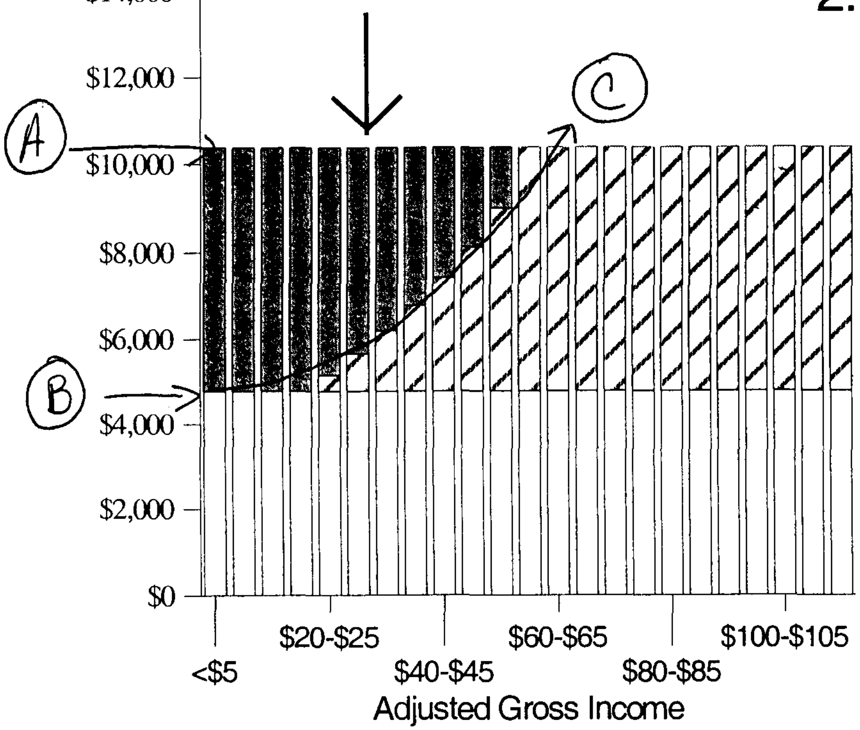
Line #		FY 2004 Base	FY 2004 Change Items	FY 2004 Total Request	% Increase	FY 2005 Base	FY 2005 Change Items	FY 2005 Total Request	% Increase	Biennial Base	Biennial Change Items	Biennial Total Request	% Increase
1	Federal Funds	$1,295		$1,295		$1,295		$1,295		$2,590	$0	$2,590	
2	State Grants--General Fund	$120,535		$120,535		$120,535		$120,535		$241,070	$0	$241,070	
3	Total Grant Funds Available:	$121,830		$121,830	0.0%	$121,830		$121,830	0.0%	$243,660	$0	$243,660	0.0%
4	Base Adjustment		$9,170	$9,170	7.5%		$9,170	$9,170	7.5%	$0	$18,340	$18,340	7.5%
5	Tuition & Fees		$10,700	$10,700	8.8%		$23,200	$23,200	19.0%	$0	$33,900	$33,900	13.9%
6	Living & Miscellaneous Expense		$1,800	$1,800	1.5%		$3,600	$3,600	3.0%	$0	$5,400	$5,400	2.2%
7	Tuition & Fees Maximums		$900	$900	0.7%		$1,800	$1,800	1.5%	$0	$2,700	$2,700	1.1%
8	Sub Total:	$121,830	$22,570	$144,400	18.5%	$121,830	$37,770	$159,600	31.0%	$243,660	$60,340	$304,000	24.8%
9	Child Care	$4,743	$52	$4,795	1.1%	$4,743	$53	$4,796	1.1%	$9,486	$105	$9,591	1.1%
10	Safety Officer Survivors	$40		$40	0.0%	$40		$40	0.0%	$80	$0	$80	0.0%
11	Summer Scholarships	$200		$200	0.0%	$200		$200	0.0%	$400	$0	$400	0.0%
12	Advanced Placement/IB	$75		$75	0.0%	$75		$75	0.0%	$150	$0	$150	0.0%
13													
14	Work Study	$12,444		$12,444	0.0%	$12,444		$12,444	0.0%	$24,888	$0	$24,888	0.0%
15													
16	College Savings Program	$1,520		$1,520	0.0%	$1,520		$1,520	0.0%	$3,040	$0	$3,040	0.0%
17													
18	Interstate Tuition Reciprocity	$4,250		$4,250	0.0%	$4,250		$4,250	0.0%	$8,500	$0	$8,500	0.0%
19													
20	MINITEX-MNLINK	$5,131		$5,131	0.0%	$5,131		$5,131	0.0%	$10,262	$0	$10,262	0.0%
21													
22	Learning Network of Minnesota	$5,179		$5,179	0.0%	$5,179		$5,179	0.0%	$10,358	$0	$10,358	0.0%
23													
24	Restoration of State Grant Rewrite		$150	$150	N/A		$150	$150	N/A	$0	$300	$300	N/A
33													
34	Agency Administration	$2,602		$2,602		$2,602		$2,602		$5,204	$0	$5,204	
35	Student Parent Information	$148		$148		$148		$148		$296	$0	$296	
36	Get Ready- Greater Minnesota	$217		$217		$217		$217		$434	$0	$434	
37	Intervention Investment Program	$300		$300		$300		$300		$600	$0	$600	
38	Post Secondary Service Learning	$118		$118		$118		$118		$236	$0	$236	
39	Inflationary Adjustment		$111	$111			$229	$229		$0	$340	$340	
40	Sub-Total Agency Administration:	$3,385	$111	$3,496	3.3%	$3,385	$229	$3,614	6.8%	$6,770	$340	$7,110	5.0%
41													
42	Less Federal Funds	($1,295)		($1,295)		($1,295)		($1,295)		($2,590)	$0	($2,590)	
43	State General Fund Request:	$157,502	$22,883	$180,385	14.5%	$157,502	$38,202	$195,704	24.3%	$315,004	$61,085	$376,089	19.4%
				$180,385				$195,704				$376,089	

Minnesota's
Design for Shared Responsibility

For 2002-2003 The Living + Miscellaneous is $5,405
Maximum 4 year Tuition = $8,983
Maximum 2 year Tuition = $6,913
Maximum Budget = $14,388

3. Taxpayers

2. Families



1. Students

* Distributes price of attendance to
  - Students
  - Families
  - Taxpayers

* Sensitive to price changes.

For 2002-2003 the U of M-TC Budget

$5,405	LME	
$6,430	T+F	
$11,835		
$5,444	46%	
$6,391	Maximum Taxpayer Share	

Experiences

1. Overall

Fiscal Year	State Appropriations plus Federal Funds (millions)	Reported Spending (millions)	Difference between Appropriations and Reported Spending (millions)	Percentage Difference between Appropriations and Reported Spending (millions)
1988	$63.95	$64.60	$(0.65)	-1.0%
1989	$61.00	$55.60	$5.40	8.9%
1990	$55.01	$54.70	$0.31	0.6%
1991	$70.26	$71.40	$(1.14)	-1.6%
1992	$75.69	$76.60	$(0.91)	-1.2%
1993	$80.10	$82.60	$(2.50)	-3.1%
1994	$93.90	$91.00	$2.90	3.1%
1995	$93.90	$88.60	$5.30	5.6%
1996	$91.70	$85.28	$6.42	7.0%
1997	$95.90	$89.20	$6.70	7.0%
1998	$94.30	$91.44	$2.86	3.0%
1999	$109.52	$108.95	$0.57	0.5%
2000	$113.22	$109.53	$3.69	3.3%
2001	$123.80	$115.70	$8.10	6.5%
2002*	$115.70	$125.60	$(9.90)	-8.6%

STATE GRANT - HISTORICAL SPENDING PATTERNS

AID YEAR	SUMMER 1	% Tot	% Fall	FALL	% Tot	% Fall	WINTER	% Tot	% Fall	SPRING	% Tot	% Fall	SUMMER 2	% Tot	% Fall	TOTAL
1999-2000	$3,080,088	2.81%	6.03%	$51,039,865	46.60%	100.00%	$4,229,594	3.86%	8.29%	$47,088,490	42.99%	92.26%	$4,100,196	3.74%	8.03%	$109,538,233
2000-2001	$3,338,176	2.89%	6.32%	$52,835,002	45.67%	100.00%	$4,446,185	3.84%	8.42%	$49,589,791	42.87%	93.86%	$5,471,319	4.73%	10.36%	$115,680,473
2001-2002	$3,797,243	3.02%	6.84%	$55,482,023	44.17%	100.00%	$5,312,603	4.23%	9.58%	$53,109,533	42.28%	95.72%	$7,917,934	6.30%	14.27%	$125,619,336
2002-2003	$4,600,000	3.34%	7.42%	$62,000,000	44.96%	100.00%	$5,580,000	4.05%	9.00%	$58,590,000	42.49%	94.50%	$7,130,000	5.17%	11.50%	$137,900,000

Note: $62,000,000 for fall is 5% increase over current reported fall payments as of October 31, 2002