As a nation, we are often slow to confront major economic and social challenges until realities on the ground make them unavoidable. Take the environment. We have been recycling and celebrating Earth Day for a generation, but conservation, environmental protection, and the development of alternative energy sources did not truly reach the top of the public agenda until $4 per gallon gas emptied our wallets and images of melting polar ice caps filled our television screens. Today, three-quarters of Americans favor new policies aimed at reducing global warming and developing “clean” energy sources, hybrid cars are hot sellers, and President Obama has made the “green collar” economy a key part of his domestic agenda.

States and their colleges and universities face a similar inconvenient truth. Our approach to financing public higher education no longer works. We have become stuck in a series of boom-bust funding cycles that have our campuses and systems constantly lurching between surplus and deficit. In the boom years, institutions are encouraged to binge spend, adding faculty, programs and facilities that will maintain or advance their standing in the prestige rankings. When the bust inevitably arrives, the typical response is a combination of across-the-board budget slashing that starves programs and double-digit tuition increases that leave students and families holding the bag.

This financial rollercoaster is proving harmful to institutions and their students. For colleges and universities, the scramble for revenue has increasingly led them to private, restricted funding sources, pulling emphasis away from the core educational program. Rapid swings between boom and bust mean that for most institutions, true strategic planning has become an exercise in futility. For students, the burden of financing college has grown much heavier over the last decade, affecting whether they attend, where they attend, and how quickly—or whether—they finish.

We cannot afford to have a dysfunctional system of paying for public higher education at this point in history. Our best-educated generation, 78 million strong, is nearing retirement age, and estimates suggest that we are not producing enough college graduates to take their place. The fastest growing student groups are the same ones that have faced the greatest hurdles in getting to and through college—low income, first generation, working adults, students of color—and state colleges and universities will be expected to serve them. An aging population and aging infrastructure will place greater demands on already limited public funds.

Additionally, public confidence in higher education is slipping, and money is a big part of the problem. According to Public Agenda, nearly two-thirds of Americans believe that qualified students are being denied the opportunity to go to college because of cost. A majority say that colleges...
and universities are focused more on the bottom line than on providing a quality educational experience for students, and half question whether increased institutional spending has led to more learning. Perhaps most significantly, just under half those surveyed favor a major overhaul of their state's public university system.

The unfolding state budget crisis presents a window of opportunity for policy change and innovation. The severity of this downturn—arguably the worst in at least a generation—will force policymakers and higher education leaders to confront fundamental policy questions, as most states will not be able to tweak their way out of this mess. History suggests that some of the most ambitious and creative policy initiatives arise in response to crisis, as we witnessed in the creation of the GI Bill after World War II and the building of research infrastructure in the aftermath of Sputnik.

There are several actions that state policymakers and college and university leaders can take that will put our higher education system on a firmer footing to meet the demands we face with the resources we have:

1. **Reward institutions for graduating students, not just enrolling them.** Policymakers express great frustration at public colleges’ and universities’ retention and graduation rates, but fund these institutions in a way that provides little real emphasis on persistence or completion. Enrollment-based funding has been a success in that it has helped to significantly expand access, but we have reached a point where we must address student success as well.

   The Higher Education Funding Council for England (HEFCE) reached this conclusion several years ago. To increase participation and success rates, HEFCE created an allocation mechanism that provides per-student funding premiums to institutions that enroll students from economically disadvantaged areas, as well as premiums for student persistence toward degree completion. Several states—including Colorado, Indiana, Ohio, Tennessee and Texas—are following this lead, considering changes in their funding models that would allocate a portion of base funding according to retention and graduation or shifting the enrollment count for funding purposes from the beginning of the term to the end of the term.

2. **Target undergraduate tuition revenues to undergraduate programming.** Cross-subsidization is a fact of life in higher education. Surplus revenues from self-supporting programs are frequently shifted to programs that are not self-supporting. This is not necessarily a bad thing; for example, many courses and programs essential to a liberal education do not generate enough revenue to support themselves. But it is highly questionable, if not objectionable, that undergraduate students are shouldering double-digit tuition hikes and mounting piles of debt to finance often duplicative graduate and professional programs that are more about satisfying institutional aspirations than meeting vital state priorities.

   It is time for campus and system boards to end the shell game. First, there must be more transparency about how undergraduate tuition dollars are spent. Second, institutions should earmark a major portion of revenues from undergraduate tuition increases for improving undergraduate education.

3. **Focus on spending and results, not just revenues.** The prevailing conversation about money in higher
The Delta Cost Project has developed useful measures of revenues, spending and results; campus and system boards should use these metrics as part of their strategic planning and budgeting processes. There are encouraging signs on this front. For example, the Mississippi Institutions of Higher Learning (IHL) has changed its budget development process from simply using campus wish lists to using spending data organized by major function to help determine where funding is needed and where existing funds can be reallocated. IHL also conducts system-level reviews of spending on administration and support services to identify areas where these costs can be trimmed.

4. Create budget stabilization funds for higher education. Colleges and universities operate under a “raise all we can, spend all we raise” mentality that creates a host of perverse incentives. In flush years, there is a race to spend every state dollar, even on equipment and amenities that are not needed, to avoid the annual “give-back” to the state general fund. In lean years, there is a “slash and burn” approach that robs faculty and staff of professional development opportunities and leaves facilities in disrepair. This is not a recipe for long term institutional health.

States have a role to play in mitigating the institutional lurch between boom and bust. The first step is to create budget stabilization accounts, into which unexpended institutional funds and surplus state funds could be deposited. These funds would be restricted to activities such as buying down tuition increases, maintaining access, and protecting quality in the event of a reduction in base funds from the state.

5. Refocus student aid priorities. It is time to return to the basic principle that student financial aid is for those who need it most. Since the advent of the Pell Grant a generation ago, our financial aid system has grown incredibly complex, as have our priorities and purposes for awarding aid. In the rush to improve college preparation, enroll the best and brightest students and steer them toward specific majors, states and institutions are leaving a growing number of qualified and financially needy students to fend for themselves. For too many of these students, this means more debt, more hours on the job, and more of a risk that they will drop out before getting a degree.

States need to consider placing income caps on merit scholarships and evaluating the effectiveness of existing student aid programs. Under the leadership of Gov. Robert Ehrlich, Maryland did such an assessment and reallocated millions of dollars into need-based aid. Institutions need to curtail the use of institutional aid funds to stoke bidding wars over students who are not financially needy but will boost the college’s standing in the prestige rankings.

The situation is urgent. If we continue to deny the inconvenient truth about our failing finance system, we risk not having the graduates we need—which could result in a tidal wave of job losses to overseas competitors. We risk denying millions of Americans their shot at the middle class because they have been forced to trade down or trade out on their college aspirations. Perhaps most importantly, we risk losing the confidence and good will of the people who support our colleges and universities with their tax dollars. Once lost, that confidence will be tough to regain.

To be sure, public higher education’s money problem is about dollars and cents. But it is as much about focus and priorities, both of which have been in short supply in recent years. We can see a way forward, but as the environmental movement has taught us, know-how must be matched with leadership and will.

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