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## **Led by Colorado, States Weigh New Approaches to Financing Colleges**

By SARA HEBEL

As state budget deficits and other spending restrictions continue to squeeze higher education, lawmakers in several states are considering changes in financing that would make public colleges look more like private ones.

In Colorado and Virginia, the ideas involve a tradeoff: Public colleges would agree to take less state money in order to gain management flexibility, including the ability to raise tuition by greater amounts.

Colorado is debating a plan that would take most state aid that now goes to public colleges and give it directly to students, including those at private institutions that chose to participate.

In Virginia, the College of William and Mary, the University of Virginia, and Virginia Tech have proposed a plan in which they would receive a smaller percentage of new appropriations each year.

South Carolina's governor, Mark Sanford, a Republican, has offered a cleaner break. He has suggested that any of South Carolina's 33 public institutions be allowed to become private and get out from under state regulations altogether. So far, none have sought to take the governor up on his offer.

Washington State legislators this month endorsed a supplemental budget with a provision that would, for the first time, allow private colleges to compete with public ones to receive state funds for students enrolled in high-demand programs.

### **'A Necessary Reaction'**

"What we're seeing across the states is a necessary reaction to diminished resources and increased expectations on higher education," says Kristin Conklin, a senior policy analyst with the National Governors Association. "The challenge is just too great for states not to try some new approaches to increasing productivity and increasing efficiency."

Lawmakers and college officials, she says, are beginning to realize that state budgets simply are no longer adequate to pay for the current models of public higher education. In response, some states may turn to tried-and-true solutions, like capping enrollment or closing campuses.

But others are seeking ways to use scarce state funds differently, Ms. Conklin says, by introducing more competition among institutions, encouraging more collaboration among public and private colleges, and reducing regulations on colleges so they can plan spending more effectively.

In Washington, Gov. Gary Locke, a Democrat, was undecided as of late last week whether he would sign the budget that included the provision to make private institutions eligible for some state aid.

Supporters of the proposal argue that the state needs to take advantage of as many resources as possible

to expand academic opportunities for students, especially those in high-demand career programs, such as nursing and special education. Public two-year and four-year institutions serve 18,000 more full-time students than the state provides money to support, state officials say, while private colleges in the state have said that they can take on more students.

But some public-college officials have voiced concern about allowing private institutions to benefit from taxpayer dollars when there is not enough state aid to meet the needs of public higher education.

"We're expanding the pool of institutions competing for a limited amount of money that already is not enough," says Larry Ganders, assistant to the president of Washington State University.

One of the most sweeping changes in higher-education financing could be enacted this year in Colorado. Under legislation before the General Assembly, the state would set up a College Opportunity Fund in July 2005.

Each fiscal year, lawmakers would allocate money to that fund to be used for stipends to Colorado residents who attend undergraduate programs at institutions in the state.

All residents who attend a Colorado public college would be eligible for the full stipend, an estimated \$2,500 at first. Residents who demonstrated financial need and attended private colleges in the state would be eligible to receive half the amount provided to public-college students.

To participate in the program, private institutions would have to agree to meet performance goals, like improving graduation and retention rates, which they would negotiate with the state's higher-education coordinating board.

The legislation would allow public colleges to negotiate contracts with the state to receive additional aid to help pay for some activities, like rural education and graduate- and professional-degree programs.

What's more, the bill would allow Colorado's public institutions to free themselves from the state's strict limits on spending and revenue and to issue their own bonds.

In exchange, though, public colleges, like the private ones, would have to agree with the coordinating board on performance contracts that would set specific goals. The public institutions also would be allowed to raise tuition above the levels currently allowed, although the legislature would have the authority to approve or deny proposed rate changes.

### **Broad Support**

Colorado's governor, Bill Owens, a Republican, backs the bill, as do many college officials and lawmakers. The educators like the operating flexibility they would receive. And many state officials find the plan appealing because it would help Colorado deal with a tight budget while establishing performance agreements for colleges to follow. Other advocates hold out hope that the new plan also might help encourage more people to attend college because the state could tell students that Colorado was setting aside money for each of them to use.

Last year lawmakers rejected legislation that would have given state money to students rather than to institutions. This year supporters say momentum for the idea is building as the budget picture for Colorado colleges becomes increasingly dire.

Elizabeth Hoffman, president of the University of Colorado System, told lawmakers this month that

state budget restrictions were threatening her institutions' viability.

A study by the university released in December showed that the state could run out of money for higher education by the 2009 fiscal year if Colorado's economy continued to grow as slowly as it has. If the growth rate does not improve, the state would have to keep reducing the proportion of funds it gives higher education to be able to cover the rising costs of public elementary and secondary schools, health and human services, and prisons.

The increases in those expenses already have contributed to diminished appropriations for public colleges. In 2004 about 10.5 percent of the state's general funds went to higher education, down from 20.3 percent in 1990, the study said.

"We are faced with the end to public higher education in Colorado," Ms. Hoffman testified before a State Senate committee that was considering the college-financing legislation that would send appropriations to students. "This bill is not the answer to the funding crisis in Colorado, but it is the first step toward dealing with the decisions that must be made to survive in our current difficult economy."

The budget crunch follows largely from fiscal restrictions approved by voters. Among those is the Taxpayers Bill of Rights, which limits growth in state revenues (including tuition and fees at public colleges) to the rate of population growth plus inflation, and Amendment 23, which requires state funds for public elementary and secondary schools to increase each year by a set proportion.

The state's slowing economy exacerbates the restrictions on funds. The legislature's Joint Budget Committee has said that lawmakers may have to cut \$170-million more out of higher education in this fiscal year. At the same time, the revenue limits will prevent tuition from rising more than 1.1 percent.

### **A Drain on Funds**

Opponents of the financing overhaul argue that the legislation would only make matters worse for higher education in the state.

State Sen. Ron Tupa, a Democrat, says the policy would drain even more money from public institutions by allowing private colleges to share in a pot that is now divvied up only among public colleges. The plan, he adds, would not guarantee any increase in the overall amount of money available to higher education.

Instead, Mr. Tupa wants lawmakers to focus on putting a measure on the ballot this fall that would ask voters to overturn some of the state's constitutional spending limits.

The proposed changes in financing higher education, he says, would make it harder to persuade voters to throw out the budget restrictions. "That legislation would help mask the true problems we have," he says.

Ms. Hoffman and other advocates of the legislation, though, argue that colleges need immediate relief. Even though they generally agree that changing the constitution is a better long-term solution to colleges' financial struggles, they fear that whole process may take too long.

In addition, some supporters of the bill say that sending state aid to students could serve to protect funds for higher education. Lawmakers, they say, might find it harder to cut money going to students in their districts than to reduce funds sent directly to institutions.

"This is not the perfect solution to our budget problems, but it would help dramatically," says State Rep. Keith C. King, a Republican who is majority leader in the House of Representatives. He introduced the financing-reform legislation.

"This puts a face on how bad we're gutting higher education in this state."

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