



## Reforming Higher Education in the Lone Star State *Putting Students First in Texas' Colleges and Universities*

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*The first in a series of papers on higher education to be published in Spring 2007.*

**G**rowing enrollment and increasing costs for higher education have policymakers in Texas and around the country looking for ways to both contain costs and meet the growing demand for the college diploma. In order to consider how well prepared the state will be to meet these increasing future demands, it is critical to evaluate the state of higher education today and make the necessary reforms to ensure the students of the future have a strong academic environment to prepare them for the challenges in both the United States and the global economy after graduation.

Taking a candid look at today's institutions of higher education in general and their capacity to meet the demands of the future requires examining some of the persistent myths that surround higher education. Ultimately, the only way the state will ensure student access and affordability of higher education is to start putting students first. This can be achieved by reforming the state's system of higher education now governed by politics and tradition, and replacing it with a competitive environment where students demand accountability, value, and performance.

### Higher Education in Texas: A Look at Enrollment

In Texas, higher education enrollment is expected to increase from roughly 1.17 million students in 2005 to 1.3 million students in 2015.<sup>1</sup> Of the projected 1.3 million students, the Texas Higher Education Coordinating Board (Coordinating Board) estimates that approximately 550,700 of them will be enrolled in public four-year universities, and another 645,200 in the two-year community colleges and technical schools throughout the state.<sup>2</sup> In order to achieve the

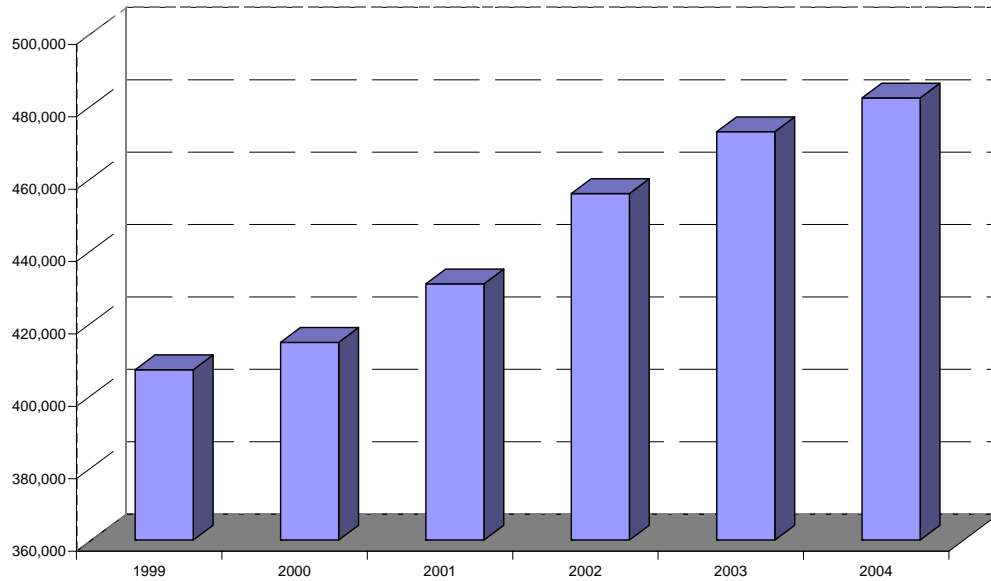
### Recommendations

- Shift state funding to higher education scholarships, grants, and loans that are means-tested and performance-based.
- Eliminate funding that expressly rewards or insulates universities from the impact of changing enrollment.
- Require colleges and universities to establish clear contracts with their consumers and the taxpayers.
- Encourage competition from non-traditional institutions and create accreditation alternatives based on demonstrated performance.
- Change existing incentive structures in higher education to reward excellent teachers.
- Appoint regents courageous enough to propose and implement real reforms that put students first.

goals established in the Coordinating Board's plan "Closing the Gaps by 2015," the state will need to enroll an additional half million students over 2000 enrollment levels, which the Coordinating Board reports it is on track to meet.<sup>3</sup> The Coordinating Board notes, however, that Hispanic growth is not keeping pace and the state will need to enroll an additional 100,000 Hispanic students by 2015 to meet all of the objectives established in "Closing the Gaps."<sup>4</sup>

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Figure 1: Student Enrollment in Texas' General Academic Institutions



Source: Legislative Budget Board, *Fiscal Size-Up, 2006-07*.

Enrollment in the state’s four-year colleges grew steadily over the last decade. As shown in **Figure 1**, from 1999 to 2004, the headcount in the state’s general academic institutions increased from 407,074 students to 482,124 students.<sup>5</sup> Almost every institution recognized growth in enrollment, with Texas A&M International and the University of Texas at Brownsville seeing the most significant growth of any other public, four-year institution of higher education from 1994-2004.<sup>6</sup> Over the same time period, four public institutions grew by more than 50 percent, six grew by 40-49.9 percent, four grew by 25-29.9 percent, 10 by 10-24.9 percent, and seven by 5-9.9 percent.<sup>7</sup> Only Stephen F. Austin State University, Angelo State University, and Sul Ross State University lost students over the same period.<sup>8</sup>

### Higher Education in Texas: A Look at Spending

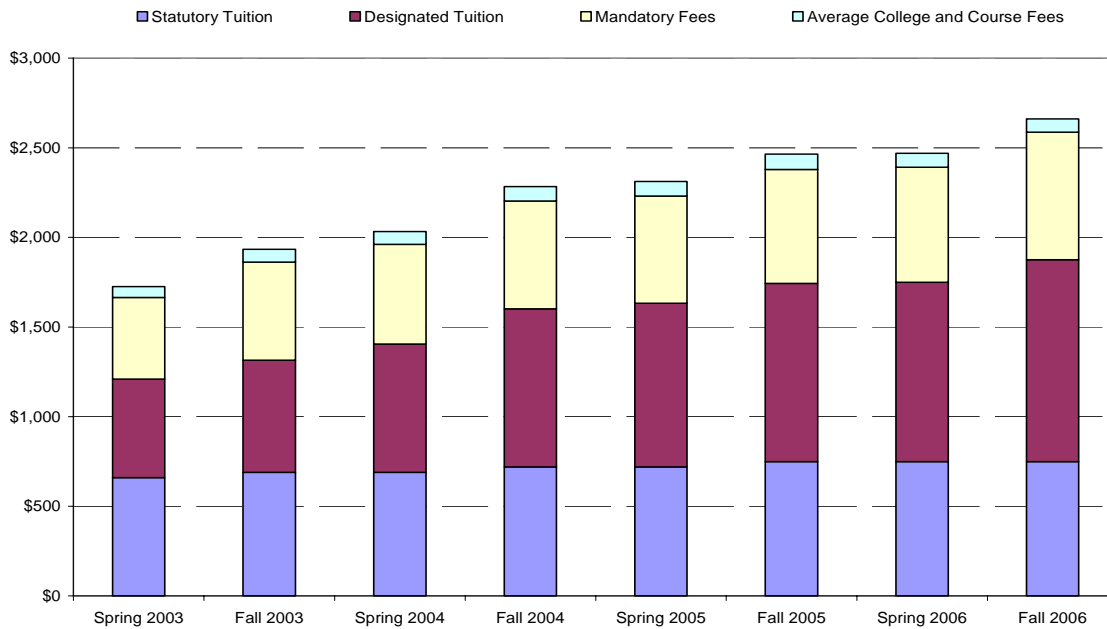
According to the Coordinating Board, funding for the state’s general academic institutions and the community and technical colleges are “distributed through funding formulas designed to allocate funds equitably.”<sup>9</sup> For the 2006-07 biennium, the 79<sup>th</sup> Texas Legislature appropriated roughly \$18 billion in All Funds to higher education, including almost

\$11 billion in General Revenue.<sup>10</sup> Unlike state agencies receiving a legislative appropriation, institutions of higher education receive a lump sum appropriation, which allows the institutions to transfer funding between budget strategies. Tellingly, the Legislative Budget Board explains that the information strategies in the budget “reflect how state funds are ‘earned,’ not how they must be spent.”<sup>11</sup> With some exceptions, institutions are limited from transferring funds between strategies when earmarked for debt service on tuition revenue bonds, and limited also from using appropriated funds for construction or other auxiliary purposes.<sup>12</sup>

Institutions are not limited to the funding they receive by formula, but have other funding streams appropriated by the Legislature. While the formulas are designed to “equitably” distribute funding, the institutions may also receive hold harmless funding when enrollment drops or when the student mix changes, such that there are declines in upper division or graduate students, for whom the formulas pay more.

In addition, all four-year institutions receive special items funding, which totaled \$183.4 million in General Revenue in 2006-07.<sup>13</sup> According to the Legisla-

Figure 2: Total Academic Charges by Item Spring 2003-Fall 2006



Source: Higher Education Coordinating Board, Tuition and Fees Data

tive Budget Board, special items funds are direct appropriations “to allow each institution to address its unique needs.”<sup>14</sup> Among the items funded through special items funding in the General Appropriations Act are the El Paso Centennial Museum at the University of Texas at El Paso, receiving approximately \$126,000 over the biennium; approximately \$86,000 for World War II Latino Oral Histories at the University of Texas at Austin; roughly \$4 million for the Institute of Texan Cultures at the University of Texas at San Antonio; as well as countless small business development projects, leadership and public policy projects, economic development projects, and border initiatives. For comparison, there are only four institutions whose allocation under the General Revenue funding formula exceeds the total amount of General Revenue appropriated for special items funding: the University of Texas at Austin, Texas A&M University, the University of Houston, and Texas Tech University.<sup>15</sup>

As a result of these arrangements, the institutions of higher education enjoy unparalleled flexibility in using their state appropriation. Arguably, however, the lump sum arrangement makes institutions less accountable to budget writers and policymakers.

### Higher Education in Texas: A Look at Tuition and Fees

Unquestionably, higher education in Texas is getting more expensive. From Fall 2003 to Fall 2006, total academic charges increased an average of 37 percent statewide.<sup>16</sup> Jumping from \$1,934 in Fall 2003 to \$2,661 in Fall 2006, the most significant portion of the increase came in climbing designated tuition costs, which were deregulated in 2003 by the 78<sup>th</sup> Texas Legislature when institutions petitioned for greater flexibility in setting tuition without the control of the Legislature. Over this time, statutory tuition grew by 9 percent, mandatory fees grew by 32 percent, and designated tuition grew by 79 percent.<sup>17</sup>

Figure 2 illustrates the statewide average of academic charges each semester from Spring 2003 to Fall 2006. The University of Texas at Austin and Texas A&M University, the state’s two flagship institutions, both exceed the statewide averages increasing from \$2,721 in Fall 2003 to \$3,992 in Fall 2006, and \$2,357 in Fall 2003 to \$3,504 in Fall 2006, respectively.<sup>18</sup>

## Why Reform Higher Education?

In the recently published *How College Affects Students*, its authors offer two assessments on the past and present of higher education, as well as a charge for the future. In looking at the past they observed that there exists “an educational model that put delivery of instruction, not student learning, at the center of the enterprise dominated American higher education.”<sup>19</sup> And in looking forward the authors argue that “at issue is whether colleges and universities of whatever mission, shape, or size will remain faithful to the one element common to their missions, to what defines them as institutions of higher education—the education of students.”<sup>20</sup> Texas might acknowledge the same: for too long the state’s system of higher education has been built around politics and tradition to support the institutions, while arguably giving little attention to the students. As such, it is no surprise that costs have skyrocketed as funding has focused on the “equitable” allocation of resources to institutions, and that mounting frustration with higher education and its’ product drive lawmakers and opinion leaders to favor top-down approaches to measure activity and performance. Indeed, it is often the institutions and the enterprise of higher education that stand at the center of higher education discussions, rather than the students. Why should higher education put students first, and how can such a seismic shift in policy be achieved?

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Why should higher education put students first? Today, Texas faces a growing population and enrollment pressure in higher education, with students coming from increasingly diverse economic, cultural, and academic backgrounds. Texas needs a well trained workforce. It needs citizens who embrace democratic values, make good moral choices, and are prepared for rewarding careers. Innovation is the key to building a strong state economy, which includes innovation in higher education.

Unfortunately, the higher education system in Texas does not seem up to the task. For decades the state has shielded its colleges and universities from the competitive forces that have made Texas one of the leading states in the most powerful nation on earth. We have allowed our colleges and universities to become insular, outdated and confused about their mission. As a result, they have become ineffective and too expensive.

If lawmakers want to ensure students’ access to affordable higher education, they must begin to eliminate the institution-based subsidies that drive higher education costs up, while insulating the institutions from the competition and innovation the state must demand.

How can the state put students first in higher education? **First and most importantly, the state must shift its funding structure to support students, not institutions.** The majority of state higher education funding should go to students in the form of individual, means-tested and performance-based grants. In recent years, Texas has added to existing higher education funding by providing various grants or loan forgiveness arrangements to students who graduate timely, who agree to work in certain underserved areas, as well as those who maintain a certain grade-point average. However, the vast majority of higher education funding flows directly to institutions to meet institutional demands.

The state’s appropriation serves as a direct subsidy to the institutions, which can create significant and detrimental distortions in the marketplace for higher education. If the state instead took some or all of the funds it currently allocates directly to universities through the lump sum appropriation, the institutions would, at the very least, be introduced to real competition with a new focus and drive to satisfy their student consumers. As it is, the funding formulas in higher education, along with the hold harmless funding and special items funding, send cash to the universities through a political process that has proven unable to induce real competition and attach value to each student.

There is no doubt that the subsidy itself can have a distorting impact on the marketplace.

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Short of doing away with the subsidies altogether, the Legislature should put the highest priority in higher education reform in shifting away from the “lump sum” appropriation currently used in the appropriations process, and attaching funds to the individual students instead.

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As Dr. Richard Vedder, an economist and scholar at the American Enterprise Institute and author of *Going Broke By Degree: Why College Costs Too Much*, points out, the presence of a third-party payment subsidy has an inherently distorting result:

When the federal government increases subsidized student loans, gives a Pell Grant, or grants a tuition tax credit, it increases the number of students wishing to attend college at any given tuition fee. Indeed, that is the idea—the federal government wants to provide access to persons who might not otherwise go to college for financial reasons. In short, federal policies increase the demand for education relative to the supply, which pushes prices or tuition fees up.<sup>21</sup>

In fact, these third party payments—even in the form of a subsidy to the student—come with their own unintended consequences,<sup>i</sup> but the result of subsidizing the student rather than the institution promotes competition in ways the current institution-based funding formulas cannot. Short of doing away with the subsidies altogether, the Legislature should put the highest priority in higher education reform in shifting away from the “lump sum” appropriation currently used in the appropriations process, and attaching funds to the individual students instead.

**Second, when students have purchasing power in selecting institutions of higher education, the institutions will seek to meet the students’ needs by competing with other institutions accordingly.**

Again Dr. Vedder explains the benefits of higher education competition in his testimony to the U.S. House Committee on Education and the Workforce:

In the private for-profit sector, when the prices for products rise with increased demand, profit margins widen and this unleashes a torrent of entrepreneurial activity, as firms scramble to get a share of the highly profitable market. The rise in demand induces an increase in supply, which ultimately leads to prices and profits falling to a more normal level. This has not happened in higher education. While it is true that institutions are competitive with one another, they do not vigorously compete on price, as they do not have the profit incentives to induce them to alter their behavior in response to changing market conditions. Do you see colleges advertising that they are 10 percent cheaper than their peer schools? Or that they are leaving their tuition fees constant while their rivals are raising them? It is rare indeed.<sup>22</sup>

In addition, students will have varying needs for higher education. A majority of current college students are adult learners. A minority of college students are white, middle class, 18-year olds living on campus, and the percentage continues to decline each year. The college student of tomorrow is more likely to be older, not Caucasian, and working part-time.<sup>23</sup> These students will look for a different higher education experience, which should be available to them as competition increases.

**As a result of funding students, the students will demand accountability.** As Dr. Vedder points out in his testimony, schools have little interest or concern for being accountable to students when the students do not pay the bulk of the bill. As a consequence, all of the symptoms of the non-competitive higher education marketplace must be dealt with by top-down regulations, rather than allowing the demands of the students to act as a sufficient guide for accountability. Dr. Vedder points out that, “some states are trying to legislate or regulate university behavior. Examples include tuition price controls, mandated

<sup>i</sup> See Neal McCluskey’s, *Unintended Consequences, the Scourge of Texas Higher Ed*, also to be published by the Foundation in 2007.



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If institutions of higher education are too expensive, the marketplace will meet student demand for a lower-cost alternative. If institutions fail to provide students with the tenured teaching faculty they prefer, the student may take their business to another institution where such needs are met.

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minimum teaching loads, elimination of low enrollment doctoral programs, and prohibitions on some forms of conspicuous spending, such as substantial foreign travel by administrators.”<sup>24</sup> He observes that addressing these symptoms rarely works in the current situation, no doubt in large part because there is such limited accountability when the institutions do not feel the sting of dissatisfied customers like other producers in the marketplace. These institutions need consumers who vote with their feet: who leave when tuition gets too high, who leave when the quality of teaching is poor, and who leave when waste and abuse by the institution goes without remedy and drives up the cost of the education.

This lack of accountability is evidenced best in the way colleges and universities are run today: by the tenured faculty who see the “pursuit of knowledge” as their goal and themselves as the customer. Presidents and regents seldom take any action not sanctioned by the tenured faculty. Tenured faculty are recruited and rewarded based on their research, and teaching too often intrudes on the time otherwise spent on research. As a result, much of the teaching on university campuses has been handed over to poorly trained, non-tenure track faculty who are paid as little as \$1,000 per class.<sup>25</sup>

Vedder also notes this shift away from tenured faculty teaching, and highlights the growing administrative bureaucracies that have taken shape when students do not have the ultimate check on accountability. According to Vedder:

“...data provided by colleges and universities to the federal government reveal that there has been a significant shift in resources over the years from instructional purposes to


other things. Some of the other things include grant-funded research, which at least is largely self-supporting and in keeping with a traditional education mission, but some funding has gone for other things. In 1929, American universities spent about 8 cents of each dollar on administration, whereas today they spend 14 cents and it has been rising. The big personnel explosion in universities has not been in new faculty, but in non-teaching professionals, many of whom are bureaucrats who do little to improve learning but who must be paid--by tuition fees if not third party payments. In 1976, American universities had three non-teaching professionals for every 100 students; 25 years later, they had six.”<sup>26</sup>

**In addition, students will demand options from greater competition.** If institutions of higher education are too expensive, the marketplace will meet student demand for a lower-cost alternative. If institutions fail to provide students with the tenured teaching faculty they prefer, the student may take their business to another institution where such needs are met. Of course it is possible that some institutions might distinguish themselves as being research-driven rather than teaching institutions, which would be equally acceptable if students operating in a marketplace for higher education made the choice to attend those research-driven schools.

In the end, institutions will compete on quality and price, making higher education more accessible and affordable, and presenting alternatives to the current higher education cartels in most states, which lock-out non-traditional competitors. Yet, the state must refocus colleges and universities on the real customers, rather than appealing to a committee of legislators to send new cash to keep the lights on.

## Conclusions and Recommendations

The number one priority of higher education is to educate the next generation of Texans. In order to get there, the state must refocus Texas colleges and universities on the real consumers, accommodating the educational choices and demands of students, parents, and employers, while restructuring higher education to be more effective and efficient in responsibly managing the taxpayers’ money by:

- Shifting state funding to higher education scholarships, grants, and loans that are means-tested and performance-based with embedded incentives to graduate on time with the right skills and knowledge.
- Eliminating funding that expressly rewards or insulates universities from the impact of changing enrollment (hold harmless funding), or rewards narrow interests and constituencies of colleges and universities (special items) without requiring those institutions to provide demonstrated support for those items. Shift such funding to individual student grants.
- Requiring colleges and universities to establish clear contracts with their consumers and with taxpayers, providing information to compare performance across institutions and hold institutions accountable for meeting their promises.
- Encouraging competition from non-traditional institutions and creating accreditation alternatives based on demonstrated performance, in an effort to remove barriers to competition that will emerge from student demand.
- Changing existing incentive structures in higher education to reward excellent teachers.
- Appointing regents courageous enough to propose and implement real reforms that put students first. 

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*This paper is the first in a series of publications the Foundation will release on reforming higher education in Texas. The new Center for Higher Education Policy and its publications will lay out a new vision for higher education, calling for legislative and executive action in reform, and aiming at reforming the governance structure of the state's institutions of higher education. Future publications will explore placing students as the customers in higher education, the role of academic research, the responsibility of regents, and the benefits of competition from for-profit education.*

## Endnotes

<sup>1</sup>Texas Higher Education Coordinating Board, "Participation Forecast 2005-2015," January 2005, accessed 27 Dec 2006, <http://www.theccb.state.tx.us/Reports/PDF/0810.PDF>.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid.

<sup>4</sup>Ibid.

<sup>5</sup>Texas Legislative Budget Board, "Fiscal Size-Up 2006-07," 202, accessed 27 Dec 2006 [http://www.lbb.state.tx.us/Fiscal\\_Size-up/Fiscal\\_Size-up\\_2006-2007\\_0106.pdf](http://www.lbb.state.tx.us/Fiscal_Size-up/Fiscal_Size-up_2006-2007_0106.pdf).

<sup>6</sup>Ibid.

<sup>7</sup>Ibid.

<sup>8</sup>Ibid.

<sup>9</sup>The Higher Education Coordinating Board, "Texas Public General Academic Institutions Funding Formula Recommendations for the 2008-09 Biennium" and "Texas Public and Community Colleges Funding Formulas Recommendations for the 2008-09 Biennium," 1, April 2006, accessed 28 Dec 2006, <http://www.theccb.state.tx.us/Reports/PDF/1192.PDF>.

<sup>10</sup>Texas Legislative Budget Board, "Fiscal Size-Up 2006-07," 194, accessed 27 Dec 2006, [http://www.lbb.state.tx.us/Fiscal\\_Size-up/Fiscal\\_Size-up\\_2006-2007\\_0106.pdf](http://www.lbb.state.tx.us/Fiscal_Size-up/Fiscal_Size-up_2006-2007_0106.pdf).

<sup>11</sup>Texas Legislative Budget Board, "Financing Higher Education in Texas, Legislative Primer," January 2005, 3, accessed 27 Dec 2006, [http://www.lbb.state.tx.us/Higher\\_Education/HigherEd\\_FinancingPrimer\\_2ndEd\\_0105.pdf](http://www.lbb.state.tx.us/Higher_Education/HigherEd_FinancingPrimer_2ndEd_0105.pdf).

<sup>12</sup>Ibid.

<sup>13</sup>Texas Legislative Budget Board, "Fiscal Size-Up 2006-07," 206, accessed 27 Dec 2006 [http://www.lbb.state.tx.us/Fiscal\\_Size-up/Fiscal\\_Size-up\\_2006-2007\\_0106.pdf](http://www.lbb.state.tx.us/Fiscal_Size-up/Fiscal_Size-up_2006-2007_0106.pdf).

<sup>14</sup>Ibid.

<sup>15</sup>Ibid, "Table 99: General Academic General Revenue Funding Formula," 204.

<sup>16</sup>Texas Higher Education Coordinating Board, "Tuition and Fees Data," accessed 20 Jan 2007, <http://www.theccb.state.tx.us/Reports/PDF/1193.PDF>.

<sup>17</sup>Ibid.

<sup>18</sup>Ibid.

<sup>19</sup>Pascarella, Ernest et al, "How College Affects Students," 2005.

<sup>20</sup>Ibid.

<sup>21</sup>The American Enterprise Institute, Dr. Richard Vedder's testimony to the U.S. House Committee on Education and the Workforce, "Is Government Part of the Solution, or Part of the Problem?" April 19, 2005, accessed 20 Jan 2007, [http://www.aei.org/publications/pubID.22335,filter.all/pub\\_detail.asp](http://www.aei.org/publications/pubID.22335,filter.all/pub_detail.asp).

<sup>22</sup>Ibid.

<sup>23</sup>Gary A. Berg (2005) Lessons From the Edge, 4.

<sup>24</sup>The American Enterprise Institute, Dr. Richard Vedder's testimony to the U.S. House Committee on Education and the Workforce, "Is Government Part of the Solution, or Part of the Problem?" April 19, 2005, accessed 20 Jan 2007, [http://www.aei.org/publications/pubID.22335,filter.all/pub\\_detail.asp](http://www.aei.org/publications/pubID.22335,filter.all/pub_detail.asp).

<sup>25</sup>William Hayes, So You Want to Be a College Professor?, (2003) 133.

<sup>26</sup>The American Enterprise Institute, Dr. Richard Vedder's testimony to the U.S. House Committee on Education and the Workforce, "Is Government Part of the Solution, or Part of the Problem?" April 19, 2005, accessed 20 Jan 2007, [http://www.aei.org/publications/pubID.22335,filter.all/pub\\_detail.asp](http://www.aei.org/publications/pubID.22335,filter.all/pub_detail.asp).

