

GAO Report on State Funding has Potential Academic and Accreditation Implications

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2014 ended with the U.S. Government Accountability Office's (GAO) releasing two reports that are particularly relevant to Higher Education. One [report](#) highlighted state funding trends and policies related to affordability. The other report discussed the need to strengthen oversight of schools and accreditors (that report will be discussed in a future blog piece).

The first GAO report revealed that in real (inflation-adjusted) terms, state funding for public colleges and universities declined from 2003 through 2012. During the 2011-12 fiscal year, public colleges and universities accounted for just over two-thirds of college. In part, on account of that real decline in state funding, tuition eclipsed state funding as the top source of revenue for public institutions.

In discussing the public colleges' increasing reliance on tuition income, the report noted that out-of-pocket costs for students rose 19% from 2003-04 to 2011-12. Although the increase in average net tuition was greatest for students in the higher income quartiles (as would be expected given a needs-based component to grants and other aid), students from the lowest-income quartile saw net tuition as a share of family income experience the largest increase.

For illustrative purposes, assume the highest quartile had a family income of \$90,000 but the lowest quartile had a figure of \$30,000 (both of which remained constant for purposes of this simple example). Assume that net tuition rose \$1,500 for the highest quartile student and \$900 for the lowest quartile student. As a percentage of family income, the highest quartile student experienced a 1.7% increase in net income. For the lowest quartile student, the increase in net tuition amounted to 3.0% of family income. The actual comparative increase was even larger.

The GAO revealed:

Students and their families are now bearing the cost of college as a larger portion of their total family budgets. Across all students, the ratio of net tuition to annual income has increased about one and a half times from the 2003-2004 school year to the 2011-2012 school year, and was greater for students in the lowest income quartile than those in the highest quartile. Specifically, the ratio of net tuition to annual income was about four times higher for students in the lowest income quartile when compared to those in the highest quartile.

The report also notes that state financial and time-to-degree policies aimed at addressing affordability issues have had mixed or unclear effects. Furthermore, rising net tuition resulted in students buying "fewer or cheaper textbooks" and decreased enrollment. Grant aid was associated with increased enrollment (as it reduced net tuition) and increased persistence, but such aid has not been sufficient to preclude a rise in net tuition in the context of declining real state financing for higher education.

Therefore, the funding trends have implications for enrollment, persistence, and student preparation (e.g., the purchase of textbooks). If such a trend persists or intensifies over the

longer-term, it could also result in a wide range of outcomes including, but not limited to, consolidation of services, programs, or schools within public systems; privatization of schools (with flagships having the greatest strategic flexibility); closure of schools; and increased outsourcing of academic and non-academic activities to third party providers.

Finally, the funding trend documented by the GAO has potential accreditation and assessment implications. The most relevant Middle States Standards deal with planning (Standard 2), institutional resources (Standard 3), and institutional assessment (Standard 7). In the new standards, planning, resources, and institutional improvement (Standard VI) will have greatest relevance. Citations for Standard 3 have been increasing in requests for follow-up reports from periodic review reports and self-study reports recent years.

Standard 3 Citations as a Percentage of Follow-Up Requests

Report	2014	Last 3 Years	Last 5 Years
Self-Study Report	44%	36%	33%
Periodic Review Report	32%	23%	22%
Total	39%	30%	28%

State funding developments could further enhance this accreditation scrutiny. Therefore, public colleges and universities will increasingly need to factor in the implications of state funding trends, state fiscal responsiveness to economic cycles, and state prioritization of competing policy options, in their overall planning and accreditation risk assessment. Both coherent revenue growth strategies and improved funding models for expenditures will be critical in helping such institutions continue to meet their accreditation requirements, as well as their broader strategic goals.