

SENATE BILL REPORT

SB 5883

As Reported by Senate Committee On:
Ways & Means, April 4, 2013

Title: An act relating to higher education funding.

Brief Description: Providing for more equitable funding of public higher education.

Sponsors: Senators Baumgartner, Bailey, Ericksen, Braun, Benton, Tom, Holmquist Newbry, Schoesler, Brown, Hill, Roach and Hewitt.

Brief History:

Committee Activity: Ways & Means: 4/03/13, 4/04/13 [DPS, DNP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5883 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Baumgartner, Vice Chair; Honeyford, Capital Budget Chair; Bailey, Braun, Dammeier, Hewitt, Padden, Parlette, Rivers, Schoesler and Tom.

Minority Report: Do not pass.

Signed by Senators Hargrove, Ranking Member; Nelson, Assistant Ranking Member; Conway, Fraser, Hasegawa, Hatfield, Kohl-Welles and Murray.

Minority Report: That it be referred without recommendation.

Signed by Senators Becker, Keiser and Ranker.

Staff: Maria Hovde (786-7710)

Background: Higher Education Funding. In 1993, the Legislature enacted E2SSB 5781, that expressed a policy of the state that there be an essential requirements level budget calculation for institutions of higher education that includes a funding level per full-time equivalent student which is equal to the rate assumed in the Omnibus Appropriations Act for the last fiscal year of the previous biennium for the instructional, primary support, and library programs, excluding any one-time expenditures, plus an inflation factor. Today, the core academic functions of higher education are largely funded with incremental adjustments to state appropriations and tuition. For the 2011-13 biennium, a total of \$2.7 billion in state funds was appropriated for higher education.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Tuition Policy. In 2011, via E2SHB 1795, the Legislature granted tuition-setting authority to the four-year institutions of higher education for all students, through the 2018-19 academic year. Beginning in the 2015-16 through 2018-19 academic years, the institutions are granted tuition-setting authority, within limits, based on a state funding baseline year and funding for similar higher education institutions in the Global Challenge States. In the 2019-20 academic year, tuition-setting authority for resident students at public baccalaureate institutions reverts to the Legislature. Tuition for community and technical college students is set by the Legislature in the operating budget, although the State Board for Community and Technical Colleges (SBCTC) may authorize differential tuition models, except during the 2011-13 biennium. In the 2012 supplemental operating budget, the Legislature directed that tuition be uniform for resident undergraduate students at the four-year institutions through the 2011-13 biennium.

Accountability and Performance. In 2011, via E2SHB 1795, the Legislature created an accountability monitoring and reporting system for four-year institutions of higher education with which to measure progress toward the achievement of long-term performance goals in higher education. The four-year institutions must report each December 1 on performance data that aligns with the National Governor's Association *Complete to Compete* metrics with additions that include the following: graduate and professional degrees; science, technology, engineering, and mathematics participation; student debt load; and disaggregation of measures based on various student demographics, including socio-economic status and income level, among others. This information must be displayed on the Office of Financial Management (OFM) website. Additionally, by September 1 of each odd-numbered year, each four-year institution must develop a performance plan with OFM that includes expected outcomes that must be achieved by each institution in the subsequent biennium.

Student Achievement Initiative. In 2006, SBCTC implemented the Student Achievement Initiative to provide incentives through financial rewards to colleges for increasing the levels of achievement attained by their students. The Student Achievement Initiative includes four categories of measures: building toward college-level skills; first-year retention; completing college-level math; and degree, certificate, and apprenticeship training completions.

Summary of Bill (Recommended Substitute): Baseline Funding. Beginning with fiscal year 2014, public institutions of higher education must receive a baseline level of funding that is equal to the maintenance-level appropriations in the Omnibus Appropriations Act for the 2013-15 biennium expressed as a per-resident student rate that is based on a three-year average of the number of actual full-time equivalent enrolled resident students for the current academic year and the two previous academic years, as reported in the state-funded public higher education enrollment reports produced by OFM. The per-resident student rates must increase each fiscal year by the rate of inflation.

The per-resident student rates in existence at the time when specific appropriations are made for creation or expansion of new or existing programs of study must be adjusted in the following fiscal year to reflect this additional level of funding.

State universities, the regional universities, The Evergreen State College (TESC), and the SBCTC are legally entitled to receive this baseline level of funding.

Language regarding the essential requirements level budget calculation for institutions of higher education is repealed.

Accountability and Performance. Beginning with fiscal year 2014, any state higher education funds that remain after satisfying the baseline funding levels, or any increases in state funding for the public institutions of higher education, must be distributed to the institutions based on performance. The funds available for performance must be proportionately distributed among SBCTC and the public, four-year sector of higher education. For SBCTC, performance funding must be disbursed to the community and technical colleges in accordance with the Student Achievement Initiative. For the four-year institutions, performance funding must be disbursed to the institutions that satisfied the reporting requirements of the accountability monitoring and reporting system and disbursement must be as specified in the Omnibus Appropriations Act based on a three-year average of performance, or in recognition of the highest-performing institution, in the following metrics:

- average time to degree for undergraduate students;
- number of undergraduate high-demand degrees produced;
- freshman retention;
- low-income population; and
- space utilization.

Space utilization is added as a metric to be reported by the four-year institutions to OFM for inclusion in the accountability monitoring and reporting system. Institutions must report the average number of hours per week each classroom seat and classroom lab is utilized.

The requirement to develop performance plans is repealed.

Tuition Policy. For the 2013-14 and 2014-15 academic years, resident undergraduate tuition at the four-year institutions and the community and technical colleges must be 3 percent below the resident undergraduate tuition fees for the 2012-13 academic year. For SBCTC, beginning in the 2015-16 academic year, increases in resident undergraduate tuition must not exceed inflation. For the four-year institutions of higher education, beginning in the 2015-16 academic year through the 2018-19 academic year, increases in resident undergraduate tuition must not exceed inflation.

If, in any fiscal year, baseline funding levels are not met for the public institutions of higher education, the governing boards of the four-year institutions and SBCTC may increase resident undergraduate tuition for the ensuing academic year by an amount not to exceed the amount necessary to achieve the baseline funding levels.

Language is removed that granted tuition-setting authority to the four-year institutions of higher education through 2018-19 within limits based on a state funding baseline year and funding for similar higher education institutions in the Global Challenge States.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): Modifies language to clarify that the state universities, the regional universities, TESC, and the SBCTC are legally entitled to receive the baseline levels of funding.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: Higher education is very important in this state because of the opportunities it provides for individuals. However, higher education has been negatively impacted by recent reductions in state funding which has produced a negative affect on students due to the increased tuition rates to make up for the loss of state funding. As a result, in order to protect funding for higher education moving forward, it is necessary to make higher education funding a statutory requirement, which is what this bill does. The 3 percent reduction in tuition that is proposed in the bill is needed to mitigate the impacts on students, particularly given the recent large increases in tuition and the impacts that has had on student debt. The bill also builds on previously enacted legislation and provides funding for performance in order to incentivize greater production of high-demand degrees.

CON: Establishing a predictable level of funding for higher education in statute is a step in the right direction, but not locking that baseline level in at the lowest level in over a decade. We already rank second to the lowest in the nation for levels of state funding to our institutions. We need new funding added to the higher education system and this proposal locks us into a place where there is not new funding. Consideration needs to be given to including non-enrollment based funding. There are also concerns that the per-student rate may discourage enrolling resident students because those schools with higher numbers of resident students end up with lower per-student rates. The level of state funding provided in the budget is not sufficient to meet the costs of the institutions, particularly given the decrease in tuition, and essentially eliminating the flexibility of tuition-setting authority is a concern. Although we are supportive of efforts to keep higher education affordable for our students, given the limitations on state funding, decreasing tuition should be reconsidered. With the recent increases in enrollments, this proposal would produce less funding per-student in the 2013-15 biennium than is currently available. We are concerned that this bill will produce a depletion of resources available to the institutions, which will affect the quality of education delivery and the ability for students to progress through the system. Without additional funds we cannot produce the numbers of high-demand degrees that our state needs. Although we are supportive of moving to outcome-based funding, the model in the bill is overly simplistic and does not recognize institutional differentiation, which will not incentivize performance. We think that this proposal could better incentivize behavior if the metrics recognized the differences between the institutions and what they have to provide to the state and the economy. There are additional concerns with the performance funding in the bill being one-time funding and not becoming part of the base. Institutions cannot plan for permanent costs that improve our performance with one-time funds. State funding for higher education is at its lowest levels and permanent investments need to be made rather than predicated on the receipt of funding on specific outcomes.

OTHER: Reducing tuition rates and ensuring that future rates are more stable and predictable is important for students. The baseline levels of funding for the institutions are too low in this bill; however, it is positive that this bill encourages higher education funding to be more of a priority. We appreciate the recognition of SBCTC's Student Achievement Initiative and the funding the budget provides for this purpose. We appreciate the effort to guarantee a statutory funding level, although there are concerns that this is at the low end of historical per-student funding levels. Tuition flexibility is imperative for the health of higher education and there are concerns with the elimination of that flexibility in the bill.

Persons Testifying: PRO: Senator Michael Baumgartner, prime sponsor.

CON: Lonnie Todd, SEIU 925; Steve Dupont, Central WA University; Chris Mulick, WA State University (WSU); Marty Brown, SBCTC; Jim Fridley, University of Washington (UW) Faculty; Margaret Shepherd, UW; Julie Garver, TESC; David Buri, Eastern WA University; Sherry Burkey, Western WA University.

OTHER: Angie Weiss, Associated Students of UW; Tristan Hannon, Associated Students of WSU; George Allen, Seattle Metropolitan Chamber of Commerce; Marty Brown, SBCTC.