

State Perspectives on Equitable Postsecondary Funding

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Systemic [barriers](#) in K-12 and postsecondary education systems disproportionately impact students of color and students from low-income backgrounds in preparing for postsecondary education, transitioning from the K-12 system, and attaining a degree or credential. Disparities in postsecondary [enrollment](#), [retention](#) and [completion](#) indicate students of color do not have the same opportunities as other students to succeed at each step along the way. Since the beginning of the COVID-19 pandemic, these [existing inequities](#) in the system have been [exacerbated](#).

In light of the persistent and systemic inequities in postsecondary education, policymakers, institution leaders and advocates have [sought ways](#) to address inequitable student access, [postsecondary affordability](#) and student outcomes. Policymakers have been increasingly interested in exploring funding approaches meant to address inequities and support greater access and attainment. In recent years, they have focused on increasing state funding for financial aid programs to mitigate inequitable postsecondary affordability. As they consider new approaches, a few questions emerge:

- How do states define equity in postsecondary education?
- How do states define and approach equitable postsecondary funding?



States have varying definitions of equity, which has led to limited consensus on how to achieve equitable postsecondary education funding.

States have increasingly relied on alternative funding streams — like financial aid and one-time appropriations — to address inequities, instead of base-level operations funds.

While state budgetary constraints persist, states can distribute funds to institutions and systems to support students who face systemic barriers to attaining postsecondary degrees and credentials.

- How do state policymakers and stakeholders perceive the intersection of equity and postsecondary funding and seek equitable funding through state funding mechanisms and practices?

To understand how states approach these questions, Education Commission of the States examined statefunding approaches and interviewed postsecondary education policymakers, individuals from state postsecondary education agencies, system and institution leaders and related postsecondary association leaders in **Michigan, Oregon, Texas** and **Utah**. In addition to sharing the findings and considerations from the interviews, this Policy Brief provides an overview of how states define equity in postsecondary education and how states fund postsecondary education.

Key Term

The term **students of color** refers to individuals who identify as African American or Black, American Indian or Alaskan Native, Asian, Hispanic or Latine, Pacific Islander, or two or more races. For the purpose of brevity in this Policy Brief, Education Commission of the States does not list each of the racial/ethnic subcategories within each of these general groups.

Equity in Postsecondary Funding

Through policy and statements made by postsecondary governing or coordinating boards, states may have explicit goals, frameworks or definitions of equity. However, there can be a disconnect when translating state's equity goals and definitions into equitable approaches to funding. The following two sections present how states have defined equity in general, which is distinct from the differing perspectives within states regarding equitable funding approaches.

What Is Equity Within Postsecondary Education?

When evaluating state policies that address postsecondary inequities, it is important to understand how states define equity in postsecondary education. However, state definitions can vary significantly. For instance, the **Oregon** Higher Education Coordinating Commission released an [equity vision statement](#) that identifies historically underserved communities and students subject to inequitable access and success in postsecondary education. While many of the same student populations are identified in **Utah's** [equity lens framework](#), the state is developing metrics to evaluate existing inequities and address them through its strategic plan.

While some states have clear visions and frameworks, interviews with state postsecondary policymakers and leaders revealed some variation in metrics used to evaluate structural inequities. States often considered student access, enrollment, persistence, affordability and attainment as metrics to measure equity to varying degrees to evaluate structural inequities. Conversely, there was more agreement among policymakers and stakeholders as to which student populations are the focus of any equity-based policy, such as students from low-income households, students of color and students with disabilities. However, the field and states continue to define equity within postsecondary education differently.

Conceptualizing Equitable Postsecondary Funding

Beyond the general concept of postsecondary equity, state policymakers, institution leaders and [researchers](#) have also explored [equitable funding](#) approaches. This interest reflects broader equity goals among states and institutions to successfully matriculate students through the postsecondary system, recognizing that some institutions may [require more resources](#) than others to help students accomplish these goals.

Through [research](#) related to [postsecondary](#) funding and interviews with state policymakers and leaders, Education Commission of the States noted two general perspectives of funding equity. The classifications below express contrasting perspectives within states. They are not to serve as an evaluative framework for equitable postsecondary funding but rather as two perspectives observed among state leaders. Indeed, these definitions are not mutually exclusive from one another.

- **Student-centered equity:** States provide funding to institutions based on student inputs and outputs such as enrollment, persistence, completion and labor market outcomes. States employing formula funding may provide more funding for specific student populations, such as students from low-income backgrounds — typically measured by their Pell Grant eligibility. Similarly, states with outcomes-based funding may provide increased institutional funding for the number of students of color graduating with degrees in [high demand fields](#).
- **Institution-centered equity:** States provide funding to address existing disparities in aggregate and per-student funding amounts among postsecondary systems and institutions. In recognition that certain institutions and sectors may enroll more students from low-income communities, students of color and students with disabilities, states may focus on how much funding these institutions receive compared to better-resourced peer institutions.

While visions and frameworks exist among state leaders, states work within the limited consensus on definitions of equity and what it means to equitably fund education that exists between them.

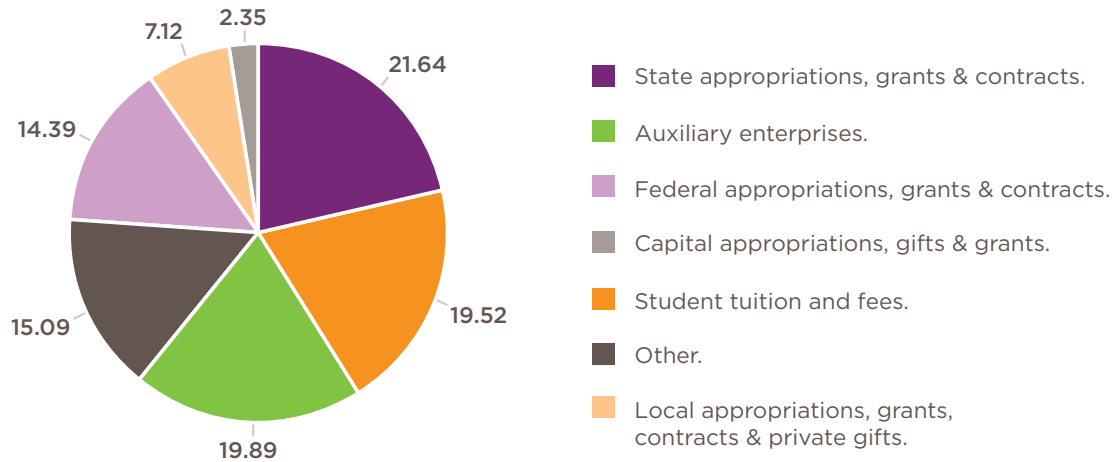
How States Fund Postsecondary Education

Before exploring perspectives on how a few states are moving toward equitable funding approaches, it is important to understand the basics of postsecondary funding. The next section starts with a high-level overview of postsecondary revenue sources. Then, state policy levers to fund postsecondary institutions and systems are highlighted.

Postsecondary Education Revenues

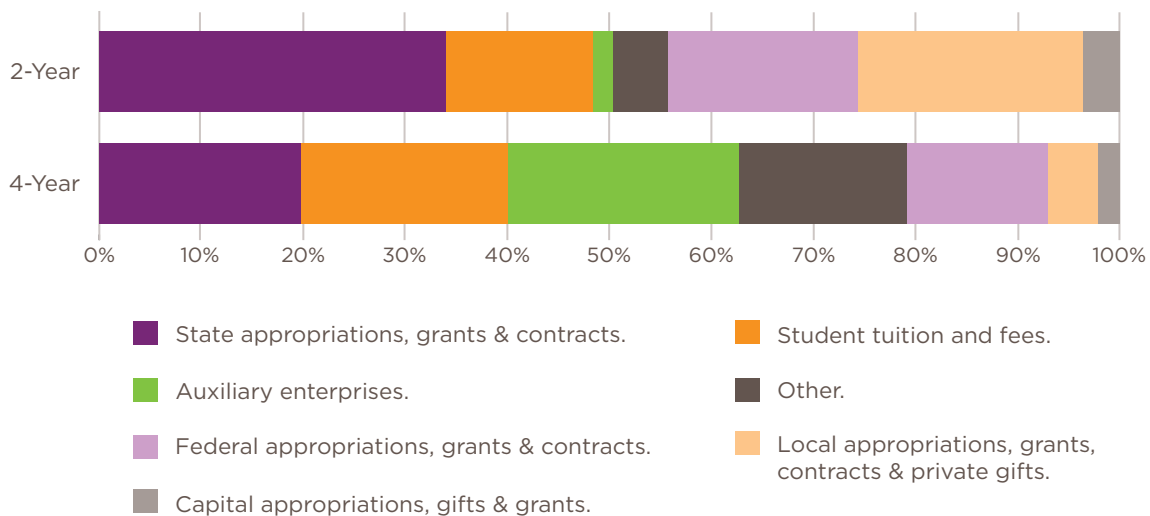
While postsecondary institutions have various revenue sources, state funding remains a significant portion of the overall revenue. According to [National Center for Education Statistics](#)' data from the 2019-20 academic year, state funding sources account for 21.6% of total revenue. Student tuition and fees — [influenced](#) by state funding and [policy](#) — are also important to institutions' bottom line relative to other revenue sources.

Percentage Distribution of Total Revenues for Postsecondary Institutions: 2019-20



Aside from appropriations, one increasingly important state revenue source for postsecondary institutions is financial aid programs. Since 2007-08, state financial aid has grown from roughly 2% of total revenue to nearly 4% in 2019-20. State financial aid programs now comprise 9.9% as a percentage of state revenues.

Percentage Distribution of Total Revenues for Postsecondary Institutions, by Sector: 2019-20



However, looking at revenue sources by percentage is deceiving, as two-year institutions appear to receive more from state revenue sources than four-year institutions. When looking at the amount of state revenue that two- and four-year institutions receive, a significant inequity emerges. This inequity can be seen in funding amounts per full-time equivalent (FTE) student. According to NCES data, [states allocate on average](#) \$10,157 per FTE student to four-year institutions, whereas two-year institutions receive \$6,342 per FTE student. Including revenue derived from student tuition and fees, two-year institutions generate an additional \$2,699 per FTE student, while four-year institutions earn an additional \$10,400 per FTE student. Importantly, two-year institutions also derive \$4,107 per FTE student in revenue from local government sources.

The difference in state revenues demonstrates larger revenue inequities between the two sectors when accounting for other revenue sources. In 2019-20, NCES data showed that all public institutions received over \$428 billion in total revenue. However, public four-year institutions received \$372 billion of that total compared with \$55 billion for public two-year institutions. This disproportionate revenue distribution is partly a function of higher tuition and fees for four-year institutions.

In addition, public four-year institutions have access to more revenue streams — like hospital systems and other auxiliary enterprises — than public two-year institutions. Ultimately, significant revenue inequities between public two- and four-year institutions persist in postsecondary education.

State Policy Levers to Fund Postsecondary Education

Since two- and four-year institutions derive substantial portions of total revenue from governmental sources, it is helpful to understand how states allocate funds. Through the budget process, states employ funding mechanisms coupled with the budget request process to determine state appropriation amounts for institutions and systems. Unlike K-12 and special education funding, which is guaranteed by most [state constitutions](#) and federal law, state postsecondary funding qualifies as discretionary spending.

While state legislatures exercise ultimate discretion, they use the budget request process and various mechanisms to formalize how they determine funding levels. Discretion may result in states freezing or decreasing postsecondary funding amounts [during recessionary periods](#) because of overall state budget

decreases; likewise, state budgetary practice may not always mirror state policy. Consequently, postsecondary funding policy varies considerably across states, between the two- and four-year sectors, and over time.

POSTSECONDARY BUDGET REQUESTS

One prominent way state legislators exercise discretion over postsecondary funding is in the budget request process. This process generally entails systems and institutions submitting formal budget requests to the relevant committee within a state legislature. For states employing outcomes-based funding, this is also where postsecondary leaders report progress toward specified outcomes tied to funding amounts. [In most states](#), this process plays out in one of two ways:

- 1| Individual institutions make budget requests to the state legislature.
- 2| The postsecondary coordinating or governing board of the state makes a consolidated request on behalf of all associated institutions.

Whether a system or institution receives a budget increase is often contingent on broader factors, such as future budget projections and growth in tax revenues. However, budget requests enable postsecondary leaders and state policymakers to determine funding amounts and track progress toward things like statewide attainment goals.

FUNDING MECHANISMS

In addition to the budget request process, states employ funding mechanisms to calculate state appropriation amounts for postsecondary institutions and systems. States' postsecondary funding mechanisms are established by state policy, typically state statute or postsecondary system policy. Funding mechanisms are used to determine an institution's base funding, which is the amount of funding the state will allocate to support a postsecondary institution's operations and maintenance costs.

However, states may provide additional funding above and distinct from an institution's base funding. Additional funding may result from one-time funding or from an institution achieving a specified outcome. Although supplemental funding provides a financial incentive for institutions to meet desired outcomes, [research](#) indicates states may unintentionally create adverse incentives.

Whether referring to base funding or additional funding, states make use of at least one of the following mechanisms to provide state funding to postsecondary systems and institutions:

- **Formula funding:** States with postsecondary funding formulas calculate an institution's base funding using inputs associated with funding amounts in state policy. These formulas are designed to account for annual fluctuations in costs for inputs across institutions, with the most popular input being student enrollment, full-time or part-time equivalent.
- **Outcomes-based funding:** Instead of using inputs to determine appropriations, states base allocations on an institution achieving certain outcomes defined in [state policy](#). Common outcomes include the total number of degrees conferred and the number of high-demand degrees conferred in fields such as STEM and healthcare.
- **Incremental funding:** States using incremental funding set an amount of base funding for an institution or system for a given year. Every budgetary year after, legislators will increase or decrease funding by a fixed percentage. Funding amounts are typically the result of negotiations between institution leaders and the state legislature during the budget request process. Annual funding changes are usually applicable across all institutions in a particular sector (i.e., four-year or two-year institutions), depending on a state's [postsecondary governance structure](#).

Lessons From the Field

To gain insight into how postsecondary stakeholders perceive the intersection of equity and postsecondary funding and how this is applied in their local contexts, ECS conducted semi-structured interviews with postsecondary stakeholders across four states: **Michigan, Oregon, Texas** and **Utah**. Interview participants included postsecondary education policymakers, individuals from state postsecondary education agencies, system and institution leaders, and postsecondary association leaders from both the two- and four-year sectors. The four states were selected to reflect different postsecondary governance structures and approaches to postsecondary funding.

Through an analysis of participants' responses, ECS identified common themes related to how states are moving toward equitable approaches to postsecondary funding, as well as barriers to reforming postsecondary funding approaches states have encountered along the way.

The Role of Funding Mechanisms

Historically, states have funded postsecondary institutions based on inputs like FTE student enrollment. Over the past two decades, states have increasingly used outcomes-based funding approaches. Among the state leaders interviewed, there was a general desire to move from funding inputs to funding that focuses on improving outcomes for all students. Despite this desire, most respondents expressed that constraints in the funding mechanism were a limiting factor in addressing inequitable student outcomes. Respondents from states that have moved to outcomes-based funding expressed the need to measure outcomes and determine the impact of funding in achieving those outcomes.

“ Measure — look and see what kind of outcomes are happening. In other words, if you use outcomes measures, you should be able to say, these are working. ”

- STATE LEGISLATOR

Alternative Equity-Based Funding Approaches

When asked to identify how their states sought to address equitable postsecondary funding through policy, stakeholders highlighted funding streams distinct from funding mechanisms. The general takeaway among participants was that it is easier to establish and fund smaller, more targeted programs than to change their funding mechanisms or create new revenue sources. Stakeholders acknowledged they were most likely to fund programs to address student access, affordability and attainment issues. Additionally,

programs targeting specific student populations were seen as the primary way to mitigate systemic inequities. As one state's higher education executive officer remarked on this trend:

“ I think we're seeing some appetite emerge ... for funding practices, state funding practices outside the distribution formula, that are focused on underrepresented or marginalized students.
- STATE HIGHER EDUCATION EXECUTIVE OFFICER ”

Additionally, financial aid programs emerged as a common approach states take to move toward equitable postsecondary funding. Stakeholders expressed that financial aid programs are a valuable tool to increase access to postsecondary opportunities for students from low-income backgrounds. A representative from the community college sector captured the common view of using financial aid as a tool in sharing:

“ That's where we'd put our equity political capital, is around redesigning financial aid programs. More so than institutional operational funding.
- COMMUNITY COLLEGE REPRESENTATIVE ”

Despite the emphasis on financial aid as a tool, several individuals cautioned that reliance on financial aid could result in high levels of student loan debt — [disproportionately affecting](#) students of color. In addition, accessing need- or merit-based financial aid requires students who would benefit from assistance to overcome [difficult procedural hurdles](#) to obtain financing. [Research](#) has shown that how financial aid programs define criteria for merit-based programs remains imprecise and excludes otherwise qualified students in the process. Further, increasing financial aid allocations may not address the larger issue of [rising tuition costs](#).

Budget Constraints

Several stakeholders felt that more financial support was needed at both the state and federal levels to assist the creation of equity-based funding changes. Since most states are required to [balance budgets](#), stakeholders explained that increased state appropriations for postsecondary institutions would necessitate increasing taxes or creating new revenue sources. However, respondents were transparent in their assessment of how unlikely tax increases were in states, given the uncertain economic and political environment.

To describe this reality, many stakeholders used the metaphor of a “fixed pie” to characterize their states’ budgetary situation, which means that the amount of state funding for institutions was not likely to drastically increase in the short or long run. This concept informed the respondents’ belief that shifting funding approaches — altering how the pie is divided rather than increasing the size of the pie — would inherently lead to some institutions securing funding increases, whereas others would experience funding decreases.

“ Any shift in the funding formula does, as you can imagine, engender some pushback because it’s dealing with typically a fixed pie. And so when we make any kind of change to the benefit of — that results in a benefit to one institution, it can — it does negatively impact another.

- STATE COMMUNITY COLLEGE REPRESENTATIVE ”

Challenges of Putting Equity Into Practice

As mentioned earlier, state policymakers and postsecondary institution leaders use a student- or institution-centered understanding of equitable postsecondary funding. Stakeholders shared that balancing the student- and institution-centered approaches poses a challenge to state efforts to equitably fund postsecondary

education. For instance, states appear to be more willing to increase funding for financial aid programs to address college affordability issues for specific student populations instead of overall funding for certain institutions.

Stakeholders who represent two-year institutions expressed concern regarding the lack of action to address inequitable funding for two-year institutions relative to four-year institutions. Among states that agree equitable postsecondary funding is something to address through state policy, the heart of the issue lies in how to provide state appropriations that can account for these two approaches to equity. A state higher education executive captured this tension by sharing the following:

“ It’s shocking that a community college that enrolls very large numbers of students from marginalized communities doesn’t receive any different treatment under our funding formula than one that enrolls many fewer students from our marginalized communities.

- STATE HIGHER EDUCATION EXECUTIVE ”

Interactions Between Governance and Funding Mechanisms

Stakeholders often discussed the interaction between the state’s postsecondary governance structure and funding mechanism. In part, stakeholders commented on the need for two-year and four-year institutions to work together to support student outcomes across different student populations. Yet they expressed that their state’s current governance structure created competition among the institutions for state funding and prospective students. For those who looked at their governance structures and funding mechanisms holistically, they found opportunities to address barriers and move toward equitable postsecondary funding.

In addressing these barriers with equitable funding as a goal, a legislator whose state had looked at governance and funding mechanisms wholistically shared a guiding question to consider.

“ How do we make sure this system will allow us to meet our future educational and workforce needs in the community?
- STATE LEGISLATOR ”

While stakeholders felt it was important to consider both governance and funding mechanisms, they did not infer that a specific governance structure or funding mechanism will necessarily support a state in addressing inequities in funding of postsecondary education.

Considerations for State Policymakers

Based on a review of research, analysis of state policy and conversations with postsecondary education policymakers, regardless of the funding mechanism states use, there are opportunities to address inequities through state funding for postsecondary education. The following considerations may help guide postsecondary leaders and policymakers as they explore equitable approaches to fund postsecondary education.

Clearly define goals and set priorities to address inequities in postsecondary education.

- How can attainment and other outcomes-based goals be defined to address specific inequities in the state's postsecondary system?
- What gaps in student outcomes persist at different institutions and systems in the state?
- Do institutions need additional resources to support specific student populations in attaining degrees and other desired outcomes?

“ We envision educational equity, where one’s race, ethnicity, income, first-generation or rural status doesn’t predict their educational outcomes.
- STATE HIGHER EDUCATION EXECUTIVE ”

Prioritize achieving equitable outcomes in postsecondary education funding.

- Within existing funding streams, how can funds be distributed in a way that helps institutions and systems address systemic inequities in postsecondary education?
- To achieve equitable goals, what resources do students, institutions and systems need?
- Do some institutions require additional resources to support the student populations they serve?

Consider how financial aid programs interact with equity goals and equitable funding.

- How do existing qualifications or eligibility criteria limit student access to financial aid programs?
- How do financial aid programs support student populations historically underrepresented at postsecondary institutions to access and earn degrees and credentials?
- How do existing and proposed financial aid programs support the state in meeting goals and priorities that address inequities in postsecondary education?

Consider how postsecondary governance helps or hinders equitable funding.

- Does the interaction between the state's governance structure and funding mechanism create unnecessary competition between institutions in its postsecondary system?
- Does the state's governance structure limit its ability to balance adequate funding for certain institutions to serve historically underserved and underrepresented students?

Incentivize institution and system actions to support access and achievement for diverse student populations.

- Do state funding approaches incentivize institutions to adopt admissions and other institutional policies that lead to fewer students of color and students from lower-income communities being admitted to postsecondary institutions?
- Does the state's funding approach provide adequate resources to institutions to support the needs of specific student populations in completing degree programs?

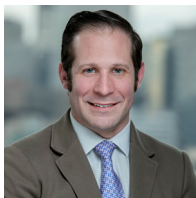
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Acknowledgments

This project was made possible by a grant from the Bill & Melinda Gates Foundation, which is committed to fighting the greatest inequities in the world. For 20 years, it has sought to dramatically improve student outcomes and ensure that race, ethnicity and income are not predictors of postsecondary success.

The authors would like to extend appreciation and thanks to the interview participants from Michigan, Oregon, Texas and Utah.

