

## BOARD OF HIGHER EDUCATION

### REQUEST FOR BOARD ACTION

**NO.:** BHE 23-23

**BOARD DATE:** December 13, 2022

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#### ***Strategic Review of Public Higher Education Financing: Endorsement of a Policy Framework and Charge to the Commissioner***

**MOVED:** The Board of Higher Education (BHE) receives the research, analyses, and policy options prepared by the Finance and Administrative (FAAP) Advisory Council with the assistance of EY-Parthenon in furtherance of the Board of Higher Education's *Strategic Review of Public Higher Education Financing*. The documents that comprise the FAAP Advisory Council's research, analyses, and policy options are referenced and linked in the Background Statement and attached to this motion as "Attachment A." The BHE expresses its appreciation to the FAAP Advisory Council and EY-Parthenon for their work.

Based on and building upon the FAAP Advisory Council's work the BHE accepts and endorses the strategic public higher education financing *Framework*, including the criteria, the goals, and the design elements, as set forth in Section III of the attached Background Statement.

The BHE affirms the Framework as guidance intended to inform the development of a fair, equitable, and rational approach to financing and supporting the Commonwealth's system of public higher education institutions. The BHE commits to incorporating the *Framework* in all aspects of budget and policy development.

The BHE charges the Commissioner to work with stakeholders, including institutional leaders, policy makers, the legislature, and others to advance the implementation of the framework through necessary legislative, executive and budgetary actions.

The BHE further directs the Commissioner to continue to work with the FAAP Advisory Council and to provide regular updates to Board on the Department's progress in this regard.

**VOTED:** Motion adopted by the BHE on 12/13/2022.

**Authority:** M.G.L. c. 15A, §1, 9, 15B, 16 and 19

**Contact:** Joe Wallerstein, Interim Deputy Commissioner for Administration and Finance

### **BACKGROUND**

## **I. Board of Higher Education Authority**

The Board of Higher Education (Board or BHE) is the Commonwealth's state higher education authority with specific coordination, advocacy, and accountability responsibilities over the Commonwealth's entire public higher education system. Section 5 of the BHE's enabling legislation in particular, defines the public higher education system as including all three segments and all of the institutions within each segment (i.e., 15 Community Colleges, 9 State Universities, and 5 University of Massachusetts campuses), and states that the Board shall:

coordinate activities among the public institutions of higher education and shall engage in advocacy on their behalf, which advocacy shall include a sustained program to inform the public of the needs, importance, and accomplishments of the public institution of higher education in the commonwealth.

M.G.L. c. 15A, § 5. The Board is also statutorily required to work "in conjunction with boards of trustees to hold the system accountable for achieving its goals and establishing a comprehensive system to measure quality by defining educational achievement and success with the use of standards and measurements." M.G.L. c. 15A, § 1.

Further included within the Boards' coordination responsibilities, are the Board's statutory mandates to:

- Define the mission of and coordinate the Commonwealth's system of public higher education and its institutions, M.G.L. c. 15A, § 1;
- Analyze the present and future needs and requirements of public higher education and establish goals to achieve a well-coordinated quality system, M.G.L. c. 15A, § 9(c);
- foster coordination between and among public and private institutions; , M.G.L. c. 15A, § 1;
- develop a "rational and equitable statewide tuition plan" for the state universities and the community colleges in the commonwealth, M.G.L. c. 15A, §9(i)
- work with campus financial officers on modeling, budgeting, financing, and capital planning, M.G.L. c. 15A, §§ 9. and 15B; and
- administer state financial aid and provide financial aid services and information to students, M.G.L. c. 15A, §§ 16 and 19.

It is within this legal context that the Board recognizes that the overall funding strategy for public higher education in the Commonwealth is inherently a systemic property, and the Board is not only well positioned to bring forth system-wide recommendations, but is also legally responsible for doing so. In order for the Board to be able to responsibly execute its general authority related to system coordination, advocacy and accountability-- as well as its specific administrative, statutory authority related to fiscal and budgeting matters-- the Board therefore seeks to develop a coordinated, rational,

and empirical funding strategy on behalf of the public higher education system as a whole, the individual institutions within the system, and the students and families that we serve.

## **II. Engagement of the FAAP Advisory Council, EY-Parthenon, and the Process**

Shifting demographics, enrollment declines, and increased competition for students have resulted in significant strains of the public higher education system. Student enrollment has been declining in the past decade and is projected to continue to decline. In addition, the Commonwealth has experienced persistent equity gaps, with rising concerns about the cost of education and the increase in debt burdens on students and families. For these reasons, during its December 11, 2018 meeting the Board made a commitment to review whether and how the Board could address these issues with “the development of an integrated financial planning process to ensure long term sustainability for the campuses and the system and affordability for the students.” *BHE 19-03*.

In addition, in December 2019 the Board enhanced its customary budget approval process by adding a preface to the budget narrative to specifically highlight the Board’s role in the budgetary process, stating as follows:

Consistent with the Board’s annual budgetary duty, and also in accordance with the Board’s responsibility for policy direction and strategic planning for the system of public higher education, the budget recommendation for FY21 is prefaced by this Statement from the Board that reflects our views, values, and preliminary discussions concerning the immediate and longer-term strategic considerations for the state’s fiscal commitments to public higher education.

*FAAP 20-10, Budget Narrative at 3*. In a subsequent section entitled “Strategic Plan for Funding for Higher Education in Massachusetts,” the Board continued, calling for a more comprehensive review of how the Commonwealth finances public higher education, and expressed a commitment to advance a strategic framework:

Over time, Massachusetts’s support for higher education has slipped – cuts imposed more than a decade ago still resonate today. Our system is old-fashioned compared to many states with most of the money “block granted” to individual institutions rather than following the student or providing incentives and rewards for performance. When compared to our nation-leading approach on K12, we have a lot to do to ensure our postsecondary funding matches our values and our creativity. Therefore, we commit, as the BHE and DHE, to advance a strategic framework and will develop a range of proposals during calendar year 2020 that aligns with our values and vision for the future of higher education in Massachusetts.

*FAAP 20-10, Budget Narrative at 5 (emphasis added).*

During its September 22, 2021 Annual Meeting the BHE established the Finance and Administrative Policy (FAAP) Advisory Council and charged it with the responsibility to “consider, report and make recommendations to the Board of Higher Education on policy and strategic matters regarding fiscal, operational, administrative matters.” Within that context, the BHE asked the FAAP Council to conduct a strategic review of public higher education finance.

To assist the FAAP Advisory Council with this work, consultant services were procured through the Executive Office of Education with a request for proposals (RFP) issued in September 2021; consulting firm, EY-Parthenon, was selected in late November 2021. The scope of EY-Parthenon’s engagement included five phases of work: conducting an assessment of the current state of public higher education financing; conducting a nationwide comparative analysis on public financing of higher education; developing and assessing potential funding scenarios; conducting a student impact analysis; and developing alternative financing approaches that align with the Board’s Equity Agenda.

Following the engagement of EY-Parthenon, in FY2022 and FY 2023 the FAAP Advisory Council met six times to review, guide, and advance the strategic public higher education finance work with the assistance of EY-Parthenon. All BHE members were invited to participated in FAAP Advisory Council meetings, and the full BHE was engaged at least twice with formal updates during BHE meetings in FY2023 (October 18 and 27).

During its November 3, 2022 meeting, members of the FAAP Advisory Council’ presented its research, which included guiding principles and goals for evaluating the Commonwealth’s public higher education financing system, and a series of policy options and the implications for funding. The November 3, 2022 presentation was a culmination of and based on four reports prepared by EY-Parthenon, including the October 18, 2022 presentation to the BHE entitled [Strategic Review of Public Higher Education Finance](#) and the following three reports issued in August 2022 and used during the August-September 2022 Stakeholder vetting process on the following topics:

- [Strategic Review of Public Higher Education Finance: Establishing a Baseline;](#) (laying out how the Commonwealth currently fund public higher education)
- [Strategic Review of Public Higher Education: Comparative State Analysis;](#) (a comparative analysis around funding priorities); and
- [Strategic Review of Public Higher Education Finance: Student Outcome Analysis.](#)

After further stakeholder vetting, EY-Parthenon provided supplementary materials to the FAAP Advisory Council during the Council’s November 16, 2022 meeting. The full EY-Parthenon and FAAP Advisory Council November 3, 2022 presentation, along with the

supplementary information provided on November 16, 2022, are accessible through the following links:

- [FAAP AC Strategic Review of Public Higher Education Financing: First Discussion of Policy Options, November 3, 2022](#)
- [FAAP AC Strategic Review of Public Higher Education Financing: Supplemental Analysis of Policy Options, November 16, 2022](#)

Based on the research and work produced by the FAAP Advisory Council and EY-Parthenon, Board Chair Chris Gabrieli, in consultation with the FAAP Advisory Council co-chairs, developed a proposed Framework for BHE consideration. The proposed Framework is set forth in Section III, below.

### **III. Framework for Strategic Public Higher Education Financing**

The proposed Framework for Strategic Public Higher Education (the “Framework”) before the BHE for approval includes the following elements:

- Six key principles;
- An acknowledgement of a sense of urgency to act due to the limitations of the current financing system;
- Five key goals; and
- Five key design elements.

#### Key Principles

The system for financing public higher education in the Commonwealth must fully support the following six<sup>1</sup> key principles:

1. *The System works for both students and institutions*
2. *The System advances student participation in high quality, affordable education.*
  - The system supports students from all backgrounds in participating in and affording high quality higher education
3. *The System promotes equity in student outcomes.*
  - The system supports bridging gaps in retention, graduation, and post-graduate outcomes (e.g., student success and employment) by student subgroup
4. *The System is transparent and rooted in providing stakeholders with sufficient ability to plan.*

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<sup>1</sup> FAAP AC Strategic Review of Public Higher Education Financing: First Discussion of Policy Options, November 3, 2022, Slide 8.

- The drivers of state funding are clear and well understood by institutions, students, parents and policymakers, allowing them to plan based on known parameters.
5. *The System recognizes institutional context.*
    - The System takes into account institutional mission, contexts, and regional geography, including diversity of student populations and district needs.
  6. *The System recognizes and invests in innovation and collaboration.*
    - The System fosters innovation and collaboration to meet student success goals, including collaboration within segments, regions, and with outside stakeholders such as K-12 and industry

### Sense of Urgency

The BHE concludes that the current system for financing public higher education in the Commonwealth does not sufficiently fully support the six key principles, and that it is time to move beyond the current system.<sup>2</sup> The current system should be significantly changed, modernized and strengthened to better serve students and align with our systemic values.

### Key Goals

The system for financing public higher education in the Commonwealth must address the following five<sup>3</sup> high-level goals:

1. *Make college more accessible and affordable for students.*
  - i. Address barriers to participation for low-income and part-time students, including adult students.
  - ii. Address burdensome debt levels for low- and middle-income students and families.
2. *Bolster institution funding to support student success.*
3. *Ensure system-level capacity to foster innovation and collaboration.*
4. *Align incentives on cost sharing between the state and campuses.*
5. *Increase simplicity, transparency, and predictability for all.*

### Key Design Elements

Building on the policy options, rationales, and impacts presented at the November 3, 2022 FAAP Advisory Council, along with extensive feedback offered during the meeting and since then from various stakeholders, and recognizing that the BHE seeks to inform

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<sup>2</sup> FAAP AC Strategic Review of Public Higher Education Financing: First Discussion of Policy Options, November 3, 2022, Slide 9.

<sup>3</sup> FAAP AC Strategic Review of Public Higher Education Financing: First Discussion of Policy Options, November 3, 2022, Slide 13.

policy makers and stakeholders for the discussions and actions in the time ahead, the BHE endorses five key design elements for the future of public higher education financing in the Commonwealth:

1. Increase financial aid, by at least doubling the current annual budgetary financial aid level, in ways that: make college truly accessible for our lowest-income students; require less debt for our moderate- and middle-income students; and draw back working adults to gain credentials they need.
2. Make and sustain a major new investment into our institutions' annual state appropriations focused on providing institutions with more resources to support low-income students through a weighted-enrollment approach that provides additional funding for each of their low-income students.
3. Significantly expand of the Department's funding capacity to catalyze innovation and collaboration in partnership with our institutions through the Higher Education Innovation Fund.
4. Codify the commitment to funding all three years of salary increases for each new collective bargaining agreement (CBA) and develop a fair and workable plan to better align incentives and cost-sharing between the Commonwealth and public higher education institutions on fringe benefit costs.
5. Provide more transparency, predictability and balanced guardrails on total charges to students by both allowing all campuses to retain all tuition and fees, while also requiring that tuition be the primary component of student charges.

#### **IV. Charge to the Commissioner**

The BHE charges the Commissioner to work with institutional leaders, policy makers, the legislature, and other stakeholders to advance the implementation of the framework through necessary legislative, executive and budgetary actions. The BHE further directs the Commissioner to continue to work with the FAAP Advisory Council and to provide regular updates to the Board on the Department's progress in this regard.