

Strategic Review of Public Higher Education Financing

October 18th, 2022

| Agenda |

- ▶ **Introduction and background (10 min)**
- ▶ Current state of public higher education in MA (40 min)
- ▶ Policy choices for using state funding to improve institutional and student success (15 min)
- ▶ Stakeholder feedback (10 min)
- ▶ Discussion / Q&A (20 min)
- ▶ FAAP AC and BHE next steps (5 min)
- ▶ Appendix

Why undertake a strategic review of public higher education financing now?



Shifting demographics and increased competition for students

- ▶ Student enrollment has been flat to declining in the past decade and is projected to continue declining
- ▶ Online and non-degree alternative education offerings have been taking share from in-person campuses
- ▶ COVID-19 placed significant, additional downward pressure on enrollment



Persisting equity gaps

- ▶ The needs of students are changing, with some students requiring more support
- ▶ Equity gaps in outcomes persist among student groups (i.e., based on race & ethnicity or income status)



Rising cost of education

- ▶ The total cost of attendance at higher education institutions has steadily risen, outpacing household income growth
- ▶ The average debt burden for students taking out loans has also grown over the past decade



The approach to state funding of public higher education in MA has not kept pace with the tremendous changes experienced by both institutions and students across the MA higher education landscape

Higher education funding policy choices are in the national spotlight; MA has an opportunity to consider funding policy choices that meet the moment and the challenges and goals for students and institutions

What does the strategic review aim to accomplish?

Key Objectives for the Commonwealth's Strategic Review

- ▶ Promote better understanding of the current state of higher education financing and higher education outcomes in MA
- ▶ Learn from the experience of other states to identify range of potential policy choices for consideration in MA context
- ▶ Solicit input and enable discussion across the stakeholder ecosystem in MA about potential impacts of policy choices
- ▶ Recommend range of options for the financing system design, along with the potential impact of these options, to the Board of Higher Education

Prioritized Areas of Focus for the Commonwealth's Strategic Review

- ▶ Resident undergraduate students in public higher ed institutions (community colleges, state universities, UMass)
- ▶ State funding (considered in the context of total revenue and student-driven revenue)

The Board of Higher Education is conducting this strategic review under the assumed context of the willingness of the Commonwealth to invest more in public higher education

What are the phases of the strategic review project?



A. Current state assessment

- ▶ How public higher education in MA is financed (policies, funding over time, enrollment over time)

B. Comparative analysis

- ▶ How MA compares to other US states (institutional allocations and financial aid)

C. Student outcomes analysis

- ▶ How MA performs on student-level outcomes and affordability measures, in aggregate and by subgroup

- ▶ Meetings with a wide range of stakeholders to discuss Phase 1 findings

- ▶ Stakeholder feedback will inform scenario analyses of potential policy changes

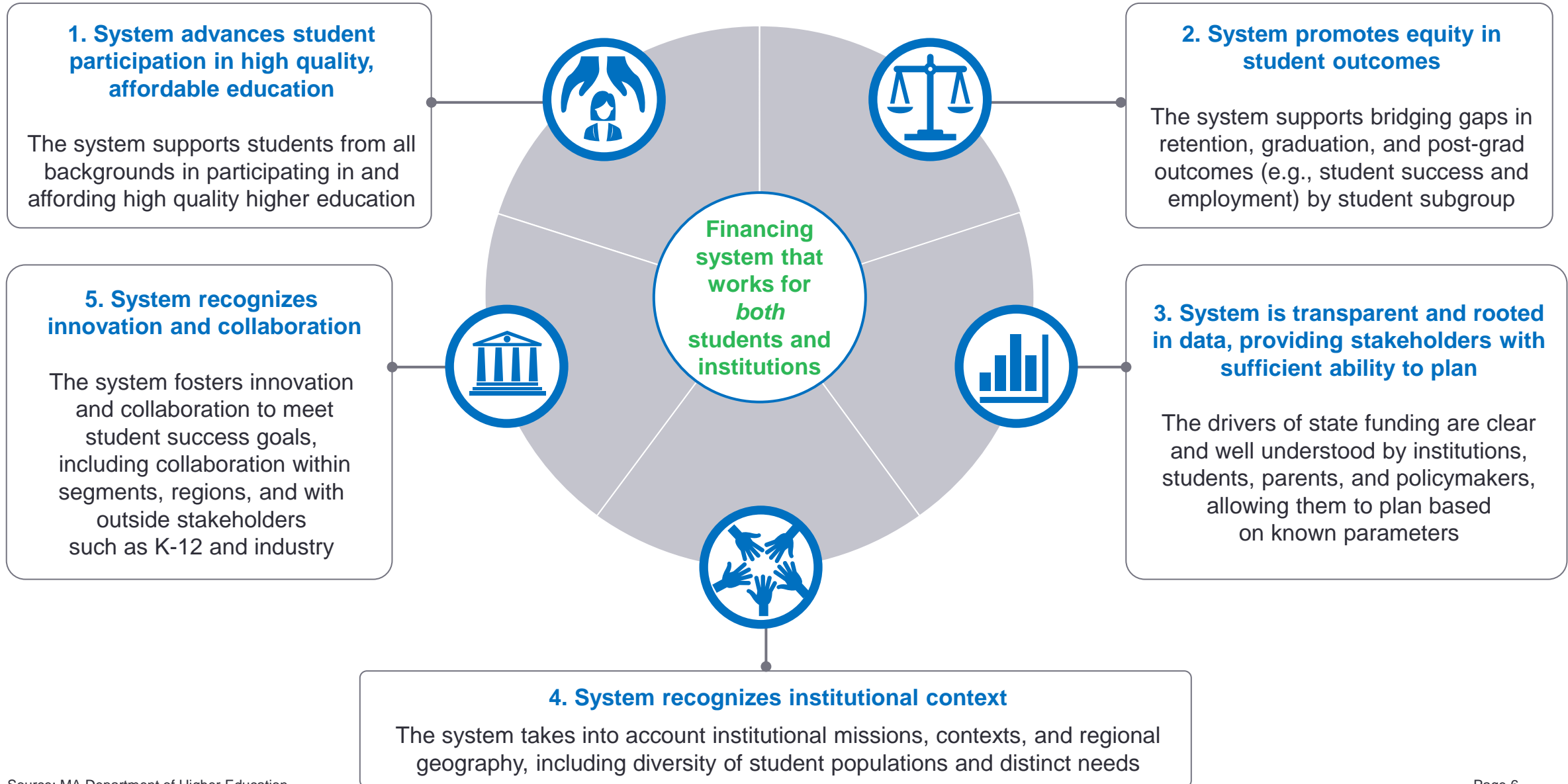
- ▶ Scenario analyses across a range of possible policy choices

- ▶ Assessment of scenario analyses on:
 - Students
 - Institutions

- ▶ Synthesis of key analyses and findings from all phases of work

- ▶ Recommended range of options and potential impacts of options, to be presented to the BHE in the Fall

What principles have guided the analysis and discussion to date?

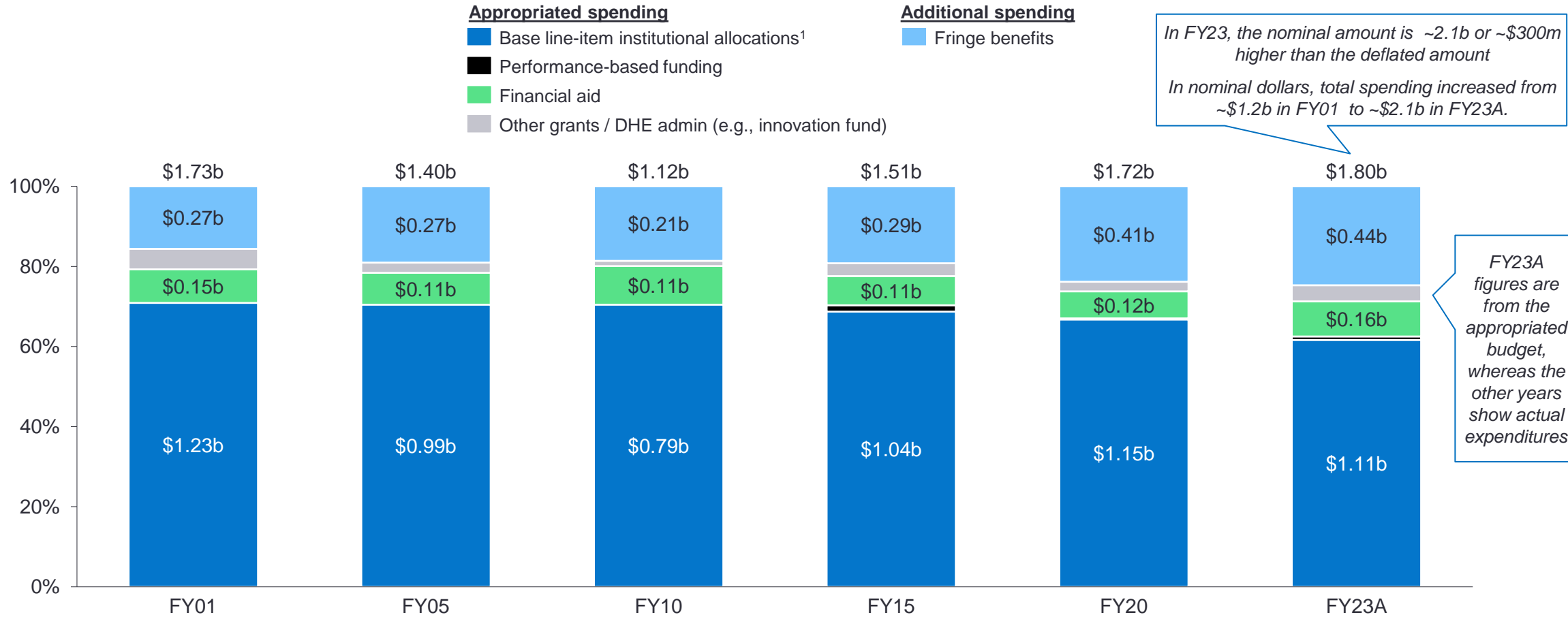


Agenda

- ▶ Introduction and background (10 min)
- ▶ **Current state of public higher education in MA (40 min)**
 - ▶ **How are public higher education institutions funded?**
 - ▶ **How is financial aid funded?**
 - ▶ **What are the outcomes for students?**
- ▶ Policy choices for using state funding to improve institutional and student success (15 min)
- ▶ Stakeholder feedback (10 min)
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Total Massachusetts state spending on public higher education is primarily comprised of institutional allocations (85-90%); financial aid accounts for 7-10%

Total state spending on public higher education, by type, 2020 dollars, FY01 – FY23A



In FY23, the nominal amount is ~2.1b or ~\$300m higher than the deflated amount
In nominal dollars, total spending increased from ~\$1.2b in FY01 to ~\$2.1b in FY23A.

FY23A figures are from the appropriated budget, whereas the other years show actual expenditures

Financial aid % of total	8%	8%	10%	7%	7%	9%
Performance funding % of inst. allocations	0%	0%	0%	2%	1%	1%

The approach to state funding for public higher education has evolved over time, with the most recent changes focused on making education more affordable for neediest students

Historic funding approach (Pre-2014)

- ▶ Public higher education funding in MA has historically been determined by a **base-plus (or-minus) formula**
- ▶ Base-plus or minus formulas generally determine funding levels by **using the prior year's institutional allocations**, adjusted annually to **account for changes in economic conditions**

Introduction of performance funding (2014)

- ▶ The Patrick administration, Legislature and BHE introduced a **performance-based funding component** to supplement MA's base-plus or minus formula in FY14
- ▶ The performance-based funding component has received low levels of state funding since its implementation, only **accounting for 0-2% of institutional funding in MA** over FY14-FY22

Eliminating unmet need (2019)

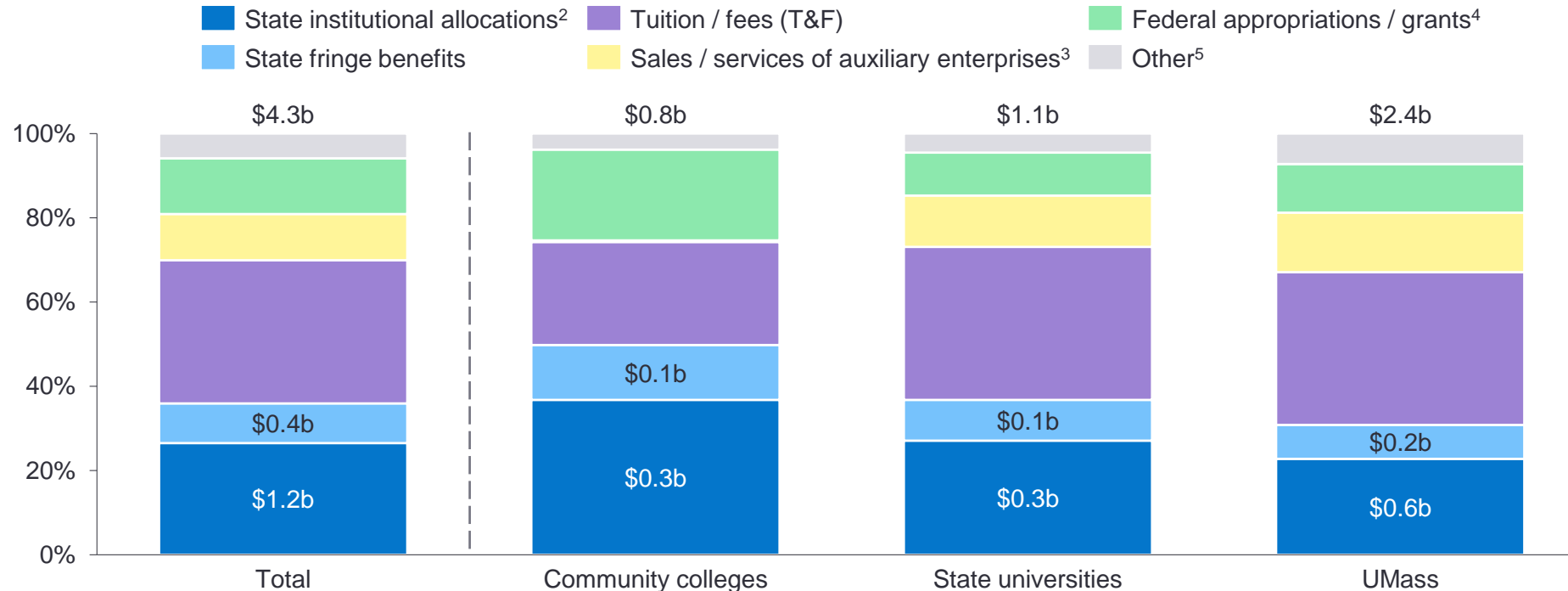
- ▶ The BHE, the Baker administration, and the Legislature have **set out to eliminate unmet tuition and fees need** for the neediest students through **MASSGrant Plus**:
 - ▶ FY19: MA students at community colleges with more than 6 credits became eligible
 - ▶ FY21: MA full-time Pell grant recipients at state universities added
 - ▶ FY23B: MA full-time Pell grant recipients at UMass to be added



Over the past 5 years, the prior year's appropriation has accounted on average for ~98% of the following year's final appropriation

The majority of revenues for public higher education institutions comes from four sources: state funding, federal funding, tuition and fees, and auxiliary (for 4-year institutions)

MA public institution revenue by source, by segment¹, 2020 dollars, FY20



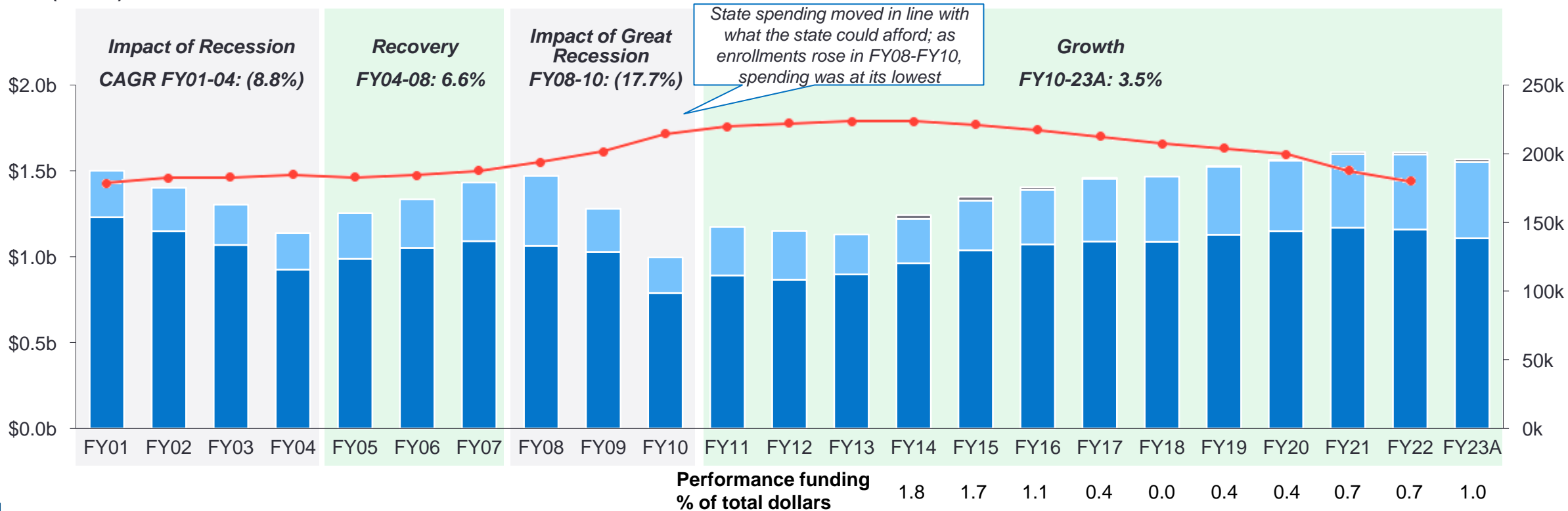
	Total	Community colleges	State universities	UMass
% Inst. allocations	27%	37%	27%	23%
% Fringe	9%	13%	10%	8%
% T&F	34%	24%	36%	36%
% Auxiliary	11%	0%	12%	14%
% Federal	13%	22%	10%	12%

Historically, Massachusetts state funding has followed economic patterns

State spending (institutional allocations & fringe benefits) on public higher education and fall headcount enrollment attending MA public institutions, 2020 dollars, FY01 – FY23A⁶

Compound annual growth rate (CAGR) ('01-'21)

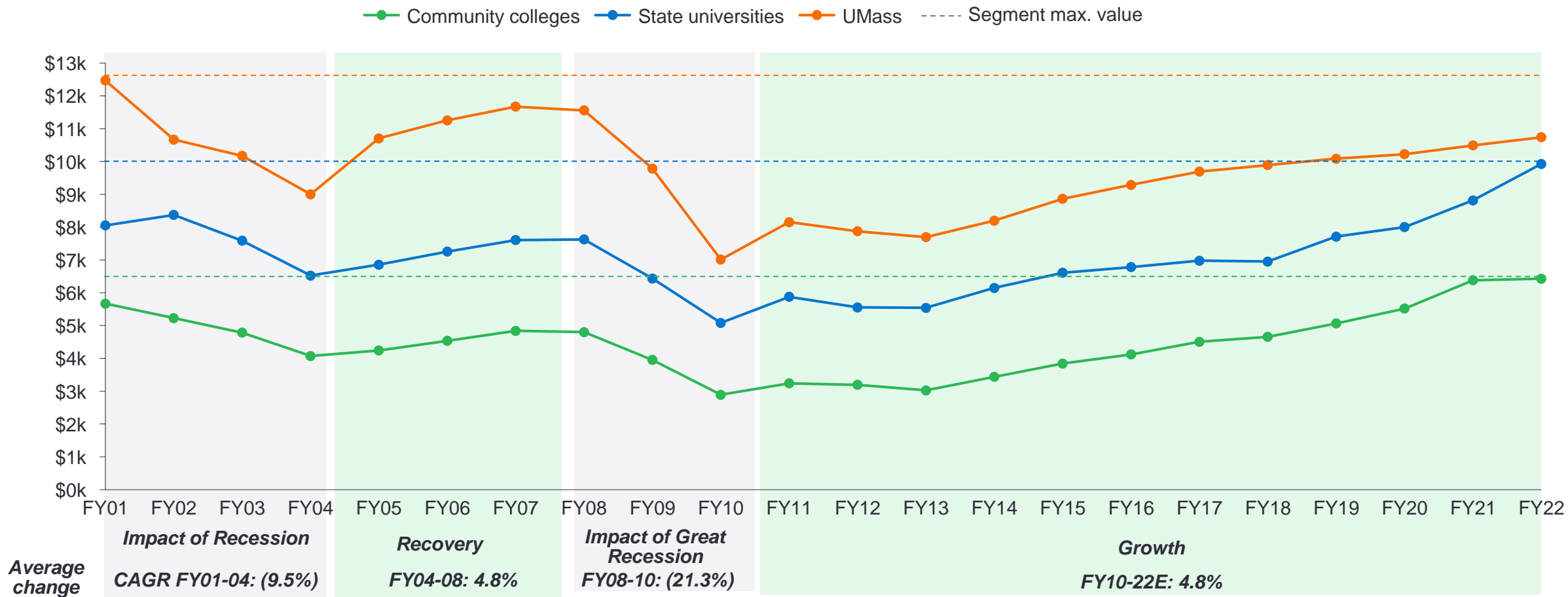
■ Performance-based funding⁷ ■ Fringe benefits (+2%) ■ Line-item institutional allocations (0%) —●— Fall headcount enrollment (0%)



Historically, total MA state funding for public higher education has been shaped primarily by overall economic conditions, rather than by an overarching vision for higher education, set of priorities, or formulas

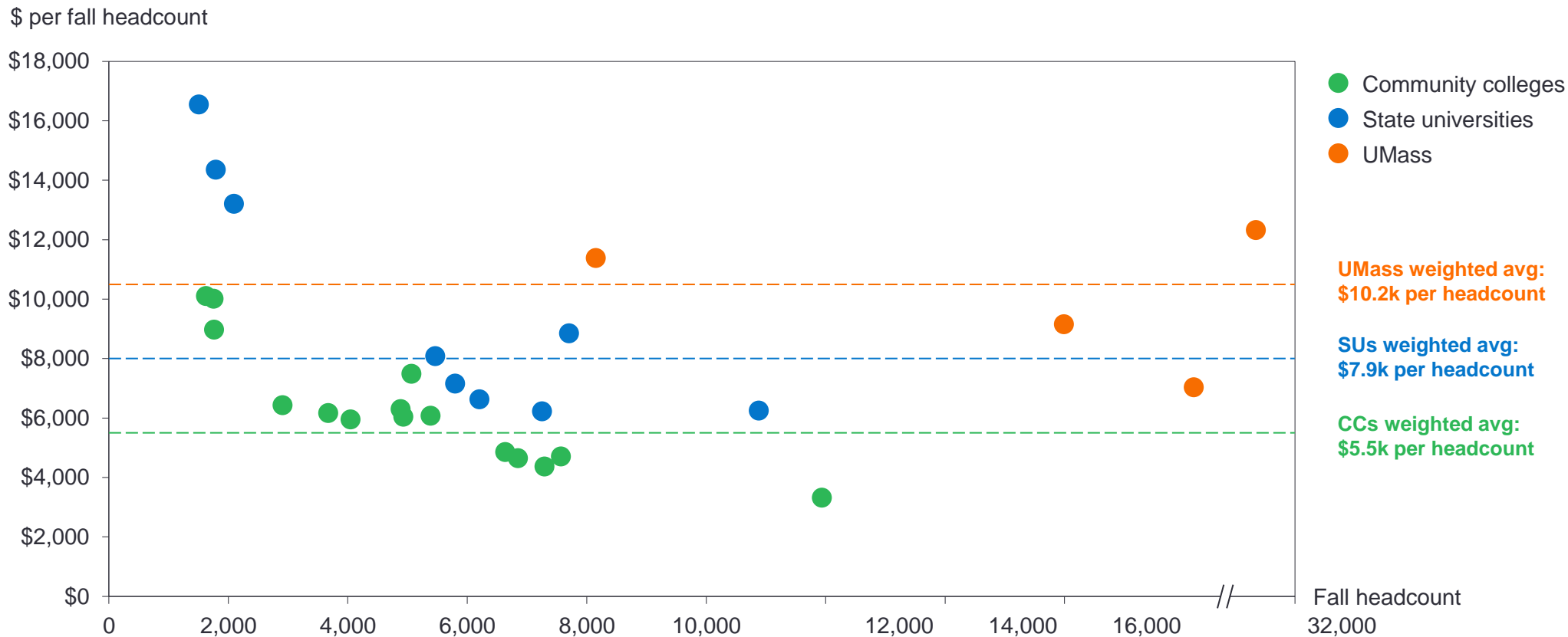
Over the past 20 years, state expenditure per headcount has fluctuated widely, driven partly by overall funding level fluctuations but also by shifts in student enrollment

State spending (inst. allocations & fringe benefits) on public higher education per fall headcount enrollment, by sector, 2020 dollars, FY01 – FY22



Even within an institutional segment, there is substantial variability by institution in state funding per student (headcount)

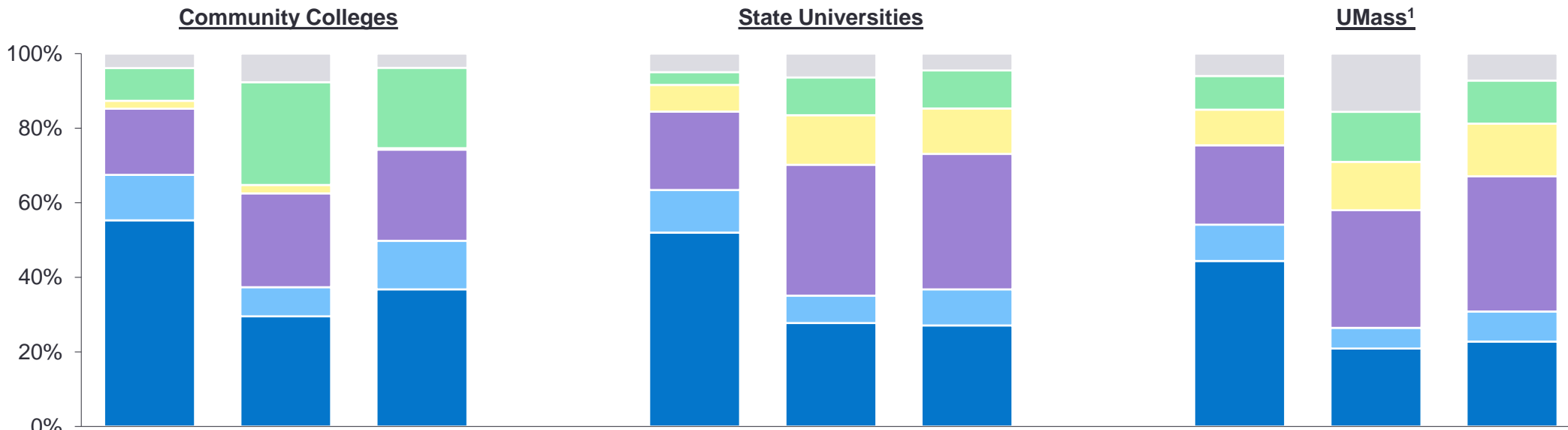
State spending (inst. allocations & fringe benefits) per fall headcount enrollment vs. fall headcount, by institution, 2020 dollars, FY20



In response to fluctuations in state funding (FY01-FY10), institutions developed varying operating models by segment, with all segments relying more on student-driven revenues

Institution revenue (undergraduate & graduate) by source, by sector¹, 2020 dollars, FY01 – FY20

- State institutional allocations²
- Tuition / fees (T&F)
- Federal appropriations / grants⁴
- State fringe benefits
- Sales/Services of auxiliary enterprises³
- Other⁵

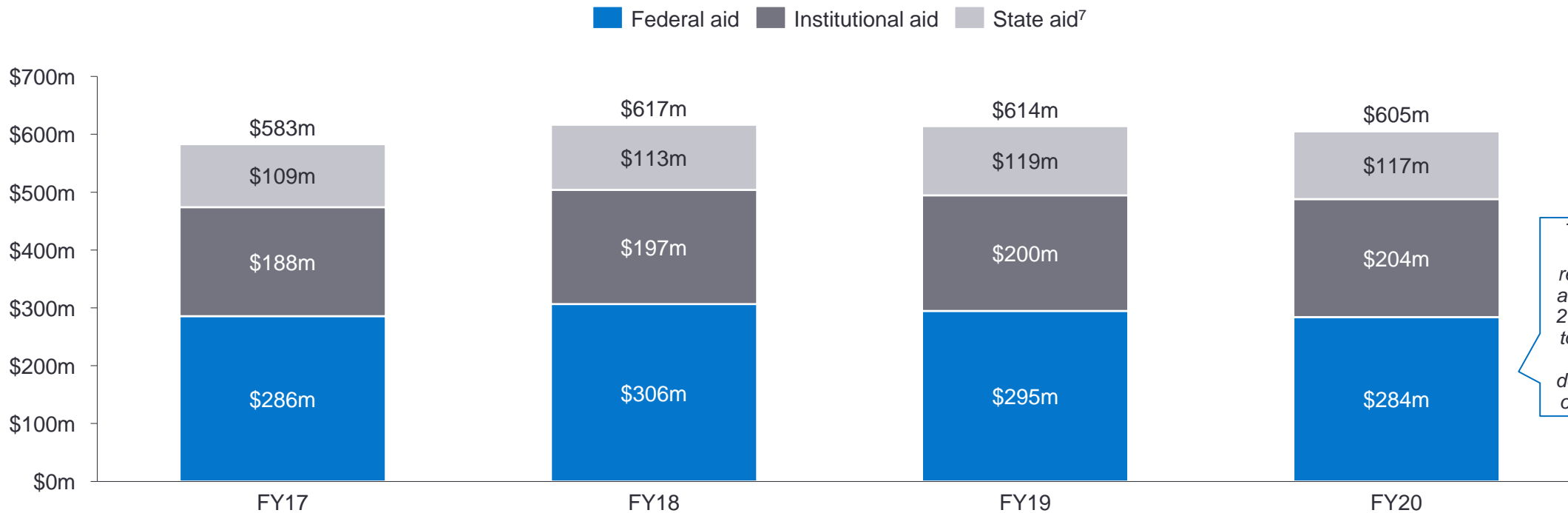


	Community Colleges			State Universities			UMass ¹		
	FY01	FY10	FY20	FY01	FY10	FY20	FY01	FY10	FY20
State spend									
% Inst. allocations	55%	30%	37%	52%	28%	27%	44%	21%	23%
% Fringe	12%	8%	13%	11%	7%	10%	10%	6%	8%
% T&F	18%	25%	24%	21%	35%	36%	21%	32%	36%
% Auxiliary	2%	2%	0%	7%	13%	12%	10%	13%	14%
% Federal	9%	28%	22%	3%	10%	10%	9%	13%	12%

Tuition and fees include revenue from both undergraduate and graduate sources

Federal aid is the largest source of financial aid received by students, followed by institutional-allocated and state-allocated aid

Total financial aid disbursed to MA resident undergraduates, by source, 2020 dollars, FY17 – FY20



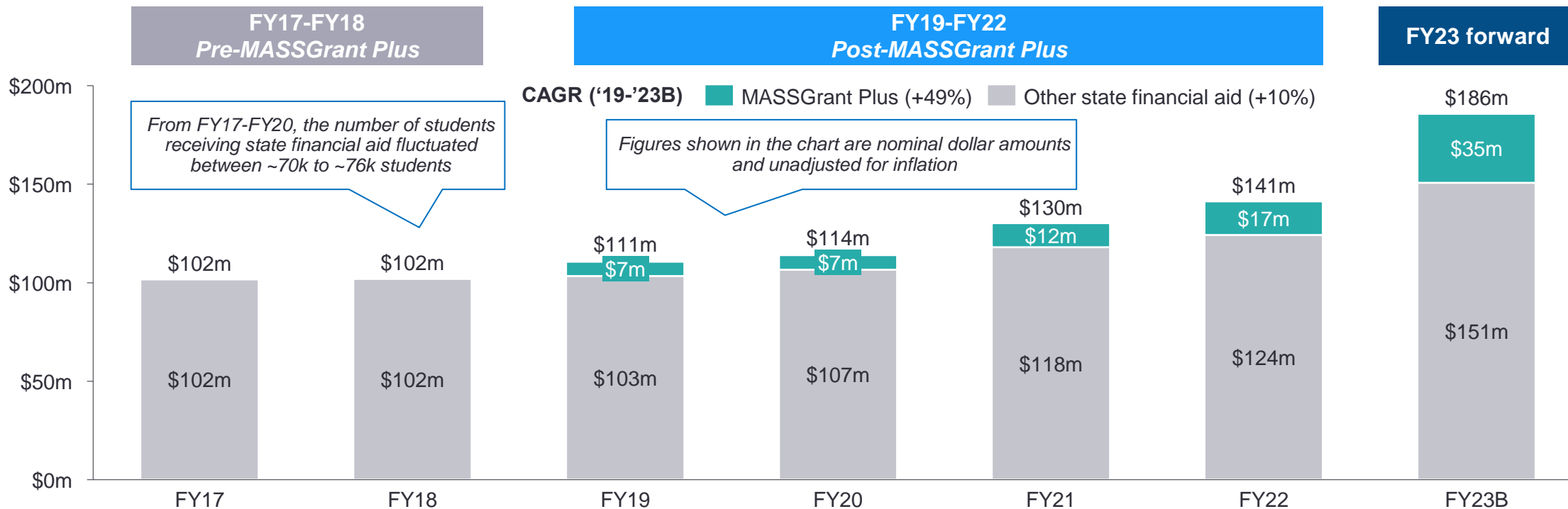
The number of students who received federal and state aid fell 2-3% from FY19 to FY20; overall enrollments declined by ~2% over that period



Federal and institutional financial aid represent a much larger share of total financial aid disbursed than state financial aid

Over the last 5 years, MA has made substantial headway in increasing MASSGrant Plus funding, with the goal of eliminating unmet need among the neediest students

Total MA state financial aid⁸ appropriated and MASSGrant Plus funds allocated⁹ to resident undergraduates attending MA institutions, Nominal dollars, FY17-FY23B



From FY17-FY20, the number of students receiving state financial aid fluctuated between ~70k to ~76k students

Figures shown in the chart are nominal dollar amounts and unadjusted for inflation

MASSGrant Plus Eligibility	
Community Colleges (all in-state students enrolled for at least 6 credits)	Community Colleges
State Universities (all full-time Pell-eligible in-state students)	State Universities
UMass (all full-time Pell-eligible in-state students)	UMass

While public higher education in MA has achieved numerous successes over the past decade, troubling gaps and challenges remain



Participation and retention rates

- ▶ **Overall participation rates** have been declining, with a larger drop during COVID-19; **retention rates** have remained relatively flat
- ▶ **Significant equity gaps** in participation and retention rates exist among student subgroups (by under-represented minority and low-income status)



Graduation rates

- ▶ **Graduation rates** have improved across segments over the past decade; the cross-segment average of ~53% ranks 14th in the U.S.
- ▶ Despite improvements in overall graduation rates, **large equity gaps** between student groups persist across segments, even after accounting for academic (postsecondary) readiness

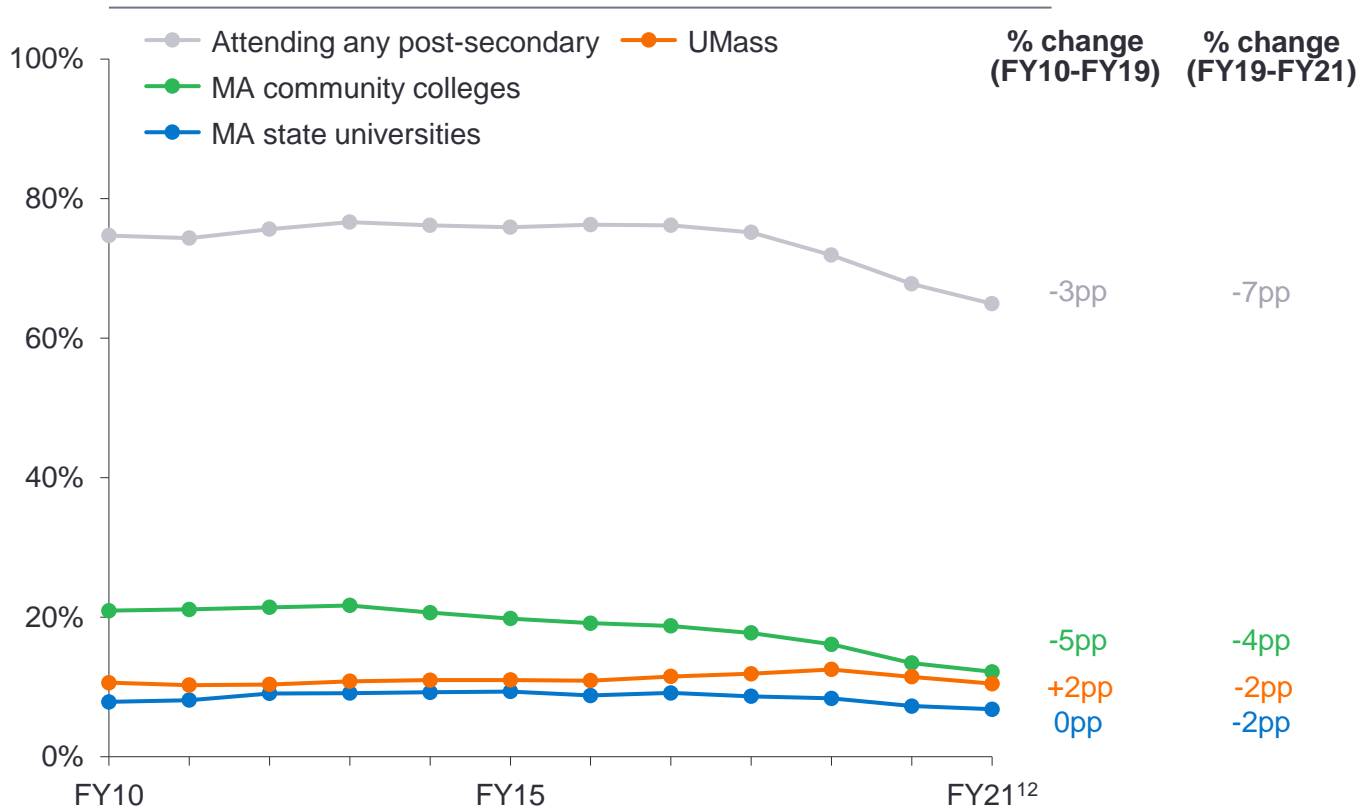


Affordability

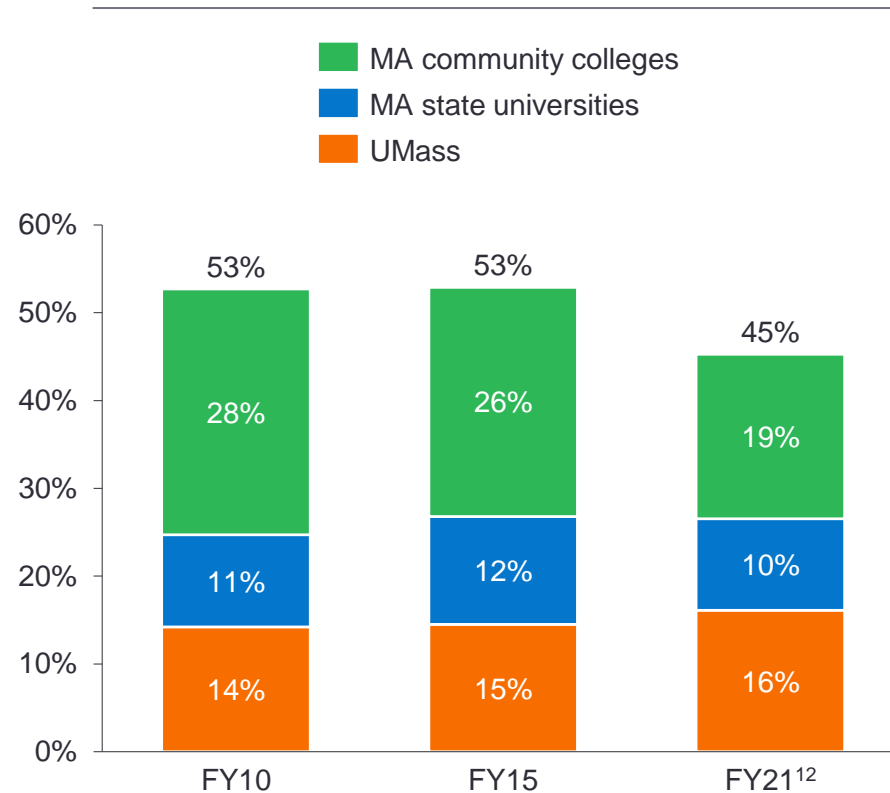
- ▶ While financial aid has increased, **levels of loan debt** have grown for state university and community college students during the past 5 years
- ▶ ~30% of CC students¹⁰ and ~75-85% of SU and UMass students¹⁰ **take out federal loans** (either to pay for tuition or other costs of attendance). Many students who take out loans are in higher EFC brackets (above the Pell eligibility cutoff)

COVID-19 has changed the way that students think about, place value on, and engage with higher education; all segments experienced enrollment declines in FY20 and FY21

Post-secondary participation rate (enrolling within 16 months of graduation) for graduating MA high-school students, FY10 – FY21 ¹¹



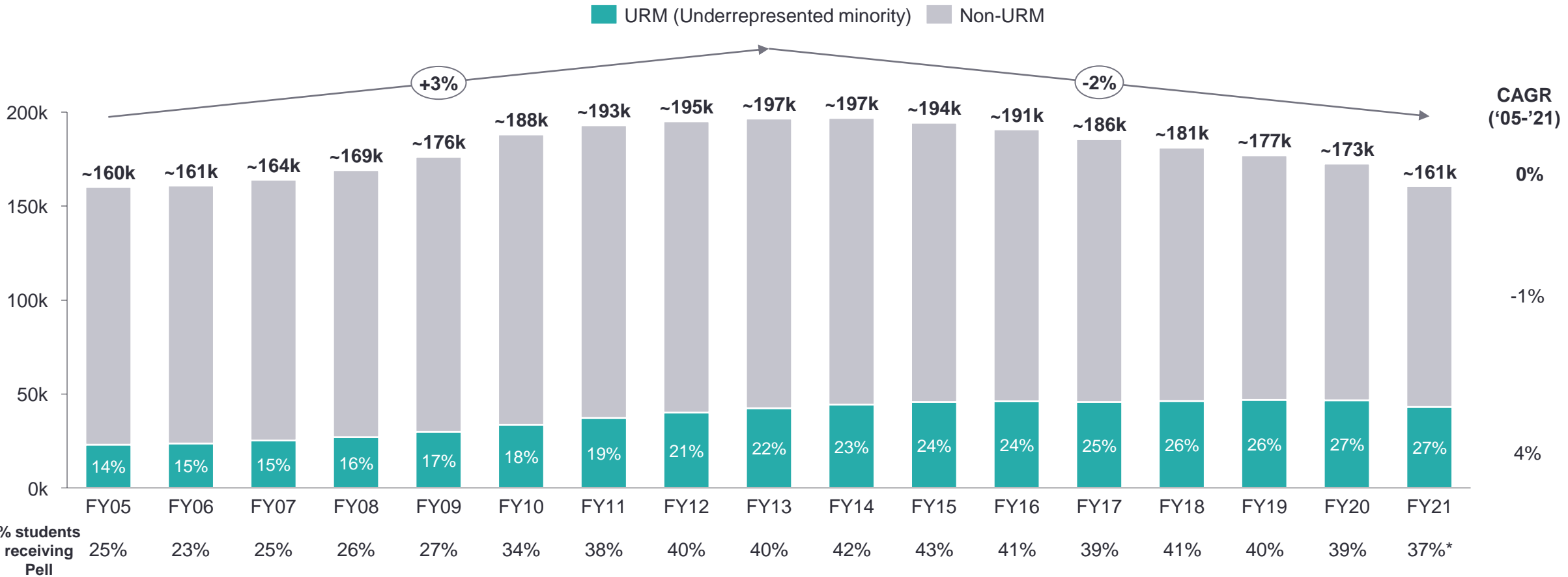
Post-secondary participation rate in MA public HED for graduating MA high-school students (as % of HS students enrolling in postsecondary), FY10 – FY20 ¹¹



Note: segment averages are calculated using weighted averages by total enrollment
 Source: MA DESE; National Student Clearinghouse

Although total undergraduate enrollments have declined since FY13, the share of underrepresented minority (URM) and Pell students has risen

Fall undergraduate headcount (resident and non-resident) for Massachusetts public institutions, by URM status, FY05 – FY21



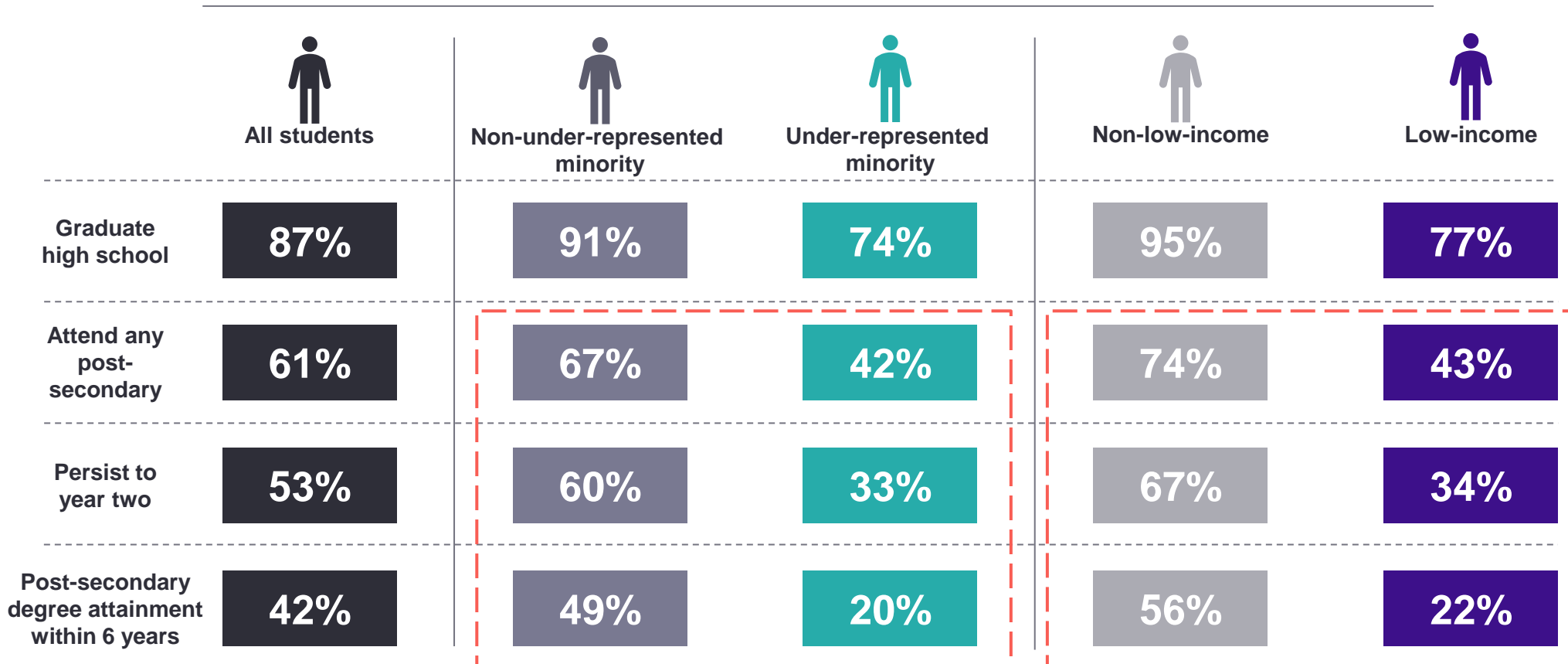
Note: % of students receiving Pell reflects the share of resident degree-seeking undergraduates who received a Pell grant

*In FY21, excludes 3 institutions for which Pell status has not been reported

Source: MA DHE

A cohort-based analysis shows that high school and post-secondary outcomes are substantially lower for URM and low-income groups

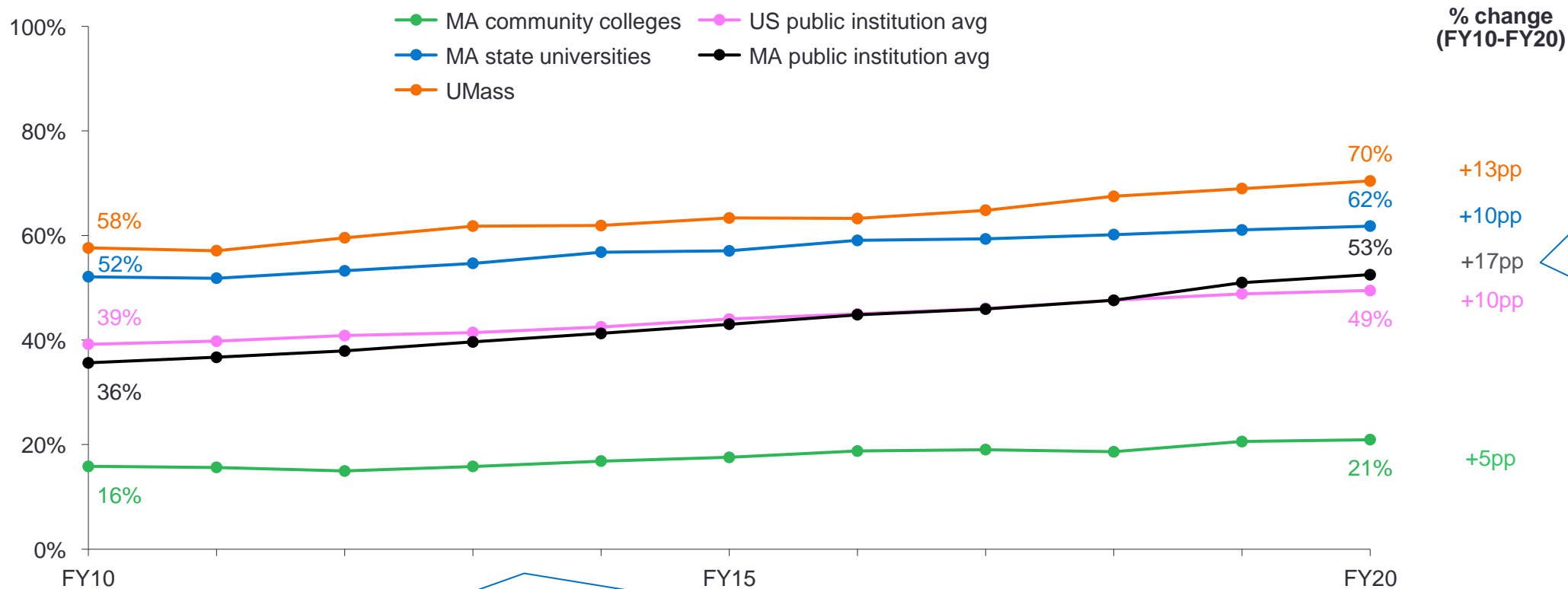
COHORT-LEVEL OUTCOMES: From start of high school to post-secondary attainment (Massachusetts cohort receiving post-secondary degree by FY18)



Accounting for “academic readiness” (using MCAS scores as a proxy and comparing students who scored at the median on MCAS exams), college graduation rates of URM and low-income students were significantly lower than those of non-URM/low-income students

Graduation rates within the state have increased ~17pp over FY10-FY20 from ~36% to ~53%; this graduation rate is broadly in-line with the US average

Graduation rate for first-time full-time students by year and sector, FY10 – FY20



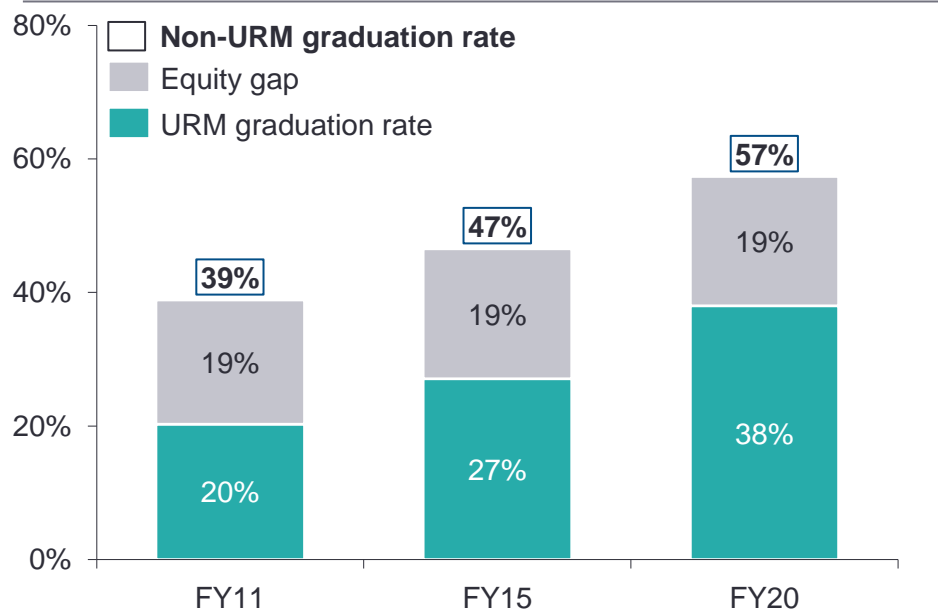
The overall graduation rate of ~53% for MA public institutions ranks 14th highest among states in the U.S.

Graduation rates do not fully capture the success of community college students. Success of this population is more accurately reflected in the Voluntary Framework of Accountability (VFA), a national community college performance framework that incorporates completion, persistence, and transfer measures

Note: segment averages are calculated using weighted averages by total enrollment
 Source: IPEDS; VFA Website

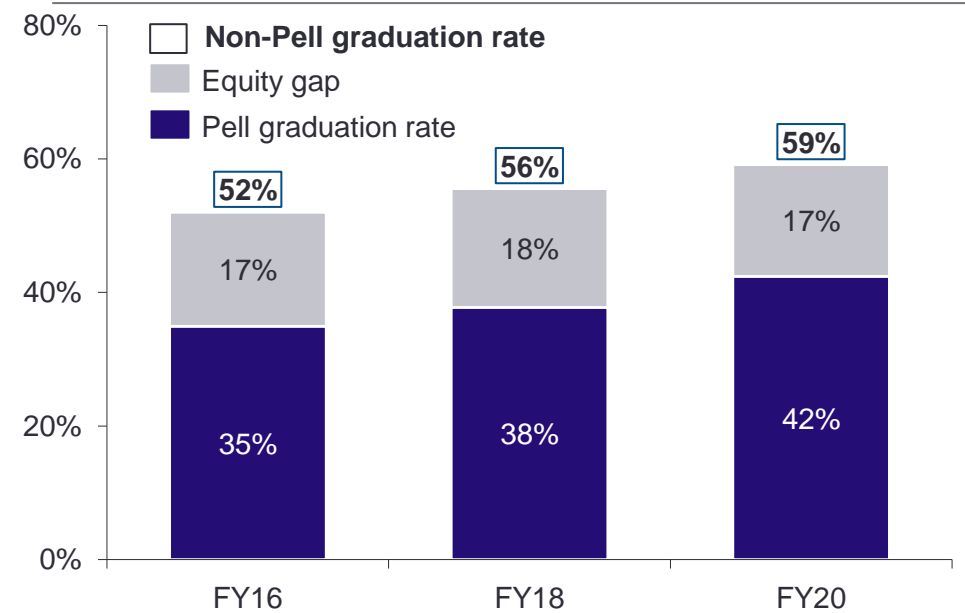
Despite improvements in overall graduation rates, large equity gaps between student groups persist across segments

Graduation rates for first-time, full-time undergraduate students attending MA public institutions, by URM status, FY11 – FY20 ¹³



	FY11	FY15	FY20
MA equity gap %	19%	19%	19%
CC equity gap %	8%	9%	8%
SU equity gap %	12%	8%	11%
UMass equity gap %	17%	15%	15%

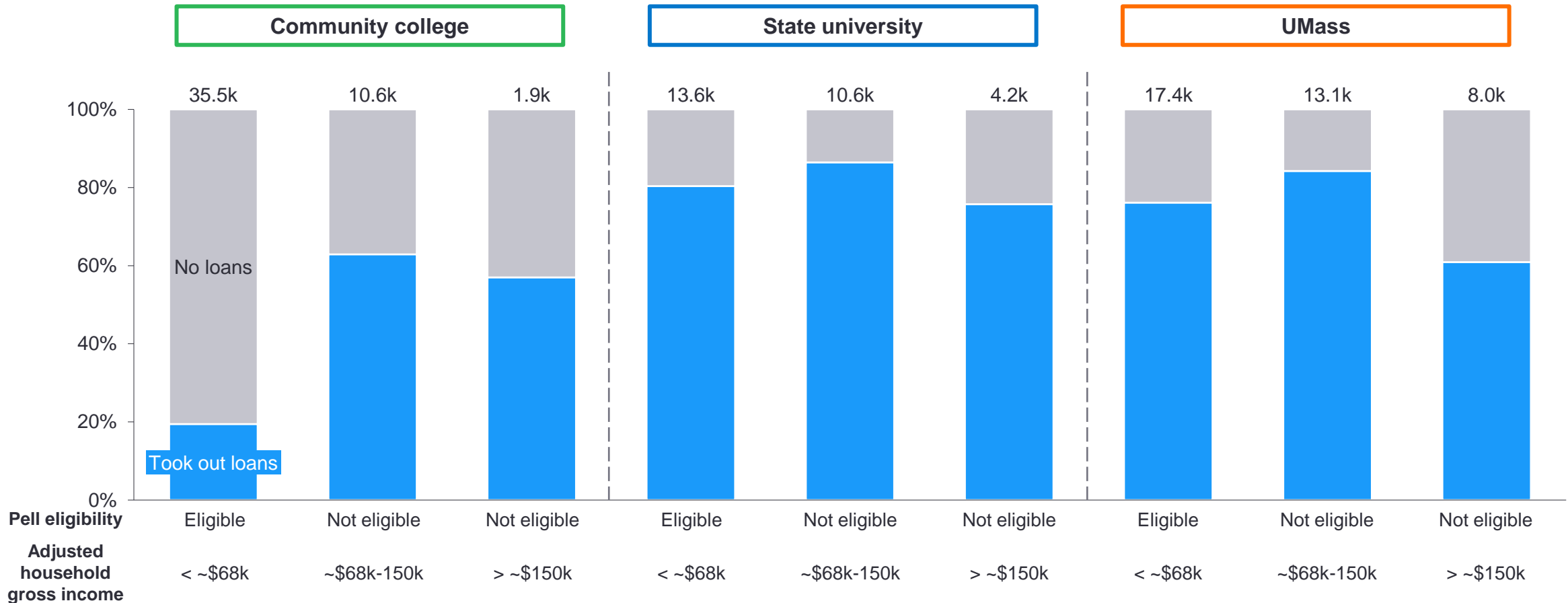
Graduation rates for first-time, full-time undergraduate students attending MA public institutions, by Pell status, FY16 – FY20



	FY16	FY18	FY20
MA equity gap %	17%	18%	17%
CC equity gap %	8%	4%	6%
SU equity gap %	3%	6%	8%
UMass equity gap %	12%	16%	11%

~60% of MA resident undergraduate students across all MA public segments took out federal loans in FY20, albeit with higher proportions at 4-year universities (~75-85%)

Count of MA resident undergraduates who completed FAFSA, by approximate family adjusted gross income (AGI)¹⁴ and % taking out federal loans, FY20



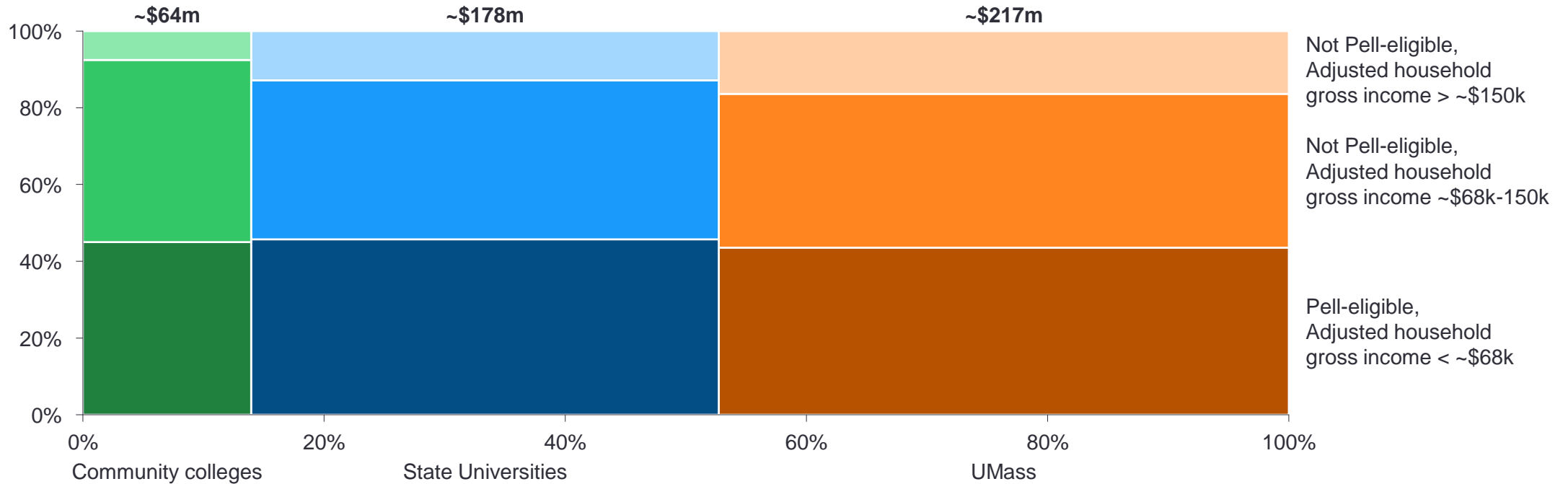
Note: only data pertaining to federal loans are included
 Source: MA DHE; Institute for College Access and Success; studentaid.gov

In FY20, the majority (~\$255m, 55%) of total annual federal loan debt taken by MA resident undergraduates went to non-Pell-eligible students

Students and families in the highest AGI brackets may take out federal loans to cover portions of their expected family contribution due to the relatively low interest rates on federal loans

Total annual amount of federal loans for MA resident undergraduates who took out loans, by estimated family adjusted gross income (AGI)¹⁴ and sector, 2020 dollars, FY20

Total Pell debt load: ~\$205m
Total non-Pell debt load: ~\$255m

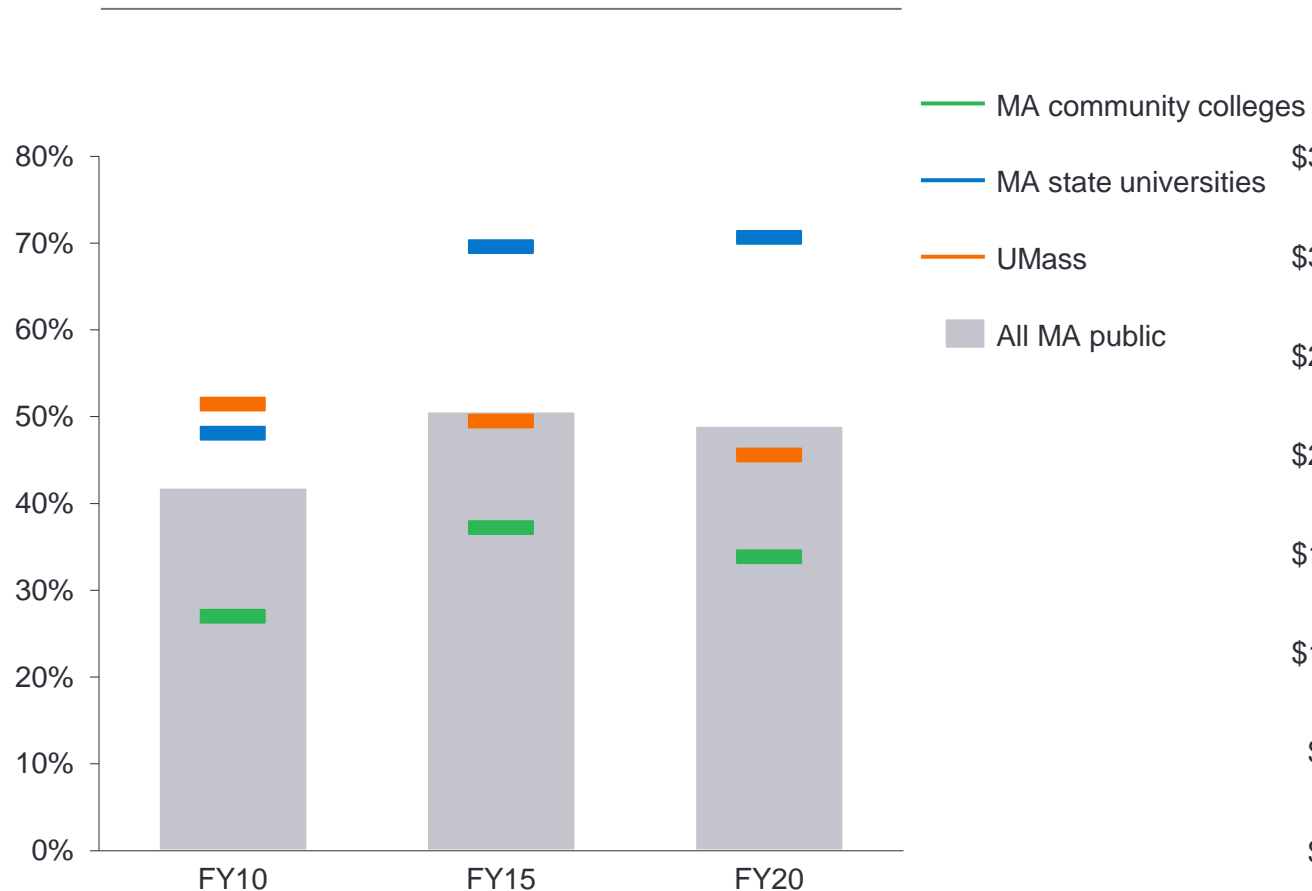


Count of students with federal loans	~14.7k	~23.3k	~29.2k
Average annual federal loan amount	~\$4.3k	~\$7.6k	~\$7.4k

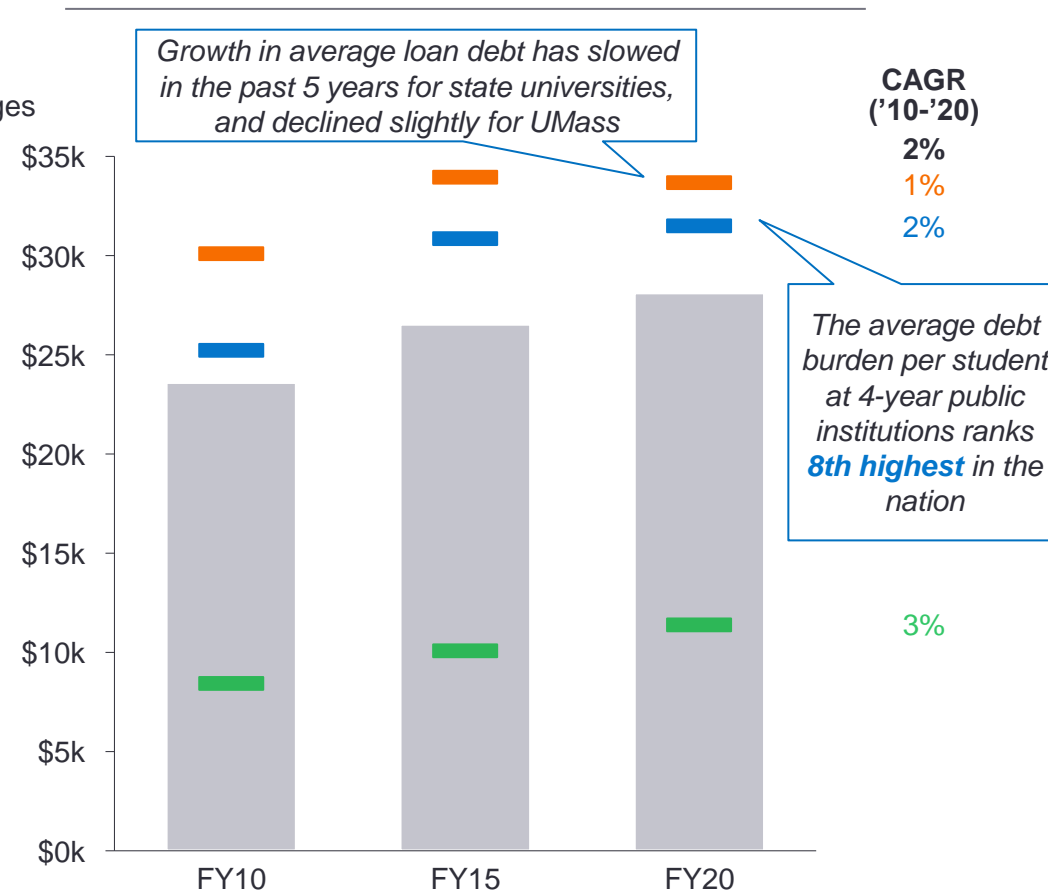
Note: federal loan limits range from \$5.5k-7.5k for dependent undergraduates and \$9.5k-12.5k for independent undergraduates (varying by year in college)
Source: MA DHE

While the share of students with loans has decreased across two segments since FY15, the average debt burden per student (for those with loans) has risen over FY10-20

Percent of graduating students with student loan debt, by year and sector, FY10 – FY20



Average amount of student loan debt for graduating students carrying loans, by year and sector, 2020 dollars, FY10 – FY20

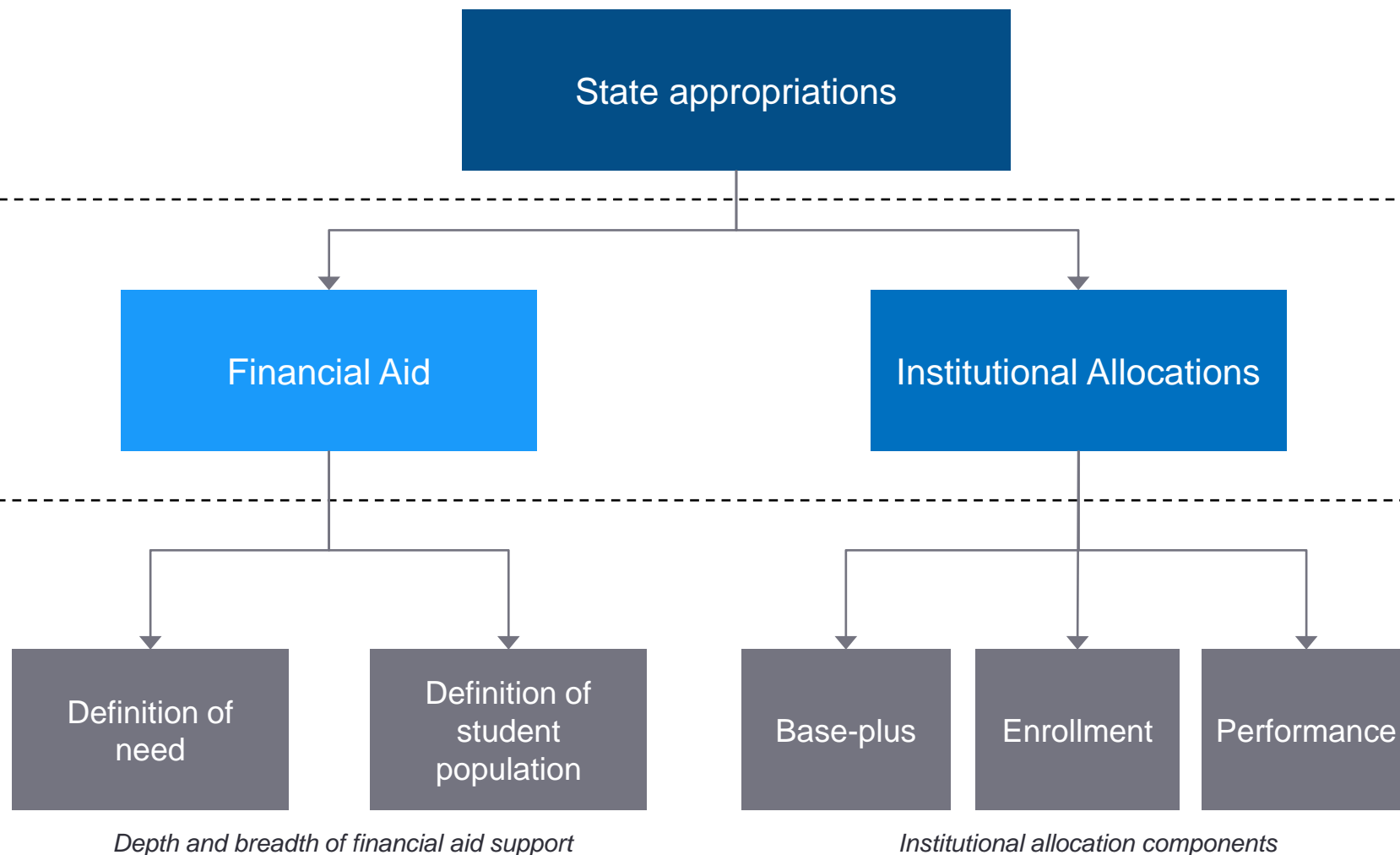


Note: Comparison of debt burden upon graduation from TICAS annual report
 Source: MA DHE; Institute for College Access and Success

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When assessing the higher education financing system, MA can consider overall funding levels and how to appropriate funds via institutional allocations and financial aid



Funding level:

▶ The state determines the overall level of state funding for the higher education system

Funding strategy:

▶ State appropriations flow through grants to institutions or financial aid to students, via grants, scholarships and waivers

Funding tactics:

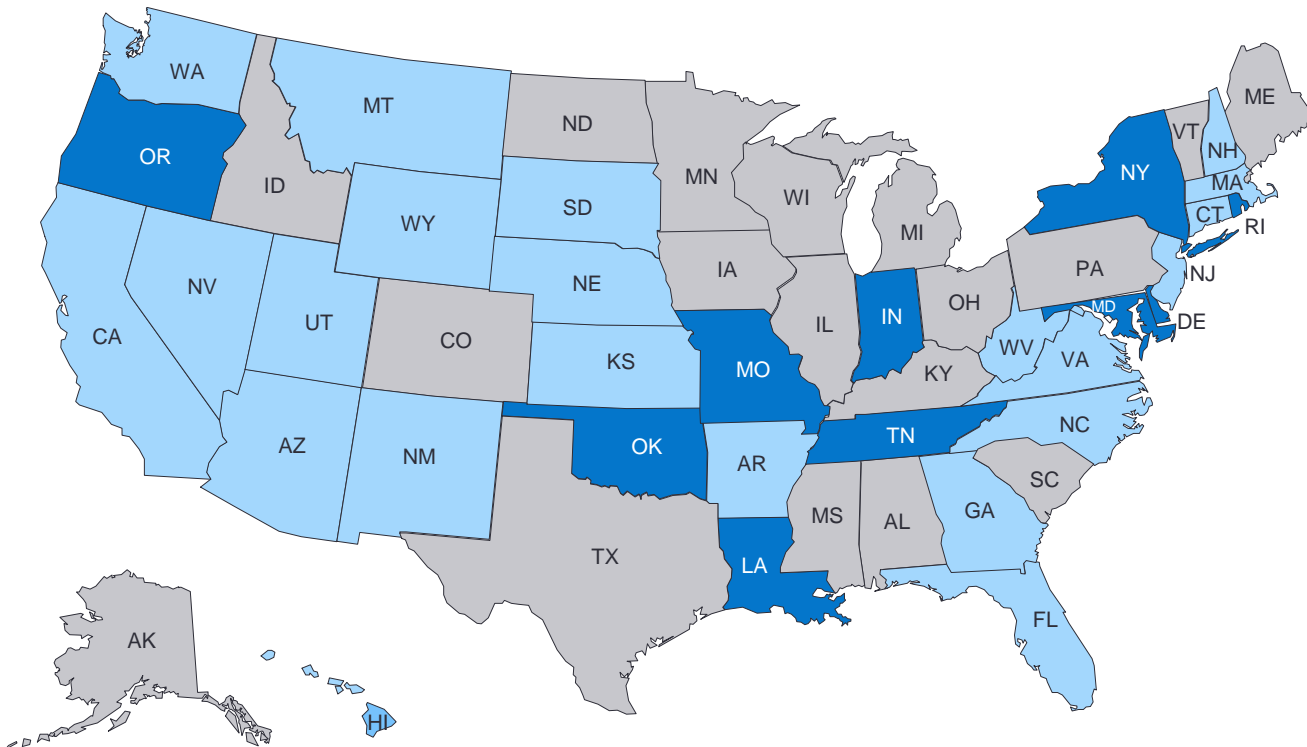
1. Financial Aid: Depending on their higher education goals, states may award aid against various definitions of need and student eligibility

2. Institutional Allocations: State funding models determine how funds are allocated between and within sectors (2-year and 4-year), with the majority of states using a mix of components

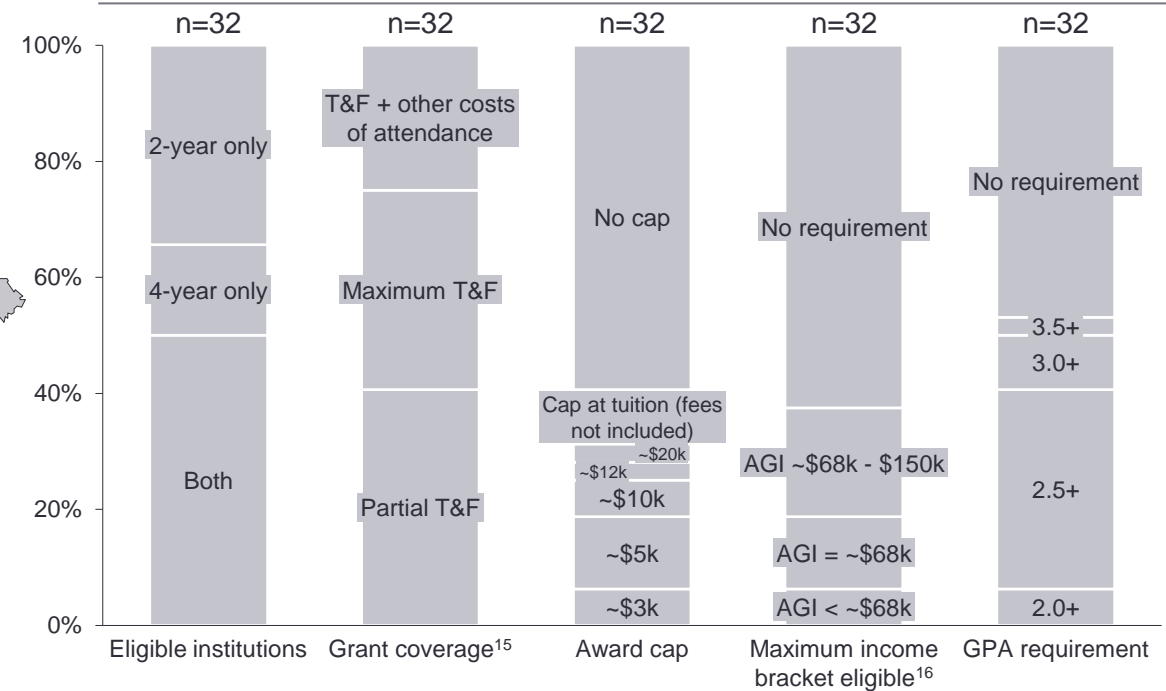
Financial Aid: There are many examples nationally of state financial aid programs (such as promise programs) when considering available policy choices

States with a statewide promise program, 2021

- Statewide promise program recognized by all notable sources*
- Statewide promise program recognized by 1-3 notable sources**
- No statewide promise program (18 states)



Promise program characteristics, 2021¹⁴



- ▶ Promise programs began as an **innovative solution to fulfill student unmet financial need**, and have gained traction in the past 8 years as states look to address access and equity concerns
- ▶ Promise programs serve different student populations based on **residency status, academic merit, and household income**
- ▶ Those states seeking to **provide aid beyond tuition and fees** currently only cover parts of the total cost of attendance, with limitations due to funding constraints

*The notable sources which track promise programs are College Promise, Education Trust, Free College Now, and Penn Ahead

**MASSGrant Plus is recognized as a promise program by Free College Now, but not by the Education Trust, College Promise, or Penn Ahead

Source: Tennessee Comptroller of the Treasury; Oregon Higher Education Coordinating Commission; Statesman Journal; College Promise; Education Trust: A Promise Worth Keeping; Free College Now; Penn Ahead

Institutional Allocations: In assessing potential policy changes to financing public higher education, MA could consider a range of institutional allocation tactics used by other states

Of all U.S. states...

Base-plus (or minus)

~30%

Fund **2-year institutions** using only a base-plus approach

~40%

Fund **4-year institutions** using only a base-plus approach

Enrollment-based

~52%

Fund **2-year institutions** with an enrollment-based component

~40%

Fund **4-year institutions** with an enrollment-based component

~26%

Include incremental weighting for **priority student group enrollments**

Performance-based

~52%

Fund **2-year institutions** with a performance-based component

~42%

Include specific **workforce-related metrics** (e.g., count of degrees in programs of strategic emphasis)

~46%

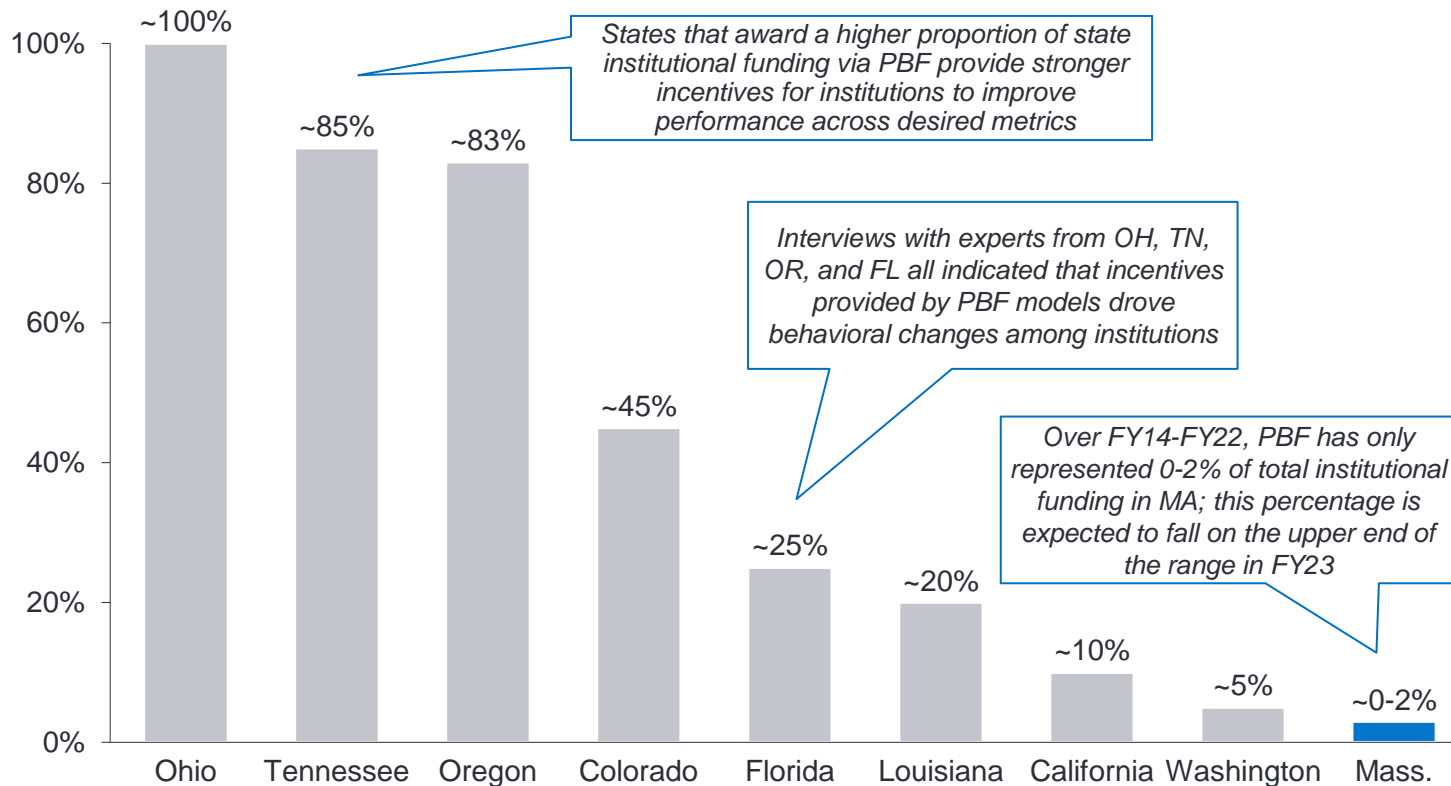
Fund **4-year institutions** with a performance-based component

~48%

Include **equity-related performance metrics** (e.g., number of Pell or URM completions)

Institutional Allocations: PBF is a small portion of MA's allocation methodology and hence provides a small incentive for institutions to drive change; other states use higher portions

Percent of statewide institutional funding tied to performance-based funding (PBF), FY20



Example components of MA performance and enrollment-based formulas, FY20

MA community college formula metrics

- ▶ # of credit hours enrolled, with weights by CIP code
- ▶ # students reaching 30 credits
- ▶ Course completions in college-level Math and English
- ▶ Certificate / associate degrees per 100 FTE

MA state university formula metrics

- ▶ # of credit hours enrolled, with weights by CIP code
- ▶ # students reaching 60 credits
- ▶ 6-year graduation rate
- ▶ Degrees per 100 undergrad FTEs
- ▶ Total degrees awarded
- ▶ Degrees awarded in priority workforce fields
- ▶ Degrees awarded per \$100k in institutional revenue

Note: Lists of metrics are not exhaustive

Source: The Education Trust; State Departments of Higher Education; State commissioner interviews; MA state budget; MA state funding formulas

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250+ stakeholders were invited to attend feedback sessions; 164 participated, 109 from institutions and 55 other stakeholders in the Commonwealth

Stakeholder engagement sessions completed

Public higher education stakeholders (n= 109)		Other stakeholders (n= 55)	
Community colleges	Collective bargaining groups	Legislators	Think tanks
State universities		Students	Foundations
UMass			



Stakeholders provided feedback through polling questions, live discussion, and conversation in the Zoom chat

Feedback from stakeholders indicates support for expanding MASSGrant Plus as well as a preference for base-plus and enrollment-based funding

Financial aid

- ▶ **Stakeholders support codifying the MASSGrant Plus program** as a state higher education priority
- ▶ Stakeholders also agree that **the state's broad-based financial aid model would benefit from expansion**, both in terms of expanding the “depth of aid” (to further reduce the cost of attendance beyond just tuition and fees) and expanding the “breadth of aid” (to include students in the next tranche of income, above the Pell income eligibility threshold)

Institutional allocations

- ▶ Stakeholders are largely **in favor of funding approaches that include a substantial base component**, e.g., to provide consistency and predictability in multi-year budget planning and to cover fixed costs (or at least a sizable portion of fixed costs) required to operate
- ▶ In addition, stakeholders expressed **a stronger preference for including an enrollment-based funding component** than a performance-based funding component
 - Many stakeholders agree that funds should follow students, with **extra weighting for student need or program cost / value to the state**. Some stakeholders express concern around tying funding to enrollment in an environment with declining enrollments
 - **Opinions on performance-based funding are mixed** due to uncertainty around potential unintended behavioral impacts and the mixed results of performance-based approaches used in other states (varied success depending on how the approaches are implemented and messaged)
 - To the extent a performance-based funding component is included, **many favored focusing the performance metrics on reducing equity gaps**

Additionally, stakeholders support transitional funding, innovation funding, and cost control measures

Funding strategy considerations

- ▶ While some stakeholders believe funding should skew **towards institutions to allow for the flexibility** to spend funds where they see the greatest need, others believe that prioritizing **financial aid will enable more students to enroll in and complete college** and therefore also improve the financial viability of institutions
- ▶ **Stakeholders generally support the use of transitional funding policies** (e.g., potentially including a “hold harmless” clause for a defined period of time) to help institutions manage their potential transitions to a modified financing system

Other key elements

- ▶ Both external and internal stakeholders view **mitigating costs for institutions and students** as a top priority
 - Some stakeholders argue that certain rising costs are outside of the control of institutions. These stakeholders desire **incremental funding to cover growing cost drivers**, such as the full cost of collective bargaining, fringe benefits, capital maintenance, and technology
 - Stakeholders identified **rising tuition and fees** as a pain point, but **authority over tuition and fees is currently divided** between the Commonwealth and individual institutions (the Commonwealth sets tuition for most CCs and SUs, whereas the institutions control fees)
- ▶ The majority of stakeholders support additional investment funds to meet strategic goals, such as **innovative initiatives and system-wide collaboration**

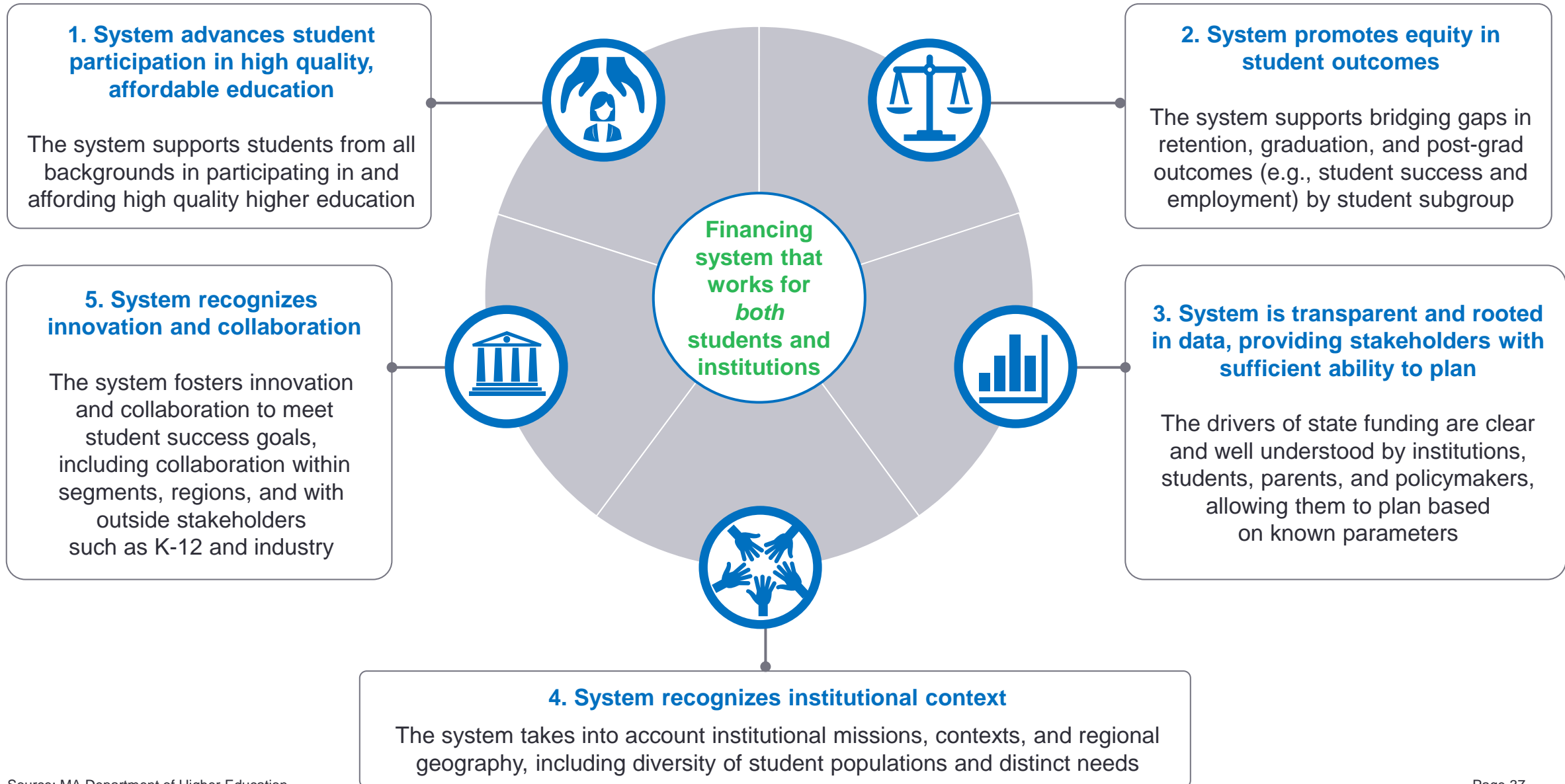
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- ▶ Appendix

| Agenda |

- ▶ Introduction and background (10 min)
- ▶ Current state of public higher education in MA (40 min)
- ▶ Policy choices for using state funding to improve institutional and student success (15 min)
- ▶ Stakeholder feedback (10 min)
- ▶ Discussion / Q&A (20 min)
- ▶ **FAAP AC and BHE next steps (5 min)**
- ▶ Appendix

Guiding principles



Time to move away from a funding system that fails to support the guiding principles



1. System advances participation in high quality, affordable education

- ▶ Participation rates have been declining even prior to COVID-19. Affordability is a barrier for many students, with a large share of students taking on debt

“ I support expanding financial aid. **More aid money could attract more students and raise enrollments**”



2. System promotes equity in student outcomes

- ▶ Gaps in outcomes persist between groups, yet a very small amount of funding to institutions is tied to closing equity gaps

“ What resources does it take to **support students from different groups**, such as Pell-eligible or URM students? The idea of considering what it takes to provide students with the resources they need is logical”



5. System recognizes institutional context

- ▶ The system could tie a greater share of funding to each institution's student composition and outcomes

“ Each institution's **performance outcomes** should be a part of the formula. Institutions should also be rewarded for their **ability to attract people to their school**”

Financing system that works for both students and institutions



3. System is transparent and rooted in data

- ▶ The current system is not driven by a clear, well-understood strategy. Instead, it is mostly dependent on economic conditions

“ These historical dollars only show what the state could afford...the reason this was happening is because there was **no apparent strategy to financing**”



4. System recognizes innovation and collaboration

- ▶ The current system provides limited support for innovation, with funding falling from ~\$7.5m in FY14 to ~\$2.5m today

“ These are extremely important funds to programs such as competency-based education and mass transfer. I have seen the **ways they move us forward**”

Over the next few weeks, the FAAP AC will consider a range of policy choices (scenarios) emerging from the analysis and incorporate stakeholder input

Next steps and upcoming meetings

Meeting	Dates
1 FAAP AC Meeting #1	November 3 rd
2 December BHE Meeting	December 13 th

| Agenda |

- ▶ Introduction and background (10 min)
- ▶ Current state of public higher education in MA (40 min)
- ▶ Policy choices for using state funding to improve institutional and student success (15 min)
- ▶ Stakeholder feedback (10 min)
- ▶ Discussion / Q&A (20 min)
- ▶ FAAP AC and BHE next steps (5 min)
- ▶ **Appendix**

Sources for additional information

▶ [Current state report](#)

- Current state of higher education in MA (pg. 4-25)

▶ [Comparative state report](#)

- Summary of funding strategy themes (pg. 9-34)
- State comparative metrics (e.g., revenue, financial aid, outcomes) (pg. 36-43)
- Detailed state funding models (pg. 43-53)

▶ [Student outcome report](#)

- Affordability outcomes (pg. 13-25; pg. 35-41)
- Participation, retention, and graduation outcomes (pg. 11-12; pg. 28-33)



Please click on the blue text to be directed to the relevant report

The following provides detail on the footnotes cited in the materials

Footnotes

Slide 10 and 14

1. UMass revenue figures exclude the medical school
2. State appropriations / grants include fringe benefits and exclude capital funding and financial aid
3. Sales of auxiliary includes revenue from residence halls, food services, athletics, and other student services
4. Federal appropriations / grants include Pell grants and research grants
5. Other includes sources such as gifts, local appropriations / grants, investment income, and other non-operating revenues

Slide 11 and 12

6. FY23A based on FY23 final budget allocation

Slide 15

7. Includes ~\$13.7m in waivers from CCs and SUs, and excludes waivers from UMass because UMass tuition is not deposited to the Commonwealth's General Fund

Slide 16

8. Total MA state financial aid includes allocations for private and public institutions, which may differ from actual amounts expended. Includes Foster Care and Adopted Fee Waiver, Massachusetts State Scholarship Program and High Demand Scholarship Program line items. FY23B is the amount appropriated by the MA Senate Ways & Means budget in May 2022 and represents the upper end of potential funding amounts
9. Total funds allocated to institutions for resident undergraduates attending MA institutions are not always distributed to and used by students

Slide 17

10. Only includes resident students who complete the FAFSA

Slide 18

11. Analysis only includes graduates of public high schools in Massachusetts, which accounted for ~90% of all graduates in SY18-19
12. Because 16-month participation data is not yet available for FY21, FY21 data in the chart is the 9-month participation rate adjusted to the 16-month rate using the previous 5-year average of 16-month to 9-month participation ratios

Slide 22

13. Race and ethnicity classifications were adjusted between FY10 and FY11. For consistency, only years with the new classifications are shown here

Slide 23, 24, and 28

14. Family AGI is estimated by using students' estimated family contribution (EFC) as calculated in their FAFSA

Slide 28

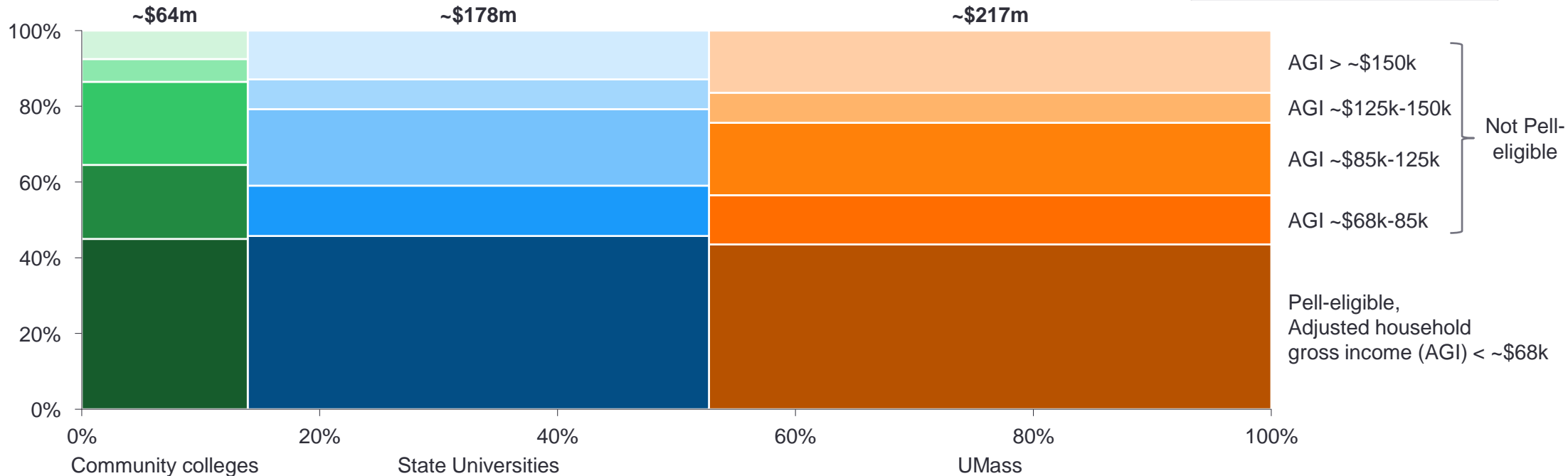
15. States with first-dollar promise programs which fully meet tuition & fees are considered to be covering costs beyond tuition & fees, since eligible students would receive federal dollars in addition to the state tuition & fee grant
16. Many states allow students of all incomes to apply to promise programs, but when funds are constrained may prioritize the lowest income students or scale awards according to income

In FY20, the majority (~\$255m, 55%) of total annual federal loan debt taken by MA resident undergraduates went to non-Pell-eligible students

Students and families in the highest AGI brackets may take out federal loans to cover portions of their expected family contribution due to the relatively low interest rates on federal loans

Total annual amount of federal loans for MA resident undergraduates who took out loans, by estimated family adjusted gross income (AGI)¹⁴ and sector, 2020 dollars, FY20

Total debt load	
AGI > ~\$150k	~\$63m
AGI ~\$125k-150k	~\$35m
AGI ~\$85k-125k*	~\$92m
AGI ~\$68k-85k*	~\$64m
AGI < ~\$68k (Pell)	~\$205m



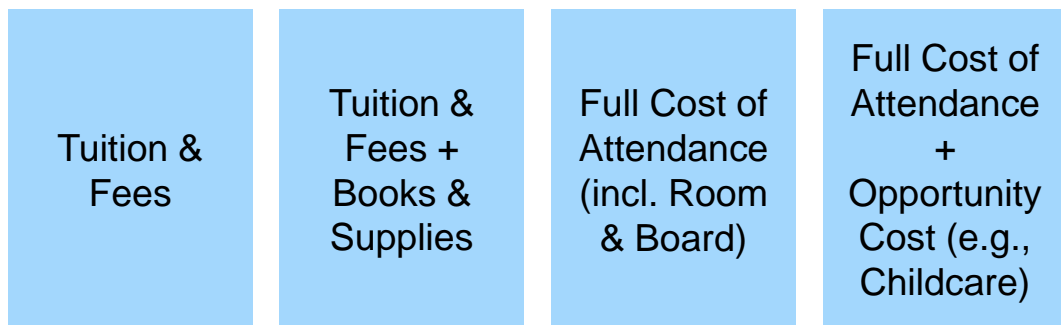
Count of students with federal loans	~14.7k	~23.3k	~29.2k
Average annual federal loan amount	~\$4.3k	~\$7.6k	~\$7.4k

Note: federal loan limits range from \$5.5k-7.5k for dependent undergraduates and \$9.5k-12.5k for independent undergraduates (varying by year in college)
 *MA's median income is ~\$85k AGI; other states such as NY, CA, and KS use income cutoffs of ~\$125k AGI in their promise programs
 Source: Massachusetts DHE Student Loan File; Massachusetts DHE Student-Level Data

Financial Aid: As a starting point for designing funding approaches to financial aid, states consider depth and breadth of financial aid

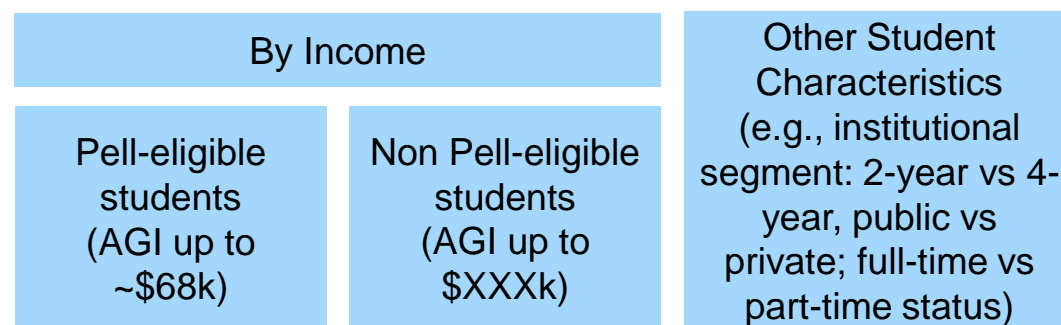
What types of costs are eligible? Which students are eligible?

DEPTH OF AID: Definition of need *(cost component eligibility)*



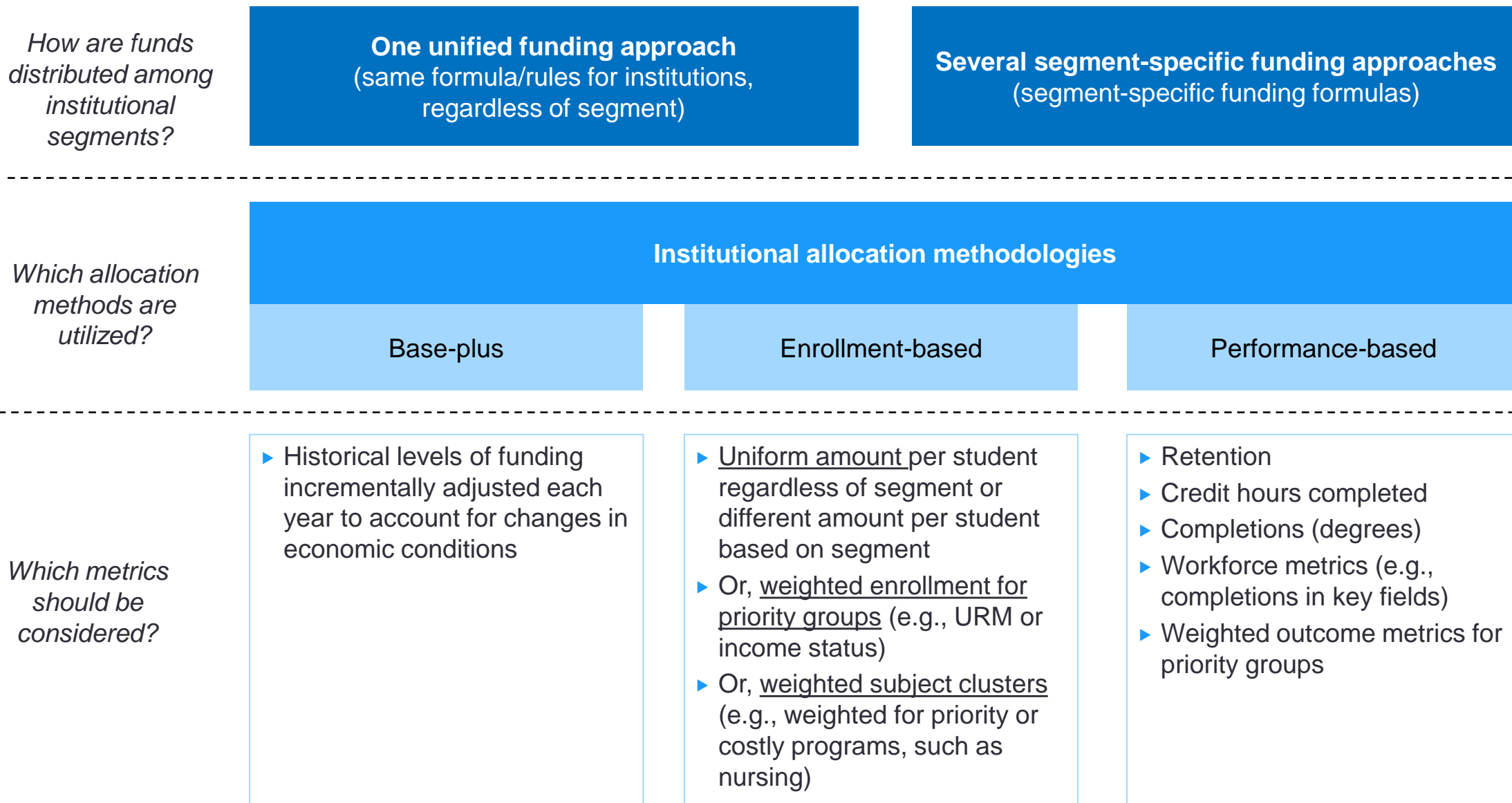
- Additional considerations:
- ▶ Last-dollar vs. first-dollar program design
 - ▶ Award amount caps (e.g., no ceiling as long as attending a public institution or capped at X amount)

BREADTH OF AID: Definition of student population *(student eligibility)*



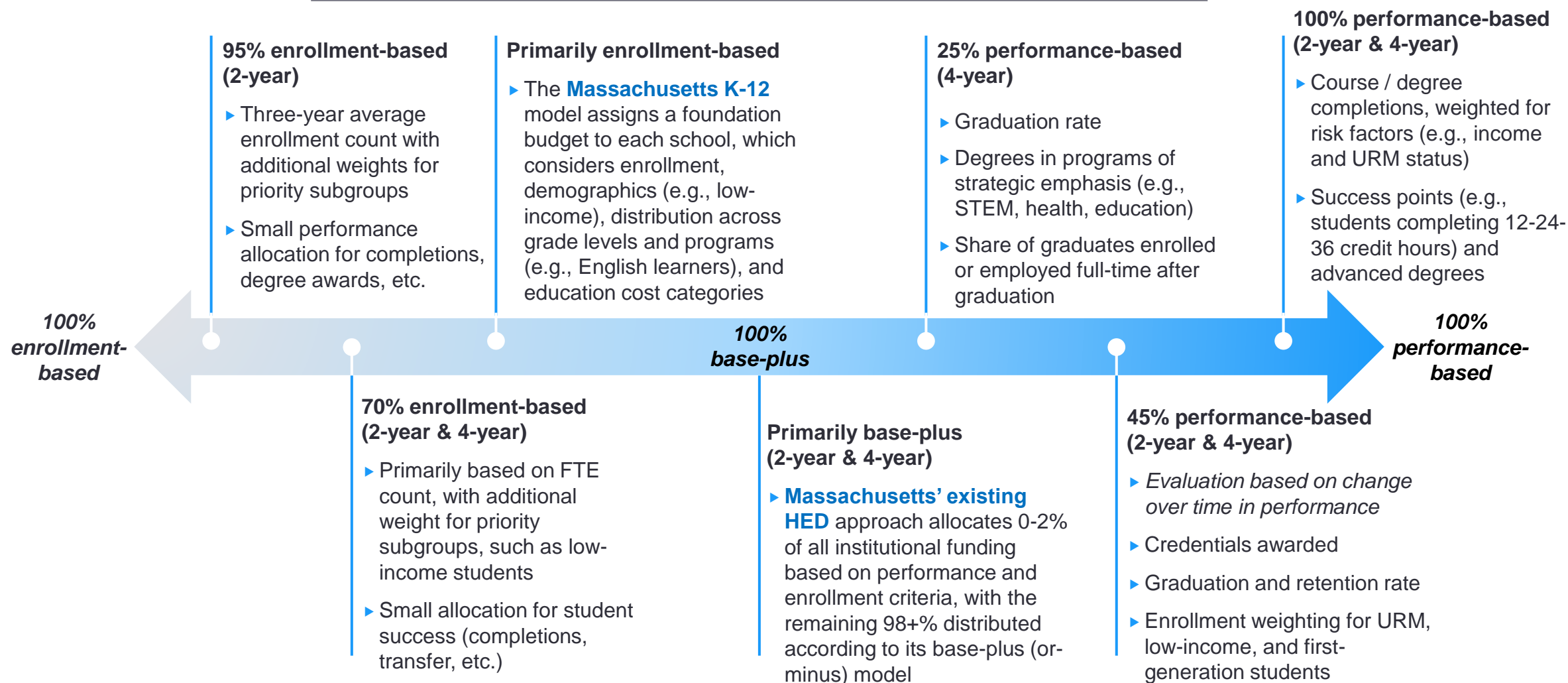
- Additional considerations:
- ▶ Whether awards are guaranteed for the entire duration of college regardless of academic performance
 - ▶ Whether awards are contingent upon other criteria (e.g., staying in MA after graduation)

Institutional Allocations: The following criteria could be considered in designing potential funding approaches specific to institutional allocations



Institutional Allocations: The degree to which states incorporate performance and enrollment-based allocations in their funding formulas varies significantly

Example existing institutional allocation models (incl. key metrics)



States currently offer a range of promise programs, with various funding approaches, award sizes, and eligibility requirements (1 of 2)

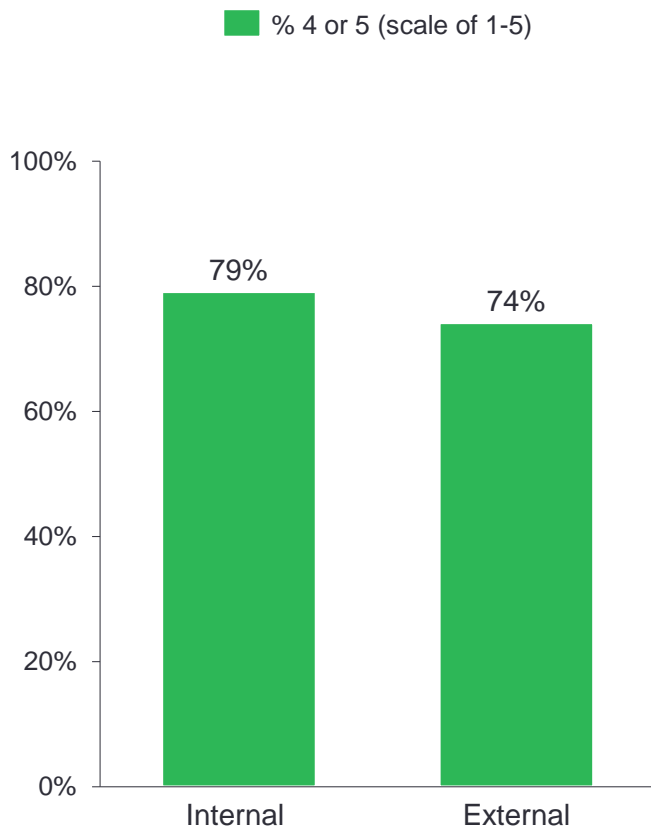
State	Est.	Funding approach	Eligible institutions	Award maximum	Adjusted gross income (AGI) eligibility	Merit eligibility	Source
Arizona Promise Program	N/A	Last-dollar	4-year only	Tuition and fees	Pell-eligible	GPA: 2.5+	College Promise
Arkansas Future Grant	2019	Last-dollar	2-year only	Tuition and fees	None	None	College Promise
California Middle Class Scholarship	2013	First-dollar	4-year only	Cost of attendance ¹	<\$125k	GPA: 2.0+	Keep California's Promise
Pledge to Advance Connecticut	2020	Last-dollar	2-year only	Tuition and fees	None	None	College Promise
Delaware SEED	2005	Last-dollar	2-year only	Tuition	None	GPA: 2.5+	College Promise
Florida Bright Futures Scholarship	1997	First-dollar	2- and 4-year	75% of tuition and fees	None	GPA: 3.0+ ACT: 25+	College Promise
GA HOPE Grant	1993	First-dollar	2- and 4-year	Partial tuition and fees	None	GPA: 3.0+	College Promise
Hawaii Promise	2017	Last-dollar	2-year only	Tuition, fees, books and supplies	None	None	College Promise
Indiana 21st Century scholarship	1990	First-dollar	2- and 4-year	Tuition and fees	<~\$100k	GPA: 2.5+	College Promise
Kansas Promise	N/A	Last-dollar	2-year only	Tuition, fees, books and supplies	<~\$150k	None	Free College Now
Louisiana Taylor Opportunity Program for Students (TOPS)	1998	First-dollar	2- and 4-year	~\$3-8k per year	None	GPA: 2.5+ ACT: 20+	College Promise
Massachusetts MASSGrant Plus	2018	Last-dollar	2- and 4-year	Tuition, fees, books and supplies	None for CCs; Pell-eligible for 4-year students	None	Free College Now
Maryland Howard P. Rawlings Guaranteed Access Grant	N/A	Last-dollar	2- and 4-year	~\$20k per year	<~\$28k-\$40k	GPA: 2.5+	College Promise
Missouri A+ Scholarship	1993	Last-dollar	2-year only	~\$200 / Credit hour	None	GPA: 2.5+ ACT: 15+	College Promise
Montana Promise Scholarship	N/A	Last-dollar	2-year only	Partial tuition and fees	None	None	Penn Ahead
Nebraska Promise	2020	Last-dollar	2- and 4-year	Partial tuition and fees	<~\$65k	GPA: 2.5+	College Promise

States currently offer a range of promise programs, with various funding approaches, award sizes, and eligibility requirements (2 of 2)

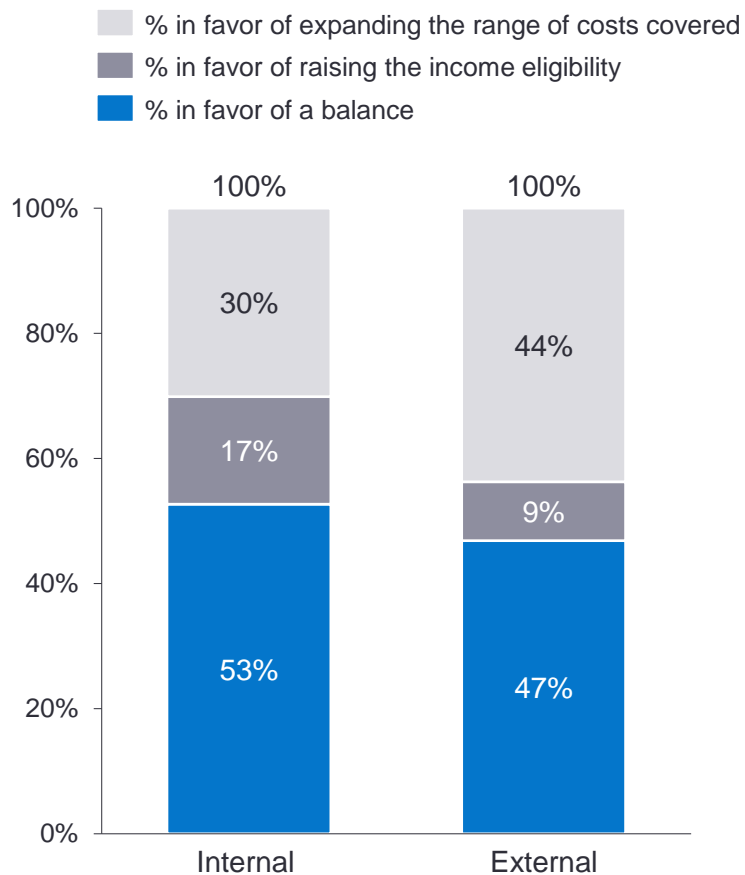
State	Est.	Funding approach	Eligible institutions	Award maximum	Adjusted gross income (AGI) eligibility	Merit eligibility	Source
Nevada College Kickstart	2013	Last-dollar	2- and 4-year	Total cost of attendance	None	None	College Promise
NH Granite Guarantee	N/A	Last-dollar	4-year only	Partial tuition and fees	Pell-eligible	None	College Promise
NJ Community College Opportunity Grant	2018	Last-dollar	2-year only	Tuition and fees	<\$80k	None	College Promise
New Mexico Legislative Lottery Scholarship	1996	First-dollar	2- and 4-year	Partial tuition and fees	None	GPA: 2.5+	College Promise
New York Excelsior Scholarship	2017	Last-dollar	2- and 4-year	\$5.5k / year	<\$150k	None	College Promise
NC Promise	2018	First-dollar	4-year only	Tuition	None	None	College Promise
Oklahoma Promise	1992	First-dollar	2- and 4-year	Tuition	<\$70k	GPA: 2.5+	College Promise
Oregon Promise	2016	Last-dollar	2-year only	~\$4k / year	None	GPA: 2.0+	College Promise
Rhode Island Promise	2017	Last-dollar	2-year only	Tuition and fees	None	GPA: 2.5+	College Promise
Build South Dakota Scholarship Fund	2015	First-dollar	2-year only	Tuition, fees, books, and supplies	None	None	College Promise
Tennessee Promise	2015	Last-dollar	2-year only	Tuition and fees	None	None	College Promise
Utah Promise	N/A	Last-dollar	4-year only	Tuition and fees	Pell-eligible	None	College Promise
Virginia Guaranteed Assistance Program	N/A	First-dollar	2- and 4-year	Tuition, fees, books and supplies	None	GPA: 2.5+	College Promise
Washington College Grant	N/A	First-dollar	2- and 4-year	~\$12k / year	<\$56k	None	College Promise
West Virginia Promise	N/A	First-dollar	2- and 4-year	~\$5k / year	None	GPA: 3.0+ ACT: 21+	College Promise
Wyoming Hathaway Scholarship	N/A	Last-dollar	2- and 4-year	~\$3k / year	None	GPA: 3.5+ ACT: 25+	College Promise

Financial Aid: Stakeholders respond positively to codifying MASSGrant Plus as an ongoing priority and are in favor of expanding the breadth and depth of the program

Stakeholder interest in codifying MASSGrant Plus Promise Program



Stakeholder perspectives on expanding MASSGrant Plus Promise Program

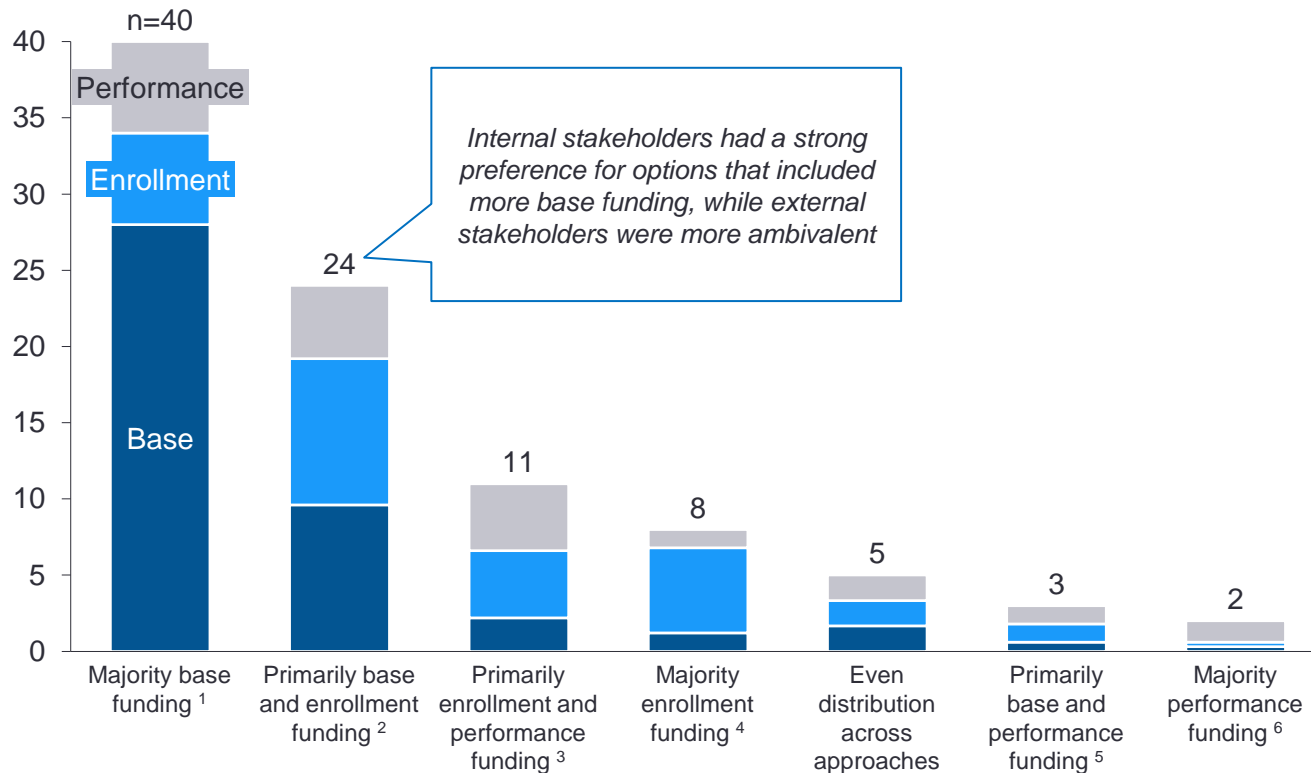


Commentary

Codifying MG+	Expanded income eligibility	Expanded costs covered
<p>“ MASSGrant Plus fills in the gaps for our neediest students; it is a huge improvement over other financial aid programs that have caps on them”</p> <p>“ This is a good direction for the state to be moving in, but there are many different ways to structure this type of program”</p>	<p>“ I am in favor of raising the income eligibility. State University students have the most student debt on average and it is concentrated amongst students who are just above the Pell cutoff”</p> <p>“ We should expand the incomes eligible. I worry about concentrating all of our aid towards a small group of students”</p>	<p>“ I am in favor of covering non-tuition costs such as cost of living, food, transportation, and childcare”</p> <p>“ I think we need to move to cover a wider range of costs; even with tuition and fees covered many students are left in a precarious place”</p>

Institutional Allocations: Stakeholders primarily favor funding approaches which leverage base and enrollment funding tactics

Stakeholder perspectives on the preferred blend of funding tactics



1. 70% base; 15% enrollment; 15% performance
 2. 40% base; 40% enrollment; 20% performance
 3. 20% base; 40% enrollment; 40% performance

4. 15% base; 70% enrollment; 15% performance
 5. 40% base; 20% enrollment; 40% performance
 6. 15% base; 15% enrollment; 70% performance

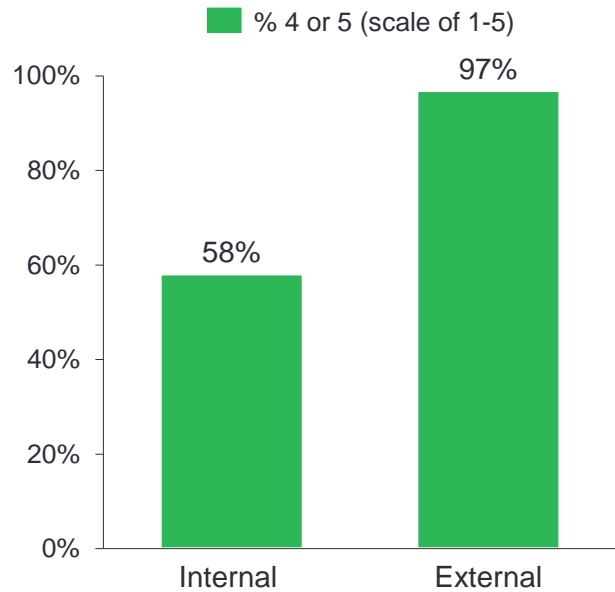
Source: Stakeholder engagement sessions

Commentary

Base	Enrollment	Performance
<p>“ As we’ve seen such a shift in students, it is helpful to know that you can count on a base from year to year”</p> <p>“ Many of us are aligned in choosing a base-heavy approach. There is a question around the dollars needed in the base amount”</p>	<p>“ Base plus weighted student enrollment would be my preferred approach”</p> <p>“ It makes sense that a school with more students would need more funding”</p>	<p>“ If it is included in the equation, the performance measures used matter. There are a lot of unintended consequences even if a metric sounds good on paper”</p>

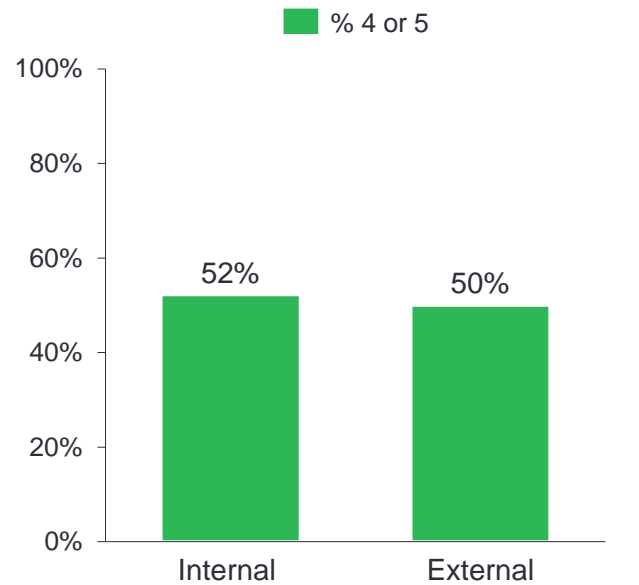
Institutional Allocations: In terms of methodology, support is generally stronger for enrollment weighting by student needs / demographics than performance

Stakeholder interest in enrollment weights for student needs



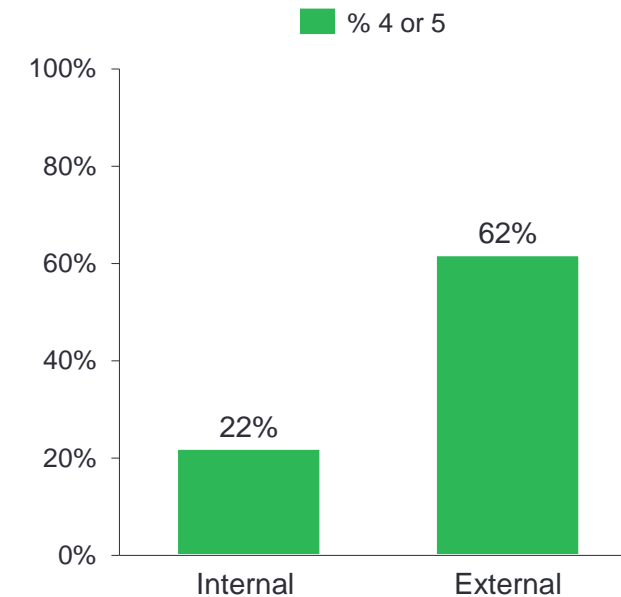
“This is a sound solution. Looking at the massive equity gaps we have in our schools, **we need to take action to close them**”

Stakeholder interest in enrollment weights for strategic programs



“I am not in favor of program weights because I don't want to end up with highly funded programs that do not reflect our students' interests, and **I fear we will incentivize schools to drop programs** and limit options for our students”

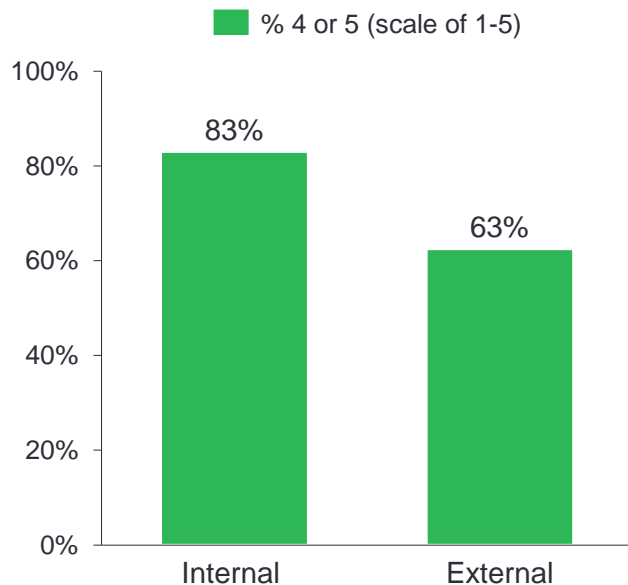
Stakeholder interest in performance-based funding



“Performance funding in another state penalized those who were struggling and awarded those who were already doing well. **Schools were not admitting certain students** because they wanted to get completions”

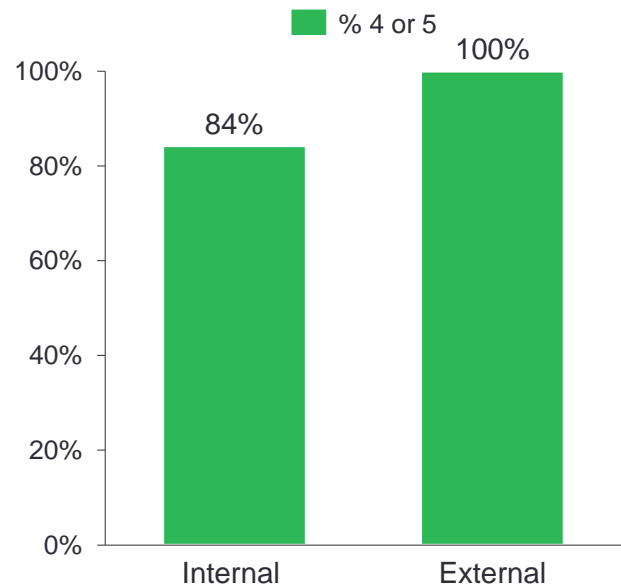
Other Considerations: Stakeholders are largely in favor of temporarily holding institutions harmless, as well as measures to mitigate costs and encourage innovation

Importance of transitional funding to manage a system transition



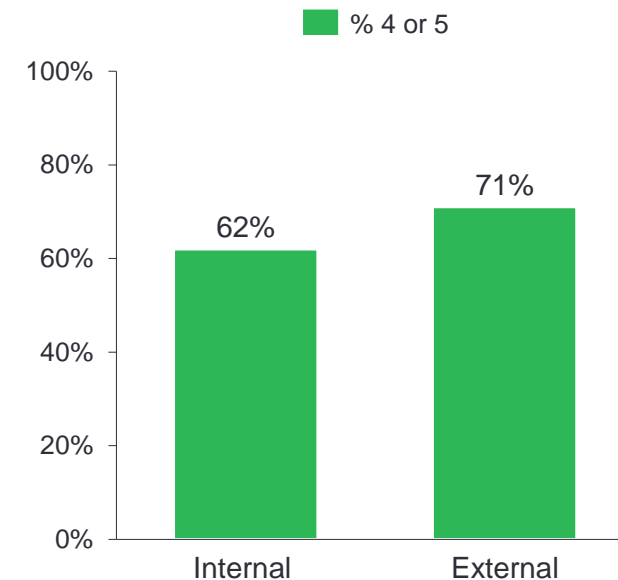
“I agree **there should be a transition**. A one or two-year limitation on the hold harmless would be the most we should likely consider”

Importance of cost control measures for students & institutions



“It’s really important if we are going to make a huge investment in higher ed that affordability is a big part. One thing that isn’t brought up is that additional resources **don’t always get put where they are really needed**”

Importance of resources to invest in innovations & collaborations

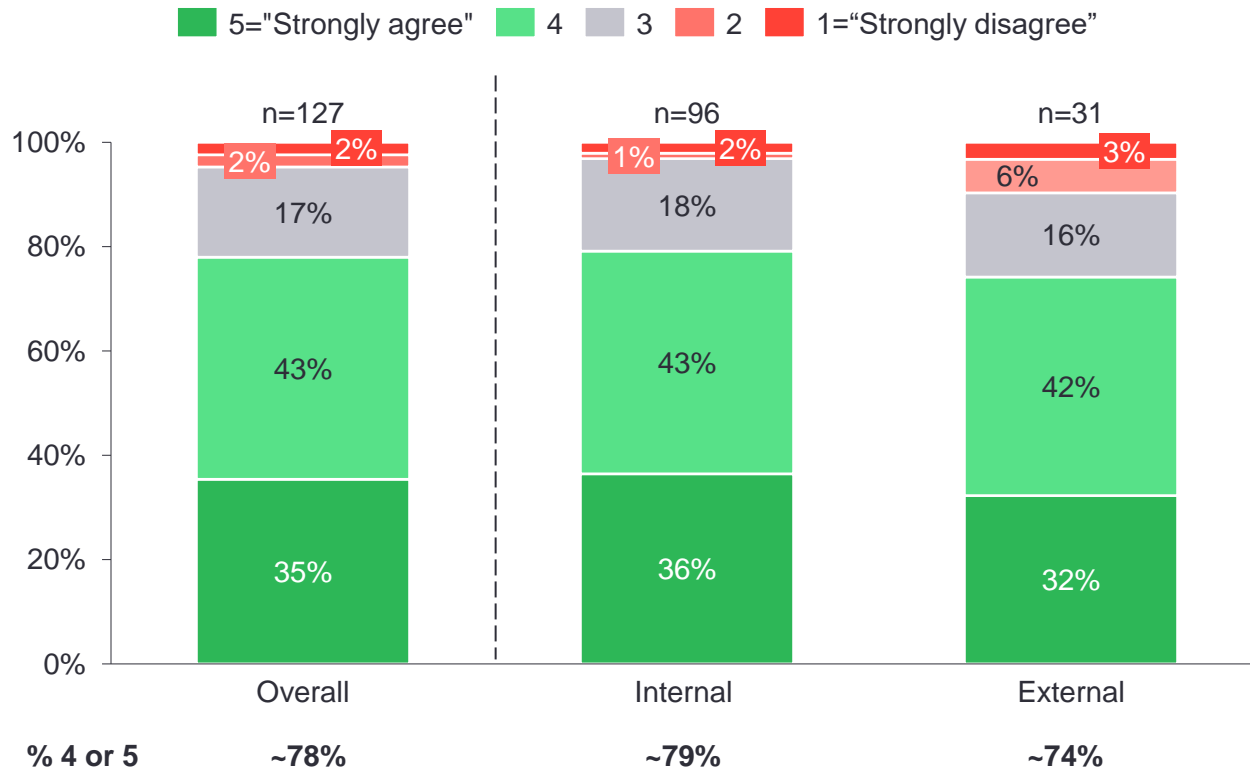


“These are extremely important funds to programs such as competency-based education and mass transfer. I have seen **the ways they move us forward**”

Financial Aid: Stakeholders respond positively to codifying MASSGrant Plus as an ongoing priority, but suggest that the program could be expanded to include more students

? Q1: Do you believe Massachusetts should **codify the MASSGrant Plus Promise program commitment as a top, ongoing priority** for state funding?
 Please respond on a scale of 1-5, where 1="Strongly disagree" and 5="Strongly agree"

Stakeholder interest in codifying MASSGrant Plus Promise Program



Commentary

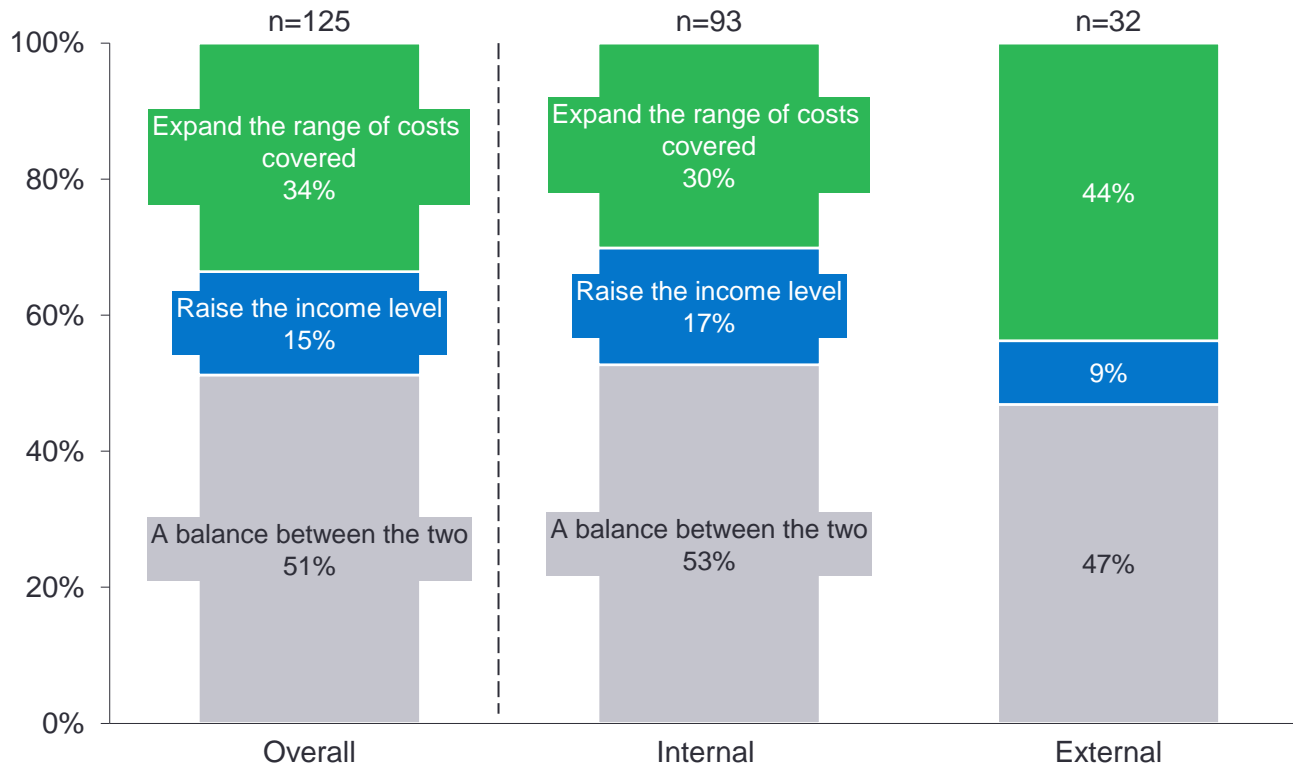
	Agree	Disagree
Internal	<p>“ MASSGrant plus fills in the gaps for our neediest students; it is a huge improvement over other financial aid programs that have caps on them”</p>	<p>“ I am ambivalent about codifying because I do not want to fund MASSGrant at the expense of other aid. This program leaves a lot of students out, and a lot of types of costs”</p>
External	<p>“ This is a good direction for the state to be moving in, but there are many different ways to structure this type of program”</p>	<p>“ I’m reluctant to vote to codify MASSGrant Plus before understanding how powerful it is. Is it really improving outcomes? ”</p>

Financial Aid: Stakeholders believe MASSGrant should be expanded in both the depth of costs covered and breadth of students eligible, with ~55% favoring a balance of the two

Q2: Given limits on resources in Massachusetts, would you prioritize:

- A) **Expanding the range of costs** covered under the MASSGrant Plus Promise program to include a greater share of the cost of attendance (beyond tuition and fees)
- B) **Raising the income level at which students and families gain eligibility**
- C) **A balance between the two**

Stakeholder perspectives on potential expansion of MASSGrant Plus



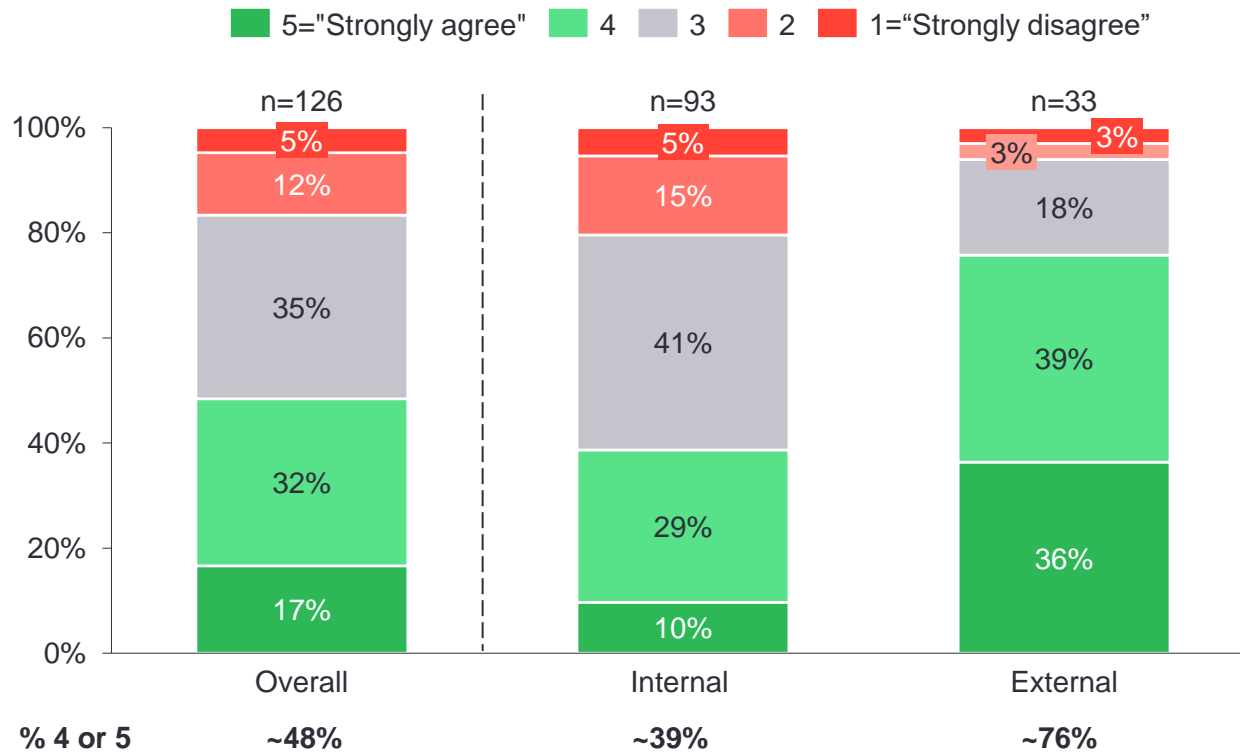
Commentary

	Range of costs covered	Income eligibility
Internal	<p>“ I am in favor of covering non-tuition costs such as cost of living, food, transportation, and childcare”</p>	<p>“ I am in favor of raising the income eligibility. State University students have the most student debt on average and it is concentrated amongst students who are just above the Pell cutoff”</p>
External	<p>“ I think we need to move to cover a wider range of costs; even with tuition and fees covered many students are left in a precarious place”</p>	<p>“ We should expand the incomes eligible. I worry about concentrating all of our aid towards a small group of students”</p>

Institutional Allocations: External stakeholders are generally more supportive of enrollment funding; a common concern is decreased funding due to falling enrollments

Q3: Do you believe Massachusetts should include enrollment-based funding as a part of a future system of public higher education financing?
 Please respond on a scale of 1-5, where 1="Strongly disagree" and 5="Strongly agree"

Stakeholder interest in enrollment-based funding



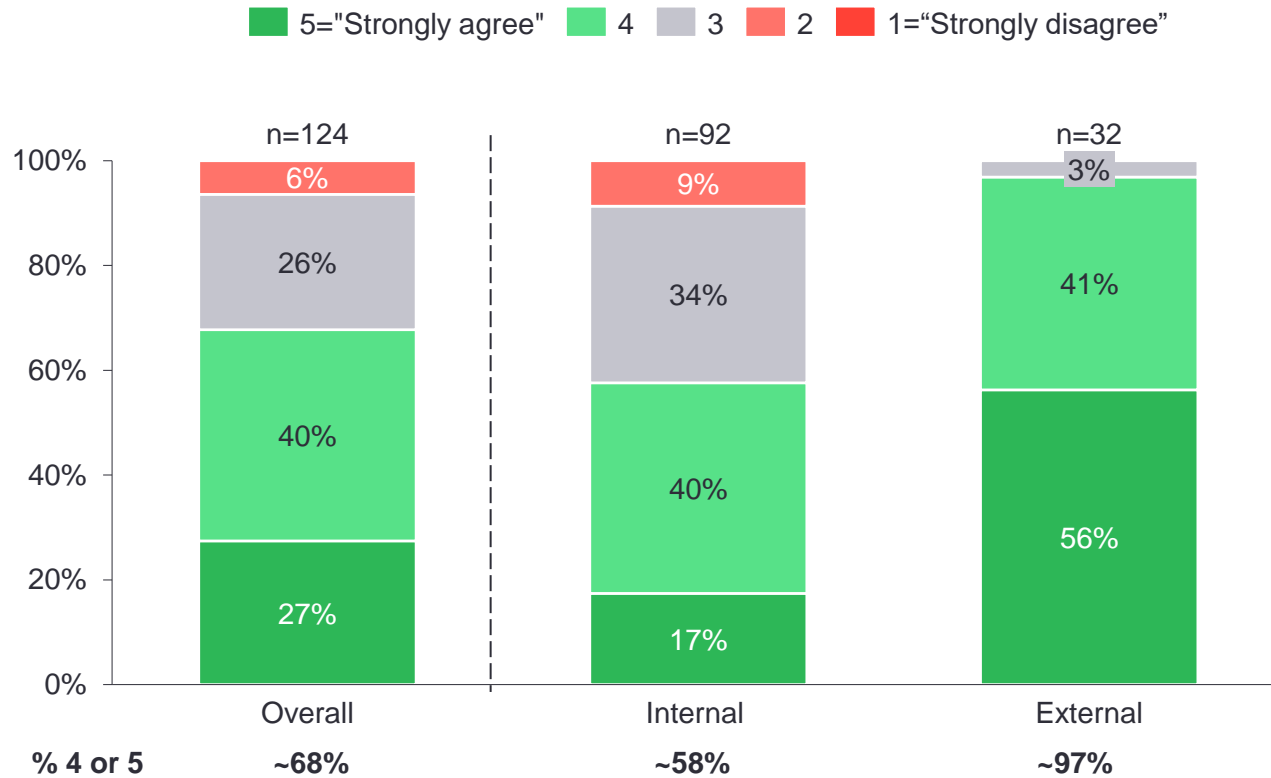
Commentary

	Agree	Disagree
Internal	<p>“ I am in favor of enrollment-based funding, but would only feel comfortable supporting it if there was an accompanying increase in base funding”</p>	<p>“ We are okay right now but tying funding to enrollments will cause problems in the future. I see enrollments declining and it makes me doubt our ability to maintain strong enrollment”</p>
External	<p>“ I strongly agree with tying institutional funding to enrollments. Funding should be following the students”</p>	<p>“ I strongly disagree. Tuition and fees are already a funding source tied to enrollments, so I am hesitant to add anymore. There are certain fixed costs schools need covered even in the face of declining enrollments”</p>

Institutional Allocations: Stakeholders react positively to needs-based weights to enrollments, but some desire more details on efficacy and approach before deciding

? Q4: Do you believe Massachusetts should **weight enrollment-based funding for student need (e.g., demographic factors)** as a part of a future system of public higher education financing?
 Please respond on a scale of 1-5, where 1=“Strongly disagree” and 5=“Strongly agree”

Stakeholder interest in need-weighted enrollment-based funding



Commentary

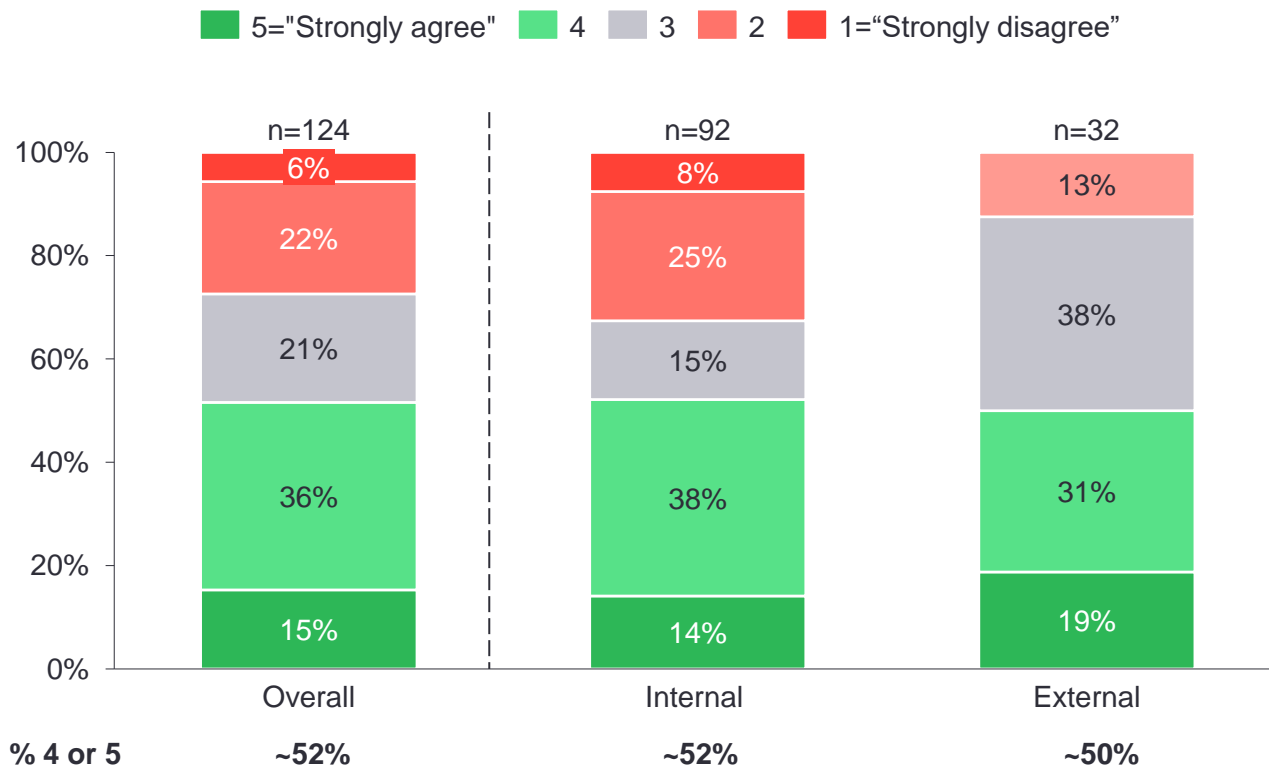
	Agree	Disagree
Internal	<p>“ I strongly agree with this funding approach. This goes to the mission of our institution and supports our equity agenda”</p>	<p>“ I fear this type of weight assumes that all URMs or low-incomes students have the same needs. Maybe there are other ways to provide supports, like additional funding for mental health services”</p>
External	<p>“ This is a sound solution. Looking at the massive equity gaps we have in our schools, we need to take action to close them”</p>	<p>“ I would want to better understand how these weights are decided, are they revisited each year?”</p>

Institutional Allocations: While many support weights for strategic programs, some worry that this approach would prioritize certain programs at the expense of others



Q5: Do you believe Massachusetts should weigh enrollment-based funding formula elements **towards more expensive and/or strategic programs** as a part of the future system of public higher education financing?
Please respond on a scale of 1-5, with 1="Strongly disagree" and 5="Strongly agree"

Interest in enrollment weightings for more costly / strategic programs



Commentary

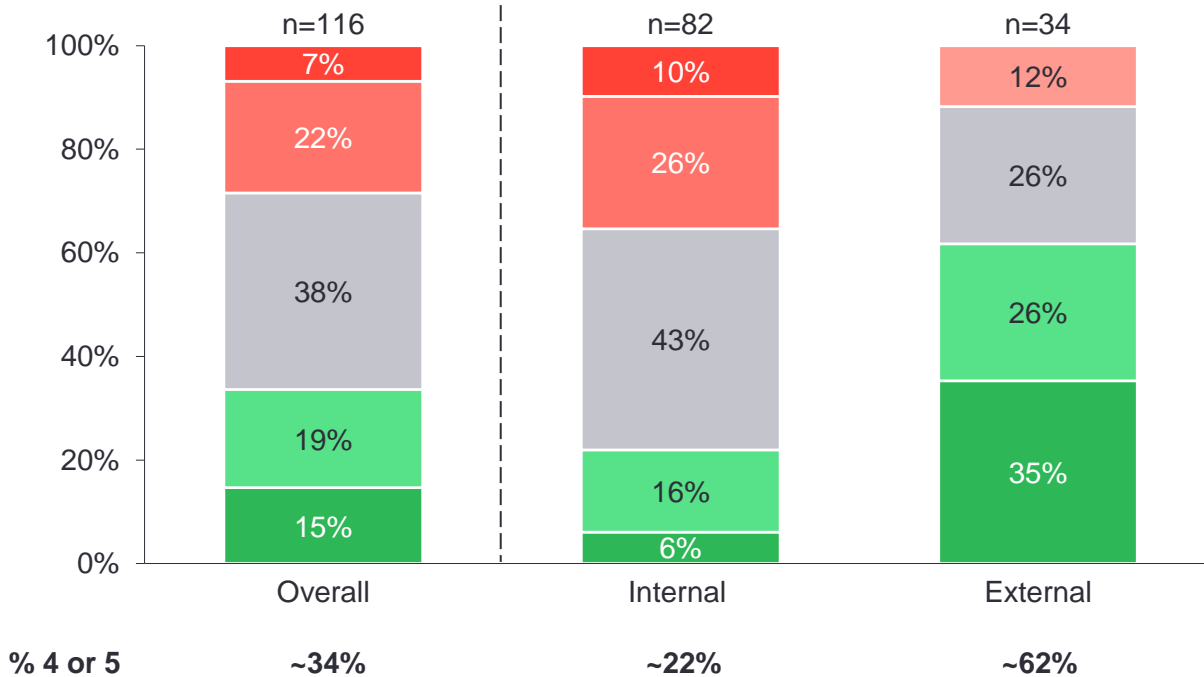
	Agree	Disagree
Internal	<p>“ You think about STEM programs that require more intensive education where the numbers are smaller – they do cost the university more money to fund. This could help expand the programs and incentivize those offerings”</p>	<p>“ I get concerned about going to more expensive programs that don't reach other students”</p> <p>“ This could be part of the formula but not as heavy as need-based. We are to serve all, rather than focusing on 5 areas”</p>
External	<p>“ We have too many job openings and too many students who aren't qualified to fill them. We need to at least weight the most strategic programs – those that train students for unfilled jobs”</p>	<p>“ I am unsure. This weighting may inadvertently be a place where you have license to increase costs unnecessarily. I would be voting in favor of helping institutions cover high-cost programs when those programs are valuable”</p>

Institutional Allocations: Internal stakeholders are less supportive of performance funding than external, citing unintended consequences as a primary concern

? Q6: Do you believe Massachusetts should significantly expand the use of **performance-based funding** as a part of the future system of public higher education financing?
 Please respond on a scale of 1-5, with 1=“Strongly disagree” and 5=“Strongly agree”

Stakeholder interest in performance-based funding

5="Strongly agree" 4 3 2 1="Strongly disagree"



Commentary

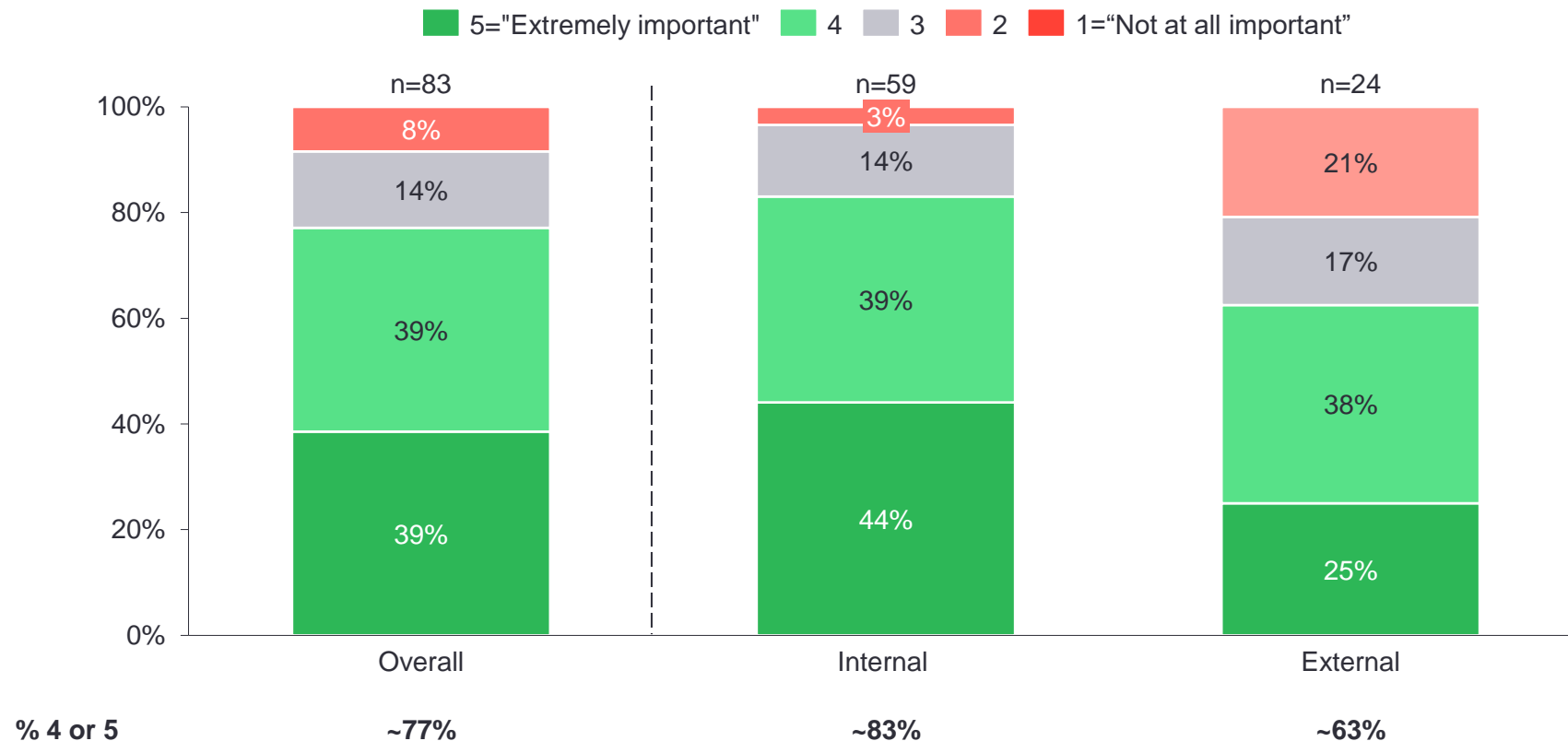
	Agree	Disagree
Internal	<p>“ In the past my institution did benefit from performance funding in another state. I received additional money to fund a program for URM students...it does provide incentive to try to get universities to do things in a different way”</p>	<p>“ Performance funding in another state penalized those who were struggling and awarded those who were already doing well. Schools were not admitting certain students because they wanted to get completions”</p>
External	<p>“ Tuition & fees are already a form of enrollment-based funding, so adding enrollment funding is like putting more eggs in the same basket. I'd rather look at outcomes-based funding – let us choose those outcomes that are included”</p>	<p>“ You can look at other states with performance metrics that don't necessarily equate to quality, so really understanding what those outcomes would be aiming for would be very important”</p>

Other Considerations: Stakeholders largely agree that a “hold harmless” clause would be necessary to manage the transition to an alternate funding approach



Q10: How important do you think it would be to **manage a transition to a future higher education funding model** in Massachusetts **using a “hold harmless” clause**, even if it cost money that could otherwise be invested along the new formulas? *Please respond on a scale of 1-5, with 1=“Not at all important” and 5=“Extremely important”*

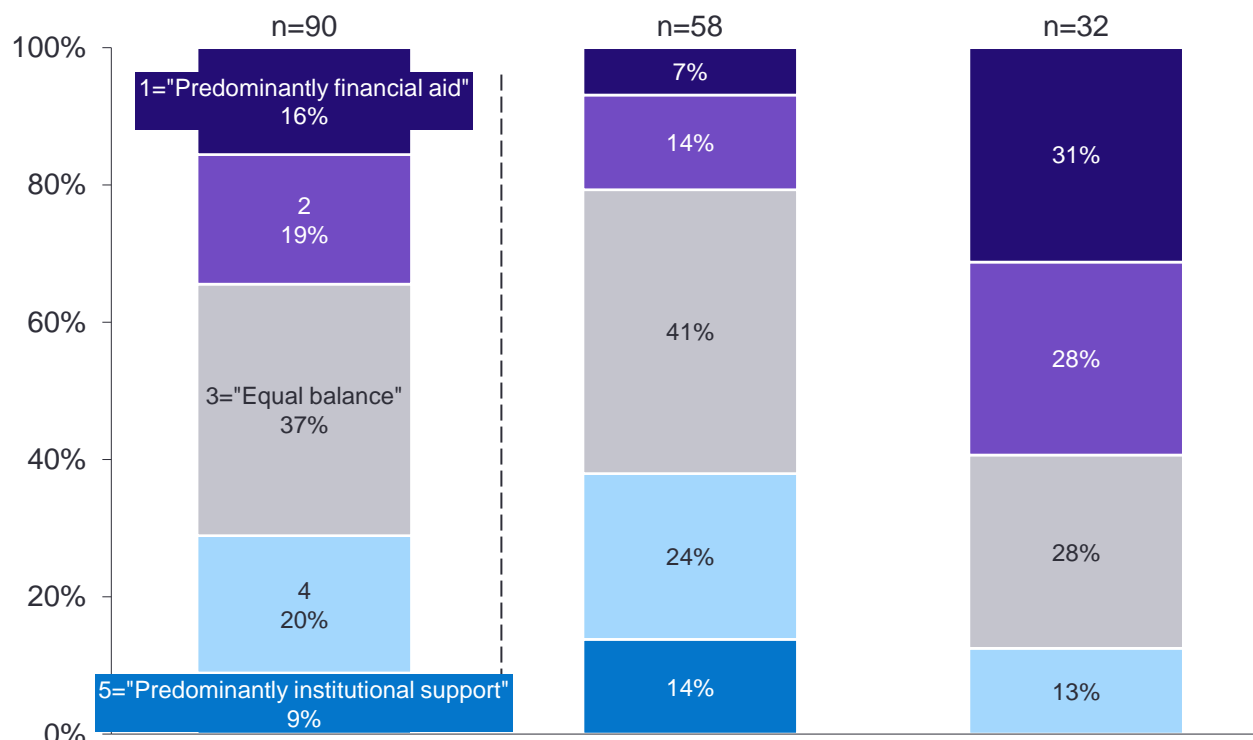
Importance of a “hold harmless” provision to manage the transition to a future funding model



Other Considerations: Internal stakeholders are more interested in increasing institutional allocations whereas external are more supportive of expanded financial aid

? Q9: Looking to the big picture and recognizing that resources will always be limited and so priorities need to be made, as and when Massachusetts can invest more into higher education, would you **prioritize increasing investment in student financial aid, in institutional support, or an even balance of the two?**

Stakeholder perspectives on future MA higher education funding priorities



Primarily institutional support ~29%
Primarily financial aid ~34%

	Overall	Internal	External
Primarily institutional support	~29%	~38%	~13%
Primarily financial aid	~34%	~21%	~59%

Commentary

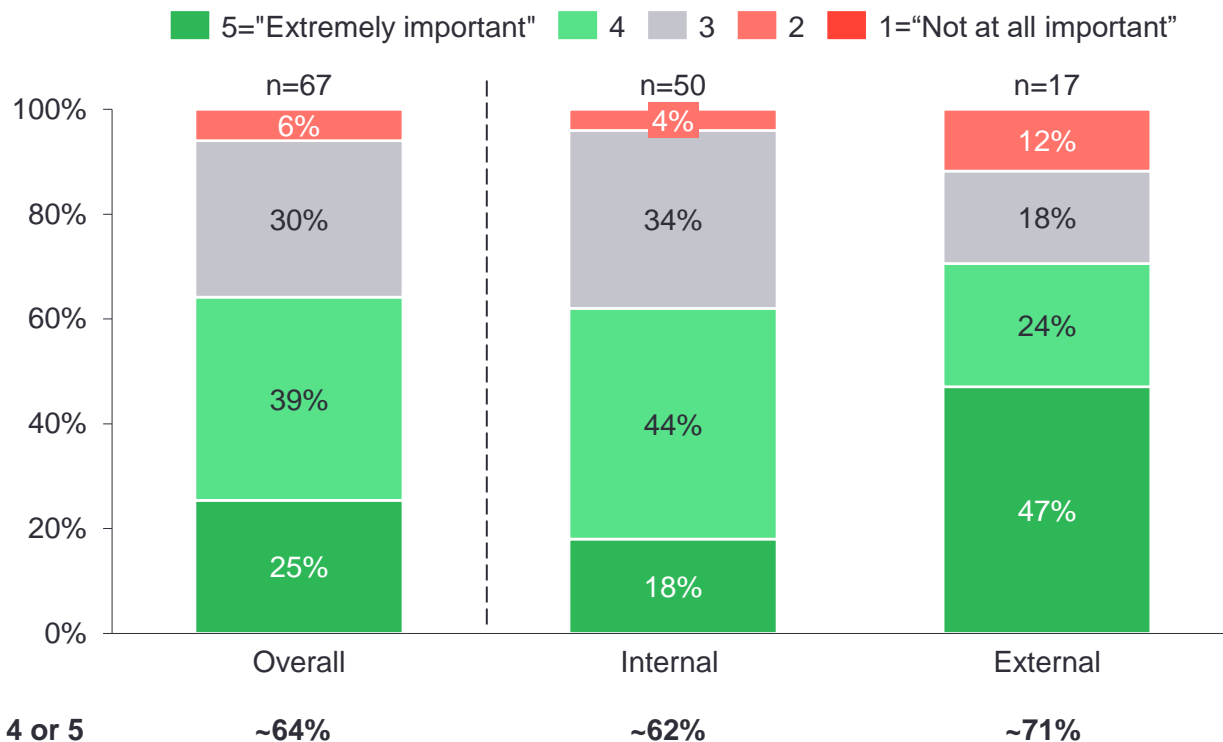
	Predominantly institutional allocations	Predominantly financial aid
Internal	<p>“ I think it would be best to give funds directly to institutions so that they can decide for themselves how they want to direct state money”</p>	<p>“ I support expanding financial aid because more aid money could attract more students and raise enrollments”</p>
External	<p>“ I think it is important for the state to support institutions directly”</p>	<p>“ I voted for expanded financial aid because I believe it is an essential component to creating a system that works for institutions and for students”</p>

Other Considerations: Stakeholders believe investment in funds for innovations / collaborations are important, especially if they can be built around multi-year timelines



Q8: How important do you believe it is for Massachusetts' future system of public higher education funding to include resources that the Department of Higher Education (in partnership with interested campuses and segments) could **invest in innovations and collaborations**? Please respond on a scale of 1-5, with 1="Not at all important" and 5="Extremely important"

Importance of resources to invest in innovations & collaborations



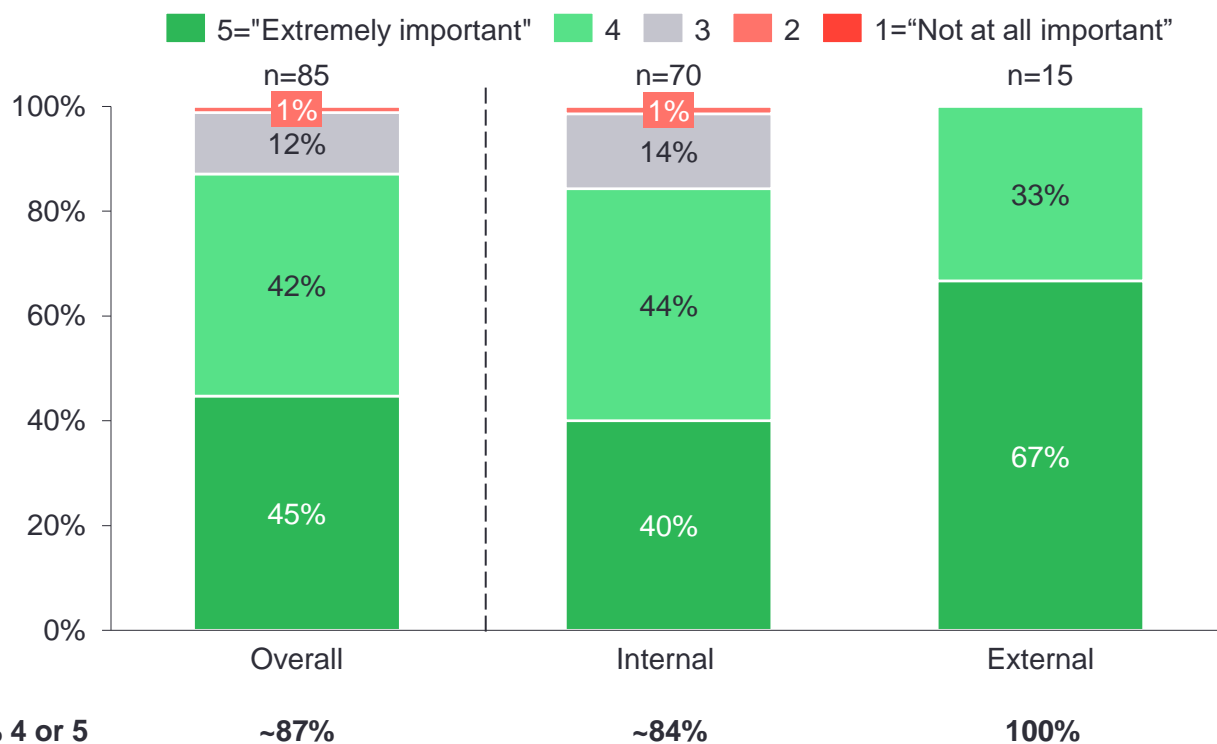
Commentary

Extremely important	Neutral / not important
<p>“ These are extremely important funds to programs such as competency-based education and mass transfer. I have seen the ways they move us forward”</p> <p>“ For us to expand projects such as Early College, we would need additional state support and collaboration across the system”</p>	<p>“ I would hope there would be multi-year planning incorporated into these funds”</p> <p>“ Multi-year planning is difficult with state budgets, perhaps it should be organized using a trust”</p>

Other Considerations: The majority of stakeholders support measures to mitigate cost increases; some argue that institutions have no control over certain costs

? Q11: In considering changes to Massachusetts' public higher education financing, how important are provisions to mitigate cost increases to students and support colleges in bending their cost curves? Please respond on a scale of 1-5, with 1="Not at all important" and 5="Extremely important"

Importance of a provision to mitigate cost increases to students and support colleges in bending their cost curves



Commentary

Extremely important	Neutral / not important
<p>“ It’s really important if we are going to make a huge investment in higher ed that affordability is a big part. One thing that isn’t brought up is that additional resources don’t always get put where they are really needed”</p> <p>“ It’s so scary because our budgets rely on tuition, but we can’t keep increasing tuition so much”</p>	<p>“ Some cost surges are greatly influenced by factors not under the control of the campus”</p> <p>“ If we freeze tuition, how are we going to adjust for those costs? If schools froze tuition, it would affect employees. There is a lot of emphasis on students being able to afford coming to school, but schools are stuck in how employees are paid”</p>