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Incentives for Improvement in Higher Education

New Jersey: A Case Study. 2108-2112

A number of states are implementing financial incentives for program improvement in higher education. As part of the series of contributed articles now included in GRAPEVINE, we feature this article which was adapted from a paper presented at the Annual Meeting of the State Higher Education Finance Officers, Boston, Massachusetts, in August 1986, by James C. Wallace, Assistant Chancellor for Fiscal Affairs, New Jersey Department of Higher Education.

PROJECTED DECLINE IN COLLEGE ENROLLMENT NOT MATERIALIZING

The Center for Education Statistics' survey of "early estimates" of fall enrollment sampled 600 institutions of higher education. Some findings of that survey:

- o The nation's total college and university enrollment increased by about one percent in Fall 1986.
- o 12,398,000 students enrolled this Fall in America's colleges--151,000 more than in Fall 1985.
- o Private institutions maintained their enrollment levels; public institutions registered an enrollment increase of one percent.
- o Enrollment of women rose 2 percent; enrollment of men remained about the same.
- o Efforts to attract "non-traditional" students seem to be working. More women and more older and part-time students are now attending.

(From Statistical Highlights, December 1986, U.S. Department of Education, Office of Educational Research and Improvement)

Total population 18-24 years old and total enrollment in colleges and universities, 50 states and D.C.: 1976-84.

	Total Population 18 to 24 years old	Total Enrollment
	(in millions)	
1976	28.6	11.0
1977	29.2	11.3
1978	29.6	11.3
1979	30.0	11.6
1980	30.3	12.1
1981	30.4	12.4
1982	30.3	12.4
1983	29.9	12.5
1984	29.4	12.2

Source: OERI BULLETIN, December 1986, U. S. Department of Education, National Center for Education Statistics.

INCENTIVES FOR IMPROVEMENT IN HIGHER EDUCATION
NEW JERSEY: A CASE STUDY

In July 1986, the Education Commission of the States, in its report, "Transforming the State Role in Undergraduate Education: Time for a Different View," made 22 recommendations to state leaders. One of the recommendations was to "rely more on financial incentives and less on regulation to promote improvement." The Chairman of that Commission, New Jersey's Governor Thomas H. Kean, thought this not only sounded good in theory, but that it should be implemented. He said, "There is a tremendous amount of creativity in the colleges, and the way to get it is through incentives to reach those goals, not through new rules and regulations." (CHRONICLE OF HIGHER EDUCATION, July 30, 1986.)

The Budget in Perspective

The total state appropriations for higher education have grown from almost \$100 million in FY1967 to over \$876 million recommended for FY1988. In the past twenty years, the total higher education appropriation as a percent of the total state general fund appropriation has ranged between 11.1% and 14.2%. It is currently around 12.5%.

Funding for higher education as a percent of the total state general fund has declined in recent years. However, absolute dollar appropriations have increased. In addition, students have contributed their support through increased tuition charges. The New Jersey Board of Higher Education's policy of establishing undergraduate tuition at 30% of the average educational cost per student in each sector has permitted the institutions to increase tuition incrementally as a revenue source since FY1980. Previously, tuition increases were sporadic and varied among the sectors.

Prior to 1984, institutions in New Jersey, like those elsewhere, competed vigorously for enrollments. Today, most public institutions in New Jersey are not growing. In fact several are conscientiously trying to become smaller. What changed first was not institutional attitude, but the state's financial policy. It shifted from financing enrollments to financing excellence and access. The system is called base budget plus priority funding.

The base budget funding process evolved in New Jersey over the past several fiscal years. This process provides the institutions with a future appropriation equivalent to their current operating support less one-time funded items. This methodology has protected New Jersey's public four-year colleges and universities from decreases in appropriations because of enrollment declines that would have occurred under traditional formula funding strategies. Indeed, state support per full-time equivalent student has increased substantially while FTE enrollments have declined. However, institutions have received limited increases in above base funding in recent years that were not earmarked for special projects and, therefore, have been provided few discretionary dollars through appropriations.

Simultaneously, there have been dramatic changes in the demographic characteristics of the campuses and chosen fields of study. Lacking increased discretionary funds, institutions have had to make hard decisions to reallocate funds within their base budgets to respond to these changes.

The New Jersey Board of Higher Education, through policy directives, influences reallocation decisions at the institutions. For example, institutions are required to fund at least 90% of the physical plant budget formula which requires reallocations from other programs. Capping salary expenditures at 73% of the base budget has caused institutions to reallocate resources to non-salary areas such as library, equipment, and maintenance accounts. The need to reallocate encourages the institutions to identify and to fund their priorities.

Performance-Incentive Funding

New Jersey's move from formula-based funding to base plus priority funding is an incentive based funding method. Two types of incentive funding for program improvement have been established: the Challenge Grant Program and the Competitive Grant Program.

Challenge Grant Program: Each state college received a \$10,000 planning grant to begin competing for part of the \$10 million Challenge Fund to be distributed in FY1986. This planning process required each college to closely examine its mission, its strengths and its weaknesses, to create a three-year institutional plan that would reshape the institution and to submit a grant proposal based upon the plan. The proposals were evaluated by a panel of eminent educators which included Dr. Albert Bowker, former Chancellor of the University of California at Berkeley and recently retired Executive Vice President of the University of Maryland System; Dr. Martha Church, President of Hood College; and Dr. Bernard Harlston, President, City College of the City University of New York.

Based upon the recommendations of that panel, Challenge Grants were awarded. Two of the nine state colleges received a total of \$9.7 million. The Kean College project will implement a "value added" assessment model and infuse the use of computers over all fields of study. The Jersey City State College project will convert the entire curriculum to a cooperative education model. In July 1986, Ramapo College and Montclair, Edison and Trenton State Colleges received approval of grant proposals totaling \$13.8 million. There was a third round of proposals approved for programs beginning in FY1988.

Ramapo College will develop the "global and multicultural literacy" of its students through a refocusing of its curricular as well as extracurricular programs. The Montclair project will initiate a program of distinction in the fine and performing arts and, as a separate project, establish an Institute for Critical Thinking. The Edison State College project will serve adult learners by implementing a telecommunications-based delivery system to be known as the Computer Assisted Lifelong Learning (CALL) Network. The Trenton State College project will enroll increasing

The Budget As a Policy Tool

Performance-incentive funding also allows the Board of Higher Education to use the budget process as a policy tool. In reviewing institutions' "above base" program priority requests, the Board can recommend for funding those requests that implement Board policy. For example, the Board adopted several policy initiatives to help stem the decline in minority enrollments in New Jersey's college and universities. To that end institutions now submit to the Board plans which outline campus initiatives including implementation plans to recruit and to retain minority students. These plans have been submitted to the Board's Budget Committee for consideration with the budget requests for FY1988.

Autonomy

New Jersey's "Performance-Incentive Funding" plan is designed to encourage institutional autonomy. The institutions must continue to make the difficult decisions concerning the use of resources. During the coming years, cost-effective fiscal policies will have to be implemented that maximize the use of funds. This will require management skills and imagination and the autonomy to put these qualities to use. The New Jersey state colleges autonomy project will provide a new system of governance for New Jersey's nine state colleges, making them autonomous under their respective Board of Trustees under the general supervision of the Board of Higher Education. The legislation was signed by Governor Kean on July 9, 1986, and the transition period will extend to July 1, 1989.

The names of those serving on GRAPEVINE Advisory Committee were included in the December issue of GRAPEVINE. Inadvertently, the name of Duane Rogers, State Higher Education Finance Officer in Ohio, was not part of that list. It is included here with apologies.

Center for Higher Education
College of Education
Illinois State University, Normal, IL 61761-6901

Grapevine

Edward Hines, Director and Editor
M.M. Chambers, Founding Editor
Gwen B. Pruyne, Managing Editor

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o Endowment for the Humanities: A program of grants totaling about \$15.0 million over five years is being distributed in response to faculty proposals to strengthen humanities education with sub-grants in international education and foreign language instruction.

o Strengthening Math, Computer and Technical Engineering Education: A total of \$45 million is being distributed over five years in response to faculty and institutional requests, evaluated on a competitive basis. About 70% of the funds are being used to upgrade laboratories and microcomputer facilities, all for teaching purposes.

o Fund for the Improvement of Collegiate Education: The fund, amounting to \$10 million over five years, was distributed to strengthen undergraduate education.

o Science and Technology Funds: Another major program takes advantage of faculty with research competence in such fields as biotechnology, ceramics, food technology, telematics, molecular biology, and toxic waste disposal, and encourages industrial developments and new jobs in these fields. Three lesser outcomes are sought: first, to build closer working relationships between the institutions and the business community; second, to provide an independent evaluation of the institutional capabilities in these areas; and third, the program will help colleges raise new private funds and profit from investments. The program involves a \$95 million bond issue and a five-year level of budget appropriations of about \$75 million. All of these monies are distributed on the basis of peer review evaluation, using expert committees under the aegis of a public Science and Technology Commission.

COMPETITIVE GRANT PROGRAMS FY1984-FY1987
(In millions of dollars)

	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>4-yr total</u>
Computer in Curricula	2.1	2.6	2.9	2.9	10.5
Technical Engineering Education	2.1	2.6	2.9	2.9	10.5
Math/Science/Computer Teaching	.5	1.0	1.0	1.0	3.5
Humanities/Foreign Language	0.0	2.5	3.0	3.0	8.5
Funds for Improvement of Collegiate Education	<u>0.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>6.0</u>
Total	4.7	10.7	11.8	11.8	39.0

numbers of higher achieving students who might otherwise choose colleges outside of New Jersey by offering scholarships, nationally distinctive programs, an atmosphere of intellectual excitement, and a close and supportive community of learners.

There are also challenge programs for other institutions in the state. Rutgers University has an Excellence Initiative which is research oriented. It proposes to recruit world class research scholars and provide them necessary laboratory equipment, to recruit and to develop outstanding junior faculty through release time for research and through the enhancement of technical support, to recruit top ranked graduate students, and to enhance academic support (library, equipment, and staff). New Jersey Institute of Technology will focus its efforts on recruiting exceptional faculty chairs in related engineering programs and on developing computer based curricula in both engineering and architecture. The University of Medicine and Dentistry of New Jersey's program focuses upon a faculty enhancement program, clinical curriculum enhancements, and the development of tertiary care in the areas of cancer diagnosis and treatment, heart disease, trauma and geriatrics.

The County Colleges (public two-year colleges) will focus their excellence efforts on minority recruitment and retention, linkage to secondary schools, and development and enhancement of technical programs.

THE GOVERNOR'S CHALLENGES TO THE PUBLIC INSTITUTIONS
(in millions of dollars)

	<u>FY1986</u>	<u>FY1987</u>	<u>2-yr Total</u>
Rutgers	8.7	14.0	22.7
NJ Inst of Technology	4.3	6.0	10.3
State Colleges	10.0	8.0	18.0
U of Medicine & Dentistry	---	4.8	4.8
County Colleges	---	<u>3.5</u>	<u>3.5</u>
Total	<u>23.0</u>	<u>36.3</u>	<u>59.3</u>

Competitive Grant Program: New Jersey has allocated new state funds to encourage entrepreneurship. These new funds are granted competitively under a series of programs like those of the national endowments. Beginning with the FY1984 appropriation of \$4.7 million for high technology grant programs, competitive grants have increased to \$11.8 million in FY1987. The current grants include not only funds for high technology, but also for humanities, foreign language/international education and the Fund for the Improvement of Collegiate Education (FICE). These grants are also providing a basis for making decisions concerning reallocation of funds. Institutions can choose to support those areas that are being provided increased funding. Over five years, New Jersey will have awarded \$240 million in grants to individuals and institutions through the program.