NCSL TASK FORCE ON HIGHER EDUCATION'S FINAL REPORT: PART II

The State–Federal Relationship in Higher Education

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The State–Federal Relationship in Higher Education

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Executive Summary

While the federal role was historically intended to be complementary to that of the states, state and federal higher education policy has never been particularly coordinated or collaborative. The federal policy relationship is largely with the institutions, rather than the states. It may be most accurate to say that state and federal policy work in parallel but rarely in partnership.

States have historically provided the lion's share of direct support for higher education, as state appropriations are typically much higher than federal spending on Pell Grants and research funding. However, the NCSL Task Force on Higher Education recognizes that the assumptions that historically undergirded the federal student loan program are rapidly changing, along with assumptions concerning the federal role in higher education and the broader state-federal relationship.

It is increasingly clear that student loans impose a significant cost on federal taxpayers, now in the tens of billions of dollars a year, through an array of repayment and forgiveness programs. These programs have quietly expanded the federal footprint of spending in higher education and its role in affordability.

As a more heavily subsidized loan program narrows the gap between state and federal spending on undergraduate education, the federal government has a stronger rationale to increase its role in governance and accountability, which were traditionally done by the states. Indeed, the prevalence of student debt and increased federal subsidy of the loan program are fueling federal interest in further expanding its role in higher education.

The task force recognizes that federal policymakers on both sides of the aisle are concerned with the dramatically increased costs of the federal subsidy for higher education. It is also sensible for the federal government to look for solutions to the suboptimal student outcomes that are driving some of the costs of the loan program.

The task force strongly believes that state and federal policymaking should be oriented toward key goals and would like federal policymakers to share this approach in collaboration with the states. In fact, if the federal role is to truly complement the state role, it must be designed around helping states to achieve better outcomes in their higher education systems. Should federal policymakers seek to expand the federal role in higher education, states would prefer an approach that promotes transparency, improvement and innovation in the service of state goals, rather than an expanded federal role in affordability and accountability.

State and Federal Roles in Funding and Financing Higher Education

The NCSL task force believes that states must continue to be the primary source of public support for higher education. Collectively, states are approaching all-time highs in per pupil spending on higher education after more than a decade of year-over-year funding increases.

States primarily see the federal role as supplementing the state role in funding higher education by providing need-based financial grant aid and offering student loans as a financing tool to promote college access. Task force members strongly support the Pell Grant as the primary federal strategy for supporting affordability and funding for higher education. States appreciate its simplicity and flexibility to support student choice among a wide array of institutions. In recent years, states have used the flexibility of the Pell Grant to build novel tuition guarantee, or college promise, programs.

Task force members understand the necessity of student lending and the intentions that undergird the federal policy rationale for lending—that it puts all forms of higher education within reach of every American regardless of their income or wealth. The task force affirms the importance of federal policies that protect borrowers when circumstances beyond their control prevent them from successfully repaying their student debt.

Yet, the task force members expressed numerous and varied concerns with relying on federal student debt to finance a significant portion of higher education. The prevalence of student debt and the rate of students who struggle or are unable to pay back their loans are primary challenges for policymakers.

Task force members are concerned with the increasing costs of the student loan program and wonder if a more heavily subsidized program suggests a new direction for the federal role in financing higher education and promoting college affordability. Federal spending on the student loan program has recently eclipsed spending on the Pell Grant, a trend that may hold for the foreseeable future. The task force wonders about the efficacy of a federal approach to funding and financing higher education that spends more on subsidizing student loans than on providing grant aid to students.

The task force urges Congress to clarify the student loan program's goals and update its various polices to better serve those goals. Congress must examine and update the design of loan terms and benefits for borrowers, including loan limits, repayment assistance, and forgiveness options.

State and Federal Roles in Transparency and Accountability

States, given their direct and constitutional relationship to higher education governance and finance, have long preferred a limited federal role in accountability, one that defers to the states' leadership in ensuring the quality of postsecondary education. The purpose of higher education is multifaceted and institutions and systems have evolved over time to serve different student populations through a vast array of degree offerings. In the area of transparency and accountability, especially, the federal role should complement, rather than supersede, state approaches and goals for higher education.

The task force sees opportunity for an enhanced federal role in the transparency of student outcomes. The task force believes more is needed to better link state and federal postsecondary data systems. The federal government should have as complete a data set as possible among federal student aid recipients so that its understanding of student outcomes is as accurate as it can be. In limited circumstances, the task force also sees a role for the federal government to require standardized institutional practices related to transparency.

However, the task force is concerned that federal policymakers are moving forward without a clear, bipartisan consensus on the purpose and goals of accountability policy. The task force reminds federal partners that unclear or mixed intentions can make for clunky or ineffectual implementation. If Congress contemplates a bipartisan consensus on federal accountability policies, the task force would advise it to: Use accountability measures carefully, thoughtfully and on a limited basis; recognize and support state efforts whenever possible; and seek alternative approaches to accountability when seeking to improve outcomes.

A State-Federal Partnership in Higher Education

The task force is mindful the federal government has a substantial relationship with the higher education institutions, some of which are generally more dependent on federal grants and loans than state appropriations. This gives the federal government leverage to enact consequential policy without input from the states.

Rather than operating in separate spheres in potentially conflicting or duplicative manners, states and the federal government might benefit from working more closely in a limited partnership in pursuit of the mutual goal of improving outcomes in higher education. A limited state-federal partnership program could be based around better connecting state and federal data systems to help states and institutions more clearly understand student outcomes across programs.

States would also much rather see the federal government invest in state-led strategies to improve higher education than maintain a costly loan program or use loans as a lever to govern higher education. Should Congress seek a more expansive state-federal partnership, it could consider making flexible block grant funding available to the states, enabling them to make targeted investments, based in research and evidence, to address the challenges that stand as barriers to statewide higher education goals. The cost of such a grant program could be covered by reforms to the student loan program.

The task force strongly believes that states and the federal government should engage in greater communication on shared strategies and goals and explore coordination and collaboration where necessary. It is critical that states and the federal government partner together more often to ensure that students are better able to access the benefits of a higher education.

Introduction

To promote interstate collaboration and collective state leadership, NCSL's Executive Committee created the Task Force on Higher Education Affordability and Student Outcomes in 2022. This bipartisan task force consists of 29 legislators and four legislative staff from 32 states, with each legislator member serving as chair of a committee that deals with higher education or having been nominated by their chamber's leadership.

The NCSL Task Force on Higher Education has taken on three broad charges:

First, the task force will assess the performance of the national higher education system. While each state sets its own goals for higher education, it is vital for legislatures to collectively evaluate the results of their efforts. To make effective policy, legislators must better understand the challenges, and the root causes of those challenges, that stand in the way of meeting the expectations and goals of higher education.

- This will be detailed in Part I: Trends in Higher Education: Understanding Policy and Outcomes

Second, the task force will serve as a forum for states to articulate the roles and responsibilities of the federal government in higher education. Unlike in K-12 education, the states and the federal government historically do not have a direct relationship in higher education—states and the federal government functionally work in parallel but rarely in partnership. The state and federal roles lack coordination; while states have used federal programs to complement their own approaches, there are overlapping authorities that invite confusion or even conflict. As federal policy evolves, states must clarify where and how federal policy can best complement and support state policymaking, and the higher education system more broadly.

- This will be detailed in Part II: The State-Federal Relationship in Higher Education

Finally, the task force will propose bipartisan recommendations that could make college more affordable for students and taxpayers, improve completion rates and reduce rates of unrepayable student debt. The recommendations seek to inform a long-overdue reauthorization of the Higher Education Act, last updated in 2008. In recognition of the shared responsibilities of higher education, the task force will outline its thoughts on how higher education can evolve and suggest broad state policy priorities for consideration by legislatures.

- This will be detailed in Part III: A State-Led Strategy to Enhance the Value of Degrees

The NCSL Task Force on Higher Education hopes its work and this report provide clarity and urgency for policymakers and leaders in higher education, allowing them to work better together to ensure the promise of a higher education is made true for more Americans.

Section I
The State and Federal Roles in Funding Higher Education

Task Force Perspectives on State Funding

The NCSL task force believes that states must continue to be the primary source of public support for higher education. Collectively, states are approaching all-time highs in per pupil spending on higher education after more than a decade of year-over-year funding increases. Most members of the task force felt their states were doing about the best they could to fund higher education.

Between competing budget demands and deepening skepticism about higher education, the task force members largely agreed that making the case for greater funding levels can be challenging, especially when budgets get tight. Some members noted they contend with a fear from their colleagues that state investments would be eaten up by tuition increases.

Many members noted they had been most successful when they asked their legislative colleagues to fund investments targeted to student outcomes and driven by data. Others said that state fiscal capacity follows the value proposition of higher education—that as higher education demonstrates its value and good stewardship of public dollars, public support for increased funding will follow.

The task force discussed the challenges of funding higher education through balanced budgets and revenues that are largely determined by the strength of the economy over a given year. As the economy goes, so do state budgets, and especially funding for higher education, members said. In many states, funding higher education is an annual exercise, which creates uncertainty and may inhibit steady and predictable funding.

Task force members acknowledged they have no control over economic circumstances, but they raised the idea of legislatures creating long-term fiscal plans for higher education that could guide to year-over-year funding decisions. Members discussed the idea of tying longer-term higher education funding commitments to affordability and student outcome goals along with commitments by institutions to lower costs and tuition prices.

Even under long-term funding plans, tough economic times cannot be avoided. The task force exhorts higher education to better recession-proof itself to survive challenging times. While it is tempting for institutions to raise tuition to stave off cuts, members said, higher education should be careful not to insulate itself from prevailing economic conditions by asking families to pay more during challenging economic times.

Task Force Perspectives on Federal Funding

Task force members strongly support the Pell Grant as the primary federal strategy for supporting affordability and funding for higher education. States appreciate its simplicity and flexibility to support student choice among a wide array of institutions. In recent years, states have used the flexibility of the

Pell Grant to build novel tuition guarantee, or college promise, programs that have served as the model for subsequent federal proposals. The task force believes Pell Grant award levels remain a meaningful strategy for reducing tuition costs and supplementing state efforts.

As state spending is limited by tax revenue, state budgets can be stabilized when the federal government provides economic and fiscal relief during national economic downturns. The task force believes the federal fiscal response to national economic crises should be shaped by the unique circumstances of the emergency and should afford states discretion in using federal relief to plug budget gaps, including for higher education.

Section II
State and Federal Roles in Financing Higher Education

Task Force Perspectives on State Financing of Higher Education

The NCSL task force was formed to evaluate federal policy and its intersection with state policy. As state financing of higher education is a matter internal to states, the task force did not spend significant time on the matter. However, conversations around the topic of higher education finance revealed that a majority of the task force members were not satisfied with their state's current funding strategy.

Aligning statewide goals to funding strategies is an ongoing process and necessitates periodic review of state funding methodologies. Given the complicated set of decisions each state faces when determining finance methodologies, the task force declines to suggest specific directions for states to take but acknowledges there is ongoing work for states to do.

Task Force Perspectives on Federal Financing of Higher Education

RATIONALE FOR FEDERAL STUDENT LENDING

Task force members understand the necessity of student lending and the intentions that undergird the federal policy rationale for lending—that it puts all forms of higher education within reach of every American regardless of their income or wealth. States cannot afford to offer low tuition for every student at the most expensive public institutions or cover the full cost of living for every student attending community college. Federal lending ensures students are not denied the resources they need to pursue the higher education of their choice.

The longstanding rationale for student borrowing was that the well-documented economic returns of additional education would allow student borrowers to successfully pay back their debt over time. However, it has become clear, especially in recent years, that the assumption that federal student lending is a worthwhile endeavor, one that expands the benefits of higher education, does not always hold up.

The prevalence of student debt and the rate of students who struggle or are unable to pay back their loans are primary challenges for policymakers. Understanding and responding to the evolving costs and policies of the student loan program was a key motivation behind the formation of the task force.

Task force members expressed numerous and varied concerns with relying on federal student debt to finance a significant portion of higher education. Some members were concerned that reliance on lending diminishes the public imperative to financially support higher education so that it can be maintained as a public good. Other members said that widespread access to easy credit has created an unnaturally high demand for higher education and allowed a variety of institutions to justify operating at higher costs and charging higher prices.

Most urgently, the task force wanted to understand the causes and implications of an increasingly costly student loan program and how it might alter the parameters of the state-federal relationship.

FEDERAL AND STATE ROLES IN SUPPORTING STUDENT BORROWERS

Federal policy has long recognized that while higher education pays off for most, its benefits may take years to be fully realized. And some students may never realize those benefits at all. As such, the federal government has introduced policies over several decades that have constructed a safety net for borrowers in the federal loan program.

The task force affirms the importance of federal policies that protect borrowers when circumstances beyond their control prevent them from successfully repaying their student debt. While institutions and policymakers must work together toward better student outcomes in higher education and ensure that students are always left better for attending, it is important that borrowers are not left financially debilitated by student loans because they sought a better life or career for themselves through higher education.

The task force calls on the federal government, and the loan servicing companies it partners with, to provide exceptional customer service to borrowers. Many of the challenges that borrowers have faced can be traced directly to poor administrative implementation, confusing terms and conditions, or inadequate borrower support. The task force acknowledges that some of the recent federal loan reforms were made to address past shortcomings. An effectively managed loan program should be the top priority for the Federal Student Aid Office under any administration. Every borrower should be able to take advantage of the benefits of federal lending with as little difficulty as possible.

Indeed, as discussed earlier, states have often stepped in to fill in the gaps in program administration and customer service where they had fallen short for borrowers. The task force affirms the states' role in supporting student borrowers and believes this is an area where state and federal policy should work in concert. States have a general obligation to protect consumers, and the task force believes states can and should help borrowers to navigate the loan program. As elected representatives, state legislators know their constituents look to them for help, even for programs that are primarily managed by the federal government.

GROWING COSTS OF THE STUDENT LOAN PROGRAM

In their original conception, student loans were intended to function as traditional loans. The federal government provided up-front financing to students but expected to make back that investment, with interest. The costs to the federal government were expected to be minimal, and even produce positive revenue.

Taken as a whole, the loan program has become increasingly expensive, far exceeding policymakers' expectations. This is the result of both the one-time relief programs and the ongoing features of the student loan safety net. The repayment pause during the pandemic was extended seven times over 42 months and likely cost over $200 billion, with an average cost of around $5 billion a month. Since 2021, the Department of Education has forgiven $168.5 billion in student debt for 4.75 million borrowers through reforms to existing forgiveness and repayment programs.

The Congressional Budget Office recently estimated that the federal government will spend $393 billion on student loans over the next decade. The CBO also estimates that the subsidy rate for all loans in FY 2024 was 20%—meaning the federal government got back 80 cents for every dollar it lent. The subsidy rate is higher for income-driven repayment programs, where the CBO estimates that between 30 and 48 cents for every dollar lent will not be repaid.

The president's FY 2025 budget provides similar findings. It estimates the subsidy rate on all federal direct loans to be 30% over the next year. The subsidy rate is significantly higher for balances enrolled in income-driven repayment, where the budget estimates a 60% subsidy rate for the SAVE Plan.

Task force members are concerned with the increasing costs of the student loan program and wonder if a more heavily subsidized program suggests a new direction for the federal role in financing higher education and promoting college affordability. While student lending was traditionally viewed as a policy strategy to promote access, an increasingly costly loan program could be characterized as an affordability strategy, lowering the ultimate price of college attendance after the fact, based on factors that include a borrower's income, choice of employment, financial savvy, or experience of exceptional circumstances or hardship.

The Pell Grant has historically been the biggest direct investment the federal government makes in supporting students' ability to afford higher education. However, federal spending on the student loan program has eclipsed spending on the Pell Grant, a trend that may hold for the foreseeable future. Recent federal estimates for FY 2025 show that spending on the Pell Grant ($34.5 billion) will be surpassed by the costs of the income-driven repayment plans alone ($42.3 billion). Over the next 10 years, the CBO projects the federal government will spend more on student loans ($393 million) than the Pell Grant ($355 million). Already, the combined cost of the loan repayment pause and recently enacted loan discharges is greater than the past decade of spending on the Pell Grant.

The task force wonders about the efficacy of a federal approach to funding and financing higher education that spends more on subsidizing student loans than on providing grant aid to students.

Pell Grant benefits are defined, targeted and finite. In contrast, student loan repayment assistance can be contingent, untargeted and open-ended. Access to student loans is largely not based on demonstrated financial need, with the exception of direct subsidized loans, which cover interest payments for undergraduate borrowers with qualifying incomes while in school.

Even as some of the benefits of student loan repayment assistance are targeted based on a student's post-attendance earnings, they are also influenced by how much a student borrowed. While undergraduate borrowers face lifetime caps on annual borrowing, graduate school students can borrow up to the cost of attendance, which is often tens of thousands of dollars a semester. Borrowers with larger balances may stand to benefit greatly from federal repayment and assistance programs. In a recently forgiven tranche of loans, the average balance was nearly $74,000 per borrower.

The task force acknowledges that generous loan repayment assistance could fit within the spirit of the federal role of providing support to students with the greatest need. Black, Hispanic and American Indian students struggle to repay their loans compared with white and Asian students. This is especially true for Black borrowers, who borrow at far higher rates than their peers. Persistently high loan balances may indicate a lack of wealth or point to struggles to find remunerative career outcomes, which may be compounded by discrimination in the labor market.

At the same time, high loan balances commonly indicate that borrowers have more education, usually graduate-level education, and typically make higher incomes as a result. Given the increased volume of borrowing for graduate education and the higher average program costs, loan repayment assistance may result in more federal dollars spent on subsidizing graduate education. Indeed, nearly half of federal student debt is from graduate education, and its share has been growing steadily over the past decade. Although the SAVE program is not as generous to graduate borrowers as undergraduate borrowers, a substantial portion of graduate debt is enrolled in income-driven repayment plans and is subsidized at a relatively high rate.

While many borrowers, especially first-time collegegoers from low-income backgrounds, may be reluctant to take on loans, financially savvy, affluent students and families, especially those who choose to attend expensive institutions, could be well positioned to take advantage of more generous loan repayment programs. In fact, higher-income households borrow more than lower-income ones. It may often make financial sense to borrow through federal loans first before paying out of pocket, even for students and families who could otherwise afford to pay.

The task force is concerned that a heavily subsidized loan program runs the risk of putting upward pressure on college costs, which could blunt the effects of state investments in higher education. Alternatively, a more generous loan program could perversely discourage or even displace state investment in higher education. The task force is also concerned about what costly loans mean for the federal role in transparency and accountability, which will be detailed in the next section.

TASK FORCE GUIDANCE: CALLING ON CONGRESS TO CLARIFY THE ROLE AND GOALS OF THE LOAN PROGRAM

The task force recognizes that many of the recent developments in the loan program have been enacted through regulation. While there is a clear role for regulation in the student loan program, especially to respond to borrower issues that have emerged in program administration, the task force fears that federal regulation is inherently unstable. Many of the recent regulations have been challenged in courts and even overturned in part or in full. That was before the Supreme Court's June 2024 decision in Loper Bright Enterprises v. Raimondo to overturn the so-called Chevron deference, which had directed courts to defer to federal agencies' interpretations of ambiguous laws. Even when regulations survive court challenges, there has been a recent trend of new administrations rewriting or rescinding rulemaking from the previous administration. All of this instability creates confusion for borrowers and states.

Rather than rely on regulation to shape the student loan program, the task force urges Congress to clarify the student loan program's goals and update its various polices to better serve those goals. The task force asks Congress to deeply consider the concerns it has raised in this report about the increasing costs of the loan program and the implications of federal policy strategy that invests more in subsidizing student loans than providing need-based grant aid.

The task force advises Congress to approach this discussion from the perspective of using federal policy to make good use of limited resources. Even with the potential for unlimited federal spending, simply responding to rising student debt with more federal spending will do little to address the growth in college costs and only add to our growing national debt. More importantly, spending more on the loan program does very little to proactively achieve the collective goals we have for our higher education system.

Congress must examine and update the design of loan terms and benefits for borrowers, including loan limits, repayment assistance, and forgiveness options. The task force is particularly concerned with the effectively unlimited borrowing permitted through the Graduate Plus and Parent Plus programs. Task force members felt they were not in a position at this time to make specific recommendations on these items but wish for Congress to find fair terms for borrowers and taxpayers alike.

Section III
State and Federal Roles in Transparency and Accountability

Task Force Perspectives on the Federal and State Roles in Accountability

States, given their direct and constitutional relationship to higher education governance and finance, have long preferred a limited federal role in accountability, one that defers to the states' leadership in ensuring the quality of postsecondary education.

In the area of transparency and accountability, especially, the federal role should complement, rather than supersede, state approaches and goals for higher education. The purpose of higher education is multifaceted and institutions and systems have evolved over time to serve different student populations through a vast array of degree offerings.

Given the diversity of states and higher education, the task force believes it is tremendously difficult for the federal government to design determinative or consequential policies related to student or institutional outcomes that will effectively solve discrete problems. Federal policy invariably casts a wide net and inevitably catches more than it intends to.

While the state and federal relationship on accountability is not particularly well developed, state legislatures are well aware of their experiences with the federal role in accountability in elementary and secondary education. The No Child Left Behind Act famously relied on ambitious and consequential accountability policy that drove significant change but ultimately proved unworkable and wearied schools. The policies were ultimately rolled back thanks to the passage of the Every Student Succeeds Act, and states now have a far greater role in assessing school performance and determining consequences.

The task force acknowledges that the rapidly increasing costs of the federal student loan program give the federal government a strong rationale to enact new or enhanced accountability policies to limit the scope of its lending and, thus, the costs of the loan program. During its discussions, the task force observed a tension between a longstanding state skepticism about an increased federal role in accountability and its own concern with student debt levels and subpar student outcomes at some institutions.

It acknowledges and is sympathetic to the federal motivation to improve student outcomes and lower the taxpayer share of loan program costs. Before federal policymakers move in potentially transformative ways, the task force invites them to engage in a dialogue with states to define acceptable outcomes in higher education and explore the kinds of policies that would limit poor outcomes and, more importantly, advance better ones.

Task Force Perspectives on the Federal and State Roles in Transparency

The task force believes a good first step is an enhanced federal role in the transparency of student outcomes. The federal government has powerful tools for collecting data, which should inform a state-federal dialogue on student outcomes. While the federal government collects broad student data, some important metrics such as graduation rates are limited to students who are attending a program for the first time on a full-time basis. This leaves out large populations of students whose outcomes would greatly inform the conversation about the performance of institutions. The task force believes it is critical to have as complete a data set as possible among federal student aid recipients so that its understanding of student outcomes is as accurate as it can be.

The task force also believes more is needed to better link state and federal postsecondary data systems. States can collect certain data that the federal government cannot. When integrated effectively, these state-federal postsecondary data linkages can greatly inform policymakers' understanding. The federal government should remove barriers and provide resources and technical assistance to better connect postsecondary data systems.

In limited circumstances, the task force sees a role for the federal government to require standardized institutional practices related to transparency. For instance, federal policy that requires student borrowers to review outcomes data at their institution and prospective program choice as part of loan counseling could be helpful.

The task force also believes it is best for state and federal policymakers to work on transparency through separate efforts. Attempting and evaluating different approaches to transparency could better identify the most productive pathways forward.

The federal government could make use of its own data in novel ways that may inform state policymaking. While there is a fine line between transparency and accountability when it comes to creating performance metrics, new federal frameworks and metrics might illuminate different ways of understanding student outcomes. The task force does not believe return-on-investment data is the only way to judge the value of higher education, but it does believe that frameworks that help policymakers understand the payoff of a degree are essential in an era where so many students borrow to finance their education. Student debt as part of our national strategy for financing higher education is sensible only if that investment pays off for students.

The forthcoming federal Financial Value Transparency framework, which purports to evaluate programs through a debt-to-earnings test, will be one that states watch closely. The recent inclusion of a chief economist at the Department of Education to analyze federal data is another intriguing approach that could better inform policymakers.

Finally, federal efforts to enhance transparency can facilitate state efforts to improve outcomes, which may include state-level accountability policy. While the task force is skeptical of federal accountability efforts, it recognizes that some states may be interested in moving that direction on their own terms.

Task Force Guidance: Contemplating an Expanded Federal Role in Accountability

A second step for federal policy is to better define the purpose of accountability. The task force is concerned that federal policymakers are moving forward without a clear, bipartisan consensus on the purpose and goals of accountability policy. One task force member wondered "whether the accountability that we've been talking about incentivizes students into more valuable degrees."

The task force would like Congress to answer the following questions: Is the purpose of accountability to prevent adverse student outcomes or define institutional quality? Is accountability meant to reduce federal lending and loan program costs? Motivate institutions to better serve students? For which sectors and institutions?

Congress must answer these questions on a bipartisan basis for the sake of coherent and effective policy. The task force recognizes that both parties have very different primary motivations for accountability. The task force reminds federal partners that unclear or mixed intentions can make for clunky or ineffectual implementation. This task force is also mindful that compliance costs are one of the cost drivers in higher education—too much regulation, especially through ineffective or overly burdensome rules, is not always the answer for quality or affordability.

If Congress contemplates a bipartisan consensus on federal accountability policies, the task force would advise it to consider the following principles:

USE ACCOUNTABILITY MEASURES CAREFULLY, THOUGHTFULLY AND ON A LIMITED BASIS

Federal policymakers should carefully assess any metrics that are used to trigger consequences. While return-on-investment data are informative for the purposes of transparency, the task force remains uneasy about using these metrics or frameworks in a high-stakes or consequential manner for public institutions. The task force recognizes that return-on-investment data is important but does not always reflect the full value of higher education, nor does it fully capture all the reasons people seek it. For example, there are many degree offerings that lead to high-value careers for society that do not pay particularly well. This is a challenge that should be addressed, but perhaps not through accountability.

Federal policymakers should also be careful when using metrics based on loan repayment given the lack of input from institutions on how much students borrow and the relatively ineffective loan counseling practices that are currently in place.

RECOGNIZE AND SUPPORT STATE EFFORTS WHENEVER POSSIBLE

The task force is especially concerned with proposals where the wisdom of states is displaced by federal priorities or where state laws are preempted by federal mandates. The federal government should respect when states have a forum or mechanism for addressing concerns over consumer protection. Federal efforts should complement those efforts, rather than work at cross-purposes, nor should federal policies impose new requirements that are not supported by states.

SEEK ALTERNATIVE APPROACHES TO ACCOUNTABILITY WHEN SEEKING TO IMPROVE OUTCOMES

The task force is not convinced that federal accountability policy is particularly helpful for advancing *better* outcomes. Many of the institutions likely to be targeted by accountability policies are nonselective, lacking in resources and serving populations with greater challenges. The task force believes in better outcomes for those institutions but prefers to achieve those through different means.

Section IV
State-Federal Partnership in Higher Education

Status of the State-Federal Relationship in Higher Education

While the federal role was historically intended to be complementary to that of the states, state and federal higher education policy has never been particularly coordinated or collaborative. In elementary and secondary education, the states enter into agreements with the federal government to receive block grant funding through the Elementary and Secondary Education Act; but in higher education, the relationship between the states and the federal government is less direct. The federal policy relationship is largely with the institutions, rather than the states. It may be most accurate to say that state and federal policy work in parallel but rarely in partnership.

In recent years, some state policies have coordinated with federal policy in what might be considered an implicit, loose state-federal partnership. States often use federal student financial aid data collected through the FAFSA to award their own financial aid or even combine state and federal aid sources to establish state college promise programs. Some states also incorporate federal postsecondary data into their longitudinal data systems. Other states have begun playing a complementary role to the federal government in helping consumers to navigate the student loan program or in providing additional oversight of student loan servicing companies.

The task force strongly believes that state and federal policymaking should be oriented toward key goals and would like federal policymakers to share this approach in collaboration with the states. In fact, if the federal role is to truly complement the state role, it must be designed around helping states to achieve better outcomes in their higher education systems. The task force strongly believes that states and the federal government should engage in greater communication on shared strategies and goals and explore coordination and collaboration where necessary.

The task force is grateful for the ongoing dialogue and collaboration with senior officials at the Department of Education during its work. The task force found it especially fruitful to convene members of Congress and senior administration officials at its Summit on the State-Federal Relationship in Higher Education. Yet apart from liaising through associations like NCSL or independently exercising their convening powers, states and the federal government lack a strong imperative to regularly communicate, nor do they have a forum or nexus to ensure that happens on a regular basis.

Evolution of the State-Federal Relationship

Some federal policymakers and advocates have expressed discontent with the disconnected nature of the state-federal relationship in higher education and have blamed its shortcomings on affordability and quality challenges. As a remedy, they have called for a direct state-federal partnership, one largely aimed at providing increased federal funding directly to institutions, along with other policy requirements.

The most notable of these proposals are the various iterations of what is known as the America's College Promise Act, which would provide federal matching grants to states to guarantee students can attend community colleges tuition free. Under the most recent proposal, states would receive federal funding equal to 80% of the national average of tuition and fees at community colleges and must match the remaining 20% with new state dollars. Federal and state matching funds would increase annually by the rate of inflation, effectively limiting tuition growth to the rate of inflation. Unlike past state-federal affordability programs, state participation would require agreements to other policy conditions, including ensuring full transferability of credits to four-year institutions and abiding by state fiscal requirements such as maintenance of effort. Proponents of this proposal argue that a federal promise program should supplement the Pell Grant, so that it could be applied to broader cost of attendance expenses.

The task force discussed the concept of a formal state-federal partnership to address college affordability and reviewed several public proposals. The task force notes that many of these federal tuition-guarantee proposals take cues from college promise programs that states have developed. In general, the task force was nervous about an increased federal role in directly subsidizing institutions and setting tuition prices. The task force notes that there are vast differences in state funding and tuition prices across states, and even within states, which makes establishing national tuition or funding standards very difficult. Many of the states on the task force were concerned that the federal matching requirements in these proposals would be too fiscally burdensome to sustain. Other states with existing college promise programs were hesitant to take on additional federal requirements.

Should federal policymakers seek to expand the federal policy role in higher education, states would prefer an approach that promotes transparency, improvement and innovation in the service of state goals for higher education outcomes, rather than an expanded federal role in affordability and accountability.

States would also much rather see the federal government invest in state-led strategies to improve higher education than maintain a costly loan program or use loans as a lever to govern higher education. This approach could take many different forms, including an expansion of the TRIO programs and the Postsecondary Student Success Grants.

However, the task force recognizes that expanding federal programs that directly fund institutions and bypass state authorities may not be the most effective way to manage the higher education system. For one, it increases the possibility of competition between state and federal policies and priorities. This misalignment or duplication not only could be distracting but could continue to increase compliance costs for institutions. In addition, a lack of state input on federal programs often imposes an opportunity cost by not coordinating funding and scaling best practices at the system and state levels.

Rather than operating in separate spheres in potentially conflicting or duplicative manners, states and the federal government might benefit from working more closely in a limited partnership in pursuit of the mutual goal of improving outcomes in higher education. A formal state-federal grant program could be a productive tool for coordination and collaboration.

The task force is hesitant to call for new federal programs—both out of the imperative to maintain state authority and its concern for the national debt. The task force notes there are drawbacks to a formal relationship between states and the federal government, as states are always mindful of the unlimited spending authority of the federal government, giving it the potential for expansive influence over states.

However, it is also mindful the federal government has a substantial relationship with the higher education institutions, some of which are generally more dependent on federal grants and loans than state appropriations. This gives the federal government leverage to enact consequential policy without input from the states.

The federal government will continue to make student loans: an estimated $1 trillion over the next decade. Trends suggest a substantial portion of these loans will not be paid back in full and the cost ultimately will be covered by federal taxpayers. Because we are paying for the shortcomings of the higher education system through the loan program, perhaps we should consider how we can best shore up those shortcomings with a new approach to federal policymaking, which could include a direct relationship with states.

Terms of a State-Federal Partnership for Transparency and Improvement

As detailed earlier, there have been many proposals for a state-federal partnership centered on affordability. Many of the proposals take cues from Medicaid, wherein states are required to match federal dollars. Should the federal government be interested in proposing a state-federal partnership, the task force suggests looking to the longstanding state-federal partnership outlined in the Elementary and Secondary

Education Act. While reauthorizations of the ESEA have altered the specific functions of federal policy, all states have participated in this state-federal partnership since its inception, which suggests the core principles of the relationship are widely accepted and durable over time. Given the national marketplace in which higher education operates, it is especially imperative that all states feel they can participate in federal programs.

The key principles of the ESEA could be a foundation on which to build a state-federal partnership. In that program, states receive funding for elementary and secondary education to supplement their efforts to serve students with the greatest needs. In exchange for this funding, they are required to set state education goals, assess progress toward those goals against student outcomes, and engage in improvement strategies to address gaps between goals and outcomes.

The task force believes the federal government can complement state efforts to improve higher education by promoting transparency of student outcomes. A limited state-federal partnership could better connect state and federal data systems to help states and institutions more clearly understand student outcomes across programs.

Should Congress seek a more expansive state-federal partnership, it could also make flexible block grant funding available to the states, enabling them to make targeted investments, based in research and evidence, to address the challenges that stand as barriers to statewide higher education goals. While it would be expected that certain parameters be placed on this funding, it would be preferable if states were granted broad discretion in how the funds are invested. States have proven they are the laboratories of democracy and are better suited than the federal government to respond to their unique needs.

In exchange for this funding, states could be required to set goals for their higher education systems and institutions—something many have already done—and develop plans for how they will invest the new federal funding. As part of the planning process, states would examine detailed federal and state data to understand disaggregated student outcomes at all their authorized institutions and programs.

To facilitate this research, program funding could be set aside to develop state longitudinal data systems and connect them with federal data. The data should include as much information about student outcomes as possible, including completion rates, on-time completion rates, transfer success, loan repayment rates and return-on-investment data, among other metrics.

To receive federal funding, institutions would need to identify underperforming student populations and programs based on state-chosen metrics. State investment plans would be designed to address both acute challenges at institutions and broad challenges at the system and state levels. States would determine how the funds are awarded, but all funds would be spent in the service of solving identified barriers to student success.

We would expect states to take a wide variety of approaches. One state might choose to invest in evidence-based student success programs at institutions or reconnect adult learners who have stopped pursuing their education. Another might convene institutions to solve challenges that are preventing successful student transfers. Another might create scholarships for high-cost, high-need programs like nursing and teaching, or create or expand college promise programs.

While the task force does not advise Congress to add to the federal deficit through the creation of new programs, the cost of such a grant program could be covered by reforms to the student loan program. Funding amounts for the program should be meaningful enough to drive innovation and improvement for the students and programs with the greatest needs, but not so much as to invite increased federal authority, nor create institutional dependence on supplemental funding. Funding amounts should also be limited so as not to invite unreasonable or unsustainable federal fiscal requirements for state investment in higher education. Funding formulas should be based on state population and student enrollment counts, rather than state spending or tuition prices.

Finally, the partnership must include strong prohibitions on federal authority, as are included in the ESEA. This could include barring federal influence over state or institutional policies on campus free speech, faculty tenure, course or content offerings, and more. States have varied policies on many of these issues and it is not the federal role to impose changes across states. The federal government must be mindful that state participation in federal programs is voluntary. No state should participate in any federal program that is not in the best interests of its residents.

The higher education system would benefit from greater state and federal communication, and even coordination, around student outcomes. The task force, through its discussions with federal officials and higher education leaders, found strong agreement on the outcomes expected for students pursuing a higher education.

Should it be proposed as part of a reauthorized Higher Education Act, states would welcome a limited state-federal partnership that facilitates a better understanding of student outcomes, and might consider accepting additional federal funding to pursue state-led student success strategies that advance state goals.

Regardless of the forum or policy apparatus, it is critical that states and the federal government partner together more often to ensure that students are better able to access the benefits of a higher education.

NCSL's Task Force on Higher Education Affordability and Student Outcomes

This report was developed by NCSL's Task Force on Higher Education Affordability and Student Outcomes. The task force was created to explore state and federal strategies to make college more affordable for students and taxpayers, improve completion rates, and reduce rates of unrepayable student debt. The findings of the report were developed on a bipartisan basis among the members of the task force in consultation with key leaders in higher education, federal officials, and other experts.

Disclaimer

This report is the product of NCSL's Task Force on Higher Education Affordability and Student Outcomes. The views and findings expressed in the report are solely those of the task force. The report does not represent the views or opinions of any one member, NCSL, or the supporting organizations of the task force.

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