

Financial Sustainability Among Higher Education Institutions in the United States

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Abstract: This article explores the challenges of financial sustainability faced by higher education institutions in the United States. Against a backdrop of stringent state and federal regulations coupled with a decline in financial support, institutions are grappling with a shifting landscape. The paper delves into the intricacies of state regulations and funding policies, highlighting their impact on educational establishments. Furthermore, strategies for financial sustainability, including student attraction and retention, are discussed. The article concludes by underscoring the duality of regulations as both challenges and essential resources, suggesting a potential shift towards greater autonomy and a reshaping of the educational landscape in response to modern challenges.

Keywords: Financial sustainability; Higher education; State regulations; Funding policies; Student retention

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1. Introduction

For higher education institutions in the United States, it is increasingly challenging to attain financial sustainability in today's complex world. State and federal regulations place firm requirements on financial evolution, and funding policies at both levels benefit and curtail higher education by providing necessary capital with rigorous strings attached. With regulations and policies differing in each state, and funding sources evolving at the federal level, institutions must carefully navigate a constantly shifting landscape that is experiencing a general decline in financial support directed at higher education. This paper will look at the current condition of state and federal regulations and funding policies, and how institutions are responding to them. This article will also discuss strategies for financial sustainability that have emerged in response to the recent downturn in funding opportunities.

2. State regulations and funding policies

State regulations and funding policies in the United States play an active role in directing and responding to the higher education institutions within their jurisdiction. Since each state has its regulatory framework with

varying degrees of oversight and requirements, institutions are closely bound to their geographical location regarding their economic development, thus they must tailor their tactics accordingly ^[1]. State regulations vary widely in their approaches, monitoring diverse issues including student admissions, curriculum standards, and financial aid. While some states impose strict requirements for institutions to maintain accreditation, others adopt a more hands-off approach.

Funding for higher education follows a similar range, as certain states offer significant support to public colleges and universities, while others are more reluctant to provide support. However, recent years have seen a universal decline in state funding ^[1,2]. Klein has observed that this phenomenon is so prominent that it has sparked discussion in the United States Senate. Overall, states have fewer funds available, and therefore less money is allocated to higher education, but the cause of these smaller reserves has been a subject of contentious debate among senators. One faction argues that the source is the voluntary reduction of state taxes across the nation, while the other points to the federal requirement placed on states to pay for Medicaid ^[2]. Klein has pointed out that both causes are correct, and are part of a larger cluster of triggers, including the burden of high unemployment on state tax revenue and preferential funding for K-12 education, which work together to diminish support for higher education ^[2].

This decrease in state funding is a partial contributor to the rise of higher education tuition and fees, which itself contributes to a decrease in enrollment. Varga and Lingrell ^[1] have argued that the combination of both the reduction of state funding and low enrollment has thrown United States institutions into a “college arms race” that weaponizes the construction of amenities to attract students through new methods of engagement. As they point out, “such extravagant amenities come at a cost, and many states are now reigning in those costs through restrictions, outsourcing, or privatizing components of higher education” ^[1]. In this case, the reduction of state funding has an impact on how institutions attempt to revitalize their enrollment, resulting in tactics that further dissuade state policymakers from halting the decline of their financing.

3. Federal regulations and funding policies

In addition to state regulations and policies, United States institutions must also account for additional requirements on the federal level. The government has played a significant role in shaping higher education policies through programs such as the Free Application for Federal Student Aid (FAFSA), Pell Grants, and other student loan programs ^[3,4]. As demand grows for financial aid across the United States due to the rising costs of higher education, certain core programs, like the Pell Grant, are facing potential caps, and possibly reductions, due to growing costs from heightened demand, threatening the larger ecosystem ^[4]. Mullin has suggested several factors that may positively sway future developments of the Pell Grant program. One factor is additional emphasis on guiding funded students through graduation, capitalizing on the federal financial investment in their education by positioning them as valuable workers within the nation’s economy. The other factor is increased attention to institutional effectiveness by formulating means by which schools can be measured in the quality of the education they provide to grantees ^[4]. Both options have the potential to introduce new regulations and policies for institutions participating in the Pell Grant program. Such requirements would ideally drive positive growth in the country’s workforce but would also create new hoops through which universities and colleges must jump in order to secure necessary federal funding.

In this context, while these programs supply billions of dollars in aid to students annually, they already come with accompanying regulations and requirements that institutions must adhere to. Among these are the Family Educational Rights and Privacy Act (FERPA), which protects the privacy of student education records,

and anti-discrimination laws, such as Title IX, which prohibits sex-based discrimination in education. While these regulations are designed to improve and empower students and faculty, they have their own inherent flaws. Title IX, for instance, has a history of either being overlooked or misused because of its broad definition and terms of enforcement; as a result, compliance is often defined by an institution's administrators, whose desire to fulfill a federal requirement may outweigh service to the community^[5]. In this sense, the need to comply with this law may be at odds with the needs of the institution as an educational entity, creating conflicts that must be carefully investigated to find the best solution for all parties involved.

4. Navigating state and federal requirements

The interplay between state and federal regulations and funding policies creates both problems and opportunities for higher education institutions. From a broad perspective, Manning^[6] has demonstrated through institutional theory that the combination of institutional factors coming from the state and government has created a standardized organizational structure that drives higher education across the country. Yet the complexity of the two systems combined can be difficult to navigate on the ground, especially as they do not operate independently of one another, resulting in what Manning^[6] has described as conflicts of institutional logics. For instance, changes in federal funding policies can impact state funding policies, which in turn may affect an institution's ability to provide support to its students. Similarly, changes in state regulations can impact institutions' access to federal funding and compliance with federal regulations. However, state and federal policies can also work together to support higher education. Federal aid programs may pick up the slack when state-funded programs wane, for example, allowing institutions to provide consistent aid to students^[3].

Navigating regulations and policies at the state and federal levels requires higher education institutions to evaluate and comply with numerous requirements, often with the help of legal counsel and compliance officers to parse the complicated frameworks. One approach taken by many schools is the development of strong relationships with policymakers and other stakeholders^[6]. These bonds open doors to advocacy efforts to influence policy decisions and partnerships with state and federal agencies to ensure compliance with regulations. Institutions in states offering limited funding must seek alternative sources or implement cost-saving measures to ensure long-term viability. Across the board, financial aid programs must be closely managed to comply with federal regulations, which may be achieved through cost-cutting measures and carefully managed student aid^[7].

5. Strategies for financial sustainability

There are many strategies open to United States institutions in pursuing financial sustainability. One key option is the diversification of revenue streams, which involves the development of multiple sources of income beyond tuition and funding from state and federal programs^[7]. Fundraising is a leading method in this approach, capitalizing on relationships with donors like alumni and foundations and benefiting from campaigns that often focus on supporting specific institutional programs and initiatives. Additional education programs can also bring in revenue, such as online education and professional development courses^[3]. Partnerships with private sector organizations and government agencies are also valuable opportunities that expand institutional reach and impact. These tactics are increasingly important as state and federal funding declines; as argued by Baum *et al.*^[3] "the prevalent view seems to be that colleges and universities, especially those in the public sector, should simply find ways to do more with less" (page 36).

Another important strategy that contributes to financial sustainability is a strong focus on attracting

and retaining students. Techniques include formulating a selective admissions process, developing outreach programs to high schools and community colleges, and maintaining programs for student retention, such as tutoring, advising, and financial support ^[7]. Given that funding opportunities from state and federal sources typically require supported students to graduate for the institution to fully benefit from these programs, it is in the institution's best interest to prioritize student success to ensure as many completed degrees as possible. Perna *et al.* ^[8] have observed that the federal loan system is also strengthened by graduation, as "repaying debt is especially difficult for students who fail to earn a degree or credential and consequently are less likely to obtain a high-paying job" (page 272). In this case, the success of institutions in fostering successful students reinforces federal funding, which can be reinvested back into higher education.

6. Conclusion

Although the challenges posed by state and federal regulations and policies are substantial, they still provide a critical resource for institutions in the United States. However, as these financial sources grow smaller, more strategies for sustainability will necessarily reveal themselves as schools seek to keep themselves open. The recent recession has tested how institutions will face this uncertainty. In some instances, their methods of evolution have proven detrimental to higher education itself, as in the emerging prominence of amenities to maintain enrollment levels. In other cases, growth has contributed to long-term benefits on a national level, as in the increased support to help more students graduate. Although it is unlikely that the tension and interaction between state and federal funding will ever completely disappear in the United States, the significance of increased financial sustainability opens the door to greater independence from certain classes of regulations that have historically shaped higher education in this country. As institutions establish their strategies, they are likely to produce growth in new directions, fostering an education system that, for better or for worse, will reflect modern times and determine future patterns of learning.

Disclosure statement

The author declares no conflict of interest.

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