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FY 2010 & FY 2011 TRENDS IN STATE FUNDING FOR HIGHER EDUCATION

By Mandy Rafool

Recent developments in higher education funding paint a grim picture for students: Financial aid and scholarship programs have been reduced, academic programs have been terminated and tuition has continued to rise. All have been adversely affected by state budget shortfalls and, specifically, cuts to higher education budgets.

This report provides an overview of funding for higher education. It also summarizes recent state actions to realign higher education funding in an environment of scarce state resources.

Funding for Higher Education

Higher education budgets are generally more affected than other program budgets to state fiscal conditions, and tend to take disproportionate cuts when times are bad.[1] This largely happens because--unlike most other state programs--colleges and universities have other sources of income, such as tuition, to compensate for reduced state support. But the effects of a prolonged economic downturn have raised the visibility of how states fund higher education, especially as outside funding sources have been squeezed.

Public higher education institutions largely rely on three major funding streams: state appropriations, school endowments and student revenues (tuition and fees). State appropriations have been scaled back significantly since the recession began. University endowments are down, suffering from both massive investment losses and declining gifts. Tuition, on the other hand, has been rising steadily in most states for several years.[2] These developments have increased the proportion of higher education costs that students and their families pay. Some are concerned that this burden has grown to unacceptable, and perhaps unsustainable, levels that ultimately will limit access and hinder higher education attainment.

State Actions

State budgets for FY 2010 and FY 2011 were exceptionally difficult for legislators to balance. As a result, higher education in nearly every state experienced some combination of budget cuts, tuition increases, staff furloughs, layoffs, cuts in student aid or program reductions.

States confronted a cumulative budget gap of more than $174 billion in their FY 2010 budgets, with many states cutting higher education budgets generally and others targeting specific university systems. Several states also reduced community college system budgets.

[1] Delaney, Jennifer. A. and William R. Doyle. "The Role of Higher Education in State Budgets." *The Challenges of Comparative State-Level Higher Education Policy Research*. Kathleen M. Shaw and Donald E. Heller (Sterling, Virginia: Stylus, 2007). 55–76.
[2] State Higher Education Executive Officers, *State Higher Education Finance FY 2009* (Boulder, CO: SHEEO, 2010), 8.

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California lawmakers required state university staff to take anywhere from 11 to 26 furlough days to help close the budget gap. Higher education personnel in Georgia, Oregon and Virginia also were required to take furlough days. Some higher education employees in Nevada were hit with a 4.6 percent pay cut, while others were laid off when several satellite campuses closed. University employees in Iowa and Pennsylvania experienced salary freezes along with some benefit cuts.

Students felt the impact, too. California, Minnesota and Washington were among the states that raised student tuition and fees. California and Utah actively sought enrollment reductions.

Financial aid and scholarship programs were cut in several states including Illinois, Iowa and Michigan. In Michigan, lawmakers abolished the Michigan Work Study Program and the $140 million Michigan Promise Grant Program, which provided merit-based grants of up to $4,000 for students who scored well on the high school merit exam or who completed two years of postsecondary education with at least a 2.5 grade point average. Michigan lawmakers also made large reductions in the two primary needs-based scholarship programs: They reduced state competitive scholarships by 50.4 percent and tuition grants for students at independent colleges by 44.1 percent.

Higher education did not fare much better during the FY 2011 budget process as state faced another large cumulative gap of $110 billion. Students in Florida Georgia, Louisiana, Nebraska, North Dakota and Pennsylvania saw tuition hikes with increases ranging from 3.5 percent in North Dakota to 15 percent in Florida. New York and Vermont made cuts to student aid programs.

Lawmakers in North Carolina offered universities the option of raising tuition up to $750 per student or making $70 million in cuts. The legislation also gave universities the option of furloughing employees to generate cost savings. In addition, the North Carolina budget repealed a tuition waiver for nonresident athletes on full scholarships, saving an estimated $9.4 million. Under the program, the state reimbursed the university system for loss of revenue due to providing in-state tuition to out-of-state student athletes on full scholarships.

In some states, students can no longer major in certain disciplines. Officials at the University of Colorado announced a plan to dismantle the School of Journalism and Mass Communication. The University of Nevada at Reno discontinued German as a major. North Carolina policymakers eliminated many programs that were not considered core to the mission of higher education. Other states have followed suit by cutting programs without high student enrollment numbers.

Tight budgets resulted in staff furloughs in Oregon, and staff layoffs in Nebraska and Louisiana, where more than 200 instructors received letters of non-renewal after the 2010-2011 school year from Louisiana State University.

More information on state actions affecting higher education funding can be found at: (for FY 2010) http://www.ncsl.org/?tabid=17242 and (for FY 2011) http://www.ncsl.org/?tabid=19646.

What Happens Next?

As reflected by the activity shown in the NCSL higher education tables referenced above, higher education funding was particularly hard hit in recent years. Given the challenges confronting lawmakers in their FY 2012 budgets, the hard times for higher education may not be over. To address declining state support, especially over the long term, policymakers and university leaders around the country are exploring alternative funding models.

An idea that seems to be gaining momentum is that of granting higher education institutions a greater level of independence. This is sometimes referenced as the "Michigan model."

Michigan has a rather unique system because all four-year institutions are autonomous--no statewide agency, board or commission is responsible for the coordination of education. In exchange for this autonomy, the institutions receive lower levels of state support. Some have described this structure as one with "privately financed, publicly affiliated" institutions. This model offers advantages to the institutions because they have more control over tuition levels, personnel, benefits, procurement, bonding and more. But this model is not without critics, who cite high student fees and a bias toward out-of-state students who pay more in tuition and generate more revenue for the school.

The Michigan higher education system presents an interesting case study. Although the system doesn't rely on legislative appropriations to fund operations in the same way that institutions in other states do, the funds provided by the legislature do support student aid programs. So, when Michigan reduced higher education funding support in the face of large budget gaps, the reduction translated into deep cuts in funding for student aid programs. This occurred at the same time the Michigan structure was being held up by other states as a model for more autonomy.

The Michigan experience is not stopping policymakers in other states from examining and possibly pursing higher education independence. Eroding financial resources in Louisiana and Oregon are causing state and university leaders to re-evaluate the way their higher education institutions operate, and one idea that consistently comes up is shifting to a more autonomous structure.

Several university systems have already moved in this direction. As far back as 2005, Virginia adopted legislation that gave universities more autonomy over capital building projects, procurement and personnel. But autonomy came with expectations. The state has certain policy objectives that must be met and higher education institutions are required to develop six-year academic, financial and enrollment plans that outline tuition and fee estimates as well as enrollment projections. They also are required to develop detailed plans for meeting statewide objectives, and to accept a number of accountability measures, including benchmarks related to accessibility and affordability. During the 2010 legislative session, the Colorado General Assembly passed a law that gives public universities more control over tuition, purchasing, contracts, construction and other operations. Likewise, each University of California campus has strong local authority. So do the different campuses that make up the University of North Carolina system.

In an attempt to reduce the longer-term volatility associated with higher education funding, some states have created special funds or identified dedicated revenue streams. For example, lawmakers in Idaho created a special Rainy Day Fund for higher education. Maryland has a Higher Education Investment Fund, created during a special legislative session in 2007 and funded with a portion of a temporary increase in the corporate income tax. The fund, which was formed after tuition went up by more than 40 percent over four years, supplements higher education in an effort to keep tuition rates down.

It is impossible to discuss recent funding levels for higher education without referencing the extra support provided by the federal government. Congress approved federal stimulus money in February 2009 to help states deal with the budget problems triggered by the national recession. The additional federal money was targeted to several program areas, including higher education. That money was critical in helping states avoid even deeper funding reductions.[3] But the federal stimulus money is phasing out and will largely disappear by FY 2012.

Ongoing budget problems suggest that higher education funding will continue to face challenges. Further complicating the matter is the looming end of federal stimulus money. As a result, higher education funding in FY 2012 is expected to be tighter than ever.

[3] National Conference of State Legislatures, *State Funding for Higher Education in FY 2009 and FY 2010,* (Denver: NCSL, 2010).