

# States' Responses to Low Funding for Higher Education

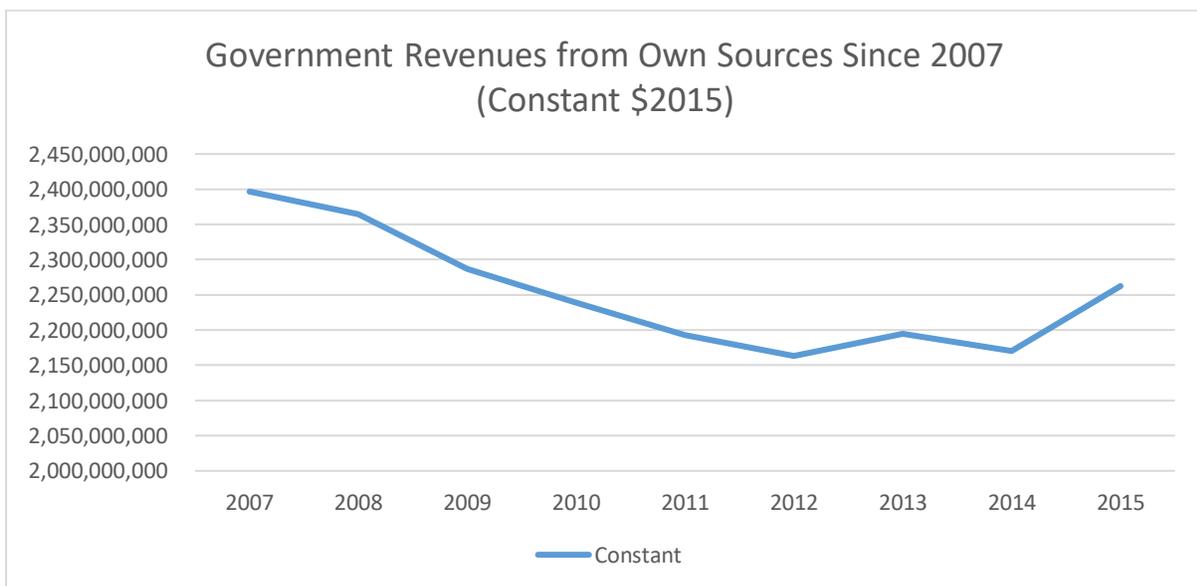
## Introduction

In an effort to reveal the growing problem of state funding for higher education (HE), NEA has reviewed various reports and government sources dealing with HE revenues and expenditures. The main problem, of course, is that overall education expenses have continued to increase, outpacing inflation, for several decades. The impact of this increase has affected many areas of state life and individual life. There have been discussions and meetings at the state and federal level attempting to address the cause of the growing costs, but little has been done to find a solution. Costs continue to rise. Exacerbating the problem is the shrinking support of all state governments across the United States. There are many causes for this declining state support for education, but the question of how states are addressing this issue is silent.

NEA has investigated the various sources of information for this report. The report will address several problems that states are facing due to the increasing costs of education, and provide a brief explanation of what states are attempting to alleviate the rising costs.

## State Government Resources in Decline

Since the Great Recession, state resources have fallen dramatically and many states have not returned to pre-Recession levels. As a result, funding for education at the state level has suffered greatly. In response to plummeting revenues, states had to make drastic cuts to budgets that were already struggling to keep pace with inflation. Additionally, the anti-tax movement had created an atmosphere in most states, where the legislatures routinely cut taxes or held spending and tax revenues level. However, state revenues continue to lag dramatically. The figure below illustrates the rapid decline in state revenues since 2007. Although there had been a bump in 2014 and 2015, revenues are expected to fall again.



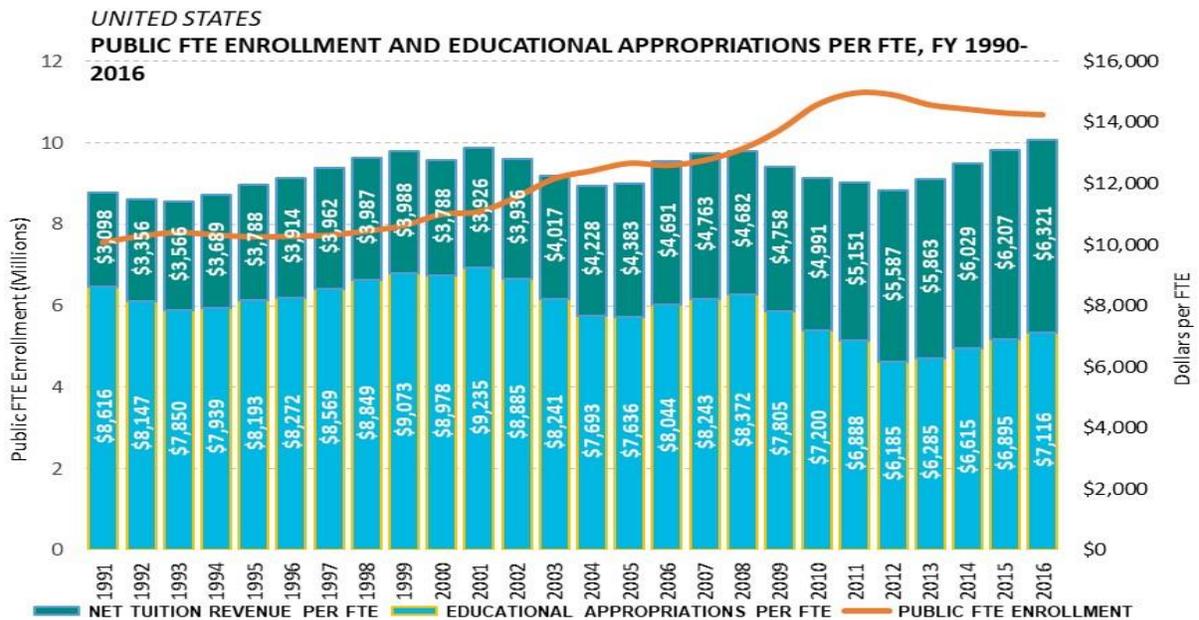
As is true in most state budgets, education receives the largest portion. Although higher education (HE) is included in this, the majority of the state education budgets is filtered toward the elementary and secondary (K-12) schools. In 2015, the percentage share for education expenditures of state budgets in the US was roughly 26% (excluding capital expenditures). HE received 8% of total state expenditures, while K-12 received 18%.

Separating the expenditures by the state and local contribution shows a drastic difference in how HE and K-12 are funded. In 2015, HE received the majority of its government funding from state-level sources, while K-12 received the majority of its resources from local-level sources. It follows then that when state resources are falling, states will make cuts to state-level expenditures. Although this will have an impact on education overall, the highest impact will be on HE because it receives a large percentage of its government appropriations from state-level sources.

### Impact of Declining Revenues on Higher Education

Most resources generated for HE come from five sources: federal, state, local, entrepreneurial, and private funds (student fees and tuition). Since the Great Recession, state, federal and entrepreneurial sources have declined, which places more pressure on the other sources. Local funding for HE has never been a major part of HE budgets, and the last decade of funding has not demonstrated a shift toward local funding for HE. The private funds, then, have been increased as a means of sustaining HE expenditures and growth.

The figure below illustrates the share of costs between the state and students.



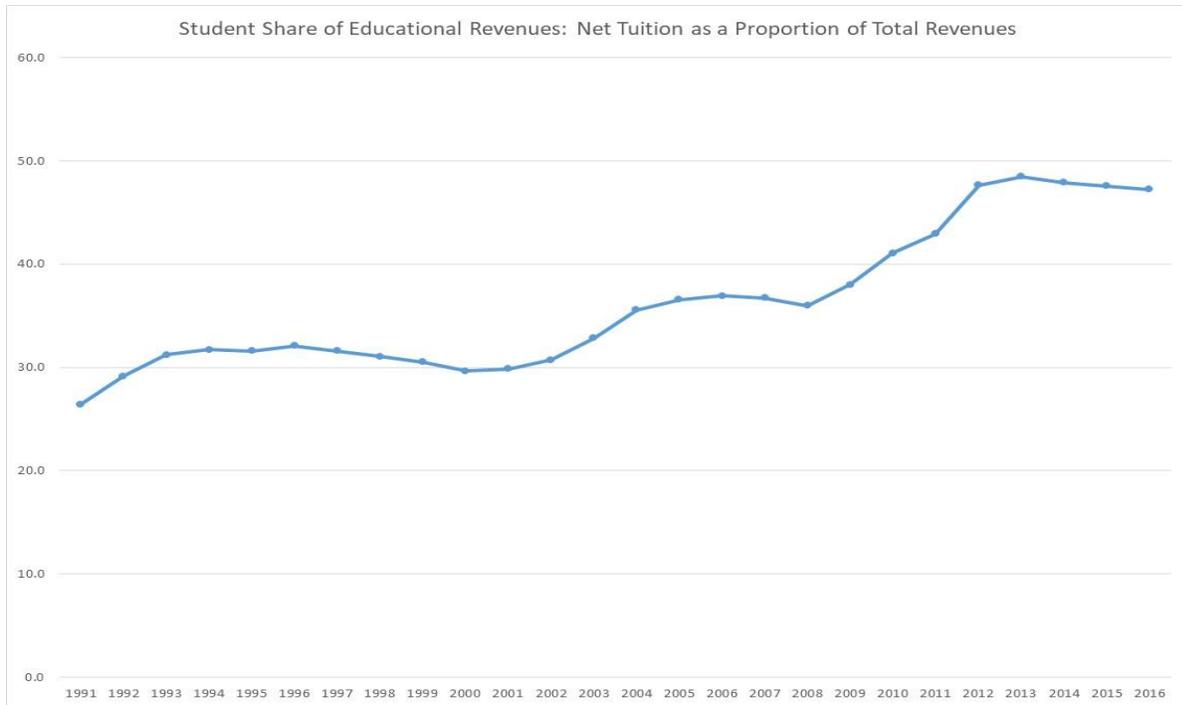
**NOTES:** Data adjusted for inflation using the Higher Education Cost Adjustment (HECA). Full-time equivalent (FTE) enrollment equates student credit hours to full-time, academic year students, but excludes medical students. Educational appropriations are a measure of state and local support available for public higher education operating expenses including ARRA funds, and exclude appropriations for independent institutions, financial aid for students attending independent institutions, research, hospitals, and medical education. Net tuition revenue is calculated by taking the gross amount of tuition and fees, less state and institutional financial aid, tuition waivers or discounts, and medical

Source: SHEEO, 2016

The figure illustrates that the trend toward decreasing state support and increasing student tuition has been occurring for several decades. Overall, the trend toward state support is downward, while tuition increases is upward. With the onset of the 21<sup>st</sup> Century, the trend has been steeper.

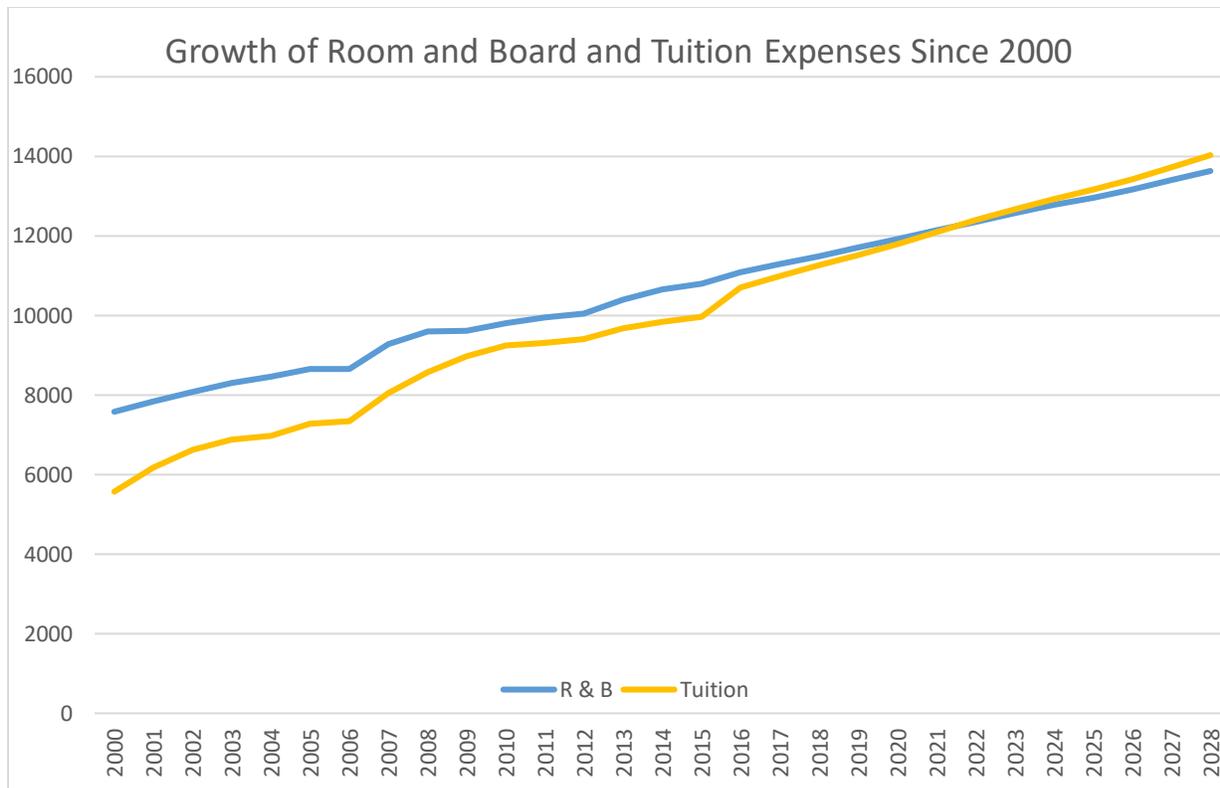
## Impact of Declining Revenues on Students in Higher Education

The increase rise in tuition has placed a burden on students, specifically those from middle to low-income homes. Since 1991, the share of costs for students has risen to almost 50%.



Source: SHEEO, 2016

To exacerbate the higher costs, tuition fees have even outpaced the cost of room and board. Since 1972, tuition costs have increased by 288%, while room and board have increased by 84% (The percentages are based on actual dollars). Projecting the rate of growth, tuition will exceed costs for room and board by 2023 (see figure below).



## Techniques used by institutions of HE to adjust for reduced government support.

Since support for HE has fallen over the last few decades, states have resorted to many different measures for alleviating the rising costs of education. Several typical techniques have been utilized by states' institutions of HE. Increasing tuition is one of them, which most, if not all states have done. Other forms of cost-cutting measures include layoff of staff and faculty. Some states have also cut course and both academic and student programs have been either cut or eliminated. Many states have also tried measures that stall growth like hiring freezes or pay freezes. A list of states also attempt to raise out of state tuition in an effort to pass the increased cost to other states. There are also attempts to close campuses and/or consolidate campuses. Cuts or elimination of athletics is also on the chopping block in some states.

Most of these cost-saving measures have failed to address the rising cost of education. Moves like raising tuition is used by most states as a first measure in cutting costs to the states but not costs to students in general, who have seen dramatic increases in tuition over the last five decades, and dramatic increases in student loan debt. However, there are some cost-cutting measures that have helped: restricting tuition increases and cost-efficiency measures (e.g., reducing time to degree completion and more online options).

Below is a table of techniques employed by states and state institutions of HE.

Cost-Saving Step	States that have participated.
<b>No Data</b>	As of this writing, no information was found for IN, NH, NJ, ND, and UT
<b>Raise Tuition</b>	All states except the above have reported raising tuition.
<b>Lay off staff</b>	AK, AZ, CO, HI, IL, LA, ME, MD, MS, MO, NM, NY, NC, OH, OK, OR, PA, SD, VT, and WI
<b>Lay off faculty</b>	AK, AZ, HI, ME, MD, MS, MO, MT, NM, NY, NC, OH, OR, PA, SD, VT, WI
<b>Course Cuts</b>	CA, CT, HI, IL, LA, NY, NC, OH, OR, PA, SC, SD, WV, WI
<b>Cut programs (academic)</b>	AK, CT, HI, LA, ME, MS, MO, NM, NY, OR, PA, SC, SD,
<b>Cut programs (student)</b>	LA, ME, OK, SD, WI
<b>Hiring Freeze</b>	CT, LA, ME, MD, MS, MO, MT, NE, NM, NC, PA, VA
<b>Pay freezes</b>	IA, MT, NC, PA, VA
<b>Out of state tuition increase</b>	AL, AZ, CA, CT, KS, LA, OH, SC, WV
<b>Other cuts</b>	AK, CO, HI, NE, NM, NY, OK, OR, PA, SD, TX, WI, WY
<b>Closings</b>	CT, FL,
<b>Consolidation</b>	CT, GA, PA, VT,
<b>Cuts to Sports</b>	CT, NM, OH
<b>Use Performance-based budget</b>	AZ, AR, CO, FL, IN, IL, KY, OH, MI, MS, NM, PA, SD, TN, TX, UT, WA
<b>Restrict Tuition Increases</b>	AZ, FL, IL, IA, KY, MD, MI, NC, NY, TX, WI
<b>Increase Cost-Efficiency</b>	CA, CT, ID, KS, KY, MD, MO, NY, SC, TN, VA,

## Alternatives to Rising Tuition

In its Spring 2013 report, “Improving Postsecondary Education Through the Budget Process: Challenges & Opportunities,” the National Association of State Business Officers (NASBO), provided several strategies for states to improve costs for Higher Education. This call by NASBO was in response to the declining state revenues and excessive growth in costs and tuition for institutions of HE. The report demonstrated that many states fail to address the cause of rising costs for HE, and fall back on simple techniques like raising tuition.

### Financing and Management Strategies: Options for States to Consider

#### 1. Funding Performance and Results

- Distribute a set percentage of funding (or any increase in appropriations) to institutions based on certain performance targets.
- Allocate all appropriations based on an outcomes-based funding formula.
- Build performance models tailored to institutional mission.
- Reward institutions that increase number of degrees in workforce priority areas.
- Encourage institutions to use performance information to make targeted investments.

## **2. Restricting Tuition Increases**

- a. Set tuition and fee levels through central coordinating board appointed by the governor.
- b. Buy down system's tuition increase with a designated amount of general funds.
- c. Require institution to keep tuition increase below historical average in order to qualify for a pot of money set aside by the state.
- d. Require that undergraduate tuition increase not exceed historical average increase.
- e. Set maximum tuition increase allowed by institutions.
- f. Encourage institutions to find innovative ways to offer low-cost degree options for students.
- g. Establish guaranteed tuition plan to enable students to pay the same tuition rate for four years.
- h. Eliminate use of tuition set-asides for financial aid purposes and replace with a new or expanded state grant program.

## **3. Expanding Access**

- a. Award funding premium to institutions for graduating financially at-risk or nontraditional students.
- b. Steer more students to start postsecondary education at community colleges.
- c. Simplify and streamline transfer process from community college to four-year institutions.
- d. Add or expand need-based scholarship programs.

## **4. Improving Useful Information about Higher Education Spending and Results**

- a. Require institutions to submit detailed cost and performance information to state budget offices for use in decision-making.
- b. Establish standards for institutions to follow in disclosing key accountability and financial metrics to the public to make students and parents more informed consumers.

## **5. Increasing Cost-Efficiency**

- a. Conduct multi-year expenditure forecasts to encourage long-term investments.
- b. Require student vote on all amenity and facility upgrades, and provide students information about the costs and additional revenue required for such upgrades.
- c. Create incentives to promote spending on deferred maintenance.
- d. Require institutions to set aside some tuition revenue for infrastructure projects.
- e. Offer more introductory courses online or in re-engineered formats.
- f. Limit number of credits that institutions can require for degree completion.
- g. Reward institutions and students to encourage on-time or accelerated degree completion.
- h. Restrict remediation coursework at four-year institutions and redesign remedial education.
- i. Realign institutional structures to capture administrative efficiency gains and avoid duplication.
- j. Establish entity(ies) to identify and recommend cost-cutting strategies.

## Other Research

NEA has also conducted additional research that provides information into what states are doing to address the reduction in revenues toward HE.

In The NEA 2018 Almanac of Higher Education, Willim Zumeta provides details regarding the continued struggles in state budgets, and the results of the slow economic recovery that still lingers since the Great Recession. Zumeta describes the impact that inflation has had on states, preventing revenues from reaching pre-recession revenue levels, and hence, any increased state support for education and HE has been hampered. “Since the low point of \$6,182 reached in fiscal 2012, state and local appropriations per student, adjusted for inflation, had, as of fiscal 2016, recovered less than half the ground lost since 2008, reaching \$7,116, or an increase of about 15 percent from 2012.”

< <http://www.nea.org/assets/docs/2017%20Almanac%20Zumeta%20v2%2028Jan17.pdf>>

In a report in the NEA Higher Education Advocate (Vol. 33, No. 2, May 2017) NEA details the impact on staffing levels and salaries in higher education since the Great Recession. Although the breakdown of information is not segregated by state totals, it provides reasonable information into the impact that declining state funding has had on HE. The main points of the study demonstrate that although there has been an increase in full-time equivalent staff and faculty since the Great Recession, there are small changes to the makeup of that faculty (e.g., lack of tenure position, lower starting salaries). Also, the report provides information on the increased use of graduate teaching assistants, which inevitably supports the continued services of HE, but at extremely lower costs. Finally, the report provides details on the average salary increase for staff and faculty at selected institutions.

< [http://www.nea.org/assets/docs/HE/NEA\\_HigherEd\\_Advocate\\_SalaryReview2017.pdf](http://www.nea.org/assets/docs/HE/NEA_HigherEd_Advocate_SalaryReview2017.pdf)>

A third report by NEA RES, “A Looming Crisis for HBCUs? An Analysis of Funding Sources for Land Grant Universities,” provides some interesting information regarding the impact of the reduction in both federal and state funding is having on HBCUs.

< <http://www.nea.org/assets/docs/NEA%20CGPS%20Research%20HBCU%20Brief%202.pdf>>

## Resources

McNichol, E and Waxman, S (2017). “States Faced Revenue Shortfalls in 2017 Despite Growing Economy.” Center on Budget and Policy Priorities.

Census. State and Local Finance. <census.gov>

Ginder, S.A., Kelly-Reid, J.E., and Mann, F.B. (2017). Postsecondary Institutions and Cost of Attendance in 2016–17; Degrees and Other Awards Conferred, 2015–16; and 12-Month Enrollment, 2015–16: First Look (Provisional Data) (NCES 2017-075rev). U.S. Department of Education. Washington, DC: National Center for Education Statistics. Retrieved [date] from <http://nces.ed.gov/pubsearch>.

2016 SHEF Report, State Higher Education Executive Officers

**NOTE:** Information for Higher Education Institutional cost-cutting measures was taken from various internet news sources