

# Higher Education in the States

## *Teetering on the Brink Once Again*

*By William Zumeta*

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Higher education teetered on the fiscal brink once again in late summer 2001, after healthy revenue growth in the latter 1990s. Historic linkages reappeared between uncertain fiscal prospects and states' reticence to support higher education. The slowdown in the U.S. economy—commencing in late 2000 and continuing as of mid-2001—accounts for the fiscal uncertainties. Economic signals remained mixed and confusing as states entered fiscal year (FY) 2002.<sup>1</sup> State treasuries felt the effects of the economic slowdown on revenue structures, weakened by eight consecutive years of tax cuts.<sup>2</sup> Some states valiantly tried to shield higher education from FY 2001 mid-year budget reductions, but stagnant revenues and declining state fund balances and reserves imperiled 2002 budgets.<sup>3</sup>

Historically, higher education is the “balance wheel” in state budgets: experiencing disproportionate suffering when state fiscal fortunes decline and better than average fortunes in good times. Economic dips and stagnancy hurt higher education and its clients and employees; they can also harm states' economic growth prospects, absent policies that run against the historical grain.

This chapter analyzes the latest economic data and its implications for state budgets and higher education financing. We consider the impact of the economy, budgets, and appropriations on college attendance and tuition, taking into account new patterns in student aid financing. The chapter also considers developments in funding, pricing, and student aid in longer term perspective, especially the increasingly market-driven character of higher education. This development has positive features, but also carries risks for public colleges and universities, and for students of modest means. The chapter's conclusion briefly weighs the implications of these developments.

## THE UNCERTAIN ECONOMY<sup>4</sup>

The path of the economy seemed murky in late summer 2001. After the longest growth period without a recession in U.S. history, the economy's annual growth rate slowed in 2001, from four percent and higher in the late 1990s to 1.2 percent in the first quarter of 2001 and to an expected 1.0 percent in the second quarter.<sup>5</sup> Yet, economic signals were mixed<sup>6</sup> and hard to interpret. On the negative side, manufacturing—dominated by the burst bubble in the high technology sector—was in a recession. The high-tech bust also caused a substantial stock market decline. Employment declined throughout the year and by some 350,000 jobs in the second quarter alone.<sup>7</sup> Unemployment—still only 4.5 percent of the labor force—was up 0.6 percent from its 2000 low and was expected to climb further.<sup>8</sup> Energy prices spiked—particularly in the West—contributing to increased inflation. A strong dollar and sluggish economies abroad hurt exports. Profits fell, business investment declined sharply, and the construction sector showed weakness.

Still, some observers remained optimistic. Consumer confidence and spending—two-thirds of the economy—remained solid. The steady liquidation of overstocked inventories—born of an unsustainable surge over the previous two years in business investment, especially in information technology—would eventually create room for new investments.<sup>9</sup> The service sector still created net new jobs, though at a slower pace. Energy prices declined by summer. Inflation remained in check, and, given economic slackness, posed little immediate problem.<sup>10</sup> Some policies provided economic stimuli: Federal Reserve cuts in its key benchmark interest rate totaled 3.5 percentage points, mortgage rates declined, and recently enacted tax cuts reached consumers' mailboxes.

DRI-WEFA, a private forecast group, predicted in July 2001 that the U.S. economy would avoid a recession, defined as two consecutive quarters of negative growth.<sup>11</sup> The federal tax rebate and reduced inventories, this group predicted, would produce a "bounce" from anemic annual growth rates near one percent in the first two quarters of 2001 to two percent in the third quarter. The economy, forecast DRI-WEFA, would then

return to healthier growth in 2002 after a fourth quarter slump to 0.8 percent growth. Quarterly rates, projected the group, would attain the 3.0–3.5 percent range by late 2002 on the strength of a fundamentally sound U.S. economy and on information technology-based productivity growth and innovation.<sup>12</sup>

Still, DRI-WEFA suggested, six consecutive weak quarters with a 1.4 percent average growth rate amounted to a recession in all but name.<sup>13</sup> Things will get worse before they get better, the group added, if excess capacity and inventory problems, the export slump, and stock market and consumer confidence erosion were even slightly worse than predicted.<sup>14</sup> Such a scenario would lead to a mild recession spanning the fourth quarter of 2001 and the first quarter of 2002, with real Gross Domestic Product (GDP) falling 1.2 percent, and with unemployment climbing to 6.9 percent in summer 2002. A quick response by the Federal Reserve Board, DRI-WEFA projected, would produce "a vigorous recovery starting in the second quarter of 2002."<sup>15</sup> But another spike in energy prices could make the recession "considerably more severe."<sup>16</sup>

DRI-WEFA, in an alternative scenario, suggested the economy could barely skirt a near-term recession only to see inflation climb suddenly.<sup>17</sup> A rapid round of interest rate tightening by the Fed would follow, leading to a moderate recession in mid-2003. Real GDP would fall by two percent over three quarters and unemployment would rise to 7.4 percent by spring 2004. Yet another round of inflation and interest rate tightening would then follow a short, strong growth spurt.

In short, an uncertain economic outlook could turn downright gloomy.

## STATE REVENUES AND BUDGETS

A National Governors Association-National Association of State Budget Officers (NGA) survey of state revenues and spending through spring 2001<sup>18</sup> reported that "states have had to make downward adjustments in their fiscal 2001 revenue estimates and fiscal 2002 forecasts" in response to a slowing economy.<sup>19</sup> Rapid growth in Medicaid and other health expenditures, the report added, was "severely straining state fiscal positions."<sup>20</sup> The number of states reducing their enacted

budgets, NGA estimated, would increase from one in FY 2000 to between 11 and 16 in FY 2001. Seven states reported across-the-board budget cuts; others targeted their reductions, hiring freezes, and program reorganizations.<sup>21</sup> States take these actions when the need for budget cuts arises quickly or when there is uncertainty about long-term fiscal trends. Both points applied to the current situation.

One reason for caution: the negative trend in state year-end balances—the treasury’s “account balance,” including reserve funds. The aggregate year-end balance for all 50 states dipped as low as 1.1 percent of annual general fund expenditures at the nadir of the last recession in FY 1991 (Figure 1), and some states went into debt.<sup>22</sup> Balances climbed steadily during the economic prosperity of the 1990s, peaking at 10.1 percent of annual expenditures at the end of FY 2000. Latest

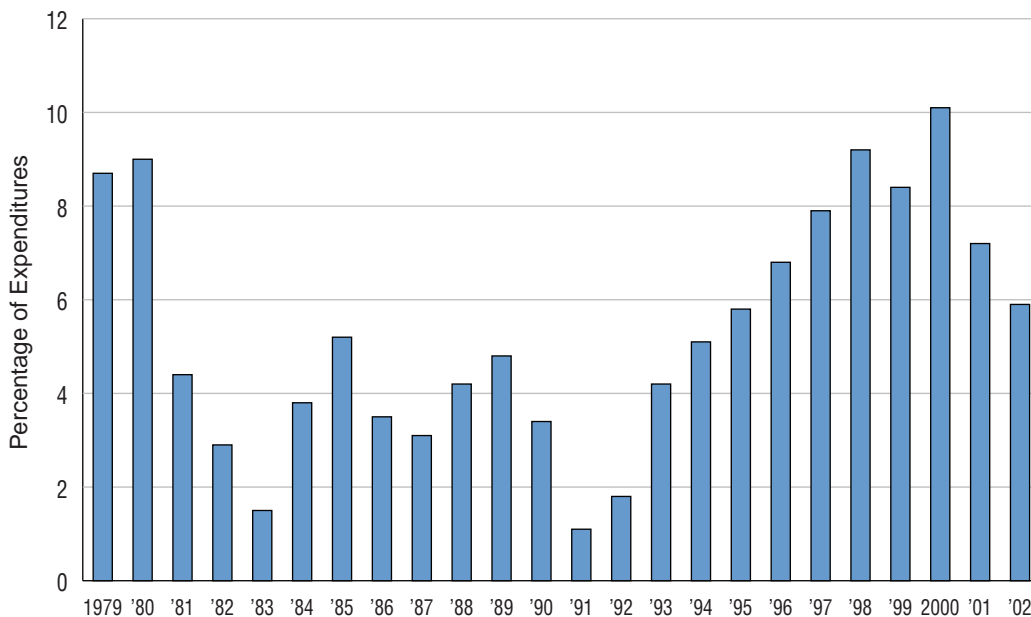
estimates have the aggregate year-end balance dropping to 7.2 percent in FY 2001, and to 5.9 percent by the end of FY 2002—more than a 40 percent decline—the lowest level since FY 1994.<sup>23</sup>

Five-percent-of-annual-expenditures is NGA’s benchmark for financial health. NGA saw a decline in the number of states beating this benchmark from 39 to 27 between FY 2000 and FY 2002.<sup>24</sup> Of the remaining 23, NGA projects ten states—mostly located in the Southeast and Rocky Mountain regions—to report FY 2002 ending balances below three percent of expenditures, and two others to report balances of under one percent.<sup>25</sup>

The cautious budgets proposed by the governors fell, in aggregate, from an 8.2 percent to a 3.6 percent gain between FY 2001 and FY 2002.<sup>26</sup> These projections represented the smallest budget growth figures in the last 20 years, save for 1983 and 1993, two recession-affected

**Figure 1**

**Total Year-End Balances as a Percentage of Expenditures, Fiscal 1979 to Fiscal 2002**



Source: National Association of State Budget Officers

Reprinted: National Governors Association, National Association of State Budget Officers, *The Fiscal Survey of States*, June 2001.

years (Figure 2). They denote no significant spending increase, given a projected three percent inflation rate for FY 2002.

Restraint in spending plans was widespread. Expenditures grew by more than five percent in FY 2000 and FY 2001 in about two-thirds of the states. In contrast, about two-thirds of the governors recommended FY 2002 spending growth of less than five percent; seven governors called for reduced spending relative to FY 2001.<sup>27</sup> Most states showing decreases or small increases in proposed spending were in the Southeast, New England, or the Rocky Mountain west.<sup>28</sup>

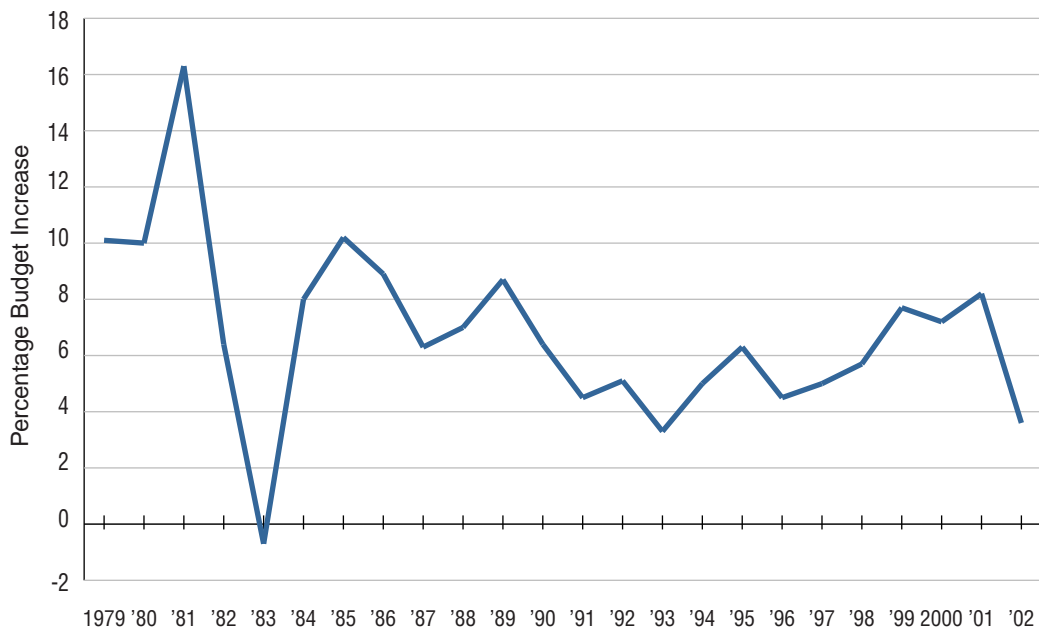
Within this constrained spending, many state fiscal officers believed that official projections underestimated Medicaid spending.<sup>29</sup> Increased Medicaid expenditures would create pressure for mid-year cuts in other areas of

state budgets, such as higher education. Worse, demands for public assistance would rise sharply if a recession develops. States faced full responsibility for funding increases in the rolls, since 1996 federal legislation eliminated welfare as an individual entitlement guaranteed by the U.S. government. Some states might resist adding to the rolls, but others would respond with large budgetary consequences.<sup>30</sup>

Governors' budgets for FY 2002 included aggregate net tax and fee reductions for the eighth consecutive year.<sup>31</sup> But these reductions totaled only about \$677 million, the lowest figure by far since the tax-cutting binge began in 1995 (Table 1). Thus, after returning some \$34 billion to taxpayers over eight years—mostly by permanent rate reductions—policy-makers may be deciding against further erosion of their revenue structures.<sup>32</sup>

**Figure 2**

**Annual Percentage Budget Increases, Fiscal 1979 to Fiscal 2002**



Source: National Association of State Budget Officers.

Reprinted: National Governors Association, National Association of State Budget Officers, *The Fiscal Survey of States*, June 2001.

**Table 1****Enacted State Revenue Changes, Fiscal 1979 to Fiscal 2001,  
and Proposed State Revenue Change, Fiscal 2002**

Fiscal Year	Revenue Change (Billions)
1979	-\$2.3
1980	-\$2.0
1981	\$0.4
1982	\$3.8
1983	\$3.5
1984	\$10.1
1985	\$0.9
1986	-\$1.1
1987	\$0.6
1988	\$6.0
1989	\$0.8
1990	\$4.9
1991	\$10.3
1992	\$15.0
1993	\$3.0
1994	\$3.0
1995	-\$2.6
1996	-\$3.8
1997	-\$4.1
1998	-\$4.6
1999	-\$7.0
2000	-\$5.2
2001	-\$5.8
2002	-\$0.7

Sources: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism*, 1985-86 edition, page 77, based on data from the Tax Foundation and the National Conference of State Legislatures. Fiscal 1988-2002 data provided by the National Association of State Budget Officers.

Reprinted: National Governors Association, National Association of State Budget Officers, *The Fiscal Survey of States*, June 2001.

**HIGHER EDUCATION FUNDING**

The fiscal fortunes of state-supported higher education seemed bright until well into 2001. State funding grew by about seven percent per year for three years (FY 1999, 2000, and 2001)—gains that roughly equaled overall increases in state general fund spending<sup>33</sup>—and exceeded the rate of inflation each year since the end of the last recession.<sup>34</sup> Figure 3 shows the percentage change in appropriations for each state between

FY 2000 and 2001.<sup>35</sup> Table 2 shows one-year and two-year changes by state, since some states operate on biennial budget cycles that make annual changes in spending less meaningful. Between FY 1999 and FY 2001, the rate of inflation, measured by the Consumer Price Index (CPI), exceeded increases to higher education in only four states—Arizona, Hawaii, Louisiana, and North Dakota.<sup>36</sup> But appropriations failed to keep pace with inflation in 13 states between FY 2000 and FY 2001.

**Table 2****State Appropriations for Higher Education, 2001**

State	% change over FY2000	Rank	2 year % change over FY99	Rank
Alabama	5.3%	27	11.7	29
Alaska	8.0	11	11.8	25
Arizona	3.1	39	6.7	47
Arkansas	2.1	43	11.0	33
California	17.0	1	24.4	3
Colorado	3.4	37	9.0	38
Connecticut	2.0	44	13.9	15
Delaware	5.8	24	13.2	17
Florida	7.2	15	13.1	20
Georgia	3.0	41	7.9	43
Hawaii	-0.9	49	5.2	49
Idaho	6.8	22	11.9	24
Illinois	4.9	31	11.9	27
Indiana	4.6	33	11.8	26
Iowa	3.3	38	8.4	41
Kansas	4.7	32	12.5	22
Kentucky	8.2	10	12.7	21
Louisiana	-0.3	48	2.4	50
Maine	7.5	14	14.9	10
Maryland	12.5	2	24.6	2
Massachusetts	10.1	4	17.4	7
Michigan	7.0	17	18.5	6
Minnesota	4.9	30	8.9	39
Mississippi	0.5	47	17.4	8
Missouri	5.1	29	11.7	28
Montana	2.3	42	9.1	36
Nebraska	10.7	3	19.5	5
Nevada	3.5	35	9.0	37
New Hampshire	3.0	40	8.3	42
New Jersey	8.4	8	14.9	11
New Mexico	4.4	34	9.9	35
New York	7.6	13	11.2	31
North Carolina	5.6	25	11.6	30
North Dakota	0.6	46	6.7	48
Ohio	7.0	18	14.1	14
Oklahoma	5.3	28	7.5	44
Oregon	1.3	45	19.9	4
Pennsylvania	6.8	20	13.1	19
Rhode Island	7.1	16	13.8	16
South Carolina	8.3	9	13.2	18
South Dakota	3.4	36	7.1	45
Tennessee	5.5	26	8.5	40
Texas	-1.0	50	14.2	13
Utah	6.4	23	11.1	32
Vermont	6.9	19	14.5	12
Virginia	10.0	5	25.4	1
Washington	7.8	12	16.4	9
West Virginia	6.8	21	6.9	46
Wisconsin	8.9	7	12.5	23
Wyoming	9.9	6	9.9	34
Total	7.0		14.4	

Source: Peter Schmidt, *State Higher-Education Funds Rise Over All, but Growth Slows in Much of Nation*, The Chronicle of Higher Education, December 15, 2000, A34, and Mary P. McKeown-Moak, *Financing Higher Education in the New Century: The Third Annual Report from the States, SHEEO & MGT of America, June 2001*.

State funding gains for higher education were skewed regionally: only the far west—dominated by big gains in California—and mid-Atlantic states showed gains that exceeded the national average for the one-year and two-year periods.<sup>37</sup> The Southeast, Plains, Southwest, and Rocky Mountain regions included several states with weak gains. Hawaii and Louisiana had the weakest two-year funding growth, 5.2 and 2.4 percent, respectively. Hawaii saw a 0.9 percent *decline* in state support in FY 2001.<sup>38</sup>

Two traditionally strong performing areas of higher education funding did well again in FY 2001. State spending on student aid grew by more than 12 percent in 2001, far above the seven percent growth rate for all higher education spending.<sup>39</sup> Community and technical colleges, the second strong growth sector, received larger percentage gains in 31 of the 44 states that distinguished between appropriations to two-year and four-year colleges. Median increases for two-year and four-year colleges in these 44 states were six percent and five percent, respectively.<sup>40</sup> Allocations often reflected state priorities: enrollment growth, student aid, economic- and workforce development-oriented programs, and funds tied to institutional agreements to moderate tuition growth. Other priorities included technology initiatives and one-time allocations—reflecting caution about the longevity of funding increases—for deferred maintenance and construction.<sup>41</sup>

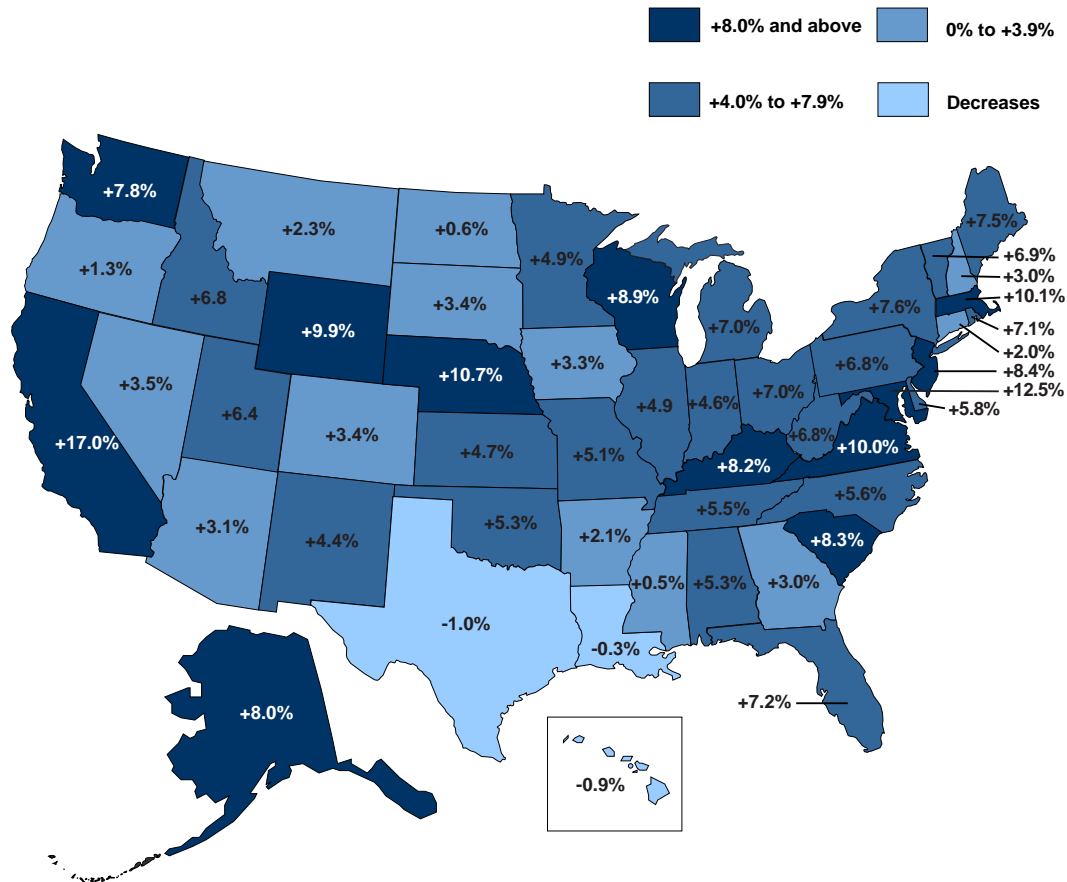
State support for higher education remained strong as late as mid-2001. Then came incontrovertible evidence of faltering state revenues, and news of budget overruns for health care and energy. Between 11 and 16 states, reported NGA's fiscal survey of the states, cut their enacted budgets during FY 2001. Policy-makers, added this report, tried to protect education, including higher education, from these cuts.<sup>42</sup> Still, colleges and universities in Alabama, Iowa, Mississippi, Ohio, Virginia, and Wisconsin suffered reductions.<sup>43</sup> Most cuts involved reduced travel spending and postponed maintenance, equipment purchases, and hiring, but some colleges also considered staff furloughs and program cuts.<sup>44</sup> Save for program cuts, colleges focused on easily made, eleventh-hour reductions, and left more difficult decisions, if necessary, for later.

But many campuses faced difficult decisions in mid-summer 2001. FY 2002 budgets postponed capital spending, left positions vacant, and cut some programs. These budgets also reduced planned enrollments, student services, research, and outreach initiatives.<sup>45</sup> Student charges faced stiff increases: public colleges and universities in eight states, noted mid-2001 reports, enacted or planned tuition increases of over ten percent.<sup>46</sup> Clemson University, in South Carolina, proposed a 42 percent increase, but most systems proposed hikes of 10 to 18 percent. Other states planned smaller but substantial increases.<sup>47</sup> Tuition at independent colleges and universities was also on the rise; averaging about five percent for 2001–02, by one estimate.<sup>48</sup> These increases, especially if repeated for a few years, could adversely affect postsecondary participation rates, especially for students of modest means.

## LONGER-TERM TRENDS

A long-term perspective helps to explain recent developments in higher education funding and student pricing. State support of higher education fluctuates with the economy and with the fiscal health of the states. This support was weak during the early 1990s, when state revenues were soft. Willingness to invest in higher education increased when policy-makers concluded that revenue growth was dependable and that other state needs—including tax cuts and a build up of reserve funds—were met. State support gradually improved, and its annual gains outstripped other areas of the state budget in FY 1999 and FY 2000 (Figure 4).

The recent period of economic prosperity—the longest in U.S. history—was all too brief for higher education. State support equaled overall state budget growth—seven percent per year—for just three years. The net effect of this “boom” and bust pattern: higher education's share of state general fund spending fell from 15.5 percent in FY 1987 to 12.1 percent in FY 1998. Spending briefly climbed back to 13.0 percent in 2000 before dropping again to 12.8 percent in 2001 (before the mid-year cuts).<sup>49</sup> The long-term trend: America is becoming increasingly less willing to support higher education (Figure 5).

**Figure 3****One-Year Changes in State Support for Higher Education**

Source: Center for the Study of Education Policy, Illinois State University.

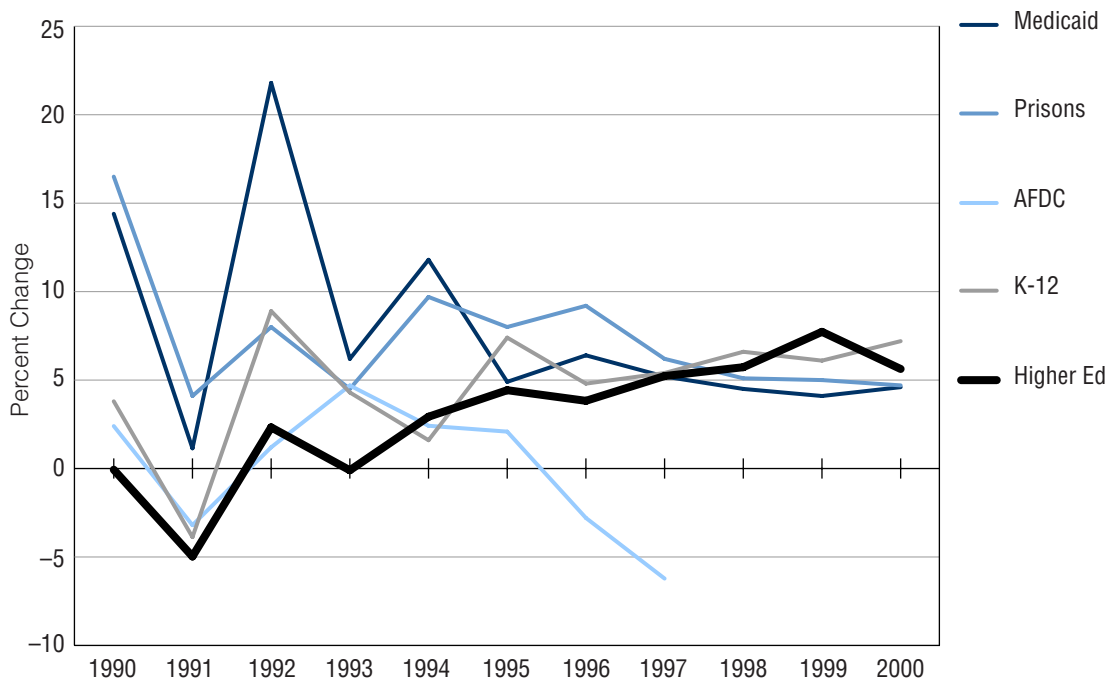
Reprinted: Peter Schmidt, *State Higher-Education Funds Rise Over All, but Growth Slows in Much of Nation*, *The Chronicle of Higher Education*, December 15, 2000, A34.

If the economy sags for long, higher education will most likely suffer its usual disproportionate cuts in state support. Here are two key reasons. First, the other major components of state budgets—K-12 education, Medicaid and employee health care, prisons, and welfare—are driven by largely mandated responses to caseloads that tend to climb during recessions. Unlike Medicaid or prison rolls, higher education “caseloads”—enrollments—are discretionary and can be postponed or underfunded to reduce fiscal pressures. Second, legislators know that colleges and universities have sources of revenue that the other functions

lack: notably student tuition, but also endowments, gifts, and grants.

States and institutions again looked to students to pay more at a time when state support faltered. Figure 6 depicts the annual percentage increases in student charges at public four-year colleges and universities from 1989–90 through 2000–01.<sup>50</sup> Annual price increases greatly exceeded general inflation or personal income growth rates during the fiscally troubled early 1990s. These increases moderated substantially in the mid- and late 1990s, only to begin climbing again at the first signs of fiscal troubles in 2000–01. Tuition in



**Figure 4****Annual Changes in Major Expenditure Categories from State General Funds  
FY 1990 to FY 2000\***

Source: Thomas G. Mortenson, *A Preliminary Report: FY 2000 State Appropriations for Higher Education, Postsecondary Education Opportunity, September 1999*, 11.

\*Data for FY 2000 is preliminary.

the public and independent sectors grew faster than family incomes for middle- and low-income families for many years (Figure 7). The main result: vast, nearly unchanging differences in baccalaureate attainment rates by student's family income (Figure 8).

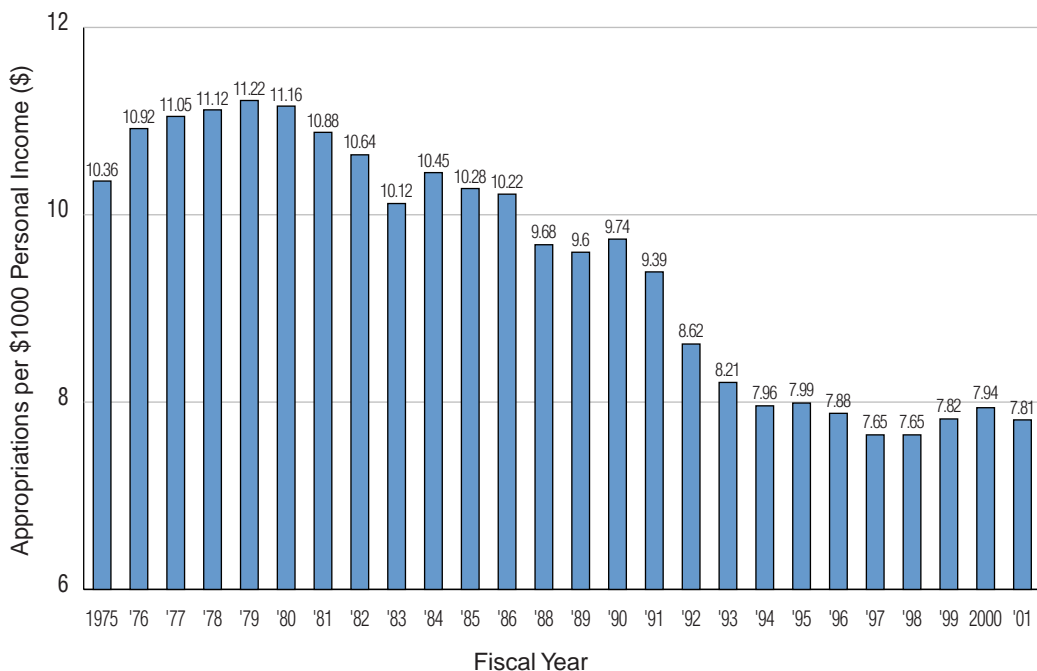
## STUDENT AID

Financial aid helps to alleviate the effects of high prices on the ability of students to attend and persist in higher education. The news on this front is mixed. States substantially expanded their grant and scholarship programs during the nineties (Figure 9). State grants totaled \$4.15 billion in 1999–2000 (compared with about \$7.3 billion for federal

Pell grants), and scholarship programs are projected to grow by 12 percent in 2000–01.<sup>51</sup>

This good news for students blurs some important issues. First, the amounts of student aid vary widely between states. Six large states provide well over half the total state aid. Total state grant aid per enrolled undergraduate is zero in two states and less than \$100 in a dozen more.<sup>52</sup>

Second, an increasing share of state student aid funds is linked to "merit"—academic performance, not financial need.<sup>53</sup> A merit criterion works to the advantage of middle and upper income students and of whites and Asian-Americans. Enrollment decisions of lower income and underrepresented students, though, are more sensitive to financial considerations. This trend poses a problem

**Figure 5****Appropriations of State Tax Funds for Operating Expenses of Higher Education per \$1000 of Personal Income, FY 1975 to FY 2001**

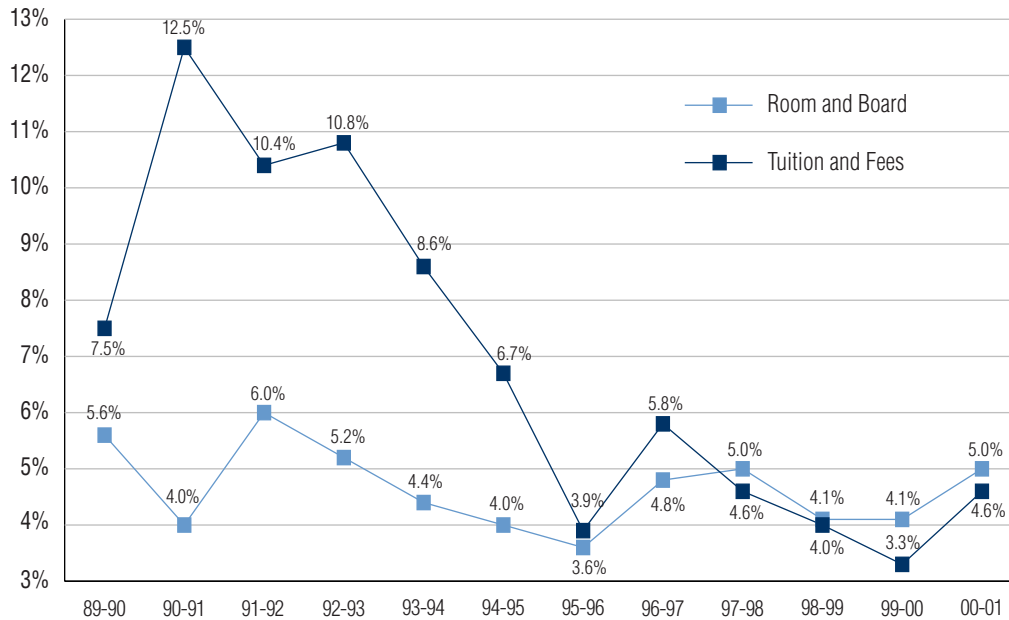
Reprinted: Thomas G. Mortenson, *State Tax Fund Appropriations for Higher Education FY 2001*, Postsecondary Education Opportunity, January 2001.

for educational opportunity *if* the student aid “pot” is fixed, so that merit aid increases come at the expense of need-based aid. But this is not yet proven to be the case. Merit aid is growing fast. But need-based aid grew at a healthy rate for nearly a decade, and more than 75 percent of all state student aid remains need-based. Also, some low-income and minority students benefit from merit-based programs, and a small but growing number of states base some aid on need *and* merit. The aid pot, therefore, is not necessarily fixed, nor do we necessarily have a zero-sum game where one side wins only when the other loses.

Third, the tendency for state appropriations for student aid to outpace the growth in direct funding of institutions contributes, for better or worse, to the “marketization” of higher education.<sup>54</sup> Relatively more dollars tied to students<sup>55</sup> should mean that students’ choice of college and program will increase,

while state and institutional policy decisions become less important determinants of the future shape of higher education. But we should not exaggerate the current impact of this trend. Relative gains in student aid funding have been gradual and modest; the national total is still under seven percent of all state funding for higher education; and the funding rate is far smaller in many states.<sup>56</sup>

Recent developments at the federal level also have mixed implications. The budgets adopted during the last years of the Clinton Administration accorded decent treatment to Pell grants, the major need-based federal program. But this momentum ended when the Bush administration took office. President Bush’s approach to student aid emphasizes loans and tax credits tied to income taxes paid or to savings for college—a Clinton legacy.<sup>57</sup> But loans and tax credits do not help students of modest means who often fear

**Figure 6****Percentage Increases in Student Charges, Public Four-Year Institutions, 1989–1990 to 2000–2001**

Source: *The College Board, Trends in College Pricing 2000.*

Reprinted: *American Association of State Colleges and Universities & National Association of State Universities and Land-Grant Colleges, Student Charges and Financial Aid 2000–2001, 2001.*

debt and bureaucracy, and whose families are too poor to benefit from tax credits. Political support for Pell and the other need-based federal aid programs may decline if tax credits for college expenses cost too much, especially if federal surpluses again turn into deficits.

## CONCLUSION

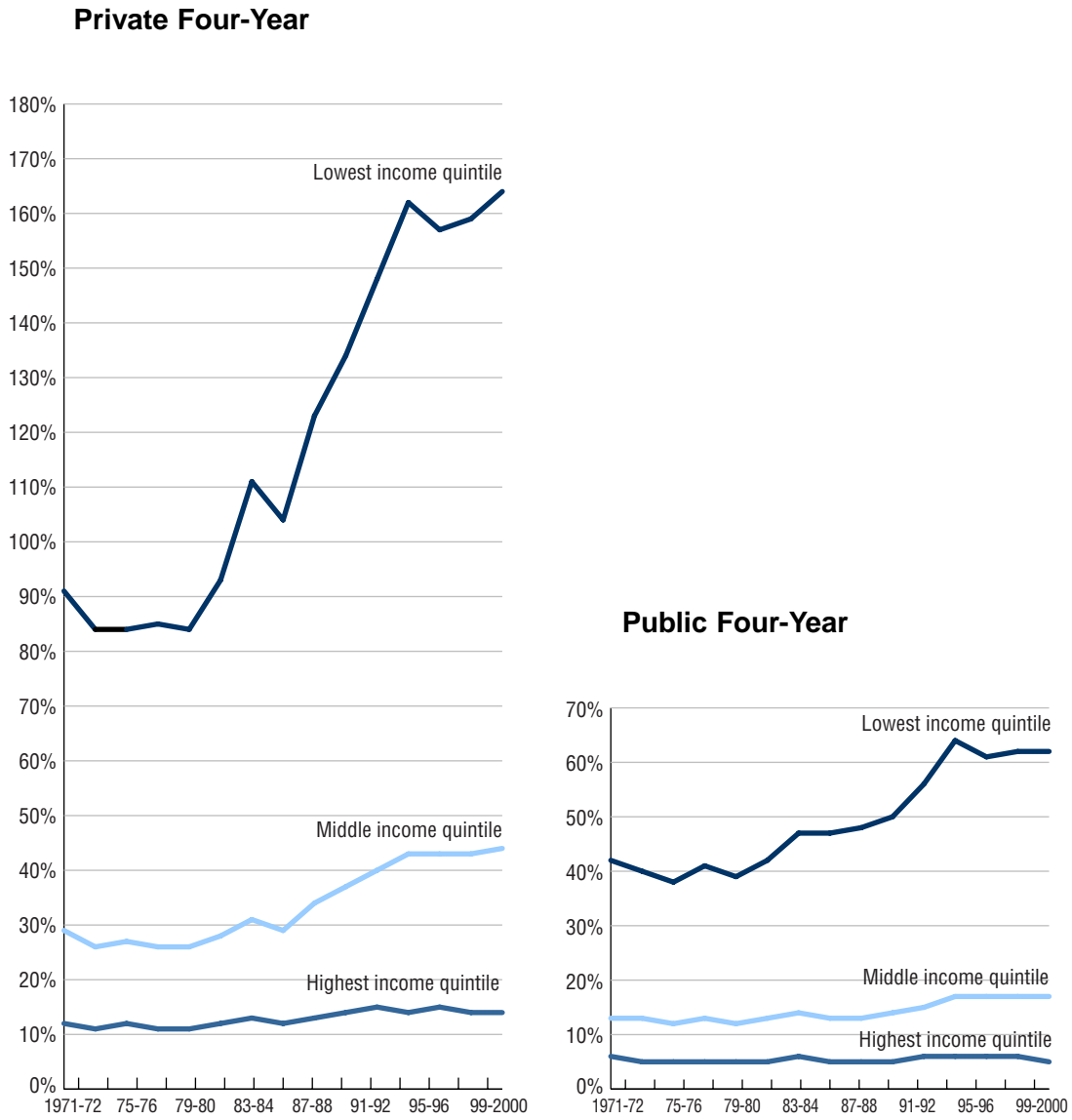
American higher education was at a crossroads in late 2001. Current economic uncertainties might lead to another steep dip for higher education—the key discretionary expenditure in state budgets—down the fiscal roller coaster. A dip would be doubly unfortunate. The nation's long-term economic and social health calls for increased investment to assure quality in higher education. Also, many states face sharp increases in numbers

of high-school graduates who will seek access to postsecondary education.<sup>58</sup>

But late 2001 also saw hopeful signs. Policy-makers in many states tried to protect higher education from the worst of the budget cutting. Surveys showed public and leadership understanding of the importance of higher education for individual success and economic growth.<sup>59</sup> Support for student aid too seemed strong, though perhaps in need of redirection. Supporters can perhaps galvanize these favorable attitudes to strengthen the place of higher education in the structure of state budgets. Higher education, after all, is a unique taxpayer *investment* that produces the educated citizenry needed to sustain other public and private activities. So conceived, the roller coaster may experience fewer dips and its passengers may become better able to weather the ride.

**Figure 7**

**Cost of Attendance as a Share of Family Income, 1971–1972 to 2000–2001**

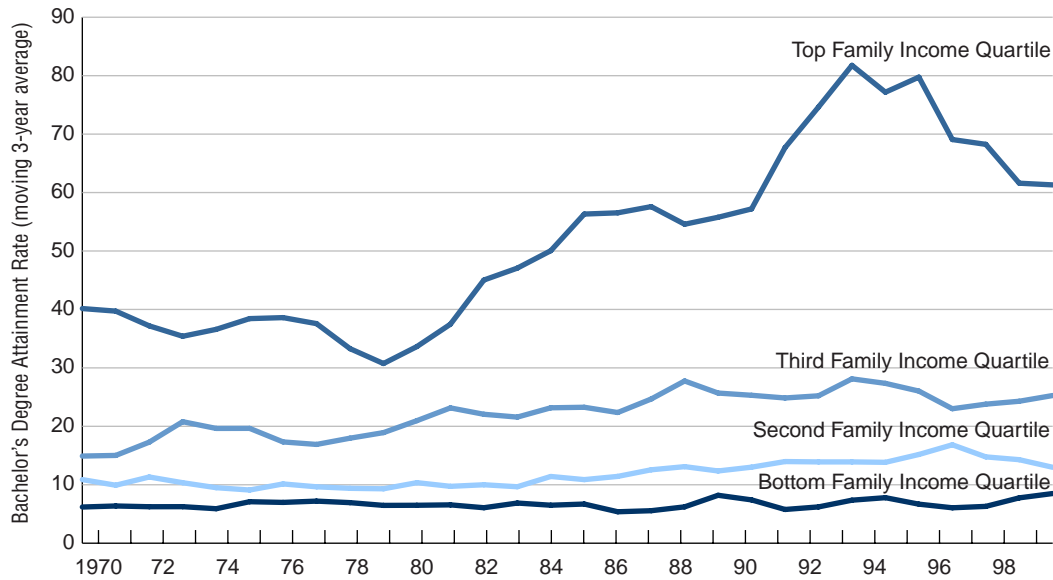


Source: Annual Survey of Colleges, *The College Board*, New York, NY; data pre-1984–85 from *Integrated Postsecondary Education Data System (IPEDS)*, U.S. Department of Education, National Center for Education Statistics; income data from the U.S. Department of Commerce, Bureau of Labor Statistics.

Reprinted: *The College Board*, Trends in College Pricing, 2000.

**Figure 8**

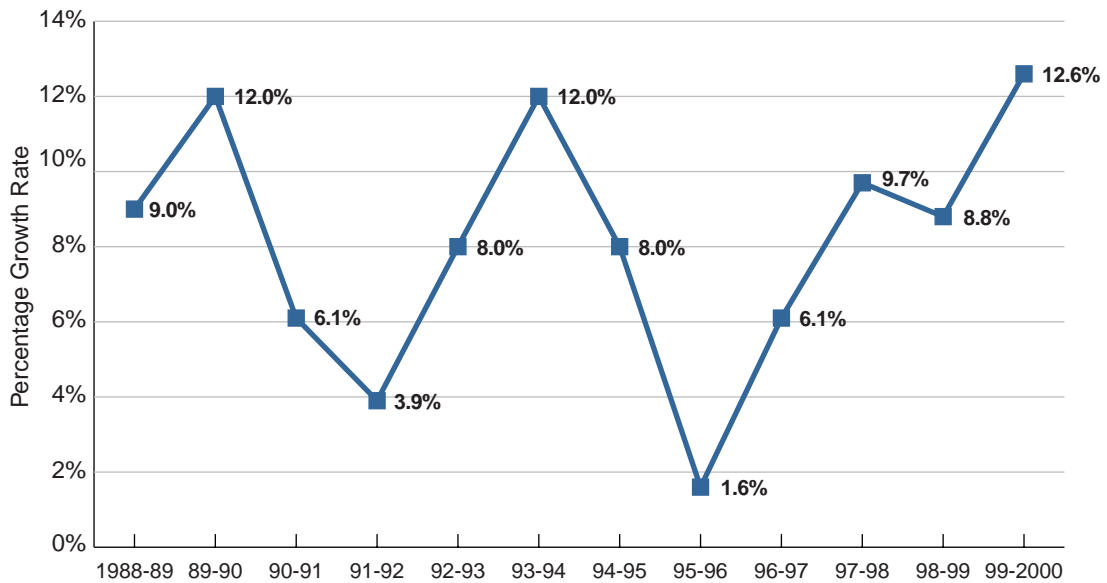
**Estimated Baccalaureate Degree Attainment by Age 24 by Family Income Quartile, 1970–1999**



Reprinted: Thomas G. Mortenson, *Trends in College Participation by Family Income 1970 to 1999*, Postsecondary Education Opportunity, April 2001.

**Figure 9**

**Growth in State Student Aid Grant Funding**



Source: National Association of State Student Grant & Aid Programs, Annual Survey Reports, Years 1988–2001.

## NOTES

<sup>1</sup> The fiscal year for most states begins on July 1 of the previous calendar year.

<sup>2</sup> National Governors Association and National Association of State Budget Officers, 2001, 4.

<sup>3</sup> Hebel, 2001a; Hebel and Selingo, 2001.

<sup>4</sup> The analysis in this section draws heavily on Behraves, Hodge, and Latta, 2001, and Latta, 2001.

<sup>5</sup> Behraves et al, 2001, 5,7.

<sup>6</sup> A sampling of mid-summer headlines illustrates: "Economic numbers continue to worsen" (Rosenblatt, 2001, A11); "Layoffs in tech firms: 31,000 in one day" (Kaplan, 2001, C3); "Economic growth weakest in 8 years" (Crutsinger, 2001, C1,4); "Jobless rate gives hope for the economy" (2001, A1,9); "Key consumer index weakens but spending is expected to remain strong" (De Bourbon, 2001a, E3); "No sign of life improving for manufacturing" (De Bourbon, 2001b, C3).

<sup>7</sup> Behraves et al, 2001, 5.

<sup>8</sup> Ibid.

<sup>9</sup> Earlier investments in information technology that are underutilized to date should make future response to demand efficient, when it appears (Ibid., 3-4).

<sup>10</sup> Ibid., 6.

<sup>11</sup> Behraves et al, 2001, 5.

<sup>12</sup> Ibid., 1,5.

<sup>13</sup> Ibid., 1.

<sup>14</sup> Latta, 2001, 29.

<sup>15</sup> Ibid. But state revenues and hence higher education budgets would be affected for a considerably longer time, probably into FY 2004.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> In its semi-annual *Fiscal Survey of States*, June 2001 edition.

<sup>19</sup> NGA, vii. Lower than expected tax collections in the April-June quarter in some states may lead to further downward revisions (NGA, 6).

<sup>20</sup> NGA, vii.

<sup>21</sup> Ibid. Fund transfers and reserve funds were also employed (NGA, 1).

<sup>22</sup> The aggregate balance dipped nearly as low in the previous recession, in FY 1983.

<sup>23</sup> NGA, vii.

<sup>24</sup> Ibid., 9.

<sup>25</sup> Ibid., 46.

<sup>26</sup> The average increase for the previous five years was 6.4 percent (Ibid., 2).

<sup>27</sup> Ibid., 2-3.

<sup>28</sup> Ibid., 33.

<sup>29</sup> Ibid., viii. Medicaid spending now approaches 15 percent of all state general fund spending, and other health spending accounts for another eight percent. Higher education expenditures are 12.4 percent (Ibid., 2). State health care spending has resumed its rapid growth rates after several years of relative quiescence. States as a group project Medicaid increases of 9.8 percent in 2001 and 7.8 percent in 2002, but many analysts expect the latter figure to grow as well. The Congressional Budget Office projects Medicaid to grow by 8.6 percent per year from 2001 through 2011, posing a long-term problem for other components of state budgets (Ibid., 12).

<sup>30</sup> States have more federal funds per public assistance recipient available now than in the pre-restructuring days since the number of recipients has fallen sharply. But many states committed most additional funds to welfare-related programs such as job training and child care. Federal welfare legislation is scheduled for reauthorization in 2002, when the rules can change.

<sup>31</sup> Ibid., vii.

<sup>32</sup> Long-term concerns about state revenue structures arise from the recent federal tax reform legislation, which phases out estate and related taxes (NGA, 6), and the erosion of sales tax bases by federal restrictions on state tracking of Internet sales.

<sup>33</sup> Schmidt, 2000. Higher education funding gains slightly exceeded total state general fund spending growth in 1999 and 2000, but were a bit lower in 2001.

<sup>34</sup> Ibid. This simple comparison does not take "workload"—enrollment increase—or any other element of budgetary need into account.

<sup>35</sup> These figures do not reflect mid-year budget cuts that affected higher education in several states.

<sup>36</sup> McKeown-Moak, 2001, 5.

<sup>37</sup> Regions are as defined by NGA, 2001.

<sup>38</sup> The 1.0 percent decline for Texas in FY 2001 is an artifact of its biennial budget arrangement.

<sup>39</sup> As measured by the annual survey of state appropriations for higher education, conducted by James C. Palmer and associates at the Center for the Study of Education Policy, Illinois State University. Reported in Schmidt, 2000.

<sup>40</sup> Ibid., A35.

<sup>41</sup> McKeown-Moak, 2001, 4.

<sup>42</sup> NGA, 2001, 1. Hebel and Selingo, 2001, A10-11, quotes NGA as saying that as many as 20 states may make mid-year cuts, and that most cuts ranged from one to five percent.

<sup>43</sup> See "Colleges Brace for the Economic Downturn," a series of articles in *The Chronicle of Higher Education*, published in April 2001.

<sup>44</sup> Hebel and Selingo, 2001, A10; Hebel, 2001a, A11.

<sup>45</sup> Hebel, 2001b, A21-A22.

<sup>46</sup> Ibid. The eight states were all in the South (Alabama, Mississippi, South Carolina), Midwest (Illinois, Iowa, Minnesota), or Rocky Mountain (Montana and Utah) regions.

<sup>47</sup> Examples included the community colleges and universities in Iowa, Michigan State University, the University of North Carolina, and the University of Pittsburgh. Sizeable increases also appeared likely in Tennessee (Ibid.). The University of Washington proposed a new energy fee that would roughly double the legislatively approved 6.7 percent undergraduate tuition increase for 2001–02. The sudden fiscal uncertainties and resistance to tuition increases slowed state and institutional budgetary processes in several states so that 2001–02 tuition rates were not set shortly before classes were to begin.

<sup>48</sup> Brownstein, 2001, A31.

<sup>49</sup> McKeown-Moak, 2001, 4.

<sup>50</sup> The pattern for two-year colleges is similar but less steeply sloped.

<sup>51</sup> De Salvatore and Hughes, 2001.

<sup>52</sup> Ibid., 77.

<sup>53</sup> Georgia's Hope Scholarship program is the best-known example, but a dozen states now have similar programs (Selingo, 2001).

<sup>54</sup> Mortenson, 1998.

<sup>55</sup> Most programs send state student aid funds directly to eligible students who may then choose which institution—including private and sometimes even for-profit schools—to attend.

<sup>56</sup> De Salvatore and Hughes, 2001, 79.

<sup>57</sup> Mulhauser, 2001.

<sup>58</sup> U.S. Department of Education, 2000.

<sup>59</sup> Immerwahr, 1999; Immerwahr and Foleno, 2000; Ruppert, 2001.

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