Higher Education's Fiscal Fortunes: Some Light in the Tunnel at Last

By William Zumeta

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Public colleges saw the first signs of relief in mid-2004, after a long period of deep budget cuts and painful tuition increases. FY 2005 budgets, though tight, were less draconian than the three budgets that followed the recession of 2000–01. Perhaps colleges and universities could stop "playing defense" and resume progress towards providing quality postsecondary education to more citizens.

This chapter surveys the latest economic developments and their implications for state finances—especially the winners and losers in higher education funding. The essay then examines developments on the tuition and student aid fronts, and implications for student access and equity of opportunity. It concludes by asking what the future might hold for colleges and their students.

THE ECONOMY

The U.S. economy performed fairly well in the first three quarters of 2004. But the outlook was more guarded after mid-year as conflict in the Middle East and instability elsewhere in the supply chain pushed oil prices to record highs. Inflation crept up to the three percent range in the second quarter of 2004 but subsided during the summer.[1] Monthly growth in payroll jobs weakened to 78,000 in June and just 32,000 in July, after hovering around 200,000 for three months.[2] August saw an improvement to about 128,000 net new jobs (revised) but September added only 96,000.[3] These sluggish gains were well below the 150,000 new jobs per month needed to keep up with labor force growth. One culprit was sluggish consumer spending, especially on new motor vehicles.[4] Record high oil prices were no help; nor were high consumer debt burdens and rising—though still low—interest rates. Another concern: stagnant wages and a new-jobs mix skewed toward the lower end of the wage scale.[5] Worries grew about the future of jobs, given competitive pressures from lower-wage workers abroad and rapid technological change.[6]

Among the optimistic signs for the economy: the Federal Reserve, a key manager of the nation's economy, engineered "measured" interest rate increases, thereby bringing rates up from the historic post-recession lows toward a more normal level needed for

sustained economic growth.[7] Global Insight, the leading economic forecasting firm, thought the mid-year slowdown temporary. The firm projected real (inflation-adjusted) growth for the second half of 2004 in the 4.5-5.0 percent range, slowing to a still healthy 3.9 percent in 2005.[8] Domestic consumer confidence remained fairly strong, these experts concluded. The bump in oil prices would subside, and foreign economic growth and a weak dollar would help exports. The result: solid but not unmanageable growth prospects.

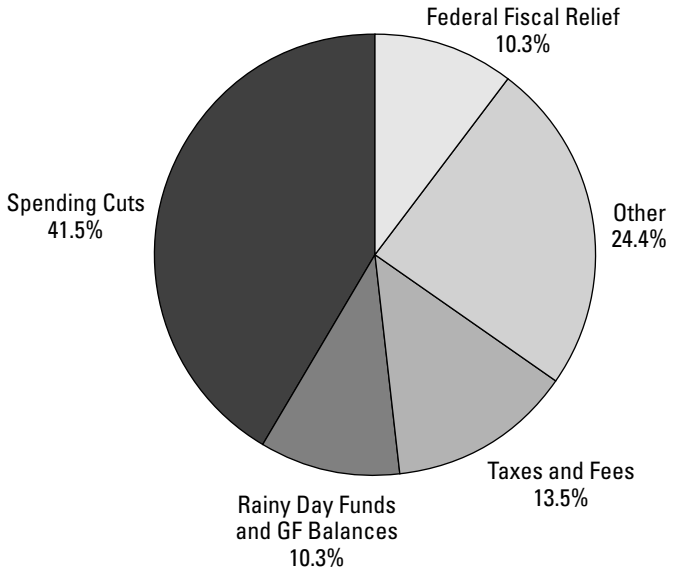
But Global Insight also advanced a more pessimistic scenario, rated at a 25 percent probability of occurrence. Weakened consumer confidence, unexpectedly high energy prices and resulting slow growth abroad, combined with higher-than-expected inflation at home, could, under this scenario, lead the Fed to tighten monetary policy sharply. The result: growth rates a full percentage point below the baseline forecast in 2005 and 2006, and higher unemployment.[9] There was no sign of any such abrupt tightening by October however, in spite of oil prices above $50 per barrel, because "core" inflation rates remained tame.

STATE FISCAL CONDITIONS

The health of the economy determines, with a short lag, the condition of state treasuries—the 2000–01 recession and its aftermath provide a stark example. The states, reported the National Governors Association, had faced their worst fiscal crisis in 60 years.[10] Across all 50 states, the balance in the treasury at the end of the fiscal year—a key measure of fiscal health—was $48.8 billion, or 10.4 percent of expenditures, at the end of FY 2000.[11] This key indicator declined to 3.4 percent of annual expenditures by the end of FY 2003; the benchmark for fiscal health used by Wall Street analysts is five percent.[12] Current estimates showed little improvement: 3.7 percent for FY 2004 year-end, and 3.1 percent for FY 2005, based on governors' proposed budgets.

To achieve even these modest reserves, states had to close budget gaps—differences between projected expenditures and revenues based on current laws and tax rates—of $195 billion from FY 2002 to FY 2004.[13] At first, states drew down their "rainy day" funds and other balances.[14] Federal legislation passed in April 2003 provided modest fiscal relief ($20 billion) for the end of FY 2003 and for FY 2004. But,

Figure 1. Measures Used to Close FY 2002 to FY 2004 Gaps of $200 Billion



Source: McNichol, 2004, 2.
Note: Other includes use of one-time measures such as borrowing and payment date shifts.

notes one analysis, these relatively painless measures closed only about 20 percent of the total three-year budget gap (Figure 1). A modest 13.5 percent came from tax and fee increases; the largest share, 41.5 percent, came from often-painful spending reductions. Between 2002 and 2004, an estimated 1.2-1.6 million low-income people lost health insurance in 34 states; low-income families suffered reduced access to child care subsidies or assistance in 23 states, and inflation-adjusted, per pupil state aid to school districts declined in 34 states. Many states also cut higher education expenditures.[15] States used one-time measures to close the last 25 percent of their cumulative budget gap for 2002–04. These measures included shifting the due date of payments across fiscal years, borrowing against future flows of funds like tobacco settlement revenues, and selling assets.

Retrenchment had severe effects; by FY 2004 state spending fell to its lowest share of the economy in almost 15 years.[16] Noted the Center on Budget and Policy Priorities (CBPP): the retrenchment, the long-term effects of the fiscal machinations used to close budget gaps, and the minimal tax increases ensured long-term stress on state-funded programs. CBPP predicted strong constituency pressures to restore eligibility, services, and funding for the retrenched sectors. But the center also foresaw poor prospects for achieving restoration. It would take, estimated CBPP, average annual revenue growth of 9.5 percent from FY 2004 to FY 2007 to bring state government revenue back to its mid-1990s share of Gross Domestic Product—about five percent.[17] But even in the mid-1990s, states achieved this rate of revenue growth in only one quarter. Growth in those years, which also followed a recession, averaged 5.5 percent per year; state budgets, this history suggests, will remain tight.[18]

The immediate future, at least, looks better than the recent past. During FY 2004, 18 states reduced their enacted budgets by $4.8 billion, but this represented just under half of the 37 states that cut budgets mid-year in each of the previous two years.[19] The 50 governors proposed a 2.8 percent increase in total general fund spending in FY 2005 over FY 2004 estimated expenditures.[20] But ten governors proposed net budget decreases in 2005, and, in all, two-thirds proposed increases below five percent. The final FY 2004 expenditure figure for the 50 states was estimated at 2.8 percent above FY 2003; prior gains were 0.6 percent gain in FY 2003 and 1.3 percent in FY 2002. But these figures represented expenditure declines, taking into account inflation (Table 1), increases in population, and needs resulting from the hard times. In contrast, the long-term annual growth in state spending (1979–2005, Table 1) averaged 6.2 percent in nominal terms and 2.0 percent after adjusting for inflation.

Rapid growth in health care expenditures, especially Medicaid, continued to plague state budget managers. In FY 2004, health expenditures were about 30 percent of all state spending; more than two-thirds of this spending was for Medicaid.[21] Temporary federal Medicaid assistance helped in 2004, reducing the estimated growth rate in state expenditures for this item to 4.6 percent. But governors' 2005 budgets projected a 12.1 percent growth rate despite many cost containment measures. Federal budget authorities foresee no end to the large growth rates in this hard-to-contain program, projecting long-term annual increases for states in the 8-9 percent range.[22] Medicaid is already a major item in state budgets, so these large growth rates put great pressure for cost containment on discretionary programs, such as higher education.

States were cautiously optimistic about the performance of the economy—and therefore about revenues—at the beginning of FY 2005.[23] Revenue collections met very conservative expectations in 2004.[24] Still, to achieve modest expenditure growth in their proposed FY 2005 budgets, 26 governors recommended $5.4 billion in tax and fee increases and another $2.5 billion in revenue measures that would not affect taxpayer liability.[25] FY2005 was the fourth consecutive year in which tax and fee increases exceeded decreases, another indication of budgetary tightness.

STATE SUPPORT FOR HIGHER EDUCATION

This context helps to explain the recent hard times for higher education appropriations—the third largest item in state general fund budgets behind K-12 education and, since the early 1990s, Medicaid. These appropriations are uniquely vulnerable to large cutbacks when state finances are troubled. Higher education spending is not driven by mandatory, or near mandatory, caseload-based funding, as are Medicaid, K-12, prisons, and public assistance. The "caseload" (enrollment) is seen as more discretionary than the eligible populations served by these other programs that are often entitled by law to "adequate" services.

During periods of economic stagnation, Medicaid, public assistance, and prison caseloads tend to rise.

Table 1. State Nominal and Real Annual Budget Increases, FY 1979 to FY 2005

	State General Fund	
Fiscal Year	**% Nominal Increase**	**% Real Increase**
2005*	2.8%	-0.3%
2004*	2.8	-0.3
2003	0.6	-2.5
2002	1.3	4.0
2001	8.3	4.0
2000	7.2	4.0
1999	7.7	5.2
1998	5.7	3.9
1997	5.0	2.3
1996	4.5	1.6
1995	6.3	3.2
1994	5.0	2.3
1993	3.3	0.6
1992	5.1	1.9
1991	4.5	0.7
1990	6.4	2.1
1989	8.7	4.3
1988	7.0	2.9
1987	6.3	2.6
1986	8.9	3.7
1985	10.2	4.6
1984	8.0	3.3
1983	-0.7	-6.3
1982	6.4	-1.1
1981	16.3	6.1
1980	10.0	-0.6
1979	10.1	1.5
1979–2005 average	**6.2**	**2.0**

Source: National Association of State Budget Officers, 2004, 3

** The state and local government implicit price deflator, table 1.1.9 (Implicit Price Deflators for Gross Domestic Product) as cited by the Bureau of Economic Analysis in April 2004, is used for state expenditures in determining real changes. Fiscal 2004 figures are based on the change from fiscal 2003 actuals to fiscal 2004 estimated. Fiscal 2005 figures are based on the change from fiscal 2004 estimated to fiscal 2005 recommended.*

More students seek to enroll in higher education during hard times when the job market is slack, but colleges can deny entry or can increase class sizes. Finally, colleges and universities can raise funds from students, donors, and granting agencies, sources that are unavailable to the other types of programs. Legislators are therefore more willing to squeeze higher education appropriations.

The past few years were bleak for state support of postsecondary education. Annual growth in state appropriations averaged seven percent between FY 1999 and FY 2001, but colleges and universities quickly felt the pinch in FY 2002. Budgeted growth in state support in FY 2002 was originally 4.6 percent but more than half the states cut this percentage back in midyear.[26] Then came the real hammer: between FY 2002 and FY 2004, total state appropriations to higher education nationwide *fell* by four percent—the largest two-year decline ever recorded.[27] Twenty-nine states saw decreases over this two-year period (Table 2). Two-year state funding cuts ranged as high 23 percent in Massachusetts, 22 percent in Colorado, and more than 20 percent in South Carolina. Another four states saw decreases of more than ten percent—California was close at 9.6 percent, and eight more cut funding by between five and ten percent over the two years. Another seven states reported appropriations increases below the rate of inflation—about four percent in total between 2002 and 2004.[28]

The aggregate funding decline was fairly evenly distributed across the two years: –1.9 percent from 2002 to 2003 and –2.1 percent from 2003 to 2004. Of course, the second year cuts were harder to take because the easier reductions had already been made. Between 2003 and 2004, 23 states saw decreases in state appropriations for higher education, and another 13 states had increases of less than two percent—the approximate rate of inflation. Only Nevada saw an increase of over eight percent, and one-year reductions in nine states exceeded five percent. Decreases in FY 2004 appropriations were more common in the Northeast, North Central, and Southeastern parts of the country. Gainers outnumbered decliners in the West (Figure 2). Large states fared no better than small ones. "Among the eight largest states in terms of state spending on higher education, six—Florida, Illinois, Michigan, New York, North Carolina, and Pennsylvania—saw drops ranging from 0.1 percent to 4.5 percent. Ohio and Texas eked out scant gains, of 0.8 percent and 1.4 percent, respectively."[29]

Community colleges—often seen as directly connected to workforce and economic development—regularly receive more state support than four-year institutions. But this pattern did not apply in 2004, since support for two- and four-year colleges decreased at the same 2.1 percent rate in aggregate; 23 of 43 states reporting comparable data showed four-year institutions faring better than two-year schools.[30] Historically Black colleges and universities

Table 2. Two-Year Percentage Change in Appropriations, FY 2002 to FY 2004 (in thousands of dollars)

States	FY 2002	FY 2004	% 2-year Change	States	FY 2002	FY 2004	% 2-year Change
Nevada	$346,845	$482,655	39.20%	Tennessee	$1,071,512	$1,046,163	-2.40%
Wyoming	161,917	196,935	21.60	Idaho	323,118	315,145	-2.50
Hawaii	349,231	398,836	14.20	Arizona	884,175	859,799	-2.80
Louisiana	997,813	1,098,721	10.10	Nebraska	516,249	498,809	-3.40
Vermont	71,354	76,841	7.70	Washington	1,370,921	1,323,134	-3.50
Kentucky	1,039,117	1,115,174	7.30	Kansas	712,923	685,832	-3.80
New Mexico	605,193	644,385	6.50	Pennsylvania	2,011,695	1,934,475	-3.80
South Dakota	143,163	152,299	6.40	Utah	628,032	603,196	-4.00
Alaska	204,706	217,245	6.10	Iowa	786,640	753,915	-4.20
Arkansas	623,806	659,055	5.70	Texas	5,139,663	4,850,213	-5.60
Florida	2,664,200	2,808,694	5.40	Wisconsin	1,194,852	1,117,395	-6.50
New Hampshire	107,573	112,532	4.60	Minnesota	1,379,832	1,286,715	-6.70
Alabama	1,115,999	1,164,219	4.30	Illinois	2,904,184	2,703,279	-6.90
Mississippi	765,014	797,246	4.20	Michigan	2,257,732	2,080,228	-7.90
New York	3,602,215	3,713,547	3.10	Oklahoma	796,312	731,375	-8.20
Indiana	1,321,191	1,360,318	3.00	West Virginia	392,051	357,966	-8.70
Delaware	186,398	191,289	2.60	California	9,473,522	8,561,100	-9.60
Montana	149,838	150,576	0.50	Maryland	1,282,883	1,140,032	-11.10
North Carolina	2,442,690	2,446,604	0.20	Oregon	664,930	588,920	-11.40
Maine	239,002	239,110	0.00	Missouri	974,646	838,597	-14.00
North Dakota	200,401	200,430	0.00	Virginia	1,631,856	1,340,942	-17.80
Ohio	2,084,535	2,080,196	-0.20	South Carolina	834,907	664,994	-20.40
Connecticut	753,681	750,975	-0.40	Colorado	756,809	591,511	-21.80
Rhode Island	174,473	172,816	-0.90	Massachusetts	1,017,564	783,207	-23.00
New Jersey	1,755,016	1,733,511	-1.20	**Total**	**62,820,114**	**60,293,002**	**-4.00**
Georgia	1,707,734	1,671,850	-2.10				

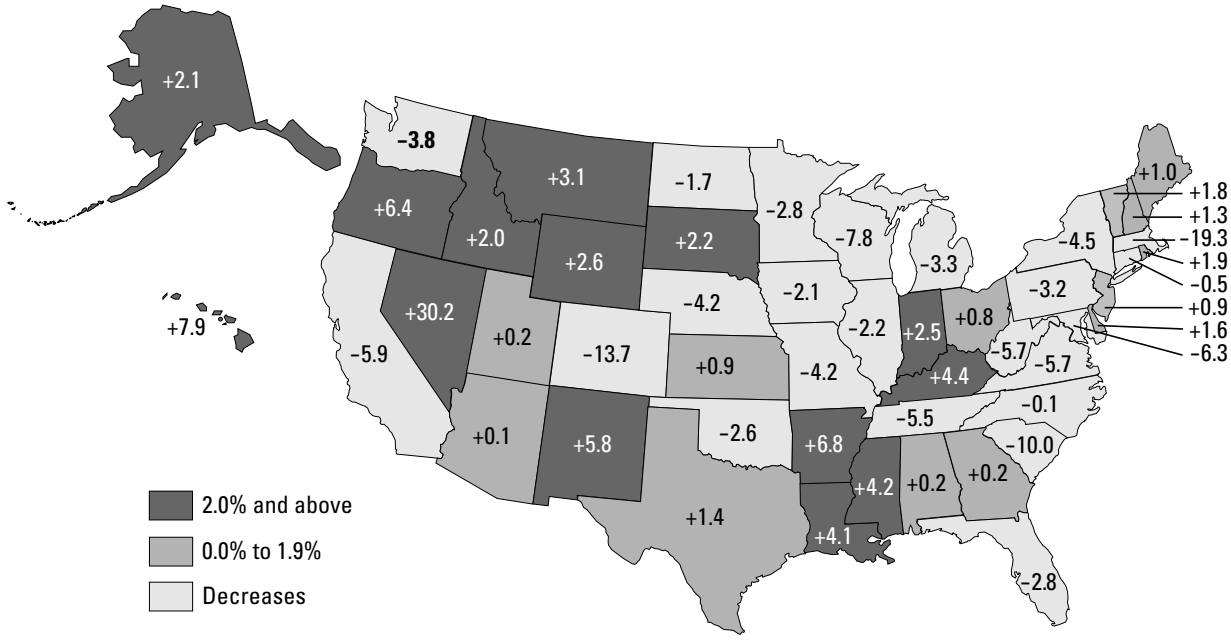
Source: http://coe.ilstu.edu/grapevine/table2.htm

(HBCUs) fared better than other types of schools, receiving a 1.2 percent aggregate increase. But 21 of the 38 HBCUs in 19 states reporting this data suffered reduced appropriations. Private college aid fared poorly. Of the 13 states reporting state appropriations to private colleges and universities, 11 reduced this support, by an aggregate 5.2 percent. States responded generously to the increased need for student aid as tuition climbed. In total, state appropriations for student aid increased by 9.4 percent in 2004 and 22 of the 33 states that reported such data separately showed increases.

The fiscal drought led to many unfortunate effects. Of course tuition climbed sharply. Colleges and universities made most of the easier budget cuts—reductions in supplies and travel budgets, deferrals of capital and equipment expenditures, and delays in filling vacant positions—in the early years of the fiscal retrenchment. It then became next to impossible to avoid affecting the quantity and quality of services delivered. The Universities of Illinois and Wisconsin reported cuts in courses and in staff and faculty positions.[31] The University of Massachusetts-Amherst reduced the permanent faculty by one-eighth by the 2003–04 academic year via early retirement incentives, cut sports teams, laid off workers, and declined to fund negotiated pay raises for union workers.[32] Layoffs at he University of Nebraska-Lincoln included tenured faculty members.[33]

One result: students were shut out of college opportunities. "Higher tuition rates and slashed state appropriations to colleges denied at least 250,000 prospective students access to college in the 2003–04 fiscal year," noted one think-tank.[34] But several states

Figure 2. One-Year Changes in State Appropriations for Higher Education



Source: Arnone, 2004, A24.

faced demographic pressures to increase enrollment in addition to the enrollment demands created by the slack economy.[35] As demand outran static (or reduced) capacity, applicants often noted sharp escalations in admission standards at their target schools that, in turn, created pressures at less selective institutions.[36] Open access and cheap tuition explain why community colleges ultimately confronted much of the enrollment pressure. Policymakers increasingly looked to community colleges, with their lower cost per student in state support, to handle the surge in demand that four-year colleges and universities could not absorb.[37]

But community colleges faced their own challenges. The austere fiscal environment often rendered these schools unable to provide sufficient courses and sections to meet student needs. Slack labor demand resulted in growing enrollments, but the resources available per student often fell off sharply, meaning larger class sizes, more part-time faculty, and fewer staff members and other resources. Full-time-equivalent enrollments at community colleges increased from 3.1 million to 3.7 million between 1999–00 and 2002–03, while state appropriations per FTE dropped from $3,711 to $3,226 between 1999–2000 and 2001–02.[38] But California, Florida, and North Carolina community colleges reported large numbers of unserved would-be students.[39] Low-income and disadvantaged students were most likely to be shut out or priced out, observers feared. These students tended to decide late and were less able to negotiate the course information and enrollment systems.

The retrenchment also affected strategic policy goals. Colleges reduced outreach programs to communities and potential students poorly served by higher education,[40] and cut information technology budgets that affected capacity to innovate and to "catch the next wave." They also reduced services to current students and faculty.[41]

Years of cutbacks and little prospect of adequate resources to meet enrollments demands led some states to contemplate dramatic changes in finance and governance. In Oregon, Governor Kulongoski began to restructure a state system long plagued by declining resources and by changes in the degree of centralization deemed satisfactory.[42] Colorado adopted voucher-type financing that tied most of the state's financial support to student enrollment decisions.[43] The program allowed students to determine institutional prosperity or decline, while giving colleges more freedom to raise tuition. In Virginia, several

leading public universities proposed to accept smaller state appropriations in exchange for substantially more autonomy and tuition authority.[44]

Legislation in Washington in 2004 would have made private colleges eligible to compete with publics for state funding for new enrollments in high demand fields, such as nursing and high-technology fields.[45] Officials also contemplated a multi-year "performance contract" pilot program that would commit universities to achieving agreed-upon goals in return for authority to increase tuition rates if state funding failed to reach agreed, peer-based funding benchmarks. Any public institution, suggested the governor of South Carolina, should "be allowed to become private and get out from under state regulations [long a source of complaint from the schools] altogether."[46] The apparent collision between growing demand and constrained state tax resources, in short, has led states to contemplate moves toward privatizing public higher education.

Available data on FY 2005 state appropriations for higher education showed welcome signs of a modest turnaround in the majority of states (Table 3). Seven of the 40 states reporting for FY 2005 as of late October showed decreases—including mid-year revisions—over final FY 2004 figures. Only one of the decreases—3.9 percent in West Virginia—exceeded two percent. In addition, three states provided FY 2005 appropriations to higher education that were identical to 2004. Florida had the largest year-to-year increase among reporting states (11.1 percent) with Virginia close behind (10.6 percent); gains in Alaska, Arizona, Delaware, Massachusetts, New Jersey, South Dakota, and Wyoming ranged between five and nine percent. The remaining 20 reporting states reported funding growth of less than five percent; 15 of these states gained less than three percent over the previous (bad) year. The still incomplete FY 2005 picture thus showed improved support for higher education, but the gains seldom helped to regain ground lost in the recent retrenchment, once inflation and enrollment pressures are added in. Complete data should not change this broad picture.

TUITION TRENDS

Tuition revenue is a gap-filler in the finances of colleges and universities. When alternative income sources are down or stagnant, such as during economic downturns and their aftermath, colleges mitigate the declines via increases in student charges. Tuition increased moderately when the economy was robust—annual increases by four-year public institutions for state resident undergraduates ranged from 3.5 to 4.5 percent between 1997–98 and 2000–01.[47] But rates jumped sharply as colleges felt the effects of state spending cuts. Average tuition for the same institutions increased 6.8 percent in 2001–02; 10.5 percent in 2002–03; and 14.1 percent in 2003–04, the largest increase in 30 years.[48] More than 30 states reported average increases above ten percent in 2003–04. The leaders: Arizona (39 percent), California (32 percent), Massachusetts (26 percent), Oklahoma (25 percent), and New York (22 percent). Increases ranged from 19 to 20 percent in Iowa, Missouri, North Carolina, and Virginia.[49] Community colleges, with their basic commitment to broad access, moderated their increases until 2003–04; average tuition in this sector then jumped by 13.8 percent.[50]

Average tuition increases for 2004–05 for public institutions, though lower than the record increases of 2003–04, remained high by historical standards: 10.5 percent for four-year public colleges and universities ($487) and 8.7 percent for two-year public colleges ($167).[51] This was the third consecutive year of double-digit tuition growth for public four-year schools. Tuition increases at private four-year colleges and universities averaged six percent in 2004–05 ($1,132)—similar to recent hikes and more than twice the rate of growth of family incomes. Over the ten years ended in 2004–05, average tuition in inflation-adjusted 2004 dollars grew by 51 percent ($1,725) at four-year public colleges and universities, 26 percent ($426) at two-year public colleges, and 36 percent ($5,321) at four-year private institutions.

Students of modest means suffered from these sharp tuition increases. Cost of attendance as a proportion of family income held steady for upper income families. But the cost edged up for middle-income families and jumped to a stunning 71 percent in 2003–04 for families with the least income.[52] Inability to pay, concluded many observers, shut many students of limited means out of higher education opportunities.[53]

Big tuition increases also had a political impact. State and federal policymakers, reacted to constituent cries of pain by looking harder for imagined areas of waste and inefficiency.[54] Some states sought to link tuition increases more closely to inflation rates or to growth in state personal income.[55] But these measures do not reflect higher education costs and do not take account of state appropriations cuts. Other states, such

Table 3. Appropriations of State Tax Funds for Operating Expenses of Higher Education: FY 2003–2004 (revised) and FY 2004–2005

State	FY 2004 Revised	FY 2005 Enacted	% Change Enacted 05/04	State	FY 2004 Revised	FY 2005 Enacted	% Change Enacted 05/04
	(dollars in thousands)				(dollars in thousands)		
Alabama	$1,164,411	$1,211,829	4.1%	Montana	$150,576	$152,582	1.3%
Alaska*	217,245	233,381	7.4	Nebraska	498,803	505,555	1.4
Arizona	863,472	913,928	5.8	Nevada	—	—	—
Arkansas	666,559	683,976	2.6	New Hampshire	112,446	115,258	2.5
California	—	—	—	New Jersey	1,740,829	1,894,815	8.8
Colorado*	591,511	591,511	0.0	New Mexico	—	—	—
Connecticut (a)	748,226	768,999	2.8	New York	—	—	—
Delaware*	190,289	203,478	6.9	North Carolina	—	—	—
Florida	2,808,468	3,121,315	11.1	North Dakota	200,430	200,430	0.0
Georgia (b)	1,627,368	1,655,381	1.7	Ohio	2,071,035	2,103,892	1.6
Hawaii*	398,836	409,727	2.7	Oklahoma	739,651	761,779	3.0
Idaho	313,828	322,565	2.8	Oregon (d)	590,681	586,552	-0.7
Illinois	2,701,159	2,654,340	-1.7	Pennsylvania	1,946,617	2,012,046	3.4
Indiana*	1,360,318	1,417,481	4.2	Rhode Island	172,062	174,255	1.3
Iowa	738,464	743,107	0.6	South Carolina	—	—	—
Kansas*	685,832	715,830	4.4	South Dakota	153,281	162,306	5.9
Kentucky	—	—	—	Tennessee	1,088,681	1,088,681	0.0
Louisiana	—	—	—	Texas	4,965,809	4,882,239	-1.7
Maine	233,695	239,662	2.6	Utah*	603,196	625,593	3.7
Maryland	1,140,033	1,164,258	2.1	Vermont	77,153	79,023	2.4
Massachusetts	828,405	880,555	6.3	Virginia	1,346,281	1,488,962	10.6
Michigan (c)	1,984,293	1,977,258	-0.4	Washington	—	—	—
Minnesota	—	—	—	West Virginia	353,169	339,407	-3.9
Mississippi*	797,246	790,136	-0.9	Wisconsin	1,114,812	1,103,602	-1.0
Missouri	838,643	861,421	2.7	Wyoming	198,134	211,924	7.0

Source: http://coe.ilstu.edu/grapevine/FY05.htm October 19, 2004

**No revisions to FY 2004 Enacted*

—No data was available as of October 22, 2004.

(a) The data do not reflect the state's endowment matching grant to the constituent units, which totaled $8.6 million for FY 2004 and $6.2 million for FY 2005

(b) In addition, Georgia State University received tobacco funds totaling $6,244,639 in FY04 and $6,243,177 in FY05

(c) At the time these data were received by Grapevine (9/28/04) the Governor had not yet signed either the higher education or community college budget bill for FY 2005. Hence, the data reflect the funding in the bills at that point in time as presented for the Governor's signature.

(d) Oregon approves a biennial budget, and does not identify funding for postsecondary education by fiscal year. The figures in the table are estimates of the amount of the biennial appropriation distributed in each fiscal year. Oregon also allocates state lottery fund dollars for higher education. These amounts are also not included in the table.

as New Jersey, tied moderation in tuition increases to commitments for more adequate state appropriations.[56] The summer 2004 California budget agreement provided for annual state appropriations increases in future years—after further cuts to UC and CSU in FY 2005. The quid pro quo: commitments from the universities to limit annual student fee increases to ten percent.[57] Several states and universities may follow the lead of Illinois in enacting tuition rate guarantees for each entering class.[58]

STUDENT AID

Student aid—especially aid based on financial need—can mitigate the impact of tuition increases. Need-based aid is key to improving access opportunities for students of modest means since the non-needy

are the major beneficiaries of uniformly low tuition.[59] The federal government—the largest source of student aid by a large margin—has in recent years shifted its aid investments from grants to loans and tax credits that offer less help to low- and moderate-income students. In the decade ending in 2003–04, loans increased from 52 percent to 56 percent of postsecondary student aid dollars; conversely, grants decreased from 46 to 38 percent.[60] The Pell grants program, the major need-based federal aid program, has not had sufficient funding to increase the size of grants in the past few years, despite skyrocketing tuition rates. The maximum grant increased by just $50 in FY 2003, and remained flat since that year.[61] The prospect of many years of large federal deficits gives little hope of strong growth in Pell funding.[62]

States provided about $6.9 billion in student aid in 2002–03, the latest year for which complete data are available.[63] Funding varied among states, but was generally robust despite recent fiscal troubles. State student aid increased 14.5 percent between 1999–2000 and 2000–01, and 9.8 percent between 2000–01 and 2001–02. The growth rate dipped to 9.0 percent in 2002–03—still a remarkable percentage in a year when state funding of higher education *declined* two percent overall.[64] But the figures for 2003–04 and 2004–05 may be considerably less favorable.

The mix of state aid is shifting away from the historic objective of maximizing access. Need-based aid fell from around 90 percent in the 1980s to 73 percent of all state student aid in 2002–03, declining two percentage points in the latest year. States base more aid on academic merit and, to a lesser extent, are using aid to encourage study and work in high demand fields. Such aid is less likely to influence a decision to attend college at all. Need-based aid for undergraduates grew by a fairly modest 3.7 percent in the latest year to just under $4 billion.

Another limitation is wide variation in student aid offered by each state. California, Illinois, New Jersey, New York, Pennsylvania, and Texas awarded nearly 63 percent (almost $2.5 billion) of all state-provided undergraduate need-based aid. Five states provided less than $1 million in student aid; another dozen spent less than $10 million. Needy students in many states thus have few alternatives, save for federal programs where grants fell far below growth rates in college charges.

CONCLUSION

The good news as 2004 drew to a close: The historic retrenchment in state government and higher education has ended in the majority of states. Higher education's fiscal fortunes should slowly improve, barring a new economic setback.

The not-so-good news: The recent cutbacks took a toll on access opportunities for low- and moderate-income students, and the future held out little promise of adequate resources to meet the growing demands on colleges.

The nation's future depends on higher education, but the polity has not been able to engineer and structure the necessary increase in investment. We're left to wonder how long it will take to break this logjam and what form the inevitable restructuring may take.

NOTES

[1] Behravesh, Gault, and Latta, 2004, 3; Cooper and Madigan, 2004.

[2] Montgomery, 2004, 79. The September 2004 unemployment rate was 5.4 percent, well below its business cycle peak of 6.3 percent in June 2003 but down only slightly through 2004.

[3] Ip, 2004.

[4] Behravesh et al, 2004, 1.

[5] Porter, 2004; Andrews, 2004.

[6] Schultze, 2004.

[7] U.S. Federal Reserve Board, 2004.

[8] Behravesh et al, 2004, 1. In early October, a panel of forecasters at the annual meeting of the National Association of Business Economists predicted 4.3 percent GDP growth for 2004 and 3.7 percent for 2005 (Cooper and Madigan, 2004).

[9] Latta and Newport, 2004, 23-25.

[10] National Governors Association and National Association of State Budget Officers, 2004, ix.

[11] These figures apply to states' general funds—the repository of most income and sales tax revenues and the source from which most expenditures for major functions of state government (excluding highways, liquor stores, and other such "special fund" items) are paid—plus their reserve accounts or "rainy day" funds. The figures on year-end balances in this paragraph are from National Governors Association, 2004, x.

[12] The opinions of these analysts influence ratings for state bond issues and thus the borrowing costs.

[13] The Center on Budget and Policy Priorities (McNichol, 2004) based this estimate on data compiled by the National

Conference of State Legislatures and the National Association of State Budget Officers. Projected expenditures generally grow each year in response to inflation, population growth, and unfunded or under-funded federal mandates. Revenue growth depends upon the economy. Budget gaps may therefore develop when revenue gains stagnate.

[14] Ibid., 3.

[15] Ibid., 4

[16] Ibid.

[17] Ibid.

[18] Ibid.

[19] Ibid., 1.

[20] National Governors Association, 2004, ix. All figures cited in this paragraph are from the same source, published in April 2004. Later data based on the enacted budgets of 44 states—missing were California, Illinois, Kentucky, Michigan, New York, and North Carolina—showed 6.4 percent planned growth in aggregate general fund expenditures in FY 2005 for the 44 states. This figure did not take account of the one-time federal assistance funds that propped up 2004 budgets. Excluding several large states and the federal assistance make this figure a questionable indicator of state fiscal health.

[21] Ibid., 3. Medicaid represented about 16 percent of general fund spending (Ibid., 1).

[22] Ibid., 4. The report cites studies by the Congressional Budget Office and Office of Management and Budget.

[23] The fiscal year begins on July 1 of the previous calendar year in 46 states.

[24] Thirty-nine states reported in the spring that their FY 2004 collections were at or above targets (Ibid., 10). The July report of the National Conference of State Legislatures from 44 states showed revenues up 5.4 percent in aggregate for FY 2004 compared with 2003, with a further 3.7 percent gain expected in 2005. But the remaining states are large and will significantly change the aggregate figure, probably downward.

[25] Ibid. Only four governors proposed tax decreases totaling just $266 million.

[26] Schmidt 2002.

[27] Data in this and the next paragraph are from the Grapevine surveys of state appropriations to higher education, compiled by the Center for the Study of Education Policy at Illinois State University (http://coe.ilstu.edu/grapevine). The surveys date back to 1960. James Palmer, the survey director, reports only one prior two-year decrease: –1 percent from 1990-91 to 1992-93.

[28] Wyoming, Louisiana, Alaska—three of the relatively few states that recorded healthy gains in state appropriations over this period—had substantial natural resource-based revenues in their portfolio. Nevada, another gainer, had unusual features in its economy.

[29] Arnone, 2004a, A24.

[30] Ibid. Arnone provided the other figures in this paragraph; this report in turn drew on the Grapevine survey data. These data reflect initial appropriations for FY 2004 but not the mostly minor mid-year revisions.

[31] Associated Press, 2003.

[32] Ibid.

[33] Fogg, 2003.

[34] Arnone, 2004c.

[35] Hebel, 2004b; Western Interstate Commission on Higher Education et al, 2004.

[36] Hebel, 2004b, emphasizes the Virginia situation, but similar circumstances were evident elsewhere, including California and Washington (Davies, 2004).

[37] Hebel, 2004d.

[38] These figures—collected by JBL Associates and reported in Evelyn, 2004—are in constant 2001 dollars. More recent data, though not available, would surely show continued funding declines through 2003-04.

[39] Estimates of would-be students unable to enroll in community colleges: California = 175,000 (2003-04); North Carolina = 56,000 (2002-03) (Evelyn, 2004, A27).

[40] Hebel, May 28, 2004c.

[41] Young, 2004.

[42] Burdman, 2004; Schmidt, 2004.

[43] Hebel, 2004a; "College Vouchers," 2004.

[44] Hebel, 2004a; b.

[45] The governor vetoed this provision.

[46] Hebel, 2004a, A26.

[47] Computed from figures in College Board, 2001, 6.

[48] Computed from College Board, 2003a, 3, 8.

[49] College Board, *2003-04 Annual Survey of Colleges,* cited in American Association of State Colleges and Universities, 2004, 10.

[50] Ibid., 8.

[51] College Board, 2004a, 3. All figures cited in this paragraph are from this source.

[52] College Board, 2003b, cited in AASCU, 2004, 5.

[53] Arnone, 2004c; Advisory Commission on Student Financial Assistance, 2001; St. John, 2003. Recent analyses undertaken by the College Board that take into account the full cost of attendance (including all fees and room and board) and all aid including tax benefits, showed that the "net price" (in 2003 dollars) paid by the average undergraduate had increased between 1993-94 and 2003-04 as follows:

- public 4-year colleges and universities- up from $6,200 to $7,200;
- public 2-year colleges- up from $5,300 to $5,500;

- private 4-year colleges and universities- up from $14,700 to $16,700.

These increases are less than many might expect and reflect in large part the impact of efforts to improve affordability for middle-income students, but they do not clearly depict the situation facing low-income students. Also, the data do not reflect the impact of the large increases in tuition rates in 2004-05.

[54] National Education Association, 2004, vi; Klein, 2004, A21.

[55] Maryland, Michigan, and Ohio considered such approaches in 2004 (Klein, 2004).

[56] Arnone, 2003.

[57] "California Budget Deal…," 2004.

[58] Klein, 2004.

[59] St. John, 2003; Swail and Heller, 2004.

[60] College Board, 2004b, 12. Tax credits—the latter a recent development that affect few low-income students—accounted for most of the remaining seven percent of the total.

[61] Burd, 2004, A21; Brainard, 2004.

[62] The Pell program has recently seen sizeable growth in the number of students supported, to such an extent that a large accumulated funding deficit threatens prospects for increasing the size of grants.

[63] Data on state student aid funding are from National Association of State Student Grant and Aid Programs, 2004, and a report on this survey by Arnone, 2004b.

[64] The breakdown in aid spending: increases in 31 states; decreases in 21 states. The NASSGAP survey includes the District of Columbia and Puerto Rico, thus there are 52 "states."

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