STATE POLICY AND BUDGET DEVELOPMENTS

by William Zumeta and John Fawcett-Long

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Early 1995 saw continued, modest, economic improvement that built upon the recovery from the recession and subsequent stagnation of the early 1990s. Although growth plummeted to near zero in the second quarter, most forecasters predicted renewed economic growth, though some pessimists dissented. Others noted the gains were disappointing by historical standards, measured by the low quality, pay, permanence, and part-time character of many of the new jobs created.[1]

Normally, a positive economic trend gladdens the hearts of higher education proponents, especially after enduring the pain that accompanied the last recession. The fortunes of this sector and the economy are strongly linked, especially public higher education and the state economy.[2] Public institutions receive most of their support from state appropriations, and public and independent institutions depend upon income from billions of dollars in federal and state student aid. Funds for these appropriations are closely linked to the revenues received by governments, which in turn depend upon the health of the economy.

Thus, it is not surprising that state support for higher education increased during the recovery, or that many observers are cautiously optimistic about the foreseeable future. This optimism arises from equally cautious mainstream economic forecasts and an understanding of the historic linkages. Some observers hope that, as in the past, higher education will receive healthy "catch-up" increases over the next few years to make up for its especially harsh treatment in state budgets during the recession and stagnation, and to recognize the increased importance of advanced education in the modern economy and society.[3]

But such a rosy scenario is unlikely to last long. First, the cyclical behavior of market economies foretells another downturn, sooner or later, with harsh implications for tax-funded support of higher education. A few economists, noting that the current recovery is as long as the typical period between postwar recessions, predict a downturn as early as late 1995 or early 1996.[4] This cyclical reality should dampen overoptimism about the fiscal future.

Second, as earlier editions of the *Almanac* note, other claimants are squeezing the place of higher education at the state budgetary trough. Fiscal pressures from mandated state-funded functions—elementary and secondary education; Medicaid; and "corrections," including prisons—continue to grow at a prodigious pace, and require drastic action to resist.

Higher education, still a large budget item despite a sharp decline in its share, is a likely target for further trimming.[5] Governments are not obliged to provide funds or space for the higher education "caseload"—college students—but, short of drastic legal or demographic changes, competing caseloads are not discretionary. Postsecondary enrollments can be capped or even decreased as the number of K-12 students, prisoners, or Medicaid clients increases. States, instead of increasing subsidies, may force colleges to charge students more and to raise more money privately. Higher education is thus an irresistible target for cuts, or for moderated growth in spending, when such is thought necessary. As a result, little budgetary catch-up may be in the cards in states lacking robust economies or feeling above-average pressures from other functions.

The public "tax revolt" further tightens the squeeze on higher education. Limits on spending growth in most states are now more political than economic. States are considering, or have already passed, numerous tax cuts, and at least 20 states limit in law the growth of state revenues or expenditures.[6] These limitations constrain the state fiscal pie from growing as rapidly as the enrollments in K-12 education or the Medicaid and corrections caseloads.[7] The early results of the 1995 state legislative sessions suggest that elected officials received what they take to be the voters' message about taxes and spending and will enact FY 1996 budgets that are unusually tight for a period of economic growth.

Finally, a potent new complication promises long-range effects: the approach to federal-state fiscal relations and the programmatic division of labor proposed by the Republican congressional leadership. Congressional Republicans, with some support from Republican governors, now also a majority, propose to give states block grants for rapidly growing social programs, such as Aid to Families with Dependent Children (AFDC); Medicaid; Food Stamps; the school lunch program; and the Women, Infants and Children (WIC) nutrition program. The federal government would loosen standards and requirements, including requirements that all eligible people are *entitled* to some or all of these benefits, and would guarantee some annual increases in appropriations.

Reduced requirements, goes the theory, would allow the states to streamline administration of the programs. The states, proponents of this "new federalism" emphasize, are long-term players in administering these programs and are "closer to the people." The arrangement would remove spending pressures created by "entitlement" programs with their seemingly relentless caseload growth, thereby helping to balance the federal budget. But, if streamlining fails to reduce costs, or if federal appropriations to the states fail to grow much—a likely outcome—the resulting shortfalls could considerably exacerbate the competition faced by higher education for limited state funds.[8]

These political and economic forces, combined with the anticipated growth of demand for higher education in much of the country (Figure 5 on page 86), produce an emerging urgent situation, not a rosy scenario. This chapter seeks to help advocates for higher education peer beyond the modest financial gains of the last few years and prepare to meet the inevitable challenges.

The chapter first discusses national economic developments and regional and state variations, then examines trends in state fiscal conditions, focusing on growth patterns in revenues and expenditures. These statistics show a modest upturn, but most proposed budgets for FY 1996 are lean. Next, we analyze longer-term state fiscal trends, state appropriations for higher education, tuition and student aid trends, and patterns of enrollment limitations. These trends show modest improvement since the early 1990s, but tuition increases still exceed the rates of inflation and personal income growth and federal loans comprise much of the increase in student aid. Last, the chapter discusses the present and future response of states and institutions to these political and economic conditions.

NATIONAL ECONOMIC DEVELOPMENTS

The national economy in 1994 had its strongest year since the 1990-91 recession. The Gross Domestic Product (GDP) grew by 4 percent, the best performance in 10 years. The national unemployment rate dropped from an average rate for 1993 of 7.4 percent to 5.4 percent, a four-year low. Employment grew by 2.2 percent in 1994, and the monthly average employment gain increased from about 100,000 in 1991 to over 250,000 in 1994.[9] But earlier economic recoveries were more vigorous. The average three-year employment gain was 11.2 percent in previous upturns, but only 4.8 percent by September 1994.[10] The mix of new jobs also includes many more temporary, part-time, and low-wage jobs than in the past, a trend that fuels continuing perceptions of economic insecurity.[11]

The Consumer Price Index (CPI) inflation figure generally remained below a 3 percent annual growth rate during 1994, but the Federal Reserve Board (FRB) increased short-term interest rates seven times, ostensibly to curb inflation. One theory posits that FRB Chairman Alan Greenspan relied on the Leading Inflation Index, developed by the Graduate School of Business at Columbia University, which forecasted significant increases in the inflation rate throughout 1994.[12] But even though the U.S. dollar dropped 20 percent against the Japanese yen and nearly 12 percent against the German mark in the first four months of 1995, the FRB, fearing a forestalled recovery, was reluctant to raise short-term interest rates further to bolster the weakened currency.[13]

Several signs suggested a slowdown in national economic growth by April, 1995. In March, the economy created 203,000 net new jobs, a significant decrease from the 250,000 average monthly gain in 1994. The jobless rate jumped from 5.5 percent to 5.8 percent in April.[14] The consensus of a panel of economists surveyed in April expected the GDP growth rate to slow to 2.2 percent by the fourth quarter of 1995.[15] Due to the dramatic devaluation of the Mexican peso, the FRB expected declining U.S. exports to Mexico to lower the U.S. economic growth rate by 0.2 to 0.4 percent in 1995. Housing starts declined for each of the first three months of 1995.[16] Housing sales fell 12 percent in March from the hot market figures of one year earlier.[17] Industrial production decreased 0.3 percent in March, a marked change from the average monthly gain of approximately 0.75 percent in the fourth quarter of 1994.[18] By April, 1995, most economists predicted a "soft landing"—a mild, temporary slowdown for the economy, but a few suggested a recession in 1996.[19] Statistics released in mid-summer showed that the landing had indeed occurred—near-zero growth in the second quarter—but there were also signs that stronger growth was resuming.[20]

REGIONAL VARIATIONS[21]

Every region showed economic improvement in 1994.[22] The Pacific Southwest and South Atlantic[23] regions led the expansion, and the Midwest experienced strong growth, rebounding from a dismal farm year in 1993. New England continued to show the slowest growth rate.

The Rocky Mountain and Southwestern[24] regions had robust employment growth rates of 3.8 percent and 3.1 percent, respectively, for the year ending July, 1994. Arizona, New Mexico, Utah, and Nevada led the nation in employment growth, with Colorado not far behind. Relocations and expansions of high-technology businesses, strong population growth, and booming construction activity fueled these economies. Eight of the 15 fastest-growing job markets over the past three years were located in the West, including the four top performing states.[25] Observers predict a slower growth rate for the booming Rocky Mountain states in 1995, but they should maintain their relative lead in growth through 1996.

The Far West—due to California's sluggish performance—and the Middle Atlantic states had the slowest growth rates—0.4 percent and 1.2 percent, respectively.[26] But restructuring and downsizing in major industries fueled a modest recovery in California, beginning in 1993. The state, despite facing more defense cutbacks, is on course for a healthy expansion between 1996 and 2000. The Pacific Northwest economy is growing slowly. Diversification into high technology producer services and rapid growth in rail and truck equipment demand helped this region avoid recession, despite the current slump in the aircraft industry and a long decline in natural resource sectors.[27]

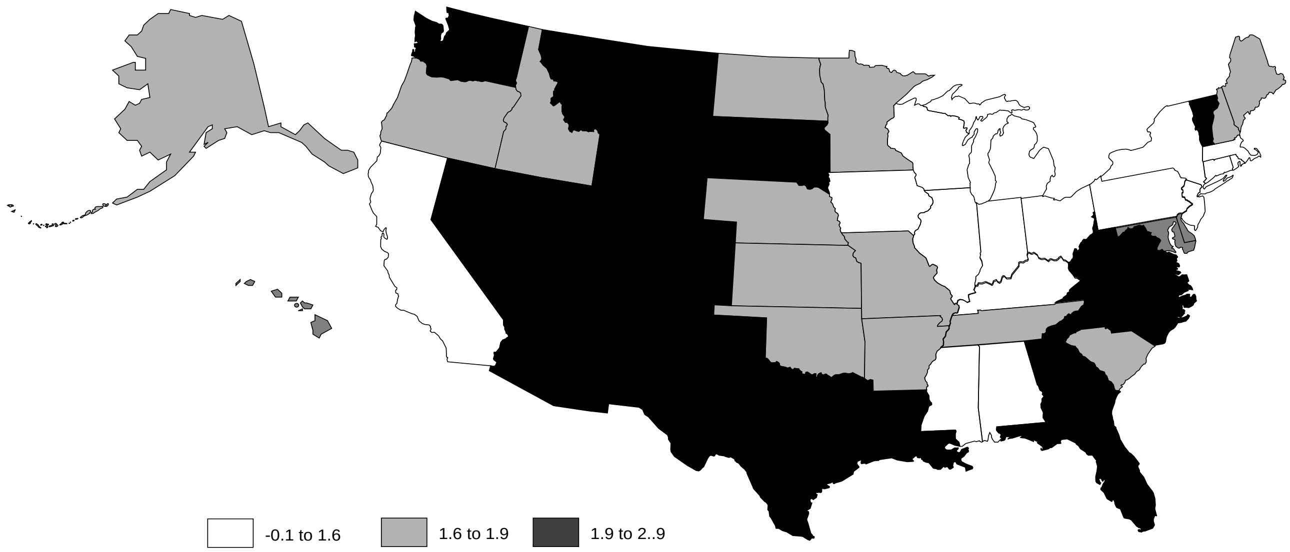
Population growth, low cost structures, and proximity to the growing Latin American markets account for the South's relatively good performance and projected future growth. The South Atlantic region's annual employment growth rate of 2.6 percent led the nation between fourth quarter 1991 through third quarter 1994, and the region's lead in employment growth is expected to continue through 1996 (Figure 1). The recent trade agreements, NAFTA and GATT, should benefit states with export facilities and industries.

Florida, Georgia, North Carolina, Louisiana, and Texas led the South's economic expansion. Florida, where job growth is already producing a boom in residential construction, is expected to have the nation's fastest employment growth rate for the rest of the decade. Preparations for the 1996 Olympic Games, corporate relocations, and an improved international outlook fuel Georgia's strong economic growth. Facing increased competition in its apparel and textile industries, North Carolina's economy benefitted from corporate relocations and expansions and from residential construction. Increased port and trade activity, a boost in mining activity, and gambling will contribute to Louisiana's expected employment growth—the second largest in the region. Trade activities will also contribute to Texas's strong employment growth. But gains in Mississippi's economy are expected to slow as the new gaming industry reaches saturation.

The Midwest's economy continued to rebound in 1994. Four Midwestern states posted particularly large gains in personal income for 1994, due mostly to record crop production.[28] The 8.7 percent annual personal income growth for the Plains States region, recorded through the third quarter of 1994, was well above the 6.3 percent national average.[29] Favorable land, labor, and business costs and an attractive quality of life fueled recent strong job growth rates, and NAFTA and GATT should aid growth in farm exports. But reductions in government commodity subsidies and food distribution programs, a slowing of the region's healthy home-building sector, and sluggish consumer spending may contribute to an economic slowdown by late 1995. A tightening labor market and consequent higher wage rates may exacerbate the problem in the West North Central states by hindering business relocations. Wisconsin, South Dakota, Minnesota, and Missouri should be the top performers in the Midwest through 1996. Manu-

Figure 1

FORECASTED EMPLOYMENT GROWTH, BY STATE
1994 Third Quarter--1996 Fourth Quarter



SOURCE: Costa, et al., 1995.

TABLE 1

STATE NOMINAL AND REAL ANNUAL BUDGET INCREASES, FY 1979 TO FY 1996

	State General Fund	
Fiscal Year	Nominal Increase	Real Increase
1996	2.5%	-0.7%
1995	6.6*	3.4*
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
1979-1996 average	6.7%	1.7%
1980-1990 average	8.0%	2.0%

NOTE: The state and local government implicit price deflator was used for state expenditures in determining real changes. Figures for FY 1995 and FY 1996 are estimates.

SOURCE: National Governors' Association, National Association of State Budget Officers, 1995.

facturing job losses will continue to plague Michigan.

Corporate downsizing, defense cutbacks, and relatively high labor, energy, and real estate costs contributed to the Northeast's lag in job growth, a trend that began in 1987. Massachusetts, Vermont, and New Hampshire did well in 1994, but the economies of New York, Connecticut, Pennsylvania, and Maine remained sluggish. The Middle Atlantic region posted an annual employment growth rate of 0.4 percent, the nation's slowest rate between the fourth quarter of 1991 and the third quarter of 1994, and should continue to lag all other regions through 1996. The region continues to lose manufacturing jobs; regional employment growth will be focused in service industries. GATT will mainly benefit the region's export sector. Outmigration in the 1990s left the Northeast with a relatively tight labor market that creates a further competitive disadvantage.

STATE FISCAL CONDITIONS AND TRENDS

State fiscal conditions in FY 1995 improved upon those of the recession and recovery years, but lagged a bit behind FY 1994. The continued emphasis on tax cuts and expenditure limitations may seriously limit state revenues and spending growth in FY 1996.

The aggregate (all states) year-end fund balance—a good indicator of fiscal health—dropped to a precarious 1.1 percent of fiscal year spending at the end FY 1991, near the height of the recession, but then climbed to an estimated 5.2 percent at the end of FY 1995 and 4.3 percent for FY 1996 (Figure 2).[30] In December 1994, 46 states estimated that revenue collections would meet or exceed FY 1995 target levels,[31] and most states reported expenditures close to budget.[32] But eight states expected end-of-year balances of less than 1 percent of expenditures, and governors in eight states recommended year-end balances of less than 1 percent of their proposed FY 1996 expenditures.[33] Thus, by this measure, not all states are out of the woods.

Most states with higher than average year-end balances in FY 1995 were located west of the Mississippi, but each region contained at

TABLE 2

ANNUAL STATE GOVERNMENT GENERAL FUND EXPENDITURE INCREASES, FY 1995 AND FY 1996

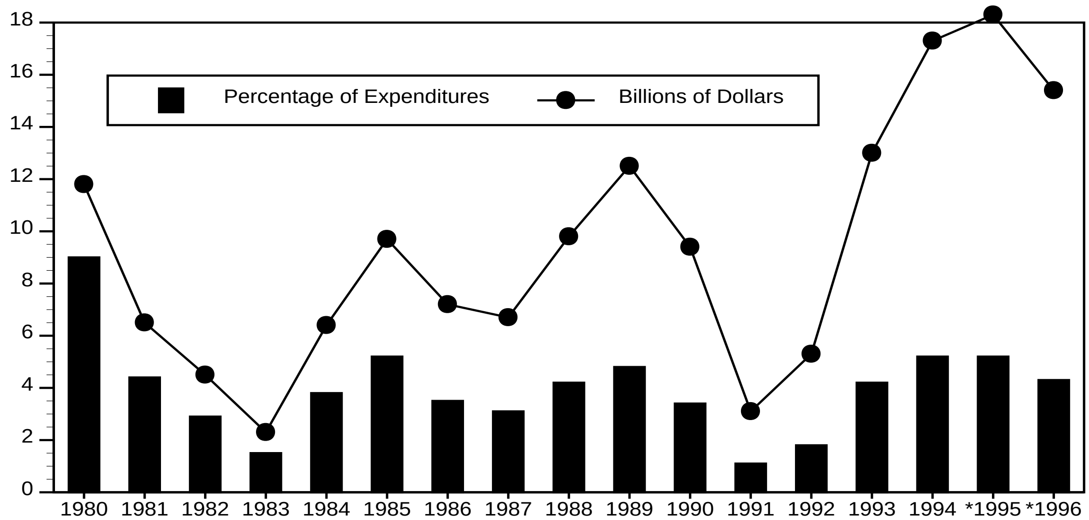
	Number of States	
Spending Growth	FY 1995 (Estimated)	FY 1996 (Recommended)
Negative Growth	3	4
0.0 to 4.9 percent	12	33
5.0 to 9.9 percent	25	12
10 percent or more	10	0

NOTE: Average spending growth for FY 1995 (estimated) is 6.6 percent; average spending growth for FY 1996 (recommended) is 2.5 percent.

SOURCE: National Governors' Association, National Association of State Budget Officers, 1995.

Figure 2

TOTAL STATE YEAR-END FUND BALANCES, FISCAL 1980 TO FISCAL1995



NOTE: Data for these years are estimated.
SOURCE: National Governors' Association, National Association of State Budget Officers, 1995.

least one state with a balance of 5 percent or more (Figure 3). Very low balances were concentrated in the Southeast,[34] in the Northeast,[35] and in Virginia. Year-end weighted average fund balances by region generally paralleled the economic performance of the regions.[36]

The nation's governors proposed in aggregate only a 2.5 percent increase in general fund appropriations in FY 1996, a sharp drop from the 6.6 percent increase projected for FY 1995 and the lowest increase since FY 1983.[37] The governors projected FY 1996 tax collections to increase by 4.0 percent.[38] Only 11 states cut enacted budgets during FY 1995, but governors expressed concern that historic problems in forecasting mandated spending for AFDC and Medicaid could confound optimistic estimates before the end of FY 1995.[39]

The states lowered tax rates by an aggregate net total of $2.6 billion in FY 1995 and expected to decrease revenues via further tax cuts by $3.4 billion in FY 1996, the first decreases since FY 1986.[40] Twenty-eight states, evenly distributed between the eastern and western halves of the country, proposed net revenue decreases for FY 1996; six states proposed net revenue increases.[41] Most proposals focused on reductions in personal and corporate income and sales taxes. The governors of 19 states called for reductions in personal income taxes for FY 1996, and Arizona and Connecticut considered eliminating the income tax.[42] Ten governors proposed corporate income tax reductions; eight governors called for sales tax reductions. Many states also considered property tax relief. But by May 1995, many legislatures, fearing federal spending reductions and not wanting to burden counties or cities, opted for modest tax-cuts, if any.[43] Tax cuts—a more discretionary use of actual or anticipated state funds than is spending on pressing "mandated" demands—represent a clear political choice.

The aggregate general fund expenditure growth in the governors' budget proposals of just 2.5 percent in FY 1996 is down significantly, not only compared to the 6.6 percent increase in FY 1995, but also compared to the

1979-1996 average year-to-year increase of 6.7 percent (Table 1).[44] Two-thirds of the governors' state budgets for FY 1996 projected expenditure growth at below 5 percent.[45] No governor proposed a double-digit percentage increase in FY 1996 spending; 10 states enacted double-digit increases in FY 1995 (Table 2). Only four states expected general fund expenditures to increase 7 percent or more in FY 1996.[46] The only proposed nominal decreases for FY 1996 were in New York (-3.5 percent) and very small declines in Alaska (-0.3 percent), Massachusetts (-0.5 percent) and New Hampshire (-0.2 percent). Thus, state budgets will not be robust, given the current clamor for reduced expenditures and the tax or spending limitations in 20 states.[47] In 1995, eight additional states may consider constitutional limits to legislative taxing powers through supermajority or voter approval requirements.[48]

LONGER-TERM CONCERNS REGARDING STATE FINANCES

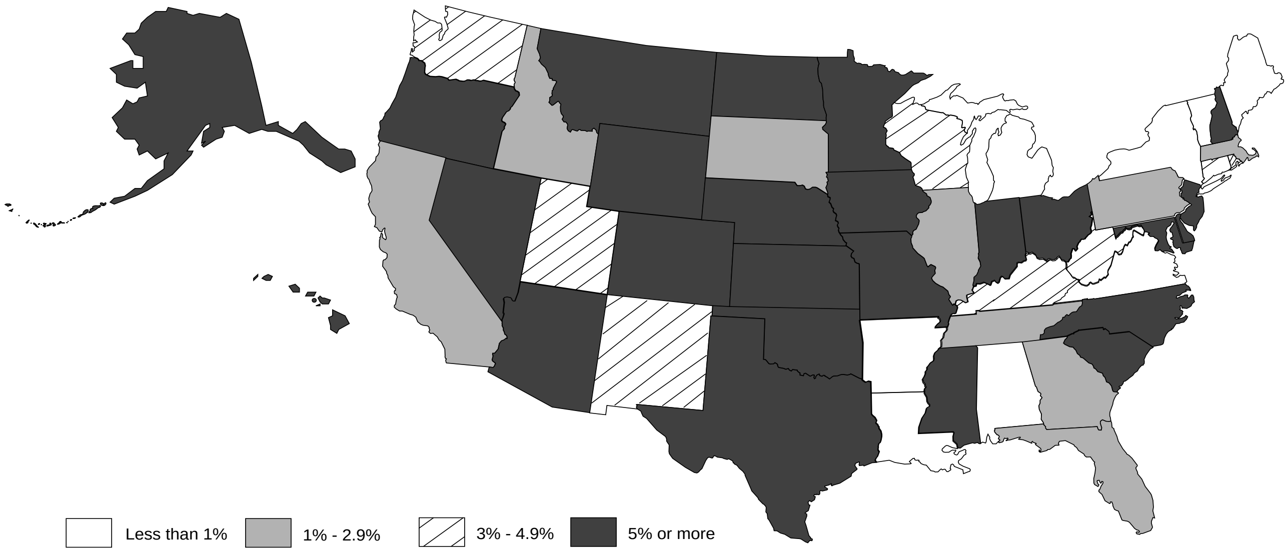
The greater budget stability of the last two years has, according to the National Governors' Association and the National Association of State Budget Officers, increased the focus of states on downsizing state government, changing service delivery through privatization, restructuring health and welfare programs, instituting performance-based pay systems, conducting statewide reviews of expenditures and revenues, and implementing performance-based budgeting systems.[49]

The appearance of improvement in the fiscal condition of the states is deceiving, given longer-term trends and foreseeable political developments. Limitations on tax and expenditure capacity will constrict long-term budget flexibility in many states. The current round of tax cuts, enacted largely for short-term political reasons, will impair the ability of states to respond to population growth and to other needs.

"New Federalism": Implications for the States

The "new federalism" concept dominated the 1994 election campaign and the resulting

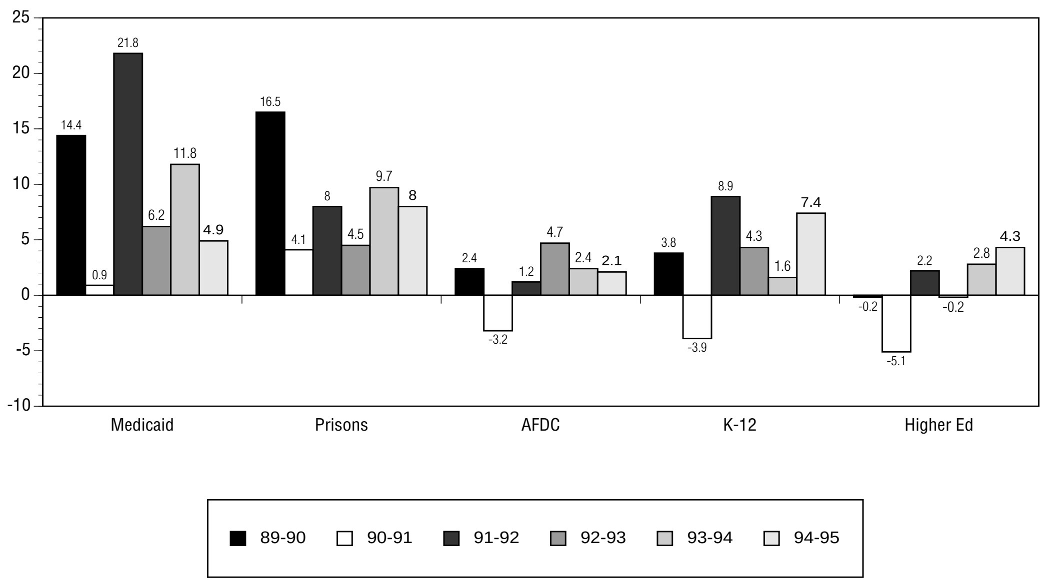
TOTAL YEAR-END BALANCES AS A PERCENT OF EXPENDITURES, FISCAL 1995



SOURCE: National Governors' Association, National Association of State Budget Officers, 1995.

Figure 4

ANNUAL CHANGES IN MAJOR STATE EXPENDITURE CATEGORIES*
FY1989 TO FY1995



xpenditures include both general funds and ``earmarked” funds.

URCE: The College Board Annual Survey of Colleges, 1994. Copyright The College Board, 1994. Reprinted with permissior

Republican-led 104th Congress. The Republicans view state and local governments as "partners" that share power over program and spending decisions with the federal government, not as "administrative units" of federal programs and policies. In 1995, the Republican congressional leadership introduced several measures from its 1994 campaign platform that attempted to reduce the size and power of the federal government. In March 1995, President Clinton signed legislation requiring Congress to pay for newly mandated programs costing the states and localities over $50 million or to cast a separate, on-the-record vote to bypass the requirement. But few observers foresee any new federal mandates, and the measure does not apply retroactively.[50]

The Republican leadership also suggested that the states could administer Medicaid, AFDC, Food Stamps, WIC, and school lunches with federal block grant funds tied to fewer federal standards. These moves, critics claimed, amounted to "back-door mandates" by capping federal spending growth for the block grants while giving states and localities the responsibility for potentially growing caseloads. A constitutional amendment requiring a balanced federal budget by 2002 narrowly failed to pass in the Senate in February 1995 and may come up for another vote. States and localities, under the balanced budget amendment, could have lost $11 billion in federal aid in FY 1996[51] and much more subsequently as the deficit moved toward zero.

Reducing the size and power of the federal government may increase burdens on state budgets to implement "devolved" programs. But states, under some proposals, could tighten eligibility standards, opt out of fully funding caseload growth, or reduce benefit levels. The

TABLE 3

PERCENTAGES OF TWO-YEAR GAIN IN APPROPRIATIONS OF STATE TAX FUNDS TO HIGHER EDUCATION, FY 1995 OVER FY 1993

First quartile		Second quartile		Third quartile		Fourth quartile	
Mississippi	45	Delaware	12	Iowa	6	Maine	1
Alabama	23	New York	12	Wyoming	5	Washington	-1
New Mexico	20	North Carolina	12	Hawaii	5	Alaska	-2
Idaho	19	Texas	11	Maryland	5	Vermont	-2
Georgia	19	Pennsylvania	11	Virginia	4	Oklahoma	-3
Florida	16	Illinois	9	Nebraska	4	North Dakota	-5
Rhode Island	16	Arizona	9	Michigan	4	California	-6
Connecticut	15	Wisconsin	8	Indiana	3	Nevada	-6
New Hampshire	15	Kentucky	8	Colorado	3	Montana	-8
Missouri	14	South Dakota	8	Arkansas	3	Oregon	-10
Tennessee	14	Kansas	7	South Carolina	3	Massachusetts	N/C
Utah	13	Minnesota	7	Louisiana	2		
Ohio	13	West Virginia	7	New Jersey	2		

N/C= not comparable

SOURCE: Hines, 1995.

guarantees of the American welfare state would vary by state. State assumption of primary responsibility for social and health programs could well affect higher education by increasing competition for state funds, even if block grants do not replace current programs of aid to postsecondary education.[52]

After the 1994 elections, "Republicans now control 49 legislative chambers to the Democrats' 47; there are 19 states where they have majorities in both chambers, and 15 where they [Republicans] control the legislature and the governorship as well."[53] Democrats control the legislature and governorship in just eight states. Budget-cutting and fiscal conservatism dominate the agenda for many Republican majorities. States that follow Wisconsin's decision to shift public school funding from local property taxes to the state budget may be forced to reduce their higher education budgets severely. Oregon's Measure 5, adopted in 1990, dramatically affected the state's support for higher education. Measure 5 reduces property tax rates from an effective rate of approximately 2.5 percent to a maximum of 1.5 percent over a five-year period ending with the 1995-97 biennium.[54] In March 1994, Michigan voters approved a $4.5 billion reduction in local school property taxes, offset partially by increased state sales, cigarette, real estate transfer, and statewide property taxes, resulting in net tax cuts of between $600 million and $1 billion.[55] These fiscal shifts, combined with the pressures created by the new federalism, will tighten state budgets—more bad news for higher education.

Many of the 30 Republican governors look for leadership to a trio of conservatives—Tommy Thompson in Wisconsin, John Engler in Michigan, and William Weld in Massachusetts.[56] These governors were easily reelected in 1994: Thompson received 67 percent of the vote; Engler, 61 percent, and Weld, 71 percent. They promote limited government in virtually every policy initiative, are fascinated with market forces, and are considered decisive and risk-takers. Thompson instigated welfare reform in the late 1980s, and created the nation's first government-subsidized education voucher program for Milwaukee in 1990.[57] Engler's calls for reduced property taxes, increased funding for education, and for a smaller, less-intrusive, and more efficient state government resulted in the restructuring and cutting back of state social service programs and in the adoption of property tax reform.[58] During the recession, Engler avoided tax increases despite a short-term fiscal crisis in which tax revenue fell 0.6 percent. A 41.2 percent increase in federal aid between 1990

TABLE 4

AVERAGE ANNUAL PERCENTAGE INCREASE IN TUITION AND FEES AT COLLEGES, 1987-88 TO 1994-95*

	Two-Year Colleges		Four-Year Colleges	
Years	Public	Independent	Public	Independent
1987-88	5%	6%	6%	8%
1988-89	4	7	5	9
1989-90	5	7	7	9
1990-91	5	8	7	8
1991-92	13	6	12	7
1992-93	10	6	10	7
1993-94	10	7	8	6
1994-95	4	5	6	6
Dollar Figures				
1994-95	$1,298	$6,511	$2,686	$11,709

** Data in this table are weighted by enrollment and represent cost increases for students who attend a certain type of college. Restricting this sample to institutions with two consecutive years' worth of data controls for year-to-year swings in the composition of the sample, but does not control for shifts in the sample's composition over longer periods of time.*

SOURCE: Reprinted by permission. The College Board Annual Survey of Colleges, 1994.

and 1992, notes one analyst, may have contributed to this accomplishment.[59] Weld oversaw cuts in the state income tax rate, phasing out of the estate tax, eliminating taxes on services, reducing state aid to localities by $270 million, cutting 8,000 workers from the state payroll, contracting out mental health care, and restricting eligibility for the state's general relief welfare program.[60]

Ongoing Trends

Escalating demands from three of four major general fund budget categories—Medicaid, corrections, and elementary and secondary education—continue to burden state budgets, and outstrip support for higher education (Figure 4). Support for these programs depends largely on caseload size, that is, the number of people who qualify under state or, often, federal law or court decision regardless of the state's financial situation.[61]

Beginning in FY 1993, Medicaid surpassed higher education as the second largest state general fund expenditure category, after elementary and secondary education. The 4.9 percent growth rate for Medicaid in FY 1995 does not seem out of control, especially when compared to recent double-digit growth rates. But considering only general fund expenditures—provider taxes and fees that support Medicaid have decreased—the year-to-year increase is a more worrisome 8.4 percent.[62] These expenditures were expected to grow at double-digit rates in 21 states in FY 1995.[63] The FY 1996 budget proposals of the governors call for an aggregate increase of approximately 10 percent in Medicaid expenditures.[64]

A slower expansion of the Medicaid-eligible population in today's relatively healthy economy may result in less spending—in December 1994, nine states expected budget savings in Medicaid for FY 1995 due to smaller than expected caseloads. Only four states expected to add supplemental appropriations for Medicaid in FY 1995.[65] Some states are gradually introducing a managed care cost containment strategy for parts of the Medicaid population, and the federal government will presumably stop mandating inclusion of new groups of eligible people.[66] But health care cost inflation per case seems unlikely to remain at its recent low level—the over 74 age group, which uses health care services at very high rates, is by far the fastest growing segment of the population.[67] The real cost of Medicaid should continue to increase as the population ages.

Expenses for corrections are expected to grow by 8.0 percent in FY 1995, and 14 states report double-digit increases.[68] Tougher penalties, including mandatory sentencing laws under consideration in 30 states and by the federal government, translate into operating expenses for new prisons or prison additions.[69] A 1994 RAND study found that California's "three strikes" law would cost an extra $4.5 to $6.5 billion annually.[70] Observers also attribute the growth in prison population "to the growth of the male population in the crime-prone age group (16-24), an increase expected to continue for the next several years."[71] Eliminating parole—considered by many states in 1995, including California, Virginia, and Wisconsin—would increase incarceration time and costs.[72] The corrections budget in-

TABLE 5

STATES RANKED BY PERCENTAGE CHANGE IN STATE-RESIDENT UNDERGRADUATE TUITION AT STATE COLLEGES AND UNIVERSITIES, 1994 TO 1995, AND 1990-91 TO 1994-95

Tuition Increases 1994-95			Tuition Increases 1990-91 to 1994-95		
1.	California	15.6%	1.	California	100.6%
2.	Washington	14.5	2.	New York	99.3
3.	Michigan	13.1	3.	Connecticut	70.3
4.	South Dakota	12.6	4.	Texas	65.7
5.	Montana	12.2	5.	South Carolina	62.2
6.	Rhode Island	9.1	6.	Oregon	56.4
7.	Maryland	7.8	7.	Missouri	53.6
8.	Missouri	7.7	8.	Rhode Island	53.4
9.	Idaho	7.5	9.	Montana	53.2
10.	Indiana	7.4	10.	Maryland	50.2
11.	Michigan	7.4	11.	Pennsylvania	46.2
12.	Arkansas	7.2	12.	Virginia	45.4
13.	Kentucky	6.6	13.	New Mexico	43.4
14.	Texas	6.6	14.	Maine	43.1
15.	Oregon	6.5	15.	South Dakota	41.5
16.	Utah	6.4	16.	Kentucky	40.4
17.	Tennessee	6.1	17.	Washington	40.0
18.	Connecticut	5.8	18.	West Virginia	39.5
19.	New Jersey	5.6	19.	Massachusetts	39.2
20.	Pennsylvania	5.2	20.	Arkansas	38.0
21.	Colorado	5.1	21.	Michigan	35.7
22.	New Hampshire	5.1	22.	Indiana	34.5
23.	Nebraska	5.0	23.	Ohio	34.3
24.	North Dakota	5.0	24.	New Jersey	34.0
25.	Ohio	5.0	25.	Florida	32.7
26.	North Carolina	4.9	26.	Minnesota	32.5
27.	Alabama	4.8	27.	Idaho	32.4
28.	Nevada	4.5	28.	Illinois	32.4
29.	Iowa	4.4	29.	New Hampshire	31.6
30.	Minnesota	4.3	30.	North Carolina	30.4
31.	South Carolina	4.3	31.	Mississippi	29.6
32.	Illinois	4.2	32.	Nebraska	29.4
33.	New Mexico	4.2	33.	Alabama	29.3
34.	Kansas	4.0	34.	Iowa	29.2
35.	Massachusetts	3.8	35.	Kansas	27.3
36.	West Virginia	3.6	36.	Vermont	26.5
37.	Wisconsin	3.6	37.	Nevada	26.1
38.	Virginia	3.4	38.	Oklahoma	25.7
39.	Oklahoma	3.4	39.	Tennessee	25.1
40.	Georgia	3.4	40.	Utah	24.7
41.	Maine	3.2	41.	Colorado	23.4
42.	Mississippi	2.8	42.	Arizona	23.0
43.	Arizona	2.7	43.	Wisconsin	21.3
44.	New York	1.7	44.	Louisiana	19.5
45.	Florida	1.0	45.	Georgia	15.9
46.	Louisiana	0.7	46.	North Dakota	14.9
	Average*	5.5		Average*	38.5

** Does not include Alaska, Delaware, Hawaii, and Wyoming.*

SOURCE: Computed from the Washington Higher Education Coordinating Board, 1995.

creased in every region and in nearly every state in FY 1995.

State costs for AFDC remained under control, increasing 2.1 percent for FY 1995. For the fifth consecutive year, the majority of states failed to adjust benefit levels. Similarly, "In [the] governors' proposed FY 1996 budgets, 42 states would maintain the same AFDC benefit levels that are in effect for FY 1995."[73] The pressures to restrict welfare spending are more politically than economically driven. Many states focus on restructuring programs "to provide greater incentives for working and obtaining employment."[74] But the emphasis of the Bush and early Clinton years on helping single mothers to escape welfare dependence by providing education and training has shifted to punitive standards that reduce the welfare rolls. The outcome of federal "welfare reform" legislation may determine state policies and finances. Many states, during the 1995 legislative session, considered time limits on the receipt of benefits and restricting benefits for recipients who have more children, but the fiscal implications of enacted policies will not be felt immediately.

Spending for K-12 education represents approximately 30 percent of state general fund spending.[75] The large increases in the state share of school funding in Michigan and Oregon explains only some of the projected 7.4 percent increase in general and earmarked funds in FY 1995.[76] The national map of projected increases in high school graduates from 1994-95 to 2004-05 (Figure 5) reflects tremendous growth in K-12 enrollments, and concomitant growth in expenditures, in many states. States will be hard-pressed indeed to respond to the increased demand for postsecondary education posed by these graduates.[77]

FUNDING AND POLICIES TOWARDS HIGHER EDUCATION: RECENT DEVELOPMENTS

State Funding

Support for higher education rebounded in the last two years. State higher education appropriations in FY 1995, including general and earmarked funds, increased by 4.3 percent from FY 1994, just above the 3 percent inflation rate.[78] FY 1995 appropriations exceeded the expected inflation rate in 31 states, with 16 states forecasted to raise spending by 6 percent or more.[79] Higher education's share of general fund spending held constant in FY 1995 at 11.7 percent. But this levelling occurred only after several years of sharp decline—the share was 13.4 percent in FY 1991 and 14 percent in 1989.[80] Only five states reported absolute declines in FY 1995 higher education appropriations; down from eight states in FY 1994, 17 in FY 1993, and 22 in FY 1992 and FY 1991.[81]

The strongest appropriations gains between FY 1994 and FY 1995 occurred in the Southeast (+8.1 percent) and the Rocky Mountains (+5.3 percent), followed by the New England (+3.9 percent), the Great Lakes (+3.9 percent), the Plains (+3.5 percent), the Middle Atlantic (+3.2 percent), and the Far West (+3.1 percent) regions.[82] The Southwest—Arizona, New Mexico, Oklahoma, and Texas—trailed the other regions with a 0.7 percent appropriations increase.

Two-year data show similar trends (Table 3). State higher education appropriations increased 8 percent between FY 1993 and FY 1995; low by historical standards.[83] Southern, Western, and New England states led the pack, but not all of them did well. Northeast and Midwest states tended to fall within the second and third quartiles. Nine states—mostly in the western regions of the country—had negative growth for the two-year period.[84]

Community colleges fared relatively well in state support—a two-year gain of 11 percent.[85] State funding for community colleges declined in only six states between FY 1993

TABLE 6

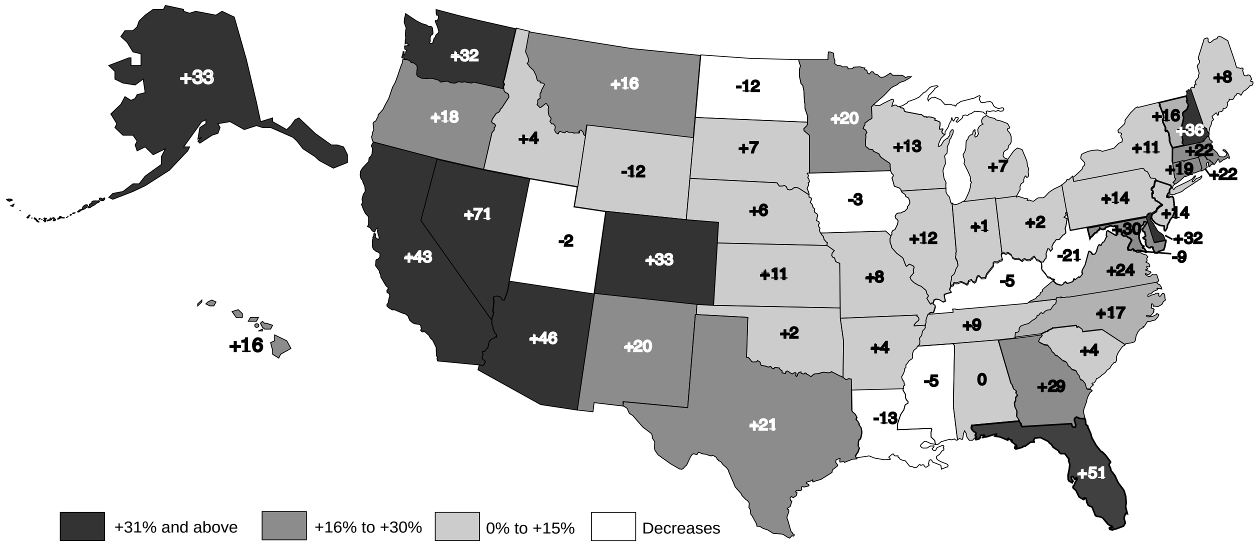
GROWTH IN STATE NEED-BASED UNDERGRADUATE STUDENT AID, 1987-88 TO 1993-94

Year	Percent
1987-88	3.4
1988-89	7.4
1989-90	8.3
1990-91	7.4
1991-92	9.8
1992-93	8.1
1993-94	12.2

SOURCE: National Association of State Scholarship and Grant Programs, 1993, 1994.

FIGURE 5

PROJECTED CHANGE IN THE NUMBER OF HIGH SCHOOL GRADUATES
1994-95 TO 2004-2005



SOURCE: The Chronicle of HIgher Education, 1995.

and FY 1995. Still, community college representatives are increasingly dissatisfied with having twice the enrollments per dollar of state support than four-year colleges, a pattern likely to persist.[86]

The immediate crisis in support for higher education is over in most states, a recognition of the pain resulting from deep cutbacks.[87] But a few years of modest improvement will not adequately address the previous losses, and will not address growing demand. Other major state functions are treated as entitlements or mandates; higher education institutional support and student aid remain discretionary items. Legislators believe that colleges, unlike other functions, may restrict enrollments, increase "user fees" (tuition), and raise money through donations. Thus, the financial troubles facing higher education are built into the basic structure of this budgetary system.

The moderate increases in funding for FY 1994 and FY 1995 may provide only a respite until the voracious demands of other programs collide with higher education's growing needs and the political limits imposed by tax and spending restraints and the new federalism. The next recession, which may be near at hand, could lead to draconian cutbacks in higher education funding unless states address the structural imbalances in this financing system.

EFFECTS ON ACCESS

Tuition Trends

Inflation-adjusted tuition increases for higher education accelerated during the recession of the early 1980s, and climbed even more sharply during the recession of the early 1990s. Recessions produce steep tuition and fee increases in public institutions because this revenue substitutes for lagging state appropriations (Figure 6). The CPI rose 75 percent and personal income grew 93 percent between 1980 and 1993, but institutional charges jumped 138 percent and 188 percent in public and independent universities, respectively, and 137 percent and 167 percent in public and independent four-year colleges, respectively.[88]

The annual increase in charges fell to 6 percent for four-year public and four-year independent institutions in 1994-95, and to 4 percent for two-year public institutions. But both percentages still exceeded general inflation and the growth rate in family incomes (Table 4).

Total expenses, including room, board, and books, for a resident student in 1994-95 at a four-year independent college averaged approximately $18,800.[89] Resident students at four-year public colleges in their home state paid $9,000. Commuters at two- and four-year public colleges paid $5,600 and $7,150, respectively. The median income for a family with children is $35,872, so these prices almost certainly hindered access for many potential students.[90]

Family income is closely correlated with educational attainment, though other factors contribute to this correlation. Median family incomes in 1992, categorized by the educational attainment of the head of family, were: high school dropout—$22,000; high school graduates—$34,000, bachelor's degree—$57,000, master's degree—$66,000, doctorate—$76,000, professional degree-holders —$92,000.[91] For households headed by individuals with five years or more of college education, median family income increased 17.2 percent after inflation between 1973 and 1992.[92] Median family income for households headed by individuals with less education decreased by substantial amounts during the same time period.[93] We should therefore be concerned about the effects of tuition on access to higher education on grounds of both equity and economic efficiency.

FIGURE 6

TUITION AND FEES AT PUBLIC INSTITUTIONS, 1964-65 TO 1992-93

(Constant 1992 Dollars)

SOURCE: Mortenson 1994b.

Tuition increases nationally averaged nearly 40 percent between 1990-91 and 1994-95 (Table 5). California and New York led tuition growth among public colleges in the 1990s;[94] Texas, Oregon, South Carolina, Missouri, and several Eastern states also imposed large increases. Western and Southern states with stronger economies showed slower tuition growth. Between 1993-94 and 1994-95, California again led all states with a 15.6 percent tuition increase, followed by Washington (14.5 percent), Michigan (13 percent), South Dakota (12.6 percent), and Montana (12.2 percent).[95] Traditional regional patterns—much higher tuition in the public colleges and universities of Eastern states'—may be shifting. In 1994-95, Eastern states generally had considerably lower tuition increases and two Eastern states were among the 10 states with the lowest tuition hikes.

Several states have linked tuition rates to a fixed percentage of the cost of instruction over the last decade, initially to avoid inadequate growth in tuition revenue. Recently, these percentage figures tended to increase to help offset minimal state appropriations.[96] An interest in indexing tuition growth to state personal income has accompanied economic improvement. This policy, advocates claim, will avoid adverse effects on students and families while providing growth in tuition revenue.[97] But, critics note, the practice works well only when the economy is improving. A downturn would yield sluggish or even decreasing tuition revenue just when stagnant tax revenues result in appropriations declines. The revenue source of last resort would be tightly capped just when it were needed most.

The states have begun to implement new tuition policies to increase revenues. The Washington legislature in 1995 considered giving institutions more flexibility to raise tuition. Several Western states increased tuition rates to nonresident students.[98] Some states implemented more restrictive definitions of state residency for tuition purposes.[99] A few states contemplate higher tuition charges for high-cost undergraduate and professional programs beyond law and medicine.[100] Some states considered or enacted much higher charges to students with "excess" credits or numbers of terms enrolled (beyond the "normal" number needed for graduation), without recognizing that inadequate financial aid and numbers of courses available may have contributed to these "excesses."[101] Some hard-pressed state university systems, Arizona, for example, also considered reducing degree requirements, closing entire departments, cutting campus administration, and increasing faculty workload.[102] The proposed cutbacks, notes W. Ann Reynolds, chancellor of the City University of New York, a system with students mostly from low- and lower-middle income families, "jeopardize the very notion of access."[103]

FIGURE 7

PROPORTION OF INSTITUTIONAL CHARGES COVERED BY PELL GRANT MAXIMUM AWARD
1973 TO 1994-95

SOURCE: Mortenson, 1994c.

Enrollment Limitations

Financial constraints can directly affect student access. Some states, for example, imposed enrollment ceilings.[104] In 1993, total fall enrollment decreased at public four-year institutions—a 1.1 percent decline to 5.78 million students.[105] Total enrollment had increased from 2.0 to 2.5 percent annually between 1986 and 1991, then remained steady in 1991 and 1992. The climb in enrollment at historically Black public colleges and universities moderated to 1.8 percent in 1993 from 4.5 percent in 1992. Only 48 percent of surveyed institutions reported enrollment increases in 1994, the lowest percentage of schools since 1987.[106] Most institutions expect enrollment gains over the next five years, but surveyed senior college and university administrators viewed the need to "maintain enrollment" as the second most "important challenge" for this period.[107]

The University of California Board of Regents considered reducing its eligibility pool from 12.5 percent of state high school graduates to maintain quality as financial resources diminished.[108] But the move required a "politically difficult" change to the state's Master Plan, and one university official thought the Regents would limit enrollment by other means.[109] Quadrupled tuition fees in California's community college system largely account for a 175,000-student enrollment decline over the last three academic years.[110]

Trends in Student Aid

Federal grant aid available to students increased in recent years, but continued to lag behind the growth in college costs (Figure 7). President Clinton's Americorps program might have helped to close the gap, but Congress may sharply curtail the program. Total available student aid from federal, state, and institutional sources was projected at $42 billion for FY 1994. "After adjusting for inflation," notes one observer, "this amount is 60 percent higher than a decade ago and 17 percent higher than in 1992-1993."[111]

But the form of student aid changed dramatically. Between FY 1993 and FY 1994, Pell Grant funding fell 8 percent and the number of grant recipients fell from 4.2 to 3.7 million, a 10 percent decline.[112] Changes in the need analysis methodology authorized by the Higher Education Amendments of 1992 account for some decreases, which came after several consecutive years of gains.[113] But, notes a College Board study, "actual maximum Pell Grant awards have not equaled authorized levels since 1979-80. The gap between the authorized and actual maximum Pell awards grew during the 1980s and continues to widen in the early 1990s."[114]

Student loans partly fill the gap between grant aid and college costs—the share of loans in the federal student aid package is climbing again after hovering around 50 percent for many years. Federal Family Education Loans program borrowing increased by 42 percent between FY 1993 and FY 1994, notes one analyst, "[d]ue to higher maximum loan limits, the introduction of unsubsidized Stafford loans, and changes in need analysis authorized by the Higher Education Amendments of 1992."[115] The amount borrowed doubled, and the number of borrowers increased 50 percent since 1990.[116] High debt levels, some observers fear, may influence the attendance, degree completion rates, and career choices of students.[117]

Many states tried to increase student aid contributions. Total aid available to students at public institutions in California increased by over 60 percent in inflation-adjusted dollars between 1990-91 and 1993-94. But the income of California families declined relative to inflation, and average student fees increased 70 percent at California State Universities, 90 percent at the University of California, and 180 percent at the community colleges.[118]

Grant aid—now nearly $3 billion is the key public program for independent colleges and universities in many states. State spending on need-based undergraduate grant aid grew impressively since 1989, after sluggish growth in previous years (Table 6). Grant programs as a proportion of state higher education appropriations rose from 5.3 percent to a projected 7.5 percent between FY 1981 and FY 1995.[119]

But these increases failed to keep the percentage of Pell grant recipients who also obtain state grants from falling from nearly 50 percent to about 35 percent between 1982-83 and 1991-92.[120] The gradually falling share of need-based grants relative to all state grants may help to explain this decline, though this share remains about 75 percent. Some states eliminated proprietary school students from grant eligibility, thereby cutting a substantial number of Pell grantees but helping nonprofit higher education.

Dramatic Options Now in the Wind

Continuing strong fiscal pressure on higher education and the growing demand for access are prodding states toward dramatic policy changes. The emphasis on tuition revenues and student aid grants, instead of institutional appropriations, reflects a "high tuition-high aid" approach to financing higher education.[121] Students who can afford high tuition thereby supply more revenue, while need-based aid substantially expands to help less well-off students. A few states announced this approach as policy; others increased tuition and student aid sharply, but without a formal linkage.[122]

Independent colleges generally favor the "high tuition-high aid" approach, which raises the prices of their public competitors and usually provides more aid that students may use at their institutions. But "sticker shock" from high tuition rates may affect middle and upper income families who might punish higher education politically. The next state fiscal crisis, critics add, will affect the level of aid, but not the high tuition. The experience of the last recession does not lend support to this fear, since appropriations for student aid grew strongly, but the danger cannot be discounted.

Jonathan Brown, president of the Association of Independent California Colleges and Universities (AICCU), argues that California could save money by providing sufficient financial aid to fill an estimated 20,000 vacancies at independent institutions instead of building new campuses.[123] Currently, state grants to attend California's independent colleges are "less than half the tuition charges at most campuses and less than one-third of total annual costs at many."[124] A prominent higher education economist offers even more "dramatic" proposals:

- exclude all out-of-state undergraduates from California public institutions;
- tighten residency requirements;
- allow Californians to take state financial aid packages to out-of-state schools;
- give enrollment priority to 17-to-24 year-old students;
- give community college admissions preference to younger students in academic transfer and occupational-vocational courses of instruction;
- reward institutions for enrolling undergraduates; penalize those that reduce enrollments; and
- relate tuition charges to the median income of students in the three public segments.[125]

The combination of new access pressures and tight fiscal constraints will likely produce similarly dramatic proposals from policymakers in other states. The number and progress of these proposals will accelerate at the first sign of a serious economic downturn.

CONCLUSION

This chapter documented developments in state appropriations, and in three areas that respond to appropriations levels—tuition policies, student aid, and enrollment limitations. Appropriations levels, in turn, are closely tied to the economies of the states. State support of higher education improved significantly after a sharp decline in the early 1990s. Tuition growth, though still well ahead of growth rates in inflation and in income, is finally moderating. State-funded student aid grew rapidly, but not nearly enough to fill the "need gap" created by rapid tuition increases and stagnation in federal student aid grants.

Consensus—if somewhat cautious—economic forecasts call for continued modest growth over the next few years, especially in the South and West. But the next downturn—some economists see a possible recession by late 1995 or early 1996[126]—will bring especially bad news for higher education. First, the dramatic growth in funding demands from "mandated" state functions—Medicaid, K-12 education, and prisons—are hard to contain and show no signs of let-up. Second, many legislatures will soon encounter sustained pressure for access from surging cohorts of college-age students, thus setting up a Hobson's choice between quality, crudely measured by spending per student, and access, measured by capacity (Figure 5). These factors have been apparent for some time, though not widely appreciated.

The long-developing, but now full-grown "tax revolt"—the third pressure on higher education—has led to tax or spending limitations,[127] tax cuts, and to near-universal reticence about spending increases. The sharp turnover in state government towards the more tight-fisted Republicans in the 1994 elections punctuates this trend, at least for now.[128] The pattern of desultory wage growth and creation of full-time jobs in the current recovery and the continued economic uncertainty contribute to the reluctance to spend for "discretionary" public purposes such as higher education.

Fourth, the changing political winds have had equally dramatic effects at the federal level. The issue of federal spending contributed to the election of the first Republican Congress since the early 1950s. The first attempt to pass a balanced budget amendment to the U.S. Constitution failed, but a similar resolution might be reintroduced and passed at any time. The Republican majority's fiscal federalism concept—"block grants" for rapidly-growing, recession-sensitive, costly social and health programs including Medicaid, Food Stamps, school lunches, WIC, and AFDC—would force states to cope with their open-ended demands.

The federal government would continue to share costs and pledge to increase appropriations, but these increases would be capped at or near the general inflation rate. The federal guarantee to fund a share of the costs of all the "entitled" population would vanish—the new federalism would eliminate the individual's entitlement under federal law—and the federal government would not promise to help with the increased burdens that economic downturns inevitably create in these programs.

States would face even greater fiscal burdens than they do now from fast-growing programs that directly compete with the growing needs of higher education. The next economic slump would bring these conflicting pressures to a head, with dramatic results for higher education.

Finally, as a foretaste, a few states are talking of major restructuring of higher education and its financing—the suggestions, for example, that California restrict access to public higher education to state residents, with age preferences, and that state student aid grants might direct more students toward independent colleges and universities with available capacity.[129] States are tying more funding for higher education to students (via student aid) and less to institutions (via direct appropriations). This aggregate trend—pronounced in some states—implies a more competitive environment and perhaps a movement toward a "high tuition-high aid" funding policy that would substantially increase tuition charges for affluent students at public institutions while reducing charges to needy students. The approach has many pitfalls—notably its potential for drying up support for public higher education from its politically critical middle-class constituency, but it may be a policy option we must soon confront.

We in higher education must weigh and shape our options. If we do not, the future will surely shape us.

NOTES

1 Magnusson, 1994, 24. Putnam, 1994.

2 McPherson and Schapiro, 1991, chapter 6.

3 Marshall and Tucker, 1992.

4 Brinner and Wyss, 1995, 6. Economists count the four-year-plus recovery period from the official end of the 1990-91 recession.

5 Starting in FY 1993, Medicaid surpassed higher education as the second largest state general fund expenditure category after elementary and secondary education (Brownstein cited in Hines and Pruyne, 1995, 2). From a peak of 8.15 percent of state and local government expenditures in 1982, the proportion devoted to higher education steadily declined to 6.37 percent in 1993 (Mortenson, 1995a, 11).

6 McIntire, 1995, 12

7 In 1993, for example, voters in the state of Washington passed Initiative 601 limiting the growth in general fund appropriations to the average rate of population growth plus the inflation rate for the three previous years. This growth rate is much less than the growth of Medicaid, corrections, and welfare caseloads.

8 Under current proposals, states would not have to meet all the caseload growth in the programs, since the entitlement status of clients under federal law would end. But many states would then enact similar entitlements, and in states that did not, political competition for funding between college students and, say, children in need of nutrition or social services would still increase.

9 Northwest Policy Center and U.S. Bank, 1994, 2.

10 Magnusson, 1994, 24.

11 Putnam, 1994, 10.

12 Dunphy, 1995, F1.

13 "Will Stock and Bond Markets Continue To Reassure Fed on Dollar's Decline?" 1995, A2.

14 "Jobless Rate is Up; So is Fear of Recession," 1995, B3.

15 Harper, 1995, A3.

16 *Ibid.*

17 Blumenthal, 1995, A5.

18 Harper, 1995, A3.

19 McClain, 1995. "Jobless Rate is Up; So is Fear of Recession," 1995, B3.

20 *"Jobs Jump Surprisingly for the Month of June,"* 1995.

21 Except as otherwise indicated, the statistics and assessments in this section are from Costa, *et al.*, 1995.

22 National Governors' Association, National Association of State Budget Officers (NGA / NASBO), 1995, 15.

23 According to Costa, *et al.*, 1995, the Pacific Southwest States include: Arizona, California, Colorado, Hawaii, Nevada, New Mexico, and Utah. The South Atlantic States include: Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, and West Virginia.

24 According to the National Governors' Association, the Rocky Mountain States include: Colorado, Idaho, Montana, Utah, and Wyoming. The Southwest States include: Arizona, New Mexico, Oklahoma, and Texas.

25 So were California and Hawaii, two of the worst performers.

26 NGA / NASBO, 1994, 16.

27 Northwest Policy Center and U.S. Bank, 1994, 4.

28 Personal income in Iowa increased 10.9 percent, South Dakota 9.5 percent, North Dakota 8.6 percent, and Michigan 8.5 percent. Commerce Department

figures cited in the "Farm States Lead in Income Gains," 1995, A2.

29 According to the National Governors' Association, the Plains States include: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota. NGA / NASBO, 1995, 16.

30 NGA / NASBO, 1995, 13.

31 Perez, 1995, 3.

32 *Ibid*., 1.

33 NGA / NASBO, 1995, 14.

34 Alabama, Arkansas, and Louisiana had the lowest year-end balances.

35 Connecticut, Maine, New York, and Vermont were the lowest states in this region.

36 The New England states (2.2 percent, down from 2.8 percent in FY 1994) and the Middle-Atlantic states (2.9 percent, down from 3.2 percent in FY 1994) generated the smallest weighted average balances. These regions were followed by the Southeast states (4.1 percent, up from 3.9 percent), the Great Lakes states (5.6 percent, up from 4.4 percent) and the Far West states (5.7 percent, up significantly from 2.8 percent). The Rocky Mountain states (7.0 percent, down from 7.8 percent), the Plains states (7.8 percent, down from 8.0 percent), and Southwest region (11.6 percent, up significantly from 7.9 percent in FY 1995) generated very healthy balances for the third straight year.

37 NGA / NASBO, 1995, 2. Since most legislatures were still meeting at the time of writing, the governors budget proposals for fiscal year 1996 were the latest figures available.

38 *Ibid*., 10.

39 *Ibid*., 2. Ten states cut enacted budgets in FY 1994, 22 in FY 1993 and 35 in FY 1992.

40 *Ibid*., 1995, 9.

41 The states with the strongest increases were: Florida, Hawaii, Ohio, South Dakota, Vermont, and Wisconsin (NGA / NASBO, 1995, 10-11). These are figures from the governors' proposed budgets.

42 Perlman, 1995, 25. New Jersey, Arizona, Connecticut, and New York weighed the most significant reductions (NGA / NASBO, 1995, 12).

43 Only New Jersey, New York, and Connecticut still expected to enact large tax cuts in 1995 (Gold, 1995b).

44 NGA / NASBO, 1995, 3.

45 *Ibid*., 2.

46 Missouri, North Dakota, Montana and Oregon.

47 McIntire, 1995, 10.

48 Mackey, 1994, vii.

49 NGA / NASBO, 1995, 18-20.

50 Walters, 1995, 11, and St. George, 1995, 12.

51 St. George, 1995, 15.

52 There has been relatively little movement thus far toward block grants in higher education. Most federal higher education support is for research and student aid, while states already finance the public colleges and universities and additional student aid.

53 Gurwitt, 1995, 18. Republicans control the executive and legislative branches in the populous states of Illinois, Michigan, New Jersey, Ohio, Pennsylvania and Wisconsin.

54 McIntire, 1995, 13.

55 Mackey, 1994, 7-8.

56 Mahtesian, 1995, 26.

57 Mahtesian, 1995, 30.

58 *Ibid*., 29-30.

59 Gold, 1995a, 6.

60 Mahtesian, 1995, 31.

61 Lemov, 1995.

62 Eckl, *et al*., 1994, 17.

63 *Ibid*., 37.

64 NGA / NASBO, 1995, 5.

65 Perez, 1995, 6.

66 Lemov, 1995, 27.

67 Gold, 1995a, 14.

68 Eckl, *et al*., 1994, 30.

69 "Three Strikes': Serious Flaws and a Big Price Tag," 1994, 5. Washington and California already have such laws.

70 "Three Strikes': Serious Flaws and a Big Price Tag," 1994, 5.

71 Gold, 1995a, 13.

72 Perlman, 1995, 25.

73 NGA / NASBO, 1995, 3.

74 *Ibid*.

75 Eckl, *et al*. 1994, 18.

76 *Ibid*, 21.

77 According to Carroll *et al*., after accounting for projected increased expenditures for health and welfare, corrections, and primary and secondary

education, the percentage of California general fund appropriations to higher education is projected to fall from 13 percent in fiscal year 1995 to less than 4 percent in fiscal year 2002 (1994, 3). Even assuming a more optimistic scenario "that six percent of California's general fund appropriations go to higher education" by 2002 the California State University system is expected to turn away 200,000 to 300,000 students whom it would not turn away today (Carroll, 1994, 3.) This suggests the magnitude of the potential crisis created by the juxtaposition of the spending trends mentioned above, even before considering the implications of the new fiscal federalism or of the large surge in demographically-driven demand for access to higher education in states like California (see Figure 5 for examples of other states facing large increases in the college-age population).

[78] General funds provide most state support for higher education.

[79] Eckl, *et al*., 1994, 26.

[80] Mortenson, 1995b, 13-14.

[81] Hines, 1995, 6.

[82] Eckl, *et al*., 1994, 27-28.

[83] Hines and Pruyne, 1995, 16.

[84] Alaska, California, Oregon, Maine, Montana, North Dakota, Nevada, Oklahoma, and Vermont.

[85] Hines and Pruyne, 1995, 13. This percentage omits California, which experienced an unusual 27 percent decline due to a change in funding arrangements.

[86] Hines and Pruyne, 1995, 13. Zumeta, 1994.

[87] Eckl, *et al*., 1994, 40.

[88] Mortenson, 1994b, 9.

[89] College Board, 1994, Table 3.

[90] This figure is for 1992. Mortenson, 1994a, 2.

[91] *Ibid*., 13.

[92] *Ibid*., 14.

[93] Eight years of elementary education or less (-25 percent), 1-3 years of high school (-35 percent), 4 years high school (-16 percent), 1-3 years college (-11 percent) and 4 years college (-2 percent). Mortenson, 1994a, 14.

[94] Patterns for flagship research universities and community colleges were similar. Washington State Higher Education Coordinating Board, 1995, Tables 1-10.

[95] The figures are resident undergraduate tuition and required fees for state universities and colleges (Washington State Higher Education Coordinating Board, 1995, Table 5).

[96] Lenth, 1993.

[97] "Rinehart tells faculty of budget woes," 1994.

[98] Western Interstate Commission for Higher Education, 1995, 2.2-2.

[99] Lenth, 1993.

[100] Heinz, 1995, 1; Lenth, 1993; Western Interstate Commission for Higher Education, 1995, 2.1-2.

[101] Honan, 1995, B8. The states included California, Colorado, Montana, North Carolina, Oregon, Texas and Washington.

[102] *Ibid*., A1.

[103] *Ibid*., B8.

[104] Mortenson, 1993, 8. No systematic data are available.

[105] National Association of State Universities and Land Grant Colleges, 1994, 4.

[106] El-Khawas, 1994, 13.

[107] Thirty percent of the institutions cited to "maintain enrollment" as an important challenge. *Ibid*., 30.

[108] Trombley, 1995b, 7.

[109] *Ibid*., 7.

[110] *Ibid*., 1.

[111] The College Board, 1994, 3.

[112] *Ibid*.

[113] *Ibid*.

[114] *Ibid*.

[115] *Ibid*., 2, 3.

[116] Hartle cited in Hines and Pruyne, 1995, 3.

[117] Zook, 1994, A36.

[118] Gladieux, 1995, 2.

[119] Mortenson, 1994d, 11.

[120] Mortenson, 1994c, 6. These very needy recipients qualify for substantial state need-based aid even after receiving the maximum federal Pell grant. Seventeen states and the District of Columbia increased the percentage of their Pell recipients receiving state grants over this period.

[121] Zumeta, 1993. In contrast to the current pattern, student aid programs were cut more sharply than institutional appropriations during the fiscal difficulties of the early 1980s.

[122] Lenth, 1993. Western Interstate Commission for Higher Education, 1995.

[123] California Higher Education Policy Center, 1994, 7. See also Zumeta, 1994, 1996.

[124] California Higher Education Policy Center, 1994, 7.

125 California Higher Education Policy Center, 1995, 4.

126 Costa, *et al*., 1995. "Jobless Rate is Up; So is Fear of Recession," 1995, B3.

127 McIntire, 1995.

128 The lean budgets recommended by the governors for FY 1996 (in aggregate up just 2.5 percent from 1995 in spite of the improving economy) testify to the impact of the new regime in the statehouses. No systematic data are yet available about legislative actions on these budget proposals.

129 Breneman, 1993; California Higher Education Policy Center, 1994, 7. Zumeta, 1994. California Higher Education Policy Center, 1995, 1,4.

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