

State Support of Higher Education: The Roller Coaster Plunges Downward Yet Again

By William Zumeta

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After just a few years of solid growth in state support, public higher education faced grim times in many states in late 2008. The culprit, as usual, was an economic downturn. A burst housing market bubble, long supported by historically low interest rates and too easy credit, precipitated this downward spiral. The ground trembled under the nation's financial system when the bubble burst; banks, in turn, severely reduced access to credit by businesses, current and would be homeowners, and even students. The U.S. Treasury Department and the Federal Reserve System responded with drastic, unprecedented actions—including slashed interest rates and bank recapitalization via \$250 billion in equity purchases—to prevent a financial collapse. The

crisis continued through late 2008, as banks remained reluctant to lend. But policymakers continued to lubricate the lending system that fuels economic activity. By then, the economy had (unofficially) entered a recession—one likely to be severe. The credit crunch immediately affected colleges and students who would suffer more from the deepening recession.

This article summarizes the national economic situation, especially its effects on college, student, and state finances. It places the sudden downturn in state support for higher education—and related tuition and student aid trends—in the context of earlier difficulties. The essay identifies a key challenge for higher education financing: policymaker ire at the last round of recession-induced tuition spikes may

spark sharp resistance to tapping this source of funds to offset cuts in state support.

THE ECONOMY

The housing market downturn and the associated credit crunch exacted a heavy toll in Summer and Fall 2008. Mortgage foreclosure rates soared; major banks and Wall Street fixtures failed; and consumers, businesses, and some students had trouble borrowing. Together with rapidly rising unemployment and galloping price rises for petroleum products and many food commodities (until late summer), these forces seriously crimped consumer and business spending—key economic engines. The U.S. Commerce Department’s “advance estimates,” released in late October, showed a 0.3 percent annual rate economic contraction in the July–September quarter. The credit crisis that took firm hold in October surely exacerbated this slump.¹ This sudden downswing followed a perky 3.3 percent growth rate in the second quarter aided by more than \$150 billion in federal stimulus payments to taxpayers. This spike, in turn, followed a weak 0.9 percent January–March growth rate.²

The country received bad economic news even before the credit crisis. The stock market gyrated wildly during the summer and early fall, while trending strongly downward. The Dow Jones Industrial average fell below 8,000 during November, far from its mid-2007 peak of 14,000. The unemployment rate climbed steadily—to 6.5 percent of the labor force in October—and was surely headed substantially higher. Through November, the economy had shed nearly two million jobs in 2008. The export sector, a key source of strength aided by a weak dollar, faced bleak prospects as the credit crisis hurt buying power worldwide, and as the dollar soared against other currencies thought less reliable.

Inflation had run at historically high rates. July figures showed the Consumer Price Index up a whopping 5.6 percent over 2007, the largest jump since the 1991 Gulf War period.³ But the

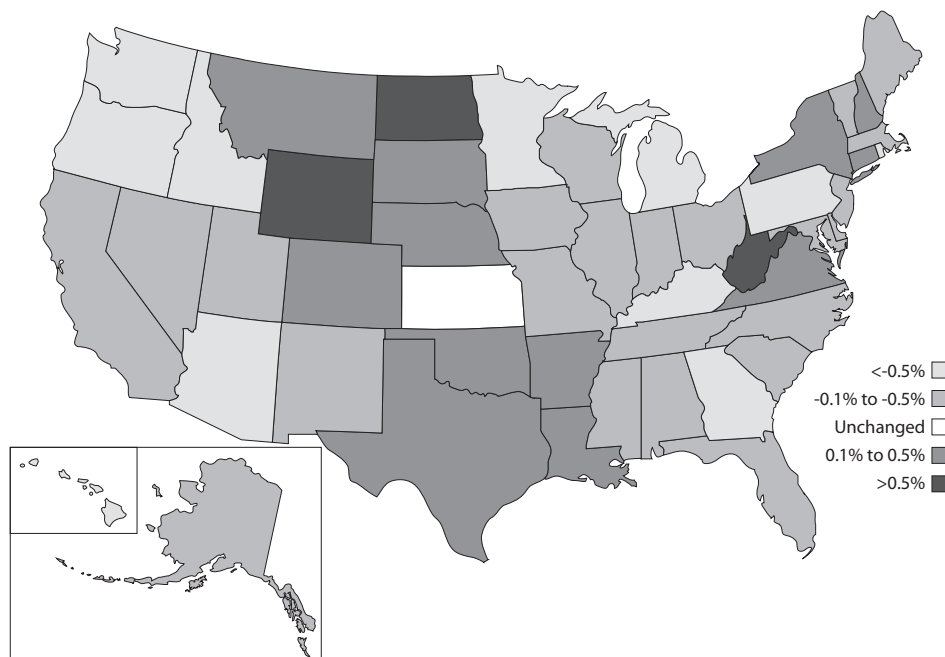
12-month inflation rate plunged into unheard of negative territory by the end of October as the economy cooled (or froze). The Federal Reserve Board pushed interest rates down sharply to stimulate the economy. The benchmark “federal funds” rate at which banks lend to each other fell from 5.25 percent in September 2007 to 2.0 percent a year later, and to just 1.0 percent after two half-point cuts in October.⁴ The Fed was thus nearly out of ammunition on the interest rate front.

The Fed regularly surveys businesses in its 12 regions to gauge local economic conditions. Its late summer report described conditions as “soft,” “weak,” or “stagnant” in 11 regions—Kansas City was the exception.⁵ A “coincident index,” developed by the Philadelphia Fed, measures changes in state-level economic conditions, using the latest data on payroll employment, manufacturing hours worked, the unemployment rate, and inflation-adjusted wage and salary disbursements.⁶ Figure 1 shows the direction of economic conditions in each state for the July–September period compared to the previous three months. Only 15 states showed improving conditions, including a swath of agricultural states in the west central part of the country from North Dakota and Montana south to Texas and Louisiana, and there were a few bright spots in the Northeast and the Virginias. The economic index in 34 states declined over this period, and one state (Kansas) showed no change.

STATE FISCAL CONDITIONS

Changes in state finances quickly affect support for higher education. The reason: states rarely build large buffer funds against downturns, despite serious attempts in recent years. Public higher education can ill afford sudden cutbacks, since state support still represents 62 percent, nationwide, of its general operating revenue derived from state and local sources and tuition.⁷ States’ year-end fiscal balances—including general fund balances and reserve or “rainy day” funds—normally denote accurately

Figure 1. Change in Coincident Index of State Economic Conditions, July–September, 2008 Compared to Previous Three Months¹



Source: Federal Reserve Bank of Philadelphia, October 23, 2008 (<http://www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident>).

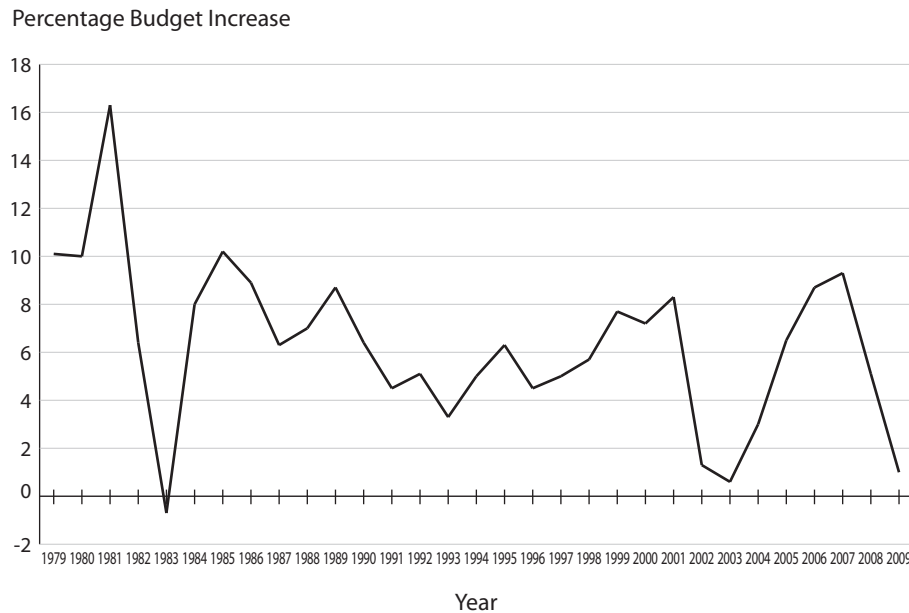
¹ The coincident index combines four state-level indicators to summarize current economic conditions in a single statistic. The four state-level variables in each coincident index are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average). A negative coincident index means that state economic conditions have declined in the previous three months.

their financial condition. Caught with inadequate year-end balances in earlier downturns, states collectively built these balances to an unprecedented 11.5 percent of expenditures at the end of FY 2006.⁸ This figure dropped to an estimated 8.0 percent by the end of FY 2008.⁹ Governors' proposed FY 2009 budgets projected a slight decline to 7.5 percent—a comfortable level by historic standards, if realized,¹⁰ though weakening revenues suggested it would not be. Yet, state fiscal policymakers, fearing a multi-year downturn, looked to budget belt-tightening rather than spending from these balances.

Anticipating revenue-related problems, aggregate governors' budgets called for a one percent increase in general fund spending between FY 2008 and FY 2009, the third smallest year-to-year gain in the measure's 30-year history

(Figure 2).¹¹ But sharply worsening economic conditions suggested that many states would not even realize the modest 4.4 percent revenue gains over estimated FY 2008 revenues projected in governors' proposed FY 2009 budgets.¹²

States took almost any action, save for decimating reserves or sharply raising taxes, to address projected gaps in their FY 2008 and FY 2009 budgets.¹³ Ten states cut budgets across-the-board. Some states cut specific categories: 12 states trimmed higher education, with elementary/secondary education (11 states) and Medicaid (10 states) close behind. Several states cut spending on corrections, aid to local governments, and Temporary Assistance to Needy Families (TANF). States also took the usual expense-trimming steps: hiring freezes; travel bans; and salary freezes. Six states cut employee

Figure 2. State Annual General Fund Percentage Budget Increases: FY 1979 to FY 2009¹

Source: National Governors Association, Fiscal Survey of States, 2008.

¹ FY 2008 is estimated and FY 2009 is based on governors' proposed budgets.

benefits; four reduced contributions to retirement funds. Four states moved to increase gaming revenues and three others increased intake from existing taxes. Seven states delayed capital projects and another six floated bonds for projects previously financed from operating revenues. Some states tapped their tobacco settlement revenues to cover expenses normally handled by general funds.

Only a few states dug deep into their rainy day funds reserves.¹⁴ Nevada, with a projected FY 2009 shortfall exceeding 20 percent of its budget, balanced its enacted budget by spending nearly all of its reserves (\$267 million). Minnesota spent \$500 million, nearly half its balance, and Massachusetts spent \$310 million. Just seven states raised taxes and only eight increased fees; most increases were small. The aggregate net increase (increases less decreases) came to under \$1 billion for the 49 states that passed their FY 2009 budgets at the time data were collected. California was the exception.

Tax revenues, the main underpinning for state budgets, can drop suddenly. FY 2008 collections from the three major state taxes—personal income, sales, and corporate taxes—were estimated to bring in only 1.7 percent more revenue than in 2007.¹⁵ Corporate income tax revenues were estimated to finish FY 2008 *down* by 5.5 percent from FY 2007. Looking ahead, governors' budgets projected revenue gains of 4.4 percent for FY 2009. That was in June 2008. But independent experts, already less hopeful, became more pessimistic as summer turned to fall. A late October report, containing complete data for the April–June quarter of 2008, assessed likely state revenue trends for the rest of the year. “The underlying trend for states is negative;” noted the report, “budget cuts and other gap-closing measures likely loom ahead.”¹⁶ Compared to the previous 12 months' collections, the report added, the quarter-to-quarter trend in state tax revenue growth was negative for 11 straight quarters. Revenue growth just

barely exceeded the inflation rate in April–June 2008.¹⁷ Sales tax collections declined after adjusting for inflation, and property tax collections also headed downward. Income tax receipts remained healthy—up three percent after inflation—but spring receipts from 2007 state income tax filings (now ancient economic history) influenced this increase.¹⁸

“The real economy now appears likely to perform much worse than it did in the last recession,” the report stated gloomily. “Consumption of goods that states tax already has declined more sharply than in the last recession, and much steeper declines seem likely in the quarters ahead.”¹⁹ Especially hard hit were states heavily dependent on the financial services industries, including Delaware, New York, Connecticut, and California. Also affected were states with steeply progressive income taxes that depended on high earners whose bonuses, commissions, and even jobs are at risk (the same states plus Colorado and Oregon). Net capital gains and distributions fell during the last downturn—48 percent in 2001 and a further 27 percent in 2002; total adjusted gross incomes declined in both years.²⁰ Sales and personal income taxes are therefore likely to be hard hit this time around and so will be state budgets. “The last fiscal crisis for states, which occurred in the midst of a mild recession, was dubbed a perfect storm,” the report concludes, “This one could be more perfect.”²¹

Preliminary third quarter data for 15 states confirmed these predictions. The majority of states received less in taxes in 2008 than in the same quarter of 2007 even before adjusting for inflation.²² In FY 2009, one study reported, 27 states faced mid-year gaps between budgeted spending and revenues.²³ The total for the 25 states that estimated their gaps—the laggards were California and Illinois—came to about \$12.3 billion. That figure, which was expected to soar as the economy sagged further, came on top of \$48 billion in budget changes that states already made to balance their original FY 2009 budgets. Moreover, 17 states that prepared

fiscal projections for FY 2010 or beyond foresaw continued budgetary stress.

The nonpartisan Center on Budget and Policy Priorities (CBPP) called for federal assistance to avoid cutbacks in education, health, and social services made by states in the last recession. This aid would also alleviate the inevitable spike in service demands that come with a recession, most notably in the federal/state Medicaid program. The federal government provided \$20 billion to states during the previous downturn, but many observers thought this aid came too late (2003) to avert the worst effects of the state revenue shortfalls. More and earlier federal help—about \$50 billion—is needed this time, said CBPP.²⁴ But the federal government’s fiscal problems have greatly increased as it attacks the credit crisis and stimulates the economy.

EFFECTS ON HIGHER EDUCATION

The Credit Crisis

“The credit crisis tying global financing systems into knots,” an October 2008 news story stated, “has left hundreds of colleges scrambling for cash to pay their bills and to cover the spiking interest on their debts.”²⁵ About 1,000 colleges and universities were rudely surprised in late September when, without warning, Wachovia Bank froze short-term funds that these institutions had invested through Commonfund. These assets—used for payrolls, debt payments, and construction projects—were gradually released over the ensuing weeks as securities matured.²⁶ But the experience reminded college financial officers and their employers of their vulnerability to the nation’s banking and credit crisis.²⁷ Most colleges can expect to pay substantially more to borrow—bad news at a time of financial stringency. But conservative financial habits and strong balance sheets should enable these colleges to absorb the increases.²⁸

Concern about students’ access to loans accompanied credit worries. First, some lenders withdrew from the federally guaranteed

student loan program after Congress reduced subsidies to lenders in 2007. The Department of Education scrambled to replace departed lenders by increasing direct loans from the government. Meanwhile, private loans—loans without the federal guarantee or the government’s protections for borrowers—declined for the first time between 2006–07 and 2007–08, after adjusting for inflation.²⁹ Fortunately, colleges increased their loans to students and finalized most arrangements for autumn 2008 before the credit squeeze became a crisis. But concerns remained about the winter and spring terms.

State Support

The impact of state fiscal troubles on higher education varied along with states’ economic circumstances. State policymakers made serious efforts, at least initially, to protect colleges and students from the devastating appropriations cuts characterizing earlier downswings.

So did the federal government. A “maintenance of effort” provision in the 2008 reauthorization of the Higher Education Act allows the Department of Education to withhold College Access Challenge Grant funds to states failing to maintain annual gains in their higher education appropriations at least at the average of the previous five years.³⁰ Contemplating the likely size of the downturn in late October, the National Governors Association sought a waiver from this provision because of “a precipitous and unforeseen decline in the financial resources of a state or state educational agency.”³¹ This waiver seems likely to be granted. But the Access Challenge Grant program is small and state officials had expressed strong pre-crisis opposition to the provision. The lever, therefore, may have minimal impact on state budgetary allocations, though it sends an unmistakable political signal about Congressional priorities.

Ironically, state officials noted, such federal pressures might ultimately reduce state support for higher education. This provision does not reduce other powerful spending pressures on states during a downturn but it discourages

states from investing heavily in higher education during more prosperous times.³²

On the positive side, policymakers in many states sought to avoid dismantling strategies that strengthen economic competitiveness via enhanced enrollments and research capacity.³³ States with growing youth populations—such as Florida, Georgia, and North Carolina—expanded capacity to keep up with expected enrollment demand. Yet, as the nation’s high school graduating class declines from its 2008 numerical peak, many states will see stagnant or even smaller numbers of youth of college age and a fast-growing share of this cohort will be people of color.³⁴ Many states now focus on strategies to improve pre-college preparation and K-12–higher education alignment and on efforts to provide better support for populations heretofore largely unsuccessful in college.³⁵

Some states are trying to draw into higher education more adults who lack degrees or other postsecondary certification.³⁶ Many initiatives also focus on better matching degree production by field with employer demands or economic development strategies.³⁷ Finally, although not a new idea, more states are building university research capacity and contacts with business in fields thought able to attract or retain high-paying jobs.³⁸

Nonetheless, higher education inevitably took its lumps in the scramble for funds as states cut FY 2008 budgets³⁹ and dramatically adjusted FY 2009 spending plans. The majority of states kept higher education funding level or made cuts of single digit percentages in their enacted FY 2009 budgets. But several states made deeper cuts. Rhode Island’s 17 percent reduction forced public colleges to reduce academic offerings and to leave 150 positions unfilled.⁴⁰ Alabama’s four-year colleges suffered an 11 percent reduction in state funding. The result was the elimination of 300 positions—mostly through attrition—and deferral of new construction at University of Alabama campuses.⁴¹ Tuition was slated to rise by up to 14 percent in Fall 2008. Alabama’s two-year colleges

faced a 4.5 percent reduction in support. In Nevada, where the housing decline and reduced revenue from gambling severely affected the state's economy, the governor sought a 14 percent cut in higher education spending. Some higher education leaders protested publicly,⁴² and others devised retrenchment plans.⁴³

Public academic institutions in Hawaii, like other public agencies, faced an eight percent reduction in spending as tourism sagged.⁴⁴ The crashing real estate market hit the Florida economy hard, forcing a six percent spending cut at the University of Florida for FY 2009. The university planned to reduce undergraduate numbers by 4,000 over four years despite strong enrollment demand. It also intended to reduce academic programs, lay off faculty and staff, and leave nearly 300 positions unfilled.⁴⁵ The university announced it would maintain spending levels from its endowment, despite a sharp drop in the principal.⁴⁶ When neighboring Georgia discovered that it could not fund its enacted FY 2009 budget, Governor Sonny Perdue called for a six percent spending reduction by colleges and universities along with other state agencies.⁴⁷

The need for a three percent midyear cut in early 2008 rudely interrupted Kentucky's long-term investment effort in higher education; a three percent reduction in the FY 2009 budget followed. The University of Kentucky cut 188 jobs, mostly vacancies left unfilled. It also froze faculty and staff salaries, and increased tuition by nine percent to balance its budget.⁴⁸ The state's Community and Technical College system eliminated 240 jobs and planned to eliminate some programs.⁴⁹ Tennessee officials talked of a 3.4 percent mid-year cut for higher education, about \$44 million, on top of a prior \$56 million reduction from the previous year's spending.⁵⁰ Virginia, facing a \$2.5 billion shortfall, asked higher education for reductions ranging from five to seven percent. The Massachusetts governor called for public colleges and universities to reduce current year spending by 5.6 percent. In Pennsylvania, with

tax revenues running nearly five percent below projections, the governor proposed a 4.25 percent cut from public college and university budgets. Utah, where public college enrollments increased nine percent, planned four percent midyear spending cuts.

Arizona, a state with severe economic and budget troubles, reduced funding to its three public universities by 4.6 percent. It also cut operating and capital funds to its community colleges, which also receive substantial local support, by 15.3 percent. The state had made substantial cuts in the previous year. But Governor Janet Napolitano also sought a \$1 billion bond package to fund maintenance and construction of university buildings, to be repaid from state lottery proceeds.⁵¹ Arizona State University, faced with \$55 million in state budget cuts, planned to lay off at least 200 non-tenure-track faculty members.⁵² Lecture classes might hit the 1,000-student mark at the state's largest university, but officials said they had no plans to lay off tenure track faculty, eliminate majors, or limit enrollment.

A stalemate in California dragged on a record 78 days past the June 30 statutory deadline. The contributors included a \$15 billion budget gap, political polarization, and a two-thirds vote requirement to pass the budget in both houses. Colleges drew on reserves to maintain operations when classes began in September, and Cal Grants, the state's large financial aid program for needy students, went undistributed causing hardships and uncertainties.⁵³ Final allocations to the state's colleges and universities could have been worse: flat funding for the University of California (UC) and the California State University (CSU) systems and a one percent increase for the community colleges.⁵⁴ Anticipating hard times, UC earlier enacted a ten percent fee (tuition) increase for resident undergraduates; CSU increased its charges by seven percent.

Tax collections could affect state funding and fee levels. The estimated gap between New York's planned expenditures and revenues

grew dramatically during the summer. Governor David Paterson called a special legislative session to make further adjustments in a budget that had already reduced higher education spending.⁵⁵ By September, the governor had ordered agencies to reduce operational expenses by more than ten percent.⁵⁶ The State University of New York (SUNY) system received a FY 2009 cut of seven percent on top of a four percent slash in FY 2008.

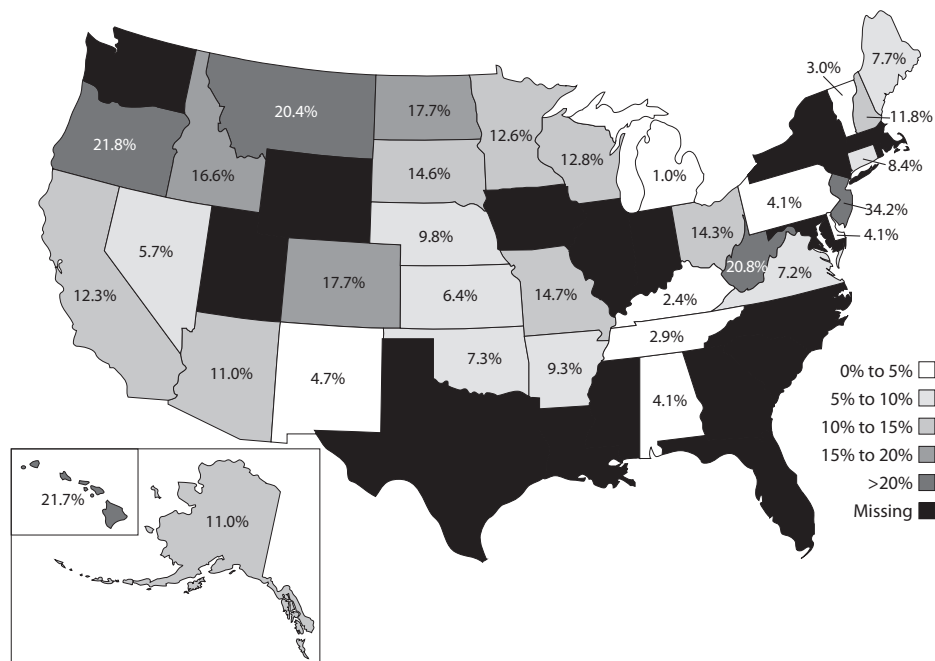
In sharp contrast, a few states whose economies were tied to energy resources and agricultural products (at least through early autumn) strongly supported higher education. Alaska, benefiting from high oil prices, fully funded its support formula for the University of Alaska (for only the fourth time in 20 years): a seven percent increase in operating funds and a fourfold jump in support for deferred maintenance.⁵⁷ Strong resource revenues also benefited Wyoming, which boosted biennial (2008–10)

spending for the state’s community colleges by 28 percent and for the University of Wyoming by nine percent.⁵⁸

Colorado, which had severely cut higher education funding in recent years, provided a nine percent increase in FY 2009. The governor was expected to propose an oil and gas severance tax that would double the state money available for student financial aid.⁵⁹ Montana’s 2007–09 biennial budget provided a 14 percent increase for higher education with no sign of any reduction.⁶⁰ North Dakota, also benefiting from energy resources, provided a 21 percent increase for the 2007–09 biennium; it planned for a 26 percent increase in 2009–11.⁶¹

Figure 3 depicts the two-year changes (FY 2007 to FY 2009) in appropriations to higher education for operating expenses for 37 states.⁶² Five states—New Jersey, Oregon, Hawaii, West Virginia, and Montana—added more than 20 percent to their state higher education

Figure 3. Percent Change in Appropriations of State Tax Funds for Operating Expenses of Higher Education, FY 2007 to FY 2009



Source: Grapevine, October 31, 2008 (<http://www.grapevine.ilstu.edu/statereports/FY09/index.htm>).

budgets.⁶³ Another dozen states—mostly in the West or Midwest regions—provided two-year gains in the 10 to 20 percent range. Seven states, including four in the lower Plains region, provided increases close to the eight percent rate of inflation over these years.⁶⁴

No reporting state cut appropriations over this two-year period, but eight states provided increases of less than five percent, well below the inflation rate. The increases in Kentucky, Tennessee, and Vermont were a meager three percent or below, and beleaguered Michigan could only muster a one percent gain.⁶⁵

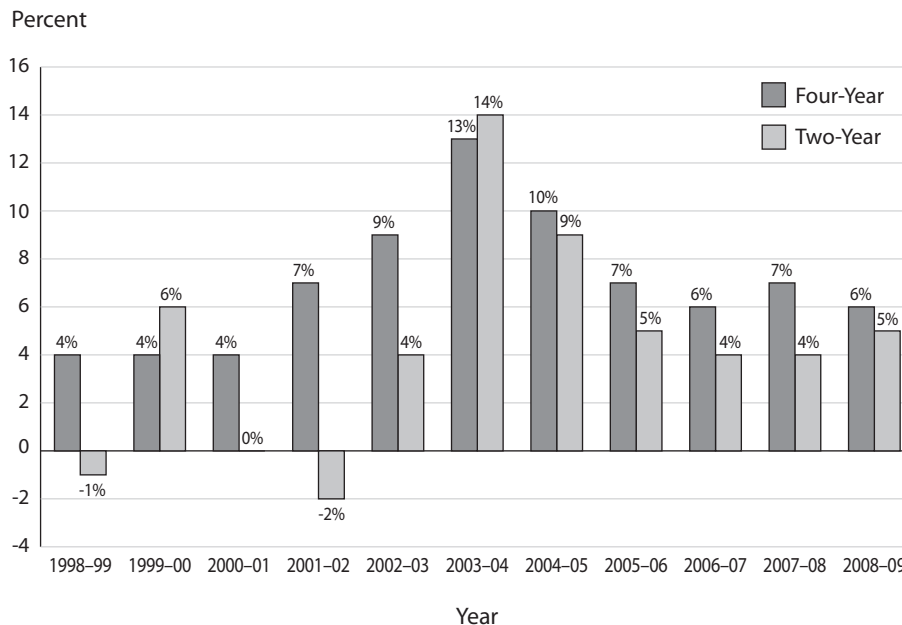
TUITION TRENDS

Figure 4 shows the average annual percentage changes in published tuition and fee charges for state residents attending public colleges for 11 years ending in 2008–09.⁶⁶ These charges climbed 6.4 percent and 4.7 percent, respectively, in 2008–09 for public four-year and two-year colleges.⁶⁷ These increases, while

substantial, are similar to those of the past several years. The bars representing the increases of the last recession aftermath years from 2002–03 to 2004–05 reach much higher and may provide an ominous clue as to what may come as states feel the impact of declining tax revenues and more demands for social, health, and criminal justice services.

Already, institutions in several states facing revenue shortfalls and resulting reductions in appropriations announced sizeable tuition hikes. The University of Alabama increased 2008–09 tuition by 14 percent. Other significant increases: ten percent at the University of California, nine percent at the University of Kentucky, and seven percent at the California State University system. The Board of Regents in Florida, a state with serious budget straits and a tradition of low tuition charges, announced an unusual six percent increase for all public universities for 2008–09.⁶⁸ State residents in each entering freshman class at the

Figure 4. Percent Change in Average Published Tuition and Fee Charges in Public Four-Year and Public Two-Year Institutions, 1998–99 to 2008–09 (Enrollment Weighted)



Source: The College Board, 2007a, 10; The College Board, 2008a, 2.

University System of Georgia and at the University of Illinois at Urbana-Champaign are guaranteed the same tuition rate for four years. But the increases for the entering classes this year are steep: ten percent more at Illinois and eight percent more at Georgia than the amount paid by last year's freshmen.⁶⁹

Several states, wishing to increase access and maintain affordability, worked hard to hold the line on, or even freeze, in-state tuition.⁷⁰ The 64-campus SUNY system planned to keep annual resident tuition at \$4,350, sustaining a freeze begun in 2003 after a big run up during the last economic downturn. But this plan may not survive midyear budget cuts. Maryland's university system held the line on tuition for the third consecutive year; a relatively small \$10 million retrenchment should enable the system to maintain the status quo.⁷¹ All public two-year and four-year institutions in Ohio froze tuition at last year's rates for residents; so did the 13-campus Texas Tech system. Efforts to moderate increases in other states suggest changed thinking about the importance of access to higher education, and perhaps the impact of federal pressure for affordability. But plummeting revenues made the ability of states to sustain freezes or to moderate increases problematic, though public and politician tolerance for sharp, sustained tuition increases seems lower than in the past. The ultimate outcome if the current downturn is extended is unclear.

STUDENT AID TRENDS

Student aid programs took on increasing importance, as tuition seemed poised to climb rapidly. The number of students filing the Free Application for Federal Student Aid (FAFSA) form increased by 16 percent between 2007–08 and 2008–09.⁷² There is mostly good news at the federal level. Congress increased the long stagnant maximum Pell Grant—the major federal grant program for needy students—from about \$4,300 to \$5,400 over five years.⁷³ The same legislation reduced interest rates on federal and

federally guaranteed loans, and increased the limits on the amounts students can borrow by \$2,000.⁷⁴ Congress substantially reduced the subsidies paid to lenders in the guaranteed loan program to help finance these changes. This action, along with the emergence of the credit crisis, drove many lenders from the field and forced the federal government and colleges to make hurried alternative provisions for student loans. Most students appeared to find needed loans, at least for fall 2008.⁷⁵

Total federal grant aid to students increased by 7.6 percent in 2007–08, after adjustment for inflation, the first real increase in several years.⁷⁶ Total federal loan aid increased by 6.4 percent after inflation; while total federal student aid, including Work-Study and tax benefits, grew by 6.7 percent. Institutional and private grant aid also increased in 2007–08. Private (unsubsidized) loans, which burgeoned for more than a decade, declined slightly in real terms.

States provided \$9.3 billion in student aid in 2006–07, including \$7.6 billion in grants.⁷⁷ Table 1 shows the nationwide trend in undergraduate grant aid—about 98 percent of the state grant total—over the last 11 years. The mostly impressive year-to-year gains declined only during the depths of the 2002–03 economic downturn.⁷⁸ The most recent reported year, 2006–07, a year when the economy still did well, showed an 8.1 percent increase. The 2007–08 year will also show a decent increase, since states typically allocate these funds well before they are spent. Most states will try to keep these funds growing for as long as they can, especially if tuition increases sharply, if the most recent recession is any indication.

Two concerns with these state aid programs go beyond the effects of recession *per se*. First, support for need-based programs has grown less rapidly than support for “merit” aid. Second, the aid is unevenly distributed across the states. Undergraduate grant dollars per full-time-equivalent student ranged from nearly \$1,800 in South Carolina, where most aid is *not* based on need, to just \$7 in Wyoming.

Table 1. Growth in State Undergraduate Grant Aid, Need-based and Non-need-based Grants, Current (2006–07) Dollars and Annual Percentage Change: 1996–97 through 2006–07 (in millions of dollars)

Year	Need-based Grants	Percent Change	Nonneed-based Grants	Percent Change	Total	Percent Change
1996–97	\$2,579.50	—	\$ 458.50	—	\$3,038.00	5.8%
1997–98	2,761.20	7.0	551.80	20.3	3,313.00	9.1
1998–99	2,945.70	6.7	668.00	21.1	3,613.70	9.1
1999–00	3,136.40	6.5	872.90	30.7	4,009.30	10.9
2000–01	3,515.70	12.1	1,089.70	24.8	4,605.40	14.9
2001–02	3,826.00	8.8	1,208.60	10.9	5,034.60	9.3
2002–03	3,966.90	3.7	1,202.80	-0.5	5,169.70	2.7
2003–04	4,257.40	7.3	1,462.50	21.6	5,719.90	10.6
2004–05	4,703.30	10.5	1,738.40	18.9	6,441.70	12.6
2005–06	4,926.60	4.7	1,896.50	9.1	6,823.10	5.9
2006–07	5,293.10	7.4	2,079.90	9.7	7,373.00	8.1

Source: Adapted from National Association of State Student and Grant Aid Programs, 2008, 3.

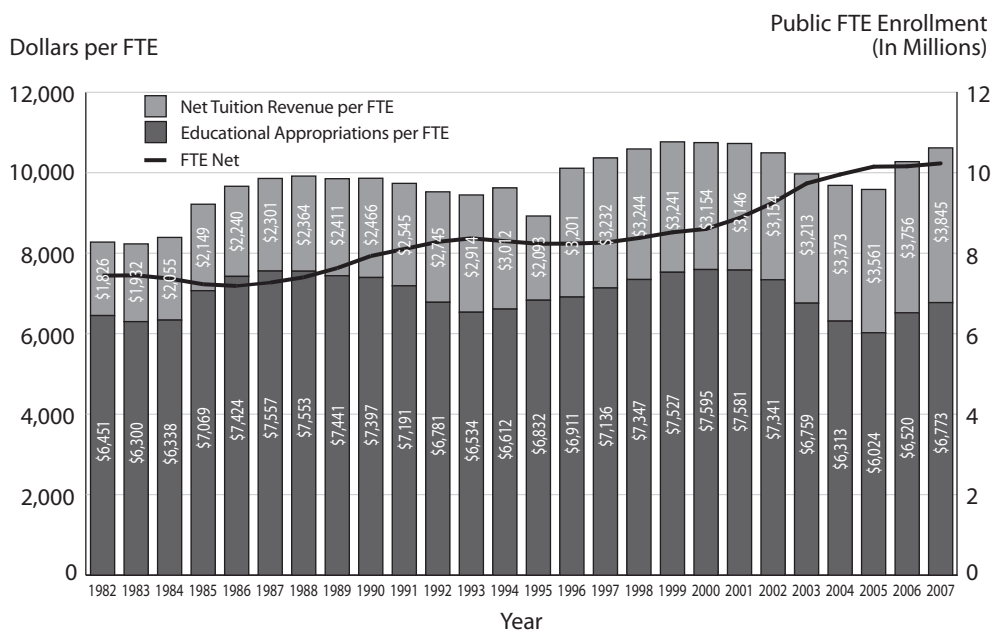
The national figure is \$613 in state grants per undergraduate FTE, but funding in 34 states is below this level; 19 states provide less than half of this amount.⁷⁹

CONCLUSION

The year 2008 ended ominously for higher education and for the country. A serious recession loomed even if credit begins to do its work in lubricating the wheels of the economy. Such downturns are not kind to higher education institutions or their students. During recessions, more students seek access to higher education to wait out, or burnish credentials for, a difficult job market. But declining state support reduces the ability of colleges to offer quality education. Institutions seek to offset budget cuts by raising tuition just when such increases place heavy financial burdens on students and their families.

Figure 5 depicts this unfortunate pattern over 25 years, including downturns occurring early in the 1980s, 1990s, and 2000s. The bottom bars represent total state operating appropriations per FTE student, adjusted for inflation. State support declined after each recession. Severe cuts in the early 2000s, combined with enrollment increases, reduced real FY 2005 state support per student to 6.6 percent *below* the FY 1982 level. Institutions increase tuition sharply to blunt the impact of the shortfall. Net per-student tuition revenue collected—net, that is, of state funded student aid—spiked during these periods (Figure 5, upper bars). But tuition showed little decline in real terms between recessions; it more than doubled over the 25 years while state support barely grew. Figure 5 also shows how recession-induced enrollment increases exacerbated the pressure on total support per student, a key determinant

Figure 5. Public FTE Enrollment, Educational Appropriations, and Total Educational Revenue per FTE, U.S., FY 1982 to FY 2007



Source: State Higher Education Executive Officers, State Higher Education Finance FY 2007 and FY 2008.

of educational quality and students' ability to complete degree programs.⁸⁰

Colleges and their students face a more severe downturn this time around. But the nation also faces an unprecedented economic and social need to educate its young people, many of whom will be from underserved groups. The nation's well-being depends on the ability of President Obama, the new Congress, and the states to solve this dilemma by breaking out of past budgetary and policy patterns.

NOTES

¹ Associated Press, 2008a. Consumer spending and manufacturing activity dropped sharply. Many economists expected a GDP decline in the one to two percent range (annual rate) during the last quarter of 2008.

² U.S. Department of Commerce, 2008.

³ "July Inflation..." 2008.

⁴ Evans et al, 2008, A2; Andrews and Bajaj, 2008.

⁵ Grynbaum, 2008.

⁶ Federal Reserve Bank of Philadelphia, 2008.

⁷ State Higher Education Executive Officers, 2008, 9.

⁸ The fiscal year ends on June 30 of the same calendar year in most states.

⁹ National Governors..., 2008, 23. This still relatively healthy aggregate figure masked problems in particular states: Arkansas, Maine, Rhode Island, Wisconsin, and Oregon estimated FY 2008 year-end balances of less than one percent, and 11 more states were under five percent (25).

¹⁰ Even so, the governors' budgets in 23 states projected a FY 2009 year-end balance below five percent (Ibid, 24).

¹¹ NGA, 2008, 4.

¹² Ibid, 21; Johnson and Nicholas, 2008.

¹³ The National Conference of State Legislatures (NCSL) estimated gaps between FY 2008 expenditures and sagging revenues to exist in 20 states and to total more than \$12.8 billion in June (NCSL, 2008, 6). The facts in this paragraph and the next came from NCSL, 2008, 9-10.

¹⁴ Even when recessions are relatively short, state budgets usually suffer for several more years (Boyd and Dadayan, 2008, 14) and state officials are well aware of this.

- ¹⁵ National Governors..., 2008, 21.
- ¹⁶ Boyd and Dadayan, 2008, 1.
- ¹⁷ Ibid., 2.
- ¹⁸ Ibid., 3.
- ¹⁹ Ibid., 20.
- ²⁰ Ibid., 18.
- ²¹ Ibid., 20.
- ²² Johnson and Nicholas, 2008.
- ²³ McNichol and Lav, 2008. The data in the following sentences in this paragraph came from this source as well.
- ²⁴ Lav, 2008.
- ²⁵ Blumenstyk and Field, 2008.
- ²⁶ Ibid. Wachovia Bank later failed.
- ²⁷ "Colleges With Investments..." 2008. A few colleges with substantial assets in Commonfund could face more serious consequences, including bond-rating downgrades.
- ²⁸ Fischer, 2008.
- ²⁹ College Board, 2008b, 6. These loans also decreased as a share of total student borrowing.
- ³⁰ Field, 2008.
- ³¹ Hebel, 2008a. This language is taken directly from the Higher Education Act.
- ³² Scheppach, 2008. Scheppach is executive director of the National Governors Association.
- ³³ The articles in this volume of *The Chronicle of Higher Education's* annual Almanac edition, dated August 29, 2008, are cited where appropriate in the following discussion.
- ³⁴ Western Interstate Commission..., 2008.
- ³⁵ Hebel, 2008b; Kelderman, 2008c; d.
- ³⁶ Norton, 2008; Schmidt, 2008.
- ³⁷ Keller, 2008b.
- ³⁸ Kelderman, 2008c; Norton, 2008; Schmidt, 2008.
- ³⁹ NGA-NASBO, 2008, reported that 13 states made mid-year cuts in FY 2008 appropriated budgets, up from just three in the previous year (vii) but the 2008 figure did not reflect all actions taken at the end of the fiscal year.
- ⁴⁰ Kelderman, 2008c, 36.
- ⁴¹ Kelderman, 2008d, 74.
- ⁴² Kelderman, 2008b.
- ⁴³ Norton, 2008, 62. The president of the College of Southern Nevada, a two-year college and the largest institution in this fast-growing state, lamented that the college would have to turn away up to 8,000 students in the next three years and shut down six learning centers.
- ⁴⁴ Keller, 2008b, 69.
- ⁴⁵ Hebel, 2008b, 54.
- ⁴⁶ Stripling, 2008.
- ⁴⁷ Ibid.
- ⁴⁸ Kelderman, 2008d, 74.
- ⁴⁹ Ibid.
- ⁵⁰ Kelderman, 2008a. The other data in this paragraph came from the same source.
- ⁵¹ Norton, 2008, 62. By mid-October though, this capital funding package was reportedly "stalled in the legislature" as state lottery proceeds declined (Kelderman, 2008a).
- ⁵² Moran, 2008.
- ⁵³ Schevitz, Sturrock, and Burress, 2008.
- ⁵⁴ Keller, 2008a.
- ⁵⁵ Kelderman, 2008c, 36.
- ⁵⁶ Boyd and Dadayan, 2008, 19. They cite a press release from the governor's office.
- ⁵⁷ Norton, 2008, 62.
- ⁵⁸ Ibid. The community colleges also received \$80 million in new capital funds.
- ⁵⁹ Ibid.
- ⁶⁰ Ibid.
- ⁶¹ Schmidt, 2008, 44.
- ⁶² The source is *Grapevine*, the only timely authoritative source for this type of data, based at the School of Education at Illinois State University. The data are for the states for which *Grapevine* possessed complete FY 2009 data at the end of October 2008. The data do not fully reflect the fast-moving pace of budgetary retrenchments described above.
- ⁶³ Of these, Oregon, Hawaii, and West Virginia made deep cuts in higher education during the previous recession.
- ⁶⁴ Associated Press, 2008b. Nevada, at the bottom of this category with a 5.7 percent two-year gain, cut spending per student, despite burgeoning enrollments.
- ⁶⁵ Complete data on FY 2009 appropriations were not yet available for many Southern states and for a few others.
- ⁶⁶ Data are from various editions of the College Board's annual publication, *Trends in College Pricing*.

- ⁶⁷ College Board, 2008a, 2.
- ⁶⁸ Grynberg, 2008.
- ⁶⁹ Ibid.
- ⁷⁰ The facts reported in this paragraph came from Ibid., except where noted otherwise.
- ⁷¹ Kelderman, 2008a.
- ⁷² Schevitz, 2008.
- ⁷³ The maximum Pell grant increased substantially in 2008–09, from \$4,310 to \$4,731.
- ⁷⁴ Field, 2008.
- ⁷⁵ Lederman, 2008.
- ⁷⁶ All the data cited in this paragraph are from College Board, 2008b, 6.
- ⁷⁷ National Association of State Student..., 2008, 2.
- ⁷⁸ These figures are not adjusted for inflation.
- ⁷⁹ National Association of State Student..., 23.
- ⁸⁰ On the latter point see Titus, 2006.

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