VERMONT STATE COLLEGES

# Public Higher Education Funding Across the United States

CASTLETON STATE COLLEGE

COMMUNITY COLLEGE OF VERMONT

JOHNSON STATE COLLEGE

LYNDON STATE COLLEGE

VERMONT TECHNICAL COLLEGE

# Table of Contents

#1

# State Higher Education Funding
## (Appropriations per $1,000 of disposable personal income)

## FY 81 – FY 01

| | FY 81 | FY 91 | FY 01 | 10 yr Change | 20 yr Change |
|---|---|---|---|---|---|
| National Average | $10.41 | $9.31 | $8.58 | -7.8% | -17.6% |
| Vermont | $7.76 | $6.35 | $4.84 | -23.8% 5th largest decline of 50 states | -37.6% largest decline of 50 states |
| Vermont Rank | 41st | 48th | 49th | | |
| Increase Needed to Reach National Average | 34.1% | 46.6% | 77.27% | | |

Rural States

| | | | |
|---|---|---|---|
| Kentucky | $11.51 | $12.11 | $11.89 |
| Maine | $7.41 | $9.07 | $8.19 |
| Mississippi | $16.30 | $12.96 | $16.59 |
| North Dakota | $16.32 | $14.67 | $12.93 |
| South Dakota | $10.07 | $8.76 | $7.66 |
| Wyoming | $14.63 | $17.13 | $13.42 |

#40 = Florida @ $7.35 / $1,000 in FY 01
Vermont needs a 51.86% increase to be #40

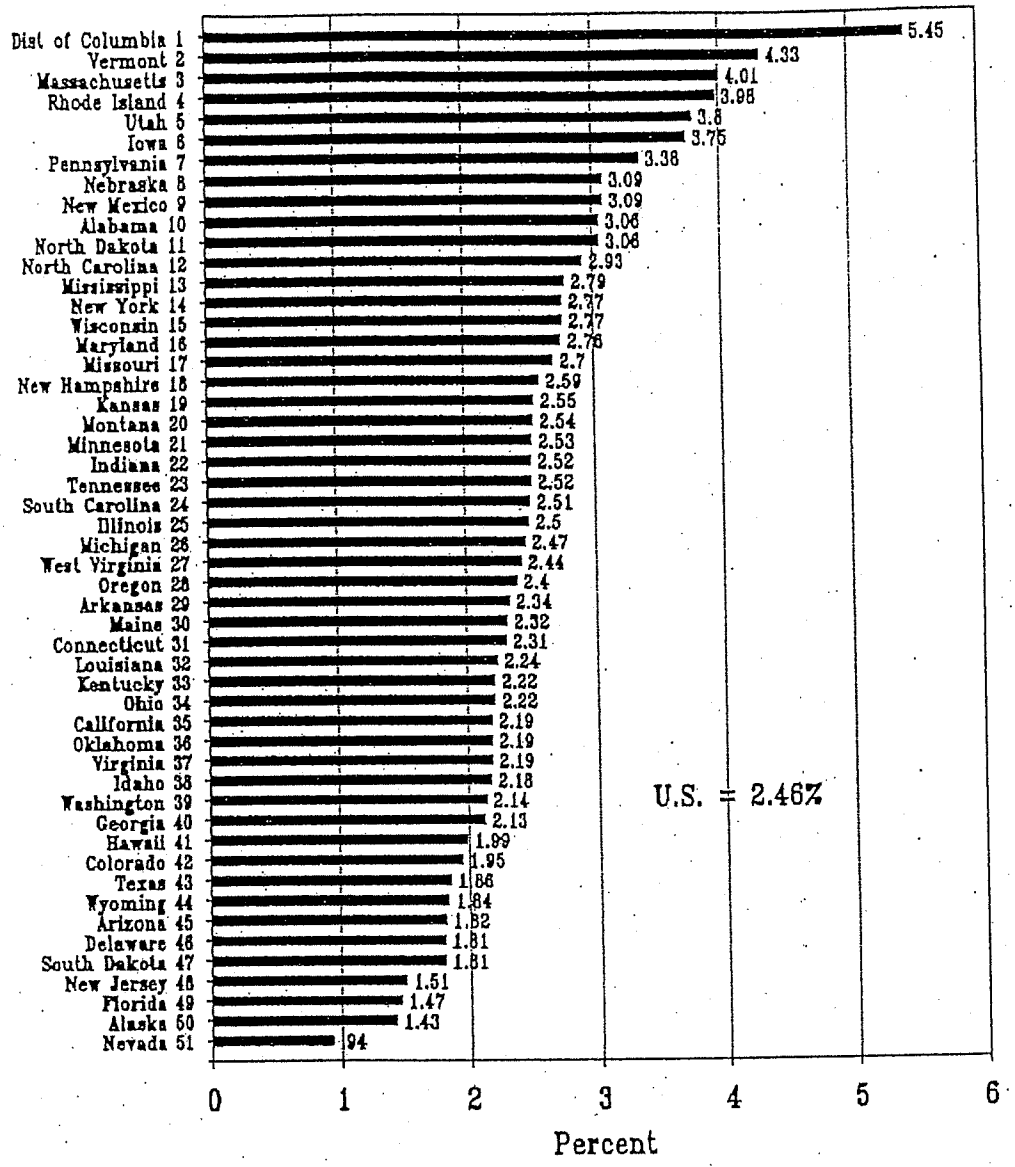
## Table 1. State Higher Education Appropriations Compared with Employment Cost Index* One-Year, Two-Year, and Ten-Year Change By Region

| | 1-Year Approps. Change (FY00 to FY01) | Over/Under ECI (=3.9%) | 2-Year Approps. Change (FY99 to FY01) | Over/Under ECI (=8.5%) | 10-Year Approps. Change (FY91 to FY01) | Over/Under ECI (=39.5%) |
|---|---|---|---|---|---|---|
| **New England** | | | | | | |
| Connecticut | 2.0% | -1.9 | 13.9% | 5.4 | 35.9% | -3.6 |
| Maine | 7.5% | 3.6 | 14.9% | 6.4 | 33.0% | -6.5 |
| Massachusetts | 10.1% | 6.2 | 17.4% | 8.9 | 64.2% | 24.7 |
| New Hampshire | 3.0% | -0.9 | 8.3% | -0.2 | 35.3% | -4.2 |
| Rhode Island | 7.1% | 3.2 | 13.8% | 5.3 | 40.7% | 1.2 |
| Vermont | 6.9% | 3.0 | 14.5% | 6.0 | 19.3% | -20.2 |
| **Mid-East** | | | | | | |
| Delaware | 5.8% | 1.9 | 13.2% | 4.7 | 58.3% | 18.8 |
| Maryland | 12.5% | 8.6 | 24.6% | 16.1 | 45.0% | 5.5 |
| New Jersey | 8.4% | 4.5 | 14.9% | 6.4 | 56.0% | 16.5 |
| New York | 7.6% | 3.7 | 11.2% | 2.7 | 8.5% | -31.0 |
| Pennsylvania | 6.8% | 2.9 | 13.1% | 4.6 | 43.7% | 4.2 |
| **Great Lakes** | | | | | | |
| Illinois | 4.9% | 1.0 | 11.9% | 3.4 | 55.5% | 16.0 |
| Indiana | 4.6% | 0.7 | 11.8% | 3.3 | 46.3% | 6.8 |
| Michigan | 7.0% | 3.1 | 18.5% | 10.0 | 64.4% | 24.9 |
| Ohio | 7.0% | 3.1 | 14.1% | 5.6 | 49.8% | 10.3 |
| Wisconsin | 8.9% | 5.0 | 12.5% | 4.0 | 38.7% | -0.8 |
| **Plains** | | | | | | |
| Iowa | 3.3% | -0.6 | 8.4% | -0.1 | 46.8% | 7.3 |
| Kansas | 4.7% | 0.8 | 12.5% | 4.0 | 50.7% | 11.2 |
| Minnesota | 4.9% | 1.0 | 8.9% | 0.4 | 33.9% | -5.6 |
| Missouri | 5.1% | 1.2 | 11.7% | 3.2 | 70.6% | 31.1 |
| Nebraska | 10.7% | 6.8 | 19.5% | 11.0 | 59.8% | 20.3 |
| ·rth Dakota | 0.6% | -3.3 | 6.7% | -1.8 | 37.9% | -1.6 |
| ıth Dakota | 3.4% | -0.5 | 7.1% | -1.4 | 48.8% | 9.3 |
| **Southeast** | | | | | | |
| Alabama | 5.3% | 1.4 | 11.7% | 3.2 | 42.1% | 2.6 |
| Arkansas | 2.1% | -1.8 | 11.0% | 2.5 | 87.9% | 48.4 |
| Florida | 7.2% | 3.3 | 13.1% | 4.6 | 82.8% | 43.3 |
| Georgia | 3.0% | -0.9 | 7.9% | -0.6 | 66.5% | 27.0 |
| Kentucky | 8.2% | 4.3 | 12.7% | 4.2 | 64.4% | 24.9 |
| Louisiana | -0.3% | -4.2 | 2.4% | -6.1 | 50.3% | 10.8 |
| Mississippi | 0.5% | -3.4 | 17.4% | 8.9 | 121.3% | 81.8 |
| North Carolina | 5.6% | 1.7 | 11.6% | 3.1 | 61.6% | 22.1 |
| South Carolina | 8.3% | 4.4 | 13.2% | 4.7 | 37.9% | -1.6 |
| Tennessee | 5.5% | 1.6 | 8.5% | 0.0 | 46.0% | 6.5 |
| Virginia | 10.0% | 6.1 | 25.4% | 16.9 | 52.5% | 13.0 |
| West Virginia | 6.8% | 2.9 | 6.9% | -1.6 | 40.5% | 1.0 |
| **Southwest** | | | | | | |
| Arizona | 3.1% | -0.8 | 6.7% | -1.8 | 49.2% | 9.7 |
| New Mexico | 4.4% | 0.5 | 9.9% | 1.4 | 69.4% | 29.9 |
| Oklahoma | 5.3% | 1.4 | 7.5% | -1.0 | 56.1% | 16.6 |
| Texas | -1.0% | -4.9 | 14.2% | 5.7 | 56.2% | 16.7 |
| **Rocky Mountain** | | | | | | |
| Colorado | 3.4% | -0.5 | 9.0% | 0.5 | 46.1% | 6.6 |
| Idaho | 6.8% | 2.9 | 11.9% | 3.4 | 62.1% | 22.6 |
| Montana | 2.3% | -1.6 | 9.1% | 0.6 | 21.5% | -18.0 |
| Utah | 6.4% | 2.5 | 11.1% | 2.6 | 78.1% | 38.6 |
| Wyoming | 9.9% | 6.0 | 9.9% | 1.4 | 23.0% | -16.5 |
| **Far West** | | | | | | |
| Alaska | 8.0% | 4.1 | 11.8% | 3.3 | 1.4% | -38.1 |
| California | 17.0% | 13.1 | 24.4% | 15.9 | 64.0% | 24.5 |
| Hawaii | -0.9% | -4.8 | 5.2% | -3.3 | 16.5% | -23.0 |
| Nevada | 3.5% | -0.4 | 9.0% | 0.5 | 93.9% | 54.4 |
| Oregon | 1.3% | -2.6 | 19.9% | 11.4 | 58.8% | 19.3 |
| Washington | 7.8% | 3.9 | 16.4% | 7.9 | 46.9% | 7.4 |
| **.** | **7.0%** | **3.1** | **14.5%** | **5.6** | **52.0%** | **12.5** |

Sources: *Grapevine* (Illinois State University); U.S. Department of Labor (Bureau of Labor Statistics), *ECI Historical Listing*
*The Employment Cost Index is an inflation measure for the cost of wages, salaries and employee benefits.

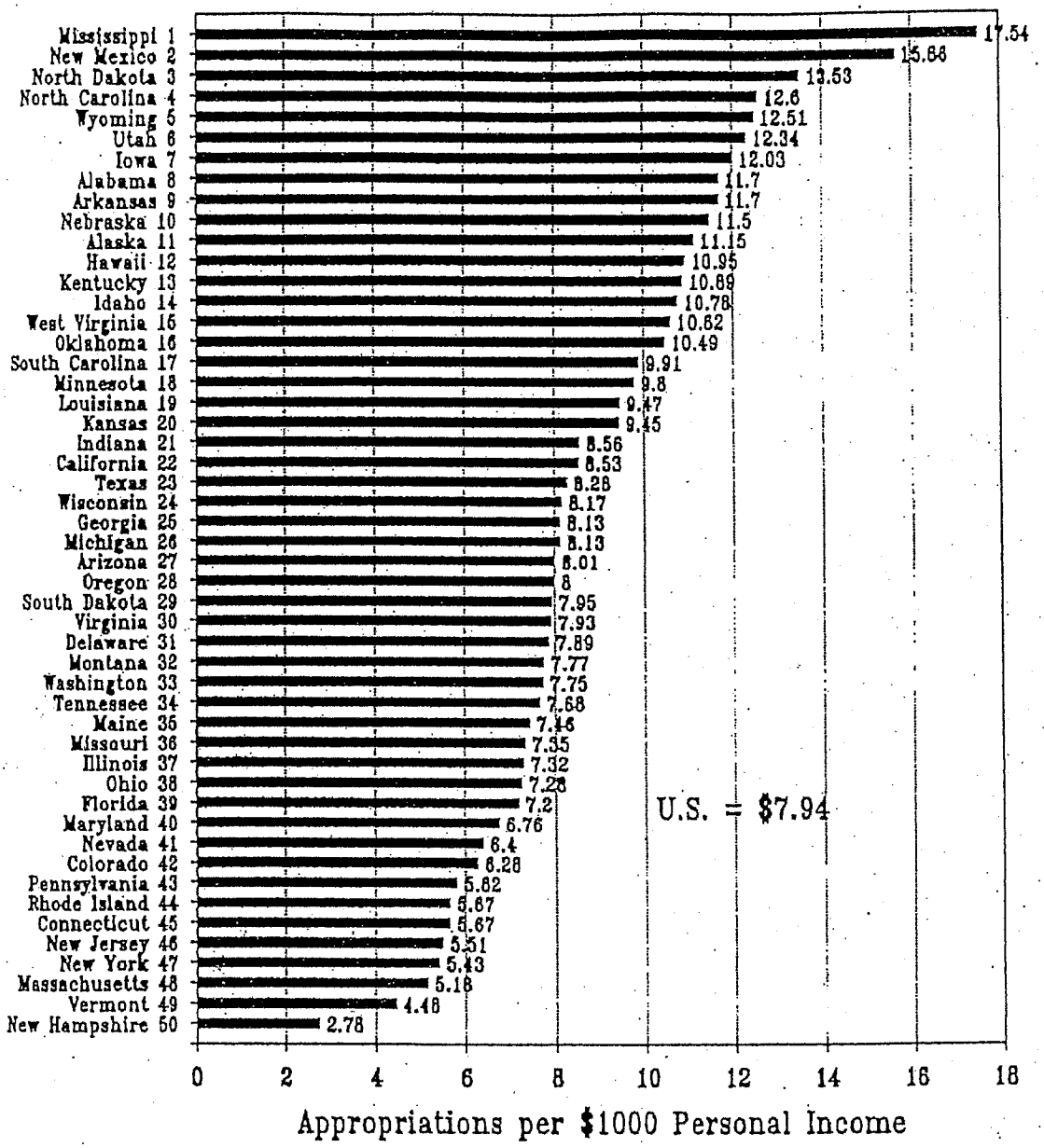
#2

# Higher Education Expenditure Share of Gross State Product
## 1996



#3

# Appropriations of State Tax Funds for Operating Expenses of Higher Education per $1000 of Personal Income FY2000




Postsecondary Education OPPORTUNITY
Number 90 – December 1999

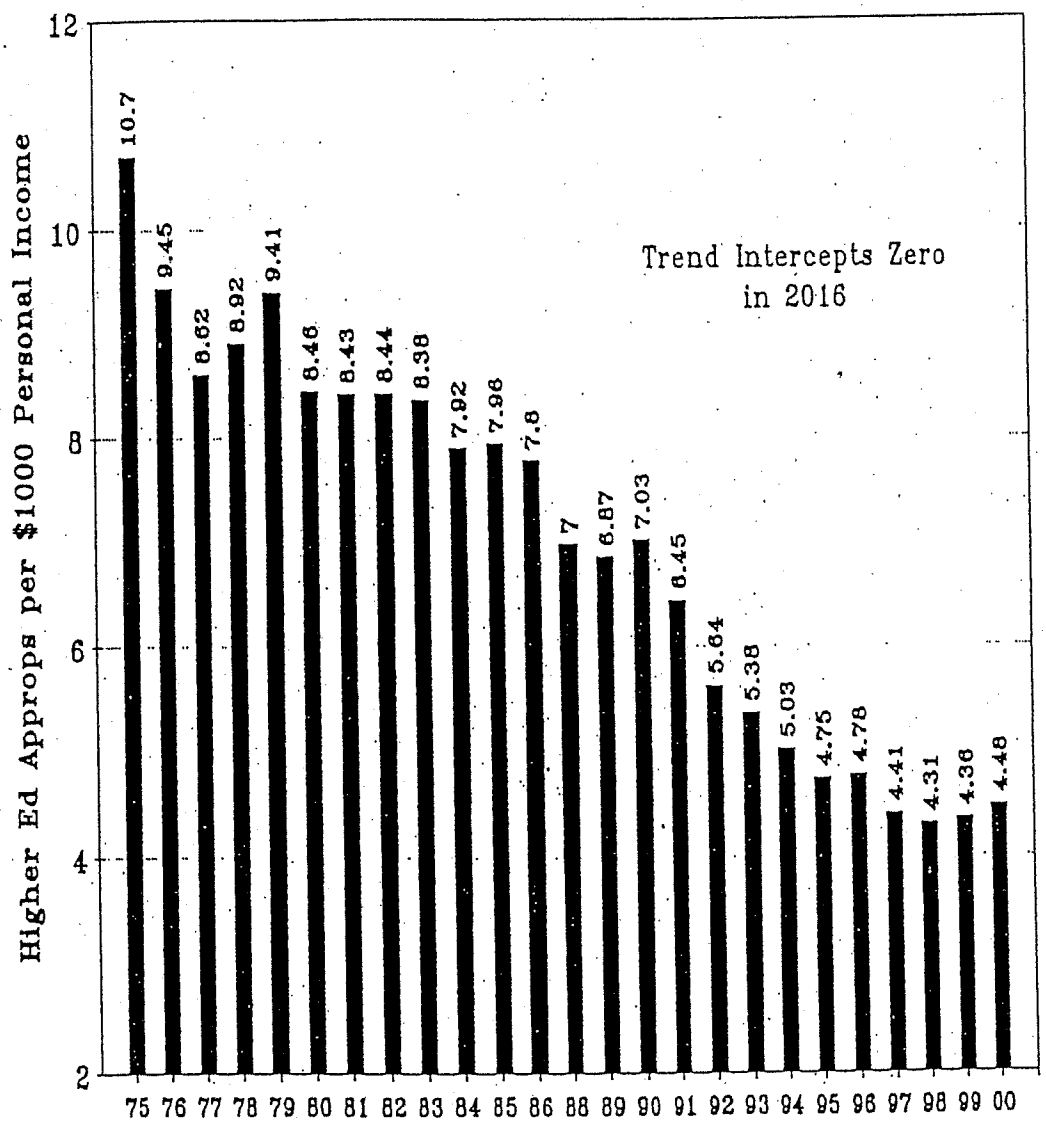
## Table 2. State Higher Education Funding Effort (appropriations per $1,000 of disposable personal income), FY81-FY01

| | FY81 | FY91 | FY01 | 10-Year Change | 20-Year Change |
|---|---|---|---|---|---|
| Alabama | $15.67 | $14.29 | $12.72 | -11.0% | -18.8% |
| Alaska | $15.86 | $17.04 | $11.62 | -31.8% | -26.7% |
| Arizona | $12.06 | $10.67 | $7.93 | -25.7% | -34.2% |
| Arkansas | $12.16 | $10.76 | $11.87 | 10.3% | -2.4% |
| California | $12.64 | $9.65 | $9.93 | 2.9% | -21.4% |
| Colorado | $9.71 | $8.93 | $6.27 | -29.8% | -35.4% |
| Connecticut | $7.55 | $6.83 | $6.41 | -6.1% | -15.1% |
| Delaware | $11.94 | $9.43 | $9.02 | -4.3% | -24.5% |
| Florida | $8.09 | $6.71 | $7.35 | 9.5% | -9.1% |
| Georgia | $10.58 | $9.51 | $8.24 | -13.4% | -22.1% |
| Hawaii | $13.91 | $13.46 | $11.39 | -15.4% | -18.1% |
| Idaho | $12.77 | $12.92 | $11.03 | -14.6% | -13.6% |
| Illinois | $8.86 | $8.40 | $8.00 | -4.8% | -9.7% |
| Indiana | $10.15 | $10.25 | $9.20 | -10.2% | -9.4% |
| Iowa | $13.63 | $13.64 | $12.56 | -7.9% | -7.9% |
| Kansas | $12.65 | $11.36 | $10.63 | -6.4% | -16.0% |
| Kentucky | $11.55 | $12.11 | $11.89 | -1.8% | 2.9% |
| Louisiana | $12.23 | $10.15 | $9.60 | -5.4% | -21.5% |
| Maine | $7.41 | $9.07 | $8.19 | -9.7% | 10.5% |
| Maryland | $9.13 | $8.56 | $7.88 | -7.9% | -13.7% |
| Massachusetts | $6.15 | $5.82 | $5.82 | 0.0% | -5.4% |
| Michigan | $9.79 | $8.79 | $8.97 | 2.0% | -8.4% |
| Minnesota | $13.20 | $13.25 | $10.21 | -22.9% | -22.7% |
| Mississippi | $16.30 | $12.96 | $16.59 | 28.0% | 1.8% |
| Missouri | $8.76 | $7.52 | $7.81 | 3.9% | -10.8% |
| Montana | $10.53 | $10.58 | $7.98 | -24.6% | -24.2% |
| Nebraska | $13.05 | $12.96 | $12.88 | -0.6% | -1.3% |
| Nevada | $7.41 | $7.40 | $6.07 | -18.0% | -18.1% |
| New Hampshire | $4.07 | $3.56 | $2.78 | -21.9% | -31.7% |
| New Jersey | $5.81 | $6.42 | $6.50 | 1.2% | 11.9% |
| New Mexico | $14.55 | $16.48 | $16.04 | -2.7% | 10.2% |
| New York | $9.87 | $8.88 | $6.43 | -27.6% | -34.9% |
| North Carolina | $15.54 | $14.61 | $12.83 | -12.2% | -17.4% |
| North Dakota | $16.32 | $14.67 | $12.93 | -11.9% | -20.8% |
| Ohio | $7.58 | $8.25 | $8.09 | -1.9% | 6.7% |
| Oklahoma | $10.71 | $11.13 | $11.05 | -0.7% | 3.2% |
| Oregon | $10.79 | $9.18 | $8.19 | -10.8% | -24.1% |
| Pennsylvania | $7.09 | $6.73 | $6.50 | -3.4% | -8.3% |
| Rhode Island | $9.69 | $6.47 | $6.10 | -5.7% | -37.0% |
| South Carolina | $15.98 | $12.85 | $10.42 | -18.9% | -34.8% |
| South Dakota | $10.07 | $8.76 | $7.66 | -12.6% | -23.9% |
| Tennessee | $9.87 | $9.58 | $7.89 | -17.6% | -20.1% |
| Utah | $14.53 | $13.35 | $11.75 | -12.0% | -19.1% |
| Vermont | $7.76 | $6.35 | $4.84 | -23.8% | -37.6% |
| Virginia | $10.81 | $9.61 | $8.83 | -8.1% | -18.3% |
| Washington | $11.80 | $10.43 | $8.43 | -19.2% | -28.6% |
| West Virginia | $12.15 | $11.83 | $11.13 | -5.9% | -8.4% |
| Wisconsin | $12.31 | $10.88 | $9.17 | -15.7% | -25.5% |
| Wyoming | $14.63 | $17.13 | $13.42 | -21.7% | -8.3% |
| U.S. | $10.41 | $9.31 | $8.58 | -7.8% | -17.6% |

Sources: *Grapevine* (Illinois State University); U.S. Department of Commerce (Bureau of Economic Analysis), *Annual State Personal Income* (SA51-52), April 2001

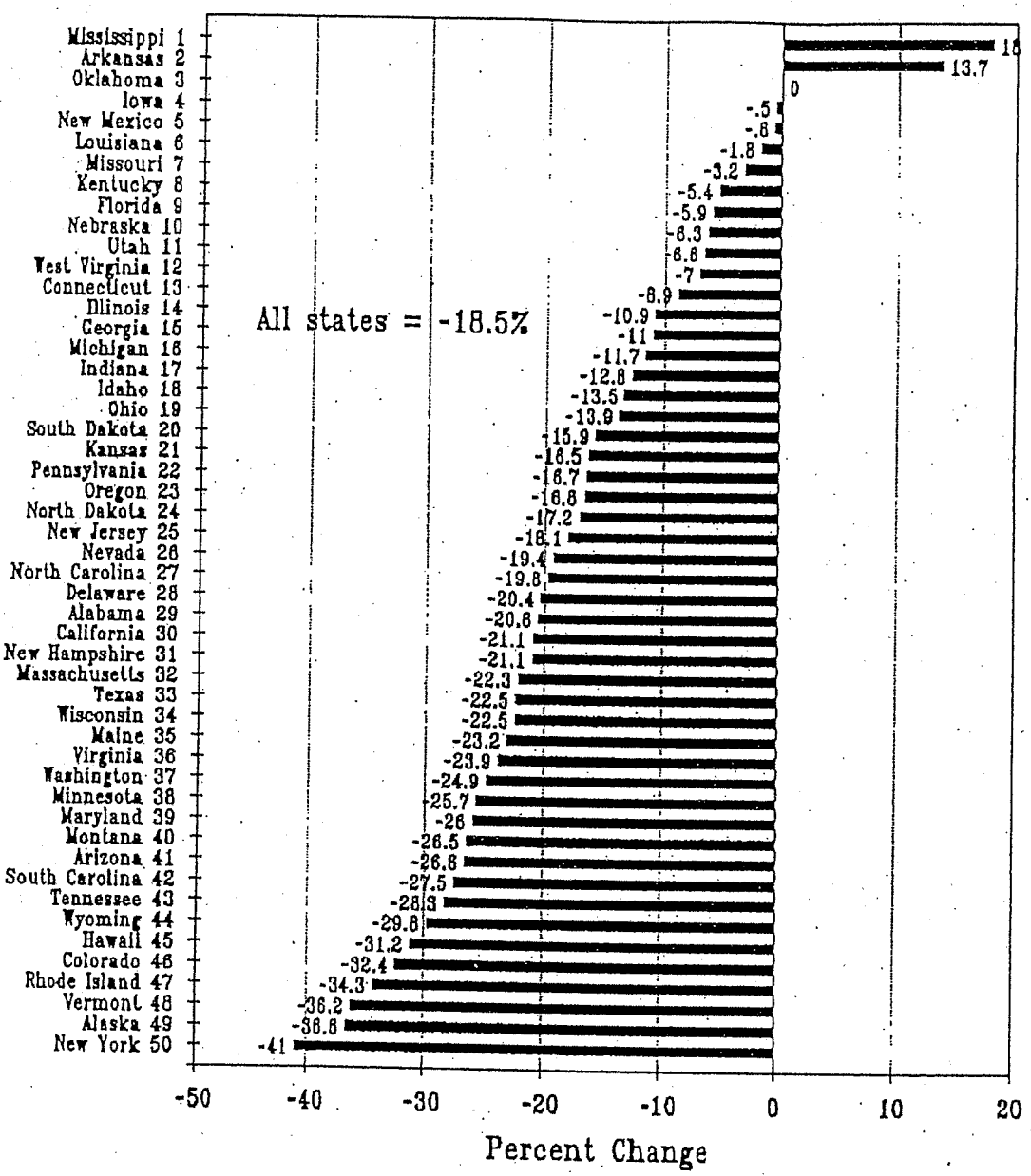
#4

# Vermont Appropriations of State Tax Funds for Higher Education per $1000 of Personal Income FY1975 to FY2000



#5

# Change in Appropriations of State Tax Funds for Operating Expenses of Higher Education per $1000 of Personal Income FY1990 to FY2000



Perspectives
American Association of State Colleges and Universities • June 2001

# Financing State Colleges and Universities: What Is Happening to the "Public" in Public Higher Education?

## Overview

From time to time, policymakers and analysts are reminded that paradox and unintended consequences are integral parts of the nation's policy landscape. A prominent and timely example of this presents itself in the realm of elementary and secondary education, where policies designed to alleviate teacher shortages (e.g. alternative/emergency certification) are in many cases further compromising the quality of classroom instruction. As a result of this unintended consequence, the paradox emerges that one of the most educated nations in the world is weakening its own educational infrastructure.

> "It is impossible, I believe, to invest too much in education. . . . The idea that we can balance a budget by taking money away from higher education every time there is an economic slowdown is something that I believe ought to be discarded. . . . We simply can no longer make decisions on the basis of an outmoded notion that we can afford to cut back on postsecondary education when times are hard, believing that higher education funding is nonessential and discretionary. Education is not a faucet that you can turn on and turn off and expect to have real quality in either the education system or the citizens themselves. . . . If you cut education every time the budget gets tight, you're not going to have future prosperity, either individually or collectively."
>
> Parris Glendening, Governor of Maryland and Chairman of the National Governors Association

These phenomena are at work in the world of public higher education, and in a similarly troubling fashion. At the very time that postsecondary education in the United States is reaching all-time highs in significance as an economic and social good, the public higher education enterprise is gradually being privatized. In recent years, a combination of economic, political, and philosophical currents have contributed to a shift away from public funding of colleges and universities (i.e. federal and state appropriations) and toward private funding of these institutions (i.e. student tuition revenues, external fundraising, and entrepreneurial activities). This shift is not without consequence, as the financing of any public enterprise, including higher education, is as much about societal values as it is about dollars and cents. Such a shift also poses a number of difficult policy questions, all of which revolve around the central question—how "public" should public colleges and universities be in the 21st Century?

This paper aims to: (a) examine how the financing of public four-year institutions has changed from the late 1980s to the present, with a special emphasis on public comprehensive institutions; (b) analyze these changes and discuss their potential ramifications for different stakeholders; and (c) look ahead to the future of public higher education finance and assess proposals to significantly change the current prevailing financing structure.

## The Paradox: Rising Public Expectations, Shrinking Public Support

Over the course of our nation's history, the view of higher education as a central part of our economic and social fabric has enjoyed broad acceptance. The articulation of this view dates back to Thomas Jefferson, who wrote:

> "I think by far the most important bill in our whole code is that for the diffusion of knowledge among the people. No other sure foundation can be devised for the preservation of freedom and happiness."[m]

More than two hundred years later, the United States is a vastly different place than when Jefferson championed the concept of the public university. The centrality of the university in our nation's social and economic fabric, however, has remained unchanged. In fact, our increasing dependence on knowledge and information has only increased the stock of colleges and universities as the generators and purveyors of that knowledge and information. This sentiment is aptly articulated by noted higher education observer Robert Zemsky, who states that:

> "In fact, higher education has never been more important to society—as an enabler of individuals, an engine of economic transformation, and a source of community cohesion and national awareness."[1]

Others, such as Patrick Callan, expand on that reasoning, asserting that a college education is quickly becoming the *sine qua non* of full participation in the economic and civic life of the nation.[3] The intuitive logic of this line of argument is buttressed by the following considerations:

Virtually all of the academics, campus administrators, and government and business leaders responding to a 1998 query by Public Agenda agreed with the statement that "A strong higher education system is key to the continued economic growth and progress of the U.S."[4]

A majority of the 10 occupations expected to post the fastest growth from 1998 to 2008 require an associate's degree or higher (including the four fastest-growing). Over this period, the number of jobs requiring an associate's degree or higher is projected to increase 23 percent, compared with a projected increase of just 13 percent for jobs requiring less than a college degree.[5]

Economists such as Caroline Hoxby of Harvard University argue that several factors underscore higher education's role as an economic growth engine for the nation, including: (a) the high correlation between educational attainment and economic growth in the United States; (b) the fact that the United States has a comparative advantage in producing goods and services with high skill content; and (c) the extent to which growth of the technology-related sectors of the economy depends on an ample supply of educated labor.[6]

Nearly two-thirds of the parents of high-school students surveyed in 1999 by Public Agenda agreed with the statement that a college education is "absolutely necessary" for their child/children. For parents from racial and ethnic minority groups, the percentages were even higher.[7] [See Figure 1]

Recent federal analyses indicate that college graduates are more than twice as likely to engage in volunteer work and political activity than high school dropouts, and are less than half as likely to participate in public assistance programs.[8]

By this accounting, there appears to be a simple and straightforward case for maintaining and even increasing public investment in the nation's higher education system. The promise of social advancement and economic development suggested above, combined with a widespread public affirmation of the necessity of a postsecondary credential, promotes a view of higher education as a strategic investment, on par with fiscal commitments to public safety, health care, and national defense. Following this line of reasoning might also lead those unfamiliar with contemporary higher education finance to assume that the nation is in the midst of a "golden age" for public colleges and universities.

The reality is substantially different. The past two decades have been among the most turbulent in history for the financing of public higher education in the United States. The story, in its most basic form, is this: states have provided significant increases for higher education in recent years, but higher education spending as a percentage of total state (general fund) spending has fallen considerably. The share of institutional revenue represented by state appropriations has declined significantly as well. In other words, the total funding "pie" for states and for institutions has gotten bigger, but higher education's piece of the state funding pie has not concomitantly

aascu

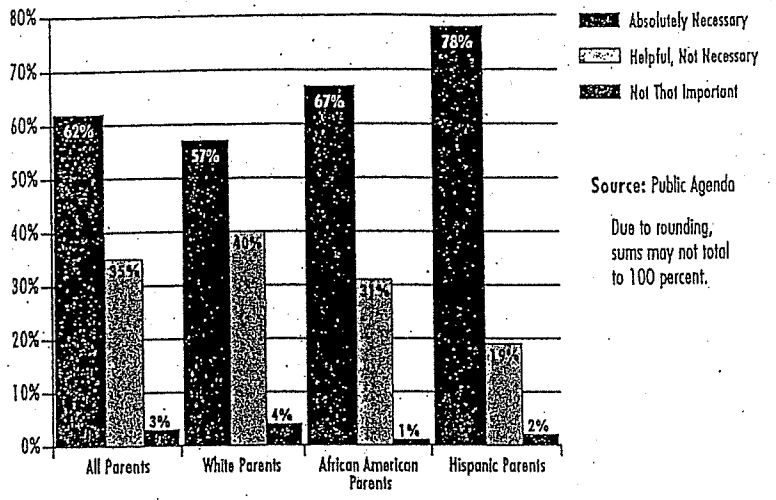
*Perspectives* is published periodically as an information resource for AASCU members.

Authors: Travis Reindl
Director of State Policy Analysis and Dana Brower, Policy Intern

American Association of State Colleges and Universities
1307 New York Avenue, NW • Fifth Floor
Washington, DC 20005-4701
Phone: 202.293.7070
Fax: 202.296.5819
www.aascu.org

**Figure 1**

Perceived Necessity of College Education, High School Parents, 1999




grown, nor has the state's share of the higher education funding pie.

In real dollar terms, appropriations of state tax funds for operating expenses of higher education grew from $39.8 billion to $60.6 billion from FY91 to FY01, an increase of 52.3 percent.[9]

Despite rebounding slightly in the late 1990s, appropriations of state tax funds for operating expenses of higher education per $1,000 of personal income dropped from $9.74 to $7.94 from FY90 to FY2000, a decline of 18.5 percent.[10]

Higher education's share of state and local government expenditures also dropped—although not in a straight-line pattern—during the 1990s, decreasing from 7.49 percent in 1990 to 6.28 percent in 1998, after peaking at 8.25 percent in 1992.[11]

Due to these trends, state appropriations have constituted a shrinking portion of total higher education revenues.

In 1988–89, state appropriations represented 39.9 percent of current fund revenues at public four-year colleges and universities.* By 1998–99, they represented only 31.5 percent of such revenues.[12] [See Figure 2]

The decline in state support was even more pronounced at public master's/comprehensive institutions, which have relied more heavily on state appropriations as a revenue source than their four-year public peers.

In 1988–89, state appropriations at member institutions of the American Association of State Colleges and Universities (AASCU)** constituted 50.6 percent of current fund revenues. By 1998–99, the proportion of current revenues constituted by state appropriations had shrunk to 40.9 percent.[13]

In the face of shrinking government revenues and rising costs, the private sector has picked up the funding "slack" for public higher education. Students and their families have shouldered the largest portion of this shift, through increased tuition and fees.

Between 1988–89 and 1998–99, the percentage of current revenues constituted by tuition and fees increased from 14.7 percent to 18.4 percent at public four-year colleges and universities. At AASCU institutions, tuition and fee revenues increased from 19.5 percent to 25.7 percent of current fund revenues during the same period, and at non-AASCU public institutions, they grew from 12.7 to 15.2 percent of current fund revenues. [See Figure 2]

Between 1988-89 and 1998-99, the current fund revenues generated by tuition and fees at public four-year institutions increased 107.4 percent. Revenues from state and federal appropriations increased 30.9 and 1.5 percent, respectively, during the same period.[14]

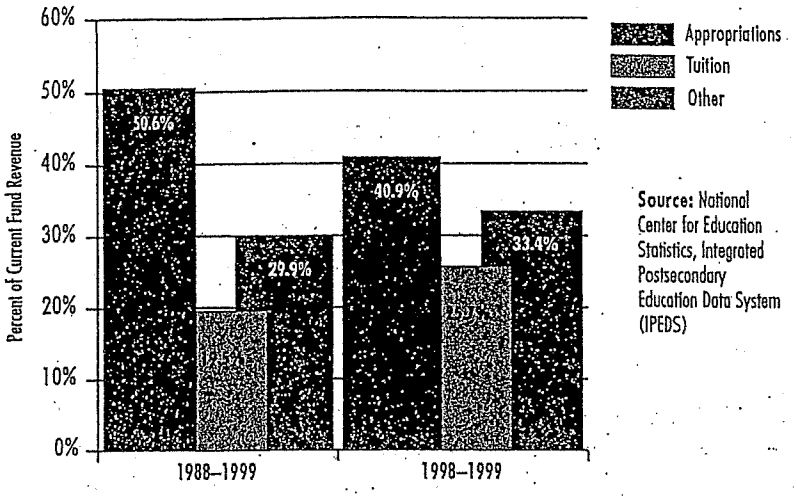
In addition to students and families, other private sector sources have begun funding larger shares of the cost of public higher education. Apart from state and local grants and contracts, revenues from university endowments and private gifts and contracts showed the largest rates of increase between 1988–89 and 1998–99—even larger than that of tuition and fees.

*To control for data aberrations, mean totals are used for this and all data generated through the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS).

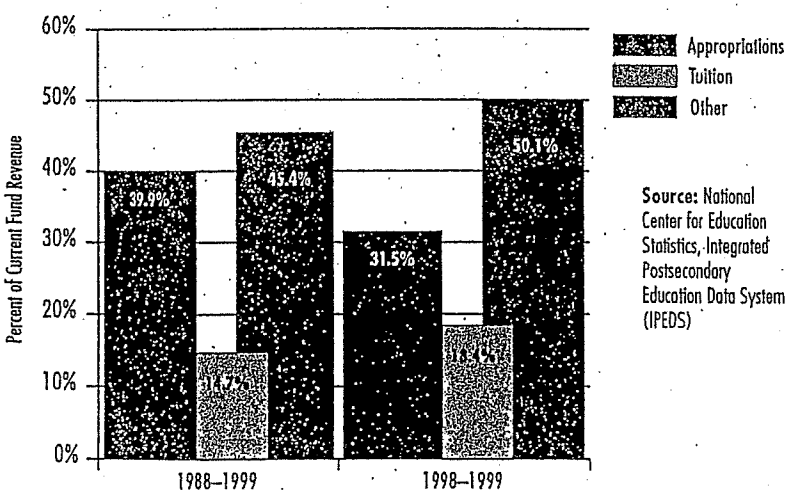
**AASCU member institutions are used here as a proxy for non-flagship public four-year institutions (primarily Master's/Comprehensive I and II and Doctoral II institutions, according to the Carnegie Foundation's *Classification of Institutions of Higher Education*).

**Figure 2**

Sources of Current Fund Revenue, AASCU Institutions, 1988–89 and 1998–99




Sources of Current Fund Revenue, All Public Four-Year Institutions, 1988–89 and 1998–99




During this period, mean endowment income at 4-year public colleges and universities increased 133.3 percent, while revenues from private gifts and contracts increased 110.9 percent.[15]

Given the unprecedented economic growth that dominated the last half of the 1990s and the arguments for increased public investment in higher education, why are public colleges and universities on a path of increasing privatization? During the period summarized above, a number of discrete developments converged, resulting in the unintended consequence of reduced fiscal priority for higher education. These developments include:

- **Increasing demand for public higher education.** As noted above, an increasing economic reliance on knowledge and information has prompted a significant rise in the demand for higher education. For more than two decades, enrollment at public four-year colleges and universities has gradually risen, and projections for the coming decade show the total climbing further.[16] Recent growth, however, has been uneven. In areas of the West and Southwest, for example, demand is outstripping institutional capacity. Nearly all of the recent growth has been among historically underserved and underrepresented populations (racial/ethnic minorities, first-generation college students), which bring a number of different academic and co-curricular needs to the campus. The combination of these elements poses an array of daunting challenges—fiscal and programmatic—to many institutions.

- **State fiscal pressures/competition for resources.** At the same time that demand for public higher education was on the rise, states were plagued with recession-induced budget shortfalls and rapidly growing demands from other services, particularly Medicaid and elementary/secondary education. Medicaid surpassed higher education as the second-largest claimant on state general fund spending in Fiscal Year 1993, a change that has not been reversed.[17] [See Figure 3] This situation owes to higher education's status as the largest single discretionary item in states' budgets. Because of this fact and higher education's ability to tap alternative revenue sources (such as student tuition), policymakers have tended to lavish spending on higher education in strong economic times and cut disproportionately in leaner times. This dynamic

#7

*easuring Up 2000: State Profiles*

# VERMONT

## AFFORDABILITY D-

| FAMILY ABILITY TO PAY (50%)<br><br>Percent of income needed to pay for college expenses minus financial aid: | Vermont | Top States |
|---|---|---|
| at community colleges | 26% | 17% |
| at public 4-year colleges/universities | 39% | 19% |
| at private 4-year colleges/universities | 73% | 30% |
| STRATEGIES FOR AFFORDABILITY (40%)<br><br>State grant aid targeted to low-income families as a percent of federal Pell Grant aid to low-income families | 83% | 106% |
| Share of income that poorest families need to pay for tuition at lowest priced colleges | 24% | 9% |
| RELIANCE ON LOANS (10%)<br><br>Average loan amount that students borrow each year | $4,172 | $3,094 |

*Note: In the Affordability category, the lower the figures, the better the performance for all indicators except for "State grant aid targeted to low-income families as a percent of federal Pell Grant aid."*