AFTER THE GREAT RECESSION: HIGHER EDUCATION’S NEW NORMAL


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EXECUTIVE SUMMARY

This report draws upon National Surveys of Access and Finance Issues for the five years following the end of federal stimulus funding during the Great Recession. What has happened to public education and why? We find the following:

The economic recovery following the Great Recession continues: In 2015 legislative sessions, respondents from just ten states report “Recession, producing a decline in state revenues” as a top budget driver, the lowest rating since 2006. As in 2014, during 2015 state legislative sessions, Elementary and Secondary Education and Medicaid were the top two budget drivers. Respondents from just six states report mid-year cuts at their public community colleges and regional and flagship universities.

But competition continues to be fierce: Public higher education competes with transportation/highways, unfunded pensions, corrections, tax cuts, and health care costs associated with the Affordable Care Act for new revenues. Given the need to fund K-12 teacher and state employee salary increases and long-delayed infrastructure, public higher education faces fierce competition for state tax revenues in 2016.

The recovery of operating budgets is slow: State appropriations for elementary and secondary education, community colleges, regional universities, and flagship universities for FY2015-16 are predicted to increase by 3%, 3%, 2%, and 2.5%, respectively. But state appropriations fail to cover the predicted 2.1% Higher Education Price Index (HEPI) 2015 inflation rate for community colleges in 18 states, regional universities in 17, and flagship universities in 16 states.

Since the Great Recession, most states have not appropriated at inflation levels. In the five years since federal stimulus funds ended in 2011, just two states appropriated operating funds for public higher education at or above the rate of inflation.

Tuition hikes continue due to state disinvestment: States that choose to appropriate operating budgets below the inflation rate force their institutions to raise tuition. In FY2015-16, tuition will rise at community colleges, regional universities, and flagships by 3%, 4%, and 3.5%, respectively. Tuition is predicted to rise above the 2.1% HEPI for community college students in 25 states, regional university students in 28 states, and flagship university students in 26 states.

State student aid is not keeping up: In 2015, as in the preceding four years, two out of three states report increasing state student aid below the HEPI inflation rate.

Policy alignment exists in just two states: “High tuition/high aid” requires policy alignment, but operating budgets, state student aid, and tuition policies are unaligned in six of every seven states in 2015, and in every year since 2011.

Access threats exist in 16 states: Respondents report access threats (enrollment caps, turning away students, insufficient capacity, etc.) for each of the three public higher education sectors. These 16 states enrolled 41% of all students nationwide in Fall 2013.

Rural community colleges face the greatest fiscal strain. Over half of respondents predict their urban and nearly half predict their suburban community colleges will face great fiscal strain, but nearly all report their rural community colleges will do so.
LAST YEAR, FY2014-15
Mid-Year Cuts in Fewer States

Last year in FY2014-15, respondents from six states report taking mid-year cuts in previous legislatively approved state appropriations for the operating budgets of their public community colleges, regional universities, and flagship universities. This is consistent with the past four years, and indicates recovery is continuing.

Competition for State Funds Remains Fierce for Public Higher Education

With the continuing economic recovery, state revenues are rebounding, but spending for public higher education has not. In 2015 state legislative sessions, public flagship universities, public regional universities, and public community colleges, as well as K-12 education, faced fierce competition for relatively scarce state dollars. Last year, as Figure 2 shows, elementary and secondary education and Medicaid were the top two budget drivers, with 37 and 33 respondents in agreement, respectively. From these top two budget drivers, a significant drop-off to a grouping of six priorities is observed. This grouping includes higher education (23), as well as transportation & highways (26), unfunded pensions (23), corrections costs (23), health care costs associated with the Affordable Care Act (23), and tax cuts (22). "Recession, producing a decline in revenues," and unemployment insurance costs, brought up the rear, with 10 and 5 respondents, respectively, in agreement.

That just 10 of 47 reported “recession, producing a decline in revenues" (Alabama, Arizona, Connecticut, Illinois, Kentucky, Nevada, Pennsylvania, Virginia, West Virginia, and Wisconsin) is clear improvement from FY2008-9, when 45 of 47 respondents strongly agreed. But the large group of six other state priorities, starting with long-delayed infrastructure investments, means competition for any growth in state revenues in most states in 2016 will likely be high. In many states, schoolteachers and other state employees have not had raises in four, five, or even six years. Just one respondent indicated “strongly agree” to higher education as a state priority in last year’s legislative session. This speaks to the need for public higher education advocates to present a common front across sectors (flagships universities, regional universities, and public community colleges), working with public elementary and secondary education.

Figure 1: States Reporting Mid-Year Budget Cuts (N=46)

Figure 2: Top Budget Drivers in State Legislative Sessions in FY2007 through FY2015
(Among 11 drivers, Higher Education has never made top 3)

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<thead>
<tr>
<th>Year</th>
<th>1st</th>
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<tbody>
<tr>
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<td>Medicaid (44)</td>
<td>Recession (36)</td>
</tr>
<tr>
<td>2008</td>
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<td>Medicaid (43)</td>
<td>Recession (33)</td>
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<td>K-12 (30)</td>
<td>ARRA (37)</td>
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<td>Medicaid (38)</td>
<td>ARRA (38)</td>
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<td>2012</td>
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<td>2013</td>
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<td>2014</td>
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<tr>
<td>2015</td>
<td>K-12 (37)</td>
<td>Medicaid (33)</td>
<td>Transportation (26)</td>
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</table>

“In terms of mid-year cuts, operating budgets, and tuition, increasingly, all three Higher Education sectors are treated the same.”
Steady Recovery Continues

In a written answer to our 2011 survey, one well-informed respondent wrote “American Recovery and Reinvestment Act funds saved our bacon this year, but what happens when the stimulus funds run out?” Figure 3 shows the deepest cuts in state appropriations were after ARRA funds ended.

This underscores the reality that all public sectors are in the same boat. In a 2012 article, “The New Norm,” we predicted that due to structural deficits in state budgets and the move toward a privatized model of funding, a new norm was emerging that may mean that the funding situation would not improve even as the nation climbs out of recession. So it is good that, when asked to predict the likelihood of mid-year cuts in FY2015-16, just 3 each responded “very high,” or “high,” compared to 9 “neutral,” 19 “low” and 11 “very low.” And it is a good that an average of just six respondents over the past four years report taking mid-year cuts, including last year. This is tempered, however, by the fact that in FY2013-14 and FY2014-15, most respondents predicted state appropriations wouldn’t cover the cost of inflation; in FY2015-16, 18 states do so for community colleges, 17 for regional universities, and 16 for flagship universities.

Consistent Long-Term Funding is Needed

To increase degree completion requires consistent funding of well-thought out operating and capital budget plans that finance both student access and success. In 2014, however, 3 of 4 respondents indicate long-term plans do not exist in their states to fund the operating and capital budgets needed to increase numbers of adults with college degrees and certificates. The small improvement in states with long-term plans between 2011 and 2014 is also reflected in the 2015 responses to the item, “In light of state funding cuts, achieving increases in graduation rates will be difficult”: 22 were in agreement, 16 neutral, and 8 were in disagreement. The lack of consistent funding is clearly a major challenge for state policymakers working to improve graduation rates.

Operating Budget Increases Below the Inflation Rate Result in Tuition Hikes

Since states are constitutionally mandated to balance their budgets, if they fail to appropriate at levels needed to cover the 2.1% inflation rate, public flagship universities, public regional universities, and public community colleges must either raise tuition, find efficiencies by cutting programs and services, or both. As
Figure 5 shows, tuition is predicted to rise at community colleges, regional universities, and flagships by 3%, 4%, and 3.5%, respectively. These median predicted rates are all above the 2.1% predicted Higher Education Price Index inflation rate. Tuition is rising above the 2.1% HEPI for community college students in 25 states, for regional university students in 28 states, and for flagship university students in 26. In each year since 2008-9, tuition has risen at rates well above the inflation rate, if not double.

A LACK OF POLICY ALIGNMENT

Policy Alignment Does Not Exist

For “high tuition/high aid” to work at the state level, policies for operating budget appropriations, student aid, and tuition all must be aligned. Figure 6 maps predicted policy alignment in a single year, FY2015-16. A tally was assigned if the predicted state appropriations for operating budgets were at 2.1% or above (the predicted HEPI inflation rate), if state-funded student aid increased by 2.1% or above, and if tuition rose below 2.1%. If predicted values were not provided, a zero was assigned; the eight states that provided fewer than two of the points are marked “insufficient data.” Readers should note small amounts of state-funded student aid can produce large year-to-year percentage changes, as occurred in Louisiana in 2013 (when the 22% increase in state-funded need based student aid cost $7.5 million, even as operating budgets faced their sixth consecutive year of cuts). Of the 32 states that provided complete data sets, policy alignment of appropriations for operating budgets, state student aid, and tuition exists in just two, Colorado and Ohio. Thirteen report alignment in two policy areas, 17 in one, and 10 in zero.

Thus, by a margin of 6:1, respondents in 2015 report policies are unaligned. Further, just 13 report increasing their state student aid programs above the 2.1% predicted HEPI inflation rate. Most respondents – 25 – were below, and among them, 18 were flat-funded at zero, while 3 actually saw cuts. These findings are consistent with past Access and Finance Surveys.

Figure 6: Predicted Policy Alignment in FY2015-16

Source: EPC analysis of State Higher Education Executive Officer’s actual reported state appropriations for FY2011-12 to FY2014-15. FY2015-16 data is predicted.
Education Policy Center || The University of Alabama

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**COMPLETION ISSUES**

**Context**

In our February 2015 report, *A New Way Forward Is Needed to Jump-Start Degree Completion,* we concluded policy changes were needed at the federal and state levels to make America #1 again among industrialized nations in adult degree and certificate completion. With public flagship universities, public regional universities, and public community colleges enrolling at least three in four undergraduate students in nearly every state, as compared to private non-profit and private for-profit colleges and universities, improving the fiscal health of public higher education institutions is key to increasing degree completion in our country. We specifically found:

- **Community college productivity has dramatically increased.** Associate Degrees and First-Certificates awarded rose by 75% and 122%, from 2000-1 to 2012-13, respectively.
- **But productivity increases are slowing due to:** (a) cuts in state appropriations after ARRA funds ended in FY2011, (b) 2012 cuts in Pell, and (c) an improving economy.
- **Completions in most states declined:** among 22 of 42 respondents, degree completions decreased or remained flat from 2012-13 to 2013-14; by 2:1 most say it will be difficult to raise completions with state cuts.
- **3 of 4 respondents (9 in agreement, 33 in disagreement) indicated long-term operating budget plans needed to increase degrees and certificates do not exist in their states.**

**The Completion Agenda and Responding to Unemployed Workers**

The completion agenda appears to be driving more short-term programs in response to unemployed workers. When asked whether “Concerns over high numbers of unemployed workers are pushing community colleges to offer or expand “quick” job training programs in noncredit areas in my state,” 22 are in agreement, 11 are neutral, and 11 are in disagreement. When asked if “Increased numbers of unemployed/displaced workers have exhausted available workforce training dollars via WIA and other sources for colleges in my state,” 10 are in agreement, 16 are neutral, and 17 are in disagreement. When asked, if “The completion agenda is a driver for implementing short-term credentialed programs,” 26 are in agreement, 10 are neutral, and 8 are in disagreement.

**Community College Enrollments**

When asked to estimate next year’s enrollment change (FY2015-16) at community colleges as compared with the year just ending (FY2014-15), the median enrollment change was zero, with 19 predicting a decrease, 10 indicating it was flat, and 13 predicting an increase.

**Free Community College Tuition**

The idea of free community college tuition is gaining popularity. When asked whether “Free community college tuition has been implemented/being considered in my state,” 14 are in agreement, 5 are neutral, and 27 are in disagreement. This year, 30 states agreed, 13 were neutral, and 3 disagreed that “‘Debt-free’ college degrees would improve completion rates for students in my state.”

“We are concerned because we see the flow of public money to our colleges and universities diminishing at a time of unprecedented political, social, and economic change.”

— *Higher Education and the Public Good, 1994*

**Related Federal Student Aid Issues**

When asked if “Federal student aid policy favors for-profits at the expense of open-access community colleges,” 20 agree, 20 are neutral, and 6 disagree. When asked if “Student loan default rates are increasing at community colleges in my state,” 19 agree, 18 are neutral, 9 disagree. When asked whether “All community colleges in my state participate in federal student loan programs,” 35 agree, 1 is neutral, and 10 disagree. When asked if “Community colleges in my state report their student loan debt levels are negatively impacted by the high debt of students transferring in from for-profit colleges,” 10 are in agreement, 24 are neutral, and 12 are in disagreement.

**A RENEWED COMMITMENT NEEDED**

Our annual access and finance surveys are consistent with the findings of Delaney and Doyle in their 2011 *Journal of Education Finance* article, “State Spending on Higher Education: Testing the Balance Wheel over Time.” In analyzing state higher education spending compared to other state budget categories between 1985 and 2004, they concluded: “The fundamental balance wheel relationship between higher education and other state budget categories reveals that higher education is cut more than other major spending categories in bad times.

“You can’t graduate them if you don’t enroll them first. This is why public higher education matters.”
and that it receives larger increases than other categories in good times.” Figure 3, above, shows the deepest state appropriations cuts for public higher education operating budgets occurred just after federal stimulus package funding to states ended.

How many states appropriated funds at or above the inflation rate since the Great Recession ended? To answer this important question, we obtained actual dollars appropriated in each state in the four fiscal years of FY2011-12, FY2012-13, FY2013-14, and FY2014-15 from the State Higher Education Executive Officers. Year-to-year percentage changes were created, and by obtaining the Higher Education Price Index rate of inflation for each year from the Commonfund, and the predicted state tax appropriations for FY2015-16 from our survey, we could answer this question.

Figure 7 shows just two states, Massachusetts and Utah, appropriated at or above the HEPI inflation rate in all five years. In contrast, five were not at or above the inflation rate in any year, four in just one year, fifteen in just two, and twenty in just three years.

The continuing access threats and lack of policy alignment means recovery is clearly not translating into increased state investments. This calls into question the ability of public flagship universities, regional universities, and community colleges to meet the larger public policy goal of dramatically increased percentages of adults with bachelor’s and associate’s degrees and certificates in most states. In particular, states are not appropriating sufficient funds to expand high cost programs in STEM, nursing and allied health, and engineering and information technology. Respondents from 43 states agree funding is needed to expand high cost programs, 3 are neutral, and none disagree. Respondents expressing an opinion from 32 of 35 states report a significant shortage of faculty in high cost programs in STEM, Nursing, and other technology areas.

Access Threats Continue

Respondents from 16 states (see Figure 8) indicate access threats at their public flagship and regional universities, and public community colleges. These states enrolled 4.3 million of the 10.5 million full-time equivalent students in U.S. public higher education in the Fall 2013 term. Most indicate community colleges have capacity to meet current/projected numbers of high school graduates (40) and adults (40), while just 3 and 4, respectively, disagree. While they are turning away students in just three states, community colleges have limited the number of sections resulting in a de facto enrollment cap in 8 states, and public flagship and regional universities have capped enrollment in 7 and 5 states, respectively. Five indicate that to increase the numbers of community college transfers requires expanding capacity at state public universities.

But this does not tell the whole story. Many years of below-inflation state appropriations means deferring critical physical and human capital investments – 38 agree “Funding for facilities (new construction, renovation, etc.) is a major need in my state” while just two disagree, and 33 agree that “Federal aid for facilities (new construction, renovation, equipment) is needed” and just 5 disagree. When asked if “Funding is needed to expand high cost programs (e.g., STEM, nursing and health sciences, engineering technology, and information technology) in my state,” 43 respondents agree and none disagree. And when asked if “A significant shortage of STEM and other faculty in high cost...
programs exists in my state,” 32 agree, 11 are neutral, and just 3 are in disagreement.

**Fiscal Strain Continues at Rural Colleges**

Through their for-credit and non-credit programs, community colleges are the portal of opportunity for millions of Americans to the American Dream. All types of public community colleges – urban, suburban, and rural – will face fiscal strains in FY2015-16, but 41 state community college leaders predict their rural community colleges will face great fiscal strain, compared to 19 for suburban and 22 for urban community colleges.

**A NEW SOCIAL COMPACT**

In 1997, the Commission on National Investment in Higher Education concluded “the present course of higher education – in which costs and demand are rising much faster than funding – is unsustainable…We recommend increased public funding of higher education and wide-ranging institutional reforms.” Five years after the Great Recession, states fund operating budgets below inflation, while their appropriations, state student aid, and tuition policies are unaligned. To increase college degree attainment requires a new social compact between states and our flagship and regional universities and community colleges. We are in the same boat together.

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**Figure 8: Predicted Access Threats in FY2015-16**

**Figure 9: Predicted Fiscal Strain at Rural, Suburban, and/or Urban Community Colleges in FY2015-16**
References

1. The reports began while Katsinas served as the Buchholz Chair of Higher Education and Director of the Bill J. Priest Center for Community College Education at the University of North Texas in 2003. The survey was administered in 2004, but not in 2005 and 2006. It has been conducted annually since 2007. Past reports can be found at the Education Policy Center website, http://uaedpolicy.ua.edu/access--funding-surveys.html.

2. The National Council of State Directors of Community Colleges is one of more than 30 affiliated councils of the American Council of Community Colleges. This report was written independently; neither NCSDCC nor AACC endorsed this report.

3. Responses were received from 49 of 51 NCSDCC members or their designees, representing every state except South Dakota and Indiana, which account for 0.27% and 1.5% of the nation’s community college enrollments in 2013. Puerto Rico and the District of Columbia were not surveyed. Responses from Arizona, Maryland, Michigan, Nebraska, and Pennsylvania came from state community college associations. Both the University System of Georgia which coordinates community colleges, and the Technical College System of Georgia responded; the State University of New York responded for New York.

4. We use the definition developed by Illinois State University’s Grapevine, which has tracked state tax appropriations for public higher education since 1960. See Palmer, J. C. (Editor). Grapevine. Distribution of states, by size of the state tax appropriations for higher education, FY08 (Table 6). Retrieved April 16, 2008 from www.grapevine.ilstu.edu/tbales/pdf/Table_6_08.pdf.

5. No fewer than 49 National Council of State Directors of Community College members have responded each year to our surveys.

6. We thank members of our 2015 advisory committee: Marilyn J. Amey, Michigan State University; Brent D. Cejda, University of Nebraska-Lincoln; Marc Cutchright, University of North Texas; Pamela J. Eddy, College of William & Mary; Lynda B. Gilbert, Vice President for Financial Affairs, The University of Alabama; Linda Serra Hagedorn, Iowa State University; Arthur M. Hauptman, Washington, D.C.; Tom Harrison, American Association of State Colleges and Universities; Cary A. Israel, President Emeritus, Collin College (TX); Brian Johnson and Frank Mensel, Senior Fellow, Education Policy Center, Washington, D.C.; Thomas A. Konz, Toledo, Ohio; Derrick A. Manns, Vice President for Academic Affairs, Fuller Technical College (LA); Michael T. Miller, University of Arkansas at Fayetteville; Terrance A. Tolleson, Professor Emeritus, East Tennessee State University; David Shaffer, formerly with the Nelson Rockefeller Institute of Government, State University of New York; and Anne Williamson, University of Missouri-Kansas City. Responsibility for errors is ours alone.


8. Respondents could indicate “strongly agree,” “agree,” “neutral,” “disagree,” and “strongly disagree;” due to space considerations, responses of strongly agree and agree are combined and presented here.


About the Education Policy Center

The College of Education’s Education Policy Center seeks to inform and improve education policy-making and practice, and our understanding of the roles education plays in a free and equitable society, through a coordinated program of research, topical and historical analyses of education-related issues, and services for education practitioners and policy-makers in Alabama and the nation. For more information call (205) 348-2470 or visit us at www.uaedpolicy.ua.edu.

On-Going Center Projects Include:

Annual Surveys of the National Council of State Directors of Community Colleges on finance and access issues: see www.uaedpolicy.ua.edu/access--funding-surveys.html.

Rural community colleges: The Center hosts the Rural Community College Alliance’s webpage, as it fulfills its role as RCCA’s research arm.

History of education research: More Than Science or Spunik, the National Defense Education Act, by Center Associate Director Wayne J. Urban, published in 2010. Urban is now completing a biography on former Harvard University Pres. James Bryant Conant.

Student access research: Since 2010, the Center has published 19 studies on Pell Grants, and student aid issues.

The University of Alabama Superintendent’s Academy, a partnership with the Alabama State Department of Education, broadens the pool of diverse, well-prepared leaders for Alabama’s 137 public city and county school districts.

Public access colleges research: The Center’s work on Associate’s Colleges classifications is included in the 2005 and 2010 Basic Classification published by the Carnegie Foundation for the Advancement of Teaching, included in all federal education data sets.

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