The Financial Environment for Higher Education

Presented to:
CACG Network Meeting
Salt Lake City, Utah
June 9, 2011
The Flow of Funds

- Economy
  - Tax Policy
  - Income

- Available State and Local Govt. Funds
  - Higher Education
    - Student Aid
    - Appropriations/Grants
      - Tuition
      - Scholarships & Waivers
      - Student Aid (Restricted)

- Federal Government
  - Stimulus Funds
    - • K-12
    - • Corrections
    - • Health Care
    - • Other Govt.

- Donors
  - Foundations
  - Corporations
The Flow of Funds - State

- Federal Government
  - Stimulus Funds
  - • K-12
  - • Corrections
  - • Health Care
  - • Other Govt.

- Available State and Local Govt. Funds
  - Tax Policy
  - Higher Education

- Economy
  - Income
  - Student Aid
  - Appropriations/Grants
  - Tuition
  - Scholarships & Waivers

- Institutions
  - Federal Government
  - Student Aid

- Students
Recovery Act Funds Face Significant Wind Down
(FY ‘11 totals include both ARRA & Education Jobs Funds)

Federal Outlays

Source: Recovery Act data come from GAO, May 2011
The Flow of Funds

Available State and Local Govt. Funds

Higher Education

Student Aid

Appropriations/Grants

Tuition

Scholarships & Waivers

Student Aid

Federal Government

Students

Institutions
The State Piece of the Financing Mechanism: A Depressing Picture
State Tax Capacity & Effort
Indexed to U.S. Average

Source: State Higher Education Executive Officers (SHEEO)
Two Consecutive Annual GF Spending Increases Follows Declines of ‘09 & ‘10

General Fund Expenditure Growth (%)

*34-year historical average rate of growth is 5.7 percent
*Fiscal ’12 numbers are recommended
Source: NASBO Spring 2011 Fiscal Survey of States
Revenue Remains Below Pre-Recession Levels

General Fund Revenue: FY 2007-FY 2012 (in billions)

* FY 2007, 2008, 2009 and 2010 are actual. FY 2011 is estimated and FY 2012 is proposed.
Projected Return to Peak Revenue Collections*

*14 States did not report data – these include Alaska, Nevada, Utah, and Wyoming
Source: NCSL, State Budget Up-Date, March 2011
States Have Closed Budget Gaps of Over $220 Billion – Still Face $149 Billion in Gaps

In Billions

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Closed</th>
<th>Ongoing</th>
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</thead>
<tbody>
<tr>
<td>FY 2009</td>
<td>$73.1</td>
<td></td>
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<tr>
<td>FY 2010</td>
<td>$82.7</td>
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<tr>
<td>FY 2011</td>
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<td>$12.1</td>
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<tr>
<td>FY 2012</td>
<td></td>
<td>$75.1</td>
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<tr>
<td>FY 2013</td>
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<td>$61.8</td>
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</tbody>
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Blue = closed gaps; Red = ongoing gaps
Mid-Year Budget Cuts Decline

Budget Cuts Made After the Budget Passed
($ millions)

Recession ends

Number of states

Amount of reduction

*FY 2011 mid-year budget cuts are ongoing
Source: NASBO Spring 2011 Fiscal Survey
Strategies Used to Reduce or Eliminate Budget Gaps, FY 2011

- Reduce Local Aid: 16 states
- Layoffs: 20 states
- Furloughs: 19 states
- Cuts to Employee Benefits: 13 states
- Across-the-Board Cuts: 20 states
- Targeted Cuts: 34 states
- Rainy Day Fund: 9 states
- Reorganize Agencies: 12 states

Source: NASBO Spring 2011 Fiscal Survey of States
Proposed Fiscal 2012 Revenue Actions

- Total proposed fiscal 2012 net increase: $13.8B
  - Sales Tax: $6.1B
  - Personal Income: $5.9B
  - Corporate: -$537M
  - Cigarettes/Tobacco: $54M
  - Other Taxes: $955M
  - Fees: $1.3B

- Total enacted fiscal 2010 net increase: $23.9B
- Total enacted fiscal 2011 net increase: $6.2B

Source: NASBO Spring 2011 Fiscal Survey of States
Balance Levels are Below Historical Average for Most States

Balances as a Percentage of Expenditures

A Reality Facing Higher Education

- Employment recovery lags fiscal recovery
- State tax collections lag employment recovery
- Funding for higher education lags state tax revenues recovery
Recoveries from Financial Recessions

**GDP**

Cycle Peak = 100

- **Other Recessions**
- **Financial Recessions**

**Unemployment**

Cumulative Percent Change from Cycle Peak

- **Financial Recessions**
- **Other Recessions**
After stimulus wanes, gaps could approach 7% of spending or $120 billion under the “High-Gap” scenario.

"High-Gap" Scenario:
State General Revenue Minus Expenditures With and Without Federal Stimulus

Balance (gap) as % of general expenditures

State fiscal year

Source: Don Boyd (Rockefeller Institute of Government), 2009
Projected State and Local Budget Surplus (Gap) as a Percent of Revenues, 2016

Source: NCHEMS; Don Boyd (Rockefeller Institute of Government), 2009
The Traditional Competitors for State Funding

- K-12 Education
- Medicaid
- Corrections
- Transportation

The New Competition

Unfunded obligations to state employees for

- Retirement
- Health Benefits
How Well Are States Managing Their Pension Obligations?

Source: Pew Center on the States, 2010

LEGEND
Solid Performer
Needs Improvement
Serious concerns

Source: Pew Center on the States, 2010
How Well Are States Managing Their Non-Pension Obligations?

Source: Pew Center on the States, 2010
The Tuition Revenue Picture
Net Tuition as a Percent of Public Higher Education Total Educational Revenue by State, FY 2010

Note: Dollars adjusted by 2010 HECA, Cost of Living Adjustment, and Enrollment Mix.
Source: State Higher Education Executive Officers

Note: Net tuition revenue used for capital debt service is included in net tuition revenue, but excluded from total educational revenue in calculating the above figures.

Source: State Higher Education Executive Officers
Affordability: Need-based Financial Aid

State need-based aid as a proportion of federal need-based aid.

Source: Measuring Up 2008
Change in Population Age 25-44 By Race/Ethnicity, 2005-2025

Source: U.S. Census Bureau
Difference in College Attainment Between Whites and Minorities,* 2009

* Minorities include African-American, Hispanic, and Native American

Source: U.S. Census Bureau, 2009 American Community Survey
Percent of Children Ages 0 – 17 Living in Families with Less than a Living Wage (2007)