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FY 2004

EXECUTIVE

OVERVIEW

SHEEO



This is an excerpt from the publication, *State Higher Education Finance FY 2004*. The full publication can found on www.sheeo.org.

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State Higher Education Executive Officers (SHEEO) is a nonprofit, nationwide association of the chief executive officers serving statewide coordinating and governing boards for postsecondary education. The mission of SHEEO is to assist its members and the states in developing and sustaining excellent systems of higher education. SHEEO pursues its mission by: organizing regular professional development meetings for its members and their senior staff; maintaining regular systems of communication among the professional staffs of member agencies; serving as a liaison between the states and the federal government; studying higher education policy issues and state activities and publishing reports to inform the field; and implementing projects to enhance the capacity of the states and SHEEO agencies to improve higher education.



STATE

HIGHER

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FY 2004

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SHEEO

OVERVIEW AND SUMMARY OF NATIONAL TRENDS AND INTERSTATE COMPARISONS

Overview

The State Higher Education Finance (SHEF) report is a tool to help policy makers and educators address broad public policy questions such as:

- What level of state funding to colleges and universities is necessary to achieve the educational goals required for the economic and social well-being of the American people?
- What tuition levels are appropriate given the costs of higher education, its benefits to individuals, and the desirability of encouraging participation?
- What amounts and forms of student financial assistance are required to provide meaningful educational opportunities to students from low and moderate-income families?
- To what extent might colleges and universities increase productivity or reduce expenditures without impairing the quality of services to students?

While no report can answer such difficult questions, SHEF seeks to inform policy deliberations with information and perspective on financial issues and national trends. The report includes the following chapters:

- "Making Sense of Interstate Higher Education Finance Data," a discussion of technical limitations and appropriate uses of interstate financial comparisons;
- "Funding Sources and Uses," an overview of all state revenue sources supporting higher education (state and local taxes, lotteries, royalties, and state-funded endowments) and the uses for which they are employed;
- "National Trends and Interstate Comparisons," an analysis of state funding and net tuition revenues per full-time-equivalent (FTE) student; and
- "Perspectives on State Tax Capacity, Tax Revenue, and State Support of Higher Education," an analysis of state wealth and tax revenues per capita, and the states' allocation of revenues to higher education.

Appendices to the study provide supporting tables, a respondent listing, and a copy of the web-based data collection instrument. Readers may consult State Higher Education Finance, FY 2003, on the SHEEO website at www.sheeo.org, for three technical essays that discuss: a) the Higher Education Cost Adjustment (HECA) used by SHEF to estimate the effects of inflation on higher education; b) SHEF's analytical adjustments for interstate differences in the cost of living and the proportion of enrollments among types of public postsecondary institutions; and c) the differences between various information resources on state higher education finance.

Summary of National Trends and Interstate Comparisons

The fiscal 2004 SHEF study documents a four-year period when state funding for higher education failed to keep pace with extraordinary enrollment growth and normal inflation in the United States, leaving per student state and local funding near their lowest levels nationally in 25 years.

Table 1

**Major Sources and Uses of State and Local Government Support,
Fiscal 2001-2004 (current dollars, in thousands)**

Sources	2001	2002	2003	2004
State				
Tax Appropriations	60,325,645	62,480,622	59,402,456	58,563,404
Non-Tax Appropriations	796,231	855,673	1,233,145	1,352,463
Non-Appropriated	136,149	108,431	103,518	121,738
Endowment Earnings	228,332	235,570	259,671	263,913
Other ¹	582,895	701,372	2,259,897	2,366,730
State Total	62,069,253	64,381,669	63,258,687	62,668,247
Local Appropriations	5,373,932	5,870,401	6,279,868	6,723,679
Total	\$67,443,184	\$70,252,069	\$69,538,555	\$69,391,926
Uses	2001	2002	2003	2004
Research-Agriculture-Medical	9,387,581	9,776,996	9,520,646	9,454,378
Public Student Aid ²	2,194,735	2,216,366	2,713,876	3,018,618
Out-of-State Student Aid	13,769	13,968	25,490	26,645
Independent Student Aid ³	1,633,756	1,739,036	1,857,418	1,907,564
Independent Institutions ⁴	284,097	263,956	265,794	267,197
Public Higher Ed Operations	53,929,246	56,241,747	55,155,330	54,717,524
Total	\$67,443,184	\$70,252,069	\$69,538,555	\$69,391,926
(Percentages)				
Sources	2001	2002	2003	2004
State				
Tax Appropriations	89.4%	88.9%	85.4%	84.4%
Non-Tax Appropriations	1.2%	1.2%	1.8%	1.9%
Non-Appropriated	0.2%	0.2%	0.1%	0.2%
Endowment Earnings	0.3%	0.3%	0.4%	0.4%
Other ¹	0.9%	1.0%	3.2%	3.4%
State Total	92.0%	91.6%	91.0%	90.3%
Local Appropriations	8.0%	8.4%	9.0%	9.7%
Total	100.0%	100.0%	100.0%	100.0%
Uses	2001	2002	2003	2004
Research-Agriculture-Medical	13.9%	13.9%	13.7%	13.6%
Public Student Aid ²	3.3%	3.2%	3.9%	4.4%
Out-of-State Student Aid	0.02%	0.02%	0.04%	0.04%
Independent Student Aid ³	2.4%	2.5%	2.7%	2.7%
Independent Institutions ⁴	0.4%	0.4%	0.4%	0.4%
Public Higher Ed Operations	80.0%	80.1%	79.3%	78.9%
Total	100.0%	100.0%	100.0%	100.0%

Notes: Components may not add to total and percentages may not add to 100 due to rounding.

1. Administered funds and portions of prior multi-year appropriations used in the current year.

2. State appropriated student financial aid for public institution tuition and fees. Some respondents could not separate aid for tuition from aid for living expenses.

3. Includes student aid grants intended solely for use at in-state independent institutions and the independent sector's portion of state financial aid programs.

4. State support of independent institutions for capital outlay (new construction and debt retirement) and operating expenses.

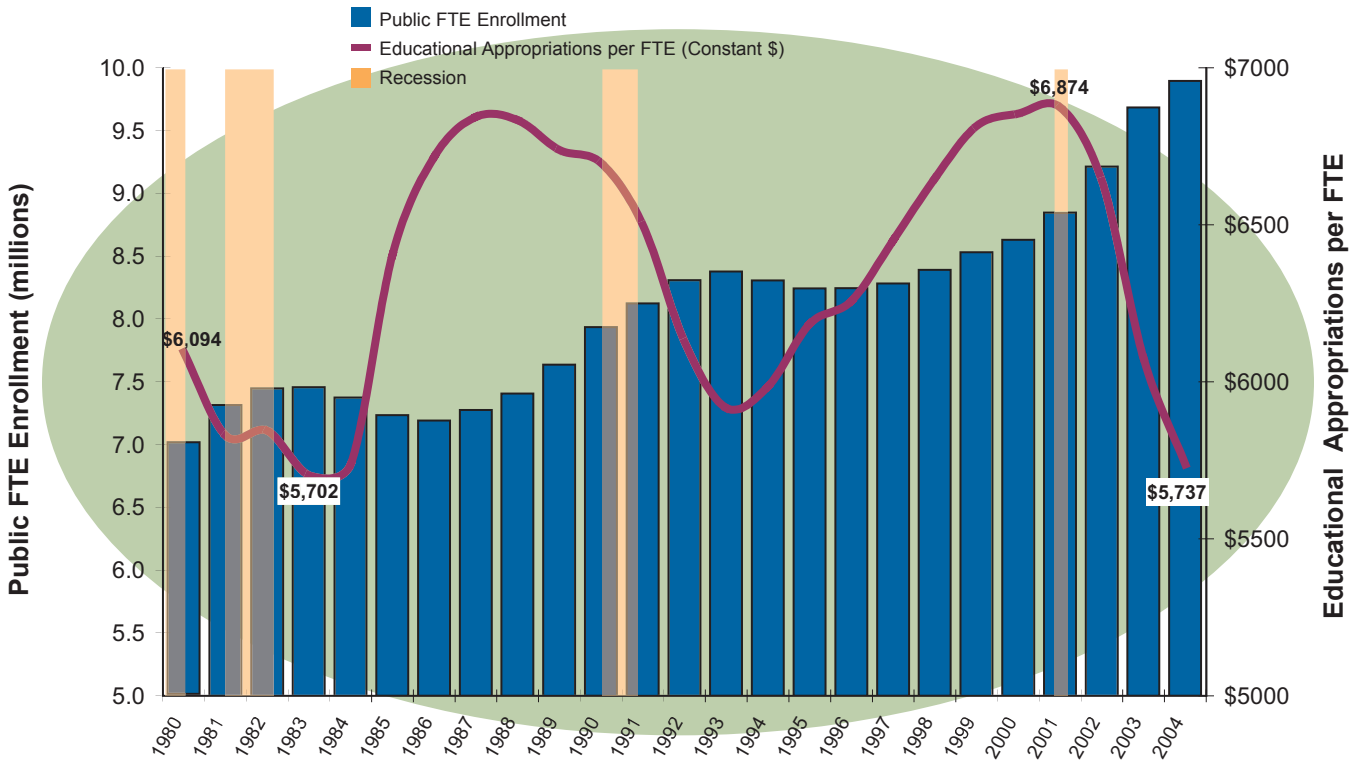
Source: SHEEO SHEF

Current Status

1. In fiscal 2004, state and local governments provided about \$69.4 billion in direct support for general operating expenses of higher education (*Table 1*). State governments provided about 90 percent of this amount, mostly in appropriations from state tax revenues, with smaller amounts from lotteries, earnings on state endowments, and royalty or lease income.
2. Fiscal year 2004 state and local support per full-time-equivalent (FTE) student in public institutions was \$5,737, the lowest level of funding in the past 25 years, except for 1983, when state funding was \$5,702 in constant 2004 dollars. In 2001, state and local funding per FTE student was \$6,874, the highest point since fiscal year 1980 (*Figure 1*).

Figure 1

**Enrollment Growth and Public Higher Education Appropriations per FTE, U.S., Fiscal 1980-2004
(Constant 2004 dollars adjusted by SHEEO Higher Education Cost Adjustment)**



Note: State and local government support, excluding research, agricultural, and medical.

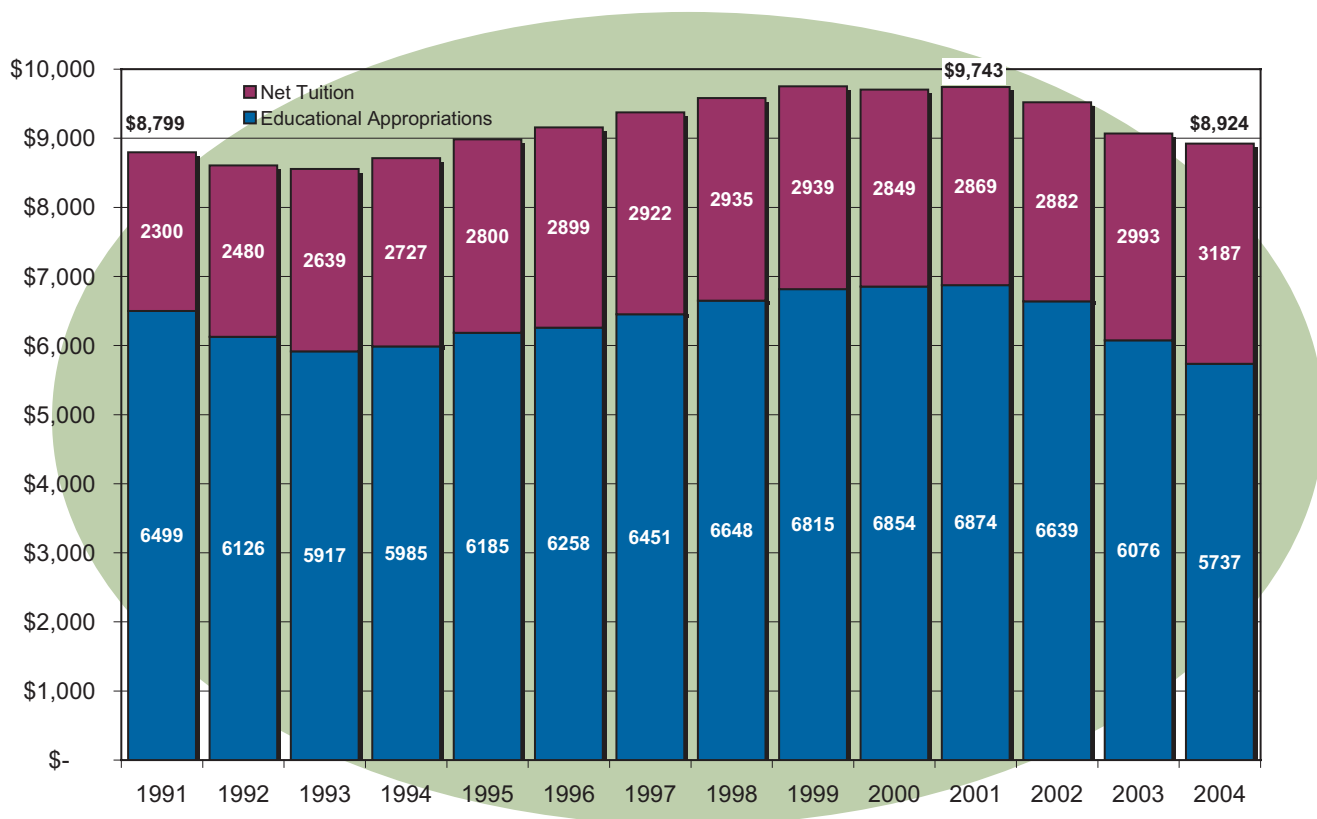
Source: SHEEO SHEF

Recent Trends, 2001 to 2004

3. Since 2001, state and local appropriations for education in public colleges and universities have been essentially flat, while enrollments have grown by 11.8 percent and higher education costs have gone up 10.3 percent, based on the Higher Education Cost Adjustment (HECA), derived by SHEEO from federal inflation indexes.
4. Educational appropriations per FTE. The combined effects of inflation and enrollment growth reduced per student state and local government support for public higher education by 16.5 percent from 2001 to 2004, from \$6,874 to \$5,737 in constant dollars (Figure 2). State and local support per FTE decreased in real terms by 8.5 percent in 2003 and 5.6 percent in 2004. "Educational appropriations" includes tax and non-tax support, but excludes research, medical instruction, and agricultural extension services, which accounted for 13.6 percent of state and local higher education spending in 2004.

Figure 2

**Total Educational Revenues per FTE by Component, U.S., Fiscal 1991-2004
(Constant 2004 dollars adjusted by SHEEO Higher Education Cost Adjustment)**



Source: SHEEO SHEF

5. Net tuition revenues per FTE in public institutions grew 11.1 percent faster than inflation (from \$2,869 to \$3,187 in constant dollars) since 2001, partially offsetting the reduction in per student support from state and local sources (*Figure 2*). In the aggregate, states increased support for student financial aid from about \$4 billion in 2001 to \$5 billion in 2004, which partially addressed tuition increases and enrollment growth (*Table 1*).
6. Total educational revenues per FTE in public institutions (educational appropriations plus net tuition) fell 8.4 percent between 2001 and 2004, from \$9,743 to \$8,924.

National Enrollment and Funding Patterns, 1980 to 2004

Recent declines in state support for higher education have received substantial public attention. Some have suggested that states are abandoning their historical commitment to public higher education, expecting parents and students to pay a larger share of the cost. National data from the past quarter century and a more detailed and recent look within states indicate that this conclusion is premature and superficial. Overall, states have largely maintained operating revenues for higher education, even though they have struggled to keep pace with enrollment growth and inflation in times of recession. Constrained state budgets and rapid enrollment growth during economic downturns tend to depress state funding per student in a cyclical pattern, observed three times over the last 25 years. In fiscal 2004, state funding was at the low point of the most recent of these economic cycles.

7. From 1980 to 2004, state and local government support was outpaced by enrollment growth and by inflation as estimated by the HECA. Constant dollar educational appropriations per student varied from year to year, at times dramatically (*Figure 1*).
8. Fiscal 2004 represented the lower end of a funding cycle that left state support levels at \$5,737 per student. Following previous downturns, state support per FTE student rebounded when state revenues increased and enrollment growth moderated. While this pattern of recovery may not repeat in the coming years, history and the growing demand for higher education suggest that the states' commitment to higher education will continue.
9. State funding for higher education rebounded in 2005 and currently shows signs of further recovery in 2006. The national average nominal increase in state tax appropriations (about 84 percent of all state and local government support) was 3.8 percent from 2004 to 2005, according to the annual Grapevine survey from Illinois State University. Forty states increased funding in 2005 – with greater than average increases in some of the largest states – California, New York, Florida, North Carolina, New Jersey, and Virginia.

National Trends and Interstate Comparisons, 1991 to 2004

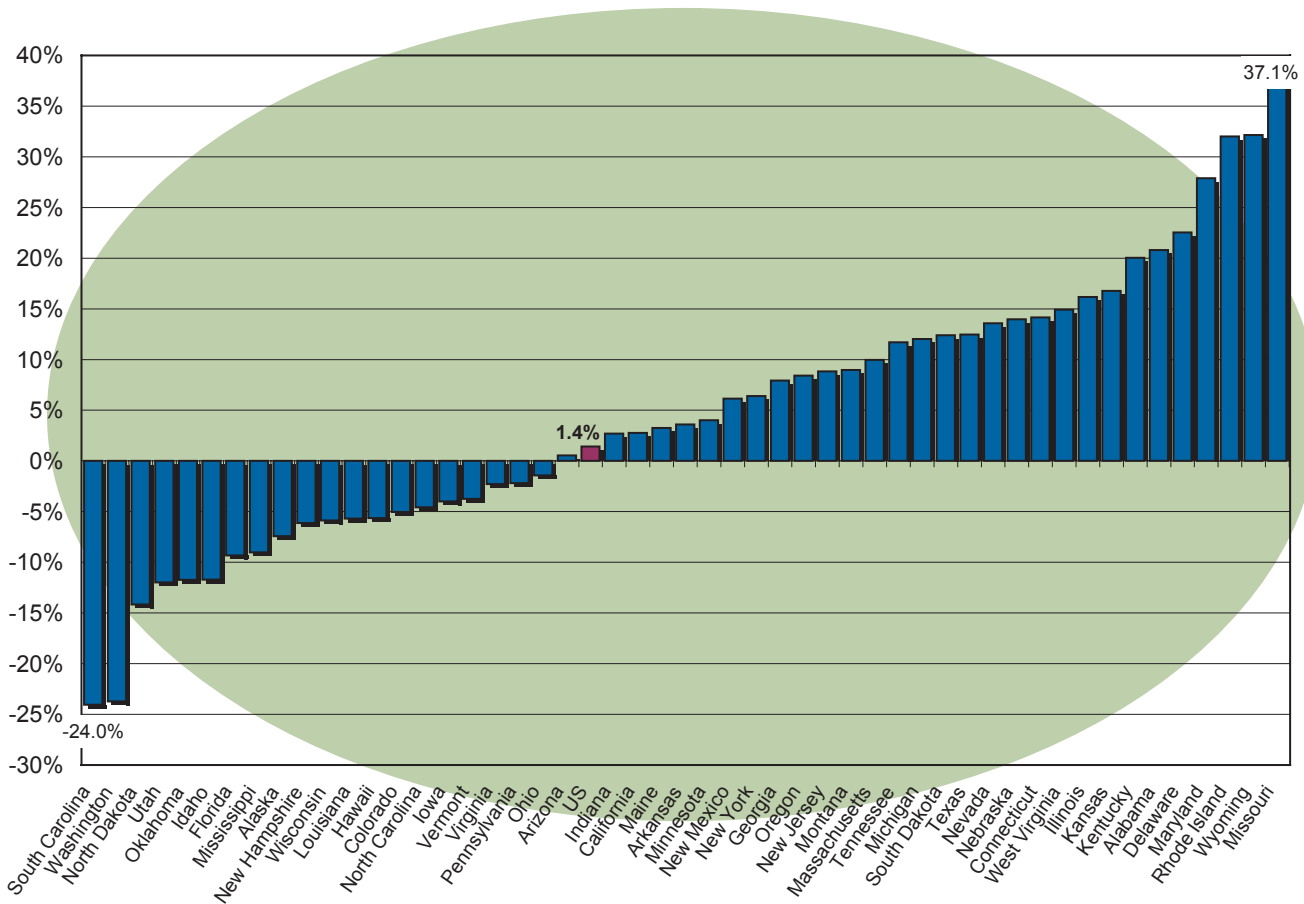
The choice of a baseline year is crucial in any analysis of fiscal data over time. Obviously choosing a "peak" or "valley" as the baseline year leads to dramatically different observations about enrollment growth and financial support levels. Fiscal year 1991 is chosen for many SHEF analyses because it was the beginning of the last decade, and the level of state support per student intersected the long-term trend line in that year. The national trends from fiscal 1991 to 2004 are as follows:

10. Since fiscal 1991, FTE enrollments in public institutions increased by 21.8 percent. Over half of this increase occurred since fiscal 2001, the beginning of the current downturn. The percentage increase in FTE enrollment for public postsecondary institutions since 2001 has already outstripped that of the previous two decades.

11. In constant 2004 dollars adjusted by the HECA, educational appropriations per FTE in public institutions dipped during the early 1990s recession and recovered by 2000. However, recent constant dollar decreases in educational appropriations per FTE result in an overall decrease of 11.7 percent, from \$6,499 in 1991 to \$5,737 in 2004. In inflation-adjusted terms, the average educational appropriation per student in 2004 was 4.1 percent below that of 1994, but 16.5 percent lower than the peak of fiscal 2001 (*Figure 2*).
12. Total educational revenues per FTE in public institutions remained virtually constant from 1991 to 2004, outpacing inflation by 1.4 percent (*Figure 7*). This was achieved because net tuition revenue per FTE increased by 38.6 percent while educational appropriations per FTE decreased by 11.7 percent.

Figure 7

**Total Educational Revenues per FTE: Percent Change by State, Fiscal 1991-2004
(Constant 2004 dollars adjusted by SHEEO Higher Education Cost Adjustment)**

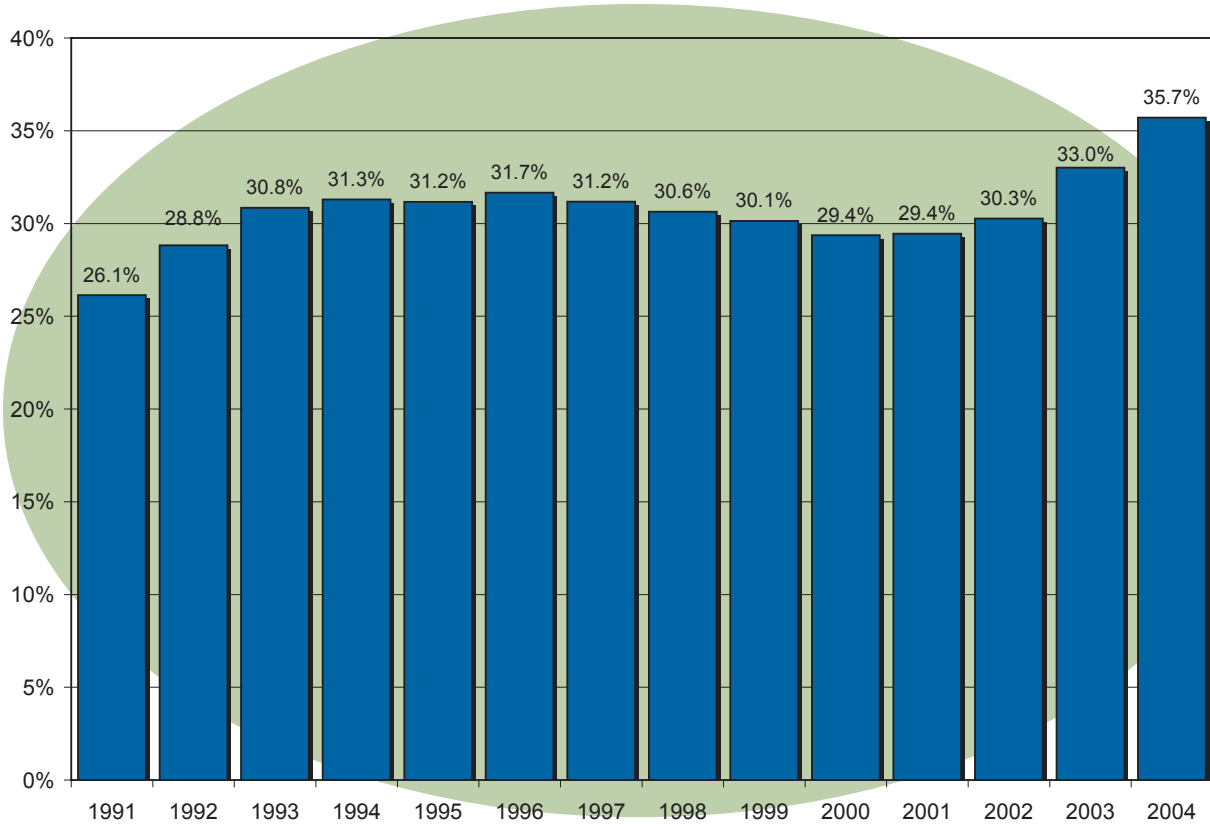


Source: SHEEO SHEF

13. In public institutions, net tuition tends to grow as a percentage of total educational spending when state support per student decreases. Nationally, net tuition accounted for 26.1 percent of total educational revenues in 1991; it grew to 31 percent by 1993, remaining close to that level through 2002, then increased each of the last two years to its current level of 35.7 percent (*Figure 3*).

Figure 3

Net Tuition as a Percentage of Public Higher Education Total Educational Revenues, U.S., Fiscal 1991-2004

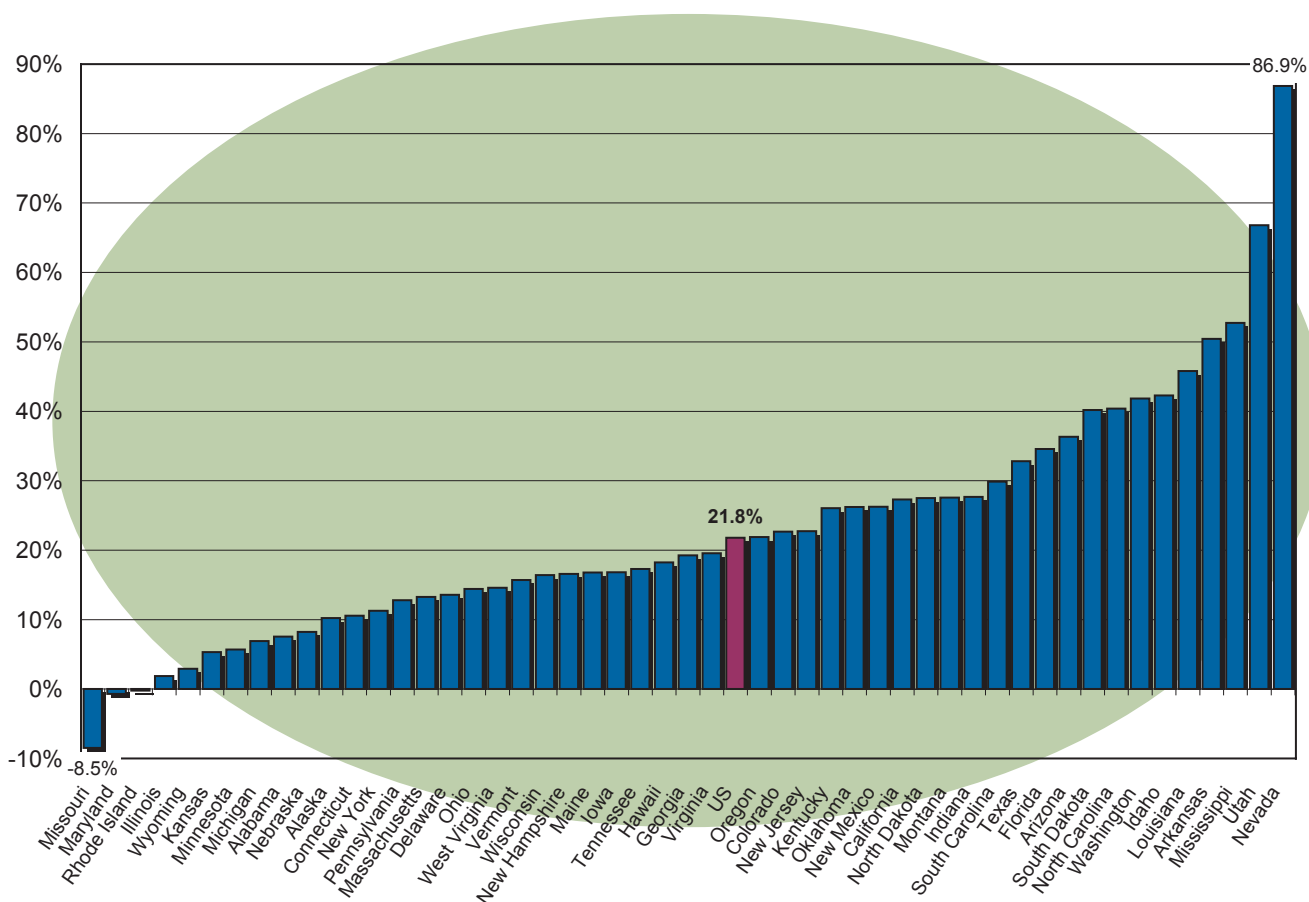


Source: SHEEO SHEF

14. These national trends mask substantial variation among the states. Between 1991 and 2004, public institution enrollments ranged from 86.9 percent growth in Nevada to a decline of 8.5 percent in Missouri (Figure 4). Constant dollar educational appropriations per FTE grew 27.3 percent in Missouri and declined 42.2 percent in Vermont (Figure 5). In fiscal 2004, net tuition revenue per FTE ranged from \$7,927 in Vermont to \$1,152 in New Mexico. Net tuition as a percentage of total educational revenues ranged from 78.7 percent in Vermont to 12.7 percent in New Mexico (Figure 6).

Figure 4

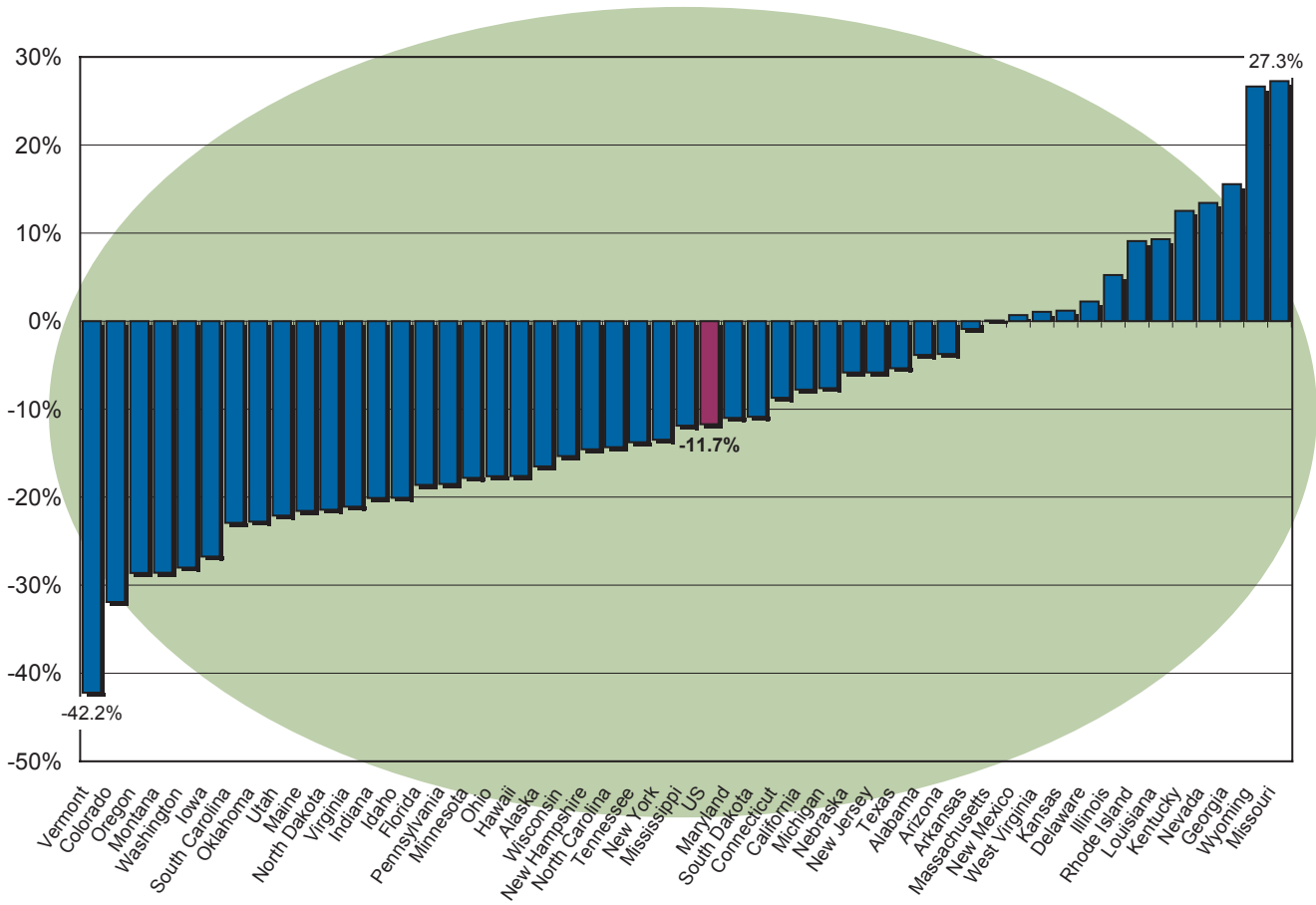
Full-Time-Equivalent Enrollment in Public Higher Education, Percent Change by State, Fiscal 1991-2004



Source: SHEEO SHEF

Figure 5

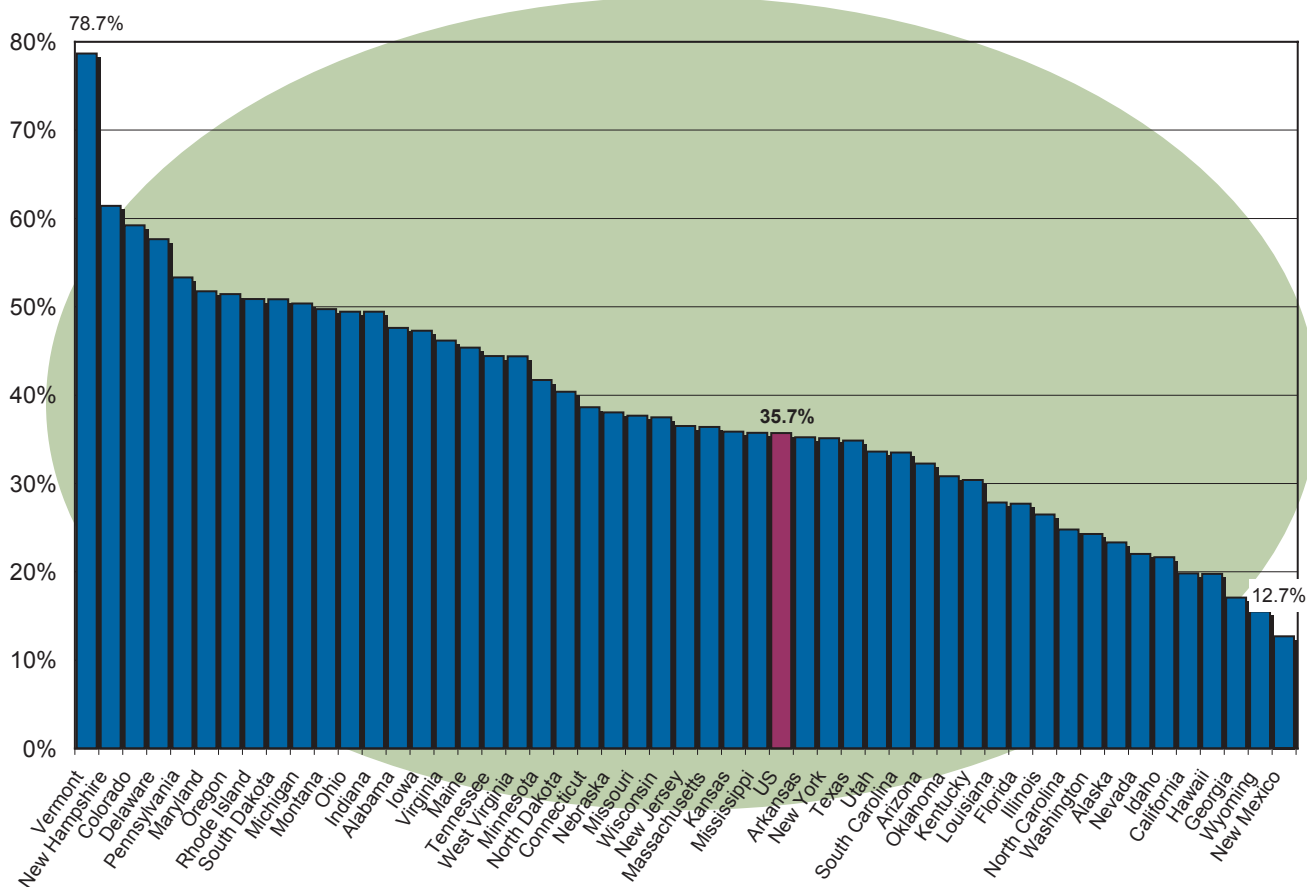
**Educational Appropriations per FTE, Percent Change by State, Fiscal 1991-2004
(Constant 2004 dollars adjusted by SHEEO Higher Education Cost Adjustment)**



Source: SHEEO SHEF

Figure 6

Net Tuition as a Percentage of Public Higher Education Total Educational Revenues by State, Fiscal 2004



Source: SHEEO SHEF

While these data defy sweeping generalizations, a general pattern emerges. As more Americans enroll in higher education, states have recognized and responded to this demand in varying ways. When state resources fail to keep pace with enrollment demand and inflation (e.g., during a recession), tuition has grown and students have had to shoulder a greater portion of the financial burden.

Over the past half-century, state and national policy makers and educators have sought to use public policies to foster educational and economic opportunity by establishing a working balance among institutional appropriations, tuition, and financial aid. The "right" balance has been and will continue to be a matter of debate. The SHEF report is provided to inform these important public policy deliberations. SHEEO intends to continue monitoring and reporting on these trends annually.

The full report, State Higher Education Finance, FY 2004, is available at www.sheeo.org. Core indicators from the SHEF study through fiscal 2004 are available on the website of the NCHEMS Information Center for State Higher Education Policymaking and Analysis at www.higheredinfo.org.



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