



Educational Considerations

Volume 31 | Number 1

Article 5

9-1-2003

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Recommended Citation

McKeown-Moak, Mary P. (2003) "Financing Higher Education in Fiscal Year 2003: The State of the States," *Educational Considerations*: Vol. 31: No. 1. <https://doi.org/10.4148/0146-9282.1255>

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Financing Higher Education in Fiscal Year 2003: The State of the States

Mary P. McKeown-Moak

Nearly every state is in fiscal crisis. Amid a slowing national economy, state revenues have shrunk at the same time that spending pressures are mounting.¹

Overview

So begins the 2002 *Fiscal Survey of the States* from the National Governors Association. Nearly every state has reduced budgets and cut expenditures in light of reductions in anticipated state revenues. In this environment, state appropriations to higher education reached \$63.7 billion in Fiscal Year (FY) 2003, an increase of \$31.3 million or less than .001% over FY2002 original appropriations, the lowest increase in the past decade.² The increase also was lower than the increase in the inflation rate, which was 2% for the 12 months ending in October 2002.³ Total state general fund appropriations for all government services increased by 1.3% over FY2002, continuing the trend of the increase in higher education appropriations being less than the increase in total state general fund appropriations. Actual 2003 state revenues are coming in well below forecasts, and states had already significantly curtailed spending in 2002. Medicaid funding grew at the fastest rate of growth since 1992. The combination of these two trends means that it is somewhat of an understatement to say that increased competition for limited state resources is likely in FY2004.⁴ About 66% of the states also report that mid-year budget reductions are likely during 2003. A significant number of states already have announced their budget cuts, resulting in significant tuition increases.⁵ Total state appropriations to higher education declined to 12.7% of state budgets in FY2002, after two years in a row of increases in higher education's share of state general fund budgets.⁶

A mix of issues were addressed in the 2002 legislative sessions, including an increase in the use of performance measures and other accountability requirements, and an interest in non-need based financial aid programs. On the student aid front, average levels of student indebtedness at graduation continued to increase alarmingly, and loans comprised over 60% of all student financial aid.⁷

Budget reductions, performance-based funding, affordability, reorganization, and calls for eliminating some colleges or combining programs

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in the name of efficiency are the top issues facing higher education on state legislative agendas in 2003.⁸ Because there are new governors in 24 states, and about one-third of all state legislators are new, college and university officials will have to re-educate their elected officials, who may have different priorities than those officials that preceded them.⁹ When combined with reductions in state revenues, increasing competition for state resources, especially from Medicaid, and other health care programs, increased demands for no increases in tuition rates, and an influx of new students, 2003 promises to be a challenging legislative year for higher education officials. Or, in Caruthers' words, found in another article in this issue, the perfect storm may hit higher education.

State Appropriations

FY2003 state operating budget appropriations for higher education reached the highest levels ever, according to data collected in the annual survey of State Higher Education Finance Officers (SHEFOs) conducted for *Grapevine*, but enthusiasm over the "highest level ever" must be tempered with the reality of the national and state economic picture of fiscal crisis cited by the National Governors Association.

Total state appropriations for FY2003 totaled \$63.7 billion, an increase of only \$31.3 million, less than .001% over FY2002 original appropriations, and a \$3.1 billion, or 5.1%, increase over FY2001. (See Table 1.) Data are presented for two years because many states have biennial budgets in which large appropriations occur in the first year of the biennium with no, or small, increases in the second year.¹⁰ Any mid-FY2003 budget cuts are not reflected in Table 1, but FY2002 mid-year reductions are reflected in the column: "Rev. FY02 State Higher Education Approp." The 34 states that experienced mid-2002 reductions are highlighted in Table 1.

Appropriations to higher education increased 0.0% nationwide, compared to a 1.3% increase in total state budgets. In 16 states, increases in appropriations to higher education outpaced increases in the total state budget; but, in 13 states, FY2003 higher education appropriations were less than FY2002 appropriations when the total state budget had not been reduced. In addition, 21 states reported reductions in state appropriations for higher education from FY2002 to FY2003. Missouri reduced appropriations to higher education by 16.6% between FY2002 and FY2003, and Oregon by 15.5%. In contrast, Wyoming increased its state appropriations to higher education by 11.7%. Between FY2002 and FY2003, total state budgets decreased in 15 states.¹¹ Unlike other periods for which data are available, over the two-year period FY2001 to FY2003, ten states reported a decline in total state appropriations for the support of higher education,¹² and 15 states reported a decline in the total state budget. Nationally, appropriations for higher education increased 5.1%, compared to a 2.6% increase in total state budgets.

At the national level, total state general fund budgets increased 1.3% in FY2003 over FY2002 and 2.6% over FY2001. Unlike FY2000, when every state reported general fund balances at the end of the year and projected fund balances or "rainy day funds" for FY2001, in FY2002 six states projected no fund balances and two states, Maine and New Hampshire, reported budget deficits.¹³ States where increases in higher education funding were the greatest over the two years have experienced increases in enrollments or have gone through major restructuring of the governance or funding of higher education. These include Louisiana, Texas, and Wyoming, all of which had increases greater than 20%.

However, a report prepared by the American Association of State Colleges and Universities (AASCU) maintains that “the other shoe has dropped” relative to state funding for higher education. AASCU reports:

Economic downturns and tight state budgets usually spell trouble for higher education, and the current period is proving to be no exception. Because colleges and universities are not likely to enjoy protection from mid-year budget trimming in most states, institutions are cutting back and implementing efficiency measures, and expect to continue this activity in the year ahead.¹⁴

Moreover, FY2003 projected surpluses are billions less than FY2002 actual surpluses, even with reductions made to FY2002 surpluses. FY1998 was the year in which fund balances reached their peak as a percentage of expenditures (9.2%). In contrast, FY2003 fund balances are projected to be 3.6% of projected state expenditures.¹⁵

In FY2003, higher education’s share of state general fund operating budgets decreased from 13% in FY2000 to 12.7%.¹⁶ In FY1987, higher education was allocated 15.5% of state general fund budgets for current operations. Higher education’s share dropped to 12.9% in FY1997 and to 12.09% in FY1998, before increasing in to 13% in FY2000. State general fund budgets as reported by NASBO reflect tax rebates and reductions and include capital spending and budget surpluses as expenditures.

Conversely, appropriations per full-time equivalent (FTE) student in constant dollars continue to increase but have not returned to the high levels of 1986 through 1988. Since 1993, state appropriations per FTE student have increased in constant dollars, according to data from Research Associates of Washington. In the years between 1988 and 1993, state appropriations per FTE student fell by more than 15%, but have now recovered to 1984 levels.¹⁷

When compared to increases in the Consumer Price Index (CPI)¹⁸ over the time period FY2002 to FY2003, state appropriations to higher education did not keep pace with increases in the CPI, 0.0% compared to 2.0%. However, over the ten years between FY1993 and FY2003, state appropriations to higher education increased 60.2%, significantly greater than the CPI increase of 35.5%. Over the one-year time period FY2002 to FY2003, appropriations for higher education did not keep pace with projected increases in the CPI in 32 geographically diverse states.¹⁹

Regional Changes

Table 2 displays regional changes in higher education appropriations. When changes in appropriations are examined by region of the country, where region is defined by the National Association of State Budget Officers, there are significant variations in the percentage change in appropriations.

The southwest states—Arizona, New Mexico, Oklahoma, and Texas—experienced by far the greatest average increase from FY2001 to FY2003, 20.4%, in large part because of the significant increase in Texas, which can be interpreted to skew the results for the region. These states experienced the second largest regional increase from FY2002 to FY2003 (1.2%).

The far west states—Alaska, California, Hawaii, Nevada, Oregon, and Washington—had substantial variation in the rate of change in appropriations: Oregon experienced a one-year appropriations decrease of 15.5%, while Nevada had a 6.8% increase. The plains states—Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South

Dakota—were the hardest hit region between FY2002 and FY2003, experiencing a 4.1% reduction in appropriations and a 2.2% reduction over two years.

When compared to the national average appropriation increases of 0.0% between FY2002 and FY 2003 and 5.1% between FY2001 and FY2003, only the far west states, southwest states, and the mid-Atlantic states experienced above-average increases for both time periods.

Pricing and Financial Aid Trends

Pricing

According to the National Association of College and University Business Officers, colleges and universities have been hit with a triple whammy consisting of cuts in state appropriations, reduced gifts from private donors and alumni, and decreased earnings on investments and endowments. Because all these major funding sources have been limited, institutions have had no choice but to make up the balance of operating funds by increasing tuition.²⁰

Undergraduate resident tuition and fees rose 9.6% in 2002-2003 at public universities, and 7.9% at community colleges, increasing from an average of \$3,725 to \$4,081 at four-year public universities, and from \$1,608 to \$1,735 at two-year public colleges.²¹ (See Table 3.) These increases exceed the increase in the CPI by more than 8%. Room and board charges at four-year public college and universities increased 6.0%, from \$5,266 to \$5,582. Tuition and fees tend to be higher in the Northeast and Midwest, and lower than average in the South and Southwest. Total cost of attendance (COA) at a public four-year college or university typically is \$12,841 for an undergraduate in-state student who lives on campus and \$13,463 for a commuter student. At two-year public colleges, the typical cost of attendance for an in-state student during 2002-2003 is \$9,731.

Average public four-year in-state tuition rose 75% in current dollars or 38% in constant dollars over the time period FY1993 to FY2003. Similarly, average public community/technical college in-state tuition rose 55% in current dollars and 23% in constant dollars over the same period. In contrast, median family income has risen only 20% since; and the average cost of attendance (at public four-year colleges) as a share of family income has increased significantly for low and middle income families.²² For families whose income is in the lowest fifth of the distribution, average cost of attendance has increased from 40% to 62% of family income; and for families who are in the middle quintile, the COA increased from 12% to 17% of income. For families whose income is in the highest quintile, average cost of attendance remained at about 5% of family income. Growing income inequality in the nation compounds this problem.

Academic year 2000-2001 was the first in which colleges and universities were required to report data on college costs, using standardized definitions for tuition and fees and the cost of attendance as required by the 1998 reauthorization of the Higher Education Act. Additionally, a national longitudinal study of college and university expenditures has begun that will provide trend information on tuition and fees compared to the CPI, and financial aid. Prospective students and their parents can find a wealth of information, including tuition and fee information, on the Web site of the National Center for Education Statistics (NCES)²³ or on college and university Web sites. In addition, the U.S. Department of Education produced *Managing the Price of College: A Handbook for Students and Families*, which aims to reduce the mythology surrounding costs of college attendance.²⁴

Table I
State Appropriations and Budget Balances

State	FY01 State Higher Education Approp.	FY02 State Higher Education Approp.	Rev. FY02 State Higher Ed. Approp.	FY03 State Higher Education Approp.	% Change Over FY2002	2 Year % Change Over FY2001	State Budget 1 Yr. % Exp. Change**	State Budget 2 Yr. % Exp. Change**	FY2003 Balances State Funds**	FY2003 Balances as a % of Expend.**
Alabama	1,159,193	1,116,129	1,115,999	1,148,152	2.9%	-1.0%	1.6%	4.5%	261,000	4.8%
Alaska	190,573	204,837	204,706	212,747	3.9%	11.6%	-13.6%	-9.2%	1,940,000	94.6%
Arizona	892,621	949,926	884,175	907,227	-4.5%	1.6%	-2.7%	-3.2%	526,000	8.5%
Arkansas	618,127	653,386	625,112	625,987	-4.2%	1.3%	4.2%	1.9%	0	0.0%
California	9,017,418	9,468,062	9,473,522	9,590,129	1.3%	6.4%	-0.2%	-1.7%	3,545,000	4.6%
Colorado	743,483	783,421	756,809	817,236	4.3%	9.9%	-2.7%	-2.3%	116,000	1.8%
Connecticut	710,339	761,942	753,681	762,600	0.1%	7.4%	1.4%	6.0%	0	0.0%
Delaware	185,840	189,228	186,398	192,889	1.9%	3.8%	2.4%	3.4%	464,000	18.5%
Florida	2,829,525	2,822,083	2,725,210	2,916,595	3.3%	3.1%	1.1%	1.1%	0	0.0%
Georgia	1,600,329	1,699,438	1,707,734	1,764,481	3.8%	10.3%	4.5%	5.1%	2,160,000	13.4%
Hawaii	339,030	349,159	349,231	369,649	5.9%	9.0%	4.9%	13.6%	73,000	1.9%
Idaho	298,210	330,776	323,340	305,337	-7.7%	2.4%	-1.6%	6.7%	2,000	0.1%
Illinois	2,699,067	2,922,599	2,904,184	2,787,048	-4.6%	3.3%	0.5%	-0.5%	501,000	2.1%
Indiana	1,283,197	1,321,191	1,321,191	1,326,682	0.4%	3.4%	7.8%	11.5%	355,000	3.4%
Iowa	851,124	830,226	786,640	769,854	-7.3%	-9.5%	-3.1%	-8.8%	141,000	3.2%
Kansas	680,313	715,585	712,923	712,027	-0.5%	4.7%	-0.5%	0.3%	83,000	1.9%
Kentucky	1,001,625	1,084,605	1,063,668	1,094,599	0.9%	9.3%	2.7%	3.3%	58,000	0.8%
Louisiana	880,064	997,813	997,813	1,055,455	5.8%	19.9%	1.5%	5.6%	261,000	3.9%
Maine	228,917	239,892	239,002	242,082	0.9%	5.8%	4.9%	2.6%	-229,000	0.0%
Maryland	1,174,603	1,297,406	1,282,690	1,301,845	0.3%	10.8%	-3.5%	3.5%	390,000	3.7%
Massachusetts	1,145,029	1,009,921	1,017,564	989,019	-2.1%	-13.6%	-0.3%	2.8%	815,000	3.6%
Michigan	2,231,607	2,273,532	2,257,732	2,263,572	-0.4%	1.4%	0.2%	-5.5%	68,000	0.7%
Minnesota	1,349,137	1,382,576	1,379,832	1,419,395	2.7%	5.2%	6.1%	8.9%	636,000	4.6%
Mississippi	881,827	805,964	765,014	775,243	-3.8%	-12.1%	-0.7%	-2.8%	203,000	5.8%
Missouri	1,027,548	1,049,504	974,646	875,070	-16.6%	-14.8%	2.8%	1.7%	231,000	2.9%
Montana	141,688	149,738	149,8838	146,034	-2.5%	3.1%	-5.7%	0.8%	30,000	2.3%
Nebraska	526,041	525,220	521,316	520,691	-0.9%	-1.0%	0.9%	5.8%	93,000	3.5%
Nevada	316,613	346,845	346,845	370,593	6.8%	17.0%	6.9%	9.7%	132,000	6.5%
New Hampshire	98,695	107,608	107,573	111,135	3.3%	12.6%	2.9%	12.7%	-6,000	0.0%
New Jersey	1,670,911	1,794,946	1,751,643	1,791,323	-0.2%	7.2%	8.9%	1.4%	110,000	0.5%
New Mexico	568,295	611,173	611,175	620,718	1.6%	9.2%	-4.2%	1.6%	328,000	8.5%
New York	3,452,636	3,574,159	3,602,215	3,823,188	7.0%	10.7%	-2.4%	1.4%	1,426,000	3.5%
North Carolina	2,398,489	2,442,690	2,442,690	2,449,659	0.3%	2.1%	4.4%	6.6%	0	0.0%
North Dakota	184,631	201,497	201,497	201,497	0.0%	9.1%	15.0%	13.8%	0	0.0%
Ohio	2,206,398	2,205,481	2,084,535	2,112,609	-4.2%	-4.3%	5.5%	7.8%	138,000	0.6%
Oklahoma	779,672	824,891	796,312	811,474	-1.6%	4.1%	-5.6%	-1.5%	63,000	1.3%
Oregon	667,236	714,837	679,831	604,330	-15.5%	-9.4%	8.3%	-2.8%	0	0.0%
Pennsylvania	2,005,364	2,035,092	2,011,695	2,011,110	-1.2%	0.3%	-0.4%	4.2%	318,000	1.5%
Rhode Island	162,842	174,939	174,473	169,438	-3.1%	4.1%	0.8%	7.5%	102,000	3.8%

Table 1 (continued)
State Appropriations and Budget Balances

State	FY01 State Higher Education Approp.	FY02 State Higher Education Approp.	Rev. FY02 State Higher Ed. Approp.	FY03 State Higher Education Approp.	% Change Over FY2002	2 Year % Change Over FY2001	State Budget 1 Yr. % Exp. Change**	State Budget 2 Yr. % Exp. Change**	FY2003 Balances State Funds**	FY2003 Balances as a % of Expend.**
South Carolina	880,120	896,773	856,200	830,305	-7.4%	-5.7%	5.2%	-1.3%	186,000	3.4%
South Dakota	134,803	141,973	143,163	148,588	4.7%	10.2%	3.3%	9.2%	79,000	9.0%
Tennessee	1,039,373	1,073,136	1,071,515	1,153,989	7.5%	11.0%	4.0%	11.6%	99,000	1.3%
Texas	4,029,799	5,074,633	5,135,147	5,209,765	2.7%	29.3%	1.1%	6.5%	1,008,000	3.3%
Utah	543,691	608,644	586,208	566,431	-6.9%	4.2%	-4.4%	-5.4%	10,000	0.3%
Vermont	67,753	73,195	71,354	75,455	3.1%	11.4%	0.8%	-0.2%	18,000	2.0%
Virginia	1,629,776	1,681,646	1,631,856	1,545,680	-8.1%	-5.2%	1.6%	-2.0%	498,000	4.1%
Washington	1,333,911	1,373,895	1,370,342	1,375,255	0.1%	3.1%	0.0%	3.7%	401,000	3.6%
West Virginia	387,432	392,051	392,051	393,695	0.4%	1.6%	10.8%	14.9%	62,000	2.0%
Wisconsin	1,170,122	1,192,913	1,194,852	1,220,788	2.3%	4.3%	-2.9%	-1.3%	145,000	1.3%
Wyoming	153,582	169,929	161,917	189,786	11.7%	23.6%	18.3%	5.5%	33,000	4.4%
National Total or Average	60,568,619	63,647,105	62,905,059	63,678,456	0.0%	5.1%	1.3%	2.6%	17,873,000	3.6%
High	9,017,418	9,468,062	9,473,522	9,590,129	11.7%	29.3%	18.3%	14.9%	3,545,000	94.6%
Low	67,753	73,195	71,354	75,455	-16.6%	-14.8%	-13.6%	-9.2%	-229,000	0.0%

Note: Dollars in thousands.

* Source: *Grapevine*. Figures for 2002 revised from prior year report.

** Source: National Association of State Budget Officers

Nevertheless, the mythology this year is the reality: college costs have increased significantly, and may have prevented thousands of students from attending. Because state appropriations for higher education have leveled off, or dropped sharply in some states, colleges and universities are responding by increasing tuition and fee charges, in some states at rates that are called "startling."²⁵ In Massachusetts, tuition increased 24%, and the Arizona University System announced tuition increases of over 30% in one year. In addition, Texas increased tuition and fees by 20%; North Carolina by 19%; and Ohio by 17%. At community colleges in ten states, tuition and fees rose more than 10%, with the largest increases occurring in Massachusetts and South Carolina at 26%.²⁶

Financial Aid

In Academic Year 2001-2002, an estimated total of \$90 billion in student financial aid was awarded to students attending post-secondary institutions, an increase of 11.5% over Academic Year 2000-2001, or 10% after adjusting for inflation as measured by the CPI. The federal government provided about 66% of total aid, and over 57% of total aid was awarded as loans. (See Figure 1.)²⁷ Not included in the totals are student wages that are not a part of work-study programs, or any of the state tax credit programs. Federal tuition tax credits alone were estimated at \$5 billion and are included in the total federal government

financial aid of \$62 billion. Total student financial aid exceeded state appropriations to institutions of higher education, and federal student financial aid alone almost was equal to state appropriations.

Over the last ten years, total financial aid increased about 117% in constant dollars although increases in loan programs accounted for over 67% of the increase (and grant programs only 23%). Loans from all sources totaled \$46.9 billion or 52% of all aid in 2001-2002, compared to 47% in 1992-93 and 41% in 1980-81. The greatest increases have occurred in the unsubsidized loan programs that comprise 45% of all federal student loans. Average indebtedness at graduation has increased to alarming levels. A report by the State Public Interest Research Group's Higher Education Project calls on Congress to increase spending on Pell Grants, make loans more affordable for students, and maintain flexible repayment options to prevent defaults. The report notes that students are going deeper and deeper into debt to pay for college.²⁸

State grant funding increased by about 100% in constant dollars over the past ten years, but still comprises only 5.6% of total student aid. Although institutional aid has more than doubled since 1991, available grant aid has not offset relative declines in federal grants, nor has total aid increased as fast as increases in the cost of attendance. As a result, the cost of attendance consumes a greater share of personal income, as mentioned earlier.

Table 2
Regional Changes in Higher Education Appropriations

States	FY2002 State Appropriations	FY2003 State Appropriations	% Change over FY2002	2 Year % Change over FY2001
Southeast:				
Alabama	\$1,116, 129	\$1,148,152	2.9%	-1.0%
Arkansas	653,386	625,987	-4.2%	1.3%
Florida	2,822,083	2,916,595	3.3%	3.1%
Georgia	1,699,438	1,764,481	3.8%	10.3%
Kentucky	1,084,605	1,094,599	0.9%	9.3%
Louisiana	997,813	1,055,455	5.8%	19.9%
Mississippi	805,964	775,243	-3.8%	-12.1%
North Carolina	2,442, 690	2,449,659	0.3%	2.1%
South Carolina	896,773	830,305	-7.4%	-5.7%
Tennessee	1,073,136	1,153,989	7.5%	11.0%
Virginia	1,681,646	1,545,680	-8.1%	-5.2%
West Virginia	392,051	393,695	0.4%	1.6%
Subtotal, Southeast	15,665,714	15,753,840	0.6%	2.9%
Mid-Atlantic:				
Delaware	189,228	192,889	1.9%	3.8%
Maryland	1,297,406	1,301,845	0.3%	10.8%
New Jersey	1,794,946	1,791,323	-0.2%	7.2%
New York	3,574,159	3,823,188	7.0%	10.7%
Pennsylvania	2,035,092	2,011,110	-1.2%	0.3%
Subtotal, Mid-Atlantic	8,890,831	9,120,355	2.6%	7.4%
New England:				
Connecticut	761,942	762,600	0.1%	7.4%
Maine	239,892	242,082	0.9%	5.8%
Massachusetts	1,009,921	989,019	-2.1%	-13.6%
New Hampshire	107,608	111,135	3.3%	12.6%
Rhode Island	174,939	169,438	-3.1%	4.1%
Vermont	73,195	75,455	3.1%	11.4%
Subtotal, New England	2,367,497	2,349,729	-0.8%	-2.6%
Great Lakes:				
Illinois	2,922,599	2,787,048	-4.6%	3.3%
Indiana	1,321,191	1,326,682	0.4%	3.4%
Michigan	2,273,532	2,263,572	-0.4%	1.4%
Ohio	2,205,481	2,112,609	-4.2%	-4.3%
Wisconsin	1,192,913	1,220,788	2.3%	4.3%
Subtotal, Great Lakes	9,915,716	9,710,699	-2.1%	1.3%

Table 2 (continued)
Regional Changes in Higher Education Appropriations

States	FY2002 State Appropriations	FY2003 State Appropriations	% Change over FY2002	2 Year % Change over FY2001
Plains:				
Iowa	830,226	769,854	-7.3%	-9.5%
Kansas	715,585	712,027	-0.5%	4.7%
Minnesota	1,382,576	1,419,395	2.7%	5.2%
Missouri	1,049,504	875,070	-16.6%	-14.8%
Nebraska	525,220	520,691	-0.9%	-1.0%
North Dakota	201,497	201,497	0.0%	9.1%
South Dakota	141,973	148,588	4.7%	10.2%
Subtotal Plains	4,846,581	4,647,122	-4.1%	-2.2%
Southwest:				
Arizona	949,926	907,227	-4.5%	1.6%
New Mexico	611,173	620,718	1.6%	9.2%
Oklahoma	824,891	811,474	-1.6%	4.1%
Texas	5,074,633	5,209,765	2.7%	29.3%
Subtotal, Southwest	7,460,623	7,549,184	1.2%	20.4%
Rocky Mountain:				
Colorado	783,421	817,236	4.3%	9.9%
Idaho	330,776	305,337	-7.7%	2.4%
Montana	149,738	146,034	-2.5%	3.1%
Utah	608,644	566,431	-6.9%	4.2%
Wyoming	169,929	189,786	11.7%	23.6%
Subtotal, Rocky Mountain	2,042,508	2,024,824	-0.9%	7.7%
Far West:				
Alaska	204,837	212,747	3.9%	11.6%
California	9,468,062	9,590,129	1.3%	6.4%
Hawaii	349,159	369,649	5.9%	9.0%
Nevada	346,845	370,593	6.8%	17.0%
Oregon	714,837	604,330	-15.5%	-9.4%
Washington	1,373,895	1,375,255	0.1%	3.1%
Subtotal, Far West	12,457,635	12,522,703	0.5%	5.5%
TOTAL	\$63,647,105	\$63,678,456	0.0%	5.1%

Access Denied, the report of the Advisory Committee (to the U.S. Congress and the Secretary of Education) on Student Financial Assistance, takes Congress and state legislatures to task for the status of the nation's commitment to equal educational opportunity.²⁹ The Advisory Committee notes that the proportion of high school graduates from families earning less than \$25,000 per year who go to college is 32% less than the proportion from families earning more than \$75,000 per year. Compounding the problem is the fact that the cost of education has risen sharply as a percentage of family income only for low income families; yet aid for middle-income students (in the form of tax credits) and merit have begun to displace access as the focus of student financial aid policies.

Enactment of the Taxpayer Relief Act of 1997 provided new federal "student aid" through the use of income tax credits, savings incentives, and limited deductibility for interest paid on student loans. These programs were projected to cost about as much as all other existing federal financial aid programs combined and represented a significant shift in how the federal government provides funding for higher education.³⁰ The federal tax credits (and state programs that copy the federal) are not need-based; represent revenue foregone rather than expenditures; and benefit primarily middle and upper-middle income students and their families. Tax credits are capped, however, for family incomes above \$100,000. Lower income students who owe no federal taxes will not benefit, and those students whose family

Table 3
Average College and University Prices, 2002-2003

	Two-Year Public Colleges	Four-Year Public Colleges
In-State:		
Tuition and Fees, 2002-2003	\$1,735	\$4,081
Tuition and Fees, 2001-2002	\$1,608	\$3,725
Percent Change	7.9%	9.6%
Room and Board, 2002-2003	N/A	\$5,582
Room and Board, 2001-2002	N/A	\$5,266
Percent Change	N/A	6.0%
Books and Supplies	\$727	\$786
Transportation, Commuter	\$1,104	\$1,013
Transportation, Resident	N/A	\$749
Other Expenses	\$1,462	\$1,853
Total Budget, 2002-2003		
Resident		\$12,841
Commuter	\$9,731	\$13,463

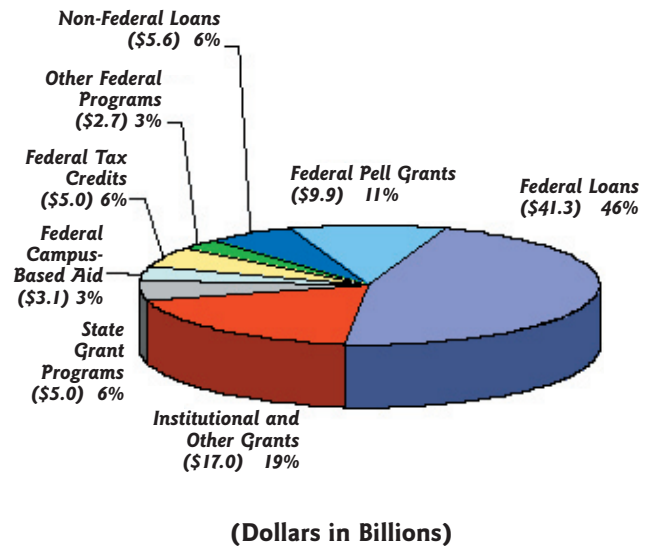
Source: The College Board, *Trends in College Pricing 2002*.

tax bill is less than the credit will receive partial benefits. For these reasons, the Advisory Committee on Student Financial Assistance has attacked the program as contributing to the denial of access. Despite the dire predictions that these programs would result in reductions of other aid and cost over \$10 billion, it is estimated that the federal program provided about \$5 billion of tax relief for middle income families in 2002.

Since 1998, more than 60% of states adopted some merit-based scholarship program, copying the Georgia Hope Scholarship in most cases.³¹ While many higher education analysts criticize this program, it has been enormously popular with legislatures, as are college savings programs and prepaid college tuition programs.³² All of the prepaid college tuition or college savings programs and the federal Hope and Lifetime Learning programs represent tax expenditures, or foregone revenues, to the federal and state governments. Significant questions have been raised about the trend of governments subsidizing the clients of higher education (students and their families) as opposed to subsidizing the institutions. The impact of these programs on access and equity issues is unclear although the Advisory Committee on Student Financial Assistance blames these programs for reductions in access.³³

Since 1981, current funds revenues of public higher education institutions have experienced a shift in the proportions of revenues from state appropriations and tuition. In 1981, state appropriations contributed about 44% of total revenues at public four-year institutions, and tuition made up 12.9% of revenues. In 1998, the latest year for which data are available, state appropriations' share declined to 30%, while tuition's share of current revenues had climbed to 20.4%.³⁴ Over half of the states constrain by state policy colleges and universities to limited increases in tuition. In 12 states, tuition increases cannot exceed the increase in the CPI or the Higher Education Price Index (HEPI).³⁵ When the economy experiences a downturn, as it has now, freezes on tuition increases coupled with little or no increase in state appropriations

Figure 1
Estimated Student Aid by Source FY2002
Total Aid Awarded: \$89.6 Billion



Source: The College Board, *Trends in Student Aid 2002*.

require reductions in services or quality or an increase in productivity. It was for that reason that Connecticut removed its freeze on tuition increases. Only time will tell if other states follow suit.

Other Issues

During the 1990s, nine states fundamentally changed their higher education governance structures, and at least 20 other states studied and debated the issue.³⁶ In Massachusetts, the new governor has proposed significant changes in governance that will have a negative impact on state funding. The proposal would privatize the University of Massachusetts Amherst Campus and cut state appropriations accordingly. In Colorado, vouchers to students, as opposed to appropriations to higher education institutions, have been proposed by the state legislature. It is unclear if this bill will be passed into law, but it certainly has raised the stakes for the funding of higher education.

During 2002 legislative sessions, several states discussed additional flexibility as a trade-off to performance indicators or funding. The National Association of State Budget Officers (NASBO) has called performance-based budgeting and funding the most significant trend in state budgeting.³⁷ Elsewhere in this edition, Burke and Minassian point out that the drive to accountability has swept the country and appears likely to continue.

Emerging Issues in 2003 Legislative Sessions

With the national economy showing signs of crisis, higher education leaders are cautious and even somewhat pessimistic about the results of 2003 legislative sessions. Many higher education leaders are hoping to prevent additional outright budget reductions. Others are prepared to argue that new research funding and workforce development programs are the key to improving the economy in their states. Budget cuts have forced many institutions to defer expansions of programs, including cooperative programs with elementary and secondary education.³⁸ Higher education is one of the few discretionary items in state budgets

and always is vulnerable to funding reductions; institutions likely will continue to face actual budget reductions in the next two years. The fiscal forecast for state spending indicates that states likely will face additional significant fiscal deficits.

As Caruthers has indicated, the “perfect storm” may have hit higher education. The good times were good while they lasted, and may continue for a lucky few institutions or states. However, for the majority of others, this year likely will be a time of focusing on doing more with less, and seeking to survive. Tougher decisions will demand more of college and university leaders. The easy cuts have been made to budgets, and now decisions about programs, and the primary missions of the institutions will come to the forefront.

Footnotes

¹ National Governors Association (NGA) and National Association of State Budget Officers (NASBO), *Fiscal Survey of the States* (December 2002), <http://www.nacubo.org>.

² James Palmer, *Grapevine* (Bloomington, Illinois: Illinois State University, 2003), <http://www.coe.ilstu.edu/grapevine>. *Grapevine* reported adjusted FY2002 appropriations so that numbers shown here do not match appropriations reported in the Fourth Annual State of the States.

³ Michael Arnone, “State Spending on Colleges Increases at Lowest Rate in a Decade,” *Chronicle of Higher Education*, December 13, 2002, A28.

⁴ NGA and NASBO, *Fiscal Survey of the States*.

⁵ Education Commission of the States, *ECS e-Clips*, November 26, 2002, <http://www.ecs.org/ecs/e-clips>.

⁶ NGA and NASBO, *Fiscal Survey of the States*.

⁷ The College Board, *Trends in Student Aid 2002*, <http://www.collegeboard.com/press/cost02/html/CBTrendsAid02.pdf>.

⁸ Michael Arnone, Sara Hebel, and Peter Schmidt, “Another Bleak Budget Year,” *Chronicle of Higher Education*, January 3, 2003, A21.

⁹ Ibid.

¹⁰ Complete information on state-by-state appropriations for higher education over the ten year period FY1993 to FY2003 can be obtained at <http://www.ilstu.edu/grapevine>. Information on state budgets, expenditures, and fund balances can be obtained at <http://www.nasbo.org>.

¹¹ These included Alaska, Arizona, California, Colorado, Idaho, Iowa, Kansas, Maryland, Massachusetts, Mississippi, Montana, Oklahoma, Pennsylvania, Utah, and Wisconsin, but higher education budgets did not decrease in five of those states: Alaska, California, Colorado, Maryland, and Wisconsin.

¹² These included Alabama, Iowa, Massachusetts, Mississippi, Missouri, Nebraska, Ohio, Oregon, South Carolina, and Virginia.

¹³ NGA and NASBO, *Fiscal Survey of States*.

¹⁴ American Association of State Colleges and Universities (AASCU), *State Issues Digest 2002*, April 2002, http://www.aascu.org/policy/sid_02/default.htm.

¹⁵ Ibid.

¹⁶ Calculated by MGT from data reported by the National Association of State Budget Officers and *Grapevine*. Data on percentage share for FY1987 to FY1997 from AASCU came from, American Association of State Colleges and Universities, *State Fiscal Conditions* (Washington, D.C.: August 1998) 4.

¹⁷ Kent Halstead, communications with the author, February, 2003.

¹⁸ U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Price Indexes*, <http://www.bls.gov/cpi>.

¹⁹ These included: Arizona, Arkansas, California, Connecticut, Delaware, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Montana, Nebraska, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Vermont, Washington, West Virginia, and Wisconsin.

²⁰ National Association of College and University Business Officers, “Hit With Triple Whammy, Institutions Raise Tuition,” *Business Officer*, 36 (December 2002): 10.

²¹ The College Board, *Trends in College Pricing 2002* (New York: 2002).

²² Ibid.

²³ Go to: <http://nces.ed.gov>.

²⁴ National Institute on Postsecondary Education, Libraries, and Lifelong Learning, *Managing the Price of College: A Handbook for Students and Families*. (Washington, D.C.: U.S. Department of Education, U.S. Government Printing Office, November 2000), <http://www.ed.gov/pubs/collegecosts/cover.html>.

²⁵ William Trombley, *The Rising Price of Higher Education*, National Center for Public Policy and Higher Education, Winter, 2003.

²⁶ Ibid.

²⁷ The College Board. *Trends in Student Aid 2000* (New York: 2000).

²⁸ Stephen Burd, “Report Says Congress Must Act to Minimize Students’ Mounting Loan Debt,” *Chronicle of Higher Education*, March 28, 2001.

²⁹ Advisory Committee on Student Financial Assistance, *Access Denied* (Washington, D.C.: U.S. Congress and Secretary of Education February, 2001), http://www.ed.gov/offices/AC/ACSFA/access_denied.pdf.

³⁰ Kristin D. Conklin, *Federal Tuition Tax Credits and State Higher Education Policy* (Washington, D.C.: National Center for Public Policy and Higher Education, 1998).

³¹ *State Higher Education Executive Officers (SHEEO)/MGT Survey of State Higher Education Finance Officers (SHEFO)*.

³² Jeffrey Selingo, “Many Freshmen Lose Eligibility for Georgia’s HOPE Scholarship, Report Says,” *Chronicle of Higher Education*, April 20, 1999.

³³ Advisory Committee on Student Financial Assistance, *Access Denied*.

³⁴ Calculated from data from National Center for Education Statistics, Digest of Education Statistics 2002 (Washington, D.C.: U.S. Government Printing Office, 2002).

³⁵ AASCU, *State Issues Digest 2002*.

³⁶ Ibid.

³⁷ NGA and NASBO, *Fiscal Survey of the States*.

³⁸ Arnone et al., A21.