



# Planning and Budgeting Brief

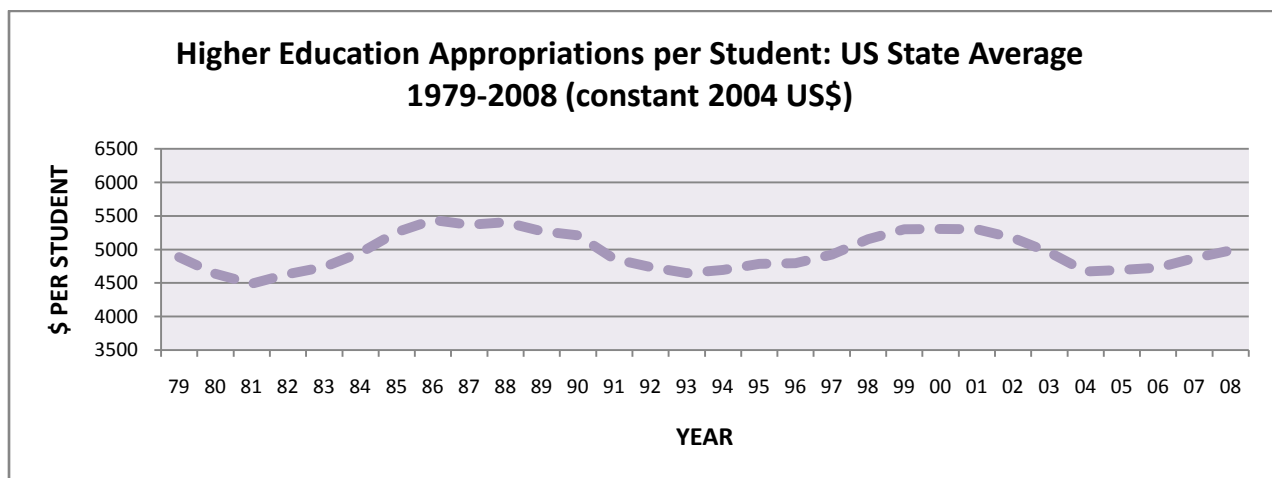
## State Funding for Higher Education: National Trends

Is the recent decline in state support for higher education a temporary result of cyclical economic changes, or does it reflect a fundamental change in the role states intend to play in funding public higher education?

Data from the past thirty years show that in difficult economic times, higher education often suffers larger cuts in state appropriations than other major spending categories such as corrections, elementary and secondary education, healthcare and security. These declines are frequently magnified by co-occurring increases in post-secondary enrollment as people attempt to weather an economic downturn by attending school and improving employment credentials.

Following each of the recessions since 1979, average state spending on higher education has rebounded (see chart below). However, after the 2001 recession, recovery of higher education spending has, on average, been slower and weaker than after previous recessions: from 2002 to 2007, the national mean level of overall state appropriations to higher education fell by 7.7%<sup>1</sup>.

Existing data support the theory that a weaker recession leads to a weaker and more protracted recovery period; because the 2001 recession was short and weak, an elongated recovery time in terms of state funding for higher education might be an expected consequence of the economic cycle. However, each successive recession since 1979 has led to more states' higher education budgets being affected, with increasingly large declines in funding and increasingly longer time periods to recovery<sup>2</sup>. Some posit that, in aggregate, state values and priorities may be changing over time, leading to fundamental changes in state funding of higher education—viewing it as a downward spiral as opposed to a repeating cycle.



\*\*State appropriation data are from the Grapevine Project located at: <http://www.grapevine.ilstu.edu/index.shtml>, while headcount figures are from the National Center for Education Statistics, Fall Enrollment in Public Degree Granting Institutions by State.\*\*

<sup>1</sup> State Higher Education Finance: FY 2007 (SHEEO: State Higher Education Executive Officers)

<sup>2</sup> Recession, Retrenchment, and Recovery: State Higher Education Funding & Student Financial Aid (SHEEO, 2006)



## Planning and Budgeting Brief

---

Whether a downward spiral or a repeating cycle, changes in state funding for higher education have occurred in a context in which higher education costs, which are driven in large part by labor and technology, have risen at rates much steeper than national average inflation calculations. These rising costs combined with intermittent and sometimes even sustained decreases in state operating funds produce budget deficits that institutions have, over time, bridged with higher tuition rates and an increased reliance on alternative funding sources including philanthropy and investment income. For example, in 1980, tuition revenue accounted for 20 percent of total revenue at an average institution. Today, public four-year institutions rely on tuition for almost 40 percent of their total revenue<sup>3</sup>. Therefore, even when state funding of public higher education remains steady after being adjusted for national inflation rates, those costs being borne by students, their families, and the institutions continue to increase.

There are not enough data at this time to indicate whether average state funding levels for higher education will again rebound to match historic highs, or whether states will continue to shift the cost burden to institutions and students. Given the volatility of state funding and the increase in higher education costs, however, it is clear that in order to ensure continued quality and access, institutions will need to assess their relative reliance on different funding sources and their approaches to budgeting in order to insulate themselves from the economic cycles of the state and correspondingly unpredictable funding levels. Ultimately, the state might be viewed as one of many different funding sources for a public institution, not the driving source, and tuition the mechanism by which a single institution is able to close gaps between funds and costs in any given year. With a recession underway and states facing huge deficits that are already causing higher education cuts, the immediate need for fundamental reassessment is clear.

*Date Prepared: December 4, 2008*

*Please direct questions to: Jessica Thompson at 206.685.9955 or [jlthomp@u.washington.edu](mailto:jlthomp@u.washington.edu)*

---

<sup>3</sup> State Higher Education Finance: FY 2007 (SHEEO: State Higher Education Executive Officers)