

## TRENDS IN STATE FUNDING FOR PUBLIC HIGHER EDUCATION

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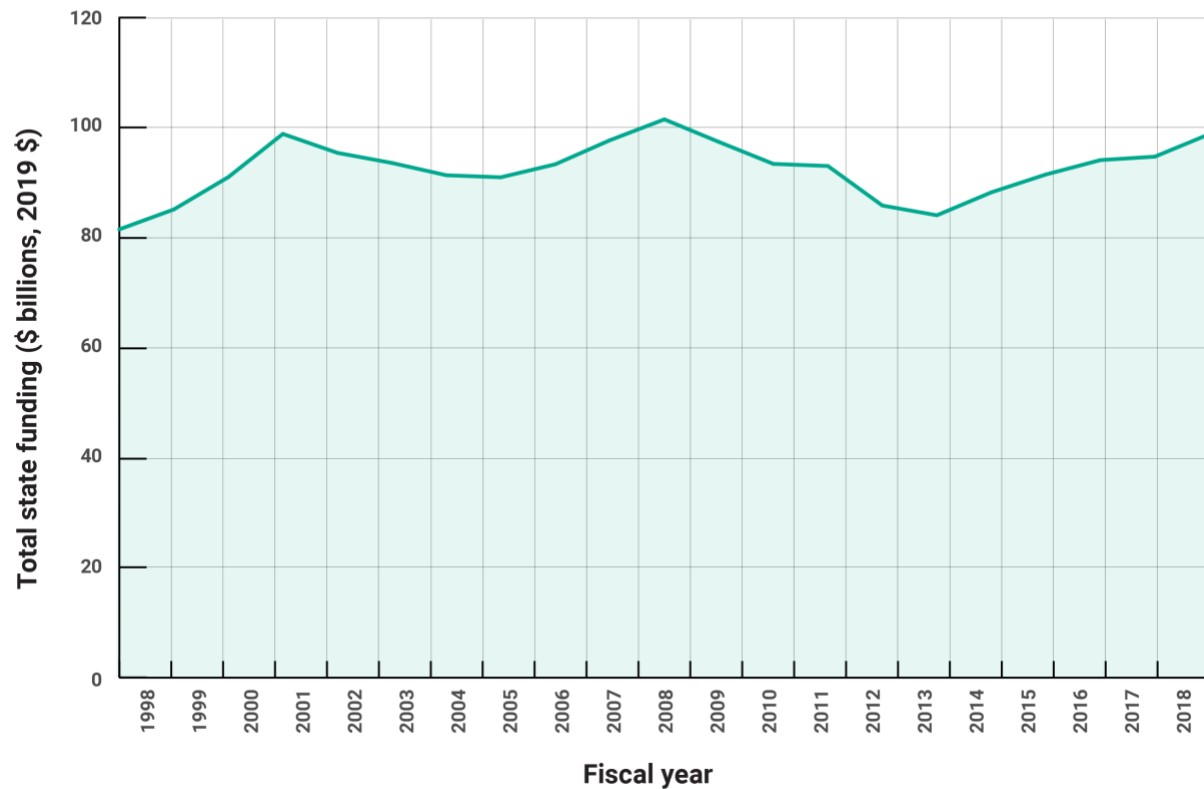
As a result of the coronavirus pandemic, public colleges and universities are facing unprecedented financial stress. Colleges lost billions of dollars in revenue in the spring and summer terms after being forced to close their physical campuses and responded by implementing furloughs, layoffs, and other cost-saving measures.<sup>1</sup> Regardless of the path that a college is taking for the fall term, these losses are likely to continue with fewer students on campus and increased costs related to health and safety.

State funding plays a crucial role in supporting public colleges, but funding generally declines during recessions as states prioritize protecting other budget areas (such as K-12 education and health care). Higher education's use as a balancing wheel during recessions means that state funding cuts during economic downturns can be large, and it can take colleges years to recover.<sup>2</sup>

Figure 1 shows total state funding (inflation-adjusted into 2019 dollars) for public higher education from Fiscal Year 1998 to Fiscal Year 2018. These data, from the U.S. Department of Education's Integrated Postsecondary Education Data System, include operating and nonoperating aid and grants from the state to colleges. This period encompasses two recessions: a shallow recession from March 2001 to November 2001 and the Great Recession from December 2007 to June 2009.<sup>3</sup> Because of how state budgets work and how tax collections often lag improvements in economic activity, the worst of the budget cuts often take place in the year or two following the beginning of a recession.

Total state funding increased from \$82 billion in Fiscal Year 1998 to \$99 billion in Fiscal Year 2001 before declining to \$91 billion by Fiscal Year 2005. Funding rebounded above 2001 levels in 2008 (to \$101 billion) before bottoming out at \$84 billion in Fiscal Year 2013. This decline would have likely been steeper without the requirement that states keep public higher education funding at 2006 levels in order to access federal stimulus dollars.<sup>4</sup> By 2018, funding reached \$99 billion—the same inflation-adjusted level as in the early 2000s.

## Total state funding for public higher education



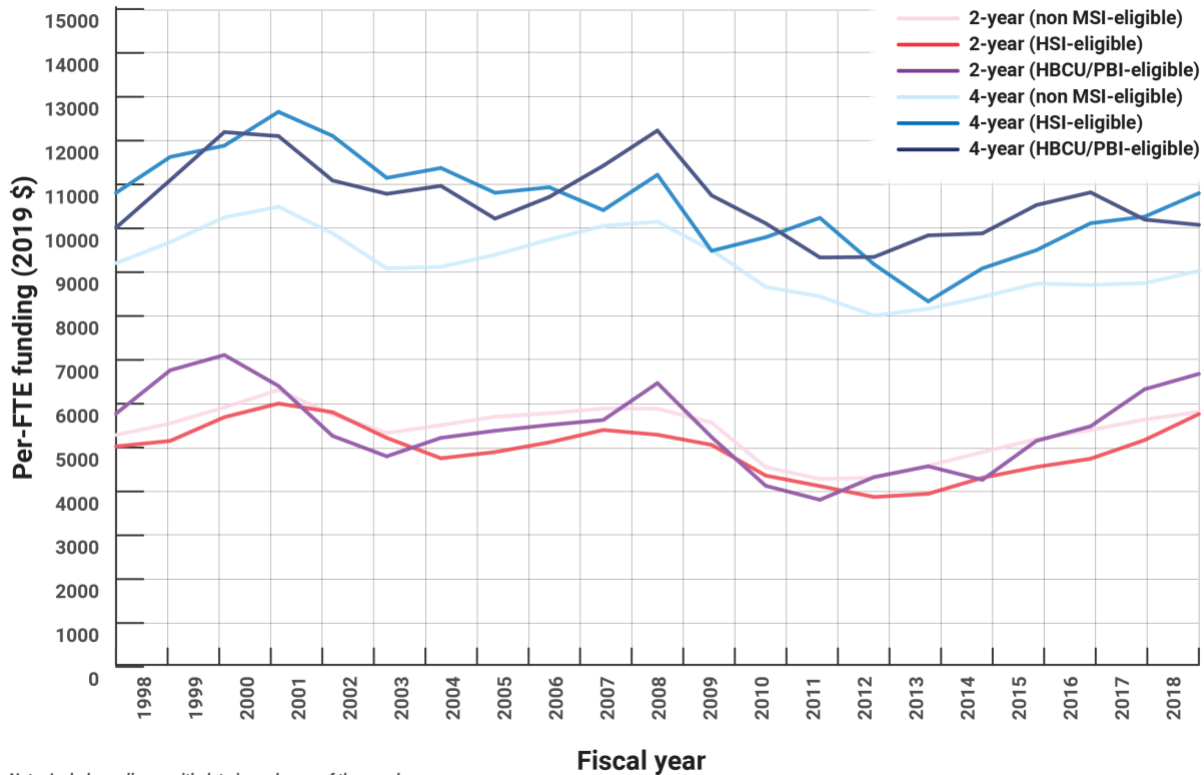
*Note: Includes all public institutions in the IPEDS universe.*

While total state funding provides a useful picture of states’ effort in supporting public higher education, it does not take into account differences across types of institutions or changes in enrollment. To consider both of these factors, we divided colleges into two-year and four-year institutions as well as by their 2020 eligibility to be a minority serving institution (MSI) by the U.S. Department of Education.<sup>5</sup> We combined historically black colleges and universities (HBCUs) and colleges eligible to be primarily black institutions (PBIs) into one category and separately examined colleges eligible to be Hispanic Serving Institutions (HSIs) and all non-MSI-eligible institutions.<sup>6</sup> Finally, to make comparisons across types of colleges, we limited the sample to colleges in 33 states that had at least one HSI, HBCU, or PBI within their public higher education system and reported finance and enrollment data for each year in the sample.

Figure 2 shows trends in inflation-adjusted state funding per full-time equivalent (FTE) student by sector and MSI eligibility status.<sup>7</sup> Because enrollment in public higher education—and community colleges in particular—typically increases much more quickly during recessions than in economic boom periods, per-FTE funding is much more volatile than overall state funding. For example, per-FTE funding for two-year

HSIs ranged from a high of \$6,000 in 2001 to a low of just below \$3,900 in 2011. Per-FTE funding for four-year colleges was well below its pre-Great Recession highs in 2018, while community college funding was much closer to its peak due to declining enrollment in the 2010s.

### Median per-FTE funding by sector and MSI status

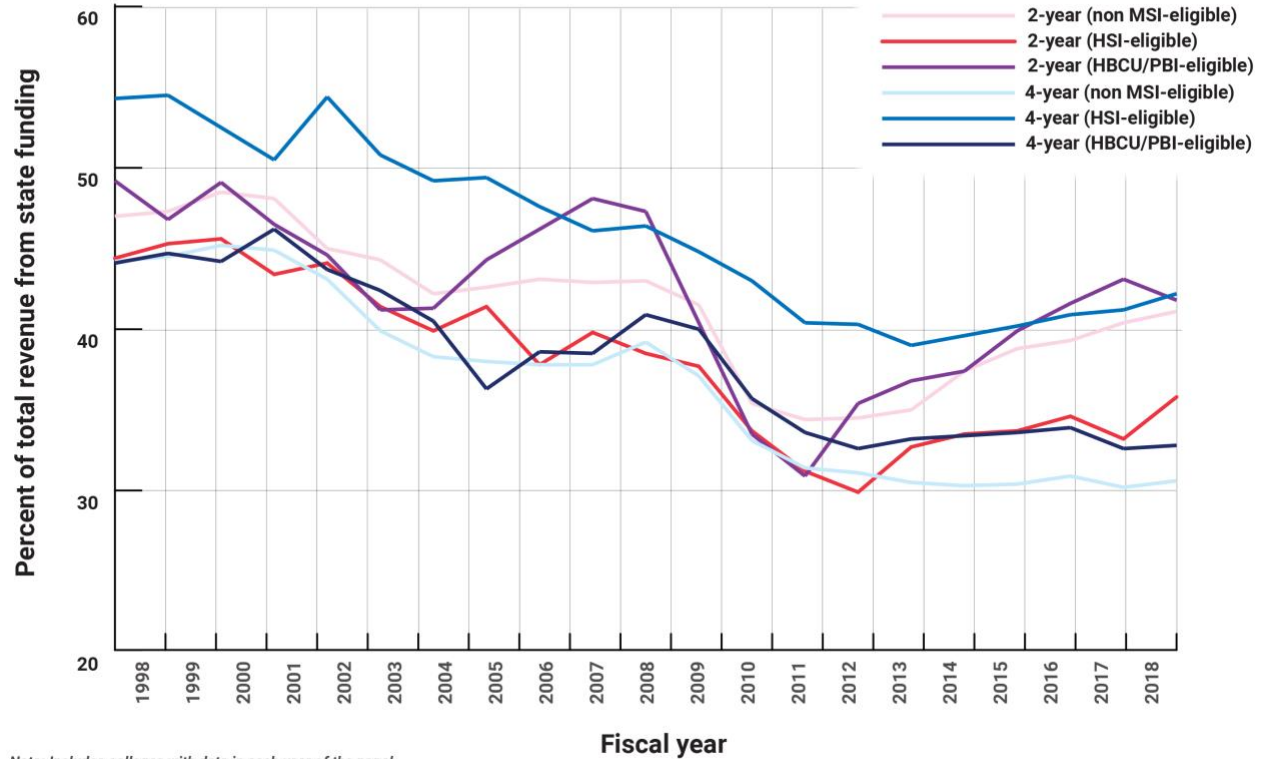


Note: Includes colleges with data in each year of the panel.  
Includes colleges in 33 states that had at least one HBCU, PBI, or HSI-eligible college.

Among four-year colleges, HBCUs/PBIs and HSIs had higher levels of per-FTE funding than non-MSIs. This may be due to some states prioritizing undergraduate students in their funding models and giving additional funding to smaller and more rural colleges to cover higher per-student operating costs. In the two-year sector, revenues were more similar across institutional types.

Even when state funding is similar across types of colleges, overall resource levels can differ considerably between MSIs and non-MSIs due to local tax bases (for community colleges) and the ability to increase net tuition revenue (for four-year institutions). In Figure 3, we show the percentage of total revenue coming from state funding since Fiscal Year 1998 by sector and MSI-eligibility type.

## Median percentage reliance on state funding by sector and MSI status



Note: Includes colleges with data in each year of the panel.  
Includes colleges in 33 states that had at least one HBCU, PBI, or HSI-eligible college.

All types of public colleges and universities have become less reliant on state funding over the past two decades, with the sharpest declines for most colleges occurring during the 2001 recession and the Great Recession. Four-year universities in particular have seen a reduced share of their revenues coming from the state, with HBCUs/PBIs and non-MSIs getting less than one-third of total funds from state governments. Two-year colleges have faced a smaller decline in the share of funding coming from the states, and this percentage has increased since hitting a low in the early 2010s.

Barring a massive influx of federal funds, significant cuts in state higher education budgets appear likely in Fiscal Years 2021 and 2022. This follows end-of-year budget cuts for Fiscal Year 2020 in states such as Missouri and New Jersey. Here are examples of how three states are currently approaching higher education funding for Fiscal Year 2021. We will explore these three states in more detail in an upcoming brief.

**California** is deferring \$1.45 billion in funding to the California Community Colleges, with \$791 million of the deferral being provided immediately if the federal government provides additional funding. The

University of California and California State University systems will receive a five percent funding increase if the federal government provides funding and a cut of nearly 15% of that does not happen.<sup>8</sup>

**Florida** passed its Fiscal Year 2021 budget in June that includes increases of 1.7% for the Florida College System and 0.7% for the State University System. Notably, Florida's Historically Black Colleges and Universities are slated to receive \$123.2 million, representing an increase of about 15.3 percent from Fiscal Year 2020.<sup>9</sup> However, state tax revenues for Fiscal Year 2020 were 3.5% lower than the previous fiscal year, with a 27% year-over-year decline in June 2020.<sup>10</sup> This raises the possibility that midyear budget cuts will be necessary if economic conditions fail to improve.

**Texas** is projecting a \$4.6 billion deficit for the biennium ending in Fiscal Year 2021, and the governor asked state agencies to prepare for a five percent cut in funding for the biennium.<sup>11</sup> Most of these cuts will have to come from Fiscal Year 2021, resulting in a cut of closer to ten percent this year. The combination of reductions in state funding and increased coronavirus-related expenses has led a number of Texas public colleges to furlough or lay off employees.<sup>12</sup>

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<sup>1</sup> Open Campus (2020, April 6). *What's happening with state budgets and higher ed*. Retrieved from <https://www.opencampusmedia.org/2020/04/06/whats-happening-with-state-budgets-and-higher-education/>.

<sup>2</sup> Delaney, J. A., & Doyle, W. R. (2011). State spending on higher education: Testing the balance wheel over time. *Journal of Education Finance*, 36(4), 343-368.

<sup>3</sup> National Bureau of Economic Research (2020). *US business cycle expansions and contractions*. Retrieved from <https://www.nber.org/cycles.html>.

<sup>4</sup> Harnisch, T. L. (2012). *Update on the federal maintenance of effort provision: Reinforcing the state role in public higher education financing*. Washington, DC: American Association of State Colleges and Universities.

<sup>5</sup> U.S. Department of Education (2020). 2020 eligibility matrix. Retrieved from <https://www2.ed.gov/about/offices/list/ope/itudes/2020eligibilitymatrix.xlsx>.

<sup>6</sup> We combined HBCUs and PBIs because most four-year colleges in our sample were HBCUs and most two-year colleges were PBIs. HBCUs and PBIs qualify for different levels of federal support, but we had to combine them for sample size purposes.

<sup>7</sup> The broad pattern of results is the same when using headcount enrollment, although the per-student gap between two-year and four-year colleges is larger. We plan to return to this important issue in future work.

<sup>8</sup> Stavely, Z., Johnson, S., Jones, C., Burke, M., & Fensterwald, J. (2020, June 26). California legislature approves state budget; here are the highlights for education funding. *EdSource*. Retrieved from <https://edsources.org/2020/california-legislature-approves-state-budget-here-are-the-highlights-for-education-funding/634806>.

<sup>9</sup> Governor Ron DeSantis (2020, June 29). *Governor Ron DeSantis signs the fiscal year 2020-21 budget*. Retrieved from <https://www.flgov.com/2020/06/29/governor-ron-desantis-signs-the-fiscal-year-2020-2021-budget/>.

<sup>10</sup> Florida Department of Revenue (n.d.). Tax collections and distributions. Retrieved from <https://floridarevenue.com/taxes/Pages/distributions.aspx>.

<sup>11</sup> Pollock, C. (2020, July 20). Texas faces a looming \$4.6 billion deficit, comptroller projects. *The Texas Tribune*. Retrieved from <https://www.texastribune.org/2020/07/20/texas-deficit-comptroller/>.

<sup>12</sup> Justin, R. (2020, August 7). Texas universities have started shedding jobs and are bracing for a serious financial hit. *The Texas Tribune*. Retrieved from <https://www.texastribune.org/2020/08/07/texas-universities-coronavirus/>.