



S T A T E

H I G H E R

E D U C A T I O N

F I N A N C E



FY 2005

EXECUTIVE

OVERVIEW

SHEEO



This is an excerpt from the publication, *State Higher Education Finance FY 2005*. The full publication can found on www.sheeo.org.

© 2006 State Higher Education Executive Officers; V2

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

EDUICATION

FINANCE



FY 2005

A project of the staff of the State Higher Education Executive Officers (SHEEO)

Principal contributors:

Paul E. Lingenfelter
David L. Wright
Takeshi Yanagiura

Additional contributors and collaborators:

Hans P. L'Orange
Susan B. Winter
Dianne Peterson



SHEEO

OVERVIEW

The State Higher Education Finance (SHEF) report is designed to help policymakers 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.

SUMMARY OF NATIONAL TRENDS AND INTERSTATE COMPARISONS

Higher education represents a substantial commitment on the part of state and local governments, both historically and currently. In fiscal 1981,¹ state and local governments invested about \$21 billion in current dollar direct support for general operating expenses of public and independent higher education. In current dollars, this investment had grown to \$42 billion by 1991, to \$67 billion by 2001, and to \$69 billion by 2004.

By 2005, state and local support for higher education totaled \$72 billion (*Table 1*), a 3.6 percent increase from the prior year. State governments provided about 91 percent of this amount, mostly in appropriations from state tax revenues. Other types of state revenue – lotteries, royalty/lease income, and earnings on state endowments – totaled \$2.1 billion, or just over three percent of state support.

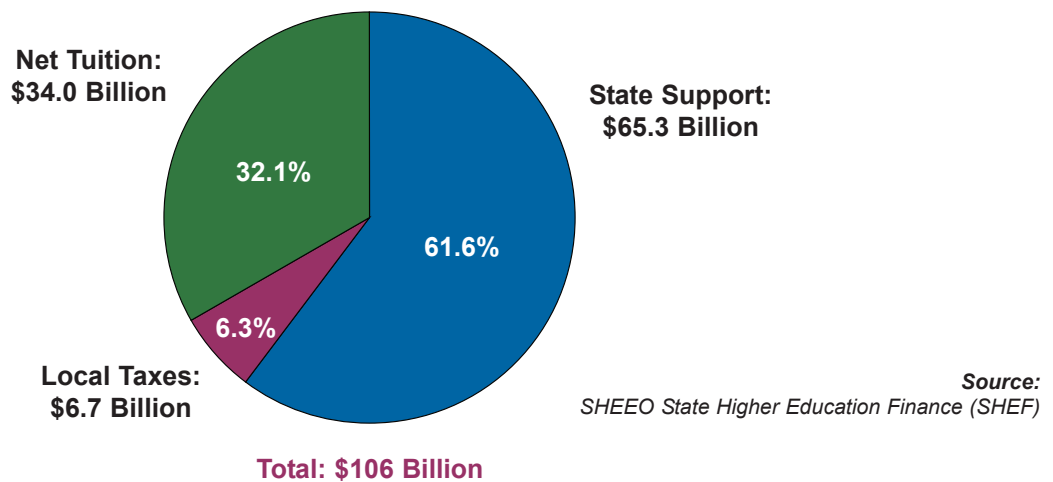
In 2005, inflation increased by 3.4 percent and FTE enrollment grew by 2.2 percent in public institutions. When these factors are considered, constant dollar state and local government support per student decreased 1.9 percent in 2005.

Of the \$72 billion in state and local support, most (78 percent) was used for general operating expenses of public higher education. Special-purpose appropriations for research, agricultural extension, and medical education accounted for another 13.5 percent. Financial aid – to students attending public and independent institutions – constituted 8.1 percent. The remaining 0.5% was in direct support of in-state independent institutions. While the total increase in state and local support in 2005 was 3.6 percent, the increase for general operating expenses in the public sector was 3.4 percent, student financial aid increased 7.2 percent, and research-agriculture-medicine increased 2.0 percent.

Public institutions collected net tuition² revenue of \$34 billion in addition to these state and local funds, for a total of \$106 billion in 2005 (*Figure 1*).

Figure 1

**State, Local, and Net Tuition Revenue for General Operating Expenses of Higher Education
U.S., Fiscal 2005**



¹ This report usually refers to fiscal years, identified by the year in which the 12-month fiscal period ended. For instance, 2005 identifies FY2005, or fiscal year 2004-05.

² Net tuition = gross assessments for tuition and mandatory fees minus institutional discounts and waivers, state-funded student financial aid, and medical tuition.

Table 1

**Major Sources and Uses of State and Local Government Support,
Fiscal 2001-2005 (current dollars, in thousands)**

Sources	2001	2002	2003	2004	2005
State					
<i>Tax Appropriations¹</i>	60,198,813,016	62,447,090,072	61,188,494,622	60,938,111,559	63,142,728,314
<i>Appropriated Non-Tax Support</i>	796,230,904	855,673,432	1,182,998,554	1,342,328,010	1,652,122,063
<i>Non-Appropriated Support</i>	160,149,365	132,430,597	127,517,995	125,431,473	162,566,921
<i>Endowment Earnings</i>	227,454,258	235,126,400	259,671,322	263,912,932	281,843,857
<i>Other²</i>	5,385,379	6,141,369	6,488,860	22,823,305	23,034,408
State Total	61,388,032,922	63,676,461,870	62,765,171,353	62,692,607,279	65,262,295,563
Local Tax Appropriations	5,373,931,508	5,872,495,014	6,293,622,529	6,771,056,425	6,684,712,925
Total	\$66,761,964,430	\$69,548,956,884	\$69,058,793,882	\$69,463,663,704	\$71,947,008,488
Uses	2001	2002	2003	2004	2005
Research-Agric-Medical	9,486,220,509	9,872,038,427	9,615,471,057	9,487,523,394	9,679,846,575
Public Student Aid ³	2,344,355,691	2,459,365,428	3,114,139,278	3,464,372,318	3,800,769,256
Out-of-State Student Aid	13,768,808	13,968,015	25,490,219	27,458,729	35,653,221
Independent Student Aid ⁴	1,657,449,911	1,765,203,895	1,882,814,259	1,934,802,360	1,979,017,951
Independent Institutions ⁵	284,097,278	263,955,859	262,794,258	264,562,875	345,375,454
General Public Operations	52,976,072,233	55,174,425,260	54,158,084,811	54,284,944,028	56,106,346,031
Total	\$66,761,964,430	\$69,548,956,884	\$69,058,793,882	\$69,463,663,704	\$71,947,008,488
(Percentages)					
Sources	2001	2002	2003	2004	2005
State					
<i>Tax Appropriations</i>	90.2%	89.8%	88.6%	87.7%	87.8%
<i>Appropriated Non-Tax Support</i>	1.2%	1.2%	1.7%	1.9%	2.3%
<i>Non-Appropriated Support</i>	0.2%	0.2%	0.2%	0.2%	0.2%
<i>Endowment Earnings</i>	0.3%	0.3%	0.4%	0.4%	0.4%
<i>Other</i>	0.0%	0.0%	0.0%	0.0%	0.0%
State Total	92.0%	91.6%	90.9%	90.3%	90.7%
Local Tax Appropriations	8.0%	8.4%	9.1%	9.7%	9.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Uses	2001	2002	2003	2004	2005
Research-Agric-Medical	14.2%	14.2%	13.9%	13.7%	13.5%
Public Student Aid	3.5%	3.5%	4.5%	5.0%	5.3%
Out-of-State Student Aid	0.0%	0.0%	0.0%	0.0%	0.0%
Independent Student Aid	2.5%	2.5%	2.7%	2.8%	2.8%
Independent Institutions	0.4%	0.4%	0.4%	0.4%	0.5%
General Public Operations	79.4%	79.3%	78.4%	78.1%	78.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Notes:

1. State Tax Appropriations include administered funds and prior multi-year appropriations.
2. Other State Support reflects state financial aid appropriated outside the recognized state student aid program(s).
3. Public Student Aid is state appropriated student financial aid for public institution tuition and fees. Includes aid appropriated outside the recognized state student aid program(s). Some respondents could not separate tuition aid from aid for living expenses.
4. Independent Student Aid includes student aid grants intended solely for use at in-state independent institutions and the independent sector's portion of state financial aid programs.
5. Includes state support for independent institution capital projects (new construction and debt retirement) and operating expenses.

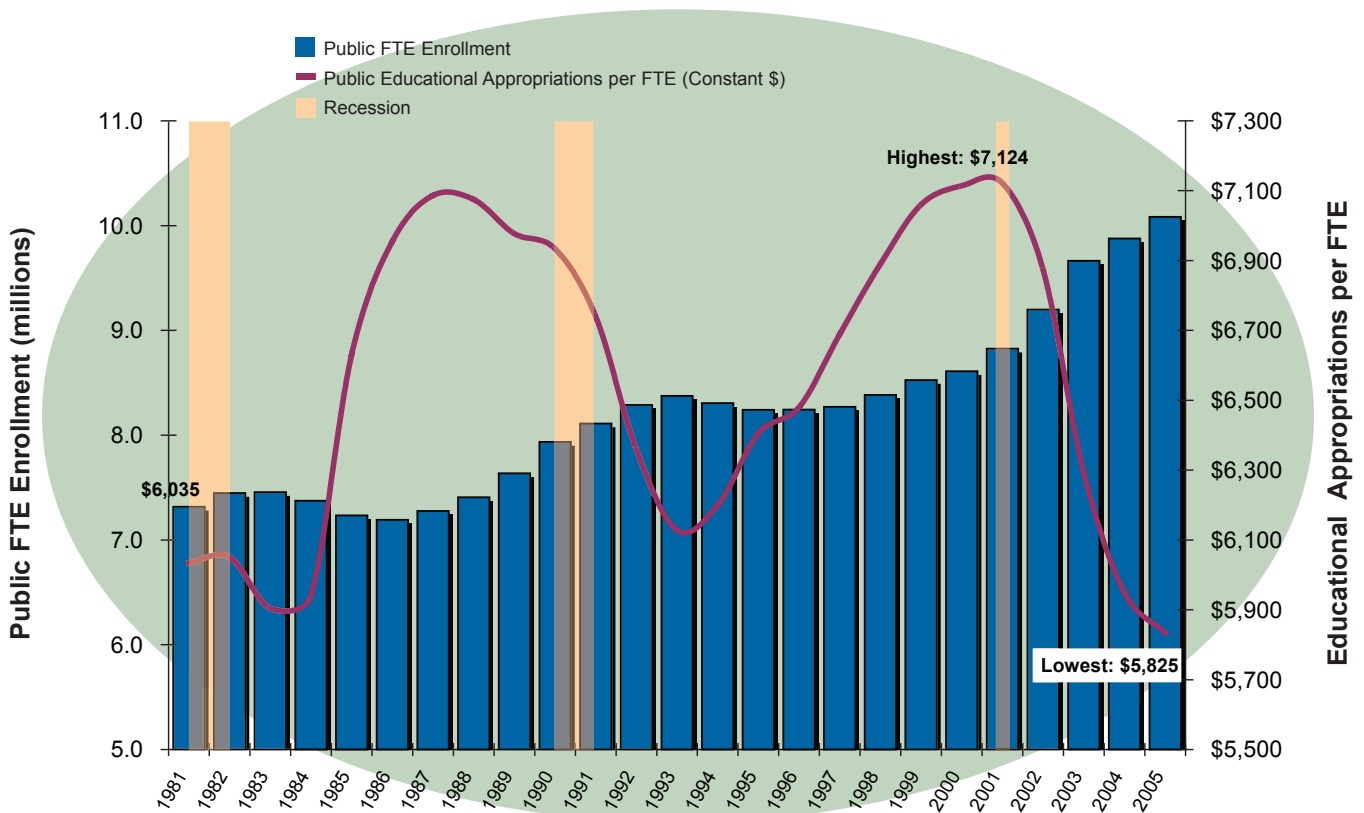
Source: SHEEO SHEF

A Quarter Century of State Higher Education Finance Data: National Revenue and Enrollment Patterns, 1981 to 2005

1. Since fiscal 1981, FTE enrollments in public institutions have increased by 38 percent, from 7.3 million to 10.1 million, with the most rapid increase occurring since 2001 (*Figure 2*).
2. From fiscal years 1981 to 2005 constant dollar educational appropriations³ per student varied from year to year, at times dramatically (*Figure 2*).

Figure 2

**Enrollment Growth and Public Higher Education Appropriations per FTE
U.S., Fiscal 1981-2005**



Note: Constant 2005 dollars adjusted by SHEEO Higher Education Cost Adjustment.

Source: SHEEO SHEF

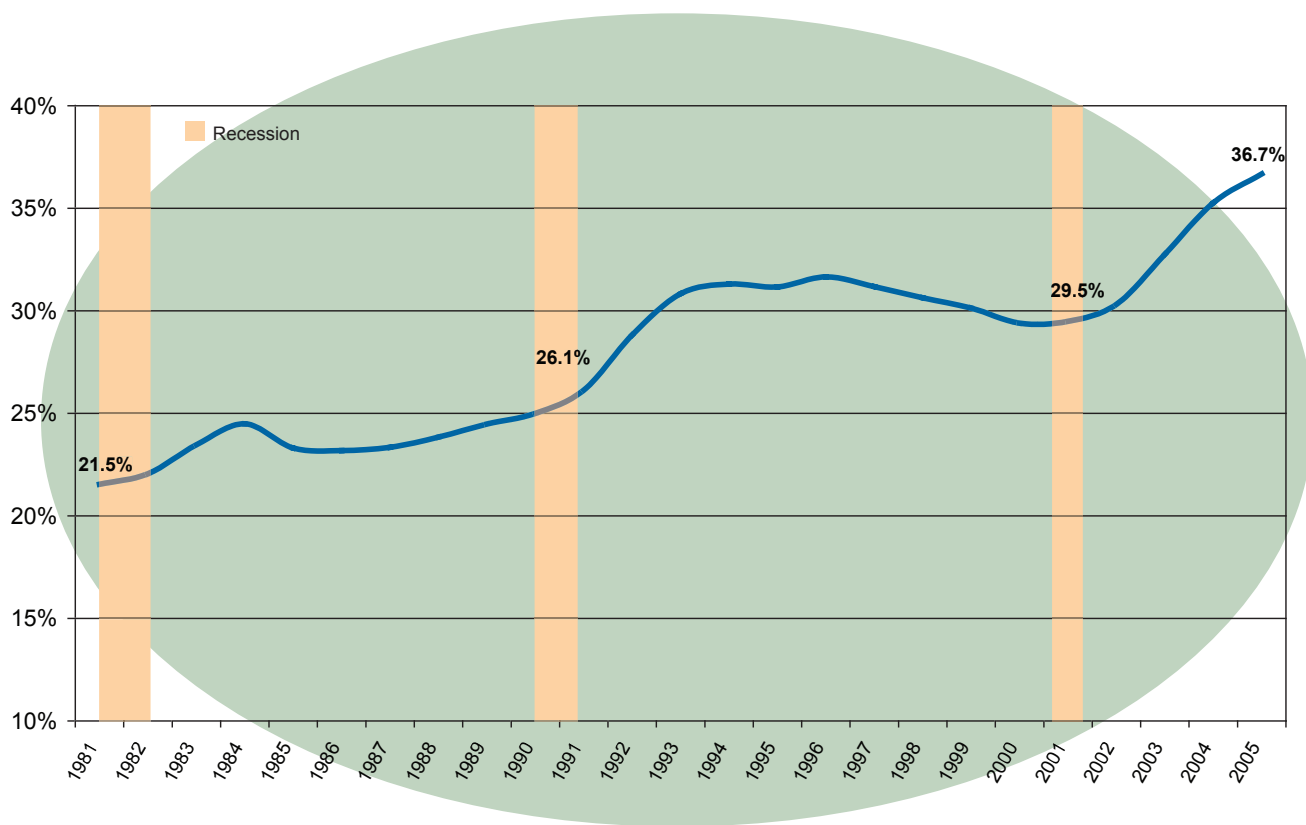
³ Educational appropriations = state tax and non-tax support plus local tax appropriations minus special purpose appropriations for research, agricultural extension, and medical education. Excludes capital outlay.

3. In 2005, state and local support per student was at its 25-year low, down from the 25-year high that occurred just four years earlier. Support per student decreased dramatically from 2001 to 2004, when enrollment and inflation grew by 11.9 percent and 10.5 percent, but state and local support was essentially flat. In 2005 state and local support resumed growth, but the national increase of 3.6 percent was exceeded by the combination of enrollment and inflation increases.

4. Historically, net tuition has grown as a percentage of total educational revenues⁴ in public institutions when constant dollar state support per student has declined. Nationally, net tuition accounted for just over one-fifth of total educational revenues in 1981. It then increased to about 25 percent after the recession of 1981-82, remaining near that level through the rest of the 1980s. Following the recession of 1990-91 tuition's share of educational revenues grew rapidly to 31 percent, then stabilized through the 1990s. After 2001 tuition resumed growing as a share of total revenues to its current level of 36.7 percent (*Figure 3*).

Figure 3

Net Tuition as a Percent of Public Higher Education Total Educational Revenues, U.S., Fiscal 1981-2005



Source: SHEEO SHEF

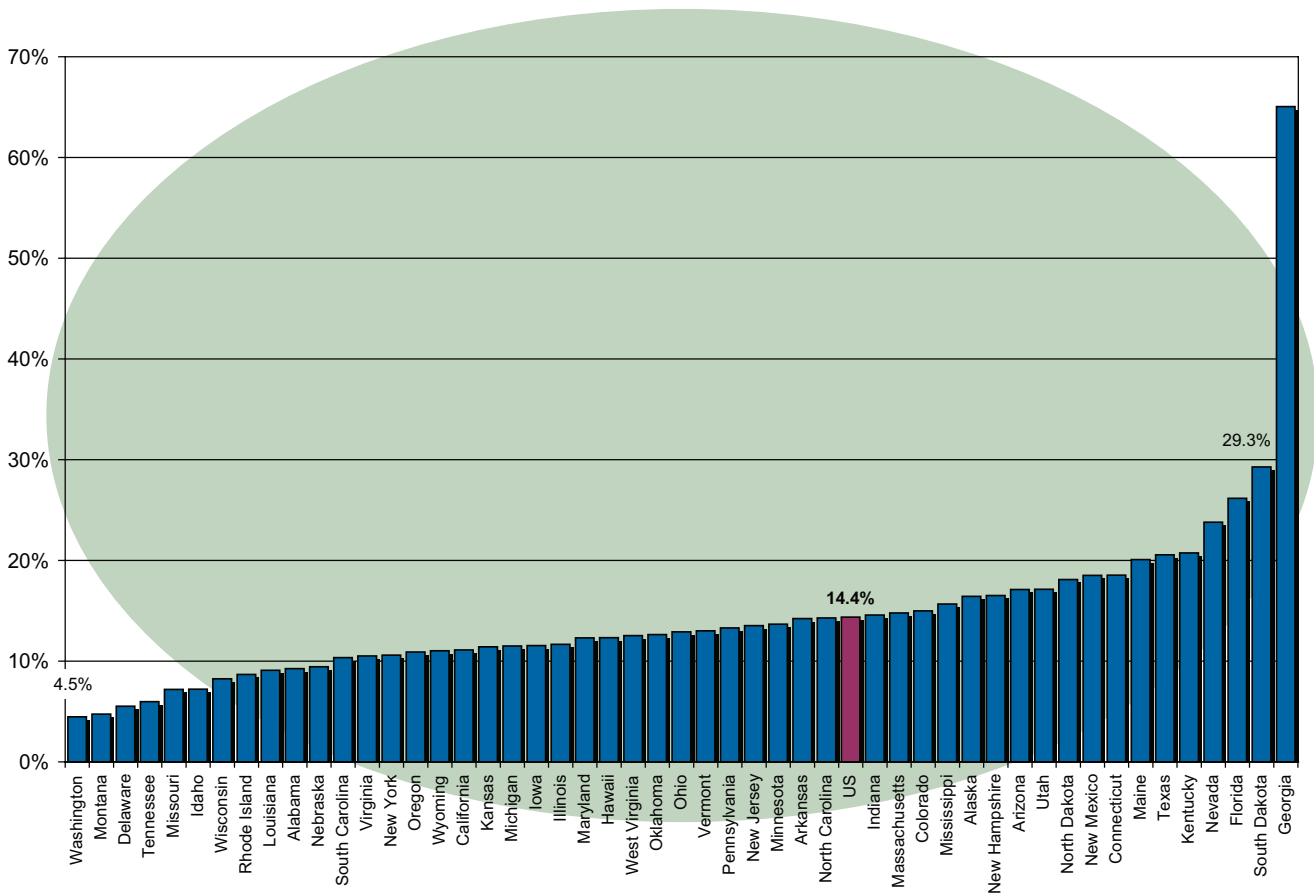
⁴ Total educational revenues = educational appropriations plus net tuition. Educational appropriations, net tuition, and total educational revenues are for general operating expenses of public higher education.

The Past Five Years

Since the turn of the century state and local government support for higher education has failed to keep pace with inflation and extraordinary enrollment growth. Inflation, as estimated by the SHEEO Higher Education Cost Adjustment (HECA), increased 14.2 percent from 2001 to 2005 and public FTE enrollments grew 14.4 percent (Figure 4). Consequently, by 2005 state and local support per student, which was at the high point of the last quarter century in 2001, fell to a 25-year low in constant dollars. Despite constant dollar net tuition increases of three to four percent each year, total educational revenues per student declined for the period.

Figure 4

**Full-Time Equivalent Enrollment in Public Higher Education
Percent Change by State, Fiscal 2001-2005**



Note: Georgia's data included Dept. of Technical and Adult Education institutions for the first time in FY05.

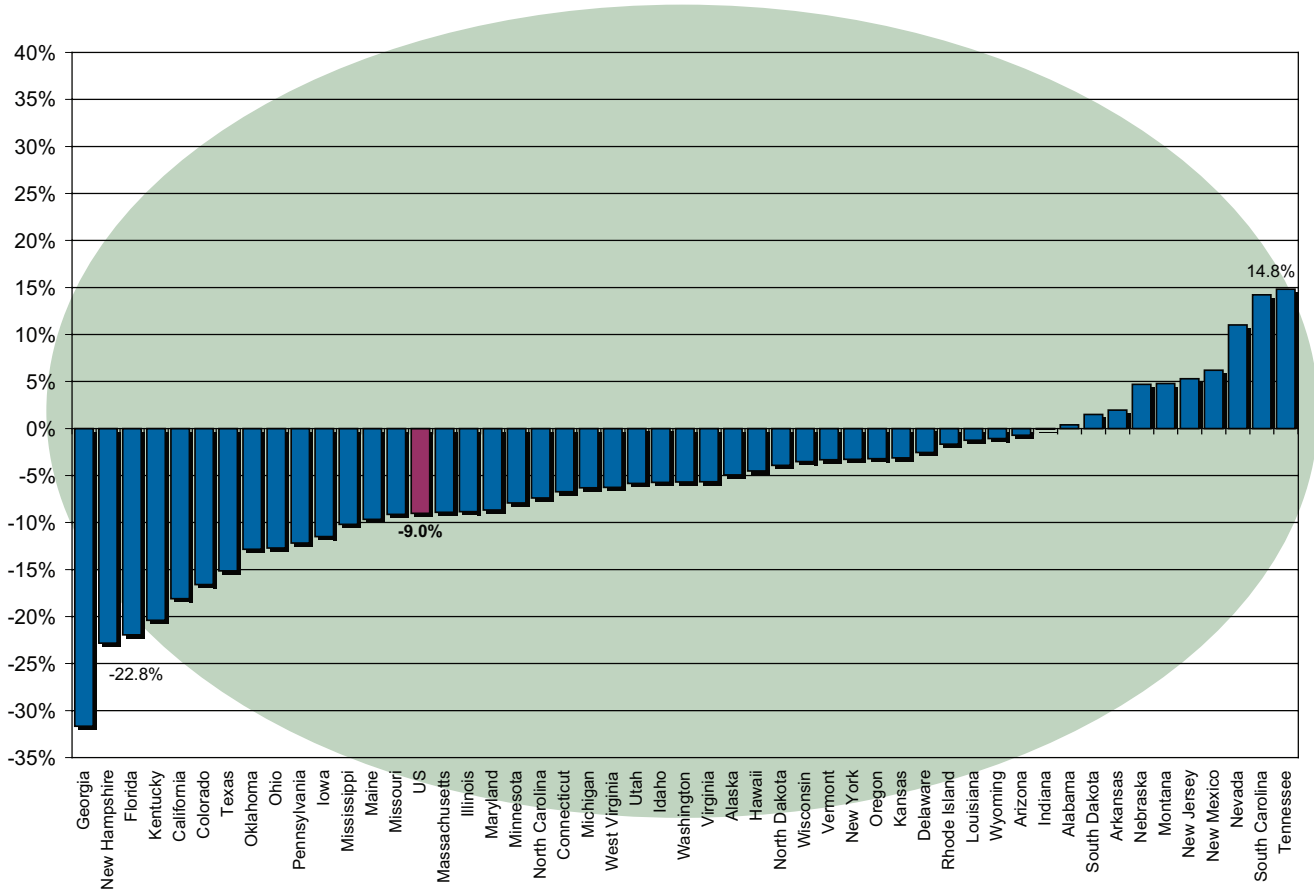
Source: SHEEO SHEF

In summary, the national trends for public institutions from fiscal 2001 to 2005 in constant 2005 dollars are:

- Total educational revenues per student decreased 9.0 percent, from \$10,107 to \$9,196 (Figure 5).

Figure 5

**Total Educational Revenues per FTE in Public Higher Education
Percent Change by State, Fiscal 2001-2005**



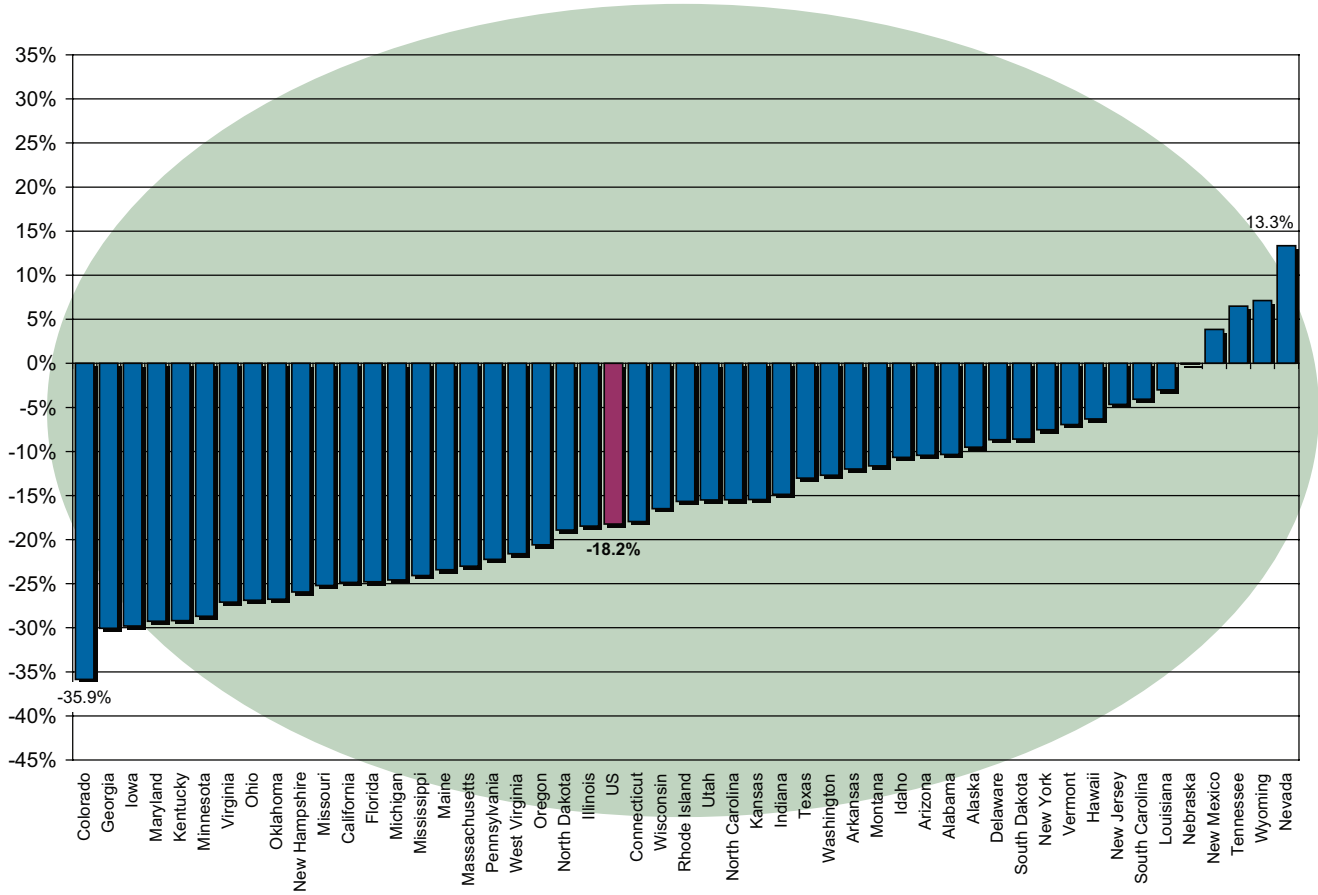
Notes: Georgia's data included Dept. of Technical and Adult Education institutions for the first time in FY05.
 Tennessee implemented a lottery-funded statewide merit scholarship program in FY05.
 Constant 2005 dollars adjusted by SHEEO Higher Education Cost Adjustment.

Source: SHEEO SHEF

- Educational appropriations per student decreased 18.2 percent, from \$7,124 to \$5,825 (Figure 6).
- Net tuition revenue per student increased 13.0 percent, from \$2,983 to \$3,371.

Figure 6

**Public Higher Education Appropriations per FTE
Percent Change by State, Fiscal 2001-2005**



Notes: Georgia's data included Dept. of Technical and Adult Education institutions for the first time in FY05.
 Tennessee implemented a lottery-funded statewide merit scholarship program in FY05.
 Constant 2005 dollars adjusted by SHEEO Higher Education Cost Adjustment.

Source: SHEEO SHEF

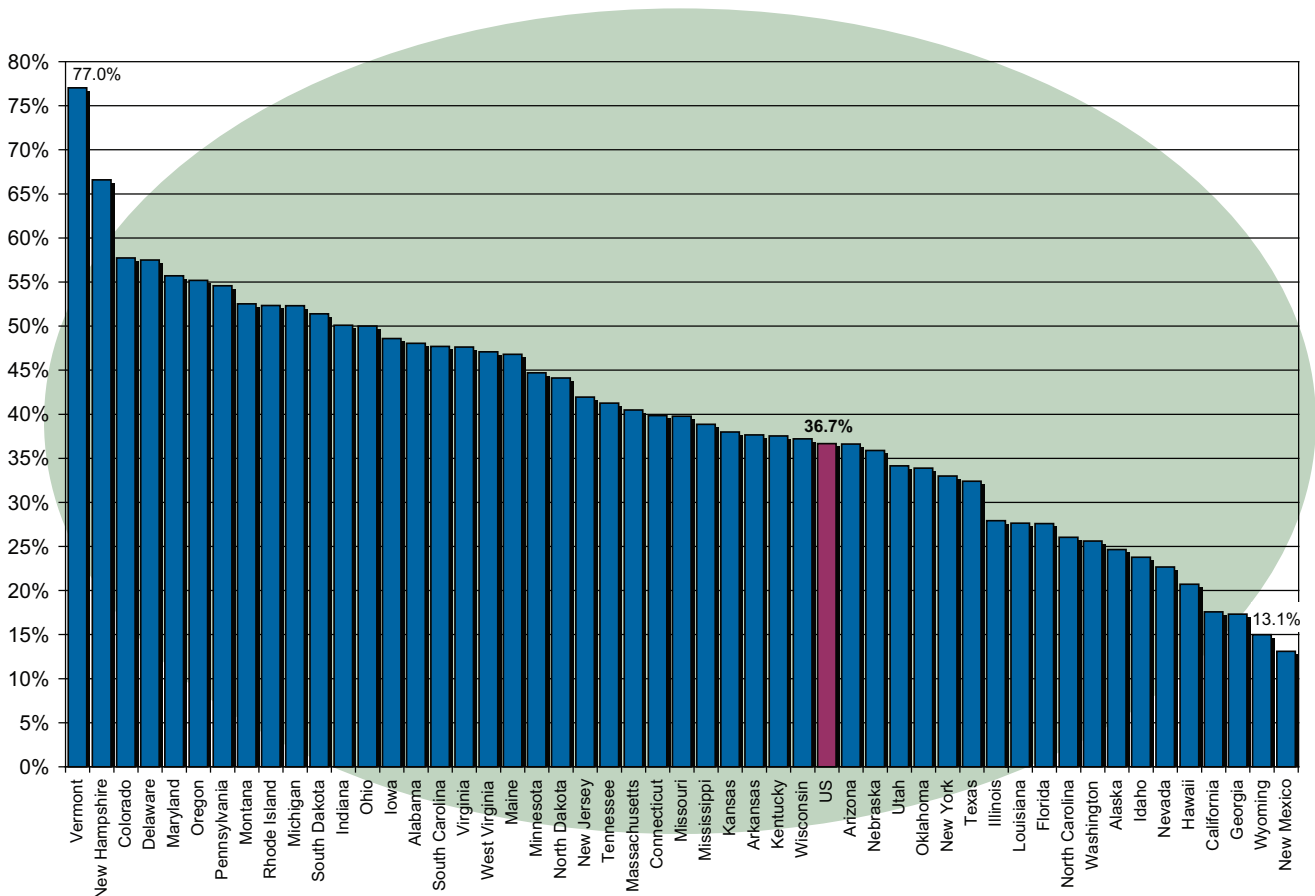
In the aggregate, states increased constant-dollar support for student financial aid from \$4.6 billion in 2001 to \$5.8 billion in 2005, partially addressing tuition increases and enrollment growth. In public institutions, state-funded tuition aid per student was up 23.8 percent, from \$302 to \$374. The most recent annual survey of the National Association of State Student Grant & Aid Programs estimates that 74 percent of this aid is need-based.

These national trends mask substantial variation among the states. From 2001 to 2005:

- Public institution enrollment growth ranged from nearly 30 percent in South Dakota to 4.5 percent in the state of Washington (Figure 4).
- Total educational revenues per student increased 14.8 percent in Tennessee and declined 22.8 percent in New Hampshire (Figure 5).
- Constant dollar educational appropriations per FTE grew 13.3 percent in Nevada and fell 35.9 percent in Colorado (Figure 6).
- In 2005, net tuition revenue per FTE ranged from \$7,814 in Vermont to \$1,148 in New Mexico, and net tuition as a percentage of total educational revenues varied from 77.0 percent in Vermont to 13.1 percent in New Mexico (Figure 7).

Figure 7

Net Tuition as a Percent of Public Higher Education Total Educational Revenues by State, Fiscal 2005



Notes: Georgia's data included Dept. of Technical and Adult Education institutions for the first time in FY05.
 Tennessee implemented a lottery-funded statewide merit scholarship program in FY05.
 Constant 2005 dollars adjusted by SHEEO Higher Education Cost Adjustment.

Source: SHEEO SHEF

State Wealth, Tax Revenues, and the Allocation of Revenues to Higher Education

State efforts to fund higher education occur within a broader context of national and individual state economic conditions. Each state's unique combination of policy choices and prevailing conditions - such as state wealth, the rate at which each state taxes its wealth, and funding demands for other public services - sets the stage for the higher education funding outcomes summarized above. The national trends in state wealth, tax revenues, and the allocation of those revenues to higher education are as follows:

1. Effective tax rates decreased over the last decade, resulting in increases in actual tax revenues per capita that grew more slowly than state wealth (*Table 2*). According to data from the Bureau of Economic Analysis and the Census:
 - State wealth (total taxable resources) per capita increased 62.3 percent, from \$25,421 in 1993 to \$41,263 in 2003.
 - The national aggregate effective state and local tax rate – tax revenues as a percentage of state wealth – decreased from 9.0 percent to 7.8 percent.

Table 2

State Wealth, Tax Revenues, Effective Tax Rates, and the Allocation of Resources to Higher Education, 1993-2003

	Wealth, Revenues, and Tax Rates			Allocation to Higher Education		
	Total Taxable Resources (TTR) per Capita ¹	State & Local Tax Revenues per Capita ²	Effective Tax Rate ³	State & Local Tax Revenues plus Lottery Profits ⁴ (thousands)	State & Local Higher Education Support ⁵ (thousands)	(percentage)
1993	\$25,421	\$2,282	9.0%	\$601,881,261	\$42,325,297	7.0%
1994	\$28,374	\$2,373	8.4%	\$633,528,768	\$43,750,453	6.9%
1995	\$29,646	\$2,477	8.4%	\$669,085,320	\$46,135,730	6.9%
1996	\$32,203	\$2,554	7.9%	\$698,007,032	\$47,798,564	6.8%
1997	\$34,576	\$2,668	7.7%	\$737,767,519	\$50,307,924	6.8%
1998	\$36,034	\$2,801	7.8%	\$782,987,470	\$54,006,965	6.9%
1999	\$37,130	\$2,917	7.9%	\$824,249,176	\$58,339,823	7.1%
2000	\$39,550	\$3,086	7.8%	\$881,108,058	\$63,225,291	7.2%
2001	\$39,235	\$3,213	8.2%	\$926,354,826	\$66,977,996	7.2%
2002	\$39,704	\$3,138	7.9%	\$915,027,341	\$69,796,473	7.6%
2003	\$41,263	\$3,235	7.8%	\$952,890,344	\$69,096,866	7.3%
10 Year % Change	62.3%	41.8%	-12.7%			

Source Notes: All dollars nominal.

1. Total Taxable Resources per Capita: U.S. Treasury Department, www.treas.gov/offices/economic-policy/resources/estimates.html.

2. State and Local Tax Revenues per Capita: U.S. Census Bureau, www.census.gov/govs/www/estimate.html and www.census.gov/popest/states/NST-ann-est.html.

3. Effective Tax Rate = State & Local Tax Revenues per Capita / Total Taxable Resources per Capita.

4. State and local tax revenues data from U.S. Census Bureau; lottery profits data from North American Association of State and Provincial Lotteries. An annual growth estimate of 4% was used to impute lottery values prior to 1995.

5. Higher Education Support = State and local tax and nontax support for general operating expenses of public and independent higher education. Includes special purpose appropriations for research-agricultural-medical. Source: SHEEO SHEF

2. The allocation to higher education has remained relatively consistent since 1993 (*Table 2*). Of total revenues 7.3 percent was allocated to higher education in 2003; the allocation to higher education fluctuated between 6.8 percent and 7.6 percent from 1993 to 2003.
3. State and local support for higher education per \$1,000 of personal income fell 1.6 percent, from \$7.91 to \$7.79, from 1993 to 2003, and has continued to fall, to \$7.59 in 2004 and \$7.42 in 2005. Growth in per capita income outstripped consumer prices during this period, and higher education costs (and prices) have likewise grown faster than general consumer price inflation. Real dollar increases in tuition charges have largely "replaced" state revenues, leading to considerable growth in the percentage of costs borne by students and families. Sorting out "who pays, who benefits," and assuring access and student success for low and middle-income students will remain a fundamental policy issue.

These data indicate funding for higher education has *not* decreased dramatically as a state priority, but that total state revenues (and the effective state tax rate) have decreased as a percentage of wealth. The stress on state budgets and state policy makers is unsurprising in the context of growing higher education enrollments, increasing demands for elementary and secondary funding, and growing Medicaid costs.

CONCLUSION

In economic downturns and recoveries over the past 25 years constant dollar state and local support per student has declined and then recovered, often exceeding previous levels of support. Most recent reports, in keeping with the historical pattern, indicate a return to increased state and local funding for higher education after four very difficult years. In 2005, 43 states increased nominal dollar state and local support for higher education; and according to the annual Grapevine survey at Illinois State University, 46 states increased nominal state tax appropriations in 2006.

In 2005, however, the combined effects of enrollment growth and inflation grew faster than state and local support. And published projections of state revenues and expenditures suggest that current tax structures are inadequate to sustain existing levels of support for public services.⁵ In effect, tax rate reductions enacted during good economic times are making it very difficult for states to finance growing demand for public services in the early years of the 21st century.

Projected increases in the college age population, the increasing economic importance of higher education, and survey data on student aspirations all suggest the demand for higher education will continue to increase for the foreseeable future in the United States. In recent experience, when state and local support has failed to match enrollment growth and inflation, an increasing share of the cost has been shifted to students and their families. Students and their families have borne a substantially larger share of higher education costs over the past decade; if this trend continues both the American tradition of affordable higher education and student participation could well be threatened.

In view of the fiscal challenges facing the nation, this problem has no easy solution. It is not likely to be solved by relying solely on additional financial contributions from taxpayers and students, nor is it realistic to expect public colleges and universities to educate increasing numbers of students to world class standards with continually declining resources. Increased productivity and increased public investment are required to meet the nation's need for higher education.

The full report, *State Higher Education Finance FY 2005*, is available at www.sheeo.org. Core indicators from the SHEF study from fiscal 1991 through 2005 are available on the SHEEO website and also on the NCHEMS Information Center for State Higher Education Policymaking and Analysis website at www.higheredinfo.org.

⁵ Donald Boyd, *State Fiscal Outlooks from 2005 to 2013: Implications for Higher Education*, Boulder, CO: NCHEMS, 2005.



State Higher Education Executive Officers
3035 Center Green Drive, Suite 100, Boulder, Colorado, 80301-2251
(303) 541-1600
www.sheeo.org