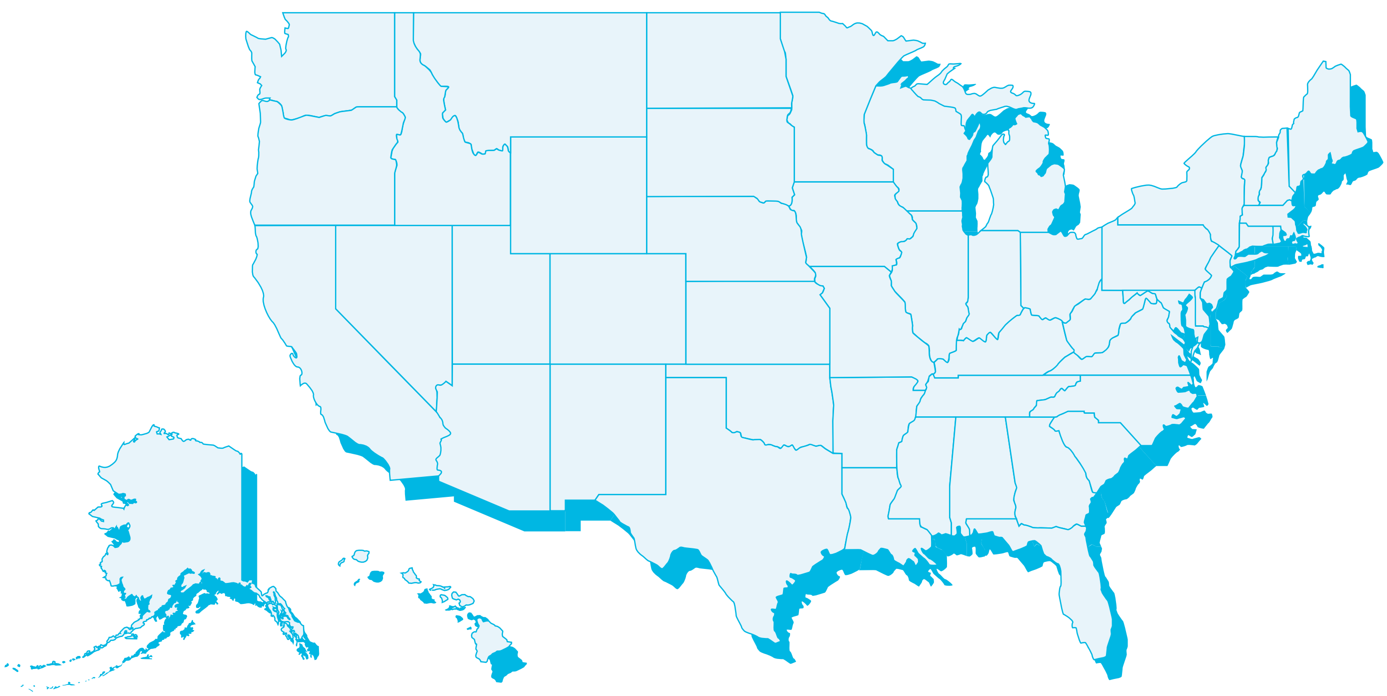
STATE HIGHER EDUCATION EXECUTIVE OFFICERS ASSOCIATION

SHEF: FY 2018

STATE HIGHER EDUCATION FINANCE CASE STUDY:

TEN YEARS OUT: STATE RECOVERY FROM THE GREAT RECESSION

SOPHIA LADERMAN



The State Higher Education Executive Officers Association (SHEEO) is the national association of the chief executives of statewide governing, policy, and coordinating boards of postsecondary education. Founded in 1954, SHEEO serves its members as an advocate for state policy leadership, a liaison between states and the federal government, and a vehicle for learning from and collaborating with peers. SHEEO also serves as a manager of multistate teams to initiate new programs and as a source of information and analysis on educational and public policy issues. Together with its members, SHEEO advances public policies and academic practices that enable Americans to attain education beyond high school and achieve success in the 21st century economy. An electronic version of the State Higher Education Finance (SHEF) Report FY 2018 and numerous supplementary tables containing extensive state-level data are available at www.sheeo.org. These may be freely used with appropriate attribution and citation. In addition, core data and derived variables used in the SHEF study for fiscal years 1980 through 2018 are available on the SHEEO website, along with interactive data visualizations via Tableau.

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INTRODUCTION

SHEF data have always clearly shown the impact of the economic cycle on funding levels, reliance on tuition as a revenue source, and full-time equivalent (FTE) enrollment. Our recent reports have focused, nationally, on the impact of the Great Recession from 2008 to 2012 and the period of slow recovery that followed and continued through 2018. Of course, these national-trends data mask significant variance among the 50 states. Some states demonstrated recession conditions until very recently, while nationally, recovery began in 2013. Some states are still well below pre-recession levels of state funding while a handful have recovered. Most states have increased tuition revenues to more than make up for cuts in state funding for higher education, but almost one-third still have lower total revenue than before the Great Recession.

This case study provides an analysis of how well states have recovered from the Great Recession. We consider the depth of cuts in state funding, recovery of total educational revenues and the sources of that recovery, and changes in state financial aid.

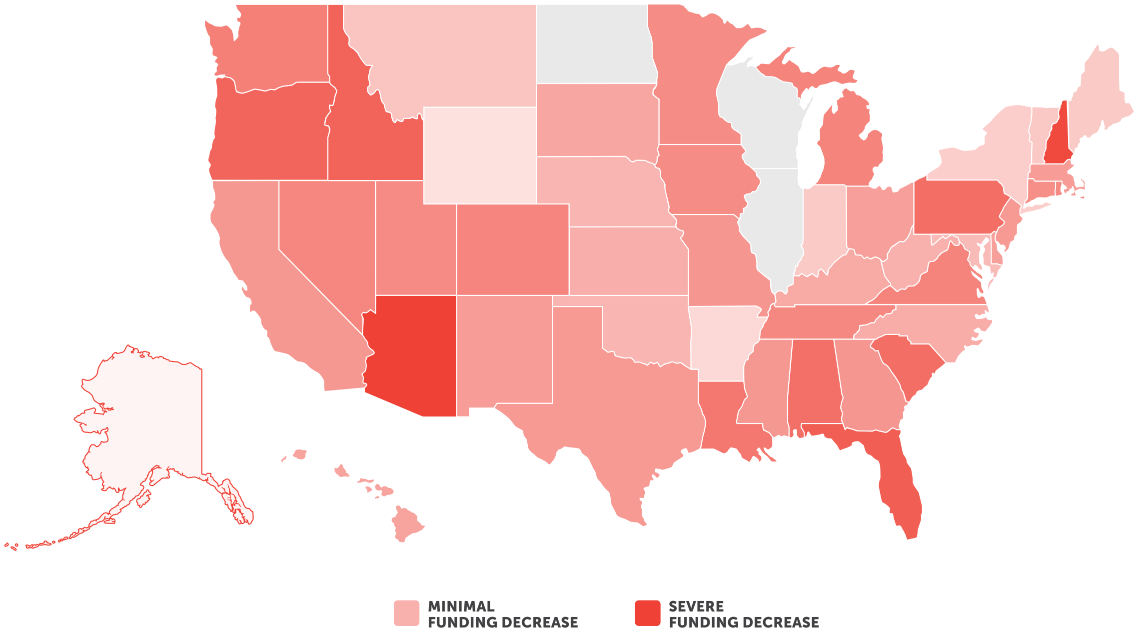
To facilitate a more precise analysis of changes in state funding since the Great Recession, **the figures discussed in this case study exclude any local appropriations for higher education** (unlike in the rest of the SHEF report). For that reason, there are slight differences from the data shown in *Tables 3-6* of the SHEF report.

In addition, states differ in how they were affected by the Great Recession. The national pre-recession high point for state appropriations was 2008, but some states had already seen the effects of the recession in 2008. In those states, we hold 2007 as their pre-recession high point. Similarly, while over half of states reached an all-time low point in 2012, 23 saw additional declines in educational appropriations per FTE in 2013. The following comparisons are based on the lowest point for each state, which may be in either year.

As with most sections in the SHEF report, these data are presented in inflation-adjusted constant dollars and on a per student basis. It is important to acknowledge that a state may have restored the funding cuts that were made during the Great Recession but still be below pre-recession levels once these adjustments are made. *Table 1*, at the end of the case study, summarizes the data presented here.

DEPTH OF FUNDING REDUCTIONS

Reductions in state educational appropriations per FTE do not always reflect actual cuts in total appropriations. Rather, they represent the inability of states to keep up with enrollment, which increased dramatically during the Great Recession, and inflation.



This analysis excludes three states: Illinois, North Dakota, and Wisconsin. Illinois and North Dakota are excluded because they saw no decline in state educational appropriations per FTE during the Great Recession. In Illinois, this is entirely due to the state's efforts to backfill their historically underfunded pension system (see the case study on Illinois). In contrast to other states, North Dakota's state appropriations in 2012 were actually higher than in 2008 (*Table 1*). Current funding in North Dakota is 1 percent below 2012 levels but 15 percent above the pre-recession point in 2008. Wisconsin is excluded due to a change in funding sources that complicates the analysis. In 2015, the Wisconsin Technical College System lost $406 million in local funds, and this reduction was fully offset by an increase in state tax support. Because this analysis excludes local funding, it is not relevant to directly compare Wisconsin's state appropriations before and after the 2015 offset.

Of the states with appropriation declines during the Great Recession, only two saw less than 10 percent drops in state educational appropriations per FTE: Alaska and Wyoming. Appropriations per student decreased over 25 percent in 32 states. The states in which higher education was hit the hardest by the Great Recession, each with a 40 percent or greater cut to state appropriations per student, were Arizona, Florida, Idaho, New Hampshire, Oregon, Pennsylvania, and South Carolina. New Hampshire, which had the second lowest educational appropriations in 2008, lost over half of its funding per student by 2012. The state has since partially recovered thanks to a 47 percent increase in funding over the next several years.

RECOVERY OF TOTAL REVENUES

Fifteen states have yet to recover total educational revenues per FTE to their pre-recession high point. This means that on average, **public institutions in 15 states have fewer per student revenues available for general operations than ten years ago**. These states are Florida, Idaho, Kentucky, Louisiana, Massachusetts, Mississippi, Missouri, Nevada, New Hampshire, North Carolina, Ohio, Oklahoma, Rhode Island, Texas, and West Virginia.

Thirty-two states have met or exceeded their pre-recession total educational revenue per student. Of those, **only five states (Alaska, California, Hawai'i, New York, and Wyoming) recovered their total revenues, at least in part, by increasing state educational appropriations per FTE to prior levels**. Alaska, California, and Wyoming are the only states to have fully recovered total revenues from prior to the Great Recession without more than a 25 percent increase in net tuition revenue.

TUITION REVENUE INCREASES

The most common strategy to make up for lost educational revenues during and after the Great Recession was to increase reliance on net tuition revenue. Net tuition revenue incorporates changes in tuition rates, the proportion of students paying higher tuition (like graduate and out-of-state students), and changes in state financial aid. On average, inflation-adjusted net tuition revenue has increased 3.0 percent annually since 1980. During the Great Recession, net tuition revenue increased 1.4 percent in 2009, 5.0 percent in 2010, 3.5 percent in 2011, 8.8 percent in 2012, and 4.7 percent in 2014. The 2012 increase is the largest since the start of the SHEF data set. In 2018, tuition revenue increased only 0.1 percent nationally.

Over half of states (26) recovered total revenues by increasing net tuition revenue per FTE by at least 25 percent. While not part of that group, Vermont also recovered in total revenue by increasing tuition revenue substantially—with the highest tuition revenue per FTE in 2008 and second highest in 2018. Vermont tuition revenue increased by $1,890 per FTE, or 12.8 percent, to make up for a 17 percent decline in educational appropriations over the last 10 years (*Table 1*).

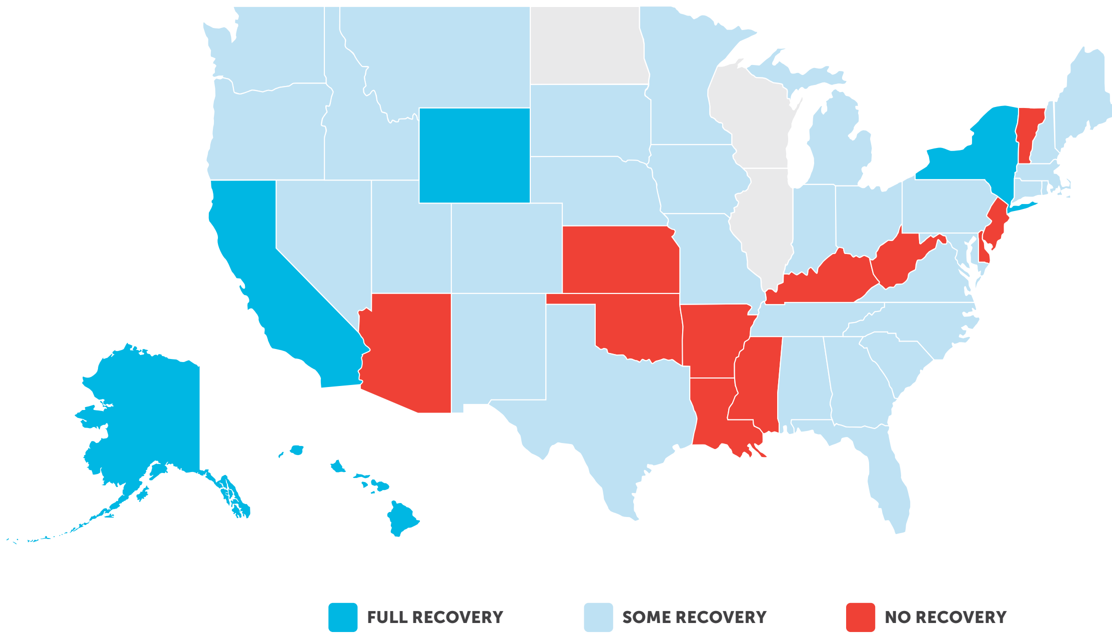
Only four states were able to meet or exceed pre-recession total revenue without fully restoring educational appropriations and without large (greater than 25 percent) tuition revenue increases (Maine, Maryland, Montana, and Ohio). Generally, these states faced smaller declines in appropriations per student, which they have partially reversed.

Eight states (Idaho, Kentucky, Louisiana, Mississippi, Nevada, North Carolina, Oklahoma, and West Virginia) have not fully recovered in total revenues despite substantial tuition revenue increases (more than 25 percent). Many of these are the states hit the hardest by the Great Recession, including those that have seen no recovery at all.

Every state has increased net tuition revenues per FTE since 2008. These increases ranged from only 1.2 percent in Missouri (which has strict tuition rate controls, see page 34 of the main report) to 96.3 percent in Georgia. In 13 states, tuition revenue increased 50 percent or more between 2008 and 2018 (*Table 1*).

RECOVERY OF STATE EDUCATIONAL APPROPRIATIONS

Ten years out from the start of the Great Recession, **11 states have not seen any recovery in state funding for public higher education**. These states range from New Jersey, with state educational appropriations per FTE 0.3 percent ($18 per FTE) below the worst years of the Great Recession, to Oklahoma, with appropriations 21.3 percent ($1,401 per FTE) below 2012 and 2013 levels.



In a majority of states, state funding has only partially recovered since the Great Recession. These 32 states have higher state educational appropriations per FTE than their low point in 2012 or 2013, but lower appropriations than their pre-recession high point in 2007 or 2008.

Only five states have met or exceeded pre-recession levels of state funding, excluding Illinois and North Dakota (where funding did not decline during the Great Recession) and Wisconsin, where comparison was not possible due to data limitations.

THE ROLE OF STATE FINANCIAL AID

Twenty-seven states increased state financial aid to students attending public institutions, and another 10 protected financial aid from cuts (meaning that aid was cut, but not as much as the rest of appropriations). The largest inrease in public aid was $929 per FTE in Louisiana. California and Alaska also increased aid by over $800 per FTE. The largest decrease was $454 per FTE in Michigan. Michigan's decrease in state financial aid is due to an increase in federal TANF (Temporary Assistance for Needy Families) funding, which now fully funds one of Michigan's aid programs. Pennsylvania also reduced student aid per FTE by more than $200. Overall, 37 states increased the proportion of all state educational appropriations that are distributed through state financial aid to students attending public institutions (*Table 1*). This means that **states largely protected student financial aid during the Great Recession when tuition revenue per FTE increased faster than ever before.**

TABLE 1

PERCENT CHANGE IN STATE APPROPRIATIONS, AID, FTE, AND TUITION SINCE THE GREAT RECESSION, (CONSTANT 2018 DOLLARS)

	NET FTE % CHANGE	APPROPRIATION % DECREASE DURING GREAT RECESSION	APPROPRIATION % CHANGE FROM 2008	PUBLIC AID AS A PERCENT OF APPROPRIATIONS[2] CHANGE	NET TUITION REVENUE % CHANGE	TOTAL EDUCATIONAL REVENUES % CHANGE
ALABAMA	8.1%	-38.7%	-37.0%	7.3%	69.6%	7.5%
ALASKA	-6.4%	-3.0%	0.5%	4.7%	15.6%	4.3%
ARIZONA	24.7%	-53.7%	-58.9%	0.6%	66.4%	0.3%
ARKANSAS	8.9%	-10.5%	-17.7%	8.7%	41.7%	1.3%
CALIFORNIA	3.3%	-29.2%	2.8%	8.4%	13.4%	5.2%
COLORADO	11.7%	-34.2%	-14.0%	4.7%	63.3%	31.4%
CONNECTICUT	11.6%	-31.9%	-24.1%	3.6%	49.8%	5.0%
DELAWARE	14.1%	-26.7%	-28.6%	0.9%	41.5%	13.1%
FLORIDA	11.4%	-45.7%	-21.4%	2.7%	20.6%	-11.9%
GEORGIA	12.8%	-29.5%	-14.5%	3.9%	96.3%	8.5%
HAWAII	1.6%	-25.7%	6.7%	0.2%	45.3%	15.1%
IDAHO	21.8%	-43.9%	-21.5%	0.3%	32.8%	-6.7%
ILLINOIS	-13.3%	13.4%	39.9%	-3.2%	57.5%	45.2%
INDIANA	-1.0%	-15.3%	-5.6%	8.1%	33.6%	14.0%
IOWA	9.0%	-32.2%	-30.2%	-0.1%	36.4%	3.0%
KANSAS	-1.8%	-22.6%	-24.6%	-0.1%	38.6%	4.4%
KENTUCKY	1.7%	-24.4%	-26.5%	6.8%	27.4%	-6.4%
LOUISIANA	-3.0%	-38.2%	-39.7%	24.1%	48.3%	-11.6%
MAINE	-4.5%	-15.0%	-2.5%	0.3%	22.8%	10.1%
MARYLAND	11.8%	-19.4%	-5.6%	-2.2%	11.9%	3.3%
MASSACHUSETTS	10.4%	-27.9%	-12.9%	0.3%	11.9%	-2.9%
MICHIGAN	-5.8%	-34.8%	-17.9%	-8.6%	49.7%	26.8%
MINNESOTA	-4.2%	-32.3%	-8.1%	2.3%	42.1%	13.9%
MISSISSIPPI	10.8%	-28.8%	-34.2%	1.6%	36.1%	-7.1%
MISSOURI	13.8%	-29.8%	-28.1%	8.0%	1.2%	-14.7%
MONTANA	5.1%	-16.8%	-2.7%	-2.1%	13.9%	7.0%
NEBRASKA	1.8%	-21.1%	-9.9%	0.0%	41.8%	12.3%
NEVADA	11.3%	-33.9%	-28.8%	0.0%	42.7%	-12.1%
NEW HAMPSHIRE	14.1%	-51.7%	-28.4%	-1.2%	9.4%	-1.7%
NEW JERSEY	11.1%	-28.4%	-28.6%	8.8%	29.1%	0.5%
NEW MEXICO	-1.7%	-28.2%	-12.5%	-0.4%	50.9%	0.1%
NEW YORK	3.5%	-14.1%	2.7%	3.4%	33.4%	13.7%
NORTH CAROLINA	9.7%	-22.9%	-17.9%	0.7%	45.2%	-2.2%
NORTH DAKOTA	0.0%	15.9%	15.2%	4.0%	14.4%	16.4%
OHIO	3.0%	-26.9%	-12.4%	-2.0%	8.0%	-1.0%
OKLAHOMA	-0.8%	-20.8%	-37.6%	5.8%	63.5%	-4.9%
OREGON	10.1%	-43.8%	-9.9%	3.5%	49.8%	22.0%
PENNSYLVANIA	0.5%	-40.6%	-38.4%	1.2%	29.7%	2.1%
RHODE ISLAND	0.7%	-32.9%	-20.4%	1.7%	3.2%	-7.5%
SOUTH CAROLINA	9.9%	-40.6%	-25.2%	7.3%	61.7%	15.3%
SOUTH DAKOTA	11.2%	-25.1%	-12.8%	3.0%	38.4%	12.8%
TENNESSEE	6.5%	-33.3%	-14.1%	6.9%	46.1%	5.0%
TEXAS	30.8%	-28.4%	-23.1%	3.2%	12.1%	-9.4%
UTAH	21.5%	-33.0%	-16.2%	0.5%	43.2%	3.7%
VERMONT	4.2%	-15.4%	-17.9%	1.8%	12.8%	5.1%
VIRGINIA	7.6%	-35.0%	-22.4%	5.5%	52.7%	14.4%
WASHINGTON	7.2%	-35.9%	-13.3%	4.9%	58.8%	8.3%
WEST VIRGINIA	-6.5%	-21.8%	-33.6%	11.0%	42.2%	-1.5%
WISCONSIN	-3.4%	-24.7%	9.6%	-0.8%	30.3%	20.0%
WYOMING	-1.5%	-8.5%	3.8%	4.1%	18.6%	6.1%
U.S.	**7.1%**	**-26.0%**	**-13.0%**	**2.7%**	**36.7%**	**6.6%**

NOTES:
1. For each state, these figures compare the pre-recession high point (2007 or 2008) to the Great Recession low (2012 or 2013) or to 2018.
2. Net tuition revenue is calculated by taking the gross amount of tuition and fees, less state and institutional financial aid, tuition waivers or discounts, and medical student tuition and fees.
3. For definitions of these variables, please see page 10 of the full SHEF report.

SOURCE: State Higher Education Executive Officers Association

STATE HIGHER EDUCATION EXECUTIVE OFFICERS

3035 CENTER GREEN DRIVE, SUITE 100, BOULDER, COLORADO, 80301
303.541.1600 • **SHEEO.org**