The Impact of the Financial Crisis on American Public Universities

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Abstract

The impact of the financial crisis on higher education has been considerable, and the crisis may lead to reduced funding for education from all sources – government, private sector and households. There are a number of effects on the financial situation of the American public universities. Most of them come about as a direct result of the global economic situation. While both developed and developing countries are affected, it is not always in the same way. A key modifying factor is the shape and structure of the higher education system within each country, which can produce different outcomes in each particular country. The American higher education system has been much affected by the financial downturn. Unemployment has continued to climb, and job availability for young people is low. At the same time, the cost of tuition at private colleges and state four-year universities has continued to grow. As a result, with a greater need for higher education, but fewer financial resources, families have chosen cheaper options. Thus, those who may well have paid for a prestigious private college in previous years are now attending quality state universities. Spending in many American colleges and universities has been severely cut back. These reductions include the cutting of services and reduced spending.

Keywords: American public universities, Financial crisis, Higher education

1. Introduction

The global financial crisis has made life more difficult and uncertain for millions of people. It has cost millions of jobs, shrunk asset values, preoccupied national policy leaders, depleted state revenues, and challenged policy makers and educators in every state. People everywhere have deferred purchases and become more conservative about financial choices, but, realizing its value, they have enrolled in postsecondary education in record numbers in the U.S.

To meet the financial realities of their budgets, states must attempt to close their budget shortfalls, as they have in the last four years and in previous recessions. The question for states is how to accomplish this while doing the least damage to the economy, vulnerable residents, and necessary public services. Also, state governments have controlled and have largely funded public institutions that have serve over 75 percent of all students in the U.S. (Douglass, 2010). However, the share of the public higher education revenue provided by the states has been declining for many years (A. M. Cohen & Kisker, 2010).

This paper follows the developments in finance of American public universities during the financial crisis, and then discusses how and to what degree public university financing and spending has been impacted.

2. Financial Situation of the States in the US

Currently in the U.S., the financial crisis is producing declines in both state and local revenues while the need for public programs increases. Sizable budget gaps are likely to continue for the next several years.

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"The severe recession caused state revenues to decline sharply, and revenues will remain depressed next year, making it difficult for states to maintain public services. Of the 46 states that have released budget proposals with the necessary data, 39 project that they will have less state revenue in 2012 after inflation than they did in fiscal year 2008, when the recession began. These states on average are projecting revenues next year that are 8.1 percent

2.1. Federal Stimulus Fund

To counter the impact of the current recession, Congress passed the American Recovery and Reinvestment Act (ARRA). States can use a portion of these funds for operating budget shortfalls in public colleges and universities. This funding was designed to mitigate tuition increases and reduce the necessity of faculty and staff layoffs during the fiscal years 2009 through 2012.

ARRA, enacted in February 2009, gave states roughly $140 billion over a two-and-a-half year period to help fund ongoing programs, including enhanced funding for Medicaid and funding for K-12 and higher education (J. Cohen, 2010). "In August 2010, the federal government provided states an additional six months of enhanced Medicaid funding and an additional $10 billion in education funding" (Johnson, Oliff, & Williams, 2011, pp. 4-5). States have used emergency fiscal relief from the federal government to cover about one-third of their budget shortfalls for the fiscal years 2009 to 2011. "But only about $6 billion in fiscal relief will be left for fiscal year 2012" (Leachman, et al., 2011, p. 5). Until now, emergency federal aid in the form of federal stimulus funding has helped many universities cover their budget shortfalls. But as of the beginning of 2011, most of that aid has already been used, and as a result, state universities are likely to feel the effects of budget cuts more acutely next year.

2.2. The State Spending

States began cutting their budgets in the spring of 2008, as the recession reduced revenue sharply. These cuts are affecting a wide range of important services. Overall, at least 46 states and the District of Columbia have made reductions in services.

According to Table 1, which shows five different public services, at least 44 states and the District of Columbia have made cuts affecting state government employees; at least 43 states cut assistance to public universities; at least 34 states and the District of Columbia are cutting aid to K-12 schools and some education programs; at least 31 states have implemented cuts to health care services; and at least 29 states and the District of Columbia are cutting services for people who are elderly or have disabilities.

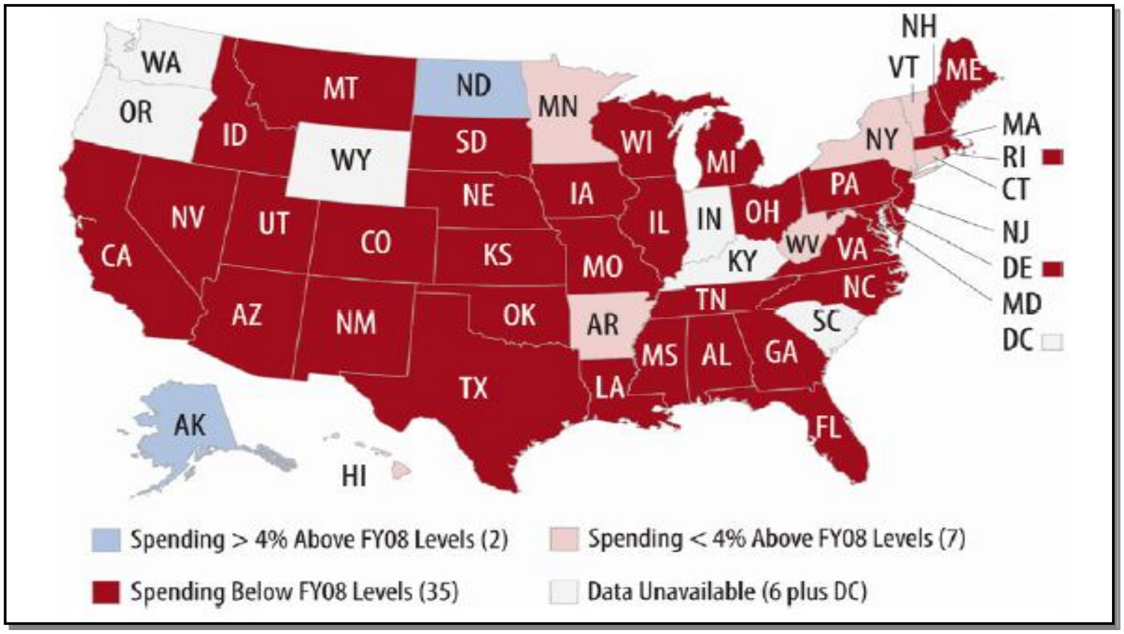
Table 1. States That Have Cut Services

	State Workforce (44 plus DC)	Higher Education (43)	K-12 Education (34 plus DC)	Public Health (31)	Elderly/Disabled (29 plus DC)
Alabama	X	X	X		X
Alaska					
Arizona	X	X	X	X	X
Arkansas		X			
California	X	X	X	X	X
Colorado	X	X	X	X	
Connecticut	X	X	X	X	
Delaware	X		X		
Florida	X	X	X	X	X
Georgia	X	X	X	X	X
Hawaii	X	X	X		
Idaho	X	X	X	X	X
Illinois	X	X	X	X	X
Indiana	X	X	X	X	X
Iowa	X	X	X		
Kansas	X	X	X		X
Kentucky	X	X	X		
Louisiana	X	X		X	X
Maine	X	X	X	X	X
Maryland	X	X	X	X	X
Massachusetts	X	X	X	X	X
Michigan	X	X	X	X	X
Minnesota	X	X		X	X
Mississippi	X	X	X		X
Missouri	X	X	X	X	X
Montana					
Nebraska	X	X	X		
Nevada	X	X	X	X	
New Hampshire	X			X	X
New Jersey	X	X	X	X	
New Mexico	X	X			X
New York	X	X	X	X	
North Carolina	X	X	X	X	X
North Dakota					
Ohio	X	X	X	X	X
Oklahoma	X	X		X	
Oregon	X	X	X		
Pennsylvania	X	X	X		X
Rhode Island	X	X	X	X	X
South Carolina	X	X	X	X	X
South Dakota	X	X			
Tennessee	X	X		X	X
Texas		X			
Utah	X	X	X	X	X
Vermont	X	X			X
Virginia	X	X	X	X	X
Washington	X	X	X	X	X
West Virginia					
Wisconsin	X	X		X	
Wyoming	X			X	
Dist.of Columbia	X		X		X

Source: (Johnson, et al., 2011, p. 6)

According to Figure 1 below, adjusting for inflation nearly all states are proposing to spend less money in 2012 than they spent in 2008, even though the cost of providing public services will be higher.

Figure 1. Comparison of the State Spending for FY2012 and FY2008



Source: (Leachman, et al., 2011, p. 7)

States' main choices are to draw on reserves, raise taxes, cut spending, or use a combination of these approaches. Thirty-five states plan to spend less in 2012 after inflation than they did in 2008, only two — Alaska and North Dakota — expect to spend significantly more. Seven states proposed spending that would be more than four percent below 2008 inflation-adjusted levels.

The cost of higher education is rising significantly (Altbach, Reisberg, & Rumbley, 2009). Most state spending goes toward education and health care. Many states have implemented cuts to public colleges and universities since the start of the recession in late 2007, and have made large increases in college tuition to make up for insufficient state funding. Those states are now considering more drastic measures, such as academic reorganization (closing departments or entire campuses), curtailing student enrollment, layoffs, greater teaching workloads, and position eliminations.

3. Arrangements for Higher Education

For example, the following states implemented cuts to public universities for fiscal year 2011 (Johnson, et al., 2011, pp. 11-12).

Alabama has seen tuition hikes that ranged from 8 percent to 23 percent, depending on the institution.

Florida has 11 public universities that have raised tuition by 15 percent for the 2010-11 academic year. This tuition hike, combined with a similar increase in 2009-10, has resulted in a total two-year increase of 32 percent.

Idaho's University of Idaho has responded to budget cuts by imposing furlough days on 2,600 of its employees state-wide. Furloughs will range from 4 hours to 40 hours, depending on pay level.

Michigan has reduced student financial aid by 61 percent, including decreases in competitive scholarships and tuition grants, as well as elimination of nursing scholarships, work-study, the Part-Time Independent Student Program, Michigan Education Opportunity Grants, and the Michigan Promise Scholarships.

Minnesota, as a result of higher education funding cuts, has almost 9,400 students that will lose their state financial aid grants entirely, and the remaining state financial aid will be cut by 19 percent.

New Mexico has eliminated over 80 percent of its support to the College Affordability Endowment Fund, which provides need-based scholarships to 2,366 students who do not qualify for other state grants or scholarships.

New York has cut funding for public universities by 10 percent, cut aid to community colleges by 11 percent, and cut grants awarded by a financial aid program that serves students from low and moderate income families.

South Dakota is the Board of Regents has increased university tuition by 4.6 percent and cut university programs by $4.4 million.

Washington has reduced state funding for the University of Washington by 26 percent for the current biennium; Washington State University is increasing tuition by almost 30 percent over two years. The state cut 6 percent more from direct aid to the state's six public universities and 34 community colleges, which will lead to further tuition increases, administrative cuts, furloughs, layoffs, and other cuts.

For fiscal year 2012, the following states have proposed cuts in support for public universities (Leachman, et al., 2011, pp. 14-16).

Arizona proposes cutting funding for public universities by one-fifth, bringing per-student state funding down to 46 percent below pre-recession levels. The proposed cut amounts to 6.2 percent of total community college operating revenue and half of all state support for community colleges.

California is community colleges' fees will increase by 38 percent. The Governor's proposal will reduce the University of California funding (by $500 million) to levels last seen in the 1998-1999 fiscal year and will reduce the California State University funding (by $500 million) to levels last seen in the 1999-2000 fiscal year.

Colorado will cut state university spending by $878 per student during the course of this year, which will result in tuition and fee increases.

Georgia will cut funding for a popular merit-based college scholarship program by about one-third, cut funding for university funding by 10 percent, and cut funding for technical colleges by 6 percent.

Missouri's Governor proposes cutting state higher education support by 7 percent, which has forced the state's university system to propose tuition hikes for next school year ranging from 4.7 percent to 6.6 percent. Therefore, over the last decade, state support has been slash 28 percent for higher education.

Nevada will reduce state funding for higher education by 18 percent and will give the Board of Regents full discretion to raise tuition fees to make up for the loss in funding.

New Hampshire will cut state funding for public universities by 23 percent and for community colleges by 21 percent.

New York proposes cutting state support for the State University of New York system by 9.1 percent and the City University of New York system by 5.2 percent.

North Carolina proposes cutting state support for the University of North Carolina is campus operating budget by 9.5 percent and reducing the number of senior and middle management positions. Thus eliminating low performing or redundant programs, and increasing faculty workload.

Ohio will decrease funding of higher education by 11 percent.

Oregon proposes cutting state funding for community colleges per full-time student by 11 percent and support for the Oregon University system by 4.9 percent.

Pennsylvania proposes to cut funding for the state's system of higher education by more than 50 percent, resulting in the lowest level of state funding for public colleges and universities since the state established consolidated funding almost thirty years ago.

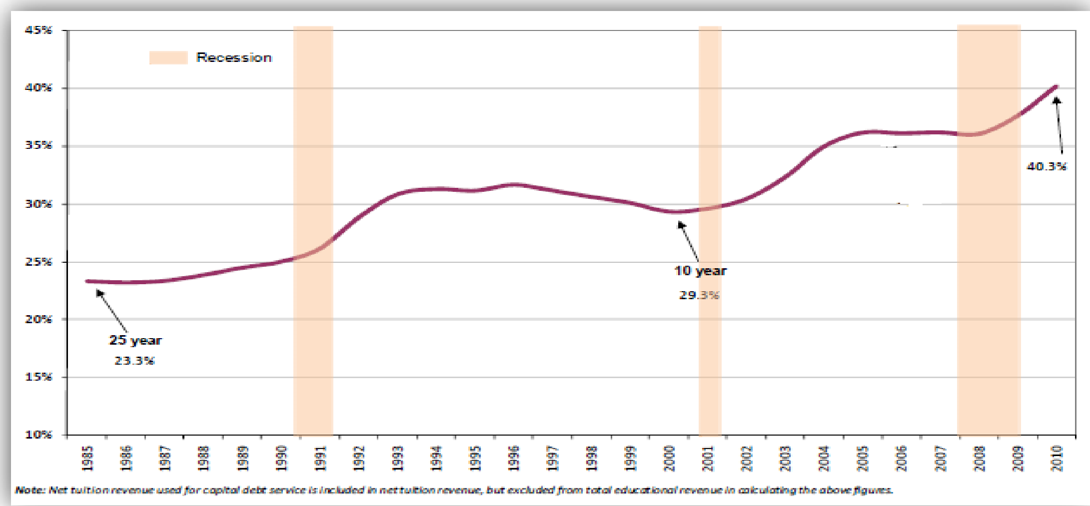
Tennessee's Higher Education Commission recommended tuition increases of 7 percent at universities and 5 percent at community colleges. Tuition and mandatory fees at the University of Tennessee-Knoxville will be 48 percent higher than in the 2005-06 academic year.

Texas will cut public college and university funding by 16 percent, likely forcing tuition increases, reductions in course offerings, and layoffs.

Wisconsin proposes reducing funding for state universities by $250 million and provides for an increase in tuition. The cuts will require a 25 percent reduction in funding for administration, as well as other cuts for operations.

As shown in Figure 2, net tuition revenue's percentage of total educational revenue at public institutions has grown. Nationally, net tuition accounted for just about 23 percent of educational revenues in 1985, which followed the recession of 1981-82.

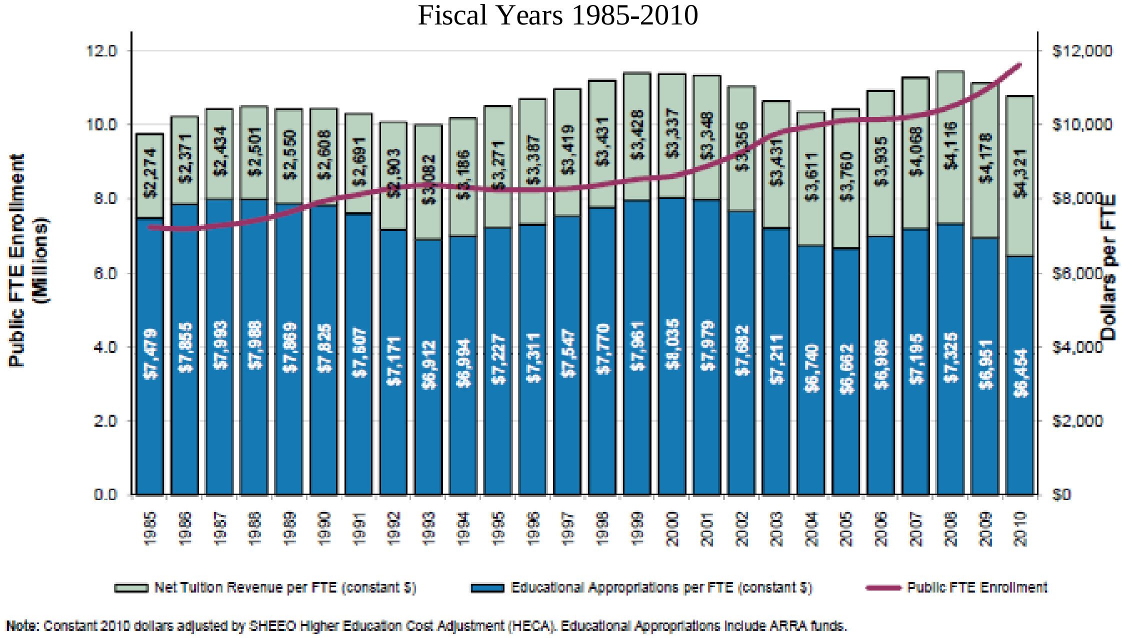
Figure 2. Net Tuition as a Percent of Public Higher Education Total Educational Revenue, U.S. Fiscal years 1985-2010



Source: (State Higher Education Executive Officers, 2011, p. 24)

Following the recession of 1990-91, the percentage of educational revenue due to net tuition grew rapidly to 31 percent, where it remained throughout the 1990s. In the three years following the 2001 recession, during which enrollment grew rapidly and the aggregate state funding remained relatively constant, it increased rapidly to 35%. Following the 2008 recession, net tuition has climbed to its current level of more than 40 percent. The data in Figure 3 demonstrates the relationships between higher education enrollment, and revenue over time. It also illustrates the longer-term trends. Educational appropriations per Full-Time-Equivalent Enrollment (FTE) reached a high of $8,035 in 2000, as shown in Figure 3. In 2010, state and locally financed educational appropriations for public higher education hit their lowest level ($6,454 per FTE) in a quarter century, driven by accelerating enrollment growth, and modest inflation. The rate of growth in higher education enrollment varies from year to year and state to state in response to the economy and job market, as well as underlying demographic factors (Varghese, 2010). Nationally, the trend in long-term enrollment in public institutions indicates continuing growth. Enrollment grew rapidly from 1988 to 1993 and from 1998 to 2005. Growth has accelerated again in recent years.

Figure 3. Public FTE Enrollment, Educational Appropriations and Total Educational Revenue per FTE, U.S. Fiscal Years 1985-2010



Source: (State Higher Education Executive Officers, 2011, p. 20)

Net tuition revenue per FTE has grown from 1985 to now, except between 1999 to 2002. It is the highest level ($4321 per FTE) in 2010.

4. Response to Financial Crisis by Public Universities

The responses of higher education institutions are closely aligned to the public policies on funding for higher education (Varghese, 2010). The Association of Public and Land-grant Universities (APLU) surveyed its 188 member universities about their financial situation (Keller, 2009). Overall, the picture painted by survey respondents is dreary, with 85 percent of institutions reporting a decrease in state appropriations, and nearly one-half of institutions experiencing cuts of 10 percent or more. Of the 188 institutions surveyed, 46 percent, 87 institutions, responded. The survey asked universities to identify both short-term and long-term measures.

According to survey, even as public universities cram more students into classes -- nearly 58 percent report larger sections – as a general rule, they appear to have no intention of slowing enrollment. On the contrary, 63 percent of responding universities see enrollment increases as part of a long-term revenue growth strategy, compared with just 10 percent that plan to decrease enrollment in specific areas to manage costs.

About 70 percent of universities said they were relying on federal stimulus funds as a short-term measure. Other common short-term measures can be grouped together broadly under "personnel expenses." Permanent and temporary staffing was the most common area affected. At half of the institutions, permanent staff members were laid off. The numbers of Tenured and tenure-track faculty positions were reduced at 44 percent of institutions.
Also, 64 percent of institutions planned to defer maintenance expenditures, and 68 percent of institutions reduced purchasing. Overall Table 2 shows the percentage of respondants indicating the short-term measures they have identified.

Table 2. Short-term Measures

	%		%
Reduce temporary or part-time staff positions	78.2	Reduce funding of student-life activities	29.9
Reduce permanent staff positions	77.0	Eliminate programs	24.1
Reduce temporary or part-time lecturer or adjunct faculty positions	70.1	Mandate staff furloughs	22.9
Utilize federal stimulus funds	70.1	Increase the proportion of out-of-state students	22.9
Reduce purchasing	67.8	Mandate faculty furloughs	21.8
Defer maintenance expenditures	63.2	Increase the size of entering freshman class	20.7
Collapse course sections into fewer, larger sections	57.5	Implement or enhance an early or phased retirement program	19.5
Limit or freeze out-of-state travel	55.2	Eliminate departments	17.2
Reduce graduate assistant/student worker positions	51.7	Reduce salary for senior administrators	14.9
Lay off permanent staff	50.6	Decrease staff/faculty benefits	12.6
Adjust air conditioning or heating levels	47.1	Reduce required course offerings	12.6
Lay off temporary or part-time staff	46.0	Reduce number of scholarships	10.3
Reduce tenured or tenure-track faculty positions	43.7	Reduce size of entering freshman class	10.3
Reduce elective course offerings	42.7	Lay off tenured or tenure-track faculty	9.2
Utilize expendable endowment funds	40.2	Reduce amount of scholarships	9.2
Increase incidental fees	36.8	Lay off graduate assistants/student workers	9.2
Lay off temporary or part-time lecturer or adjunct faculty	33.3	Reduce or eliminate non-revenue sports teams	6.9
Shift tenured/tenure-track faculty from elective courses to required courses	32.2	Request that donors allow restricted gifts to be used for other purposes	6.9
Eliminate courses	31.0		

Source: (Keller, 2009, pp. 14-15)

In the long term, the most common response -- by 78 percent -- was to invest in more energy-efficient systems. Barring that, however, most institutions said they would conduct "strategic review(s)" of areas as diverse as administrative structures, distance education, facility operation, research programs, and tuition levels.

While the survey suggests that some hard choices have already been made by public universities, the long-term solutions indicate universities are still more likely to conduct further reviews than to announce permanent changes at this point. Indeed, 67 percent of respondents said they are planning a strategic review of administrative structures, compared with just 22 percent that said they plan to permanently change staffing levels for tenured and tenure-track faculty. Personnel expenditures will continue to be an area of both short-term and long-term focus.

Table 3. Long-term Measures

	%		%
Invest in energy savings (e.g., replace inefficient HVAC systems, insulation, windows, etc.)	78.2	Conduct a strategic review of research programs	47.1
Conduct a strategic review of administrative structures	66.7	Conduct a strategic review of student support services	46.0
Increase enrollment in specific areas (e.g., out-of-state students, online students, etc)	63.2	Permanently change support staff levels	41.4
Conduct a strategic review of academic programs	58.6	Permanently change professional staff levels	39.1
Conduct a strategic review of online/distance education	57.5	Conduct a strategic review of athletic programs	33.3
Conduct a strategic review of facility/plant operations	55.2	Outsource operations/services (e.g., IT services, bookstores)	28.7
Conduct a strategic review of facility/plant operations	51.8	Permanently change staffing levels for non-tenured, adjunct faculty	23.0
Conduct a strategic review of tuition structures and levels	52.9	Permanently change staffing levels for tenured/tenure-track faculty	21.8
Conduct a strategic review of course schedules and calendars to ensure full use of facilities	50.6	Seek exemptions from state regulations that limit options and increase costs	21.8
Conduct a strategic review of outreach/continuing education/extension programs	49.4	Decrease enrollment in specific areas (e.g., high-cost undergraduate/masters/doctoral programs, etc.)	10.3

Source: (Keller, 2009, pp. 16-17)

5. Conclusion

The financial crisis is producing declines in both state and local revenues, and an increased need for public programs. Sizable budget gaps are likely to continue for the next several years. States also have used federal assistance to avert spending cuts, but The American Recovery and Reinvestment Act provided only a temporary "stop-gap" replacement for state revenue streams depleted by the recession.

It is the fourth year in a row that states are experiencing budget pressures brought on by the recession. Severe state budget crunches mean deeper cuts for state universities in fiscal year 2012, on top of the higher education cuts made in at least 43 states since the recession began.

Many states are now considering more drastic measures such as laying off staff, furloughs, greater teaching workloads, position eliminations, closing departments or programs, and reducing student enrollment. Also, tuition hikes are inevitable, so students will be paying more for more crowded classrooms and fewer services.

Despite all this, the trend in long-term enrollment for public institutions indicates continued growth. Enrollment would have been even higher without except for budget-driven enrollment caps in some states and reductions in state student financial assistance. Net tuition revenue has grown most rapidly as a percentage of total educational revenue in public institutions during periods when there has been a decline in state support.

After every recession, the net tuition share of total educational revenue has grown rapidly and does not return to previous levels. The steady increase in tuition rates and growing reliance on this source of revenue has the potential of reducing opportunity, and decreasing the educational prospects of the American people. Despite the success of federal stimulus funding in cushioning the recession's impact, the continuing fiscal crisis beginning in late 2007 clearly poses a severe threat to the strength of higher education in the United States.

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