



State Budget Shortfalls: Postsecondary Education Impacts

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May 2009

Summary

Prior to the passage of the American Recovery and Reinvestment Act of 2009 (ARRA), states faced budgetary shortfalls that forced cuts to postsecondary budgets. Postsecondary budgetary cuts included:

- Eliminating academic programs
- Closing campuses
- Eliminating merit scholarships and financial aid.

Governors were careful to minimize or prevent cuts to need-based financial aid and community colleges.

Since the passage of ARRA, state agencies and postsecondary education staff have expressed relief that many postsecondary budget cuts can be restored. However, caution should be used when spending State Fiscal Stabilization Funds on programs or positions that require recurring funds. If states are not careful and thoughtful about how stabilization money is spent, they will face similar financial issues in two years.

Introduction

This *StateNote* examines the budgets of six states with varying budgetary shortfalls before and after the passage of ARRA in hopes of discovering the impact on higher education.

States were chosen after analyzing a recently released National Conference of State Legislatures (NCSL) update on state budget gaps for FY 2009 and 2010. States selected for this analysis are distributed according to the following categories:¹

FY 2009 budget shortfalls that are:

Less than 10% of state's general fund

- Colorado
- Minnesota
- Virginia

10-15% of the state's general fund

- Nevada
- Tennessee

More than 15% of the general fund

- Arizona

FY 2010 budget shortfalls that are:

Less than 10% of state's general fund

- Colorado
- Tennessee

10-15% of the state's general fund

- Minnesota
- Virginia

More than 15% of the general fund

- Arizona
- Nevada

These six states illustrate how economic crises affect states differently. However, these differences are a matter of degree with no state left completely unscathed by current economic woes. Budgetary gaps continue to increase in many states and governors continue to revise budgets and propose cuts in hopes of balancing their budgets for FY 2010.

Although the overall impact of ARRA cannot be fully determined at this time, the initial disbursement of funds places stringent requirements on states.² A state applying for the State Fiscal Stabilization Fund (SFSF) must “maintain state support for public institutions of higher education at least at the level of such support in fiscal year 2006.”³ In order for a state to receive a waiver or modification to this requirement, a state must have experienced “a precipitous decline in financial resources.”⁴

Following are summaries of how six states are approaching higher education funding.

Arizona

Prior to the passage of ARRA, Arizona was looking at a 15.7% budget gap for FY 2009.⁵ To help close the budget gap, Governor Brewer approved a \$141.5 million cut to state universities and the Arizona Board of Regents. The University of Arizona’s budget was cut by \$56 million. Arizona State University’s budget was cut by \$63 million. Northern Arizona University’s budget was cut by \$21 million. Less than \$2 million was cut from the Arizona Board of Regents central office.⁶

The University of Arizona cuts included:

- \$20 million from a 5% budget reduction to all departments across campus
- \$15 million in excess tuition and merit aid awards that the university collected but never spent
- \$12 million in one-time cash operating reserves
- \$6 million in contingency funds that came from a hiring freeze and other measures
- \$3 million in savings after renegotiating a contract with a gas utility.

These cuts came on top of a \$20 million reduction the University of Arizona took during the summer of 2008.⁷

Arizona State University cuts included:

- Scaling down administrative operations at its Polytechnic and West campuses
- Closing four dozen programs; students currently enrolled in those programs will be able to complete them within a reasonable amount of time
- Suspending funding of its Regents High Honors Endorsement Scholarship program
- Suspending the AIMS scholarship that provides merit aid to incoming freshmen⁸
- Capping enrollment at a yet to be determined number and moving up the application deadline to March 1, five months earlier than normal.

Under ARRA, Arizona will receive \$2.3 billion for education funding. \$1.017 billion is allocated to SFSF. 81.8% or \$831.5 million is allocated towards Arizona’s Education Stabilization Fund. The money will go towards covering K-12 and higher education budgetary shortfalls for FY 2009, FY 2010 and/or FY 2011. \$726.3 million is allocated specifically towards higher education.⁹

In order to receive available ARRA funds, Arizona lawmakers will have to restore nearly the \$150 million that was cut from higher education budgets.¹⁰ Recently released guidelines will give Governor Brewer some flexibility, requiring that money to restore prior funding be allocated by September 30, 2010.¹¹ Representative John Kavanagh, R-Fountain Hills, confirmed that Arizona will seek a waiver from the U.S. Department of Education to excuse Arizona from having to restore the money to Arizona universities.¹²

Colorado

Prior to the passage of ARRA, there was much discussion in the Colorado legislature on the best way to close the current FY 2010 budget gap. The Colorado Department of Higher Education proposed \$100 million in budget cuts for FY 2010 including:¹³

- \$52 million from the higher education general fund that will be passed onto higher education governing boards and institutions (Amount of the cut was based on funding allocated in FY 2009)
- Withdrawing the general fund increase submitted in the November 10, 2008, FY 2010 budget requests
- Eliminating the state's merit-based financial aid program and the Precollegiate Academic Competitiveness Grant for FY 2009
- Eliminating the state's need-based financial aid allocation to graduate students.

One proposal threatened to cut \$300 million from higher education unless \$500 million was transferred from a quasi-governmental agency that offers guaranteed workers compensation to the general fund. The governor made it clear that cutting \$300 million from higher education was not a solution to the budgetary shortfall because of the maintenance of effort provision in ARRA. In order to close the budget shortfall and prevent \$300 million cuts to higher education legislators balanced the budget by:¹⁴

- Using \$221.9 million in transfers from cash funds
- Saving \$90 million by suspending the senior homestead property tax exemption
- Taking \$65 million from tobacco-settlement funds normally used for health care programs
- Transferring \$25 million from K-12 to higher education
- Closing one prison and delayed opening another
- Forcing some state employees to take eight furlough days by year's end.

Colorado is expected to receive \$452 billion from the SFSF for higher education.

Minnesota

In December 2008, Governor Pawlenty announced plans to use \$155 million in reserve funds and trim \$271.4 million in state expenditures to balance the state's budget for FY 2009. \$40 million was cut from the current higher education budget.¹⁵

Prior to the passage of ARRA, state funding for higher education was to drop \$313 million from the base for FY 2010 and FY 2011, or about a 10% cut. Budgets for the University of Minnesota and the Minnesota State Colleges and Universities were cut by 11%. The Minnesota State Colleges and Universities would lose \$146 million through 2011. The University of Minnesota would lose \$151 million in funding over the same two years.¹⁶

The governor did not cut funding to the Minnesota State Grant Program, but state work study, which currently funds 75% of the salaries of 11,900 students at colleges and universities, was scheduled to be cut by 10%. Higher education child care grants and scholarships for low-income American Indian students also would be cut. The governor's proposal eliminated state funding for the TEACH program, which provides scholarships to child care providers to obtain a degree in early education.¹⁷

Governor Pawlenty revised Minnesota's budget after the passage of ARRA. Under the revised budget, previously proposed reductions in funding for the University of Minnesota and the Minnesota State Colleges and University system were restored. The governor also emphasized the need for both systems to freeze or cap tuition increases.¹⁸

Nevada

To close Nevada's FY 2009 budgetary gap, Governor Gibbons initially proposed a 4.5% budget reduction for all public two-and four-year colleges and universities. The potential impacts of these budgetary cuts include:¹⁹

- Cutting operating budgets
- Implementing operational efficiencies
- Delaying or canceling hiring of replacement staff
- Adopting a \$5 surcharge per credit hour to bring in an additional \$1.5 million

- Deferring merit pay for professional staff in the 2008-09 FY
- Tapping (one-time) capital construction funds for higher education appropriations
- Using excess student fee collections in excess of the budgetary levels in FY 2007-08.

Prior to the passage of ARRA, Governor Gibbons proposed a \$475 million, or roughly 36%, cut to higher education for the 2010 and 2011 fiscal years.²⁰

On March 18, 2009, Governor Gibbons sent a letter to Secretary of Education Arne Duncan to apply for a waiver of the maintenance of effort requirement for higher education. The Governor argued that Nevada meets the precipitous decline in financial resources standard for three primary reasons: First, the sales and gaming taxes, which represent the two largest revenue sources for the state, declined by 7.7% and 20.3% respectively for FY 2009. Second, the unemployment rate, as of January 2009, was seventh highest in the nation. Third, by the end of 2008, housing prices fell 22%, the largest drop in the country. The governor also cited a recent report released by the Kaiser Family Foundation that ranks Nevada as the state in the greatest amount of economic distress.²¹

At the time of this writing, the Governor's waiver application had not been approved.

Tennessee

To close Tennessee's budget gap for FY 2010, Governor Bredesen asked all agencies to submit a budget reduction plan. A two-tiered plan was submitted by the University of Tennessee and Tennessee Board of Regents in the event the state received federal aid to alleviate some of the state's budget deficit. The first tier identified the amounts and areas for a \$103.1 million (8.3%) budget reduction. The second tier extended those amounts by an additional \$78.5 million (6.9%), for a total reduction of \$181.7 million (14.6%).²²

The University of Tennessee and the Tennessee Board of Regents developed specific strategies for each of their campuses to absorb the reductions. These strategies included:²³

- Decreasing operating expenses
- Reducing faculty and student travel
- Freezing vacant positions
- Increasing faculty workload and class sizes
- Reducing the funding for departmental research
- Deferring facility maintenance
- Reducing student services
- Implementing new energy conservation strategies
- Reducing the frequency of course offerings
- Increasing external funding sources for athletic scholarships
- Proposing voluntary buyout plans
- Implementing voluntary furloughs
- Transferring publications to online availability only
- Reducing custodial services.

Now that ARRA has passed, Governor Bredesen's revised budget gives public colleges and universities \$470 million. \$100 million will go towards replacing cuts in current fiscal year and \$370 million will go towards expected cuts in FY 2010 and FY 2011.²⁴

Tennessee's budget allocates an additional \$136 million of the state's own money to higher education. Tennessee public colleges and universities are realistic about the short term impact of ARRA. Once federal money runs out, Tennessee higher education will have to learn to function with permanent budget cuts. Tennessee is looking at ARRA money as a way to transition slowly to a more efficient way of operating. Rather than having to make dramatic cuts quickly, institutions of higher education now have several years to consider where to make cuts for long term sustainability.²⁵

Virginia

To close Virginia's budget gap for FY 2009, Governor Kaine took action in the fall of 2008 to decrease college and university budgets by 5-7%.²⁶

For FY 2009, the Governor also recommended cutting operational support for the State Council of Higher Education and reverting unexpended student financial aid funding to the general fund.²⁷

These budget reductions would reduce the general fund shortfall by \$1.7 million.

The proposed budget cuts for FY 2010 include 15% for state universities and 10% for community colleges. Prior to the passage of ARRA, budget cuts for FY 2010 were significantly greater. The governor hopes higher education institutions will decrease their budgets by streamlining administration, making programs more efficient and realigning current programs.²⁸

For FY 2010, the governor recommended eliminating the Eminent Scholars Program for full or associate professors at the University of Virginia and reducing funding to the Tuition Assistance Grant program (TAG) for graduate students at the State Council for Higher Education.²⁹ These budget reductions reduced the general fund shortfall by \$8.5 million.

To deal with the financial constraints on students, Governor Kaine proposed increasing need-based financial aid by \$26 million.³⁰

Legislators immediately amended the state's proposed budget to incorporate the additional revenue provided by the State Fiscal Stabilization Fund within ARRA. Legislators proposed using the \$126 million earmarked for higher education to reduce the planned cuts to an average of 5% (3-7% per institution) for all institutions. The proposed amended budget is awaiting Governor Kaine's signature.³¹

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Endnotes

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