

## Your Question:

You asked about approaches states can use to prepare higher education for economic recessions.

## Our Response:

Economic downturns have a unique impact on state higher education systems: Precisely when the state's ability to maintain or increase funding to higher education is constrained, enrollment increases. This information request discusses three of the main policy tools that states have at their disposal to cope with economic recessions and their impact on higher education systems. It also covers some anticipated institutional responses to economic downturns that may be taken into account when crafting state policy.

### 1) Rainy day funds

Across sectors of government, establishing rainy day funds, or specified pots of money for use in downturns, is one approach to preparing for projected decreases in revenues. The Tax Policy Center explores how states' rainy day funds are constructed [in this briefing](#).

Every state has some type of rainy day fund. We searched state statutes for any rainy day policies that specifically mention education, with specific focus on those that may mention higher education. While this search is not exhaustive, we found two states that specifically mentioned education in their rainy day fund policies:

- Ind. Code Ann. § 36-1-8-5.1 (West) allows political subdivisions to establish their own rainy day funds. The statute sets requirements for deposits and withdrawals from the funds, and specifically mentions that school corporations can withdraw from their rainy day fund by passing a resolution.
- Alabama's state constitution (Ala. Const. , § 260.02) defines policy around the Education Trust Fund Rainy Day Account. The Education Trust Fund is used for a variety of education finance purposes, including funding the state's financial aid program. The constitution specifies processes for making deposits and withdrawals from the fund.

### 2) Required Reporting and Planning

In anticipation of an economic downturn or in the early stages of a downturn, states may consider requiring institutions or systems of institutions to submit, as part of their budget request, plans for how they would face funding shortfalls. For example, during the previous recession, the state of Florida required institutions to submit a plan for a 10 percent budget reduction along with their budget request. While state policy did not have a mechanism to change those plans, the budget process created an opportunity for the state to force the conversation at the institutional or system level, and provided a platform for education leaders to discuss the plans further in advance.

### 3) Federal Support

During the most recent economic downturn, many states utilized federal dollars provided through the American Recovery and Reinvestment Act of 2009, or ARRA, to shore up higher education budgets. For example, in FY 2011, states applied \$2.8 billion (in 2011 unadjusted dollars) of ARRA support to higher

education.<sup>1</sup> While there is no assurance that the federal government would again supply this funding in a future economic downturn, states did make broad use of these dollars when they were provided in 2009.

### Anticipating the Institutional Response

Any state policy approach to weathering a recession may consider the following six responses that postsecondary institutions are likely to make in times of financial exigency.<sup>2</sup> Each response includes several examples of what specific institution- or system-level actions might look like.

- Administrative Control and Management
  - Defer purchases and maintenance
  - Contract out student support services
- Instructional Staffing
  - Hire more part-time or contingent faculty
  - Reduce the number of faculty and staff
  - Freeze hiring, freeze travel, institute staff or faculty furloughs
- Examination of Academic Offerings
  - Review programs for economic and educational viability
  - Increase class sizes
  - Expand dual enrollment
- Enhancing Revenues
  - Raise tuition
    - Public institutions of higher education also have the capacity to generate revenue through tuition. [Forty-five states](#) and the District of Columbia delegate the authority to set tuition to single or multi-campus boards in state statute for the four-year sector, and [46 states](#) and the District of Columbia do so in the two-year sector. As of November 2018, [14 states](#) currently cap or freeze tuition in at least one postsecondary sector. Absent tuition control, institutions are likely to respond to any cuts in state funding during a recession with tuition increases. This can be problematic since students themselves are also less able to pay for education during an economic recession. In states subject to tuition capping or freezing, institutions may respond to budget cuts and stagnant tuition revenue by compromising quality and the diversity of offerings available to students.
  - Issue bonds
- Institutional Advancement
  - Increase lobbying efforts
  - Engage alumni and other donors
- Strategic Organizational Change
  - Alter within-institution allocation models
  - Limit enrollment and right-size the institution
  - Enroll more students who pay the full price of tuition

Finally, after the recession has ended, funding for higher education generally does not recover quickly, and in many cases, does not return to pre-recession levels. This may have permanent consequences at an institutional level, such as an increased focus on students with a higher ability to pay or reduced capacity for enrollment.

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<sup>1</sup> State Higher Education Executive Officers (SHEEO), State Higher Education Finance Report, FY 2012

<sup>2</sup> Adapted from Mullin, C. M., Baime, D. S., & Honeyman, D. S. (2015, March). *Community college finance: A guide for institutional leaders*. San Francisco, CA: Jossey-Bass.

Education Commission of the States remains available to assist you as you explore this and other education policy issues. Please do not hesitate to reach out if we can be of any further assistance.