

# The Financial Environment for Higher Education



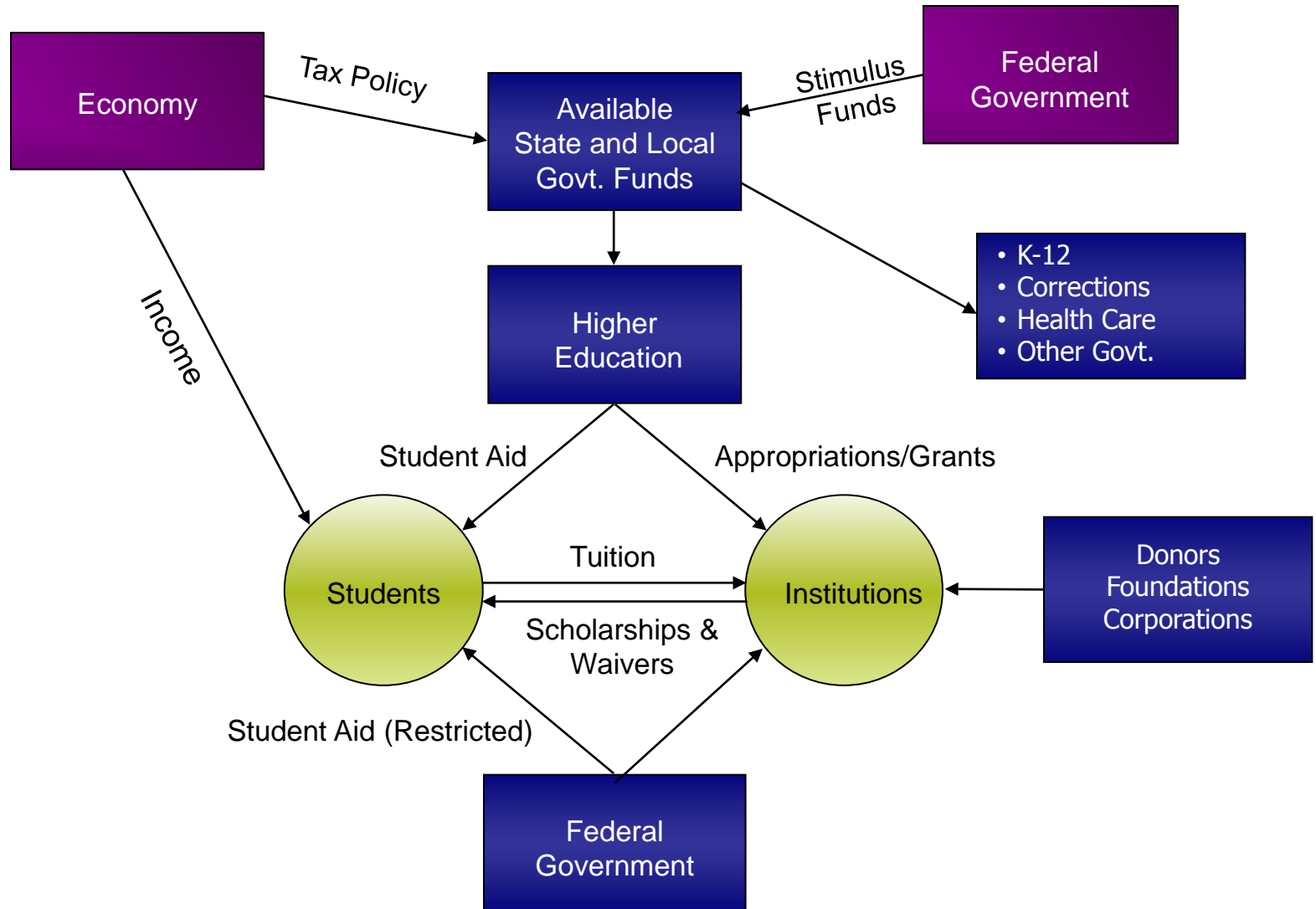
Presented to:  
CACG Network Meeting  
Salt Lake City, Utah  
June 9, 2011



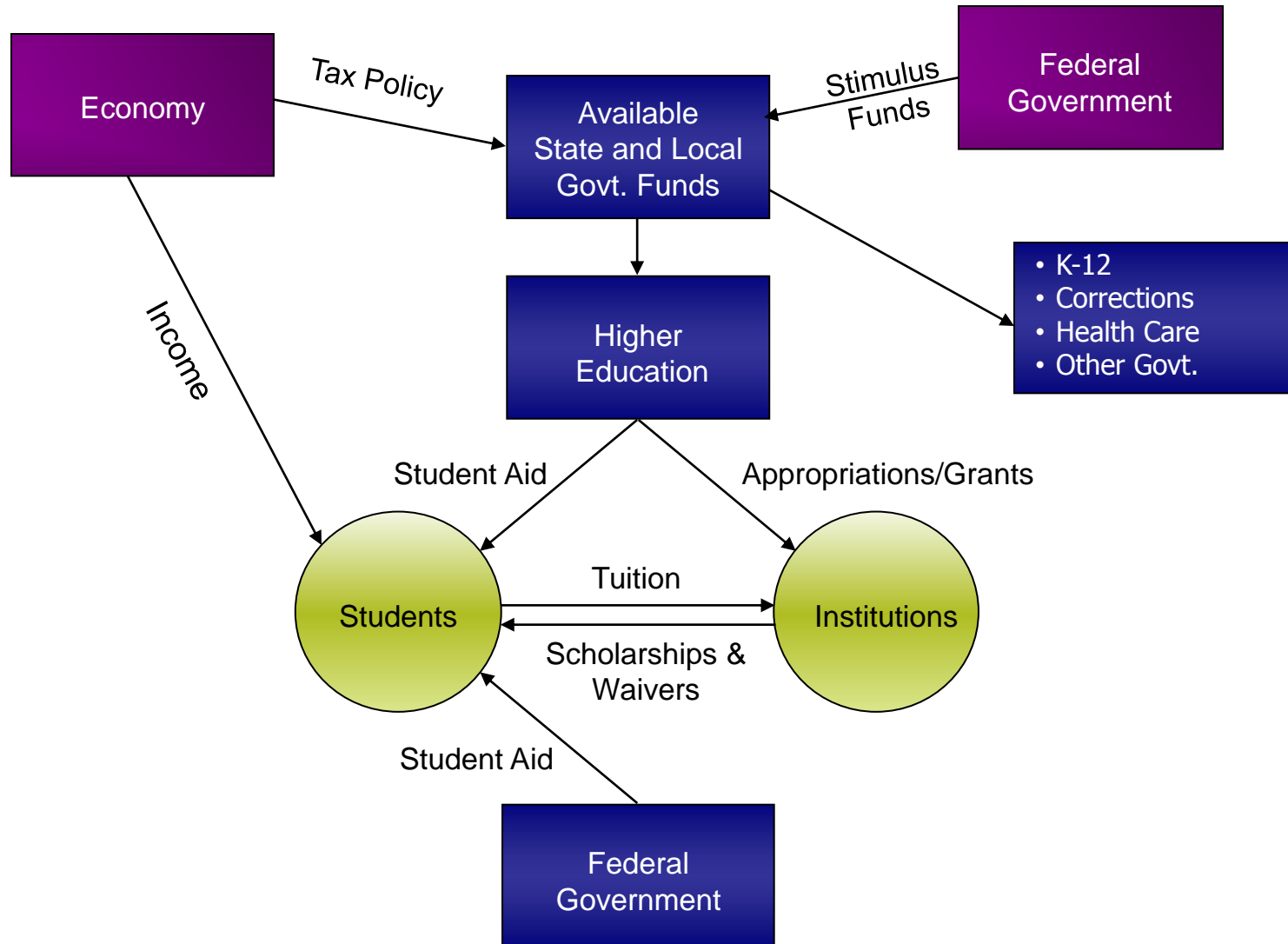
**NCHEMS**

**National Center for Higher Education Management Systems**  
3035 Center Green Drive, Suite 150  
Boulder, Colorado 80301

# The Flow of Funds



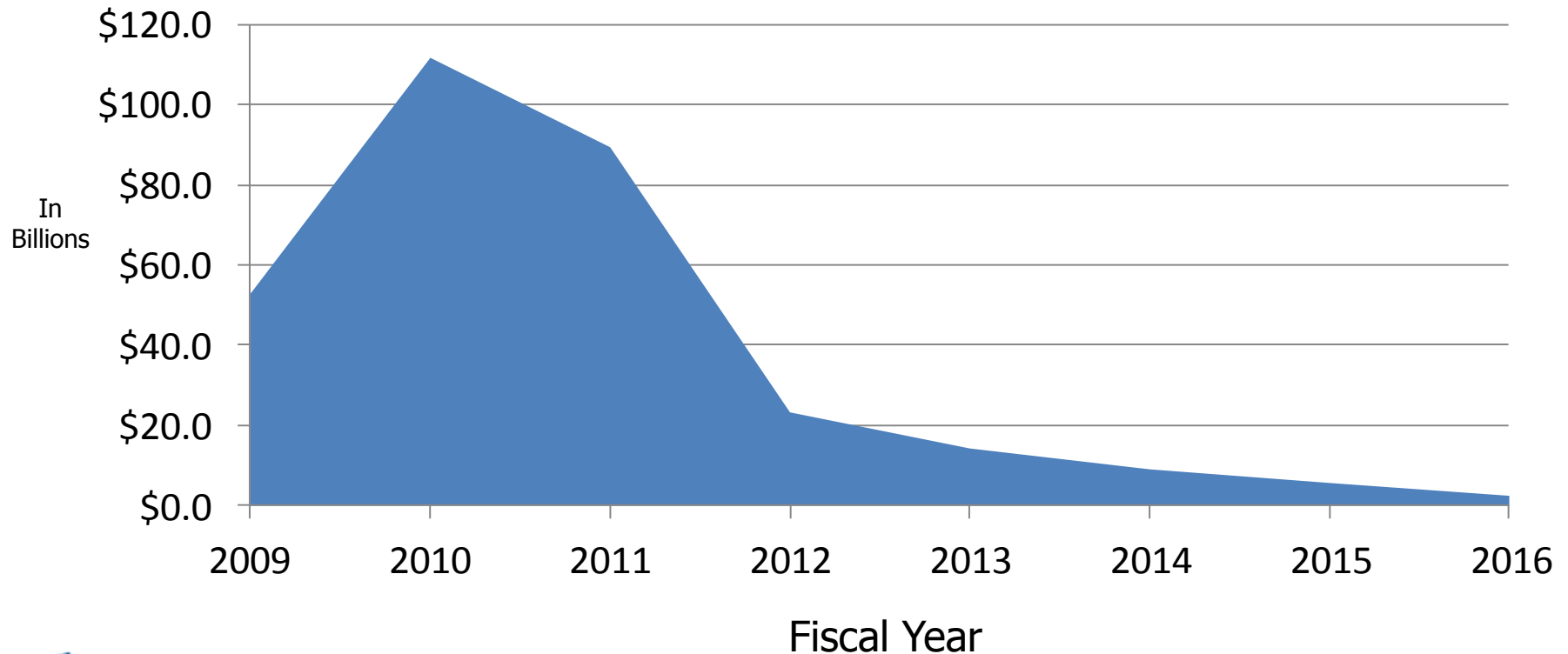
# The Flow of Funds - State



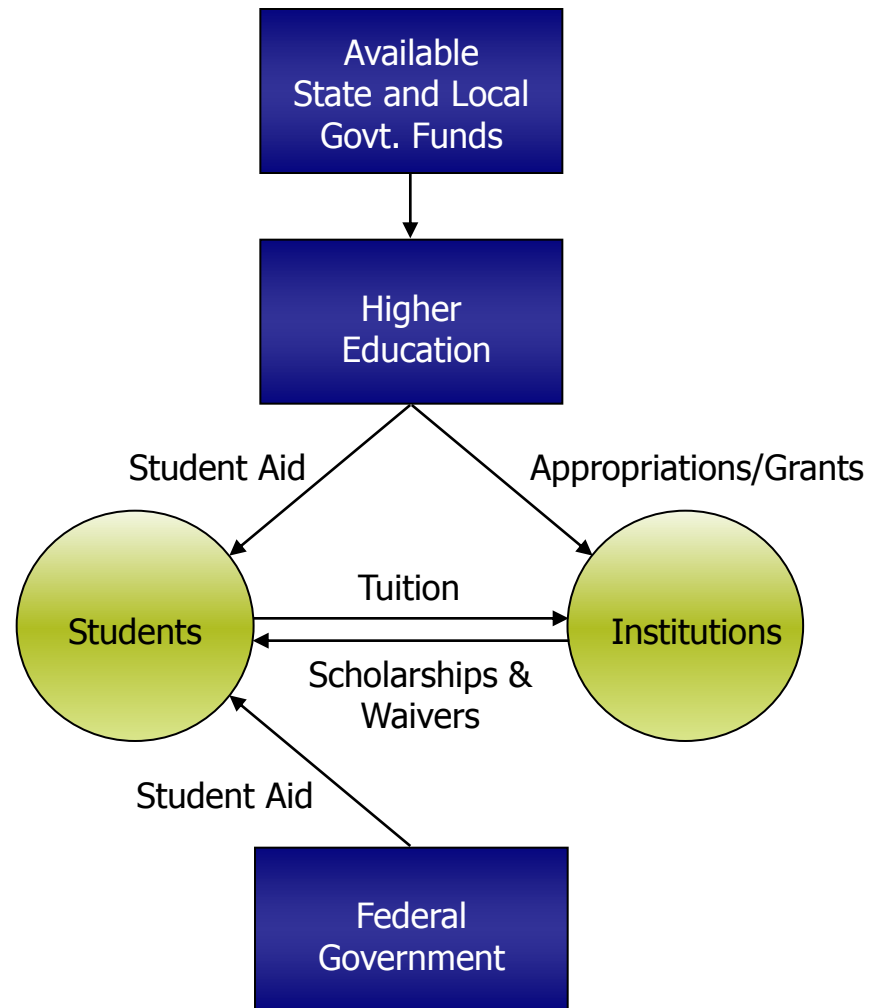
# Recovery Act Funds Face Significant Wind Down

(FY '11 totals include both ARRA & Education Jobs Funds)

## Federal Outlays



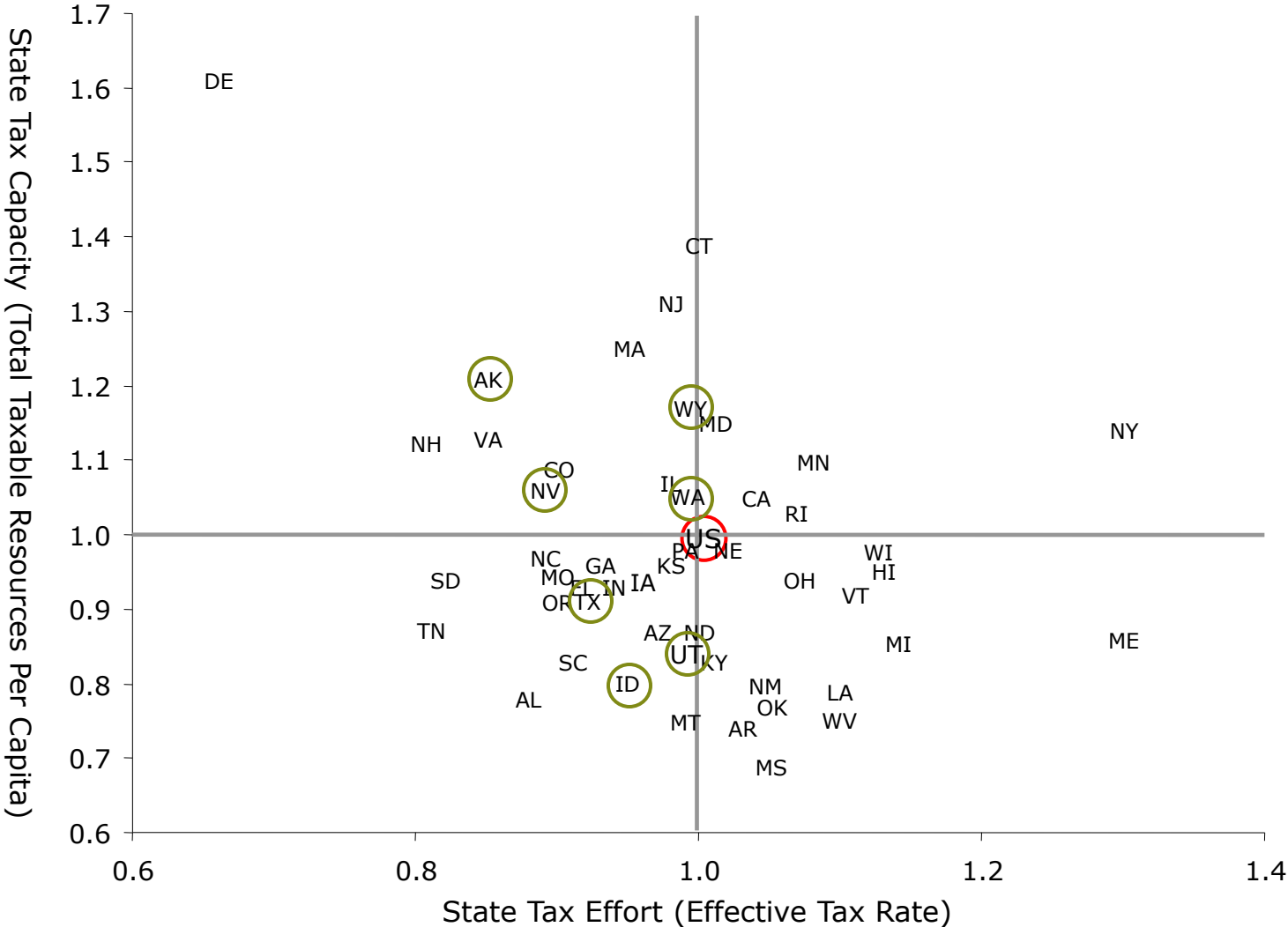
# The Flow of Funds





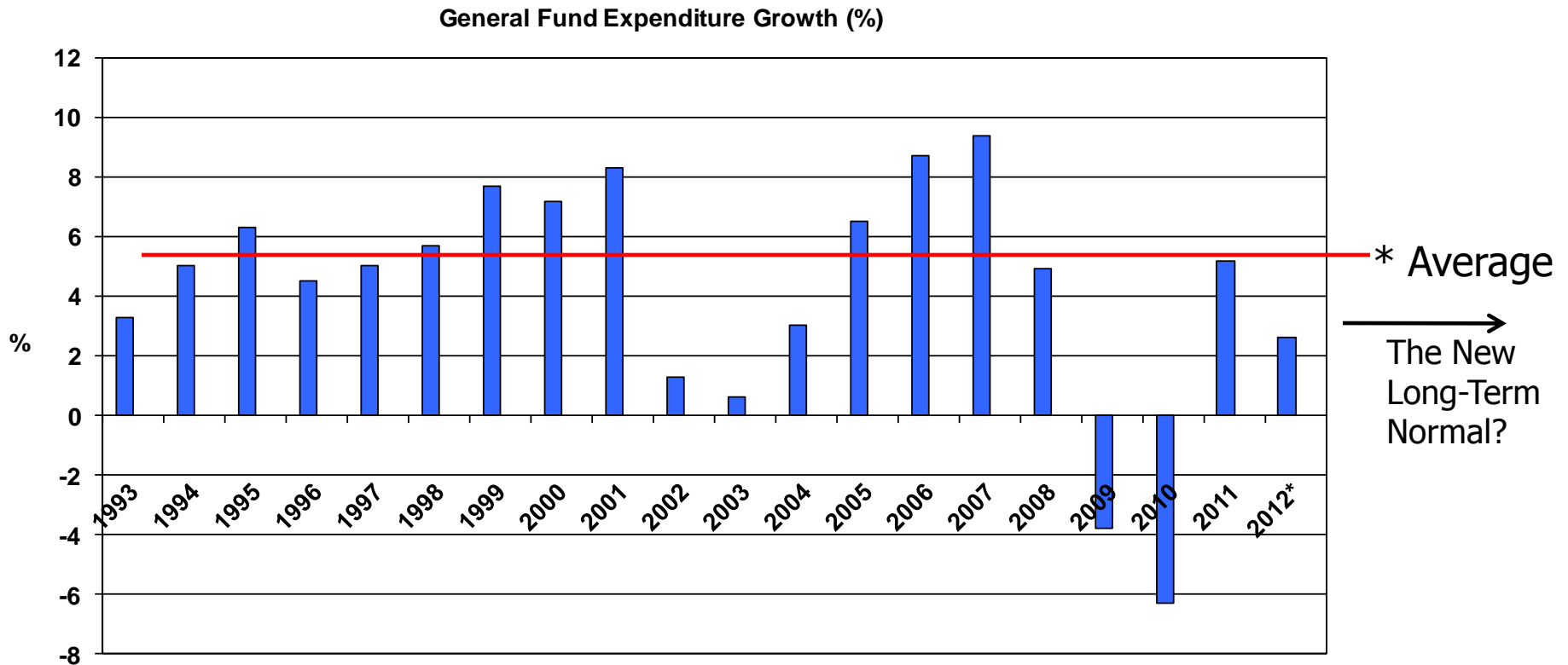
# The State Piece of the Financing Mechanism: A Depressing Picture

# State Tax Capacity & Effort Indexed to U.S. Average



Source: State Higher Education Executive Officers (SHEEO)

# Two Consecutive Annual GF Spending Increases Follows Declines of '09 & '10



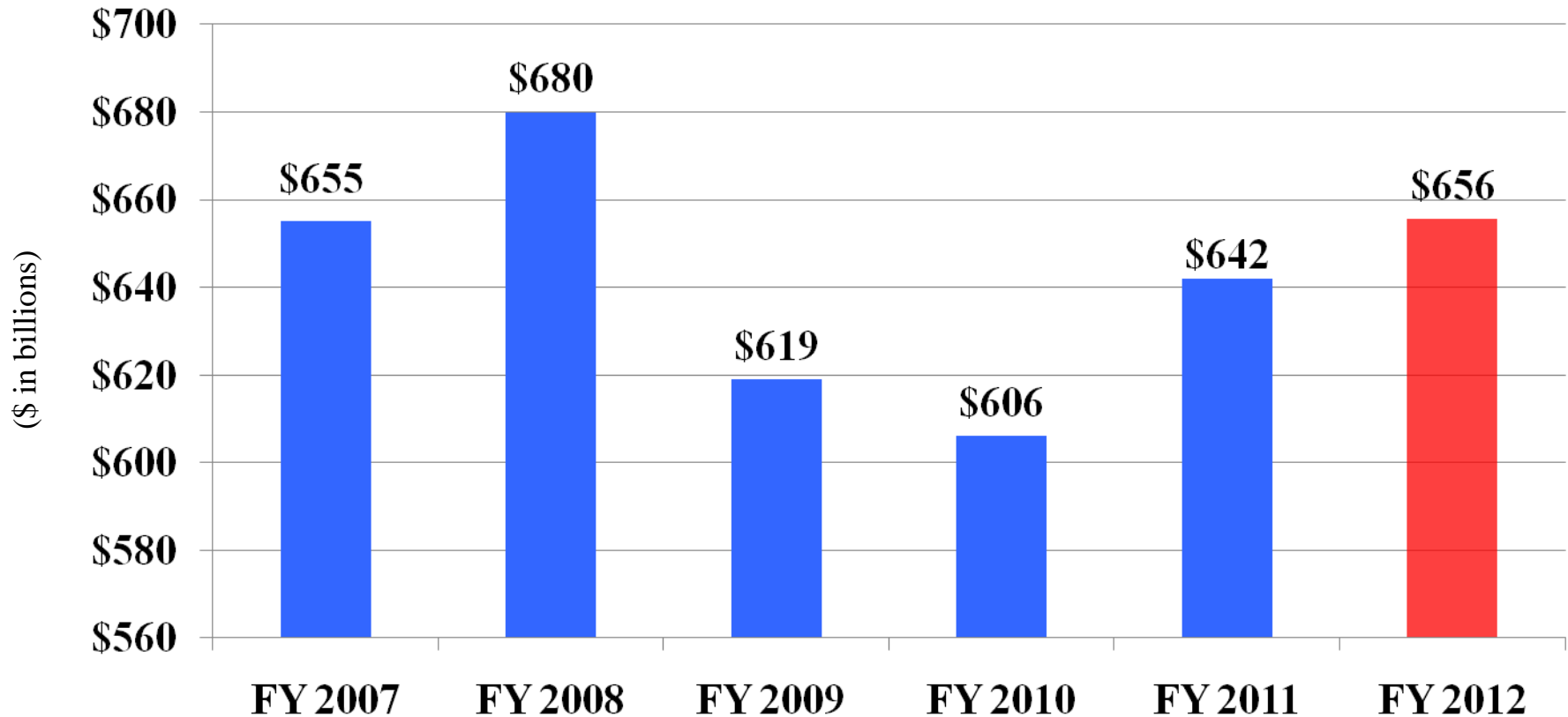
\*34-year historical average rate of growth is 5.7percent

\*Fiscal '12 numbers are recommended

Source: NASBO Spring 2011 Fiscal Survey of States

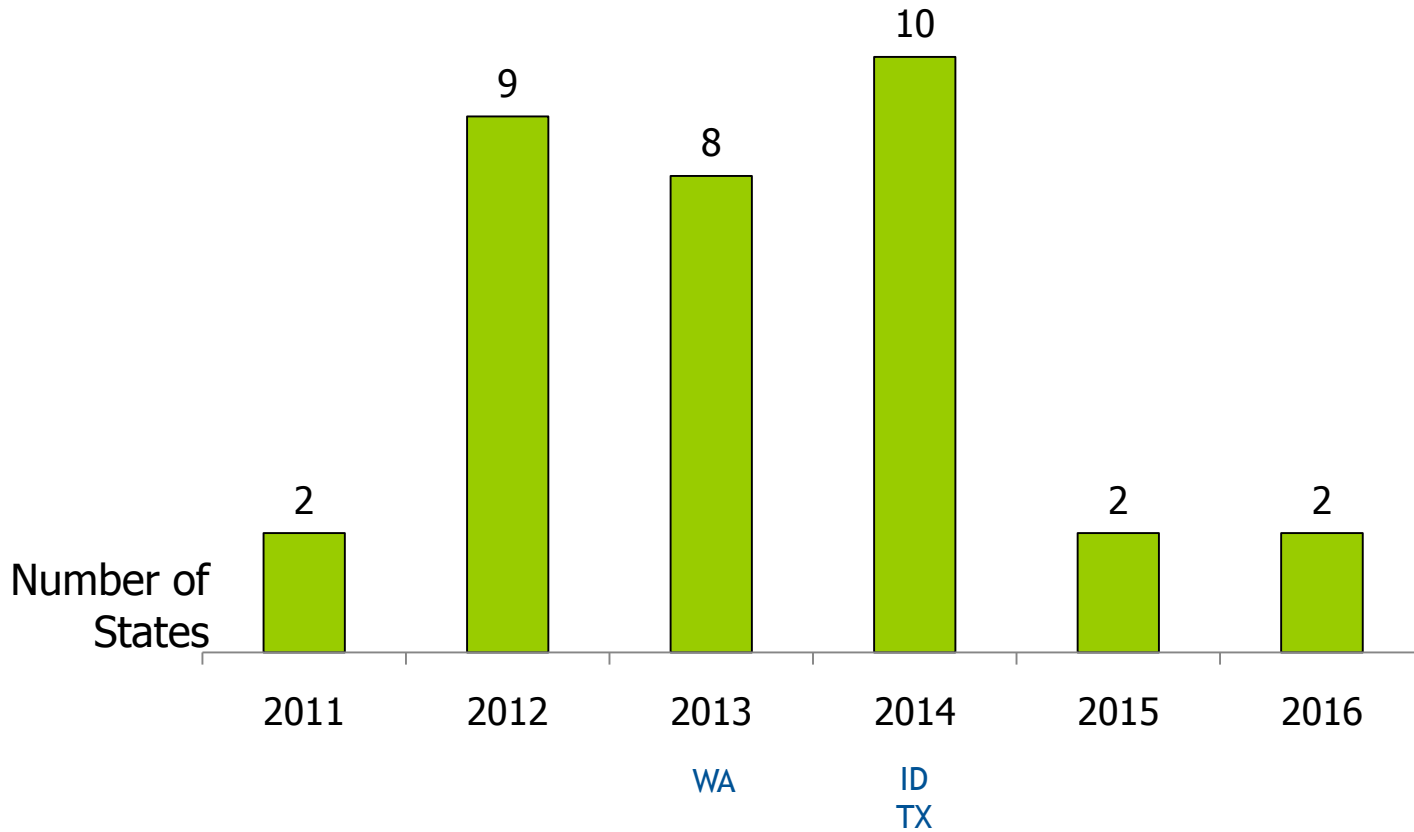
# Revenue Remains Below Pre-Recession Levels

## General Fund Revenue: FY 2007-FY 2012 (in billions)



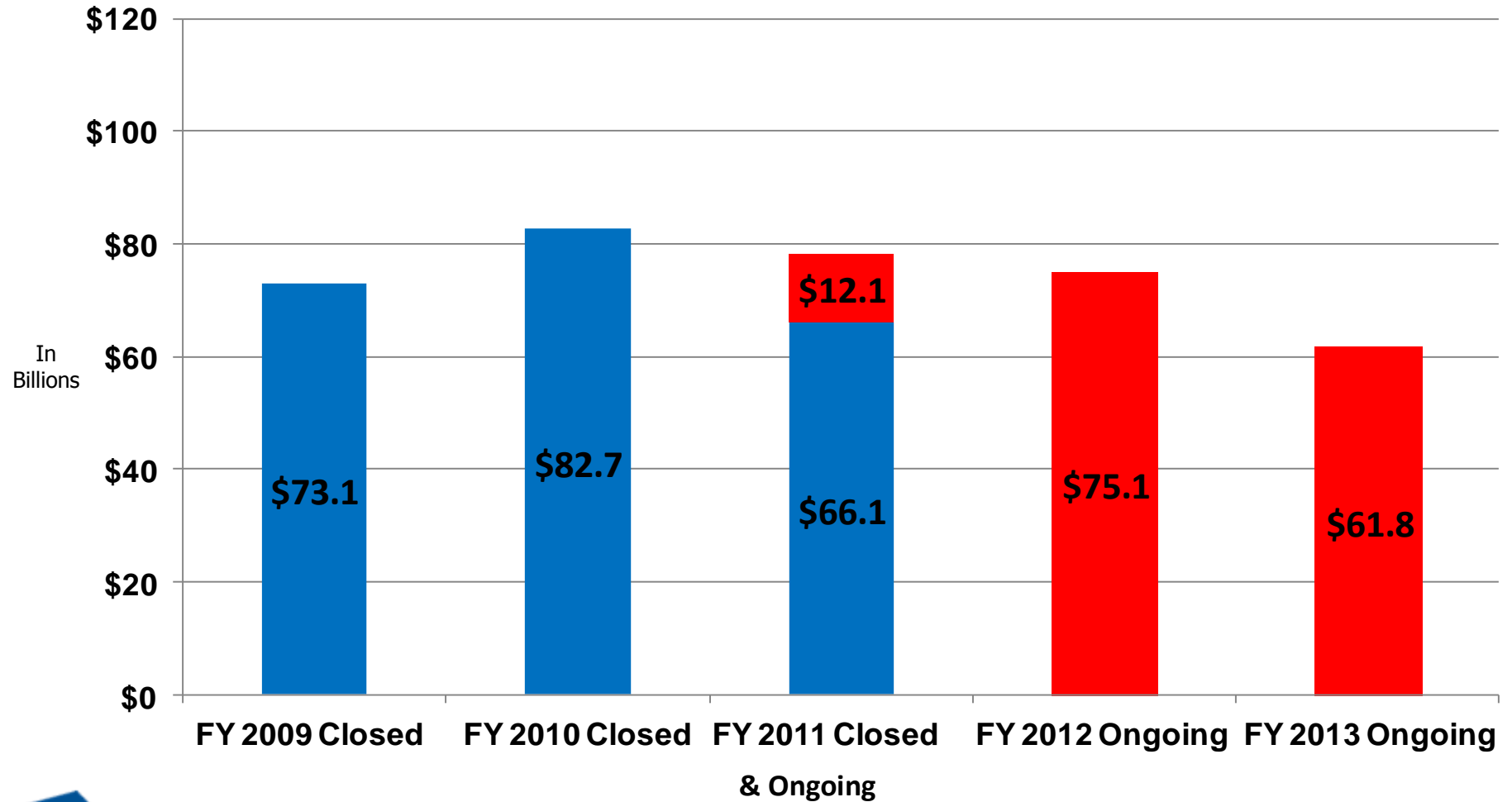
\* FY 2007, 2008, 2009 and 2010 are actual. FY 2011 is estimated and FY 2012 is proposed.

# Projected Return to Peak Revenue Collections\*



\*14 States did not report data – these include Alaska, Nevada, Utah, and Wyoming  
Source: NCSL, State Budget Up-Date, March 2011

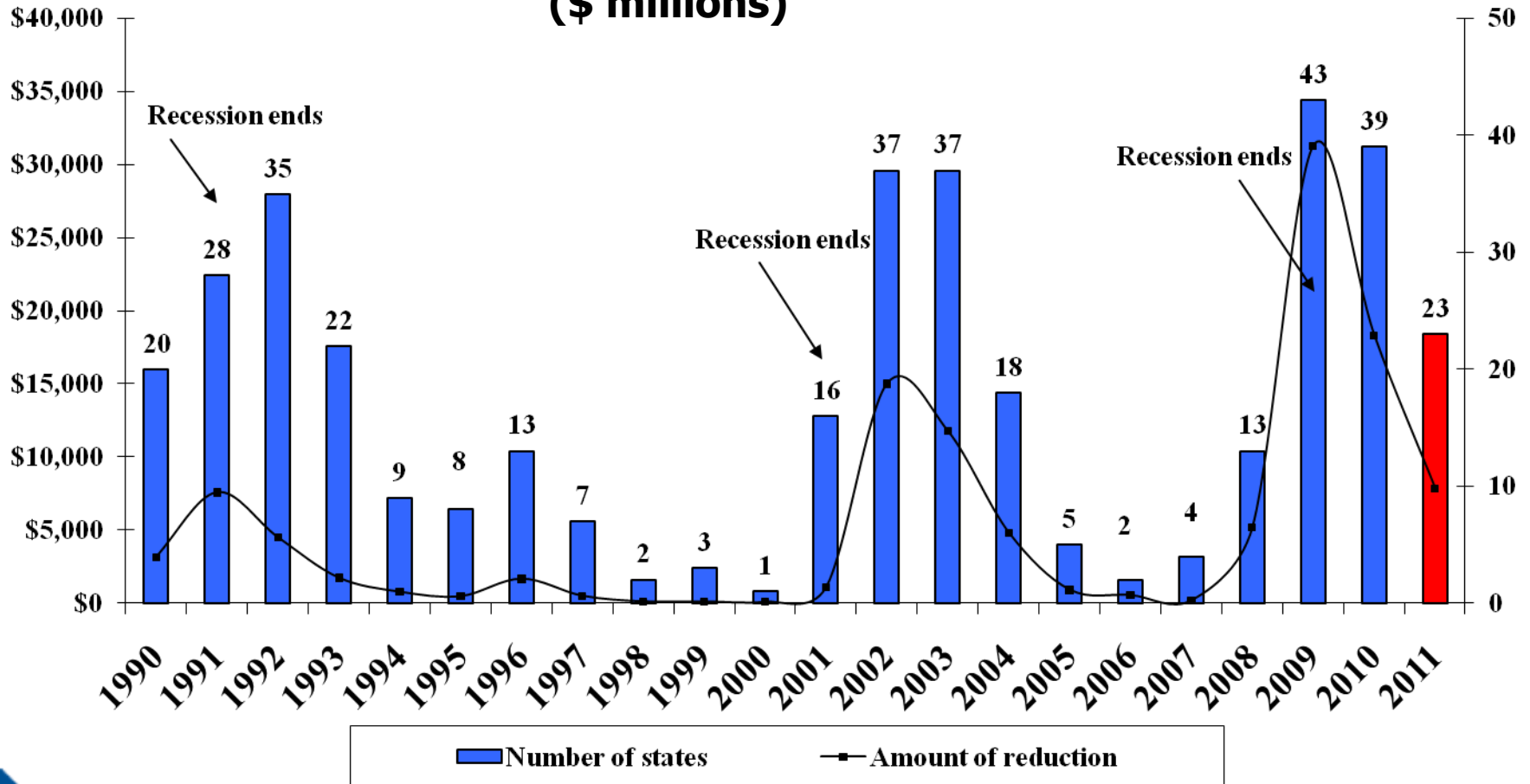
# States Have Closed Budget Gaps of Over \$220 Billion – Still Face \$149 Billion in Gaps



Blue = closed gaps; Red = ongoing gaps

# Mid-Year Budget Cuts Decline

## Budget Cuts Made After the Budget Passed (\$ millions)



\*FY 2011 mid-year budget cuts are ongoing  
Source: NASBO Spring 2011 Fiscal Survey

# Strategies Used to Reduce or Eliminate Budget Gaps, FY 2011

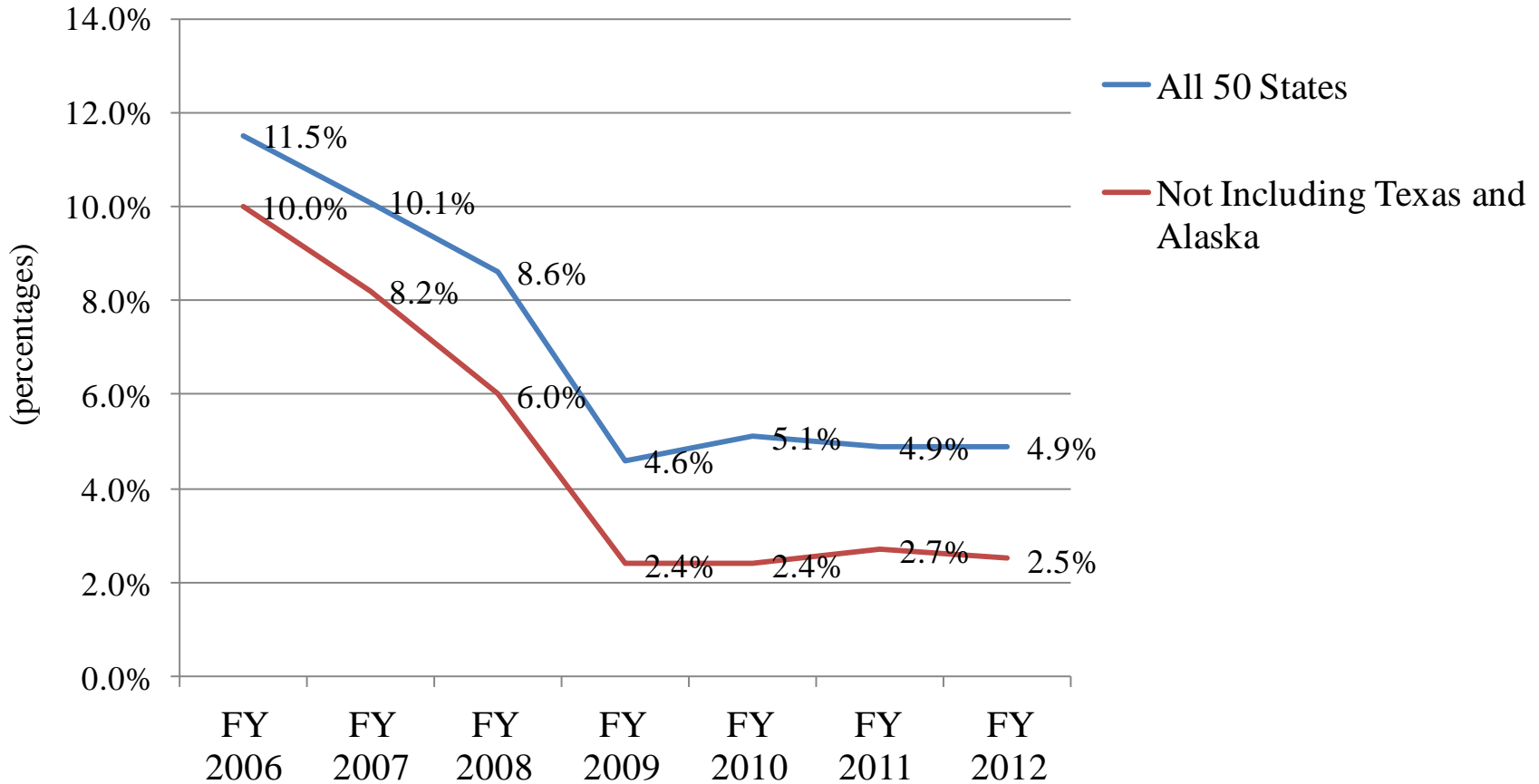
- Reduce Local Aid: 16 states
- Layoffs: 20 states
- Furloughs: 19 states
- Cuts to Employee Benefits: 13 states
- Across-the-Board Cuts: 20 states
- Targeted Cuts: 34 states
- Rainy Day Fund: 9 states
- Reorganize Agencies: 12 states

# Proposed Fiscal 2012 Revenue Actions

- Total proposed fiscal 2012 net increase: \$13.8B
  - Sales Tax: \$6.1B
  - Personal Income: \$5.9B
  - Corporate: -\$537M
  - Cigarettes/Tobacco: \$54M
  - Other Taxes: \$955M
  - Fees: \$1.3B
- Total enacted fiscal 2010 net increase: \$23.9B
- Total enacted fiscal 2011 net increase: \$6.2B

# Balance Levels are Below Historical Average for Most States

## Balances as a Percentage of Expenditures

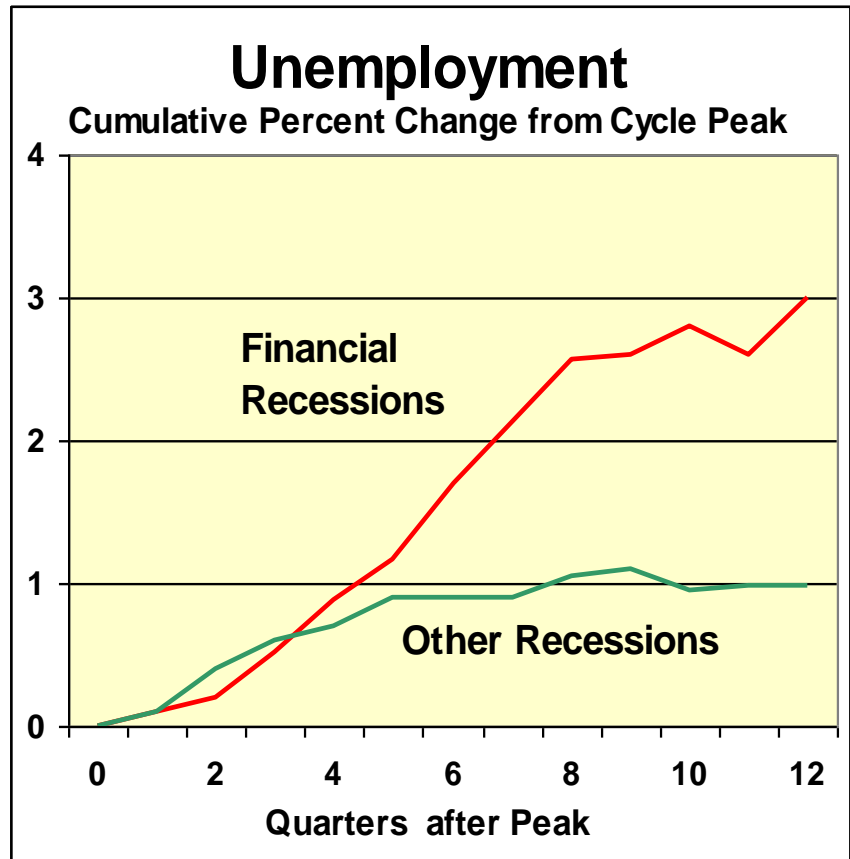
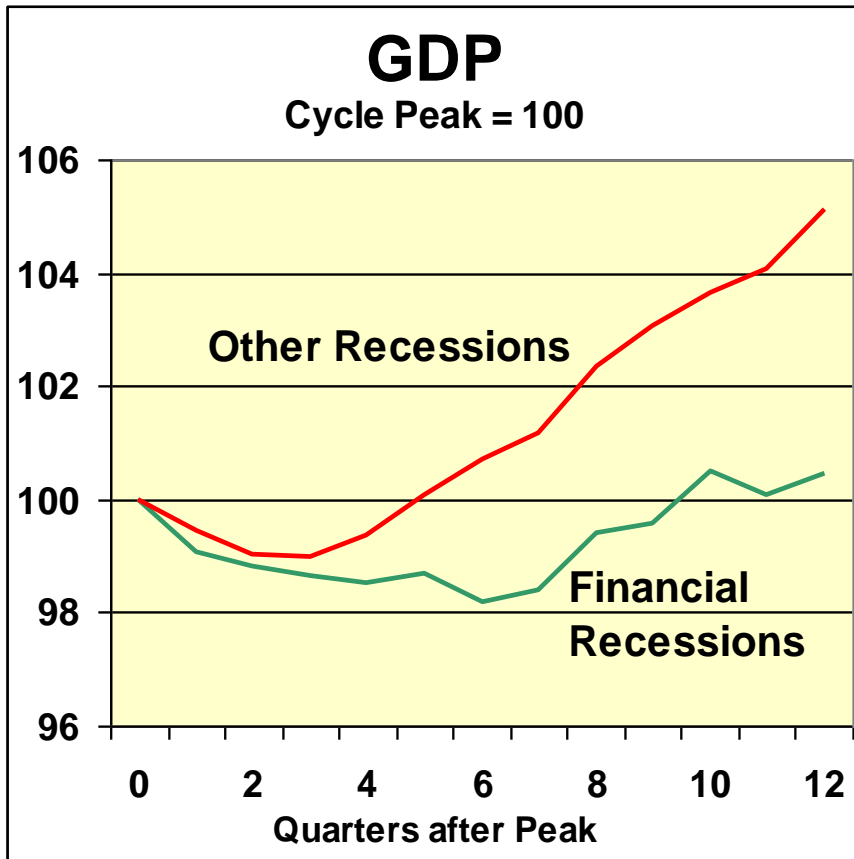


\* FY 2006, 2007, 2008, 2009, 2010 are actual, FY 2011 is estimated and FY 2012 is proposed.

# A Reality Facing Higher Education

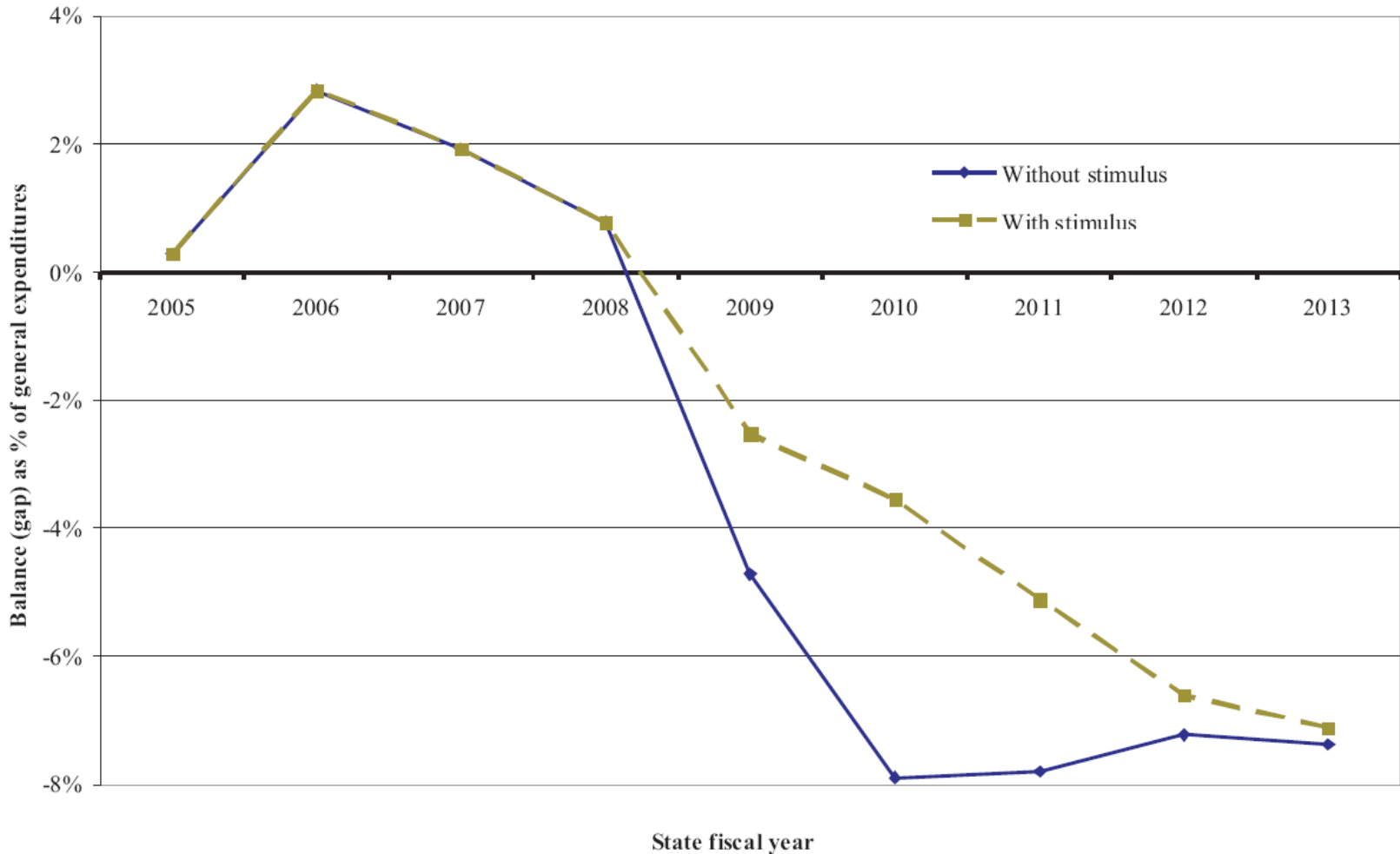
- Employment recovery lags fiscal recovery
- State tax collections lag employment recovery
- Funding for higher education lags state tax revenues recovery

# Recoveries from Financial Recessions

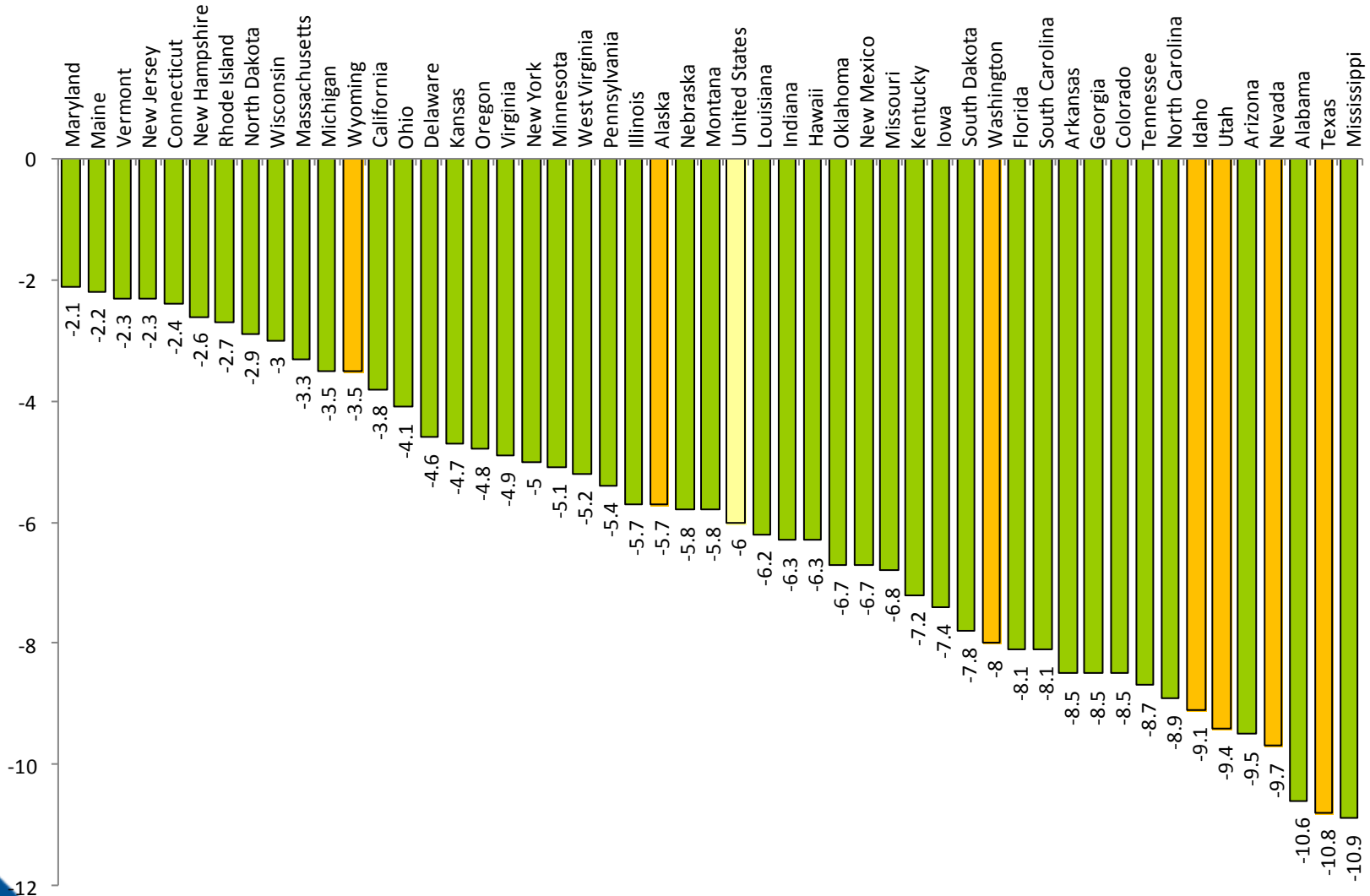


# After stimulus wanes, gaps could approach 7% of spending or \$120 billion under the "High-Gap" scenario

"High-Gap" Scenario:  
State General Revenue Minus Expenditures With and Without Federal Stimulus



# Projected State and Local Budget Surplus (Gap) as a Percent of Revenues, 2016



# The Traditional Competitors for State Funding

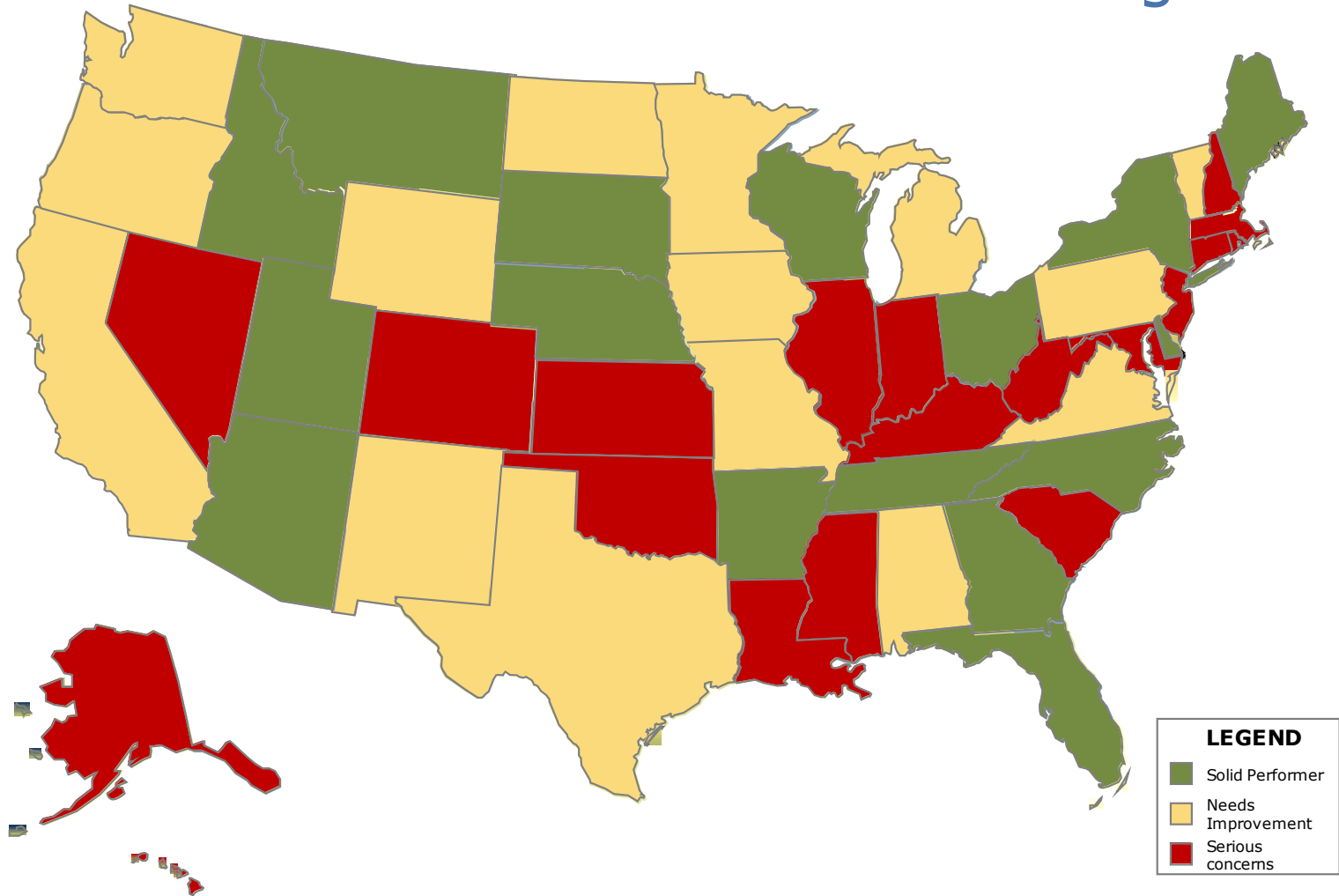
- K-12 Education
- Medicaid
- Corrections
- Transportation

## The New Competition

Unfunded obligations to state employees for

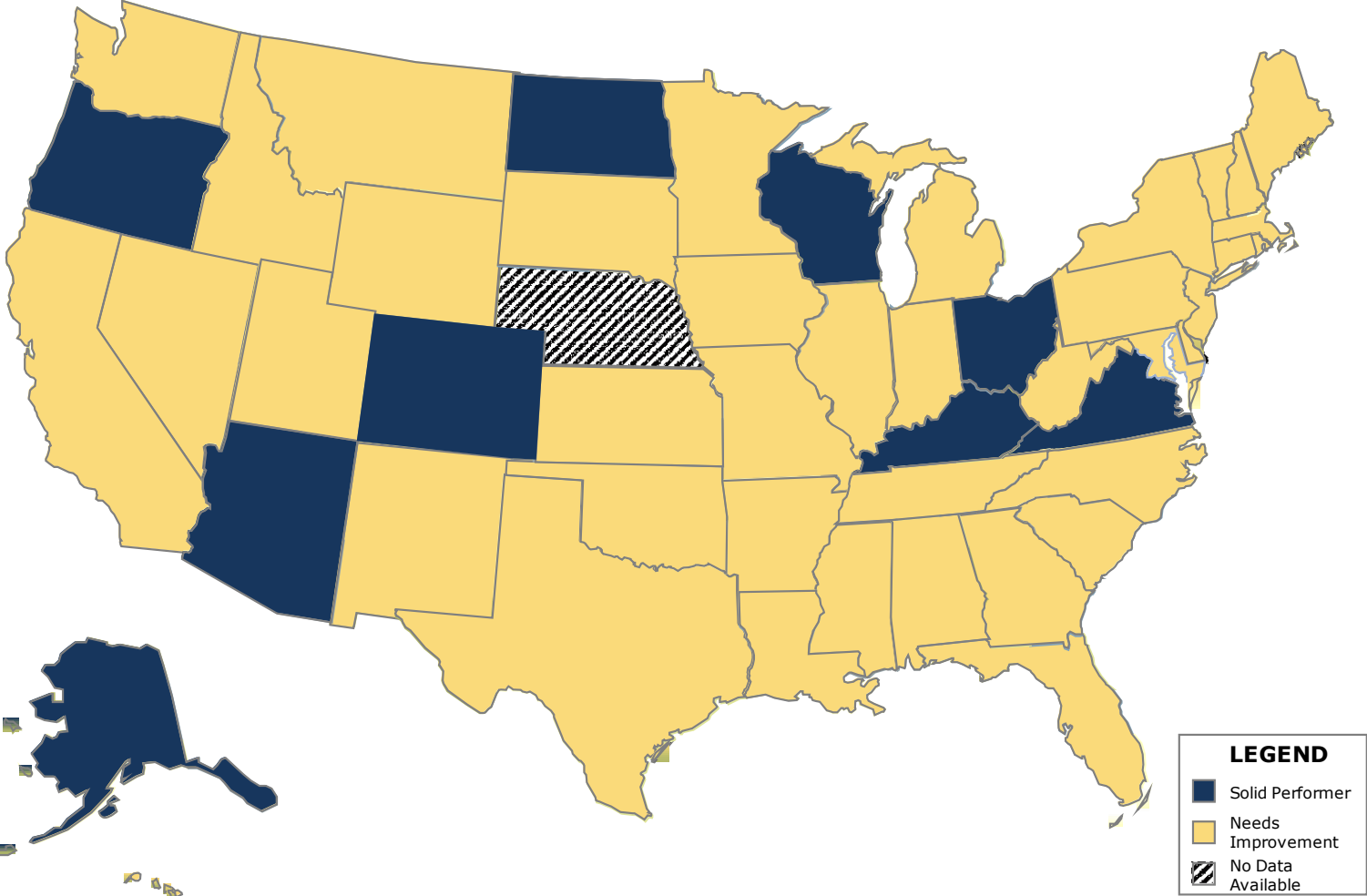
- Retirement
- Health Benefits

# How Well Are States Managing Their Pension Obligations?



Source: Pew Center on the States, 2010

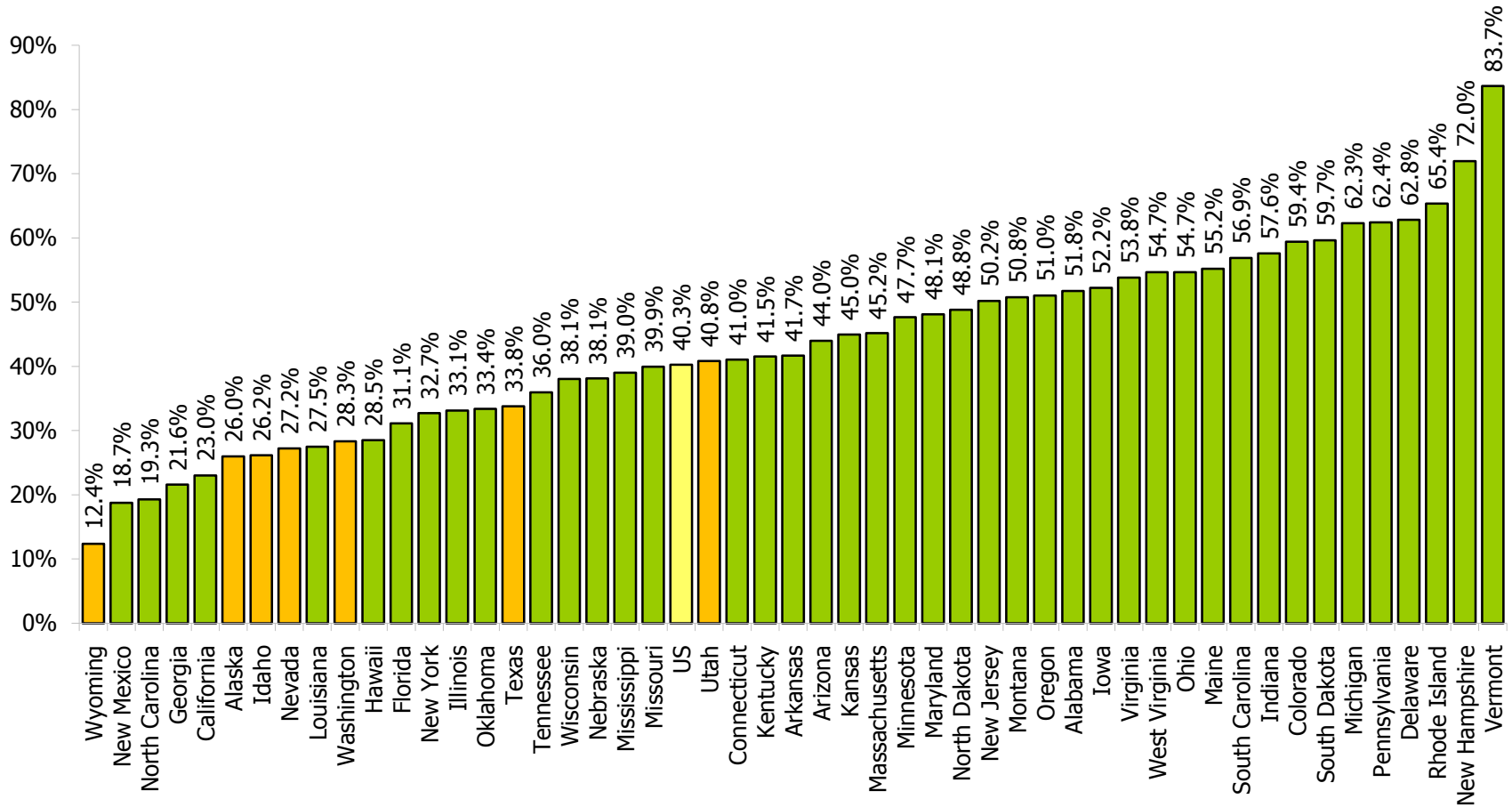
# How Well Are States Managing Their Non-Pension Obligations?



Source: Pew Center on the States, 2010

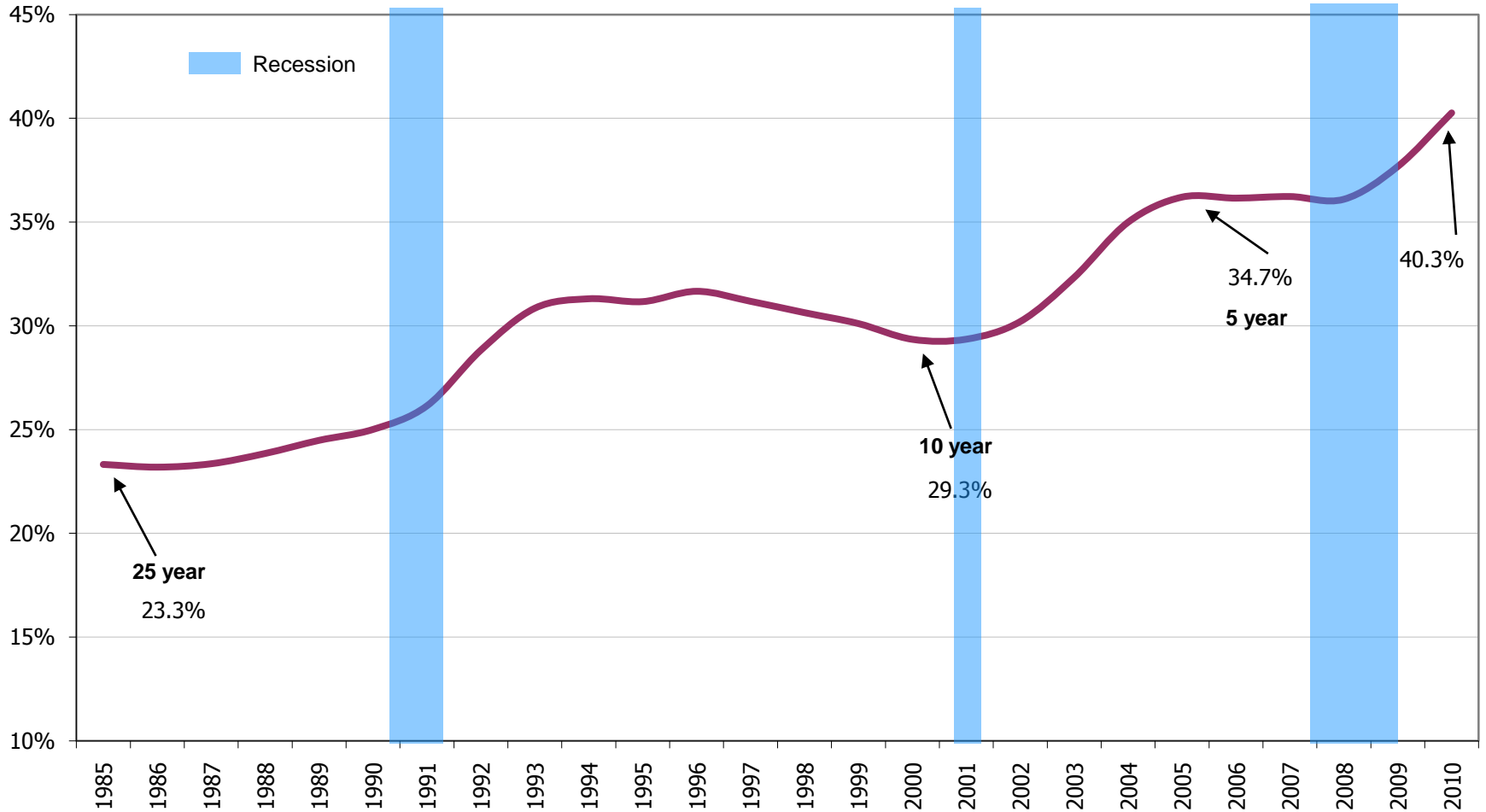
# The Tuition Revenue Picture

# Net Tuition as a Percent of Public Higher Education Total Educational Revenue by State, FY 2010



Note: Dollars adjusted by 2010 HECA, Cost of Living Adjustment, and Enrollment Mix.  
Source: State Higher Education Executive Officers

# Net Tuition as a Percent of Public Higher Education Total Educational Revenue, U.S., Fiscal 2010

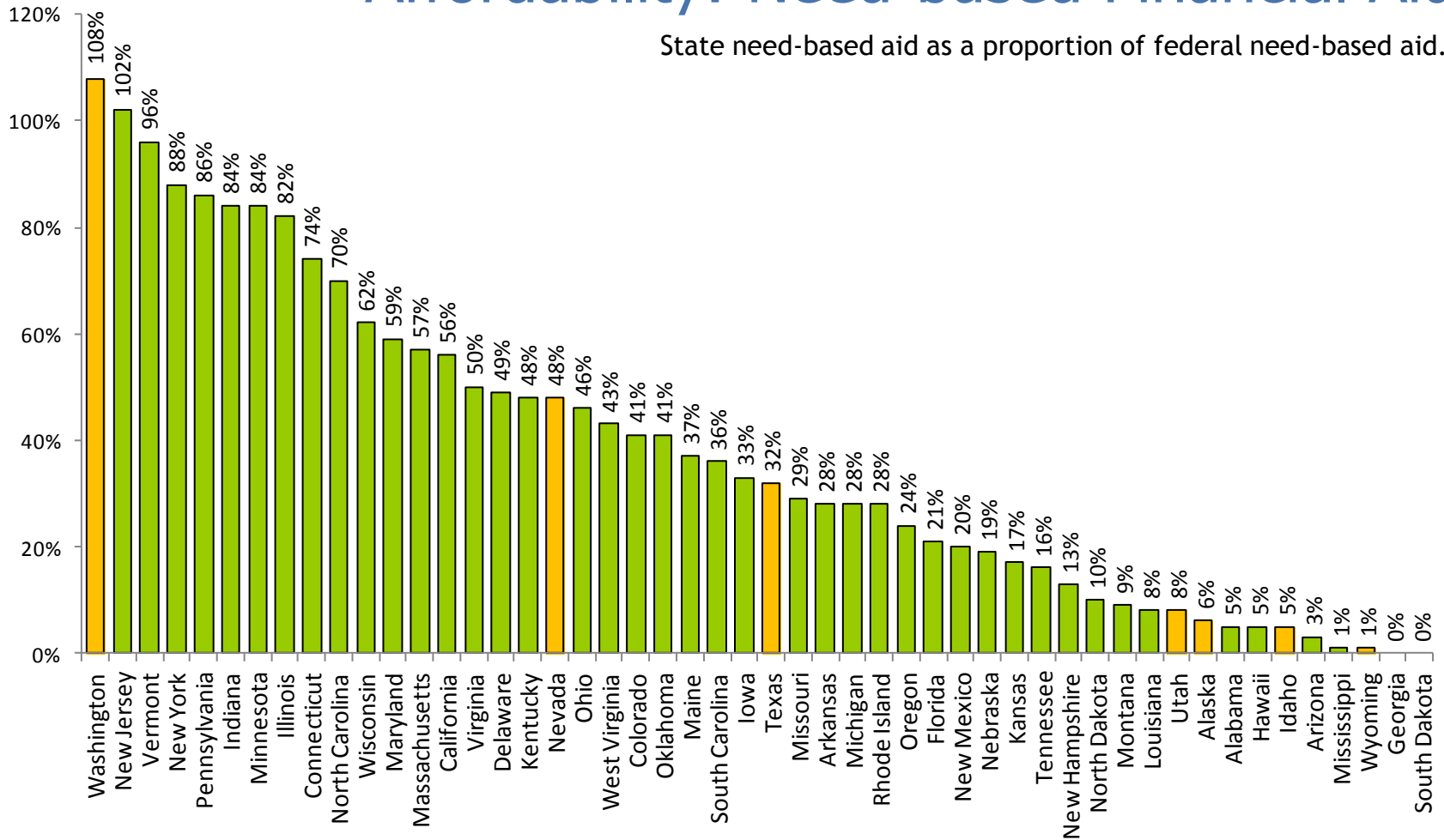


Note: Net tuition revenue used for capital debt service is included in net tuition revenue, but excluded from total educational revenue in calculating the above figures.

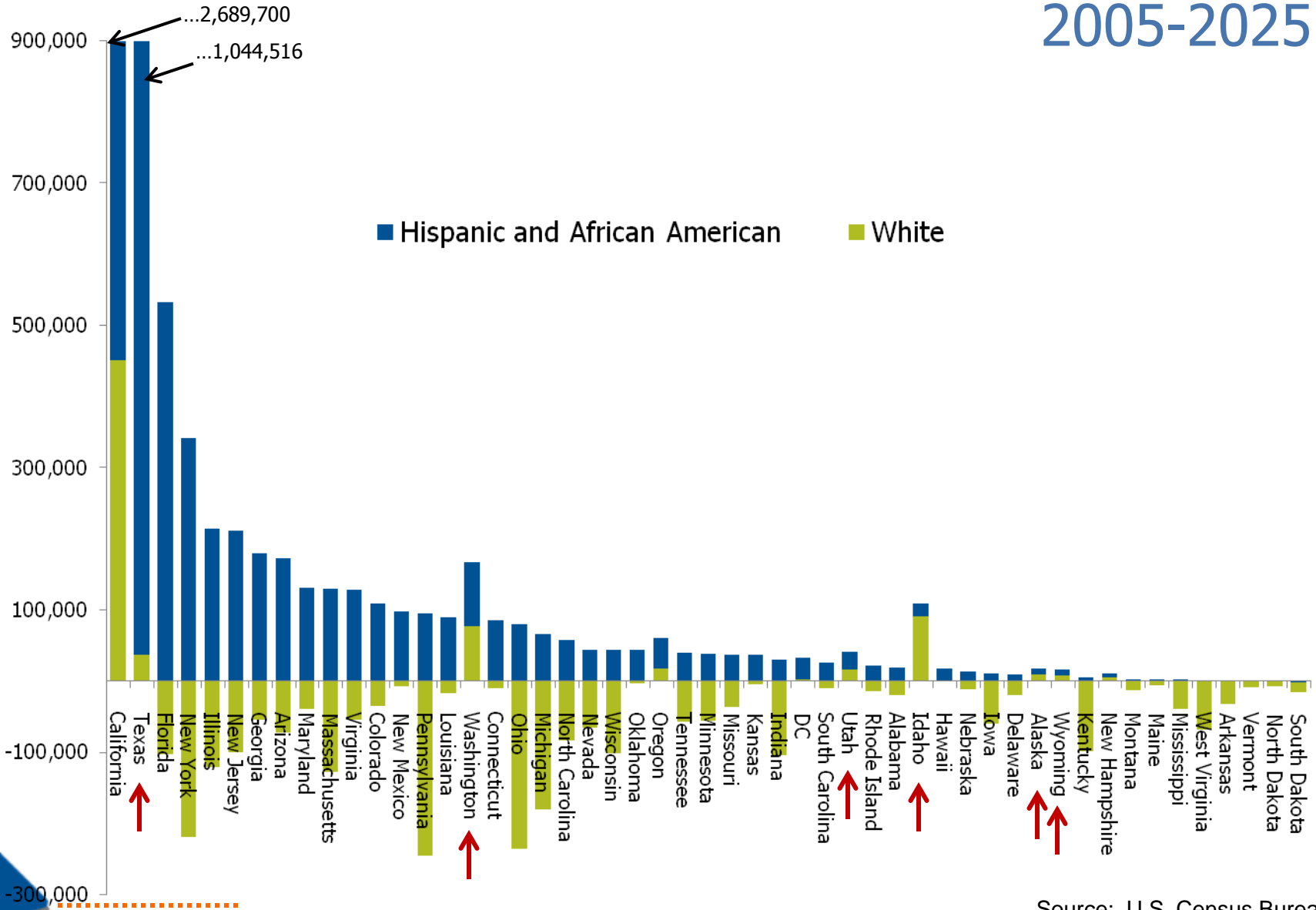
Source: State Higher Education Executive Officers

# Affordability: Need-based Financial Aid

State need-based aid as a proportion of federal need-based aid.

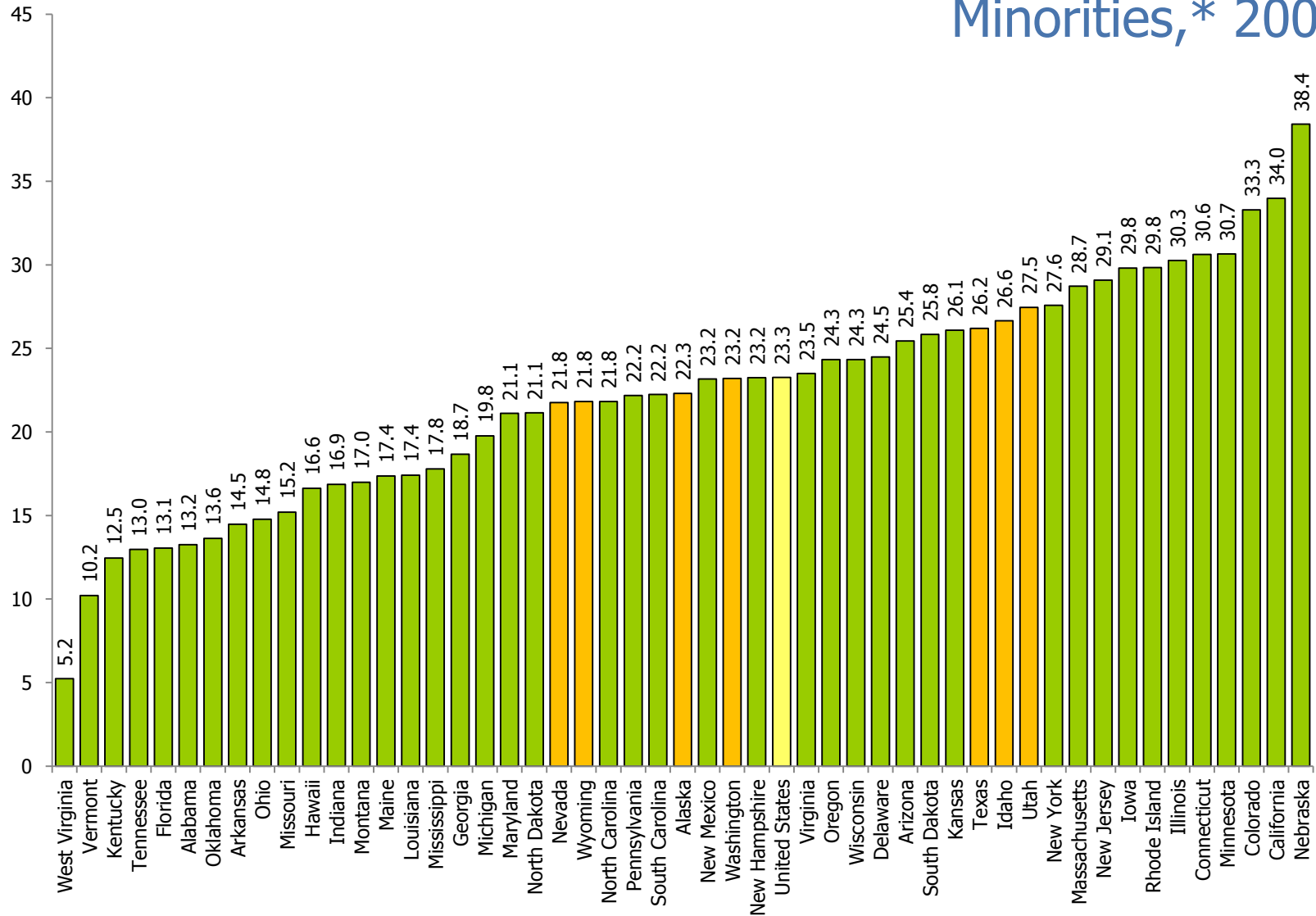


# Change in Population Age 25-44 By Race/Ethnicity, 2005-2025



Source: U.S. Census Bureau

# Difference in College Attainment Between Whites and Minorities,\* 2009



\* Minorities include African-American, Hispanic, and Native American  
 Source: U.S. Census Bureau, 2009 American Community Survey

# Percent of Children Ages 0 – 17 Living in Families with Less than a Living Wage (2007)

