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The Nuts and Bolts of the Higher Education Legislative Appropriations Process

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Introduction

Appropriating money for postsecondary education is one of the most important roles state legislators play in public higher education policy. The appropriations process determines the level of state commitment to its institutions of higher education. Many different factors enter into decisions about how much funding should be appropriated – some of them straightforward and some of them complicated and disconnected. This brief examines the nuts and bolts of the state higher education appropriations process, especially in tough fiscal times. It is during these times that legislatures are particularly influenced by outside pressures. Higher education fiscal policy that is strategic and connected to state goals, as well as to tuition and financial aid policy, provides stability for students, institutions, and the state.

Education is the single-largest item in state budgets, comprising nearly half of all appropriations. On average, about 33 percent of state budgets go to K-12 education, and about 12 percent of state budgets go to higher education. With such significant revenue involved, it is small wonder that state legislators take appropriations decisions very seriously. But appropriations decisions for higher education are affected by many factors outside of higher education policy, such as the demands of other state budget items – primarily Medicaid, corrections, and transportation. Public attitudes toward taxation, the general state of the economy, and other state spending priorities also have an impact. The economy is particularly influential in determining higher education decisions: in good times higher education does well in state budgets, and in bad times it does poorly compared to other budget items.

You've probably heard higher education described as the "balance wheel" of state budgets. That's because many states determine the amount of appropriations to higher education by seeing what's left after other spending priorities have been taken care of. Legislators are able to approach higher education funding this way because, unlike all other budget items, higher education has a built-in revenue generator in the form of tuition. If the state funds higher education at a lower level than the previous year, legislators often assume that decreased revenue can be made up by increasing tuition. And, in fact, this is how most states determine higher education appropriations. What's often absent is a coherent, coordinated fiscal policy that is linked to specific, statewide higher education outcomes and objectives.

The results of this haphazard budgeting process have been particularly apparent in recent years. From 2000 to 2005, states witnessed record tuition increases. These tuition increases were due in large part to state budget cuts to higher education because of difficult economic times. Then, between 2006 and 2008, as state economies (and thus state budgets) recovered, state legislatures were able to make up for the earlier cutbacks and infuse additional dollars to higher education. This process of cutting back higher education in

bad times and increasing funding in good times is difficult for states and for students because:

- ▶ Funding decisions are not connected to specific policy objectives.
- ▶ Institutions are not able to effectively plan from year to year or for the future.
- ▶ Students may experience significant tuition increases.

Tough economic times are not only hard on states but also are hard on students and families who may be priced out of higher education when tuition rises.

Higher Education Revenue and the State Role

Public institutions receive most of their funding from either the state (through appropriations) or students (through tuition). Institutions also receive small amounts of revenue from the federal government (primarily in the form of research grants) and from donors, such as corporations or alumni, but these funds are often restricted to specific purposes (see Figure 1).¹

contributor to state higher education, providing nearly 91 percent, with 88 percent coming from appropriations from state tax revenue. Three percent comes from non-tax appropriations such as state lotteries (a small-but-growing portion of state funds), 0.4 percent comes from state-funded endowments earnings, and 0.2 percent from oil and mineral extraction fees or other lease income.

On average, 79 percent (\$65.9 billion) of the state higher education appropriation goes toward the general operating expenses of public higher education institutions; 12 percent is used for special purpose appropriations for research, agricultural extension, and medical education; 8.4 percent is set aside for student financial aid programs; and 0.3 percent directly supports independent or private institutions.²

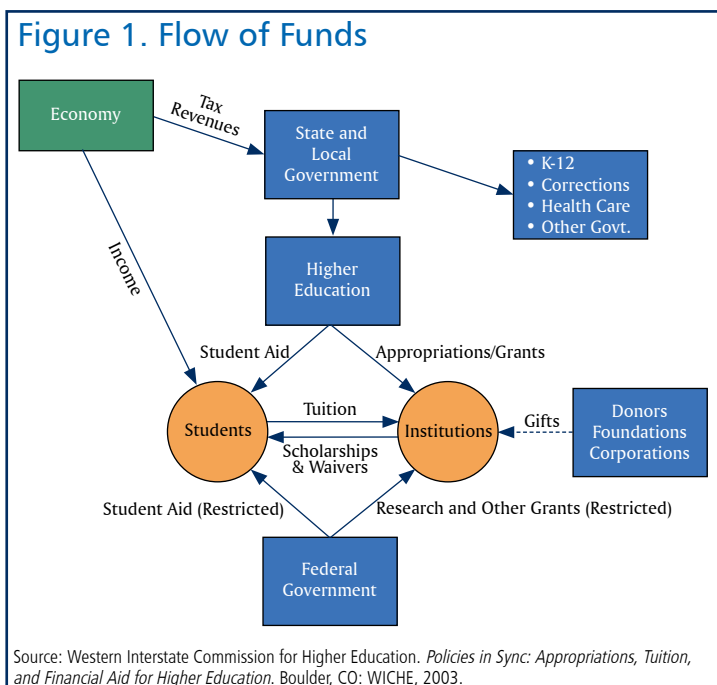
State Higher Education Funding Approaches

Appropriations directed to institutions for support of general operating appropriations may be made in two categories: base institutional funding for the creation and maintenance of the educational capacity of the institution or special-purpose funding (often referred to as performance or incentive funding) intended to promote specific state priorities.

In determining these funding decisions, states use three basic approaches:

Base plus. The prior year's funding is the starting point, and adjustments are made to reflect cost-of-living and enrollment changes. Funding decisions are thus made incrementally and are primarily based on funding levels from previous years. This process creates stability for the state, institutions, and students but lacks a connection to specific policy priorities or other changes in the state.

Formulas. Higher education funding formulas are based on such things as the number of students served, facility maintenance costs, fee levels, and the number of out-of-state students and level of out-of-state tuition. This creates clear messages to institutions about what is valued and, thus, what is funded. State legislators need to make sure the elements of funding formulas connect to overall state priorities and don't create unintended consequences as institutions make decisions to maximize the amount of state funding.



State and local governments provided \$83.5 billion in direct support for general operating expenses of public and independent higher education institutions in 2007. In addition, public institutions collected net tuition revenue of \$39.4 billion during that same year. The state is by far the largest

Performance funding. A portion of funds are linked to reward specific performance outcomes, such as the number of students graduated (rather than enrolled) and the number of underrepresented students served. This allows states an opportunity to clearly articulate state funding priorities, but typically only a small portion of higher education funding (5 to 20 percent) is allocated in this way.

Policies in Sync: Connecting Appropriations, Tuition, and Financial Aid

Appropriations decisions affect tuition. In practice, appropriations and tuition policy decisions are not connected – they’re made at different times by different people. In many states, the legislature, while controlling the state appropriations process, doesn’t have a role in tuition setting. Furthermore, as tuition rises, more students require some form of financial assistance in order to attend college. It is clear the three fiscal *levers* – appropriations, tuition, and financial aid – are closely linked, but legislative policy *decisions* involving them are not. Typically, decisions about appropriations are made at one time by a legislative committee; decisions about tuition are made at another time by another committee or by entities from outside of legislatures – for example, boards of regents. Financial aid decisions often are made at different times and may be made by different actors. This diffuse process makes it very difficult (but not impossible) for legislators to consider the three important fiscal policy levers “in sync.”

An important trend in higher education funding during the last 20 years has been the gradual-but-significant shift in the amount of higher education revenue funded by states through appropriations

and the amount funded by students through tuition. A large part of this shift is due to difficult state budget conditions that have caused states to decrease contributions through appropriations to higher education. States make up for these decreases by increasing tuition.

Table 1 reports national averages; the national trend has been to decrease the state share of higher education funding (appropriations) and increase the student/family share (tuition). But, states vary widely in their philosophies about the balance between the state and student/family share of higher education, from a low of 11.5 percent derived from tuition in New Mexico to a high of 79.3 percent in Vermont.³ States find this balance in different ways, largely based on culture and tradition. For instance, New Mexico’s public policy is that tuition should be as low as possible to enable the largest number of students to participate. Vermont’s public policy

takes a different approach, emphasizing high tuition for those who can afford college and significant publicly provided financial aid for those who cannot.

It is clear how the three fiscal *levers* – appropriations, tuition, and financial aid – are closely linked, but legislative policy *decisions* are not.

Making strategic, well-connected higher education appropriations decisions is no easy task for state legislators. Legislative appropriations decisions are a responsibility of legislative budget committees, which weigh all of the different state budget needs. But it is the legislative education or higher education committees that typically make specific higher education policy decisions. In addition, appropriations decisions are made institution by institution. That is why the presidents of universities are a strong presence at legislative budget hearings, where they promote their institutions. Legislative alumni of different institutions often weigh in to protect their former colleges and universities.

Direct support of higher education is made primarily through state budget appropriations to institutions. But looking at appropriations alone will only reveal one important part of the picture. The state also contributes significantly to higher education by funding students through student financial aid programs. Financial aid, after all, allows many students to attend college who would otherwise not be able to.

Table 1. Change in Share of Higher Education Revenue from Tuition and State Appropriations

	1982	1997	2007
Appropriations	78%	69%	64%
Tuition	22%	31%	36%

Table 2. Perspectives on State and Local Government Higher Education Funding Effort, by State

State	Fiscal 2007		Fiscal 2005	
	Higher Education Support ¹ Per Capita ²	Higher Education Support per \$1000 of Personal Income	Higher Education Support ¹ (thousands)	Allocation to Higher Education
Alabama	\$364	\$11.24	\$1,215,325	10.4%
Alaska	421	10.42	235,726	8.0%
Arizona	281	8.50	1,462,964	7.9%
Arkansas	287	9.55	667,259	8.3%
California	361	8.68	10,805,726	7.3%
Colorado	144	3.50	641,230	4.1%
Connecticut	264	4.87	787,967	4.1%
Delaware	262	6.45	203,478	5.8%
Florida	197	5.12	3,022,536	5.0%
Georgia	289	8.65	2,451,758	8.7%
Hawaii	392	10.00	409,727	7.4%
Idaho	252	8.08	350,259	8.3%
Illinois	278	6.90	3,316,264	6.7%
Indiana	230	6.83	1,417,478	6.6%
Iowa	285	8.15	784,526	8.0%
Kansas	348	9.45	887,032	9.4%
Kentucky	299	9.60	1,084,892	8.7%
Louisiana	340	9.78	1,287,849	8.9%
Maine	197	5.85	240,691	4.6%
Maryland	309	6.71	1,418,341	5.8%
Massachusetts	199	4.06	1,131,093	3.8%
Michigan	255	7.27	2,431,592	6.8%
Minnesota	269	6.57	1,273,328	6.0%
Mississippi	318	11.01	806,119	10.8%
Missouri	193	5.60	1,070,825	6.1%
Montana	185	5.71	156,024	5.7%
Nebraska	378	10.38	597,518	9.0%
Nevada	242	5.98	548,794	6.1%
New Hampshire	94	2.27	115,367	2.6%
New Jersey	251	5.09	2,082,506	4.8%
New Mexico	521	16.57	766,844	12.6%
New York	320	6.75	5,209,042	4.6%
North Carolina	401	11.92	2,936,456	10.8%
North Dakota	337	9.68	201,545	9.5%
Ohio	204	5.86	2,228,056	5.3%
Oklahoma	295	8.64	817,666	8.1%
Oregon	182	5.24	646,056	5.6%
Pennsylvania	182	4.69	2,117,998	4.5%
Rhode Island	186	4.70	184,604	3.8%
South Carolina	259	8.36	1,025,196	8.5%
South Dakota	226	6.67	163,452	7.4%
Tennessee	242	7.28	1,301,578	8.0%
Texas	286	7.68	5,905,955	8.4%
Utah	271	8.70	646,914	8.9%
Vermont	136	3.70	78,009	3.0%
Virginia	242	5.86	1,493,616	5.3%
Washington	252	6.24	1,411,664	6.1%
West Virginia	251	8.51	426,409	7.0%
Wisconsin	283	7.86	1,466,328	6.8%
Wyoming	705	16.30	298,590	11.2%
U.S.	\$277	\$7.19	\$72,230,173	6.5%

¹ Higher Education Support = State and local tax and non-tax support for public and independent higher education. Includes special purpose appropriations for research-agricultural-medical. Source: SHEEO SHEF.

² Population and personal income data from U.S. Census Bureau and Bureau of Economic Analysis.

Source: "State Higher Education Finance FY 2007." State Higher Education Executive Officers (Boulder, CO, 2007) accessed 10/21/2008 from <http://sheeo.org/finance/shef_fy07.pdf>, 45.

Interpreting Trends in State Higher Education Appropriations

It is often difficult for state legislators to figure out whether state appropriations to higher education are increasing or decreasing. On the one hand, student groups and university presidents may claim that legislators have cut funding. On the other hand, legislators can see that the total dollars appropriated for state higher education has grown. How can legislators make sense of this?

Table 2 from the State Higher Education Executive Officers (SHEEO) shows different ways to consider and evaluate state higher education funding.⁴

To make sense of data on higher education spending, the best advice for legislators is to understand the different ways of looking at higher education funding and specifically the state contribution. National trends often hide important state trends. For example, states decreased per-student appropriations to public higher education by 7.7 percent on average during the five-year period from 2002 to 2007. But five states decreased appropriations by 20 percent or more. This ranged from a decrease of 26 percent in Colorado; to relatively slight changes (less than 5 percent) in Washington, Mississippi, Utah, and Texas; to an increase of 29 percent in Wyoming.⁵

Be aware also that trends of one indicator may be very different from those of another indicator – and people will use the particular measure that is supportive of their point of view. For example, while the share of state budgets devoted to higher education has decreased during the past several years, the amount spent by states on higher education has increased. It went from \$67.8 billion in 2001 to \$83.5 billion in 2007.⁶ Enrollment has increased – from 7.4 million to 10.2 million since 1982. Meanwhile, higher education appropriations per FTE have grown 9.7 percent from 2005 to 2007.

Recommendations

Savvy legislators will pay attention to national trends because they are interesting and it is important to put state trends in a national context. State legislators should be aware of what other states are doing, especially neighboring states,

because it could affect their students and institutions. But at the same time, they should consider the many ways states differ in the appropriations process and decision-making and the different ways of analyzing and measuring state support.

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Every time legislators make a decision to allocate public dollars to higher education – through the appropriations, tuition, or financial aid processes – they need to remember that a decision in one area will have implications for other areas. A new and more strategic approach to determining state higher education appropriations decisions would:

- ▶ Move the focus from each institution to overall state goals and priorities.
- ▶ More clearly communicate overall state performance goals to institutions.
- ▶ Eliminate the year-to-year incremental budget increases and replace them with a more strategic process.
- ▶ Eliminate the tendency for higher education appropriations to fluctuate based on the economy.
- ▶ Better link the three primary postsecondary funding decisions – appropriations, tuition, and financial aid.

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Endnotes

¹ Western Interstate Commission for Higher Education (WICHE), *Policies in Sync: Appropriations, Tuition, and Financial Aid for Higher Education* (Boulder, CO: WICHE, 2003), 7.

² State Higher Education Executive Officers (SHEEO), *State Higher Education Finance FY 2007* (Boulder, CO: SHEEO, 2008), 15.

³ SHEEO, 28.

⁴ SHEEO, 45.

⁵ SHEEO, 31.

⁶ SHEEO, 7.

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