Throwing Out the Playbook: Higher Education and the New Policy Environment

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System Board of Regents
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In recent history, higher education has ridden a feast/famine, boom/bust wave in terms of resources.

- Economy slows, state/federal revenues contract, endowments/donations slump, budgets are cut, and tuition goes up.
- We are now in the bust/famine part of the cycle, and many are looking for the upswing.
- Longer term issues lurk in the background, though.
We’ve Seen That Play Before…

**Consumer Confidence Index, May 1999 to May 2003**

<table>
<thead>
<tr>
<th>Year</th>
<th>Index Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>137.7</td>
</tr>
<tr>
<td>2000</td>
<td>144.7</td>
</tr>
<tr>
<td>2001</td>
<td>116.1</td>
</tr>
<tr>
<td>2002</td>
<td>140.3</td>
</tr>
<tr>
<td>2003</td>
<td>83.8</td>
</tr>
</tbody>
</table>

*source: The Conference Board*
We’ve Seen That Play Before…

Quarterly Change in Gross Domestic Product (GDP), First Quarter 2000 to First Quarter 2003

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis
We’ve Seen That Play Before…

**Unemployment Rate, May 2002 to May 2003**

- May-02
- Jun-02
- Jul-02
- Aug-02
- Sep-02
- Oct-02
- Nov-02
- Dec-02
- Jan-03
- Feb-03
- Mar-03
- Apr-03
- May-03

*SOURCE: U.S. Department of Labor, Bureau of Labor Statistics*
We’ve Seen That Play Before...

- The Current State Fiscal Situation
  - Year-over-year state revenue performance worst since beginning of data collection
  - Spending pressures continue (Medicaid is the budget buster)
  - States face revenue/spending gap of approximately $75 billion for FY04 (3-year total gap of more than $150 billion)
  - Reserves/one-time fixes mostly tapped out
  - Broad-based revenue increases still largely off the table...focus is on “sin taxes,” user fees (extent of legislators’ thinking on tax reform)
  - Higher education is still the favorite target...number of states posting year-to-year reduction in higher education spending has more than doubled in one year, nearly tripled in two years

SOURCES: National Conference of State Legislatures (NCSL), Pew Center on the States
We’ve Seen That Play Before...

Change in State Revenue Collections, First Quarter 2000 to Fourth Quarter 2002

SOURCE: Fiscal Studies Program, Rockefeller Institute of Government
We’ve Seen That Play Before...

States Posting Year-Over-Year Declines in Higher Education Appropriations

- FY98: 2
- FY99: 3
- FY00: 0
- FY01: 5
- FY02: 9
- FY03: 13
- FY04*: 24

SOURCE: Grapevine (Illinois State University); State Higher Education Executive Officers (SHEEO)
*Reflects responses from 41 states (June 2003).
We’ve Seen That Play Before…

Change in Resident Undergraduate Tuition (public 4-year) and State Higher Education Appropriations, 1990-91 to 2003-04

SOURCES: Grapevine (Illinois State University); The College Board
*2003-04 figures reflect AASCU estimates.
...Or Have We??

- A range of trends and indicators tell us that there are some important differences between this bust and the last...“ride it out” simply won’t work
- In a nutshell: demand and expectations are up (and not just temporarily), state revenue/spending challenges are structural in nature, and focus is shifting from public to private and from institution to student
...Or Have We??

- Structural Challenges for State Finances
  - “Horse and buggy” revenue systems on the information superhighway
    - Impact of fundamental economic shift (goods → services)
    - Impact of e-commerce
    - Impact of aging population (tax benefits, consumption patterns)
  - Squeeze from other levels of government
    - Local (esp. K-12)
    - Federal (general revenue policy, health care)
  - Erasure of institutional memory (tremendous turnover in 2002)
  - “Ballot box budgeting” (for 24 states with initiative/referendum)
...Or Have We??

Primary Revenue Sources, Public Four-Year Institutions, 1990-91 and 2000-01

<table>
<thead>
<tr>
<th>Year</th>
<th>Other*</th>
<th>Tuition</th>
<th>Apps.</th>
</tr>
</thead>
<tbody>
<tr>
<td>90-91</td>
<td>38.3%</td>
<td>15.4%</td>
<td>45.3%</td>
</tr>
<tr>
<td>00-01</td>
<td>31.1%</td>
<td>17.7%</td>
<td>51.2%</td>
</tr>
</tbody>
</table>

SOURCE: U.S. Department of Education, National Center for Education Statistics
*Includes gifts/grants/contracts, endowment earnings, auxiliary enterprises.
...Or Have We??

State Appropriations for Higher Education per $1,000 of Personal Disposable Income, FY81-FY01

<table>
<thead>
<tr>
<th>Year</th>
<th>Appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY81</td>
<td>$10.45</td>
</tr>
<tr>
<td>FY91</td>
<td>$9.34</td>
</tr>
<tr>
<td>FY01</td>
<td>$8.60</td>
</tr>
</tbody>
</table>

Sources: Grapevine (Illinois State University), U.S. Department of Commerce (Bureau of Economic Analysis)
...Or Have We??

SOURCE: National Association of State Budget Officers (NASBO)
...Or Have We??

Projected Enrollment at Public Four-Year Institutions, 2000-2011

Thousands of Students

SOURCE: U.S. Department of Education, National Center for Education Statistics
...Or Have We??

Perceived Necessity of College Education, High School Parents, 1999

<table>
<thead>
<tr>
<th>Group</th>
<th>Absolutely Necessary</th>
<th>Helpful, Not Necessary</th>
<th>Not That Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Parents</td>
<td>62%</td>
<td>35%</td>
<td>3%</td>
</tr>
<tr>
<td>White</td>
<td>57%</td>
<td>40%</td>
<td>4%</td>
</tr>
<tr>
<td>Af. American</td>
<td>67%</td>
<td>31%</td>
<td>1%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>78%</td>
<td>19%</td>
<td>2%</td>
</tr>
</tbody>
</table>

SOURCE: National Center for Public Policy and Higher Education
The Changing Game

- Trends are translating into changes in policy and practice, including:
  - Incentives for increased private revenue raising (Kentucky, Florida)
  - Charter/enterprise status for public institutions (Maryland, Colorado)
  - Institutional performance contracts/agreements, institutional deregulation (Colorado, Virginia, Florida)
  - State vouchers for students (Colorado)
  - Tuition deregulation (Texas)
  - Governance change (South Carolina)

All of which get to the question of ACCOUNTABILITY... who is/are the majority stakeholder(s)?
For More Information...

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