



SHEEO

STATE HIGHER EDUCATION EXECUTIVE OFFICERS ASSOCIATION

SHEF

STATE HIGHER EDUCATION FINANCE

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ISSUE BRIEF:

THE ECONOMIC CYCLE'S IMPACT ON HIGHER EDUCATION FUNDING

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THE ECONOMIC CYCLE'S IMPACT ON HIGHER EDUCATION FUNDING

It is largely understood that higher education funding¹ from state government is more impacted by economic changes than other state budget areas. Higher education funding is reduced more significantly during budget shortfalls, and larger increases are seen during periods of economic recovery and growth.

Even with the support from the federal government through the American Recovery and Reinvestment Act (ARRA) in 2009-2012, which is included in the SHEF data, educational appropriations per student FTE fell each year during the Great Recession from a high of \$8,220 in 2008 to a low of \$6,177 in 2012. 2015 represents the third year of increases in per student educational appropriations, reaching the current level of \$6,966. Despite these three years of increases, educational appropriations per student remain 15.3 percent below pre-recession levels. The impact of the Great Recession on state and local funding per student was more significant than past recessions, and thus far recovery is proceeding more slowly—at least in terms of returning to pre-recession funding levels.

This case study provides additional context for understanding the Great Recession and subsequent recovery compared to the two prior recessions of the early 1990s and the early 2000s. *Table 1* shows the percent change in educational appropriations per FTE since 1990, while *Figure 1* shows the number of states that saw reductions in constant dollar per student educational appropriations each year, compared to those states that saw increases.

1. National Association of State Budget Officers. (2015). *A Guidebook on State Budgeting for Higher Education*. Washington, DC: NASBO.

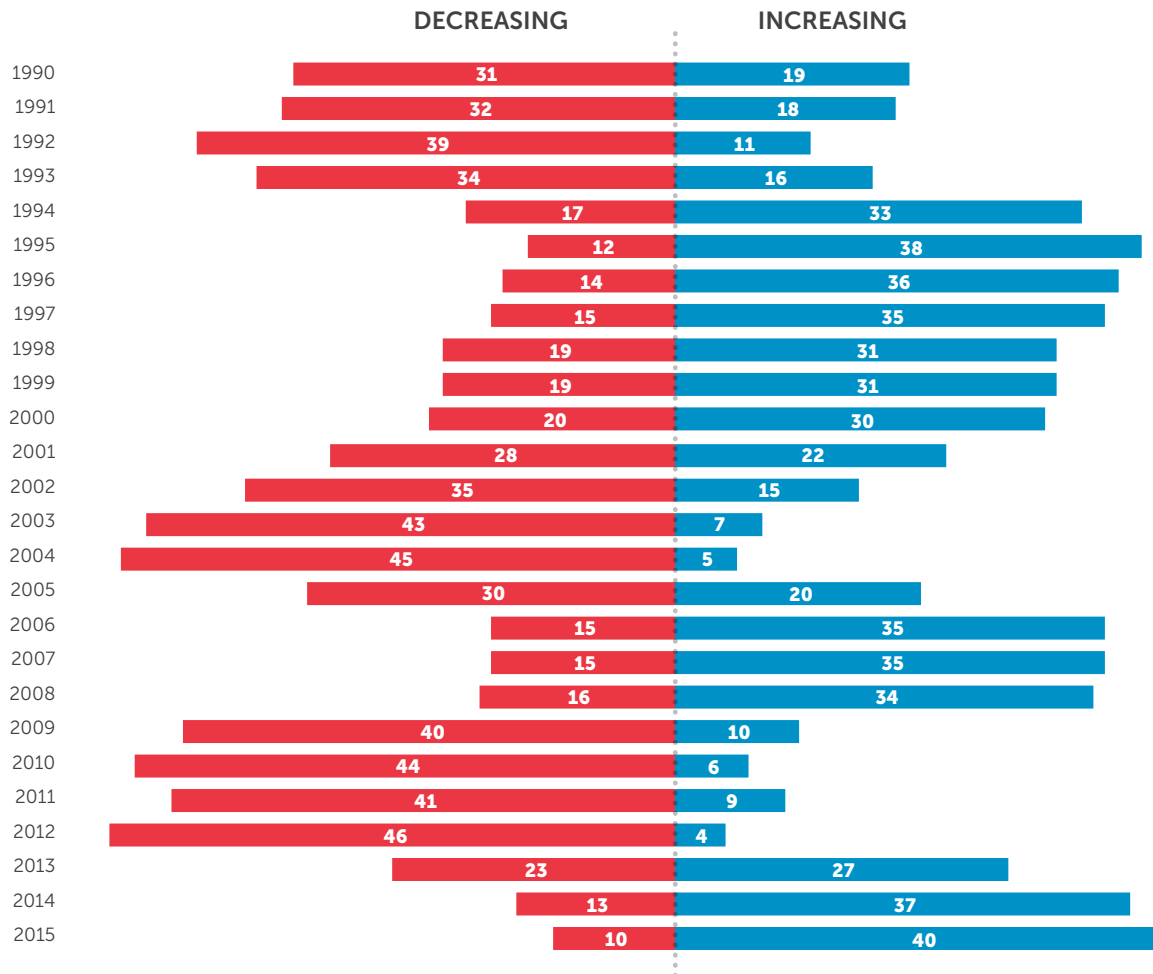
TABLE 1
CASE STUDY—IMPACT OF RECESSIONS
CHANGE IN U.S. EDUCATIONAL APPROPRIATIONS PER FTE, FY 1990-2015

YEAR	U.S. AVERAGE EDUCATIONAL APPROPRIATIONS PER FTE	PERCENT CHANGE FROM PRIOR YEAR
1990	\$8,688	-0.9%
1991	\$8,444	-2.8%
1992	\$7,977	-5.5%
1993	\$7,702	-3.4%
1994	\$7,802	1.3%
1995	\$8,057	3.3%
1996	\$8,144	1.1%
1997	\$8,449	3.7%
1998	\$8,726	3.3%
1999	\$8,952	2.6%
2000	\$8,868	-0.9%
2001	\$9,120	2.8%
2002	\$8,788	-3.6%
2003	\$8,132	-7.5%
2004	\$7,587	-6.7%
2005	\$7,530	-0.8%
2006	\$7,899	4.9%
2007	\$8,096	2.5%
2008	\$8,220	1.5%
2009	\$7,685	-6.5%
2010	\$7,135	-7.2%
2011	\$6,797	-4.7%
2012	\$6,177	-9.1%
2013	\$6,260	1.3%
2014	\$6,620	5.8%
2015	\$6,966	5.2%

Note: Educational appropriations are a measure of state and local support available for public higher education operating expenses including ARRA funds, and exclude appropriations for independent institutions, financial aid for students attending independent institutions, research, hospitals, and medical education.

Source: State Higher Education Executive Officers Association

FIGURE 1
IMPACT OF RECESSIONS COUNT OF STATES INCREASING OR DECREASING
APPROPRIATIONS IN CONSTANT DOLLARS PER FTE, FY 1990-2015



NOTES: 1. Educational appropriations are a measure of state and local support available for public higher education operating expenses including ARRA funds, and exclude appropriations for independent institutions, financial aid for students attending independent institutions, research, hospitals, and medical education.
 2. Data is adjusted for Inflation using the Higher Education Cost Adjustment (HECA).

SOURCE: State Higher Education Executive Officers Association

In 1992, the worst year of the early '90s recession, 39 states experienced reductions in per student educational appropriations, and nationally, appropriations fell 5.5 percent. It took five years for funding per student to return to pre-recession levels, hitting \$8,726 in 1998. The recession of the early 2000s was more pronounced with 35, then 43, then 45, then 30 states experiencing year-over-year reductions in funding in 2002, 2003, 2004, and 2005, respectively. Over this time frame, educational appropriations per student fell 17.4 percent in total. The recovery from this recession lasted just three years, and appropriations had not returned to their previous levels when the Great Recession took effect in 2009, reducing appropriations even further.

In 2008, when the Great Recession began, educational appropriations per student were \$8,221 and 9.9 percent below the 2001 levels. With respect to higher education funding, the last two recessions, therefore, compounded upon one another. Even with the ARRA stimulus funds, 2009 through 2012 saw at least 40 states experience reductions in educational appropriations per student each year. Funding fell 6.5 percent, 7.2 percent, and 4.7 percent in 2009, 2010, and 2011, respectively. In 2012, after the ARRA funds had largely been encumbered, educational appropriations fell 9.1 percent—the largest year-over-year decline since 1990—to \$6,177. That year saw 46 states reduce appropriations for public higher education. As shown earlier in this report, educational appropriations per FTE have recovered to \$6,966 in 2015, but this is 15.6 percent below the 2008 level and 23.9 percent below the first of these two compounding, back-to-back recessions in 2001 and 2009. However, the 40 states that increased funding were the most that did so in any year of our data series.

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