SHEF STATE HIGHER EDUCATION FINANCE

SHEF EDITORIAL

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THE CRISIS IN HIGHER EDUCATION FINANCE

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Note: The State Higher Education Finance (SHEF) report is an annual study of state appropriations for all higher education and state support, net tuition revenue, and full-time equivalent enrollment in public institutions. With the enormous assistance and cooperation of data providers in the states, the SHEEO staff works to provide accurate and consistent information on these data, without editorial comment or judgment of any kind. This essay of editorial comment, separate from the main study, is a departure from that practice due to the urgency of the current situation in American higher education. This is the third time such an editorial comment has accompanied SHEF (the first was provided in 2009 during the Great Recession, and the second was in 2019 at the start of the COVID-19 crisis).

The release of the most current State Higher Education Finance (SHEF) report comes during a time of great uncertainty and upheaval. The COVID-19 pandemic and the associated economic recession have impacted nearly all aspects of college and university operations and stressed state budgets. One theme of this challenging time has been unpredictability. The unprecedented nature of the pandemic has made projecting student behavior and institutional and state budgets difficult, if not impossible. However, with the passage of time, we are beginning to see the pandemic's widespread impact, the structural problems it has revealed, and the signs of challenges ahead.

Generally, student enrollments in higher education are countercyclical, meaning enrollments increase when unemployment rises; however, our country had not faced a pandemic-induced recession during our lifetimes, and the COVID-19 recession proved to be an exception to that rule. According to the National Student Clearinghouse Research Center (2020), colleges and universities, nationally, experienced significant reductions in enrollments, particularly among first-time students. From fall 2019 to fall 2020, higher education experienced a 13.1% drop in freshman enrollment (over 327,500 students). The decline was greatest at public two-year institutions, which experienced a 21% decrease (over 207,200 students). This major break with historical precedent resulted in significant strain in institutional budgets, particularly at public two-year institutions. It has also exacerbated a worrying trend, as enrollments in two-year colleges have been on a downward trend since 2011 and, with the economy now beginning to recover, it is not clear to what extent enrollments will recover.

Nationally, our approach to public higher education finance has been on a relatively consistent path toward de facto privatization for at least the last 40 years. This can be seen in the downward trend in state operating appropriations to public colleges and universities, increased tuition prices and revenues, and a shift from funding institutions toward funding students through financial aid. The proportion of state higher education funding allocated to student financial aid has increased from 5.1% of all appropriations in 2001 to 9.6% today. While state financial aid programs (particularly need-based aid programs) are critical in promoting access, they only represent a viable revenue source to the extent that they generate new enrollments. On the other hand, state operating appropriations represent a critical revenue source for public institutions that research has shown to impact enrollments, completions, and graduation rates positively. Unfortunately, this state support has experienced a precipitous decline of 19% per full-time equivalent (FTE) student since 2001. Research has shown that renewed investment in state operating appropriations for higher education institutions would lead to increased spending in educational and student support services and improved student outcomes.

However, our current approach of increased privatization and enrollment-driven funding risks exacerbates current inequalities between types of institutions and student demographics. Currently, states provide $8,173 per FTE to two-year institutions, 81% of the amount allocated to four-year institutions ($10,092). The disparity in state funding is greatly exacerbated by the difference in alternative revenues at public institutions. Two-year institutions receive $2,606 in net tuition revenue per FTE, or 27.8% of the average net tuition revenue per FTE at four-year institutions ($9,385). These two-year institutions are also much more reliant on state funding and are largely unable to increase tuition revenues while still fulfilling their access missions. Continuing the trend away from state operating appropriations and toward a tuition/student financial aid-driven strategy will benefit those institutions that can charge higher tuition rates, enroll large numbers of out-of-state students, and have more alternative revenue sources. Those institutions with a lower tuition ceiling and more dependence on state appropriations will suffer (two-year colleges and regional four-year universities). Likewise, low-income, first-generation, Black, Latino, Native American, and Native Hawaiian and Pacific Islander students will also suffer. Higher tuition rates will keep many of these students from enrolling. Likewise, they are over-represented among two-year colleges and regional four-year universities, the very institutions that tend to be under-resourced and that will experience further resource constraints if we continue to privatize our higher education system.

Public financing of our higher education system ought to be used to equalize resources across institutions so that those colleges and universities that lack alternative revenue sources and that serve the majority of our underrepresented students are able to appropriately serve these students. Our national welfare depends on such an approach. This is a moral obligation. It is also in our self-interest. Demographic and economic trends clearly indicate that we need a more educated populace, and therefore, we must do a better job of educating those populations that our higher education system has underserved. Historically, we have done a poor job in this regard; our current higher education finance trajectory is only making matters worse, and the impact of the pandemic on enrollments and institutional budgets has exacerbated these trends. An immediate reversal is needed. We now face a true crisis in higher education finance and must face up to this reality and summon the political will to address it. Without a major reinvestment of public funding in higher education, with an eye toward equity, our nation's future is very much at risk.