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STATE HIGHER EDUCATION FINANCE

PRESS RELEASE

NEW REPORT FINDS THAT DESPITE THE COVID-19 PANDEMIC, 2020 ECONOMIC RECESSION, AND A STEEP ENROLLMENT DECLINE, STATE FUNDING TO PUBLIC COLLEGES SURPASSED EXPECTATIONS AND INCREASED 4.5% ABOVE INFLATION IN FISCAL YEAR 2021.

Generous federal stimulus funding protected state revenues and directly supported higher education, reducing states' need to cut funding during the pandemic and short economic recession. However, sharp declines in student enrollment and net tuition and fee revenue signal continued upheaval for public higher education revenues. In the midst of this uncertainty, the SHEF report provides a comprehensive look at trends in higher education revenues in fiscal year 2021.

BOULDER, Colorado —

In fiscal year 2021, a 4.5% increase in per-student state and local education appropriations for public institutions marked the reversal of decades-long trends in higher education revenues. The U.S. entered a short recession in fiscal year 2020 due to the COVID-19 pandemic. In the past, enrollment increased rapidly during and following economic downturns, while state funding decreased and tuition revenue rose. The latest State Higher Education Finance (SHEF) report finds that fiscal year 2021 defied many post-recession trends: As enrollment dropped, state funding increased and tuition revenue declined.

- Historically, enrollment increased sharply during economic recessions and would level off or decline during economic recoveries. However, the COVID-19 pandemic led to a 3.0% drop in student full-time equivalent (FTE) enrollment from 2020 to 2021. This loss of 323,952 students marks the tenth straight year of enrollment declines and is the largest decline in net FTE enrollment since the start of the SHEF dataset in 1980.

- State funding typically fluctuates with the economic cycle. In the year after each previous recession since 1980, education appropriations per FTE enrollment declined. For the first time, in 2021, this trend did not continue: Inflation-adjusted education appropriations increased $400 per FTE student in the last year, reaching $9,327 per student.

- In response to previous state funding declines, net tuition revenue increased for many years. Net tuition and fee revenue per FTE has grown 56.6% over the last 25 years but has declined for the last three years following recent increases in state funding. After a 3.2% decline in the last year, in 2021, public institutions received $6,723 per FTE in net tuition and fee revenue. This year marks the second-largest ever decrease in inflation-adjusted net tuition revenue per FTE.

In large part, the increase in education appropriations was made possible due to generous federal stimulus and relief funding that flowed to states in response to the COVID-19 pandemic.[1] All but five states allocated federal stimulus directly to higher education. Without these funds, education appropriations per FTE would have increased just 2.0% from 2020 to 2021. Had FTE enrollment held constant and had states not directed federal stimulus funding toward higher education, education appropriations would have declined 1.0% this year.

In addition to these higher-level conclusions, the fiscal year 2021 SHEF report includes a full exploration of state- and sector-level higher education revenues and FTE enrollment trends. Key findings from the report include:

- **Enrollment declines were concentrated in the two-year sector.** Public FTE enrollment at two-year institutions has declined 6.1% since 2020 and 8.1% since 2019. On the other hand, FTE enrollment in the four-year sector has declined only 0.9% since 2020 and 0.6% since 2019. Two-year sector enrollment took a larger hit than four-year enrollment in 43 states.
- **Federal stimulus funding was a key aspect of the strong growth in education appropriations.** In 2020, federal stimulus funding for public institutions accounted for 1.3% of total education appropriations. In 2021, this amount increased to 3.6% ($335 per FTE). Two-year institutions received $214 per FTE in federal stimulus for public operating in 2021, and four-year institutions received $288 per FTE.
- **The gap has closed between two-year and four-year public education appropriations.** Unlike in prior years, two-year institutions received 5.4% more in education appropriations per FTE than four-year institutions in 2021. Although two-year institutions received much less in state operating appropriations and state financial aid, local appropriations made up for this gap.
- **Financial aid continued to rise at a faster rate than institutional funding.** Inflation-adjusted state public financial aid continued to increase sharply in 2021, rising 8.8% and reaching an all-time high of $921 per FTE. These funds made up 9.9% of all education appropriations, the largest proportion ever.
- **Public institutions in more than half of states collected less tuition revenue than they did five years ago.** Net tuition and fee revenue per FTE declined in 72% of states between 2020 and 2021 and in over half of states since 2016. Declines in the last year were worse in the four-year sector: net tuition revenue per FTE declined 1.7% at two-year institutions and 4.8% at four-year institutions.
- **Total revenue rose slightly, thanks entirely to federal stimulus funding.** Total education revenue increased 1.1% in 2021, reaching an all-time high of $15,959 per FTE. Excluding federal stimulus, total education revenue declined 0.3%. Additionally, total revenue is only at a record high in 18 states and varies substantially by institution type—four-year institutions had 1.51 times the total revenue of two-year institutions.
- **Continued increases in education appropriations and declines in net tuition revenue have reduced the proportion of total revenue financed by students.** The student share decreased by 1.9 percentage points following the fiscal year 2020 recession, reaching 42.1% in 2021. At two-year institutions, the average student share was less than a quarter (21.8%). At four-year institutions, the average student share was over half (51.6%)

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[1] Federal stimulus funding allocated to states due to the COVID-19 pandemic is included in education appropriations and total education revenue throughout the SHEF report. Federal stimulus funding contributed to the education appropriations increase in two ways. First, federal funds that protected state revenues and covered additional costs due to the COVID-19 pandemic and economic recession reduced the need to redirect funds from higher education to other budget areas during the pandemic. Second, federal funds given to states and used for higher education operations boosted education operating appropriations.

As these findings demonstrate, fiscal year 2021 defied several long-term trends in higher education finance and showed positive growth in education appropriations. However, net tuition and fee revenue did not increase enough to keep up with inflation for the third straight year. This continued decline in tuition revenue puts greater pressure on states not to cut funding to public higher education in the coming years. When federal stimulus funds run out, states will face difficult budgetary decisions, and higher education may face cuts in some states.

SHEEO President Robert E. Anderson shared, "Increases in state support for higher education demonstrate a growing commitment in many states to fund their public systems of higher education. We are proud to see the headway states have made in restoring prior funding cuts to higher education. We know that many of these investments were made possible by federal stimulus funding, and while federal stimulus funds serve an important purpose in stabilizing state revenues, they should not be considered a replacement for long-term state investments. States must continue prioritizing higher education in the years ahead to ensure that institutions are able to serve our students."

"With strong state revenues and declining enrollment, now is a crucial time for states to make long-term, sustained investments in public higher education. These investments can increase student affordability and access at our colleges and universities and expand the reach of higher education to those not traditionally served. Additional investments in higher education will provide greater individual opportunity, expand the talent pipeline, and increase the prosperity in every state." said SHEEO Executive Committee Chair Blake Flanders.

While these findings are crucial to understanding the broad strokes of national finance trends in higher education, it's important to note that national trends mask considerable variation across the states. "The trends presented here are not reflective of the story in every state. While only 10 states saw funding declines this year, 29 states have yet to reach funding levels seen prior to the Great Recession. In those states, the national narrative of continued increases may not represent their reality," said Sophia Laderman, associate vice president at SHEEO and lead author of the report. "Even more, there are inequalities in the total revenue public institutions have to educate their students. We know that state funding and institutional revenue impact student outcomes, and the negative impacts of low and disparate institutional revenues disproportionately affect students of color and low-income students."

The full SHEF report paints a more complete picture of differences in public higher education finance across states.

Explore the SHEF website to read the full report and customize the interactive data visualizations. The SHEF website also includes individual state profiles and an additional report on state effort and capacity to fund higher education. In the coming months, SHEEO will publish additional issue briefs on capital appropriations, performance-based funding, tuition and FTE enrollment by residency status, the impact of federal Pell Grants on net tuition revenue, and the sources and uses of higher education federal stimulus funding.

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About the State Higher Education Executive Officers Association (SHEEO)

The State Higher Education Executive Officers Association serves the executives of statewide governing, policy, and coordinating boards of postsecondary education and their staffs. Founded in 1954, SHEEO promotes an environment that values higher education and its role in ensuring the equitable education of all Americans, regardless of race/ethnicity, gender, or socioeconomic factors. Together with its members, SHEEO aims to achieve this vision by equipping state higher education executive officers and their staffs with the tools to effectively advance the value of higher education, promoting public policies and academic practices that enable all Americans to achieve success in the 21st century, and serving as an advocate for state higher education leadership.