

The State Funding Landscape: An Overview of State Finances with Snapshots of Budget Reduction Strategies at Three State Institutions



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I. METHODOLOGY & RESEARCH PARAMETERS

Project Challenge:

- Conduct a literature search on the topic of current state fiscal conditions, overall and specific to higher education appropriations.
- Identify public, four-year institutions in states that have been forced to cut higher education funding, and provide details on these schools' budget reduction approaches and strategies.

Research Parameters:

As requested by the member, the Council focused on preparing an overview of current financial conditions across the 50 states (overall and specific to higher education). From there, the Council identified three state schools that have recently incurred significant cuts in their state funding due to state budget deficits. Utilizing web searches of regional and national periodicals, the Council compiled information on the budget reduction strategies that these three institutions employed in the wake of considerable decreases in state support.

Sources

Internet Resources

- Advisory Board's internal and online (www.advisory.com) research libraries
- The Chronicle of Higher Education <http://chronicle.com>
- Inside Higher Ed <http://insidehighered.com>
- Center for the Study of Higher Education's Grapevine: An Annual Compilation of Data on State Tax Appropriations for the General Operation of Higher Education <http://www.grapevine.ilstu.edu/>

Association Reports

- National Conference of State Legislatures. *State Budget Update: June 2008*, June 2008.
- National Governors Association and National Association of State Budget Officers. *The Fiscal Survey of States*, June 2008.

Local and National Periodicals

- Corral, Oscar. "Budget Cuts Another Blow to Weakened Universities." *The Miami Herald*, August 17, 2008. <http://www.miamiherald.com/news/florida/story/645355.html>
- Craig, Tim. "Va. Shortfall is Possible, Kaine Says." *The Washington Post*, August 19, 2008. <http://www.washingtonpost.com/wp-dyn/content/story/2008/08/18/ST2008081801408.html>
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- Garrett, Joan. "University of Tennessee System to Cut \$21.1 Million, Three Academic Programs." *Chattanooga Times/Free Press*, June 5, 2008. <http://www.timesfreepress.com/news/2008/jun/21/university-tennessee-sets-6-percent-tuition-hike-c/?local>
- Steinhauer, Jennifer. "Budget Pain Hits States, With Relief Not in Sight." *The New York Times*, July 1, 2008. <http://www.nytimes.com/2008/07/01/us/01taxes.html?partner=rssnyt&emc=rss>
- The University of Florida Board of Trustees. "Budget Reduction Proposal Fiscal Year 2008-09." Office of the President, University of Florida. <http://www.president.ufl.edu/budget-reduction/proposal.html>

I. METHODOLOGY & RESEARCH PARAMETERS

“Nobody knows for sure, but I would predict that this is probably the calm before the storm. I think the uptick we saw in '08 nationwide indicates that at the end of '07, the fiscal engines of many states had just enough ‘oomph’ in them to increase higher education appropriations and allow higher ed to some extent to climb out of the recession we experienced earlier in the decade.”

- James C. Palmer of the Center for the Study of Education Policy, as quoted in *Inside Higher Ed*

Introduction:

The member university is a mid-sized, public institution in the southeast with a historical commitment to undergraduate education. Warned by the Governor of a state budget shortfall that could top \$1 billion due to the worsening economy, the member institution is interested in learning about the overall financial picture among the 50 states, with a specific emphasis on the status of state funding for higher education. Further, the member wishes to learn what sorts of strategic budget reduction strategies other universities have employed when faced with significant cuts in state funding. The main objectives of this brief are to: 1) summarize the current financial picture within states, and 2) provide snapshots of state institution strategies for mitigating funding reductions.

Key Findings:

Overall State Budget Landscape

- **In stark contrast to preceding years, which were characterized by healthy state budgets across the nation, FY 2008 marked a turning point for state budgets.** Specifically, a number of states suffered from severe fiscal difficulties due to the decline of the housing market and a national economic downturn. Thirteen states were forced to make mid-year budget corrections in 2008—for a total of \$5.2 billion—to address budget gaps.
- **Indicators point toward a growing trend in state budget issues which will likely affect more states in FY 2009.** Though to date some states have been insulated from budget issues, state budget officers report the expectation of only a 1.0 percent general fund spending increase in FY 2009. This would be the third lowest spending increase in the past 31 years and is much less than the historic average of 6.7 percent.

State Higher Education Appropriations

- **While state appropriations for higher education were up 7.5 percent for FY 2008, recent studies suggest that 2008 will likely be a peak year for higher education funding, with appropriations for higher education expected to fall in FY 2009 across most states.**

Institution Responses to State Budget Cuts

- **Higher education institutions in some states—such as Tennessee, Florida, and Alabama—have already had to scale back their operational expenditures due to their states’ fiscal woes.** Major cuts also appear likely in the near future for colleges in California and Nevada.
- **For state institutions that have already had to make cuts due to the budget crunch, the response has varied from eliminating academic programs to raising tuition considerably.** For instance, in light of a \$47 million reduction in state funding, the University of Florida required all colleges and administrative units to reduce spending by 6 percent. Each dean and vice president determined how their college or unit would achieve this decrease. Strategies ranged from restructuring departments to reducing student enrollments to decreasing administrative support.

III. CURRENT AND PROJECTED FISCAL CONDITIONS ACROSS THE STATES

2008: A Fiscal “Turning Point” for States

According to a June 2008 survey of Governors’ state budget officers from the 50 states, FY 2008 was a turning point for state finances. In stark contrast to the preceding several years, 2008 brought with it a significant increase in the number of states having fiscal difficulties. Driven by the decline of the housing and manufacturing sectors, the weakened overall economic picture has led to significant revenue declines for a number of states. Overall, spending from state general fund appropriations grew by 5.1 percent in FY 2008, compared with a growth rate of 9.3 percent in FY 2007 and a 31-year average growth rate of 6.7 percent.

In FY 2008, thirteen states reduced enacted budgets by \$5.2 billion (*see Table 1*). In comparison, two states made cuts in enacted budgets in FY 2006, and three states reduced enacted budgets in FY 2007. States addressing budget gaps in FY 2008 relied predominately on targeted cuts, across-the-board cuts, and use of rainy day funds. Other strategies included hiring freezes, purchasing reviews, layoffs, fees, and program reorganizations.

Signs Point to Further Fiscal Trouble for States in ‘09

Thus far budget difficulties are not universal—some states have been insulated from budget issues, to a degree, due to high agricultural commodities prices or a relatively stable state-wide housing market. However, while state fiscal situations vary currently, the National Governors Association predicts that FY 2009 could bring far more widespread budget difficulties for states than FY 2008 has thus far.

State budget officers anticipate an average of only 1.0 percent general fund spending increase in governors’ recommended budgets for FY 2009, which would be the third lowest spending increase in the past 31 years and is far less than the historical average of 6.7 percent. Eighteen states reported that their upcoming budgets will be smaller than spending plans for the current year.

In a June 2008 National Conference of State Legislatures survey of state legislative directors, considerably more states reported gaps for FY 2009 than they did for FY 2008, with the cumulative total deficit amongst states more than tripling from about \$13 billion to upwards of \$40 billion.

TABLE 1:
Mid-Year Reductions to FY 2008 Enacted Budgets

State	Size of Cuts (\$ in Millions)	Higher Ed Exempt
Arizona	\$ 311.5	
California	848.9	
Delaware	138.7	
Florida	1,500.0	
Hawaii	6.7	
Kentucky	77.0	
Maine	22.2	
Minnesota	341.0	
Nevada	187.5	
New Jersey	493.0	
Ohio	400.0	✓
Rhode Island	60.8	✓
Virginia	769.3	
Total	\$5,156.6	

SOURCE: National Association of State Budget Officers

IV. HIGHER EDUCATION APPROPRIATIONS OVER TIME AND STATE-BY-STATE

State Support for Higher Ed Healthy in 2008... but Potentially at Peak

While state appropriations for higher education are up 7.5 percent for the 2008 fiscal year (the largest percentage increase in a decade), recent studies and state budget forecasts suggest that 2008 may be a peak year for state support of higher education. Over the last ten years, the percentage change in total state support has fallen as low as a 2.1 percent decrease in 2004, but it has been slowly rising since that time.

TABLE 2:
Annual Percentage Change in State Appropriations for Higher Education, 1998-2008

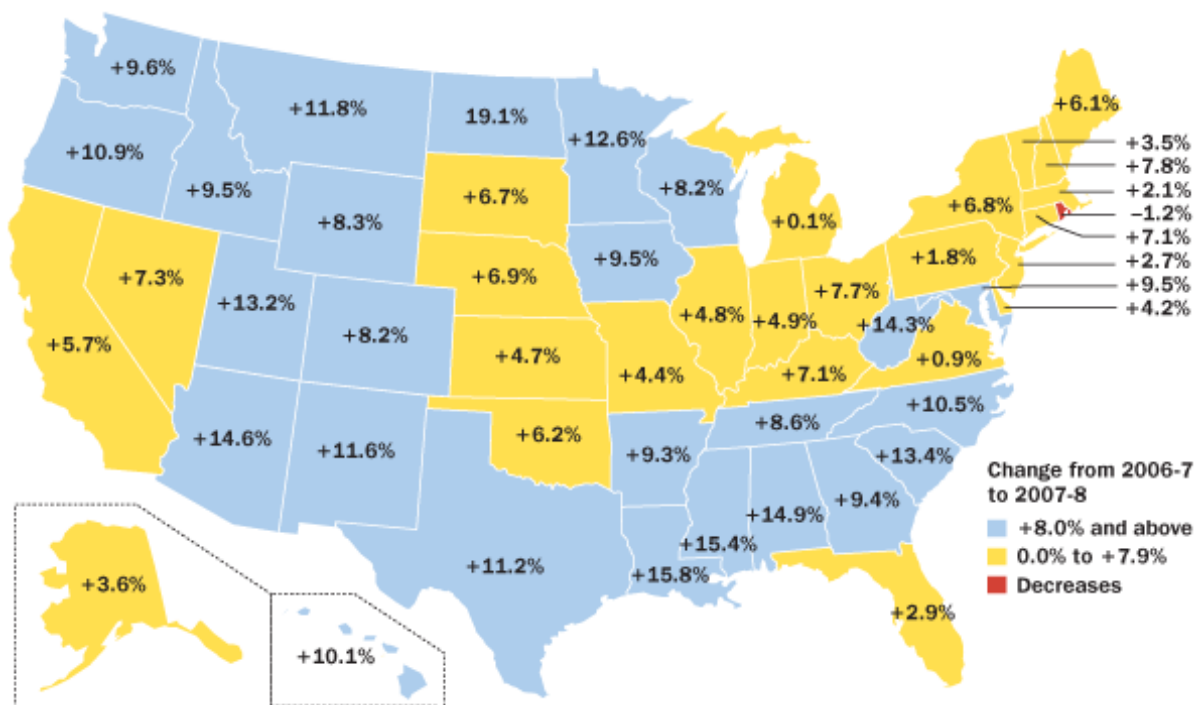
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
+6.0%	+6.5%	+7.1%	+7.0%	+4.6%	+1.2%	-2.1%	+3.8%	+6.0%	+7.1%	+7.5%

SOURCE: Center for the Study of Education Policy, Illinois State University

The State-by-State Picture

Looking at individual states, North Dakota reported a one-year percentage increase for FY 2008 of 19.1 percent—the largest amongst the 50 states—with Louisiana and Mississippi also posting double-digit percentage increases. Rhode Island was the only state that reported a decrease in higher education funding from FY 2007 to FY 2008 (a 1.2 percent decrease). Two other states, Michigan and Virginia, saw increases of less than 1 percent (0.1 and 0.9 percent, respectively).

One-Year Percentage Growth in State General Fund Appropriations, FY 2007-FY 2008



SOURCE: The Chronicle of Higher Education, citing the Center for the Study of Education Policy, Illinois State University
<http://chronicle.com/weekly/v54/i19/graphs.htm>

V. SNAPSHOTS OF BUDGET REDUCTION STRATEGIES AT THREE STATE INSTITUTIONS

Snapshots of Budget Reduction Strategies at Three State Universities:

- ✓ **The University of Florida**
- ✓ **The University of Tennessee**
- ✓ **Auburn University**

The weakening economy has already led public institutions in states like Florida, Tennessee, and Alabama to scale back their operations this year in order to absorb cuts in state funding support. Major cuts also loom in the near future for colleges in California and Nevada. Unlike previous economic downturns, when states were hurt by failing corporate and personal income tax revenue, current problems appear to be driven by declines in sales taxes, which have been prompted in large part by the flagging housing market. For this reason states like Florida and Tennessee, which have no personal income tax, have been hit particularly hard.

Snapshot #1: The University of Florida, Gainesville—Total Operating Expenses of \$1.7 Billion *\$47 Million in Cuts Leads to Increased Pressure on an Already Fiscally Strained School*

Due to current state budget deficits, public universities in Florida were forced to make additional cuts to their already lean operations in FY 2009, which began July 1, 2008. The University of Florida, Gainesville, was required to make \$47 million in reductions. The university achieved this by requiring all colleges and administrative units to reduce spending by 6 percent. Each dean and vice president determined how their college or unit would meet its goal.

As a result, UF-Gainesville eliminated jobs, curtailed enrollments, phased out academic programs, reduced funding for administration units and research, and restructured several departments. University libraries and security programs were exempt from the cuts, and promotional raises for faculty were retained, with all eligible faculty members participating in a three percent merit pool.

Note: Other state universities have approved the deferral of faculty salary increases because of cuts to state funding. For instance, the University of Kentucky implemented a salary freeze for faculty and staff members effective June 2008 after a loss of \$20 million in state aid earlier this year. Auburn University also approved no pay raises for faculty and staff in the coming year as a result of major state cuts (see Snapshot #3).

SOURCE: Corral, Oscar. "Budget Cuts Another Blow to Weakened Universities." *The Miami Herald*, August 17, 2008.
<http://www.miamiherald.com/news/florida/story/645355.html>

V. SNAPSHOTS OF BUDGET REDUCTION STRATEGIES AT THREE STATE INSTITUTIONS

A Closer Look at the University of Florida's Budget Reduction Plan...

Personnel Impacts

- Elimination of 430 faculty and staff positions, 290 of which are now vacant
- Laying off of 14 faculty members and 118 staff members

Undergraduate Enrollment Impacts

- Reduced undergraduate enrollment by 4,000 students over the next four years (1,000 students per year)

Details:

- **\$1.92 M in reductions to Student Affairs, resulting in the elimination of 29 staff positions and one grad assistant**
 - Affected areas include the Student Affairs Office, Counseling Center, Career Resource Center, Student Financial Affairs, and Housing
- **\$3.3 M in reductions to Business Affairs, resulting in the elimination of 60 staff positions (28 layoffs)**
 - Service reductions and eliminations to Physical Plant, Finance and Accounting, Bridges, Planning and Construction Management, Mail Services, and Environmental Health and Safety
- **\$1.02 M in reductions to Health Affairs, resulting in the elimination of 2 faculty and 4 staff positions (1 layoff)**
 - Funding reductions to research funding, IT capital equipment and services, administrative support, and the employee assistance program
- **\$9.5 M in reductions to the Agriculture and Natural Resources Department, resulting in the elimination of 14 faculty and 96 staff positions (66 layoffs)**
 - Elimination of degree programs, restructuring to reduce two departments, broad research funding reductions
- **\$5.97 M in reductions to the College of Liberal Arts and Sciences, resulting in the elimination of 19 faculty and 15 staff positions (33 layoffs)**
 - Elimination of three doctoral degree programs (PhD in Philosophy, PhD in Romance Languages w/ French concentration, and PhD in German), elimination of Vietnamese and Korean language subject-area tracks, merged departments
- **\$3.6 M in reductions to the College of Engineering, resulting in the elimination of 20 faculty and 5 staff positions (5 layoffs)**
- **\$2.64 M in reductions to the College of Medicine, resulting in the elimination of 12 faculty and 25 staff positions (0 layoffs)**
 - Removal of physician assistant program from state funding, elimination of two research centers
- **\$1.47 M in reductions to the Warrington College of Business, resulting in the elimination of 8 faculty and 2 staff positions (0 layoffs)**
 - Elimination of two undergraduate minors (Real Estate and Entrepreneurship)
- **\$1.24 M in reductions to the Levin College of Law, resulting in the elimination of 3 faculty and 1 staff positions (0 layoff)**
 - Enrollment reduction in JD program

SOURCE: The University of Florida Board of Trustees. "Budget Reduction Proposal Fiscal Year 2008-09." Office of the President, University of Florida. <http://www.president.ufl.edu/budget-reduction/proposal.html>

V. SNAPSHOTS OF BUDGET REDUCTION STRATEGIES AT THREE STATE INSTITUTIONS

Snapshot #2: The University of Tennessee, Knoxville—Total Operating Expenses of \$1.2 Billion *\$11.1 Million in State Funding Cuts Result in Loss of Three Academic Programs*

In light of a \$21.1 million state-mandated cut across the University of Tennessee system, UT-Knoxville faced reduced state appropriations of \$11.1 million in its FY 2009 budget, which went into effect July 1, 2008. In response to this reduction in state support (and the Tennessee Governor's tuition increase cap of 6 percent), UT-Knoxville is cutting three academic programs (the Department of Audiology and Speech Pathology, the graduate program in Industrial and Organizational Psychology, and the dance program in the Department of Exercise, Sport, and Leisure Studies). UT President John Petersen said these programs were cut because they were either not as productive as other university programs or not at the core of what the university does.

The audiology and speech pathology department at UT-Knoxville employs 25 faculty members and enrolls 200 students (undergraduate and graduate). Students currently enrolled in the program will be able to graduate, but 19 untenured faculty members will lose their jobs over time. The remaining six tenured faculty members will be moved to other departments.

SOURCE: Garrett, Joan. "University of Tennessee System to Cut \$21.1 Million, Three Academic Programs." *Chattanooga Times/Free Press*, June 5, 2008. <http://www.timesfreepress.com/news/2008/jun/21/university-tennessee-sets-6-percent-tuition-hike-c/?local>

Snapshot #3: Auburn University, Alabama—Total Operating Expenses of \$570 Million *A \$40 Million Loss of State Funding Forces a 12 Percent Tuition Increase*

Faced with a cooling economy and declining tax collections, in early June 2008 the Alabama Legislature approved an education budget that cut funding for state colleges and universities by almost 12 percent. The cuts amounted to a loss of approximately \$40 million for Auburn University, which was the largest cut in school history. In late June, Auburn's board of trustees voted to increase tuition and fees by 12 percent in response to the state budget cuts. Tuition for full-time undergraduate students who are Alabama residents will go from the current \$2,917 per semester to \$3,250. For out-of-state undergraduates, AU tuition will rise from \$8,167 per semester to \$9,130. In all, the tuition increases will generate about \$20 million a year for Auburn, or about half of the money it will lose in their 2009 budget year, which starts Oct. 1, 2008. The university also plans internal cuts, including no pay raises for faculty and staff members, to make up the rest of its loss.

SOURCE: Dean, Charles J. "Auburn University Raises Tuition in Response to State Budget Cuts." *The Birmingham News*, June 28, 2008. <http://www.al.com/news/birminghamnews/index.ssf?/base/news/121464094234020.xml&coll=2>

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