Halfway Out of Recession, But a Long Way to Go

The 2013 National Survey of Access and Finance Issues

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INTRODUCTION

Over the past decade, The University of Alabama’s Education Policy Center has conducted national studies of access and funding issues in public higher education.¹ We survey members of the National Council of State Directors of Community Colleges (NCSDCC) for their broad knowledge of access and finance issues, not only of their own sector, but other education sectors as well.² For millions of academically-talented, low-income, first-generation, and minority high school graduates, community colleges are the portal of entry for higher education, while simultaneously training older returning students and unemployed workers.

They provide developmental education for both underprepared high school graduates and non-graduates, and older workers whose skills are not current. With their dual enrollment, developmental education programs, and robust transfer offerings, community colleges sit in the middle ground between secondary education, public regional and flagship universities, and private non-selective colleges to which their students transfer to complete the baccalaureate degree. They also have a unique funding mix: in addition to their state tax appropriations, 25 states receive significant local support of 10 percent or more of their total revenues, while in most of the remaining 25 local support approaches zero.³ To perform their workforce training function through credit and non-credit programs, they receive significant revenue from multiple non-education sources, including the Workforce Investment Act. With their broad knowledge of access and funding issues across all education sectors, NCSDCC members, as senior level state education officials have an excellent perspective to assess higher education trends in their states.

We thank all 51 NCSDCC members for participating again in 2013. From 2007 and 2013 at least 49 NCSDCC members responded to each of our surveys, and in four years, including 2013, all 51 responded.⁴ We thank our advisory panel for survey input;⁵ responsibility for errors is ours alone.⁶ This survey was conducted from June 6 to August 25, 2013.⁶

The 2013 Survey included special sections on workforce training, Pell Grants and federal access programs, and rural community colleges; these will be subjects of future EPC reports, along with a special report on funding that examines key differences between the 25 states with and 25 without significant local funding.

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We begin with an examination of the fiscal year just concluded (FY2012-13), from the perspective of senior state-level education leaders, including key budget drivers in the most recent state legislative sessions. This is followed by predicted changes (increases and decreases) for the next year (FY2013-14); state tax appropriations and tuition for all major sectors of public higher education–community colleges, regional universities, and flagship universities, and state student financial aid. We specifically examine if policy alignment of state tax appropriations, tuition and state student aid policies exists among the states—the necessary precondition for the high tuition/high aid model of student financial assistance to work. Finally we examine system capacity issues, including enrollment caps at public regional and flagship universities, and if community colleges have the capacity to serve recent high school graduates and older returning adults, deferred maintenance, and facilities.

**Part I: The Year Just Concluded (FY2012-13)**

**Mid-Year Cuts in Fewer States**

Figure 1 suggests that the worst of the mid-year budget cuts for all public education sectors may be over, following the most severe recession since the Great Depression of the 1930s. In FY2012-13, just 1 respondent reported a mid-year cut in their state’s general fund appropriations for elementary and secondary education (Hawaii); 6 of 50 report mid-year cuts for their community and technical colleges; 4 of 47 report mid-year cuts for their public regional universities; and 5 of 48 report mid-year cuts for their public flagship universities. The average cuts for community and technical colleges, regional universities, and flagship universities were 4.0%, 3.6%, and 4.1%, respectively.

The number of states reporting mid-year cuts in state appropriations for FY2012-13 was significantly below what was reported in FY2008-9, when 2 of 3 respondents reported mid-year cuts in all three public higher education sectors (community colleges, regional and flagship universities), and nearly 20 reported cuts in elementary and secondary education. As Figure 2 shows, the numbers reporting mid-year cuts for FY2012-13 are similar to FY2011-12, an indication of a return to a more stable funding environment in which states typically target protection of their elementary and secondary education systems (often constitutionally mandated) first, and then fund their public higher education sectors.

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**Figure 1: State Reporting Mid-Year Budgeted State Appropriations Cuts by Public Education Sector Last Year (FY2012-2013)**

<table>
<thead>
<tr>
<th>Elementary/Secondary Education</th>
<th>Community Colleges</th>
<th>Regional Universities</th>
<th>Flagship Universities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawaii</td>
<td>1%</td>
<td>Connecticut 5%</td>
<td>Connecticut 5%</td>
</tr>
<tr>
<td>Georgia-TCS</td>
<td>4%</td>
<td>Georgia-TCS 4%</td>
<td>Georgia-TCS 4%</td>
</tr>
<tr>
<td>Georgia-USG</td>
<td>4.5%</td>
<td>Georgia-USG 4.5%</td>
<td>Georgia-USG 4.5%</td>
</tr>
<tr>
<td>Hawaii</td>
<td>1%</td>
<td>Hawaii 1%</td>
<td>Hawaii 1%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>3.5%</td>
<td></td>
<td>Wyoming 6%</td>
</tr>
<tr>
<td>Wyoming</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average 1.0%</strong></td>
<td><strong>Average 4.0%</strong></td>
<td><strong>Average 3.6%</strong></td>
<td><strong>Average 4.1%</strong></td>
</tr>
</tbody>
</table>

“In FY2012-13, mid-year cuts were reported in just 1 state for K-12 education, 6 for community colleges, 4 in regional universities, and 5 for flagship universities.”
As noted in prior reports, we again note here the continuing tendency among those states taking cuts to treat each public higher education sector the same, with similar across-the-board percentage cuts. This likely means states facing budget gaps “spread the pain” in the name of fairness or equity. This past year, however, we did see some deviation from that trend with (a) respondents reporting their flagship universities taking slightly higher average cuts than the other two sectors, and (b) regional universities taking slightly greater cuts than community colleges.

Increases and decreases on an across-the-board basis, implicitly assumes an equality of access to alternative revenue streams across higher education sectors that may not exist.

**Medicaid, K-12 Education, and Recession Were Key Budget Drivers**

A major objective of our survey is to annually compare how public higher education fares with competing state priorities. Each year, we ask senior state-level education leaders to indicate their agreement or disagreement about the influence of the following budget drivers in the most recently concluded legislative session: Elementary and Secondary Education, Higher Education, Medicaid, Corrections, Recession (producing a decline in state revenue), Unemployment Insurance, and Transportation/highways. At the suggestion of our Advisory Panels, Tax Reductions/Local Property Tax Relief was added as a budget driver in FY2007-8, the American Recovery and Reinvestment Act (ARRA) was added in FY2009-10, and “Unfunded state retiree pension obligations” (or Pensions) and “Health care cost increases tied to federal Health Care legislation” were added in FY2011-12. The addition of new highly ranked budget drivers speaks to the dynamic, fluid nature of the state budget process.

Figure 3 shows the top five key budget drivers in next year’s state budget for the legislative sessions just concluded from FY2013-14. Last year, Medicaid and Elementary and Secondary

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**Figure 3: Top 5 Rated Key Drivers of State Budget Decisions in Year Just Concluded**

<table>
<thead>
<tr>
<th></th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>5th</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>K-12 (45)</td>
<td>Medicaid (43)</td>
<td>Recession (33)</td>
<td>Corrections (31)</td>
<td>Tax Cuts (26)</td>
</tr>
<tr>
<td>2009</td>
<td>Recession (45)</td>
<td>K-12 (30)</td>
<td>ARRA (37)</td>
<td>Medicaid (37)</td>
<td>Corrections Costs (22)</td>
</tr>
<tr>
<td>2010</td>
<td>Recession (47)</td>
<td>Medicaid (38)</td>
<td>ARRA (38)</td>
<td>K-12 (30)</td>
<td>Unemploy Ins. (20)</td>
</tr>
<tr>
<td>2012</td>
<td>Medicaid (38)</td>
<td>Recession (37)</td>
<td>K-12 (33)</td>
<td>Unfunded Pension (25)</td>
<td>ARRA (22)</td>
</tr>
<tr>
<td>2013</td>
<td>Medicaid (39)</td>
<td>K-12 (39)</td>
<td>Recession (33)</td>
<td>Unfunded Pension (30)</td>
<td>Health Care Costs (28)</td>
</tr>
</tbody>
</table>

Notes: (1) If there was a tie between two drivers, the driver with the higher number of “Strongly Agree” answers was rated higher. (2) The number of responses obtained to this survey item is as follows: 50 in 2013, 48 in 2011, 49 in 2010, 44 in 2009, 45 in 2008, and 47 in 2007.
Education were tied as the top budget drivers, with 39 responses in agreement (13 indicated “strongly agree” for Medicaid, and 8 “strongly agree” for Elementary and Secondary Education). “Recession, producing a decline in state revenue,” was ranked third, with 33 responses in agreement. In fourth was Unfunded Pensions at 30. Health Care and Higher Education were tied for fifth at 28 in agreement each (10 indicated “strongly agree” for Health Care compared to 3 for Higher Education). This was followed by Tax Cuts at 25, Corrections at 21, Transportation at 18, Unemployment Insurance at 15, and the End of ARRA at 12.

As Figures 3 and 4 show, there has been marked improvement from the legislative session for the FY2009-10 fiscal year budget, when of the 47 reporting “Recession, producing a decline in state tax revenue,” a whopping 45 said “strongly agree.” In contrast, in the legislative session for the current year’s budget (FY2013-14) of the 33 responding “recession”, 17 responded “strongly agree.” This underscores that we are halfway out of recession, with a long way to go.

For FY2009-10, only 30 responded that K-12 Education was a key budget driver in their state, the lowest rating recorded in our surveys, an indication that the deep recession made it difficult for states to protect K-12 Education from budget cuts. The fiscal crisis was also reflected in the high number of states indicating mid-year cuts for K-12 Education in FY2008-9 and FY2009-10. In contrast, in FY2013-14 we find Elementary and Secondary Education in recovery, with just one state reporting a mid-year cut last year. The recovery has been strong enough such that the ranking of state budget drivers begins to resemble the years prior to the Great Recession, with K-12 Education and Medicaid ranked as the top two budget drivers in legislative sessions just concluded.

**Intense Competition for State Funds**

Even as recessionary pressures are subsiding in many states, the competition for scarce state tax dollars will be intense in the year ahead. This is because in most states, the budget process takes the state funds needed to match federal programs off the top. According to the National Governors Association, Medicaid is the largest state spending category, averaging 23.9% of total state expenditures in FY2012, the latest year for which such data are available. A decade ago Elementary and Secondary Education was the largest single expenditure category, and now it is second. Higher Education, the third largest expenditure category, comprises just 9 to 11% of total state spending. This is down from 17 to 20% range thirty years ago, but as the only discretionary item among the three, higher education is an inviting target for cuts to address shortfalls in the state budget process.

The Kaiser Family Foundation found more than 6 million Americans lost their health insurance during the Great Recession. Every percentage point increase in unemployment produces a 3 to 4 percentage point decline in state tax revenues, while adding 1 million more to the Medicaid State Children’s Health Insurance Program and 1.1 million more uninsured.9

Since Medicaid is formula-funded—the absolute floor is based upon a state’s per capita income of 50% up to a maximum of 76%—the challenge of meeting ever-higher state matches for Medicaid directly impacts the budgeting process in the states, and what is left for public education.
An October 2013 Kaiser Family Foundation study of Medicaid budgets across the 50 states in FY2013 and FY2014 underscores the prominent position Medicaid has in the budget process of most state legislatures: “The economic impact of Medicaid in each state is magnified by the matching formula. At a minimum, states draw down $1 of federal money for every dollar of state funds spent on Medicaid; conversely, to save $1 in state funds a state must cut at least $2 in program spending…Medicaid is a counter-cyclical program, so when there is an economic downturn, Medicaid enrollment and spending rise.”

Given the loss of federal revenues and jobs, cutting Medicaid during a downturn will negatively affect the economy. Medicaid’s sheer size in large- and medium-sized states explains why informed state leaders consistently rank it as a top budget driver each and every year, in both good and bad economic years.

As long as the federal government prescribes the federal-to-state match and requires states to maintain their share, states will likely begin their budgeting processes by taking their Medicaid match “off the top.” This gives Medicaid a distinct advantage over all education sectors, including higher education, in the battle for scarce state tax dollars.

Part II: Predictions for the Year Ahead (FY2013-14)

Funding Recovery in Some States

Given their bridge-spanning position across the different education sectors, state community college directors’ perspective on funding is well-informed. Figure 5 presents average predicted annual changes in state appropriations for operating budgets for community colleges, regional universities, and flagship universities from FY2007-08 to FY2013-14. For the 40 responding for Community and Technical Colleges, the average predicted change was an increase of 4.0%. Among the 48, 34 predicted an increase, 7 no change, and 5 a decrease (Georgia-Technical College System, Louisiana, Missouri, North Carolina, and West Virginia predict an average change for those predicting a decrease of -4.3%). For 42 responding with data for their Regional Universities, the average predicted change was an increase of 4.3%; 25 predict an increase in state appropriations, 5 no change, and 5 a decrease (Kansas, Missouri, North Carolina, New Mexico, and West Virginia predict an average decrease of -3.6%). Among the 47 responding with data for their Flagship Universities, 33 reported specific data, of which 25 reported an increase,
5 no change, and 4 a decrease (Kansas, Missouri, North Carolina, New Mexico, and West Virginia, with an average predicted decrease of -3.6%). In contrast, next year (FY2013-14), 17 respondents predict an average increase of 5.0% in state operating budgets for Elementary and Secondary Education; just 2 predict a decrease—Missouri at -4%, and North Carolina at -1.3%.

Two years ago, we predicted state appropriations for operating budgets across all public higher education sectors for FY2011-12 would be “grim.” For community colleges, regional universities, and flagship universities, 29 of 48, 28 of 37, and 30 of 42, respectively, predicted a decline in FY2011-12. In contrast, in FY2012-13 increases are predicted in state operating budgets for 34 of 48 states for community colleges, 27 of 42 for regional universities, and 29 of 46 for flagship universities. This positive trend is mitigated by two key factors: First, the severity of the recession means it will take several years of steady increases to make up for the deep cuts taken by public higher education operating budgets in the Great Recession (Louisiana, for example, has experienced six straight years of state cuts), as well as in K-12 Education. Second, even if recovery continues, the competition for appropriations from other areas of state government, most notably pensions and health care, will challenge higher education.

Tuition Rises in All Sectors

In our past reports, we have noted tuition increases are the predominant method by which shortfalls in state revenues are addressed at the institutional level. Despite a state budget picture that compared to three years ago has improved significantly, tuition is still increasing by 2 to 3 times the rate of inflation in all three public higher education sectors. Figure 6 shows predicted average tuition increases for community colleges, regional universities, and flagship universities from FY2007-08 to FY2013-14. For FY2013-14 by sector, the predicted increases are 3.11%, 2.97%, and 3.2%, respectively—compared to the 1.6% predicted rise in the Higher Education Price Index (HEPI). Among the 49 respondents who supplied data for community and technical colleges, 35 predicted an increase, 11 no change, and none a decrease. Among the 46 responding with data for their regional universities, 26 predicted an increase, 13 no change, and 1 a decrease. Among the 44 responding with data for their flagship universities, 25 predicted an increase, 12 predicted no change, and none a decrease. The fact that tuition is still rising at rates 2 to 3 times the inflation rate, even as state appropriations appear to be recovering, speaks to the deep cuts institutions previously took, and the squeeze students and families face.
Figures 7, 8, and 9 present predicted average changes in state tax appropriations, tuition, and state need- and merit-based grant aid from FY2007-8 through FY2013-14 for community and technical colleges, regional universities, and flagship universities.

Figure 7 shows the predicted average change in annual appropriations for community and technical colleges were below zero for FY2009-10, FY2010-11, and FY2011-12, and at zero for FY2007-8, when many states were already heading into recession. The fact that cuts were not as deep may indicate that federal ARRA funding prevented double digit cuts in state funding. Further, tuition increases, while 3 to 5 times the rate of inflation over this period, were not in the 10 to 15 percent range. This can likely be attributed to the federal ARRA Maintenance of Effort provisions, which required states to maintain total state spending for higher education (operating budgets plus student aid) for Fiscal Years 2009, 2010, and 2011 at FY2006 levels. Finally, we note that state student aid was increased prior to the recession, but not at the same percentage levels as tuition in Fiscal Years 2010, 2011, 2012, and 2013. States tend to not prioritize state student aid funding (need- and merit-based) when they are in recession a major, if not fatal, flaw in the high-tuition/high-aid argument.

Figures 8 and 9 present similar data for public regional and public flagship universities for Fiscal Years FY2007-8 through FY2013-14. The same patterns of state disinvestment in operating budget appropriations coincide with disinvestments in state student aid and tuition increases exceeding the rate of inflation by 3 to 5 times are again observed.

State Student Aid Fails to Keep Up

Among the 40 respondents that provided specific data for next year (FY2013-14), 4 predict cuts in state grant aid (Florida, Kansas, North Carolina, and Ohio), 16 predict no change, 2 predict increases between 0.1% and 1.5% (Illinois and Tennessee), and 18 predict increases at or
above the 1.6% Higher Education Price Index. Thus, 22 out of 40 respondents providing specific data for their state student financial aid programs predict cuts, no change, or increases lower than the 1.6% HEPI inflation rate. Figure 10 presents this picture for FY2013-14.

But there is more to this story. Since state student aid programs range in total size, small total appropriations increases can produce large percentage increases. For example, Louisiana and Texas predict percentage increases of 26 and 22% for FY2013-14. But their total state-funded student aid programs are relatively small. According to the National Association of State Student Grant Assistance Programs, in FY2011-12, Louisiana and Texas devoted a total of $26 and $286 million, respectively, to need-based state student aid. But for poor students and families, did the increases in state-funded student aid cover the increases in tuition, such as the 10% predicted in Louisiana? And for the institutions serving first-generation students, were any state appropriations cuts or flat-funding made up by the dollars generated in tuition increases? Grambling State University, for example, has seen a cut in state appropriations from $31 to $13 million from 2009 to 2013.

Just as states are constitutionally required to balance their budgets, institutions cannot print money. To simply maintain current service levels in FY2013-14 as provided last year in FY2012-13, the operating budgets of public higher education institutions must be increased at least by the inflation rate of 1.6%. If the state share is cut, or an effective cut is taken by flat-funding operating budgets when the inflation rate still increases, the alternative for institutional leaders is to propose cuts in programs and services, raise tuition, or both. Respondents from 18, 13, and 14 states predict failure to do this next year for their community colleges, regional universities, and flagship universities, respectively. We note our data are for only one year, and do not take into account state operating budget cuts, flat-funding, or increases over a longer period of time.

Each year, our surveys ask respondents to provide predicted changes in operating budgets, tuition, and state student aid. As Figures 5 and 6 show, in this recession and its immediate aftermath, states are increasingly treating each sector similarly in terms of both operating budgets and tuition increases. To compute the relative alignment between state appropriations, tuition, and state student aid, we obtained the actual total state dollar figure from the State Higher Education Finance for FY2012-13 and multiplied.

Figure 10: Predicted State Student Financial Aid Changes, FY2013–14
that figure by the predicted HEPI inflation rate of 1.6% (5 states did not supply predicted operating budget changes for FY2013-14, and were not part of this computation (Arkansas, New Mexico, South Dakota, Washington, and Wisconsin). This figure represents the total operating budgets needed simply to maintain services in FY2013-14 at FY2012-13 levels (Note-enrollments were relatively constant, with 19 of the responding states report enrollment declines, 13 report stable enrollment numbers, and 16 report increases resulting in a mean projected enrollment decline of .193%).

We then computed the difference between the total operating budgets needed, and the predicted budgets provided by survey respondents; if this difference was below the FY2012-13 actual operating budget figure multiplied by the HEPI inflation rate, then additional funds must be obtained elsewhere, either through program and services cuts, or increases in tuition and fees and/or other revenue sources. Figure 11, Predicted Changes in Operating Budgets, FY2013-14, shows that 14 states had a budgeted deficit that must be made up elsewhere (Delaware, Georgia, Illinois, Kansas, Kentucky, Louisiana, Maine, Missouri, New Jersey, North Carolina, Oklahoma, South Carolina, West Virginia, and Wyoming).

### Access is Threatened in Many States

A major focus of our annual surveys has been the capacity of state systems to serve students. In 1994, the late Clark Kerr predicted an enrollment “tidal wave.” In 1996, 19.3 million Americans were of the traditional college-going years between 18 and 24 years old. This number jumped to 23.4 million in 2009 and up to 24.5 million in 2012. While the number falls by about a million per year to about 23 million in 2016, it never falls back to 1996 levels through 2025.

Our past reports have asked senior state-level higher education leaders if enrollment caps have been instituted at some or all of the public flagship universities and regional universities in their states. As Figure 12 shows, in 2010, when asked if public flagship universities had capped enrollments, 12 of 50 responses were in agreement, including 4 of the nation’s 5 largest states (California, New York, Florida and Illinois). In 2013, 15 of 49 responses were in agreement (California, Delaware, Florida, Georgia-Technical College System, Illinois, Indiana, Maine, Maryland, Massachusetts, Texas, Utah, Vermont, Virginia, Washington, and Wisconsin). In 2010, when asked if enrollments had been capped at some or all of the public regional universities in their states, 7 were in agreement, including re-
In 2013, 9 respondents from 48 states were in agreement: (California, Delaware, Florida, Georgia-Technical College System, Maine, Massachusetts, Virginia, Washington, and Wisconsin). The fact that enrollment caps had been instituted at more public flagship and regional universities in the past 4 years is at a minimum troubling, if not alarming, to those who favor extending access.

In 2010, we argued enrollment caps at public flagship and regional universities “pushed” students toward community colleges. For this reason, we survey community college state directors each year about capacity concerns. In 2013, when asked if some community colleges in their states were turning away students, 3 indicate “yes” (California, Maine and New Hampshire), 9 indicate “not sure,” and 39 indicate “no.” Figure 13 shows that from 2008 to 2013, most states indicate sufficient capacity exists to serve traditional aged students as well as older returning adults. In 2013, 35 were in agreement that sufficient capacity exists in their state’s community colleges to serve current and projected numbers of high school graduates, 4 were neutral, and 10 were in disagreement. Among the 10 in disagreement, however, were Alabama, California, Delaware, Indiana, Louisiana, Maine, Nevada, Virginia, Washington, and Wisconsin; these states in 2011-12 served 32% of the nation’s total community college enrollments according to the U.S. Department of Education.19

The recession has clearly increased attention on the role of community colleges in serving older and returning adult students, including both young adults ages 25 to 34 and older adults ages 35 to 64 in need of retraining. In 2013, 34 respondents were in agreement that sufficient capacity to serve older returning adults exists in their states, 6 were neutral, and 10 were in disagreement. The 10 in disagreement included Alabama, California, Delaware, Indiana, Louisiana, Nevada, Oregon, Virginia, Washington and Wisconsin, states that served 34% of all U.S. community college students in 2011-12.20

Figure 14 attempts to summarize the findings. We find access threatened at some level in 19 states. 1 in 6 states access concerns were indicated across all three public higher education sectors (flagship and regional universities, and community colleges); in 4 states, 2 sectors; and in 9 states, 1 sector. In 2010-11, these 19 states enrolled 8.1 million of the 15.1 million total full-time equivalent student enrollments in our nation. That so many among the 19 states also possess fast-growing hispanic student populations is troubling.

**Facilities**

Over time, it is not possible to sustain first class education and training programs in third rate facilities. In recognition of this, facilities was the subject of our first special section in 2007.
A growing spate of reports indicates that the level of deferred maintenance has grown over the past two decades. We also note that the National Association of State Budget Officers reports deferring maintenance to be a common strategy to meet short-term state budget revenue shortfalls.

In 2007, we asked “Over the past five years, how has total deferred maintenance at your state’s community colleges changed?”, and among the 45 responses, 33 indicated an increase and 12 indicated no change. No respondent indicated a decrease from FY2002-3 to FY2006-7. When we asked the same exact item from FY2007-8 to 2012-13, among 47 responses, 28 report an increase, 11 no change, and 8 a decrease. Thus, most states report a significant deferred maintenance problem, with only small improvement in recent years.

Facilities is a major challenge in our nation’s largest states. In our 2007 survey, among the 10 “megastates” whose community colleges receive over 50% of all state tax revenues nationally, and enroll 58% of all U.S. community college students, from FY2002-3 to FY2006-7, 3 reported a significant increase (California, Illinois, and Ohio), 5 reported an increase (Florida, Georgia-TCS, Georgia-USG, North Carolina and Texas), and 1 did not report (Pennsylvania). In 2013, among the 9 responses, 2 report significant increases (California, Pennsylvania), 2 report increases (Florida, Ohio), 3 no change (Georgia-Technical College System, North Carolina, New York), 1 reported a decrease (Georgia-University System of Georgia), and 1 reported a significant decrease (Illinois). Given these realities, and the need community colleges have to retool facilities to keep current with changing industry training needs, it is not surprising that in each

![Figure 14: Access is Threatened in Many States, FY 2013-14](image)

![Figure 15: Over the past five years, how has total deferred maintenance at your state’s community colleges changed?](image)
annual survey conducted since 2007 strong majorities say facilities funding is a major need, and that federal funds for facilities would be helpful.

Fiscal Strain at Community Colleges

Since our 2007 survey, we have asked, “in the year ahead, which type of community college – rural, suburban, or urban - will face great fiscal strain?” Figure 16 shows that for next year, FY2013-14, 21 respondents predict their state's suburban, 28 predict their state's urban, and 41 predict their state's rural community colleges will face great fiscal strain. Figure 16 reflects the sharp up-tick in fiscal strain as our nation's community colleges entered the Great Recession in 2009, and some relative improvement in 2012. But Figure 16 also shows a definitive up-tick predicted for next year, with great fiscal strain at most types of community colleges. The nation's 575 rural community colleges, which served 2.2 million students, are facing the highest levels of fiscal strain ever recorded in our surveys.23

What explains this troubling up-tick?

First, since 2007 a majority of respondents have indicated their state’s rural community colleges face the greatest fiscal strain. Senior-level officials charged with providing statewide leadership have long been aware of challenges associated with serving low property tax wealth areas. These issues have been documented by numerous studies dating back to the early 1990s and the Ford Foundation’s Rural Community College Initiative.24 For example, the much lower per-FTE expenditures available to rural community colleges that serve the 25 states with low property tax wealth areas is reflected in their biggest expenditure category, faculty salaries, which in FY2003 were nearly $18,000 per year lower than those paid at urban multi-campus community colleges.25 The challenge of leveraging ever-lower state appropriations for operating budgets with local resources exists in rural areas with or without a secure local property tax base.

Second, we note that the federal ARRA funding has now ended. We believe it is likely that in many states, even if slight increases have occurred from last year to next in predicted state appropriations, these increases may fall well short of pre-recession levels, as state tax revenues have not fully recovered to cover the loss of federal ARRA funding. This may especially be true in those states with slower recovery in their unemployment rates.

Third, we note the connection between Pell Grants and the health of our nation's access institutions. Student financial aid is a shared responsibility between the federal government and the states in our country. Much of the direct grant aid funding to students that comes in the form of Pell Grants is plowed back into tuition payments. Recent Education Policy Center studies have revealed the immediate impact on our country’s public access colleges and universities as changes in the federal Pell Grant program have been made. The one-time summer Pell Grant funding approved by Congress in April 2010 brought the program closer to year-round status than at any time in its history. Our survey of 205 community colleges in 25 states found that an additional $1 billion in new Pell Grant funding drove nearly 350,000 more community college enrollments, and resulted in all-time record summer and calendar year enrollments at 4 of 5 community colleges surveyed.26

Conversely, the $2 billion cut that resulted from new Pell eligibility restrictions passed by Congress in June 2012 and implemented in the Fall 2012 term was immediate - and highly negative. Our survey of front-line financial aid administrators at Alabama’s 14 public universities and 25 two-year colleges revealed that an estimated 17,500 stu-
Students lost their Pell Grants from the new Lifetime Eligibility restriction alone. About one-third of the 17,500 were community college students, and two-thirds from public four-year regional universities (and not flagship universities). Similar enrollment losses were found at 14 of Mississippi’s 15 community colleges, and 20 of Arkansas’ 22 two-year colleges. Nearly 40,000 students across these three Deep South states lost Pell Grant aid due to the new eligibility restrictions. Students attending public access community colleges and regional universities are highly sensitive to changes in the net of tuition and federal and state student aid.

Even with modest percentage increases in state appropriations predicted for next year, the declining enrollments resulting from the June 2012 Pell eligibility restrictions means less overall tuition income. We theorize that a number of public regional universities and community colleges may have slight state appropriation increases and lower overall tuition revenues simultaneously. With the federal ARRA funding ended, and the new Pell Grant eligibility restrictions, access institutions may find their finances more threatened now than at any time in recent years, even as the economic recovery gains steam.

**Conclusion**

We titled this report *Halfway Out of Recession, But a Long Way to Go*. We found some recovery in state tax appropriations for public higher education operating budgets this year. But one could argue that, given the severe cuts in FY2008-9 and FY2009-10, and limited increases since then, there was nowhere to go but up. Fewer states report mid-year cuts in the year just concluded (FY2012-13) than in years past. It will likely take several years of healthy operating budget increases to make up for the cuts taken in the “Great Recession.” Still, a small start has been made in some states.

*This year’s survey again documents the failure of the “high-tuition/high-aid” model to fund access.* A majority of states cut, flat-funded or increased below the inflation rate their state student aid programs. States are increasingly placing onto their institutions and the federal government the responsibility to fund need-based student aid for academically-talented, economically disadvantaged students. This is a critical access point; whether or not our nation’s public flagship universities, regional universities, and community colleges have the ability to self-fund need-based aid is problematic.

A key finding this year is that access is threatened in 19 states (see Figure 14). In particular, we find capped enrollments threatening access in many of our nation’s largest states, and those with fast-growing Hispanic populations. Respondents from more states report capped flagship and regional university enrollments in 2013 than four years ago; a significant minority of states indicate insufficient capacity at community colleges to serve current and projected numbers of high school graduates and older returning workers as well.

A large majority (88%) are in agreement with the statement “To achieve President Obama’s goal to dramatically increase the numbers of adult Americans attending college requires expanding community college capacity.” is no surprise. Only 3 disagreed and 3 were neutral in reaction to this statement, while 23 report “agree” and 20 “strongly agree.”

The spring 2014 state legislative sessions will be challenging for public access flagship universities, regional universities, and community colleges. Competition for scarce state funding will be fierce, especially in states with sluggish, persistently high unemployment rates. We are clearly halfway out of recession, with a long way to go.

We conclude with our concern that pent-up demands, particularly related to Medicaid cost increases, underfunded state pension plans, and increases associated with implementing the Affordable Health Care Act may crowd out any new state investments in public higher education even as the recovery gains steam. The possible silver lining is that, with Medicaid at 26% of total state spending, any success in holding down Medicaid cost increases below the historic double-digit annual increases—which requires a state match to meet the federally mandated cost increases—might translate into an immediate improvement in state revenue pictures. This is why the recent report of the Clinton Presidential Library, that indicates Medicaid going up at the lowest rates in two decades, is a hopeful sign.
References

1. Past reports can be found at the Education Policy Center website, http://www.uaedpolicy.ua.edu/access--funding-surveys.html
2. The National Council of State Directors of Community Colleges is one of more than 30 affiliated councils of the American Association of Community Colleges. This report was written independently; neither NCSDCC nor AACC endorsed this report.
4. Responses were received from all 51 NCSDCC members or their designees, representing every state. Puerto Rico and the District of Columbia were not surveyed. Responses for Arizona, Maryland, Michigan, Nebraska and Pennsylvania came from state community college associations. Both the University System of Georgia (GA-USG) which coordinates community colleges, and the Technical College System of Georgia (GA-TCS) responded; the State University of New York responded for New York.
5. The Advisory Panel for the 2013 National Survey of Finance and Access in Public Higher Education include Marilyn J. Amey, Michigan State University; Brent D. Cejda, University of Nebraska-Lincoln; Marc Cutright, University of North Texas; Pamela Eddy, College of William & Mary; Linda Serra Hagedorn, Iowa State University; Arthur M. Hauptman, Cary A. Israel, President, Collin College District (TX); Daniel J. Harley, American Association of State Colleges and Universities; R. Frank Mensel, Education Policy Center; Michael T. Miller, University of Arkansas at Fayetteville; James C. Palmer, Illinois State University; James O. Rose, Wyoming Community College Commission; Terrance A. Tolleson, East Tennessee State University; David Schaffer, Nelson A. Rockefeller Institute of Government, State University of New York; Eboni Zamani-Gallaher, Eastern Michigan University.
7. See Education Policy Center website, http://www.uaedpolicy.ua.edu/access--funding-surveys.html
19. Analysis of IPEDS data for 2011-12 performed on October 29, 2013 by the Education Policy Center.
20. IBID.
25. IBID, Katsinas and Hardy, 2012.

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