

The Great Cost Shift Continues

State Higher Education Funding After the Recession

by Robert Hiltonsmith & Tamara Draut

AS STUDENT DEBT CONTINUES TO CLIMB, IT'S important to understand how our once debt-free system of public universities and colleges has been transformed into a system in which most students borrow, and at increasingly higher amounts. In less than a generation, our nation's higher education system has become a debt-for-diploma system—more than seven out of 10 college seniors now borrow to pay for college and graduate with an average debt of \$29,400.¹ Up until about two decades ago, state funding ensured college tuition remained within reach for most middle-class families, and financial aid provided extra support to ensure lower-income students could afford the costs of college.

As Dēmos chronicled in its first report in the *The Great Cost Shift* series, this compact began to unravel as states disinvested in higher education during economic downturns but were unable, or unwilling, to restore funding levels during times of economic expansion. Today, as a result, public colleges and universities rely on tuition to fund an ever-increasing share of their operating expenses. And students and their families rely more and more on debt to meet those rising tuition costs. Nationally, revenue from tuition paid for 44 percent of all operating expenses of public colleges and universities in 2012, the highest share ever. A quarter century ago, the share was just 20 percent.² This shift—from a collective funding of higher education to one borne increasingly by individuals—has come at the very same time that low- and middle-income households experienced stagnant or declining household income.

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The Great Recession intensified these trends, leading to unprecedented declines in state funding for higher education and steep tuition increases:

- **NATIONWIDE CUTS:** 49 states (all but North Dakota) are spending less per student on higher education than they did before the Great Recession.³ In contrast, only 33 states cut per-student spending between 2001 and 2008,⁴ the period since the last recession.
- **MANY DEEP CUTS:** In many states, the cuts have been especially deep. Since the recession, 28 states have cut per-student funding by more than 25 percent, compared to just one state—Michigan—that did so between 2001 and 2008.
- **ESCALATING TUITION:** Funding cuts have led to large tuition increases. Nationally, average tuition at 4-year public universities increased by 20 percent in the four years since 2008 after rising 14 percent in the four years prior. In seven states, average tuition increased by more than a third, and two states—Arizona and California—have raised it by more than two-thirds, or 66 percent. At public 2-year colleges, average tuition has risen by more than a third in six states.
- **FAMILIES PRICED OUT:** Average tuition at 4-year public schools now consumes more than 15 percent of the median household income in 26 states. Average total cost—including room and board—consumes more than one third of the median household income in 23 states.

The decreasing affordability of higher education is eroding the last relatively secure path into the middle class, as more students take on larger amounts of debt to finance their higher educations, or forego it altogether. With \$1.2 trillion in outstanding student loan debt and climbing, student loan debt is now substantial enough to affect our overall economy as indebted graduates find it harder to buy a home or a car.⁵

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This brief updates our previous analysis of state funding trends by examining trends in state funding and tuition since the Great Recession.

State Cuts to Higher Education: How Much and Why?

Every state but one—North Dakota—has cut per-student funding since the Great Recession in order to help close wide budget gaps. Nationwide, these cuts have averaged \$2,394 per student, or 27 percent. As *Figure 1* and *Figure 2* show, the magnitude of the cuts varies widely from state to state.⁶ However, most states have made deep cuts to higher education funding: 29 states have cut funding by more than \$2,000 per student, resulting in a national average cut in funding of more than 25 percent.

Figure 1: Real Increase/Decline in State Higher Education Funding Per Student, 2008-2012

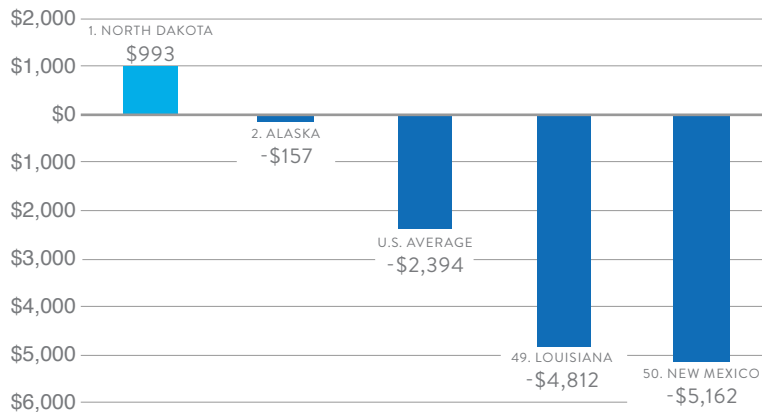
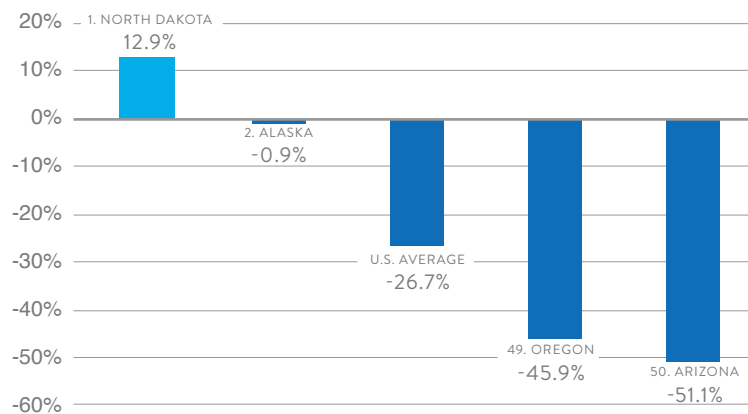


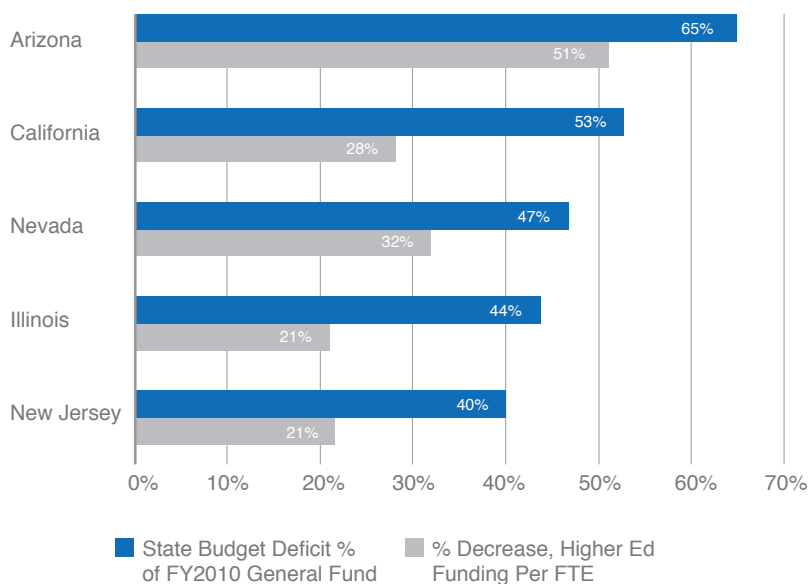
Figure 2: Percent Change in State Higher Education Funding Per Student, 2008-2012



Higher education cuts triggered by the Great Recession were closely linked to state budget gaps. As *Figure 3* shows, Arizona, California, and Nevada had the three largest deficits, and also made some of the largest higher education cuts, as well. The budget gaps, in turn, were significantly linked to the housing crisis. Declines in housing prices were the most severe in Arizona, California, Nevada, and Florida. All of the hardest-hit states raised taxes after the Great Recession,⁷ but none raised them enough to close their entire gap, making higher education cuts all but inevitable.

Figure 3: State Budget Gaps & Higher Education Funding Cuts

Largest State Budget Gaps, Fiscal 2010, and Post-Recession Higher Ed Cuts



The Effects of State Higher Education Cuts

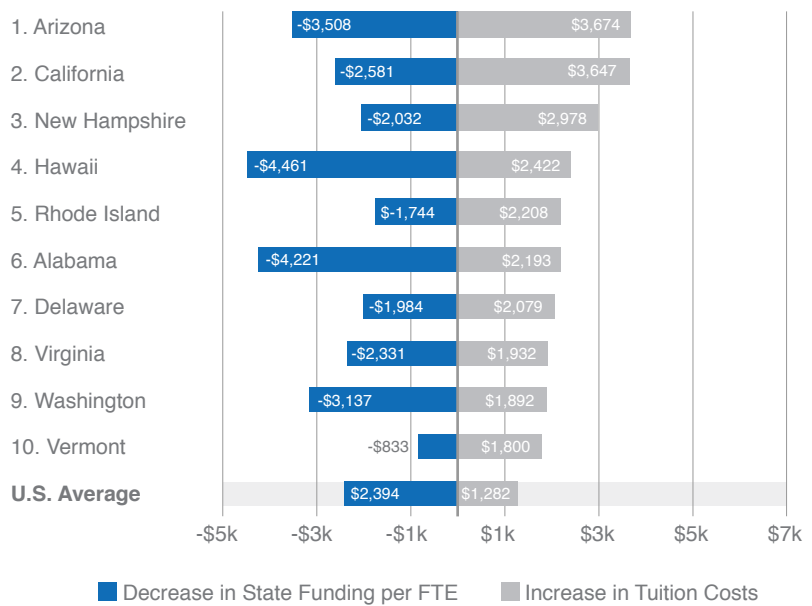
Historically, public colleges and universities get nearly all of their revenue from state and local funding and tuition and fees. So, when states cut higher education funding, schools essentially have two options for closing the gap: raise student charges—tuition, fees, room, and board—or cut salaries and services. Most states have chosen to do both since the Great Recession, implementing steep hikes in charges for tuition, room, and board, and cutting thousands of course offerings and positions.

Rising Tuitions

The effect of state cuts on student charges has been especially dramatic. Nationwide, tuition at public 4-year universities has risen by an average of 20 percent, or \$1,282, since 2008. The increase in total cost—including room and board—has been even greater, rising by an average of \$2,292 over the same period. Tuition at public 2-year schools has increased sharply as well, rising by an average of 18.5 percent, or \$414, since 2008.

Figure 4: Changes In Tuition & Per-Student Funding, 2008-2012

Top 10 States, By Largest Tuition Increase



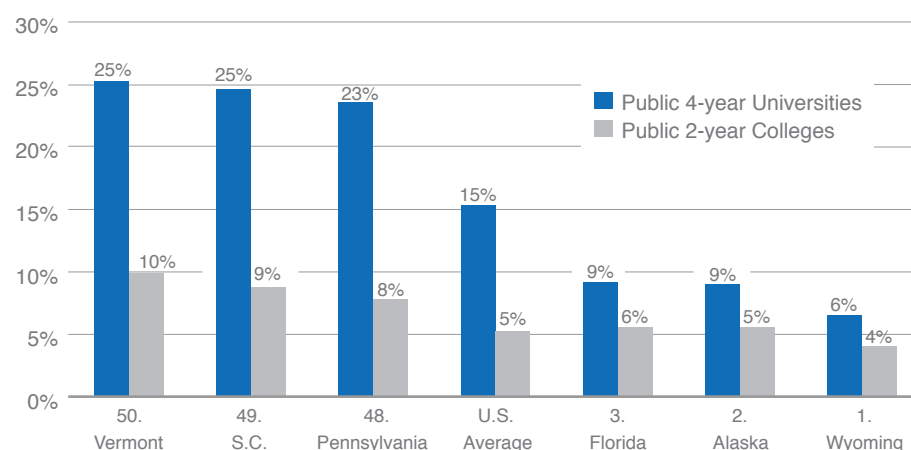
In many states, the tuition increases have far outstripped the national average. Seventeen states have raised tuition prices by more than 20 percent since the Great Recession, and seven states—California, Arizona, Hawaii, Alabama, Georgia, Nevada, and Washington—have seen tuition hikes of one-third or more. The sharp rises in student charges since the Great Recession are closely linked to cuts in state funding for higher education. *Figure 4* illustrates this connection, depicting both per-student funding cuts and average increases in tuition in the 10 states with the largest tuition increases since the Great Recession.

Families Can't Keep Up with Rising Costs

At the same time that states were cutting funding for higher education, families faced their own budget pressures due to stagnant or declining incomes. As a result, paying for college requires a much larger share of the typical household's income in many states. In a fully functioning system, much of this gap in ability to pay would be provided by financial aid and students working in side-jobs to defray costs. What we know, however, is that aid programs, such as federal Pell grants, have lost their purchasing power as a result of rising tuition and a greater number of eligible students. We also know that students are working more hours than ever before and taking on increasing amounts of debt.

Figure 5: Least and Most Affordable States, 2011

Average Tuition, As a Share Of Median Household Income



The result has been the debt-for-diploma system in which most students fill the gap between what their parents can pay, available grant aid and their earnings from part-time work, by taking on student debt.

In seven states, tuition consumes more than 20 percent of the state median household income, while it consumes less than 10 percent of median income in five states. *Figure 5* illustrates this affordability gap, depicting the most and least affordable states, ranked by the share of median household income consumed by the average 4-year public university tuition in the state.

And as the full tables in the Appendix show, affordability is very closely linked to state funding levels: the five least affordable states—Vermont, South Carolina, Pennsylvania, Michigan, and New Hampshire—were among the lowest third of states in funding per student. Affordability is also closely linked to average student debt: the five least affordable states were all among the upper third of states, ranked by average student debt of graduates.⁸

Conclusion: Returning to a Debt-Free System

Higher education is a true public good—its benefits accrue far beyond the individual who participates directly in the system. This is why, since the founding of public higher education, our nation has moved progressively toward expanding the doors of access. It is no accident that today some of the best state universities are land grant colleges—a legacy from the 1860s when the federal government granted federally controlled land to states to establish public universities and colleges. Over the next century and a half, federal and state policy continually improved to expand access and affordability to those who were left out of the system. But in the last generation, we have moved in the opposite direction. State higher education funding on a per-student basis is lower today than it was in 1980.⁹ Federal financial aid no longer provides grants robust enough to defray the rising cost of college: the Pell grant once covered \$7 out of every \$10 in college costs, today it covers only \$3 out of every \$10 needed to attend a public college or university.¹⁰

And so, the costs of funding our higher education system have increasingly been borne by students and their parents, chiefly by going into debt. Yet, higher education remains a public good—with all of us relying and depending on the system not just for the education of doctors, nurses, teachers, accountants and other professionals—but to provide the critical thinking that is the lifeblood of our democracy.

Endnotes

1. Project on Student Debt, "Student Debt and the Class of 2012," October 2013, <http://projectonstudentdebt.org/files/pub/classof2012.pdf>.
2. State Higher Education Executive Officers Association (SHEEO), "State Higher Education Finances: FY 2012," 2013, <http://www.sheeo.org/node/631>
3. Unless otherwise noted, all data in the brief are based on Dēmos' calculations using state funding data from Illinois State University's "Grapevine" project, and tuition and enrollment data from the Department of Education's IPEDS survey. All numbers have been adjusted for inflation to constant 2011 dollars.
4. All years in the brief refer to fiscal years. Therefore, 2008 refers to higher education funding for the 2007-2008 academic year.
5. The Institute for One Wisconsin, "Survey Results: Impacts of Student Loan Debt on Consumer Vehicle and Homeownership Trends," 2012, <http://www.onewisconsinnow.org/files/IOW%20Student%20Loan%20Research.pdf>.
6. See the Appendix for complete rankings of state cuts, tuition increases, and affordability.
7. Center on Budget and Policy Priorities, "State Tax Changes in Response to the Recession," 2010, <http://www.cbpp.org/cms/?fa=view&id=3108>.
8. Project on Student Debt, op. cit.
9. Dēmos, "The Great Cost Shift: How Higher Education Cuts Undermine the Future Middle Class," 2012. State of Young America
10. Dēmos, "The State of Young America," 2011, <http://www.demos.org/state-of-young-america>.

Table A-1. State Funding for Higher Ed, Rankings

Rank	State	per FTE, '11-'12	per FTE, '07-'08	Real Increase/Decline Since '07-'08	% Change in State Funding per FTE Since '07-'08
1	Alaska	\$17,407	\$17,024	-\$157	-0.9%
2	Wyoming	13,710	13,671	-386	-2.8
3	Hawaii	12,701	16,768	-4,461	-26.6
4	North Carolina	11,592	13,918	-2,686	-19.3
5	Connecticut	10,727	13,453	-3,058	-22.7
6	North Dakota	8,969	7,698	993	12.9
7	New York	8,532	10,340	-2,072	-20.0
8	Nebraska	8,352	9,914	-1,821	-18.4
9	Georgia	8,314	11,611	-3,554	-30.6
10	New Mexico	8,284	13,189	-5,162	-39.1
11	Maryland	7,779	9,056	-1,519	-16.8
12	Tennessee	7,766	10,791	-3,266	-30.3
13	Arkansas	7,661	9,332	-1,909	-20.5
14	New Jersey	7,655	9,461	-2,043	-21.6
15	Alabama	7,582	11,567	-4,221	-36.5
16	Maine	7,556	8,256	-934	-11.3
17	Kentucky	7,500	9,305	-2,038	-21.9
18	Louisiana	7,258	11,845	-4,812	-40.6
19	Mississippi	7,233	9,559	-2,550	-26.7
20	Texas	7,202	8,938	-1,959	-21.9
21	West Virginia	7,061	8,392	-1,550	-18.5
22	Oklahoma	6,992	8,928	-2,153	-24.1
23	Nevada	6,972	9,922	-3,166	-31.9
	U.S. Average	6,796	8,980	-2,394	-26.7
24	California	6,795	9,165	-2,581	-28.2
25	Idaho	6,759	9,722	-3,172	-32.6
26	Delaware	6,645	8,423	-1,984	-23.6
27	Minnesota	6,642	9,031	-2,595	-28.7
28	Massachusetts	6,615	10,217	-3,807	-37.3
29	Florida	6,551	10,078	-3,731	-37.0
30	Indiana	6,184	7,613	-1,621	-21.3
31	Utah	5,997	8,506	-2,695	-31.7
32	Washington	5,711	8,671	-3,137	-36.2
33	Iowa	5,694	8,049	-2,532	-31.5
34	Kansas	5,545	7,202	-1,829	-25.4
35	Virginia	5,541	7,700	-2,331	-30.3
36	South Carolina	5,493	9,415	-4,093	-43.5
37	South Dakota	5,413	6,953	-1,708	-24.6
38	Pennsylvania	5,411	7,426	-2,184	-29.4
39	Wisconsin	5,295	6,432	-1,301	-20.2
40	Rhode Island	5,218	6,800	-1,744	-25.6

Table A-1. State Funding for Higher Ed, Rankings *Continued*

Rank	State	per FTE, '11-'12	per FTE, '07-'08	Real Increase/Decline Since '07-'08	Change in Funding per FTE Since '07-'08
41	Montana	\$5,160	\$5,970	-\$970	-16.3%
42	Ohio	5,024	6,925	-2,057	-29.7
43	Illinois	4,949	6,271	-1,321	-21.1
44	Missouri	4,883	6,591	-1,860	-28.2
45	Vermont	4,361	5,059	-833	-16.5
46	Michigan	3,965	5,809	-1,967	-33.9
47	Oregon	3,715	6,653	-3,053	-45.9
48	Arizona	3,464	6,864	-3,508	-51.1
49	Colorado	3,454	4,900	-1,552	-31.7
50	New Hampshire	2,474	4,429	-2,032	-45.9

Table A-2. Average State Tuition Costs, Rankings

Rank	State	Public 4-Year, '07-'08	Public 4-Year, '11-'12	% Increase, '08-'12	Real Increase, \$, '08-'12	Public 2-Year, '07-'08	Public 2-Year, '11-'12	% Increase, '08-'12	Real Increase, \$, '08-'12
1	Wyoming	\$3,229	\$3,501	8.4%	\$272	\$2,081	\$2,302	10.6%	\$221
2	Florida	3,205	4,032	25.8	827	2,020	2,487	23.1	467
3	Nevada	3,276	4,509	37.6	1,233	1,911	2,513	31.5	602
4	Utah	4,347	5,163	18.8	816	2,643	3,023	14.4	380
5	Louisiana	4,132	5,198	25.8	1,066	1,771	2,536	43.2	765
6	West Virginia	4,733	5,241	10.7	507	2,932	2,992	2.1	60
7	New Mexico	4,478	5,293	18.2	814	1,373	1,373	0.0	0
8	Oklahoma	4,827	5,538	14.7	711	2,559	2,730	6.7	172
9	Mississippi	5,145	5,674	10.3	529	1,870	2,210	18.2	340
10	Idaho	4,731	5,674	19.9	943	2,287	2,671	16.8	384
11	North Carolina	4,644	5,701	22.8	1,057	1,492	2,138	43.3	646
12	Alaska	5,127	5,957	16.2	829	3,166	3,763	18.9	598
13	Montana	5,851	6,007	2.7	155	3,244	3,142	-3.2	-102
14	Georgia	4,307	6,015	39.7	1,708	2,030	2,568	26.5	538
15	New York	5,465	6,192	13.3	727	3,709	4,146	11.8	436
16	Arkansas	5,859	6,367	8.7	507	2,082	2,417	16.1	335
17	North Dakota	6,217	6,414	3.2	197	3,901	3,988	2.2	87
18	Kansas	5,834	6,689	14.7	855	2,200	2,597	18.1	397
19	Nebraska	5,882	6,752	14.8	870	2,307	2,475	7.3	168
20	South Dakota	5,824	6,939	19.1	1,115	4,019	4,817	19.9	798
21	Tennessee	5,790	7,013	21.1	1,223	2,852	3,380	18.5	528
22	Texas	5,978	7,116	19.0	1,138	1,550	1,762	13.7	212
23	Colorado	5,683	7,167	26.1	1,484	2,252	3,491	55.1	1,240
24	Hawaii	5,000	7,422	48.4	2,422	1,698	2,388	40.6	690
25	Alabama	5,309	7,502	41.3	2,193	3,060	3,868	26.4	808
26	Iowa	6,716	7,563	12.6	847	3,538	3,999	13.0	460
27	Missouri	7,173	7,588	5.8	415	2,584	2,587	0.1	3
	U.S. Average	6,419	7,701	20.0	1,282	2,234	2,647	18.5	414
28	Washington	5,808	7,701	32.6	1,892	3,001	3,719	23.9	718
29	Maryland	7,727	7,831	1.3	104	3,268	3,349	2.5	82
30	Wisconsin	6,677	7,851	17.6	1,175	3,658	3,868	5.7	209
31	Indiana	7,117	7,940	11.6	823	3,056	3,354	9.8	298
32	Kentucky	6,837	7,943	16.2	1,106	3,005	3,268	8.8	264
33	Oregon	6,400	7,975	24.6	1,575	3,136	3,568	13.8	432
34	Ohio	8,730	8,800	0.8	70	3,469	3,358	-3.2	-111
35	California	5,260	8,907	69.3	3,647	637	976	53.2	339
36	Arizona	5,347	9,021	68.7	3,674	1,599	1,803	12.8	204
37	Connecticut	8,056	9,069	12.6	1,013	3,067	3,490	13.8	423

Table A-2. Average State Tuition Costs, Rankings *Continued*

Rank	State	Public 4-Year, 2007-08	Public 4-Year, 2011-12	% Increase, 2008-2012	Real Increase, \$, 2008-2012	Public 2-Year, 2007-08	Public 2-Year, 2011-12	% Increase, 2008-2012	Real Increase, \$, 2008-2012
38	Maine	\$7,857	\$9,278	18.1%	\$1,420	\$3,563	\$3,410	-4.3%	-\$153
39	Virginia	7,442	9,373	26.0	1,932	2,695	3,748	39.1	1,053
40	Minnesota	8,311	9,862	18.7	1,551	4,913	5,198	5.8	285
41	Rhode Island	7,718	9,926	28.6	2,208	3,085	3,676	19.2	591
42	Massachusetts	8,563	10,104	18.0	1,542	3,328	4,009	20.5	681
43	South Carolina	9,045	10,372	14.7	1,327	3,502	3,721	6.3	219
44	Delaware	8,444	10,524	24.6	2,079	2,699	3,086	14.3	387
45	Michigan	9,157	10,527	15.0	1,370	2,370	2,598	9.6	228
46	Illinois	9,685	11,252	16.2	1,567	2,575	3,084	19.8	509
47	New Jersey	10,407	11,596	11.4	1,190	3,314	3,680	11.0	366
48	Pennsylvania	10,377	11,818	13.9	1,441	3,452	3,935	14.0	482
49	Vermont	11,279	13,078	16.0	1,800	4,791	5,236	9.3	445
50	New Hampshire	10,369	13,347	28.7	2,978	6,477	7,198	11.1	721

Table A-3. State Higher Ed Affordability, Rankings

Rank	State	Tuition, % of Income, Public 4-Year, 2007-08	Tuition, % of Income, Public 4-Year, 2011-12	Increase in Share, 2008-2012	Tuition, % of Income, Public 2-Year, 2007-08	Tuition, % of Income, Public 2-Year, 2011-12	Increase in Share, 2008-2012
1	Wyoming	5.8%	6.5%	0.7%	3.7%	4.1%	0.3%
2	Alaska	7.2	9.0	1.8	4.4	5.5	1.1
3	Florida	6.4	9.1	2.7	4.0	5.6	1.6
4	Utah	7.3	9.2	1.9	4.5	5.4	0.9
5	Nevada	5.6	9.3	3.7	3.2	5.1	1.9
6	New York	9.3	11.2	1.9	6.3	7.5	1.2
7	Maryland	10.5	11.2	0.8	4.4	4.8	0.3
8	Hawaii	7.1	11.4	4.3	2.4	3.9	1.4
9	North Dakota	13.0	12.2	-0.8	8.2	7.7	-0.5
10	Louisiana	9.0	12.4	3.3	3.9	6.1	2.2
11	New Mexico	9.9	12.7	2.8	3.0	3.3	0.2
12	Idaho	9.5	12.7	3.2	4.6	6.2	1.6
13	Oklahoma	10.8	12.8	2.0	5.7	6.3	0.6
14	Colorado	9.5	12.9	3.3	3.8	6.3	2.5
15	North Carolina	9.6	12.9	3.3	3.1	4.9	1.8
16	Georgia	8.1	13.0	4.9	3.8	5.6	1.8
17	West Virginia	11.9	13.3	1.4	7.4	7.8	0.4
18	Nebraska	11.3	13.6	2.3	4.4	4.9	0.5
19	Kansas	11.1	13.6	2.5	4.2	5.3	1.1
20	Montana	12.8	13.6	0.8	7.1	7.1	0.0
21	Washington	9.6	13.7	4.1	4.9	6.5	1.6
22	Connecticut	11.2	13.8	2.5	4.3	5.3	1.0
23	Texas	11.4	14.3	2.9	3.0	3.6	0.6
24	South Dakota	12.1	14.6	2.5	8.4	10.0	1.6
25	Iowa	13.1	15.2	2.0	6.9	8.1	1.2
	United States	11.8	15.3	3.5	4.1	5.3	1.2
26	Virginia	11.6	15.5	3.9	4.2	6.1	1.8
27	California	8.3	15.6	7.3	1.0	1.7	0.7
28	Mississippi	13.0	15.6	2.6	4.7	6.0	1.2
29	Wisconsin	12.3	15.7	3.4	6.7	7.7	0.9
30	Massachusetts	12.5	15.8	3.3	4.9	6.4	1.5
31	Arkansas	14.5	16.2	1.8	5.1	6.2	1.1
32	Oregon	12.2	16.6	4.3	6.0	7.6	1.6
33	Tennessee	12.7	16.7	4.0	6.3	8.1	1.8
34	New Jersey	14.2	17.0	2.8	4.5	5.5	0.9
35	Minnesota	13.9	17.1	3.2	8.2	9.1	0.9
36	Missouri	14.7	17.1	2.4	5.3	5.7	0.4
37	Indiana	14.2	17.3	3.1	6.1	7.2	1.1

Table A-3: State Higher Ed Affordability, Rankings *Continued*

Rank	State	Tuition, % of Income, Pub- lic 4-Year, 2007-08	Tuition, % of Income, Public 4-Year, 2011-12	Increase in Share, 2008- 2012	Tuition, % of Income, Public 2-Year, 2007-08	Tuition, % of Income, Public 2-Year, 2011-12	Increase in Share, 2008- 2012
38	Delaware	13.9%	18.4%	4.4%	4.5%	5.2%	0.8%
39	Alabama	11.9	18.4	6.5	6.9	9.3	2.5
40	Rhode Island	13.3	18.6	5.3	5.3	6.9	1.6
41	Ohio	17.4	19.2	1.8	6.9	7.3	0.4
42	Arizona	10.0	19.3	9.2	3.0	3.9	0.9
43	Kentucky	15.8	19.4	3.7	6.9	7.9	1.0
44	Maine	16.2	20.3	4.1	7.3	7.4	0.1
45	Illinois	16.5	20.8	4.3	4.4	5.8	1.4
46	New Hampshire	15.6	21.5	6.0	9.7	11.5	1.8
47	Michigan	18.0	22.9	4.9	4.7	5.6	1.0
48	Pennsylvania	19.6	23.6	4.0	6.5	7.8	1.3
49	South Carolina	19.4	24.6	5.2	7.5	8.8	1.3
50	Vermont	20.7	25.2	4.5	8.8	9.9	1.1