

## American Rescue Plan Could Help Prevent State Public Higher Education Cuts

By Victoria Yuen March 10, 2021

Over the past year, 22 states have cut a combined \$1.9 billion in funding for higher education for the fiscal year that ends in June—translating to roughly 3.8 percent of what those states were spending on higher education before the COVID-19 pandemic. To absorb those cuts and other revenue losses, public colleges and universities have already laid off 304,600 workers. Undergraduate enrollment has gone down 4 percent, with community colleges seeing the largest decline at nearly 10 percent. And a number of public colleges have declared a financial state of emergency that allows them to lay off tenured faculty and close academic programs.

Due to a combination of federal relief and emergency state funds, 23 states have avoided higher education cuts in the 2020–2021 fiscal year. (The fiscal year for most states starts on July 1 and ends on June 30.)

President Joe Biden is expected to sign the American Rescue Plan Act (ARPA) passed by Congress—a third relief package responding to the ongoing health and economic crisis that, among other things, provides state, local, and tribal governments with a significant investment of \$350 billion in stimulus funding. While it is crucial that Congress consider longer-term fixes that maintain and increase state investment in public higher education, the funding in the ARPA could go a long way toward limiting additional cuts to higher education—if states use the money wisely. Public colleges and universities are as crucial an underpinning of this nation's economy and opportunity for people to pursue their dreams and support their families. That's why it is imperative that state leaders use the coming infusion of federal dollars to maintain—and ideally improve—their funding for higher education.

Using data on state appropriation cuts for the 2021 fiscal year reported by state newspapers, budget documents, and interviews, and especially a tracking resource maintained by New America and the State Higher Education Executive Officers Association, this issue brief explores how public colleges and universities are faring today—and why the state and local funding in the ARPA will be critical to these institutions' ability to serve students in the years to come.

### The benefits and shortcomings of the COVID-19 relief packages

Prior to the ARPA, Congress passed two rounds of relief with a combined total of almost \$37 billion for public and private higher education, which helped colleges cover a small portion of the costs they have incurred during the crisis. The Coronavirus Aid, Relief, and Economic Security (CARES) Act—the first relief package passed in March 2020—provided \$150 billion to state, territorial, and tribal governments. A tally of spending in 24 states, however, indicates that they put a total of only \$2.2 billion of this funding toward higher education institutions and institutions' reopening costs. 6

The relief package that was passed under the Trump administration in December 2020 did not provide funding to help state and local

governments, meaning that while the package helped institutions in the near term by sending funding directly to schools, it did nothing to protect state funding for higher education.

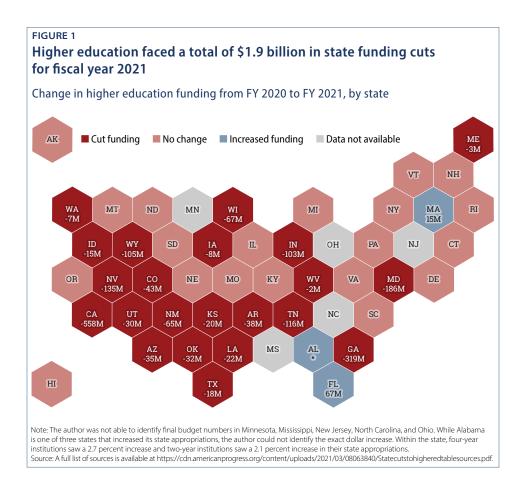
The American Rescue Plan, which President Biden is expected to sign, will provide public higher education with \$40 billion.<sup>7</sup> Additionally, the bill includes \$350 billion for state, local, and tribal governments that will go a long way toward filling state budget shortfalls.<sup>8</sup> Each relief bill Congress has passed includes a "maintenance of effort" clause that requires states to maintain funding for higher education, but the provision can be waived.<sup>9</sup>

## How higher education fared in state budgets for FY 2020–2021

Most states have constitutional or statutory requirements to balance their budget, <sup>10</sup> and the pandemic has led to dramatic revenue losses for many states due to falling sales and property tax revenues. <sup>11</sup> Public higher education accounts for 18 percent of state expenditures—the second-highest expenditure area after public benefits, which include unemployment benefits and food assistance. <sup>12</sup> That—along with the false assumption that colleges can easily make up for budget cuts by raising tuition—has made higher education a frequent target for belt-tightening during economic downturns. <sup>13</sup>

As stated above, 22 states have cut a total of \$1.9 billion to higher education. For comparison, this number is twice the size of Mississippi's state appropriations from FY 2019–2020. <sup>14</sup> Twenty-three states had flat funding or increases, while the final funding figures in five states could not be determined based on a lack of available data. (see Figure 1)

Of the 22 states that cut appropriations for higher education, California made the largest cut at \$558 million<sup>15</sup>—nearly 30 percent of the total \$1.9 billion that states eliminated from their budgets. <sup>16</sup> In February 2021, the state legislature passed and Gov. Gavin Newsom (D) signed a bill restoring the \$558 million for FY 2021–2022, but the cut remains in effect for the current year. <sup>17</sup> In Georgia, institutions faced a 10.8 percent reduction in their FY 2021 budgets, totaling \$318 million in cuts—the second-highest state cut behind California. Maryland had the third-highest funding cut, with the budget stripping \$186 million from higher education. A spokesman from Gov. Larry Hogan's (R) office cited the 11 percent to 14 percent drop in state revenue as a primary driver for these reductions. <sup>18</sup>



As dire as the higher education cuts have been in many states, there were nearly the same number of states—20 total—where public higher education budgets were unscathed. Some states, such as New Hampshire and Hawaii, operate on a two-year budget cycle and passed increases in state appropriations during the 2019–2020 legislative session, before the pandemic hit. Alaska saw a decrease in state appropriations, but that too was determined prior to the pandemic.

Three states—Alabama, Florida, and Massachusetts—increased funding for higher education in the 2020–2021 legislative session. In Massachusetts, the state legislature and Gov. Charlie Baker (R) approved a budget that was higher than the original proposed budget for fiscal year 2020–2021 by tapping into the state's rainy-day fund and utilizing CARES Act funds. <sup>21</sup> Alabama's state legislature and Gov. Kay Ivey (R) originally planned for a larger increase in state funding but scaled it back due to COVID-19-related budget cuts. <sup>22</sup> It is also worth noting, however, that Alabama is one of the worst-ranked states when it comes to per-student funding for higher education, as the state has largely failed to make up for the decreases in spending from the 2008 recession. <sup>23</sup> And Florida funded its higher education institutions at record levels despite losing \$0.5 billion to \$1 billion in revenue due to the pandemic, which Gov. Ron DeSantis' (R) office tied to a desire to keep Florida institutions high on national rankings. <sup>24</sup>

Some states cut higher education appropriations, but less so than they may have otherwise because they drew on federal funding provided through the CARES Act. For example, Louisiana used \$100 million in federal funds to reduce a proposed \$121.7 million in cuts down to \$21.7 million.<sup>25</sup> Similarly, Kansas Gov. Laura Kelly (D) reduced a proposed higher education cut of \$46.2 million to \$19.9 million with CARES Act funding.<sup>26</sup> In Michigan, the state legislature passed an 11 percent funding cut for FY 2020 but used CARES Act dollars to restore the funding, ultimately resulting in a flat budget for FY 2021.<sup>27</sup>

#### How institutions have responded to cuts in state appropriations

As many states have cut their higher education spending, institutions have been forced to make drastic choices to fill their budget shortfalls. Wyoming cut a larger percentage of its higher education budget than any other state, at 15 percent. As a result, in November, the University of Wyoming proposed to combine and eliminate 45 faculty positions, or 6 percent of its faculty. Institutions in Nevada have implemented hiring freezes and furlough days for faculty, as well as student surcharges, as a result of the \$135 million in state appropriation decreases for this academic year. And about 10,000 University of California, Berkeley, employees will see a pay reduction of up to 3.84 percent due to the institution's pandemic-related financial challenges. The university has already implemented a hiring freeze and department budget cuts to try to fill a \$340 million shortfall from the pandemic, \$42 million of which is from the loss in state appropriations.

Public colleges and universities are dealing not only with state appropriation losses but also with enrollment declines, loss of housing and athletic revenue, and increased costs for COVID-19 testing and other campus health measures. Job losses provide perhaps the simplest insight into the substantial impact that all these losses combined will have on public higher education. While job numbers don't translate directly into educational quality, as so many public colleges are already underfunded, it was inevitable that cutbacks on this scale would be damaging. An estimated 13 percent of higher education jobs have been cut across the country, and some institutions have experienced much more dramatic losses. At the pandemic's peak in November, 350,900 public higher education employees lost their jobs nationwide, but there appear to be slow signs of recovery in this sector.<sup>33</sup>

At the City University of New York's John Jay College of Criminal Justice, more than 400 adjunct professors—almost 40 percent of the teaching force—were laid off due to the institution needing to close a budget gap estimated to be from \$21 billion to \$55 billion.<sup>34</sup> The fact that this occurred in a state that did not even cut appropriations this year should be alarming. And at the University of Texas at San Antonio, more than 300 employees were laid off as a result of state appropriation cuts and reduced revenues due to the pandemic.<sup>35</sup>

While, as detailed above, many faculty are experiencing layoffs or pay reductions, *The Washington Post* found that most higher education job losses have affected administrative workers who make about \$40,000 per year, part-time employees, and younger workers ages 18 to 24.<sup>36</sup> Many of these workers are women and people of color,<sup>37</sup> and these losses will ripple through the low- and middle-income communities that colleges aim to serve.<sup>38</sup>

Beyond layoffs, institutions are also making other significant cuts in response to revenue losses. For example, despite an increase in state appropriations for higher education in Florida, some schools are feeling the effects of other financial losses such as the loss in revenue from tuition, athletic programs, and student housing. The University of South Florida is eliminating all undergraduate education programs and closing the university's College of Education due to a potential 8.5 percent reduction in state funding for the next two fiscal years, as well as broader budget challenges.<sup>39</sup> At the University of Michigan-Ann Arbor, officials halted construction on a new hospital in May 2020.<sup>40</sup> And due to budget constraints from the pandemic, administrators at many public research universities including the University of Arizona and the University of Pittsburgh have suspended graduate school admissions for some of their academic programs—largely in the humanities and social sciences—for this academic year.<sup>41</sup>

# Why federal funding for states is important to next year's higher education budgets

Without additional aid to states from the federal government, estimates have suggested that states face a \$290 billion budget shortfall for FY 2021, the current fiscal year ending in June, and an additional loss of \$155 billion for FY 2022. While Florida increased planning for additional higher education cuts in FY 2022. While Florida increased its funding for postsecondary education this year, members of the Florida Board of Education are considering raising tuition at both two- and four-year institutions in order to cover expected cuts to higher education funding. Similarly, in Hawaii, Gov. David Ige (D) proposed a \$70 million cut in state funding for higher education for the FY 2022 and 2023 budgets. In Kansas, in response to Gov. Kelly's proposal for a \$37 million cut in higher education funding and other budget issues, the Board of Regents approved a temporary measure to allow administrators to fire tenured faculty.

But now that the ARPA has passed, there is hope that further damage can be avoided—unlike what happened in the wake of the Great Recession, when state budget cuts to higher education worsened over the course of several years and in many states never returned to pre-recession levels. From 2008 to 2012, states cut about \$33 billion from higher education. Although state appropriations have increased from 2012 to 2019, collectively states have only recovered two-thirds of what they received in state appropriations prior to the Great Recession. In 2019, only seven states had returned to their pre-recession funding levels.

As a result of this disinvestment, many public institutions shifted much of the cost of education onto students and their families. From 2008 to 2018, the net price of tuition at public four-year universities—after accounting for grants and scholarships—increased by 24 percent, or roughly \$2,920 in today's dollars, according to the Center on Budget and Policy Priorities. <sup>49</sup> Allowing history to repeat itself—while starting from an even lower baseline of state support for higher education—will have serious consequences for future students.

#### Conclusion

While it's been a tough year for state budgets and higher education, state and local aid provided in the American Rescue Plan Act will help limit the already-damaging cuts to state appropriations thus far. It remains to be seen how states will use funding to stave off or minimize future cuts to higher education or how state budgets will fare over the long run. States should use their funding, in part, to maintain their investments in their public higher education budgets, especially at the community college level. However, the impact from the pandemic could be long-lasting. Congress should consider additional ways to reinvest in America's future through a commitment to making college affordable, as well as through long-term investment that mitigates the boom-and-bust cycle of state budgets.<sup>50</sup>

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