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## Panel: Federal and State Funding - Shifting Patterns and Changing Strategies

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## The Death Spiral in Public Higher Education

Rising tuition, decreased state funding, and financial pressures are leading to a “death spiral” for public higher education, according to University of Illinois professor Christopher Higgens. In a lecture at Eastern Illinois University earlier this year, Higgens said many taxpayers view higher education as a means to obtain credentials for the job market and view students as interested in the private gain of potential salary. These taxpayers, unfortunately, reject the view of education as a public good.

In Illinois, state funding support for higher education has been declining since 2002; there is no sign that this decline will be reversed. The current governor, Bruce Rauner, has essentially cut state support for colleges and universities 100 percent. He favors privatization of education and apparently doesn't care if the public higher education fails. The current budget stalemate between Governor Rauner and House Speaker Michael Madigan shows no sign of resolution.

The lack of state funding has impacted the following Illinois community colleges and universities:

- Chicago State University – CSU administration ordered all employees and students to turn in keys by Monday, April 4, 2016 because CSU had not received state money for 10 months. In fall 2016, only 86 freshmen enrolled. There was a total student enrollment of 3,578 compared to 7,362 in 2010 —a trend that cannot be maintained. This enrollment drop is the highest of the 12 public universities in Illinois.
- John A Logan, Carterville – The board will terminate 55 employees including 38% of the full-time faculty. The college is \$7 million in a budget hole. The board will possibly cut \$300,000 from the athletic department.
- Heartland Community College, Normal – Heartland proposes to cut 23 positions although several of the positions involve early retirement. Tuition increases are part of the plan. No changes in athletics are planned.
- Northeastern Illinois University, Chicago – Last summer 60 employees were laid off. Hundreds of current employees, including faculty, staff, and administrators, are taking furlough days resulting in a \$205 per person cut to individual paychecks. The university has used its reserves to pay the \$6.5 million in Monetary Assistance Program grants to students that the state has failed to fund.
- Eastern Illinois University, Charleston – The faculty union, an Illinois Federation of Teachers affiliate, has voted to accept a salary deferral plan. The plan reduces base salary 2.5% for those that earn \$50,000 or less, 5% for those with salaries of \$50,001 - \$75,000, 6.5% reduction for those with salaries of \$75,001 to \$100,000, and 7.5% reduction for those with salaries of \$100,001 or more. If state funding does come in, every dollar that Eastern receives will go to repay the deferrals. If Eastern gets no funding in FY 2016 and FY 2017, there will be no payback.

Things are not looking better for EIU since their fall 2016 enrollment dropped by 14%.

- Harper College, Palatine – The administration has notified 20 full-time employees that they will be out of a job as of June 30, 2017. These layoffs will save the college \$3.5 million. Harper expects to save an additional \$1.5 million by reducing travel, supplies, and spending on printing. Illinois owes Harper \$8 million plus \$1.5 million in Monetary Awards Program grants.
- College of Lake County, Greyslake – The administration announced that 20 staff positions will be eliminated. President Jerry Weber said “if the budget impasse continues, as many as 40 jobs will be cut.” The cuts are an effort to make up for \$8 million in funds College of Lake County did not receive from the state.

- Blackhawk College, Moline – The board was told that Moody’s Investor Service has lowered the college’s bond rating one step. Three important factors in the lower rating were 1) declining enrollment, 2) not receiving state aid since last June, and 3) the possibility of the state transferring its pension liability to colleges and universities. Blackhawk has a debt level of \$29.4 million.
- Southern Illinois University – On October 17, 2016, SIU President Randy Dunn stated that in the current era of retrenchment the university will focus on reducing administrators, increasing grassroots political advocacy and closing the expense gaps in some programs that are not self-sustaining. Dunn calls this “reshaping the state-university covenant.”
- University of Illinois – U of I had a stopgap budget for the 2016 fall semester, but it fell short by about \$750 million. On November 2, 2016, U of I President Timothy Killeen announced a five-year funding plan to be presented as legislation to the Illinois General Assembly. Although the bill has not yet been introduced, it is expected to include performance metrics in exchange for full state funding. As part of the performance metrics, the university is expected to agree to an annual report card on graduation rates, student retention, financial aid and other data. Currently, the U of I has a salary freeze for about 12,000 faculty and 2,800 civil service employees. Despite the budget challenges, the university had a record fall enrollment of 77,073 students for its three campuses at Urbana, Chicago and Springfield.

It remains to be seen whether performance-based funding as proposed by the U of I will be seen as a model for adequate state funding for other public colleges and universities. If the U of I plan is accepted by the state legislature, this approach could set a possible trend for the General Assembly to determine curriculum and other components of the higher education mission. Politicians might be making educational decisions normally made by faculty and educational professionals.

The Illinois General Fund and Higher Education

The annual budget request for higher education is submitted to Illinois General Assembly by the Illinois Board of Higher Education, which contains funding requests from the public universities and public community colleges. The general assembly makes recommendations and the budget is sent to the Governor for potential modification and approval.

As indicated in Figure 1, funding for higher education has declined for the last decade. In Figure 2 higher education has the least priority compared to other service areas. Since FY 2002 until FY 2015 higher education has been cut by 41 percent or \$1.39 billion.

Figure 1

| <b>IBHE General Fund Budget Recommendations versus Enacted General Fund Appropriations FY2008-FY2017 (\$ Millions)</b> |                             |                               |                      |
|--|-----------------------------|-------------------------------|----------------------|
| <b>Fiscal Year</b>   | <b>IBHE Recommendations</b> | <b>Enacted Appropriations</b> | <b>\$ Difference</b> |
| 2008   | \$2,534                     | \$2,216                       | -\$319               |
| 2009   | \$2,391                     | \$2,211                       | -\$179               |
| 2010   | \$2,233                     | \$2,220                       | -\$13                |
| 2011   | \$2,207                     | \$2,124                       | -\$83                |
| 2012   | \$2,215                     | \$2,108                       | -\$17                |
| 2013   | \$2,108                     | \$1,980                       | -\$128               |
| 2014   | \$2,149                     | \$1,991                       | -\$157               |
| 2015   | \$2,117                     | \$1,948                       | -\$169               |
| 2016   | \$2,048                     | \$755                         | -\$1,293             |
| 2017   | \$2,050                     | \$843                         | -\$1,207             |

Source: Illinois Board of Higher Education. Fiscal Year 2017 Higher Education Budget Recommendations

The FY 2016 Higher Education Disaster

Due to a standoff between Governor Rauner and House Speaker Michael Madigan there is no General Fund budget for the year. Among other issues that the Democrats opposed was the Republican Governor’s attempt to make Illinois a right-to-work state. Two-thirds of the FY 2016 General Fund spending on services was by court order or consent decree as shown in Figure 3 Early Childhood Education received a 7.5 percent increase and K-12 Education received 1.1 percent cut. Higher Education received 67.8 percent cut which amounted to \$1.323 billion.

Figure 2

| <b>FY2016 Maximum Authorized General Fund Spending Compared to FY2015 Enacted Budget (\$ Millions)</b> |                              |   |                                   |                                  |
|--|------------------------------|---|-----------------------------------|----------------------------------|
| <b>Category</b>  | <b>FY2015 Enacted Budget</b> | <b>FY2016 Maximum Authorized Spending</b> | <b>Year-to-Year Difference \$</b> | <b>Year-to-Year Difference %</b> |
| Early Childhood Education  | \$293.00                     | \$315.00                                  | \$22.00                           | 7.50%                            |
| K-12 Education   | \$6,262.00                   | \$6,193.00                                | -\$69.00                          | -1.10%                           |
| Higher Education   | \$1,950.00                   | \$627.00                                  | -\$1,323.00                       | -67.80%                          |

Source: General Fund appropriations for FY2015 are from CTBA analysis of GOMB "FY2017 Operating Budget Detail."

Illinois now joins none other states (Alabama, Arizona, Idaho, Kentucky, Louisiana, New Hampshire, Pennsylvania, and South Carolina) that has cut per-student Higher Education funding by at least 30 percent since the start of the Great Recession.

## FY 2017 “Stop-Gap” Funding

The Illinois General Assembly passed a bill that provided some relief for Higher Education which Governor Rauner signed into law. This “stop-gap” General Fund budget for FY17 appropriated \$700 million to Higher Education for the year. This represents a \$73 million increase over FY2016 levels, it still remains \$1.25 billion or 64 percent less than FY2015.

Figure 3

| <b>Enacted General Fund Appropriations for Public Universities in FY2017 Compared to FY2015, Nominal Dollars</b> |                        |  |                                    |                                   |
|--|------------------------|--|------------------------------------|-----------------------------------|
| <b>Public Universities</b>   | <b>FY2015 Enacted</b>  | <b>PA 99-524 (SB2047)<br/>Enacted and Stop Gap<br/>Budget FY2017</b> | <b>Nominal<br/>Difference (\$)</b> | <b>Nominal<br/>Difference (%)</b> |
| Chicago State University   | \$36,330,500           | \$12,590,000   | -\$23,740,500                      | -65.30%                           |
| Illinois State University  | \$72,226,700           | \$38,291,000   | -\$33,935,700                      | -47.00%                           |
| Eastern Illinois University  | \$42,975,700           | \$26,222,000   | -\$16,753,700                      | -39.00%                           |
| Governors State University   | \$24,062,100           | \$12,757,000   | -\$11,304,100                      | -47.00%                           |
| Northeastern Illinois University   | \$36,898,800           | \$19,562,000   | -\$17,336,800                      | -47.00%                           |
| Northern Illinois University   | \$92,946,900           | \$48,293,000   | -\$44,653,900                      | -48.00%                           |
| University of Illinois   | \$647,186,400          | \$349,204,700  | -\$297,981,700                     | -46.00%                           |
| Southern Illinois University   | \$199,558,500          | \$106,156,000  | -\$93,402,500                      | -47.00%                           |
| Western Illinois University  | \$51,445,200           | \$31,389,000   | -\$20,056,200                      | -39.00%                           |
| <b>TOTAL</b>   | <b>\$1,203,630,800</b> | <b>\$644,464,700</b>   | <b>-\$559,166,100</b>              | <b>-46.50%</b>                    |

Source: CTBA analysis, IBHE data and PA99-524.

Figure 3 compares FY 2017 General Fund appropriations to each of Illinois twelve public universities to FY 2015. Chicago State University had the largest nominal difference percentage cut at 65.3 percent. Eastern Illinois University and Western Illinois University had the smallest nominal differences at 39 percent. Both Eastern Illinois University and Western Illinois University are located in downstate rural areas. “Stop Gap” funding went to a select group of public community colleges, also located in downstate rural areas.

Compared to FY 2000 to FY 2017 the General Fund Appropriation to Higher Education has decreased by 79.3 percent.

Figure 4

| <b>Enacted General Fund Appropriations for Higher Education in FY2000 Compared to FY2017, Nominal Dollars (\$ Millions)</b> |                              |                              |   |                      |                     |
|---|------------------------------|------------------------------|---|----------------------|---------------------|
| <b>Category</b>   | <b>FY 2000<br/>(Nominal)</b> | <b>FY 2017<br/>(Nominal)</b> | <b>FY 2000 Adj.<br/>for Inflation)<br/>to FY 2017</b> | <b>\$ Difference</b> | <b>% Difference</b> |
| Higher Education  | \$2.15                       | \$0.70                       | \$3.38  | -\$2.68              | -79.30%             |

Source: CTBA analysis of Commission on Government Forecasting and Accountability data.

The Illinois Structural Deficit

There is no bases to believe that Illinois will have the financial ability to increase Higher Education funding in the immediate future. The structural deficit which means that adjusting for inflation and population growth, and assuming a normal economy and no changes in state law, year-to-year growth in Illinois' General Fund revenue will not be able to maintain the level of spending on core services that was made in the FY 2015, the last year that Illinois had a final comprehensive General Fund Budget.

Due to the state's structural deficit, between 2008 and 2015, Illinois has cut per-student Higher Education funding by a greater percentage than any of the other 15 largest states, with the exception of Arizona. As shown in Figure 5, Illinois per-student spending was cut by 54 percent between 2008 and 2015.

Figure 5

| <b>Change in Per-Student Funding of Higher Education in the 15 largest States 2008-2015</b> |  |
|---|--|
| <b>States</b>   | <b>Change in Per-Student Funding (%)</b> |
| California  | -3%                                      |
| Indiana   | -6%                                      |
| New York  | -6%                                      |
| Ohio  | -15%                                     |
| Texas   | -17%                                     |
| North Carolina  | -20%                                     |
| Georgia   | -20%                                     |
| Washington  | -20%                                     |
| Michigan  | -21%                                     |
| Virginia  | -22%                                     |
| New Jersey  | -23%                                     |
| Florida   | -23%                                     |
| Pennsylvania  | -33%                                     |
| Illinois  | -54%                                     |
| Arizona   | -56%                                     |

Source: Michael Mitchell, Michael Leachman, and Kathleen Masterson, "Funding Down, Tuition Up State Cuts to Higher Education Threaten Quality and Affordability at Public Colleges," *Center on Budget and Policy Priorities*.

## Why Illinois Should Support Higher Education

Illinois Higher Education has historically been included within one of the four core policy areas— education (early childhood, K-12 and Higher Education), healthcare, human services, and public safety. These core areas account for over 90 percent of the annual General Fund spending on current services. Higher Education funding has always been a legitimate priority, it makes more sense now than ever, given the strong correlation between post-secondary education attainment and economic viability.

Since 1980, the only workers in America generally and Illinois specifically who have seen their incomes grow at a rate greater than inflation are those with a college degree. There is also a statistically significant correlation between educational attainment and unemployment rate. As educational attainment increases unemployment rate decreases.

Figure 6

| <b>2014 Profile of University Dependence on State Funding</b> |                                       |                                       |  |                                      |
|---|---------------------------------------|---------------------------------------|--|--------------------------------------|
| <b>University</b>   | <b>% of Budget from State Funding</b> | <b>% of Outstanding State Funding</b> | <b>% of Out-of-State or International Students</b> | <b>Size of Endowment per Student</b> |
| Governors State University                                    | 26%                                   | 15%                                   | 0%   | \$410                                |
| Northeastern Illinois University                              | 25%                                   | 18%                                   | 1%   | \$1,035                              |
| Chicago State University                                      | 32%                                   | 18%                                   | 16%  | \$1,151                              |
| Northern Illinois University                                  | 20%                                   | 14%                                   | 5%   | \$4,086                              |
| Western Illinois University                                   | 22%                                   | 16%                                   | 6%   | \$4,127                              |
| Illinois State University                                     | 18%                                   | 13%                                   | 4%   | \$4,650                              |
| Eastern Illinois University                                   | 24%                                   | 17%                                   | 8%   | \$4,993                              |
| Southern Illinois University                                  | 22%                                   | 16%                                   | 19%  | \$7,506                              |
| University of Illinois  | 15%                                   | 11%                                   | 20%  | \$26,025                             |

Source: Michael Mitchell, Michael Leachman, and Kathleen Masterson, "Funding Down, Tuition Up State Cuts to Higher Education Threaten Quality and Affordability at Public Colleges," *Center on Budget and Policy Priorities*.

Between 1979 and 2012, those states that realized the greatest increases in productivity also had the largest share of adults with a college degree. Also, the states with the best high school and college completion rates had the highest per capita incomes.

The value of completing a college degree from a workers perspective almost doubled over the last thirty years. In 1979, college graduates earned 23.5 percent more than workers with a high school diploma. By 2011, the earnings gap had grown to 46.9 percent.

Diminished Support for Higher Education

According to a recent report by the Center on Budget Priorities, in 2015 state and local funding accounted for 54 percent of resources public institutions utilized for instruction. From 1960 through 1990, state funding made up between 30-40 percent of the University of Illinois have greatly diminished this support. As shown in Figure 6, only 15 percent of the University of Illinois current revenue comes from the state.

Figure 7

| <b>General Fund Appropriations for Higher Education (excluding Universities) in FY2016 Compared to FY2015, Nominal Dollars (\$ Thousands)</b> |                       |                                       |                                |                               |
|---|-----------------------|---------------------------------------|--------------------------------|-------------------------------|
|   | <b>FY2015 Enacted</b> | <b>FY2016 Enacted &amp; Autopilot</b> | <b>Nominal Difference (\$)</b> | <b>Nominal Difference (%)</b> |
| Universities  | \$121,777             | \$350,059                             | -\$851,718                     | -71%                          |
| Board of Higher Education   | \$3,059               | \$500                                 | -\$2,559                       | -84%                          |
| IBHA Institutional Grants   | \$7,744               | -                                     | -\$7,744                       | -100%                         |
| Community College Board   | \$285,942             | \$74,142                              | -\$211,799                     | -78%                          |
| Illinois Mathematics & Science Academy  | \$18,031              | \$6,000                               | -\$12,031                      | -67%                          |
| Illinois Student Assistance Commission  | \$376,673             | \$324,561                             | -\$52,112                      | -14%                          |
| Monetary Award Program  | \$364,856             | \$320,799                             | -\$44,058                      | -12%                          |
| State Universities Civil Service System   | \$1,176               | \$75                                  | -\$1,101                       | -94%                          |

Source: Illinois Board of Higher Education. (2016) Fiscal Year 2017 Higher Education Budget Recommendations.

Figure 7 shows, in FY 2016 every area of Higher Education was cut significantly from FY 2015 levels. These cuts of this magnitude cannot be absorbed by the public community colleges (78 percent) and public universities (71 percent). This has resulted in elimination or reduction in student scholarships, reduction in course offerings, elimination of programs, terminations of faculty and staff, and failure to recruit and retain highly qualified personnel.

Richard Helldobler, the Interim President of Northeastern Illinois University in Chicago told the Chicago Tribune in January of 2016 that, if the state funding for the university does not improve, “there is potential for NE to shut down.” This may also be the case for some for the smaller downstate community colleges. For example, the headcount decrease in student enrollment between the Fall of 2012 to 2016 was 40.5 percent for John A Logan, 35.5 percent for Danville, 34.8 percent for Rend Lake, 28.2 percent for Kaskaskia, 25.1 percent for Lakeland and 20.3 percent for Southwestern. According to the Illinois Community College Board 37 of the 48 community colleges. In the Fall of 2016 showed enrollment decline.

### Economic Impact of the Lack of Higher Education Funding

What is the economic impact of Higher Education in Illinois, and the various regions in the state? Economists generally attempt to measure the impact by using economic multipliers. Economic multipliers measure the economic change that occurs when spending by government, various organizations, businesses or institutions. The impact is based on whether spending increases or decreases.

A recent study by Diego Mendez-Carbago, an economics professor at Illinois Wesleyan University in Bloomington, Illinois, examined the economics of universities. He used McLean County—where both Illinois State University (ISU) and Illinois Wesleyan are located, as a basis for his study. He found that the economic multiplier for Higher Education in the region was 1.3565. For every dollar of economic activity generated by the universities, McLean County received \$1.36 in private sector economic activity. Other studies show similar effect. In fact, for the state of Illinois the multiplier was 2.286.