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**A Case Study on Illinois Regional Public Universities
and the 2015-2017 Budget Impasse**

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ABSTRACT

This study explores the lived experiences of administrators who led their institutions through the two-year Illinois budget impasse. This study also reviewed archival evidence of measures taken by public regional universities in Illinois to mitigate the loss of state appropriations. Previous research has shown that the business model of public higher education in the United States is undergoing disruption. Changing demographics, enrollment concerns, and rising tuition were just some of these issues pressuring public institutions of higher education. The temporary loss of state appropriations exacerbated these issues and had long-lasting effects even after the Illinois budget impasse ended. In order to understand the Illinois budget impasse and its affects on regional public universities in Illinois, four administrators from two public universities in Illinois were interviewed, two from each university. In addition, archival documents including Board of Trustee meeting minutes and student publications were researched in order to supplement information shared during the interviews. The study reveals that the loss of state appropriations for public universities forced them to use reserve funds to cover costs, reduce spending, downsize personnel, and adopt cultures of austerity that continue even after state appropriations are made available again.

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CHAPTER 1

Introduction

The higher education business model is under significant stress, particularly those institutions of higher education that rely on state funding (Toner, 2015). The reasons for these stressors are many and varied. Universities and colleges rely on multiple revenue streams to operate, including tuition, donations, auxiliary revenue, and most importantly for public universities, state funding (AAU, 2021). In recent decades funding from state governments has declined in real dollars. Through this period, public colleges and universities endeavored to offset declining appropriations by increasing revenue through enrollment growth and tuition increases. This strategy is difficult to sustain as American universities forecast a sharp decline in the number of high-school age graduates expected in 2026 and beyond (Grawe, 2018). This demographic shift will present a new challenge that higher education institutions will have to address in order to protect these revenue streams. But cutbacks in state funding hamper the ability of universities to adequately address this challenge. This is especially significant for public universities, the focus of this study, which make up 50% of nonprofit colleges in the United States (Education Unlimited, 2015). Public universities receive anywhere from 30% to 50% of their annual operating costs from state appropriations and the loss of any state funding would cut revenue by similar proportions (Pew, 2019). The current trend of declining funding has led some to predict that state fiscal support could completely disappear by 2059 (Mortenson, 2012). Stable funding for public universities is crucial to their operations as well as their ability to address the decline in enrollment and other market disruptions (Carey, 2020).

Harvard was the first institution of higher education founded in the United States (Hudson, 1939). Over the next four centuries higher education in the U.S evolved with regard to both its role in society and the manner in which it operates. The colonial colleges of the 1700's were the first to emerge, followed by state chartered colleges during the 1800's, followed by public universities in their current iteration formed in the late-19th century and throughout the 20th century (Thelin, J. R., et al., 2022). Since the 2008 recession, however, state funding for public universities across the country has fallen sharply from previous decades (Murakami, 2020) and signals a new era in the history of public higher education. Between 2008 and 2018, state appropriations for public universities on the whole declined by \$6 billion (Mitchell et al., 2019). During the same period the Higher Education Price Index, the primary measure of inflation in the cost to deliver post-secondary education, rose by 29% (Common Fund, 2018). In addition, states are now spending less per student, resulting in reductions in a variety of student services and the elimination of key faculty positions (Mitchell et al., 2019).

These state funding issues have been offset to some degree by an increase in federal funding, however, there is a distinct difference between state and federal funding. Whereas state funding is largely appropriated for operational costs of public colleges and universities, federal funding underwrites specific research and provides financial assistance to individual students through such grants as the Pell Grant (Pew Charitable Trusts, 2015). When state funding fails to keep up with operating costs and inflation, institutions of higher education are forced to look elsewhere to make up for the lost revenue. One strategy is to raise tuition (Kerkvliet & Nowell, 2014). Growing tuition rates among public universities, having increased 13% between 2010 and 2020 (NCES,

2019) have forced some students to consider avoiding college altogether. Higher education institutions that try to discount their tuition, sometimes 50% or more, handicap their own revenue growth while failing to address the very causes for the tuition increase in the first place (Pavlov & Katsamakos, 2020).

In fiscal years 2016 and 2017, the state of Illinois experienced an unprecedented two-year budget impasse (State of Illinois Comptroller, 2021). Budget appropriations in the state of Illinois require the approval of both the General Assembly and the Governor. In 2015 a political stalemate emerged between the General Assembly and the Governor, resulting in a lack of an appropriated state budget, structural spending problems, extensive borrowing, budgetary loopholes that prevented balanced spending, and stagnant revenue (Dabrowski, 2020). Many of Illinois's institutions of higher education were negatively impacted during the impasse, particularly regional state universities. Schools such as Western Illinois University and Southern Illinois University Carbondale were on the brink of closure and continue to struggle with staying open in 2020 (Dabrowski, 2020). In addition, five state universities, Northern Illinois University, Eastern Illinois University, Southern Illinois University, Governors State University, and Northeastern State University were downgraded to a 'junk' credit rating by credit agencies, increasing the cost these institutions paid to borrow money (Dabrowski, 2017). Although the state of Illinois has consistently passed annual budgets in the years since the impasse, appropriations for public universities in Illinois are not expected to recover to pre-impasse levels in the next decade. Beyond the state of Illinois, some have predicted that closures for institutes of higher education will triple over the coming years and mergers will double (Woodhouse, 2015). This is similar to Frey's prediction that half of all

colleges would close by 2030 (Frey, 2013). The state of public higher education in the United States is fast approaching a funding crisis and may in fact already be there. If this funding crisis goes unaddressed, public universities will face challenging financial pressures in the coming decades due to stagnant state funding. This is in addition to demographic pressures on enrollment (Grawe, N., 2018).

Purpose of Study

The purpose of the study is to examine how two public universities in Illinois managed the financial challenges that emerged during an unprecedented interruption of state appropriations and to discuss implications for future practices.

Research Question

This study focused on the following three research questions regarding the Illinois state budget impasse:

1. How did two regional public universities in Illinois adapt to reduced funding during the Illinois budget impasse?
2. How are these universities planning to operate with reduced appropriated funds in current and future years?
3. What future do administrators and policy makers envision for the higher education business model?

Significance of the Study

Regional public institutes of higher education are key drivers of access and economic development and represent one of the United States last great exports (Startz, D., 2017). Universities and colleges have still not fully recovered from the 2008 recession (Whitford, 2020), and have struggled with staying open in the face of shrinking state

appropriations and reduced enrollment (Marcus, 2019). With the collapse and closure of additional higher education institutions, systematic planning and response to fiscal pressure is needed in order to avert a future where higher education in the United States and the export service is represents is compromised. This study aims to identify how administrators and leaders within the field respond to significant financial crisis, and how to ensure that higher education not only survives but preserves the ability to addresses other financial challenges in the industry.

Some have predicted a consolidation of universities and colleges into a number of exclusive institutions and university systems (Horn, 2018). However, a diverse and competitive higher education market will offer students a variety of choices in regard to their post-secondary education and ensure greater accessibility. Administrators can take note of what leaders at public universities in Illinois, a state beset by budget woes, have been doing to offset the cuts in revenue that they have experienced (PBS, 2017) and avoid mass consolidation into wealthier university systems.

Limitations, Delimitations, and Assumptions

Several potential limitations for this study have been identified. First, as an intrinsic case study, some of the data will be drawn from semi-structured interviews with individuals who served as administrative employees at regional public universities in Illinois. The data from these interviews is by definition subjective. Accuracy of data from the interviews and its analysis required a level of transparency and accountability on the part of the research participants, of which the discussion of finances may obstruct. The interview was supplemented by primary and secondary source for financial data, but the richness of the subjective interview data added depth to the understanding of these cases.

In the case of the qualitative interviews, the researcher is a graduate student which may have affected the study. Rather than approaching administrators in a consulting or certified researcher capacity, the researcher approached them as a student. As a result, there may have been hesitancy from the participants to be fully candid in their responses. However, thanks to faculty advisors and the relationship state schools have with each other, it is hoped that peer collegiality will have overcome this difference. Some of the data that will be collected is publicly available through various sources.

In regard to delimitations, this study excluded regional public universities outside of Illinois in order to focus on regional public universities that had already faced a period of reduced state funding in the recent past. Regional state universities were chosen because they are particularly dependent on state appropriations with limited cash reserves. Although there are more institutions in Illinois than the two selected, the two regional public universities featured in this case study have relatively similar enrollments and budget sizes.

Definitions of Terms

Below are a series of terms with definitions as they are used in the study.

Illinois budget impasse- A roughly two-year period in which public universities in Illinois received little or no appropriated funding from the state due to legislative deadlock.

Public university- A four-year higher education institution that receives the majority of its funding from state government or is partially owned by state governments.

Summary

In fiscal year 2015 and 2016, Illinois institutions of higher education experienced an unprecedented interruption in state appropriations. This was concurrent with a downward trend in enrollment and other disruptive factors. The researcher aimed to investigate the two-year period of the budget impasse and described their responses by two regional universities in Illinois. This chapter provided the purpose and significance of the study as well as the research questions that will guide the research.

CHAPTER 2

Review of the Literature

Public universities' state subsidies are dependent on the financial health of the state they operate in, and any funding cuts prevent public higher education institutions from adequately addressing declining enrollment and any other market disruptors such as fallout from the COVID-19 pandemic (Butrymowicz et al., 2020). This literature review aims to analyze the current fiscal state of colleges and universities, and the causes of their decline in revenue, as well as explore possible solutions for long-term operation and growth. To this end, several studies and articles have been gathered below to analyze data and opinions on the past, present, and future of the higher education business model.

The State of Higher Education

The traditional business model of public higher education relies on several sources of revenue, including state and federal appropriations, tuition, and alumni donations (Kronk, 2018). As they are public universities, they are required by law to use revenue to reinvest into their educational mission, rather than pay off shareholders or executive management as they might if they were for a for-profit college. (TBS, 2019). In the last thirty years however, state appropriations, which constitutes the largest funding by a government entity, has fallen sharply (Berman, 2017). Many institutions of higher education have offset this lost revenue by raising tuition and pushing the cost onto the students, thereby making higher education less accessible for those students who can least afford the increases (Dickler, 2016).

But high tuition is not the only factor putting pressure on enrollment.

Demographic changes and declining birthrates can also play a role (Grawe, 2018). The

year 2009 represented the largest high school graduation numbers in U.S history, with 89% of 18-24-year-olds holding a high school diploma or equivalent (Chapman et al., 2011). Demographics and birthrates, in combination with high school graduation rates, have continued to fuel rising enrollment in higher education, although this trend is predicted to peak around 2025 and then decline (Seltzer, 2020). Furthermore, enrollment for traditional students is decreasing throughout American universities, while non-traditional student enrollment has increased (Pavlov & Katsamakos, 2020). Although there is some debate as to whether the two groups offset each other, there can be no doubt that universities can no longer rely on high school graduates to fill their ranks (Grawe, 2018). This in turn forces universities and colleges to rethink their marketing and recruitment strategies. In some worst-case scenarios, student enrollment may fall to such a level that neither raising tuition nor large-scale investment in courses and facilities will make up the deficit (Pavlov & Katsamakos, 2020).

Special note must also be made of the impact of COVID-19 on universities and colleges. College enrollment fell by 25% during the pandemic, a devastating number for both higher education institutions and students who might not get the opportunity to go back (Dickler, 2021). Community colleges bore the brunt of the decline, though public universities weren't immune (Dickler, 2021). There is also the worry that these numbers will not recover after the effects of the pandemic have waned. In Texas in 2020, the number of FAFSA applications from high school seniors declined, and school counselors were unable to connect with students virtually in the same way they were able to with in-person meetings before COVID (McGee, 2020). Furthermore, administrators in Texas worry that the student population most affected by pandemic disruptions are

underrepresented students, such as Black, Hispanic, and low-income students (McGee 2020). If these trends hold both within Texas and beyond, enrollment numbers could continue to decline not only because of birthrate decline, but also due to the continued fallout from the COVID-19 pandemic.

Additionally, colleges and universities are struggling to keep up with technological advances that higher education is expected to incorporate into their curriculum going forward. According to Bezuidenhout (2015), rapidly expanding distance learning courses will place additional strains on students, faculty, and staff. This is compounded by the effects of COVID-19 on higher education and the transition to remote instruction (Lassoued et al., 2020). Weissman (2020) suggests the shift towards online courses at larger schools could contribute to or accelerate the closing of smaller campuses. There is also the stress and workload placed on faculty and staff to be sufficiently trained in emerging technology (Bezuidenhout, 2015).

Rising tuition rates and operational costs combined with declining government funding and declining enrollment are forcing many higher education institutions to change how they function (Toner, 2015). For these reasons and more, some have predicted that over 50% of colleges and universities are predicted to close by 2030 (Frey, 2013).

Follow the Money

When looking critically at rising tuition and falling funding, underlying questions must be addressed. Why are state governments reducing their support from higher education? How can institutions justify the cost of a degree? Which programs are viable

for expansion, and which are no longer relevant? These questions point to a larger question of what a society values and why.

Dougherty et al., (2013) stated that reductions in funding for institutions of higher education on the state level can partially be attributed to politics. Austerity measures, concerns about taxation levels, and a backlash against the perceived liberalism of higher education had motivated some conservative lawmakers to challenge expenditures for public universities. And if this withdrawal of support continues into a trend of state governments valuing cost-cutting measures over investment in institutions of higher education, then it follows that higher education will continue to suffer. The answer to this trend is to identify common ground between both sides of the political spectrum and redefine why universities and colleges exist (Dougherty et al., 2013). By moving toward common ground, higher education will be able to survive and thrive regardless of who holds office, as both parties will find value in the institutions. However, by building university budgets to withstand periods of limited state funding, administrators can better navigate a future in which traditional revenue streams are less reliable.

In regard to the cost of a degree, the price tag is justified by operational costs which include payroll, facilities, and the academic programs themselves (Pavlov & Katsamakos, 2020). This is in addition to the rising demand for degrees in the market (Morgan, 2021). Although the temptation to cut costs in those operational areas may be present, studies have shown that dramatic cuts are short-term solutions that hamper long-term growth and sustainability (Pavlov & Katsamakos, 2020). Therefore, if state funding is in decline and unreliable, and cutting costs handicaps growth, new avenues of revenue must be developed. It should be noted that simply relying on the student loan market is

dangerous, as not only is there a rising consumer backlash, but defaults and high debt are destabilizing other industries due to the lack of consumer purchasing power (Orsolini, 2020).

Tuition Breakdown

Although there is little surprise that rising tuition can suppress enrollment, a closer examination needs to be taken in order to fully understand the cost students are shouldering, and therefore why some are avoiding college altogether (Hemelt et al., 2011). Although public universities only increased their average tuition by 1% between 2019 and 2020 (College Board, 2020), likely in response to the global pandemic, over the last three decades the growth in public university average tuition price has outstripped inflation and even tuition increases at private universities (see Table 1) (College Board, 2021).

Table 1: Tuition Price Changes, 1991-92 to 2021-22

Institution Type	Avg Tuition 1991-92 AY	Avg Tuition 2021-22 AY	30 Year Change
4-Year Public University	\$4,160	\$10,740	158%
Private University	\$19,360	\$38,070	97%
Consumer Price Index (CPI)	AUG 1991 136.600	AUG 2021 273.092	99%

Interestingly enough, tuition levels are not just affecting perspective students, but graduates as well, with the high cost of attending college having an adverse effect on alumni donations (Ulbrich et al., 2017). 40% of college graduates are paying off student loans, and therefore do not have the financial resources to give back to their institution

nor spend money on other discretionary items (Ulbrich et al., 2017). In this way we see that rising tuition costs can have a tangible adverse effect on the long-term sustainability and growth of higher education institutions.

A Closer Look at Value

An important aspect of operating higher education institutions is the interconnectivity of revenue streams to each other. Adjusting one affects the other, and predictive models indicate that raising tuition can lower enrollment, which in turn decreases net revenue and adds to a vicious feedback loop where incoming students cannot afford to attend (Pavlov et al., 2020). Furthermore, there is the concept of price to value that some regional state universities rely on to attract students. Though enrollment among traditional students is down, and non-traditional enrollment is up (Frey, 2013), many prospective students are now balking at public higher education's rising price-tag and gravitating towards elite universities over smaller institutions (Lederman, 2017). If this is the case, then administrators at less prestigious universities who rely on low tuition to attract students are pinched between the need to maintain relatively lower and attractive tuition prices and the desire to increase a revenue stream they can control.

The Purpose of Higher Education

Perhaps one of the biggest questions in regard to the long-term viability of higher education is the purpose that colleges and universities serve in society at-large in the United States. Some scholars frame higher education as a physical representation of the rights granted by the first amendment (Inazu, 2018). This of course reintroduces the problem of political and cultural backlash to universities and colleges, and positioning campuses as a bastion of free speech raises questions of how to define free speech and

who it benefits (Dougherty et al., 2013). If such a definition puts higher education at the mercy of election cycles, better to predict and prepare for such volatility rather than react to it after the fact.

Is the point of higher education then to prepare students for the labor market? Employers would certainly like it to be so, and in fact have identified the skills that they wish to see universities and colleges bestow. This includes critical thinking, problem solving, and listening, among others (Baird & Parayitam, 2019). In this frame, higher education positions itself as a pipeline to employment, generating enrollment by demonstrating its utility in partnership with employers. But this model ignores the broadest outcomes of post-secondary education in the areas of student development. Will students be able to explore their interests if higher education becomes a glorified employee training program? Can they become self-actualized in such an environment? In a society such as ours that values profit and growth, do such questions even matter when compared to long-term survivability?

This brings us back to what our society values and what will benefit the student. This review does not investigate what is or is not beneficial for the student per se, but to highlight. Student benefits are inconsequential to the larger problem of how to ensure there are places for them to be students at in the first place. Or, in other words, enriching the lives of students is secondary to keeping the lights on.

A Perfect Storm: Illinois

One of the more interesting considerations when discussing eroding state appropriations is that administrators already have real-life examples of what would happen in the absence of appropriated state funding. In 2015 the state of Illinois was

unable to pass a budget for the fiscal year 2016, leaving many public universities without much-needed revenue (Brown, S. 2017). Over the two-year period that the deadlock continued, public university officials in the state had to make difficult choices between cutting jobs, downsizing, and expending cash reserves to survive. Spending by the state for public universities was reduced by over 50%, and over 100,000 low-income students had their tuition assistance cut (Kramer, D. 2017). Major credit rating agencies downgraded the debt of several public universities, some to the point of endangering their accreditation status (State of Illinois Comptroller 2021). In addition to stagnant state appropriations, during the two-year impasse higher education enrollment declined statewide by 70,000 students, 7,500 positions at colleges and universities were cut, and the Illinois economy lost an estimated \$1 billion per year due to higher education emergency austerity measures (The Illinois Update, 2021).

These problems were compounded by the phenomena of high school graduates pursuing higher education degrees outside of Illinois. In 2017 nearly 50% of degree-pursuing high school graduates from Illinois high schools attended universities and colleges in other states (Rhodes, 2019). Partly influenced by the damage done by the Illinois budget impasse, institutes of higher education in other states took notice and began enrolling these students. The poaching of students from Illinois is not just a strategy from neighboring states, but ones as far away as Alabama (Rhodes, 2019). Suffice to say, there are grave repercussions when a major revenue source is denied to higher education, and Illinois presents a unique case study on what happens when public universities lose one of their largest sources of revenue, state appropriations.

Theoretical/Conceptual Framework

Higher education is changing. More specifically, the business model and the societal role of higher education is changing. In order to fully examine these two areas, two theoretical frameworks are helpful in describing university operations from the perspective of administrators and students. Although the importance of operation before service was stressed earlier, on a practical level, a public university cannot function without students. And when given a choice between an established public university and a for-profit college, students pick the former (Albright, 2019). This is because on some level students would prefer to get a degree at an institution that offers more than just the degree. Prestige, accreditation, and the student life experience are important when drawing in new students in a shrinking market (TBS, 2019). The dual theoretical frameworks for this study addresses the economics of operations and relationship between client and customers.

Evolutionary Economic Theory

Evolutionary economic theory is a theoretical perspective well-suited for this project (Nelson & Winter, 2002). Because higher education must attempt to adapt and evolve to survive, it makes sense to view that struggle through a framework that emphasizes adaptation and evolution. In this regard evolutionary economic theory aligns closely with a desire to study universities though the lens of financial analysis. Evolutionary economic theory emerged in the 19th century, but it wasn't until Richard R. Nelson and Sidney G. Winter clarified and published their analysis of it after 1980 that it entered the wider arena of public policy and discourse (Downie, 1997). The theory is similar to Charles Darwin's evolutionary theory in that it describes a population with variations of set characteristics within that population, of which some of these

characteristics are retained, others are not. The theory also includes the consideration of environmental factors that influence the retention of certain characteristics (Nelson et al., 2002). Nelson and Winter applied Darwin's theory directly to economic systems, specifying that the population is made up of firms or organizations, the characteristics are business practices, and the environmental factors are sales (Barney, 1987). When taken a step further and applied to higher education, the model changes so that the population is public and private universities, the characteristics are programs, and retention of those characteristics is driven by market forces, or the environment (Nelson et al., 2002). Characteristics could also be categorized by revenue streams as opposed to programs, which in terms of higher education represents endowments, tuition, donations, and any other process that earns money for the university. Characteristics could also be combined into revenue streams *and* programs, or programs could be used as a subset of revenue (Nelson et al., 2002).

Because higher education institutions could be viewed as endangered, their ability to adapt and retain profitable characteristics will determine their long-term viability (Pavlov et al., 2020). More importantly, the lens that evolutionary economic theory provides for predictive models uses non-fixed and ever-changing variables, while also focusing on foundational change that happens within organizations (Dopfer, 2005). Using changing variables is necessary when trying to account for the multitude of problems facing the continued operation of higher education institutions. When searching for the underlying mechanism that drives retention and change, evolutionary economics also provides a process for connecting the web of mechanisms that is usually involved. By

treating the various factors as an interdependent phenomenon, additional agents of change can be identified and acted upon (Dopfer, 2005).

Agency Theory

On a more specific level, the larger issues looming for higher education are the dual phenomenon of declines in state funding over the years and enrollment (Toner, M. 2015). Although the former has not factored into the significant number of private college closings, both issues force public and private institutions of higher education to rely on tuition and alternative revenue sources to balance the budget. Predictive models have found that long-term effects of funding cuts all bode poorly for the institutions in question (Kerkvliet, & Nowell, 2014). If tuition is raised in response to declining enrollment or funding, then enrollment may continue to suffer. This leads to a vicious cycle of raising tuition to make up for lost revenue, which dissuades prospective students and exacerbates the problem (Kerkvliet, & Nowell, 2014). Suffice to say that the continued relationship between government and higher education is vitally important, even if it cannot be relied upon, but so is the relationship between institutions and their students. The agency theoretical framework treats government and higher education much the same way as it would investors and management, or a principal and agent (Kivistö, 2008). Proposed by Stephen Ross and Barry Mitnick (Mitnick, 2013) the same framework of principal and agent can be easily applied between educators and students. By adopting a more corporate lens with which to view higher education's woes, not only will the agency framework allow for pragmatism, but it will acknowledge the underlying truth of IHE's existence as organizations subject to the basic principles of business. When approached from a relational mindset, a realistic prediction concerning higher education's

viability can be made. The agency framework does not take into account the human component beyond the principal and agent, but at least in regard to a two-party relationship, it narrows down the focus and solely concentrates on one relationship. In this regard and other it vastly differs from evolutionary economics, but together both frameworks can form a macro and micro lens with which to view and address the problem. Both perspectives are important when addressing such a complex system as higher education.

Summary

The literature illustrates numerous examples of how higher education is endangered financially, the challenges facing students, and the changing demographics of the consumer base. Issues concerning enrollment trends, evolving technology, operational costs, tuition, COVID, and changes in funding have all called into question the future of higher education, and sources and data are readily provided to support these claims. Cases where public universities manage decreased and disrupted state funding are instructive. This is due to the politicization of state appropriations, or the finances of the states themselves, as seen in Illinois. In addition, the consumer base is shifting, whereby raising tuition may not be a viable fix. And cutting costs is counterproductive. Traditional enrollment is in decline, under the pressure of rising tuition prices, falling wages, and shrinking middle class. Rapidly changing technology, although secondary in this review to consumers and revenues, will also need to be addressed. And of course, redefining of the role of higher education is necessary for its continued survival. Add to this the interconnectivity of revenue streams within higher education, and the volatility of market forces, and college and universities begin to resemble a house of cards. But so far, the

problems and solutions listed are reactionary measures against unnamed forces, instead of proactive steps taken to combat recognizable trends. The current higher education business model is under extreme stress.

CHAPTER 3

Methods

Public Universities need to identify strategies to sustain financial operations in this period of financial uncertainty. This qualitative study describes the short-term response of two regional public universities to reduced state appropriations. This includes individual interviews and data analysis to answer the question of how public universities in Illinois are navigating a funding crisis and preparing for a post-funding future.

Design of the Study

This intrinsic case study was conducted through in-person paired interviews with two administrators from two separate regional, four-year, public universities in Illinois. An intrinsic case study was chosen because it allows for a case or situation to be studied within a system, and allows for multiple points of view when examining the issue (Creswell, 2007). Specifically, intrinsic case studies allow for the examination of a case itself. This is in contrast to the instrumental and collective case studies, which have different areas of concentration in regards to what is being studied (Creswell, 2007). An intrinsic case study lends itself well to the exploration of higher education finances in the state of Illinois and includes the ability to use multiple sources to examine a singular case. This took the form of interviews with administrators and soliciting their thoughts on their institutions' responses to the Illinois budget impasse, the current state of funding in higher education, their predictions for the future, their strategies for maintaining revenue, and other questions concerning the continued operation of their university in light of funding challenges. This study also reviewed financial documents, contemporary news accounts, and publicly available budget documents. These multiple sources align with the

elements of an intrinsic case study and gives the researcher multiple perspectives on a complex issue (Creswell, 2007).

Research Sites

This case study analyzed two regional public universities, located in the Midwest in the state of Illinois, henceforth referred to as University A and University B. Both institutions are classified as regional public universities and receive significant state appropriations. They also have a similar number of colleges, departments, and administrators. For each institution, individuals in administrative roles associated with financial management were recruited to be interview subjects. These universities were selected because they were affected by the state of Illinois' financial upheaval over the course of two years between 2015 and 2017, resulting in one ten-month period of zero financial support from the state (Brown, 2017).

University A was among those institutions in the state rumored to be shutting down, and lost hundreds of faculty and staff, and University B had to make similar cuts in order to continue operations. In the last three years, both universities have seen recovering enrollment trends, with University B seeing one of its highest enrollments in five years (University B, 2020). The 2015-2017 financial crisis is analogous to scenarios anticipating a future with no state funding, and therefore relevant to this study.

University A is a midsized institution with a reported Fall 2021 enrollment of approximately 8,608 students. University B is a similarly sized institution with a reported enrollment of 7,455 students in Fall 2021.

Instrument

The primary instrument for this study was two semi-structured interviews with a pair of administrators from each institution. The interviews were composed of 12 questions each, four questions discussing the past, four questions detailing the present financial climates, and four related to the future of higher education. The interview questions are included in Appendix A.

The questions elicited lengthy, detailed answers. The semi-structured format allowed for additional clarifying questions.

Semi-Structured Interviews

In all, four subjects were interviewed, two from University A and two from University B. All four were either senior auxiliary administrators, or senior business officers. The interviews were conducted in pairs. University A's senior business officer is referred to as Administrator 1, and their senior auxiliary administrator is referred to as Administrator 2. University B's senior business officer is Administrator 3, and their senior auxiliary administrator is Administrator 4.

Archival Documents

In addition to interviews, financial documents and budgetary reports related to the years 2015-2020 were reviewed. This range encompasses the beginning of the budgetary crisis in Illinois (2015) and goes up to the latest available documents at the time of this study (2020). Additionally, contemporary news articles relating to University A and University B's online archives were identified and included in this study. These press accounts covered the Illinois financial crisis as well as any faculty cuts, department closures, and new initiatives undertaken to remain solvent.

Data Collection

The administrative officials from the two institutions were contacted early spring 2022, via direct email for informed consent to record interviews. The interviews were conducted two weeks after that via Zoom.

In addition to recorded interviews, archival sites for both University A and University B was accessed in the weeks prior to the interviews. These archives were available to the public, with the ability to download content to PDF format for external storage. The goal was to obtain news articles each from University A and University B concerning the 2015-2017 budget crisis. The articles were supplemented by documents from each of the universities' Board of Trustees minutes in the years 2015-2017.

Data Analysis

There is a five-step process to create a framework for analysis of qualitative data that involves five steps (Yin, 2011). These include compiling data, disassembling data, reassembling and arraying, interpreting, and concluding (Yin, 2011). This process is especially effective for intrinsic case studies, in which multiple sources are being analyzed for a singular case.

Pre-analysis preparation

The first step of Yin's data analysis model, *compilation*, involves the sorting of field notes into usable categories (Yin, 2011). In this vein, all data obtained was separated between the two institutions, University A and University B. After data collection, interviews were transcribed and imported into an electronic spreadsheet where they were categorized and separated by question into the three separate time periods of: 1) the 2015 budget impasse; 2) the current state of higher education; and 3) future predictions. In

addition to the interviews, the collected archival documents were separated into news articles and the Board of Trustee's minutes for further textual reading.

The second step of Yin's five step process, *disassembling*, involved breaking down each of the interviews and textual documents further to seek out common themes or stark differences.

As far as reassembling goes, and in terms of the interviews, answers were separated between University A and University B, as well as divided between past, present, and future. Reassembling allowed allows for graphic depictions and graphs, though none of them were incorporated as textual explanations worked just as well as visual representation (Yin, 2011).

This pattern was applied for the archival documents as well, which were divided between institutions and time periods. However, the reassembling process differed from the way it was used for the interviews, as the range of subjects identified through archival documentation is wider than the range of subjects covered during the interviews.

Interview Analysis

The next step requires creating a new narrative from the reassembled data, also referred to as *interpretation* (Yin, 2011). Interpretations will vary from researcher to researcher, however in this instance the researcher looked for a narrative that paints a full picture of the effects of reduced funding, the ways in which administrators navigated such a situation, and the future of higher education in a system where a significant revenue stream is compromised. In practical terms, this means that from the categories created in the transcript, and further organized through dissembling and resembling, discrete categories were identified in order to document key words and phrases pertaining

to financial strategies and terms. Using these key words, assessments, strategies, and predictions were identified in order to incorporate them into a broader narrative of higher education's past and future in the state of Illinois.

Document Analysis

As with the interviews, the data was interpreted using the best combinations, coding, and organization for the case study (Yin, 2011). For the news articles about University A and University B, information was sought pertaining to furloughs, firings, department closures and consolidations, as well as other strategies employed by the universities to navigate the budget impasse. None of the contemporary sources included content that predicted the future of higher education. The Board of Trustees minutes received similar attention.

Treatment of Data

The in-depth interviews were collected and stored in a secure Google Drive folder until they were coded and analyzed through the discrete categories of past, present and future from the interviews. Questions pertaining to the current state of finances and future austerity strategies was also separated into two separate categories in an electronic spreadsheet. All identifying features related to the interview subjects were coded, with the answer keys kept on a separate, secure, Google Drive folder. Consent forms and data were also stored in the secured Google drive folder, and will be kept for three years, then erased in accordance with IRB protocols.

Summary

The design of the study is an intrinsic case study with four participants from two regional, public universities. Data included semi-structured interviews and archival research, which was analyzed, coded, and secured for later deletion.

CHAPTER 4

Results

Upon completion of the document analysis, archival research, and interviews, a story began to emerge of how two public regional universities navigated the 2015-2017 budget impasse and the reduced state appropriations that came with it. Although there were some key differences between University A and University B, their relationship to appropriations and the measures they enacted to mitigate their loss shared some common themes. These common themes included reducing costs, implementing hiring freezes, downsizing personnel, and spending reserves to cover necessary expenses. These two institutions had different experiences in the manner in which appropriations were paid to the institutions by the state, the timing and extent of the downsizing measures deployed during the two-year impasse, and the degree to which each institution utilized their cash reserves. Additionally, the challenges produced by the budget impasse and the measures taken to mitigate them were compounded by a concurrent phenomenon of declining enrollment.

Research Question #1 -- How did two regional public universities in Illinois adapt to reduced funding during the Illinois budget impasse?

Before the Storm

Before describing measures taken during the impasse itself, it is important to describe the conditions related to state appropriations leading up to impasse.

Administrator 2 from University A noted that payments from the state had slowed long before the budget impasse.

In years before, you could pretty much count on when it was coming, but the state was having pretty difficult cash flow situations and it was a little bit difficult to predict exactly what schedule they are going to be paying their amounts on.

Administrator 1 from University A further detailed the process of incurring costs and waiting to be reimbursed:

We would get everything paid on arrears with the state of Illinois. So we have to incur the expense before we are reimbursed from the appropriation. So we pay payroll, we submit it to the state of Illinois, and in theory they're supposed to send us money. It used to be that way before the budget impasse, that all we had to do was submit it [a request], and the money would probably come in. It was in 2012, or somewhere around there, that it started slowing down.

University A would incur expenses and rely on the state reimbursing it through promised appropriations, however the state of Illinois was sporadic and unpredictable regarding when it would actually deliver these funds to University A. This inconsistent disbursement in appropriations is in part the reason University A had built up a cash reserve, and this reserve would be pivotal to University A managing the budget impasse. Administrator 1 recalled:

When the budget originally worked, we were spending somewhere to the tune of \$8 to \$9 million per month from appropriated funds. A \$30 million reserve was enough to cover roughly 3 months' worth of expenditures. So when the state stopped funding things in '16, at first it really didn't matter.

This inconsistent pattern of disbursement created conditions whereby administrators and University A were unable to gauge exactly how bad things were about to get. Administrator 2 noted:

So in some ways. I'd say they [the state] conditioned us to not be expecting the payment on time over a number of years where they were late, but we had enough money to float it because we had enough money in reserves that it worked out. So when they didn't pay for longer and longer times initially, it was like it's been for the past several years.

In fact, before the budget impasse even occurred, the state of Illinois was past due on \$20 million in appropriations to University A for the previous fiscal year, and University A was already taking measures to make up for the slow payment of appropriated funds as a result.

Conversely, University B received its appropriations in a timely manner and was not owed anything by the state of Illinois, but the size of the state appropriation was slowly declining. As Administrator 4 stated:

We were receiving those payments on time or in a timely fashion. But you can see, from FY 02 until the time of the budget impasse, there was no increase in state appropriations, or if there was, it was very slow. So, although yes, we were receiving it in a timely manner, it was going down.

Despite the timely manner of appropriation payments, University B had built up a cash reserve that it was able to rely on during the budget impasse as well.

The inconsistency in payment of state appropriations and the decline in the size of appropriations was only one problem, however. There was a far larger issue that public,

regional state universities in Illinois were facing leading up to the impasse: steady declines in enrollment [see Table 2]. For both University A and University B, enrollment peaked around fiscal year 2011. For University B, enrollment began to decline in FY '11. For University A, it was not an enrollment decline that hit first, but rather an intentional downsizing of enrollment due to capacity concerns. As Administrator 2 at University A put it:

In 2011 our enrollment was 11,178, so over 11,000 and about three or four years before that we are over 12 thousand and we just said 'that was too big, we can't handle that size of a population with all our resources,' so we did commit to an intentional downsizing, we needed to get a little bit smaller so we get to the right rhythm.

University A's enrollment in years prior had grown beyond the university's capacity to handle, so in 2011 they began making changes to downsize. This was immediately followed by a reverse trend in enrollment just like University B. Administrator 1 at University A laid out just how important enrollment is, "100 students gives [auxiliary] about \$1,000,000. The same is pretty well true on the academic side, another hundred students gives us roughly another \$1,000,000." One hundred students living on-campus translate to \$1 million in tuition and fees, and \$1 million auxiliary revenue. And if enrollment declines, the overall budget of a university shrinks as well due to the loss of tuition, room and board, and fees. During periods when the delivery of state appropriations is sporadic at best, the administrators interviewed indicated that tuition and fees from enrollment are critical sources of revenue.

Table 2: University A and University B Reported Total Fall Enrollment 2010-2015

	2010	2011	2012	2013	2014	2015
University A	11,600	11,170	10,410	9,770	8,910	8,520
University B	12,580	12,550	12,200	11,700	11,450	11,090

Trouble on the Horizon

In the months preceding the budget impasse, both University A and University B were in similar positions. Morale was low due to declining enrollment, and there were signs from Springfield that the governor and the legislature were coming to an impasse over the budget. Archival documents suggest the primary concern at the time for both University A and University B was declining enrollment rather than Springfield's ongoing political infighting. For University B, Trustee members visited an Association of Governing Boards Conference where Illinois's budget problems were acknowledged, but the main topic of focus was the nationwide trend of declining university enrollment and high school graduation rates (University B, 2015). University B's Trustees were especially interested in nationwide retention strategies, although many of them were already in place at the institution (University B, 2015). As for University A's concerns, legislators in Springfield assured the university that the budget would be passed. As Administrator 1 explained:

We kept hearing from Springfield 'Don't worry, it'll be taken care of,' then 'Well we didn't make it by May but we'll be taken care of in June.' Then it was 'Well, we have to wait until the legislators come back, it'll probably be September.' And so they kept kicking the can down the road over when our next payment would come.

University A was already acclimated to the unreliability of the state's delivery of appropriations and many administrators assumed the appropriation would eventually materialize, simply delayed as had happened in the past. This is further supported by the June 26th meeting minutes of University A's Board of Trustees, during which a budget for fiscal year 2017 was approved under the assumption of a mere 5% decrease in general revenue funds (University A, 2015). On June 26th, the Board of Trustees for University A were further assured by a senator that veto sessions will force activity (University A, 2015).

University B was also unaware of the fact that a lengthy impasse was coming. Interviews with administrators at University B indicated that no one at the institution believed it could get as bad as it eventually became, and there was some initial confusion at the beginning of the impasse, with faculty and staff needing to be educated on what exactly was about to happen with cashflow at their university. Administrator 4 described the reaction of colleagues at University B:

I think there was a lot of education that had to happen in the months leading up to the impasse, because we started to get red flags that this might be coming down the pipeline and we were trying to put some preventative measures into place. But I think people were confused. 'What do you mean we may not be able to make payroll? What do you mean we'll have a cash flow problem?' If I remember correctly, we had several informational sessions with our leadership team where students, but mainly faculty members and staff members, came and asked those types of questions.

This is supported by archival research in which University B's board of trustees convened a July retreat for a question-and-answer session to discuss the implications of an interruption in state appropriations and what actions would be taken moving forward. Among these were a projected 6% cut in the university budget and reinvestments. Questions were asked about the "number of reserves" the university was allowed to keep, with the answer being ideally 6 months' worth. There were also discussions on the delay in MAP funding and questions on how funding worked when University B used to get "all of our money up front" (University B, 2015).

The Impasse: The First Three Months

By June of 2015 it was apparent that a state budget for fiscal year 2016 was not going to pass with a signature from the governor of Illinois (BGA, 2017). The budget impasse had officially begun. At the onset of the budget impasse University A froze travel, halted equipment purchases, and ceased construction projects. Any outflow of cash had to have the approval of the president; the president having just taken office as the impasse began. Administrator 2 at University A explained:

There was a travel freeze. I mean basically all that stuff had to stop and had to get presidential signature for it to happen, which wasn't happening. There were equipment purchases or projects that we had planned to do, anything we could stop we stopped. So any outflow of cash we did our best to hold onto.

Independent of the emergence of the impasse, initial layoffs of personnel at University A were already underway, not because of the loss of appropriations, but rather declining enrollment. Administrator 1 elaborated:

That was by far the biggest thing that we did, and it was not done because of the budget impasse. I mean, looking back, you can say that benefited us for the impasse, but it was done solely because our enrollment kept dropping and we had not made adjustments for it.

University B's response at the beginning of the impasse was similar.

Administrator 4 recounted:

There was absolutely a hiring freeze, so no filling any non-essential, and I use that in bolded terms, positions at that time. Anything we could do to reserve our cash we were doing, in the same way as personnel, we were doing with common expenditures. We also reached out to all vendors because we had many millions of dollars that were paying to external contracts, and we enacted our ability to act on the Prompt Payment Act, which allowed us 90 days to pay a vendor past a due date. So we were delaying payment to them and again, had that right to do so.

University B also prohibited any hiring of new faculty and staff, and put off paying vendors by utilizing the Prompt Payment Act. Administrator 4 noted the particular importance of relationships with external vendors:

We had some special agreements in some of our larger contracts at that time. One is our food service contract which we're paying easily, \$1,000,000 to them per month for food and the labor of our food service staff. So we had a memorandum of agreement with them to delay payment even further, until we could get through the budget impasse. Again, the private sector was not in the same situation that we were, and they were very understanding and for the most part we had good luck with our vendors and established relationships. So there was an agreement there.

One important note that was uncovered while interviewing administrators for both University A and University B was that around 80% of state appropriations went to payroll. With University A already reducing payroll three months into the impasse and University B prohibiting payroll expenses from increasing with hiring freezes, two different approaches to navigating the impasse were developing.

The Impasse: One Year In

What had previously been assured as impossible by legislators in Springfield was now fully apparent to everyone in the state: there was a budget impasse, and the usual and expected appropriations from the state were not going to materialize. As mentioned previously, both University A and University B were caught unaware by the impasse in different ways. University A had spent years dealing with an inconsistent pattern of state appropriations and had taken measures to mitigate its affects, but the institution never predicted that appropriations would stop for as long as they eventually did. University B was also blindsided, with Administrator 4 remembering that it wasn't until August, months after a budget should have been passed, that the reality of what was happening was made apparent. "Nobody realized what was about to happen. I think by the time we got to August or September, that's when it all started to sink in." An article from a student publication at University A revealed that despite an intentional reduction in spending, university administrators were still hopeful a budget might be passed in January of 2016 (Buchman, 2015). But after the initial first three months of reactionary measures were taken, the impasse stretched to six months, then a year.

A year into the impasse, University A continued to be very disciplined in its expenditures of cash. Everything from travel expenditures to equipment purchases still

required presidential approval, but by March of 2016 a second round of layoffs had been initiated, bringing the total pool of downsized personnel to 400 people, or an estimated 20% of the university's workforce. Administrator 2 described the timing of the layoffs at University A:

We did the first layoff in September of '15 and then we did another layoff in March of '16. So the combination of those two ended up being about 400 or so individuals somewhere, roughly 20% of our staffing. So imagine people who'd worked in an office for a number of years and there is a rhythm within this office, and either someone got directly laid off or someone got bumped out of that office. So even after the first round there was obviously the sadness over the people we lost, but also we lost a lot of departmental history and operational history.

This effect on morale is further supported by faculty senate minutes from Spring 2016, in which the faculty senate sends a letter to their state senator drawing attention to the cessation of contractual salary increases and introduction of furloughs, and the impact it has on University A's educational mission (University A, 2016).

In addition to personnel measures, restricted reserves, such as those belonging to auxiliary units, were being prepared to be made available should University A's appropriated funds run dry. This was authorized during a Board of Trustees meeting and was significant because under normal circumstances auxiliary restricted reserves could not be legally accessed (University A, 2016). In the words of Administrator 2:

We were very close to taking the steps to say we could use it [the restricted reserves] if we had to use it because that's how close it came to having to tap into it. You could only do it in critical emergencies, and the board [of Trustees at

University A] has to take action to approve it and they did that, but we never had to actually go there because they [the state of Illinois] gave us a small portion of the appropriation toward the end.

Administrator 2 at University A made note of the fact that the institution was already working under lean conditions before the impasse and had developed a system of efficiency:

We have a long tradition with higher ed and with Springfield through the various committees about the efficiency of the university that, like our per pupil cost for delivering our education is less than I think anybody else in the state of the residential universities. So when they then don't give us money, it's not like we've got places we can just go to and whack out and be like, 'Oh, we won't feel that.' Because we already ran on sort of a lean, mean, get-it-covered kind of thing. So, I would say that the budget cut really made us almost arrhythmic, you know, because we didn't have any place to go.

Having to grow even more lean and efficient under the effects of the impasse put great strain on faculty and staff at University A who were already suffering from morale problems due to declining enrollment. And with the downsizing adding to their workload, faculty and staff were both already overburdened.

University B was in a slightly different position a year into the impasse.

Administrator 4 remembered:

We [University B] had two larger sets of layoffs, one in 2016 and one again in 2019. So, the 2016 ones were obviously specifically for [sic] because of the budget impasse. If I remember correctly, we looked at the entire institution and

kind of did a flat percentage in each division, 'this needs to be reduced,' and so that's how layoffs occurred at that time. So some of them were absolutely faculty, some of them were staff, others administrators at the time, so that definitely occurred in 2016. The problem with some of those was that we had to give them a year's notice or they had to teach out their contract.

University B was forced to reduce personnel as well, imposing a flat percentage of layoffs across departments and divisions. Collective bargaining delayed some of those layoffs until the end of annual contracts. This is further supported from a 2015 student publication's article from University A that addressed problems at University B. In this article, collective bargaining representatives discussed the layoffs at both University A and University B, noting that the unions would do everything in their power to protect faculty and staff's jobs, and to ensure that administrators at both universities abided by the stipulations of their union contracts (Buchman, 2015).

Despite the delayed savings in payroll and union contracts, University B still needed to make the layoffs due to declining enrollment. Other than University B's first round of layoffs, hiring freezes were still in effect and purchases were still on hold. Administrator 3 noted: "I mean the delayed payment to vendors was a big deal 'cause we were on the phone with Ameren and Sodexo, and renegotiating contracts, or at least talking about what our options were." University B was also beginning to explore renegotiating contracts with major utility and service providers, which was possible thanks to amicable and longstanding relationships with private sector partners. Like University A, University B also passed a resolution to issue bonds for their Auxiliary Facilities System in April of 2016, therefore allowing themselves to access a fund that

was not normally available. This was due to the fact that at this point they had “expended all funds from the University Income Fund that were generated from tuition and other revenue sources” (University B, 2016).

The End of the Impasse

After two years of lawmakers trying to negotiate and pass a budget, enough votes to override a governor’s veto were finally secured in July of 2017 (AP, 2017). This was possible because several Republican lawmakers broke with their party, a move that earned them condemnation and spite from their fellow Republican lawmakers (AP, 2017). Despite this, and despite the governor’s fiscal concerns, Illinois once again had an appropriated budget. By this time, the state had been sued a multitude of times so that such services as law enforcement, K-12 education, and other “public good” agencies could continue to operate. As described by Administrator 2 at University A:

Now what happened was a lot of the other groups got taken care of, either by legal action or by some deal that they worked out between the governor and the legislature. But higher education does not have the same level of political influence.

Despite not having as much political capital as other services and agencies, higher education was not completely abandoned. As Administrator 1 at University A put it:

Year two, we got an appropriation of about 17 million. That was about 50% of what we had pre-impasse. The legislators made a little bit of accommodation, whatever you want to call it, to us because we were all hurting. Sadly, some were hurting more badly than others.

Although higher education was not among the services the state deemed a “public good,” University A received \$17 million in appropriations of the missing appropriation from the first year of the impasse. Administrator 1 said:

And then what happened was that when they settled the budget impasse, they [the state] gave us, and I'm off the top of my head, 54 million. And that was the regular appropriation. The 38 million that we've been receiving year over year, and then they threw in about 15 million, 16 million from that 17 million year that we could carry forward and in theory reimburse ourselves.

The state of Illinois had delivered all the money that University A had come to expect and rely on, with the exception of the money owed before the impasse even began. However, despite the delivery of funds two years later, the damage to University A had already been done.

As for University B, they too were reimbursed for the past two years, although like University A, the sacrifices they made would have long-lasting effects. According to Board of Trustee meeting minutes from their September session, they received funding for the rest of fiscal year 2017, while receiving a 10% cut in appropriations for fiscal year 2018 (University B, 2017). However, even then there was uncertainty as to whether there would be a state budget going into the 2018 election year, with one Trustee member stating: “we need to enjoy the predictability of this year’s budget for the moment” (University B, 2017).

Research Question #2 – How are these universities planning to operate with reduced appropriated funds in the current and future years?

The New Normal

Recognizing that reduced appropriations could be the new reality for public higher education going forward, both University A and University B took away lessons in the aftermath of the budget impasse. The most important was the rebuilding of the reserves that both institutions had relied heavily on for payroll and other necessary expenses during the impasse. As Administrator 3 at University B put it:

I mean it didn't really change our process, we didn't have time to even change our process. One of the things it did was it forced us to really get some understanding of what this reserve was and what it can be used for, and the different types of reserves that we had. You know, which funds can we legally use? To sort of float, and which ones were on the fringe and if they were on the fringe, what kind of requirements existed if they were on the fringe? So, I don't know if it changed our planning, but it certainly allowed us to dig in and figure some of that stuff out that I think the university is better off for having that information.

Identifying what other reserves could be legally accessed during times of crisis was essential. Additionally, though University B didn't have time to change their process during the Illinois budget impasse, minutes from a July 2017 Board of Trustees retreat revealed that "the budget is the first step. We are not out of the woods and have to be as conservative and fiscally responsible as we have been in the past" (University B, 2017). Both universities still exercised extreme caution in expenditures, a phenomenon that is still present today. Administrator 1 at University A elaborated on the conversation around expending cash:

Some of that happened because of COVID, but we've been very reluctant to approve or to spend that money. We've been very reluctant to do improvements

around the university. To fix things, we're basically doing them on an as required basis...and we're just being very cautious in everything we do, and for a very good reason, you know. I mean, it's important for us to be fiscally responsible with our resources.

Caution still prevails in spending on capital projects, caution filling long-standing, open positions, and caution spending money in any form save for absolutely necessary maintenance and renovations.

The final, and perhaps the most important strategy, was a refrain heard often during both interviews and also evident in Board of Trustee meeting minutes: enrollment, enrollment, enrollment. When asked how to mitigate a future impasse, both administrators at University A and University B specifically named growing enrollment as a solution. University B administrators further mentioned diversifying revenue and provided services, and Administrator 2 at University A laid out a problem with focusing just on enrollment:

One word. Enrollment. That's the right word. I mean because we have to and that's the catch 22, is we need to make investments to make sure we keep our enrollment sector healthy and strong. But then we also have to protect against being in a position where we're overexposed.

The inherent conflict between conservative spending and pressure to raise enrollment has created a tension in contemplating future practices at University A. Renovations, new facilities, adequate staffing, and general campus appeal are all required to bring in new students and raise enrollment. However, these initiatives require

investment in the form of expenditures, which these universities have been conditioned to avoid in case something else like a budget impasse, or perhaps global pandemic, strikes again. This is in addition to the fact that both University A and University B have yet to rebuild the cash reserves expended during the impasse. Then there's the issue of personnel. As Administrator 1 at University A put it, "In general, we have not filled the positions that were laid off in '15 and '16." Regional state schools in Illinois will likely not fill many of the positions that were lost during the impasse. As personnel expenses account for 80% of appropriations, the prudent approach favors lean operations. The challenges begin in operating a university on a skeleton crew without overburdening the workforce. Administrator 3 at University B indicated that every regional state school in Illinois will need to figure out this challenge.

Research Question #3 – What future do administrators and policy makers envision for the higher education business model?

The Future of Higher Education and Appropriations

When asked about what lies in store for the business model of higher education, both administrators at University A and University B had several insights. On the one hand, capital projects and alumni giving, along with enrollment numbers, will become more important than ever. Administrator 4 at University B had an interesting addendum.

It's going to have to be a fundamental change and I don't think that is what public higher education is set to serve. Financially it's set up that way, and so if you're going to have a large fundamental shift, if we're not going to rely on state appropriations...so as we become less reliant, it's obviously less of a concern, but

it's still a significant concern because we only have so many better ways to bring in revenue and survive on a day-to-day basis.

In order for regional state schools to be better insulated against the volatility of state politics and appropriations, a fundamental shift in how they generate revenue will be required, with an emphasis on less dependence on state support. This is difficult, however, because of the manner in which state universities are constituted. They are by design reliant on state support, and only have so many avenues available to raise revenue. Furthermore, any drastic alterations to the funding model run the potential of running counter to the educational mission of higher education. Instead, Administrator 3 at University B envisioned two potential futures for higher education in Illinois. The first was an employee-partnership model in which large corporations, such as Amazon and Walmart, subsidized tuition in exchange for recruiting graduates. Administrator 3 claimed: “This is a possibility as an employer-based model where you partner with employers to ensure pipelines of students, and if they’re willing to foot the bill for the tuition and give them a discount, they’ll guarantee spots.”

Another option for institutions as described by Administrator 3 was a future in which regional state schools duplicated services. All regional state schools are producing similar financial documents, answering to similar auditors, and are answering to the same state legislative acts that are handed down by Springfield. Rather than spending immense resources navigating these reporting requirements separately, Administrator 3 at University B suggested collaborating on a statewide system that would ease the personnel burden on individual regional state schools:

Can I work with the director of Financial Affairs at University A? I mean we're producing the same financial statements, we're answering to similar auditors, right? Like we are all subject to the same state legislative acts that are coming down. And we're having to comply, why are we both spending personnel time trying to figure out how to maneuver whatever act it is within our system?

Separately, it's just inefficient, but can I still remain an employee of University B or even a member here in the local community but collaborate on a statewide system? I think we're probably closer than we were pre-pandemic to being able to kind of find a common ground of not affecting those local politics.

Summary

Two regional, public universities in the state of Illinois were caught unaware at the onset of fiscal year 2016 by the Illinois budget impasse, which resulted in an interruption of state appropriations. University A had built up reserves in part due to the unreliable nature of the delivery of appropriations in past years. University B also had reserves, but the delivery of appropriations were more reliable. Over the two years of the Illinois budget impasse, both universities would reduce personnel, restrict spending, and cover costs using their reserves. At the end of the impasse both universities received retroactive payments of appropriations, but by then their reserves were depleted and long-term damage had been done.

CHAPTER 5

In FY15, public universities across Illinois were navigating unreliable delivery of state appropriations, enrollment concerns, and an unfolding budgetary fight taking place in Springfield. By June of 2015, the battle over the FY2016 budget had turned into a legislative crisis: the legislature and the governor could not agree on a budget. Public universities were slow to recognize the full impact of what had happened. It became clear by the beginning of the fall semester that falling enrollment and unreliable appropriations were no longer regional state schools' chief concerns. There was no state budget, and therefore, there were no appropriations coming. No school could predict how long the deadlock in Springfield would last. Some acted quickly, such as University A, who was already struggling before the budget impasse. They reduced payroll, controlled expenses, and covered costs through the reserves they had built up over the years. Other universities, such as University B, quickly followed suit. By the end of the budget impasse the reserves were all but spent, positions that had been let go were not filled, and a regime of financial austerity had firmly taken root among state schools.

The emergent story of the Illinois budget impasse was the inherent challenge of binding state university appropriations to highly divisive political systems.

Administrators at both University A and University B acknowledged that the material conditions for another budget impasse are still in place. These administrators also said that regional state universities would not survive another significant interruption of appropriations. With this in mind, state universities, specifically regional universities, face a challenging path going forward: while expanding their limited political capital to secure a steady source of appropriations from the state, they must also work to identify

additional sources of revenue to avoid being a casualty of political standoffs. In addition, state universities must change the way in which they operate, with a mind towards continued vigilance and caution when considering hiring, capital projects, and other forms of spending. At its root, the Illinois budget impasse was a political problem that affected the funding and operations of public universities. Therefore, politics and funding are the areas that must be addressed.

Political Capital

Administrator 2 at University A noted that K-12 fared better during the budget impasse because “everyone has a kindergarten in their backyard” and public schooling was considered a “public good.” Though it should be noted that K-12 public schooling does not receive as great a percentage of their financial operating costs from the state legislature as is the case with public universities. And higher education is not considered a public good to the same degree. In fact, some conservative lawmakers questioned the necessity of supporting public universities that only a percentage of the population uses. Despite the challenges by some to the necessity of public universities, there can be no question that they are major employers and incentivize graduates to stay in-state after gaining a degree. And the alternative, in which any of Illinois’s twelve public universities are shuttered, would result in a significant loss of jobs as well as a great blow to the communities that both support them and rely on their presence.

But it is not so much a question of whether state universities are a public good or benefit Illinois, but rather whether they can survive being at the mercy of political wrangling in Springfield without taking an active role at the table. This question is complex, as both through the budget impasse and national conversations, higher

education has already become a politicized topic. Whether it's issues of free speech or social justice, universities are already seen in some circles as political actors. When universities engage in advocacy, even simply out of a desire to secure promised funding, they are open to criticism that they are being political. But it could be said that every industry is politicized to an extent in our current national landscape, and if one is already labeled as a political actor in one capacity or another, then it only makes sense to use that alleged political capital. Not to affect the culture, but rather to ensure that they do not become a pawn in a state-wide game of budgetary chicken.

This objective is primarily achieved through lobbying. Public universities are indeed represented in Springfield, however like fundraising, it is an often-neglected facet for state agencies that both rely on and answer to the state. The recent history of state appropriations has done little to inspire state agencies on the reliability of the appropriations process. Public universities are expected to operate with more independence than others, including advocating for themselves. Illinois's flagship university already understands this and goes to great lengths to ensure their needs are represented in Springfield. The flagship also invests more resources to undertake lobbying activities. With other state universities struggling to rebuild reserves and cover costs, this is a hurdle. Advocacy is necessary, however, as these universities are wed to the state.

Alternative Revenue

There is no question that reliance on state appropriations offers some risk. Some might see the risk as too great in light of what happened during the budget impasse, and thus seek out ways to mitigate fluctuating state support. But as administrators at

University B noted, there aren't many options available. The most obvious one is raising enrollment, and thereby increasing revenue from tuition and fees. However, enrollment challenges existed before the budget impasse began. Part of this was universities in other states realizing that Illinois high school graduates were up for grabs and poaching them with competitive tuition and attractive aid packages. The other issue was simple demographics. Illinois's population is in decline in line with other Midwestern states. This is consistent with a national trend of declining birthrates and the so-called "baby bust" stemming from the 2008 recession. Where will Illinois find students to boost enrollment? Like in other states, public universities in Illinois are looking towards populations with historically lower participation rates: first-generation students, underrepresented populations, and adult learners. These populations are also finite and out of state universities continue to aggressively recruit Illinois students. One possible solution is the expansion of online courses and programs. Already expanding before the COVID-19 lockdown, online learning removes the need for students to be physically present in the state of Illinois. The only hurdles to overcome are the high startup costs of necessary technology, faculty development, and the crowded and competitive market for online coursework.

Reducing an institution's reliance on state appropriations depends on many factors, and anything from a misstep in recruitment to a global pandemic could greatly affect the financial health of institutions. That is not to say that enrollment should not be a focus, but rather that it should be one of many. Another source of potential revenue is one private universities and colleges have long relied on: fundraising. Private institutions of higher education do not rely on state support, and therefore tuition revenue and alumni

giving have helped keep their doors open. State universities in Illinois already pursue this strategy to some degree and will need to invest more resources in cultivating external support.

A third option for enhanced revenue is partnerships. Whether this is the employer-collaboration model discussed by one administrator at University B, or something even more innovative, state schools must find a partner or partners with the ability to supplement what the state is funding. To some this may seem like a concession of defeat, perhaps premature. But to others, it is a pragmatic and tactful acknowledgement that state funding for higher education continues to be at risk.

Recommendations for Higher Education

At the onset of fiscal year 2016 a political standoff between Illinois legislature and the governor turned serious after a budget failed to pass. What followed were two years of impaired appropriations for regional public universities in Illinois. This forced these institutions to rely on reserves they had built up over the years, let go of faculty and staff, and restrict cash-flow to only the most necessary of expenditures. By the end of the impasse, regional state universities had learned valuable lessons about fiscal discipline and managing a university with limited personnel. They had also identified strategies for cash reserves and resources they could legally access in times of crisis.

In the future, increased investment in political capital, enrollment efforts, fundraising, and partnerships provide a multi-pronged approach to insulating a state university from unreliable state appropriations. Higher education is already in the midst of major disruptions. What started during the 2008 recession and continued up through

the COVID-19 pandemic may reach its zenith during the predicted 2026 enrollment cliff. With higher education pressured from multiple directions, a national realignment of interests may be necessary. Higher education represents one of the last great US exports, and state universities develop human capital that greatly increases the economic output of the country. But higher education also represents a battleground in what some refer to as the “culture war,” so consensus must be reached that not only is higher education a public good, but also a reliable economic resource.

Appeals to the intrinsic economic value of universities will not be enough to change the public and legislative perception of higher education, especially for public universities that rely on state appropriations. Rather than hope that state or federal support increases, regional public universities should look towards innovative ways in which to supplement decreased funding. This includes fundraising and partnerships, and expanding online learning. Put simply, hoping for the best, but preparing for the worst.

Recommendations for Future Research

In the future, more research will be needed to gauge exactly what level of tuition revenue will be needed to be in order to offset falling state support. Several areas of possible research could include:

- A look at international markets and the appeal of American higher education for students from abroad would prove a great benefit to recruitment efforts.
- Research into first-generation recruitment, fundraising strategies, and potential partnerships with other industries would go a long way in figuring out how to

insulate state universities from inconsistent and politically vulnerable state appropriations.

- A deeper dive into the nature of state appropriations and the mechanisms by which they're funded will be necessary as states reconcile their budget issues.
- Finally, in light of the recent COVID-19 pandemic, a replication of this study to explore how public universities in other states navigated the pandemic would shed light on just what kind of disruptions the higher education business model can endure.

Conclusion

Public universities must recognize that the funding model for public higher education has fundamentally changed. Shrinking state support, changing demographics, and disruptive technology are all putting pressure on the higher education business model. With this in mind, public universities must change how they operate and take a more assertive role in deciding their future. This translates to advocating for themselves in state and federal legislatures, seeking out new sources of revenue, and operating under a culture of austerity even if there appears to be no immediate financial crisis. One thing is clear, regional universities can ill afford another disruption like they experienced in 2015-2017, and for at least two of them in Illinois, they have yet to recover from the damage.

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APPENDIX A

Interview Questions

1. Can you describe how your institution was utilizing state funds in the few fiscal years prior to the state impasse?
2. In the fiscal year 15' before impasse, what percentage of your university's overall budget was made up of state appropriations?
3. What was the initial atmosphere and opinion at your institution as the budget impasse unfolded?
4. Prior to the impasse, what was your area of oversight's projection in terms of your budget?
5. When the budget impasse occurred, what were some of your institution's immediate actions and reactions during the first 3 months? Later on in the fiscal year? Fiscal year two of the impasse?
6. At the beginning of the impasse, what specific strategies were undertaken to respond to the lack of appropriated funds?
7. As the length of the impasse grew, what further strategies, if any, were developed?
8. Did your institution change its long-term budget planning due to the budget impasse?
9. What changes did your institution implement that you think will be permanent?
10. Going forward what are some steps that you would want to take today to insulate your institution from a future impasse?

11. Are there any examples of interventions/changes/practices that other institutions deployed to increase non appropriated revenue that you think are worth pursuing for Illinois public schools?

12. What expectations do you have for the state appropriation for the next ten years?

Informed Consent

CONSENT TO PARTICIPATE IN RESEARCH

The Illinois Budget Impasse and Higher Education: A Case Study

You are invited to participate in a research study conducted by Colin Roberts from the College of Student Affairs at Eastern Illinois University.

Your participation in this study is entirely voluntary. Please ask questions about anything you do not understand, before deciding whether or not to participate.

• PURPOSE OF THE STUDY

To detail in a case study the 2015 Budget impasse and its effects on Illinois public universities.

• PROCEDURES

If you volunteer to participate in this study, you will be asked to:

Participate in an interview regarding your university and their reaction to the Illinois Budget impasse, both in its official capacity and in the consequences relating to that.

- **POTENTIAL RISKS AND DISCOMFORTS**

All answers will be anonymous; however, some questions may be triggering if subject feels uncomfortable about the impasse years.

- **POTENTIAL BENEFITS TO SUBJECTS AND/OR TO SOCIETY**

Subject will not benefit directly from research, however research will go towards potentially benefiting industry subject is a part of.

- **CONFIDENTIALITY**

Any information that is obtained in connection with this study and that can be identified with you will remain confidential and will be disclosed only with your permission or as required by law. Confidentiality will be maintained by means of data encryption and data erasure three years after completion of research

- **PARTICIPATION AND WITHDRAWAL**

Participation in this research study is voluntary and not a requirement or a condition for being the recipient of benefits or services from Eastern Illinois University or any other organization sponsoring the research project. If you volunteer to be in this study, you may withdraw at any time without consequences of any kind or loss of benefits or services to which you are otherwise entitled.

There is no penalty if you withdraw from the study and you will not lose any benefits to which you are otherwise entitled.

You may also refuse to answer any questions you do not want to answer.

If you have any questions or concerns about this research, please contact:

Dr. Ken Wetstein

Thesis Advisor

217.581.5129

kawetstein@eiu.edu

- **RIGHTS OF RESEARCH SUBJECTS**

If you have any questions or concerns about the treatment of human participants in this study, you may call or write:

Institutional Review Board

Eastern Illinois University

600 Lincoln Ave.

Charleston, IL 61920

Telephone: (217) 581-8576

E-mail: eiuirb@eiu.edu

You will be given the opportunity to discuss any questions about your rights as a research subject with a member of the IRB. The IRB is an independent committee composed of members of the University community, as well as lay members of the community not connected with EIU. The IRB has reviewed and approved this study.

I voluntarily agree to participate in this study. I understand that I am free to withdraw my consent and discontinue my participation at any time. I have been given a copy of this form.

Printed Name of Participant

Signature of Participant

Date

I, the undersigned, have defined and fully explained the investigation to the above subject.

Signature of Investigator

Date