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States' Focus on Public Colleges Collides With Budget Reality

By Josh Keller

For decades, policy analysts have warned that a steady erosion of state support was undermining the basic foundations of public colleges and universities. Nowhere in the 2008-9 academic year was the damage more sudden and severe than in the five states of the Pacific West.

The region relies on public colleges and universities to educate a greater proportion of its students than any other part of the country does. Those institutions have thrived on picturesque campuses, dynamic job markets in surrounding communities, and a widespread public recognition of the value of affordable higher education.

But the Pacific West states have proven particularly vulnerable to the recession. Driven by the housing crash, the region's unemployment rate surpassed 10 percent in 2009; in Oregon it nearly doubled in eight months. Tourism and construction slowed in Hawaii. California faced political paralysis, teetered on the edge of bankruptcy, and now is saddled with the nation's lowest credit rating.

Fiscal problems in several states were compounded by narrow tax bases and legal restrictions on state spending. Washington lacks an income tax, Oregon lacks a sales tax, and California depends heavily on taxing the earnings of its wealthiest citizens. All three states have strict voter-imposed limits on how they can raise and spend money, constraining their ability to respond to a budget crisis.

Lawmakers in the region in every state but Alaska turned to deep cuts in education to close historically large budget deficits.

Universities in California, Hawaii, and Washington suffered cuts in state support of at least 20 percent, a previously unthinkable loss that is likely to grow. Throughout the year, shifting financial outlooks bred uncertainty and worry for college administrators struggling to make plans.

"You're kind of waiting for Godot: When does God come and tell you what your budget is?" said John A. Douglass, a senior research fellow at the Center for Studies in Higher Education at the University of California at Berkeley.

College officials say it may take a decade or longer to recover past levels of state support. That reality is forcing leaders of public institutions to more urgently reconsider major changes to their basic revenue and teaching models, and to push for renegotiating their relationships with state governments.

Private institutions took major hits to their endowments, with some of the most prominent institutions, such as Stanford University, recording the steepest declines. But budgets at most private colleges will avoid both the depth of cuts facing public institutions and the prospect of having to turn large numbers of students away because of fiscal restraints.

Fewer Seats

In the short term, lower levels of state support will sharply limit the number of seats available at public colleges, weaken faculty and staff salaries, and make it more difficult for students who are from low-income backgrounds and are the first generation of their families to attend college.

The most drastic changes are in California, where higher education faced its most difficult budget year in modern history. Lawmakers failed for months to reach budget agreements to close the state's ever-expanding deficit. Universities and other state agencies were repeatedly forced to lend the state money to keep it from going bankrupt.

The University of California and California State University sustained cuts in state support of about 20 percent in the 2009-10 academic year, and the state's 110-campus community-college system also received a 20-percent cut, its largest ever.

As a result of the cuts, the state's public colleges will simply shrink—by an estimated total of nearly 300,000 students by 2011. If that projection holds, the number of students turned away from the state's three public-college systems will be larger than the combined undergraduate populations of the University of California and the Ivy League.

Most of those who will be denied admission will come from the state's community colleges, which, like most two-year institutions, are seeing a burst of demand as people struggle to find new jobs and seek retraining. Federal proposals designed to increase community-college enrollments could limit, but not stop, the system's loss of students. California community-college officials estimate that they

will lose three dollars from the shrunken state budget for every dollar of federal money that has been proposed.

Faculty salaries at California universities will also be hit, promoting widespread fears of a brain drain from the prized University of California as professors look for better pay elsewhere. Starting in September, employees in the system will be placed on furloughs of 11 to 26 days per year. The furloughs amount to pay cuts of 4 percent to 10 percent. University officials estimate that faculty salaries will fall nearly 20 percent below those at comparable institutions.

California State University, too, approved a furlough for most of its employees, of 24 days per year. It also closed spring admissions in 2009 for the first time ever. The closure is part of a plan to save money by reducing enrollment over two years by 40,000 students, or 9 percent, the largest decrease in the system's history.

Large-scale enrollment cuts at California public institutions could benefit for-profit colleges, which have a strong presence in the state. It is unclear, however, if students turned away from the public universities will choose to pay the generally higher tuition at for-profit institutions.

Oregon, which has long trailed other West Coast states in its spending on higher education, had taken steps in recent years to make its universities more affordable. In the 2007-9 biennial budget, the state sharply increased its support for a statewide need-based grant program, the Oregon Opportunity Grant, a change that has been cited for increasing the enrollment of students from low-income families across the state's universities.

But the grant program was cut by 14 percent in the 2009-11 biennial

budget, preventing thousands of students who are eligible for grant aid from receiving it. A long-term plan to slow tuition growth at the state's universities was another victim of the state budget, which reduced general support for universities by 9.6 percent over two years. Tuition for full-time students will increase by an average of 8.5 percent this fall at the state's three most popular universities and by 6 percent elsewhere, instead of the 3 percent that had originally been planned.

Facing a burst of demand, enrollment at Oregon universities is expected to increase by nearly 5,000 students, or about 5 percent, from fall 2008 to fall 2010. Budget restrictions may soon force popular campuses, such as the University of Oregon and Portland State University, to cap enrollment, sending applicants to smaller, regional institutions instead.

College enrollment is growing even faster in Hawaii, which has seen a surge of high-school graduates and people seeking job retraining as the state's tourism and construction industries falter.

Community-college officials expect to see a one-year enrollment increase of as much as 25 percent this fall, including gains of 40 percent on some campuses.

The unprecedented growth is a response both to the recession and to a 2006 increase in state support that helped the system offer more courses. "What the downturn did was turn a modest 5- to 10-percent growth per year into an avalanche," said John F. Morton, vice president for community colleges at the University of Hawaii.

The university system is under new leadership as it grapples with the challenges of accommodating greater enrollment as well as a cut in state support of more than 20 percent over the two years ending

in 2011. In June, M.R.C. Greenwood was named president of the university. Ms. Greenwood, a former provost at the University of California, was a controversial pick because of her role in an executive-compensation scandal in 2005. She had been forced to step down as provost after an internal investigation concluded that she violated conflict-of-interest rules in hiring a personal friend.

Only Alaska, which depends heavily on revenues from the oil-and-gas industry, avoided cutting funds to colleges in 2009. The University of Alaska received a 4.1-percent increase in state support in the 2010 fiscal year, although it failed to receive support for major new construction projects and received little of the \$50-million it had requested to maintain existing facilities.

Tight credit markets did force Alaska to adopt stricter requirements for borrowers from the state's student-loan fund, the Alaska Student Loan Corporation. As of this academic year, applicants will be required to have credit scores above a certain threshold.

A Search for New Models

For all of the disastrous economic news, federal stimulus money prevented even steeper declines in state aid to higher education in 2009. For instance, more than 20 percent of California State University's state support in 2009-10, or \$640-million, was supplied by the federal stimulus package.

But more such support may not be forthcoming next year, and states may not be in a position to make up the shortfall. The possibility of further devastating cuts next year has created a new urgency for college administrators in the region to reconsider long-held assumptions about the structure of public universities.

"The stimulus money really masks how deep the decline is in overall

available ongoing revenues," said David B. Frohn-mayer, who retired in June after 15 years as president of the University of Oregon. "A number of institutions or systems may fall off the cliff in 2011."

Mr. Frohn-mayer has been tapped to lead an Oregon group that is looking into ways the state's universities might adopt a model that depends less heavily on state support. A similar effort is expected to start this fall at the University of California, where officials say they will consider ideas to generate more revenue, such as sharply increasing nonresident enrollment, charging more for certain majors, and offering online degrees.

"The funding model is broken, and it doesn't appear likely that any time soon it's going to be fixed," said Russell Gould, chairman of the University of California's Board of Regents, who will help lead the group.

Those discussions could fundamentally alter the nature of public universities in the Pacific West by generating momentum for major structural changes that would be highly unlikely in better times. But the effort could also peter out as political support dissipates or the economy begins to recover.

In the meantime, the recession is pushing universities in Oregon and Washington to demand more independence from state lawmakers to make their own decisions about issues like tuition and health care. Even as states slash their budgets, they are making it more difficult for universities to raise new revenue or come up with ways to reinvent themselves, college officials say.

It's "the experience of a lot of public-university systems throughout the country: the paradox of an increasingly tight grasp of state regulation at precisely the same time that the state is withdrawing

its underlying financial assistance," Mr. Frohnmayer said.

In Washington State, universities persuaded the Legislature to change a 7-percent cap in annual tuition increases to 14 percent, which they said was necessary to help deal with cuts in state support of more than 20 percent during the 2009-11 biennium. At least two institutions, the University of Washington and Washington State University, plan to increase tuition by 30 percent over the next two years.

Randy Hodgins, director of state relations at the University of Washington, said colleges had gotten over "anger, denial, and pouting" about the state budget to reach a stage of "acceptance." The future of the university will depend on thinking creatively about new financial models and obtaining more autonomy from the legislature, he said.

"For us, success in the State Capitol in the future is going to be less about how many dollars we brought home and more about how many bills we got passed."

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