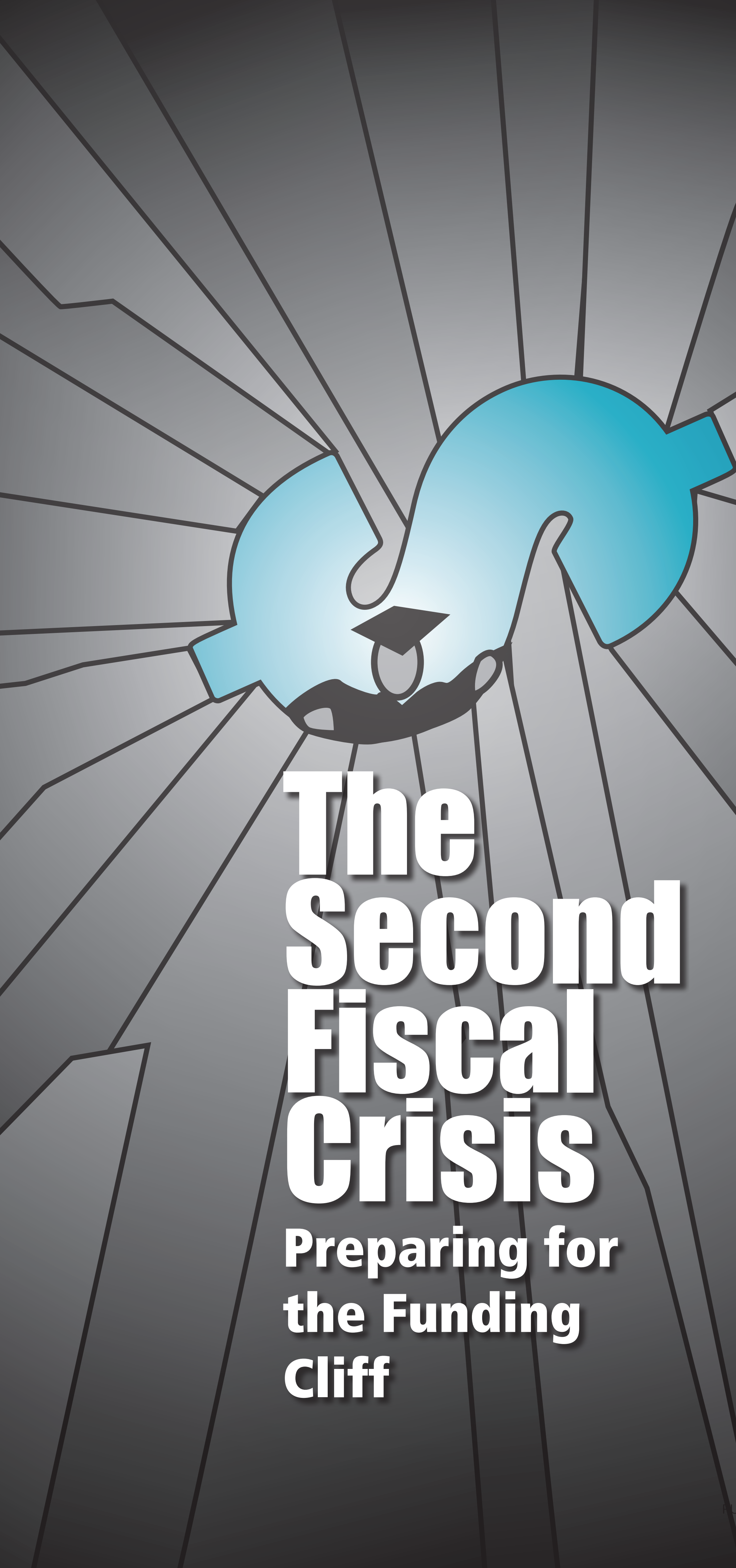

The Second Fiscal Crisis

Preparing for the Funding Cliff

The current recession—the worst in 60 years—has blown open gaps in states' budgets. States had to close a $102 billion budget shortfall in wrapping up their fiscal year 2009 balance sheets, which ended June 30 in all but four states. Cutting funding to higher education was a strategy used in 31 states to mend these shortfalls. Yet states face another $121 billion in deficits in fiscal year 2010, and already a few state budget directors have predicted $45 billion in awaiting deficits for the following year. Tax revenues from all sources—sales, personal and corporate income—are down, dramatically in many cases, in most states. So far in this recession, the number of jobs lost is more than twice that of the downturn in 1981 and 1982.

Even with a near-term, mild recovery, the fiscal outlook for states appears even more austere in the coming 12 to 18 months. While many economists foresee a rebound, unemployment rolls could swell through 2010, causing state revenues to lag, strained by Medicaid expenditures. Meanwhile, state revenues are not likely to increase. Some governors are boldly proposing tax increases to stem the fiscal bleeding, but in most cases, legislatures have not had the stomach to move on them for fear of facing a public backlash.

States were given a financial lifeline to patch their budget holes in the form of a $46 billion state fiscal stabilization fund, courtesy of the American taxpayer. The legislation in the American Recovery and Reinvestment act contains a "maintenance of effort" provision that requires states to fund their elementary, secondary and higher education systems at the higher of the FY 2008 or 2009 level—for fiscal year 2009 through fiscal year 2011. Alarmingly, states, on average, intend to spend more than 90 percent of all stimulus funds by the end of fiscal year 2010, based on an analysis of approved applications for the stabilization funds. This leaves little, if any, of these federal safety net monies for the following year.

Ultimately, with still lagging state revenues and one-time federal monies largely used up, states and their public colleges and universities face a potentially severe funding cliff in as little as 12 months. AASCU turned to higher education leaders representing five states that are facing particularly harsh fiscal circumstances and asked them how they are confronting current economic realities and preparing for even more ominous conditions that may lie ahead.

Daniel J. Hurley
Director of State Relations and Policy Analysis, AASCU

Prior to the inauguration of President Obama, the incoming administration began facing mounting pressure from much of the postsecondary education community to ensure that higher education would not be left out when final determinations were made about allocation of federal economic stimulus dollars. To their credit the new administration took these considerations to heart. When the American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law, college and university officials throughout the nation applauded the inclusion of higher education as an essential component of long term economic sustainability. Within this massive legislation, higher education would be impacted in many ways including the amount of student aid available to students and families, additional science and research funding, construction funding for "shovel ready" projects, and the creation of state stabilization funds developed to help offset anticipated deep cuts to all levels of public education.

Unfortunately, for those of us in public higher education in California, these encouraging prospects that surfaced in the early stages of the federal economic stimulus national discourse were quickly overcome by worry caused by a massive and unprecedented state budget deficit that climbed beyond $42 billion. Despite the federal economic stimulus funding, the California fiscal crisis would ultimately force public higher education to take an unprecedented state budget reduction of more than 20 percent within the current fiscal year. The good news is that California's students, like other students nationally, have benefitted immensely from the new student aid included as a part of ARRA. In fact, the addition of nearly $30 billion in student grant aid and tuition tax credits could not have come at a better time since substantive student tuition and fee increases were inevitable due to the magnitude of the state appropriation reductions. Beyond this infusion of new student aid funds, the verdict is still out when assessing the ultimate value of the federal economic stimulus funds for public higher education institutions in California. As of late summer, new university science and research funding had only begun to trickle out of Washington to our campuses, while many of our institutions have heard very little about whether higher education will receive "shovel ready" construction funds advanced in ARRA. Currently, our institution, like many other CSUs and UCs, continues to wait patiently for these funds to be released and to be included for consideration.

The one area of the federal economic stimulus funding that remains problematic resides in how the "state stabilization" funds are being used. These funds were supposed to offset some public education cuts. Unfortunately, one could argue that by supplanting over 1.2 billion dollars in recurring state appropriated funds with nonrecurring federal stabilization funds to the CSU and UC, the actual state funding cut is much higher than the obvious 20 percent reduction. Instead, the actual state budget reduction falls in the range of 40 percent to 45 percent if the nonrecurring stimulus funds are not replaced within the next fiscal year. If these funds are not replaced in California, it is conceivable that nearly half of all the state budget reductions were concealed or masked through state stabilization funds. This issue also has generated much concern from AASCU presidents in other states as they struggle to determine the full financial impact of their next state budgets.

Despite this significant concern, the federal government did have the foresight to utilize "Maintenance of Effort" (MOE) considerations within ARRA that hold states accountable for their funding commitments. Using MOE to penalize states that reduce their educational spending below previous spending levels is a much needed development for public higher education that was first used in the Higher Education Opportunity Act of 2008. In the case of California, higher education was cut to the exact threshold of where MOE fiscal penalties would begin. Hopefully, the federal government will continue to hold states more accountable with additional MOE provisions while also refraining from issuing widespread exemptions to these requirements from the Secretary of Education.

Thanks to the great California fiscal debacle, the verdict is still out regarding the effectiveness of the federal economic stimulus legislation on California public higher education. Only time will provide an accurate picture of the true impact of the American Recovery and Reinvestment Act of 2009 on public universities in California and the nation. Hopefully, when the smoke clears and our economies begin to recover we will realize that ARRA did much more for public higher education than serving to protect our students with increases in federal student aid.

F. King Alexander
President, California State University Long Beach

One might think there is a sense of relief now that the difficult budget process is over for many higher education institutions. The reality is that things will get tougher. Here at Eastern Washington University, an infusion of federal stimulus dollars helped soften the blow of deep budget cuts. I wonder, however, where the chunk of money will come from the next time we tackle our budget. We can only hope the economy rebounds so the state can backfill some of the funding.

This is why, at Eastern, we are holding down spending in anticipation of more critical budget reductions that we may see in the next biennial budget cycle—and perhaps even in the current one. The university plans to do this by limiting hiring and examining the reorganization of academic and administrative units, which would reduce staffing and operational costs.

In partnership with our fellow public universities in Washington, EWU will vigorously promote the economic benefits of higher education to our lawmakers. At the same time, we will remind them of the long-term effects of decreased higher education funding to the state's economy. Collaborative action to increase support for higher education from both legislators and business and industry groups is needed immediately. I believe this is the most responsible way to minimize a bigger fiscal and functional calamity in the next couple of years for higher education institutions.

Rodolfo Arévalo
President, Eastern Washington University

Rhode Island College has successfully used the *pro bono* time and talents of on- and off-campus friends:

1. A Budget Review Committee, representing all segments of the college and external friends, made and implemented recommendations for saving and raising money. Examples of savings include $150,000 saved by moving to an e-campus newspaper, and another nearly $100,000 in annual mailroom savings by promoting e-mail. My presidential slogan for such initiatives is, "Going green and saving greenbacks." In all, we saved $500,000.
2. A "tag team" convened to create a new marketing plan, including a tagline and logo. The team (the college's marketing professors, students, PR professionals, graphic designers and alumni) discussed and tested tags, 150 of which were submitted by the campus community. The team also recruited theatre and communications students and alumni who filmed an advertisement. All work was *pro bono*.
3. With the permission of on-campus unions, the ironworkers local sent volunteers to demolish and remove rusted ironwork for a savings of nearly $10,000. Discussions are also underway with local universities to use the architectural and engineering talents of their faculty and students to support other *pro bono* projects.

In addition to the above uses of the *pro bono* talents, we engaged in all the usual less-pleasant techniques.

Nancy Carriuolo
President, Rhode Island College

Louisiana is projected to have severe fiscal challenges for the next several years and, although the use of federal stimulus funds will mitigate the financial impacts for this year and the next, the FY11-12 budget outlook is very serious when the federal funds are exhausted. It is projected that Louisiana postsecondary education could then be expected to operate on approximately 40 percent less state financial support than was received this past year.

State leadership, in consultation with the Commissioner of Higher Education and the Louisiana Board of Regents, has taken a proactive approach to preparing for the severe budget projections and established by law a Postsecondary Education Review Commission charged with reviewing "all aspects of postsecondary education in order to ensure that the enterprise is operating efficiently, effectively, and in a manner that best serves students, their families, and the state and to make recommendations for changes necessary to ensure that the system is operating in that manner." The commission is comprised of the president of the Southern Association of Colleges and Schools, the former long-time president of the Southern Regional Education Board, the current president of the Western Interstate Commission for Higher Education, the president of the National Association for Equal Opportunity in Higher Education, the chair of the Louisiana Board of Regents, two appointees by the Governor, and one appointee each by the president of the Louisiana Senate and the speaker of the Louisiana House of Representatives. The commission is authorized to use nationally recognized experts, establish advisory committees, and use staff of Louisiana higher education boards, systems and institutions in order to research and prepare a report of findings and recommendations prior to the 2010 legislative session.

It is intended that this comprehensive and aggressive planning for the future will provide the State a blueprint for actions designed to maximize the use of available resources and obtain optimal performance from its postsecondary education systems and institutions.

Sally Clausen
Commissioner of Higher Education,
Louisiana Board of Regents

There is a new reality for public higher education, given the imperative to graduate more students with relevant degrees for the next economy and the continued erosion of state support.

I have testified in front of our state's House and Senate higher education appropriation committees and pleaded the case for their support. As a good sailor knows, you do not cut your engines with storms around you. We need a compact that recognizes our obligation to balance our current economic situation with a vision of a future in which talent will be the capital of economic growth.

Talent drives prosperity. It is incumbent on our colleges and universities to attract and retain talent that graduates into the workforce. Leadership must remove barriers to graduation (such as the elimination of outdated pre-requisites), and advise students to take maximum loads consistent with their academic background—all intended to accelerate time to graduation. The result is greater stability for the institutions and lower overall cost of the degree by the student.

The second focus supporting talent development in these times is for institutions to strengthen partnerships with the K -12 sector and community colleges, as well as relationships with businesses and industries. The pipeline to the workforce is one of mutual dependence, and through co-op or internship experiences all benefit on keeping the talent where it is needed.

Thomas J. Haas
President, Grand Valley State University