

SLAMMING SHUT THE DOORS TO COLLEGE

The State Budget Crisis & Higher Education

There is bad news on the horizon for America's college students: state colleges, facing the worst state budget crunch in a decade, are proposing the largest tuition hikes in recent history.

The shaky economic recovery has not caught up with state budgets. The states face a total deficit that is greater than \$40 billion, according to the National Governors Association. The National Conference of State Legislatures reports revenue shortfalls in 45 states and the District of Columbia. Nearly every state is legally required to balance their budgets. Education, which comprises more than one-third of state budgets, is inevitably in line for cuts.

States have already proposed to cut \$5.5 billion in state higher education funding. To offset state budget cuts, colleges and universities in California, Idaho, Illinois, Indiana, Massachusetts, Pennsylvania, Minnesota, Mississippi, Virginia, and Washington have proposed double-digit tuitions increases for this fall, according to the American Association of State Colleges and Universities. Private colleges seeing similar drops in endowment income and slowed growth in charitable giving may also be forced to raise tuition.

If these trends continue, an additional 110,000 students could be unable to afford college next fall. No longer a luxury for the elite, two-year and four-year college educations are increasingly important for all Americans' economic security. Over the course of a lifetime, a college graduate can expect to earn \$1 million more than a high school graduate.

At the same time, the Bush Administration has failed to recognize this need. Its budget cuts Pell grants from \$4,000 to \$3,900 and gives financial aid to 375,000 fewer students. It has proposed raising interest rates on existing student loans.

Projections are not destiny. In the next several months, state and federal policymakers will write next year's budgets. Their decisions will impact millions of current and prospective college students. To prevent the state budget crunch from limiting college opportunity, Congress must invest substantially more in student aid to help more college students.

KEY FINDINGS

- **States Have Already Cut \$5.5 Billion from Higher Education.** Although the economy is improving, states are still struggling with the legacy of the economic slowdown: budget deficits that exceed \$40 billion.
 - ✓ This year, 30 states have rescinded a total of \$1.5 billion in higher education funding.
 - ✓ For next year, pending budget proposals fall \$4 billion short of maintaining current services in the face of inflation and rising enrollment.
 - **Higher Tuitions Could Close the Doors of College to 110,000 Students.** In past recessions, colleges have raised their tuitions by 11 percent or more—nearly twice the average in other years. Such an increase could make public college unaffordable for an estimated 110,000 students graduating from high school this year.
 - **The Bush Administration’s Student Aid Budget Would Serve 375,000 Fewer Low-Income Students.** According to the Congressional Budget Office, under the Bush budget, the maximum Pell grant would be cut to \$3,900. The Pell grant program needs a \$1.8 billion increase over the Administration’s budget to keep pace with growing enrollments and provide a \$4,400 maximum grant to match tuition increases.
 - **College Opportunity Remains Uneven.** An analysis by the Joint Economic Committee concludes that:
 - ✓ The demand for workers with postsecondary training is growing rapidly. College nearly doubles workers’ income, on average.
 - ✓ Even academically qualified low-income students are far less likely to go to college than their wealthier peers, largely due to the cost of college.
 - ✓ Currently, federal financial aid falls short of making college affordable for all. Recent policy initiatives have not been well designed to advance the fundamental goal of student aid: ensuring that all Americans can finance a college education.
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State Budget Deficits Lead to Cuts in College Funding

Most States Are Facing Mid-Year Fiscal Crises

In December 2001, states faced a collective budget deficit of approximately \$40 billion, according to the National Governors Association. Nearly every state has constitutional or statutory balanced budget requirements. At least 40 states and the District of Columbia have (or expect to) cut spending to address fiscal year 2002 shortfalls (National Conference of State Legislatures, April 2002).

Some states, including Florida and Virginia, have delayed implementation of previously enacted tax cuts. Several states, including Alabama, North Carolina, and Ohio have enacted tax hikes to balance state budgets. Finally, a number of states, like Massachusetts and Arizona, have drawn down “rainy day” savings funds to balance their budgets (Center on Budget and Policy Priorities, January 2002).

States Cutting Higher Education

Public Colleges Have Already Felt a \$1.5 Billion Mid-Year Cut. States have already made \$1.5 billion in mid-year cuts to higher education funding in their 2002 budgets, according to a Congressional survey of 49 state budget officers (see Table 1). That survey found:

- Thirty states made mid-year cuts in higher education.
- New York alone has cut \$425 million (or 10 percent) from its previously enacted 2002 budget in the aftermath of the September 11th attacks. Other states like Florida, Indiana, and Missouri have made comparable cuts in percentage terms.
- The 49 surveyed states funded public colleges at approximately \$56.8 billion, before cutting \$1.5 billion. Those institutions serve 11.9 million students.

Education Will See Cuts. Education funding comprises more than one-third of state budgets (U.S. Department of Education, *Digest of Education Statistics*, 2000). Because of the magnitude of the budget shortfalls, education cuts have proven inevitable in most states.

States Are More Likely to Cut Higher Education than K-12 Funding. Budget cuts to education have fallen disproportionately on higher education (Compare

Table 1. In 2002, \$1.5 Billion in Mid-Year Cuts to State Higher Education

(Dollars in millions)

State	2002 Public Enrollment	Original Enacted 2002 Budget	Mid-Year Cuts
Alabama	207,820	\$1,117.6	\$2.5
Alaska	27,074	\$555.1	\$0.0
Arizona	291,186	Not Available	Not Available
Arkansas	108,906	\$867.3	\$14.0
California	1,784,008	\$10,042.0	Not Available
Colorado	231,286	\$764.7	\$10.6
Connecticut	102,063	\$579.8	\$11.3
Delaware	38,887	\$200.9	\$3.6
Florida	570,179	\$1,828.1	\$111.6
Georgia	250,231	\$1,753.7	\$4.0
Hawaii	48,989	\$428.8	\$2.9
Idaho	55,456	\$357.5	\$11.0
Illinois	562,332	\$2,667.0	\$105.0
Indiana	243,274	\$1,472.0	\$115.0
Iowa	140,976	\$701.6	\$28.3
Kansas	165,571	\$706.9	\$0.0
Kentucky	154,472	\$1,166.9	\$17.3
Louisiana	198,756	\$934.5	\$0.0
Maine	42,528	\$224.7	\$0.0
Maryland	232,733	\$1,295.9	\$13.3
Massachusetts	191,316	\$1,011.0	\$6.8
Michigan	486,764	\$2,242.5	\$25.0
Minnesota	218,678	\$1,380.0	Pending
Mississippi	127,923	\$765.8	\$32.1
Missouri	210,087	\$1,150.5	\$95.0
Montana	40,406	\$138.8	\$0.0
Nebraska	93,159	\$525.2	\$8.8
Nevada	89,875	\$381.6	\$0.8
New Hampshire	36,813	\$103.8	\$0.2
New Jersey	277,995	\$1,285.5	\$64.3
New Mexico	108,694	\$605.2	\$0.0
New York	596,887	\$4,312.0	\$425.0
North Carolina	338,662	\$1,802.0	\$66.0
North Dakota	37,881	\$176.0	\$0.0
Ohio	433,764	\$2,565.1	\$121.0
Oklahoma	163,750	\$860.5	\$21.6
Oregon	156,179	Not Available	Not Available
Pennsylvania	355,124	\$1,826.0	\$34.6
Rhode Island	40,737	\$174.9	\$0.4
South Carolina	161,785	\$894.7	\$36.6
South Dakota	36,044	\$131.7	\$0.3
Tennessee	204,103	\$1,083.7	\$12.0
Texas	908,834	Not Available	Not Available
Utah	127,068	\$606.9	\$20.7
Vermont	21,691	\$71.8	\$1.8
Virginia	328,359	\$1,573.4	\$28.5
Washington	277,639	\$1,362.6	\$0.0
West Virginia	80,923	\$437.1	\$0.0
Wisconsin	263,087	\$1,258.3	\$0.0
Wyoming	29,453	\$359.8	\$0.0
Total	11,900,404	\$56,751.3	\$1,452.1

NOTES: Enrollment figures from the *Chronicle of Higher Education*. Budget figures from congressional staff survey of state budget offices. California figures were not available at press time. Oregon operates on a biennial budget; for FY02-03 the higher education budget is \$808 million. Texas operates on a biennial budget; for FY02-03 the higher education budget is \$15.4 billion.

Senate HELP Committee and House Education and Workforce Committee, *Education in Crisis: The State Budget Crunch and Our Nation's Schools*, October 2001). According to state analysts, state officials believe that public colleges can offset revenue losses more easily than school districts by raising tuition and fees.

Additional Cuts Are Expected this Fall

State Budgets Face Hangover from the Recession. Even as the economy begins to recover, state revenue growth is expected to lag. More often than not, income tax receipts lag behind income gains by as much as six months. Corporate taxes and capital gains tax receipts regularly lag more than a year due to loss carry-forward tax provisions and delayed sale of assets in stronger economic times. Overall state tax receipts typically lag an economic recovery by 12 to 18 months, according to the National Association of State Budget Officers.

The National Conference of State Legislatures reports that, in addition to the more than 40 states experiencing deficits in 2002, 37 states and the District of Columbia are projecting deficits in their 2003 budgets. As of the end of March, 24 states were failing to meet even projections that had been revised downward.

State Revenue Is Still Dropping. The current economic cycle lag between state revenue and overall economic growth is already evident. According to the Rockefeller Institute of Government at the State University of New York at Albany:

- During the third quarter of 2001, gross domestic product (GDP) shrank at an annual rate of 1.3 percent, according to the Bureau of Economic Analysis. In that same quarter, state revenues declined by 3.1 percent.
- During the fourth quarter of 2001, GDP *grew* at an annual rate of 1.7 percent, but state revenues again declined — this time by 2.7 percent.

States Plan \$4 Billion in Additional Cuts to Higher Education. According to a Congressional survey of state budget officers, additional cuts in higher education funding are planned for next school year (See Table 2).

- States plan an additional \$4 billion in cuts to higher education, after funding is adjusted for inflation and enrollment growth.
- Total cuts are likely to grow above \$4 billion as states grapple with continued shortfalls. New Jersey's governor, for example, estimates that the state will have

Table 2. In 2003, \$4 Billion in Cuts to State Higher Education

(Dollar figures in millions.)

State	2003 Enrollment	2003 Current Services	2003 Governor's Proposal	Shortfall
Alabama	211,369	\$1,191	\$1,146	\$45
Alaska	27,536	\$592	\$621	\$29
Arizona	296,159	\$972	\$888	\$84
Arkansas	110,765	\$925	\$867	\$57
California	1,814,475	\$10,705	\$10,222	\$483
Colorado	235,235	\$815	\$789	\$26
Connecticut	103,806	\$618	\$594	\$24
Delaware	39,551	\$214	\$201	\$13
Florida	579,917	\$1,949	\$1,859	\$89
Georgia	254,505	\$1,869	\$1,678	\$191
Hawaii	49,825	\$457	\$438	\$19
Idaho	56,403	\$381	\$317	\$64
Illinois	571,936	\$2,843	\$2,641	\$202
Indiana	247,428	\$1,569	\$1,458	\$111
Iowa	143,383	\$748	\$664	\$84
Kansas	168,398	\$754	\$706	\$47
Kentucky	157,110	\$1,244	\$1,159	\$85
Louisiana	202,150	\$996	\$936	\$60
Maine	43,254	\$240	\$232	\$7
Maryland	236,707	\$1,381	\$1,351	\$31
Massachusetts	194,583	\$1,078	\$997	\$81
Michigan	495,076	\$2,391	\$2,243	\$148
Minnesota	222,412	\$1,471	\$1,464	\$7
Mississippi	130,108	\$816	\$618	\$198
Missouri	213,675	\$1,226	\$1,081	\$145
Montana	41,096	\$148	\$147	\$1
Nebraska	94,750	\$560	\$546	\$14
Nevada	91,409	\$407	\$456	\$50
New Hampshire	37,442	\$111	\$107	\$4
New Jersey	282,742	\$1,370	\$1,221	\$149
New Mexico	110,550	\$645	\$597	\$48
New York	607,080	\$4,597	\$3,882	\$715
North Carolina	344,445	\$1,921	\$1,797	\$124
North Dakota	38,528	\$188	\$182	\$6
Ohio	441,172	\$2,734	\$2,589	\$145
Oklahoma	166,547	\$917	\$858	\$60
Oregon	158,846	Not Available	Not Available	Not Available
Pennsylvania	361,189	\$1,946	\$1,808	\$138
Rhode Island	41,433	\$186	\$181	\$5
South Carolina	164,548	\$954	\$896	\$58
South Dakota	36,659	\$140	\$138	\$2
Tennessee	207,589	\$1,155	\$1,218	\$63
Texas	924,355	Not Available	Not Available	Not Available
Utah	129,238	\$647	\$634	\$13
Vermont	22,062	\$77	\$73	\$3
Virginia	333,967	\$1,677	\$1,470	\$207
Washington	282,381	\$1,452	\$1,379	\$74
West Virginia	82,305	\$466	\$424	\$42
Wisconsin	267,580	\$1,341	\$1,287	\$55
Wyoming	29,956	\$384	\$364	\$20
Total	12,103,637	\$61,469	\$57,428	\$4,042

NOTES: Based upon a congressional survey of state budget officers. Total enrollment based on data from the *Chronicle of Higher Education*. Adjusted for enrollment growth and higher education inflation as per the Higher Education Price Index published by Research published by Research Associates of Washington. The Governor's recommendation for Mississippi for 2003 does not include \$40 million in additional Medicaid revenue to the state University Medical Center. Oregon operates on a biennial budget; for FY02-03 the higher education budget is \$808 million.

a budget deficit of \$6 billion in 2003. In February, California's Legislative Analyst raised its estimate of California's biennial 2002 and 2003 deficit by \$5 billion.

Private Colleges Face Decline in Endowment Earning and Donations after September 11th

Private Colleges Are Also Feeling the Lingering Impact of the Recession. Even though the economy shows some recent signs of improving, some independent institutions were dealt a double blow last year: a drop in endowment income and in donations. Students on many of these campuses will feel the sting of higher tuition bills this fall.

Last Year, College Endowments Suffered the Worst Losses in 17 Years.

According to National Association of College and University Business Officers, the average endowment showed a negative 3.6 percent return on investment (2001 Endowment Study, March 2002). NACUBO found that:

- While some institutions showed gains, two of every three endowments declined in value. Boston University was hit hard with a 27 percent loss. Carleton College suffered a 20 percent loss. Emory University had the second largest endowment loss in the country — a drop of \$712 million or 14 percent.
- The good times have stopped for many private institutions, large and small. The financial picture may be particularly bleak for those institutions that rely on endowment income to pay for faculty salaries, student financial aid, and other operating expenses. The lower and longer the financial markets lag, the larger the budget impacts on these institutions and the greater the pressure to raise tuition to offset endowment losses.
- Because endowment earnings make up over one-fourth of its annual operating budget, Texas Christian University announced last year that tuition would have to increase an additional 2 percentage points due to a \$72 million loss in investment income. Consequently, new students and returning sophomores at the university will pay \$16,300 in tuition and fees this fall, an increase of \$1,300 or 8.7 percent.

The Sluggish Economy Has Undercut College Fundraising as Well. Many potential donors are waiting for better performance in the financial markets before committing to big gifts. Donations to higher education institutions slowed to a

4.3 percent increase last year, compared to 13.7 percent the previous year (RAND Council for Aid to Education). However, this small increase was prior to the attacks on September 11th.

- September 11th put a damper on education fundraising. Twice as many education organizations reported decreases in funds raised in October than did in the month before the attacks (Association of Fundraising Professionals, *Study of the Impact of the Events of September 11 on Charities*, 2002).
- The associate vice president for marketing for the University of Cincinnati Foundation commented last fall, “Fair to say that private giving is down. The climate is not particularly good for planned gifts and major gifts. We hear that many if not most fund-raising organizations are experiencing this” (*Cincinnati Enquirer*, October 11, 2001).

Past Recessions Have Led to Higher Tuitions

College Tuition Increases Nearly Twice as Fast During Recessions. Tuition grows nearly twice as fast during recessions (see Table 3). Across sectors of higher education, tuition grew by double-digit percentages in three of the last four recession years. Over the last 20 years, on average:

- Tuition at four-year public colleges rose by 11.5 percent during recessions and only 6.5 percent in other years;
- Tuition at four-year private colleges rose by 11.3 percent during recessions and only 6.7 percent in other years; and
- Tuition at two-year public colleges rose by 10.9 percent during recessions and only 6.4 percent in other years.

Cuts in State Funding Is the Number One Cause of Higher Tuition. The U.S. Department of Education recently completed a comprehensive, Congressionally chartered study of why college costs are rising so quickly (*Study of College Costs and Prices, 1988-89 to 1997-98*, December 2001). The Department concluded,

“For public four-year institutions, revenue from state appropriations remains the largest source of revenue and is the single most important factor associated with

changes in tuition. ... Decreasing revenue from government appropriations (in which state governments make up the majority) was the most important factor associated with tuition increases.”

Table 3. Recessions Lead to Larger Tuition Increases
(Recession Years Shaded)

<u>Academic Year</u>	<u>Public Four-Year Tuition</u>	<u>% Change</u>	<u>Public Two-Year Tuition</u>	<u>% Change</u>	<u>Private Four-Year Tuition</u>	<u>% Change</u>
1976-77	\$617	N/A	\$283	15.51%	\$3,977	N/A
1977-78	\$655	6.16%	\$306	8.13%	\$4,240	6.61%
1978-79	\$688	5.04%	\$327	6.86%	\$4,609	8.70%
1979-80	\$738	7.27%	\$355	8.56%	\$5,013	8.77%
1980-81	\$804	8.94%	\$391	10.14%	\$5,594	11.59%
1981-82	\$909	13.06%	\$434	11.00%	\$6,330	13.16%
1982-83	\$1,031	13.42%	\$473	8.99%	\$7,126	12.58%
1983-84	\$1,148	11.35%	\$528	11.63%	\$7,759	8.88%
1984-85	\$1,228	6.97%	\$584	10.61%	\$8,451	8.92%
1985-86	\$1,318	7.33%	\$641	9.76%	\$9,228	9.19%
1986-87	\$1,414	7.28%	\$660	2.96%	\$10,039	8.79%
1987-88	\$1,537	8.70%	\$706	6.97%	\$10,659	6.18%
1988-89	\$1,646	7.09%	\$730	3.40%	\$11,474	7.65%
1989-90	\$1,780	8.14%	\$756	3.56%	\$12,284	7.06%
1990-91	\$1,888	6.07%	\$824	8.99%	\$13,237	7.76%
1991-92	\$2,117	12.13%	\$936	13.59%	\$14,258	7.71%
1992-93	\$2,349	10.96%	\$1,025	9.51%	\$15,009	5.27%
1993-94	\$2,537	8.00%	\$1,125	9.76%	\$15,904	5.96%
1994-95	\$2,687	5.91%	\$1,192	5.96%	\$16,602	4.39%
1995-96	\$2,848	5.99%	\$1,239	3.94%	\$17,612	6.08%
1996-97	\$2,987	4.88%	\$1,276	2.99%	\$18,442	4.71%
1997-98	\$3,110	4.12%	\$1,314	2.98%	\$19,070	3.41%
1998-99	\$3,229	3.83%	\$1,327	0.99%	\$19,929	4.50%
1999-2000	\$3,349	3.72%	\$1,338	0.83%	\$20,706	3.90%
2000-01	\$3,506	4.69%	\$1,359	1.57%	\$21,907	5.80%
Recession Average		11.52%		10.93%		11.26%
Non-Recession Average		6.45%		6.67%		6.43%

NOTES: Data from the U.S. Department of Education, *Digest of Education Statistics 2001*, Table 316. Data for four-year colleges not available before 1976-77. Data represent the average annual undergraduate tuition and required fees charged to in-state students for public colleges and all students for private colleges, weighted by enrollment. Tuition is not adjusted for inflation. An academic year was treated as a “recession year” if a recession occurred in the months prior to the beginning of that year, when policymakers generally set tuition. The recessions in the time period under analysis, as determined by the National Bureau of Economic Research, are the “double dip” recession of January 1980 until July 1980 and July 1981 until November 1982 (treated here, as elsewhere, as a single recession) and from July 1990 until March 1991. The Congressional Research Service helped collect and analyze this data.

The Early 1990s Recession Restricted College Opportunity. The National Center for Public Policy and Higher Education analyzed the impact of the early 1990s recession on higher education (*Coping with Recession*, 2002). It found that:

- Over three years, California cut funding by 19 percent for the University of California, 12 percent for California State University, 1 percent for California community colleges, and 15 percent for state student aid programs. This was a total cut of \$590 million in state support for higher education.
- Between 1990 and 1995, tuition at New York colleges rose from 4.2 percent to 7.7 percent of median family income. Tuition at California public colleges rose from 1.7 percent to 3.1 percent of median income.
- The report concluded, “When higher education faces cuts in state funding, the state and higher education institutions are likely to shift shortfalls to students and their families by raising tuition. Formulas for setting tuition are early victims of tight budgets.”

Higher Tuitions Reduce College Opportunity

Financial Aid Falls Far Short of the Need. Even with financial aid, low-income students fall \$3,200 short of being able to afford even community colleges. Low-income students have an average unmet need of \$3,800 at four-year public colleges and \$6,200 at four-year private colleges (U.S. Department of Education, *College Access and Affordability*, 1999).

Tuition Increases Will Push College Costs Out of Reach for More Americans. Economists estimate that each \$1,000 increase in tuition will reduce the college enrollment rate by 5 percentage points (Thomas Kane, *The Price of Admission*, p. 114).

College Opportunity Is at Risk for at least 110,000 Americans. States have proposed to cut \$5.5 billion from higher education. At the same time, President Bush proposes to cut federal financial aid. If colleges respond by raising tuition at their historic average during recessions, public colleges could become unaffordable for 110,000 graduating seniors who would otherwise attend next year (see Table 4). In addition, higher tuition without greater student aid may force college students to drop out and deny adults the opportunity to return to school.

Table 4. Projected Tuition Hikes Could Deny College to 110,000 Graduating Seniors

High School Graduating Class of 2002	2,849,000
Projected Increase in College Tuition	\$772
Students Priced out of College	110,000

NOTES: Graduating class from U.S. Department of Education, *Projections of Education Statistics until 2011*, Table 23. Projected increase in tuition from Table 3, as well as unpublished calculations for two-year private colleges, weighted by enrollment. Projected decline in enrollment is based on the assumption that a \$1,000 increase in tuition reduces the percent of graduating seniors who enroll in college within 20 months by 5 percentage points (Thomas Kane, *The Price of Admission*, pp. 19, 114); estimate does not include current college students or adults returning to school.

The Bush Budget Leaves More than 375,000 College Students Behind

Higher Education Is at One of Its Most Difficult Moments in Recent History.

Higher education institutions must cope with massive cuts in state funding, a drop in endowments, and soft private giving at a time of a record number of individuals who want a college education. It is a time when a strong investment in federal student assistance has never been more important.

A Record 15.8 Million College Students Are Projected to Enroll in 2003.

Enrollments are expected to continue to grow through 2011. A greater share of these students will be from families requiring federal financial assistance to make their dream of a college diploma for their children a reality (U.S. Department of Education, *Projections of Education Statistics until 2011*).

Colleges and Universities Face Unprecedented Demand. Americans value education and understand that a higher education is essential in order to be successful in today's global economy. They believe that the federal government has a vital role to play in leveling the playing field so that all Americans, regardless of their income status, have access and opportunity to go to college. For example, 81 percent of respondents in a recent nationally recognized poll indicated that providing enough student aid for low-income students to enter and complete college is a good reason to increase federal spending on education (Ipsos-Reid poll released March 19, 2002).

President Bush's FY 2003 Budget Leaves More than 375,000 College Students Behind. The Bush budget makes no effort to meet the increased challenge of making

college more affordable for a growing number of low-income students facing double-digit tuition and fee increases.

- In fact, the Bush budget cuts student financial assistance programs \$1.4 billion below the amount needed just to accommodate higher education inflation and enrollment growth.
- As a result, more than 375,000 fewer college students would receive federal student financial assistance compared with a current services budget. (Table 5)
- Even with an additional \$1.4 billion, a current services budget would fall short of what is needed to fulfill the growing need for college aid for all who qualify.

Table 5: Bush Budget Leaves More Than 375,000 College Students Behind
(Dollars in Millions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2003</u>	<u>Bush Cuts from Current</u>	
	<u>Appropriation</u>	<u>Current Services</u>	<u>Bush Budget</u>	<u>Services</u>	
				<u>Dollars</u>	<u>Students</u>
Pell Grants	\$10,314	\$11,944	\$10,863	-\$1,081	-101,000
<i>Memo: Pell Grant maximum award in dollars</i>	<i>\$4,000</i>	<i>\$4,200</i>	<i>\$3,900</i>	<i>-\$300</i>	<i>N/A</i>
Supplemental Educational Opportunity Grants	\$725	\$774	\$725	-\$49	-83,000
College Work Study	\$1,011	\$1,079	\$1,011	-\$68	-65,000
Perkins Loans	\$168	\$179	\$168	-\$11	-48,000
Leveraging Educational Assistance Partnerships	\$67	\$72	\$0	-\$72	-72,000
Loan Forgiveness for Child Care Providers	\$1,000	\$1,067	\$1,000	-\$67	0
TRIO	\$803	\$856	\$803	-\$54	-55,000
GEAR UP	\$285	\$304	\$285	-\$19	51,000
Byrd Fellowships	\$41	\$44	\$41	-\$3	-2,000
Javits Fellowships	\$10	\$11	\$10	-\$673	0
Graduate Assistance in Areas of National Need	\$31	\$33	\$31	-\$2	-200
Thurgood Marshall Scholarships	\$4	\$4	\$0	-\$4	-400
B.J. Stupak Olympic Scholarships	\$1	\$1	\$0	-\$1	-200
Total	\$13,460	\$15,302	\$13,937	-\$1,365	-375,800

NOTES: Committee staff estimates. FY 2003 current services level for Pell Grants is the Congressional Budget Office estimate of the cost to pay a \$4,200 maximum Pell award - the FY 2002 maximum Pell award level inflated by a projected 4.8% higher education inflation rate for FY 2003. The FY 2003 current services levels for other programs are calculated by multiplying their FY 2002 appropriations by a 4.8% higher education inflation rate and by a 1.8% higher education enrollment growth projection by the National Center for Education Statistics in *Projections of Education Statistics to 2011*. FY 2002 Appropriation column excludes Bush Administration Pell Grant supplemental request of \$1,276,000,000 for shortfalls in the 2001 and 2002 academic years. The FY 2003 Bush budget states that the Pell grant request would support a \$4,000 maximum award; however, the Congressional Budget Office estimates that the Bush FY 2003 budget would support only a \$3,900 maximum award. Calculations of the number of students served are derived from Congressional Budget Office estimates for Pell grants and from estimates of student awards in the *Department of Education FY 2003 Justifications of Appropriations Estimates to the Congress* for the other programs.

The Bush Budget Cuts Pell Grants, Leaving over 100,000 Low-Income Students Behind. Pell college scholarships for low-income students are the foundation of federal efforts to ensure that all qualified Americans can attend college. Because of the economic downturn, there has been an unprecedented expansion in the number of students applying for Pell Grants. More temporarily unemployed adults are going back to school and more families are qualifying for need-based financial aid. In the 2001 academic year, over 9.3 million students applied for a Pell Grant — the most ever.

- Last year, Congress insisted that the maximum Pell grant be increased by \$250 to \$4,000 for the 2002 school year. Nevertheless, the purchasing power of Pell grants has eroded to only about half its level 25 years ago (See *infra*, Joint Economic Committee, *A Risky Investment Strategy*, page 34).
- The Congressional Budget Office estimates that \$11.9 billion is needed to support a \$4,200 maximum Pell grant in the 2003 school year, the award level needed just to offset the effects of higher education inflation.
- Another \$723 million (\$12.7 billion in total) is needed to provide an increase in the maximum Pell grant to \$4,400 to keep pace with expected tuition increases.
- However, the Bush Pell grant request of \$10.9 billion is \$1.1 billion below the current services level. Moreover, the Congressional Budget Office estimates that the President's request would actually cut the maximum Pell award to \$3,900. Under the Bush request, about 100,000 fewer low-income students would receive Pell awards than under a current services funding level.
- The President has submitted a supplemental spending request of \$1.3 billion for Pell grants to fund shortfalls for the 2001 and 2002 school years caused by unprecedented applications due to the weak economy. The Administration, however, has asked Congress to rewrite last year's budget to pay for Pell by cutting mentoring, teacher training, rural education, and other K-12 education programs. It would "rob Peter to pay Paul" to address the unexpected increase in low-income student enrollment.

The Bush Administration Proposed Higher Rates on Student Loans. In April, the Administration proposed raising \$1.3 billion in revenue by raising interest rates on refinanced student loans. Student debt is skyrocketing as college tuitions rise. Low student interest rates are critical to maintaining college affordability. The Administration's plan would require a student with a \$25,000 loan to pay more than \$6,000 in additional interest over a 15-year term of the loan.

The Bush Budget Includes No New Funds for Campus-Based Programs, TRIO, and GEAR UP, Leaving 200,000 Low-Income Students Behind. The Bush FY 2003 budget requests no additional funding to offset inflation or accommodate enrollment growth for the campus-based programs — College Work Study, Supplemental Education Opportunity Grants (SEOG), and Perkins Loans — or for TRIO and GEAR UP.

- In total, the \$3.0 billion budget freeze for these programs is \$201 million below a current services level.
- Under the Bush budget, 200,000 fewer low-income students will receive campus-based aid and college preparation support than under a current services funded budget (Table 5).
- The three campus-based programs help the most needy students overcome financial barriers to enrolling in and graduating from college. Approximately 38 percent of College Work Study recipients report incomes less than \$20,000. Approximately 45 percent of SEOG recipients report incomes below \$12,000. About 41 percent of Perkins Loan recipients report incomes below \$20,000 (U.S. Department of Education FY 2003 Justifications of Appropriations Estimates to the Congress).
- The TRIO program helps first-generation college students succeed in college. Two-thirds of TRIO students come from families with incomes below \$24,000. (Student Aid Alliance, 2002)
- GEAR UP helps disadvantaged middle school students get ready for college by providing counseling, tutoring, mentoring, and scholarships to raise their educational aspirations and assure them that college is both attainable and affordable. GEAR UP projects are targeted to schools in which at least 50 percent of the students are low-income students.

The Bush Budget Eliminates LEAP, Leaving 72,000 Students Behind. The Leveraging Educational Assistance Partnerships program (LEAP) encourages states to continue to expand their own need-based student assistance programs and is especially important when states are experiencing budget difficulties. Approximately 62 percent of LEAP recipients report incomes of less than \$20,000. However, the Bush budget proposes to terminate the program in FY 2003, eliminating assistance to 72,000 students compared to a current services level (Table 5).

The Bush Budget Cuts Other Scholarships. The Bush budget eliminates scholarship programs targeted to students pursuing legal studies and to Olympic athletes, and includes no additional funding for merit-based and graduate fellowships. In total, these programs are cut \$11 million below the current services level. As a result, approximately 2,800 students would not receive awards (Table 5).

Case Studies: Tuitions Rising in States Across the Nation

Wisconsin: Students Left in the Lurch as the State Assembly Slashes the University of Wisconsin's Budget

Thousands of prospective students were left in the lurch on March 8th when the University of Wisconsin abruptly halted undergraduate admissions due to uncertainty about whether the University could accommodate additional students next year in the face of severe state budget cuts.

One single mother from Appleton, Wisconsin, with an associates degree who hopes to enroll at the four-year campus in Oshkosh this fall said, "I've proven myself, I have my letters of recommendation; I have my grade-point average. And now they're telling me it's all for nothing. Why am I being punished?" (*New York Times*, March 15, 2002).

State legislators continue to rework the state's previously adopted biennial budget because of a \$1.1 billion budget deficit — the largest in Wisconsin's history. Meanwhile, the University of Wisconsin, which has begun taking applications for admissions again, faces the unwelcome prospect of imposing sharp tuition increases, eliminating 400 to 500 positions, cutting back on enrollment, and scuttling an initiative to recruit more minority students in order to close the budget gap for the upcoming school year.

The University of Wisconsin already has had to cut \$20 million out of its current budget, and is being asked to absorb even deeper reductions next year. While the Governor proposed a \$40 million cut and the state senate proposed a \$20 million cut for the 2002-03 academic year, the state assembly has proposed an even deeper \$108 million cut — about 12.5 percent of the state's allocation to the university.

These budget differences must be resolved over the next few weeks, but either way students at the University's 26 campuses inevitably face tuition increases of 8 to 10 percent this fall. The 28,000 undergraduate students at the flagship Madison,

Wisconsin campus, for example, could face a tuition and fee bill of about \$4,500, an increase of \$700 or 19 percent over two years. Tuition and fee increases for the 2003 school year will be determined next year, but will likely build upon the 2002 school year fee hikes.

Ohio: College Students Pay the Price for State Cuts

Students will pay the price for the higher education cuts in Ohio. The budget gap in Ohio this year is projected at \$725 million and it is expected to grow to nearly \$800 million in 2003. To compensate, the Governor implemented a 6 percent across-the-board budget reduction. Additional cuts are expected for 2003.

Ohio State University's share of the state cuts is \$20 million. In order to address the funding shortfall, the university initially proposed a 35 percent tuition increase for all incoming students. It has decided to phase in the increases over the next three years.

This fall, the 43,000 current Ohio State University undergraduates will pay \$5,217 in tuition and fees, the second consecutive 9 percent increase. Meanwhile, incoming freshman will be charged an additional \$475—an 18 percent increase—for a total of \$5,692 in tuition and fees. And, under the University's plan, students can expect to see at least 9 percent annual increases for the next several years.

Other Ohio universities also plan tuition increases as a result of the state's fiscal squeeze. For example, Ohio University announced that tuition for continuing students will increase by 9.9 percent to \$6,036, while incoming freshman will pay \$6,336, a 15 percent increase. The University of Cincinnati will increase tuition for in-state undergraduates by 9.5 percent to \$6,936.

Ohio students are worried about their ability to pay for their education. A high school senior in Ohio lamented, "My dad just lost his job.... We're applying for scholarships, but that's never enough. [A tuition hike] would affect me a lot." (*Cincinnati Enquirer*, February 3, 2002)

One financial planner cautioned, "It's going to be a struggle for parents, and kids are going to walk away with debt. There's no doubt about it" (*Cincinnati Enquirer*, February 11, 2002).

Pennsylvania: State Cuts Force Double-Digit Tuition Increases

The souring economy has created a \$622 million 2002 budget shortfall for the state of Pennsylvania, causing Governor Mark Schweiker to implement a \$366 million across-the-board reduction in order to close the budget gap. As a result, Pennsylvania students will see double-digit tuition increases next year.

State funding for Penn State University is expected to decrease by 5 percent, from \$335 million in 2001 to \$318 million in 2002 — the second largest cut in the University's history. Penn State University President Graham Spanier explained, "we could not see any tuition increase in the single digits without additional funding from the state" (*Pittsburgh Post-Gazette*, February 27, 2002). One Penn State dean warned, "further cuts could worsen the problem, meaning fewer new faculty, larger class sizes and tuition increases for students" (*The Collegian*, January 14, 2002).

The combination of increased operating costs and declining state funding is forcing Penn State to contemplate tuition increases of as much as 14 percent for the upcoming academic year. More than 40,000 students are enrolled in the university. Freshman undergraduates who enrolled at Penn State in 2000 paid \$6,852 in tuition and fees that year and \$7,396 in 2001. If tuition and fees were to increase by 14 percent in 2002, their tuition charges would climb to \$8,431 — a \$1,579 or 23 percent increase over two years.

Tuition and fee increases for 2003 have yet to be determined. However, it is likely that tuition for the 2003 academic year will build upon previous tuition hikes.

The deep cut in state subsidies is expected to generate a 13 percent tuition hike for the 99,000 students enrolled in the 14 universities that make up the Pennsylvania state system of higher education — each student would pay about \$500 more per year. Moreover, students at Temple University and Lincoln University may see increases of about 10 percent, which would mean paying about \$700 and \$600 more per year, respectively, at each institution.

Iowa: Mid-Year Cuts and Stiff Tuition Increases

Iowa is experiencing the lowest revenue growth in 50 years. Iowa's universities and other state agencies implemented three waves of budget cuts during the current fiscal year as the state wrestled with a \$200 million budget shortfall. The Governor's revised fiscal year 2003 budget would have addressed the immediate needs of Regents' universities, while maintaining support for community colleges and tuition

grants. However, the Iowa Legislature has proposed additional cuts in state support of higher education for fiscal year 2003.

Iowa's Regents' universities—the University of Iowa, Iowa State University, and the University of Northern Iowa—were hit by cuts totaling almost \$81 million or about 12 percent of their state appropriations in fiscal year 2002. To put that into perspective, the reduction was the equivalent of the entire state appropriation for the University of Northern Iowa.

Looking at this bleak picture, the Iowa State University student government president lamented, “If the water gets any deeper, we’re drowning” (*Daily Iowan*, March 1, 2002).

The state budget cuts have been steep and painful, particularly because they occurred mid-year. One college official noted, “Any cut at this time of the year will be very, very bad . . . There is nothing left through attrition to cut” (*Daily Iowan*, February 26, 2002). The Regents' universities have attempted to protect the quality of educational programs, but have been forced to make difficult decisions to limit course offerings, reduce financial aid and close and consolidated academic programs.

For the 2002-2003 academic year, the Iowa Board of Regents has approved an 18.5 percent tuition increase for the flagship universities. In all, over 55,000 undergraduates will pay the tuition hike next fall. A freshman undergraduate at the University of Iowa who enrolled two years ago paid tuition and required fees of \$3,204 in 2000 and \$3,522 in 2001, but will pay \$4,191 in 2002 — a two-year increase of \$987 or 31 percent. Tuition rates for the 2003-2004 academic year have not yet been set, but additional increases could be considered by November.

Iowa's community colleges are experiencing similar pressures. State aid for general operating expenses have been cut by \$9 million from one year ago, a reduction of roughly 7 percent. On average, tuitions rose 13 percent over the past year. As a result in the current academic year, revenues from tuition are expected to exceed state aid for the first time.

California: Budget Cuts Could Deny Students Access to Higher Education

As a result of the worst one-year decline in state revenue since World War II, California's colleges and universities slashed current academic year budgets twice this year to generate their share of an approximate \$3 billion cut from California state agencies. They may face additional reductions as the state legislature works to close

a budget shortfall that the State Legislative Analyst says could reach \$17.5 billion in 2002-2003.

California's dire financial condition could force state legislators to consider increasing in-state fees at the University of California and California State University, a proposal suggested by the State Legislative Analyst, but shunned by many state legislators. Such increases are not included in the Governor's budget proposals. Non-resident students are more likely to see stiff tuition increases. California State University, for example, has proposed to increase non-resident tuition this fall by 12 percent from \$9,256 to \$10,336.

While the Governor has proposed \$261 million in 2002-2003 to accommodate additional enrollment at the University of California, California State University and the California Communities Colleges, the ability of these campuses to handle an influx of new students will be sorely tested.

One example is the Los Angeles Community College District (LACCD). The LACCD, comprised of nine community colleges, faces significant financial challenges. It may have to turn away 10,000 to 17,000 students — 7 to 12 percent of current enrollments — because of inadequate funding to hire the necessary faculty to teach courses. In response to the dire budget situation, the LACCD Chancellor noted, "We're really at the end of our rope" (*Los Angeles Times*, March 17, 2002).

Massachusetts: Budget Crunch Puts State Universities on the "Bleeding Edge, Not the Leading Edge"

Double-digit fee increases are on the table for Massachusetts' public college students, as the state's universities scramble to adjust to the state budget crunch. Plummeting revenues could lead to a 2003 state budget deficit as high as \$3 billion.

University of Massachusetts (UMass) officials already have had to shave \$25 million from this year's operating budget. At the state's flagship campus at Amherst, the university shut down seven of its varsity sports teams, closed academic departments, eliminated the child care center, and downsized campus security in order to come up with its \$10 million share of the cuts. Plans to build a separate campus are in limbo. One U Mass faculty member decried, "We can't become a national research university with this terrible budget — cut after cut puts us on the bleeding edge, not the leading edge" (*Boston Globe*, March 17, 2002).

In January, Governor Jane Swift called for additional higher education cuts of \$14 million in 2002-2003, of which \$3.5 million is proposed for the university system.

The Governor's plan also calls for an 8 percent cut for state colleges and a 7 percent cut for the community colleges.

In February, the University of Massachusetts board of trustees voted to raise student fees at four campuses. Fees will increase at the Amherst, Lowell, Boston and Dartmouth campuses by 13 percent, 13 percent, 14 percent, and 24 percent respectively.

Conclusion: A Greater Federal Investment Is Needed

Although the economy now shows promising signs of recovery, the recession has left a bitter legacy: the worst state budget crunch in a decade. Forty states have been forced to cut a combined \$5.5 billion from their higher education budgets. Students can expect double-digit tuition increases this fall—increases that could lead an estimated 110,000 students to give up on college altogether.

In the coming months, Congress will face a choice. It can provide additional resources for student aid to keep college affordable for low-income students facing double-digit tuition increases. Or it can turn their back on this challenge, as the Bush Administration's budget does, and let the power of student aid programs erode.

More and more, education beyond high school is critical to America's lifelong economic security. Congress' decision will have long-lasting impact on the lives of hundreds of thousands of Americans.