Higher Education and State Budgets

FIRST LESSONS FROM THE PANDEMIC

INTRODUCTION

When COVID-19 hit, colleges and university leaders had to shut down their campuses and shift to virtual learning almost overnight. Meanwhile, state and national experts initially projected that the disruption caused by the emergency would lead to catastrophic declines in state revenue — a major funding source for financial aid and public colleges. Colleges braced for substantial budget cuts.

Between March 2020 and May 2021, the federal government enacted three massive emergency relief bills that injected a total of $75 billion into higher education. That funding, combined with better-than-expected state tax revenues — and, in some states, the use of rainy-day funds — staved off the financial devastation first predicted. Still, the unpredictable nature of the funding led many states to take a feast-or-famine approach to budgeting.

The pandemic's impact on students has been devastating. Enrollment levels at community colleges, which serve a high proportion of Black, Indigenous, People of Color students (BIPOC) and students from low-income backgrounds, fell by 20 percent across the country and remain significantly below pre-pandemic levels. FAFSA completion rates are also down for the second year, especially among schools that enroll a high proportion of BIPOC students and students from low-income backgrounds. These alarming trends threaten to widen longstanding racial and economic equity gaps in college completion rates.

And while the COVID recession was unique in many ways — for example, college enrollment declined, unlike what typically happens during economic downturns — it once again illustrated the precariousness of state funding for public higher education. While it is too early to know the pandemic's long-term impact on state finances and enrollment patterns, one thing is clear: the lack of funding coordination between the states and the federal government continues to undermine the promise of public higher education. If policymakers fail to build a more permanent funding partnership for public higher education, states, students, and colleges will continue to be at the mercy of budget economic swings and federal politics. This prevents states and colleges from making longer-term investments.

To get an early understanding of the experiences of higher education stakeholders working in states and at colleges when the COVID-19 pandemic hit, we interviewed stakeholders across five states — California, Colorado, Michigan, North Carolina, and Texas — to help inform lessons for advocates and policymakers going forward.

The following key themes emerged:

- The pandemic intensified existing inequities in higher education, and federal relief bills were not targeted enough to adequately address those disparities.
- Federal relief funds were effective at addressing most budgetary shortfalls, but colleges at times found grant requirements to be inflexible and unclear.
- Had colleges not been required to send a set amount of funding directly to students, some or all of those funds likely would have been used for institutional priorities.
- Unlike previous recessions, colleges who normally received significant auxiliary revenues experienced disproportionate budget shortfalls that were less likely to be fully covered by relief funds.
- There is ongoing concern about the precariousness of state higher education budgets, and a clear need for a new federal-state funding partnership to help stabilize public higher education systems.

As we continue to emerge from the COVID-19 pandemic, its longer-term impact will become clearer. In this transitional and precarious moment of recovery, there are more questions than there are answers. Still, for those focused on the pre-existing disparities and the longstanding precarity of how we fund higher education in the U.S., **there are some clear initial takeaways:**

- In times of national crisis, more federal funding should be targeted to institutions that serve the students most greatly impacted by the emergency.
- It is critical that policymakers set aside significant portions of emergency relief for direct student financial support to ensure that student needs are not overlooked.
- A federal-state partnership that automatically provides money to states during economic downturns will help stabilize state higher education funding across economic cycles.
- Targeted investments in comprehensive programs that help students enroll in college and complete a degree will help close equity gaps in college completion rates.

STATE-BY-STATE FINDINGS

Through a series of one-on-one conversations with key higher education stakeholders in California, Colorado, Michigan, North Carolina, and Texas, TICAS sought to understand what happened from the perspective of individuals working in the states and at colleges.

Did states and colleges and students get the support they needed when they needed it? Were federal funds distributed efficiently, effectively, and equitably? Did the money get to the institutions serving the most vulnerable students, and was it directed in ways that best protect their college aspirations? Did the requirements in the federal bills have their intended effect? And most importantly — while recognizing that the global pandemic was an unpredictable and rare event — are there lessons policymakers could learn that could improve higher education going forward?

This report is one of the first to look at the impact of the pandemic on postsecondary education from the perspective of those on the ground in states and colleges. While we can't yet know the long-term effects of the pandemic, we can still act on what we do know.

KEY FINDINGS

To conduct a qualitative assessment of the impact of COVID-19 on public higher education, TICAS identified five states (CA, CO, MI, NC, and TX) that vary in geography and population and where we had contacts who had played important leadership roles in higher education at the state level throughout the pandemic.

All five states initially projected a deficit in their state budgets when the pandemic hit, however, some states ended their fiscal years with a budget surplus while others were able to alleviate most of their budget deficits. Over the course of the pandemic, we tracked budget milestones and policy debates in each of those five states, and conducted a dozen interviews with stakeholders inside of those states, representing a variety of perspectives, including state officials, representatives of higher education associations, institutional leaders, and researchers.

One overarching takeaway from this project is that there is a lot of variation among states in their funding and governance mechanisms, and a one-size-fits-all approach to higher education funding during emergencies is inherently limited.

Despite that varied landscape, similar themes emerged from the interviews. Many stakeholders spoke of how strongly uncertainty — economic, political, and health-related —impacted decision making. For example, when college leaders anticipated (or heard rumor of) state-level funding, they felt limited in their ability to invest in the types of support and services students needed to get through the pandemic. Many expressed concerns about the way the funds had been distributed and the disproportionate impact the pandemic had on some institutions and students. And many expressed concerns about long-term funding trends and likely reductions in state support.

Five themes emerged through the interviews:

- **The pandemic intensified existing inequities:** The pandemic most severely impacted BIPOC students, first-generation students, and students from low-income backgrounds. Many of these students faced unexpected expenses, new caregiving responsibilities, and mental and physical health challenges during the pandemic. Because of these disparities, access to mental health care, emergency food assistance, and unemployment insurance were critical. The first round of relief funding was not as targeted to these students and the schools that disproportionately serve them as it could have been because it was distributed largely based on full-time enrollment of Pell grant recipients, an approach that disadvantages community colleges where even students who qualify often do not apply for this aid. The funding formula changed across three federal relief bills: The CARES Act funding was allocated among colleges based on a formula that gave weight only to full-time equivalent (FTE) enrollment. The Consolidated Appropriations Act of 2021 allocated funding among colleges based on a formula that gave weight to both total enrollment (headcount) and full-time equivalent (FTE) enrollment. The American Rescue Plan Act allocated funding among colleges based on a formula that gave weight to both total enrollment (headcount) and FTE enrollment. (See Appendix)

- **Federal funds were effective but inflexible and unpredictable**: Stakeholders shared the view that federal funds were critical for keeping institutions afloat. However, they would have liked the second two rounds of funding to come sooner so that institutions could have started thinking beyond their immediate needs earlier, and used the funds more strategically. Some stakeholders shared their disappointment with the exclusion of undocumented and other immigrant students from the first round of federal aid.

"HEERF II and III had more flexibility than HEERF I, flexibility was very helpful for campuses."
– North Carolina Official

- **Requiring direct funding for students was key**: Stakeholders agreed that sending money directly to institutions and requiring half of it to be distributed to students in the form of emergency aid was important. Without this provision, many expressed that those funds would have been caught up in state politics, or used by institutions to fill the massive financial gaps left by the lack of revenue from auxiliary services.

"Having 50 percent set aside in HEERF for students was significant, it prevented a lot of young people from experiencing homelessness, and really helped cover the gaps that higher education institutions incurred in their budgets from 'doing the right thing' (such as providing tuition refunds, housing refunds, helping students get home, etc.). On the budgetary end, helping higher education institutions cover lost revenue for auxiliary services (particularly housing and dining) was important."
– Graduate Student Researcher

- **Federal relief was not sufficient to cover losses in auxiliary services:** Auxiliary services, such as campus dining, housing, events, athletics, and health care services, lost virtually all revenue during the pandemic. Federal relief funds, while helpful, did not fully compensate for those losses. One stakeholder shared that an institution decided not to use federal funds to pay students' past due bills because of the need to cover costs associated with college housing.
- **Need for a new federal-state funding partnership**: Some stakeholders shared that any type of automatic stabilization would be a step in the right direction, even in years of economic abundance, towards stabilizing state and institutional budgets. With greater predictability, states and institutions would be able to make longer term investments in student support, financial aid, operational support, and other effective interventions for increasing the college graduation rate. Many colleges undergo multi-year strategic planning cycles, and the feast and famine nature of federal spending makes it hard for them to develop and sustain long-term plans.

"Ongoing money is really where you can make tangible improvements and afford institutional things like faculty hiring, quality of education. There are so many limitations just by the fact of not being able to commit to things in the long term."
– Graduate Student Researcher

STATE EXAMPLES

California

Stakeholders in California initially projected the pandemic would decimate the state budget, however, the opposite occurred. California was one of the few states that experienced a massive surplus as a result of emergency relief aid, ending the fiscal year with $75 billion in unanticipated revenue.

One of the first major impacts of the pandemic California experienced was the immediate and significant loss of revenue within the University of California (UC) and California State University (CSU) systems. Higher education institutions found themselves asking their on-campus residents to leave campus, and issuing students housing refunds. This resulted in California facing multimillion-dollar losses at each campus.

Fortunately, with the help of the Higher Education Emergency Relief Fund (HEERF) and the Governor's Emergency Education Relief Fund (GEERF), California's $75 billion surplus allowed institutions to cover their losses and avoid significant cuts in the higher education budgets. Governor Newsom's significant financial investments for the UC, CSU, and community college systems in the 2021-22 budget provided California with the opportunity to invest significant funding towards higher education. Higher education advocates in California also shared they expected a decrease in enrollment, but instead saw a significant 25-30 percent increase in summer enrollment.

"We had campuses that house majority of students, experiencing immediate significant loss — losing on-campus residents paying for housing, issuing refunds, were significant costs that happened immediately, especially for campuses who were doing the right thing and providing affordable housing to their students."
– California Higher Education Policy Researcher

Michigan

Michigan began 2020 with projections of a $2 billion revenue shortfall. As in other states, Michigan higher education institutions were forced to close their campuses due to the pandemic. Institutions prepared for reduced state funding and losses in revenue from auxiliary services with wage reductions, furloughs, and hiring freezes. However, the federal relief funds, higher than anticipated state revenue, and dips into the state's rainy-day fund enabled the state to end fiscal year 2022 with a $2 billion surplus.

Michigan slightly increased funding for higher education overall, provided $30 million for Michigan Reconnect, a last-dollar free tuition program for adults, and established the Futures for Frontliners programs, a similar program for people who worked outside of the home in essential industries during the pandemic.

Colorado

Colorado faced an immediate economic impact at the beginning of the pandemic, with forecasts of a major recession and a huge drop in state revenue. As a result, the legislature cut public higher education by 58 percent (an estimated $490 million). At the same time, Colorado was able to restore most of its budget cuts to higher education for the fiscal year 2022 using COVID relief dollars. The state received a total of $450 million to restore the $490 million cut in higher education funding, resulting in no severe cuts in operations. Forecasts showed that the revenue drop would happen over a multi-year period, however, as forecasts were revised the drop in revenue decreased.

"Federal funds were pretty effective, it allowed us to fill in the gaps and while institutions still had to implement budget reduction measures (i.e., furloughs, layoffs, deferred maintenance) ... federal emergency aid allowed for fewer budget cuts to happen."
– Colorado State Representatives

North Carolina

North Carolina prepared for a possible deep recession by tightening its budget as the pandemic began, preventing immediate cuts to higher education. The state advised higher education institutions and state agencies to be conservative with operating spending to prepare for any revenue loss. Institutions reined in discretionary spending such as travel, training, and supplies. The University of North Carolina Board of Governors implemented a freeze on operating expenses.

Like many states, federal funding provided helped stave off the worst-case scenarios. With precautionary measures to prevent major budget deficits and emergency federal aid dollars, North Carolina saw a surplus in funding for higher education of $51.4 million, money that the state invested in financial aid, mental health services, and equity-focused initiatives.

In May, the state enacted a new scholarship program for community college students from low- and middle-income families in the graduating high school classes of 2022 and 2023, paid for with federal GEERF money.

Texas

Texas initially prepared for revenue shortfalls due to the pandemic and worked to keep state budgets stable. At the beginning of the pandemic, Texas Governor Abbott allocated $175 million to higher education to alleviate immediate pandemic impacts. Later on, an additional $94.6 million from the federal emergency funds were also invested to further support higher education. Texas community colleges unfortunately lost millions of dollars due to enrollment declines prompting the state to approve the development of a community college finance commission to establish a sustainable and sufficient funding formula to modernize how community colleges are funded, and ensure the state offers viable education and training opportunities throughout the state. With on-going challenges of decreasing enrollment in institutions, the Urban Institute conducted a Review of State Grant Aid in Texas which highlighted that state spending for higher education increases college enrollment and degree attainment amongst low-income students and students of color.

"Direct funding to campuses was really important, it prevented funding from getting caught up in state budgeting issues, however, some type of mechanism for institutions to have access to separate buckets of funding would've been beneficial."
– Public College Employees in Michigan

RECOVERY AND ONGOING CONCERNS

As the pandemic continues, stakeholders are looking ahead towards recovery and the immediate needs of higher education institutions.

Some of the concerns stakeholders shared include:

- » **Providing students with the resources they need to feel safe upon returning to campuses.** Stakeholders want to expand programs and resources that impact students' experiences, such as mental health resources and SNAP (Supplemental Nutrition Assistance Program) benefits even after federal funds are depleted.
- » **Addressing enrollment declines among low-income students.** Some stakeholders are worried about the drop in FAFSA completions and enrollment, particularly at community colleges. Some interviewees expressed concern that the pandemic will result in a "lost generation" of students from low-income backgrounds. In contrast, online institutions (the majority being for-profit and with students enrolled exclusively online even pre-pandemic) saw a 4.9% increase in undergraduate enrollments. Without having to close, and with the distribution of CARES Act dollars, online institutions kept budgets stable and increased spending on pandemic-themed marketing allowing fraudulent institutions to take advantage of students impacted the most by the pandemic.

"We are really nervous about this lost generation of Pell students."
– California Public Higher Education Policy Researcher

- » **Funding higher education over the long haul.** Postsecondary education continues to be one of the most discretionary parts of state budgets, often withstanding the worst of state budget cuts since institutional revenue can be made up with tuition hikes. Stakeholders need state revenue to remain positive so that higher education institutions do not face additional cuts.

"Business models for higher education have not changed, but they need to change; current cost models don't have a mechanism to reduce costs; it's a huge failure if the higher education model looks the same post-pandemic as it did pre-pandemic."
– Higher Education Advocate in Texas

- » **Stakeholders are concerned about retaining students, especially students who have been disproportionally impacted by the pandemic.** The pandemic disproportionally affected BIPOC students, first-generation students, and students from low-income households resulting in increased housing and food insecurity, mental health challenges, and health disparities. Some institutions are planning to add more workforce development; including vocational, career, and technical education courses, to attract more students. This approach could bring in more students, adjusting working and learning models, while helping more adults get on career pathways.

FEDERAL POLICY IMPLICATIONS

The pandemic is not over yet and the short- and long-term impacts on higher education will take years, if not decades, to understand. Millions of students, of all ages, had their education disrupted. Will those students recover and advance through the educational pipeline in a timely fashion? Will college enrollment levels and state budgets rebound to pre-pandemic levels? Are there policies the U.S. could put in place to make our higher education system more resilient when crises hit?

Here are our initial takeaways:

- » Federal funding in times of economic crisis should be targeted to the institutions and students most heavily impacted by the downturn. The disparate impact of the pandemic warranted a more differentiated approach.
- » A federal-state partnership that automatically provides additional resources to states in times of economic downturn would help stabilize state funding and enable states and institutional leaders to make longer term investments in student support, staff, and more.
- » Direct payments to students for emergency financial assistance was a novel and effective federal approach that ensured students' needs were not overlooked in times of crisis.
- » Investments in evidence-based student success programs are more urgent than ever given the instructional loss that students experienced this past year. It is imperative that we invest now to avoid additional disruptions and loss of educational attainment overall and by race and income.
- » Doubling the Pell Grant, and investing more in financial aid would go a long way toward helping students get back on track and complete a college degree.

APPENDIX

FEDERAL RELIEF BILL		
CARES Act	**Consolidated Appropriations Act, 2021**	**American Rescue Plan Act**
Enacted in March 2020, the CARES Act provided $14.25 billion in Higher Education Emergency Relief Fund (HEERF) funding directly to colleges. Colleges were required to spend at least 50% of funds on direct student aid. The bill also included a $3 billion Governor's Emergency Education Relief Fund (GEERF), of which funds could be used, at states' discretion, for higher education. Funding was allocated among colleges based on a formula that gave weight only to full-time equivalent (FTE) enrollment. This allocation disadvantages institutions, such as community colleges, that serve more part-time students.	Enacted in December 2020, the *Consolidated Appropriations Act*, 2021 provided $22.7 billion in HEERF funding directly to colleges. This aid had different requirements than the CARES Act: this time, public and nonprofit colleges were required to provide "at least the same amount of funding in emergency financial aid grants to students" as was required to be provided under the CARES Act. Because this package had more funding than the CARES Act, this could come out to less than 50% of funding. For-profit colleges were required to send 100% of funds directly to students. A handful of wealthy colleges had their allocation reduced and were required to spend all their funds either on direct student aid or on sanitation/PPE. The bill also included $4.1 billion in additional GEERF funding. Funding was allocated among colleges based on a formula that gave weight to both total enrollment (headcount) and full-time equivalent (FTE) enrollment. This allocation gives more funding to institutions, such as community colleges, that serve more part-time students.	Enacted in March 2021, the *American Rescue Plan Act* provided $39.6 billion in HEERF funding directly to colleges. Public and nonprofit colleges were required to spend at least 50% of HEERF funds on direct student aid. For-profit colleges were required to send 100% of funds directly to students. The bill did not include additional GEERF funds. Funding was allocated among colleges based on a formula that gave weight to both total enrollment (headcount) and FTE enrollment. This allocation gives more funding to institutions, such as community colleges, that serve more part-time students.

the institute for
college
access & success

www.ticas.org

110 Maryland Ave, NE, Suite 201
Washington, DC 20002
202.223.6060