IPPSR
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STATE *of the* STATE *Survey*

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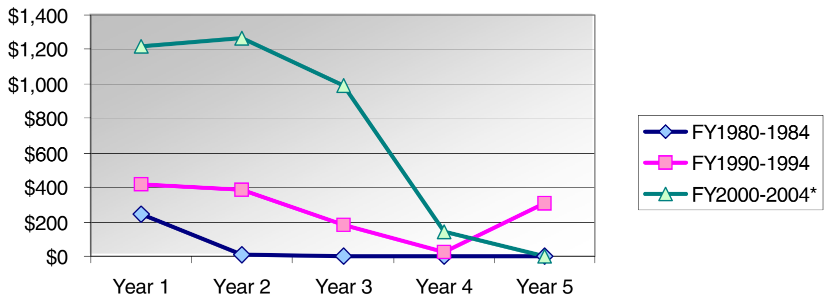
Budget Downturns and Higher Education Funding

Figure 1. Michigan Budget Stabilization Fund Activity During Economic Downturns (Millions of Dollars)



Source: Michigan Senate Fiscal Agency

*FY 2003, FY2004 are estimated

Introduction

Over the past thirty years, the State of Michigan has weathered three economic downturns; always near the beginning of the decade. In each case, state government leaders have been forced to make difficult decisions about how to manage the budget. This bulletin discusses the relationship between the downturns and choices government has made relative to Higher Education, utilization of the Budget Stabilization Fund (BSF) over each period, and resident perceptions on spending choices. This paper is not making any value judgments on expenditures, appropriations, or state budget decisions but simply drawing conclusions based on an examination of the data to inform policymakers.

Defining Downturns

The economy is fluid and often the budget continues to feel the effects of a downturn well into recovery, therefore defining them can be difficult. In this review, downturns are based on fluctuations in unemployment rates and personal income levels. Based on these indicators, downturns will be referred to in groups of fiscal years (FY) as follows: Downturn 1: FY 1980-83; Downturn 2: FY 1990-93; Downturn 3: FY 2000-04.

Budget Stabilization Fund Activity

In times of budget deficit, each administration since 1977 has had access to the state's "rainy day" account, the Budget Stabilization Fund (BSF). As shown in Figure 1, independent of the beginning balance of the fund, the BSF was drained within the first three years of every downturn.[1] The FY 1980 beginning BSF balance was $241.1 million and 97% of that was spent in the first year. The FY 1990 beginning balance was $419.2 million and 95% of that was spent by the end of FY 1992. The FY 2000 BSF beginning balance was $1,223 million and it is estimated that 89% of that was spent by the end of FY 2003.

Appropriations and Expenditures

Another way to examine economic downturns is to look at changes in the budget. The General Fund/General Purpose Fund (GF/GP) is Michigan's primary checking account; the money in it is used to fund most major programs within the state including Higher Education. As Figure 2 indicates, Higher Education was impacted in each

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Study Methodology

The Institute for Public Policy and Social Research conducted the thirty-second round of the State of the State Survey (SOSS-32) by phone with 990 Michigan adult residents during October 27-December 1, 2003. The margin of sampling error was ± 3.1%.

This edition of SOSS focused on budgetary preferences to deal with the state's fiscal crisis, how colleges and universities should address funding cutbacks, volunteering and charitable giving, and health care coverage.

About SOSS

IPPSR's State of the State Survey is the only survey conducted in Michigan that provides a regular systematic monitoring of the public mood on important issues in major regions of the state. More information on SOSS is online at: www.ippsr.msu.edu/SOSS.

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downturn, but most negatively in the current one.[2] In the first two downturns, Higher Education took an initial hit but then leveled off at a higher rate than GF/GP overall. In the most recent downturn, Higher Education has continued to decline over the entire period. Provided below is an analysis of the GF/GP Higher Education expenditures and the change over the downturns.

Downturn 1:

In the first downturn, the numbers show overall GF/GP expenditures increasing in 1981 before dipping in 1982. The overall result of the downturn was a slight increase in expenditures. The GF/GP expenditures increased by $251 million from the start to the end of the period. In Higher Education, there was a decrease in 1981 and then slight increases over the next two years for an overall increase of $27 million.

Downturn 2:

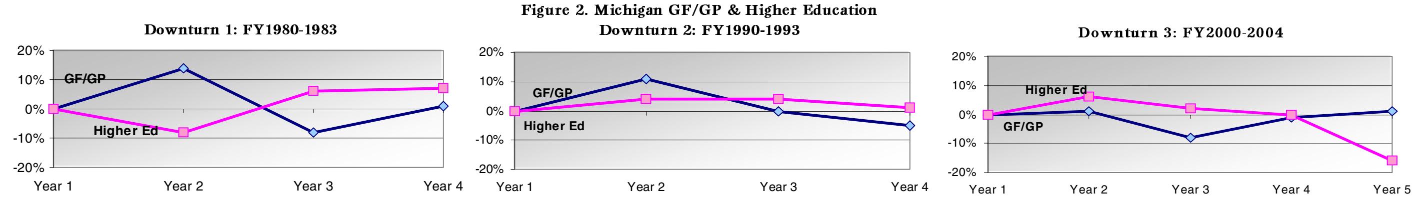
In the second downturn, GF/GP expenditures rose in 1991, before falling in 1992 and 1993. Overall, GF/GP expenditures increased by about $360 million throughout the downturn. Higher Education increased incrementally, resulting in a $100 million increase from the beginning to end of the downturn.

Downturn 3:

The estimated 2004 GF/GP expenditures are $626 million less than they were in 2000. Higher Education expenditures rose slightly in the first two years and then leveled off and declined for an overall reduction of $110 million from 2000 to 2004.

When the overall reduction in total dollars is juxtaposed against the increase in total students attending Higher Education, the change is significant. On a per student basis the reduction is 19% over the downturn. It was $7,002 in FY 2000 versus $5,646 in FY 2004.

Figure 2. Michigan GF/GP & Higher Education



Source: GF/GP: US Department of Commerce, Higher Ed: Michigan Senate Fiscal Agency

Resident Perceptions of Higher Education

The reduction in Higher Education funding is surprising considering the high level of support it has among Michigan residents. According to the Institute for Public Policy and Social Research's thirty-second State of the State Survey (SOSS-32), (October 27-December 1, 2003), Michigan's public colleges and universities are held in high regard; some 84% of citizens rate them as excellent or good. This high evaluation has remained very steady over the past eight years of SOSS surveys. More than 90% also judge the role of these entities to be very or somewhat important in improving the state's economy.

Michiganians are not just supportive from an abstract perspective, they are also willing to make trade-offs to fund Higher Education. Citizens are less ready to cut state aid to colleges and universities (18%) than they are to cut revenue sharing (36%)[3] or prison spending (31%). Their willingness to cut state aid to colleges has declined sharply over the past few months. This may be a result of increasing awareness that state budget cuts lead to higher tuition costs. Michiganians are least ready to reduce aid to local K-12 schools (6%) and Medicaid (9%). In terms of budget solutions, more than half (57%) favor increasing state funding to universities over reducing cost by increasing class size and limiting enrollment.

Conclusion

Based purely on economics, the first downturn was clearly the worst. Across the board, unemployment was higher, budget cuts were deeper and personal income took a bigger plunge. Based purely on revenue, the current downturn, beginning in 2000, is clearly the worst. State GF/GP expenditures are down $626 million, far more than previous periods. Based on duration, the current downturn is again worse. Without question, Higher Education expenditures have taken a much larger hit in this most recent downturn.

For the past two years, there has been a 16% reduction in Higher Education expenditures. The overall change was a 8% decrease over FY 2000-2004 compared to a 10% increase FY 1980-1983, and a 5% increase in FY 1990-1993.

Maximizing the BSF

A final and important observation is the pattern of BSF withdrawals. With the early withdrawals, budget deficits receive these large payouts that serve a one-time only purpose. The later years in the downturn are thus more significantly effected, and percent change in expenditures tend to be worse. One possible policy solution could be to limit the percentage of the total fund eligible to be withdrawn. By only allowing a specific percentage to be withdrawn each year, the fund payouts could be balanced throughout the duration of the downturn, and more consistently and evenly utilized.

Endnotes

[1] BSF percentages were calculated by dividing withdrawals by the sum of beginning balance, deposits, and interest.

[2] All Higher Education numbers refer to base expenditures to the state's 15 public universities.

[3] An earlier version of this question (B1b) showed greater willingness to cut revenue sharing. In this round of the study, the question was reworded to provide more information. The codebook is available at www.ippsr.msu.edu/SOSS/SOSSdata.htm.