Recession, Retrenchment, and Recovery
Executive Summary

Introduction

The Recession, Retrenchment, and Recovery Project examined the effects of recessions on financial access to college during the 25-year period 1979-2004, identified states that have been relatively successful in maintaining financial access, and collected policy strategies used by these states. The national recession of 2001 lasted only a few months, from March to November, but it affected states' economies and appropriations for higher education for years. A particular concern was the impact of recessions on financial access—the balance of state financial aid and tuition and fees—for students attending public institutions. This project had three phases:

- Analysis of 25-year trends in state appropriations for higher education, allocations to student financial aid, and changes in tuition and fees at public institutions in the context of national recessions and related changes in states' economies.

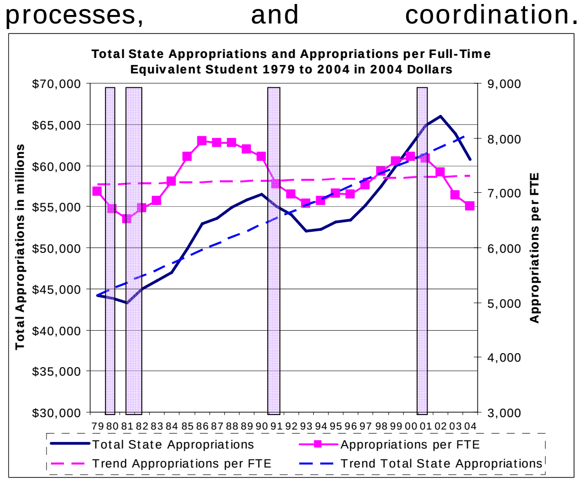
- Survey of state higher education organizations to ascertain how they dealt with the 2001 recession with a focus on priorities that guided state funding and allocation decisions, the changes to programs and policies in response to declining resources, strategies for maintaining financial access, and the outlook for recovery.

- Interviews with higher education, student financial aid, and governmental leaders in seven states that ranked well on one or more measures of financial access. Interviews addressed policies and strategies the selected states used to maintain and expand financial access across successive economic cycles.

The Recession, Retrenchment, and Recovery project was funded by the Lumina Foundation for Education. The Project was conducted by the Center for the Study of Education Policy at Illinois State University (ISU) in collaboration with the State Higher Education Executive Officers (SHEEO) and the National Association of State Student Grant and Aid Programs (NASSGAP).

Recession: Consequences on State Funding and Financial Access

This study examined the similarities and differences among states, and the effects of recessions on higher education funding, tuition and fees, and need-based student financial aid programs. Tuition and student aid were the focus of the study because state policymakers can influence or control them through policies, appropriation priorities, administrative processes, and coordination.



The analyses found that:

- Higher education appropriations did not keep pace with growth in the state economy in any state. In all states, the real Gross State Product (GSP) increased faster than higher education appropriations during the period of the study.

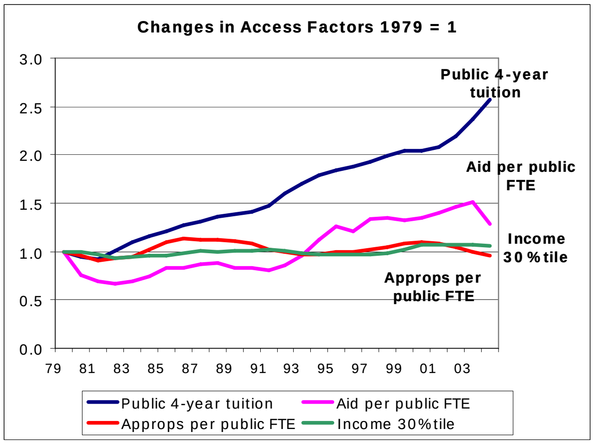
- Three of the four recessions negatively affected funding for higher education—total appropriations as well as appropriations per FTE enrollment. Nationally, appropriations per FTE declined 2.0% following the 1980 recession, 5.0% after the 1990-91 recession, and 8.6% following the 2001 recession. Unlike other recessions, there was an increase in appropriations per FTE following the 1981-82 recession.

- In each successive decade, recessions affected more states, percentage declines in higher education appropriations were larger, and it took longer to recover. Appropriations per FTE declined in 26 states following the 1980 recession, in 38 states following the 1990-91 recession, and 44 states following the 2001 recession.

- After three of the four recessions, tuition increased faster than student aid causing financial access to diminish. Nationally, the aid-to-tuition ratio declined 17.3% following the 1980 recession, 2.3% after the 1980-81 recession, and 3.4% following the 2001 recession. There was an increase in the aid-to-tuition ratio following the 1990-91 recession primarily reflecting a national increase in need-based aid.

- 14 states that incurred reduced appropriations following the 2001 recession were able to increase financial access for students by placing priority on balancing need-based aid and tuition.

- Family income and student aid did not keep pace with increases in tuition following any of the four recessions. The national average access-cost indicator (net tuition as a percent of 30^{th} percentile family income) did not recover to pre-recession levels following any of the recessions.



Retrenchment: The Impact of the 2001 Recession

In the second phase of the Recession, Retrenchment, and Recovery project, the chief executive officers of state SHEEO and NASSGAP organizations were surveyed in the spring of 2005. The purpose of the survey was to determine the impact of the 2001 recession on statewide higher education and student aid policies and priorities and discover strategies states used to help maintain financial access to college for their residents. Key findings from the survey included:

- Higher education and student financial aid funding have become lower funding priorities for most states since FY2001 due to competing demands on state revenues. Economic development and workforce preparation have become more important.

- States' roles in setting policy about who receives student aid and the purpose of student aid are being diluted as increasing amounts of grant aid are provided by institutions through tuition offsets.

- Higher education is more likely to be seen as a personal benefit than a public benefit, suggesting a lack of understanding of the role of higher education in economic growth. A greater portion of the cost of education is now expected to be paid by the student.

- For many states, tuition offsets—allocating a percentage of tuition revenue to student aid—represent a last-ditch effort to fund student aid when state funding is not forthcoming.

- State responses suggested that access had been affected since 2001; more student aid funds were going to traditional college-aged students as opposed to adult learners and more emphasis was being placed on merit as a criterion for eligibility. Initial access to four-year institutions also appears to be threatened for low-income students who are increasingly shifting to lower cost institutions.

Most states cited concerns about structural problems with the state's economy, Medicaid demands from an aging population, and paying off state deficit financing. Eighteen states thought economic recovery looked promising due to a continually improving economy and revenue growth that had returned to pre-recession levels. Most states who reported their chances for financial recovery as good, however, had concerns about future higher education funding levels. Finally, eight states described their prospects for financial recovery as "weak and of great concern."

States that cited good leadership - either from the Governor, key members of the legislature, the SHEEO and NASSGAP agencies, or coordinated efforts by institutions and sectors of higher education - were more hopeful about their future. States that cited politics as the key decision factor, however, were considerably less optimistic.

States used multiple strategies to help maintain financial access including efforts to protect students from tuition increases using tuition offsets to support low-income students. States cited the use of roundtables, task forces, and statewide planning efforts as ways to engage the "community" in thinking about and addressing higher education and student financial access concerns. Collaboration and unified efforts both within higher education and with local organizations and businesses were seen as an important strategy. Finally, grassroots efforts to involve the public and particularly to work directly with the legislature were key strategies used by states.

Recovery: State Strategies

The third phase of this project consisted of extensive interviews with higher education, student financial aid, and governmental leaders in seven states—Arizona, Illinois, Kansas, Massachusetts, North Carolina, Texas, and Washington. Interviews addressed policies and strategies used by selected states to maintain and expand financial access across successive economic cycles. All state interviews were conducted between February and April of 2006 and a total of 54 individuals were interviewed.

The seven states were selected for in-depth study because they had maintained long-term financial access through the four recessions during the period studied, or they had protected financial access better than others in the two-year period following the 2001 recession. Despite their relative success, all of the states continued to be concerned about maintaining access. Some reported that they had lost ground since the data used in state selection were published and 2006 when the interviews were conducted. Others indicated that the balance between tuition and need-based aid had improved since the 2001 recession. None of the states' policy leaders, however, believed that they were doing as well as they should and none claimed that their state had a perfect program or magic formula for assuring financial access.

The higher education leaders interviewed had remarkably similar stories to tell about what they believed had made a difference in their states. Common themes among the successful states included:

- Successful states defined goals for financial access and developed a plan that was coherent, clear, and made visible to a wide audience in and outside higher education.
- Successful states articulated a message and developed strategies (sometimes using outside experts) focused on the goal of financial access to college for students. They broadly dispersed this message to leaders and constituents, and used language that was easily understood, consistent, and continuous.
- Successful states used student aid programs and aid distribution systems that met state goals for financial access.
- Successful states had strong higher education leaders who successfully mobilized support for access and affordability, reached out to state leaders who were champions for higher education, and enabled higher education to become integral to state government and the well-being of the state's citizens. Both structure and governance arrangements were not, in themselves, preconditions for success in improving financial access; what was vital, however, were the relationships established by higher education with other leaders that were built on trust, mutual respect, and common interest.
- Successful state leaders placed very high value on the development of a climate for higher education that included a strong commitment to access and affordability.
- In developing an agenda for access and affordability, leaders in successful states tended to focus on students and advocate for them, but also involved students in decisions about student financial aid and tuition policy.
- Successful state leaders sought and maximized opportunities for collaboration and coordination at every opportunity, working with presidents in all sectors to speak with a unified voice, to identify and develop champions among state government and business leaders, and to work across party lines for the good of higher education.

Four financial access issues faced all states visited and also emerged in a significant number of those surveyed.

- Meeting the needs of the growing Hispanic population
- Providing financial and geographic access
- Achieving tuition-financial aid balance
- Minimizing or at least reducing resource competition within sectors of state government

Solutions for these problems likely cross state boundaries, political party lines, and sector concerns (K-12 public schools, community colleges, universities). These issues could benefit from sector collaboration, study of best practices in other states, and continued study by appropriate research organizations and public policy centers. Organizations such as SHEEO and NASSGAP might play a role in coordinating efforts and disseminating best practices and research.

Despite the similarity across these states, there was a fundamental differences between two groups of states: those that had chosen the low tuition/modest aid approach to ensuring financial access to higher education and those states with higher tuition (whether moderate or high) that had attempted to provide financial access through need-based student financial aid. States with historically low tuition in the public sector tended to have modest or even inadequate student financial aid programs. These states recognized that in the current fiscally stringent environment financial access cannot be assured through only low public sector tuition with no or little aid. In most states, student financial aid is necessary to provide financial access for students to higher education.

On the other hand, students living in states with relatively high tuition in the public sector need substantial financial aid in order to afford college. Some states with large financial aid programs are concerned about their ability to widely communicate information about financial aid programs and eligibility requirements to the general public as well as target audiences. In some cases, consolidation of multiple ancillary state programs and coordinated and simplified application procedures for these aid programs is needed.

Despite quite different approaches to protecting financial access, leaders of the seven states were unanimous—communication, collaboration, and credibility are essential for success in student access. The interviews shed further light on the data in the survey and economic and fiscal analysis by demonstrating that good policies and strong leadership do make a difference.

Recovery and Beyond: Strategies for Maintaining Financial Access

In each of the three phases of this project, it was clear that national recessions have a serious impact on financial access to college. Some states seem to do better than others in maintaining financial access with a balance of student aid and tuition despite the effects of recessions. Based on the fiscal analysis, survey of states, and interviews in selected states, the following recommendations are proposed:

1. Develop strategies for maintaining financial access for students through recessions.
2. Balance tuition increases with need-based student financial aid.
3. Explore new student aid financing strategies.
4. Reaffirm the state's role in providing student financial aid.
5. Define goals and develop a coherent plan for maintaining and improving financial access for students.
6. Present a clear and consistent message about the importance of financial access.
7. Design student aid programs to meet state access goals.
8. Foster and support higher education leadership.
9. Make a commitment to access and affordability.
10. Focus on students.
11. Develop champions for higher education.
12. Improve awareness of higher education's contributions to economic development.
13. Anticipate and address emerging issues.
14. Emphasize collaboration, communication, and credibility.