

# Grapevine

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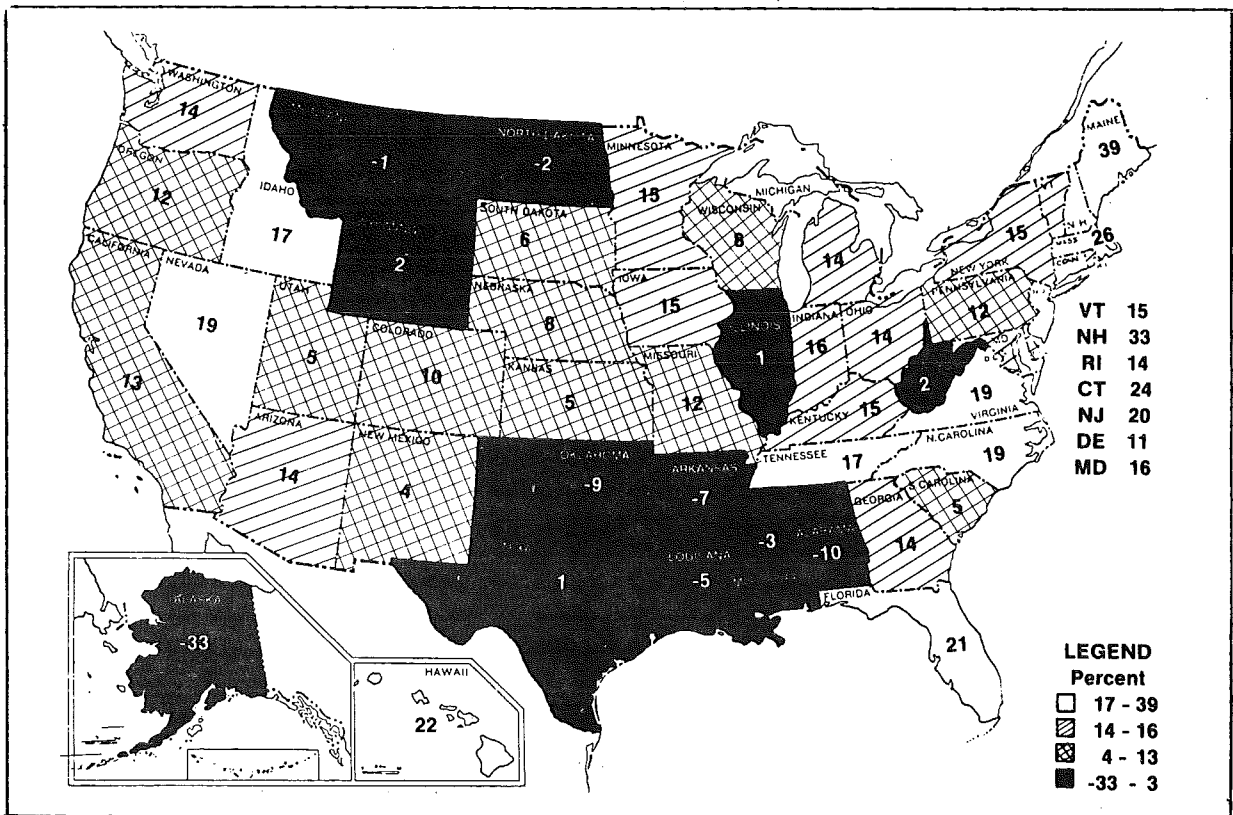
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**TIMELY DATA CIRCULATED WHILE CURRENT**

Reports on state tax legislation; state appropriations for universities, colleges,  
 and community colleges; legislation affecting education beyond the high school.

**PERCENTAGES OF TWO-YEAR GAINS IN APPROPRIATIONS OF STATE TAX  
 FUNDS FOR ANNUAL OPERATING EXPENSES OF HIGHER EDUCATION  
 IN THE FIFTY STATES, FISCAL 1988 OVER FISCAL 1986**



APPROPRIATIONS OF STATE TAX FUNDS FOR OPERATING EXPENSES OF HIGHER EDUCATION,  
IN THOUSANDS OF DOLLARS, FOR FISCAL YEARS 1977-78, 1985-86, AND 1987-88,  
WITH PERCENTAGES OF GAIN OVER THE MOST RECENT TWO AND TEN YEARS.

States	Year 1977-78	Year 1985-86	Year 1987-88	2-yr gain Percent	10-yr gain Percent
(1)	(2)	(3)	(4)	(5)	(6)
Alabama	310,974	631,341	570,537	-10	83
Alaska	68,212	236,169	157,157	-33	130
Arizona	207,961	432,342	491,912	14	137
Arkansas	126,155	299,224	279,105	- 7	121
California	1,961,525	4,209,755	4,748,158	13	142
Colorado	220,909	399,140	441,021	10	100
Connecticut	190,757	329,917	409,549	24	115
Delaware	44,190	91,411	101,339	11	129
Florida	489,609	1,129,504	1,365,759	21	179
Georgia	302,797	666,486	759,404	14	151
Hawaii	109,642	208,636	254,672	22	132
Idaho	77,072	119,042	139,136	17	81
Illinois	779,284	1,315,155	1,331,564	1	71
Indiana	338,152	608,341	704,703	16	108
Iowa	228,166	385,370	441,458	15	93
Kansas	188,869	345,173	363,924	5	93
Kentucky	205,861	432,827	499,526	15	143
Louisiana	242,469	539,736	514,517	- 5	112
Maine	45,910	100,989	140,645	39	206
Maryland	281,230	531,986	614,657	16	119
Massachusetts	254,122	711,101	895,300	26	252
Michigan	660,404	1,152,097	1,313,048	14	99
Minnesota	401,352	704,018	809,963	15	102
Mississippi	186,668	373,687	362,036	- 3	94
Missouri	259,359	449,017	503,190	12	94
Montana	52,251	106,150	105,106	- 1	101
Nebraska	131,200	210,508	227,203	8	73
Nevada	45,457	94,400	112,730	19	148
New Hampshire	27,519	50,265	66,901	33	143
New Jersey	403,566	846,326	1,013,299	20	151
New Mexico	95,756	234,095	242,798	4	154
New York	1,298,754	2,545,546	2,936,954	15	126
North Carolina	466,208	1,078,822	1,284,076	19	175
North Dakota	61,822	120,472	118,174	- 2	91
Ohio	551,174	1,109,252	1,259,569	14	129
Oklahoma	173,261	425,877	386,266	- 9	123
Oregon	198,234	312,194	349,939	12	77
Pennsylvania	668,467	1,052,484	1,176,066	12	76
Rhode Island	62,230	110,795	126,185	14	103
South Carolina	227,148	498,037	521,016	5	129
South Dakota	42,584	69,668	74,041	6	74
Tennessee	266,091	548,187	639,237	17	140
Texas	1,050,400	2,204,355	2,231,785	1	112
Utah	118,602	244,441	257,389	5	117
Vermont	22,983	44,057	50,555	15	120
Virginia	330,586	770,883	915,818	19	177
Washington	380,250	596,562	678,482	14	78
West Virginia	138,063	233,057	236,565	2	71
Wisconsin	399,410	650,855	705,430	8	77
Wyoming	42,883	111,583	114,188	2	166
Totals	15,436,548	30,671,335	34,042,052		
Weighted average percentages of gain				11	121

## INTRODUCTION

This report presents an overview and a preliminary analysis of the legislative decisions on state tax appropriations for higher education in the 50 states. These decisions were made during 1987 for the 1988 fiscal year. It is important to note that this analysis is preliminary because it occurs as soon as possible after the state legislatures have made their decisions about higher education and as soon as data from all 50 states can be compiled and published. These data are aggregated from GRAPEVINE, the monthly research report of state tax appropriations for operating expenses of higher education, published by the Center for Higher Education at Illinois State University.

While these data are the earliest 50-state figures available, there are other reports and analyses which are available later in the year (usually late winter and spring). These valuable information sources should be utilized in analyses of state effort for higher education, tax effort including both state and local taxes, and revenue available for higher education including taxes, tuition, and other sources. The reader is advised to obtain the "National Comparison of Financial Support for Higher Education" prepared by Jackie Johnson at the Higher Education Coordinating Board in Washington; "How the States Compare in Financing Higher Education" by Kent Halstead of Research Associates in Washington, D.C.; and State Higher Education Profiles from the Center for Education Statistics, U.S. Office of Education.

Just as multiple analyses of data are useful in a full examination of an area as complex as state support of higher education, so one must recognize that state taxes are only one source of revenue for higher education. State taxes continue to be the major funding source for public higher education; but, as the availability of these funds diminishes, states and campuses are diversifying and enhancing non-tax revenues which are available for higher education. These revenues might include appropriated funds from sources other than taxes and sources such as auxiliary sales and services. In some states, tuition is not "re-appropriated." Student tuition is a revenue source of critical importance, and tuition increases are being examined closely along with consideration of tax and other revenue sources.

### A RETROSPECTIVE OF HIGHER EDUCATION APPROPRIATIONS FOR FY1988

There were three prominent features in state tax support for higher education in the 50 states for FY1988. First, over \$34 billion were appropriated by state governments for operating expenses of higher education nationally, and this was an increase of over \$1.6 billion from FY1987. Second, the two-year percentage of gain figure again showed an increase but only 11%. This 11% national two-year gain and also the five percent single-year gain equaled the percentage of gain reported in FY1984. The third feature was the similarity in the level and pattern of support at the state level between FY1987 and FY1988, except for fairly consistent decreases in percentages of gain in a majority of states.

Table 1

Fiscal Years	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Billions of Dollars	15.3	17.0	19.1	20.9	23.0	24.2	25.8	28.4	30.7	32.4	34.0
1-yr Gain, (\$ billions)	1.4	1.7	2.1	1.8	2.1	1.2	1.6	2.6	2.3	1.7	1.6
1-yr Gain, %	10	10	12	10	10	6	5	10	10	6	5
2-yr Gain, %	20	22	24	23	20	16	11	16	19	14	11

**Nationwide Gains.** Table 1 shows the consistent gains in the magnitude of dollars appropriated for higher education during the past decade. Comparing FY1988 with FY1979, the total dollar amount has doubled. The one-year gains in dollars show that the most recent gain of \$1.6 billion was greater than that for FY1978 and FY1983, and equal to that of FY1984. The 20% or greater two-year gains of the 1970s gave way to gains in the mid-teens during the 1980s. It must be recognized that even this currently low rate of gain is greater than the rate of inflation throughout the 1980s. Higher education outpaced inflation by more than a two-to-one ratio every year during the 1980s.

**Two-Year Gains among the States.** Table 2 indicates that only 17 states reported two-year gains for FY1988 which were greater than the two-year gains for FY1987; 28 states experienced smaller two-year gains than for FY1987, with five states reporting the same two-year gains. The strongest pattern of gains occurred in the Northeastern quadrant of the United States with especially strong gains in the six New England states. Texas was the only state of the six states in the South Central region to experience any increase, and a cluster of Northern Plains states experienced declines or very small two-year gains (Montana, North Dakota, and Wyoming). There were five states having negative two-year gains in FY1987, and this number grew to eight states in FY1988. Of the five states showing negative gains in FY1987, Texas made a positive gain in FY1988, Mississippi and Montana were less negative in FY1988 than in FY1987, and Alaska and Louisiana were more negative in FY1988 than in FY1987. In addition, four more states joined the negative category this year, including North Dakota, Oklahoma, Arkansas, and Alabama. On the other hand, five of the six New England states had greater gains in 1988 than in 1987 (Maine, New Hampshire, Vermont, Rhode Island, Connecticut) with Massachusetts about even with the gain of last year. Maine and New Hampshire were the national leaders in 1988 with two-year gains of 39% and 33%, respectively.

Table 2

Seventeen States with Increasing 2-Yr Gains, FY87 to FY88			Twenty-eight States with Decreasing 2-yr Gains, FY87 to FY88		
State	FY87	FY88	State	FY87	FY88
Connecticut	22	24	Alabama	11	-10
Hawaii	18	22	Alaska	-11	-33
Idaho	12	17	Arizona	27	14
Iowa	3	15	Arkansas	10	-7
Kansas	4	5	California	18	13
Kentucky	13	15	Delaware	14	11
Maine	37	39	Florida	24	21
Mississippi	-5	-3	Georgia	17	14
Montana	-4	-1	Illinois	18	1
Nebraska	2	8	Indiana	20	16
New Hampshire	31	33	Louisiana	-3	-5
New Jersey	19	20	Maryland	17	16
New Mexico	2	4	Massachusetts	27	26
Rhode Island	12	14	Michigan	22	14
Texas	-9	1	Missouri	19	12
Vermont	12	15	Nevada	30	19
Washington	9	14	North Carolina	22	19
			North Dakota	11	-2
			Ohio	25	14
			Oklahoma	5	-9
			Oregon	19	12
			South Carolina	15	5
			South Dakota	19	6
			Tennessee	23	17
			Utah	9	5
			Virginia	26	19
			West Virginia	10	2
			Wyoming	7	2
Five States with Identical Rates of Gain, FY87 and FY88					
State	FY87	FY88			
Colorado	10	10			
Minnesota	15	15			
New York	15	15			
Pennsylvania	12	12			
Wisconsin	8	8			

**Billion-Dollar States.** There are 10 states with large higher education systems, each appropriating more than a billion dollars for higher education annually. Two features were especially evident among these 10 states this year. Seven of the 10 were at the median or above nationally in two-year gains with Florida, New Jersey and North Carolina leading, followed by New York, Michigan, Ohio, and California. Pennsylvania's 12% gain was just above the 11% national average. Illinois and Texas fell behind with one percent two-year gains, although Texas made a significant turnaround after an extended period of difficulty with the passage of a tax increase and additional funds for higher education during the last legislative session.

### A REGIONAL VIEW OF FISCAL YEAR 1988

The 50 states are arranged in quartiles and quadrants, as shown in Table 3. Quartiles enable one to focus on four groupings according to rates of two-year gains. The top quartile includes 12 states ranging from a 39% two-year gain in Maine to a nearly 17% gain in both Idaho and Tennessee. The second quartile includes 13 states with Indiana and Maryland at nearly 16%, five states at about 15% (Kentucky, New York, Minnesota, Vermont, Iowa), and six states clustered at 13% (Michigan, Georgia, Rhode Island, Arizona, Washington, Ohio). Another 13 states are in the third quartile, and 12 states are in the lowest quartile.

Quadrants are formed by dividing the nation into four fairly even sections with the north-east corner of Missouri as the center, the Mississippi River dividing East from West, and the Ohio River and southern border of Pennsylvania dividing Northeast from Southeast. The Northeastern states were in a leading position this year having four New England states plus New Jersey in the top quartile and 11 of the 14 Northeastern states in the top half of the nation. There were four Southeastern states in the top quartile (Virginia, Tennessee, North Carolina, Florida), and seven of the 12 Southeastern states were in the top half. Three of the 13 Southwestern states were in the top half with Hawaii and Nevada in the top quartile. Idaho was the only state in the Northwest to be in the top quartile with Minnesota, Iowa, and Washington joining in the top half. The "mirror image" of states in the lowest categories was equally revealing. Illinois was the only Northeastern state in the bottom quartile with Wisconsin and Pennsylvania joining in the bottom half. Five Southeastern states were in the bottom half (West Virginia, Alabama, Mississippi, Delaware, and South Carolina). Ten of 13 Southwestern states were in the bottom half, and seven of the 11 Northwestern states were in the bottom half of the nation.

Table 3

Quadrants	NW	NE	SE	SW	Total
Top	1	5	4	2*	12
Second	3	6	3	1	13
Third	3	2	2	6	13
Lowest	4**	1	3	4	12
Total	11	14	12	13	50

\*Includes Hawaii  
 \*\*Includes Alaska

## PRELIMINARY ANALYSIS OF TRENDS IN STATE HIGHER EDUCATION SUPPORT

GRAPEVINE offers an early indication of the amount of state support of higher education, as reflected in state tax appropriations only. By displaying these data for the 50 states, one can begin to examine trends in state support of higher education. It is important to keep the limitations of these data in mind. All analysts and researchers are advised to examine this report after data revisions are received and to obtain the other national studies of state higher education finance identified earlier in this report. As an initial building block, the Editors of GRAPEVINE and the GRAPEVINE Advisory Committee believe that a preliminary examination of these data is an important first step to a more thorough understanding of state support of higher education.

Regional Variations. The overall national pattern this year exhibited a situation quite similar to that of last year. As measured by two-year gains, there was some decline in state support of higher education in a majority of states. There was a sharper regional pattern than previously observed in recent years with a continued resurgence in state support of higher education in New England and New Jersey accompanied by continued difficulties in the South Central and Northern Plains regions, perhaps constituting what could be termed "a mid-continental economic through." In the long run, the economic situation in these mid-continental states may present a difficult and fundamental challenge for change and improvement.

Examination of the maps accompanying these reports for the past 10 years shows some trends of interest. The Northeastern states experienced an economic turndown in the early or mid-1970s which was related largely to the decay or collapse of traditional smokestack industries and labor issues precipitating industrial relocations to the South and West. In the South, this phenomenon resulted in the rise of the Sunbelt. However, as shown in the pattern of two-year gains, the New England and Northeastern states had a slowdown, but with some exceptions seldom were in the bottom quartile of states. There were continued difficulties (still occurring) in selected states in the Central Plains, Northern Plains, and Northwest as the industrialized upper Midwest experienced problems in the heavy industrial sector. In the early 1980s, there were beginnings of resurgence in New England, especially in Vermont, Massachusetts, and New Hampshire, followed by Connecticut, Maine and Rhode Island. At the same time, the Southeastern states experienced some falloff in higher education support except for the continued strength shown in North Carolina, Virginia, Tennessee, and Florida. In the mid-1980s, the South Central region experienced severe economic problems. Most recently, one can observe a generally bimodal distribution with stronger support of higher education on the East and West Coasts and continued problems in the South Central and Northern Plains regions. Reasons for these difficulties relate to less diverse economies often dependent on a narrow band of industries such as wood and paper in the Northwest, agriculture in the Plains states, and oil and minerals in the South Central states.

Available State Revenues. A key part of the extent to which states are able to support higher education is available revenue. States cannot, or generally do not, engage in deficit financing, and constantly wrestle with the balance between revenues and expenditures. Education, especially if elementary and secondary schools are included, is a large, if not the major, portion of states' budgets; therefore, problems with expenditures and cost containment cannot avoid the area of education. Table 4 borrows from a very useful report by the Fiscal Affairs Program of the National Conference of State Legislatures, showing (at the time of the July 1987 survey of legislative fiscal officers) the projected growth rates of states' general fund revenues as well as the projected growth of state appropriations from FY1987 to FY1988. It is the perceived "health" of states' revenues which will be an important determinant of whether or not states can raise taxes, and state taxes are the major source of public higher education appropriations. Also in Table 4, the amount of two-year gains shown by the top and bottom quartile states for FY1988, as reported in GRAPEVINE, are included.

Table 4

(1)	12 Top Quartile States			12 Bottom Quartile States			
	General Fund	State Approp	Higher Education	General Fund	State Approp	Higher Education	
	Increase*	Increase*	Increase**	Increase*	Increase*	Increase**	
	(1-yr) %	(1-yr) %	(2-yr) %	(1-yr) %	(1-yr) %	(2-yr) %	
(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Maine	7.6	11.0	39.3	Wyoming	-5.8	0.0	2.3
New Hampshire	3.1	10.8	33.1	West Virginia	-6.9	-9.4	1.5
Massachusetts	***	***	25.9	Illinois	3.1	2.9	1.3
Connecticut	4.6	12.6	24.1	Texas	16.2	6.8	1.2
Hawaii	3.1	8.6	22.1	Montana	5.7	-7.1	-1.0
Florida	14.3	10.5	20.9	North Dakota	16.6	-4.6	-1.9
New Jersey	8.1	11.4	19.7	Mississippi	1.7	7.5	-3.1
Nevada	7.9	0.9	19.4	Louisiana	9.8	1.3	-4.7
North Carolina	9.3	3.8	19.0	Arkansas	7.5	7.9	-6.7
Virginia	8.3	6.7	18.8	Oklahoma	9.0	0.2	-9.3
Idaho	7.6	7.9	16.9	Alabama	5.4	4.0	-9.6
Tennessee	5.8	0.4	16.6	Alaska	-1.4	0.5	-33.5
Mean in FY88	7.2	7.7	23.0	Mean in FY88	5.1	0.8	-5.3
Mean in FY87	5.6		26.1	Mean in FY87	-2.1		-0.4

\*Reported as Projected Growth Rates of General Fund Revenues and Appropriations, FY1987 to FY1988 (Percent)," Table 4, in State Budget Actions in 1987 by Steven D. Gold, Corina L. Eckl, and Brenda M. Erickson, (Denver, CO: National Conference of State Legislatures) August 1987, p. 11.

\*\*Two-year gains (in percent) of state tax appropriations for the operating expenses of higher education, as reported in GRAPEVINE. Identification of top and bottom quartile states also based on data reported in GRAPEVINE.

\*\*\*Not reported

It is clear from Table 4 that the states with the greatest two-year gains for higher education (with a mean increase of 23.0%) made a stronger performance than did those states in the bottom quartile with a mean increase of -5.3% over two years. The top quartile states had a projected general fund increase of 7.2% while the bottom quartile states had a projected general fund increase of 5.1%. The top quartile states, in the projected state appropriation category, showed a 7.7% increase while the bottom quartile states had only a 0.8% projected increase in state appropriations, a more marked difference than in projected general fund increases.

The mean percentage gains from last year (FY1987) were included in Table 4 in order to enable comparison with FY1988. Interestingly, one could observe that in FY1987, states appeared to have relatively less in projected general fund increases, compared to this year. However, higher education made a stronger gain last year than occurred this year. Recall that the top two states this year (Maine and New Hampshire) made slightly larger percentages of gain than last year. What this means is that a larger number of states in the top quartile did not do quite as well this year in making effort for higher education resulting in a moderate decline in the mean percentage increase for the top quartile states--from 26.1% last year to 23.0% this year. Similarly, within the bottom quartile category, this grouping showed a -0.4% loss last year and a larger (-5.3%) loss this year. More states (eight) were in the negative category than last year (five).

**Additional Considerations.** After review of the regional variations and patterns, we are left with the question of explaining the reason for the pattern this year, and particularly the decline in two-year gain to 11%, representing along with the 11% two-year gain reported in 1984 the lowest such figure reported in 30 years. Doomsday prophecies and disaster scenarios are rejected. There was, after all, a gain in state support of higher education of \$1.6 billion nationally from 1987 to 1988. The slowdown in rate of gain might be identified in the confluence of elements described below along with the preceding explanation.

In a July 1987 survey, legislative fiscal officers were asked to identify the top three fiscal issues in their states. The leading issues were taxation, education, and general budget policy--in that priority order. In 22 states, education was the top priority fiscal issue, but for most states

the focus of this issue was elementary-secondary rather than higher education. Higher education was identified as the top priority issue in only Arizona and Idaho (NCSL, 1987, p. 36). The interplay between taxation as the highest priority issue and a slightly lower priority for education may be seen in the following quotation from the NCSL study:

The main reason why taxation was the top fiscal issue was federal tax reform which had a direct impact on most states' revenue. The federal example also inspired many states to reform their own income taxes to varying degrees. A second reason why taxation was a leading issue was the need for revenue in some states plagued by poor economies and anemic revenues. The decline in education's rank as the leading fiscal issue is consistent with the decline in growth of education spending. The margin by which the growth rate of aggregate education spending exceeded the growth rate of general fund spending was less than it has been in the past several years. This could indicate that the momentum for education reform has subsided, in part because states have already made substantial increases in support for education. (NCSL, p. 37)

Given some slowing in the momentum of the education reform movement, what else would account for the national increase in aggregate higher education appropriations? One factor is student aid. GRAPEVINE's purpose is not to focus on a single area, such as student aid, but preliminary figures in this area, as gleaned from those states reporting a separate amount for student aid, are instructive. Thirty-three states reported student aid as a separately identified entry. Sixty-one percent of these states (20 of 33) appropriated at least as much or more for student aid than had been appropriated in 1987; only 13 states reported declines in student aid appropriations.

Another explanatory factor in identifying increases for higher education would be the incentive or performance funding. One example, reported in GRAPEVINE, was in New Jersey. Rather than formula-based funding for higher education, New Jersey uses a base-plus priority funding system which includes two types of incentive funding. Challenge grants are awarded after institutions compete for awards by submitting proposals describing specific multi-year campus plans for accomplishing institutional goals related directly to mission. Competitive grants utilize a model similar to the national endowments and target entrepreneurial opportunities to selected areas, such as technologies, humanities, and math-science.

This New Jersey case study is illustrative of the fact that increasingly "new money" for higher education is going for specific programs, often focused on such goals as improving a state's economy, retraining workers, stimulating high-tech programs, and fostering quality improvement in education and higher education. Unrestricted increases for campus operating expenses are less prevalent now than in an earlier period. Even increases for such areas as faculty and staff salaries are coming under intense scrutiny as states re-examine their priorities and allocate increasingly scarce resources to a wide array of public services, including education and higher education.

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## Grapevine

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