

# 2010 PUBLIC INSTITUTION AND UNIVERSITY SYSTEM FINANCIAL CONDITIONS SURVEY

**AGB** ASSOCIATION OF  
GOVERNING BOARDS  
OF UNIVERSITIES AND COLLEGES

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In accordance with its mission, AGB has designed programs and services to strengthen the partnership between the chief executive and governing board; provide guidance to board members; identify issues that affect tomorrow's decision making; and foster cooperation among all constituencies in higher education.

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OCTOBER 2010

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## **Acknowledgements**

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*2010 Public Institution and University System Financial  
Conditions Survey*

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# TABLE OF CONTENTS

Introduction .....	I
About the Survey .....	2
Highlights from the Survey .....	4
Board Actions or Processes .....	6
Cost-Reduction Strategies .....	9
The Economy and Public Higher Education .....	17
State Allocations .....	19
Effects on Institution and University System Operating Budgets .....	23
In-state Undergraduate Tuition and Fees .....	26
Endowments .....	28
Summary .....	30



# INTRODUCTION



**T**his is the second consecutive year that the Association of Governing Boards of Universities and Colleges (AGB) is reporting on the financial conditions facing public governing boards. A continuation of efforts by AGB's Ingram Center for Public Trusteeship and Governance, this report analyzes state appropriations, budget cuts, board actions, cost-reduction strategies, tuition and fee levels, and endowments.

As the current financial downturn in the nation and in our states continues to be of serious concern to policy makers and higher education leaders, not to mention students and their families, AGB presents the financial conditions of 120 public institutions and systems.

One meaningful aspect of this report is that findings include comparisons to last year's 2009 data<sup>1</sup>. Comparisons illuminate the changes occurring in state, system, and institutional budgets. They also highlight changes in board actions as trustees respond to the fiscal challenges affecting colleges and universities.

The current recession continues to be the worst economic downturn since the Great Depression. This downturn did not happen overnight, and it cannot be fixed overnight. Subsequently, some of the strategic decisions that boards and institutional leaders have implemented (or are considering implementing) may take time to evolve and produce expected cost savings. Institutions and systems have developed (or are developing) short- and long-term actions to reduce spending and retain much-needed revenues. These approaches are outlined in this report.

## ADDITIONAL INFORMATION OR QUESTIONS

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<sup>1</sup> A copy of the *2009 Public Institution and University System Financial Conditions* report is available at [www.agb.org](http://www.agb.org).

# ABOUT THE SURVEY

In April 2010, AGB's Ingram Center for Public Trusteeship and Governance conducted a financial-conditions survey to determine the effects of the economic downturn and fiscal crisis on public higher education. Surveys were sent to the board chairs and chief executives of the nation's 270 public four-year institution and university-system governing boards. Respondents were asked to complete the survey on behalf of their institution or system. Of the 270 distributed surveys, 120 were submitted for review, yielding a 44 percent response rate.<sup>2</sup>

Surveys were gathered from institutions and university systems in all 50 states and the territory of Guam. For the purposes of classifying data in this study, Guam will be included in the data for states. For comparison, data from 90 surveys representing 46 states and the territory of Puerto Rico were analyzed in the last survey.

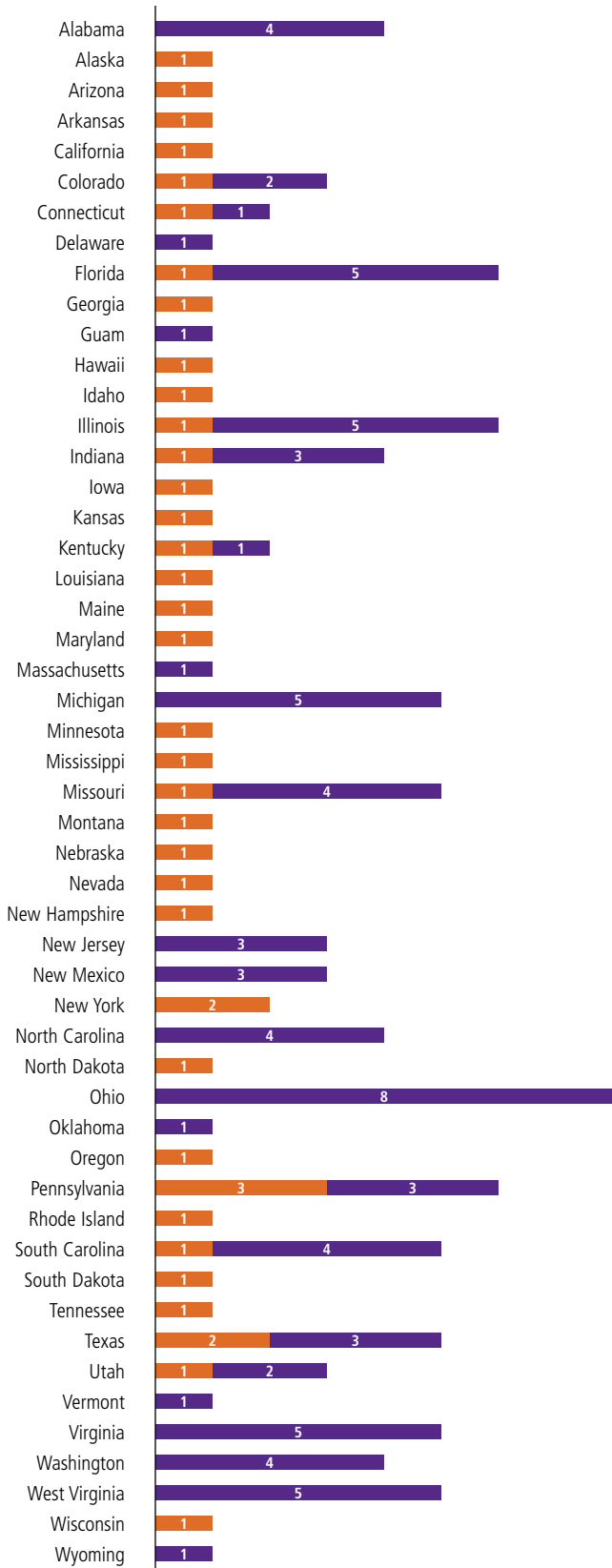
Graph 1 (opposite) provides a breakdown of the number of surveys received from each state. For the 40 reporting university systems, one board may govern all or many of the states' public four-year colleges and universities. Thus, a single response from those governing boards may provide information pertaining to several institutions.

With all 50 states represented, it is possible to gain a greater, more in-depth understanding of the most pertinent fiscal issues facing governing boards and executives, as well as the actions and strategies being implemented to address the challenges.

Responses from all 120 surveys are presented in aggregate form. For each question asked, the number and percentage of respondents are reported. Additionally and where appropriate, qualitative data are provided to highlight survey responses.

<sup>2</sup> In some cases, surveys were referred to the chief executive or the chief financial officer for completion.

**GRAPH 1: RATIO OF SURVEYS TO STATES** ■ SYSTEMS ■ INSTITUTIONS



“With all 50 states represented, it is possible to gain a greater, more in-depth understanding of the most pertinent fiscal issues facing governing boards and executives, as well as the actions and strategies being implemented to address the challenges.”

## HIGHLIGHTS FROM THE SURVEY

**Institution and university system budgets in state budget context.** Last year, governing boards in 14 states experienced their own “misery index list.” Boards in these states endured budget cuts from fiscal year 2008 to fiscal year 2009, mid-year cuts in fiscal year 2009, and projected cuts for fiscal year 2010.

This year, governing boards in 12 of those same 14 states continue to face rounds of budget reductions. These include: Alabama, Arizona, Connecticut, Florida, Kentucky, Minnesota, New Jersey, New Mexico, New York, Ohio, South Carolina, and Utah. According to this year’s data, an additional 18 states will join this “misery index list.” These include: Arkansas, California, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Louisiana, Maine, Massachusetts, Nevada, North Carolina, Oklahoma, Oregon, Rhode Island, Texas, and Washington. Overall, 42 percent of governing respondents in 30 states report three rounds of cuts (cuts from fiscal year 2009 to fiscal year 2010, mid-year cuts in fiscal year 2010, and projected cuts for fiscal year 2011).

It is noteworthy that 18 out of the above 30 states rank below the national average on the “index of state economic momentum.” Developed by the late Hal Hovey, the *Index of State Economic Momentum*<sup>3</sup> averages three components: population growth, employment growth, and personal income growth. Together, these metrics score a state’s economic vitality. Twelve out of the 30 states listed above rank at the national average or higher. Reviewing economic momentum may help assess which states might have sufficient revenue to support public higher education now and in the years immediately to come.<sup>4</sup>

<sup>3</sup> *State Policy Reports: Index of State Economic Momentum*. Volume 28, Issue 12. Federal Funds Information for States. June 2010.

<sup>4</sup> Since funding for higher education is considered “discretionary,” and legislatures may believe colleges and universities can make up for reduced allocations in other ways (i.e. tuition, fund raising, and endowments), public higher education is often one of the first sectors legislators may cut if state budgets are constrained.

**Institution and university system budgets.** Comparing operating budgets from academic year 2008-2009 to academic year 2009-2010, 47.8 percent of reporting boards face some level of reduction. It is also noteworthy that 43.7 percent of respondents report increases in operating budgets. This is significantly higher than last year, when only three percent of respondents reported increases. This year, funding for enrollment growth, increases in tuition and fees (for full-time undergraduates), and federal stimulus funds are cushioning reductions to operating budgets.

**In-state undergraduate tuition.** Over three-fourths (76.1 percent) of reporting boards will increase tuition an average of 7.3 percent for academic year 2010-2011. This is up from last year, when 40 percent of boards reported tuition increases averaging 6.7 percent for academic year 2009-2010.

**Board actions and processes.** Respondents identified their top approaches in response to the financial challenges, including: the creation of administrative or staff-driven committees; additional and/or longer meetings of some or all board committees; and additional and/or longer meetings of the full board.

- *Administrative or staff-driven committees.*
- *Additional and/or longer meetings of some or all board committees.*
- *Additional and/or longer meetings of the full board.*

**Cost-reduction strategies.** In answers to questions, respondents chose the strategic approaches they are implementing. The top responses include implementing energy-saving initiatives; implementing hiring freezes or restrictions; and implementing salary reductions or freezes.

- *Implementing energy-saving initiatives.*
- *Implementing hiring freezes or restrictions.*
- *Implementing salary reductions or freezes.*

**Other financially driven findings include:**

- *Performance and incentive budgeting around strategic priorities.*
- *Administrative restructuring and internal affairs.*
- *Academic restructuring and academic affairs.*
- *Expanded use of information technology.*
- *Purchasing and sharing of services.*
- *Enrollment and retention.*

**Endowments.** Many public colleges and universities depend on endowments and utilize these financial investments for student scholarships, endowed faculty positions, and special academic programs, among other things. When respondents were asked to identify the percentage of their operating budgets supported by their endowment, 20.7 percent of public institutions report that on average, endowments support 3.1 percent of operating budgets. Considering fiscal year 2009, 60 percent of respondents report that the portion of their operating budget supported by their endowment stayed the same; 35 percent report that the portion decreased; and five percent report that the portion increased.

## BOARD ACTIONS OR PROCESSES

“While the economic downturn may affect public colleges and universities in different capacities, board chairs, chief executives, and senior administrators continue to implement various approaches that respond to the financial challenges and fiscal uncertainty.”

**W**hile the economic downturn may affect public colleges and universities in different ways, board chairs, chief executives, and senior administrators continue to implement various approaches that respond to the financial challenges and fiscal uncertainty. The following information identifies these approaches.

**Administrative or staff-driven committees.** As shown in Graph 2, the most common practice includes 60 respondents (50 percent) reporting the creation of institution-wide administrative- or staff-driven committees. This year, respondents indicate that these strategic advisory committees (many identified as budget advisory committees) are an efficient way to generate ideas and develop recommendations for leaders. The composition of these committees includes senior administrators, faculty, deans, classified staff, students, and board members. One system respondent also reports that alumni, as well as labor and business representatives, serve on the system’s strategic advisory committee. More chief executives, senior administrators, and board members are establishing these committees. Last year, only a few respondents identified this practice.

**Additional and/or longer meetings of some or all board committees.** The second most common practice includes 48 respondents (41.4 percent) indicating additional and/or longer meetings of some or all board committees. This is up from last year, when 28 percent of respondents reported additional committee meetings or conference calls. This year, board members and executives are discussing additional data-driven analyses and developing various scenarios in preparation for what they may (or may not) receive in state funding.

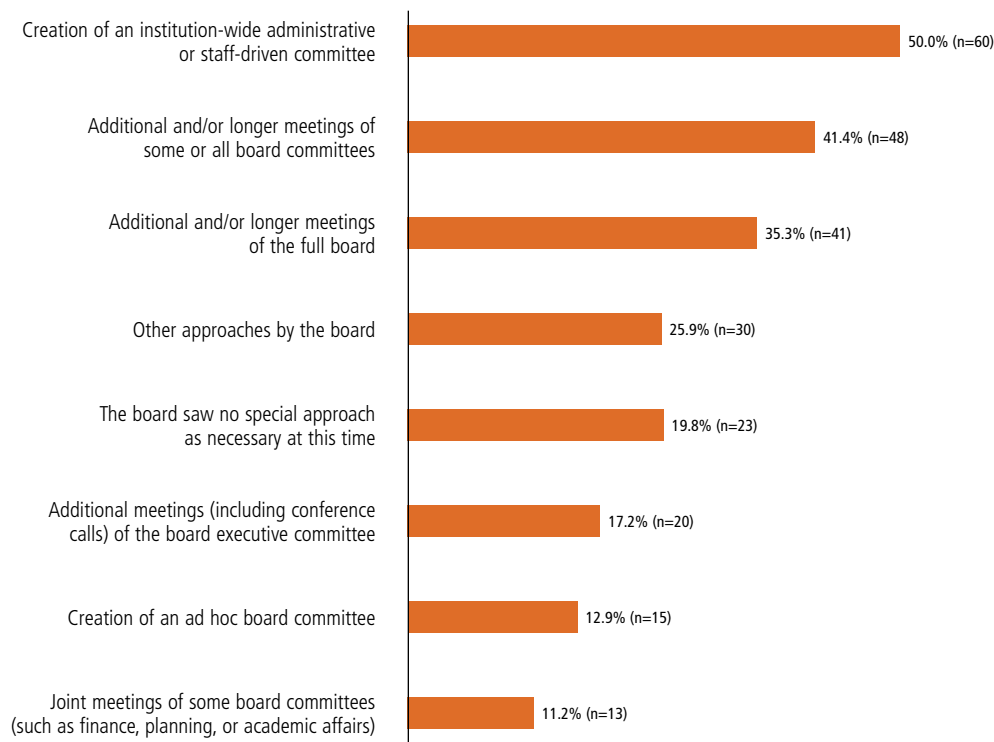
Board finance committees are also meeting more frequently than other committees. Board chair comments elaborate on this committee work. Some respondents' statements are listed below:

- *Institution: One board chair indicates that “the board’s finance committee routinely reviews and assesses the financial state of the institution and makes recommendations necessary to maintain financial health.”*
- *System: One respondent indicates that “more specific, frequent, and focused discussions at executive- and finance-committee meetings regarding economic conditions, funding impacts, and action plans to address these factors.”*

**Additional and/or longer meetings of the full board.** It is also noteworthy that 41 respondents (35.3 percent) indicate additional and/or longer meetings of the full board. This is up from 26 percent last year. Full board meetings are essential to ensuring that all board members appropriately understand the issues of which they should be aware and for which they bear responsibility. Graph 2 provides a breakdown of other categories and the number of respondents reporting these practices.

## GRAPH 2

Select any approaches by the governing board in response to the financial challenges at your institution or university system.



Note: 116 institutions and systems responded to this question.

**Board executive committees.** Additionally, 20 respondents (17.2 percent) report additional meetings (including conference calls) of board executive committees. Last year, 28 percent of respondents reported this practice. This year, responses reveal that more board executive committees are having consistent, regular discussions with chief executives and senior administrators.

**Ad hoc board committees.** Both institution and system respondents report the creation of “additional, single-purpose, limited-duration, ad hoc committees and task-groups.” Fifteen respondents (12.9 percent) indicate that ad hoc board committees have helped to identify short- and long-term financial challenges. One system respondent reports, “The board created a ‘reform workgroup’ to study and identify university system efficiencies, campus duplication, and other ways to streamline services.” Naturally, some ad hoc committees may work alongside board standing committees to share information, collaborate on matters of mutual interest, and discuss appropriate actions.

**Joint meetings of some board committees.** Thirteen additional respondents (11.2 percent) report joint meetings of some board committees (such as finance, planning, and academic affairs committees). This is up from last year, when seven percent of respondents scheduled joint meetings. This year, one system respondent reports that the board asset management committee, budget committee, and regulatory reform committee are meeting together regularly and will continue to do so.

**“Other” approaches.** Thirty respondents (25.9 percent) report “other” approaches. These include but are not limited to the addition of board retreats or workshops, special faculty or staff meetings, and planning for advocacy. Some respondent comments are listed below:

- *Institution: “The president keeps the board apprised of reductions in state support. One special board meeting was held. There were also a couple of special all staff and faculty meetings.”*
- *Institution: “Administration meets with faculty senate budget committee and holds ‘town-hall’ meetings for faculty and staff.”*
- *System: “We increased planning for advocacy.”*

# COST-REDUCTION STRATEGIES

**A**s state fiscal constraints continue to affect institution and university system budgets, governing boards are making strategic decisions to sustain their institutions' and systems' financial viability. As shown in Graph 3 (see page 11), top responses include:

**1. Implementing energy-saving initiatives.** Remarkably, 104 institutions and systems (86.7 percent) are taking actions to invest in renewable energy systems to ensure cost savings. Current energy-saving initiatives include: conducting energy-conservation audits, operation of buildings, and renewable energy heating/cooling systems, among others. These actions are likely to expand as some institutions and systems incorporate these initiatives into their long-term strategic plans. Last year, respondents ranked a similar response choice, long-term environmental sustainability, as sixth out of seven strategies to reduce costs.

University systems and institutions report their emphasis on sustainability initiatives. In terms of immediate actions, one respondent of a large public institution reports, "We have a four-day summer work week (same hours) to reduce energy usage." Other qualitative responses include actions related to performance contracts and capital improvements. Some respondent comments are listed below:

- *System: "Several system institutions have entered into energy performance contracts. The state's department of general services has in place a pre-qualified energy performance contractor list. These contractors provide services in two phases. The first is an evaluation of current systems resulting in a proposal of recommendations for capital improvements with guaranteed energy savings to pay for the improvements, over time. The second phase provides for implementation of the first phase if recommendations are acceptable to the institution. The project, which lessens energy use and water consumption, is the system's effort to conduct its operations in an efficient and environmentally sustainable manner."*
- *Institution: "The university continues to benefit from the use of performance contracts. These contracts allow us to renovate our capital infrastructure with no capital outlay. The required payments are limited to savings in energy costs."*

**2. Implementing hiring freezes or restrictions.** Ninety-five respondents (79.2 percent) are implementing hiring freezes or restrictions; last year 80 percent of respondents selected this response.

Several respondents indicate they are not filling vacant faculty and staff positions. One respondent of a large institution reports that they “Eliminated approximately 450 unfilled positions over the last few years.” Another institution respondent reports that their institution began “benchmark studies regarding peer salary comparisons.”

**3. Implementing salary reductions or freezes.** Seventy-eight respondents (65 percent) are implementing salary reductions or freezes; this action was not asked of respondents last year. According to this survey, several institutions and university systems report no salary increases (across the board) for all administrators, faculty, and staff.

Changing the funding source for some positions is reported by one institution. The board and the president “shifted funding for staff positions from the general fund to the auxiliary services budget.” As a result, technology staff salaries were covered by student fee revenues. This change reduced the amount of funds available for technology infrastructure.

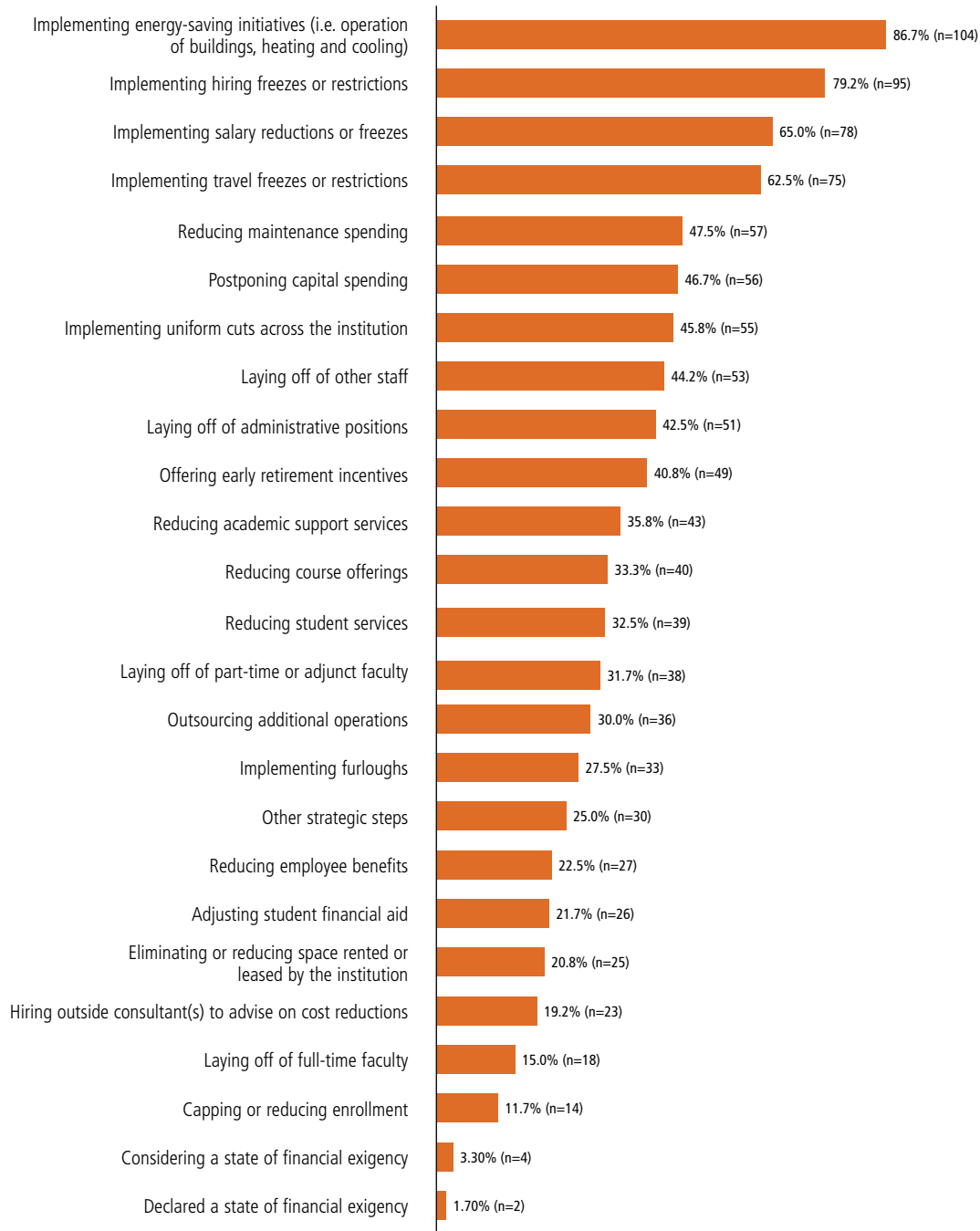
**4. Implementing travel freezes or restrictions.** Seventy-five institutions and systems (62.5 percent) are implementing travel freezes or restrictions; this is down from last year when 69 percent of respondents selected this response.

In addition to the strategies mentioned above, several respondents indicate that they are taking a fresh look at their institutional or university system strategic plans. As one respondent of a large system reports, we are “refocusing our mission and programs.” Additionally, for many institutions implementing targeted reductions in non-mission related operations, the cost-savings allowed them to streamline funds toward their most essential priorities.

Graph 3, on the following page, provides an overview of governing board actions to reduce costs in institutions and university systems.

### GRAPH 3

Select all steps the university system or institution has taken, or is considering, to reduce costs.



Note: 120 institutions and systems responded to this question.

“Reaffirming the importance of planning documents in decision-making processes, another respondent reports that ‘All budget requests are thoroughly evaluated through the lens of the university’s strategic plan.’”

Other key actions that boards are implementing are listed below:

- 47.5 percent are reducing maintenance spending; this is nearly the same as last year, when 48 percent of respondents selected this response.
- 46.7 percent are postponing capital spending; this is down from last year, when 48 percent of respondents selected this response.
- 45.8 percent are implementing uniform cuts across the institution; this is up from last year, when 41 percent of respondents selected this response.
- 44.2 percent are laying off staff (other than administrative positions, full-time faculty, part-time or adjunct faculty); this action was not asked of respondents last year.
- 42.5 percent are laying off administrative personnel; this is up from last year, when 21 percent of respondents selected this response.
- 40.8 percent are offering early retirement incentives; this action was not asked of respondents last year.
- 35.8 percent are reducing academic support services; this is up from last year, when 13 percent of respondents selected this response.
- 33.3 percent are reducing course offerings; this is up from last year, when 21 percent of respondents reduced academic programs.
- 32.5 percent are reducing student services; this is up from last year, when 13 percent of respondents selected this response.
- 31.7 percent are laying off part-time or adjunct faculty members; this is up from last year, when 22 percent of respondents selected this response.
- 30.0 percent are outsourcing additional operations; this action was not asked of respondents last year.
- It is noteworthy that two respondents indicate they are considering declaring a state of financial exigency, and one other board has already done so.

When provided with another opportunity to describe their institutions’ or university systems’ most important strategic actions or transformative initiatives, many respondents report new funding models, along with academic and administrative restructuring efforts; expanded technology services; purchasing and sharing of services; and assessments of enrollment and retention trends. Based on responses, six strategic themes emerged and are listed on the following pages.

## 1. PERFORMANCE AND INCENTIVE BUDGETING AROUND STRATEGIC PRIORITIES

Institutions and university systems are reevaluating their strategic plans and financial resources to support identified goals. Several institutions report practicing “incentive budgeting around strategic priorities,” or as some report, “implementing a performance-based budgeting approach.” Reaffirming the importance of planning documents in decision-making processes, another institution reports that “all budget requests are thoroughly evaluated through the lens of the university’s strategic plan.”

Similarly, respondents from university systems provide information regarding performance and incentive budgeting around strategic priorities. “Following our newly adopted strategic plan, [the university] has initiated a university-wide, formal review process for selected academic and administrative services based on performance criteria,” one respondent explains. The goal is to “improve quality, eliminate redundancies, and reduce costs.” Another respondent reports, “We are determining university priorities and developing our budget to align with strategic initiatives.”

Lastly, university system priorities may include renewed compacts with state leaders. One respondent indicates that their system is “developing a new compact with the state to grant greater autonomy to campuses in exchange for meeting performance measures for degrees, economic development, etc. [The] board governance committee is leading this effort.”

Generally, it is important to note that public board chairs are aligning institution and system budget expenditures with planning priorities; this includes implementing goals to advance state agendas for public higher education.

## 2. ADMINISTRATIVE RESTRUCTURING AND INTERNAL AFFAIRS

Many respondents identified actions to restructure institution and system operations. Respondents indicate they are centralizing institutional operations and ultimately reducing non-core services. Internal, personnel matters are also included in this section.

Even the president’s office at one large institution is being restructured. One institution reports, “The president incorporated the division of university advancement (staff and functions) within the office of the president. In doing so, the position of vice president for university advancement was eliminated and the president assumed the direction of key external relations and development functions.” Respondents will continue engaging in multiple administrative reorganizations, targeting specific programs, departments, and/or services.

“Merging the ‘academic side of the house’ with the ‘student affairs side of the house,’ one large institution reports that the division of student affairs is now under the office of the provost.”

Respondents from university systems also report restructuring actions, both internal to office operations as well as system-institution needs. One respondent explains, “Restructuring the university system office resulted in over \$62 million in savings, some of which was redirected to the system’s newest campus.” The same board also engaged in debt restructuring to delay principal payments. Outside of the system office, governing boards are restructuring student-aid programs and more generally working with institutions to facilitate long-term planning goals.

### 3. ACADEMIC RESTRUCTURING AND ACADEMIC AFFAIRS

Respondents report focusing on programs that align academic missions and values. Merging the “academic side of the house” with the “student affairs side of the house,” one large institution reports that the division of student affairs is now under the office of the provost. Expanding the capacity of student support services, another institution is establishing enhanced services geared toward student retention and degree attainment. The idea is that these services (admissions/enrollment management, academic advising, financial aid, bursar offices, career services, personal counseling, and others) will be housed in one center. Respondent comments highlight these restructuring efforts. Some respondent comments are listed below:

- *Institution: “Restructuring placed the responsibility for student affairs under the leadership of the provost, which resulted in an integration of staff and a review of programs.”*
- *Institution: “We are planning a student access and support center in a facility that is being funded for renovation with state funds. We hope to streamline staff and enhance services in this center.”*

Like institutions, university systems are also focusing on efficient ways to implement academic services for both faculty and students. One system reports “reallocating resources from decentralized college services to targeted faculty support and student services.” Assessing the essential resource needs of faculty and the academic advising and learning needs of students will provide enhanced learning experiences and better collaborations for mutual benefit.

Additionally, other institutional actions include the creation of university-wide groups to consider restructuring processes. One institution’s restructuring resulted from a committee recommendation that the division of student affairs and enrollment management should be under the direction of the vice president for academic affairs. The institution reports, “the purpose of the move was to integrate the functions and activities of faculty and students, thereby enriching the educational experience.” Provosts and academic officers are also working to review the amount of credit hours offered for core curriculums and programs. For example, some institutional leaders are not only considering reducing credit hours, but they are also considering special programs geared toward adult learners that would serve as accelerated-degree or continuing-studies programs. These programs are taught on main campuses as well as through extension-program campuses. Respondent comments highlight the information provided for this section.

- *Institution: “We are reducing hours to graduate from 128 to 120 and implementing an accelerated adult degree program.”*
- *Institution: “The university is implementing its strategic plan. Implementation has resulted in (1) a complete examination of the undergraduate experience; (2) several new interdisciplinary research efforts that reposition the institution within its region; (3) development and authorization for one new interdisciplinary degree (others are in process); and (4) new investments in academic infrastructure.”*

University system offices are also considering the academic missions of each institution and how these align with current and future planning goals. Respondents indicate that they are working with institutional leaders to review academic programs, time-to-degree completion rates, and how to enhance course instruction and student learning. Other comments reference the addition of more online courses, expanded technology initiatives to enhance course delivery, and the addition of courses for summer and winter breaks.

Expanding on definitions of better instructional delivery, one respondent highlights the system's work regarding course-redesign initiatives.

- *System: "The board's effectiveness and efficiency task force directed the system office to facilitate course-redesign initiatives at each degree-granting institution, using the principles espoused by the National Center for Academic Transformation (NCAT). We had 10 funded course redesigns, and one institution undertook redesigns on its own. All showed learning outcome improvement. Subsequently, the system was awarded a four-year grant to undertake course redesigns focused on achievement-gap issues in higher education. This grant will fund 24 course redesigns in developmental courses, especially mathematics, within the university system, community colleges, and the state's independent higher education institutions."*

Many respondents also report enhanced partnerships with community colleges. One system "has directed a system-architecture to guide more cost-effective instructional delivery options, including but not limited to a wide array of partnerships between institutions and community colleges." In addition, two-year institutions are also playing an important role in re-defining institutional access programs and articulation agreements.

#### 4. EXPANDED INFORMATION TECHNOLOGY

Some respondents are advocating online course delivery and distance-learning. Additionally, institutions and university systems are advocating for investments in classroom teaching equipment, and new online portals to supplement course discussion. Other institutional actions include upgrades of campus computer labs and course research software.

#### 5. PURCHASING AND SHARING OF SERVICES

If appropriate and cost effective, some institutional and university system operations are being consolidated or streamlined for efficiencies. Examples include procurement and competitive vendor contracts. Both institutions and systems report centralizing operation processes. For example, respondents report greater purchasing power through better collaborations regarding technology initiatives and service contracts. A few survey responses provide examples of these actions:

- *System: "The system office has been successful in activities related to facilitating procurement for technology products and services, both within the university system and across the state. The system formed a unique K-20 statewide consortium, which is now a self-sustaining, shared governance organization hosted by the system office. It has a portfolio of technology products and services available by competitively procured contracts."*

- *System: “System institutions have banded together to negotiate new purchasing contracts. Through the shared services initiative, the system created two data centers to provide efficient data back-up and joint operation of software applications, and a joint, online effort reporting system to ensure compliance with ... reporting [standards].”*
- *System: “Consistent with the board’s desire to find economies in the acquisition of goods and services, the university system established an energy work group consisting of representation from all system institutions. The work of this group and the assistance of experts in the field determined that economies could be found through aggregated procurements. This competitive process has resulted in vendors offering prices and terms favorable to system institutions.”*

## 6. ENROLLMENT AND RETENTION

Focusing on enrollment and recruitment, some boards are considering marketing approaches for three-year degrees and the possibility of lifting enrollment caps for undergraduate students. Institutions and university systems are actively working with area community colleges to accelerate degree completion goals. Institutional and system respondents provide examples of how they are addressing enrollment and retention trends.

Institutional actions include increasing “advertisements for the recruitment of students” and “increasing enrollment via relationships with community colleges.” Additionally, one respondent explains the importance of this work to their institution:

- *Institution: “The single most important strategic measure that we are taking is increasing undergraduate enrollment. [Our] university is an upper-division institution and is actively working with area community colleges to accelerate four-year degree completion by community college students. This has significant revenue growth implications for us because of underutilized capacity. The tuition revenue from such growth in enrollment is significantly greater than the associated cost.”*

University systems are also reviewing academic policies that affect admissions practices. Respondents indicate that systems are engaging in long-term enrollment planning processes and reviewing student measures of performance and success. In addition, one system reports “incentives focusing on the readiness, persistence, and success of underrepresented students and integrated online course offerings and support services, particularly in rural areas of the state.”

# THE ECONOMY AND PUBLIC HIGHER EDUCATION

In reference to the June 2010 *Fiscal Survey of States* by the National Governors Association (NGA) and the National Association of State Budget Officers (NASBO), NGA Executive Director Raymond Scheppach commented, “It will continue to be an uphill climb for states until 2013 when revenues are expected to return to 2008 levels.” Declining fiscal conditions continue to be the major higher education issue in the states. Recent data from the *State Higher Education Finance Report Fiscal Year 2009*<sup>5</sup> by State Higher Education Executive Officers (SHEEO) demonstrate that state and local appropriations for fiscal year 2009 totaled \$88.8 billion, a small increase over fiscal year 2008’s \$88.7 billion. SHEEO attributes the increase to federal stimulus dollars. These dollars play a key role in cushioning declines in state government support, to the tune of \$2.3 billion. According to SHEEO and fiscal data collected by *Grapevine*<sup>6</sup> at Illinois State University, state appropriations for fiscal year 2010 total \$75.2 billion, or \$2.7 billion below the fiscal year 2009 level of state support, and \$1.3 billion below the fiscal year 2008 level. While federal stimulus funds supplemented state appropriations in fiscal years 2009 and 2010, the majority of states have spent most of their stimulus funds, and all stimulus funds will expire in fiscal year 2011. Coupled with enrollment increases, state support per student is declining significantly.

American Recovery and Reinvestment Act of 2009 (ARRA stimulus funds). Last year, as reported in AGB’s 2009 Public Institution and University System Financial Conditions Survey, 62 percent of respondents reported that the current economic and fiscal crisis was having (and would continue to have) a “substantial” impact on their institutions and university systems. In this 2010 report, respondents report that the economy and state fiscal challenges continue to directly affect the operations of public institutions and systems. Respondents indicate that federal stimulus dollars (ARRA funds) helped to forestall or mitigate serious budget cuts and reductions. Through these funds, federal dollars were provided to help states “stabilize” funding patterns for essential programs and services, including higher education.

<sup>5</sup> *State Higher Education Finance Report, Fiscal Year 2009*. State Higher Education Executive Officers. February, 2010. [http://www.sheeo.org/finance/shef/SHEF\\_FY\\_2009.pdf](http://www.sheeo.org/finance/shef/SHEF_FY_2009.pdf)

<sup>6</sup> Since 1960, *Grapevine* has published annual compilations of data on state tax support for higher education, including general fund appropriations for universities, colleges, community colleges, and state higher-education agencies.

Additionally, *State Funding for Higher Education in FY 2009 and FY 2010*<sup>7</sup>, by the National Conference of State Legislatures (NCSL), also explains how state budgets are being affected by the recession and how the use of stimulus funds has provided aid to public colleges and universities. For fiscal year 2009, 14 out of the 46 reporting states indicated that without ARRA funds, the decrease in total state support for higher education would have been 3.4 percent. The actual decrease, with ARRA funds, was 1.5 percent. For fiscal year 2010, 39 of the 46 reporting states indicated that without ARRA funds, the decrease in total state support for higher education would have been 2.5 percent. Use of ARRA funds resulted in a 2.3 percent funding increase. NCSL's 2009-2010 survey of legislative fiscal officers reported that the state distribution of ARRA funds to public colleges and universities helped to replace lost funding. However, with stimulus dollars expiring, finding sufficient funding for fiscal year 2011 (and beyond) will be challenging.

<sup>7</sup> *State Funding for Higher Education in FY 2009 and FY 2010*. National Conference of State Legislatures. June, 2010.  
<http://www.ncsl.org/documents/fiscal/HigherEdFundingFINAL.pdf>

## STATE ALLOCATIONS

**T**his section details the findings for the 120 survey respondents regarding state allocations for fiscal year 2010, as compared to fiscal year 2009. Respondents took into account mid-year cuts to currently enacted 2010 budgets, as well as the addition of federal stabilization dollars (ARRA funds). *(Note: states with biennial budgets report changes for the next year of the biennium.)*

**Budget reductions.** In this survey, 77 institutions and systems (64.7 percent) in 39 states report reductions in state allocations from fiscal year 2009. States with the sharpest reductions include: Alabama, California, Florida, Hawaii, Idaho, Kansas, Louisiana, New Jersey, Nevada, New York, Ohio, South Carolina, and Washington. In last year's 2009 survey, respondents predicted these reductions: 73 percent of respondents in 45 states projected decreases for fiscal year 2010.

**Budget increases.** Fifteen institutions and systems (12.6 percent) in 12 states report increases in state allocations. Some states reporting increases include: Montana, North Dakota, and Wyoming. This is significantly higher than expected. Last year, only seven percent of respondents in six states projected these increases.

**No change in funding.** Twenty-seven institutions and systems (22.7 percent) in 14 states report no changes to their state allocations. This is also higher than expected. Last year, 18 percent of respondents in 11 states projected no changes to state allocations for fiscal year 2010.

"It is noteworthy that some respondents are experiencing double-digit reductions and predicting double-digit reductions for fiscal year 2011 and beyond."

**TABLE 1**

How does your state allocation for this fiscal year compare to last fiscal year? Take into account mid-year cuts in the currently enacted budget (FY2010), as well as the addition of federal stabilization dollars.

State Allocation Comparisons: FY 2009 to FY 2010	Response Percent	Respondents
No change in state allocations	22.7%	27 (7 systems, 20 institutions)
5 percent or less reduction	28.6%	34 (13 systems, 21 institutions)
6 to 10 percent reduction	18.5%	22 (7 systems, 15 institutions)
10 to 20 percent reduction	14.3%	17 (7 systems, 10 institutions)
20 to 30 percent reduction	3.4%	4 (1 system, 3 institutions)
Increase in state allocations	12.6%	15 (6 systems, 9 institutions)

Note: 119 institutions and systems responded to this question.

Qualitative survey responses also highlight data and information regarding comparisons of state allocations from fiscal year 2009 to fiscal year 2010.

**Withholding allocations.** This survey reveals that several survey respondents did not receive state allocations when they were needed. Responses from an affected institution and university system present the circumstances of this situation. Some respondents' statements are listed below:

- *Institution: "There has been a significant delay in payments. As of 4-16-2010, approximately 47 percent of the allocation for fiscal year 2010 was not paid."*
- *System: "The fiscal year 2010 appropriation is at the same level as fiscal year 2009. Approximately six percent of our fiscal year 2010 budget is funded from federal stimulus stabilization funds. The state has only reimbursed the university for approximately 19 percent of our appropriation and currently owes the university nearly \$500 million for vouchers that have been submitted."*

**ARRA funds.** In other respondent comments, ARRA funds were cited. Without these funds, respondents report that they would have faced state budget reductions ranging from 2.9 percent to 10 percent. Respondents also commented on these funds; one system would have faced a 45 percent reduction in state allocations, while another would have faced a 15 percent reduction.

**Board actions.** Many respondents also indicate that they are considering budget actions to provide immediate cost savings, while at the same time not locking the institution or system into long-term financial commitments. While some respondents are using ARRA funds to stop the strain of immediate reductions of state allocations, others are investing these funds in specific projects. For some respondents, ARRA funds were one means to improve specific infrastructure problems, especially those that may have been delayed due to previous years of reductions in state allocations.

## CHANGES IN STATE ALLOCATIONS SINCE FISCAL YEAR 2008

Assessing the changes in state allocations since fiscal year 2008, 75 respondents (63 percent) report reductions for the past two fiscal years. States with the sharpest reductions include: Alabama, Florida, Illinois, Iowa, New Jersey, New York, and South Carolina. Respondents from both institutions and university systems took into account mid-year cuts and allocations of federal stabilization dollars. A plurality of respondents (35) report reductions of one to 10 percent in state allocations, and 30 respondents report a reduction of 10 to 20 percent. An additional 30 respondents report an increase in state allocations. Some states reporting increases include: Montana, North Dakota, South Dakota, and Wyoming. These data points are included in Table 2.

**TABLE 2**

What is the combined percent change in state allocations to your institution or university system since fiscal year 2008 (for the past two fiscal years, 2009 and 2010)? Take into account any allocations of federal stabilization dollars.

Combined Percent Change in State Allocations:

FY 2009 to FY 2010	Response Percent	Respondents
No change in state allocations	11.8%	14 (6 systems, 8 institutions)
5 percent or less reduction	14.3%	17 (7 systems, 10 institutions)
6 to 10 percent reduction	15.1%	18 (5 systems, 13 institutions)
10 to 20 percent reduction	25.2%	30 (9 systems, 21 institutions)
20 to 30 percent reduction	3.4%	4 (2 systems, 2 institutions)
30 percent or more reduction	5.0%	6 (1 system, 5 institutions)
Increase in state allocations	25.2%	30 (11 systems, 19 institutions)

Note: 119 institutions and systems responded to this question.

It is noteworthy that some respondents are experiencing double-digit reductions and predicting double-digit reductions for fiscal year 2011 and beyond. Some respondents' statements are listed below:

- *System: "Since fiscal year 2008, state general-fund support has been permanently reduced by over \$200 million, or 18 percent."*
- *Institution: "By fiscal year 2012, state support will be reduced by 32 percent from [the] fiscal year 2008 level."*

## PROJECTIONS OF STATE APPROPRIATIONS FOR FISCAL YEAR 2011

Table 3 shows respondent projections for fiscal year 2011 state appropriations. This year, 85 institutions and systems (71.9 percent) project budget reductions for fiscal year 2011. Most of these reductions range from one to 20 percent. States that are projecting reductions include: Arizona, Colorado, Maine, and South Carolina. Fifteen respondents (12.7 percent) are optimistic, projecting an increase in state appropriations, while 18 respondents (15.3 percent) project no changes in appropriations. Some states that are projecting increases include: Maryland, North Dakota, Texas, and Wyoming.

**TABLE 3**

Based on available information, what is your best projection for next fiscal year's state appropriation (fiscal year 2011) to your institution or university system?

Projections for Next Fiscal Year's (2011)

State Appropriations	Response Percent	Respondents
No change in state allocations	15.3%	18 (8 systems, 10 institutions)
5 percent or less reduction	35.6%	42 (12 systems, 30 institutions)
6 to 10 percent reduction	22.0%	26 (7 systems, 19 institutions)
10 to 20 percent reduction	11.0%	13 (3 systems, 10 institutions)
20 to 30 percent reduction	2.5%	3 (systems)
30 percent or more reduction	0.8%	1 (system)
Increase in state allocations	12.7%	15 (4 systems, 11 institutions)

Note: 118 institutions and systems responded to this question.

The following responses also highlight perspectives regarding state allocations for fiscal year 2011. Generally, respondents indicate that they are uncertain and not optimistic. They report that state budget situations are not good, and that their governors and legislatures are warning it could get worse. Some respondents' statements are listed below:

- *Institution: "Planning efforts address much slower or negative revenue growth for the next several years. A combination of budget reductions and new revenues are being studied."*
- *Institution: "For budget-planning purposes, we are anticipating a 20 percent reduction."*
- *System: "The governor's budget proposal reflects a loss of stimulus funds; the university will face a 6.2 percent decrease in state appropriations if approved."*
- *System: "The fiscal year 2011 budget is subject to an approved one-cent sales tax. If tax initiative fails, state support will decrease 12 percent."*

It is noteworthy that some college and university respondents are not only projecting future reductions for fiscal year 2011, they are also anticipating mid-year cuts as well. One respondent of a large institution reports a 3 percent mid-year cut for fiscal year 2011.

# EFFECTS ON INSTITUTION AND UNIVERSITY SYSTEM OPERATING BUDGETS

To assess how state allocations are affecting institution and university system operating budgets, respondents were asked to report any changes to their academic year 2009-2010 budgets.

**Budget reductions.** As shown in Table 4, survey data reveal that 57 respondents (47.8 percent) face some level of reduction to their operating budgets. This percentage is down from last year, when 79 percent of respondents indicated reductions. Thirty-five respondents (29.4 percent) report a five percent or less reduction; this is down from last year when 49 percent of respondents selected this response. Sixteen institutions and systems (13.4 percent) report a six to 10 percent reduction; this is also down from last year, when 23 percent of institutions and systems selected this response. This year, it is important to note that respondents are preparing for additional cuts. As one system board chair reports, “Although the total budget was reduced by 5 percent or less, some deeper cuts are needed to offset increased expenses.”

**Budget increases.** It is also noteworthy that 52 respondents (43.7 percent) report increases in operating budgets. This is significantly higher than last year, when only three percent reported increases. Funding for enrollment growth, increases in tuition and fees, and federal stimulus funds are cushioning reductions to operating budgets.

**No change in funding.** Identifying no changes in operating budgets, 10 institutions and systems (8.4 percent) report level funding. These figures are down from last year, when 17 percent of respondents reported no funding changes.

“This year, it is important to note that boards are preparing for additional cuts. As one system board chair reports, ‘Although the total budget was reduced by 5 percent or less, some deeper cuts are needed to offset increased expenses.’”

**TABLE 4**

What changes in the institutional or university system operating budget have been or will likely be made this year (academic year 2009-10) compared to last year (academic year 2008-09)?

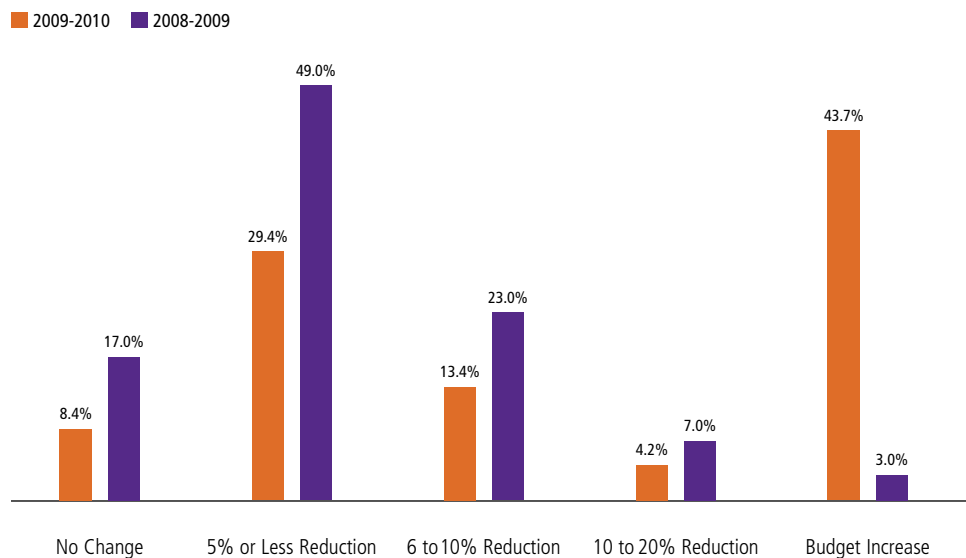
Changes in Operating Budgets:

Academic year 2008-2009 to Academic Year 2009-2010	Response Percent	Respondents
No change in revenues	8.4%	10 (4 systems, 6 institutions)
5 percent or less reduction	29.4%	35 (8 systems, 27 institutions)
6 to 10 percent reduction	13.4%	16 (6 systems, 10 institutions)
10 to 20 percent reduction	4.2%	5 (3 systems, 2 institutions)
20 to 30 percent reduction	0.8%	1 (institution)
Increase in revenues	43.7%	52 (19 systems, 33 institutions)

Note: 119 institutions and systems responded to this question.

**GRAPH 4: DATA AND INFORMATION FROM TABLE 4 IN GRAPH FORM**

What changes in the institutional or system operating budget have been or will likely be made this year (academic year 2009-10) compared to last year (academic year 2008-09)?



Note: 119 institutions and systems responded to this question.

## WHAT EXPLAINS THE INCREASES?

Survey responses reveal why Graph 4 shows increases to operating budgets. Several respondents report that funded enrollment growth along with higher rates of tuition and fees and federal stimulus funds are providing revenues to offset decreases in state appropriations. One respondent reports, “State resources declined; however, student tuition and fees were increased to help fill a portion of the budget gap left by a major decrease in state support.” Another respondent mirrored the same circumstance: “We had a decrease in state support and an increase in tuition revenue.” Respondents of institutions report similar explanations. Chairing the governing board of a small institution, one respondent from a small institution reports, “Educational and General (E&G) net revenue increases of 3.3 percent were largely due to tuition increases and enrollment growth.”

Stimulus funds and financial contracts are also providing funding to operating budgets. One respondent of a large institution reports that increases were “Driven by stimulus dollars.” A system respondent cited that both tuition revenues and stimulus funds enlarged operating budgets; the key formula was a “Combination of federal stabilization funds and increases in tuition rates and enrollment growth.” Considering other sources, one other system respondent added that budget increases are also the result of large federal grants and contracts.

There is a need for public institutions and systems to be wary of slight operating budget increases. A respondent of a large institution reports, “There was an increase in revenues at the beginning of the year, and then we dealt with rounds of reductions.” As a result, it was the suggestion of another respondent that if budget increases, albeit small, occurred, leaders should put those funds aside (in a reserve) to aid institutions and university systems during times of budget reductions.

## IN-STATE UNDERGRADUATE TUITION AND FEES

“When asked whether tuition and fees would increase, decrease, or stay the same, the vast majority of respondents—89 (76.1 percent)—report tuition increases for academic year 2010-2011.”

According to the SHEEO *State Higher Education Finance Report Fiscal Year 2009*<sup>8</sup>, consistent declines in state funding have also affected tuition, pushing net tuition dollars to \$44.5 billion. Tuition revenues reached 33.4 percent of public higher education’s general operating expenses, an all-time high.

When asked whether tuition and fees would increase, decrease, or stay the same, the vast majority of respondents—89 (76.1 percent)—report tuition increases for academic year 2010-2011. For these institutions and systems, the average in-state undergraduate tuition has increased 7.3 percent. This is a significant increase from last year, when 40 percent of respondents reported tuition increases averaging 6.7 percent for academic year 2009-2010. CollegeBoard<sup>9</sup> also cites a similar figure, reporting tuition and fee increases of 6.5 percent from 2008-2009 to 2009-2010.

**Decreases in tuition.** Not surprisingly, no institutions and systems report tuition decreases, as shown in Table 6. By comparison, only one respondent indicated tuition decreases last year.

**No change in tuition.** Eleven institutions and systems (9.4 percent) report tuition levels will stay the same. Similarly, 10 percent of respondents reported this response last year.

<sup>8</sup> *State Higher Education Finance Report, Fiscal Year 2009*. State Higher Education Executive Officers. February, 2010. [http://www.sheeo.org/finance/shef/SHEF\\_FY\\_2009.pdf](http://www.sheeo.org/finance/shef/SHEF_FY_2009.pdf)

<sup>9</sup> *Trends in College Pricing*. CollegeBoard. 2009. [http://www.trends-collegeboard.com/college\\_pricing/pdf/2009\\_Trends\\_College\\_Pricing.pdf](http://www.trends-collegeboard.com/college_pricing/pdf/2009_Trends_College_Pricing.pdf)

**Uncertainty regarding tuition.** Another important change is the percentage of respondents reporting knowledge of tuition levels. This year, 17 institutions and systems (14.5 percent) report they do not yet know how their tuition levels may change. Last year, nearly half of respondents (49 percent) indicated that it was too early to tell, or tuition and fee levels were not yet known. For some institutions and systems, uncertainty can be a result of legislatures that are still in session, considering new tuition levels and policies.

**TABLE 5**

What do you project will be the percent change in average in-state undergraduate tuition for entering freshmen next academic year, 2010-2011, compared with the current year?

Changes in Tuition for Academic Year 2010-2011	Response Percent	Respondents
7.3% (average increase)*	76.1%	89 (33 systems, 56 institutions)
Stay the same	9.4%	11 (2 systems, 9 institutions)
Not yet known	14.5%	17 (6 systems, 11 institutions)

Note: 117 institutions and systems responded to this question.  
 \*Responses indicate tuition increases range from 2 to 18 percent.

# ENDOWMENTS

“Many public colleges and universities depend on endowments and utilize these financial investments for student scholarships, endowed faculty positions, and special academic programs, among other things.”

According to the January 2010 *Study of Endowments*<sup>10</sup> by the National Association of College and University Business Officers (NACUBO) and Commonfund, a significant number of institutional endowments have steadily increased, restoring values. However, the report also indicates that fiscal year 2009 provided the lowest average investment returns. The report states four processes that may cause changes to endowments. These include:

- withdrawals to fund institutional operations and capital expenses;
- the payment of endowment management and investment fees;
- additions from donor gifts and other contributions; and
- investment gains or losses.

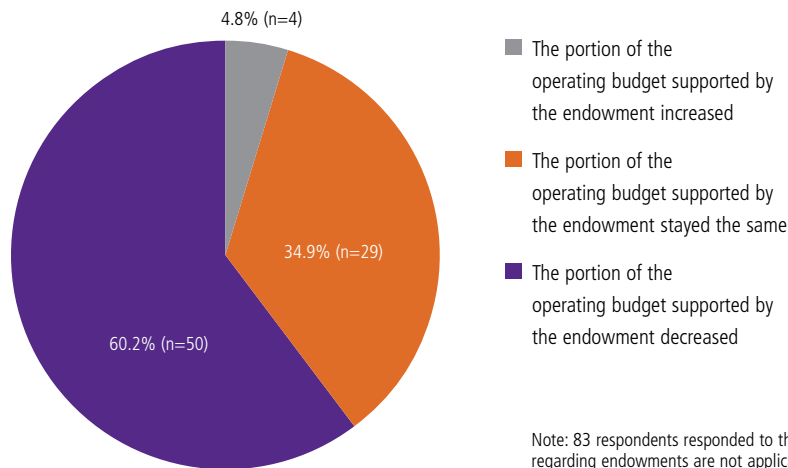
Many public colleges and universities depend on endowments and utilize these financial investments for student scholarships, endowed faculty positions, and special academic programs, among other things.

When respondents were asked to identify the percentage of their operating budget supported by their endowment, 20.7 percent of public institutions report that, on average, endowments support 3.1 percent of operating budgets. In this report, 50 respondents (60 percent) report that the portion of their operating budget supported by their endowment stayed the same; 29 respondents (35 percent) report that the portion decreased; and four respondents (five percent) report that the portion increased. Chart 1 provides an overview of these data points.

<sup>10</sup> 2009 NACUBO-Commonfund *Study of Endowments*  
[http://www.nacubo.org/Research/NACUBO\\_Endowment\\_Study.html](http://www.nacubo.org/Research/NACUBO_Endowment_Study.html)

### CHART 1

Compared to fiscal year 2009, how would you describe the portion of the operating budget supported by your endowment?

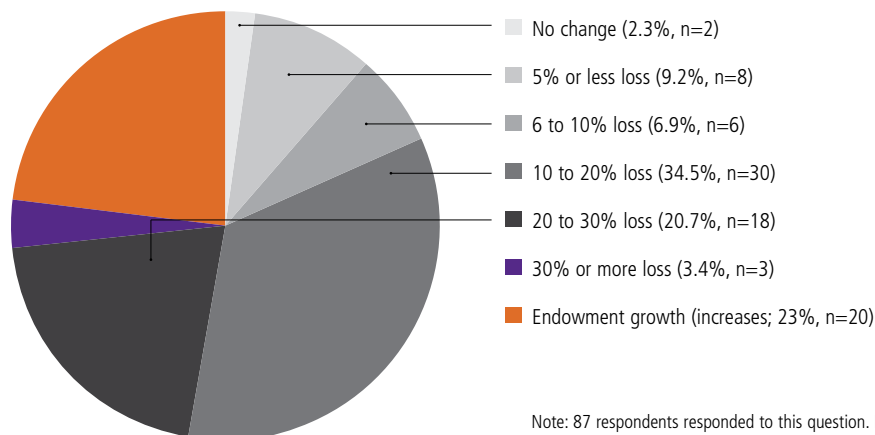


Note: 83 respondents responded to this question. More often than not, questions regarding endowments are not applicable to university system governing boards.

More specifically, and providing the overall percent gains and losses, respondents report how their endowments fared over the course of fiscal year 2009. The majority of these institutions and systems responded in three ways: 34.5 percent report 10 to 20 percent losses; 23.0 percent report endowment growth (increases); and 20.7 percent report 20 to 30 percent losses. Chart 2 provides an overview of these data points.

### CHART 2

Overall, how has your endowment fared during the last fiscal year (fiscal year 2009)?



Note: 87 respondents responded to this question. More often than not, questions regarding endowments are not applicable to university system governing boards.

## SUMMARY

“Survey data inform readers that public institutions and systems must continue to work with chief executives and senior administrators to implement greater efficiencies in operation, delivery of instruction, and fulfillment of institution and/or system goals.”

The fiscal outlook for public institution and university system governing boards is a concern to everyone in higher education. With 77 institutions and systems from 39 states experiencing reductions in state allocations for fiscal year 2010, and 85 projecting continued reductions for fiscal year 2011, colleges and universities must be strategic about how they use their revenue and/or other financial resources.

Survey data inform readers that public institutions and systems must continue to work with chief executives and senior administrators to implement greater efficiencies in operation, delivery of instruction, and fulfillment of institution or system goals. By implementing incentive budgeting around strategic priorities, restructuring administrative and academic units, monitoring enrollment trends, expanding the use of technology in operations and in student learning, and implementing energy-saving initiatives, respondents are making tough decisions to create efficiencies and enhance learning experiences. Highlighting some of the strategic actions of governing boards may help more trustees and executives endure current and future fiscal challenges.