Iowa's State Fiscal Crisis and Its Impact on Education: Erosion of Support at All Levels

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Preface

Jeremy Varner, intern with the Iowa Policy Project, and Elaine Ditsler, Research Associate with the Iowa Policy Project, were the principal authors of this report.

We are grateful for the assistance of officials from the three Regents universities, the community college system, the Iowa Department of Management, the Iowa Department of Education, and the Iowa Association of School Boards in preparing this report. We are particularly grateful for the assistance of Michael Morrison, President of North Iowa Area Community College, Rob Denson, President of Des Moines Area Community College, and Aaron Podolefsky, Vice President of Academic Affairs at the University of Northern Iowa. Thanks also to Warren Madden at ISU, Keith Greiner at the Iowa College Student Aid Commission, Lisa Oakley and Steve Hill at the Iowa Department of Management, Michelle Wendel of the Iowa Department of Education, Gene Gardner of the Iowa Association of Community College Trustees, Barbara Boose at the Board of Regents, Steve Parrot and Don Sceszycki at the University of Iowa, and Lana Dettbarn and Jeff Armstrong at Eastern Iowa Community College.

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Table of Contents

Iowa's State Fiscal Crisis and Its Impacts on Education: Erosion of Support at All Levels

Executive Summary

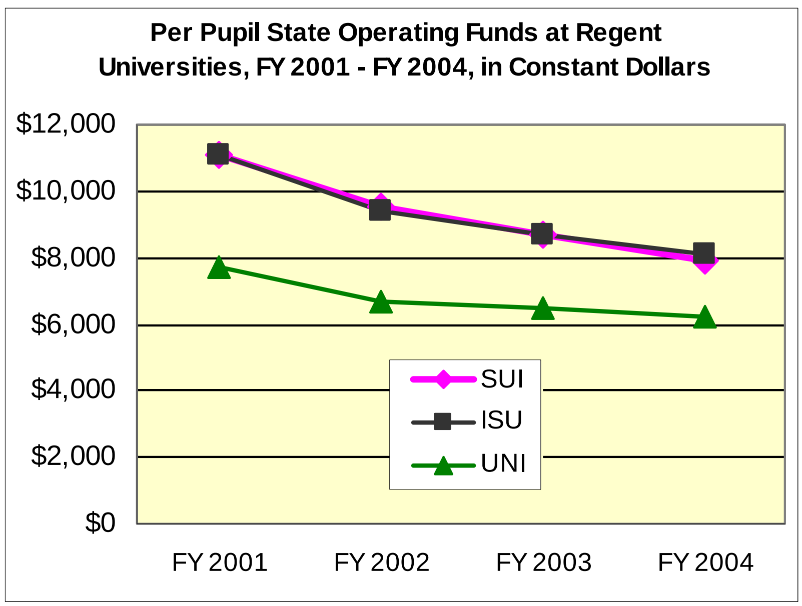
A detailed examination of the fiscal situation of state and local government in Iowa appropriately begins with education. Education — the Board of Regents institutions, community colleges, and K-12 school districts — accounts for 60 percent of the state general fund budget. Furthermore, public school systems are the single largest local entity in terms of property taxes.

This report examines how the lingering state fiscal crisis has affected the Regent universities (The University of Iowa, Iowa State University, and the University of Northern Iowa), the community college system, and Iowa's K-12 public school districts. We look at the period from fiscal year 2000-01 (FY01), before the major drop-off in state revenues, through fiscal year 2003-04 and, in some cases, through fiscal 2004-05 budgets. We find that the fiscal crisis has weakened state support at all levels.

The Regent Universities

The Regent universities pay for the lion's share of faculty/staff salaries, benefits, and other core activities out of the general operating fund. More than 90 percent of general operating fund revenue comes from two sources: (1) state general fund appropriations and (2) tuition and fees.

Between FY01 and FY04, state funding of the Regent universities declined 14 percent at The University of Iowa (SUI), 16 percent at Iowa State (ISU), and 15 percent at Northern Iowa (UNI). These reductions totaled nearly $94 million (in nominal dollars). In FY01, state funding accounted for two-thirds of Iowa Regent universities' general operating fund revenue; by FY04, this proportion had fallen to just over half. The three public universities have struggled to adjust to fewer state funds and to unpredictable revenue streams. Often the cuts in state funding have not only been severe, but have come in the middle of fiscal years, creating a host of problems for university administrators.



Source: Iowa State Board of Regents

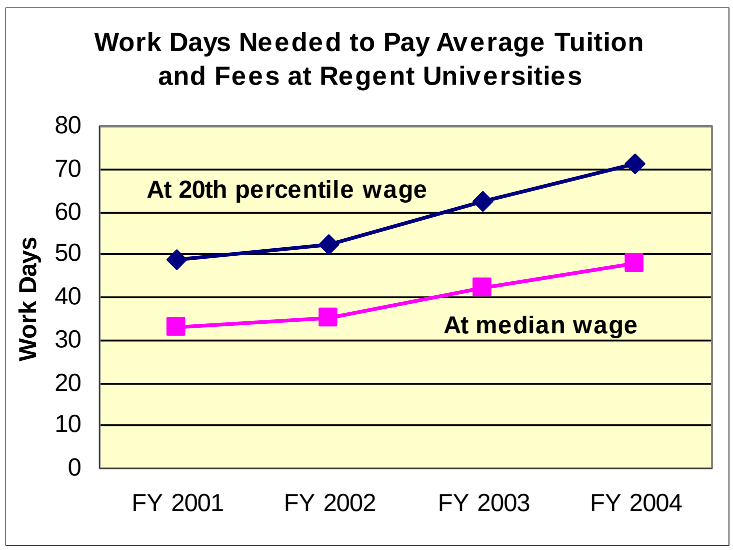
The real impact of these cuts becomes apparent only after adjusting for inflation. The Higher Education Price Index (HEPI) is typically used to adjust for inflation in university expenses. Since 1999, the HEPI has outpaced the Consumer Price Index (CPI) nearly two to one. In 2001 HEPI-adjusted dollars, state appropriations actually declined 22 percent at SUI, 24 percent at

ISU, and 23 percent at UNI between FY01 and FY04. Per-pupil funding declined by about a quarter in just three years as a result of cuts in state appropriations.

Since FY01, the state has consistently under-funded salary increases, forcing the universities to take funds from elsewhere to pay for those increases. Compounding the problem has been the rapid rise in the cost of fringe benefits, which has consumed much of the institutions' salary funds.

In response to funding reductions, the universities have relied increasingly on temporary staff (ISU), part-time staff (UNI), or both (SUI). Student/faculty ratios have risen as well.

Needing to replace the state revenue cut from their budgets, the Regent universities raised tuition and fees at unprecedented rates from FY01 to FY05. During this period resident undergraduate tuition at Iowa's Regent universities rose 62 percent, from $2,906 to $4,702. Fees, which vary by institution, rose even more rapidly, with the result that resident tuition and fees together rose 68 percent at SUI, 73 percent at ISU, and 72 percent at UNI in just four years. Non-resident tuition and fees over this same period rose 40 percent at SUI, 52 percent at ISU, and 57 percent at UNI. Tuition and fees rose from 27.9 percent of total operating funds in FY01 to 41.3 percent in FY05.



Source: Iowa College Student Aid Commission, Legislative Services Agency, U.S. Bureau of the Census

Both resident and non-resident tuition rates at SUI and ISU historically have compared favorably to national and peer group averages. In FY01, Regent institution tuition and fees were less than 79 percent of the national average. Since then, tuition and fees have risen more rapidly in Iowa than nationally. Resident undergraduate tuition and fees grew to 89 percent of the national average in FY03. In FY04, undergraduate tuition and fees at SUI were 85.1 percent of its peer group average for residents and 87.5 percent for non-residents. At ISU, resident tuition and fees were 87.5 percent of its peer group average and non-resident tuition and fees were 85.7 percent of the group average. UNI's tuition rates were even higher — resident undergraduate tuition was 102.7 percent of the peer group average and non-resident tuition was 91.3 percent of the peer group average.

University officials cite rising tuition as the major reason for the decline in enrollments in recent years, particularly at UNI. A public university education has, indeed, become significantly less affordable in the past four years. Between FY01 and FY04, the median wage in Iowa (half of workers earn less, half earn more) rose just 9.4 percent, while average tuition and fees at the Regent universities rose almost 58 percent. As a result, a person earning the median wage would have had to work 48 days to pay tuition and fees in FY04, 44 percent longer than in FY01. By FY05, it is likely that, for a person with the median annual earnings of about $27,000, the burden of financing a public university education for one of his or her children will have increased over 50 percent in just the four years since FY01.

State funding for financial assistance has not increased to mitigate problems of college affordability. General fund appropriations for the Iowa College Student Aid Commission (ICSAC) and its grant and scholarship programs have been reduced 10 percent from FY01 to FY04 (without adjusting for inflation). In FY01, the Iowa Work Study Program was appropriated $2.75 million and served more than 4,000 needy students. In FY02, funding for this program was eliminated altogether. Other smaller ICSAC grant programs, including the Iowa Grant (similar to the federal Pell Grant), have also been reduced in recent years despite tuition inflation.

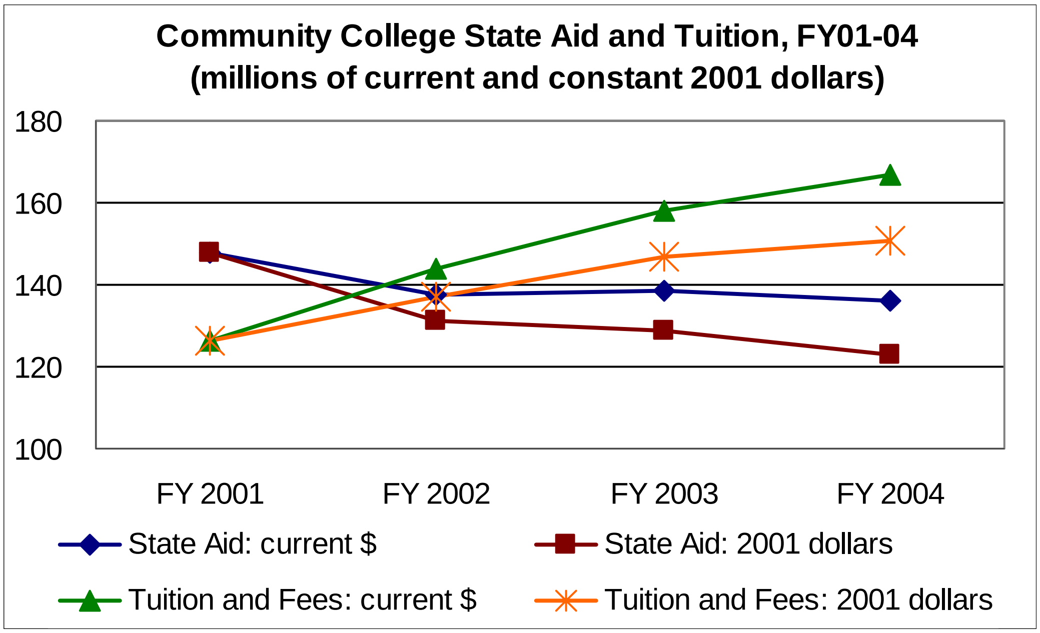
While federal financial aid increased from FY01 to FY05, it has not kept up with rising tuition. In particular, the Pell Grant Program, which is critical for low-income students, has not grown fast enough to keep pace with the increasing cost of post-secondary education. The cap on individual Pell Grants increased just 8 percent — from $3,750 to $4,050 — between FY01 and FY04. The maximum Pell Grant fell from about 120 percent of tuition and fees at Iowa's universities in 2001 to about 75 percent in 2004. Similarly, loan limits in the Federal Direct Stafford loan program have not increased during the past ten years, leading to a greater reliance on alternative loans. As a result of all these factors, the total financial need of all those undergraduates who file the Free Application for Federal Student Aid (FAFSA) that was *not* met by grant aid grew 23 percent from FY01 to FY03 at Iowa Regent universities, from $159.1 million to $195.8 million. Average student indebtedness at graduation also rose over that two-year period: 10.7 percent at SUI, 14.5 percent at ISU, and 11.9 percent at UNI.

In summary, the budget crisis of the past four years has reduced services at Iowa's public universities while drastically increasing its cost. The affordability of a university education has been seriously eroded, as financial aid resources (including tax benefits) have not increased sufficiently to offset the large increases in tuition and fees. Iowa's universities are no longer a good deal for many out-of-state students, reducing non-resident enrollment and cutting into the surplus tuition that those students generate.

The Community Colleges

The State of Iowa is divided into 15 multi-county merged areas, each served by a single community college. These two-year comprehensive community colleges each serve from four to twelve counties; enrollment ranges from just over 1,000 full-time students at Northwest Iowa Community College to more than fifteen times that number at Kirkwood Community College. The State Board of Education sets standards for the community college system and approves each of the institutions' budgets. The operating budgets of the community colleges are funded through a combination of student tuition and fees, state aid, federal funds, local property taxes, and other income. Together, state funding and tuition and fees account for more than 80 percent of community colleges' unrestricted general fund revenue.

In current dollars, state funding was reduced in fiscal years 2002 and 2004, and rose a little in 2003. (For the community colleges, FY04 figures are budget figures, adjusted for the state aid cuts; re-estimated figures were not available, and actual figures will be available in late 2004 or early 2005). In FY04, however, state appropriations were $11.5 million less than they were in 2001. In constant dollars (adjusted using the HEPI), funding was reduced each fiscal year 2001 through 2004, leaving state aid in FY04 $24.6 million lower (almost a 17 percent reduction) than it was in FY01. Facing a decline in state revenue coupled with increasing enrollment and limited funding options, community colleges opted to raise tuition to balance their budgets. Tuition and fee revenue exceeded state aid for the first time in FY02, and the gap has widened ever since. As a proportion of total unrestricted general operating fund revenues, state general aid slipped from 46 percent in FY01 to 38 percent in FY04, while tuition and fees rose from 39 percent to 46 percent.

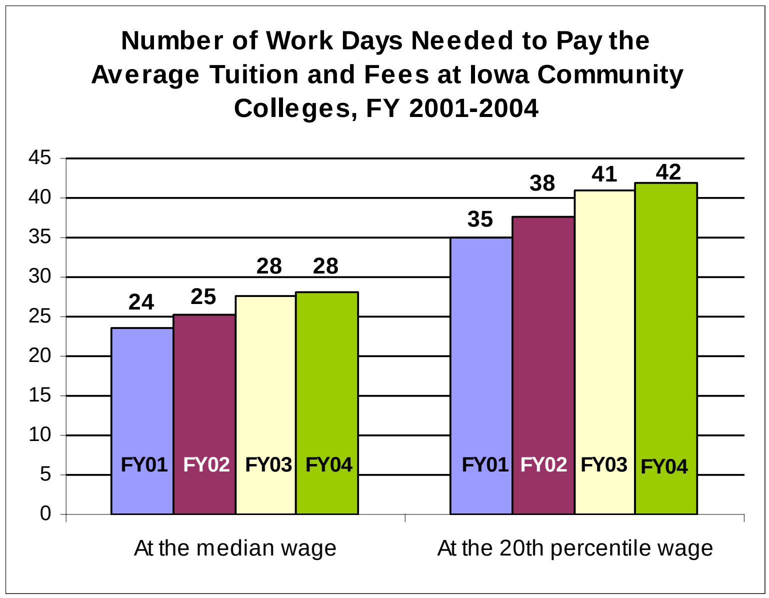


Source: Iowa Department of Education

While state and local funding has been falling off, community college enrollments increased 19 percent from FY01 to FY04, and are expected to increase again in FY05. The result has been sharply reduced per-pupil state appropriations. Between FY01 and FY04, state funding per pupil sank 30 percent, from $1,909 to $1,342. One of the state's largest community colleges, Des Moines Area Community College, has faced particularly difficult challenges managing rapid growth coupled with reduced revenue from the state. The cuts have been sharp — state general aid is down 8 percent from FY01 to FY04. Adjusted for inflation (HEPI), it slipped 17 percent. With enrollment up 19 percent during the same time period, per-pupil state general aid slid 30 percent when adjusted for inflation.

Local support, in the form of property taxes, accounts for just 6 percent of total unrestricted general fund revenue for Iowa's community colleges. Several property tax levies are allowed under Iowa law, some of which require voter approval. The Iowa Code caps the larger levies and significantly restricts the use of the remaining levies. Most of the colleges have exhausted their ability to raise levies or impose new ones. All fifteen colleges are at the 20.25 cent limit for the general operating levy. Most of the remaining levies cannot be increased without voter approval. Furthermore, the property tax base has been growing slowly in recent years for all local governments as the rollback on residential property continues to reduce residential valuation growth.

The average tuition in current dollars at Iowa community colleges has risen by a third, from $1,937 in FY01 to $2,571 in FY04, and rose again to $2,754 for FY05. The cost of attending Iowa's community colleges last year was 39 percent higher than the national average. The College Board reported that the national average resident tuition and fees (based on 30 credit hours and a nine-month semester) was $2,097 in FY04. By comparison, Iowa's average tuition and fees were $2,919. A study by the Midwest Higher Education Compact (MHEC) found Iowa's tuition and fees to be the third highest in the region (behind Minnesota and Wisconsin), and $875 (43 percent) above the average of 11 Midwestern states ($2,044). The MHEC also found that in 2002, Iowa had a higher proportion of its revenue generated from tuition and fees and, subsequently, a lower proportion from state appropriations than any adjacent state with the exception of South Dakota.



Source: Iowa Department of Education,

U.S. Bureau of the Census

As average tuition and fees at Iowa community colleges climbed 30 percent from FY01 to FY04, the median hourly wage for Iowa workers rose only 9.4 percent (to $13.01). An individual at the median hourly wage would need to work about 28 days to pay tuition and fees in FY04, 19 percent longer than in FY01. For those with wages in the 20th percentile (20 percent of workers earn less than this wage, 80 percent earn more), wages rose only 8.3 percent, to $8.72. At the 20th percentile, an individual would need to work about 42 days to pay tuition and fees in FY04, 20 percent longer than in FY01.

Financial aid has not kept pace with rising tuition. Funding for the Vocational Technical Tuition Grant Program, which provides access to vocational programs at community colleges, was $2.48 million in FY01 but slipped to $2.32 million in FY04 despite the rapidly increasing cost of tuition. While over 16,000 students with financial need applied for Vocational Technical Tuition Grant help in FY04, only 2,800 were projected to receive assistance.

Federal Pell Grants, the cornerstone of aid for low-income students, have not risen fast enough to keep pace with the increasing cost of post-secondary education. The average Pell Grant covers only about a third of tuition and commuter room and board at the average public two-year college nationally. While total federal financial aid (including increasingly popular tax credits, which disproportionately help those with less need) increased 23 percent between FY01 and FY03, it has fallen well short of meeting the rising cost of two-year public education in Iowa.

As a consequence of tuition hikes and insufficient increases in grant assistance, student indebtedness has grown substantially. The number of Stafford Loan borrowers at Iowa colleges rose dramatically, from 35,567 to 48,787, between FY01 and FY03 — up 37 percent, far ahead of increased enrollment. In 2001, the average indebtedness of graduating community college students was already $4,521. While no later figures are available, community colleges are reporting higher borrowing levels and increased student indebtedness.

From FY01 to FY03, community colleges attempted to cut costs by shifting from full-time faculty to adjunct faculty when possible. The number of full-time instructional positions fell 2.3 percent during this period, from 2,024 to 1,977, despite rapidly increasing enrollment. Meanwhile, the total number of adjunct instructional positions grew 10.8 percent, from 4,088 to 4,528. Nearly half of part-time instructional positions have been cut. In the aggregate, the number of instructional positions was reduced 6 percent, from 7,416 to 6,985. At Eastern Iowa Community College (EICC), for example, 62 full-time positions have been cut or replaced by part-time or adjunct staff since FY01. North Iowa Area Community College (NIACC) reduced 33 positions, representing about 12 percent of the college's total faculty and staff. This shift to adjunct faculty and the cuts in positions amount to a reduction in the level of services provided to students. While no measure of full-time equivalent instructors is available, the number of full-time equivalent students per full-time instructional position grew from 32 to nearly 43.

Budget constraints have also impacted academic programming. At EICC, for example, two AA degree programs and one high school program were eliminated between FY01 and FY04. DMACC has closed several programs and others have not been expanded and now have waiting lists as long as three years. At NIACC, several programs have been reduced, including partnerships and programs with four high schools, the optometric assistant program, and an electronics program. Additionally, the college has implemented periodic hiring freezes, restricted travel budgets, scrutinized professional development requests, reduced supply orders, decreased security hours, decreased library hours, and discontinued federal depository library services.

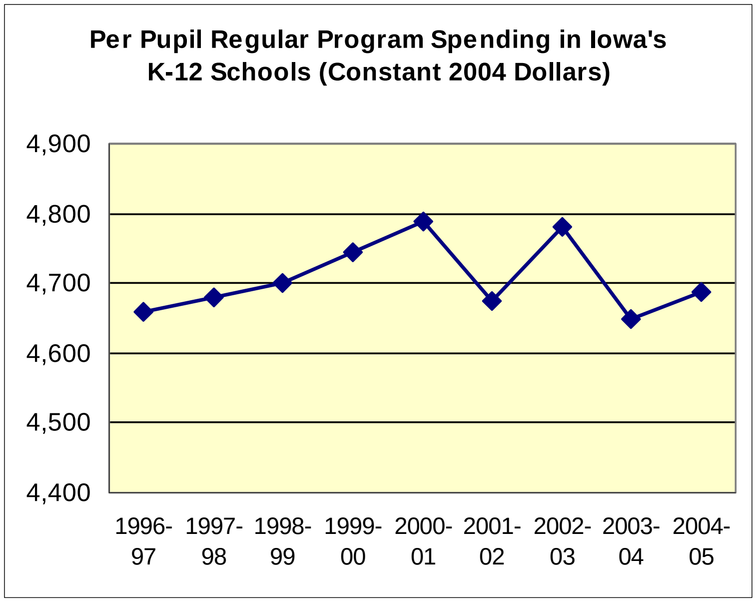
At the same time, salary increases have been held below the rate of inflation. The average base salary rose only about 1 percent from FY01 to FY03, from $39,454 to $40,028, while the CPI-U rose approximately 4 percent. The average faculty salary at two-year public colleges in Iowa is 13 percent lower than in other states in the region.

Community college enrollment is growing rapidly, yet state funding has not kept pace. If state appropriations continue to wane and short-term cuts become long-term realities, Iowa's community college students will continue to pay more for less and many may be priced out of the market at a time when the economy is demanding an increasingly educated workforce.

Iowa’s K-12 School System

K-12 education accounts for about 46 percent of Iowa’s General Fund budget. Like most states, Iowa relies on a combination of property taxes and state aid to finance elementary and secondary education. The foundation aid formula is the principal mechanism for allocating costs between state aid and property taxes, and for determining the regular program budget for all school districts. The regular program budget must cover the cost of salaries, benefits, utilities, maintenance, school supplies, and other purchases that keep the school district operational on a daily basis.

Recent state budget problems have reduced funding to Iowa’s K-12 public schools. Between 1996-97 and 2000-01, real spending on regular K-12 programs rose 1.6 percent, or 2.8 percent on a per pupil basis. In the fiscal crisis years since that time, however, spending decreased 4.8 percent, or 2.1 percent on a per pupil basis. In real (constant) dollars, the state budget crisis has forced per-pupil spending lower than it was in 1998-99.



Source: Iowa Department of Management

Each year, the Legislature determines the amount of allowable per pupil spending for all school districts through the “allowable growth” rate. For the 2001-02 school year, legislators set allowable growth at 4 percent. However, a 4.3 percent across the board cut in the middle of the school year forced schools to cut spending or to shift $74.1 million to property taxes. For the 2002-03 school year, legislators revised allowable growth downward from 4 percent to 1 percent due to revenue problems. In FY04, allowable growth was set at 2 percent, but a 2.5 percent across-the-board cut forced schools to cut spending or to shift $43.6 million to property taxes. In total, schools received about $161 million less than the Legislature originally committed. The state has also faltered on another commitment to K-12 education. The state is only funding about 11 percent of the Instructional Support Program instead of the 25 percent originally promised.

School districts are also being hit by sluggish or even negative growth in taxable property valuations. This forces schools to raise property tax rates in order to generate the same amount of revenue. Additional sources of financing for schools, such as the Local Option Sales Tax and the Physical Plant and Equipment Levy, are primarily only available for capital expenditures or have other strict limitations.

Some schools have been able to spend more than the amount authorized by allowable growth because of a special provision called the budget guarantee. The budget guarantee allows schools with declining enrollments to maintain the same regular program budget as the previous year by levying additional property taxes. The guarantee was put in place in recognition that schools have costs that do not decline at the same rate as enrollment. The number of school districts utilizing the budget guarantee increased from 68 in FY96 to 242 in FY05.[1]

Beginning in the current 2004-05 school year, the budget guarantee is being phased out. As a result, 170 school districts received cuts in regular program funding and 52 school districts received cuts in per pupil regular program funding.[2] With the phase-out of the budget guarantee, all 242 schools will lose the funding allotted by the guarantee and schools will have to cope with smaller budgets. Cost-cutting measures will likely include increased class sizes, reduced course offerings, decreased instruction time, and whole grade sharing.

Iowans value their education system and Iowa students achieve high marks as a result. However, the recent years of state budget problems have taken their toll on K-12 education. Since FY01, per-pupil spending increases have not even kept pace with inflation. The 2003 allowable growth factor was set at the lowest level in history (1 percent), and the across-the-board cuts in 2002 and 2004 cut state aid to schools, which forced schools to cut expenditures and raise property taxes. These cuts were further damaging because they came in the middle of the school year, which did not allow schools to plan for how to absorb the cuts. The allowable growth rate of 2 percent for FY05 did not make up the ground already lost: real per-pupil spending is less than it was in FY99.

The cost of providing a quality, modern, and equitable education for each student rises each year. Minimally, legislators must set allowable growth above the rate of inflation. Otherwise, the quality of Iowa's educational system will steadily deteriorate and with it so will the quality of life of all Iowans.

[1] State of Iowa, Legislative Services Agency.
[2] Author's calculations based on data from the Iowa Association of School Boards

Introduction

A detailed examination of the fiscal situation of state and local government in Iowa appropriately begins with education. Education — the Board of Regents institutions, community colleges, and K-12 school districts — accounts for 60 percent of the state general fund budget. Furthermore, public school systems are the single largest local entity in terms of property taxes.

We begin by looking at the Regent universities: The University of Iowa, Iowa State University, and the University of Northern Iowa (we do not look at the other Regent institutions: the Braille and Sight Saving School or the School for the Deaf). We then examine the community college system, including a detailed look at three of Iowa's fifteen community college districts. We conclude with an analysis of fiscal trends in Iowa's K-12 public schools.

The Regent Universities

A college education has long been viewed as a gateway to the American dream. Serving for decades as a great equalizer, this ticket to prosperity has benefited people of all socioeconomic classes. Today, postsecondary education is playing a more vital role than ever in shaping the competitiveness of Iowa's workforce. Globalization and the shift to a knowledge-driven economy have dramatically increased the importance of four-year public universities. Unquestionably, higher education improves the quality of life, increases individual opportunities and earnings, and provides the labor force for higher wage economic development.

However, college affordability has been put in jeopardy in Iowa and across the nation. Deep cuts in state appropriations coupled with simultaneous increases in costs have put the budgets of Iowa Regent universities in a vise. With few options for raising revenue, the universities have turned to raising tuition and cutting expenses/services. While students are forced to carry a much larger financial burden, the services they receive are reduced, with fewer full-time faculty, programs, and available class sections.

In this section of the report, we examine recent trends in the financing of Iowa's public four-year institutions of higher education — The University of Iowa (SUI), Iowa State University (ISU), and the University of Northern Iowa (UNI). We focus on the general operating funds of the three universities: how these funds have been affected by cuts in state funding, how the universities have dealt with these cuts through tuition increases and staff and program cuts, and how rising tuition affects access to education.

The primary source of funding to support the Regent universities' missions is the general operating fund. From it comes the lion's share of faculty/staff salaries, benefits, and most of the things that people think of as the core activities of the university.[3] The general operating fund provides the critical operating support for colleges and academic departments. It consists of unrestricted funds, including state appropriations, some federal funds, interest income, tuition and fees revenue, reimbursed indirect costs (e.g. overhead for grant and contract activity), and sales/services. Restricted funds, not included in the general operating fund, include capital appropriations, tuition replacement, gifts, sponsored funding from federal/private sources, residence system revenues, as well as other auxiliary or independent systems (e.g. parking or utility systems). The bulk of the general operating fund revenue (more than 90 percent) is received through state appropriations and tuition. State appropriations have made up nearly half of these funds and, as they have been cut, tuition has been raised at unprecedented rates in an

[3] University of Northern Iowa, Comprehensive Annual Financial Report FY02-03, Statistical Section, Page 2. Available at: http://access.uni.edu/reports/cafr/2003/stats.pdf.
SUI General Operating Fund does not include University of Iowa Hospitals and Clinics, Psychiatric Hospital, Center for Development and Disabilities, or Specialized Child Health Services. The fund does include Oakdale Campus, University Hygienic Laboratory, Family Practice Program, and Special Purpose Appropriations. ISU includes the Experimental Station, Cooperative Extension and Special Purpose Appropriations. UNI includes Special Purpose Appropriations.

effort to meet budget shortfalls. However, even with a 70 percent or greater hike in resident tuition and fees since 2001, there are still budget shortfalls and services have been cut.[4]

State Appropriations

Reductions in state funding for Regent universities have had a significant impact on their budgets — especially their general operating funds. In current dollars, state funding declined 14 percent at SUI, 16 percent at ISU, and 15 percent at UNI between FY01 and FY04. These reductions total nearly $94 million.[5] State appropriations have also declined considerably as a proportion of total general operating fund revenue (Figure 1). In FY01, state funding accounted for two-thirds of Iowa Regent universities' general operating fund revenue. However, by FY04, the proportion of operating funds from state appropriations fell to just over half (53 percent).[6]

The three public universities have struggled to adjust not only to fewer funds but also to unpredictable revenue streams. Often the cuts in state funding have not only been severe, but have come in the middle of fiscal years creating a host of problems for university administrators. "What the reductions do is create uncertainty," SUI Assistant Provost Don Szeszycki said. "That uncertainty makes it difficult to manage [university operations]."

Szeszycki noted the hiring process for faculty begins a year in advance and the lack of stable funding makes administrators cautious about making long-term commitments to hire tenure-track faculty. This has contributed to a trend of hiring more visiting and adjunct faculty, he said.[7]

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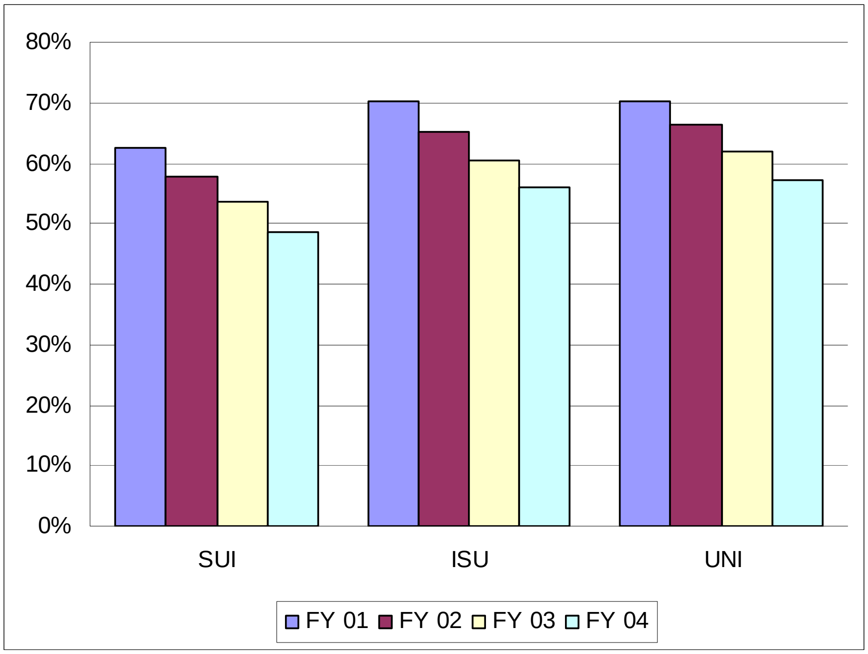
[4] State Board of Regents, university comprehensive fiscal reports from FY01 to FY03, revised FY04 budgets, and operating budgets for FY05.
[5] Comprehensive financial reports for UNI, SUI, and ISU, from FY01 to FY03, revised FY04 budgets (adjusted with 10 percent of 2.5 percent across-the-board cut added back) and FY05 operating budgets.
[6] Ibid.
[7] Interview with SUI Assistant Provost (Operations) Don Szeszycki and SUI Director of University Relations Steve Parrott. Note: The analysis and conclusions reach in this report are not necessarily those of Don Szeszycki or Steve Parrott.

Figure 1. State Appropriations as a Proportion of Total General Operating Fund Revenue



While the funding reductions seem large in current dollars, when the general operating funds are adjusted for inflation, the true impact of the cuts becomes more apparent. Price indexes are used to measure how the rate of inflation affects buyers by comparing increases in prices for the same goods and services. The Consumer Price Index (CPI) is one of the most common, deflating figures to measure changes in purchasing power for consumer goods. However, consumer-based indexes measure a substantially different mix of goods and services than those purchased in distinct economic sectors, including higher education. The Higher Education Price Index (HEPI) measures the cost of the goods and services purchased by universities, including faculty salaries and benefits, computer and scientific equipment, library journals and books, and laboratory supplies. The cost of items in the higher education sector has risen much faster than consumer items. Since 1999, the HEPI has outpaced the CPI nearly two to one.[8] In this report, fiscal year 2001 is used as the base year; expenditures in later years are adjusted by the HEPI to express them in 2001 dollars, or "constant" dollars. The HEPI is normalized to make 2001 the base year. (See Table 1.)

When adjusted for inflation, state appropriations declined 22 percent at SUI, 24 percent at ISU, and 23 percent at UNI between FY01 and FY04 (Table 1). The decrease in constant FY01 dollars totals $146 million.[9]

[8] "Why Does Tuition Outpace Inflation Even in Good Years?" Speech by ISU President Gregory Geoffroy. Available at: http://www.iastate.edu/~president/speeches/03/hepi.shtml
A more detailed discussion of inflation indices including the HEPI can be found in the State Board of Regents Tuition Policy Review Memorandum, Aug. 2, 2004.
[9] Table 1, State Board of Regents comprehensive financial reports from FY01 to FY03 and revised FY04 budgets.

Table 1. General Operating Fund Revenue from State Appropriations From FY01 to FY04, in Constant 2001 Dollars

	FY 2001	FY 2002	FY 2003	FY 2004	Change FY 01-04
SUI	$ 268,958,231	$ 237,469,081	$ 226,731,033	$ 208,889,851	-22%
ISU	270,197,593	237,415,975	223,078,328	205,581,145	-24%
UNI	91,829,144	80,949,322	77,038,026	70,801,857	-23%
Normalized Higher Education Price Index					
	1.000	1.048	1.075	1.107	

Note: FY 2001-2003 data is from Board of Regents Comprensive Annual Fiscal Reports; FY 2004 data is from Board of Regents Revised FY 2004 Budget. UIHC (University of Iowa Hospital) units are excluded. HEPI for FY 2004 and FY 2005 are estimated using an average increase for FY 1999-2003.

* FY 2004 reestimated figures include 2.5% across the board cut & 10% of the cut later re-added.

Salary increases to Regent university employees are funded by an appropriations bill separate from the Regents' base operating appropriations. The state determines the salary increases for numerous state employees through its process of negotiating collective bargaining agreements. Its AFSCME contract alone covers approximately 7,100 Regent employees. Until FY04, the state mandated that the Regents provide salary increases comparable to those provided for similar contract-covered employees.[10]

When preparing budgets, the salary funding is merged with the general appropriations. Since salaries make up about three-fourths of general operating fund expenditures, cuts in funding for salary increases have a substantial impact. Because of the need to attract and retain high quality faculty and staff, the Board of Regents made the full funding of salaries from state appropriations its highest budget priority. However, since FY01, the state has consistently under-funded salary increases, forcing the universities to take funds from elsewhere to pay for salary increases bargained with employee unions. Compounding the problem has been the rapid rise in the cost of fringe benefits, which has consumed much of the institutions' salary funds. While general state appropriations have been cut in recent years, the scope of the reductions isn't clear without the inclusion of reductions in salary policy revenue. Each year from FY01 through FY04, the Regent salary need was under-funded, with the cumulative under-funding totaling about $65 million. In FY04, the legislature did not provide any funding for the $33.3 million needed for salary increases for the universities or board office.[11] As a result, salary increases have been funded by reallocating money within the universities, meaning budget cuts for non-salary items.[12] For example, if salary increases amounting to 2 percent are not funded, then other areas of the university must be cut 6 percent in order to reallocate sufficient funds to cover salaries, since the salary budget is three times the non-salary budget. If this were to happen four years in a row, the cumulative effect is a 24 percent reduction in non-salary areas.

[10] Board of Regents, Incremental Salary Appropriations Requests for FY05, Sept. 8, 2003, Pages 1-3.
[11] Ibid.
[12] Board of Regents, university state funding requests, comprehensive annual financial reports, and operating budgets.

State Funding Per Pupil

It is to be expected that funding levels would change with changes in enrollment. Enrollment at ISU slipped in FY04 and both ISU and SUI expect fewer students in FY05. At SUI, however, despite the recent drop, enrollment is expected to increase in FY05. Iowa State's enrollment has also risen over the four-year period, up 3.2 percent to a projected 25,145 full-time equivalent enrollments (FTEEs) in FY05. UNI's enrollment, on the other hand, has declined each year since FY02. From FY01 to FY05, UNI's FTEE is expected to be down more than 7 percent to 11,001 FTEEs in FY05.[13]

Undergraduate enrollment has seen the slowest growth or fastest decline while graduate enrollment has risen at the three institutions. Freshmen enrollment has seen the largest reductions.[14]

"The higher tuition rates are affecting our overall enrollments," ISU Vice President for Business and Finance Warren Madden said. Madden said many resident students are looking to lower-cost community colleges that do not offer four-year degree programs and non-residents are looking at schools in other states. While Regent universities' enrollment growth has been tapering off, community college enrollment has soared 24 percent. "We offer some things in a four-year setting [community colleges] can't offer but the perception of cost is pushing students away," Madden said.

While the rising cost of tuition is often seen as the main culprit in decreasing enrollments at Regent universities, the decreasing number of high school graduates in Iowa is a contributing factor.

Enrollment is often a double-edged sword for university budgets. While bringing in added tuition revenue, state revenue per pupil decreases when enrollment increases since state appropriations are enrollment neutral. Since universities need about one instructor for every 16-17 students and salaries make up about 75 percent of general operating fund expenditures, reduced enrollment equates to significantly reduced costs. UNI has implemented a strategy of reducing enrollment to match the decreasing resources allocated to it by the state.[15]

"To maintain quality, we wanted to keep our class sizes about stable," UNI Vice President for Academic Affairs Aaron Podolefsky said.
The number of students was reduced by cutting the number of credits required for graduation and allowing more credits to double-count toward meeting various requirements, in an effort to match requirements at most of UNI's peer institutions, and by reducing other barriers to

[13] FTEE measured from fall semester of the corresponding academic years, FY05 enrollment figures are estimated. Table 2, State Board of Regents, comprehensive annual financial reports, revised FY04 budgets, FY05 operating budgets, SUI enrollment reports from FY01 to FY04, Board of Regents Fall 2003 Enrollment Report (Oct. 6, 2003), ISU Factbook 2003-2004, UNI Annual Financial Report 2003 (statistical section, schedule 6), FY05 enrollment projections from each university's registrar's office.
[14] Board of Regents Fall 2003 Enrollment Report (Oct. 6, 2003), SUI Registrar's office.
[15] UNI Comprehensive Annual Financial Report FY03.
Board of Regents Unit Cost of Instruction Report, FY03.

graduation. Podolefsky said that while UNI would like to bring its enrollment back up and educate more students, the budget currently won't allow it without reductions in the quality of the service provided to students.[16]

"If we want more students, we need more faculty," Podolefsky said, noting that to hire more faculty the university needs state funding restored.

SUI and ISU have continued actively recruiting both resident and non-resident students. Madden said lower enrollment creates problems for other areas of the university than the general operating fund, including the residence system. With fewer students than expected living in the recently expanded dorms at ISU, the residence system has had increased financial strain. Szeszycki said enrollment growth causes costs to rise in a step function. Through close discussions with college departments, SUI has attempted to increase the number of students in various areas where additional costs will not be incurred, he said. Madden noted having fewer out-of-state students enrolled also impacts university budgets because they pay more tuition than the variable unit cost of their instruction.[17]

The composite unit cost of instruction for undergraduates at the three Regent universities is $8,917, of which $2,452 represents fixed costs (costs that do not vary with enrollment) and $6,871 represents variable costs. Tuition and fees per resident undergraduate in 2003 averaged about $4,150 per year. Thus, each additional in-state student adds about $6,871 to costs but brings in only $4,150 in additional revenue. This deficit must be made up elsewhere in the budget. On the other hand, each non-resident undergraduate brought in from $10,400 to $13,800 in 2003, substantially more than the variable unit cost of instruction. As long as enrollment of non-resident students increases along with resident enrollment, universities can cover the variable-cost deficit for residents with the "surplus" tuition (over variable costs) from non-residents. But when rising non-resident tuition makes Iowa universities less attractive to students from neighboring states, non-resident enrollment drops and the surplus tuition from non-residents also falls. This puts the universities in a financial bind, unless resident enrollment suffers a similar decline.

Despite reduced enrollment, per-pupil state revenue at UNI adjusted for inflation was down 20 percent FY01 to FY04 (Table 2), while total revenue per pupil declined 1.6 percent during the same period because of higher tuition and the lower number of students enrolled. Per-pupil state funding at SUI was down 29 percent and total revenue per pupil was down 8 percent. Similarly, per-pupil state funding at ISU was reduced 27 percent and total revenue per pupil declined 8.5 percent.[18]

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[16] Interview with UNI Vice President for Academic Affairs Aaron Podolefsky.

[17] Interview with ISU Vice President for Business and Finance Warren Madden. Note: The analysis and conclusions reached in this report are not necessarily those of Warren Madden.
Interview with Szeszycki.
Board of Regents, Unit Cost of Instruction Report 2003.

[18] Per pupil revenue figures are derived from Board of Regents' financial and budget reports FY01-2005 and full-time equivalent enrollment data.

Table 2. Per Pupil General Operating Funds from State Appropriations, FY01 to FY04

	FY 2001	FY 2002	FY 2003	FY 2004	Change FY 01-04
SUI	$11,076	$9,566	$8,698	$7,910	-28.6%
ISU	$11,088	$9,395	$8,689	$8,111	-26.8%
UNI	$7,738	$6,701	$6,485	$6,198	-19.9%

Note: All figures are adjusted for inflation using the Higher Education Price Index; FY 2001 is the base year. Enrollment is measured by Full Time Equivalent Enrollment (FTEE) and includes both undergraduate and graduate students, residents and nonresidents.

Other Non-Tuition Revenue Sources

Non-tuition revenue sources have not been sufficient to make up for the cuts in state funding. As a proportion of total general operating revenue, other revenue sources have remained virtually unchanged with the exception of 1 percent and 1.5 percent increases in reimbursed indirect costs at SUI and ISU respectively.[19] At UNI, per-pupil reimbursed indirect cost revenue is up 14 percent from FY01 to FY05. However, as a proportion of total operating revenue, reimbursed indirect cost recovery revenue has remained unchanged. Increases in indirect cost recoveries at the Regent universities means more research and grant activity which, while generating additional revenue, is not all gravy. Podolefsky pointed out that research funds may have to be used to cover the cost of replacing the teaching time of the faculty doing the research, for example.

Szeszycki noted many Regent employees once paid for with general operating funds are now paid for with restricted grant and contract funds. This shifting of positions away from the general operating fund can impact the nature of those positions, he said. For example, faculty members are now spending more time chasing grants and contracts. Podolefsky noted that excessive concentration on research projects can detract from the university's goal of teaching students.

The number of full-time professional and scientific staff has grown 4 percent from FY01 to FY05 while the number of full-time academic and instructional officials has increased only 1 percent.[20] Podolefsky noted that UNI has less capacity for attracting research revenue than ISU and SUI. To generate much-needed revenue, many universities are creating profit centers; enterprises that can provide added support to the university.

"We could create profit centers but many violate [our] principles … it's a shame the state wants to cut our budget and ask us to create a business on the side that isn't our business," Podolefsky said, noting that UNI's primary business is educating its students.

[19] Indirect costs are the overhead costs associated with research (e.g. laboratory space). Grants and contracts may or may not pay (reimburse) indirect costs, but when they do, those funds help cover university overhead. Revenues from direct costs associated with grant and contract research, on the other hand, are restricted funds that cannot be used for university overhead.
[20] Board of Regents, staffing levels of Regent universities from FY01 to FY04 (Table 3).

Tuition and Fees

With no other place to turn to generate the large sums of revenue cut from their budgets, the Regent universities raised tuition and fees at unprecedented rates from FY01 to FY05. (As tuition rates for the current academic year were set some time ago, we are able to present actual tuition figures through the current fiscal year rather than just through FY04.) During this period resident tuition at Iowa's Regent universities rose 61.8 percent, and fees rose even faster.[21]

The State Board of Regents' Tuition Policy states that, "Resident undergraduate tuition will be set to keep pace with the Higher Education Price Index and to provide support to finance the university at levels sufficient to implement the board's aspirations for excellence."[22] From FY01 to FY05, tuition has grown far ahead of the HEPI which has risen an estimated 13.9 percent (much more than the consumer price index). From FY01 to FY05, tuition and fees rose 68.4 percent for residents at SUI and 39.8 percent for non-residents (Table 3).

Table 3. Tuition and Fees at Regent Universities, FY01 – FY05

	All Regent Universities		University of Iowa		Iowa State Univ.		Northern Iowa	
Fiscal Year & Residency	Tuition Only	Percent Change	Tuition & Fees	Percent Change	Tuition & Fees	Percent Change	Tuition & Fees	Percent Change
Resident								
FY 01	$ 2,906	4.3%	$ 3,204	6.9%	$ 3,132	4.3%	$ 3,130	4.8%
FY 02	3,116	7.2	3,522	9.9	3,442	9.9	3,440	9.9
FY 03	3,692	18.5	4,191	19.0	4,110	19.4	4,118	19.7
FY 04	4,342	17.6	4,993	19.1	5,028	22.3	4,916	19.4
FY 05	4,702	8.3	5,396	8.1	5,426	7.9	5,387	9.6
FY 01-05		61.8		68.4		73.2		72.1
Non-resident								
FY 01	varies		10,966	5.0	9,974	4.3	8,094	4.5
FY 02			11,950	9.0	10,776	8.0	8,762	8.3
FY 03			13,833	15.8	12,802	18.8	10,426	19.0
FY 04			15,285	10.5	14,370	12.3	11,874	13.9
FY 05			15,328	0.3	15,128	5.3	12,705	7.0
FY 01-05				39.8		51.7		57.0

Tuition has increased at different rates for residents and non-residents because of changes in state support. Non-residents are supposed to pay the average cost of educating a student, so non-resident tuition rises each year by the increase in unit cost of instruction. Residents are subsidized; they pay in tuition the difference between average cost and the state subsidy. Since the cost of education has been rising while the state subsidy has been declining each year,

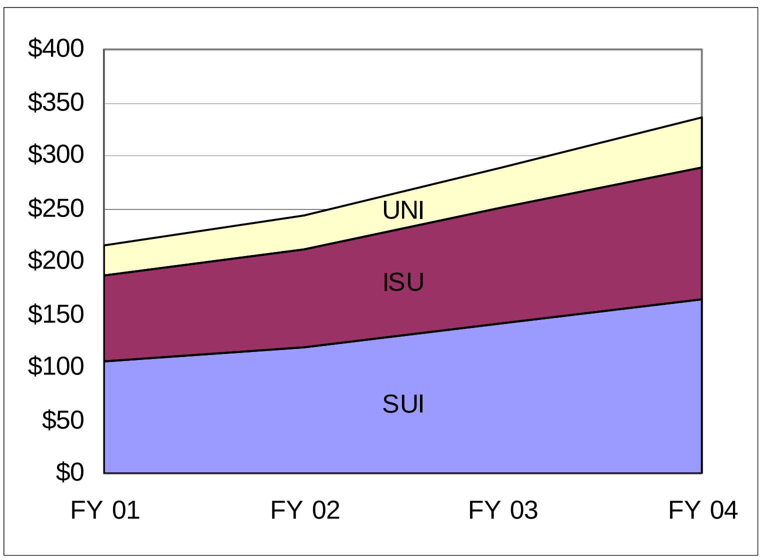
[21] Iowa College Student Aid Commission, Typical Undergraduate Student Expenses from FY01 to FY04 http://staffweb.legis.state.ia.us/lfb/subcom/ed_sub/docs_reports%5CNational%20Guard%20Info%20-%202004%20Session.pdf, http://www.iowacollegeaid.org/researchers/Student_Budget_Report_Preliminary.pdf. Legislative Service Agency, Higher Education Tuition and Fees, Jan. 28, 2004.
[22] Board of Regents, Approval of Tuition and Fees Memorandum, Nov. 2, 2003, Page 4.

resident tuition has increased by more than the cost of education each year. As a result, resident tuition has increased at a faster rate than non-resident tuition.[23]

At ISU, tuition and fees followed the same trend as SUI, rising 73.2 percent for residents and 51.7 percent for non-residents from FY01 to FY05. At UNI, tuition and fees have risen 72.1 percent for residents and 37.8 percent for non-residents. While both tuition and fees have soared in recent years, mandatory fees have increased at a faster rate. Fees at SUI increased 133 percent from FY01 to FY05, 220 percent at ISU, and 206 percent at UNI.[24]

However, it should be noted that 17 to 22 percent of the Regent universities' tuition revenue is set aside to provide financial assistance for students. A better way to measure the net tuition revenue received by the universities is to subtract the funds returned to students from the total general operating fund tuition and fees revenue. In current dollars, net general operating fund tuition and fees revenue has risen 56 percent at Iowa Regent universities between FY01 and FY04 (Figure 2).[25] After two years of about 18 percent annual tuition increases, in 2003 and 2004, the Regents held tuition growth to 8.3 percent for FY05. As a proportion of total operating fund revenue, tuition and fees rose from 27.9 percent in FY01 to a projected 41.3 percent in FY05.[26]

Figure 2. Net General Operating Fund Tuition and Fees Revenue from FY01 to FY04 (Millions of Current Dollars)



[23] Ibid., Page 16
Board of Regents, Unit Cost of Instruction Report 2003.
[24] Legislative Service Agency, Higher Education Tuition and Fees, Jan. 28, 2004.
[25] Tuition set-aside expenditures subtracted from general operating fund tuition and fees revenue, FY01-2005.
[26] Board of Regents, comprehensive annual financial reports, operating fund budgets. Aid to individuals was not subtracted.

Both resident and non-resident tuition rates at SUI and ISU historically have compared favorably to national and peer group averages. In FY01, Regent institution tuition and fees were less than 79 percent of the national average.[27] Since then, tuition and fees have soared not only in Iowa but nationally as well. However, tuition has risen more rapidly in Iowa. Regent resident undergraduate tuition and fees had grown to 89 percent of the national average by FY03. In FY04, undergraduate tuition and fees at SUI were 85.1 percent of its peer group average for residents and 87.5 percent for non-residents. At ISU, resident tuition and fees were 87.5 percent of its peer group average and 85.7 percent of the non-resident average. UNI's undergraduate tuition was higher — 102.7 percent of its peer group average for residents and 91.3 percent for non-residents.

In FY04, SUI's tuition and fees ranked 4th lowest of the 11 universities in its peer group, down from 5th lowest in FY01. ISU's tuition and fees also ranked 4th lowest in its peer group of 11 universities in FY04, but it had ranked 3rd lowest in its peer group in FY01. UNI's tuition and fees ranked 6th in its peer group of 11 universities. In FY01, it was 5th lowest in its peer group. As a percentage of per capita income, resident undergraduate tuition at Regent universities continues to remain below the national average, but the gap between the two has closed considerably.[28]

"For a student at ISU, it doesn't matter how you compare, you have to find a way to pay the higher tuition," Madden said. "For many people, that's a real challenge."

The total estimated cost of attending Iowa Regent universities for resident undergraduate students has risen 35 percent from $10,558 in FY01 to $14,237 in FY04. This rate of increase is roughly five times greater than increases in the CPI.[29]

Impact of Tuition Hikes on Students

One way of putting the tuition increases in perspective is to compare tuition growth with growth in the incomes of the Iowans who must pay that tuition. Because of the lingering recession that began in 2001, the large tuition increases (brought about in part by the recession-induced decline in state revenue) hit Iowans just as wages began to stagnate, after substantial gains in the latter 1990s. Table 4 compares wages at the median and at the 20th percentile (20 percent of Iowans earn less, 80 percent earn more) with average tuition and fees at the Regent universities from FY01 through FY04. While the median wage rose just 9.4 percent, average tuition and fees rose almost 58 percent. As a result a person earning the median wage would have had to work full time for more than two months (48 days) to pay a year's tuition and fees in FY04, 44 percent longer than in FY01. For a person earning at the 20th percentile, the number of work days required increased almost 46 percent, to 71 days (more than three months), in just three years.

[27] Board of Regents, Approval of Tuition and Fees Memorandum, Nov. 3, 2003, Attachment A.
[28] Ibid; Board of Regents Tuition and Fees Memorandum, Oct. 9, 2000, Attachment A.
[29] ICSAC Typical Undergraduate Student Expenses, from FY01 to FY04.

Table 4. Paying for a University Education:
Iowa Wages and Tuition, FY01 – FY04

	Hourly wage in Iowa		Average tuition and fees at the Regent universities	Number of work days needed to pay tuition and fees	
	20th percentile	Median		At the 20th percentile wage	At the median wage
FY 2001	$8.05	$11.89	$3,155	49	33
FY 2002	8.26	12.31	3,468	52	35
FY 2003	8.29	12.29	4,140	62	42
FY 2004	8.72	13.01	4,979	71	48
Pct. Change FY 01-04	8.3%	9.4%	57.8%	45.7%	44.2%

Note: All dollar amounts in current (uninflated) dollars. Calendar year wage data used for following fiscal year; e.g., average wage in 2000 used for academic (and fiscal) year 2000-01. Number of work days assumes 8 hour day. Tuition and fees is a simple average of the tuition and fees at SUI, ISU and UNI in Table 3.

Source for wage data: Economic Policy Institute Analysis of Current Population Survey Data.

State funding for financial assistance has not increased to mitigate problems of college affordability. General fund appropriations for the Iowa College Student Aid Commission (ICSAC) and its grant and scholarship programs have been reduced 10 percent from FY01 to FY04 without adjusting for inflation. In FY04, ICSAC lost its eligibility for the federal Leveraging Education Assistance Program (LEAP) and Supplemental Leveraging Education Assistance Program (SLEAP) funds because aggregate state appropriations fell short of the minimum level required for matching funds. Because of the lost funding, more than 500 students lost access to over $300,000 in assistance.[30] The legislature funded need-based programs sufficiently for the federal government to award LEAP funds in FY05; however, the ICSAC will not receive SLEAP funds.[31]

Additionally, direct state assistance to college students benefits primarily those attending private and independent colleges. In FY04, 88 percent of the ICSAC's budget was earmarked for grants to students at private institutions through the Iowa Tuition Grant Program.[32] The basic premise of the program is to provide resident private school students with state assistance since public universities receive support for resident students.[33]

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[30] See community college report, ICSAC
[31] Keith Griener, ICSAC research director
Iowa College Student Aid Commission, Resource Material for Members of the Iowa General Assembly Joint Education Appropriations Subcommittee, February 4, 2004. Available at: http://staffweb.legis.state.ia.us/lfb/subcom/ed_sub/docs_reports/College%20Aid%20Info%20-%202004%20Session.pdf
[32] Ibid.
[33] The goal of the program is to provide access and choice for Iowa college students, ICSAC Research Director Keith Greiner said. The Iowa Association of Independent Colleges and Universities has advocated parity between state resident student support and Iowa Tuition Grants to resident students attending private institutions. This is

Funding for the Iowa Work Study Program was eliminated altogether in FY02. In FY01, the Work Study Program was appropriated $2.75 million and served more than 4,000 needy students.[34] Studies have shown that students working on campus have higher retention and persistence rates than students who work off campus, yet the cuts in the Work Study Program have forced needy students to become increasingly reliant on outside employment. Moreover, studies have shown that working more (beyond the work study cap of 20 hours per week) can impede students' progress toward graduation.[35] Other smaller ICSAC grant programs including the Iowa Grant (similar to the Pell Grant), have also been reduced in recent years despite tuition inflation.[36]

While federal financial aid increased from FY01 to FY05, it has not kept up with rising tuition. The federal Pell Grant Program in particular, critical for low-income students, has not grown fast enough to keep pace with the increasing cost of post-secondary education. The cap on individual Pell Grants increased just 8 percent — from $3,750 to $4,050 — between FY01 and FY04.[37] The maximum Pell Grant fell from about 120 percent of tuition and fees at Iowa Regent universities in 2001 to about 75 percent in 2004. Similarly, loan limits in the Federal Direct Stafford Loan program have not increased during the past ten years, leading to a greater reliance on alternative loans.[38]

The failure of grants and scholarship aid to keep pace with the cost of an education is illustrated in Figure 3. The total financial need of undergraduate students who file the Free Application for Federal Student Aid (FAFSA) not met by grant aid grew 23 percent from FY01 to FY03 at Iowa Regent universities, from $159.1 million to $195.8 million. The number of students filing FAFSA forms also increased — nearly twice as fast as enrollment. The total need not met by grant aid per filer grew from $4,469 in FY01 to $5,062 in FY03 — an increase of 13 percent.[39]

"Students are borrowing substantially more money," Madden said.[40] He said the national policy has been to use loans as the primary means of aiding students resulting in higher debt loads upon

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measured by subtracting the actual unit cost of undergraduate instruction at public universities by tuition and fees. Currently, the maximum Iowa Tuition Grant is determined in this way.
Legislative Fiscal Bureau, Issue Review of the Iowa Tuition Grant Program, Available at: http://staffweb.legis.state.ia.us/lfb/docs/IssReview/1998/IR107F.PDF
The Iowa Association of Independent Colleges and Universities, http://www.iaicu-icf.edu/viewInformation.aspx?rid=92
Board of Regents, Unit Cost of Instruction Report 2003.

[34] ICSAC, Resource Material for Members of the Iowa General Assembly Joint Education Appropriations Subcommittee, February 4, 2004.

[35] Board of Regents, Annual Governance Report on Student Financial Aid, FY04.

[36] Resource Material for Members of the Iowa General Assembly Joint Education Appropriations Subcommittee, February 4, 2004.

[37] Board of Regents, Annual Governance Report on Student Financial Aid, FY04.

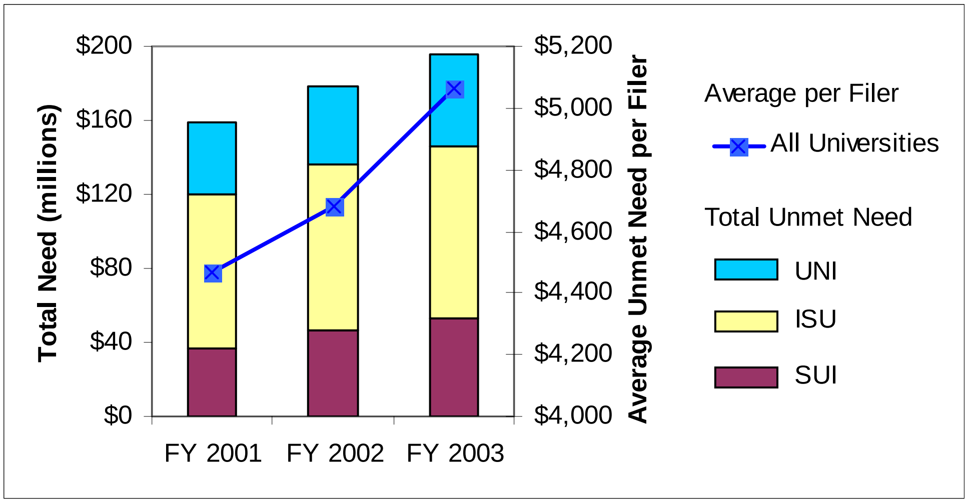
[38] Ibid.

[39] Board of Regents, Annual Governance Report on Student Financial Aid, FY03, Table 5.

[40] Interview with Warren Madden.

graduation. In FY03, 54.4 percent of student financial aid at the Regent universities was in the form of loans and only 23.5 percent were grants.[41]

Figure 3. Financial Aid Need of Regent Undergraduate FAFSA Filers Not Met By Grant Aid, from FY01 to FY03



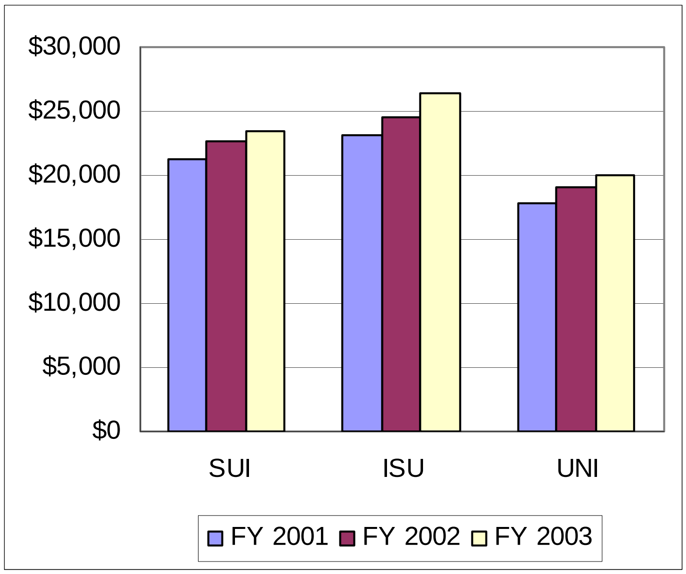
For those undergraduate students at SUI who were FAFSA filers, the total financial need not met by grant aid grew 45 percent from FY01 to FY03. The percentage of SUI graduating students who had borrowed through loan programs rose from 56 percent in FY01 to 59 percent in FY04. Per filing student, the need not met by grant aid at SUI has grown considerably — up 25 percent from FY01 to FY03.[42] According to SUI's Common Data Set, 99 percent of average students' need (who had received financial aid) was met in FY01. In FY04, only 88 percent of average students' need was met.[43] While tuition costs soared, the average financial aid package (excluding PLUS loans (loans to parents), unsubsidized loans, and private alternative loans), decreased 18 percent from FY01 to FY04.[44] The average student indebtedness at graduation rose 10.7 percent from FY01 to FY03 and 6.5 percent adjusted for inflation (as calculated with the Consumer Price Index for all urban consumers, CPI-U). (Figure 4).[45]

A similar trend is apparent at ISU. The total financial need not met by grant aid increased 12 percent from FY01 to FY03. During the same period, the number of FAFSA filers rose 7 percent, while enrollment rose 5.8 percent. While more students had applied for aid, the total need not met by grant aid per filer also grew — up 5 percent in two years.[46] The percent of need

[41] Board of Regents, Annual Governance Report on Student Financial Aid, FY04. The balance of student financial aid was in the form of employment.
[42] Board of Regents, Annual Governance Report on Student Financial Aid, FY03, including tables.
[43] SUI Common Data Set from FY01 to FY04. Figures are the average percentage of need that was met of students who received any need-based aid. Excluded is aid in excess of need as well as any resources awarded to replace EFC (PLUS loans, unsubsidized loans, and private alternative loans).
[44] Ibid. It should be noted that these loans are at or near market rates and hence do not constitute financial aid in the usual sense of the word, any more than relying on parents' home equity loans or dipping into savings constitute financial aid.
[45] Board of Regents, Annual Governance Report on Student Financial Aid, FY03, including tables.
[46] Ibid.

met fell more dramatically at ISU: in FY01, 100 percent of full-time undergraduates' need was met, but by FY04, this had fallen to only 73 percent. The average financial aid package for undergraduates (excluding PLUS loans, unsubsidized loans, and private alternative loans) decreased 7 percent from FY01 to FY04 despite rising tuition.[47] ISU student indebtedness at graduation rose 14.5 percent from FY01 to FY03 and 10.6 percent when adjusted for inflation (CPI-U).[48]

Figure 4. Average Indebtedness of Graduating Seniors with Debt at Regent Universities, from FY01 to FY03



The total financial need of UNI undergraduate students not met by grant aid has increased 25 percent from FY01 to FY03. The number of students filing to receive financial aid at the university increased 4 percent during the same period, well ahead of enrollment, which slid 4 percent. The total need not met by grant aid per filing student grew 21 percent from FY01 to FY03.[49] During the same period, the percentage of graduating students who had borrowed through loan programs rose from 65 percent to 71.9 percent. According to UNI's Common Data Set, 75 percent of average students' need (who had received financial aid) was met in FY01. By FY04 that figure had slipped to 70.7 percent. At the same time, the average financial aid package rose 15 percent.[50] While it seems promising that UNI's average financial aid package grew faster than the HEPI, it has not increased nearly as fast as tuition and fees. Student indebtedness at graduation rose 11.9 percent at UNI.[51]

[47] ISU Common Data Set from FY01 to FY04. Figures are the average percentage of need that was met of students who received any need-based aid. Excluded is aid in excess of need as well as any resources awarded to replace EFC (PLUS loans, unsubsidized loans, and private alternative loans).
[48] Board of Regents, Annual Governance Report on Student Financial Aid, FY03, including tables.
[49] Ibid.
[50] UNI Common Data Set from FY01 to FY04. Figures are the average percentage of need that was met of students who received any need-based aid. Excluded is aid in excess of need as well as any resources awarded to replace EFC (PLUS loans, unsubsidized loans, and private alternative loans).
[51] Ibid., table 5.

The discussion thus far has included direct financial aid provided to students: state and federal grants and scholarships, federally subsidized loans, and subsidized employment (work study). A comprehensive assessment of the affordability of a college education, however, should also take into account assistance provided through the tax system. There are a number of tax subsidies provided for higher education: (1) deductions under the Iowa income tax for contributions to college savings accounts (529 plans) up to about $2,200 per child per parent each year; (2) federal and state deferral of income tax on earnings (interest, dividends, capital gains) on Coverdell Education Savings Accounts (ESAs), formerly Education IRAs, and on 529 plans; (3) two federal education credits; (4) federal deductions for interest on student loans; and (5) a federal deduction of up to $3,000 ($4,000 starting in 2004) for college tuition and fees. The education credits consist of the Hope Credit (for the first two years of college only, worth up to $1,500 per student each year for the first $2,000 in college expenses) and the Lifetime Learning Credit (equal to 20 percent of the first $10,000 — $5,000 prior to 2003 — of college expenses, with no limit on number of years). One credit or the other, but not both, can be claimed in a given year.

The Iowa Department of Revenue estimates that the deduction for contributions to a 529 plan costs the state about $2 million per year. It is difficult, however, to estimate how much of this goes to reduce the cost of education for Iowa residents attending state institutions, since the 529 accounts can be spent at any institution of higher education, public or private, in Iowa or elsewhere. The tax savings to Iowans resulting from the deferral of federal and state tax on the earnings on 529 accounts and Coverdell ESAs is not known, but it would be only a fraction of the savings from the deductibility of contributions. The largest federal tax benefits come from the Hope and Lifetime Learning Credits and the tuition and fees deduction, though only one of these three benefits can be taken in any one year for any one student. These benefits are not available to high-income households. The two education credits are available in full, for example, only for married couples with income below $83,000, and are phased out completely at an income of $103,000. The tuition and fees deduction is fully available for couples with income up to $130,000, and is completely phased out at $160,000.

Let's consider two Iowa families, one with income of $50,000, one with income of half that. The first family would face a marginal federal-state income tax rate of about 30 percent, the second about 20 percent. Both could take full advantage of the Hope credit for the first two years of college, and that credit would have been worth more than the Lifetime Learning Credit or the deduction every year from 2001 through 2004. However, its value was frozen at $1,500, which covered 45 percent of tuition in 2001 but only 29 percent by 2004. As a result, net annual tuition after the Hope Credit would have doubled over those three years. For the third and fourth years, as an undergraduate at one of Iowa's public universities, the family with $25,000 income would have been better off using the Lifetime Learning Credit, whose value would have grown from $662 to $1,038 (exactly 20 percent of tuition and fees). Still, net tuition after the credit would have risen 57 percent from 2001 to 2004. The family with $50,000 income would have taken the deduction instead, saving $900 (27 percent of tuition) in 2001 and $1,200 ($23 percent of tuition) in 2004. Net tuition for this family, after the deduction, would have risen 65 percent between 2001 and 2004.[52]

[52] The calculations were based on average tuition and fees for the three Regent universities for academic years 2000-01 through 2004-05, apportioned to calendar years for tax purposes. For example, we assume the families during

The upshot is that these tax benefits, enacted in 1998 and 2001, substantially reduced the cost of higher education for middle-income taxpayers, comparing costs in 2002 with costs in 1997. But they have not prevented those net costs from rising between 2001 and 2005. And they provide little or no benefit to the lowest income households who pay little or no income taxes to begin with, since the credits are not refundable — they can't reduce income tax below zero. Such households must rely on state aid and federal Pell Grants, which have also not kept up with rising tuition in the past few years.

Expenditures and Staffing Levels

While the increases in tuition and fees were large, they did not increase enough to make up both for state funding reductions and for inflation. Consequently, universities made budget reductions that resulted in cutting faculty positions and reducing the level of services provided to students.

While total general operating fund spending at SUI is up 11 percent in current dollars, it was virtually unchanged when adjusted for HEPI from FY01 to FY04. Per-pupil expenditures at SUI, adjusted for inflation, are down 8 percent because of sharp cuts and growing costs and enrollment. The unit cost of instruction, which is compiled by the Board of Regents and represents the general fund supported cost of instructing a full-time equivalent student, has decreased despite inflation. From FY01 to FY03, the unit cost of instructing undergraduates at SUI declined 1.9 percent because enrollment grew faster than expenditures.[53] At ISU, total operating fund expenditures adjusted for the HEPI slipped 5 percent from FY01 to FY04. Total spending per pupil fell 9 percent because of budget cuts, increased costs, and enrollment.[54] The unit cost of instruction for undergraduates from FY01 to FY03 increased 6.5 percent in current dollars.[55] Total expenditures at UNI, adjusted for HEPI, were down 5 percent from FY01 to FY04. Per-pupil expenditures adjusted for inflation are down just 1.6 percent because of decreased enrollment.[56] The unit cost of instruction for undergraduates, from FY01 to FY03, increased 2.5 percent in current dollars.[57]

Reduced expenditures and reallocations have meant reductions in the number of general fund-paid faculty at the Regent universities. The total number of full-time academic and institutional officials paid from the general funds at the universities has decreased 3 percent from 3,507 to 3,405 from FY01 to FY04 (Table 5).[58] Many employees were shifted from the general fund to other funds, while others saw their positions eliminated.[59]

2001 paid the second half of the 2000-01 yearly tuition amount (for the spring semester) and the first half of the 2001-02 yearly tuition (fall semester), and the sum of these two payments represents the tuition eligible for the credit or deduction on their 2001 income tax return.

[53] Board of Regents, Unit Cost of Instruction Report FY03, May 10, 2004, Pages 1-5.

[54] Board of Regents, comprehensive annual financial reports and budget reports.

[55] Board of Regents, Unit Cost of Instruction Report FY03.

[56] Board of Regents, comprehensive annual financial reports and budget reports.

[57] Board of Regents, Unit Cost of Instruction Report FY03.

[58] Board of Regents, staffing levels of Regent universities from FY01 to FY04 (Table 3). Academic and institutional officials includes faculty, university presidents, vice presidents, and deans.

[59] Ibid.

According to SUI's common data set, the total number of full-time instructional faculty was up slightly, well below increased enrollment, from 1,618 in FY01 to 1,623 in FY04.[60] Because the number of faculty has grown at a slower rate than enrollment from FY01 to FY04, the number of students per full-time academic or instructional official has risen 4.0 percent.[61] The student-to-faculty ratio at SUI has risen from 14 to 1 in FY01 to 15 to 1 in FY04.[62]

Table 5. Staffing Levels at Iowa Regent Universities from FY01 to FY04

	FY 2001		FY 2004		Change FY 01-04	
	General Fund	Total	General Fund	Total	General Fund	Total
SUI, including UIHC						
Full-time academic and institutional officials	1,420	2,240	1,372	2,343	-3.4%	4.6%
Full-time professional and scientific staff	1,455	5,011	1,487	5,420	2.2%	8.2%
Full-time general service staff	1,865	4,375	1,708	4,613	-8.4%	5.4%
Part-time (non-student)	834	2,715	707	2,936	-15.2%	8.1%
Student staff	3,179	8,054	3,050	8,197	-4.1%	1.8%
Temporary staff	131	842	147	916	12.2%	8.8%
Total	8,884	23,237	8,471	24,425	-4.6%	5.1%
ISU						
Full-time academic and institutional officials	1,432	1,502	1,409	1,491	-1.6%	-0.7%
Full-time professional and scientific staff	1,066	2,125	1,061	2,174	-0.5%	2.3%
Full-time general service staff	845	2,235	707	2,148	-16.3%	-3.9%
Part-time (non-student)	461	666	425	686	-7.8%	3.0%
Student staff	2,049	6,896	2,519	7,087	22.9%	2.8%
Temporary staff	77	533	57	642	-26.0%	20.5%
Total	5,930	13,957	6,178	14,228	4.2%	1.9%
UNI						
Full-time academic and institutional officials	655	662	624	631	-4.7%	-4.7%
Full-time professional and scientific staff	292	492	275	501	-5.8%	1.8%
Full-time general service staff	424	633	361	576	-14.9%	-9.0%
Part-time (non-student)	75	119	81	148	8.0%	24.4%
Student staff	1,113	3,127	1,020	2,819	-8.4%	-9.8%
Temporary staff	255	398	198	315	-22.4%	-20.9%
Total	2,814	5,431	2,559	4,990	-9.1%	-8.1%

Note: Full-time academic and insitutional officials category includes faculty, university presidents, vice presidents, deans and related positions. Full time professional and scientific staff includes nonacademic professional staff including public relations, student life employees, and others. Board of Regents, July 2004.

A recent Board of Regents memorandum stated that SUI has increased its reliance on temporary faculty to instruct undergraduates, resulting in undergraduates not getting as frequent access to faculty who produce scholarship and research in their fields.[63] While the number of full-time instructional faculty was up 4.6 percent from FY01 to FY04, part-time instructional faculty grew 8.1 percent and temporary staff grew 8.8 percent.[64]

[60] SUI Common Data Set, from FY01 to FY04.
[61] Table 3, full-time equivalent enrollment data from SUI Registrar's office.
[62] SUI Common Data Set, from FY01 to FY04.
[63] Board of Regents, Preliminary FY2006 Operating Appropriations Requests memorandum, July 21, 2003.
[64] Board of Regents, Staffing levels at Iowa Regent universities.

Full-time professional and scientific staff saw the largest increases at SUI, up 8.2 percent from FY01 to FY04.[65] While the number of full-time academic and institutional officials paid from the general fund decreased 3.4 percent from FY01 to FY04, the total number of employees in this category (paid from all funds) rose during the same period 4.6 percent.[66] Szeszycki noted this shift in how positions are funded impacts what the position does and subsequently the services students receive.

At ISU, the number of full-time instructional staff was reduced slightly from 1,427 in FY01 to 1,415 in FY04.[67] "There are lots of people working longer hours," Madden said.

As with SUI, ISU has increased its reliance on part-time faculty. The number of part-time instructional faculty rose 4 percent from FY01 to FY04, while the total number of academic and institutional officials decreased 0.7 percent.[68]

Many of the eliminated positions were vacant. "We've tried to manage [layoffs] responsibly," Warren Madden said. "We're trying to keep the people component in place. The president [of ISU] has tried to protect instructional areas."

Despite these efforts, the student-to-faculty ratio at ISU has increased from 15 to 1 in FY01 to 16 to 1 in FY04.[69] Average section sizes at ISU rose from 31.1 in FY01 to 32.5 in FY03 — an increase of 5 percent. Student credit hours per full-time equivalent instructor rose 7 percent during the same period.[70]

"There is less direct contact between teachers and students," Madden said noting more classes are being held in larger lecture hall formats.

The number of professional and scientific faculty at ISU has increased 2.3 percent. At the same time, the number of full-time general staff was reduced 3.9 percent.[71] The total number of FTEEs at ISU increased 3 percent from FY01 to FY04, roughly equivalent to the percent increase in enrollment.

At UNI, the number of full-time instructional faculty has decreased 6 percent from FY01 to FY04. However, unlike SUI and ISU, the number of part-time instructional faculty also fell, down 13 percent from FY01.[72] Because the decrease in the number of faculty was coupled with decreased enrollment, the student-to-faculty ratio at UNI remained nearly constant from FY01 to FY04 at 16 to 1.[73]

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[65] Ibid., Professional and scientific category staff members have non-academic roles such as the public relations or student life.
[66] Ibid.
[67] ISU Common Data Set, from FY01 to FY04.
[68] Board of Regents, Staffing levels at Iowa Regent universities.
[69] ISU Common Data Set, from FY01 to FY04.
[70] ISU Factbook 2003-2004.
[71] Ibid.
[72] UNI Common Data Set, from FY01 to FY04.
[73] UNI Common Data Set, from FY01 to FY04.

The university has avoided filling vacancies to reduce the positions with as few layoffs as possible, Podolefsky said.[74] He said that universities can react to funding reductions by raising prices (i.e. tuition), reducing programs and services, or a combination of the two.

"The easiest way to become more efficient is to increase class sizes," he said, noting that hiring adjuncts, using less technology, and moving to large lecture hall formats reduces costs but also negatively impacts the quality of educational programs.

With fewer faculty members, employee workloads at UNI have increased, potentially impacting the level of service delivered to students, Podolefsky said. For example, an instructor might spend less time making comments on papers or use more machine-graded exams.

While there has been a 4.7 percent decrease in full-time academic and institutional officials from FY01 to FY04, the number of full-time professional and scientific staff has increased 1.8 percent.[75] The number of full-time general service staff at UNI has decreased 9.0 percent and the number of part-time non-student staff has risen 24.4 percent.[76]

Competitiveness of Faculty Salaries

Competitive salaries are crucial in attracting and retaining high quality faculty and staff. Since salaries comprise approximately 75 percent of the institutions' general operating expenditures, state funding cuts have slowed their growth. However, while salaries and total compensation at Regent universities have risen far faster than inflation (CPI-U), they have not kept up with peer institutions.

Average nine-month equivalent faculty salaries at SUI rose 9.3 percent from FY01 to FY04 and 3.1 percent when adjusted for inflation (using the CPI-U).[77] While average salaries rose, they rose more slowly than at peer institutions. In FY01, SUI ranked 8th of 11 peer universities. By FY04, SUI had fallen to 10th.[78] SUI now ranks in the bottom third of its peer group for non-clinical departments and below the median for clinical departments.[79]

With health insurance costs soaring 12 to 14 percent each year, Madden said the universities have struggled to find funds for benefits. In recent years, some benefits at ISU have been reduced and employee contributions have increased, he said. Average nine-month equivalent faculty salaries at ISU rose 10.7 percent from FY01 to FY04 and 4.4 percent when adjusted for inflation. While ISU's salaries and compensation packages rose faster than inflation, they also failed to keep pace with peer institutions. In FY01, ISU's average faculty salary ranked 9th of the 11

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[74] Interview with Aaron Podolefsky.
[75] Board of Regents, Staffing levels at Iowa Regent universities.
[76] Ibid.
[77] Board of Regents, Annual Report of Salaries from FY01 to FY04.
[78] Ibid.
SUI peer institutions include: University of California, Los Angeles; University of Michigan, Ann Arbor; University of North Carolina, Chapel Hill; University of Wisconsin; University of Illinois, Urbana; University of Texas, Austin; University of Minnesota, Twin Cities; Ohio State University, Main Campus; Indiana University, Bloomington; University of Arizona.
[79] Board of Regents, Preliminary FY2006 Operating Appropriations Requests.

universities in its peer group. By FY04, ISU had fallen to last place, tied with the University of Arizona.[80]

As the economy picks up, Madden said he is worried about the competitiveness of salaries at ISU. "We need to be able to retain and attract quality faculty," Madden said.
While salaries and benefits at SUI and ISU have become less competitive, UNI has seen its relative position improve. Podolefsky said that salaries have grown faster at UNI than other Regent universities because faculty and merit staff members are unionized. While this has helped UNI avoid the troubles ISU and SUI are having with uncompetitive salaries, Podolefsky said it has added budget constraints the other institutions have avoided. Average nine-month equivalent faculty salaries rose 11.3 percent from FY01 to FY04 in current dollars, 4.9 percent when adjusted for inflation.[81] Compared to peer groups, UNI's salaries ranked 7th of 11 in FY01. In FY04, UNI's rank improved to 4th.[82] Podolefsky noted the salary increases at all three Regent universities have been funded by reallocations, eroding college and administrative budgets in a way that is not sustainable. Spending in non-salary categories, adjusted for HEPI, fell 11.9 percent at UNI during the same period.

Looking Forward

Funding of state's salary policy is needed for salaries to stay competitive since the dominant portion of inflationary cost increases are from increased employee salaries and benefits.[83] When these inflationary increases go unfunded, Regent universities must raise tuition and fees and solicit more sponsored research.[84] Inflationary increases over the amount of revenue raised have been funded by reducing college and administrative budgets. A recent Regents report stated that while these reductions were necessary given Iowa's economic climate, the approach is not sustainable and has eroded the universities' instructional, research, and outreach capacity.[85] If Iowa's public universities are to remain affordable, accessible, and able to provide high quality post-secondary educations to residents of all income levels, they must be properly funded in a predictable way.

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[80] Board of Regents, Annual Report of Salaries from FY01 to FY04.
ISU peer institutions include: University of California, Davis; University of Illinois, Urbana; University of Wisconsin; University of Minnesota, Twin Cities; Ohio State University, Main Campus; Michigan State University; Purdue University, Main Campus; North Carolina State University; Texas A & M; University of Arizona.
[81] Board of Regents, Annual Report of Salaries from FY01 to FY04.
[82] Ibid.
UNI peer institutions include: California State University, Fresno; University of Minnesota, Duluth; Ohio University, Athens; University of North Carolina, Greensboro; University of North Texas; Central Michigan University; Indiana State University, Terre Haute; Illinois State University; Northern Arizona University; University of Wisconsin, Eau Claire.
[83] Board of Regents, Preliminary FY2006 Operating Appropriations Requests, July 21, 2003, Attachment A.
[84] SUI General Education Fund Task Force Final Report, Available at: http://www.uiowa.edu/~gef/GEF_report3a-%5B1%5D.pdf
[85] Board of Regents, Preliminary FY2006 Operating Appropriations Requests, Attachment B.

The Community Colleges

During this time of fiscal stringency, legislators found numerous areas to cut spending and community colleges were not spared. This chapter reviews the structure of the community college system, how it is financed, and what the reductions in state appropriations have meant for the colleges and their students.

Iowa's Community College System

The State of Iowa is divided into 15 multi-county merged areas, each served by a single community college. These public, two-year, postsecondary institutions are organized as comprehensive community colleges, serving four to twelve counties and with enrollment varying between just over 1,000 full-time students at Northwest Iowa Community College and more than fifteen times that number at Kirkwood Community College.[86]

Community colleges are unique institutions, making higher education available to all Iowans regardless of prior educational attainment. They offer a plethora of programs including vocational preparatory, arts and sciences for transfer students, adult and continuing education, and special programs for students who attend local secondary schools.[87] Many of the colleges have established campuses and satellite classrooms in several communities in their districts to make postsecondary education more accessible. While slightly more than 65 percent of community college students are age 22 or younger, most of the remaining students are non-traditional.[88] The colleges develop the state's workforce since the vast majority of graduates stay relatively close to where they graduate.[89]

The colleges are governed by locally elected boards of directors consisting of five to nine members, each elected to three-year terms.[90] The State Board of Education sets standards for the community college system and approves each of the institutions' budgets. The operating budgets of the community colleges are funded through a combination of student tuition and fees, state aid, federal funds, local property taxes, federal support, and other income.[91] Together, state funding and tuition and fees account for over 80 percent of community colleges' unrestricted general fund revenue.[92]

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[86] An overview of the state's community college system is available on the Iowa Department of Education's website at http://www.state.ia.us/educate/ccwp/cc/index.html. See also Iowa Department of Education, Community College Fall Credit Report 2003, Page 2. Available at: http://www.state.ia.us/educate/ccwp/cc/reports/cser03.pdf

[87] Iowa Department of Education's community college system overview.

[88] Iowa Department of Education, Condition of Iowa Community Colleges Report 2003, page 5, Credit Student Age table. Available at: http://www.state.ia.us/educate/ccwp/cc/reports/cicc03.pdf

[89] The Socioeconomic Benefits Generated by 15 Community College Districts in Iowa. Available at: http://www.state.ia.us/educate/ccwp/cc/reports/sbg15.html

[90] Iowa Department of Education's community college system overview. Legislative Service Agency, Legislative Guide to Community Colleges, Dec. 2003, Page 6. Available at: http://www.legis.state.ia.us/Central/Guides/commcoll.pdf

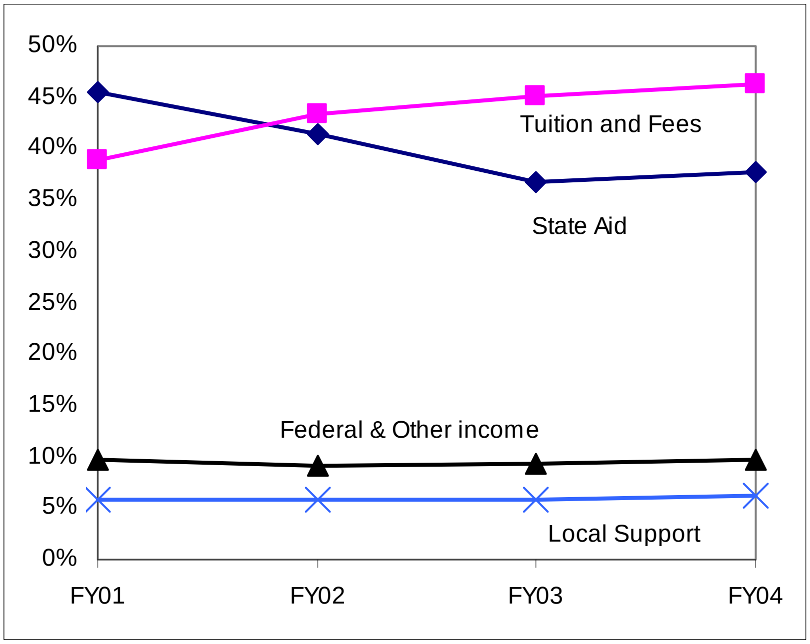
[91] Iowa Department of Education, Condition 2003 Report, Introduction "History of Iowa's community colleges."

[92] Iowa Department of Education, Tuition and Fees Report 2003-04, Page 5, Table 6. Available at: http://www.state.ia.us/educate/ccwp/cc/reports/tfr04.pdf

Revenue Streams from Fiscal Year 2001 to Fiscal Year 2004

State appropriations to community colleges declined about 8 percent between fiscal years 2001 and 2004 (Table 6). (For the community colleges, fiscal year 2004 figures are budget figures, adjusted for the state aid cuts; re-estimated figures were not available, and actual figures will be available only in late 2004 or early 2005. Budget figures should be used with caution.) As a proportion of total unrestricted general fund revenue, state appropriations fell considerably (Figure 5). Facing declining state revenue coupled with increasing enrollment and limited funding options, community colleges opted to raise tuition to balance their budgets.[93] Additionally, the colleges looked to cut their spending, reducing services. With the economic downturn and most Iowans' wages stagnant, the colleges became less accessible to those who needed them most.[94]

Figure 5. Proportions of Unrestricted General Fund Revenue for Iowa Community Colleges by Source, from FY01 to FY04



As state appropriations were reduced and tuition and mandatory fees rose, other revenue streams remained fairly constant as a percentage of total funding. Local support, in the form of property taxes, accounts for 6 percent of total unrestricted general fund revenue and about 11 percent of total revenue for Iowa's community colleges.[95] Up to ten property tax levies are allowed under

[93] Iowa Department of Education, Condition 2003 Report, Page 47; and Iowa Department of Education, Fall 2003 Credit Student Enrollment Report, pp. 1-2. Available at: http://www.state.ia.us/educate/ccwp/cc/reports/cser03.pdf
[94] Iowa Department of Education, Community Colleges' Certified Budgets, Fiscal Years 2003-2005, Section B -- College Narratives. Available at: http://www.state.ia.us/educate/ccwp/cc/doc/cb03.pdf, http://www.state.ia.us/educate/ccwp/cc/reports/cb04.pdf, http://www.state.ia.us/educate/ccwp/cc/reports/cb05.pdf.
[95] FY01 to FY03 actual figures can be found in the Iowa Department of Education's Condition of Iowa Community Colleges 2003 Report. FY2004-05 budgeted figures can be found in the IA Form 633A Budget Supplemental Details completed by each college. Iowa Department of Education, Fiscal Year 2005 Certified Budgets, Page 22.

Iowa law, three of which require voter approval. The Iowa Code caps the larger levies and significantly restricts the use of the remaining levies.[96] Since the formation of the community college system in 1965, the colleges have had the authority to levy 20.25 cents per $1,000 of assessed valuation in their district to fund operations.[97] This is the only tax that contributes to the colleges' unrestricted general funds. A second 20.25 cent levy, the plant fund tax, requires approval by a majority of voters and may be used for specific infrastructure needs and utility costs. These two levies make up the bulk of local support revenue (61 percent in FY04).[98] All fifteen colleges were at the limit for the general operating levy in FY05, and all were at the limit (except for two that were very close) for the plant levy.

The law also allows the colleges to levy for equipment at a rate of up to three cents per $1,000 of assessed valuation with board approval, or up to nine cents with voter approval.[99] All fifteen of the community colleges have approved the three-cent equipment levy, and seven levy the additional six cents which requires the approval of a majority of voters. All but two colleges have passed early retirement levies, which have rates varying from less than four cents per $1,000 of assessed valuation to over 20 cents.[100] Smaller restricted-use levies include unemployment, tort liability, standby, and debt service. These levies vary widely between colleges, reflecting the local needs and circumstances of each.[101] The debt-service levy requires approval by 60 percent of voters and, in FY04, only three colleges taxed for repayment of bonds.[102]

The upshot is that Iowa's community colleges have little or no ability to raise levies for operations or to adopt new levies to shift costs away from their unrestricted general funds. Within the limitations of local support and the restricted purposes of available levies, community colleges appear to be maximizing opportunities for local property tax revenue.[103]

Federal support and other revenue sources remained fairly constant as a proportion of total unrestricted general fund revenue between Fiscal Year 2001 and 2004. Revenues and expenditures must be adjusted for inflation for a clear picture of trends to emerge. The Consumer Price Index (CPI) is often used to deflate figures, allowing all numbers to be expressed in base-year dollars (constant purchasing power). In this report, FY01 is used as the base year to which later years are compared. However, since the prices of higher education products increase at rates different from other goods and services in the economy, another index is appropriate. The CPI

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[96] Iowa Legislative Fiscal Bureau, Community College Funding Issue Review, Sept. 25, 2001. Available at: http://staffweb.legis.state.ia.us/lfb/docs/IssReview/2002/IRRKM000.PDF
[97] Iowa Department of Education, Condition 2003 Report, History of Iowa's community colleges, Page ix.
[98] Iowa Legislative Fiscal Bureau, Community College Funding Issue Review, Page 3. Iowa Department of Management, Community College Taxes for FY04, Final Property Tax Rates Table. Available at: http://www.dom.state.ia.us/local/property_tax/misc/files/FY04/Community_College_Tax_Rates_FY04.xls.
[99] Iowa Legislative Service Agency Guide to Community Colleges, Page 12.
[100] Iowa Department of Management, Community College Taxes, FY04.
[101] Iowa Legislative Fiscal Bureau, Community College Funding Issue Review, Page 3.
[102] Iowa Legislative Service Agency Guide to Community Colleges, Page 12. Iowa Department of Management, Community College Taxes, FY04.
[103] Iowa Legislative Fiscal Bureau, Community College Funding Issue Review. Iowa Department of Management, Community College Taxes, FY04. Iowa Department of Management, Community College Taxes for FY01, Final Property Tax Rates. Available online at: http://www.dom.state.ia.us/local/property%5Ftax/misc/files/FY01/Community_College_Tax_Rates_FY01.doc

measures the cost of a "market basket" of goods and services for American consumers, such as groceries, rent, cable television, heating, clothing, and medical services. The Higher Education Price Index (HEPI) measures the cost of a different "market basket" of goods and services — those used by colleges and universities, including faculty salaries and benefits, computer and scientific equipment, library books and journals, and laboratory supplies. The cost of items in the higher education basket has risen much faster than those in the CPI. Since 1999, the HEPI has outpaced the CPI nearly two to one.[104]

State Appropriations

In 1998, a formula was established for determining how community college aid would be distributed. The Iowa Department of Education uses the formula to prepare the annual distribution of community college general aid. The formula includes a rolling appropriation base equal to the previous year's appropriation with additional funds being allocated to adjust for inflation. Only when the Legislature appropriates more than is required to adjust for inflation does the formula allow appropriations to be distributed based on enrollment.

The Community College Aid Formula has never been funded at a level sufficient to cover inflation. Moreover, inflation is measured using the Consumer Price Index for all urban consumers (CPI-U).[105] The CPI-U has not increased as quickly as the HEPI, which is a more accurate measurement of the changing costs of goods purchased by colleges and universities.[106] While the U.S. Department of Education has discontinued calculating and publishing the HEPI, at least one private research organization continues to prepare and publish these values.[107] State appropriations to community colleges' unrestricted general funds, adjusted using the HEPI, have been slashed 16.7 percent from FY01 to FY04.[108]

In current dollars, state funding was reduced in fiscal years 2002 and 2004, and rose a little in 2003.[109] In FY04, however, state appropriations were $11.5 million less than they were in 2001. In constant dollars (adjusted using the HEPI), funding was reduced each fiscal year from 2001 to 2004, leaving state aid in FY04 $24.6 million lower (almost a 17 percent reduction) than it was in FY01 (Table 6). As a proportion of total unrestricted general operating fund revenues, state general aid slipped from 45.5 percent in FY01 to 37.8 percent in FY04. Uncertainty about the amount of future state appropriations has created problems for community college boards' planning efforts.

[104] "Why Does Tuition Outpace Inflation Even in Good Years?" Speech by ISU President Gregory Geoffroy. Available at: http://www.iastate.edu/~president/speeches/03/hepi.shtml
University of Northern Iowa, Comprehensive Annual Financial Report FY02-03, Statistical Section, Page 2. Available at: http://access.uni.edu/reports/cafr/2003/stats.pdf
[105] Iowa Administrative Code 281 — 21.45(260C).
[106] University of Northern Iowa, Annual Certified Financial Report 2002-2003, Statistical Section, Page 2.
[107] Iowa Board of Regents, Tuition and Fees Report, November 2003, Attachment A, Page 14. Available at: http://www2.state.ia.us/regents/Meetings/DocketMemos/03Memos/nov03/novgd06.pdf
[108] Legislative Service Agency, Iowa Fiscal Facts 2004, Page 86. Available at: http://staffweb.legis.state.ia.us/lfb/docs/fiscal_facts/Fiscal_Facts_2004.pdf. See also Table 6.
[109] Iowa Legislative Service Agency, Fiscal Facts 2004, Page 86.

Table 6. Unrestricted General Fund Revenue for Iowa Community Colleges By Source, from FY01 to FY04

	FY 2001	FY 2002	FY 2003	FY 2004**	Change FY 01-04
Revenue Sources: Current Dollars					
State Aid	$147,577,403	$137,585,680	$138,585,680	$136,127,396	-7.8%
Tuition and Fees	126,492,784	143,925,326	157,901,666	166,891,143	31.9%
Local Support	18,974,313	19,633,548	20,212,798	22,363,724	17.9%
Federal Support	11,019,523	11,533,176	12,217,820	14,581,279	32.3%
Other Income	20,255,115	18,811,715	20,250,870	20,219,842	-0.2%
Total Revenue	324,319,138	331,489,445	349,168,834	360,183,384	11.1%
Revenue Sources: 2001 Dollars					
State Aid	$147,577,403	$131,241,749	$128,910,186	$122,988,248	-16.7%
Tuition and Fees	126,492,784	137,289,080	146,877,607	150,782,648	19.2%
Local Support	18,974,313	18,728,266	18,801,622	20,205,156	6.5%
Federal Support	11,019,523	11,001,393	11,364,821	13,173,880	19.6%
Other Income	20,255,115	17,944,327	18,837,036	18,268,203	-9.8%
Total Revenue	324,319,138	316,204,815	324,791,272	325,418,134	0.3%
Expenditures: 2001 Dollars					
Total Expenditures	$320,921,214	$314,046,854	$345,950,882	$345,177,793	7.6%
LAS, Voc./Tech., Adult Ed.	185,580,085	179,391,913	196,907,788	209,133,044	12.7%
Other Expenditures*	135,341,129	134,654,941	149,043,094	136,044,749	0.5%
Normalized Higher Education Price Index	1.000	1.048	1.075	1.107	

Note: HEPI for FY 04 was estimated using an average increase for FY 99-FY 03.

Source: FY 2001-2003, Iowa Department of Education, Condition of Iowa Community Colleges 2003 Report. FY 2004, IA Form 633A, Budget Supplemental Detail.

*Other expenditures includes: Cooperative Programs/Services, Administration, Student Services, Learning Resources, Physical Plant, and General Institutional.

** Estimated; figures include the 2.5% across-the-board cut and the 10% of the cut re-added later.

Enrollment Growth

As state funding for community colleges declined, enrollment soared. From FY01 to FY04, the number of full-time equivalent students rose about 19 percent.[110] Larger, urban community colleges have received the bulk of the increased enrollment — a trend that is expected to continue. However, all but one community college grew from FY01 to FY03 and community colleges are expected to continue growing through FY05.[111]

Increased enrollment, coupled with state funding reductions, has resulted in sharply reduced per-pupil state appropriations for community colleges (Table 7). From FY01 to FY04, state funding per pupil sank 30 percent, from $1,909 to $1,342. Aggregate funding for community colleges per pupil fell 15 percent, from $4,195 to $3,766.

[110] Iowa Department of Education, Condition 2003 Report, Page 44. Iowa Department of Education, Iowa Community College Fall 2003 Credit Student Enrollment Report, pages 1-2

[111] Ibid.

Table 7. Unrestricted General Fund Revenue by Source per Full-Time Equivalent Student for Iowa Community Colleges, from FY01 to FY04, Adjusted for Inflation

	FY 2001	FY 2002	FY 2003	FY 2004	Percent Change FY 01-04
Total Enrollment	77,314	81,583	84,502	91,652	18.5%
Revenue Per Pupil					
State Aid	$ 1,909	$ 1,609	$ 1,526	$ 1,342	-29.7%
Tuition and Fees	1,636	1,683	1,738	1,645	0.6
Local Support	245	230	222	220	-10.2
Federal Support	143	135	134	144	0.8
Other Income	262	220	223	199	-23.9
Total Revenue	4,195	3,876	3,844	3,551	-15.4
Per Pupil Expenditures					
Total Expenditures*	4,151	3,849	4,094	3,766	-9.3
LAS, Voc./Tech., and Adult Educ.	2,400	2,199	2,330	2,282	-4.9

Note: Figures adjusted using the Higher Education Price Index. Total enrollment is full-time equivalent enrollment (FTEE). FY04 FTEE is estimated using the headcount figure for FY 04 and the average ratio of headcount enrollment to FTEE for FY 01-03.

Sources: FY 2001-2003: Iowa Department of Education, Condition of Iowa Community Colleges 2003 Report. FY 2004: Iowa Department of Education, Tuition and Fees Report 2003-2004.

*Total expenditures include Cooperative Programs/Services, Administration, Student Services, Learning Resources, Physical Plant, and General Institution in addition to Liberal Arts and Sciences (LAS), Vocational and Technical, and Adult Education. Cooperative Programs/Services, Administration, Student Services and Learning Resources saw the largest per pupil decreases in unrestricted general fund expenditures.

With climbing enrollment and ever-present inflation driving the cost of education upwards, community college expenditures have increased. However, state funding and most other revenue sources (with the notable exception of tuition and mandatory fees) have not kept pace.[112] Total unrestricted general fund expenditures grew from $321 million in FY01 to $345 million in FY04, in constant 2001 dollars, a 7.6 percent increase (see Table 6). Expenditures per pupil, on the other hand, actually fell 9.3 percent during this period (again in constant dollars; see Table 7).

Community colleges have had few options for raising revenue to compensate for state appropriation reductions. Local property taxes are either capped or inflexible and most increases in tax rates have been due to significant early retirement levies.[113] From FY01 to FY04, local support has remained at about 6 percent of total operating budget revenue.[114] While some colleges may, or already have, shifted some costs to smaller levies from their general funds, the increased levies are too small to make up for large funding gaps caused by the large state cuts and growing enrollment. The vast majority of the levies are at their legal limits or cannot be

[112] Interview with Iowa Association of Community College Trustees Executive Director Gene Gardner.
[113] Iowa Department of Management, Community College Property Tax Rates 2004.
[114] Iowa Department of Education, 2003-04 Community College Tuition and Fees Report.

raised because of their restricted use. Most of the remaining levies cannot be increased without voter approval.[115]

Changes in Tuition and Fees and Their Impact

With enrollment continuing to grow, the only realistic option left to colleges facing significant budget shortfalls is to raise tuition and mandatory fees.[116] As state support decreased as a proportion of unrestricted general fund revenue by 9.6 percent, tuition and fees increased 9.7 percent while other revenue sources remained nearly constant. This trend of state cuts and tuition increases amounts to a cost-shift away from taxpayers generally and to students — directly impacting college affordability. The average tuition at Iowa community colleges has risen by a third, from $1,937 in FY01 to $2,571 in FY04.[117]

The cost of attending Iowa's community colleges is now 39 percent higher than the national average. The College Board reported that the national average resident tuition and fees (based on 30 credit hours, nine month semester) was $2,097 in FY04. By comparison, Iowa's average tuition and fees were $2,919.[118] A study by the Midwest Higher Education Compact (MHEC) found Iowa's tuition and fees to be third highest in the region (behind Minnesota and Wisconsin), and $875 (43 percent) above the average of 11 Midwestern states ($2,044). The MHEC also found that in 2002, Iowa had a higher proportion of its revenue generated from tuition and fees, and subsequently a lower proportion from state appropriations, than any adjacent state with the exception of South Dakota.[119]

As average tuition and fees at Iowa community colleges climbed 30 percent from FY01 to FY04, the median hourly wage for Iowa workers rose only 9.4 percent (Table 8). For those with wages in the 20th percentile (20 percent of workers earn less than this wage, 80 percent earn more), wages rose only 8.3 percent. An individual at the median hourly wage would need to work about 28 days to pay tuition and fees in FY04, 19 percent longer than in FY01. At the 20th percentile, an individual would need to work about 42 days to pay tuition and fees in FY04, 20 percent longer than in FY01.

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[115] Ibid.
[116] Northeast Iowa Community College Self Study Report 2003, Pages 53-62. Available at: http://www.niacc.edu/admin/accreditation/report/SelfStudy2003.pdf
[117] Iowa Department of Education, Community College Tuition and Fees Reports for 2000-2001, 2001-2002, 2002-2003, 2003-2004. Available at: http://www.state.ia.us/educate/ccwp/cc/reports.html
[118] The College Board, Trends in College Pricing 2003. Available at: http://www.collegeboard.com/prod_downloads/press/cost03/cb_trends_pricing_2003.pdf . Actual Iowa figure from the Iowa Department of Education's 2004 Tuition and Fees Report was used in place of the College Board's estimate.
[119] Midwest Higher Education Compact, http://www.mhec.org/documents/avgtuition_reqfees04apr.pdf Actual Iowa figure from the Iowa Department of Education's 2004 Tuition and Fees Report was used in place of MHEC's estimate.

Table 8. Median and 20th Percentile Wages and Average Tuition/Fees At Iowa Community Colleges, from FY01 to FY04

	Hourly wage in Iowa			Work days needed to pay tuition & fees	
	Median	20th percentile	Average tuition & fees	At the median wage	At the 20th percentile wage
FY 2001	$11.89	$8.05	$2,249	24	35
FY 2002	12.31	8.26	$2,488	25	38
FY 2003	12.29	8.29	$2,713	28	41
FY 2004	13.01	8.72	$2,919	28	42
Pct. Change FY 01-04	9.4%	8.3%	29.8%	18.6%	19.8%

Note: Average tuition and fees based on resident student, 15 credit hours per term. All dollar amounts in current (uninflated) dollars. Calendar year wage data used for following fiscal year; e.g., average wage in 2000 used for academic (and fiscal) year 2000-01. Number of work days assumes 8 hour day.

Sources: Tuition and fees from Iowa Department of Education, 2004-2005 Academic Year Iowa Community Colleges Tuition and Fees Report, August 2004; wages from Economic Policy Institute Analysis of Current Population Survey Data.

State funding for financial assistance has not increased to mitigate problems of college affordability. General fund appropriations for the Iowa College Student Aid Commission (ICSAC) and its grant and scholarship programs have slipped from FY01 to FY04. During this period, ICSAC appropriations were reduced more than 10 percent without adjusting for inflation. In FY04, the ICSAC lost its eligibility for the federal Leveraging Education Assistance Program (LEAP) and Supplemental Leveraging Education Assistance Program (SLEAP) funds because aggregate state appropriations fell short of the minimum required level of matching funds. Because of the loss of funding, more than 500 students attending universities around the state lost access to over $300,000 in assistance. The legislature funded need-based programs sufficiently for the federal government to award LEAP funds in FY05; however, the ICSAC will not receive SLEAP funds. Additionally, 88 percent of the ICSAC's FY04 budget is earmarked for grants to students at independent/private colleges. Funding for the Iowa Work Study Program, which had benefited students at community colleges, was eliminated altogether in FY02. In FY01, the Work Study Program was appropriated $2.75 million and served more than 4,000 needy students at both two- and four-year institutions.[120] Funding for the Vocational Technical Tuition Grant Program, which provides access to vocational programs at community colleges, was $2.48 million in FY01 but slipped to $2.32 million in FY04 despite the rapidly increasing cost of tuition. While over 16,000 students with financial need applied for Vocational Technical Tuition Grant help in FY04, only 2,800 were projected to receive assistance.[121]

[120] Iowa College Student Aid Commission, Resource Material for Members of the Iowa General Assembly Joint Education Appropriations Subcommittee, February 4, 2004. Available at: http://staffweb.legis.state.ia.us/lfb/subcom/ed_sub/docs_reports/College%20Aid%20Info%20-%202004%20Session.pdf. Discussion with ICSAC Research Director Keith Greiner.

[121] Ibid.

Federal Pell Grants, the cornerstone of aid for low-income students, have not risen fast enough to keep pace with the increasing cost of post-secondary education. The average Pell Grant covers only about a third of tuition and commuter room and board at the average public two-year college nationally. While total federal financial aid (including increasingly popular tax credits, which disproportionately help those with less need) has increased 23 percent from FY01 to FY03, it has fallen well short of meeting the rising cost of two-year public education in Iowa.[122]

As a consequence of tuition hikes and insufficient increases in grant assistance, student indebtedness has grown substantially. The number of Stafford loan borrowers at Iowa colleges rose dramatically, from 35,567 to 48,787, between FY01 and FY03 — up 37 percent, far ahead of increased enrollment.[123] In 2001, the average indebtedness of graduating community college students was already $4,521.[124] While no later figures are available, community colleges are reporting higher borrowing levels and increased student indebtedness.[125]

Expenditures and Staffing Trends

While students have had to bear the brunt of community colleges' budget problems, the colleges themselves have been forced to cut costs. While total unrestricted general fund expenditures per pupil were down 9.3 percent from FY01 to FY04. Arts and sciences, vocational and technical, and adult education categories showed the most growth, with other categories, including physical plant and administration, growing more slowly or even declining.

Since salaries comprise almost 74 percent of total expenditures, tight budgets have impacted the faculty and staff of community colleges as well. From FY01 to FY03, the proportion of expenditures used for salaries slipped about 1 percent. During this time period, total spending on salaries increased 6 percent from $240 million to $255 million. However, the number of employee positions increased roughly 3 percent from 13,519 to 13,965 during the same period. The average base salary rose only about 1 percent from $39,454 to $40,028, far less than inflation (the CPI-U rose approximately 4 percent).[126] The average faculty salary at two year public colleges in Iowa is 13 percent lower than in other states in the region.[127] If colleges become unable to offer competitive salaries, their ability to attract and retain quality faculty will be substantially diminished.

From FY01 to FY03, community colleges attempted to cut costs by shifting from hiring full-time faculty to hiring adjunct faculty when possible. The number of full-time instructional positions fell during this period 2.3 percent, from 2,024 to 1,977, despite rapidly increasing enrollment (Table 9). The total number of adjunct instructional positions grew 10.8 percent from 4,088 to

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[122] The College Board, Trends in Student Aid 2003. Available at: http://www.collegeboard.com/prod_downloads/press/cost03/cb_trends_aid_2003.pdf
[123] Iowa College Student Aid Commission, Annual Report FY03, Page 20. Available at: http://www.iowacollegeaid.org/Annual_Report_2002_03.pdf
[124] Iowa College Student Aid Commission, Annual Report FY02, Page 20. Available at: http://www.iowacollegeaid.org/Annual_Report_2001-02.pdf
[125] Iowa Department of Education, Community College Certified Budgets - Narratives FY03-2005.
[126] Iowa Department of Education, Condition 2003 Report, Pages 34-39, 42.
[127] The Chronicle of Higher Education Almanac Issue, Aug. 29, 2003, Pages 49-86. Included in the region are: Illinois, Kansas, Minnesota, Missouri, Nebraska, and Wisconsin.

4,528.[128] This shift to adjunct faculty amounts to a reduction in the level of services provided to students.

The percentage of all community college positions that were full time fell 1.4 percent during the same period. As faculty leave the colleges through early retirement programs, often the vacancies are not filled or their positions are eliminated. Nearly half of part-time instructional positions have been cut. In the aggregate, the number of instructional positions was reduced 6 percent, from 7,416 to 6,985. Because one employee can work in two part-time positions, the number of actual employees is smaller than the number of positions. The number of employees slipped from 12,313 in FY01 to 12,235 in FY03.[129] While no measure of full-time equivalent instructor is available, the number of full-time equivalent students per full-time instructional position grew from 32 to nearly 43. The number of students per instructional position and the number of students per college employee also rose. While no aggregate data for average class size is available, these figures suggest that students are finding themselves in larger and larger classes each year.

Table 9. Instructional Positions by Type,
Iowa Community Colleges, from FY01 to FY03

	Instructional positions			
	FY 2001	FY 2002	FY 2003	Change FY 01-03
PositionType				
Full time	2,024	1,965	1,977	-2.3%
Part time	697	615	344	-50.6%
Temp/Seasonal	5	151	136	2620.0%
Adjunct	4,088	4,365	4,528	10.8%
Total	6,814	7,096	6,985	2.5%
Proportion of instuctional positions that are:				
Full time	29.7%	27.7%	28.3%	1.4%
Adjunct	60.0%	61.5%	64.8%	4.8%
Pupils (FTEE) per instructional position				
Full time	32.35	41.52	42.74	32.1%
Total	9.61	11.50	12.10	25.9%

Note: Instructional positions include all personnel involved in direct instructional contact with students including faculty, counselors, and librarians. Positions do not equal individuals. The total number of individual employees is lower than the number of positions because one employee may occupy two part time positions in different areas (e.g. instructional and administrative).

Source: Iowa Department of Education, *Condition of Iowa Community Colleges 2003.*

[128] Ibid, Page 34; and Iowa Department of Education, Community College Certified Budget – Narratives FY03-2005.

[129] Iowa Department of Education, Condition 2003 Report, Pages 34-39.

Case Studies of Three Community Colleges

Three community colleges were sampled in greater detail to show how individual institutions in varying situations have adjusted to reductions in state appropriations from FY01 to FY04. North Iowa Area Community College, Eastern Iowa Community College, and Des Moines Area Community College were selected to provide variation in size, enrollment changes, area of the state, and whether the college was located in a metro area or not.

North Iowa Area Community College

Located in Mason City, North Iowa Area Community College (NIACC) has not seen the rapid enrollment growth that many of its peer institutions have had in recent years. However, like most of its peer institutions, NIACC has been forced to manage the impact of reduced state funding. During the period from FY01 to FY04, state general aid declined 5 percent in current dollars and 15 percent in constant 2001 dollars. Per-pupil state general aid adjusted for inflation has declined 9 percent.[130] NIACC President Michael Morrison said the college has adjusted by reducing 33 positions representing about 12 percent of the college's total faculty and staff.[131] With fewer faculty and staff, employee workloads have increased, he said. Additionally, the college has implemented periodic hiring freezes, restricted travel budgets, scrutinized professional development requests, reduced supply orders, decreased security hours, decreased library hours, and discontinued federal depository library services. Several programs have been reduced including partnerships and programs with four high schools, the optometric assistant program, and an electronics program. The college is offering fewer sections but has managed to hold down class sizes by increasing its reliance on adjunct faculty.[132]

Decreased state support and rising costs in areas such as health insurance have forced NIACC and other colleges to search for new sources of revenue, including entrepreneurial activities. For example, the college stopped subcontracting its food service to a private vendor and has begun operating the food service itself and using it as a revenue source. Continuing education programs have become another way for the college to generate revenue, he said. Local support, in the form of property taxes, cannot be increased substantially to compensate for reduced state appropriations because NIACC has already reached the operations fund levy limit and is utilizing virtually all of the restricted levies.[133]

Despite efforts by colleges to create new revenue streams and cut expenditures, the bulk of the financial burden shifted from taxpayers has fallen onto the shoulders of students.

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[130] Ibid. Interview with NIACC President Michael Morrison. The analysis and conclusions reached in this report are not necessarily those of President Morrison.
[131] The positions reduced include 12 faculty, 8 professional staff, 8 support staff, and 5 physical plant staff.
[132] Interview with Morrison. Iowa Community Colleges Fiscal Year 2005 Certified Budgets, Section B: College Narratives, Page 26.
[133] Interview with Morrison. NIACC Financial Reports. Available at: http://www.niacc.edu/admin/financial/
NIACC Self Study Report 2003. Available at: http://www.niacc.edu/admin/accreditation/report/SelfStudy2003.pdf.

"Higher education is shifting from being regarded as a public good to being regarded as a private good," Morrison said. "I think a paradigm shift is going on."

Tuition and fees at NIACC increased 27 percent between FY01 and FY04, to $2,804 per year for 15 hours a semester.[134] As a proportion of total unrestricted general fund revenue, tuition and fees revenue has increased slightly, from 34.9 percent to 36.5 percent, while state general aid revenue has decreased from 47.2 percent to 41.5 percent.[135]

Morrison noted the increasing cost has impacted the colleges' accessibility and affordability and raises a variety of social justice issues. Students are working longer hours to pay for tuition and fees and are assuming greater levels of debt than in previous years, he said. The proportion of students studying full-time is down more than 2 percent as many students have extended their two-year educations over several years.[136] Morrison suggested the best solution to provide Iowan residents with affordable, quality community college educational opportunities is to provide the institutions with additional state funding to meet their needs given increased costs and enrollments.[137]

Eastern Iowa Community College District

As with all Iowa community colleges, Eastern Iowa Community College District (EICC) reluctantly shifted costs to students as state appropriations were slashed and costs increased.

State general aid to EICC's unrestricted general fund decreased 2 percent from FY01 to FY04.[138] At the same time, enrollment at the district's three campuses grew 13 percent, roughly average relative to other Iowa public two-year colleges. Reduced state funding, growing enrollment, and inflation combined to drive down per-pupil state appropriations 22 percent from FY01 to FY04, adjusted for HEPI.[139]

State cuts have translated into increased tuition and fees, EICC Chief Academic Officer Jeff Armstrong said. Students have been significantly impacted since scholarships and grant aid are not going as far. While the college's board has made a concerted effort to keep tuition low, he

[134] Iowa Department of Education, 2003-2004 Academic Year Community College Tuition and Fees Report. Available at: http://www.state.ia.us/educate/ccwp/cc/reports/tfr04.pdf.
[135] Iowa Condition of Community Colleges 2003 Report
NIACC FY05 IA Form 633A
[136] Interview with Morrison.
Iowa Condition of Community Colleges 2003 Report, Appendix A-2.
[137] Interview with Morrison. Morrison also noted the current lack of an enrollment adjustment in the state aid distribution formula provides rural community colleges with a safety net during times when funding does not sufficiently increase.
Additional information may be found at: http://www.niacc.edu/admin/pres/
[138] Iowa Department of Education, Condition of Iowa Community Colleges 2003 Report, Appendix H-1.
FY05 figures are budgeted, from IA Form 633A (Supplemental Detail).
[139] Ibid., Higher Education Price Index used to adjust for inflation.
Iowa Department of Education, Iowa Community College Fall 2003 Credit Student Enrollment Report.
FY05 enrollment estimated using from FY01 to FY04 trend.

said it has not had many other options for generating revenue.[140] The college had already begun drawing revenue from smaller unrestricted levies prior to FY01 and the larger operations levy remained capped.[141]

"We rely on tuition more than we ever had before," Armstrong said.

However, tuition revenue alone has not been great enough to make up for lost state revenue and increasing costs. The cost of health insurance alone has risen about 12 percent each year, EICC Chief Financial Officer Lana Dettbarn said. The district has reduced expenses by not replacing retired faculty and staff and replacing others with part-time and adjunct employees. Since FY01, 62 positions have been cut or replaced by part-time or adjunct staff, Dettbarn said.[142] While the ratio of students to courses has remained unchanged, employee workloads have increased.[143]

There are some advantages to using adjuncts other than the simply lower cost, Armstrong noted. However, there is less consistency since several part-time instructors now teach the same courses once taught by a single full-time faculty member. Adjunct instructors may also be less available to students since teaching is not their primary career. While more adjuncts are being utilized, their pay has remained stagnant as a result of budget constraints, he said.[144]

"It's had a real effect, especially on Muscatine and Clinton (the two less urban EICC campuses)," Armstrong said, noting it has become more difficult to attract and retain adjuncts.

Budget constraints have also impacted academic programming. Two AA degree programs and one high school program were eliminated from FY01 to FY04.[145] The lack of sufficient funding has prevented the colleges from looking at new programs that may be needed as times change and enrollment grows, Armstrong said. While funding for equipment purchases and professional development have not been cut, they have not increased with costs so each dollar is not going as far, he said.

The district has also dealt with unfunded state mandates in recent years including the elimination of the state's licensure bureaucracy. Armstrong noted the administrative cost of licensing instructors was passed from the Department of Education to the community colleges but additional funding was not provided.

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[140] Interview with EICC Chief Academic Officer Jeff Armstrong. Note: The analysis and conclusions reached in this report are not necessarily those of Jeff Armstrong.
Per pupil (FTEE) tuition revenue, adjusted for HEPI, has decreased 13.1 percent.
[141] Department of Management,
[142] Interview with EICC Chief Financial Officer Lana Dettbarn. Note: The analysis and conclusions reached in this report are not necessarily those of Lana Dettbarn.
Dettbarn noted EICC has not spent down its fund balances or extensively used one-time funds to balance structural deficits. However, the district has deferred maintenance.
[143] Eastern Iowa Community College District, data on the number of courses offered by campus from FY01 to FY04.
[144] Interview with Jeff Armstrong.
[145] Budget narrative 05

In recent years, many colleges and universities have shifted costs to enterprise funds which do not rely on general fund revenue. The increasing use of enterprise funds has generally meant increased costs for students that are less apparent than tuition and fees. For example, revenue from college book stores are increasingly being used to pay for things once covered by the general fund such as office equipment.[146]

“The trend is to use [enterprise funds] more to plug holes in the general fund,” Armstrong said.

However, Dettbarn said EICC has not created any profit centers and its enterprises (including day care centers) were already self-sufficient in FY01.[147] The only cost shifts were relatively small. For example, while used by journalism students, the Muscatine Community College (MCC) video studio became self-supportive by using contracts to cover local government meetings to generate the necessary revenue to remain viable. Armstrong said the MCC Day Care Center began using its own custodial staff instead of utilizing campus custodians as in the past.[148]

“[College enterprises] either sink or swim based on what they generate,” he said.

Armstrong said there has been an increased emphasis on searching out grants to fund programs as well. “There is more time spent on chasing grants to support programs [than in previous years].”

Because of EICC’s near-average enrollment growth, it has not been significantly impacted by the lack of any enrollment adjustment in the distribution of state funds. However, Dettbarn said rural community colleges cost more per pupil to operate than urban colleges and subsequently should receive greater per pupil funding.

Des Moines Area Community College

One of the state’s largest community colleges, Des Moines Area Community College (DMACC) has faced the challenges of managing rapid growth coupled with reduced revenue from the state. The cuts have been sharp — state general aid is down 8 percent from FY01 to FY04. Adjusted for inflation (HEPI), it slipped 17 percent. With enrollment up 19 percent during the same time period, per-pupil state general aid slid 30 percent when adjusted for inflation.[149]

The college has had few revenue streams to turn to during this time of financial stringency. Property tax levies are either at their legal limits or are too restricted in their allowed uses. Other

[146] Interview with Jeff Armstrong.
[147] Interview with Lana Dettbarn.
[148] Interview with Jeff Armstrong.
[149] Iowa Department of Education, Condition of Iowa Community Colleges 2003 Report, Appendix H-1.
FY05 figures are budgeted, from IA Form 633A (Supplemental Detail).
Higher Education Price Index used to adjust for inflation.
Iowa Department of Education, Iowa Community College Fall 2003 Credit Student Enrollment Report.
FY05 enrollment estimated using from FY01 to FY04 trend.

revenue streams are generating more revenue but are far too small to make up for state funding reductions.[150]

"The only [revenue stream] we can really control is tuition," DMACC President Rob Denson said. "The biggest impact [of the state cuts] has been on the students."

Tuition and fees have risen at unprecedented rates — up 20 percent in the three years from FY01 to FY04. Denson said the college crossed a threshold in FY02 when tuition and fees started supporting a greater portion of unrestricted general fund costs than state general aid. By FY04, tuition generated 46 percent of all unrestricted general fund revenue as state aid's share fell to 37 percent.[151] DMACC Executive Vice President Kim Linduska said this has meant students have needed to borrow more, especially since grant assistance has not risen with tuition inflation.[152] Part-time students who are ineligible for financial aid have been impacted the most.

"Students are being priced out of the market," Linduska said.

However, while unrestricted general fund tuition and fees revenue rose 26 percent from FY01 to FY04, it wasn't enough to both make up for state funding cuts and meet growing costs.[153] Health insurance costs alone have climbed about $700,000 since FY01, despite the fact the number of covered employees has not increased.[154]

To manage much of the required growth in instructional staff needed for the larger student body, the college has relied heavily on adjuncts. The shift has resulted in a lower proportion of full-time instructors that would have been involved with college activities, maintain office hours for students, and assist in curriculum development, Linduska said. Administrative, professional, and support staffs (e.g. counselors) have also not seen their ranks increase despite the enrollment jump. Employees are working longer hours and, at times, the college has brought in temporary labor, she said. Additionally, some vacancies that have opened up have not been filled and others have been reduced to part-time positions. This lack of growth has negatively impacted the services provided to students, Linduska said.[155]

Budget constraints have also meant several programs have been closed and others have not been expanded and now have waiting lists as long as three years, Linduska said. Additionally, fewer new programs are being created than probably should given the college's rapid growth, Denson said. He said the college has protected many costly but necessary programs including vocational and ESL programs. Other spending areas have also been trimmed back. Funds allocated toward

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[150] Interview with DMACC President Rob Denson. Note: The analysis and conclusions reached in this report are not necessarily those of Rob Denson.
Department of Management, Property tax levies FY01-2005.
[151] Iowa Department of Education, Condition of Iowa Community Colleges 2003 Report.
Department of Management, IA Form 633A, FY05.
[152] Interview with DMACC Executive Vice President Kim Linduska. Note: The analysis and conclusions reached in this report are not necessarily those of Kim Linduska.
[153] Iowa Department of Education, Condition of Iowa Community Colleges 2003 Report.
Department of Management, IA Form 633A, FY05.
[154] Interview with Denson and other DMACC officials.
[155] Interview with Linduska and other DMACC officials.

professional development, supplies, and equipment purchases have not increased with inflation or the college's growth.[156]

DMACC Urban Campus Provost Fred Gilbert said the college needs additional state funding to be able to provide people with the skills and education they need for better jobs. Rural areas in the college's district need services but DMACC will have difficulty meeting their needs because there isn't enough revenue, Denson said.

"We are less accessible than we used to be," Linduska said.

While the gap between state aid per pupil to high growth and low growth colleges is growing, Denson doesn't believe the state aid distribution formula needs to be adjusted.

"We don't want to do anything that will damage other community colleges," Denson said. "The problem is not the formula as much as that the state has not funded the formula."

If the formula is fully funded, a portion of state aid is distributed based on enrollment. Denson noted that DMACC, Kirkwood, and other large community colleges have some economies of scale and smaller colleges face additional challenges based on their size.

"There is so much we could be doing [if provided adequate state funding]," Denson said. "We're serving those who can get to us the easiest. Lots of people are not being served. We need to start reaching out to people but we've got to have more money to do it."

Looking Forward

If state appropriations continue to wane and short-term cuts become long-term realities, Iowa's community college students will continue to pay more for less and many may be priced out of the market. Community college enrollment is growing rapidly, in part as a result of shifts in students from regent universities to community colleges as a result of sharply higher university tuition, yet state funding has not kept pace with the rising cost of providing an education.

[156] Interview with DMACC Urban Campus Provost Fred Gilbert. Note: The analysis and conclusions reach in this report are not necessarily those of Fred Gilbert.

Iowa's K-12 School System

Iowa has 367 public school districts and 483,372 students. Like most states, Iowa relies on a combination of property taxes and state aid to finance elementary and secondary education. Since 1971, the School Foundation Formula has been the principal mechanism for channeling state aid and controlling the funding of Iowa's K-12 schools. The foundation formula is used to calculate the level of authorized per-pupil spending and to allocate costs between property taxes and state aid. The state portion of foundation funding serves three functions: (1) to control school costs, (2) to equalize spending per pupil, and (3) to provide property tax relief.

The foundation formula is a student-driven funding mechanism. A school district's enrollment is multiplied by a cost per pupil amount to arrive at the "regular program" budget. Foundation aid supports these regular program expenses, which include salaries, benefits, utilities, maintenance, school supplies and other purchases that keep the school operational on a daily basis. The foundation formula also provides supplemental funding for special needs students and Area Education Agencies.[157]

How much is spent on K-12 education in Iowa?

Recent state budget problems have reduced funding to Iowa's K-12 public schools. Between 1996-97 and 2000-01, real spending on regular programs rose 1.6 percent or 2.8 percent on a per pupil basis (see Table 10). In the fiscal crisis years since that time, however, spending decreased 4.8 percent or 2.1 percent on a per pupil basis. In real (constant) dollars, the state budget crisis has forced per-pupil spending lower than it was in 1998-99.[158]

Like other products and services, the dollar cost of maintaining Iowa's school system increases over time due to inflation. The costs of salaries, health benefits, school supplies, fuel, and other purchases increase every year. A University of Wisconsin professor recently calculated that inflation in employment costs — which make up 82 percent of total general fund expenditures for K-12 education in Iowa — was 3.17 percent.[159] When legislators set the per pupil spending level each year ("allowable growth"), they need to take into account these inflationary costs.

[157] Special needs students are defined here as special education, at-risk, and ESL students.
[158] Calculations are based on an inflation adjustment factor of 3.05 percent to convert current dollars to constant (real) dollars. This factor is based on a combination of two indices: (1) Reschovsky's 3.17 percent estimate to adjust for the cost of salaries and benefits and (2) the Implicit Price Deflator for State and Local Government Purchases — 2.5 percent — to adjust for the cost of other goods and services. About 82 percent of general fund expenditures are spent on salaries and benefits (see the DOE 2001-2002 Certified Annual Report) and the other 18 percent are spent on goods and services.
[159] Reschovsky, Andrew. "The Impact of State Government Fiscal Crises on Local Governments and Schools." Robert M. La Follette School of Public Affairs. University of Wisconsin-Madison. December 2003.

Table 10. K-12 Regular Program Spending, 1996-97 to 2004-05

	Total Spending		Per Pupil Spending	
School Year	Millions of Constant $	Annual Percent Change	Constant $	Annual Percent Change
1996-97	2,350.4		4,659	
1997-98	2,365.2	0.6%	4,679	0.4%
1998-99	2,374.0	0.4%	4,700	0.5%
1999-00	2,384.9	0.5%	4,746	1.0%
2000-01	2,387.9	0.1%	4,789	0.9%
2001-02*	2,311.0	-3.2%	4,675	-2.4%
2002-03	2,340.1	1.3%	4,780	2.2%
2003-04**	2,264.0	-3.3%	4,649	-2.8%
2004-05	2,272.9	0.4%	4,686	0.8%
Percent Change in Spending:				
1996-97 to 2000-01 (4 school years)		1.6%		2.8%
2000-01 to 2004-05 (4 school years)		-4.8%		-2.1%

* After across-the-board cut

** After across-the-board cut and across-the-board restoration

Source: Dept. of Management (Unspent Authorized Budget reports)
Notes: Regular program spending includes the budget guarantee. This table does not assume that school districts increased property taxes or used cash reserves in order to compensate for the across-the-board cuts in state aid in FY02 and FY04. Constant dollar figures are in 2003-2004 dollars and use an annual inflation adjustment factor of 3.05%.

There are also problems with allocating aid based entirely on the number of pupils. Much of school spending consists of variable costs that are not easily reduced due to student decline. For example, a loss of 26 students over 13 grades does not reduce the necessary teaching staff. In other words, costs decline at a slower rate than enrollment. Among school districts with declining enrollment, the average enrollment decrease was 2.1 percent in 2004-05. This modest decline did not reduce staff needs at some schools.[160]

What is the funding level for the current school year?

The Iowa General Assembly set allowable growth at 2 percent for FY05 and 4 percent for FY06. Thus, schools received $4,741 per pupil in FY05[161] and will receive $4,931 per pupil in FY06 to cover their regular program costs. Some schools will spend more than the amount authorized by allowable growth because of a special provision called the budget guarantee. The budget guarantee allows schools with declining enrollments to maintain the same regular program budget as the previous year by levying additional property taxes. The guarantee was put in place in recognition that schools have costs that do not decline at the same rate as enrollment. The

[160] According to the Legislative Services Agency, 229 districts lost 5,929 students while 141 districts gained 3,919 students for a net decline of 2,000 students, or a 0.4 percent decrease.
[161] This figure is lower than the $4,829 presented in Table 10 because Table 10 includes the budget guarantee.

number of school districts utilizing the budget guarantee increased from 68 in FY96 to 242 in FY05.[162]

Beginning in the 2004-05 school year, the budget guarantee is being phased out. As a result, 170 school districts received cuts in regular program funding in the current school year and 52 school districts received cuts in *per pupil* regular program funding.[163] When fully phased in, all 242 school districts utilizing the budget guarantee will lose the funding allotted by the guarantee.

With the continued phase-out of the budget guarantee, schools will have to cope with smaller budgets. Cost-cutting measures will likely include increased class sizes, reduced course offerings, decreased instruction time, and whole grade sharing. Schools will also look toward property and sales taxes to provide supplemental funding where possible. However, as we shall see later, other funding sources are primarily only available for capital expenditures or very specific operation costs.

How is the allowable growth rate determined?

The allowable growth rate is largely based on the state budget situation, not on any estimate of inflation or actual need. This has not always been the case, however. Prior to 1994, a formula was used to determine the amount of allowable growth for Iowa's school districts.[164] Today, legislators have full discretion for determining what the allowable growth in per-pupil spending will be — if anything — from year to year. The lack of a formula for determining allowable growth has meant that school finance is largely determined by available revenues. The past three school years are a perfect case in point. For the 2001-02 school year, legislators set allowable growth at 4 percent. However, a 4.3 percent across-the-board cut forced schools to cut expenditures or to shift $74.1 million to property taxes. For the 2002-03 school year, legislators revised allowable growth downward from 4 percent to 1 percent due to revenue problems. In FY04, allowable growth was set at 2 percent, but a 2.5 percent across-the-board cut forced schools to cut expenditures or to shift $43.6 million to property taxes. The across the board cuts were further damaging because they came in the middle of the school year, which did not allow schools to plan for how to absorb the cuts.

What about other sources of funding?

With voter approval or board action, school districts can spend up to 10 percent more than authorized on their regular program budget (for a limited number of years). This is called the Instructional Support Program and it is funded by state aid and local property and income taxes. Between FY92 and FY04, the number of school districts levying for the Instructional Support Program doubled from 156 to 318 — further evidence that foundation aid is not allocating enough dollars to fully fund school operations.

[162] State of Iowa, Legislative Services Agency.
[163] Author's calculations based on data from the Iowa Association of School Boards
[164] This formula took into consideration state revenue and the Gross National Product Implicit Price Deflator. It would have generated an allowable growth factor for FY94 of 3.95 percent.

The state originally committed to fund 25 percent of the Instructional Support Program. However, the state appropriation has been capped at $14.8 million since FY93, forcing a pro-ration in the state match component. The state is actually funding only about 11 percent of the program instead of the 25 percent originally promised. Due to the way the pro-ration formula works, “property poor” districts are only able to generate about 6.5 percent more funds (instead of the 10 percent originally planned) and “property rich” districts can generate up to 9 percent more funds.[165] This shortfall cannot be made up by local voters or property taxes.

Optional sources of school funding come from other local property and income taxes. They include the Local Option Sales Tax, the Physical Plant and Equipment Levy, the Cash Reserve Levy, the Education and Recreation Levy, the Debt Service Levy, and the Management Levy. However, these funds are primarily for capital expenditures or have strict limitations. For example, they cannot be used to pay teachers or administrators, to purchase supplies for the classroom, to pay for utilities and fuel, or to pay for most other operating expenses.

How were schools affected by the 2002 and 2004 across-the-board cuts?

Because of the across-the-board cuts and low allowable growth, funding to K-12 education has declined since FY01. Although across-the-board cuts reduce the amount of state aid that school districts receive, they do not reduce the “spending authority” of school districts. Therefore, those cuts impact school districts differently based on their relative property wealth. When the state retreated from its commitment to fully fund allowable growth by cutting $74.1 million in FY02 and $43.6 million in FY04, each district responded differently.[166] Some were able to offset the loss in state funds with new property taxes or carryover cash reserve funds, but other schools did not have cash reserves and could not afford to increase tax rates.

The Norwalk School District lost $202,824 in state aid because of the 2.5 percent across-the-board cut in FY04.[167] Because of low property valuations per pupil, this district already had the highest property tax rate in the state. It could not afford to raise property taxes any more. Instead, Norwalk had to institute lay-offs, eliminate early retirement benefits for one year, and scale back purchases of textbook and technology. Between 2002 and 2004, enrollment has increased by about 25 students and 20 jobs have been cut at Norwalk.[168]

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[165] Interview with Larry Sigel, Iowa Association of School Boards, September 13, 2004.

[166] $4.3 million of the $43.6 million cut was eventually restored by the Governor, but not until the very end of the year. The original across-the-board cut was 2.5 percent, but after a 10 percent restoration, it was effectively 2.25 percent.

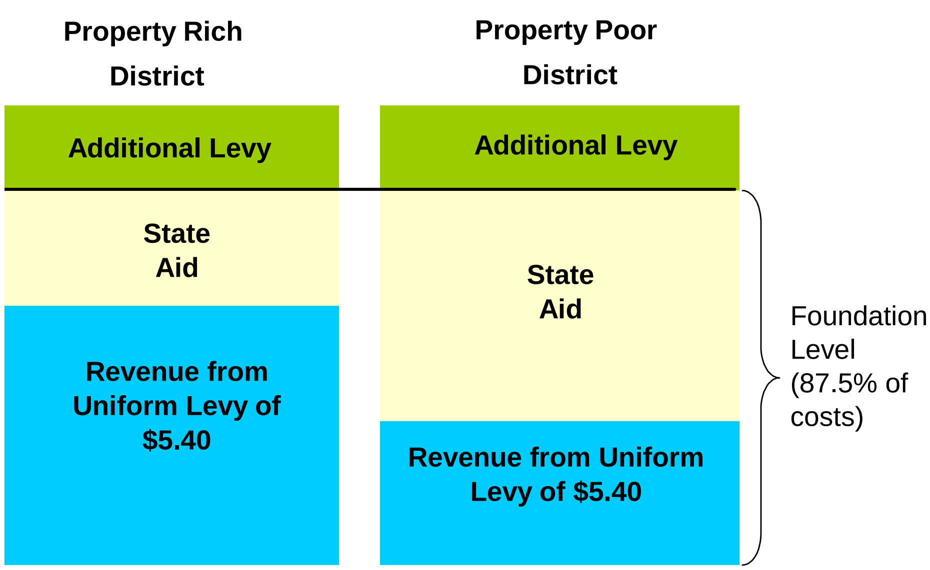
[167] About $20,282 was eventually restored at the end of the fiscal year as part of the Governor’s 10 percent restoration.

[168] Interview with Kate Baldwin, Norwalk School District, February 20, 2004.

What is the share of K-12 spending paid for by the state?

In order to explain the share of K-12 spending paid for by the state, one must first understand how the Foundation Aid Formula works. School districts collect property taxes through a Uniform Levy of $5.40 per $1,000 of taxable valuation. The state then steps in to add an amount that will increase this initial property tax effort to 87.5 percent of a school district's "combined district" cost (authorized spending per pupil * weighted enrollment[169]). Because "property rich" districts collect more taxes through the Uniform Levy, they receive less state aid than "property poor" districts (see Figure 6). All school districts must levy additional property taxes in order to pay for the 12.5 percent of costs not yet covered. This additional levy is more keenly felt by "property poor districts" because a higher tax rate is necessary to raise the same amount of revenue as a "property rich district".

Figure 6. State Foundation Aid:
Property Rich versus Property Poor District

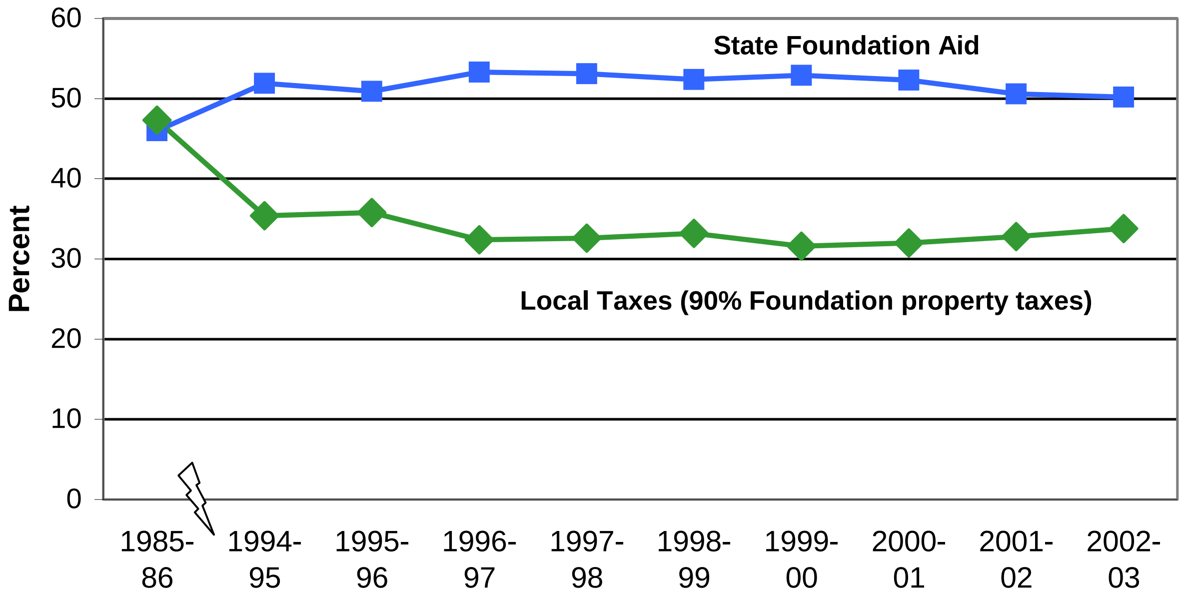


The foundation aid formula has evolved over time. The result of these changes has been that the proportion of general fund revenue collected from property taxes has decreased while the proportion coming from state foundation aid has increased (see Figure 7). Between FY86 and FY95, the foundation level increased from 79 percent to 83 percent, thus resulting in significant shifting of funding from property taxes to state foundation aid. In FY97, the foundation level was increased again from 83 to the current 87.5 percent of the school district cost, which reduced property taxes by $84.8 million and increased state aid.[170] It is important to emphasize that costs were shifted from local property taxes to the state in order to provide property tax relief. The increase in state aid does not represent an increase in the resources available to schools. "Property poor" school districts received the largest tax rate decrease when the state made these

[169] Special education, at-risk, and ESL students are counted at a value greater than 1. School districts also receive supplementary weights for certain cost sharing initiatives.
[170] Summary of FY 2005 Budget and Governor's Recommendations. p. 47. Accessed March 11, 2004 at http://staffweb.legis.state.ia.us/lfb/docs/BudgAnalysis/FY2005/2005Lagar.pdf

change in the foundation level.[171] In FY00, the special education foundation level was also increased from 79 percent to the current 87.5 percent of district costs.[172] Again, educational programs were unaffected by these shifts, which merely reduced property tax burden.

Figure 7. Percent of School General Fund Revenues from State Foundation Aid And Local Taxes, 1985-86 to 2002-03



Source: Iowa Department of Education, *The Annual Condition of Education Report 2004.*
Notes: Local Taxes is about 90% property foundation taxes. The other 10% is property and income surtaxes for the Instructional Support Program and Educational Improvement Program.

Financing K-12 education accounted for about 46 percent of Iowa's General Fund budget in FY05, up from 36 percent in FY01 (see Table 11). There are two major factors for this increase since FY01: (1) a decline in spending in other General Fund programs and (2) sluggish property tax valuations, which shifts more responsibility for K-12 education from local property taxes to state aid. If growth in property valuations does not keep pace with allowable growth, then state aid increases because of the way the foundation formula works. Once again, this simply shifts funding sources to the state, but does not allow schools to improve their programs.

Total aid to school districts from the state general fund declined by $85.5 million in FY2002 (see Table 11). However, the state dipped into special funds to come up with an additional $84.9 million, resulting in a net reduction of only half of a million dollars. Since FY02, state aid has increased every year. Even in FY04, when allowable growth was effectively zero due to the

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[171] This is because the increase in the foundation level to 87.5 percent reduced the size in dollars of the additional levy needed by any district to bring total spending up to the total allowable district cost per pupil. Since property poor districts required a higher tax rate to generate this additional levy amount, the same dollar levy reduction translates into a larger tax rate reduction in such districts.
[172] The Talented and Gifted Program was also rolled into the school aid formula in FY00.

across the board cut, state aid increased because of a lack of growth in taxable property valuations.[173]

Table 11. Aid to School Districts from the State General Fund (Dollar Amounts in Millions)

School Year	State Foundation Aid	Other State Aid	Total State Aid	Annual Change (current $)	Annual Percent Change	Total State Aid As a Percent of General Fund Budget
2000-2001	$1,751.7	$182.2	$1,933.9	$66.3	3.6%	39.6%
2001-2002*	1,678.6	169.8	1,848.4	-85.5	-4.4%	40.1%
2002-2003	1,739.0	160.8	1,899.7	51.3	2.8%	41.9%
2003-2004**	1,776.7	175.0	1,951.7	52.0	2.7%	43.4%
2004-2005	1,881.2	177.0	2,058.2	106.5	5.5%	46.1%

* Figures reflect the Governor's 4.3 percent across the board cut
** Figures reflect the Governor's 2.5 percent across-the-board cut and 10% restoration
Source: Legislative Services Agency, Fiscal Services Division (Appropriations Tracking)
Notes: All figures reflect General Fund spending only. In FY02 and FY03, there was $84.9 million and $68.9 million (respectively) in state aid from the non-general fund. Other State Aid includes educational excellence, instructional support, technology/ school improvement, child development, transportation/nonpublic, class size reduction/ early intervention, AEA Supplemental, empowerment Boards/early child, and student achievement/ teacher quality appropriations

Some of this sluggish growth in property valuations is a result of state legislative action. State-required "rollbacks" on residential property constrain taxable valuation growth — taxes will only be levied on 48 percent of the residential property value during the current fiscal year (FY05). Additionally for those growing areas of the state, property tax abatements on new construction (for up to 10 years) force immediate demands on school districts in the form of additional children being served, but the property does not come onto the tax rolls until much later. Also beginning in FY05, a change in the agricultural productivity calculation will reduce property tax collections by $22.2 million.[174]

Local governments have also been removing property from the tax rolls by creating Tax Increment Financing (TIF) districts. In FY04, $5.3 billion in property was in a TIF district and the average school district had 3.2 percent of its net taxable value in a TIF district.[175] One school district has 30 percent of its taxable valuation in a TIF district and several districts have about 10 percent of taxable property in a TIF district. The Foundation Aid Formula requires that the state increase its appropriation in order to offset the loss of local property tax collections. The state contributes the amount required to cover 87.5 percent of a school district's costs. However, the final 12.5 percent of costs is shifted to all other taxpayers in the school district in the form of higher additional levy rates. These affected taxpayers may or may not be residents of the city

[173] According to the Iowa Department of Management, the average annual increase in property valuations for the state has been only 1.74 percent since 1985.
[174] Summary of FY 2005 Budget and Governor's Recommendations. p. 114. Accessed March 11, 2004 at http://staffweb.legis.state.ia.us/lfb/docs/BudgAnalysis/FY2005/2005Lagar.pdf
[175] Iowa Association of School Boards. School Finance Comparison Tool. http://www.ia-sb.org/finance/financialtool.asp. Accessed March 28, 2004

since school district boundaries do not follow city boundaries, so some of the burden of TIF is shifted to taxpayers outside the city. This may create an issue of taxation without representation.

For FY05, taxable property valuations are projected to *decrease* by 2 percent. As a result, property tax collections will decrease and state aid will increase at 2 percent allowable growth — as they would have at any level of allowable growth (see Table 12). In FY06, property valuations are projected to hold constant, but allowable growth is set for 2 percent. The result will again be an increase in state aid and a decrease in property taxes.

Table 12. The Impact of Various Allowable Growth Rates on State Aid and Property Taxes in FY05, Compared with FY04 (Dollar Amounts in Millions)

FY 2005 Allowable Growth Percentage	State Aid		Property Tax		Total K-12 Budget	
	Change	Percent Change	Change	Percent Change	Change	Percent Change
6%	211.1	11.9%	-52.9	-4.9%	158.3	5.6%
5%	187	10.6%	-54.1	-5.0%	132.9	4.7%
4%	164	9.3%	-55	-5.1%	109.1	3.8%
3%	140	7.9%	-53.7	-5.0%	86.2	3.0%
2%	115.9	6.5%	-50.2	-4.7%	65.7	2.3%
1%	92.3	5.2%	-42.2	-3.9%	50.1	1.8%
0%	68.8	3.9%	-31	-2.9%	37.8	1.3%

Source: Legislative Services Agency, Summary of FY 2005 Budget and Governor's Recommendations.

Notes: Property valuation changes are estimated at -2.0 percent. Does not include the budget guarantee.

If taxable valuations continue to stagnate, already over-burdened "property poor" school districts will be forced to increase tax rates even more to pay the final 12.5 percent of foundation funding. However, there are ways to alleviate property tax burdens. These include raising the foundation level, reforming TIF, and restructuring other aspects of the property tax code. For example, increasing the foundation level to 88.5 percent (a one percent increase) would reduce property taxes by $23.5 million in FY05.[176]

Can schools cut costs without affecting quality?

None of this analysis disputes the value of increasing efficiency, but savings most not come at the cost of a quality education. Many cost-saving measures have already been put in place and several incentives are available for school districts that are willing to consolidate, share teachers or share grades. Still, the most important component and the largest expense of a quality education are quality teachers. The average teacher salary in Iowa is $38,230, which is $6,374 less than the national average.[177] Iowa cannot cut teacher salaries and still attract high-quality

[176] Summary of FY05 Budget and Governor's Recommendations. p. 48. Accessed March 11, 2004 at http://staffweb.legis.state.ia.us/lfb/docs/BudgAnalysis/FY2005/2005Lagar.pdf

[177] National Education Association, "Estimates of School Statistics 2002."

teachers to educate Iowa students. Any cost-saving mechanisms will likely be relatively minor and will not replace the need to adequately fund K-12 education.

For decades, economists have noted the difficulty of increasing productivity in education services. Whereas improvements in technology, such as automated manufacturing or the use of computers in offices have dramatically increased output per worker in private businesses, education — like many other services — does not lend itself to the same kind of productivity gains. Apparent efficiencies, such as fewer teachers to teach more students, actually have negative effects on the quality of education. Because teacher salaries and other costs continue to rise while "output" per teacher does not, education costs actually increase at a faster rate than overall inflation.

Conclusion

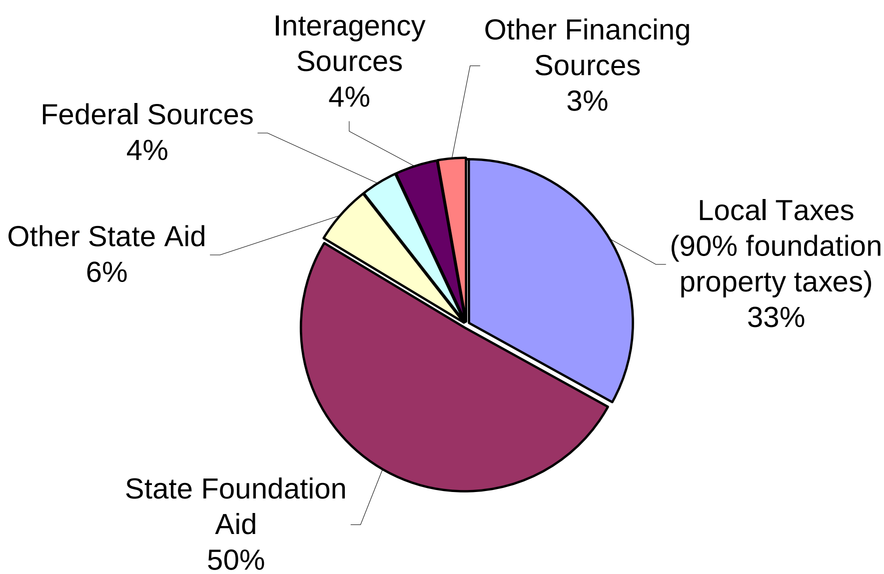
Iowans value their education system and Iowa students achieve high marks as a result. However, the recent years of state budget problems have taken their toll on K-12 education. Since FY01, per-pupil spending increases have not even kept pace with inflation. The 2003 allowable growth factor was set at the lowest level in history (1 percent), and the 2002 and 2004 allowable growth was effectively zero due to across-the-board cuts. The across the board cuts were further damaging because they came in the middle of the school year, which did not allow schools to plan for how to absorb the cuts. The allowable growth rate of 2 percent for FY05 did not make up the ground already lost: real per-pupil spending is less than it was in FY99.

The cost of providing a quality, modern, and equitable education for each student rises each year. Minimally, legislators must set allowable growth above the rate of inflation. Otherwise, the quality of Iowa's educational system will steadily deteriorate and with it so will the quality of life of all Iowans.

Addendum: The Basics of Iowa School Finance

When the Foundation Aid Formula was instituted in 1971, the cost-per-pupil was based on historical spending in the school district. Since then, "allowable growth" legislation has determined the cost per pupil for each school year. Schools can only increase per-pupil spending when and at a rate that the state legislature allows. The level of authorized per-pupil spending is actually a range of spending that each school district must stay within. During the last school year (2003-04), *regular program* spending must have at least equaled $4,648 per pupil and could be no more than $4,880 per pupil. There are some exceptions that allow schools to exceed this maximum regular program spending. School districts with declining enrollments are eligible to receive a budget guarantee, which ensures that its regular program budget will be at least as much as it was the prior year. Finally, the School Budget Review Committee permits certain school districts to increase spending for dropout prevention or other needs.

Figure A-1. General Fund Revenue by Source (in percents), 2001-2002
(Average for all school districts)



Source: Iowa Dept.of Education, Div. of Financial and Information Services, Certified Annual Financial Reports.
Notes: **Interagency Sources** include revenue from services provided to other school districts such tuition, transportation services, and other puchased services.
Other Financing Sources include proceeds from long-term debt, capital leases, insurance settlements, interest, textbook sales, rents and fines, student fees, community service fees, and grants-in-aid revenues in lieu of taxes received from Area Education Agencies, cities, and counties.
Local Taxes is about 90 percent property *foundation* taxes, the other 10 percent are property taxes and income surtaxes for the Instructional Support Program, Educational Improvement Program, and programs approved by the School Board Review Committee.

In addition to regular program funding, the Foundation Aid Formula provides additional funding for special education, at-risk, and English language-learners. School districts can also receive additional foundation aid as an incentive for sharing costs with other school districts, such as sharing teachers or whole grades. Other funding outside of foundation aid that contributes to a school's general fund includes the Instructional Support Program, which is funded by a combination of state aid and property taxes. The state also provides a limited amount of "other state aid" (non-foundation state aid) for class size reduction and professional development that goes through the general fund. Finally, federal sources and a variety of other minor sources also provide a small amount of general fund revenue for school districts. Figure A-1 displays the proportion of general fund revenue that comes from these various sources. Foundation aid provides the bulk of all funding — greater than 80 percent of a school's general fund revenue.

Every year, the Legislature determines K-12 "allowable growth." Despite its bureaucratic name, this legislation is actually the crux of how Iowa finances its educational system. Each year, the allowable growth amount is added to the minimum cost per pupil in the Foundation Aid Formula. An allowable growth rate of 2 percent for FY05 means that the minimum cost per pupil will increase 2 percent, or $93, over the previous year (FY04). The new minimum cost per pupil times weighted enrollment produces the new "regular program district cost." Then, the rest of the formula is implemented: the amount of revenue produced using the Uniform Levy is determined and the new state aid amount to the district is calculated. State aid must equal the difference between the Uniform Levy amount and 87.5 percent of the new "regular program district cost" as determined by allowable growth. Finally, school districts pay for the remaining 12.5 percent of foundation funding through an additional property tax levy.