Executive Summary

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

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Iowa Fiscal Partnership

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By Jeremy Varner and Elaine Ditsler

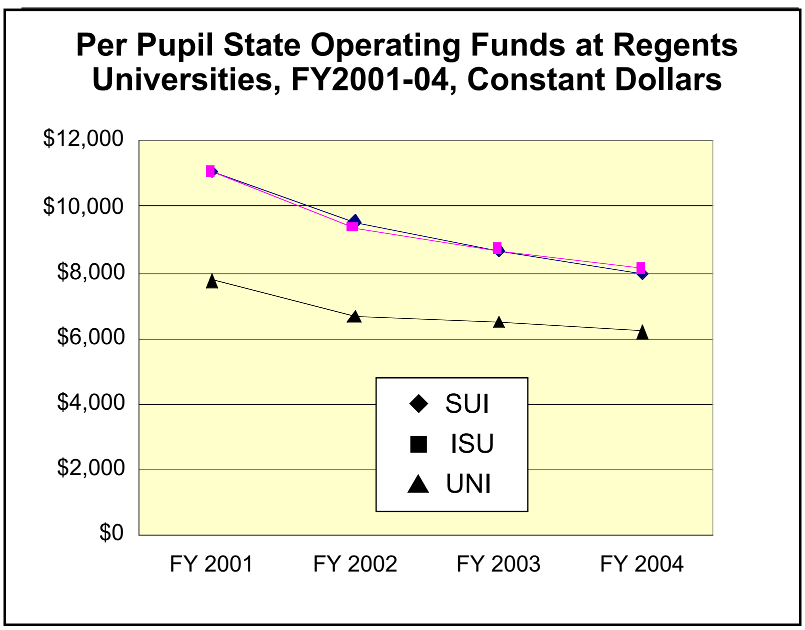
A detailed examination of the fiscal situation of state and local government in Iowa appropriately begins with education. Education – the Board of Regents institutions, community colleges and K-12 school districts – accounts for 60 percent of the state general fund budget. Furthermore, public school 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 (University of Iowa, Iowa State University, and 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 FY2001, state funding accounted for two-thirds of Iowa Regent universities' general operating revenue; by FY2004, this proportion had fallen to just over half. The three public universities have struggled to adjust to fewer 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

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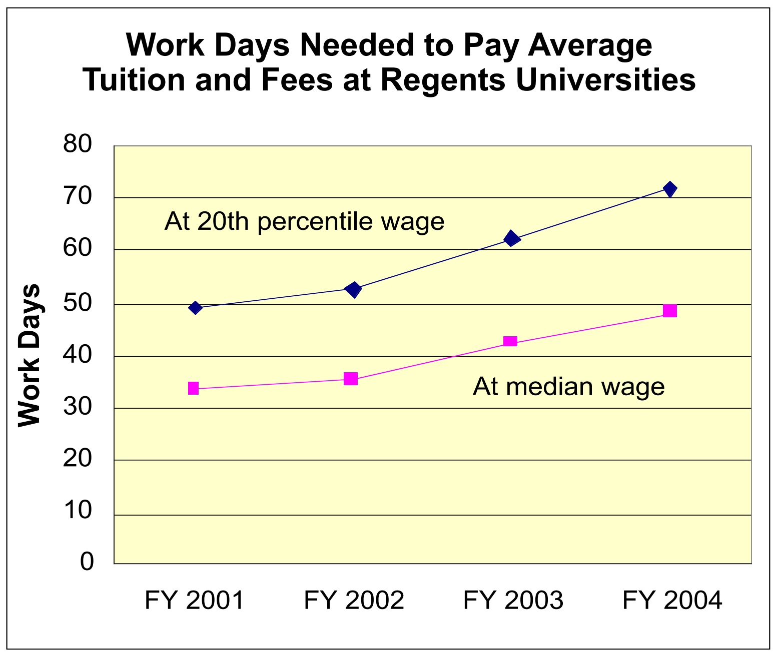
2001 HEPI-adjusted dollars, state appropriations actually declined 22 percent at SUI, 24 percent at ISU, and 23 percent at UNI between FY01 and FY04. Per pupil funding declined by about a quarter in just three years as a result of cuts in state appropriations.

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 cuts, 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.

Both resident and nonresident 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 nonresidents. At ISU, resident tuition and fees were 87.5 percent of its peer group average and nonresident 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 nonresident tuition was 91.3 percent of the peer group average.



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

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 Pell Grant) have also been reduced in recent years despite tuition inflation.

While federal financial aid increased FY01 to FY05, it has not kept up with rising tuition. In particular, the federal 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 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 10 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, by 10.7 percent at SUI, 14.5 percent at ISU, and 11.9 percent at UNI.

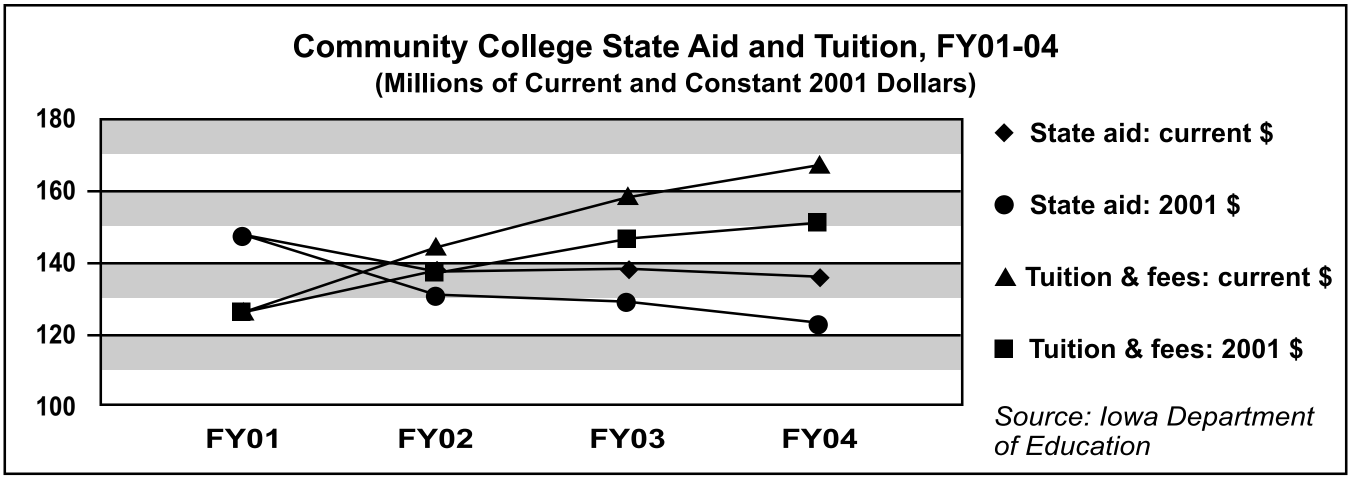
In summary, the budget crisis of the past four years has reduced services at Iowa's public universities while drastically increasing its cost. The affordability of a university education has been seriously eroded, as financial aid resources (including tax benefits) have not increased sufficiently to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

The Community Colleges

The State of Iowa is divided into 15 multicounty merged areas, each served by a single community college. These two-year comprehensive community colleges each serve from four to 12 counties; enrollment ranges from just over 1,000 full-time students at Northwest Iowa Community College to more than 15 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 over 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, 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 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 from 2001-2004, leaving state aid in FY04 $24.6 milion 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.

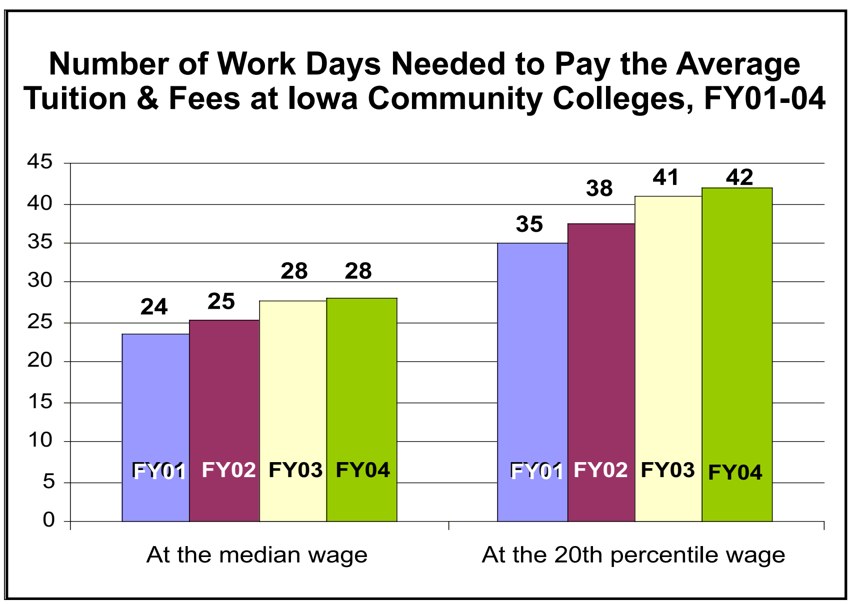
While state and local funding has been falling off, community college enrollments increased 19 percent from FY01 to FY04, and are expected to increase again in FY05. The result has been sharply reduced per-pupil state appropriations. Between FY01 and FY04, state funding per pupil sank 30 percent, from $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 15 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 at Iowa community colleges has risen by a third (in current dollars) 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, nine month semester) was $2,097 in Fiscal Year 2004. By comparison, Iowa's average tuition and fees were $2,919. A study by the Midwest Higher Education Compact 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 except South Dakota.

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.



Source: Iowa Department of Education, U.S. Bureau of the Census

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 amounts 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.

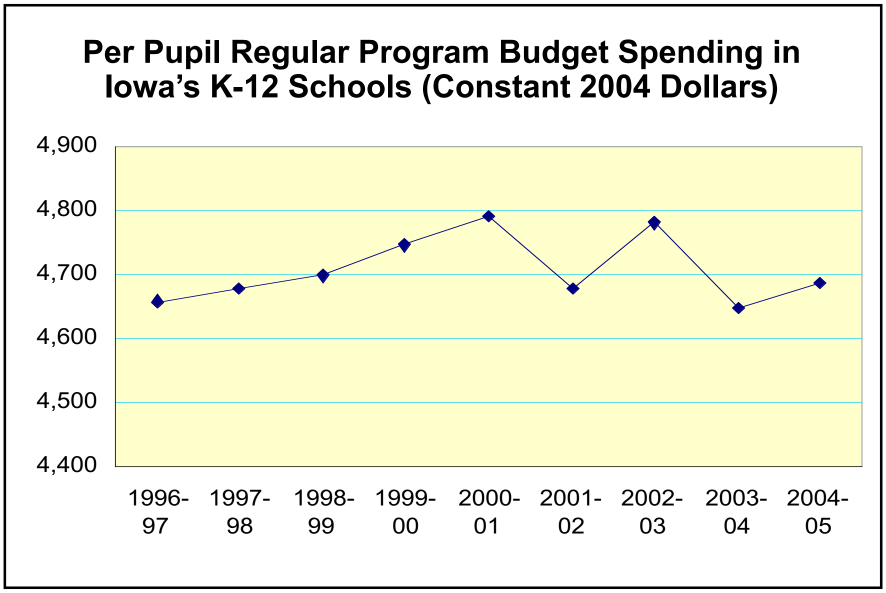
At the same time, salary increases have been held below the rate of inflation. The average base salary rose only about 1 percent from FY01 to FY03, from $39,454 to $40,028, while the CPI-U rose approximately 4 percent. The average faculty salary at two-year public colleges in Iowa is 13 percent lower 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 then, 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 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 the 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 school year, 2004-05, the budget guarantee is being phased out. As a result,

[1] State of Iowa, Legislative Services Agency.

170 school districts received cuts in regular program funding and 52 school districts received cuts in per pupil regular program funding.[2] With the phaseout of the budget guarantee, all 242 schools lose the funding allotted by the guarantee and will have to cope with smaller budgets. Cost-cutting measures could include whole-grade sharing, increased class sizes, reduced course offerings and decreased instruction time.

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 spending and/or 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.

[2] Author's calculations based on data from the Iowa Association of School Boards

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The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans. IFP reports are available on the web at http://www.iowafiscal.org.