

# Grapevine

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### TIMELY DATA CIRCULATED WHILE CURRENT

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

PERCENTAGES OF TWO-YEAR GAINS IN APPROPRIATIONS OF STATE TAX  
FUNDS FOR ANNUAL OPERATING EXPENSES OF HIGHER EDUCATION  
IN THE FIFTY STATES, FISCAL 1987 OVER FISCAL 1985

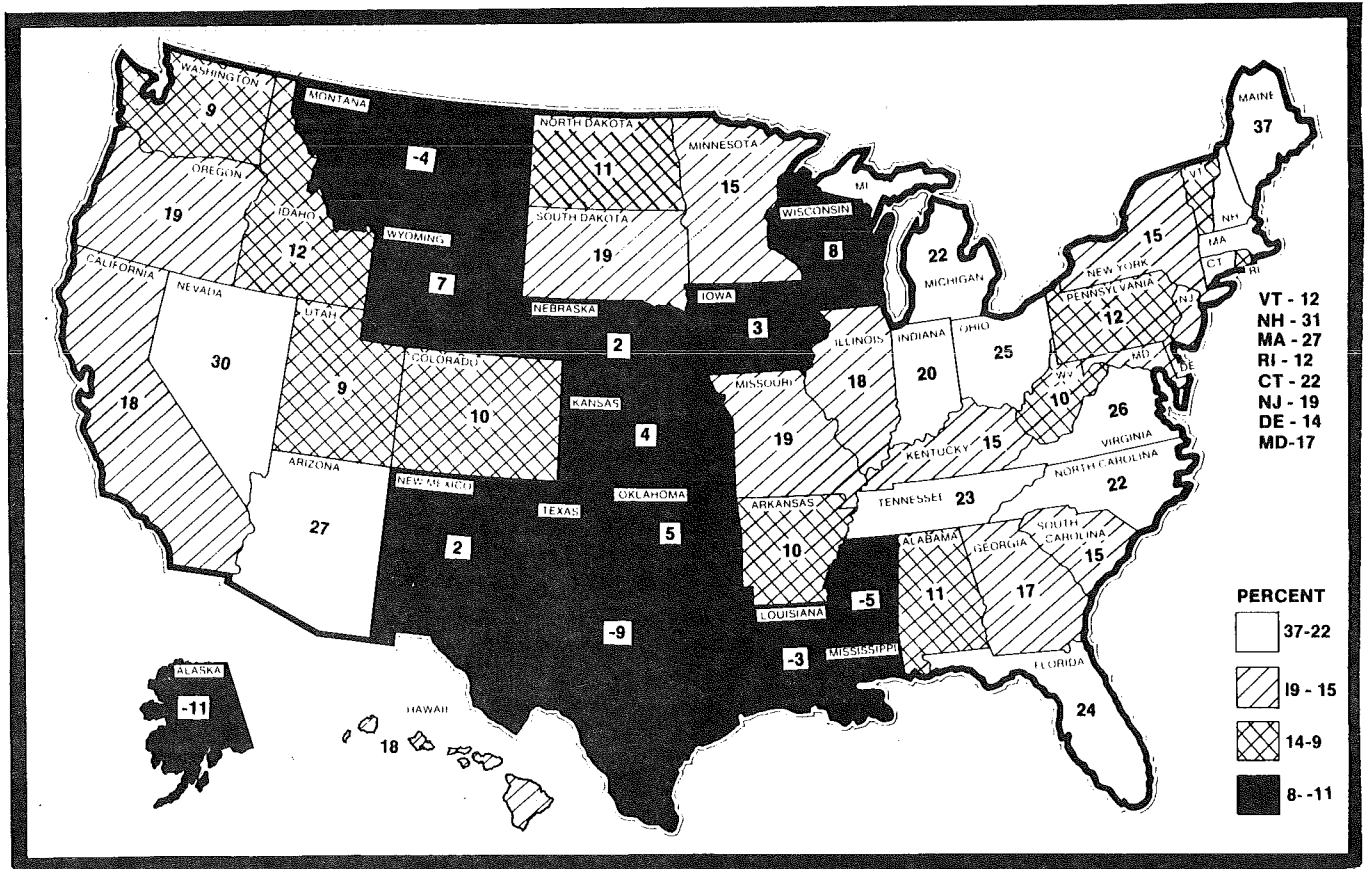


Table 98. APPROPRIATIONS OF STATE TAX FUNDS FOR OPERATING EXPENSES OF HIGHER EDUCATION, IN THOUSANDS OF DOLLARS, FOR FISCAL YEARS 1976-77, 1984-85, AND 1986-87, WITH PERCENTAGES OF GAIN OVER THE MOST RECENT TWO AND TEN YEARS.

States	Year 1976-77	Year 1984-85	Year 1986-87	2-yr gain Percent	10-yr gain Percent
(1)	(2)	(3)	(4)	(5)	(6)
Alabama	250,454	502,295	556,894	11	122
Alaska	64,829	232,830	207,086	-11	219
Arizona	184,786	377,213	480,076	27	160
Arkansas	114,936	249,025	273,182	10	138
California	1,827,549	3,864,753	4,562,651	18	150
Colorado	206,226	383,718	423,132	10	105
Connecticut	145,888	302,931	368,648	22	153
Delaware	43,311	84,940	96,797	14	123
Florida	434,857	1,026,655	1,277,704	24	194
Georgia	265,561	611,867	714,004	17	169
Hawaii	97,884	186,708	220,845	18	126
Idaho	69,197	112,240	126,030	12	82
Illinois	697,045	1,182,857	1,390,614	18	100
Indiana	316,800	548,810	660,532	20	109
Iowa	210,345	392,984	404,610	3	92
Kansas	173,777	335,869	350,735	4	102
Kentucky	205,861	407,906	468,955	15	128
Louisiana	215,457	556,806	541,722	-3	151
Maine	42,567	91,311	125,216	37	194
Maryland	244,866	487,691	569,975	17	133
Massachusetts	234,292	641,844	816,379	27	248
Michigan	593,930	1,005,082	1,228,559	22	107
Minnesota	325,384	649,604	747,187	15	130
Mississippi	154,036	342,906	327,353	-5	113
Missouri	236,782	400,868	476,420	19	101
Montana	47,705	107,362	103,167	-4	116
Nebraska	122,198	213,337	217,355	2	78
Nevada	42,355	78,645	102,419	30	142
New Hampshire	22,859	42,630	55,961	31	145
New Jersey	274,405	753,883	898,577	19	227*
New Mexico	82,047	229,138	233,552	2	185
New York	1,251,096	2,356,410	2,720,779	15	117
North Carolina	407,977	960,343	1,172,120	22	187
North Dakota	48,864	112,037	124,430	11	155
Ohio	492,608	964,928	1,208,210	25	145
Oklahoma	152,262	367,617	385,552	5	153
Oregon	176,653	281,483	335,998	19	90
Pennsylvania	659,781	989,248	1,108,982	12	68
Rhode Island	56,350	104,498	117,149	12	108
South Carolina	210,239	451,041	520,248	15	147
South Dakota	39,394	61,623	73,223	19	86
Tennessee	225,827	495,749	608,083	23	169
Texas**	918,589	2,364,774	2,141,392	-9	133
Utah	101,985	235,799	257,249	9	152
Vermont	20,138	41,763	46,778	12	132
Virginia	316,049	713,654	901,452	26	185
Washington	310,133	561,874	609,937	9	97
West Virginia	124,880	220,069	241,087	10	93
Wisconsin	364,056	617,958	666,525	8	83
Wyoming	37,943	103,958	111,583	7	194
Total	13,863,013	28,409,534	32,377,114		
Weighted average percentage of gain				14	134

\*Somewhat overstated; fringe benefits were not included for FY1976-77

\*\*Some additional downward adjustment anticipated from Texas as of Oct.'86.

A RETROSPECTIVE OF FISCAL YEAR 1987

The most evident features in state tax support of higher education in FY 1987 were as follows: there was an increase of nearly two billion dollars over FY 1986; it was the second consecutive year where state support exceeded 30 billion dollars annually; and after two successive years of positive two-year percentage gains there was a decline in the rate of gain over the previous period.

As demonstrated by the figures shown below, the lowest single-year and two-year rates of gain in a full decade occurred in 1984. In 1985 and in 1986 there were strong increases in rates of gain for higher education (16% + 19%, respectively). While 1987 showed a demonstrable gain of 14% in the support of higher education, the rate of gain slowed. Part of this was due to the fact that none of the states experienced two-year increases of more than 40%, but five states showed negative increases over the two-year period. As shown on the map, these five states in combination with seven others comprised the lowest 12 of the 50 states in two-year gain. They depict a broad arc reaching from Alaska, Montana, and Wyoming in the Northwest; to the farm states of Iowa, Nebraska, Kansas, and Wisconsin in the Great Lakes Region; then south to a cluster of New Mexico, Texas, Oklahoma, Louisiana, and Mississippi. Economic stress involving oil and energy, farming, and the wood and mineral-related industries explain much of the fact that these 12 states were the nation's lowest in percentage of two-year gain for higher education. Some of these states, additionally, had been among those exhibiting the strongest rates of gain in recent years. Since FY 1981, Alaska was among the top gainers from 1982 through 1984, had a moderate gain in 1985, and was among the lowest gainers in 1981, 1986, and 1987. In the initial four years of this period, Texas was in the top group, had moderate gain in 1985, and was in the lowest group during the most recent two years. Mississippi had five years of moderate gains and two years in the lowest group (1985 & 1987). The trend in Montana was similar to Alaska, and the trend in Louisiana was similar to Texas.

TABLE 1

Fiscal Years	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Billions of Dollars	13.9	15.3	16.9	19.0	20.9	22.9	24.2	25.5	28.0	30.7	32.4
1-Year Gain %	9	10	10	12	10	10	6	5	10	10	6
2-Year Gain %	24	20	22	24	23	20	16	11	16	19	14

This general "ebb and flow" pattern of higher education support may be observed in most states with possibly two exceptions. States undergoing a massive build-up or expansion of a higher education system will tend to be among these having consistently top gains, and Texas and Alaska were in this grouping fairly recently. Major expansion of state higher education systems is a characteristic of the 1960's, however, and is largely completed in the states. States having very large higher education systems involving major percentage gains for higher education tend to be the most populous states, and these are the states that individually contribute more than a billion dollars annually for higher education. There are nine of these higher education "megastates." California was the first state to break the billion dollar mark for higher education in FY 1973, followed by New York in FY 75, and Texas in 1978 (surpassed New York in 1984). Illinois joined in 1984, and in 1985 both Florida and Michigan passed the one billion dollar mark. Three additional states exceeded this mark in 1986 (Ohio, North Carolina, Pennsylvania), and none joined the grouping in the current year, although Virginia and New Jersey are approaching with annual higher education appropriations of approximately \$900 million.

#### A REGIONAL VIEW USING QUARTILES AND QUADRANTS

While single-year changes are of interest, GRAPEVINE has utilized two-year percentage gains because of the advantage of a longer view over a two-year period and leveling the effects of sudden one-year shifts. The table shows these two-year gains for the nation, arranged in quartiles and quadrants. Quartiles make use of the range of changes from the greatest current increase in Maine (37% over two-years) to Alaska's -11% two-year change. Quadrants divide the nation fairly evenly into four portions with the northeast corner of Missouri at the center, the Mississippi River dividing East from West, and the Ohio River and southern border of Pennsylvania dividing Northeast from Southeast.

TABLE 2

Quadrants	NW	NE	SE	SW	TOTAL
Quartiles Top	0	7	4	2	13
2d	3	3	4	3**	13
3d	3	3	3	3	12
Lowest	5*	1	1	5	12
Total	11	14	12	13	50

\*Includes Alaska  
 \*\*Includes Hawaii

Using quartiles, the 50 states were arranged in descending order. Thirteen are in the top quartile ranging from 37% to a 20% two-year gain. The second quartile ranges from 19% to 15%, and the third quartile includes 12 states with gains between 14% and 9%. The lowest quartile includes 12 states from Wisconsin at 8% to New Mexico and Nebraska at 2% followed by five states with negative percentages, indicating actual decreases. The weighted national average gain was 14%.

The notion of quadrants helps focus on regional groupings and variations. The 11 Northwest states have none of the top grouping, but they are divided evenly between the 2d and 3d quartiles, and the lowest quartile. An opposite pattern is seen in the Northeast with seven states in the top group, (Maine, New Hampshire, Massachusetts, Ohio, Michigan, Connecticut, and Indiana) six states in the middle group, and only Wisconsin in the lowest group. The Southeast is divided evenly among three groupings, including four states in the top (Virginia, Florida, Tennessee, North Carolina), four in the second quartile, and four in the 3d and 4th quartiles combined with only Mississippi being in the lowest quartile. The Southwestern states have their largest grouping in the lowest quartile (Oklahoma, Kansas, New Mexico, Louisiana, Texas) with even groups (two or three states each) in the other three quartiles. Southwestern states in the top quartile included Nevada and Arizona.

#### ANALYSIS OF CURRENT STATE HIGHER EDUCATION SUPPORT

Limitations of the data collected and reported in monthly issues of GRAPEVINE make a comprehensive analysis with precise comparability impossible. The consistent hallmarks of GRAPEVINE are timeliness and prompt availability of data. We encourage continued analysis and refinement of the data. Attention is called to other studies by Halstead and the State of Washington National Comparison study as well as the McCoy-Halstead report when they become available at a later time.

Two additional features of GRAPEVINE give focus to the effort but represent a limitation to the data. These data are published as soon after the end of the legislative year as possible, but increasingly states are making revisions in appropriations during the 12-month period following the initial legislative action. In some cases, these include enhancements and in other cases they include rescissions and adjustments made either by a state legislature or by a governor. These data revisions are now incorporated into publication of data in the NASULGC annual report the year following initial publication in the CHRONICLE OF HIGHER EDUCATION in October and in the subsequent NASULGC report published in January. Beginning in 1987, the NASULGC report will contain two columns of data rather than only a single column of current fiscal year data as has been the case for the past 27 years. The other feature of GRAPEVINE is that only state tax funds are included and not other revenue sources such as student tuition and fees, federal funds, and non-tax sources appropriated by the states. These limitations must be kept in mind when analyzing and interpreting GRAPEVINE data, and this is especially true currently when appropriations from tax sources may tend to be "flat" because of the limitations in revenue capacity in many of the states. States increasingly are utilizing revenue sources other than tax funds. It may well be that in states exhibiting negative gains utilizing only GRAPEVINE data, the overall gain for higher education may be positive if all revenue sources are taken into account.

With these important caveats and limitations in mind, we can move beyond description of the FY 87 data to analysis of the major factors contributing to the nationwide configuration which has been described.

TABLE 3

13 Top Quartile States			12 Bottom Quartile States		
State	General Fund* Increase %	Higher Education 2-Year Gain %	State	General Fund Increase %	Higher Education 2-Year Gain %
Maine	9.5	37.1	Wisconsin	2.5	7.9
New Hampshire	2.0	31.2	Wyoming	- 8.4	7.3
Nevada	4.2	30.2	Oklahoma	- 5.8	5.0
Arizona	9.0	27.3	Kansas	11.5	4.4
Massachusetts	3.8	27.2	Iowa	2.6	3.0
Virginia	7.6	26.3	New Mexico	- .3	2.9
Ohio	7.5	25.2	Nebraska	1.5	2.9
Florida	9.7	24.5	Louisiana	- .8	- 3.7
Tennessee	6.3	23.7	Montana	3.2	- 4.9
Michigan	1.1	22.2	Mississippi	- .7	- 5.5
North Carolina	5.9	22.0	Texas	- 5.3	- 9.5
Connecticut	.6	21.7	Alaska	-25.1	-14.0
Indiana	5.0				
MEAN	5.6	26.1		- 2.1	- .4

\*"Projected Growth Rates of General Fund Revenues, FY 86 to FY 87," Table 4 in Stephen D. Gold et al., STATE BUDGET ACTIONS IN 1986, Denver, Colorado: National Conference of State Legislatures, September 1, 1986.

Geographic Location. Analysis based only on a state's location within a region is too simplistic for a full picture, although observations can be made using these data. It would appear that substantial economic recovery has taken place in 14 Northeastern states. Ten of the 14 are in the upper half of the states using two-year gain figures. In New England, Maine, New Hampshire, and Connecticut are above the national mean of 14%, as are New Jersey and New York in the Mid-Atlantic states, and all four Great Lakes States with the exception of Wisconsin. A number of these states in the "rust belt" experienced early and prolonged economic stress and high unemployment, resulting in competing demands on state budgets, and difficulty in strongly supporting higher education and other areas as well. Florida, North Carolina, Tennessee, and Virginia continue to lead the Southeast with the other states near or below the national mean. Revenue difficulties associated with the farm economy continue to cause problems in this region. The Northern Plains states fared relatively well even in the face of a flat economy while other states in the Plains or Mountain region had serious difficulties, often related to a sagging farm economy. California, Nevada, and Arizona made strong two-year performances.

State Revenues and Taxes. Another part of the economic and fiscal picture in the states becomes evident when examining the size of the states' general fund revenues, recent decisions on taxes, and education expenditures. Drawing upon the work of fiscal analysts at the National Conference on State Legislatures, the table shown below incorporates the sizes of the projected growth rates in general fund revenues from FY 86 to FY 87 and the two-year percentage gains using GRAPEVINE data for the 13 states in the top quartile and the 12 states in the bottom quartile. It is clear that the availability of general fund revenues is a critical determinant in the capacity of states to support higher education. Admittedly, the correlations are not perfect. Both Connecticut and Michigan had small gains in general fund revenues while giving strong support to higher education. On the other hand, Kansas had a strongly positive projection for growth in general fund revenue and appeared in the bottom quartile of the states. Undoubtedly, some of the explanation of the above is accounted for by the fact that Connecticut and Michigan had a relatively strong fund balances of at least five percent at the end of FY 85, while Kansas had less than five percent fund balance at the same time.

There was less change in state tax policies in 1986 than any year since 1980, according to NCSL. While 16 states raised taxes, the magnitude of the raises tended to be small. The decreases were in the Northeast where the economy was relatively strong, and substantial increases tended to occur where economic conditions were weakest.

Education Appropriations. State appropriations for elementary-secondary education, combined with higher education, represent a majority of the funds available in state budgets. The "education reform movement" began in elementary-secondary education during 1982, and now has moved to higher education especially in reforming undergraduate education, clarifying the mission and purpose of individual colleges and universities, and linking higher education to economic development, job training or retraining, and technology. Much of elementary-secondary education is guided by state mandates, and it was not unexpected to observe state budgetary decisions for local public schools occurring simultaneously or earlier than state budgetary decisions for higher education. It was noted by NCSL that state spending for elementary and secondary education "fared considerably better than higher education spending this year" (NCSL, 1986, p. 28). In 1986, nine states increased spending for elementary-secondary versus seven states increasing higher education spending more than 10%. Spending for K-12 grew faster than general funding spending in 26 states in 1986.

The weighted national mean gain of 14% was a clear increase for higher education, but represented a slower rate of gain than was observed in this report for the past two years. Some larger economic issues are related to this slower rate of gain. Rates of gain for higher education of more than 20% were common during the 1960s and 1970s. At that time, annual rates of inflation were often in excess of 10%, sometimes more than 15%. Since 1980, inflation has decreased to a consistent rate under five percent per year. Thus, some slowing in the higher education rate of gain would be expected and has occurred, but state support for higher education has outpaced inflation by more than two-to-one. The states now experiencing negative decreases in rates of gain for higher education are in a particularly severe condition of economic and fiscal stress. If one deletes the five states showing a negative rate of gain for higher education this year, the weighted national mean gain for the remaining 45 states is 17%, a rate nearly equal to the 19% rate of two-year gain reported by GRAPEVINE one year ago.

By far most significant in the pattern of state expenditures for higher education, however, is not competition with elementary-secondary or attempts to rationalize negative gains, but rather the particular features of higher education appropriations this year. The most significant feature was spending increase for categorical purposes, rather than general and incremental increases in campus operating budgets. These categorical purposes are similar to those reported in GRAPEVINE a year ago: spending increases for economic development, job training including teacher training, and technology. This year, spending increases were observed for student aid, minority access, teacher training, and incentive funding for excellence and measurable productivity gains. The primary purpose of GRAPEVINE is to report aggregate state totals, not specific categories, so our observations in these areas need to be viewed as partial and preliminary. Nonetheless, strong spending increases for student aid (more than twice the two-year rate of gain than for the state total) were observed in Arkansas, California, Georgia, Kentucky, Ohio, Tennessee, Washington, and Wisconsin with nearly equally strong rates of gain in Maine, Massachusetts, Michigan, and Illinois. In a number of states, there were increases targeted for teacher education, recruiting new teachers into underserved subjects, and increasing access to higher education for minorities and disadvantaged students.

Incremental increases in campus operating budgets are giving way to funding for specific programs which are designed to accomplish objectives that can be measured and are related to larger state purposes. Examples abound in the states. Programs for excellence in education, scholarship, research, and productivity improvement were funded for the second consecutive year in Ohio. Indiana and Tennessee have endowments for higher education. Missouri initiated programs of supplemental funding designed to enhance campus missions and make specific contributions to the state's economic priorities. New Jersey has moved beyond a formula-based, enrollment-driven funding system to a "base plus priority incentive funding system" having three distinct features, including reallocation, challenge grants, and incentive grants. Campuses are reallocating resources in order to achieve goals such as enhancing physical plant expenditures and limiting salary expenditures to a percentage of the base budget. Challenge grants stimulate institutions to sharpen the missions and improve quality in the state colleges. Incentive grants enable campuses to compete for new dollars which can be put into high technology, humanities, foreign languages, international education, and the Fund for the Improvement of Collegiate Education (patterned after the federal FIPSE program). The commonalities in these incentive programs in the states include requiring specific institutional initiatives to obtain funds, linking specific outcomes with program improvement and excellence, and helping states improve economic and employment opportunities. Far more significant than helping states temporarily get through difficult fiscal times, these programs signal a new dimension in higher education financing which may well be the bellwether for future state support of colleges and universities.

The above Retrospective of Fiscal Year 1987 was written to accompany the 50-state table and national map of percentage of two-year gains. This narrative was excerpted by Jean Evangelauf in The Chronicle of Higher Education, October 29, 1986. It will also be published, along with the 50 state reports, by the National Association of State Universities and Land-Grant Colleges about January 1987.

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