

State Funding for Higher Education and the University of Missouri

Key Points

1. State support for operations over the past eight years has been stagnant in nominal terms and declining in real terms.
2. Missouri higher education and the University of Missouri are underfunded when compared to higher education in other states.
3. State support has declined at a time when enrollments have grown significantly thus the resources per student available for maintaining a quality educational program have diminished, both in nominal and real terms.
4. Extraordinary withholdings, annual 3% withholdings and below inflation increases in state support have had the following impact:
 - a. Access and affordability: Increasingly the cost of education has been shifted from the state to students and their families and student loan indebtedness has increased for all types of students.
 - b. Compromised the university's ability to recruit and retain top faculty: Ranked faculty salaries are in the lowest quintile with a potential long term impact on teaching, research, and technology transfer.
 - c. Increased deferred maintenance: There has been a reduction in the amount available to fund on-going maintenance and repair creating a backlog.
5. The 3% Governor's reserve (withholding) was released for higher education prior to the mid eighties except in short periods of economic downturns. Since 1986 only a small portion of the reserve, if any, has been released even during good economic times.
6. The potential impact of the release of the annual governor's withholding reserve would be competitive faculty compensation, increased economic development and technology transfer, and additional investment in on-going maintenance and repair to reduce the deferred maintenance backlog.

1. State support for operations over the past eight years has been stagnant in nominal terms and declining in real terms.

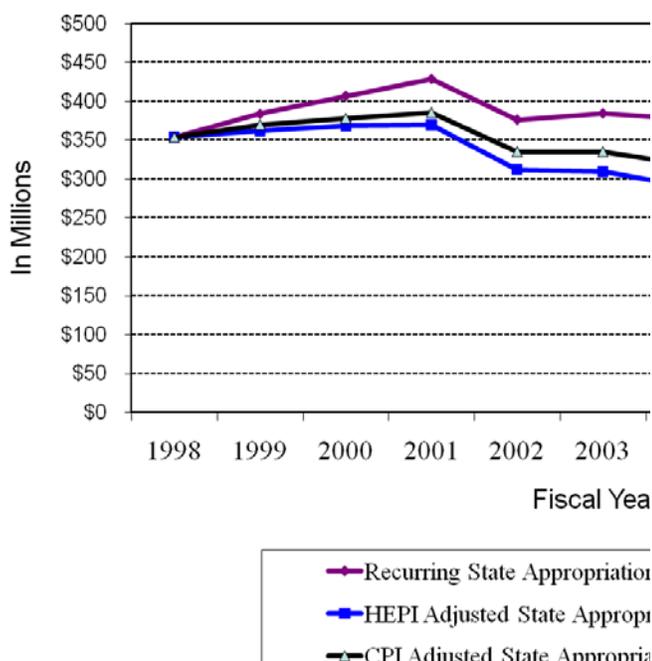
- The table below shows state appropriations to the University of Missouri system for operations from FY2000 to FY2009. Substantial withholding has occurred, in addition to cuts in the appropriations base. For the first time in FY2009, nominal appropriations received are anticipated to be higher than FY2001 levels.

State Appropriations for General Operations, University of Missouri System, FY1999-FY2009

Fiscal Year	State Appropriations	State Appropriations Withheld	% Withholding	State Appropriations Received
FY1998-99	395,084,735	10,823,175	2.7%	384,261,560
FY1999-00	418,709,257	11,415,038	2.7%	407,294,219
FY2000-01	442,027,843	13,260,835	3.0%	428,767,008
FY2001-02	457,052,843	80,134,786	17.5%	376,918,057
FY2002-03	411,147,559	26,178,632	6.4%	384,968,927
FY2003-04	388,738,932	11,662,168	3.0%	377,076,764
FY2004-05	400,819,361	12,024,585	3.0%	388,794,776
FY2005-06	401,819,361	12,054,581	3.0%	389,764,780
FY2006-07	412,991,189	11,192,210	2.7%	401,798,979
FY2007-08	430,936,819	11,822,017	2.7%	419,114,802
FY2008-09	451,476,165	13,544,285 E	3.0%	437,931,880 E

E - Estimated

The chart below shows state appropriations received by the University of Missouri system for operations from FY1998 to FY2008. Appropriations are shown in nominal dollars and real dollars as adjusted by the CPI and the Higher Education Price Index (HEPI).



2. Missouri higher education and the University of Missouri are underfunded when compared to higher education in other states.

- State funding for higher education and the University of Missouri has been stagnant over the past eight years.
- Missouri ranks 44th in higher education appropriations per \$1,000 of personal income and 47th in higher education appropriations per capita. The chart below shows Missouri compared with the Big 12 and contiguous states in FY2008.

State	Appropriations Per Capita*		Appropriations Per \$1,000 Personal Income**	
	\$	Rank	\$	Rank
Arkansas	302.65	13	10.15	11
Colorado	151.75	48	3.72	48
Illinois	227.16	33	5.64	39
Iowa	294.85	17	8.42	15
Kansas	297.44	16	8.07	18
Kentucky	316.48	11	10.18	10
Missouri	159.05	47	4.65	44
Nebraska	347.15	10	9.50	13
Oklahoma	280.64	20	8.29	17
Tennessee	221.22	35	6.68	28
Texas	253.44	25	6.85	27

**Personal income data are for the 2nd quarter of 2007. They are preliminary estimates retrieved from the Bureau of Economic Analysis, U.S. Department of Commerce, on January 10, 2008, from <http://www.bea.doc.gov/bea/newsrel/sqipnewsrelease.htm>.

- According the Council on Public Higher Education (COPHE) task force consensus report, Missouri’s higher education funding gap was \$212.3 million in FY2006. The University of Missouri’s share of the gap is \$136 million and includes medical programs and cooperative extension.

- Missouri’s per capita funding of higher education has declined substantially between FY2001 and FY2008.

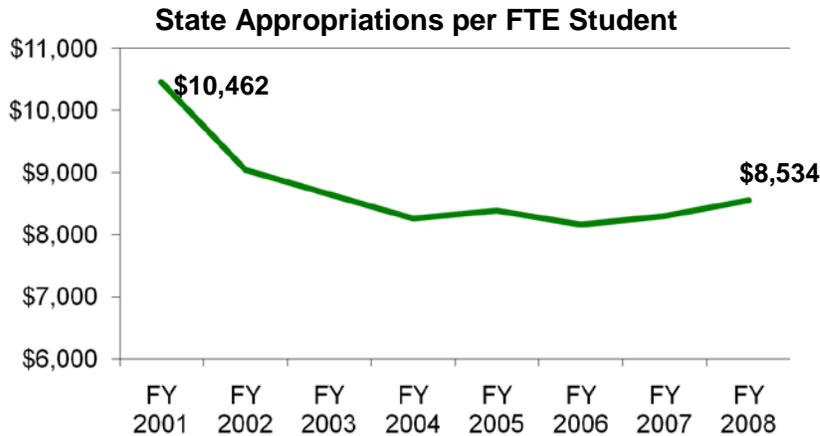
	2001	2008
Missouri ranked	36	46
Missouri per capita	\$184	\$159.05
National average	<u>\$217</u>	<u>\$257.46</u>
Funding gap	\$ 33	\$ 98.41
Total Funding Gap	\$184 m	\$579 m

- Missouri’s funding of higher education per \$1,000 of personal income has also declined substantially between FY2001 and FY2008.

■ FY 2001	
■ Missouri	\$6.79/\$1,000
■ National median	\$7.57/\$1,000
■ Funding gap	\$.78/\$1,000
■ FY 2008	
■ Missouri	\$4.65/\$1,000
■ National median	\$6.59/\$1,000
■ Funding gap	\$1.94/\$1,000

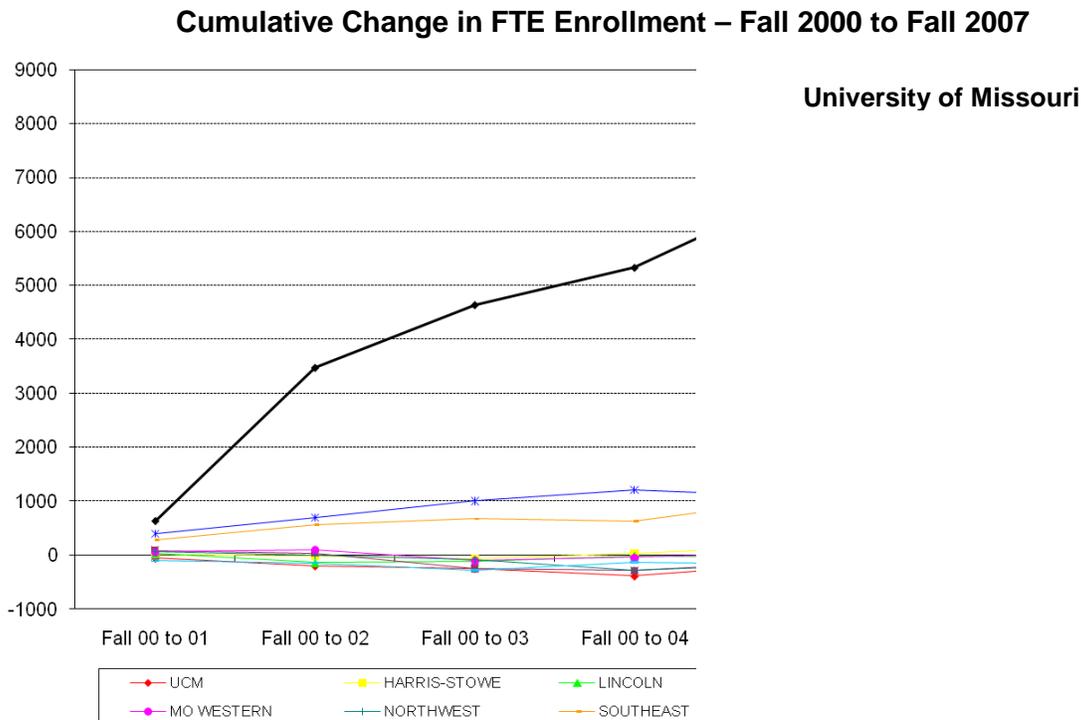
3. State support has declined at a time when enrollments have grown significantly thus the resources per student available for maintaining a quality educational program have diminished, both in nominal and real terms.

- When looking at state appropriations received per FTE student the funding picture becomes even worse. This is a function of both the decline in state appropriations and the growth in students. The chart below shows state appropriations per FTE student from FY2001 to FY2008.



Note: Includes appropriations for Ag Experiment Station and Coop Extension

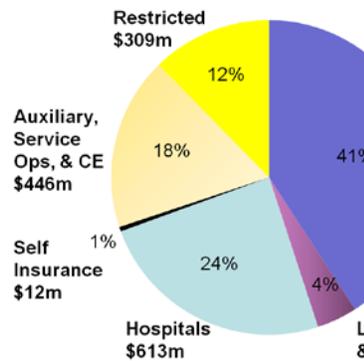
- The funding problem is worse for the University of Missouri system than for most other higher education institution in Missouri because the growth in enrollment has been greater. The chart below shows the cumulative increase in enrollment for public four-year institutions in Missouri since fall of 2000.



4. Extraordinary withholdings, annual 3% withholdings, and below inflation increases in state support have had the following impacts:

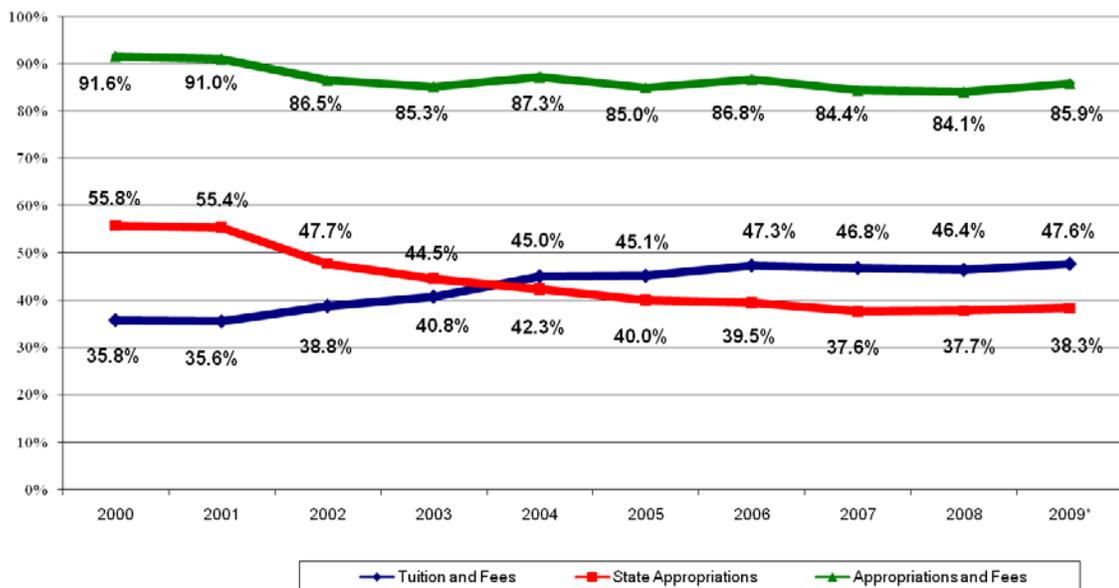
- a. **Access and affordability:** *Increasingly the cost of education has been shifted from the state to students and their families and student loan indebtedness has increased for all types of students.*
- The University's FY2009 total budget is \$2.5 billion. The operating budget, at a little over \$1.0 billion, makes up 41% of the total. The operating budget supports the main teaching, research and public service operations of the University and provides much of the administrative support for the entire budget.

FY2009 All Funds Revenue Budget

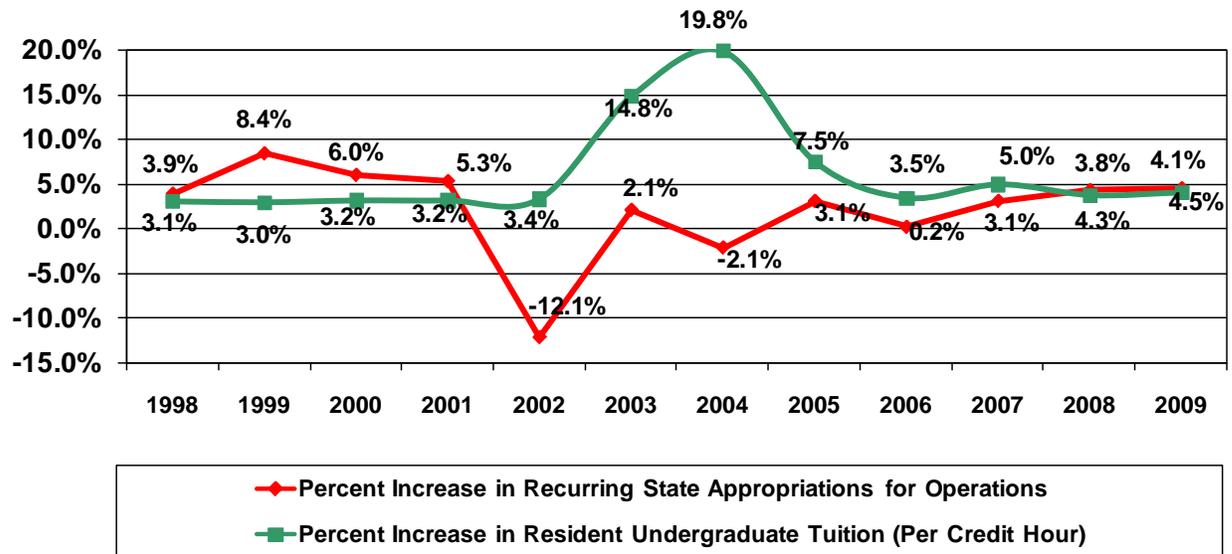


- State appropriations and tuition and required fees are the two primary sources of funds for the operating budget, as the chart below shows. Gross tuition (before scholarship allowances) contributes 47.6% of the gross operating budget revenues compared to 35.8% in FY2000. State appropriations contribute 38.3% of gross operating revenues compared to 55.8% in FY2000.

Gross Student Fees & State Appropriations as a percent of Operating Revenues

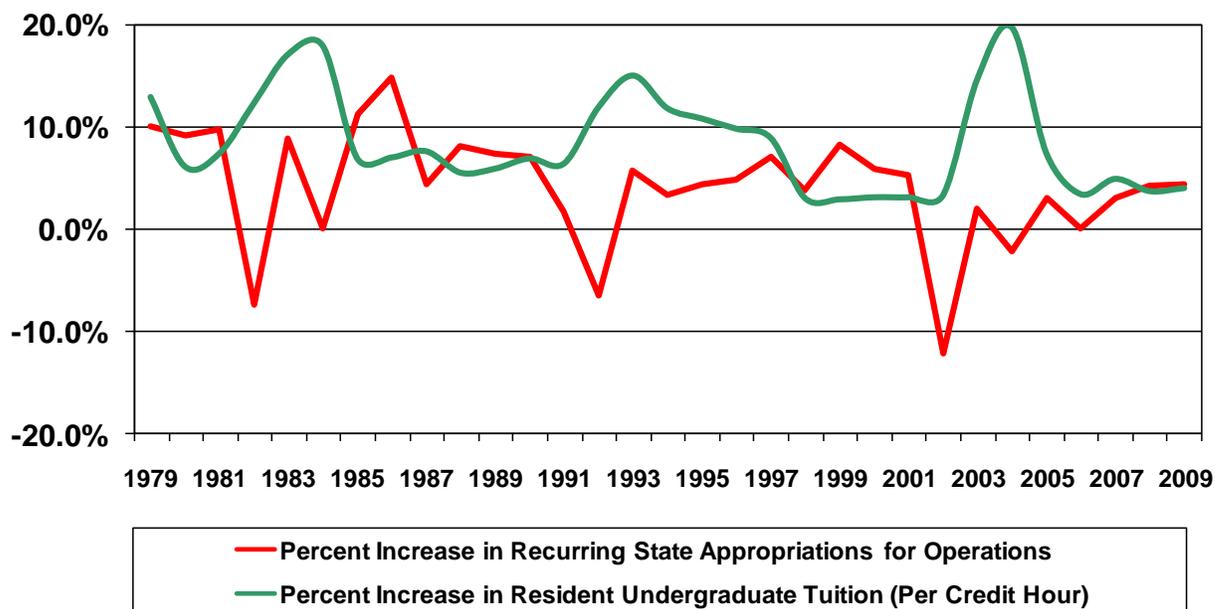


- This relationship makes higher education and the University of Missouri vulnerable to extraordinary withholding. These typically occur after the University's budget has been set, and in the case of FY2002's 17.5% withholding of \$80 million, when the expenses had already been incurred. The funds were taken from reserves and to a large degree repaid by student fee surcharges in the following year.
- The chart below shows the relationship of increases in tuition rates and increases or decreases in state appropriations. The relationship is a direct one.



- The relationship becomes more obvious when you look at the changes over the last 30 years, as shown by the graph below. Decreases in state support require students to pay for a larger share of their educational costs.

Percentage Increases in State Appropriations and Tuition Rates – 30 years



- The CBHE recognizes the revenue contribution relationship between tuition and state appropriations and included the following statement in their September 2009 board materials:

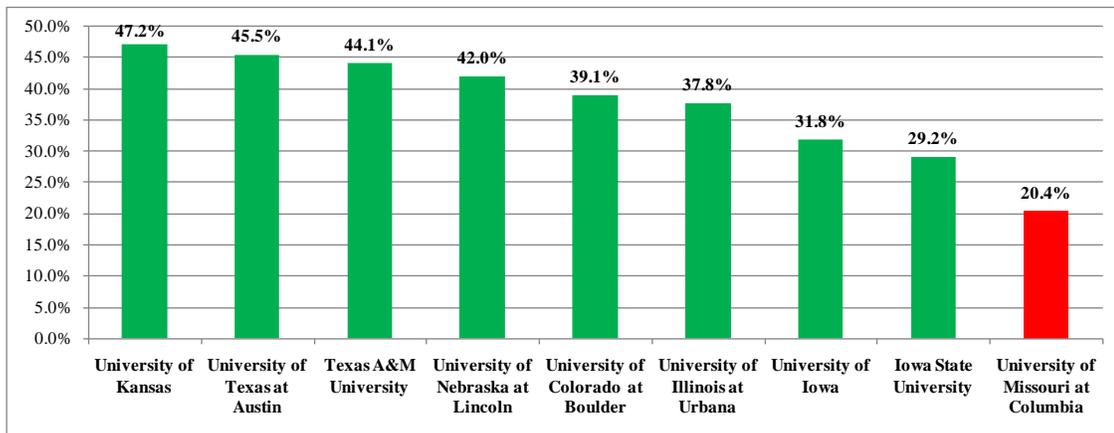
With the establishment of the Higher Education Student Funding Act within SB 389 (2007), which constrains institutions' ability to increase tuition, annual state funding increases are critical to maintaining current levels of quality and service in Missouri public postsecondary education. Undoubtedly greater investment is needed in order to expand services to larger numbers of students, improve the quality of programs and services, and meet the strategic challenges of preparing a competitive workforce and an informed and engaged citizenry for the new global economy.

- The total amount of financial aid distributed to University of Missouri undergraduates, graduates, and professional students increased \$234.9 million or 62% from FY2001 to FY2007.
- Most of the growth in total financial aid awarded to undergraduates can be attributed to a \$100.1 million or 95% increase in the amount of student loans since FY2001.
- Institutional aid has increased \$31.3 million or 46% since FY2001.
- In FY2008, through Access Missouri the state increased the total amount of need-based aid awarded to students attending the University of Missouri from \$5 million to \$12 million and the number of awards from 2,510 to 8,213. The average award was \$1,470. While the non-urban campuses have seen a decrease in student borrowing, it does not appear Access Missouri will significantly change the borrowing patterns on the urban campuses which have lower amounts of institutional aid and higher costs of attendance than the non-urban campuses.

b. Compromised the University's ability to recruit and retain top faculty: Ranked faculty salaries are in the lowest quintile with a potential long term impact on teaching, research, and technology transfer.

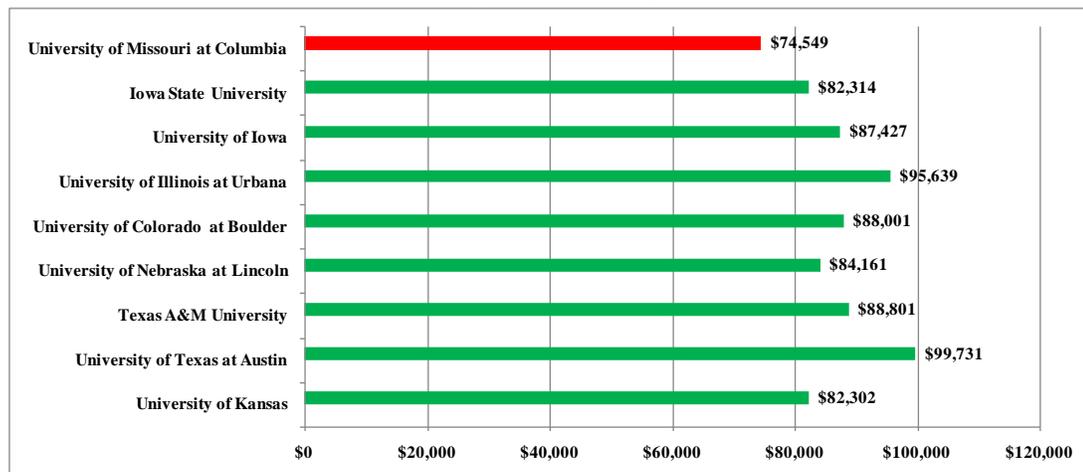
- A study of top faculty at public institutions of the Association of American Universities (AAU) showed that the Columbia campus ranked last among 33 universities in the growth of base faculty salaries from fall 1997 to fall 2006.
- Average ranked faculty salary increases from fall 1997 to fall 2006 among public AAU institutions in the surrounding states of Illinois, Iowa, Kansas and Nebraska ranged from 29.2 percent to 47.2 percent. During this same time, faculty salaries at the University of Missouri-Columbia increased an average of 20.4 percent.

Increases in Average Ranked Faculty Salaries from Fall 1997 to Fall 2006 at AAU Public Universities in the Big 12 and Contiguous States



- Average salaries in the fall 2006 for faculty at the University of Missouri Columbia ranked 32 out of 33 public institutions in the AAU.
- The chart below compares average base salary for ranked faculty at the University of Missouri Columbia with that of public institutions in the AAU for the Big 12 and contiguous states. Average ranked faculty salaries ranged from a low of \$74,549 at MU to a high of \$99,731.

Average Ranked Faculty Base Salary for Fall 2006 at AAU Public Institutions in the Big 12 and Contiguous States



c. *Increased deferred maintenance: There has been a reduction in the amount available to fund on-going maintenance and repair.*

- Recent facility assessments of educational and general buildings at the University of Missouri system estimate a \$344 million backlog of maintenance and repair (M&R) work.
- Deferred maintenance is defined as the upkeep of buildings and equipment postponed from an entity’s normal operating budget cycle due to a lack of funds. Accumulated deferred maintenance results primarily from underfunding routine maintenance and minor repair work, or underfunding building component part replacement needed near the end of useful life, all of which evolves into a more serious condition.
- Deferred maintenance items at the University include structure, roofing, exterior cladding, building interior, vertical transportation, plumbing, HVAC, electrical, accessibility, fire protection, special equipment and site utilities.
- Currently \$34 million of the deferred M&R projects are classified as critical. The majority of the deferred M&R projects are not critical, but may become critical in 1-5 years.
- As University resources are engaged more in critical repairs, fewer resources will be available for preventive M&R work and the backlog will increase. As the normal deterioration of physical assets continues and repairs backlog, the University will eventually be unable to keep up with needed repairs.
- The following tables show the total facility needs of the University of Missouri system by category and by priority. These data were based on survey work performed by the ISES Corporation, contracted facilities management professionals who specialize in building condition analyses.

Total Facility Needs by Category

Deferred M&R	\$344 .3 million
Renewal	353.0 million
Adaption	<u>109.5 million</u>
Total Needs	\$806.8 million

Total Facility Needs by Priority

Priority 1 – Currently Critical (Immediate)	\$ 33.4 million
Priority 2 – Critical - Urgent (Year 1)	143.7 million
Priority 3 – Necessary, Vital, but not yet Critical (Years 2-5)	312.7 million
Priority 4 – Recommended, Necessary (Years 6 to 10)	<u>317.0 million</u>
Total Needs	\$806.8 million

5. *The 3% Governor's reserve (withholding) was released for higher education prior to the mid eighties except in short periods of economic downturns. Since 1986 only a small portion of the reserve, if any, has been released even during good economic times.*

- Elementary and secondary education (the foundation formula) is not typically subject to the withholding.
- From FY1986 to FY2008 \$322.8 million was withheld from the University of Missouri system operating appropriations. The full 3% withholding reserve has not been released since FY1985.
- It is vital that the State improve recurring funding for public higher education in Missouri. This should be looked upon as an investment in Missouri's future. The University works to improve efficiency, and continually reallocates funds from lower priorities to higher priorities to improve the quality of its programs and services and to meet the growing costs and demands of external compliance. It is also focused on access and affordability, and in meeting the needs of its continually increasing numbers of students, and its diverse academic and professional programs.

6. *The potential impact of the release of the annual governor's withholding reserve would be competitive faculty compensation, increased economic development and technology transfer, and additional investment in on-going maintenance and repair to reduce the deferred maintenance backlog.*

- One way to improve recurring funding for public higher education in Missouri, and the University of Missouri in particular is to exempt it from withholding. The 3% governor's withholding reserve is \$13.5 million in FY2009. If the University of Missouri were exempted from the withholding on a recurring basis, these funds could be used for strategic investments and to meet recurring needs. Examples include:
 - Faculty compensation - Funding the requested state match on the competitive ranked faculty compensation plan of \$10.8 million.
 - Economic development – Funding to support the university's fourth mission of economic development and the continued growth in the research and technology transfer.
 - Maintenance and repair – additional investment in on-going maintenance and repair will decrease the deferred maintenance backlog of \$344 million and help ensure that public facilities for higher education are properly maintained.
 - Fund recurring costs associated with the large enrollment growth experienced in the last seven years.