

Chapter II:

How Washington Pays for Higher Education

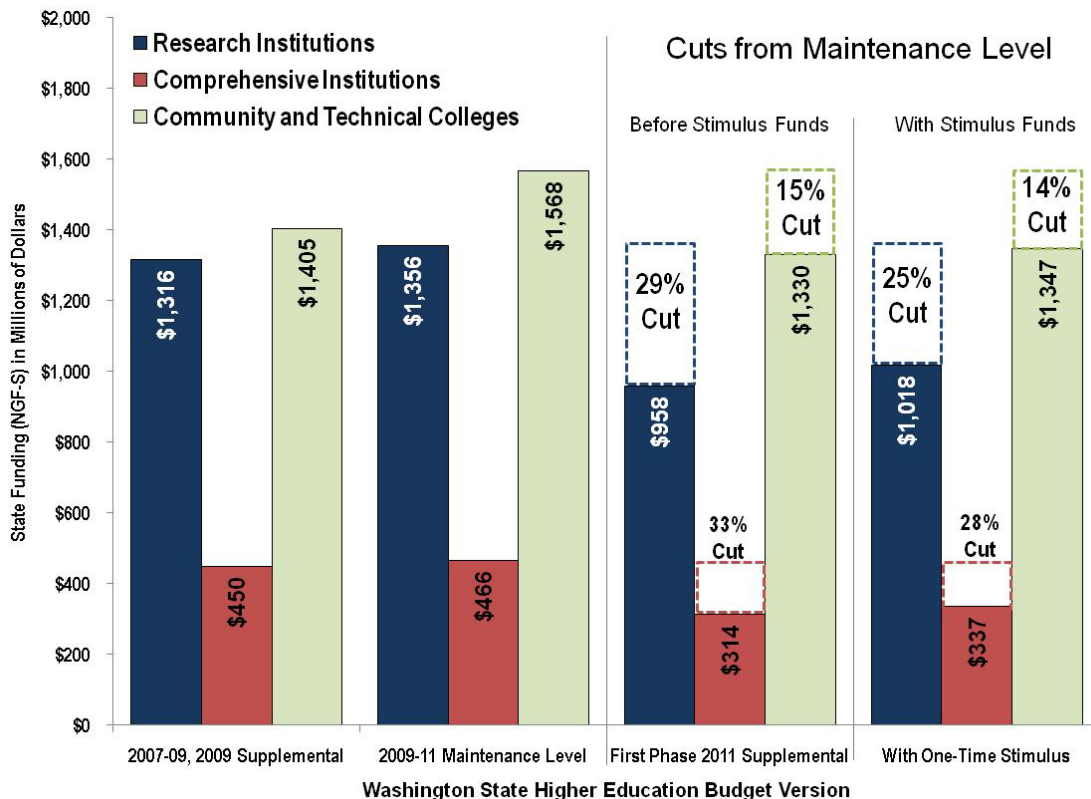


Continued revenue shortfall further reduces budget for public higher education

The lingering effects of the national recession led to a continued decline in state revenue during 2010. The Legislature and Governor responded with budget reductions beyond those that had been included in the original 2009-11 biennial budget. Faced with another projected \$520 million drop in revenue, the Governor ordered spending cuts, and the Legislature in December 2010 approved a second supplemental budget to address part of the shortfall for the remainder of the 2009-11 biennium. For public higher education, the additional cuts opened a \$687 million gap between available funds and the amount needed to maintain programs at levels in the previous biennium (maintenance level).

For higher education institutions, the impact of reduced appropriations was partially offset by 14 percent annual tuition increases for resident undergraduates at public baccalaureate institutions and 7 percent annual increases at community and technical colleges. The impact also was reduced through one-time federal stimulus dollars. The chart below shows the percentage of budget reductions below 2009 maintenance levels for the state’s research institutions (UW and WSU), other public baccalaureate institutions, and community and technical colleges. It also shows how much federal stimulus money, which will not be available in the next biennium, helped lessen budget-cut impacts. Institutions responded to the cuts in various ways, including eliminating academic programs, increasing class sizes, reducing staff, and cutting student support services.

**2009-11 State Funding Reductions for Public Higher Education
Institutions from Maintenance Level, by Sector**
Near General Fund-State, Dollars in Millions



Source: HECB analysis of data from OFM Budget Allocation and Support System (accessed 12/16/10).

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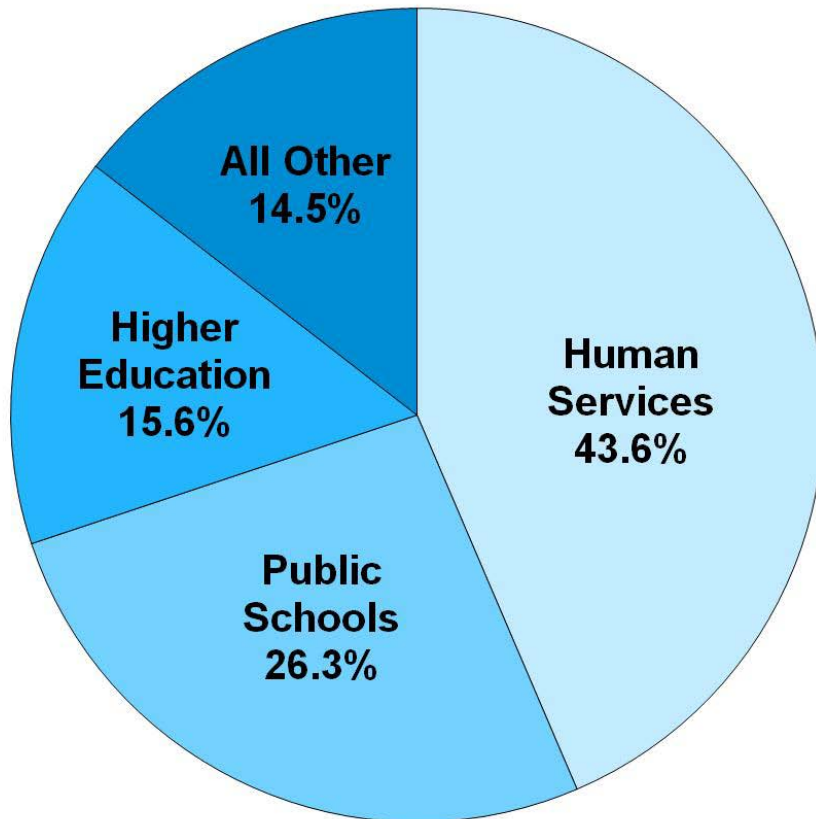
Current operating budget below level needed to maintain services in last biennium

The State General Fund and student tuition provide the bulk of the money in the state operating budget for public higher education. The General Fund includes revenues from the state sales tax, business and occupation tax, property tax, and other excise taxes. Other revenue sources for higher education include grants and contracts, dedicated local revenues, and the University of Washington hospital.

The state's total operating budget of \$60.2 billion for the 2009-11 biennium included \$9.4 billion for public colleges and universities, or about 15.6 percent of the total budget. A \$100.1 million allocation for higher education from the \$3.0 billion in federal stimulus money the state received still left the public higher education institutions about \$687 million below the "maintenance level."

Maintenance level is the amount of funding needed by public institutions to deliver the same level of services they did in the previous biennium. A maintenance-level budget includes cost increases over which the institutions have no control, such as negotiated wage and benefit agreements, inflation in the cost of goods and services, and increased energy costs.

Washington State 2009-11 Operating Budget, All Fund Sources
Total: \$60.2 billion, including \$3.0 billion of one-time federal stimulus funding



Note: Spokane Intercollegiate Research and Technical Institute is included in "All Other," and not "Higher Education."

Source: HECB analysis of data from fiscal.wa.gov (accessed 12/16/10).

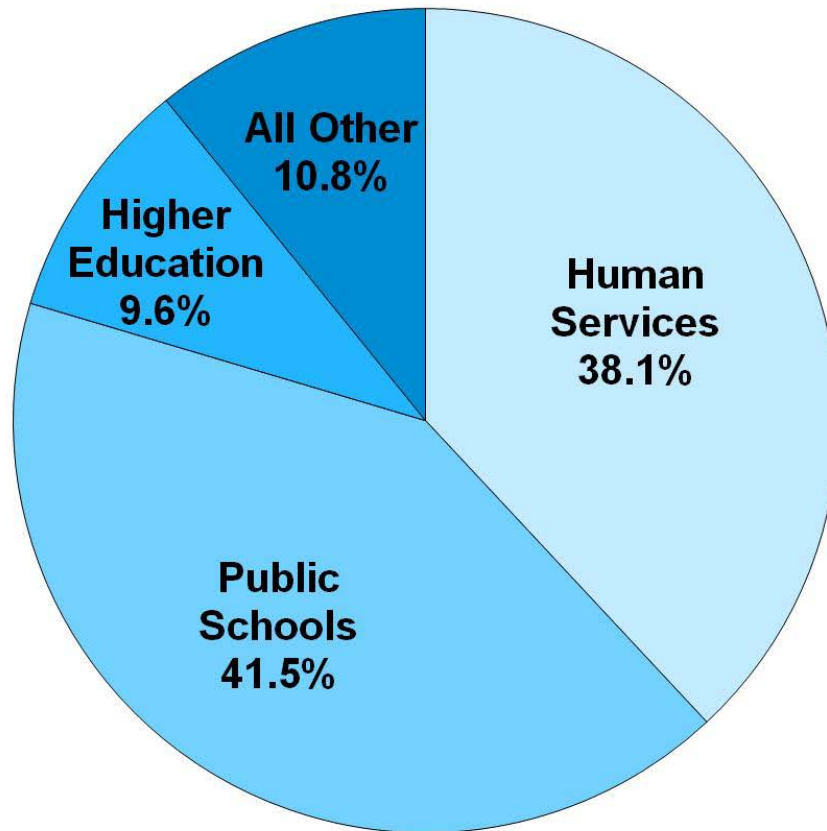
The state's contribution: A look at the near general fund

Higher education budget discussions often refer to the Near General Fund, which includes money from the General Fund, Education Legacy Trust Account (cigarette and estate taxes earmarked for education) and other sources. In the 2009-11 biennium, the Near General Fund also includes \$3.0 billion in federal stimulus money.

The \$33.6 billion Near General Fund provides approximately \$3.2 billion for higher education in the 2009-11 biennium. This constitutes about 9.6 percent of Near General Fund revenues. The K-12 public school system accounts for the largest percentage of Near General Fund spending.

Washington State 2009-11 Near General Fund-State

Total: \$33.6 billion, including \$3.0 billion of one-time federal stimulus funding



Note: Spokane Intercollegiate Research and Technical Institute is included in "All Other," and not "Higher Education."

Source: HECB analysis of data from fiscal.wa.gov (accessed 12/16/10).

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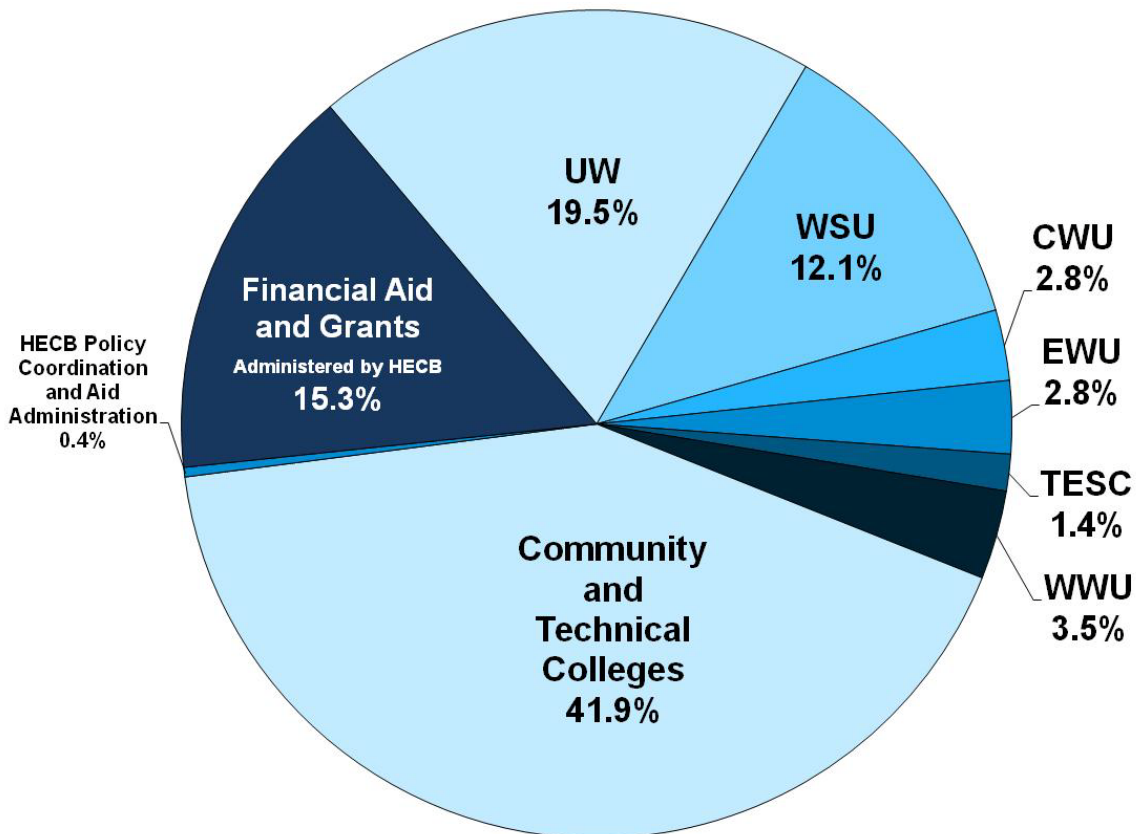
How near general fund money for higher education is distributed

The \$3.2 billion in Near General Fund revenues for higher education in the 2009-11 biennium were distributed as follows:

- \$ 1.3 billion for Community and Technical Colleges
- \$ 628 million for the University of Washington
- \$ 500 million for student financial aid
- \$ 390 million for Washington State University
- \$ 111 million for Western Washington University
- \$ 91 million for Eastern Washington University
- \$ 89 million for Central Washington University
- \$ 46 million for The Evergreen State College
- \$ 12 million for the Higher Education Coordinating Board

Washington State 2009-11 Higher Education Operating Budget Near General Fund-State

Total: \$3.2 billion, including \$101 million of one-time federal stimulus funding



Note: Spokane Intercollegiate Research and Technical Institute is included in "All Other," and not "Higher Education."

Source: HECB analysis of data from fiscal.wa.gov (accessed 12/16/10).

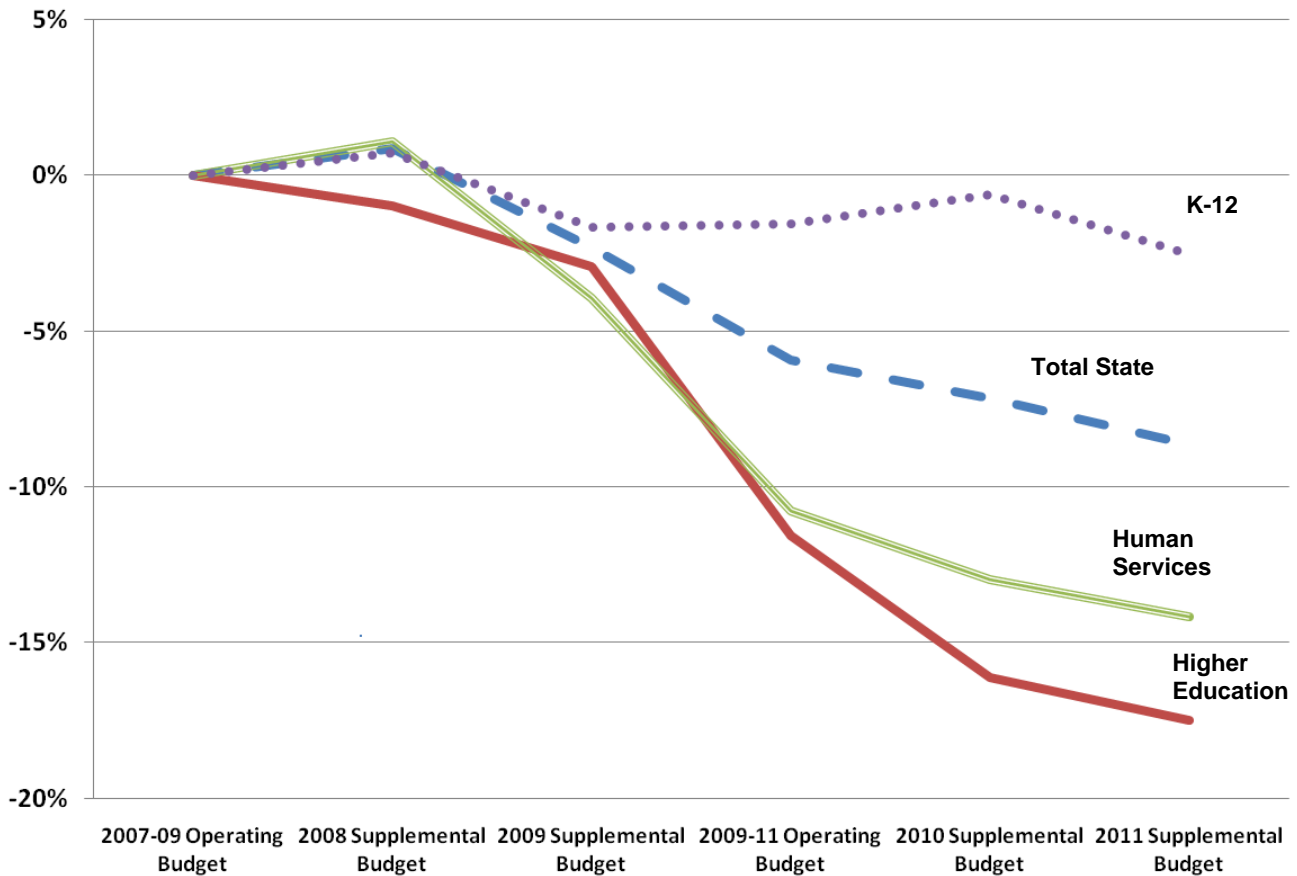
Higher education budget cuts go deeper than other state services

Unlike K-12 education, the state is not required to provide a certain level of higher education services for its residents. As revenue has declined, legislators reluctantly have cut higher education and other discretionary parts of the state budget more than areas that are protected under Washington law.

The table below shows budget cuts to state general fund appropriations since the 2007-09 biennial budget to higher education, human services, and K-12. The graph clearly shows that the steepest cuts have been to higher education, resulting in an overall decrease of 17.5 percent in state general fund appropriations. In dollars, 17.5 percent represents a reduction of \$4,043,824,000.

Especially in a tough economic climate, it is more important than ever to remain competitive with other states and countries by continuing to pursue the state’s goals of increased degree attainment. While the state’s revenue picture may leave leaders with few alternatives, reductions in appropriations for the higher education system may require cutting back on Washington’s degree goals—or extending the timeline for achieving them.

Major State Budget Components by Percent Change in General Fund Appropriations – from 2007-09 Biennial Budget



Source: HECB analysis of data from fiscal.wa.gov (accessed 12/16/10).

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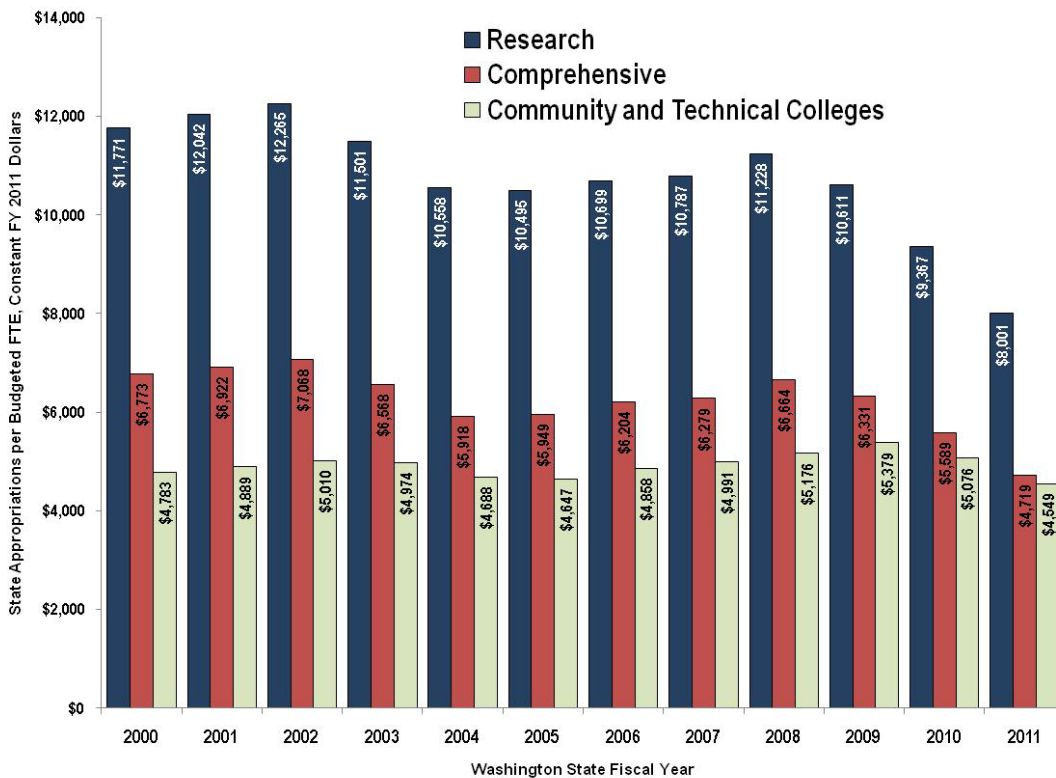
Per-student FTE support has dropped significantly at public baccalaureates

One measure of the level of state support for public higher education institutions is the amount appropriated per budgeted student FTE. Over the past decade, per-student FTE support has remained fairly stable at community and technical colleges, but has declined significantly at baccalaureate institutions. Between 2000 and 2011, per-student FTE appropriations:

- Declined 5 percent overall at community and technical colleges. This represents a decline of approximately 0.4 percent per year.
- Dropped 32 percent overall at the comprehensive institutions (CWU, EWU, TESC, and WWU) – an average decline of about 3 percent per year.
- Dropped 32 percent at the state’s two research institutions (UW and WSU) – an average decline of 3 percent per year.

Calculated in 2010 dollars, the chart below shows the level of support per state-funded student FTE in each sector between 2000 and 2011. Institutions frequently enroll more students than budgeted, so FTE figures are usually lower than headcounts. The chart reflects appropriations in the final supplemental biennial budgets, except for FY 2010 and FY 2011, which reflect the First Phase 2011 Supplemental 2009-11 Operating Budget. Running Start enrollments are not reflected in community and technical college budgeted FTE enrollments.

Near General Fund-State Operating Appropriations per Budgeted Student FTE for Washington Public Higher Education Institutions by Sector



Sources: Office of Financial Management Budget Allocation and Support System for appropriation data. Legislative Evaluation and Accountability Program Committee Legislative Budget Notes for budgeted student FTE data. Legislative Evaluation and Accountability Program forecast data for IPD adjustment.

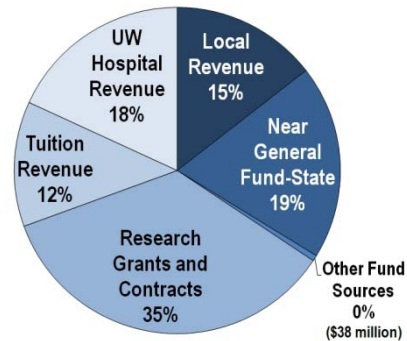
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Differing roles influence amounts institutions receive from non-state sources

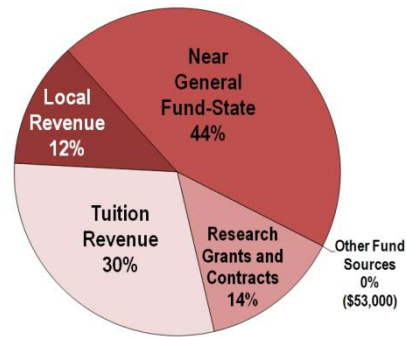
The differing missions of Washington’s higher education institutions are reflected in the revenue they receive from funding sources other than tuition and state appropriations. For example, faculty at the University of Washington and Washington State University are more engaged in research than the state’s other public baccalaureate institutions or its community and technical colleges. The latter are primarily engaged in teaching. As a result, the two research institutions receive more money from research grants and contracts. In addition, the UW has the unique mission in this state of operating a university hospital, which generated \$1.2 billion in the 2007-09 biennium.

Public Higher Education Institution Funding Sources by Sector 2007-09 Actual Expenditures, Dollars in Millions

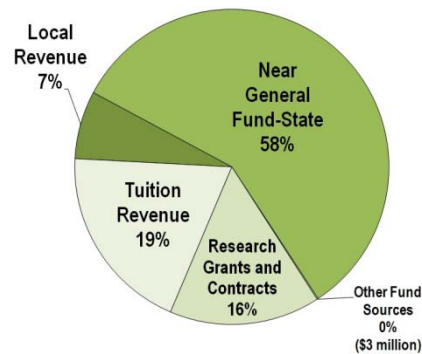
**Research Institutions
Total: \$6.6 billion**



**Comprehensive Institutions
Total: \$980 million**



**Community & Technical Colleges
Total: \$2.4 billion**



Source: Higher Education Coordinating Board analysis of data from fiscal.wa.gov (accessed 9/20/10).

Providing educational system infrastructure

Over the decades, Washington has invested heavily in the classrooms, research facilities, administrative offices, and support structures that constitute the brick and mortar of its public colleges and universities. These structures account for more than half of the state’s physical plant.

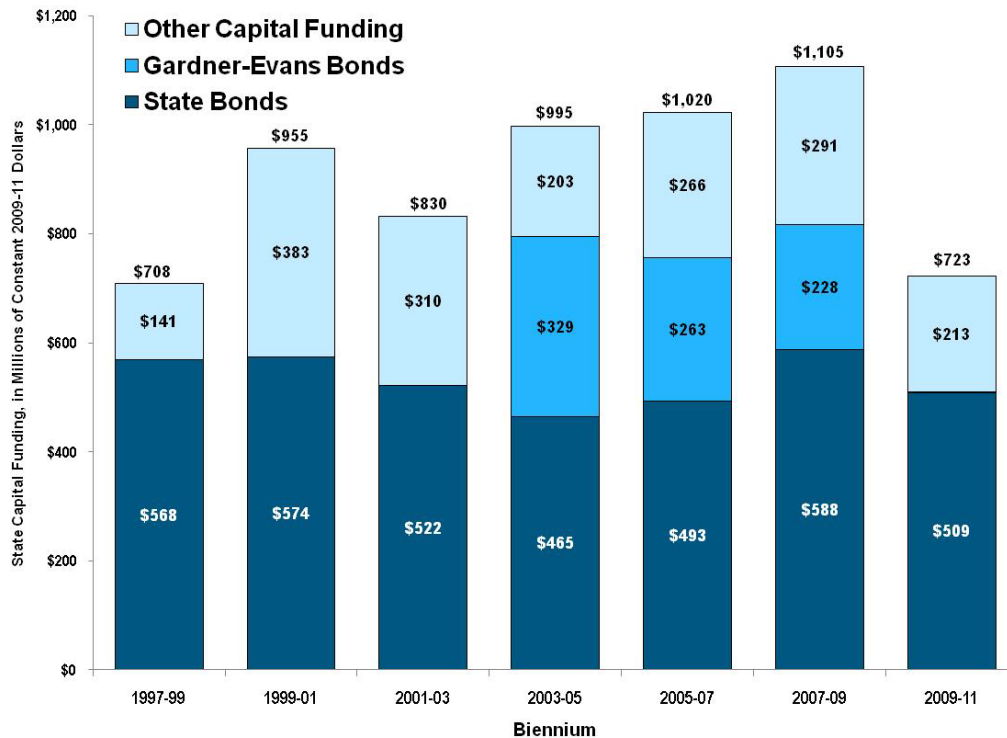
The state provides three kinds of facility support: (1) building maintenance; (2) repair and renovation; and (3) expanded capacity to meet increased levels of enrollment. Operating budget funds are earmarked for repair and renovation, and capital funds are used to support new construction.

Since 1997, about 70 percent of all higher education capital appropriations have come from borrowing through the sale of general obligation bonds. The remaining 30 percent come from local, dedicated sources.

Because state law limits the amount of state debt incurred through general obligation bonds, institutional requests for new capital construction must be prioritized on a biennial basis. Institutions submit capital budget proposals to the Office of Financial Management, which creates a prioritized list that is sent to the Higher Education Coordinating Board. The Board then makes funding recommendations based on the OFM list and sends them to OFM and the Legislature.

Capital spending, on the rise since 1997, fell sharply in the 2009-11 biennium due to the recession and the absence of Gardner-Evans Bonds, which helped finance facility preservation projects. Authority to issue Gardner-Evans Bonds ended in 2009.

Higher Education Capital Appropriations by Source
IPD Adjusted Constant 2009-2011 Dollars in Millions



Note: Data reflects new appropriations only; does not include alternative finance projects.

Sources: HECB analysis of data from fiscal.wa.gov (accessed 9/28/10) for capital appropriations data. Legislative Evaluation and Accountability Program (LEAP) Committee, Economic Forecast Data for biennial IPD (Implicit Price Deflator) adjustments.

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What students pay: It's more than just tuition

Statutory tuition consists of two components:

- **Operating fees:** Primarily used to fund the instructional activities of an institution.
- **Building fees:** Cover debt service on the institution's buildings.

Tuition and the following additional fees are commonly referred to as the "sticker price" to attend a higher education institution:

- **Services and activities fees:** Support student activities.
- **Technology fees:** Charged at some institutions to support technology enhancements.

However, tuition and fees are not the only cost of a college education. Other expenses, including room, board, books, transportation, and incidentals must be considered in determining a total cost. In addition, federal and state financial aid, institutional aid, scholarships, and work study jobs help determine the "net price" a student actually pays to attend a college or university.

Both sticker price and total costs vary among public institutions. Tuition rates for resident, undergraduate students are determined by institutions within limits set by the Legislature. Institutions set their own graduate and nonresident tuition rates.

To help offset cuts in state support, the Legislature allowed four-year institutions to increase tuition up to 14 percent per year during the 2009-11 biennium. Community and technical colleges could increase tuition up to 7 percent each year.

2010-11 Selected Tuition and Fee Rates at Washington Public Higher Education Institutions

Includes tuition, service and activities, and technology fees. Other fees may apply.

	Washington Resident		Nonresident	
	Undergraduate	Graduate	Undergraduate	Graduate
University of Washington				
UW Seattle	\$8,596	\$11,344 ¹	\$25,224	\$24,684 ¹
UW Bothell	\$8,617	\$11,365	\$25,245	\$24,705 ¹
UW Tacoma	\$8,689	\$11,437 ¹	\$25,317	\$24,777 ¹
Washington State University	\$8,592	\$8,852	\$19,634	\$21,650
Central Washington University	\$6,276	\$7,762	\$16,913	\$17,243
Eastern Washington University	\$6,168	\$8,325	\$14,886	\$19,059
The Evergreen State College	\$6,109	\$7,215	\$17,235	\$20,030
Western Washington University	\$6,156	\$6,642	\$16,503	\$16,317

	Washington Resident		Nonresident	
	Undergraduate	Applied Baccalaureate	Undergraduate	Applied Baccalaureate
Community & Technical Colleges²	\$3,135	\$5,978	\$8,370	\$17,298

¹ The University of Washington uses a tiered graduate tuition system. These tuition rates assume Tier I tuition levels.

² These tuition rates are an average of all community and technical colleges.

Note: See full tuition and fee schedule at: <http://www.hecb.wa.gov/research/issues/tuition.asp>.

Source: 2010-11 tuition and fee rates collected by HECB.

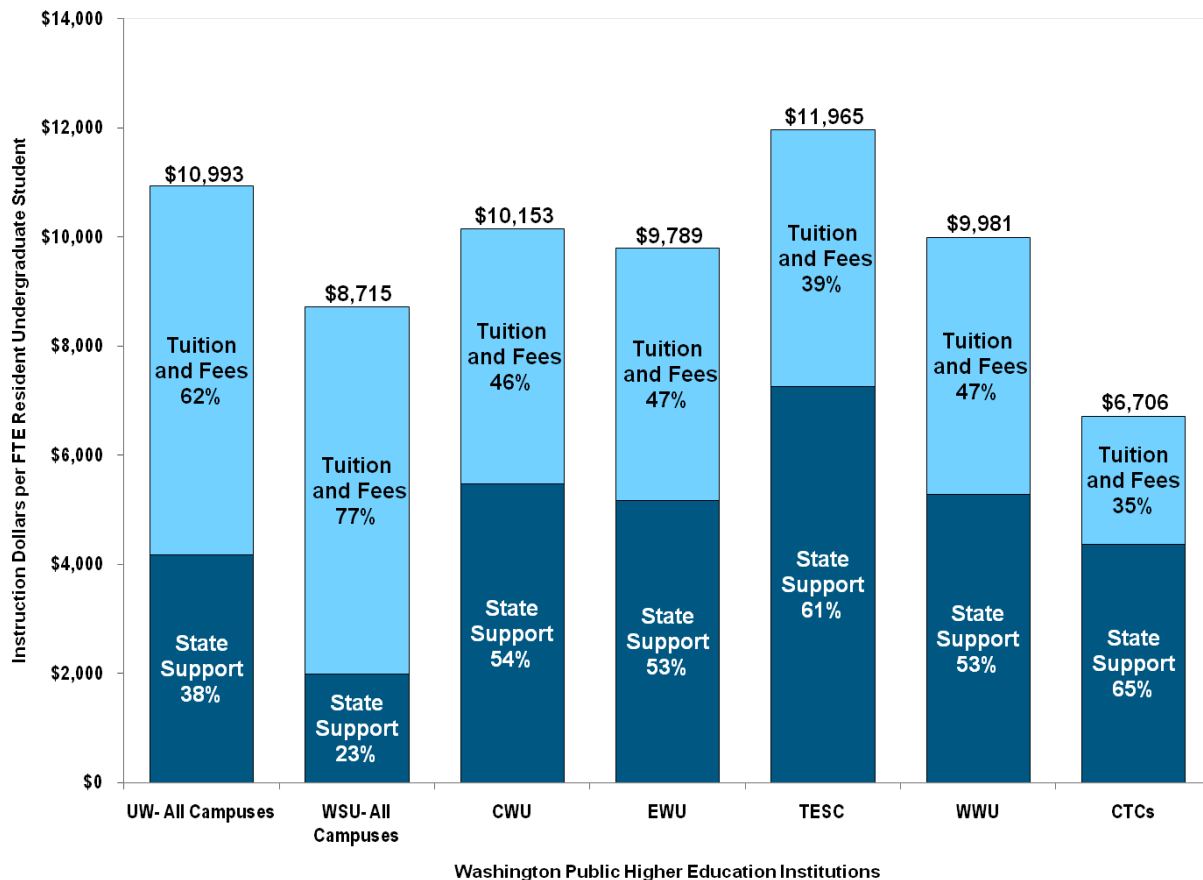
Cost of educating students varies at institutions

Instructional costs differ at public institutions. Factors include the impact of program start-up costs at particular institutions, the distribution of programs between main and branch campuses, the nature of the faculty, teaching loads, and the mix of courses. For example, the average cost of instruction per student at community and technical colleges is lower than at baccalaureate institutions.

Students pay their share of the cost of instruction through tuition and fees. But because all state residents benefit directly or indirectly from the existence of a public higher education system, state support also is provided through legislative appropriations.

The table below shows the percent of the average cost of undergraduate instruction at various institutions paid by tuition and fees and the percent paid by state appropriations.

**Money Spent on Instruction for Resident Undergraduate Students at Washington Public Higher Education Institutions, by Source
2009-10 Academic Year**



Source: Higher Education Coordinating Board, 2009-10 Disclosure Report.

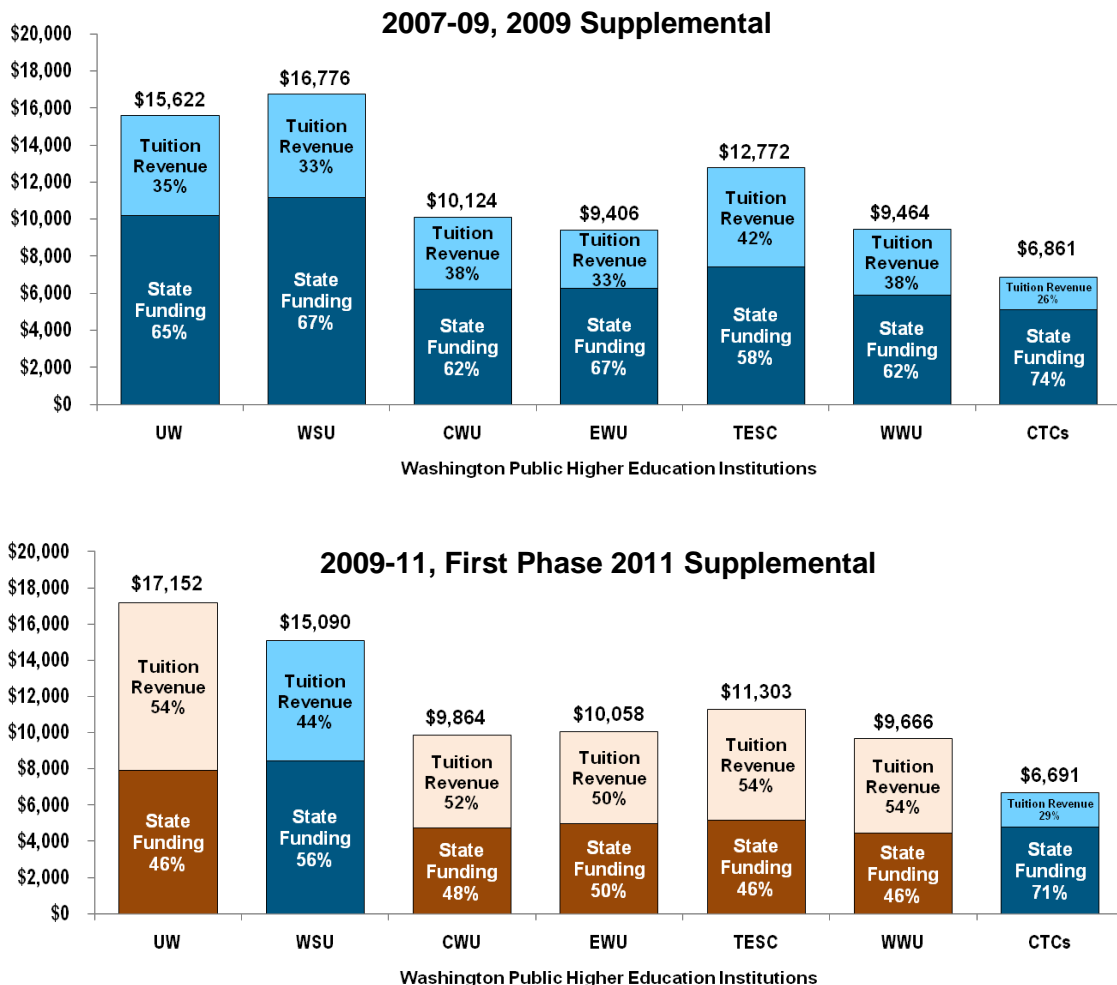
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Tuition covers a growing share of higher education costs

Taxpayers and students traditionally have shared the cost of public higher education, but as state support has declined over time, the portion students pay through tuition and fees has grown, at least at the state's four-year colleges and universities. For the first time, tuition revenue during the 2009-11 biennium constituted a majority of the operating budget at four of the state's six public baccalaureate institutions, as shown in the graphic below. At the community and technical colleges, per student instruction costs covered by the state have remained consistently higher relative to tuition.

Maintaining a proper balance between the two revenue sources is consistent with the principle that higher education benefits both individuals who attend colleges and universities, and the general public.

State Funding and Tuition Revenue per Budgeted Student FTE by Institution, 2007-09 Compared to 2009-11



Note: State funding as represented by Near General Fund-State appropriations, tuition revenue as represented by tuition revenue for state supported enrollments (Fund 149-6), average biennial budgeted FTE. Does not include federal stimulus funding.

Sources: For state funding and tuition, HECB analysis of data from fiscal.wa.gov (accessed 12/16/10); for budgeted student FTE, Legislative Evaluation and Accountability Program Committee Legislative Budget Notes.

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Student financial aid helps bridge the gap between college costs and family income

State and federal financial aid programs are a critical component of Washington's higher education funding system. Without financial aid, the goal of a college degree or certificate would be beyond the reach of many Washington families.

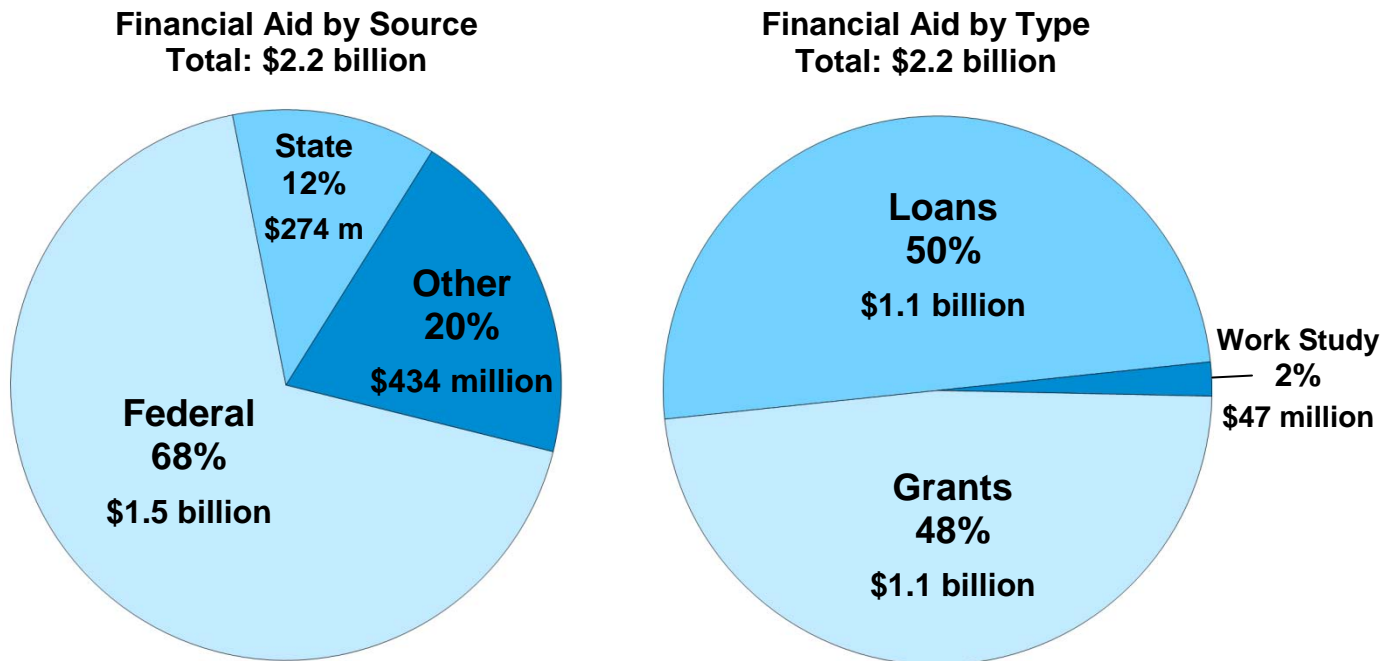
How much students are expected to pay toward the cost of attendance is based on variables such as family income and assets, and family size. The Free Application for Federal Student Aid (FAFSA) is used to establish the amount students will be expected to pay and their eligibility for state and federal financial aid programs.

In 2009-10, a total of \$2.2 billion was provided to about 183,000 needy Washington students from state, federal, and other sources. This represents an increase of \$402.7 million and 39,000 students compared to 2008-09.

This aid took the form of grants, work study awards, and loans. **Grants** are gifts with an obligation to make academic progress, but they do not need to be repaid. **Work Study** is a part-time employment opportunity. **Loans** are given with the requirement that they be repaid with interest in the future, usually after graduation.

As in previous years, the federal government provided the majority of financial aid received by Washington students. About 70 percent of the federal aid was in the form of loans.

Financial Aid Received by Washington Need-Based Aid Recipients 2009-10 Academic Year



Source: Higher Education Coordinating Board 2009-2010 Unit Record Report.

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Washington offers several types of financial aid programs

In 2009-10, about \$248 million in state aid was disbursed through programs administered by the Higher Education Coordinating Board (HECB). In that year, more than 75,200 students attending 85 colleges and universities received state assistance through these programs.

About 90 percent of state aid is in the form of grants and scholarships. The remaining 10 percent is in the form of work study, and a small percent represents forgivable loan programs and scholarships.

The 2010 Supplemental Budget reduced State Work Study and other aid programs by \$22 million. Despite the reductions, the state's neediest students were held harmless in the face of a 14 percent tuition increase. However, programs may be further affected by reductions in the supplemental budget for FY 2011.

State Student Aid Programs Anticipated Expenditures for Fiscal Year 2011

Public Purpose	Program	Estimated Expenditures	Students Served
Need-Based	State Need Grant	\$227 million	70,000
	State Work Study	\$16.1million	7,600
	Educational Opportunity Grant ¹	\$1.1 million	500
	Passport to College	\$0.9 million	396
Merit-Based	Washington Scholars	\$2.7 million	379
	Washington Award for Vocational Excellence	\$1.1 million	266
	GEAR UP Scholarships	\$1 million	300
	American Indian Endowed Scholarship	\$ 9,000	12
Targeted Workforce	Future Teachers Conditional Scholarship	\$0.6 million	96
	Alternative Routes to Teaching	\$1.6 million	333
	GET Ready for Math & Science	\$0.7 million	101
	Health Professional Conditional Scholarship/Loan Repayment	\$2.8 million	230
	WICHE Professional Student Exchange	\$0.1 million	9
Total State Funding		\$256 million	80,200

Note: Includes programs administered by HECB. Other aid programs administered by the SBCTC are not included. Expenditures include the appropriation and/or pre-existing committed funds.

Source: Higher Education Coordinating Board.

¹ Program was eliminated in 2009. Funding covers the final year of the last cohort of students still in the program.

Institutions provide significant additional financial assistance to students

In addition to student financial assistance provided by federal and state governments, institutions and private sources provide significant aid to students. More than 71,000 needy students received \$434 million in financial aid from institutional and private sources representing 20 percent of total aid disbursed to needy students in 2009-10.²

Washington law requires public two- and four-year institutions to set aside at least 3.5 percent of revenue collected from tuition and services and activities fees to be used for needy students. Funds are usually awarded as grants, but also may be used to fund work study or loans.

Current estimates of tuition revenue collections to reach \$957 million³ annually for 2011. Three and one-half percent of this total equals about \$33.5 million.

The current state budget requires baccalaureate institutions to set aside additional tuition revenue for financial assistance to resident undergraduate students during the 2009-11 biennium. The additional amount is one-seventh of the tuition revenue collected beyond what would have been generated if the seven percent cap on resident undergraduate tuition increases had remained in effect. (Institutions were authorized to raise tuition by up to 14 percent in each of the two academic years covered by the current state budget.)

Additional student aid comes in the form of partial and full tuition waivers. Institutions are required to waive tuition for the children, spouse, or domestic partner of a military veteran who was killed or became totally disabled as a result of military service. On a voluntary basis, institutions are authorized to grant waivers to additional categories of students, including veterans and National Guard members.

At the discretion of institutions, teachers and state employees may also receive tuition waivers for a particular course when space is available. For the entire student population, institutional authority to grant tuition waivers is limited by the state to a percentage of tuition revenue collected – a cap which varies among institutions.

Institutions that have resources from endowments, gifts, and other sources may choose to bolster student aid.

² Higher Education Coordinating Board 2009-2010 Unit Record Report.

³ Legislative Evaluation and Accountability Program, based on allotments for fiscal year 2011 submitted by institutions. Reported revenue total includes community and technical colleges.

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Borrowing remains a necessity for many students as college costs go up

Despite the availability of student financial aid, many low- and middle-income students still need to borrow to help pay for postsecondary education. The amount of college-related debt some students carry with them into post-college lives and careers is an increasing concern.

The table below shows the average level of borrowing by resident undergraduate students in Washington who received either need-based or non-need based loans during the 2009-10 academic year. The average loan amount incurred by the non-needy students was slightly higher than for needy students (\$9,119 versus \$7,411, respectively). The table also shows average loans incurred by students in the two categories who attended different types of institutions.

Dramatic changes in tuition and state financial aid policies could have a direct impact on borrowing behavior by students in the future. As tuition and other costs increase, students' financial need increases. If grant aid is not sufficient to cover the rising cost of attendance and the increasing numbers of financially needy students, students will need to borrow more, work more, drop out, or defer enrollment.

Resident Undergraduate Borrowing by Sector, 2009-10

Sector	Need-Based Aid Recipients with Loans*	Average Annual Loan	Non Need-Based Aid Recipients with Loans*	Average Annual Loan
Four-Year Public	32,660	\$7,862	8,555	\$10,757
Two-Year Public	30,100	\$5,404	3,859	\$4,779
Four-Year Private	9,513	\$10,738	1,123	\$11,046
Private Career	6,821	\$8,919	436	\$9,172
Total	78,589	\$7,411	13,913	\$9,119

*Total does not equal the sum of the sectors because students who transferred between sectors are counted in each sector, but only once in the total.

Source: Higher Education Coordinating Board 2009-2010 Unit Record Report.

GET program helps families save for future college expenses

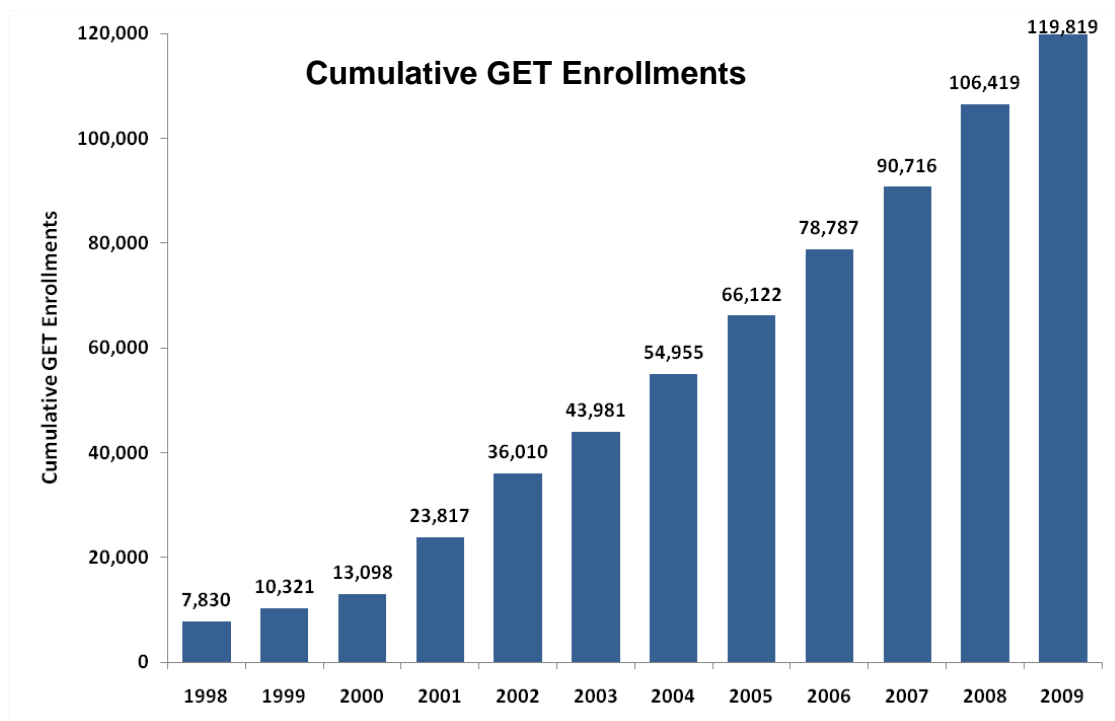
To encourage Washington families to save for college, the state Legislature, in 1997, authorized an IRS Section 529 prepaid college tuition plan called the Guaranteed Education Tuition (GET) program. GET, which began operation in August 1998, allows families to purchase tuition units now for use at a later date. The funds are invested and the purchaser is guaranteed a return to help cover future tuition.

Families can purchase between one and 500 units. The state guarantees that 100 units will cover one year of resident undergraduate tuition and state-mandated fees at the highest-priced public college or university in Washington. Students may use their GET units at any eligible in-state or out-of-state public or private accredited educational institution.

The Committee on Advanced Tuition Payment, commonly referred to as the GET Committee, governs the program. The committee is comprised of the executive director of the Higher Education Coordinating Board (chair), the State Treasurer, the director of the Office of Financial Management, and two citizen members. The HECB administers the GET program, while the State Investment Board oversees its investments.

As of June 2010, Washington families had opened nearly 120,000 accounts, valued at more than \$1.3 billion. To date, more than 16,897 students have used their GET accounts to attend colleges and universities in all 50 states and in five foreign countries. GET is one of the nation's fastest-growing prepaid tuition plans in both assets and number of accounts.

The GET Committee annually sets the price of a GET unit, currently \$117. Families can buy units by setting up a customized monthly payment plan or by making lump sum purchases. The annual enrollment period runs September 15 through March 31. For more information, visit www.get.wa.gov or call 1-800-955-2318.



Source: Higher Education Coordinating Board, GET program.