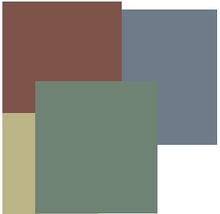


**HIGHER EDUCATION
BUDGET ISSUES**
2007 Session

**Staff Presentation
to the
Senate Ways & Means Committee**
January 25, 2007



Today's Presentation

Higher Education Budget Context

Trends & Issues Related To:

- Enrollment Growth.
- Tuition and Financial Aid.
- Staff Compensation.

The state will spend about \$3.6 billion this biennium, to cover part of the cost of post-secondary education for approximately 225,000 full-time equivalent (FTE) students.

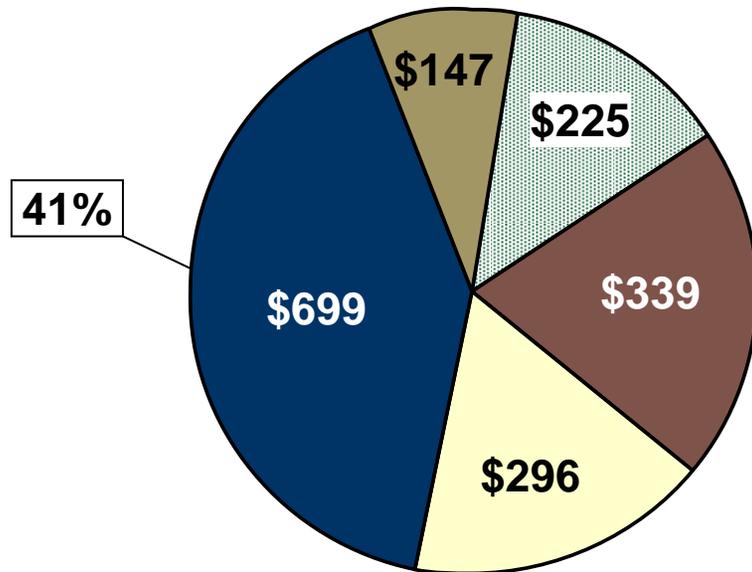
	2005-07 State* Appropriations		FY 06 FTE Students	
	in Millions	% of Total		% of Total
Research Universities	\$1,132	42%	57,300	26%
University of Washington	\$701		36,000	
Washington State University	\$431		21,300	
Regional Universities	\$377	14%	34,300	15%
Central Washington University	\$99		9,100	
Eastern Washington University	\$100		9,300	
The Evergreen State College	\$55		4,100	
Western Washington University	\$124		11,800	
Community & Technical Colleges	\$1,192	44%	130,900	59%
Higher Education Coordinating Board	\$394			
Direct Financial Aid	\$382			
Planning, Coordination, & Admin	\$12			
Debt Service on Capital Bonds (Est)	\$526			
TOTAL HIGHER EDUCATION	\$3,623	100%	222,500	100%

* "State" includes General Fund-State and Education Legacy Trust Account.

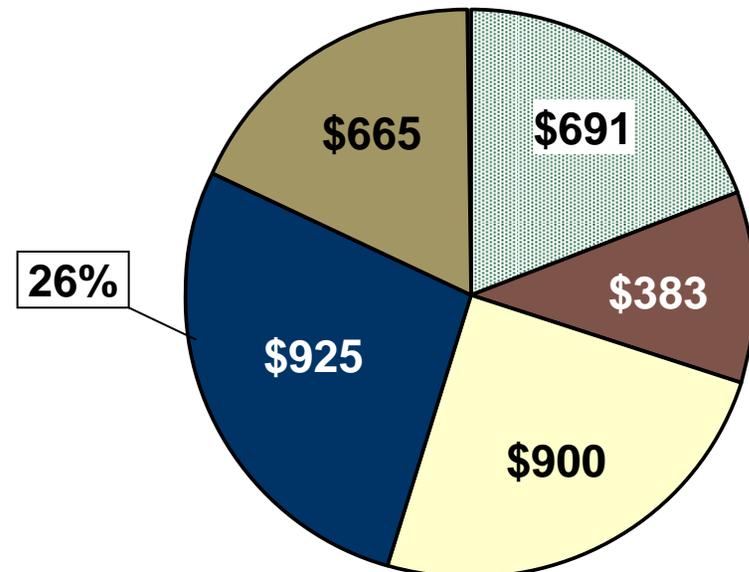
Higher education is the single largest component of the state capital budget.

2005-07 Capital Appropriations

State Bond Debt = \$1.7 Billion



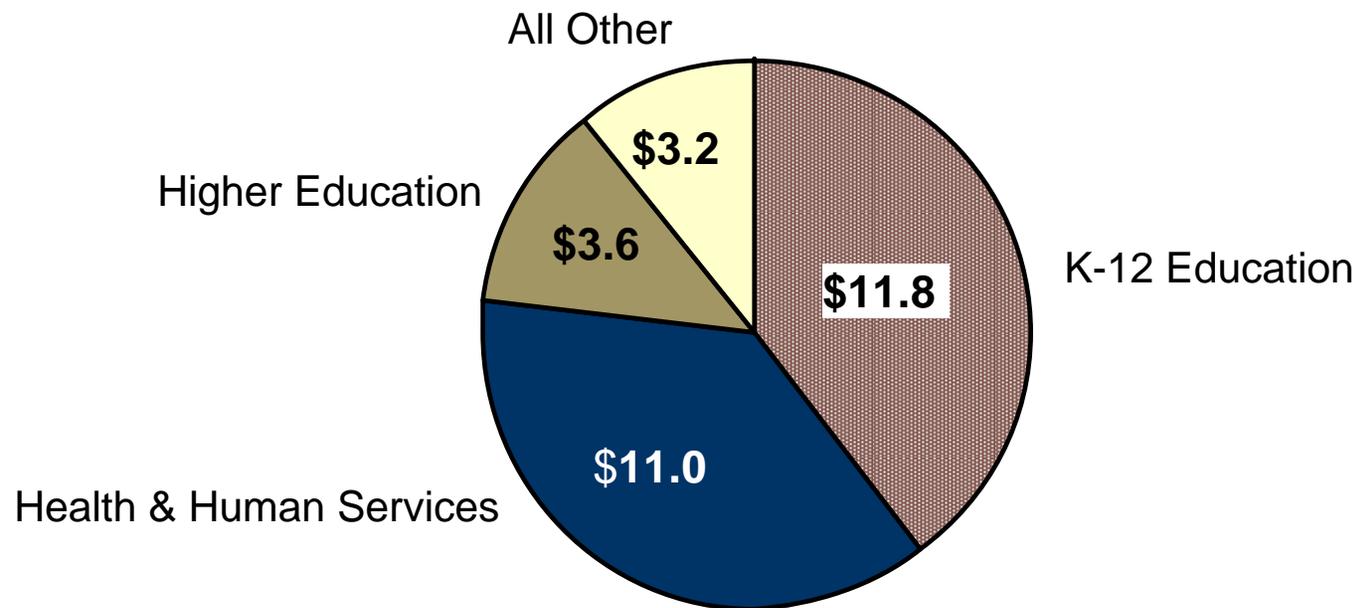
Total Funds = \$3.6 Billion



- Governmental Operations
- Natural Resources
- K-12
- Human Services
- Higher Education

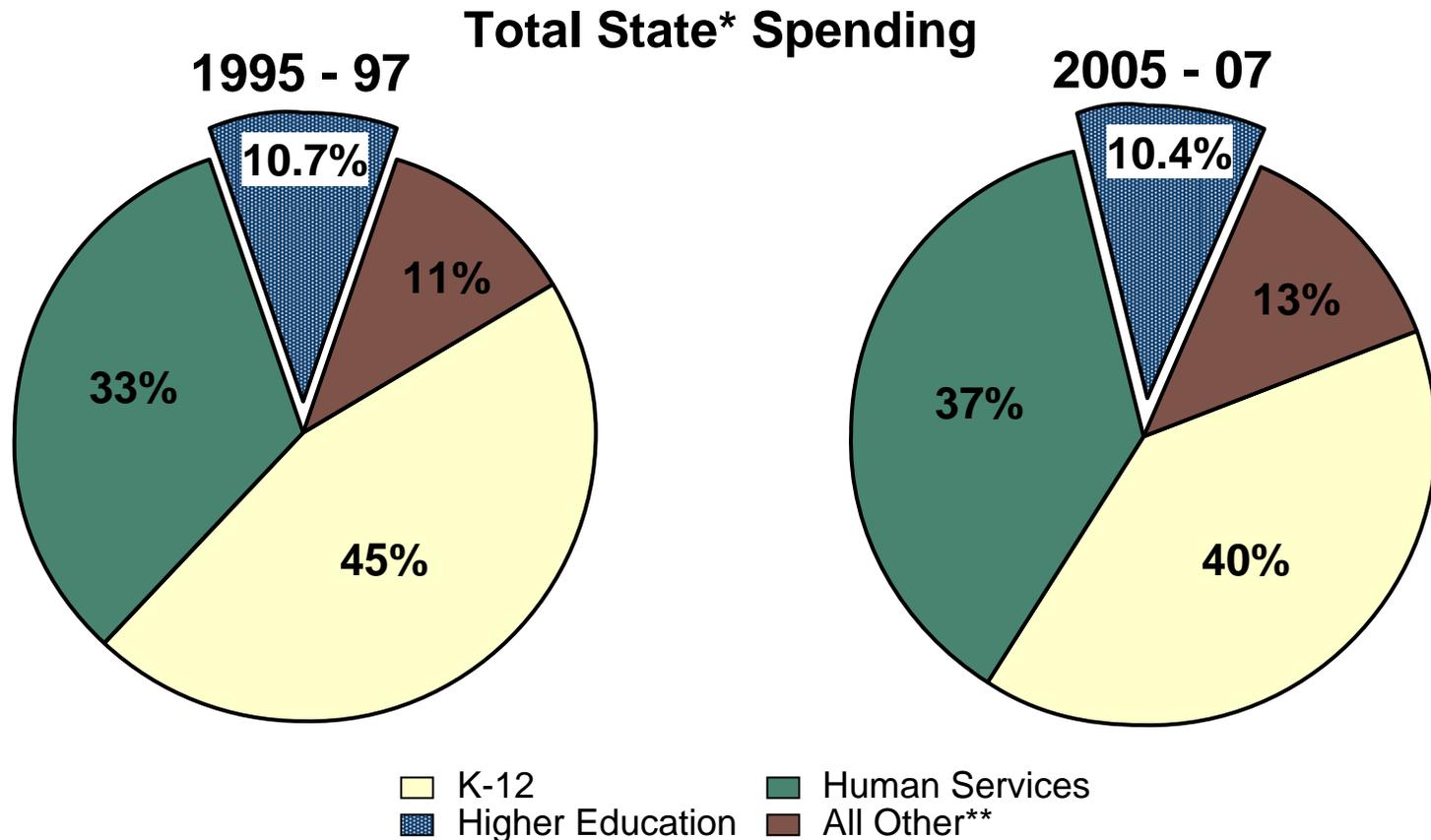
Higher Education is the third largest component of the state operating budget, and the largest for which spending growth isn't driven by state or federal mandates.

2005-07 State* Operating Appropriations
Dollars in Billions



* "State" includes General Fund-State; the Student Achievement Fund; the Pension Stabilization Fund; and the Health Services, Education Legacy, Violence Reduction, and Public Safety Accounts.

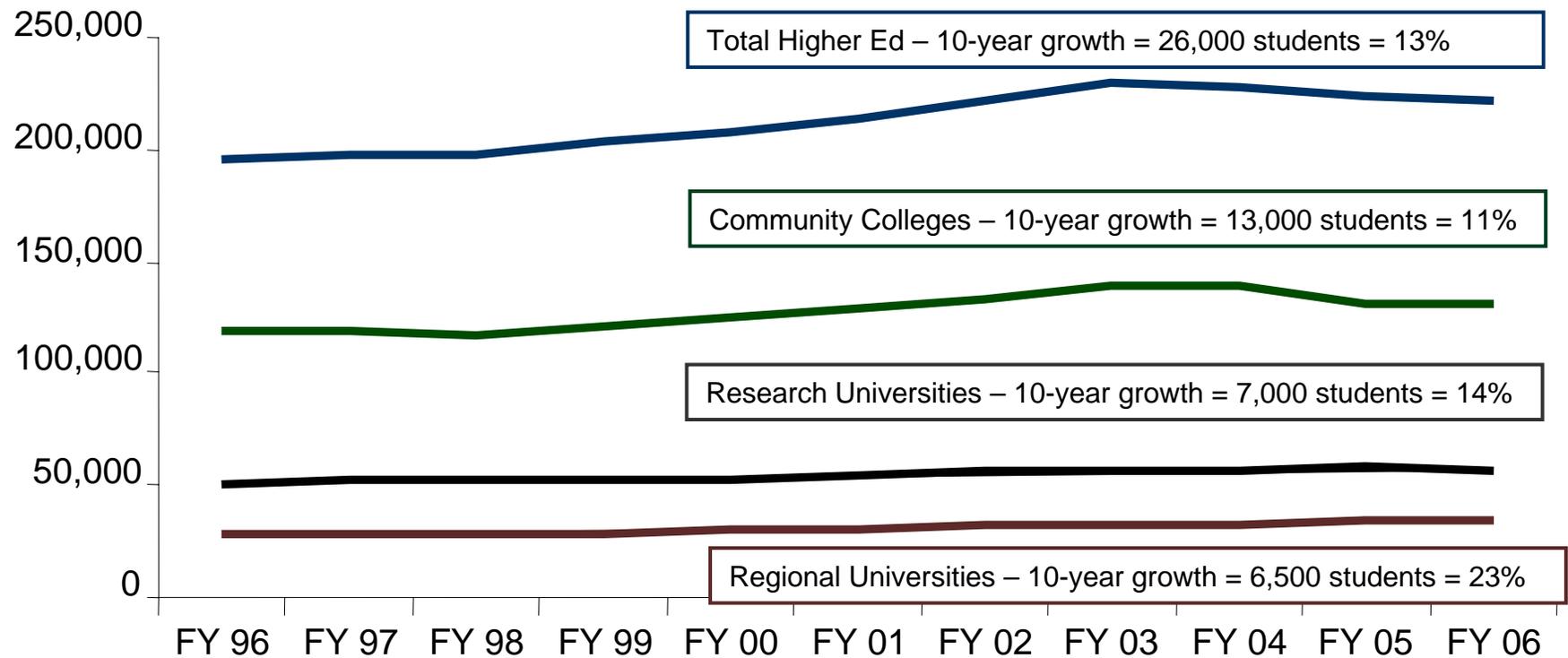
State spending on higher education has increased at about the same rate as the total operating budget, but less rapidly than spending on the major human services programs and debt service.



* "State" includes General Fund-State; the Student Achievement Fund; the Pension Stabilization Fund; and the Health Services, Education Legacy, Violence Reduction, and Public Safety and Education Accounts.

**Debt service on capital bonds is included in "all other" rather than allocated to functional areas.

About 60% of the increase in state spending on higher education over the past decade has been due to enrollment growth.

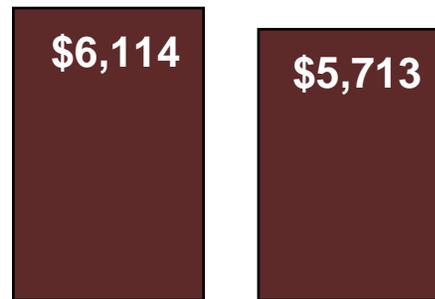


Over the past decade, state spending per student has not kept pace with inflation* in the research and regional universities, but it has grown considerably faster than inflation in the community colleges.

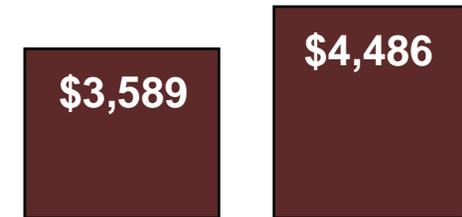
Research Universities



Regional Universities



Community Colleges



FY 96*

FY 06

FY 96*

FY 06

FY 96*

FY 06

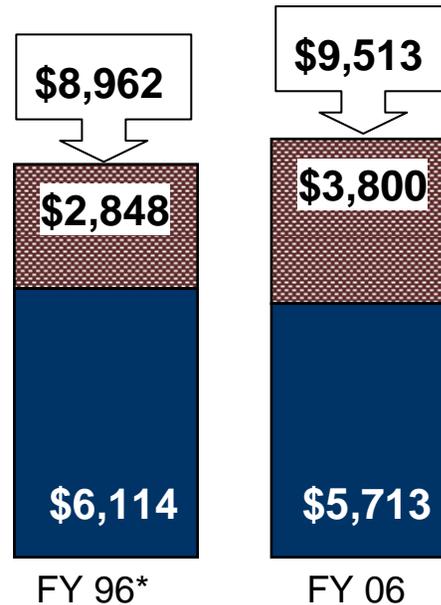
* Adjusted by the implicit price deflator (IPD) to FY 06 dollars. "State spending" includes GF-S, Education Legacy Account, and Education Construction Account, but does not include debt service payments.

However, after accounting for tuition increases, total spending per student has grown considerably faster than inflation across all higher education sectors.

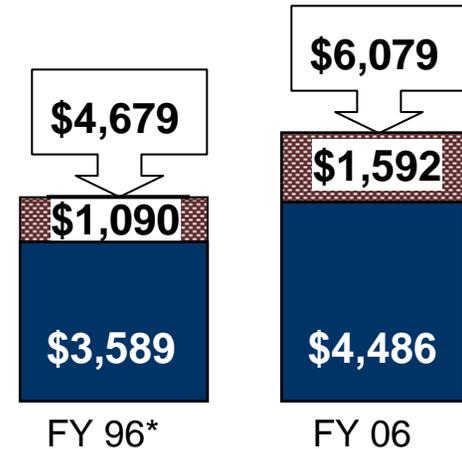
Research Universities



Regional Universities



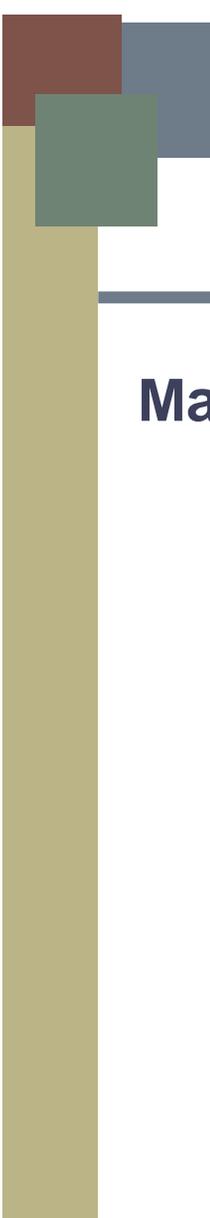
Community Colleges



■ State Funds ■ Tuition



* Adjusted by the implicit price deflator (IPD) to FY 06 dollars. "State spending" includes GF-S, Education Legacy Account, and Education Construction Account, but does not include debt service payments.



The Governor proposes that state operating budget spending on higher education increase by \$551 million (18%) next biennium.

Major components of the proposed increase include:

- **\$221 million for compensation increases.**
- **\$101 million for 4,300 additional enrollments each year.**
- **\$80 million to “carry-forward” 05-07 increases.**
- **\$75 million for increased financial aid, and a tuition freeze at community colleges.**
- **\$18 million to support additional university research.**

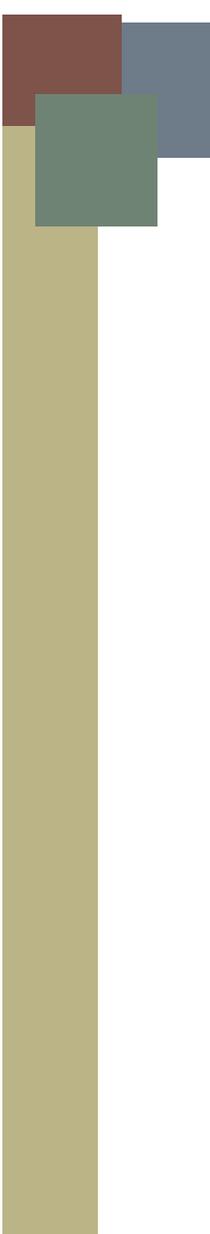
Higher Ed capital budget spending would increase by \$130 million (14%) under the Governor's proposal, to \$1.05 billion.

Community & Technical College spending would increase \$43.5 million, to \$513 million.

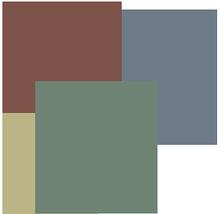
- **\$375 million for major construction and renovation at 14 colleges.**
- **\$102 million for repairs, improvements, and routine maintenance at all 34 colleges.**
- **\$36 million for planning and design projects at 18 colleges.**

University spending would increase \$87 million, to \$541 million.

- **\$307 million for major construction and renovation at all 6 schools.**
- **\$199 million for repairs, improvements, and routine maintenance.**
- **\$35 million for planning and design projects.**



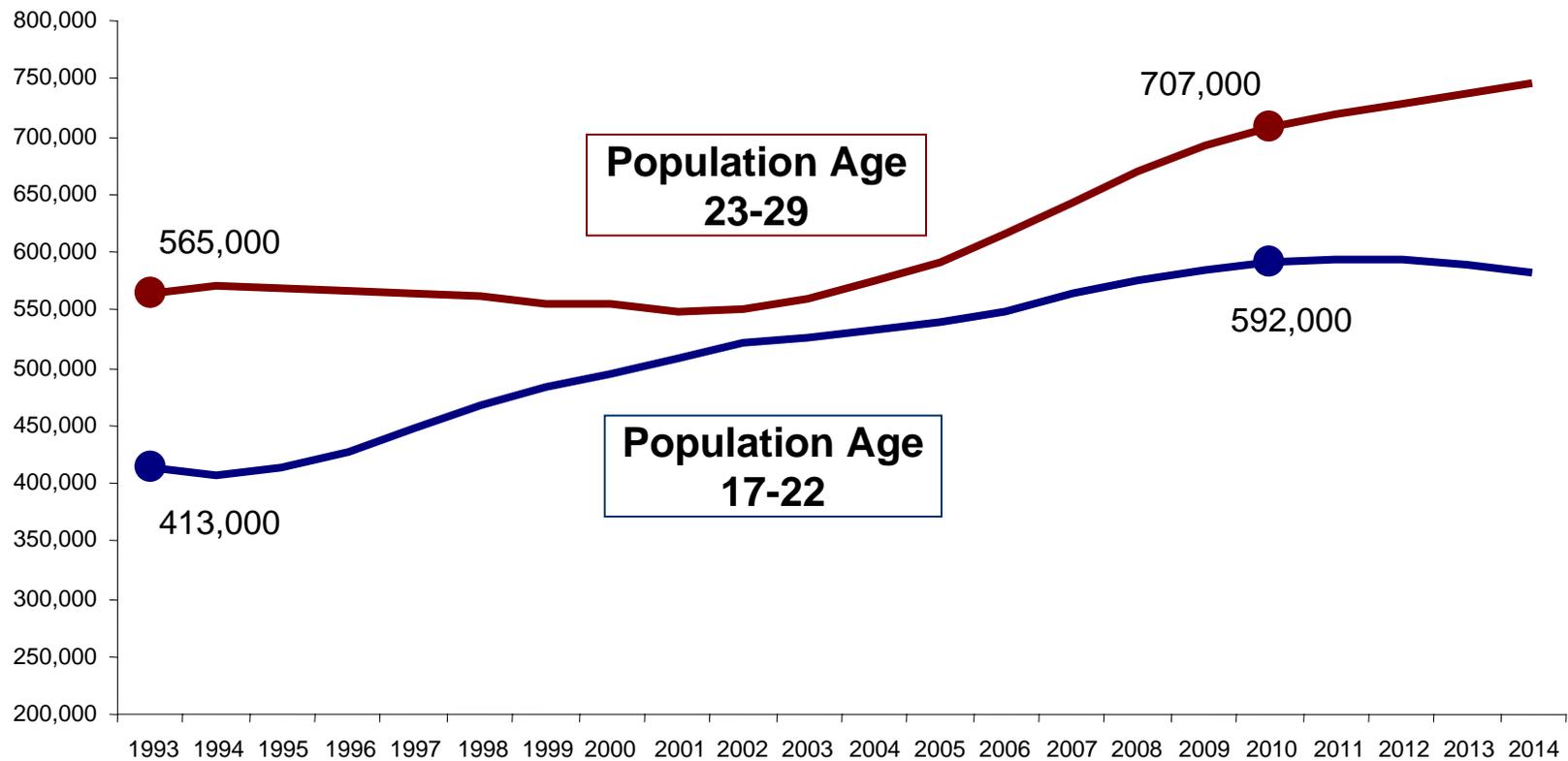
Meeting the Demand for Public Higher Education



There are three types of demand for higher education

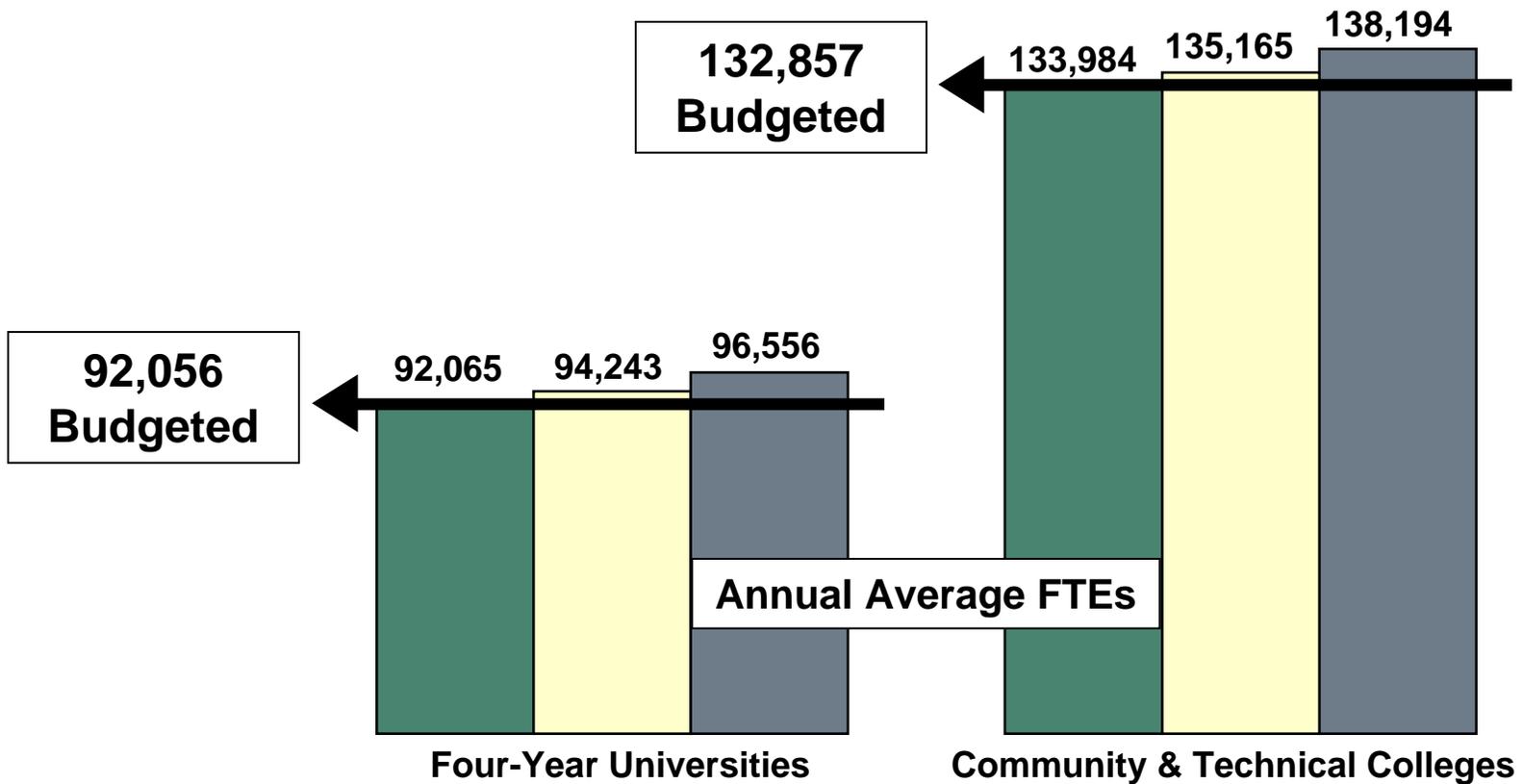
- **Students seeking access and opportunities**
- **Employers seeking skilled workers**
- **Communities seeking economic development**

The primary demand driver is growth in the population aged 17-22, which has been growing steeply for the past decade, and will continue to do so for the next several years.



Source: OFM Forecasting Division

Enrollment will need to increase by about 5,000 students per year next biennium in order to maintain current levels of participation in the state's colleges and universities.



■ FY 07 Projected ■ FY 08 Current Part Rate ■ FY 09 Current Part Rate

Washington produces more Associate degrees but fewer Bachelors and Masters degrees than the national average.

In 2004, Washington ranked:

- **4th in the nation, and 63% above the national average, in the number of 2-year degrees produced per 1,000 adults aged 25-64.**
- **36th in the nation, and 11% below the national average*, in the number of 4-year degrees produced.**
- **43rd in the nation, and 31% below the national average, in the number of graduate and professional degrees produced.**

*Washington is at the national average in public sector production.

U.S young people are no longer the most highly educated in the world.

In 2003, the United States ranked:

- **2nd in the world in the proportion of adults aged 35-64 with an AA degree or higher;**

But:

- **8th in the proportion of adults aged 25-34 who hold such degrees.**

The Higher Education and the Workforce Training & Education Coordinating Boards estimate that current degree production is insufficient to meet projected demand in a number of key industries.

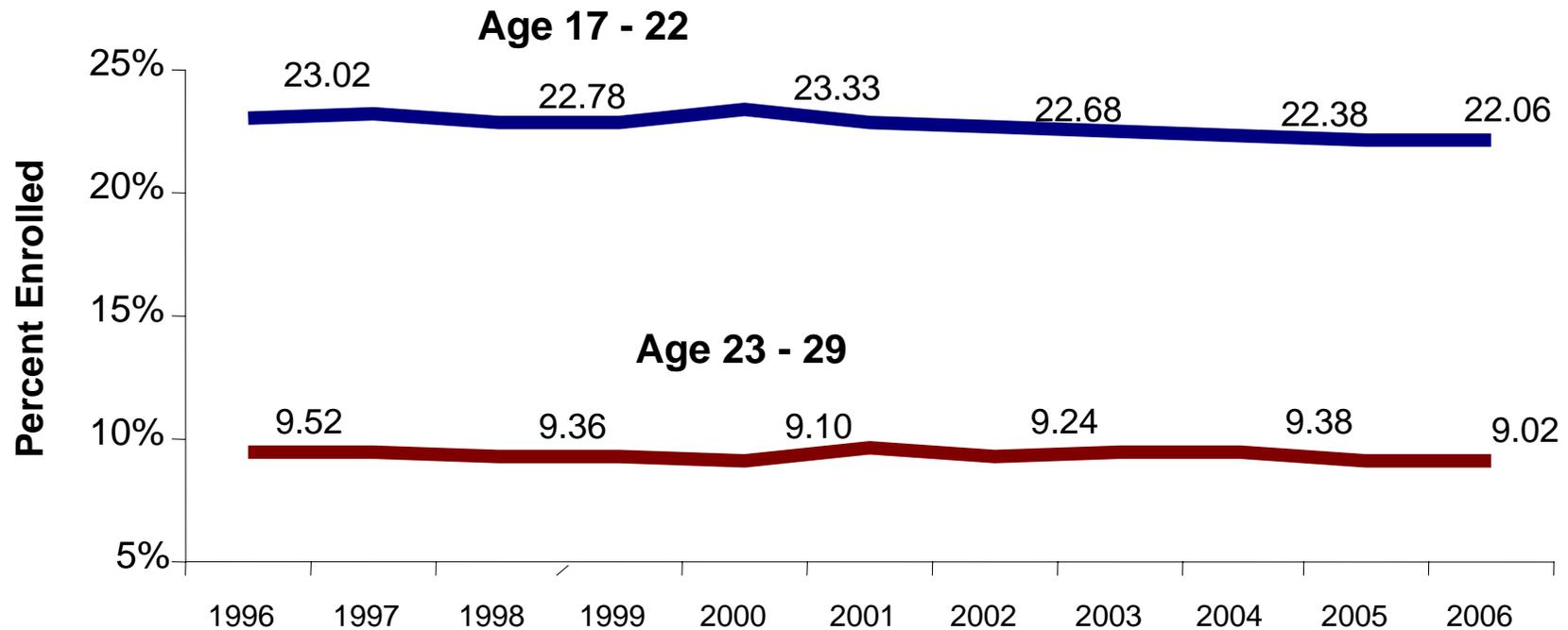
	2004 Production	Projected Annual Demand* 2007-2012	Surplus or (Shortfall)	
			Number	% of Demand
Midlevel Training**	25,200	29,700	(4,500)	-15%
Bachelor's Degree or Higher				
Educators	6,600	5,700	900	16%
Business & Mgt	7,300	6,300	1,000	16%
Engineering & Architecture	1,300	1,900	(600)	-32%
Computer Science	2,000	3,600	(1,600)	-44%
Medical Professionals	2,100	3,200	(1,100)	-34%
Human Services	1,700	2,300	(600)	-26%
Scientists & Technical Workers	1,500	1,700	(200)	-12%
Administrative & Clerical	2,100	1,100	1,000	91%
Service Industries	3,700	3,400	300	9%

*Estimated demand based upon credentials of current workforce, rather than minimum entry-level standards.

**Mid-level training includes community & technical college degrees and certificates, or long-term on-the-job training.

However, simply “building it” does not guarantee “they will come”.

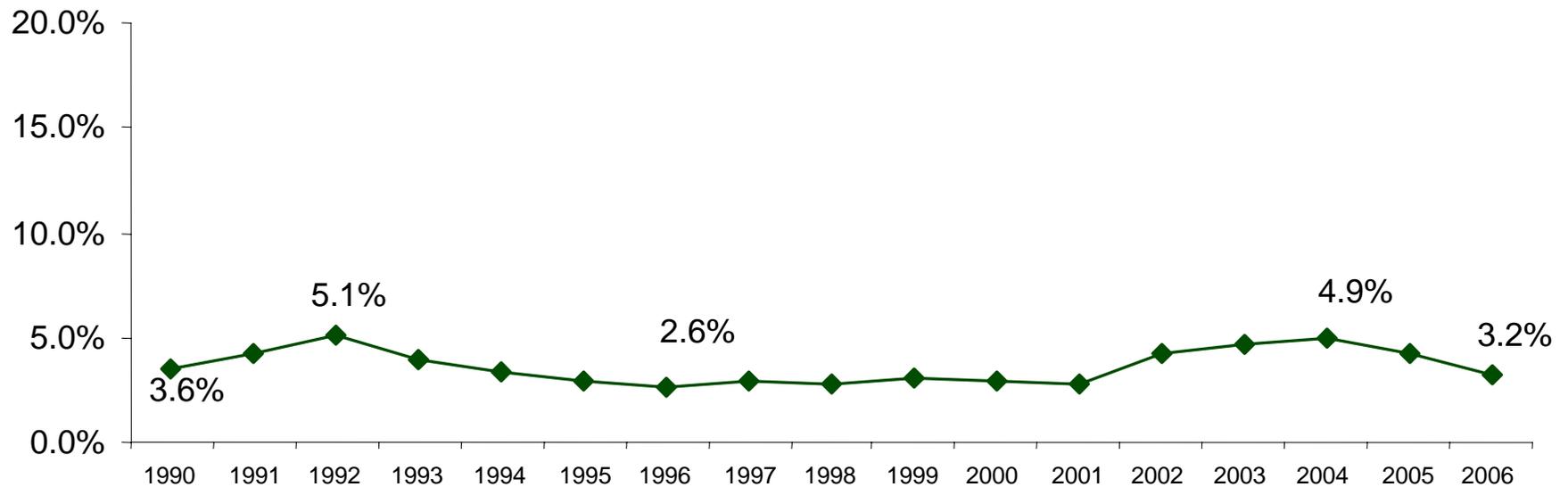
College participation rates have dropped over the past decade.



Source: OFM Forecasting Division

A lack of funded enrollment slots does not seem to be the primary cause of low 4-year participation.

The percentage of qualified residents denied Fall admission to any state college or university is relatively small.



Source: OFM Forecasting Division

College participation may drop even more, since the fast-growing Hispanic population is under-represented in higher education.

	% of 2004 Population Age 17-39	% of 2005 Bachelor's Degrees	% of 2020 Population Age 17-39
African American	3.9%	2.6%	4.2%
Asian/Pacific Islander	7.6%	10.6%	8.8%
Hispanic/Latino	11.3%	3.6%	15.0%
Native American	1.6%	1.4%	1.7%
White	73.0%	68.4%	66.5%

Source: Higher Education Coordinating Board, "Diversity in Washington Higher Education," 2006.

Key Enrollment Decisions for 2007-09

How many new enrollment opportunities at state colleges and universities?

Governor's Budget:

- \$50 million for 3,600 new “high demand” enrollments.
- \$51 million for 4,800 new general enrollments.

What should be done to encourage more young people aspire to higher education and complete degrees?

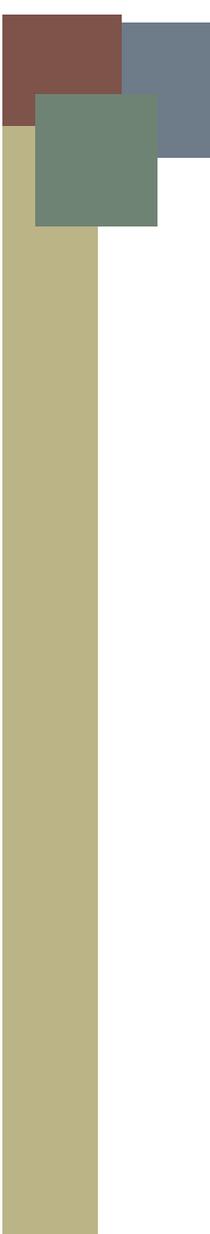
Governor's Budget:

- \$7.0 million for increased support to low-income students.
- \$2.5 million for outreach in 25 low-income school districts.

What should be done to promote more college opportunities in Snohomish, Island, and Skagit counties?

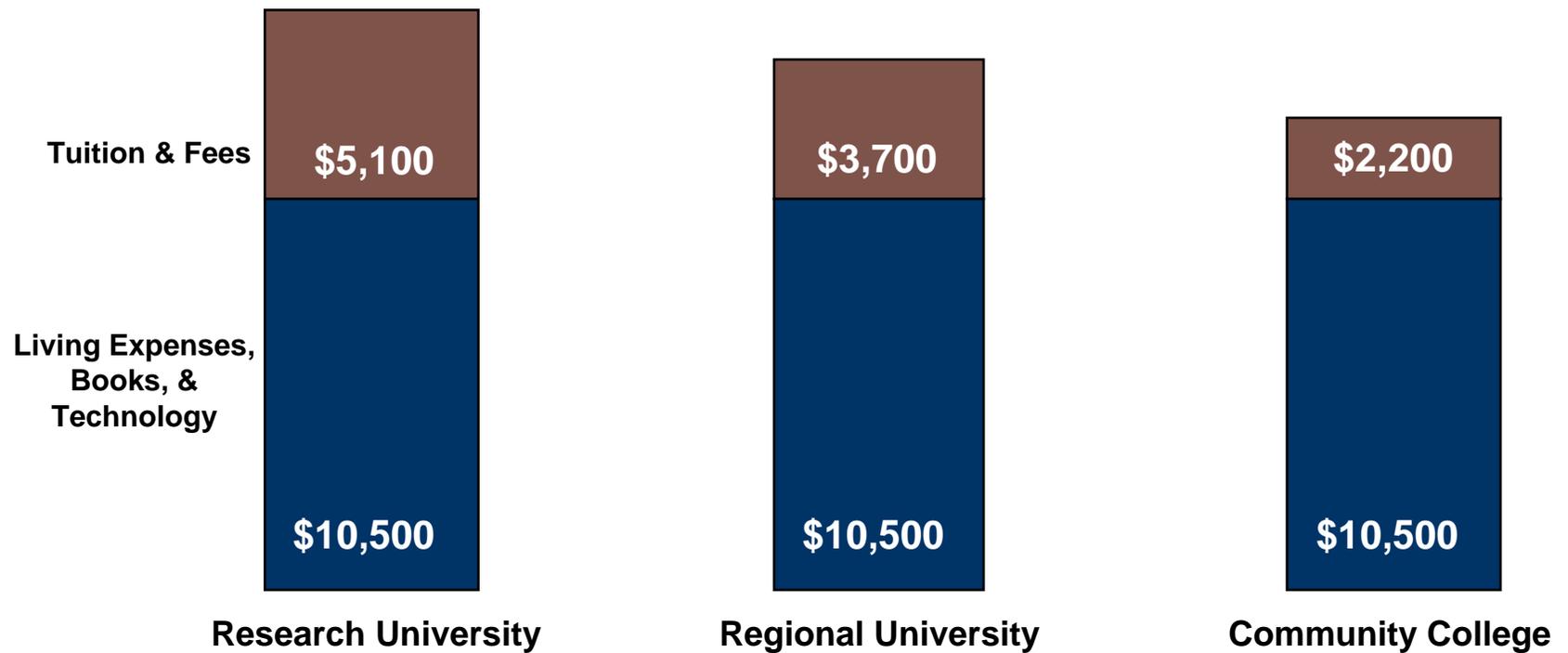
Governor's Budget:

- \$2 million for site selection, and development of operating plans.



Tuition and Financial Aid

A student's total cost of attending a state college or university was approximately \$13 - \$16,000 last year.

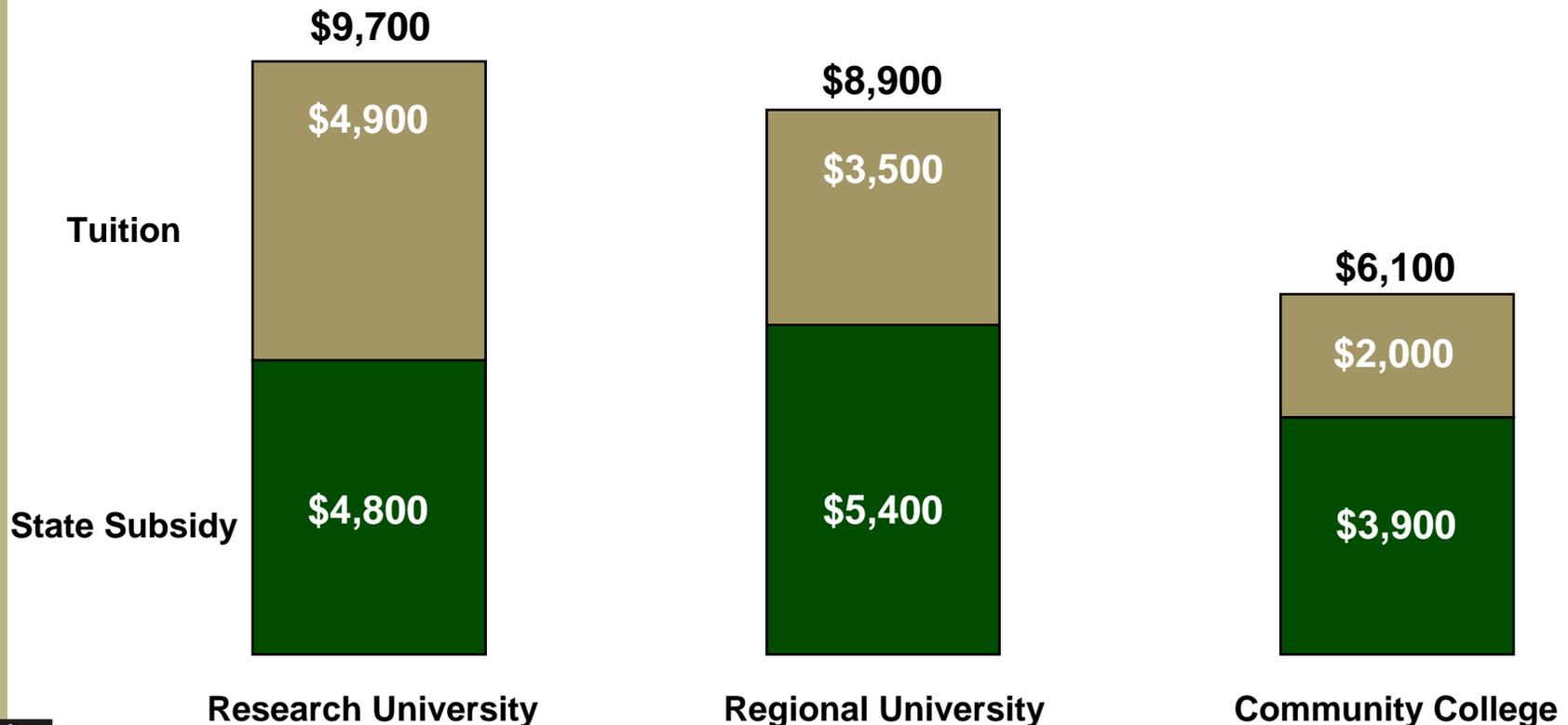


State government helps residents pay for higher education in several ways.

- **Directly subsidizing public universities to help cover instructional costs.**
- **Limiting how much public colleges and universities may charge for resident undergraduate tuition.**
- **Providing direct financial aid to lower income students.**
- **Requiring public colleges and universities to use 3.5% of tuition revenues for financial aid.**
- **Backing the Washington GET guaranteed pre-paid tuition program with the full faith and credit of the state.**

Direct state appropriations covered 50-75% of the estimated cost of educating resident undergraduates at state schools last year.

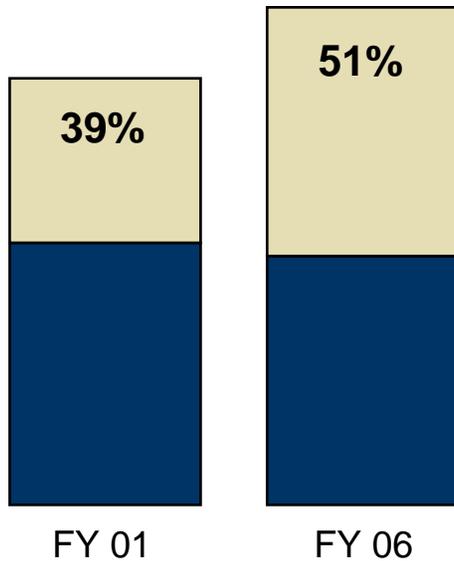
**FY 06 Resident Undergraduate
“Cost of Instruction” Estimates**



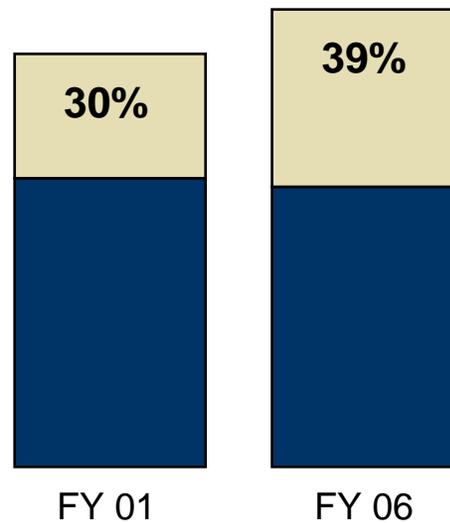
Source: 2002 Higher Education Coordinating Board Cost-of-Instruction study.

The tuition share of educational costs has increased significantly over the past five years.

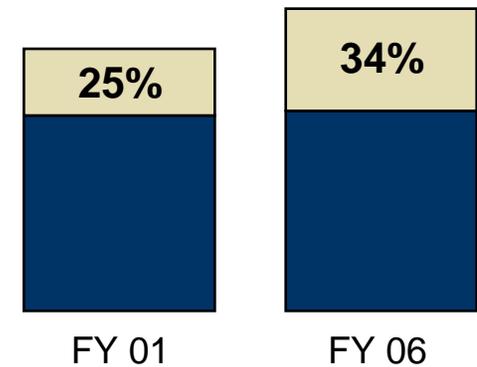
Research Universities



Regional Universities



Community Colleges



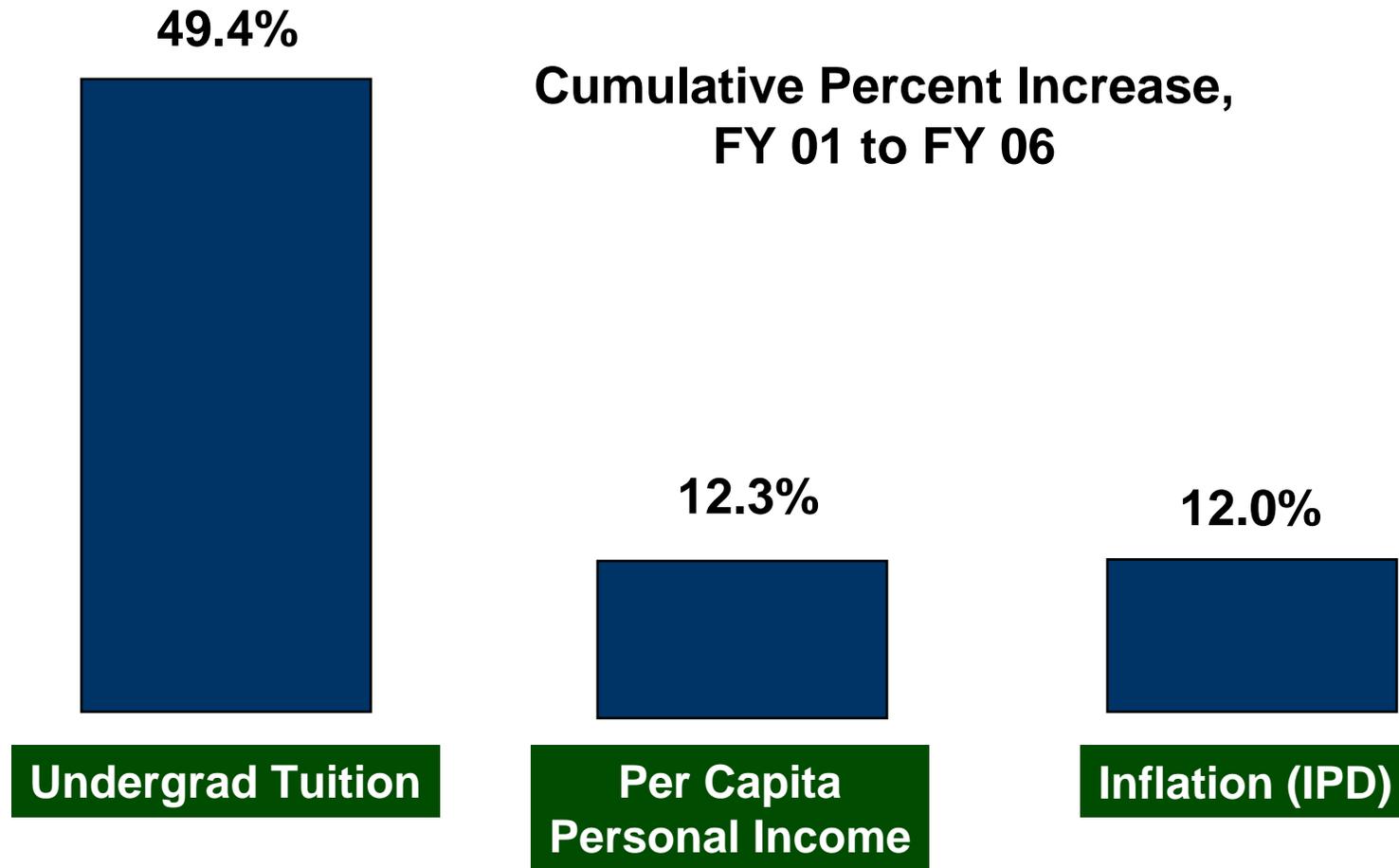
■ Tuition ■ State Subsidy

Tuition has increased by 50% over the past five years.

Full-Time Resident Undergraduate Tuition Increases

	FY 02	FY 03	FY 04	FY 05	FY 06	5-Year Total
Research Universities	7%	16%	7%	7%	7%	51.5%
Regional Universities	7%	14%	7%	7%	6%	47.5%
Community Colleges	6%	14%	8%	8%	6%	49.0%

Tuition has grown four times faster than both inflation and personal income.



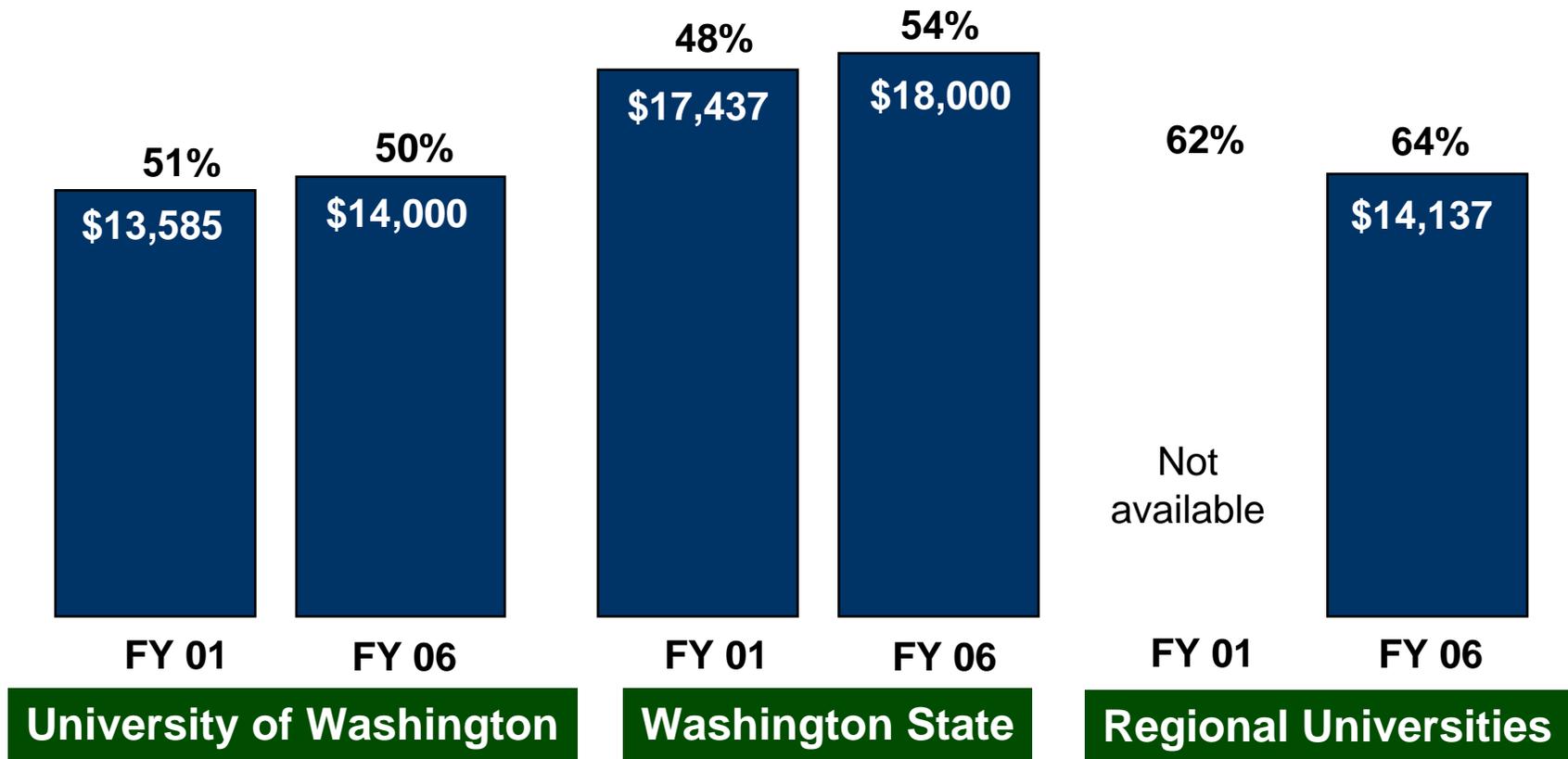
Despite these increases, Washington tuition rates are lower than at comparable public institutions in other states, and, except for community colleges, growing more slowly.

	University of Washington	Washington State University	Regional Universities	Community Colleges
Resident Undergrad Tuition & Required Fees (2005-06)	\$5,505	\$5,506	\$4,178	\$2,445
Peer Average	\$7,159	\$6,172	\$4,862	\$2,481
Wa. Difference from Peers	-23%	-11%	-14%	-1%
Wa. Rank (Highest to Lowest)	19th of 25	13th of 23	32nd of 46	23rd of 49
Wa. 4-Year Cumulative Increase FY 02 through FY 06	38%	41%	36%	40%
Peer Average	53%	50%	44%	37%
Wa. Rank (Highest to Lowest)	20th of 25	15th of 23	32nd of 46	19th of 46

Source: Higher Education Coordinating Board Annual Survey, February 2006.

Student indebtedness is increasing, though more slowly than might be expected, given the 50% increase in tuition costs over the past five years.

Percentage of Bachelors Degree Recipients with Debt and Median Loan Debt at Graduation



State financial aid has kept pace with increasing tuition rates.

	FY 01	FY 06	% Change
State Need Grant			
Total Budget (millions)	\$87	\$155	78%
Total Recipients	53,344	66,198	24%
Average Grant	\$1,626	\$2,338	44%
Grant as % of Tuition*	73%	91%	
% of Resident Undergrads Receiving Aid (FTEs)	20%	26%	
Maximum Family Income	65% of Median	65% of Median	
State Work Study Program			
Total Budget (millions)	\$15	\$18	22%
Total Recipients	8,459	9,297	10%
Average Earnings	\$2,380	\$2,492	5%

Key Tuition and Financial Aid Decisions for 2007-09

How much (if at all) should tuition increase?

Governor's Budget:

- Maximum of 7% at research universities, 5% at regionals.
- Zero at community colleges (\$20 million state provided in lieu of 3% annual increases).

How much should existing financial aid programs increase?

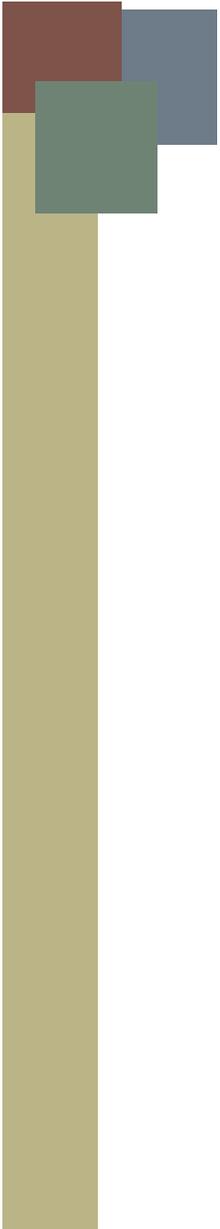
Governor's Budget:

- \$28.8 million to keep pace with enrollment & tuition increases.

Should new financial aid programs be enacted?

Governor's Budget:

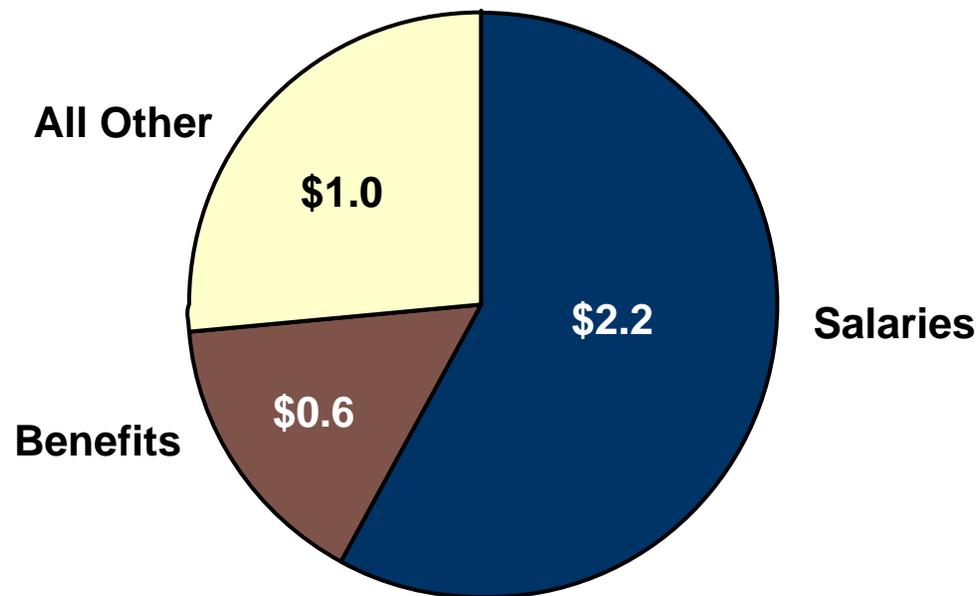
- \$14 million for merit-based math/science scholarships.
- \$5.0 million for down-payment on new guaranteed scholarship for low-income & first-generation 7th graders.
- \$5.0 million for 2-year students in workforce training programs.



Staff Compensation and Benefits

Salaries and benefits account for about three-quarters of all spending at the state colleges and universities.

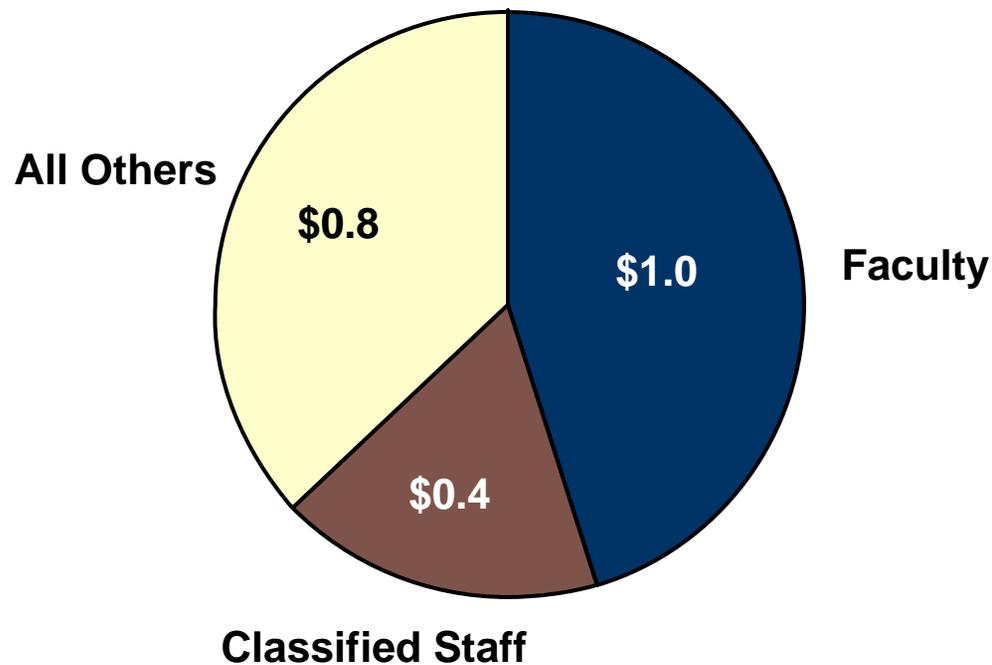
FY 06 Operating Expenditures, All Funds*
Dollars in Billions



* Excludes auxiliary enterprises, and UW Hospitals.

Faculty account for a little less than half of total salary expenditures.

FY 06 Salary Expenditures, All Funds*
Dollars in Billions



* Excludes auxiliary enterprises, and UW Hospitals.

Washington faculty salaries are lower than in other states.

Average Fall 2005 Full-Time* Faculty Salary All Faculty Ranks Compared to HEC Board Peers

	University of Washington	Washington State University	Regional Universities	Community Colleges**
Washington	\$86,800	\$72,700	\$58,800	\$48,200
Peer Average	\$87,900	\$83,100	\$65,300	\$49,900
Wa. Difference from	-1%	-13%	-10%	-3%
Wa. Rank (Highest to Lowest)	12 th of 25	19 th of 23	174 th of 269	7 th of 14

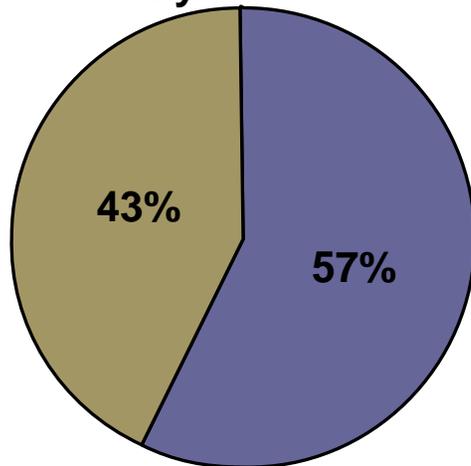
* full-time = at least 9/10 month contract

** FY 05 data

Part-time faculty provide a large share of community college instruction, but are paid significantly less than those with full-time appointments.

Share of Total Instruction Time

Part-Time Faculty



Full-Time Faculty

Average FY 06 Salary



Part-Time



Full-Time

Key Compensation Decisions for 2007-09

Fund collective bargaining agreements for represented staff?

Governor's Budget:

- \$83 million for I-732 COLA's, and for classified staff collective bargaining agreements.

Salary and benefit cost increases for non-represented staff?

Governor's Budget:

- \$130 million for 3.2% and 2.0% COLA's (September 2007 & 2008), and to maintain health benefits at 88% of cost.

Additional increases for faculty recruitment, retention, & equity?

Governor's Budget:

- \$7.5 million for part-time community & technical college faculty.
- 4-year universities retain all increased tuition revenue.
- \$20 million state to CTCs in lieu of tuition increase.