

Long-term trends and short-term budget issues put the crunch on state funding for higher ed.

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A recent Washington Post article by Daniel de Vise explores the **“historic collapse in state funding for higher education”** that has occurred over the last two decades. While a large part of the piece focuses on the plight of UC Berkeley – whose state-funded share of its operating budget has gone from nearly half (47 percent) in 1991 to one-tenth (11 percent) this year – the California-based school is just one of the victims in a nationwide, 20-year trend that has increasingly left public universities out in the cold during state budget negotiations.

As GovWin’s state budget project extensively covered (available to subscribers), governments are using every tool at their disposal to make up for daunting revenue shortfalls. In addition, 2011 marks the end of federal ARRA funds, which many states have used to shield themselves from even deeper cuts. As my Industry Analysis colleague and Sr. Analyst Chris Cotner put it in his **analyst perspective on higher education budget woes**: “After the 2011 budget cycle, federal stimulus funding ended in a ‘funding cliff’ that left most states in need of making difficult choices in the face of continued slow economic growth and related budget woes. In fact, in 2011, 18 states reported needing to make mid-year, unanticipated education cuts in order to remain solvent.”

There is no shortage of examples of states putting this philosophy into practice. **Pennsylvania, California, Texas** and **Arizona** have all undergone nasty budget battles in the last few years, which have resulted in steep cuts to K-12 education and public universities. Indeed, as the Post article alludes to, targeting education funding has been **a nationwide trend among state governments** looking to tighten their belts. **According to the Center on Budget and Policy Priorities**, “At least 25 states are making major, identifiable cuts in higher education.”

This has led to no program or earmark being safe, and public schools and universities have not escaped the program and budget-cutting knives. Colleges have made up for this shortfall through larger classes, ballooning tuitions costs, grants and private donations. The problem is that a good chunk of grant and private funding winds up being specifically earmarked for certain programs or priorities, giving universities less flexibility with how they spend their money.

Analyst’s Take

It is difficult to foresee this as having anything other than a net-negative impact on the education IT vertical market, though to what extent remains to be seen. According to Cotner’s analysis, “The biggest vertical general-fund expenditure loser for FY 2012 is higher education, at an estimated \$3.16 billion,” and “the end tally in 2012 is that higher education will experience a net loss [across the country], both in terms of general fund and all-fund expenditures.”

Should this discourage forward-thinking IT vendors from jumping into the education market? Not necessarily. Earlier this year, **I wrote about the promising potential for education IT contracting** over the next 5-10 years and, to a large extent, I think that analysis still holds over the long term. There are plenty of factors (like personnel losses through layoffs and attrition, cloud migration, and decades of paper-based records and documents in need of digitizing) that point to a continuing and emerging need for advanced IT solutions in K-12 and higher education.

We still work and operate in an information and technology economy. The slow, steady transition in education from the 20th century to the 21st won’t be stopped by budget cuts. However, reports like these are helpful in offering a sobering reminder that universities (and the states that fund them) are still facing some negative long-term headwinds as well as the aftermath of one of the worst financial and economic crises of the last 80 years. It may be wise for vendors to keep their powder dry in the short term while waiting out the aftereffects of the recession, and plan a more robust higher education presence in the intermediate-to-long term.

To read my recap of the EDUCAUSE 2011 Conference in Philadelphia, go **here** (subscription required).

To read Chris Cotner’s complete analysis on higher education budgets, go **here** (subscription required).

To learn more about the primary/secondary education IT market, read Deltek's 2011-2016 forecast [here](#) (subscription required).