

Minnesota Higher Education Funding: 1961 - 2005

Peter Zetterberg, Institutional Research and Reporting, February 2005

The figures below provide historical perspective on funding for higher education in Minnesota over the period FY 1961 to FY 2005. The numbers are from the January 2005 issue of the Postsecondary Education Opportunity newsletter, which does an annual analysis of state tax funds for higher education per \$1,000 of personal income using higher education funding data from the Grapevine database maintained by Illinois State University, the standard source for such data, and state income data from the Bureau of Labor Statistics. (See notes on data sources at end.)

Figure 1 shows the U.S. average of state tax funds for higher education per \$1,000 of personal income over the period FY 1961 – FY 2005. This is a standard measure of tax effort for higher education. Figure 2 provides the same information for Minnesota. The patterns are fairly similar until the 1990's, when the decline in Minnesota is much sharper than the U.S. average.

In Minnesota tax effort peaked in FY 1978 at \$15.10 and has declined since to \$7.39 in FY 2005, a 51.1 percent decrease. Tax effort in the U.S. also peaked in FY 1978, at \$10.55 and has since declined to \$6.91 in FY 2005, a 34.5 percent decrease. This is also reflected in state funding for the University of Minnesota, as shown in Figure 3. In inflation adjusted dollars, state funding was actually greater in FY 1978 than it is in FY 2005, even though full year equivalent enrollment is more or less the same (see Figure 4).

What the numbers mean is that Minnesotans have been devoting a steadily smaller percentage of their incomes to support for higher education through the state taxes they pay over the past 25 years. In other words, their tax effort in support of higher education has been declining. The same is true in all other states, although since 1978 the decrease has been greater in only four: Washington (-51.3%), Oregon (-52.8%), South Carolina (-58.1%), Arizona (-58.3%), and Colorado (-69.0%).

State tax effort is an important measure in comparing how well states support higher education. But it also must be used with caution. It is not a measure of state funding for higher education. It is instead a function of two variables: 1) state funding for higher education and 2) personal income, and a state's personal income can change from year to year because of a change in average personal income and/or a change in the size of the labor force. Tax effort for higher education may decline even if state funding for higher education is increasing, if average personal income and or the size of the labor force is increasing at an even greater rate. And vice versa.

The relative ranking of states in any particular year is a function of both variables and varies for different reasons. Connecticut always ranks low on tax effort for higher education because average personal income in Connecticut has always been among the nation's highest. Mississippi ranks relatively high because average personal income in Mississippi has always been among the nation's lowest.

The important indicator is not a state's rank in any particular year. It is instead the trend over a number of years relative to other states.

Figure 1: U.S. State Tax Funds for Higher Education per \$1,000 of Personal Income: FY 1961 – FY 2005

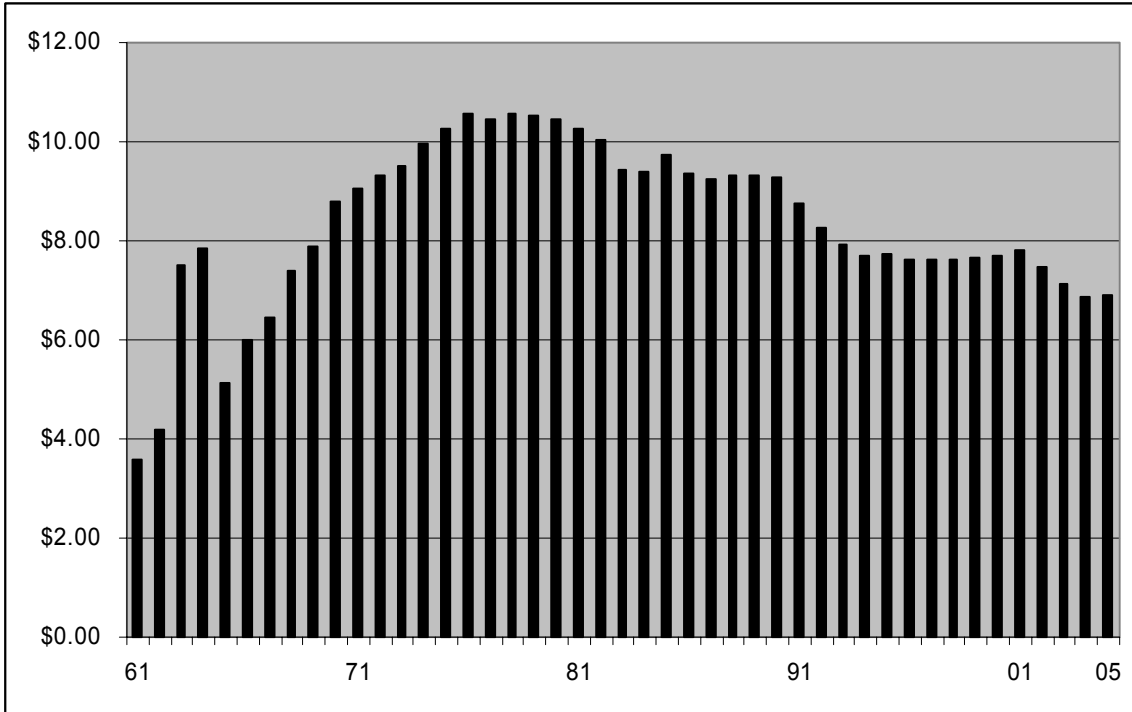


Figure 2: Minnesota State Tax Funds for Higher Education per \$1,000 of Personal Income: FY 1961 – FY 2005

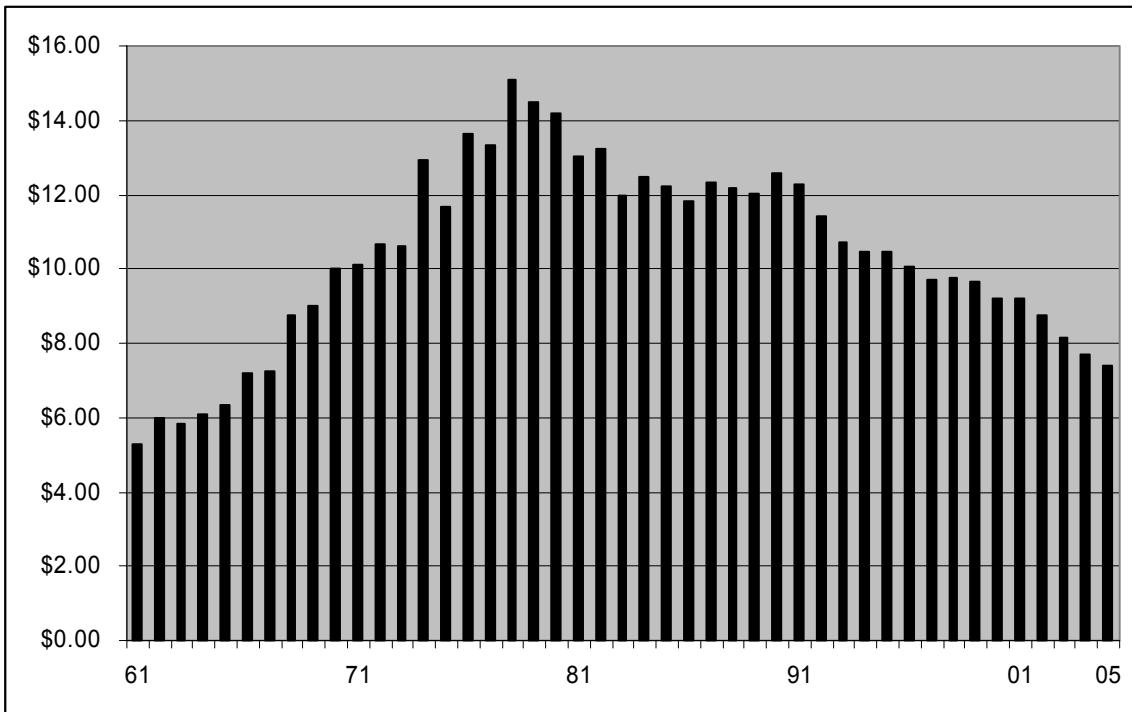


Figure 3: University of Minnesota State Appropriations in FY 2005 Dollars

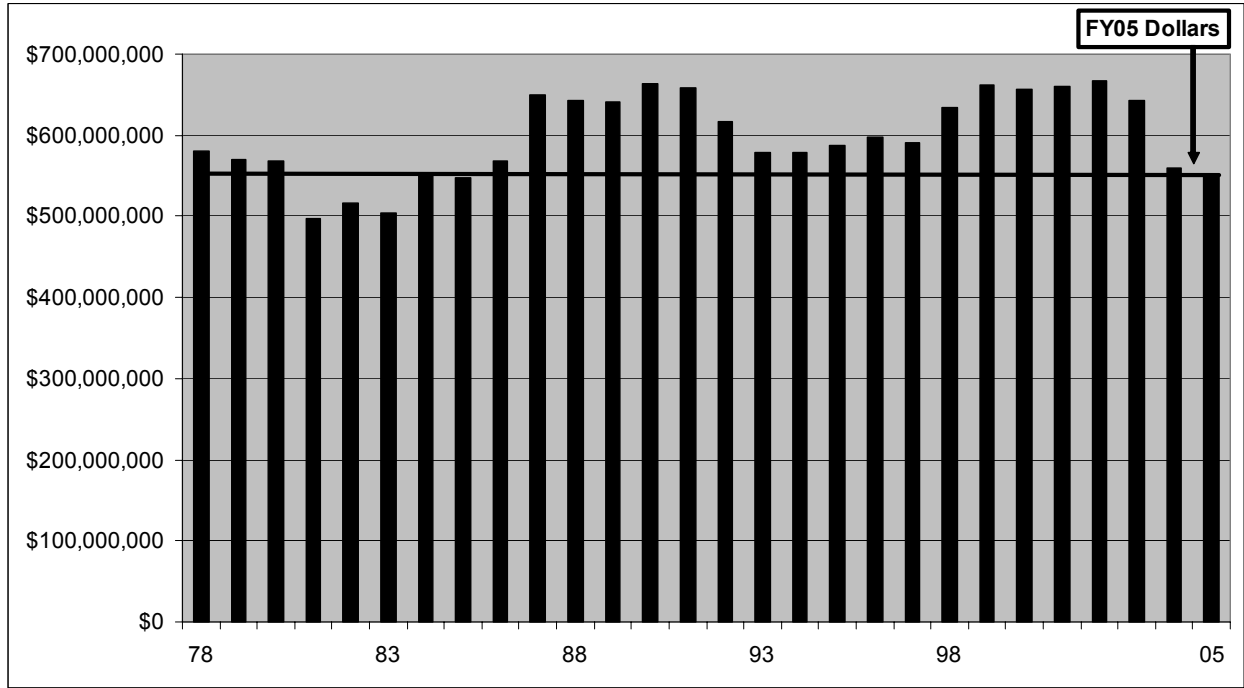


Figure 4: University of Minnesota FYE Enrollment

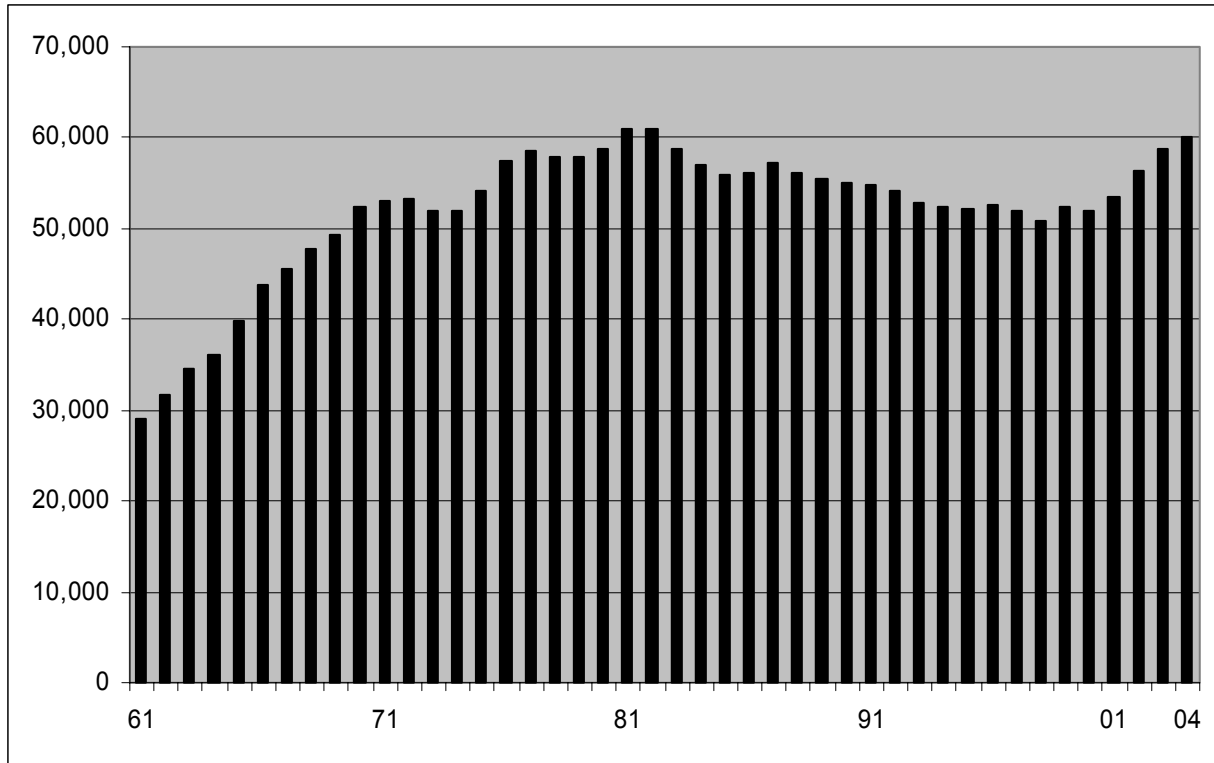
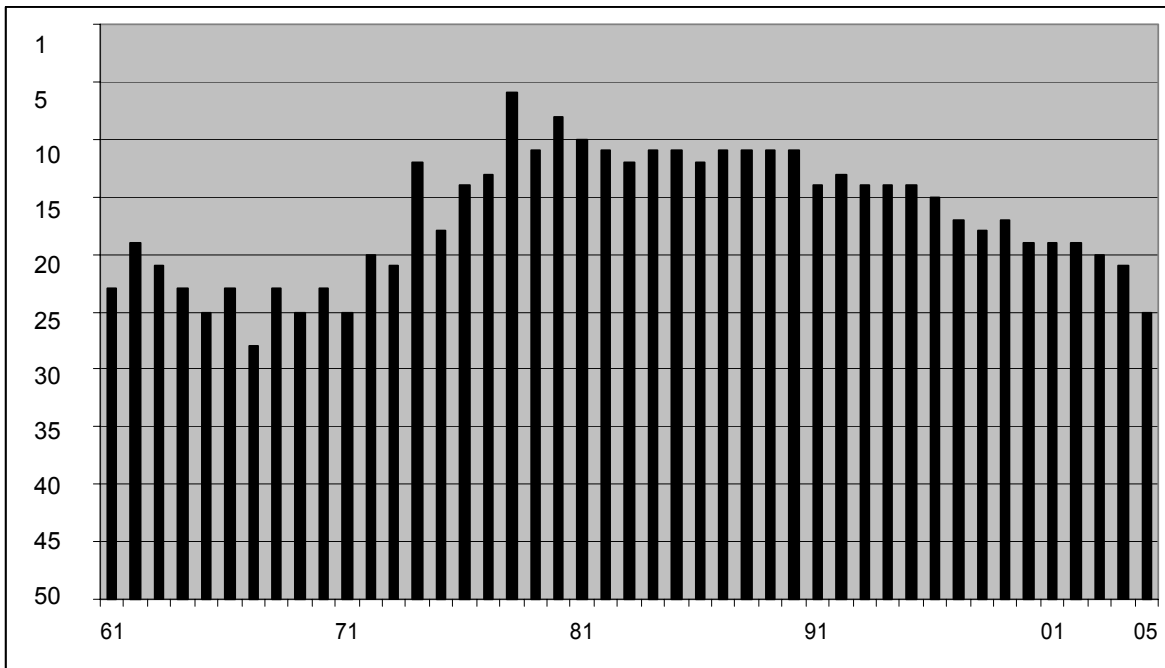


Figure 5 shows Minnesota's rank on state tax funds for higher education per \$1,000 of personal income over the period FY 1961 – FY 2005. Minnesota ranked 6th in FY 1978 and was nearly 50 percent above the U.S. average, but it has declined rather steadily since then to its current rank of 25th and is now just barely above the national average. In fact, if one includes local tax support for higher education, and not just state support, Minnesota (\$7.39) is now below the national average (\$7.63).

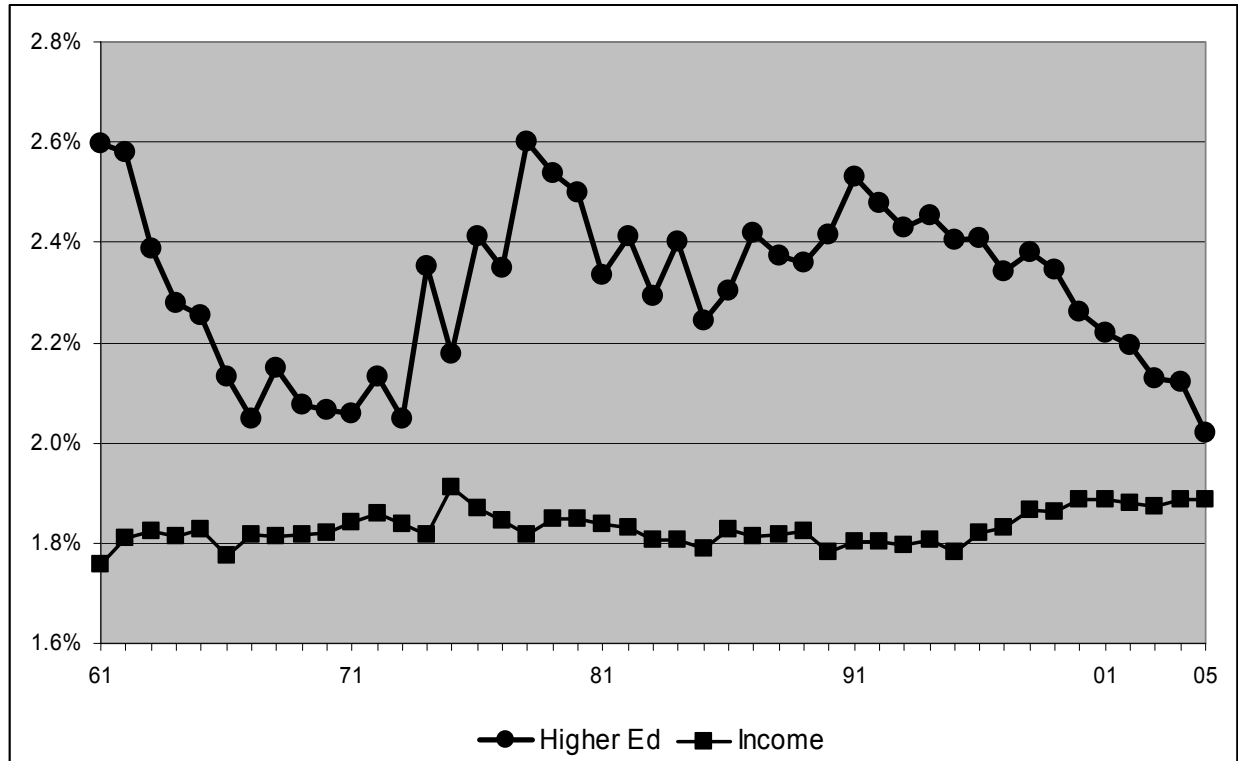
Figure 5: Minnesota's Rank in State Tax Funds for Higher Education per \$1,000 of Personal Income: FY 1961 – FY 2005



Minnesota's decline in rank among the 50 states, as shown in figure 5, might be explained by a rather significant increase in state personal income, because of some combination of increases above the national norms in average personal income and the size of the work force, rather than by a decline in funding for higher education relative to other states. But this was not the case, as shown in Figure 6, which shows funding for higher education in Minnesota as a percentage of the U.S. total and personal income in Minnesota as a percentage of the U.S. total.

As indicated, personal income in Minnesota as a percentage of the U.S. total has changed relatively little, while funding for higher education as a percentage of the U.S. total has changed significantly, trending strongly downward since FY 1991. What this means is that Minnesota's drop in rank relative to other states (Figure 5) is because funding for higher education in Minnesota has become progressively weaker relative to funding in most other states, as measured by the U.S. average. The slight increase in personal income relative to personal income in other states is a minor factor.

Figure 6: University of Minnesota State Appropriations in FY 2005 Dollars



Conclusion

The strength of a state’s higher education system is an important factor in determining a state’s cultural and economic vitality, and as states compete with one another in various ways (e.g., economic expansion, economic diversification, jobs) it is important to monitor a state’s support for higher education relative to other states. For this reason the trend in Minnesota should be of concern to state policy makers.

Notes on Data and Data Sources

The numbers from the January 2005 Postsecondary Education Opportunity newsletter, as used in this analysis, differ insignificantly from similar numbers reported by Grapevine and then by the Chronicle of Higher Education in a December 2004 issue. This is because the newsletter chooses to use income data only for a full calendar year, with CY 2003 being the most recent available, while Grapevine uses income data for the second quarter of CY 2004. The numbers used by Grapevine and the Postsecondary Education Opportunity newsletter for earlier years are updated as revisions are made to state higher education funding data by the various states and as the BLS revises CPI data and are identical for earlier years.

The FYE enrollment figures in Figure 4 are actual for the period FY 1980 – FY 2004 and projected from head count enrollment data for the period FY 1961 – FY 1979. The university did not maintain a complete record of FYE enrollment, including Continuing Education and Summer Session, until FY 1980.