

Higher Education Finance in the Post-COVID ERA

Midwestern Higher Education Compact

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COVID-19 caused significant economic disruptions and triggered a severe state budget crisis.

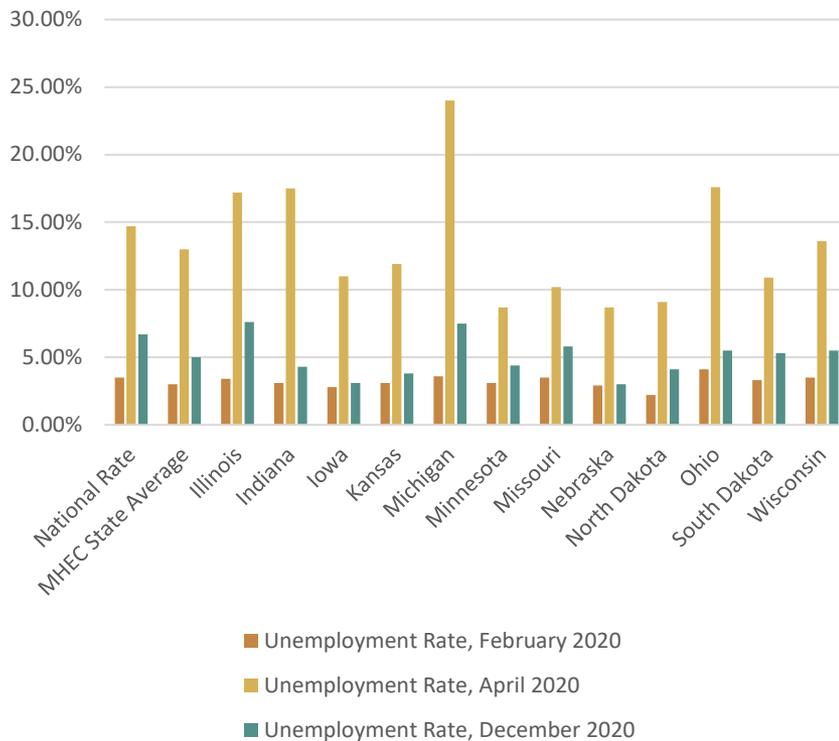
State*	FY 2021 Estimated General Fund Tax Revenue Decline	Decline as a % of Pre-COVID-19 Revenue Projections
Illinois	\$4.6 billion	12%
Indiana	\$2.0 billion	12%
Minnesota	\$3 billion	12%
Michigan	\$2.5 billion	10%
Missouri	\$1 billion	10%
Wisconsin	\$2 billion	10%
MHEC State Average	\$1.9 billion	9.40%
Ohio	\$2.3 billion	9%
Nebraska	\$444 million	8%
Kansas	\$549 million	7%
Iowa	\$325 million	4%

*Data not available for North Dakota and South Dakota.

Source: [Center on Budget and Policy Priorities](#)

We've also seen significant impacts on unemployment. While unemployment rates at the end of 2020 were better than the initial spike in Spring 2020, they are still not at the pre-Pandemic levels.

State Unemployment Rates Pre- and Post—COVID
February 2020, April 2020, December 2020



State	Unemployment Rate, February 2020	Unemployment Rate, April 2020	Unemployment Rate, December 2020
National Rate	3.50%	14.70%	6.70%
MHEC State Average	3%	13%	5%
Illinois	3.40%	17.20%	7.60%
Indiana	3.10%	17.50%	4.30%
Iowa	2.80%	11%	3.10%
Kansas	3.10%	11.90%	3.80%
Michigan	3.60%	24%	7.50%
Minnesota	3.10%	8.70%	4.40%
Missouri	3.50%	10.20%	5.80%
Nebraska	2.90%	8.70%	3%
North Dakota	2.20%	9.10%	4.10%
Ohio	4.10%	17.60%	5.50%
South Dakota	3.30%	10.90%	5.30%
Wisconsin	3.50%	13.60%	5.50%

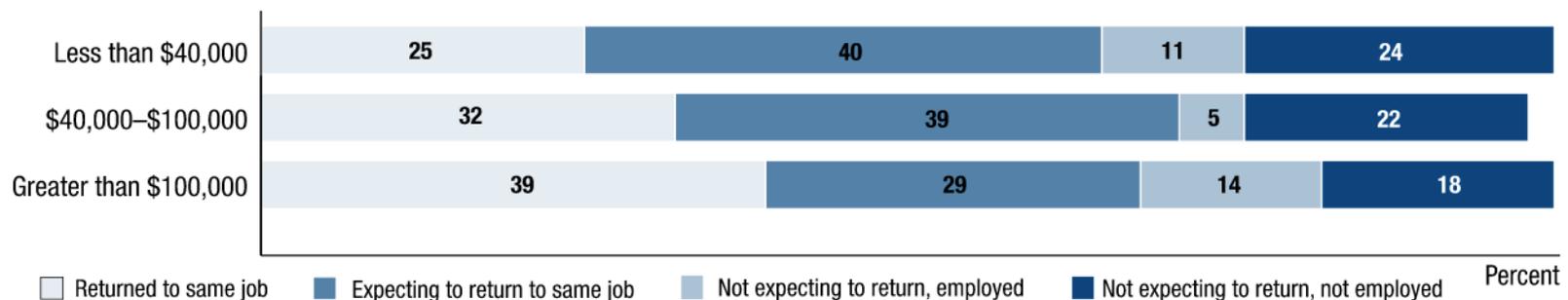
Source: [U.S. Bureau of Labor Statistics](https://www.bls.gov/)

The economic impacts of COVID-19 have also not been equally distributed. People of color continue to face higher rates of unemployment. Lower income individuals were also more likely to be unemployed. There is a direct correlation between these employment trends and educational attainment.

4th Quarter Unemployment Rates by Race/Ethnicity (20 years of age and over)

Race/Ethnicity	2019	2020
Total	3%	6.2%
White	2.7%	5.5%
Black or African American	5%	9.6%
Asian	2.5%	6.7%
Hispanic or Latino	3.5%	8.3%

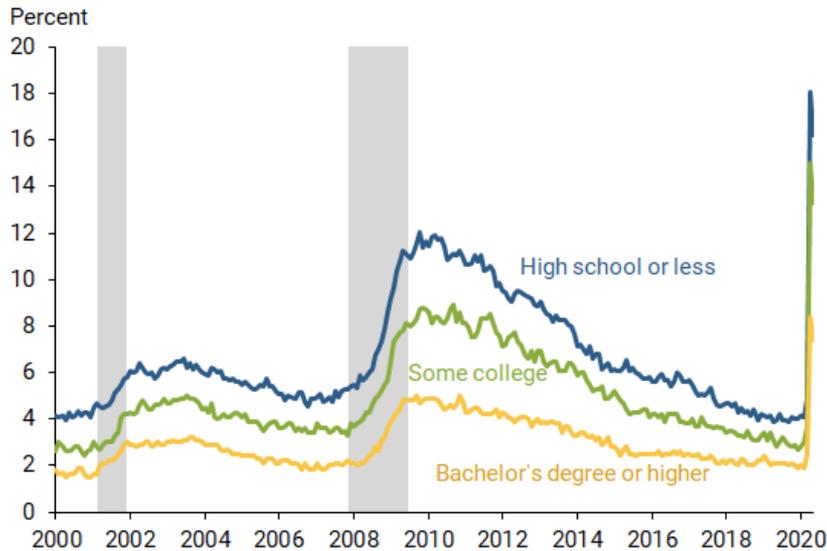
Expectations About Returning to Work and Current Employment for Laid-off Workers, July 2020



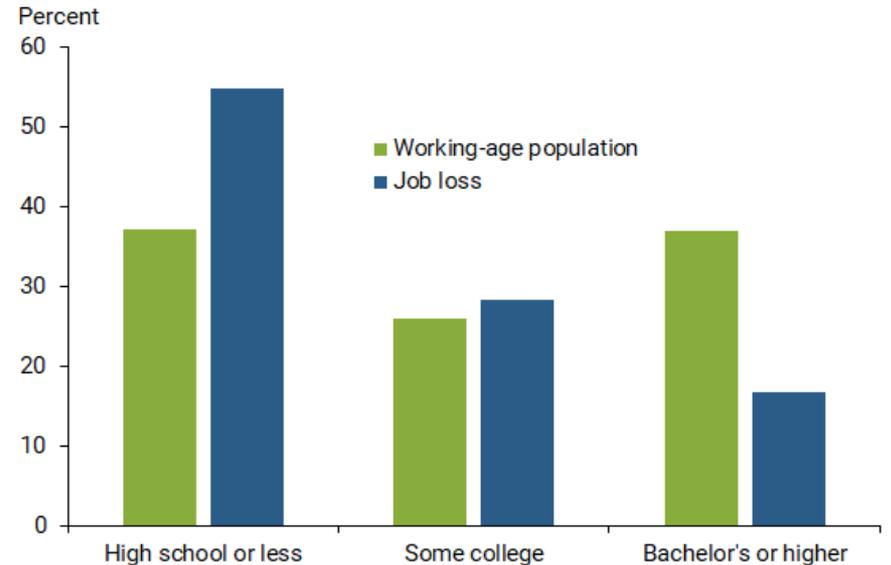
Source: [U.S. Bureau of Labor Statistics](https://www.bls.gov)

Individuals with higher levels of educational attainment were less likely to have lost their jobs and be unemployed. In contrast, those with a high school diploma or less were disproportionately impacted.

Unemployment by education level



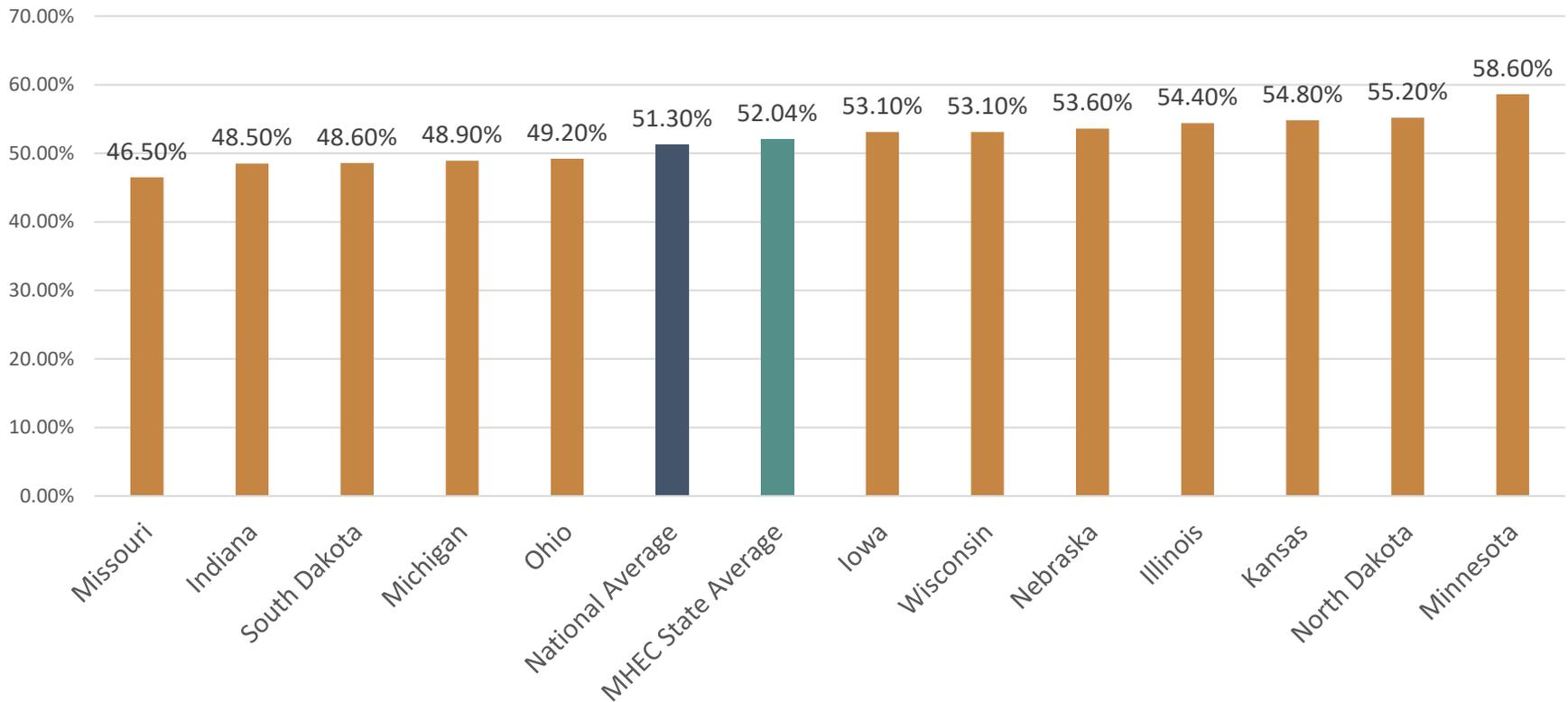
Job loss relative to working-age population shares



Source: The Unequal Impacts of COVID-19: Why Education Matters, Federal Reserve Bank of San Francisco

As a cohort, MHEC states outpace the national average attainment rate slightly. Attainment rates (those with a college certificate, Associate degree or Bachelor's degree, and above) range from 38.6% in IN to 52% in MN. But there are also significant gaps across different groups and populations underneath these numbers.

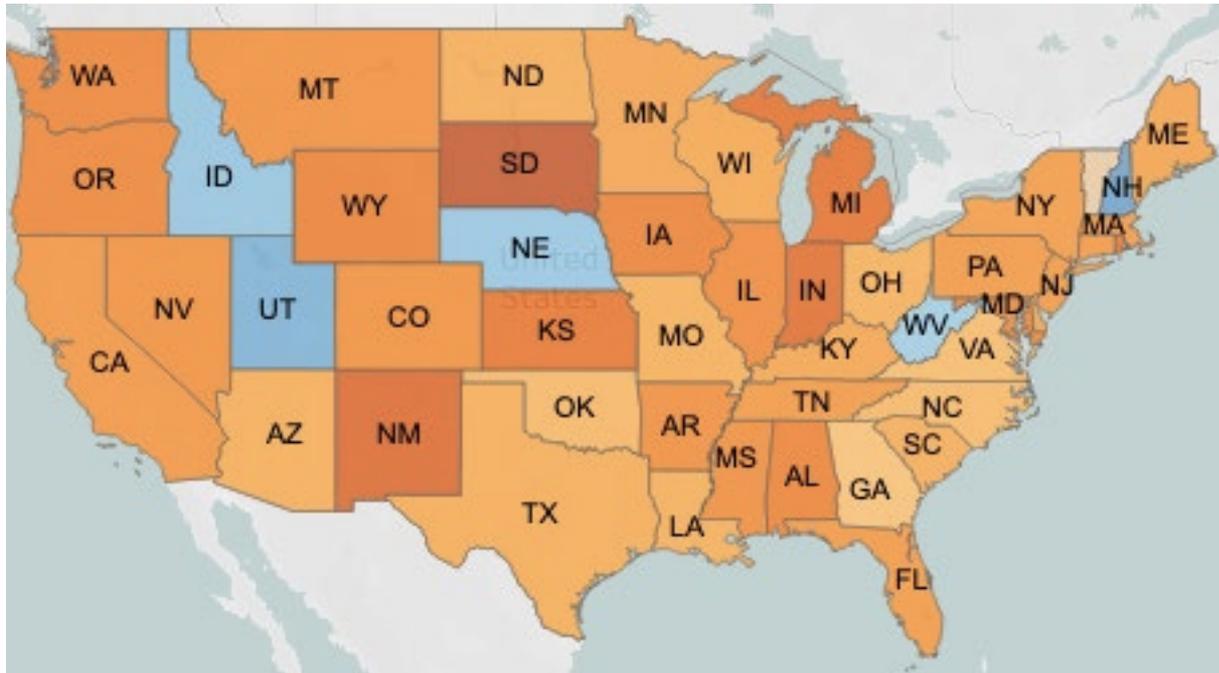
State Attainment Rates



Source: [Lumina Stronger Nation, 2020](#)

As of November 2020, undergraduate enrollment was running 4.4% below 2019 levels. The impact of COVID-19 on undergraduate enrollment is felt most in the Midwest.

Fall 2020 One-Year Enrollment Changes by State, Undergraduate Students, All Institutions



Percent Change

-20.0%

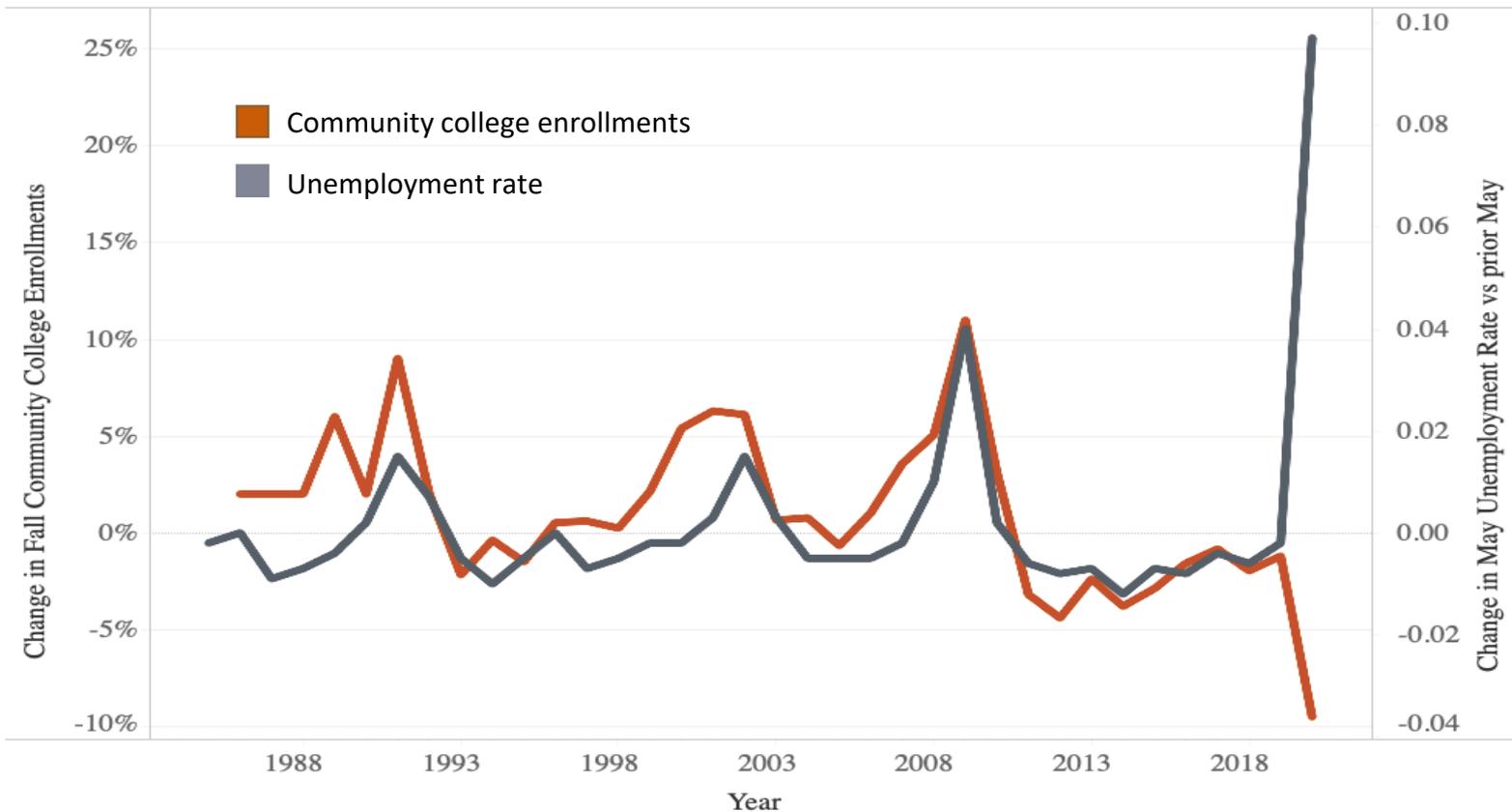


15.0%

Source: [National Student Clearinghouse Research Center](#)

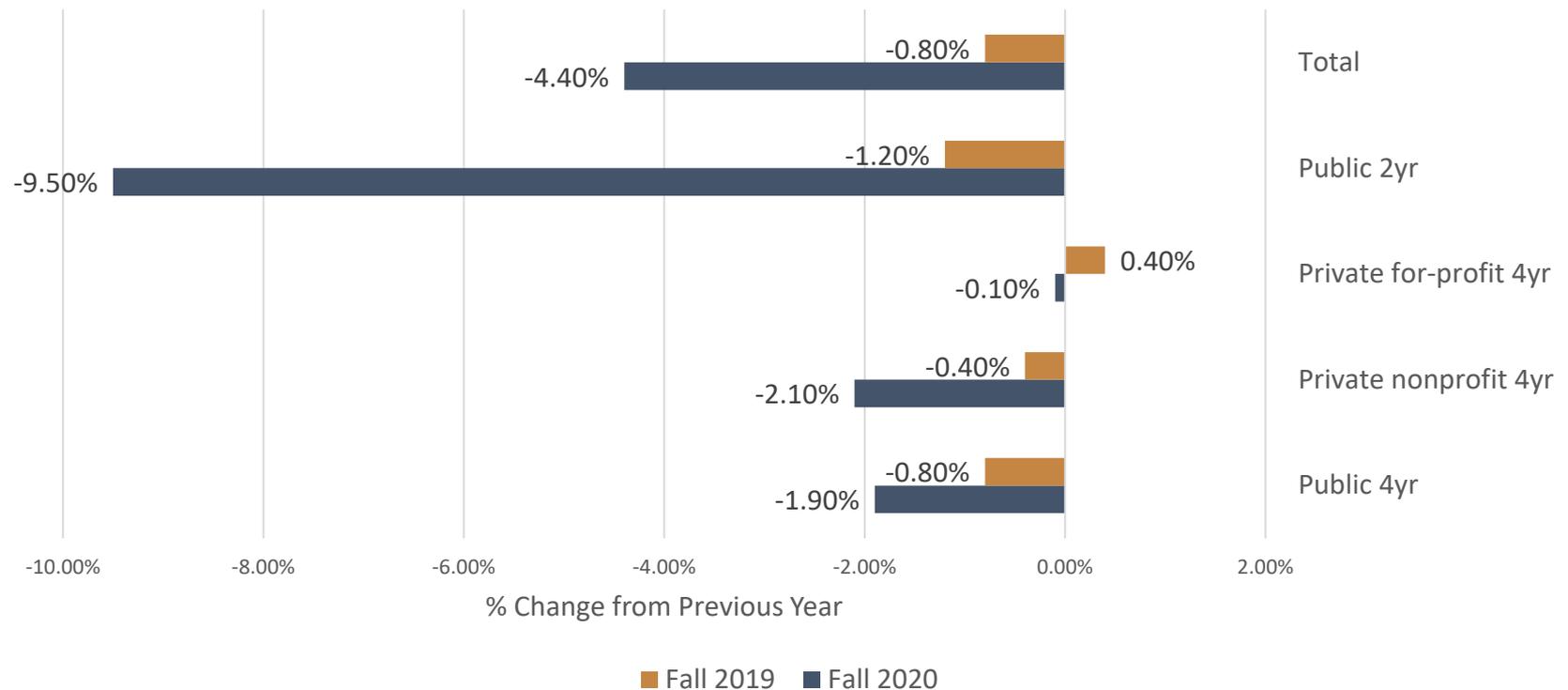
Prior to 2020, community college enrollments followed closely with unemployment rates. 2020 broke that trend.

United States Change in Community College Enrollment and Change in Unemployment Rate



Not only are individuals not enrolling in community colleges, but this sector is experiencing the largest drops in undergraduate enrollment.

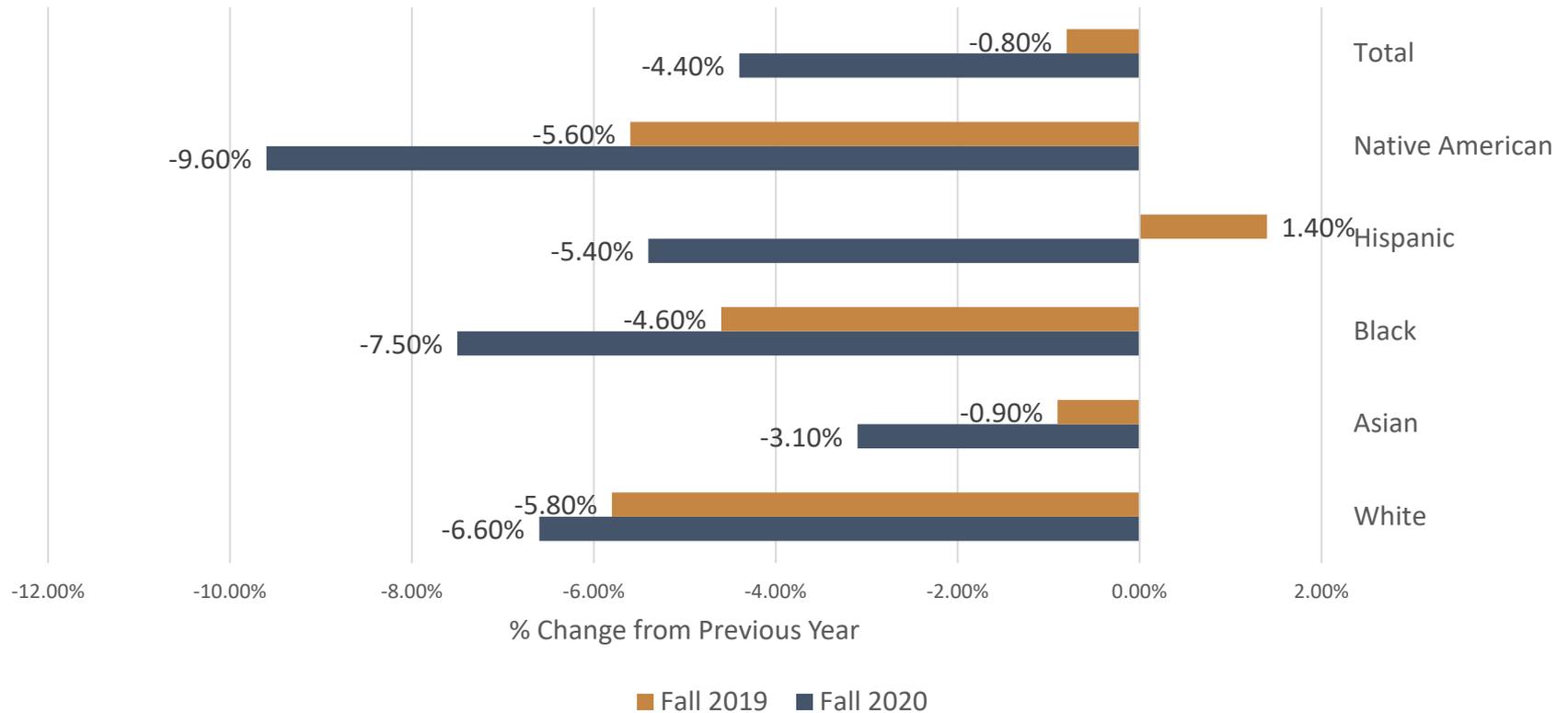
One-Year Undergraduate Enrollment Changes by Sector



Source: [National Student Clearinghouse Research Center](#)

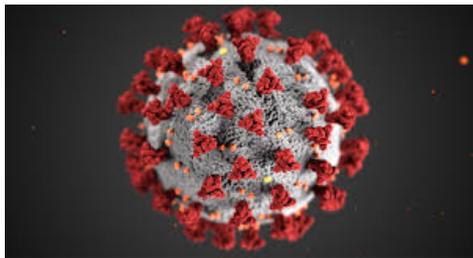
Once again, there are inequities across these trends. With Native American and Black students having the steepest declines overall.

One-Year Undergraduate Enrollment Changes by Race/Ethnicity



Source: [National Student Clearinghouse Research Center](#)

Postsecondary can play a critical role in overcoming the many challenges, events and impacts of the past year. But states must tackle these challenges in a strategic way, understanding that the economic imperative has equity at its center.



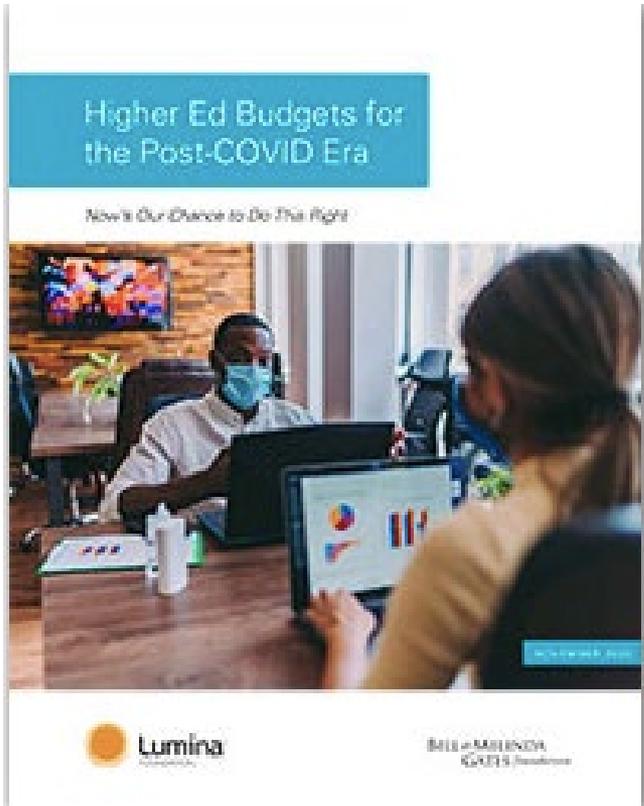
EQUITY



How can states best navigate these interrelated conditions that impact postsecondary opportunity and equity?

How can states effectively target postsecondary investments to ensure more sustained and equitable recovery?

A framework for strategic postsecondary budget decisions



- Principle 1: Prioritize funding for institutions that can best serve Black, Hispanic, Native American, and low-income students and those institutions that provide timely opportunities for unemployed or underemployed individuals to reskill.
- Principle 2: Protect and expand need-based financial aid through increased or reallocated investment.
- Principle 3: Support programs and strategies that advance students' ability to complete credentials.
- Principle 4: Expand resources and invest differently to drive economic growth.
- Principle 5: Evaluate and improve system and institutional cost structures.

Principle 1: Prioritize funding for institutions that can best serve Black, Hispanic, Native American, and low-income students and those institutions that provide timely opportunities for unemployed or underemployed individuals to reskill.



Avoid distributing cuts (or new federal funding) to higher education on a pro-rata basis.



Account for and fund differing student needs.



Align funding with the state's needs for an educated and trained workforce.

Resource inequities exist between institutions and sectors across the MHEC states.

Resource Inequities: MHEC State Averages, 2018

Public Institutions by Carnegie Classification	Core Revenues (State and Local per FTE + Tuition per FTE)	State and Local Funding per FTE	Tuition per FTE	% of State's UG	% of State's Black or African American UG	% of State's Hispanic or Latino UG
Primarily Associate	\$13,319	\$8,521	\$4,798	43.7%	55.5%	49.6%
Baccalaureate Colleges	\$14,678	\$7,190	\$7,488	3.8%	5.1%	4.3%
Master's Colleges	\$15,309	\$6,907	\$8,403	15.1%	11.0%	13.6%
Doctoral/Professional Universities	\$16,408	\$6,991	\$9,418	4.6%	4.9%	3.7%
Doctoral Universities: High Research Activity	\$18,963	\$7,735	\$11,228	23.4%	22.2%	21.9%
Doctoral Universities: Very High Research Activity	\$24,654	\$10,038	\$14,617	20.9%	12.6%	17.9%
Special Focus Four-Year	\$32,025	\$15,285	\$16,740	2.2%	1.5%	3.1%

Source: HCM Strategists Analysis

Principle 2: Protect and expand need-based financial aid through increased or reallocated investment.



At a minimum, hold harmless support to state need-based financial aid programs.



Discontinue the allocation of state dollars for non-need-based financial aid programs and the spreading of funding across multiple complex and small programs.



Ensure adult populations have access to financial aid.



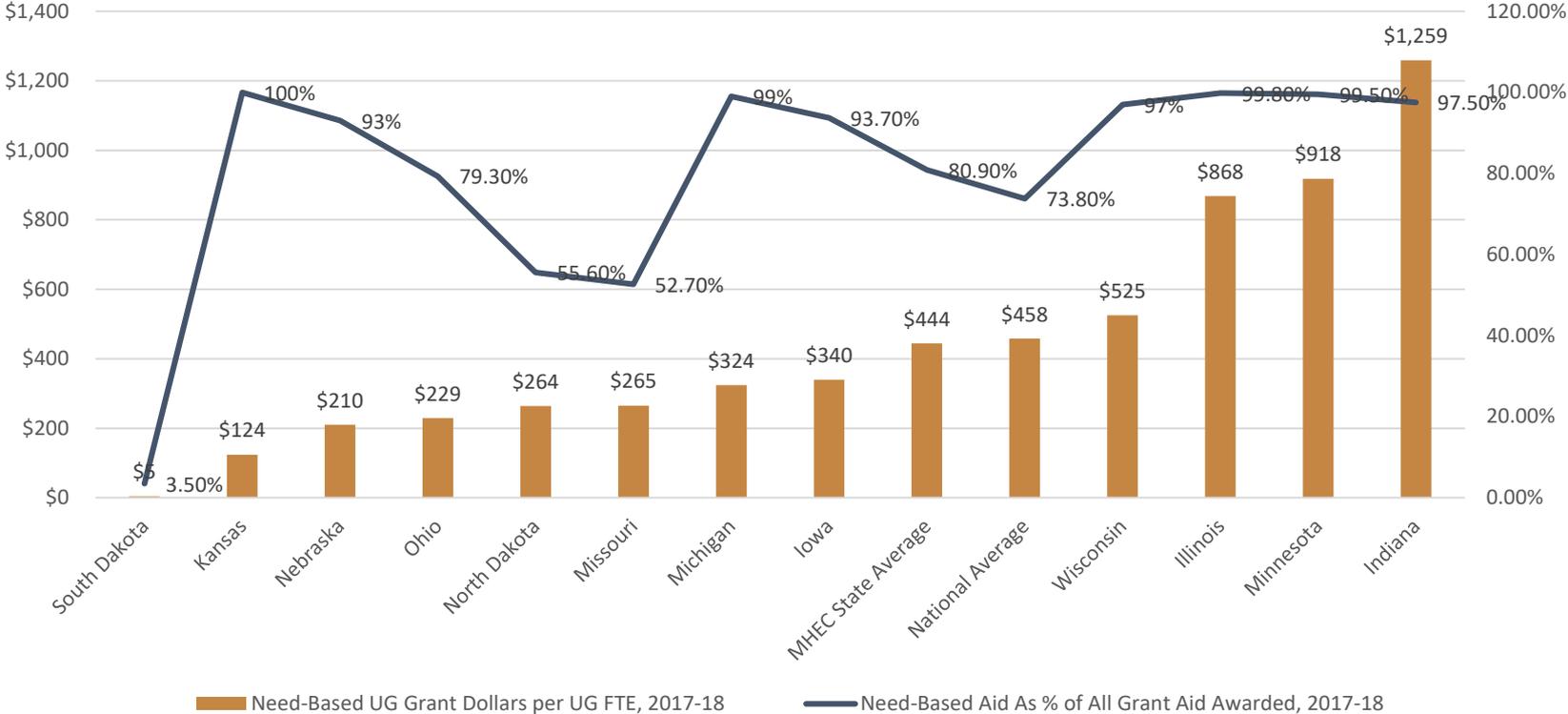
Expand the eligible uses of state financial aid and ensure students can use awards for those purposes by supplanting awards from other sources of funding.



Leverage (and fill in gaps of) federal relief to address emergency financial needs.

As a cohort, MHEC states are on par with the national average for need-based aid investments and slightly outpace the national average for prioritizing need-based aid. However, there is wide variability among the states.

Need-Based Aid Dollars per UG FTE and as % of All Grant Aid Awarded, MHEC States 2017-2018



Source: [NASSGAP](#)

Principle 3: Support programs and strategies that advance students' ability to complete credentials.



Allocate resources to institutions in ways that protect access while providing incentives for institutions to invest in strategies and reforms that increase student success.



Directly fund accelerated career pathway programs that integrate wraparound services.



Expand funding to high-quality, workforce-aligned credential pathways.



Link state funding with a statewide credit applicability policy.



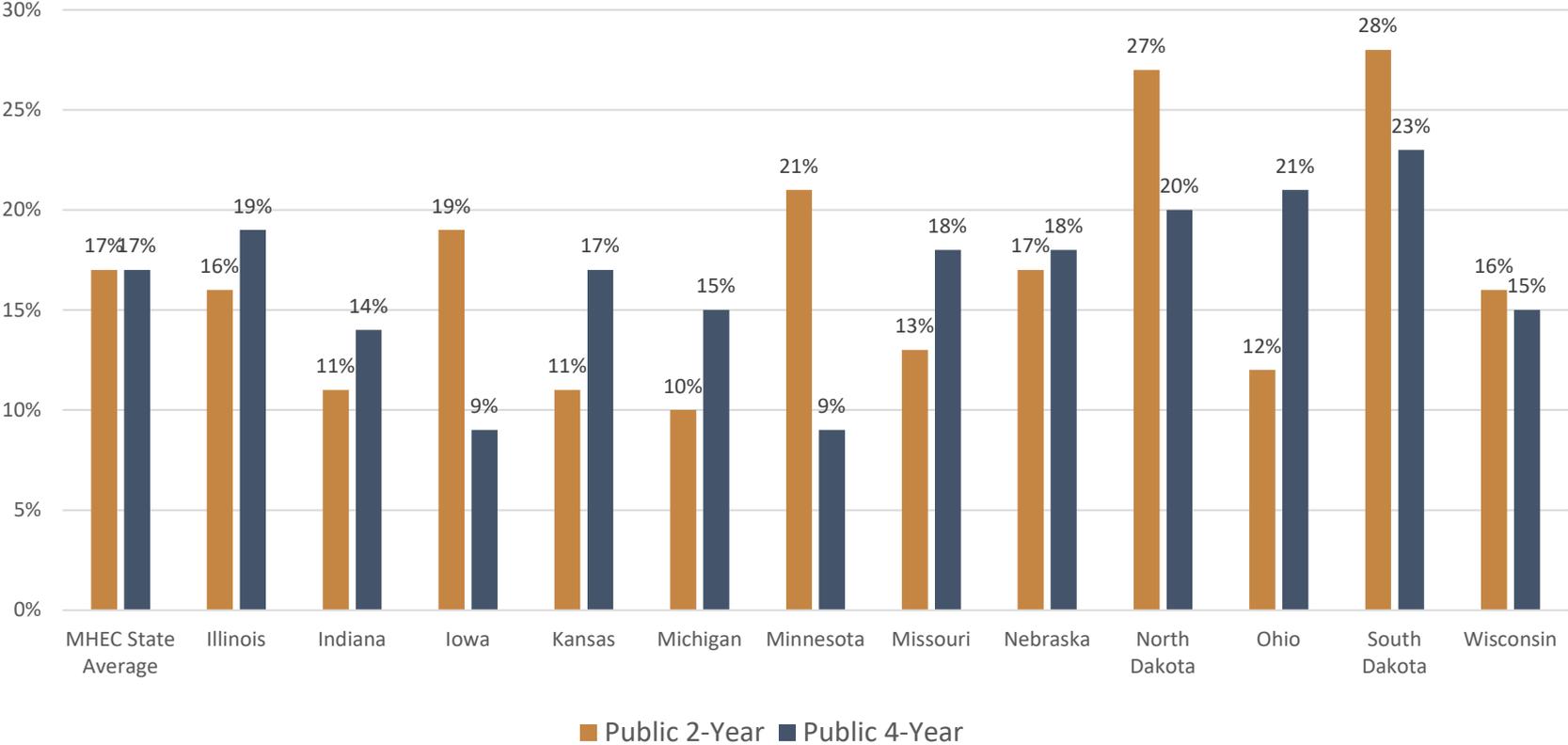
Use resources to advance cost-effective quality teaching and learning, including open and statewide-shared online learning resources.



Use resources to provide access to technology and broadband.

On average, there is a completion gap of 17% points between white students and students of color at MHEC public institutions.

Completion Rate Percentage Point Gap Between White Students and Students of Color, 150% Time, 2018



Source: IPEDS

Principle 4: Expand resources and invest differently to drive economic growth.



Evaluate and align non-traditional non-core postsecondary resources and investments that support education and training.



Develop a comprehensive and coordinated view of postsecondary providers and resources.



Connect and leverage state dollars with federal funds to increase affordable access for students and align resources for institutions.



Consider innovative revenue strategies that can be used to pay for postsecondary education or workforce training, now and over the long term.



Foster public-private partnerships that engage employers as partners in workforce training.

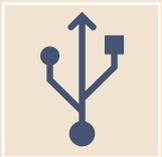
Principle 5: Evaluate and improve system and institutional cost structures



Foster evaluation and expectations for system and institutional efficiency.



Reduce redundancy in online and other program delivery.



Reallocate resources to invest in new structures, technologies, and approaches that improve student access and outcomes.