



FISCAL ISSUE BRIEF

Higher Education Appropriations in Minnesota, 1970 – 2005

MINNESOTA SENATE
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QUESTIONS

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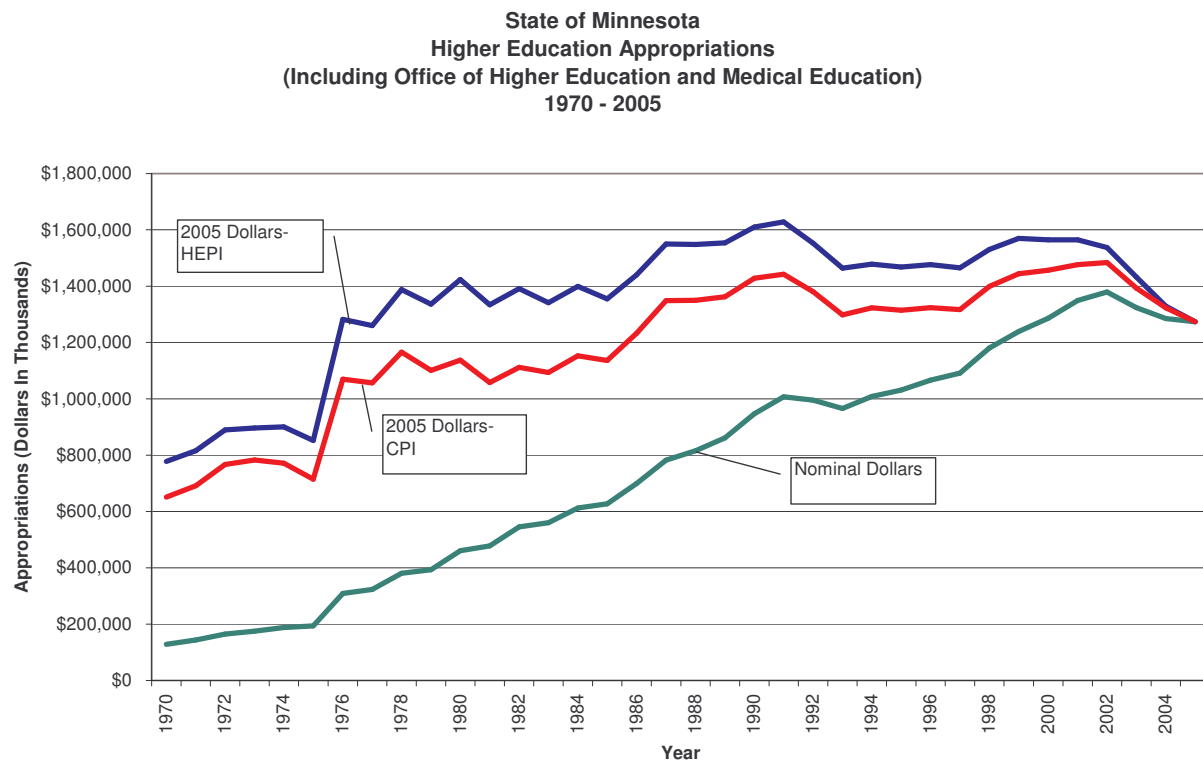
BACKGROUND

Higher Education appropriations represent the fourth largest category of general fund expenditures in the Minnesota state budget. The FY2006-07 biennial budget included \$2.76 billion in appropriations for higher education, constituting 11.4 percent of all general fund spending. Most of these appropriations provide funding for the University of Minnesota and the Minnesota State Colleges and Universities. State appropriations are complemented by tuition and other resources generated by higher education institutions. Funding for the Minnesota State Grant Program, the primary source of state funded financial aid for students, is also included in the higher education appropriation.

HIGHER EDUCATION APPROPRIATIONS IN MINNESOTA, 1970 - 2005

This analysis examines trends in higher education appropriations from 1970 through 2005. Two measures of inflation are used to compute real-dollar comparisons—the Consumer Price Index (CPI), which is a measure of general price inflation in the economy, and the Higher Education Price Index (HEPI), which is a measure of inflation in higher education. These measures are used to inflate nominal dollars for prior years to reflect constant funding levels in 2005 dollars.

As depicted in the graph below, nominal appropriations for higher education increased from 1970 through 2005. The rate of growth after adjusting for inflation is slower than the growth in nominal dollars. The fluctuations in appropriations are generally consistent among all measures, although the increase in 1976, which is due to the transfer to the general fund of funding for vocational/technical education, appears much more significant when adjusted to reflect inflation.



Since 1970, nominal appropriations increased an average of 6.6% each year. When adjusted to reflect inflation, appropriations increased by 1.4% using the HEPI and 1.9% using the CPI. Since 1976, after funding for vocational/technical education was moved into the general fund, nominal appropriations increased on average 4.8% per year. Inflation adjusted appropriations since 1976 increased by 0.0% using the HEPI and 0.6% using the CPI.

NOMINAL APPROPRIATIONS

Nominal appropriations represent the amounts that are appropriated each year with no adjustment for inflation. Between 1970 and 2005, nominal appropriations for higher education increased. There is a range of increases from year to year. Excluding the 60.2% increase in 1976, which is primarily attributed to the transfer to the general fund of funding for vocational/technical education, the largest increase occurred in 1978 when appropriations increased 17.7% over the previous year. In 1992 and 1993, appropriations for higher education were less than the preceding year. After reaching the highest level in 2002, subsequent appropriations were less each year than in the prior year. In 2003, the appropriations decreased 4.1% compared to the previous year.

REAL DOLLAR APPROPRIATIONS (2005 DOLLARS)

There is not a universally accepted measure of inflation in higher education. Some research suggests that the CPI, a measure of general price inflation, understates budget pressures in higher education because the goods and services that are purchased by higher education institutions do not coincide with those included in the CPI. The index created to address the problems in measuring inflation in higher education, the HEPI, may tend to overstate inflation in higher education because it is “self-referential.” This index relies chiefly on expenditures in higher education, primarily salaries, and thus reports that inflation in higher education is a specified amount because spending in higher education has increased. Also, the institutions that submit data for constructing the measure are the chief proponents of its use.

Real Dollar Appropriations using the Consumer Price Index (CPI) (2005 Dollars):

Using the CPI to calculate real dollar appropriations, higher education appropriations increased steadily from 1970 to 1991, with some year to year fluctuation in the rate of increase. In 1991, total inflation adjusted appropriations were \$1.44 billion. After reductions in appropriations in 1992 and 1993, subsequent appropriations increased until appropriations totaled \$1.48 billion in 2002. Between 2003 and 2005, appropriations declined each year with total appropriations of \$1.27 billion in 2005. On average, CPI adjusted appropriations increased 1.9% from 1970 to 2005.

Real Dollar Appropriations using the Higher Education Price Index (HEPI) (2005 Dollars):

When HEPI is used to calculate real dollar appropriations, the dollar value of inflation adjusted appropriations is higher, reflecting the higher cost of providing higher education the HEPI intends to measure, and tends to follow the same trend as the CPI. Three peak levels of appropriations are apparent in the analysis using HEPI. In 1980, appropriations totaled \$1.42 billion and leveled for several years until beginning to rise in 1986, reaching \$1.55 billion in 1987. After declining slightly, higher education appropriations reached their highest level of \$1.63 billion in 1991. Between 1991 and 1997, appropriations were either reduced or held relatively constant. There were increases in 1998 and 1999, after which real dollar appropriations declined to the 2005 level of \$1.27 billion. On average, HEPI adjusted appropriations increased by 1.4% between 1970 and 2005.

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