

Tax Reform and Tennessee Public Higher Education

by Joseph E. Johnson

More state tax dollars are essential for Tennessee higher education to remain competitive. This simple fact expresses the stakes involved for higher education in the tax reform discussion.

Over the last three years, state funding for higher education in Tennessee has increased at a rate last in the south and near the bottom in the U.S. In every major area—faculty salaries, research, library holdings—the funding trends reflect a gap between Tennessee institutions and competitors that grows wider each year. If we do not reverse these trends soon, Tennesseans will find many of higher education's tremendous strides in quality and reputation seriously eroded.

For most of my forty years as a student and administrator at the University of Tennessee, governors and legislators of both parties have supported the idea that a good system of higher education is important to the growth of Tennessee's economy and our citizens' quality of life. However, our elected officials over the last decade have been handicapped by a problem they did not create. For reasons largely beyond their control, higher education has gradually slipped to a relatively low priority among programs competing for limited state funds. State and federal courts since the mid-1980s have ordered state government to spend large sums for programs in K-12 education, prisons, and mental health. During this same period, the federally mandated program of indigent health care—originally Medicaid, now TennCare—grew from a tenth to more than a fourth of the entire state budget. By the mid-1990s, spending required by the courts and federal government absorbed nearly all revenue growth in the state budget. Precious little was left for higher education.

UT Knoxville is a good example of the way insufficient state revenues have placed an increasing strain on higher education operating budgets. UTK has not received an increase in state funds for non-salary operations in seven years, meaning Ten-



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nessee's flagship institution has received no new state funds for equipment, utilities, library holdings, research, technology, graduate stipends, or other items involved in running a large university. This year the university will operate with \$7.3 million in state funds, nearly 5 percent less than in 1994. Meanwhile annual funding increases have averaged 11 percent in Mississippi, 10 percent in Florida, 8 percent in Georgia, and 7 percent in Kentucky over this period.

Nowhere is the lack of funding more apparent than in faculty salaries. In 1995, average salaries for professors at UTK were about \$3,600 below the average of their southern peers, including land-grant institutions such as the University of Florida, the University of Georgia, and the University of Kentucky. In just four years, the gap in

average salaries has widened to \$11,000. The salary gap between UTK and other universities is even worse in selected programs. Compared with our southern peers, salaries at UTK are 14 percent lower in engineering, 17 percent lower in education, and 19 percent lower in business. The absence of state-funded salary increases again this year continues to widen the gap.

Salary gaps of this magnitude produce inevitable consequences in a highly competitive job market. Increasingly the university encounters difficulty in attracting and retaining the caliber of faculty our students deserve. In the College of Agriculture, three attempts in the last year to fill a faculty vacancy failed due to the university's inability to offer a competitive salary. In the College of Engineering, similar marketplace demands forced the university to pay the new chemical engineering department head a salary higher than that of the dean. These examples of a salary policy increasingly out of line with market forces occur with disturbing frequency and illustrate a problem repeated at higher education institutions throughout Tennessee.

Funding problems are not limited to faculty salaries. Libraries, the most important facility of any campus, are forced each year by budget pressures to eliminate growing numbers of journals and other holdings necessary for a first-class university. Students and faculty in the sciences must often work with outdated equipment. In the graduate school, another common standard for academic reputation, UT's inability to offer competitive stipends prevents us from attracting many top students. In the research laboratory, many large projects are unobtainable only because UT does not have institutional funds required to match a small portion of the grant.

The university has undertaken a number of internal initiatives to generate savings and supplement funding. Despite enrollment increases, since 1994 the university has reduced faculty and administrative staff by 365 positions. We have invested our funds wisely, privatized programs such as bookstores and student food services to cut

costs, completed the most successful fundraising campaign in the university's history, and aggressively pursued opportunities to generate merchandising revenues. The success of our efforts has enabled us only to keep our finger in the funding dike.

After years of shortfalls in state spending in higher education, we have exhausted most management options for generating additional funds. In June the UT Trustees, confronted with the choice of further major cuts in faculty, courses, and programs or a large fee increase for students, endorsed a 15 percent increase. This increase, one of the largest in UT history, will enable modest salary raises for about a quarter of UT's faculty and allow campuses to retain most academic course offerings. Even with increases of this magnitude, the funding gap between UT and its peers will widen.

The shortfall in state funding, combined with historic fee increases, highlights a disturbing trend. Since about 1985, the percentage of a UTK student's education funded by the state has dropped from 70 to about 54. What kind of higher education system Tennesseans want and what portion of the cost state government should pay are the questions that define the relationship of higher education to tax reform.

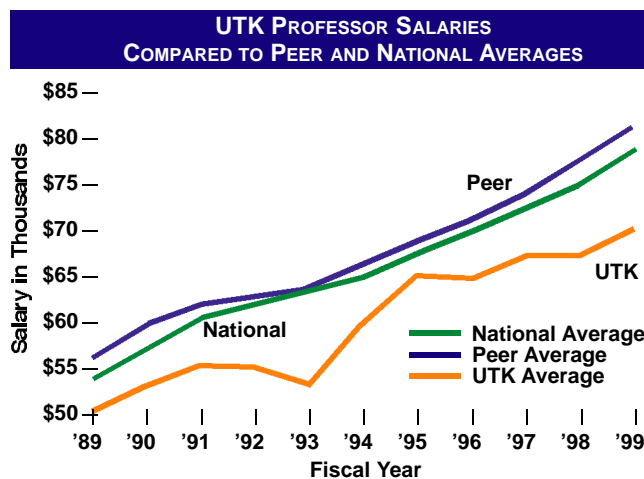
Last spring the Governor's Council on Excellence in Higher Education, composed of leaders in business, government, and higher education, completed a two-year study of Tennessee's public higher education system. I was privileged to be a member and take part in discussions about higher education's needs and goals. Two summary statements from the council's final report are worth noting:

- *Tennessee has not made a sufficient financial commitment to public higher education.*
- *Tennessee is not keeping pace with its competitors.*

The council recommended that in order to provide a higher education system competitive with states such as Georgia and North Carolina, Tennessee should increase state spending some \$445 million, or roughly \$100 million per year over the next five years. The recommended uses of these increases are consistent with the needs UT has expressed for years: more competitive salaries for faculty and grants to attract outstanding students; improved cutting-edge

research through updated equipment and increased funding for chairs and centers of excellence; and expanded access to higher education for Tennesseans.

The council summarized many of Tennessee's general funding needs for higher education. The legislature's Senate Finance Committee took a different approach, asking specifically what it would take in state funding for UTK to reach a plateau comparable with the University of Georgia and the University of North Carolina. State funding represents approximately 80 percent of the budget at North Carolina and about 75 percent at Georgia.



Providing UTK with faculty salaries, library holdings, research support, student-faculty ratios, and other items at levels comparable to North Carolina would require about \$40-50 million in additional state funds. Funding parity with the University of Georgia would require increasing state appropriations for UTK some \$35-45 million. Increases would be phased in over a three- to five-year period.

Tennessee higher education is rapidly losing ground to our neighbors. Substantial funding increases are needed to reverse this trend, but the governor and legislative leaders of both parties have acknowledged such increases cannot be provided within the present tax structure. The most recent state budget contained no funding for salary increases, capital projects, or UTK and only \$25 million in new funds for the remainder of the higher education system.

As president emeritus of UT and former state budget director, I suggest that we who appreciate the importance of higher education approach the tax reform discussion by returning to the two basic questions about the mission of higher education and the role of state government in funding that mission. If we wish Tennessee institutions

to compete on a level playing field with Georgia and North Carolina, we have established the expectations of size and quality. If we agree state government's portion of total funding should be 65 to 75 percent, we have a sense of the cost required.

A number of options exist for reforming the tax system and generating greater revenues, including various combinations of taxes involving sales, income, property, and business profits. For higher education, a critical aspect of any new tax structure is the need to provide a *stable* as well as *adequate* source of state revenue. The history of the present tax structure is one of substantial funding increases in the budgets immediately following a tax increase. In three to four years these increases inevitably are replaced by extended periods of funding shortfalls marked by budget cuts, no salary increases, and the absence of funding for the construction and renovation of campus facilities. The uncertainty of predicting long-term state revenues makes it difficult for university faculty and administrators to fill vacancies, apply for large research grants, and undertake partnerships with business and industry.

Ironically our funding crisis coincides with a period of great accomplishment and opportunity. This fall UT campuses at Chattanooga, Knoxville, and Martin welcomed the best-qualified class of students ever. Admission applications at Knoxville have surged more than 60 percent in five years. UT has teamed with the Battelle Memorial Institute to submit a bid to manage Oak Ridge National Laboratory, an initiative that would provide enormous opportunities for UT faculty and students.

Throughout my career at UT, I have been optimistic. Despite the enormity of Tennessee's funding dilemma and the risks involved to the university I love, I remain optimistic. A majority of elected officials understand the problem, know what needs to be done, and are stepping forward to take a stand for Tennessee's future. For their courage and their leadership, we owe them a lasting debt of gratitude. ■

Joseph E. Johnson served as president of UT from 1991 until this academic year. He served as deputy commissioner of the Tennessee Department of Finance and was an architect of the UT System, created in 1969.