

EXECUTIVE SUMMARY

FUNDING ALABAMA'S UNIVERSITIES INCREASES PER CAPITA INCOME

OVERVIEW

The Education Policy Center at the University of Alabama has completed an objective analysis to determine whether there is a quantifiable relationship between the funding of Alabama's universities and the per capita income of Alabama's citizens. The study revealed a statistically significant relationship. Alabama's state-wide per capita income rises in direct proportion to Alabama's funding of its public higher education institutions. Alabama gains a quantifiable return on its investment in higher education. Simply put, the more Alabama spends on universities, the better off Alabamians will be.

METHODOLOGY

The study's results are reliable. Well-established multiple regression methods were applied to nationally recognized and publically available databases, including information from the American Institutes for Research's Delta Cost Project, the United States Department of Education's National Center for Education Statistics, the Carnegie Foundation for the Advancement of Teaching's 2010 Basic Classification System, and the Return on Investment ("ROI") model initially developed by Jacob Mincer, historically known as the father of modern labor economics. By using respected data sets and accepted methodology, the study is statistically transparent and replicable.

KEY POINTS

- **In Alabama, higher education means public higher education.** Alabama has fourteen public universities and so few private colleges that Alabama's public higher education system accounts for four out of every five baccalaureate degrees, seven out of every eight graduate degrees, and nearly all of the professional degrees (e.g., medicine, law, and engineering). Between 2000 and 2013, enrollment in Alabama's public universities increased by fifty-three percent. The number of degrees awarded at those institutions increased by eighty percent; Alabama's universities with doctoral programs accounted for much of this increase. During this period of time, academic quality also improved, as measured by the ACT scores of the freshmen

entering Alabama's public higher education system. Improving the quality of public academic programs attracts stronger students, and stronger students are more likely to complete their academic degrees.

- **Higher education means increased per capita income throughout Alabama.** The upward statewide per capita income curve that results from higher education reflects not only a lower unemployment rate, but also a robust long-term business climate throughout Alabama. Students graduating from Alabama's public universities constitute Alabama's present and future workforce capital base. In today's global economy, businesses tend to locate where their personnel needs will be met and qualified employees can be found. For example, the burgeoning aerospace and automotive sectors will require employees who are qualified for high-wage, high-demand jobs. If such industries can find a workforce in Alabama as a result of Alabama's investment in its fourteen public universities, these high-wage, high-demand jobs will be located in Alabama. Each paycheck will generate more paychecks. Thus, Alabama's investment in higher education has a positive impact not only on the graduates of its public universities, but also on the income levels of the entire state.
- **Alabama public universities took deep cuts in state appropriations from FY2008 to FY2012,** behind only Louisiana among the fifty states, according to the State Higher Education Executive Officers. The severity of these deep cuts has given institutions no choice but to find alternative sources of funding to limit negative impacts on accessibility.
- **Alabama's investment in public universities is especially important to its rural citizens.** Rural citizens face higher out-of-pocket costs, such as transportation and child care, which negatively correlate with fewer degrees regardless of increased enrollment.
- **State disinvestment, coming at a time when enrollments are growing, means public universities have less money for scholarships.** Although enrollments grew by fifty-three percent from 2000 to 2013, Stable Operating Revenue ("SOR") effectively decreased by fourteen percent. Due to the lack of

major state-supported student aid funding, Alabama public universities have become highly dependent on federal financial aid. As the Alabama Student Assistance Program funds fell to \$2.9 million, federal Pell Grants directed to Alabama's public universities grew from \$111.5 million to \$249.4 million, and Pell Grant recipients at Alabama's public universities grew from 30,000 to 48,000 between 2008 and 2012. However, the greater reliance on federal student aid has made Alabama's public universities more sensitive to federal cuts in Pell Grants and federal student loans.

- **Investing in Alabama public higher education produces higher per capita income for Alabamians, more income tax receipts, and more money for ALL of education in Alabama** (PK-12 education, postsecondary, and public universities). In FY2013, about 60% of all tax receipts for the Education Trust Fund come from income taxes. Investing in public higher education is key to growing the ETF, which benefits all education sectors.
- **Aside from the positive economic returns, there are significant non-economic benefits as well.** Mercedes-Benz employs a total of 3,700 employees at its Alabama plant and estimates 28,000 people are employed by MBUSI and its many sub-contractors. About \$2 billion in taxes have been generated since 1993. Mercedes, Alabama's top exporter, has invested nearly \$4 billion in its Alabama plant-- five models are now built on-site. Putting a dollar value on the leadership contribution of Alabama's fourteen public universities to help the State of Alabama's efforts to land this plant, and others as well, is not easily calculated, but likely exceeds the economic benefits measured in this report.
- **The historic one-third/two-thirds ratio of the Education Trust Fund investments should be restored.** In all respects, from every angle, Alabama will see a return on its investment in public higher education. Alabama's public universities receive only twenty-eight percent of the historic one-third/two-thirds ratio of the Education Trust Fund Investments. This has resulted in an annual underfunding of Alabama's public universities by

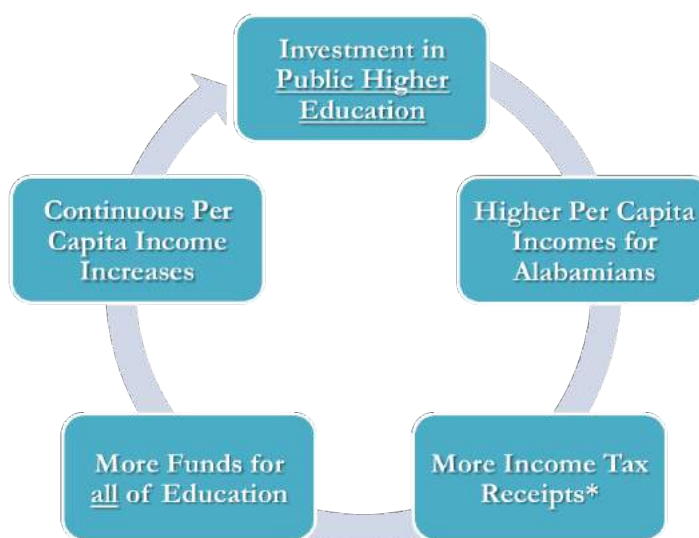
more than \$570 million. Restoring the Education Trust Fund investments to the thirty-three percent share for Alabama's public universities would serve to regain Alabama's interest in, and reap the foreseeable additional benefits of, promoting higher education for the citizens of Alabama.

- Per-capita income is positively correlated and highly significant as it relates to unrestricted expenditures. This means that increases in state funding, which will increase unrestricted expenditures, will also increase per-capita income in the state. Funding higher education benefits the entire state.

SUMMARY

The study was designed to determine the impact of Alabama's two flagship universities (with statewide missions) and twelve regional universities on Alabama's economy. Our study captures the economic impact of Alabama's fourteen public universities at the state and regional level, in a consistent, statistically reliable manner. It is apparent from the study that the per capita income of Alabama's citizens is directly related to the funding of Alabama's public higher education institutions. The study statistically proved that by increasing the allocations for public higher education, Alabama's legislature will also increase the per capita income of Alabama's citizens.

How PUBLIC HIGHER EDUCATION IMPACTS ALABAMA'S FUTURE



**60 percent of the Education Trust Fund (ETF) is Income Taxes.*