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Public and Private Investments and Divestments in Historically Black Colleges and Universities

by Krystal L. Williams and BreAnna L. Davis

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EXECUTIVE SUMMARY

Historically Black Colleges and Universities (HBCUs) play a pivotal role in American society. Federally designated as any college or university established prior to 1964 with the principal mission of educating black Americans (White House Initiative on Historically Black Colleges and Universities, n.d.), these institutions represent about 3 percent of two-year and four-year public and private nonprofit institutions that participate in federal student financial aid programs, but award 17 percent of all bachelor's degrees earned by black students.[1] Furthermore, HBCUs have awarded approximately a quarter (24 percent) of the bachelor's degrees earned by black students in science, technology,

1 FDPRI analysis of National Center for Education Statistics, Integrated Postsecondary Education Data System, 2014–15.

engineering, and mathematics (STEM) since the early 2000s (Williams and Preston, forthcoming).

This issue brief summarizes the federal, state, and local funding sources of HBCUs and non-HBCUs—in addition to private institutional investments—to illustrate continuing disparities in how colleges and universities secure resources.

Key findings include:

- Public HBCUs rely on federal, state, and local funding more heavily than their non-HBCU counterparts (54 percent of overall revenue versus 38 percent).
- Confirming a commonly held belief, private HBCUs are slightly more tuition-dependent than their non-HBCU counterparts (45 percent tuition-dependent compared with 37 percent tuition-dependent).
- Private gifts, grants, and contracts make up a smaller percentage of overall revenue for private HBCUs relative to their non-HBCU counterparts (17 percent versus 25 percent).
- Both public and private HBCUs experienced the steepest declines in federal funding per FTE student between 2003 and 2015, with private HBCUs seeing a 42 percent reduction—the most substantial of all sectors.
- Within both public and private sectors, HBCU endowments lag behind those of non-HBCUs by at least 70 percent; this gap jeopardizes an HBCU's ability to buffer decreases in state and federal funding.

These key findings reveal one overarching difference in funding between HBCUs and non-HBCUs: despite efforts to counter a historical legacy of inequitable funding and notable investments by the federal government and many state governments, resource inequities continue to plague HBCUs.

FUNDING EDUCATION AT HBCUs

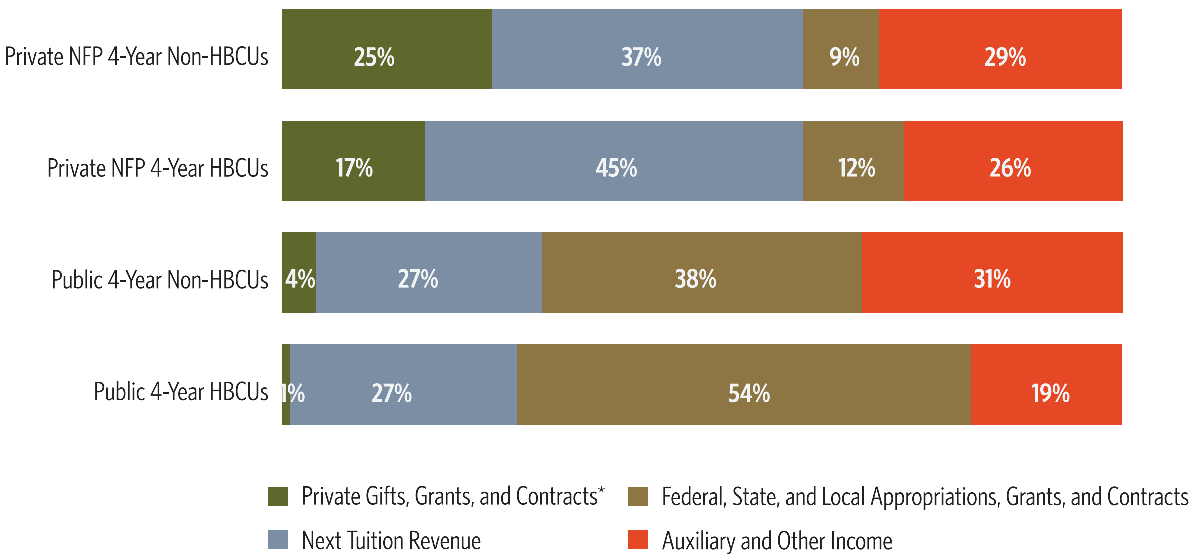
Rising college costs, student debt, and federal budget cuts have positioned higher education finance as a pressing issue within policy circles and among the broader public (Jaschik 2017; Rothman 2016; Saunders, Williams, and Smith 2016). Given concerns about college finance, it is important to understand the broader context of revenue streams for both public and private institutions. This is especially important for institutions such as HBCUs, where over 70 percent of students have limited financial resources to pay for college and rely heavily on other forms of aid (Saunders, Williams, and Smith 2016). Given the financial constraints of many HBCU students, it is important to better understand the various sources of revenue that these institutions pull from besides tuition and fees.

Funding for American colleges and universities is derived primarily from 1) public sources (e.g., federal, state, and local appropriations, grants and contracts), 2) private investments (e.g., gifts, grants, and contracts), 3) tuition and fees, and 4) other income (e.g., auxiliary income). While both HBCUs and non-HBCUs rely on each of these funding streams, they do so to varying degrees. This brief examines these revenue sources to illuminate how HBCUs are funded compared with non-HBCUs. The data also demonstrate how these sources have been historically inequitable and continue that trend in the present day. All estimates focus specifically on four-year public and private nonprofit institutions.

TOTAL REVENUE SOURCES

Figure 1 provides insights about how institutional revenue for public and private HBCUs and non-HBCUs is driven by different sources.[2] These estimates illustrate proportional revenue contributions from the sources noted previously.

Figure 1. Average Revenue Shares at Public and Private Nonprofit Four-Year HBCUs and Non-HBCUs, 2015



Source: National Center for Education Statistics, Integrated Postsecondary Education Data System
*Includes investment income such as interests on endowments.
Note: Totals may not add up to 100 due to rounding.

The data demonstrate that public institutions receive a greater proportion of their overall funding from federal, state, and local resources than private institutions. However, reliance on these sources differs between public HBCUs and public non-HBCUs. Among public institutions, HBCUs are more dependent on funding from federal, state, and local governments than non-HBCUs (54 percent of their revenue compared with 38 percent). These estimates do not suggest that the total amount of federal, state, and local funding that public HBCUs receive is greater than public non-HBCUs. In 2015, public four-year HBCUs received about $2.2 billion in federal, state, and local funds, while non-HBCUs received a little over $94 billion from the same sources. However, when overall revenue is examined, these sources simply provide a larger share of total revenues at public HBCUs relative to their public non-HBCU counterparts.[3] Although private institutions are generally less dependent on public sources, it should also be noted that private HBCUs receive a larger share of their funding from these sources

FINDING 1

Public HBCUs rely on federal, state, and local funding more heavily than non-HBCUs (54 percent of overall revenue versus 38 percent).

FINDING 2

Public HBCUs are slightly more tuition-dependent than their non-HBCU counterparts (45 percent more tuition-dependent compared with 37 percent).

2 All HBCU estimates exclude Howard University (DC) because of the unique funding arrangement resulting from its status as a congressionally chartered institution.

3 The difference in revenue shares for public HBCUs and non-HBCUs from public sources reflects the fact that HBCUs have a lower amount of overall revenue; the federal, state, and local funding that they receive represents a larger share of their smaller income.

than private non-HBCUs (12 percent of their revenue compared with 9 percent).

While public funds are the largest source of revenue for public institutions, private institutions are generally more tuition dependent (i.e., private institutions depend more heavily on tuition and fees for their funding than public institutions). This also holds true for both HBCUs, with private HBCUs receiving a larger percentage of their overall revenue from tuition and fees (45 percent versus 37 percent). In addition, without the same degree of public financial support, private colleges and universities rely heavily on funding from private gifts, grants, and contracts, as well as auxiliary and other sources of income (e.g., residence halls, food services, book stores, parking, intercollegiate athletics).

Although private investments are critical sources of funding for many private institutions, the proportion of universities' overall budget from these sources is higher for private non-HBCUs than private HBCUs (25 percent compared with 17 percent; see Figure 1). Furthermore, private non-HBCUs receive a slightly higher proportion of their overall revenue from auxiliary and other sources compared with private HBCUs (29 percent versus 26 percent). It is also worth noting that auxiliary and other income compose a considerably higher percentage of revenue for public non-HBCUs than their HBCU counterparts (31 percent versus 19 percent).

FINDING 3

Private funds make up a larger percentage of overall revenue for private non-HBCUs relative to their HBCU counterparts (25 percent versus 17 percent).

Figure 1 reveals just how unique HBCU funding profiles are in three key areas: public sector support (e.g., federal, state, and local appropriations; grants and contracts), private investments (e.g., gifts, grants, and contracts), and tuition revenue. Within both the public and private sectors, funding from public sources makes up a larger share of the funding profiles of HBCUs compared with non-HBCU institutions. This underscores the importance of a healthy partnership between HBCU leadership and federal, state, and local governments for continued institutional vitality. Compared with their private non-HBCU peers, private HBCUs benefit less from private investments. Ultimately, the limited private funds for private HBCUs further explain their dependence on tuition revenue. Moreover, their reliance on governmental funds further emphasizes the importance of public support. The following sections provide more detailed insights about HBCU funding from public and private sources, relative to non-HBCUs.

FEDERAL FUNDING FOR HBCUs AND NON-HBCUs

The U.S. Department of Education (ED) provides the bulk of federal funds to colleges and universities indirectly through the federal student aid programs via Title IV of the Higher Education Act (HEA). HBCUs also receive direct subsidies from ED through Title III, Part B of the HEA, which "provides financial assistance to Historically Black Colleges and Universities (HBCUs) to establish or strengthen their physical plants, financial management, academic resources, and endowment-building capacity" (U.S. Department of Education 2017). HBCUs receive this direct funding for operations from the federal government because of their significant contributions to promoting equal opportunity, to correct decades of discriminatory practices by the federal and state governments, and to build their operational capacity. In FY 2015, HBCU received a total of $227,524,000 in funds from Title III, Part B (U.S. Department of Education 2017). HBCUs also receive smaller awards from various federal agencies including the U.S. Department of Health and Human Services, the National Science Foundation, and U.S. Department of Defense (U.S. Department of Education 2015).

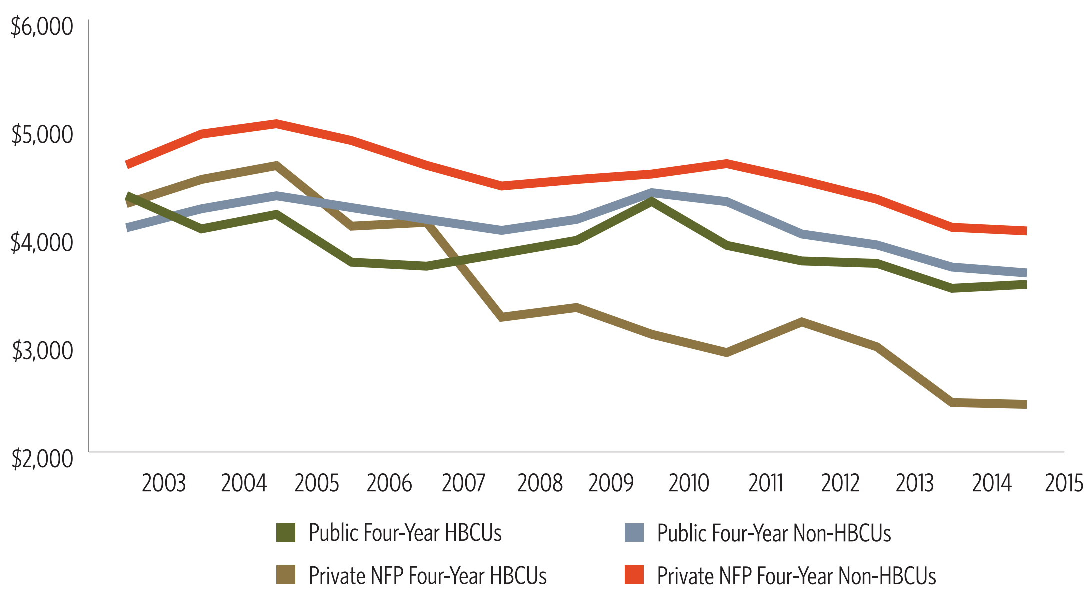
Figure 2 provides information about the federal funds awarded to HBCUs per FTE student from

2003 to 2015.[4] The data show that federal support per FTE has decreased over time for each type of institution. This decline has been most pronounced for private HBCUs, where federal funding per FTE decreased from about $4,300 in 2003 to approximately $2,500 in 2015, a decline of 42 percent. The data also indicate some disparities in federal funding between HBCUs and non-HBCUs. Although private HBCUs and private non-HBCUs received comparable federal funding per FTE in the early 2000s, a substantial funding gap emerged in 2006 that has continued to widen. The most recent estimate indicates that private HBCUs receive about $1,600 less in federal funding per FTE compared with private non-HBCUs. In 2003, the gap was less than $400 per FTE, as shown in Figure 2. Overall, this funding disparity illuminates a need for better insights about the distribution of federal funds. Other research supports the need to increase HBCU participation in federal programs and initiatives, including competitive grants and contracts, and to strengthen HBCUs' capacity to compete for federal awards (Toldson and Washington 2015).

FINDING 4

Both public and private HBCUs experienced the steepest declines in federal funding per FTE student between 2003 and 2015, with private HBCUs seeing the most substantial reduction (42 percent).

Figure 2. Federal Funding per FTE Student at Public and Private Nonprofit Four-Year HBCUs and Non-HBCUs, 2003–15 (Adjusted for Inflation)



Source: National Center for Education Statistics, Integrated Postsecondary Education Data System

4 These estimates include the total amount of revenue from federal appropriations, grants, and contracts. Pell Grants are excluded if they were reported as federal grants. All dollar amounts are adjusted to represent 2015 dollars.

STATE AND LOCAL FUNDING FOR HBCUs AND NON-HBCUs

In addition to federal funding, state, and local appropriations provide a valuable source of revenue for colleges and universities, especially those in the public sector. Unfortunately, states have divested from higher education over the last four decades (Seltzer 2018), leaving HBCUs especially vulnerable. Figure 3 illustrates state and local appropriations from 2003 to 2015 for HBCUs and non-HBCUs, demonstrating downward trends in state support.[5] Given the small amount of funding that private colleges and universities receive from state and local governments, these estimates focus exclusively on public institutions.

Figure 3. State and Local Appropriations per FTE Student at Public Four-Year HBCUs and Non-HBCUs, 2003–15 (Adjusted for Inflation)

Source: National Center for Education Statistics, Integrated Postsecondary Education Data System

From 2003 to 2015, state and local appropriations per FTE to all four-year institutions decreased. Despite the economic rebound since the 2008 recession (Geewax 2016), state financial support for higher education has not recovered to pre-2008 levels. The reduction in state support for public institutions has caused some to question state governments' valuation of education as a collective good with broader societal benefits (Hebel 2014).

Although the national data in Figure 3 suggest that public HBCUs and non-HBCUs have been funded at similar levels per FTE student since 2008, it is important to note that these trends may differ at the state level, with some states having noted disparities in funding, including Louisiana and North Carolina (Boland and Gasman 2014), as well as Alabama, Florida, and Texas (Lee and Keys 2013). The existence of comparable levels of funding at the national level for public HBCUs and non-HBCUs in the last several years of the data is a promising sign. However, individual state data need to be disaggregated to determine whether this is a broad trend or one that is driven by a few states that have made targeted investments, which is beyond the scope of this paper.

5 All dollar amounts are adjusted to represent 2015 dollars.

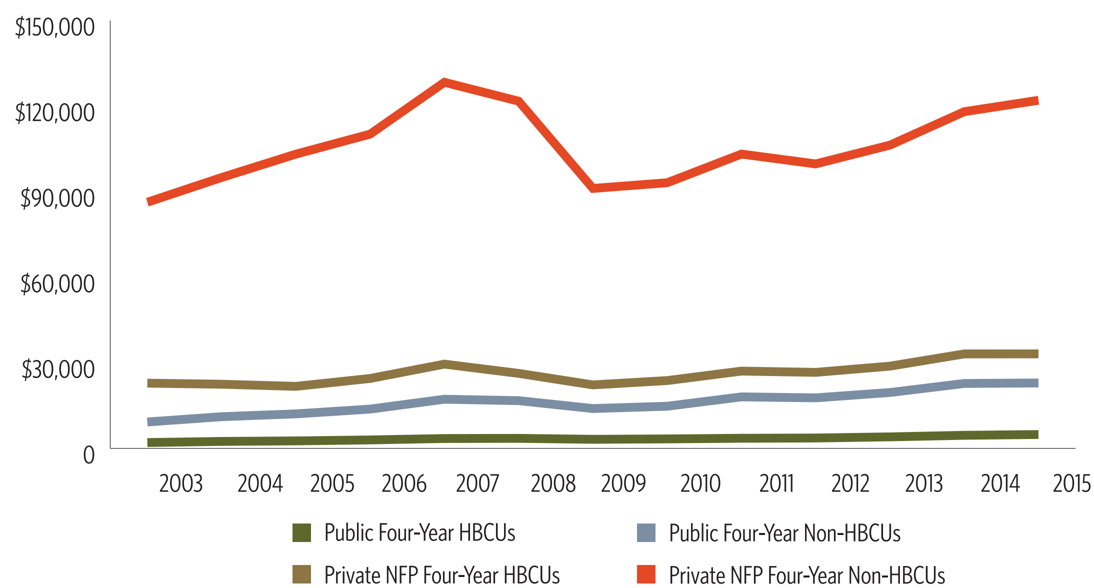
HBCU AND NON-HBCU ENDOWMENTS

In addition to public sources of funding, most colleges and universities—particularly privates—leverage their endowments for items such as institutional grants and operating costs. Endowments—and other private sources of money—allow institutions to minimize tuition increases, to provide high-quality services at a lower cost to students than would otherwise be feasible, and to support other things that contribute to institutional quality, such as faculty positions, medical research, and libraries (ACE 2014). Figure 4 reveals stark differences in endowment assets per FTE student for HBCUs and non-HBCUs. In general, non-HBCUs reported greater endowments than their HBCU peers. The most recent data indicate that, per FTE student, the endowment for public HBCUs was about 20 percent of the endowment for public non-HBCUs. For private institutions, the endowment for HBCUs is about 27 percent of the endowment at non-HBCUs. It follows that non-HBCUs have more endowment income to deploy when confronted with economic downturns and public financial divestments. Private HBCUs are acutely affected by this given that private institutions are more financially dependent on their endowment earnings than their public counterparts. Differences in endowment assets stem partially from long-standing imbalances in the amount of private funds acquired by HBCUs compared with non-HBCUs. Some of the fundraising difficulties that HBCUs face include unequal consideration for funding by foundations and corporate donors, as well as challenges with alumni giving (Gasman 2010). HBCUs may also receive less in private gifts because of ever-growing gaps in racial wealth (Asante-Muhammed et al. 2016), which can put the preponderance of HBCU alumni at a disadvantage to support philanthropic efforts. When taken in concert with continuing decreases in public funding for higher education, the lower endowment levels of HBCUs present a significant resource constraint.

FINDING 5

Within both public and private sectors, HBCU endowments lag behind those of non-HBCUs by at least 70 percent, which jeopardizes the HBCU leadership's ability to buffer decreases in state and federal funding.

Figure 4. Endowment Assets per FTE Student at Public and Private Nonprofit Four-Year HBCUs and Non-HBCUs, 2003–15 (Adjusted for Inflation)



Source: National Center for Education Statistics, Integrated Postsecondary Education Data System

CONCLUSION

HBCUs are critical access points to postsecondary education and serve an important function in promoting educational attainment, particularly for many black students. In addition, these institutions serve a significant proportion of first-generation students and those who require financial assistance to afford college—a growing segment of the college-going demographic within the United States (College Board 2015). HBCUs also contribute substantially to the national economy, providing over 134,000 jobs and $14.8 billion in economic impact in 2014 alone (Humphreys 2017). Despite these contributions to society, HBCUs continue to grapple with funding challenges that are beyond their control. As a result, HBCUs must rely more heavily on tuition and fees and public sources of funding—federal and state support—to fund their operations. While student tuition and fees are important for the financial viability of all institutions, their higher level of dependence on tuition dollars leave many HBCUs more vulnerable to swings in enrollment. The greater reliance of HBCUs on federal and state support, in comparison with their non-HBCU counterparts, also makes them susceptible to economic downturns, state divestments from higher education, or policy changes, as witnessed during the 2012 Parent PLUS loan crisis. The crisis made it more difficult for families to borrow money for college and prompted a drop in student enrollment at many black institutions (Wang 2013). Creating a better balance of funding sources along with endowment growth will help HBCUs better prepare for a future that will likely be characterized by diminishing public support for postsecondary education.

Because HBCUs are mission-driven to broaden college opportunities for black students, many of whom have limited financial resources, these colleges and universities cannot increase costs to offset public divestments in higher education. Furthermore, they cannot grow their endowments overnight. As a result, federal, state, and local funding continue to play a critical role for HBCUs in their mission to support students that the country needs to earn college degrees.

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