Across the nation demands are growing for a variety of publicly funded services, while nearly all states are facing tightening budgetary constraints. Pervasive, long-term structural imbalances between the costs of these services and the resources available to support current service levels are exacerbated when variable economic conditions create high unemployment and erode tax revenues, while temporarily increasing demand for many public services.

More directly than many components of state budgets, public funding for higher education is affected by both longer-term structural imbalances and by the severity of recession-related disruptions in the balance between current revenues and service demands. Some observers may see this as an unavoidable, even necessary transition that will force higher education to replace public funding with other sources and to find fundamentally different and more efficient modes of education delivery. We do not agree, at least not without a much more careful analysis of the shifting patterns of financing higher education and of the consequences of different patterns of public support. We believe that the squeeze on public funding for higher education from many causes and in nearly all states needs close examination. Further, we believe that the resulting cost-shifting to students and parents poses a severe risk of potential underinvestment in higher education by individuals, particularly those most affected and underserved by higher education, and society as a whole.

To assist closer examination of these issues in the West, this chapter provides a picture of changing patterns in core funding for higher education—a
picture built around graphs intended to inform understanding of these changes and prompt additional analysis of both incremental effects and longer-term consequences. Are western states jeopardizing the broad human capital development needed by job seekers and employers alike to recover from currently high rates of unemployment and low rates of business investment? Are western states underinvesting in higher education research, infrastructure, and the generation of new knowledge? Will current levels of public investment limit the long-term capabilities of the West, its populations, and its economy to compete and thrive in an increasingly global environment? Can enrollments in higher education continue to grow when the costs of higher education for students and families continue to climb as fast as or faster than other sectors of the economy? These are difficult and debatable questions—questions needing careful attention.

The West (defined here as the 15 US states that are members of the Western Interstate Commission for Higher Education, or WICHE) is a particularly interesting and important region in which to examine how patterns in financial support for higher education are changing over time. Our analysis uses the financial indicators developed by the State Higher Education Executive Officers (SHEEO) association to examine core sources of support for higher education over a 32-year period, from 1980 to 2012. We use a long and somewhat unusual time period to make use of all the available time-series data in the State Higher Education Finance (SHEF) data base.

We begin with a description of SHEF, including the data, sources, and analytic methods on which this relatively new set of higher education financing indicators is based. We then use these indicators to look at the western states as a region in comparison to the United States as a whole, followed by a closer look at the West and at western states individually. We close with some observations about the challenges facing higher education funding and with a hope that this analysis will contribute to broader public understanding of the issues raised and the consequences of decisions being made with respect to financial support for higher education in the nation and the western states in particular.

**Origins and Development of the SHEF Report**

Higher education financing is complex. Various forms of governmental support along with revenue from a variety of other sources are combined and used by institutions to provide a mix of educational and ancillary services. Both the revenue streams and the educational services vary across states and institutions. At public colleges and universities, funding (often called “subsidies”) from state and local governments provides financial support for broadening access to higher education and maintaining the breadth and quality of education programs. Appropriations to institutions are supplemented by revenue from tuition and fees paid by students and families to support what are broadly defined as “Education and General” (E&G) expenditures, which is the primary source of revenue supporting instructional costs and related