



Fiscal and State Policy Issues Affecting Postsecondary Education: State Outlook

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This report explores the national and state economic and revenue conditions affecting public colleges and universities. In addition, it provides information on tuition changes for a number of public college and university systems and a review of leading policy changes that have occurred in the states this year.

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U.S. Economic Forecast

Weak Economic Growth in 2016

The third estimate of the real Gross Domestic Product (*GDP*), released in late September by the Bureau of Economic Analysis (BEA), indicated that the national output of goods and services increased by an annualized rate of 1.4 percent in the second quarter of 2016. By comparison, GDP increased by .8 percent in the first quarter. This is the weakest start to a year since 2011 and a furtherance of sluggish post-recession growth. Earlier this year, economists at leading national and international institutions predicted real GDP to increase between 2 and 3 percent in 2016, with similar growth projected for next year. Since 1947, the average annualized GDP growth rate in the U.S. has been *3.22 percent*.

Organization	Date of Projection	2016 Forecast	2017 Forecast
<i>Congressional Budget Office</i>	January 2016	2.7 percent	2.5 percent
<i>Federal Reserve Board</i>	September 2016	1.8 percent	2.0 percent
<i>International Monetary Fund</i>	April 2016	2.4 percent	2.5 percent

Unemployment Rate Continues to Decline

In August, the U.S. unemployment rate held at 4.9 percent, according to the *latest numbers* from the U.S. Bureau of Labor Statistics (*BLS*). This rate is the same as the beginning of the year but below the 5.1 percent rate in August 2015. BLS estimates that 7.8 million people remain unemployed, of which 26.1 percent are long-term unemployed. According to the Hamilton Project at the Brookings Institution, the U.S. still has a “*jobs gap*” of 1.1 million jobs, meaning that the

U.S. has to create 1.1 million jobs in order to return to pre-recession employment levels. Analysts at the Hamilton Project predict that the jobs gap will close in May 2017.

As of August 2016, *state unemployment rates* range from 2.5 percent to 6.7 percent. The states with the highest unemployment rates were **Alaska** (6.8 percent), **New Mexico** (6.6 percent), **Nevada** (6.3 percent) and **Louisiana** (6.0 percent). States with the lowest unemployment rates were **South Dakota** (2.9 percent), **New Hampshire** (3.0 percent), **North Dakota** (3.1 percent), **Nebraska** (3.2 percent) and **Vermont** (3.4 percent). Since 1948, the *historical average rate* for U.S. unemployment is 5.82 percent.

State Economic Conditions

State Budgets Finally Surpass Pre-Recession Levels, Though Progress is Slow and Uneven Across States

According to a *June state fiscal survey* from the National Association of State Budget Officers (NASBO), FY2016 state budgets collectively surpassed inflation-adjusted 2008 levels for the first time following several years of slow economic recovery after the Great Recession. However, significant differences emerge between states: In 29 states, FY2016 general fund expenditures remain below FY2008 figures and 23 states report general fund revenues lower than FY2008 levels. According to the report, long-term spending requirements—such as healthcare, K-12 education, pensions and corrections—continue to present difficult budgetary decisions as slower revenue growth is expected for FY2017. Forty-three executive budgets recommend modest spending increases for FY2017, with most new revenue directed to K-12 education (\$8.9 billion) and Medicaid (\$7.6 billion). Net spending increases for higher education amounted to \$1.1 billion across 35 state budget blueprints, while 11 states cut funding for higher education.

The NASBO brief, along with a *report* issued in June from the Rockefeller Institute of Government at the State University of New York, points to an uncertain outlook for state budgets in FY2017, particularly with respect to higher education funding. The Rockefeller report indicates that the recent weakness in tax collections has been caused by a slowdown in both income tax and sales tax revenue, with instability in oil-state economies affected by declines in prices and production. According to NASBO, mid-year budget reduction amounts were minimal in FY2016, with 18 states making mid-year budget cuts totaling \$2.2 billion. Of these states, 14 cut higher education spending mid-year. Should this trend continue, higher education funding could likely be affected by healthcare and state pension obligations “crowding out” discretionary spending categories, and it could also bear the brunt of mid-year budget cuts when state revenues fall short.

State Higher Education Financing

State Higher Education Budgets for FY2017 Likely Mixed

State higher education funding for FY2017 looks to be mixed, with many states experiencing modest increases, while other states will face cuts. For example, **Missouri** increased higher education funding by 4 percent, while **Oklahoma** cut funding by 15.9 percent. **Colorado** maintained flat funding, while **Kansas** cut appropriations by 4 percent and **New Mexico** reduced operating support by 2.4 percent. A complete accounting of state funding data for FY2017 will be available early next year.

For the fiscal year that ended July 1, state higher education funding increased by 4.1 percent and 9.7 percent over the past two fiscal years, according to *data compiled by Illinois State University*. The report also indicates that higher education funding has increased the most over the last five years in the Rocky Mountain states (29.4 percent), the Far West (19.6 percent) and in New England (17.4 percent). Conversely, the regions in the U.S. with the smallest increases in funding during the past five years were the Southeast (5.9 percent), Great Lakes (excluding Illinois) (8.2 percent) and Southwest (9.5 percent). *Fifteen states reported* that fiscal support for higher education in FY2016 was lower than fiscal support five years ago, an improvement over the prior year's survey in which 25 states reported lower support for higher education than five years earlier. However, the report indicates that higher education systems in two states—**Arizona** and **Louisiana**—are operating at levels of fiscal support that are more than 20 percent below FY2011 funding.

State Reinvestment in Public Higher Education Resulting in Tuition Freezes or Relatively Modest Tuition Increases in Many States

According to *a report* released by the College Board in November 2015, published in-state tuition and fees increased at about the same rate (2.9 percent) in current dollars in 2015-16 as in the preceding two years. However, because the Consumer Price Index increased by less than 0.2 percent between July 2014 and July 2015, the inflation-adjusted increase was larger in 2015-16. Published in-state tuition and fees increased 2.7 percent (after adjusting for inflation) in 2015-16, higher than the inflation-adjusted increases of 0.8 percent in 2013-14 and 0.9 percent in 2014-15.

College affordability and student debt remain among the top higher education policy concerns for state legislators and governors. Recent state reinvestment in public higher education has frequently been tied to agreements with institutions to freeze tuition or cap tuition increases—for example, in **California, Idaho, Maine, Missouri, New York, Ohio** and **Rhode Island**—and this trend will likely continue in the coming year.

Approximate Year-Over-Year Changes to Tuition for the 2016-17 Academic Year for In-State Undergraduate Students

<i>Arizona Board of Regents</i>	Average 2.9% tuition increase across 3 universities
<i>University of Arkansas Campuses</i>	Tuition increases range from 3.5% to 11.8%
<i>University of California and California State University</i>	0
<i>Colorado State University System</i>	Tuition increases of 5-6% for Fort Collins and Pueblo campuses; 0% for CSU Global campus
<i>Connecticut State Colleges & Universities System</i>	5% increase
<i>Delaware State University & University of Delaware</i>	0 and 2.5%, respectively
<i>University System of Georgia</i>	0
<i>Idaho's State Board of Education</i>	Tuition increase cap of 3%
<i>Iowa Board of Regents</i>	\$250 increase, or 3.7%
<i>Kansas Board of Regents</i>	Tuition increases range from 4.9 to 6 %
<i>Kentucky Council on Postsecondary Education</i>	Limited to tuition increases ranging from 4.6 to 6.1%

<i>Louisiana State University System</i>	Tuition increases range from 2.57 to 4.95%
<i>University of Maine System</i>	0
<i>University System of Maryland</i>	2% tuition increase
<i>University of Massachusetts and Massachusetts State Universities</i>	UMASS increasing tuition by an average of 5.8% across 5 campuses; tuition at Massachusetts State Universities increasing by as much as 7.8%
<i>Michigan¹</i>	Tuition increases range from 2.4% to 4.2%
<i>Minnesota State Colleges and Universities and University of Minnesota</i>	0
<i>University of Missouri System</i>	0
<i>Montana University System</i>	0
<i>University of Nebraska Board of Regents</i>	2.5% increase
<i>New Mexico State University & University of New Mexico</i>	0 and 2.5% increase, respectively
<i>State University of New York System</i>	0
<i>University of North Carolina System</i>	0
<i>Ohio</i>	0, as approved in 2015
<i>Oklahoma State Regents for Higher Education</i>	Average 8.4% tuition increase across 25 public colleges and universities
<i>Pennsylvania State System of Higher Education</i>	2.5% tuition increase, the smallest in more than a decade
<i>Rhode Island</i>	0
<i>South Carolina</i>	Average 3.14% tuition increase across 8 public colleges and universities
<i>South Dakota Board of Regents</i>	0
<i>Tennessee Board of Regents</i>	Average 2.6% tuition increase, lowest hike in over 30 years
<i>Utah Board of Regents</i>	Statewide baseline increase of 3.5%, University of Utah added .4% more and Dixie State added 1.5% more
<i>Washington</i>	Tuition cuts of 10% at UW and WSU, 15% at WWU, CWU, EWU and Evergreen
<i>University of Wisconsin System</i>	0, as approved in 2015

¹Universities do not receive full state funding if they increase tuition by more than 4.2%.

State Financial Aid has Partially Recovered from its Decline during the Recession

An annual *report* by the College Board indicates that for the 2014-15 academic year, states collectively awarded \$10.1 billion in student financial aid, representing 8 percent of total student grant aid awarded in that year. State governments provided 14 percent of all grant aid in 1994-95, 12 percent in 2004-05, and 9 percent in 2009-10. State grant aid per FTE rose to \$710 in 2013-14 from \$680 in 2011-12, but still falls short of the \$740 peak in 2007-08.

Promisingly, the most recent annual *report* by the National Association of State Student Grant and Aid Programs (NASSGAP) indicates that undergraduate need-based aid increased from \$7.4 billion in 2013-14 to \$7.8 billion in 2014-15, a 6.2 percent nominal increase. According to the report, states collectively awarded 76 percent of grants based on need and 24 percent based on factors other than need.

Charitable Giving in 2015 Reaches Record High

According to the *Council for Aid to Education* (CAE), charitable contributions to U.S. colleges and universities increased 7.6 percent in 2015 and reached a record high of \$40.3 billion. Gifts from alumni and non-alumni individuals increased by 10.2 percent and 23.1 percent, respectively, and these two groups drove the increase in charitable giving for 2015. CAE predicts that charitable support will modestly increase in 2016.

Notably, the top 20 fundraising institutions raised 28.7 percent of all 2015 gifts. All the funds raised by the lowest 490 fundraising institutions (about half of the survey respondents) combined roughly equals the combined value of the eight reported gifts of \$100 million or more. These eight gifts total \$1.44 billion and went to four institutions, all in the top 20 fundraisers.

Institutions Increase Endowment Spending Despite Sharp Declines in Returns

A *report* released in January 2016 from the National Association of College and University Business Officers (NACUBO) and the Commonfund Institute indicated that college and university endowments grew by an average of 2.4 percent in FY2015, down from the 15.5 percent in FY2014 and 11.7 percent in FY2013. According to the report, this year's return was the lowest since the -0.3 percent reported for FY2012, and well below the median 7.5 percent that most endowments report needing to earn in order to maintain their purchasing power. Even so, 78 percent of colleges surveyed reported spending more in dollars from their endowments this year, with a median increase of 8.8 percent. While the average endowment in this study was about \$651.5 million, more than half of the 812 institutions had endowments below \$115 million.

Higher Education Policy Outcomes—States' 2016 Legislative Sessions

Listed below are highlights from the 2016 state legislative sessions, aligned with the *Top 10 State Higher Education Policy Issues for 2016*, as published by the American Association of State Colleges and Universities (AASCU). For a more comprehensive list of higher education policy measures introduced this year, visit the Education Commission of the States' *2016 State Policy Database*.

#1 Keeping College Affordable Through State Investment in Public Higher Education

State funding increases for higher education have initiated agreements between state and higher education officials to freeze tuition or keep tuition increases low in many states. In **Tennessee** and **Idaho**, for example, tuition increases are the lowest in 30 and 15 years, respectively. The governors of **Maine**, **Missouri** and **New York** included tuition freezes in their budget plans, and tuition freezes were also announced in other states such as **Georgia** and **Montana**. In **Massachusetts**, state officials unveiled the first college tuition rebate program, with rebates issued at the end of each completed semester and tuition frozen at whatever rate as when the student begins the program.

One of the most notable tuition policy proposals aimed at keeping college affordable came out of **North Carolina**, where lawmakers passed a budget provision that will establish a fixed tuition and fee payment option, cap student fee increases, reduce in-state tuition to \$500 (\$2,500 for out-of-state students) at three public universities within the University of North Carolina system, and create a merit-based scholarship program for students at N.C. A&T State University and N.C. Central University. The controversial tuition experiment was originally proposed for five schools in the UNC system—Elizabeth City State University, Winston-Salem State University, Fayetteville State University, UNC-

Pembroke and Western Carolina University—but after facing severe backlash from students and alumni of HBCUs, the proposal was amended to remove Elizabeth City State, Winston-Salem State and Fayetteville State. Elizabeth City State was ultimately added back in. Lawmakers had said they would give the schools up to \$70 million a year out of tax revenue to make up for the lost tuition revenue under the plan, but HBCU backers said they worried that the funds might not be there in hard economic times, putting the schools in financial jeopardy.

Limited state revenue growth, growing commitments from other state budget items, and reliance on taxes from oil in some states have limited the amount of state investment in higher education and, thus, state leverage over tuition policy. In other states such as **Kansas** and **Oklahoma**, state cuts to higher education funding have lead colleges to request higher tuition increases than originally planned to make up for the lost revenue. Other states struggling to reverse declining enrollment trends are considering offering in-state tuition rates to residents of bordering states, such as to Massachusetts residents in **Connecticut** and to Iowa residents in **South Dakota**.

#2 Improving Institutional Outcomes and Degree Production

States have continued to push for performance- and outcomes-based funding as a way to promote institutional outcomes, accountability measures and degree production. **Alabama** and **Montana** debated the possibility of linking higher education funding to performance, while the governors of **Illinois** and **Wisconsin** proposed increasing the amount of funding based on performance in their states. **Wisconsin** currently has performance-based funding for its technical college system, but not the University of Wisconsin system. Additionally, officials in **Kentucky** are working on developing new formulas for performance-based funding while **Arkansas** has unveiled a new performance-based approach to state funding.

Some lawmakers in Missouri proposed withholding the University of Missouri's share of a performance-based funding increase as punishment for the perceived embarrassment the university brought the state in the wake of highly publicized protests around race and diversity on campus. While the bulk of the proposed budget cuts were ultimately restored, the incident does illustrate how performance-based funding could be politicized and diverted, despite performance on established metrics.

Some recent research indicates that performance-based funding models may have a limited effect on long-term institutional behavior and outcomes. Even so, the National Conference of State Legislatures (NCSL) *reports* that 32 states have some form of performance-based funding, with five additional states currently transitioning to the model.

#3 Combating Campus Sexual Assault

As discussed in AASCU's recent *policy brief* on state legislation to combat campus sexual assault, state lawmakers are working with college campuses on a number of different policy proposals to prevent and respond to campus sexual violence.

Affirmative consent, or "yes means yes," standards in student misconduct policies on college campuses continue to be widely debated. This year, **Connecticut** passed an affirmative consent standard bill, while a similar measure failed in **Maryland**. Several states, including **Delaware**, **Indiana**, **South Dakota** and **Wisconsin** enacted bills aimed at encouraging individuals to report sexual violence on campus. **Virginia** passed three bills that were a part of Gov. Terry McAuliffe's Task Force on Combating Campus Sexual Violence, including educating high schoolers on dating violence and trauma-informed response training for law enforcement officers.

Ensuring that adjudication is equitable for all parties also continues to instigate much debate. The **Georgia** Board of Regents approved a statewide plan to prevent sexual violence which includes rules permitting attorneys in campus disciplinary processes, a decision which could prove to disenfranchise traditionally underserved student populations who do not have access to the same financial and legal resources as their wealthier peers.

#4 Meeting State Economic Needs Through Higher Education

Following the trend in recent years, higher education remains central to gubernatorial plans for economic and workplace development. In AASCU's analysis of gubernatorial State of the State addresses, 32 of 41 addresses emphasized the importance of postsecondary education to equipping individuals with the knowledge and skills required by today's rapidly changing workforce. **Missouri** Governor Jay Nixon proposed increasing state spending on scholarships as a way to eliminate financial barriers to obtaining a degree. Several states have proposed legislation to improve the transfer process between the two- and four-year systems as another way to boost degree completion. In **New York**, the state university system is working on increasing experiential or applied learning opportunities so that students can more easily link college courses and skills to potential careers. Several states have campaigns to bolster the number of adults with a college degree by a specified date. As part of these initiatives, many states, including **Indiana** and **Tennessee**, are introducing programs to encourage working adults with some college to return and finish their degrees through flexible class schedules, online courses, credit for work or military experience, and other financial aid or incentives.

#5 Aligning Secondary-Postsecondary Educational Standards

In an effort to ensure high school graduates are college and career ready, the Common Core State Standards (CCSS) were developed and voluntarily adopted by states at the beginning of this decade. Since then, the CCSS have been, and continue to be, controversial. According to the *NCSL*, 19 states introduced legislation to repeal their current statewide academic standards or assessment systems, though none of these have been enacted thus far. Nineteen states have introduced legislation that would delay implementation of, or use of, student achievement scores in statewide accountability systems; **Arkansas, Louisiana, Maine** and **Pennsylvania** passed such bills. Additionally, 28 states have introduced legislation to modify their current statewide assessment or accountability systems, with **Arizona, Arkansas, Colorado, Georgia, Louisiana, Maine, Maryland, Oklahoma, South Carolina, South Dakota, Tennessee** and **Utah** enacting these bills.

A related concern regarding higher education and K-12 education is that many states are currently contending with or are predicted to experience a teacher shortage, particularly in rural areas. States such as **Colorado, Indiana, North Carolina, North Dakota, New York** and **Wisconsin** all discussed this issue this year, with many presenting new programs or financial incentives—such as scholarships and loan forgiveness—to entice students into this high-need area.

#6 College Access for Undocumented and DACA Students

College access and affordability for undocumented students and those with federal Deferred Action for Childhood Arrivals (DACA) status continues to be a contentious issue, as demonstrated by an outpouring of both support and outrage when two Texas valedictorians revealed their status as undocumented immigrants this June. Though the national trend has generally leaned toward expanding college access for these students, several bills struggled to garner enough support. In **California**, a newly funded low-interest loan program offered additional aid to immigrants enrolled at a four-year public university in the state. However, in **Connecticut, Illinois** and **Tennessee**, legislation that would have made undocumented students eligible to receive state financial aid ultimately failed to pass.

In late June, the U.S. Supreme Court deadlocked 4-4 on a decision regarding President Obama's 2014 Deferred Action for Parents of Americans (DAPA) program, which would have deferred deportation and granted work permits to four million undocumented immigrants. Texas and 25 other states had challenged this measure, and the Supreme Court's indecision upholds a lower court decision. While the decision does not technically affect the 2012 DACA program, legal experts say there is little to prevent these states from applying the same legal claims to DACA and blocking this program as well. Depending on the political climate leading up to and following the November election, additional judicial actions may end up affecting the intersection of immigration and higher education.

#7 Guns on Campus

Guns on campus emerged as one of the most visible and contentious higher education policy issues in 2016, with at least 15 states considering legislation on this issue. According to the *NCSL*, 18 states ban carrying a concealed weapon on a college campus and 23 states give the decision whether to allow guns on campus to each college or university individually. Although only eight states have provisions allowing the carrying of concealed weapons on campus—with **Texas'** bill, the most recent, having gone into effect in August—the trend in recent years has been to force public colleges and universities to allow individuals with concealed weapons permits to carry their weapons on campus.

Georgia nearly became the ninth state to prevent colleges from stopping individuals from bringing guns on campus, but this bill was ultimately vetoed by the governor. However, Georgia did pass legislation, called "Campus Carry Lite," that allows students 18 and older to carry Tasers on campus. **Tennessee** passed a law that allows faculty and staff with concealed carry permits to bring their weapon onto public college campuses, provided they notify local law enforcement. Much less common are states where lawmakers consider restricting access to guns on campus; this year, only **Maryland** considered such a bill, and it failed to pass.

#8 College Access and Success for Veterans

States have taken a backseat to federal policy with regards to military and veteran student populations. The federal Veterans Access, Choice, and Accountability Act, which went into effect January 1, 2016, required states to extend in-state tuition to recent veterans, regardless of residency status, in order to participate in the GI Bill. Beyond this, some states, like **Florida**, examined and expanded their practices for awarding postsecondary credits for experiential work done by military and veterans. Others, like **Maryland** and **Arizona**, passed legislation aimed at ensuring military and veteran student success in higher education institutions. Additionally, **Missouri** passed a law preventing public colleges and universities from charging veterans more than \$50 per credit hour before federal and state aid is applied, a change which allows veterans to apply excess aid to non-tuition expenses. However, budget challenges in **Wyoming** have led to conversations on changing the state's benefits for veterans. Wyoming's governor recently said that the state provision allowing veterans, their spouses and dependents to have free tuition for up to 10 semesters at the University of Wyoming and state community colleges will continue for the fall semester.

#9 Free Community College

State plans for free community college have rapidly grown in popularity in recent years as community colleges are seen as an affordable way to meet rapidly changing economic and workforce needs. At least 16 states considered free community college proposals this year. Only Kentucky passed legislation and it joins Tennessee, Oregon and Minnesota as the four states that have enacted free community college plans. Kentucky's Work Ready Kentucky Scholarship

Program will begin in Fall 2017. Typically, state-level free community college plans are “last-dollar,” in that pay for tuition costs not covered by existing state and federal financial aid programs. While the messaging of “free” community college may promote broader participation in higher education, these proposals divert resources from the neediest students and redirect more students to institutions with the fewest resources. For more information about the promises and pitfalls of this policy issue, please review AASCU’s recent policy brief on state free community college plans.

Beyond free community college, a few states, including **North Carolina** and **Oklahoma**, considered legislation that would require certain students to begin their postsecondary education at a public two-year institution in order to secure a spot or funding at a four-year university.

#10 Student Loan Refinancing and Debt Assistance

Student loan refinancing and debt assistance has emerged as a key policy issue, particularly as state policymakers prioritize college affordability. According to the *NCSL*, **California**, **Connecticut**, **Iowa**, **Maine**, **Minnesota**, **North Dakota** and **Rhode Island** allow residents to refinance their student loans at the state level, and lawmakers in **Missouri** and **Virginia** also considered student loan refinancing this year. State tax deductions and credits for those with tuition or student loan expenses are another popular policy proposal that was considered in **Connecticut**, **Massachusetts**, **Michigan**, **Minnesota**, **Nebraska**, **Pennsylvania**, **Wisconsin**, and **West Virginia**. **Maine** lawmakers passed a bill that expanded the existing Equal Opportunity Tax Credit program in their state. Improving financial literacy among student borrowers is another key element of debt assistance and management. **Nebraska** and **Wisconsin** both passed legislation to provide students with more information about their loans and repayment options.