

State Outlook

Compiled by the AASCU State Relations and Policy Analysis Team



www.aascu.org/policy
August 2017

Fiscal and State Policy Issues Affecting Postsecondary Education: State Outlook

August 2017

This report provides an overview of 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.

- I. U.S. Economic Forecast
- II. State Economic Conditions
- III. State Higher Education Financing
- IV. Higher Education Policy Outcomes

U.S. Economic Forecast

Slow and Steady Economic Growth

The advance estimate of the real Gross Domestic Product (GDP), released in late July by the Bureau of Economic Analysis (BEA), indicated that the national output of goods and services increased by an annualized rate of 2.6 percent in the second quarter of 2017. By comparison, GDP increased by 1.2 percent in the first quarter of 2017. Since 1947, the average annualized GDP growth rate in the United States has been 3.22 percent.

Table 1.

Organization	Date of Projection	2017 Forecast	2018 Forecast
<i>Congressional Budget Office</i>	June 2017	2.2%	2.0%
<i>Federal Reserve Board</i>	June 2017	2.2%	2.1%
<i>International Monetary Fund</i>	June 2017	2.1%	2.1%

Unemployment Rate Continues to Decline, “Jobs Gap” from Recession to Finally Close

In June, the U.S. unemployment rate was 4.4 percent, according to the latest numbers from the U.S. Bureau of Labor Statistics (BLS). In May, the unemployment rate hit a 16-year low of 4.3 percent. BLS estimates that 7 million people remain unemployed, of which 24.3 percent are long-term unemployed, both of which remain above prerecession levels. The seasonally-adjusted unemployment rate in June for those with a bachelor’s degree or higher continues to teeter at about 2.4 percent, compared to those with an associate degree or some college (3.8 percent), high school graduates with no college (4.6 percent) and those with less than a high school diploma (6.4 percent).

According to the Hamilton Project at the Brookings Institution, as of June 2017, the United States still has a “jobs gap” of 130,000 jobs, meaning the U.S. has to create that many jobs to return to pre-recession employment levels. The average monthly rate of net job creation over the last 12 months has been 187,000 jobs per month. Using this projected job growth rate, analysts at the Hamilton Project predict the jobs gap will close in August 2017.

As of June 2017, state unemployment rates range from 2.3 to 6.8 percent. The states with the highest unemployment rates were **Alaska** (6.8 percent), **New Mexico** (6.4 percent), **District of Columbia** (6.2 percent) and **Louisiana** (5.5 percent). States with the lowest unemployment rates were **Colorado** (2.3 percent), **North Dakota** (2.3 percent), **Hawaii** (2.7 percent), **Nebraska** (2.9 percent), **New Hampshire** (2.9 percent) and **Indiana** (3 percent). Since 1948, the historical average rate for U.S. unemployment is 5.8 percent.

State Economic Conditions

State Budget Revenue Slows

According to a June state fiscal survey from the National Association of State Budget Officers (NASBO), FY2017 was a period of weaker revenue performance than states’

budget projections, with 33 states coming in below their original budget forecast, four states on target and only 13 states above projections. In FY2017, 23 states made mid-year cuts to their budgets, totaling \$4.9 billion, a historically high number outside of a recessionary period. In 19 states, these cuts were directly to higher education.

NASBO analysis of executive budget proposals released earlier this year for FY2018 found that they would increase general fund spending by only 1 percent, representing the smallest increase recommended by governors since FY2010—the height of the Great Recession. However, despite slow tax revenues, estimated general fund spending increased by 4.8 percent in FY2017, passing peak levels in FY2008 for the first time.

According to the NASBO 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 FY2018. As a result, executive budgets recommend modest spending increases for FY2018, with most new revenue directed to K-12 education (\$6.1 billion) and Medicaid (\$1.6 billion). Net spending increases for higher education amounted to \$0.4 billion across 25 state budget blueprints, while 19 states cut funding for higher education. This follows a recent trend of higher education funding being crowded out by state pensions and other competing discretionary spending categories.

A report released in June 2017 by the Rockefeller Institute of Government also found sluggish growth in state tax revenue. The report’s authors said weakness in the income and sales tax collections, declines in corporate tax receipts, and steep drops in severance taxes from oil and gas production have collectively limited the amount of revenue available to states. The first two quarters of FY2017, for example, only show a net gain of 1.6 percent over the same period in the previous fiscal year. In a similar brief authored earlier this year, the Institute predicted continued weakness in state tax collection into FY2018 due to slow economic growth, sagging oil prices and shifting consumption habits of U.S. consumers.

State Higher Education Financing

For the fiscal year that ended June 30, state higher education funding increased by 3.4 percent over the previous year 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 Far West (43.6 percent), Rocky Mountain states (30.9 percent) and New England (23.6 percent). Conversely, the regions in the United States with the smallest increases in funding during the past five years were the Southwest (11.2 percent), Southeast (13.6 percent) and Mideast (14.0 percent). Forty-two of the 49 states with budgets reported fiscal support for higher education in FY2017 that has increased since FY2012, with increases ranging from 2.1 to 51.4 percent. However, seven states reported declines in state support that ranged from 1.8 to 17.8 percent. Among the states with declining support, **Alaska**,

Louisiana, New Mexico, Oklahoma and **Wyoming** have all been affected by sliding oil prices and made significant cuts to higher education funding between FY2016 and FY2017.

According to a report released by the College Board in November 2016, published in-state tuition and fees increased at a slightly slower rate (2.4 percent) in current dollars in 2016-17 than the preceding two years (2.9 percent). 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.

Table 2.

Approximate Year-Over-Year Changes to Tuition for the 2017-18 Academic Year for In-State Undergraduate Students	
Arizona Board of Regents	Tuition increases range from 1.4 to 3.9%
University of Arkansas Campuses	Tuition increases range from 2.24 to 8.02%
Arkansas State University System	Tuition increases range from 1.72 to 3.6%
California State University	5% increase
University of California	2.5% increase
Colorado State University (CSU) System	Tuition increases of 5 to 6% for Fort Collins and Pueblo campuses; 0% for CSU Global campus
Connecticut State Colleges & Universities System	Tuition increases range from 2.5 to 4%
University System of Georgia	2% increase
Idaho's State Board of Education	Tuition increases range from 3 to 3.5%

Table 2 (continued)

Approximate Year-Over-Year Changes to Tuition for the 2017-18 Academic Year for In-State Undergraduate Students	
Iowa Board of Regents	\$216 increase or 5%
Kansas Board of Regents	Tuition increases range from 2.5 to 2.9%
Kentucky Council on Postsecondary Education	Limited to tuition increases ranging from 0 to 5%
University of Louisiana System	Average increase of 2.8%
University of Maine System	Average increase of 2.5%
Minnesota State Colleges and Universities and University of Minnesota	1% increase across 37 Minnesota State campuses, and 1 to 2% on University of Minnesota's five campuses
University of Missouri System	2.1%, highest amount the board could approve under Missouri law (increases cannot exceed Consumer Price Index)
University of Nebraska Board of Regents	5.4% increase
New Mexico State University & University of New Mexico (UNM)	6% increase; UNM increased upper-level courses by \$18/credit hour and graduate tuition by 4%
State University of New York System	3.1% increase at the system's four-year institutions
University of North Carolina System	Average increase of 2.3%
Oklahoma State Regents for Higher Education	Average 5.3% tuition increase across 25 public colleges and universities
South Carolina	Tuition increases ranging from 3 to 5.38%
South Dakota Board of Regents	2.9% increase
Tennessee Board of Regents	Average 2.6% tuition increase, lowest hike in over 30 years
Utah Board of Regents	Average increase of 3.4%
Washington	2% increase, first increase since freezing tuition in 2013
University of Wisconsin System	0

State Financial Aid Nearly Returns to Pre-Recession Levels

An annual report by the College Board indicates that for the 2015-16 academic year, states collectively awarded \$10.5 billion in student financial aid, representing 8 percent of total student grant aid awarded that year. State governments provided 12 percent of all grant aid in 1995-96, 12 percent in 2004-05 and 8 percent in 2010-11. State grant aid per full-time equivalent (FTE) student rose to a high of \$750 in 2014-15 from \$690 in 2011-12, but still falls slightly short of the peak in 2007-08 and varies widely between states, from 11 states awarding less than \$200 to 12 states awarding over \$1,000. On one side of the spectrum, **New Hampshire** awarded \$0 in grant aid per FTE, and on the other, **South Carolina** awarded \$1,960.

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. Twenty-five states considered students' financial circumstances in allocating at least 95 percent of their state grant aid, while fifteen states considered financial circumstances for less than half.

Slight Uptick in Charitable Giving, Total Endowments Decline

According to the Council for Aid to Education (CAE), charitable contributions to U.S. colleges and universities increased 1.7 percent in 2016 and reached a record high of \$41 billion, but when adjusted for inflation, the gain is nearly eliminated. Gifts from alumni and non-alumni individuals declined by 8.5 percent and 6 percent, respectively, which was surprising coming off of major gains in the 2015 study.

Notably, the top 20 fundraising institutions, representing less than 1 percent of the nation's colleges, raised \$11.12 billion, or 27.1 percent, of all 2016 gifts. There were only two gifts of \$100 million or more reported on this year's

survey, compared to eight in last year's. CAE is cautious to predict the future environment for charitable giving, considering uncertainty related to tax policy and unforeseen declines in charitable giving in the past fiscal year.

A report released in January 2017 from the National Association of College and University Business Officers (NACUBO) and the Commonfund Institute indicated that college and university endowments decreased by an average of 1.9 percent in FY2016, down from the 2.4 percent gain in FY2015 and 15.5 percent gain in FY2014. This year's negative return contributed to a decline in 10-year average annual returns to 5 percent from last year's 6.3 percent—both figures are well below the median 7.4 percent that most endowments report needing to earn to maintain their purchasing power. Even so, 74 percent of colleges surveyed reported spending more in dollars from their endowments this year, with a median increase of 8.1 percent. While the average endowment in this study was about \$639.9 million, more than half of the 809 institutions had endowments below \$100 million.

Higher Education Policy Outcomes—States' 2017 Legislative Sessions

Listed below are highlights from the 2017 state legislative sessions, aligned with the *Top 10 State Higher Education Policy Issues for 2017* 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' (ECS) 2017 State Policy Database.

#1 Higher Education Funding Amid "Softening" State Budgets

The 2017 legislative sessions had mixed results for higher education budgets throughout the nation. While some states, like **Nevada** and **Tennessee**, enjoyed noteworthy increases in state higher education budgets, others, such as **Missouri**, experienced deep cuts. States throughout the country continue to struggle with sluggish growth in tax revenue, leaving higher education—and other state budget items—competing for a small pool of new resources. Unlike the recession era, which led to deep cuts for the vast majority

of states, the condition of today's state budgets vary considerably from state to state based on a wide variety of factors.

The clearest trend in 2017 is the considerable budgetary challenges in states dependent on revenue from severance taxes from oil, gas and other national resource extraction. These states, which include **North Dakota, Oklahoma, West Virginia** and **Wyoming**, have made deep cuts to higher education budgets as a result of declining revenue from these sectors. For many other states, such as **Ohio, New Jersey** and **Pennsylvania**, constrained state budgets have led to either flat funding or modest increases in higher education budgets.

Political challenges remain an obstacle for higher education funding in some states. Since 2015, **Illinois** public universities have operated without a full state budget. On July 6, the Illinois legislature overrode a gubernatorial veto of the state budget, which allowed a state budget to be enacted. This budget included a 10 percent budget reduction for higher education from its 2015 level. In April, the governor of **New Mexico** vetoed the entire state higher education budget, only to approve it a month later. Some states, such as **Kansas**, have experimented with deep tax cuts over the last several years, which has led to a sharply reduced pool of state resources and to cuts for higher education funding. **Missouri** seems to be following the Kansas model; state lawmakers made deep reductions in higher education funding earlier this year, but tax cuts could be on the horizon soon for the state's highest earners. A full accounting of state higher education budgets for FY2018 will be released by Illinois State University in early 2018.

#2 Affordability

College affordability remains a central component of legislative and executive policy agendas. In many states, lawmakers, higher education officials and governing boards negotiate tuition rates, with state funding availability playing a key role in enacting tuition freezes or tuition increase caps. While the past few years have had mild tuition increases by historical standards, constrained

state budgets and growing costs in many states will put pressure on governing boards to maintain tuition freezes or keep tuition increases low. Table 2 has a sampling of various changes that have been approved thus far in 2017.

The free college movement continues to gain traction in the states. The most notable legislation in 2017 was **New York's** Excelsior Scholarship, which provided eligible students with four years of free tuition at a City University of New York (CUNY) or State University of New York (SUNY) campus. It includes a number of provisions that limit eligibility, such as income limits, credit and time to degree thresholds, and state residency requirements following graduation. The program, which will start this fall, received more than 75,000 applicants for a budget of 23,000 participants, but some of these applicants are likely ineligible to participate.

Other states have also made news on the free tuition front. The **Oregon** Promise, a last-dollar state student aid program modeled after the Tennessee Promise, did not receive enough funding from the state this year to fully operate. State officials will ration the program by cutting off funding to students from the wealthiest backgrounds. **Tennessee** lawmakers approved the Tennessee Reconnect, a last-dollar program that allows adults to attend a state community college tuition free. State officials estimate that the program will cost \$10 million when it is fully implemented. The governor of **Rhode Island** has proposed two years of free tuition at a community college or state university, but lawmakers have struggled to find funding for the program and might only approve a scaled-down version of the plan. The governor of **North Carolina** has also proposed a last-dollar free community college tuition plan called the NC GROW (Getting Ready for Opportunities in the Workforce) Scholarship, but the measure has not received enough support from the legislature. Lastly, the governor of **Kentucky** used \$15.9 million from a free community college program passed last year (the details of the program, but not the funding, were vetoed by the governor) for free tuition for students pursuing certificates to work in high-demand fields. **Indiana** lawmakers

approved a similar program called the Workforce Ready Grant, which also pays for tuition costs for students pursuing certificates in high-demand fields. **Arkansas** created a comparable program called ArFuture Grants, which pay for tuition costs for both in-demand certificates and two-year degrees.

#3 Economic and Workforce Development—Building a Skilled Workforce to Revitalize State Economies

Economic and workforce development remains a top concern for governors and legislators around the country, and higher education's role in building stronger economies remains a key rationale for state investment. Roughly half of the governors mentioned higher education's role in economic and workforce development in their *State of the State* speeches earlier this year, according to AASCU analysis. Efforts to build the workforce through investments in higher education include paying tuition for students pursuing certificates in high-demand fields; recruiting top-tier researchers to universities; investing in science, technology, engineering and mathematics (STEM) education; and facilitating partnerships between the private sector and higher education institutions.

#4 Undocumented and Deferred Action for Childhood Arrival (DACA) Students

With the election of President Trump last year, state legislatures were prepared for contentious sessions on issues related to higher education for undocumented students and students participating in the DACA program. Numerous legislatures—mostly in conservative states—considered bills that would prohibit public college campuses from declaring themselves “sanctuary” campuses for undocumented immigrants. Governors in **Georgia, Indiana** and **Mississippi** signed anti-sanctuary measures pertaining to higher education.

Bills extending in-state tuition for undocumented students also made their way into some legislative calendars, but governors have not signed into law any bill related to

this in 2017 thus far. Some of the states that have considered bills this year include **Massachusetts, Rhode Island** and **Tennessee**. As of April, 20 states offer the lower in-state tuition rate to undocumented students. In **Arizona**, a state appeals court ruled that students with DACA status do not qualify for the lower in-state tuition rate, but the state's board of regents voted to extend the in-state rate to these students while the Arizona Supreme Court considers an appeal.

#5 Campus Sexual Assault

State lawmakers continue to develop policy frameworks that combat campus sexual assault, but major pieces of legislation related to this issue have not yet been passed in 2017. Bills at the state level include, but are not limited to, establishing affirmative consent requirements for sexual activity on campus, ensuring that students have the right to an attorney in campus disciplinary proceedings, renewing an emphasis on educational programming for incoming students, and having mandatory reporting to law enforcement.

In **Texas**, the governor signed into law a bill that would give students who report sexual assaults amnesty if they violated student code of conduct. The governor also approved legislation that would allow students and campus employees to submit electronic, anonymous reports of sexual assaults to university officials. In **New York**, the governor ordered a comprehensive review of compliance of the state's 2015 Enough is Enough initiative aimed at cracking down on campus sexual assault. A **Georgia** lawmaker championed a controversial measure that required felony claims of campus sexual assault be forwarded to law enforcement for investigation, while also restricting campus-level disciplinary procedures. The bill's author has expressed concerns about the due process rights of the accused in campus disciplinary procedures and has alleged that many false claims have been made regarding sexual assaults on campus.

#6 Guns on Campus

Guns on campus continues to be a widely debated and visible policy issue in higher education in 2017, with at least 20 states considering legislation on this issue. This

year, **Arkansas** and **Georgia** joined eight other states in allowing some variation of the carrying of concealed weapons on campus. The state legislatures in **Alaska, Arizona, Florida, Indiana, Iowa, Kentucky, Maine, Missouri, New Mexico, New York, North Carolina, North Dakota, Oklahoma, South Carolina, West Virginia** and **Wyoming** considered legislation related to guns on campus. However, at this point, the measures are still under consideration or have failed to pass.

Kansas passed a law allowing concealed weapons in all public buildings four years ago and delayed implementation until July 1, 2017, to give institutions time to comply. As the implementation date approached, faculty began speaking out against the coming change, and a few made their plans to resign public, gaining attention in the media. For the second consecutive legislative session, **Maryland** considered legislation that restricts access to guns on campus. Although it received more support in this year's session, the bill ultimately failed.

#7 Institutional Productivity and Student Success

States have continued to push for performance- and outcomes-based funding as a way to promote institutional outcomes, accountability measures and degree production. In this year's legislative sessions, 17 states considered at least 50 bills related to institutional productivity and student success, according to ECS. In **Louisiana**, new funding was provided for workforce development programs at public two-year community and technical colleges, which are to be distributed based on an outcomes-based funding formula. **Utah** enacted legislation slightly amending provisions related to its existing performance-based funding formulas. **Virginia's** budget bill did not directly mention outcomes-based funding. However, it called for increased benchmarking of institutional performance and requires an examination of the current funding formula.

Governors in **Arkansas, Kentucky, New Hampshire** and **Wisconsin** voiced their support for performance-

based higher education funding in their 2017 State of the State addresses, in some cases offering additional funding for higher education in exchange for the implementation of performance-based funding. The state legislatures in **Arkansas and Kentucky** followed up on their governors' requests by enacting new funding models. **Wisconsin's** public two-year institutions are already partially funded through a performance-based system, and for the last two legislative sessions, the legislature has considered adding the public four-year institutions to a similar formula. Due to a budgetary impasse, the new performance-based funding formula has yet to be enacted. According to ECS, **Florida** introduced 11 bills related to performance-based funding. Ten failed and one was vetoed.

#8 Academic Freedom, Civil Rights and Social Issues

The stark divide between the perceived ideologies of campuses and statehouses on cultural and civil rights issues has gained significant momentum through headlines and legislation so far in 2017 legislative sessions. **Texas** lawmakers introduced legislation similar to **North Carolina's** House Bill 2 (HB2) that would bar public colleges and universities from letting transgender people use their bathroom of choice. In response to boycotts of **North Carolina's** HB2, lawmakers in the state introduced a bill to withdraw the University of North Carolina and North Carolina State from the Atlantic Coast Conference (ACC) should the conference boycott the state again. HB2 has since been repealed, and the ACC has said they will consider holding championships in North Carolina.

While separate from this issue in AASCU's *Top 10 Higher Education Policy Issues for 2017*, state efforts to legislate on issues related to free speech on campus has grown rapidly in 2017, with 30 bills in 18 state legislatures introduced. Generally, the legislation introduced aims to promote and protect the expressive rights of all students attending higher education, with at least 25 of the bills being based directly or in part on the Goldwater Institute's model legislation. **Wisconsin's** bill stipulates disciplinary action for those who interfere with the free expression of other members on campus. **California's**

version calls for a loss of eligibility for any state funding for institutions that do not comply with the bill's free speech provisions. These bills have not yet passed.

However, this year, **Colorado, Kentucky, Nevada** and **Utah** all had free speech bills signed into law, while the **Louisiana** governor vetoed a free speech bill. AASCU, in partnership with NASPA—Student Affairs Administrators in Higher Education, will be releasing a policy brief on free speech in the fall.

#9 Student Debt Management

Student debt management has risen in the minds of legislators as they seek solutions to increased student debt with limited resources. In 2017, there have been over 60 bills introduced in 19 states. However, according to ECS, only 18 bills have been enacted in 14 states.

The policy proposals can be seen as falling into one of two categories. The first category aims to directly aid in paying previously incurred costs through levers such as tax credits or deductions and repayment programs. **Connecticut, Minnesota** and **Oregon** all considered legislation to establish state tax deductions and credits this year. **Arkansas, Colorado, Montana, New Mexico** and **North Dakota** enacted legislation that incorporates the state's workforce needs to offer debt assistance to borrowers in high-need fields, such as healthcare and education, a policy idea that is expected to grow in the coming years.

The other category is to raise financial literacy among borrowers by increasing the information students have about their debt. **Nevada, Oregon, Texas, Utah** and **Virginia** have all passed legislation requiring that students be provided with more information about their loans and repayment options. Another popular policy proposal for increasing financial literacy is to establish a Borrowers' Bill of Rights, which has been considered in at least **Illinois, Massachusetts, Maine, Missouri** and **Washington**.

#10 Dual Enrollment

Balancing the tension between strained state budgets and growing concerns over college affordability, governors and state legislatures looked to dual and concurrent enrollment policies as levers for boosting access, improving college readiness, controlling costs and decreasing time to degree. At least 19 states considered legislation related to dual enrollment so far in 2017. The proposals have ranged from increasing funding, and incentivizing participation, to amending or clarifying eligibility. **North Dakota** passed legislation piloting a program that incentivizes teachers with coupons for graduate-level classes in exchange for teaching dual enrollment courses. **Virginia** passed legislation requiring community colleges to work with governing boards to establish institutional policies for granting undergraduate credit to students who successfully complete dual enrollment courses. **Idaho** widened their eligibility criteria to include students attending charter or private schools. According to ECS, 47 of the 50 states currently have statewide dual enrollment policies. Governors also raised the profile of dual enrollment, with an AASCU analysis finding that nine governors mentioned dual enrollment in their State of the State addresses earlier in the year.