



July 2014

U.S. Economic Forecast

Steady Economic Growth Expected through 2015

The third estimate of real Gross Domestic Product ([GDP](#)), released in late June by the U.S. Department of Commerce's Bureau of Economic Analysis, indicated that the national output of goods and services decreased by an annualized rate of 2.9 percent in the first quarter of 2014, the first decrease in three years. Economists attribute the decline in economic output to severe winter weather and slow inventory growth. Federal and international entities predict slow to moderate U.S. economic growth for at least the next 18 months. [Historically](#), the U.S. has witnessed an average annualized GDP growth rate of 3.2 percent.

<u>Organization</u>	<u>Date of Projection</u>	<u>2014 Forecast</u>	<u>2015 Forecast</u>
Congressional Budget Office	February 2014	3.1%	3.4%
Federal Reserve Board	March 2014	2.8-3.0%	3.0-3.2%
OECD	May 2014	2.6%	3.5%
International Monetary Fund	June 2014	2.0%	3.0%

Unemployment Rate Continues Downward Trend

The U.S. unemployment rate declined by 0.2 percentage point in June, to 6.1 percent, bolstered by the creation of 288,000 new jobs, according to the U.S. Bureau Labor Statistics ([BLS](#)). Job gains were widespread, led by employment growth in professional and business services, retail trade, hospitality and health care. During the 12 months leading up to June, the unemployment rate and the number of unemployed persons have declined by 1.4 percentage points and 2.3 million, respectively. The total number of unemployed persons stands at 9.5 million. The number of long-term unemployed (those jobless for 27 weeks or more) declined by 293,000 in June to 3.1 million; these individuals accounted for 32.8 percent of the unemployed. Over the past 12 months, the number of long-term unemployed has decreased by 1.2 million. As of May, 2014, unemployment rates among the states [varied moderately](#), with the highest being *Rhode Island* (8.2%), *Nevada* (7.9%), *Kentucky* (7.7%) and *Mississippi* (7.7%). States with the lowest unemployment rates were *North Dakota* (2.6%), *Vermont* (3.3%), *Nebraska* (3.6%) and *Utah* (3.6%). The [historical](#) average for the U.S. unemployment rate is 5.8 percent.

State Economic Conditions

State Tax Collections Weakening, But State Budgets Stabilizing Overall

While state tax collections have grown each quarter for the past four years, tax revenues weakened in the third and fourth quarters of 2013 and in the first quarter of 2014, according to the Rockefeller Institute of Government's [State Revenue Report](#), released in May. Analysts cite slower collections in income taxes as a possible reason for the slowdown. Overall state tax revenues increased by 3.5 percent in the fourth quarter of 2013 compared to the same quarter the previous year, with 37 states witnessing growth in tax collections.

Consistent year-over-year growth has helped states achieve relative budget stability, but progress remains slow for many states, based on a [summary of governors' executive budget recommendations for fiscal year 2015](#) by the National Association of State Budget Officers (NASBO). More states are moving beyond recession-induced budget cuts and are returning to spending and revenue growth. According to executive budgets, general fund spending is projected to increase by 2.9 percent in fiscal 2015, down from a 5 percent increase in fiscal year 2014. According to the report, executive budgets in 42 states call for higher general fund spending levels in fiscal 2015 compared to fiscal year 2014. After adjusting for inflation, overall state spending remains slightly below pre-recession levels.

The NASBO fiscal survey of states finds that governors have called for directing more revenue to core services such as K-12 education and Medicaid. Executive budgets recommended reducing net taxes and fees by \$2.5 billion in fiscal 2015, although most tax change proposals are minimal. Eight governors proposed tax increases and 15 proposed tax decreases. Governors in 32 states either proposed no tax changes or changes resulting in less than \$5 million.

States' collective total year-end general fund balances declined in fiscal 2014, with final balances estimated to be \$63 billion or 8.6 percent of expenditures. For fiscal year 2015, governors recommended decreasing total balance levels to \$55 billion or 7.4 percent of general fund expenditures.

State Higher Education Financing

State Funding Continues its Post-Recession Turnaround

Investment in higher education provided by state governments witnessed an impressive [5.7 percent](#) increase for fiscal year 2014 (ended July 1 in 46 states), according to Illinois State University's [Grapevine](#) compilation of state fiscal support. It reflects a year-over-year percent gain increase second only to states' Medicaid spending. The upturn was only two years removed from the largest annual decline in state higher education funding in more than a half century, spurred by the post-federal stimulus "fiscal cliff."

Based on the results of an informal survey conducted by AASCU, states collectively provided a 3.6 percent year-over-year increase in state operating support for public four-year colleges and universities for fiscal year 2015 (see table on next page). Of the 49 states that have passed a budget, 43 either increased higher education funding or maintained current levels of support for the new fiscal year, whereas only six cut funding. Five states witnessed double-digit increases in higher education fiscal support: *New Hampshire* (21%), *Connecticut* (14%), *Oregon* (12%), and *Colorado* and *Utah* (both

11%). Of the six states that reduced funding, all were under three percent: *Alaska, Delaware, Kentucky, Missouri, Washington* and *West Virginia*.

There was considerably less variation in year-to-year changes heading into the new fiscal year—a 24 percent spread between the state with the largest gain and largest cut. This compares to variations of 57%, 25% and 46%, respectively, in fiscal years 2012, 2013 and 2014. This decreased volatility reflects a continued post-recession stabilization of states’ budgets.

Approximate Year-Over-Year Percent Change in FY 2015 State Operating Support for Public Four-Year Universities			
	%		%
Alabama	1	Montana	6.4
Alaska	-2.1	Nebraska	4
Arizona	4.6	Nevada	1.7
Arkansas	1.1	New Hampshire	21.7
California	5.0	New Jersey	0
Colorado	11	New Mexico	5.3
Connecticut	14.5	New York	0.9
Delaware	-1	North Carolina	N/A
Florida	8.9	North Dakota	5.3
Georgia	2.8	Ohio	1.9
Hawaii	6	Oklahoma	0
Idaho	6.2	Oregon	12
Illinois	0	Pennsylvania	0
Indiana	0	Rhode Island	0.6
Iowa	4.5	South Carolina	0
Kansas	2	South Dakota	7.4
Kentucky	-0.6	Tennessee	1.4
Louisiana	0	Texas	0.5
Maine	0	Utah	11.3
Maryland	6.5	Vermont	0.5
Massachusetts	3.6	Virginia	0.2
Michigan	5.9	Washington	-0.8
Minnesota	4.6	West Virginia	-2.6
Mississippi	5.8	Wisconsin	1.8
Missouri	-1.5	Wyoming	6.9
		Average	3.6%

Approximations; Figures are as of July 9, 2014. Data compiled by AASCU.

Notes: North Dakota—Figure represents one-half of FY 2014-15 increase of 10.7%. Connecticut—Figure only includes state colleges, not the University of Connecticut. North Carolina had not passed a budget as of July 9.

State Reinvestment in Higher Education Resulting in Limited Tuition Price Increases

Largely as a result of increases in state operating support for higher education in fiscal year 2014, in-state tuition rates at public four-year colleges for the 2013-2014 academic year witnessed their smallest year-over-year percent decrease in more than 30 years, based upon [College Board](#) data. Continued state re-investment in higher education for fiscal year 2015 will generate similar results. While complete data will not be available until later this year, evidence suggests that tuition price increases will be comparatively moderate in the context of the past decade, with many state systems and institutions freezing tuition for the coming academic year. Shown below is a sample of year-over-year percent changes in in-state, undergraduate tuition rates for the 2014-15 academic year.

Arizona Board of Regents	1.5-5.4%
California State University*	0%
Iowa Board of Regents	0%
Kansas Board of Regents	2.5-5.7%
PA State System of Higher Education	3%
University of California*	0%
University of Illinois	2%
University of Massachusetts	0%
University of Minnesota	0%
University of Missouri System	0%
University of Nebraska	0%
University of Tennessee System	6%
University of Texas System	0%
University of Wisconsin System	0%
University System of Georgia*	2.5-9%
University System of New Hampshire	0%

Notes: As of 7/9/2014, CSU and UC systems had not set tuition rates for the coming academic year, but expectations are that in-state, undergraduate tuition levels will be held flat. University System of Georgia: 2.5% (25 institutions), 9% (GA Tech), 7% (UGA), 4% (GA Regents & GA State).

Charitable Giving to Higher Education Reaches Record High in 2013

Charitable contributions to U.S. colleges and universities increased 9 percent in 2013, according to the latest Council for Aid to Education (CAE) [Voluntary Support of Education \(VSE\) survey](#). At \$33.8 billion, the total is the highest recorded in the history of the survey. In 2009, giving fell from \$31.60 billion, which was then the historical high point, to \$27.85 billion. Giving levels gradually recovered from that loss until reaching a new high in 2013.

University Endowments Witness Strong Growth

College and university endowments grew by an average of 11.7 percent in fiscal year 2013, according to a January 2014 [study](#) released by the National Association of College and University Business Officers (NACUBO) and the Commonfund Institute, a significant uptick from the -0.3 percent return in fiscal year 2012. The report states that on average, endowments represent 8.8 percent of university operating revenues.

Higher Education Outcomes—States’ 2014 Legislative Sessions

Provided below are highlights from states’ 2014 legislative sessions, as aligned with the topics from AASCU’s annual list of the [top 10 higher education state policy issues](#). For a more exhaustive list of higher education legislation in 2014, visit the Education Commission of the States’ [2014 State Policy Database](#).

An AASCU analysis of governors’ plans and priorities for higher education, gleaned from 41 gubernatorial “State of the State” addresses given earlier this year, speak to themes of economic development, college affordability, career and technical education, and alignment of K-12 and college/career readiness. A state-by-state accounting of higher education-related gubernatorial public policy proposals stemming from this year’s addresses can be viewed [here](#).

1#—Harnessing Higher Education to Address State Economic Goals

Similar to previous years, governors discussed higher education in their *State of the State* addresses chiefly in the context of state economic and workforce development, with a number of initiatives launched this year to link student access and workforce development policies. One of the most widely-discussed public policy measures enacted this year was the [Tennessee Promise](#), a program allowing state high school graduates to attend any of the state’s community colleges at no tuition cost. *Oregon* passed [legislation](#) to study the free community college model, and a [bill](#) to pilot free community college was considered by lawmakers in *Mississippi*. Another notable outcome from the 2014 session was *Louisiana*’s [WISE plan](#), which will provide grants to institutions that produce graduates with knowledge and skills in high-need sectors of the state’s economy.

2#—Agreements Linking State Funding and Tuition Policy

Improved state revenues have provided lawmakers with an opportunity to replenish funding in the aftermath of Great Recession-induced budget cuts while at the same time providing them with an opportunity to negotiate tuition freezes or tuition increase caps. State lawmakers in *Iowa* and *South Dakota* worked with higher education officials to freeze tuition for the upcoming academic year. *Oregon* officials also reached an agreement to freeze tuition for the first time since 2001. *Colorado* lawmakers infused an additional \$100 million into higher education and lowered the annual maximum tuition increase from 9 percent to 6 percent. The University of *Texas* System and the University of *Wisconsin* System both froze tuition, at the request of their governors. The University of *Massachusetts* System also approved a tuition freeze. *California*’s public universities are also [expected](#) to freeze tuition in the upcoming year in response to the governor’s budget.

3#—Strategic Allocation of State Higher Education Appropriations

States continued to develop performance-based funding systems in an effort to enhance the strategic alignment of institutional outcomes with state needs and priorities. According to the National Conference of State Legislatures (NCSL), 25 of the 50 states had some form of performance-based funding in place as of March 2014. In the 2014 legislative session, *Colorado* and *Missouri* approved performance-based funding, while *Ohio* approved a framework for its two-year public colleges. The *Iowa* Board of Regents developed and passed a performance funding framework for its universities.

4# —State Educational Attainment and College Completion Goals

Governors continue to emphasize efforts to advance state educational attainment goals. For example, *Tennessee* Gov. Bill Haslam’s call for providing tuition-free community college is a key part of his “Drive to 55” educational attainment agenda. States’ educational attainment levels have risen in recent years, albeit slowly, according to a [recent report](#) from the Lumina Foundation. 39.4 percent of Americans between age 25-64 held a college degree, certificate or high-quality postsecondary credential in 2012, up from 37.9 percent in 2008.

5#—Vocational and Technical Education

A number of state policymakers have demonstrated interest in policies related to vocational and technical education. *Colorado* lawmakers have approved a bill that will allow community colleges to award four-year degrees in technical fields. *California* lawmakers are also considering legislation to allow some of the state’s community colleges to grant four-year degrees. *Louisiana* Gov. Bobby Jindal signed a measure that would require state colleges to treat career diplomas the same as high school diplomas, determine knowledge and skills needed in the state, and develop K-12 curriculum aligned to careers.

#6—College Readiness

Considerable debate has occurred during the past year over the implementation of the Common Core State Standards ([CCSS](#)), a national effort to develop a common set of expectations for what students should know in mathematics and English language arts from kindergarten through 12th grade. *South Carolina* and *Oklahoma* have new laws this year to replace the CCSS. *Louisiana* Gov. Bobby Jindal, against the wishes of state education officials, has declared his intentions for the state to withdraw from implementing the standards. *Missouri* lawmakers have [completed work on a bill](#) that will keep the standards for two years while exploring other options. Lawmakers in a number of other states have introduced legislation to repeal the CCSS. [AASCU](#) and [higher education leaders nationwide](#) continue to strongly back the new standards.

7#—STEM-related Initiatives

STEM education remained a key topic for state lawmakers this year. *New York* Gov. Andrew Cuomo launched the [STEM Incentive Program](#) this year, which allows students in the top 10 percent of their high school class to attend a public college or university in New York at no tuition charge as long as they major in a STEM field and work in New York for five years following graduation. State lawmakers in *Washington* boosted funding for STEM scholarships, and *Utah* increased state investment to train teachers in STEM fields.

8#—State Capital Outlay and Deferred Maintenance

Bills to finance the renovation and/or construction of new campus facilities were debated in a number of state capitols. *Connecticut* Gov. Daniel Malloy outlined *CSCU 2020*, a \$134 million investment package for the state’s public colleges and universities. *Minnesota* completed work on a large public works bill, which included \$240 million in capital outlays for public institutions of higher education. *Kentucky* and *Missouri* are among states that also approved funding for capital construction projects.

9#—Guns on Campus

The 2014 state legislative sessions again included debate on bills to allow individuals to carry guns on public college and university campuses. *Idaho* was the only state that passed such a bill into law. A bill in *Alaska* failed in committee and *Pennsylvania* higher education officials continue to study the issue. Organizers in *Colorado* have dropped an effort to put a campus gun ban on the ballot but plan to pursue the initiative in 2016. As of March 2014, [seven](#) states have passed legislation mandating that public colleges and universities allow concealed weapons in specified areas on campuses, according to the National Conference of State Legislatures.

10#—Immigration

The first half of 2014 included a number of successful legislative efforts to extend in-state tuition to undocumented students, including in *New Jersey* and *Florida*. *Virginia* Attorney General Mark Herring [issued](#) an opinion in April concluding that undocumented students have a right to in-state tuition in the state. *Tennessee* failed to pass a bill allowing in-state tuition to undocumented students, but did approve a bill permitting American-born children of undocumented parents to have access to in-state tuition rates. Legislation to extend state financial aid to undocumented students was approved in *Washington*, but a similar measure failed in *New York*. Currently, 21 of the 50 states offer in-state tuition to undocumented students and five states allow undocumented students to have access to state student financial aid.

Other Notable Policy Issues

Student Financial Aid Programs

State student financial aid programs have been discussed by state lawmakers throughout the country in 2014. *Florida*'s popular Bright Futures program will [increase eligibility requirements](#) this year in an effort to restrain costs. *Illinois* Gov. Pat Quinn announced an [initiative](#) to double funding for the state's MAP scholarship. Governors in *Delaware* and *Pennsylvania* also proposed new state scholarship programs, and *Georgia* passed a [bill](#) providing free tuition for high-achieving technical college students.

Online and Competency-based Education

A number of state legislatures have approved bills encouraging colleges and universities to enter into reciprocity agreements for postsecondary distance education, including five western states (*Alaska*, *Colorado*, *Idaho*, *Nevada* and *Washington*). The [National Council for State Authorization Reciprocity Agreements](#) is leading efforts to streamline cross-state reciprocity in the delivery of postsecondary distance education.

“Pay It Forward” Funding Schemes

During the past 18 months, legislators in more than 20 states have introduced legislation to study or implement pilot programs involving so-called *Pay It Forward* (PIF) college financing programs. The PIF concept entails eliminating up-front tuition and fee payments at public colleges and universities in exchange for students paying back a portion of income over an extended period following graduation. AASCU will be releasing an analysis of the PIF concept in July 2014, which will discuss a number of significant shortfalls associated with the higher education funding model.

Consumer Protection Involving For-Profit Colleges

Attorneys generals continue to investigate allegations of fraud and abuse at for-profit colleges, with [32 states cooperating in an investigation](#) of leading for-profit colleges and 14 issuing subpoenas for information. In *Massachusetts*, Attorney General Martha Coakley has drafted [regulations](#) to tighten standards related to student recruitment, advertising and financial aid.

The 2014 Elections and Implications for Higher Education

The 2014 midterm elections will have considerable ramifications for public higher education, as those elected to office in November will play a lead role in determining the direction of state higher education policy and funding for the second half of the decade. According to a pre-elections analysis by *Governing*, Democrats, despite holding fewer legislative chambers, have more at risk this elections cycle given a lack competitive legislative chambers as a result of political polarization, gerrymandering and entrenched single-party control of state governments. The *Governing* analysis finds only 17 legislative chambers that are vulnerable to a change in party control as a result of the November elections—11 of which are currently held by Democrats and six held by Republicans.

The Midterm Elections—By the Numbers

- Of the 99 state legislative chambers, the number holding elections: 87
- Of the 50 state senates, the number holding elections: 42
- Of the nation’s 1,972 state senate seats, the number up for election: 1,097 (56%)
- Of the 49 state houses, the number holding elections: 45
- Of the nation’s 5,411 state house seats, the number up for election: 4,958 (92%)
- Total number of nation’s state legislative seats up for election: 6,055 (82%)
- States holding gubernatorial elections: 36
- Incumbent governors pursuing re-election: 29

Party Control

- Legislatures with split part control: 3
- States with split party control (governor and at least one legislative chamber from opposite parties): 13

	<u>Democrat Control</u>	<u>Republican Control</u>
• Governorships	14	22
• Individual Chambers	40	58
• Full Legislature—Both Chambers	19	27
• Total Party Control (Governorship & legislature)	13	24

Ballot measures in some states will have ramifications for public colleges and universities. *North Dakota* voters will decide whether to reorganize the state’s higher education governance structure into a [three-member commission](#) appointed by the governor. If passed, the [Oregon Opportunity Initiative](#) will create an investment fund to generate earnings intended to fund student assistance and provide workforce training in STEM fields.

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