American Association of State Colleges and Universities

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POLICY MATTERS

Public Universities Get Breathing Room in Their Budgets, But Remain in the Hot Seat

Context

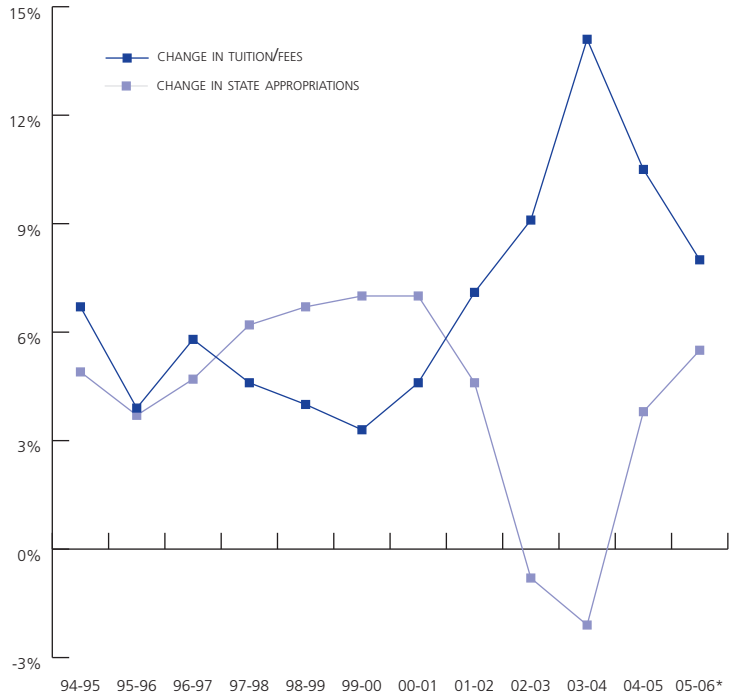
The academic and fiscal year just underway looks to be one of good news for most states and their public higher education systems. The boom/bust pattern of appropriations and tuition continues to lean gently in the "boom" direction, fueled by moderate economic growth and healthy state revenue collections. Funding for state colleges and universities is reaching pre-recession levels in many states, resulting in gradually easing tuition increases. Pressures remain from enrollment growth, salaries and benefits, utility costs, and infrastructure renewal, to name just a few. This means that tuition increases are unlikely to drop far enough to suit students and many policymakers, at least in the near term.

The road ahead promises tough debates and decisions related to the financing of public higher education. Recent tuition increases have provoked a backlash in a number of states, renewing efforts to limit rate increases and/or rate-setting authority. At the same time, a grassroots movement to strengthen state revenue and expenditure limits appears to be gathering steam, posing a threat to states' capacity to keep up with demands for services such as education. Competition from "the usual suspects"—K-12 education and Medicaid—promise to gobble up a significant portion of any spare revenues. All in all, the year ahead will be one for campuses and systems to continue catching up from the past slump and gearing up for the possible squeeze ahead.

Observations

The state fiscal situation has improved considerably over the past three years, but serious spending pressures remain. The Rockefeller Institute reports that state tax revenue collections for the First Quarter of 2005 grew 11 percent over the same period a year ago, the strongest First Quarter growth in more than a decade. This health is reflected in state spending, which increased 6.6 percent from Fiscal Year 2004 (FY04) to Fiscal Year 2005 (FY05) according to the National Association of State Budget Officers. The number of states facing mid-year budget cuts has plunged, from 37 states slicing $12.6 billion from their enacted budgets in Fiscal Year 2002 to just five states trimming $634.6 million in FY05.

Change in Resident Undergraduate Student Charges and State Appropriations at Four-Year Public Colleges and Universities



*AASCU Projection
Source: The College Board and *Grapevine* (Illlinois State University)

Skyrocketing demand in the Medicaid program, though, is rapidly draining the newly found funds. State spending for the program grew an estimated 17 percent from FY04 to FY05, and could again jump by double digits in Fiscal Year 2006 (FY06). Additionally, ongoing K-12 finance legislation and litigation will impact FY06 budget deliberations.

Consistent with previous economic recoveries, public colleges and universities have benefited from stronger state finances, easing tuition increases. Following two consecutive years of decline, state higher education appropriations rose 3.8 percent ($2.3 billion) in FY05 and are expected to grow slightly more (5.5 percent, or $3.4 billion) in FY06, based on AASCU's read of preliminary data gathered by Grapevine (Illinois State University). As a result, the average in-state undergraduate tuition increase for public universities nationwide has fallen, from a high of 13.1 percent in 2003-2004 to a projected 8 percent for 2005-2006. The estimated increase remains above the 10-year median rise of 6 percent, though, owing in part to rising institutional costs in compensation/benefits, utilities, and capital construction/maintenance.

Recent tuition increases are prompting attempts to stabilize or rein in tuition hikes. Lawmakers in Oregon and New Jersey capped rate increases as part of their FY06 appropriations measures, while Arizona legislators fell short in their effort to impose a ceiling. In Louisiana, colleges and universities unsuccessfully advocated for the repeal of a requirement of legislative approval for tuition increases exceeding three percent, but Texas institutions and their supporters fought off a legislative push to undo tuition deregulation approved in 2003. Proposals to "lock in" tuition rates for multiple years also are still alive, with University of Missouri leaders calling for the adoption of a four-year rate guarantee similar to that approved by the Illinois Legislature in 2003. At the system level, the University of North Carolina

Board of Governors opted to freeze tuition rates at its 16 campuses this year, while the Kentucky Council on Postsecondary Education has signaled that it will step up its oversight of institutional tuition setting.

A grassroots movement is aiming to tighten limits on state revenues and spending, and a number of states are actively considering such limits. According to the National Conference of State Legislatures, more than half the states (30) have imposed some form of ceiling on revenues, spending, or both. The most restrictive of these is Colorado's Taxpayer Bill of Rights (TABOR), approved in 1992. TABOR caps growth in revenue and spending at the sum of inflation and population growth, and requires voter approval to override either of the limits. Combined with a constitutional amendment mandating increased spending on K-12 education, TABOR has had severe fiscal consequences for the state. Over the past five years, higher education funding in the state has fallen 18 percent. Colorado voters head to the polls in November to decide a proposed temporary suspension of the limits and its prospects for approval are uncertain at this point.

A number of national groups, including the Cato Institute, the American Legislative Exchange Council, and Americans for Tax Reform, are supporting a push for states to adopt the TABOR model. In November, California will vote on the "California Live Within Our Means Act" that embraces TABOR-like limits. Other states likely to have TABOR ballot questions soon include Ohio, Maine, and Oregon and legislative interest is building in Georgia, Kansas, Missouri, Tennessee, and Wisconsin. Proponents have indicated that they will seek popular ballot measures in states that have them (24 in all), to get around hesitant or resistant legislatures.

Conclusion

For state colleges and universities, the fiscal rollercoaster ride continues. As most campuses and systems ride the current upswing, they will—or should—be keeping an eye on the economic horizon and on moves to change the "rules of the game" for funding public services such as higher education. While the boom-bust funding cycle continues in the short term, the long-term trend is toward a publicly chartered/governed, privately financed enterprise. The implications of this shift for institutions and students, already being felt in some states, will become more apparent and widespread in the years to come. As generators and appliers of knowledge, public colleges and universities have a prime opportunity—and responsibility—to engage and even, lead statewide discussions about squaring means and ends amid rising demand for public services and growing public resistance to paying for them.

Resources

National Association of State Budget Officers (NASBO). NASBO regularly tracks state budget conditions, primarily through its annual Fiscal Survey of the States (published in April and December) and annual State Expenditure Report (published in June). nasbo.org

National Conference of State Legislatures (NCSL). Like NASBO, NCSL conducts regular surveys of the state fiscal landscape, and publishes findings through annual publications such as State Budget and Tax Actions, as well as special reports (all available for purchase by non-members). ncsl.org

Rockefeller Institute of Government, Fiscal Studies Program. Housed at the University at Albany, State University of New York, the Institute tracks state revenue collections on a quarterly basis (State Revenue Report) and issues other reports on topics related to state finance. rockinst.org

***Grapevine* (Illinois State University).** This 50-state higher education funding survey is administered through the College of Education at Illinois State University and contains data on tax appropriations for higher education, as well as data on state higher education funding effort and capacity. coe.ilstu.edu/grapevine

State Higher Education Executive Officers (SHEEO). SHEEO now publishes State Higher Education Finance, an annual look at state higher education spending on a per-student basis. SHEEO also compiles 50-state data on tuition/fee policies and other finance-related areas. sheeo.org

The Cato Institute. The Institute is a non-profit public policy research foundation promoting the principles of "limited government, individual liberty, free markets, and peace." catoinstitute.org

American Legislative Exchange Council (ALEC). ALEC is a bipartisan membership association for conservative state lawmakers who believe in the principles of "free markets, limited government, federalism, and individual liberty." alec.org

Americans for Tax Reform (ATR). Founded in 1985, the group "opposes all tax increases as a matter of principle." Its leader, Grover Norquist, has termed TABOR the "holy grail" of state fiscal policy. atr.org

Americans for Prosperity Foundation. This nonprofit organization "believes reducing the size and scope of government is the best safeguard to ensuring individual productivity and prosperity for all Americans." It has a national office and state organizations in Kansas, North Carolina, Oklahoma, Texas, Virginia, and Wisconsin. americansforprosperity.org

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