



**POLICY
MATTERS**

2006 Shaping Up as a “Keeping Up” Year in the States

Context

The new year brings a combination of fresh optimism and lingering challenges for public colleges and universities. States’ finances remain strong, giving campus and system leaders cause for hope in Fiscal Year 2007 (FY07) budget deliberations. At the same time, Medicaid, K-12 education, and other competitors are already vying for whatever “extra” money does materialize. This will maintain upward pressure on tuition rates, as institutions are squeezed by a combination of rising enrollment demand and infrastructure costs. Because 2006 is a big election year in the states, governors and lawmakers are likely to “play it safe” in terms of policy and focus on initiatives with broad public appeal. In sum, public higher education appears to be facing a year of maintaining, rather than expanding or contracting.

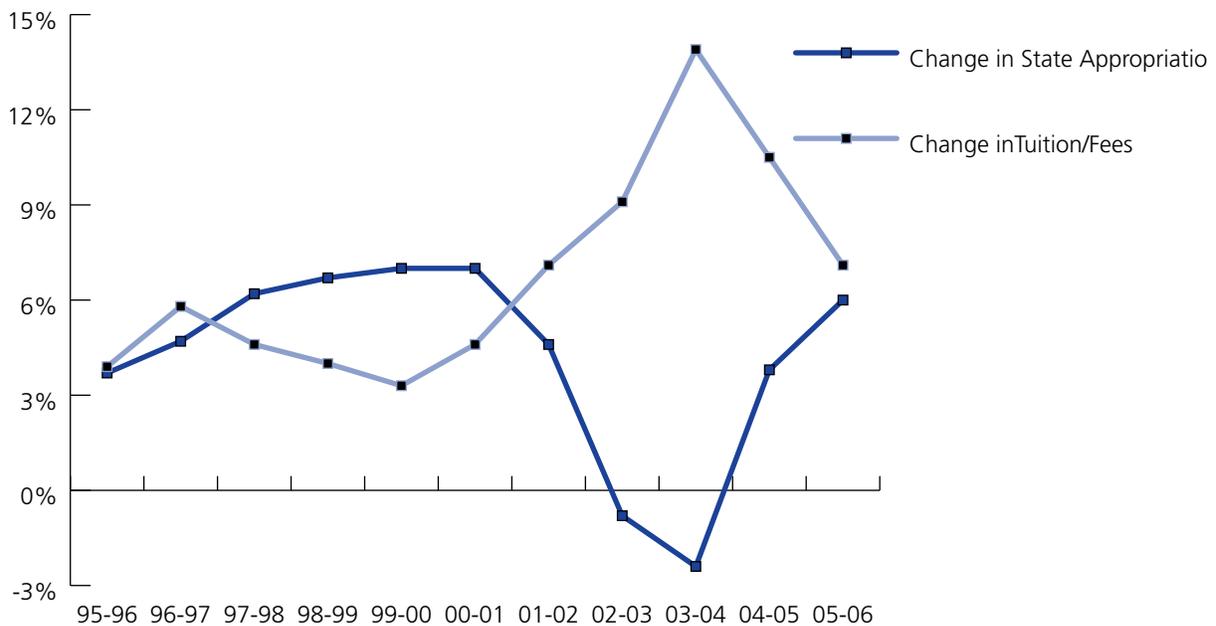
Observations

1. Fiscal conditions are solid and continue to exceed expectations in a number of states, but windfalls face a long line of contenders. Basic indicators of states’ financial health continue on a positive trend line. The National Association of State Budget Officers (NASBO) reports that revenue collections for Fiscal Year 2006 (FY06) have exceeded expectations in nearly all the states. The number of states required to make mid-year budget cuts fell to six in Fiscal Year 2005 (FY05) and reserves are growing again (to 6.8 percent of expenditures in FY05). Spending demands, especially for Medicaid, will keep budgets tight. According to the Kaiser Commission on Medicaid and the Uninsured, Medicaid spending grew by 7.5 percent in FY05, and NASBO data show that more than half the states (26) experienced or expected Medicaid shortfalls in FY05.

As a result, spending increases for higher education are likely to level off in FY07 budgets. Following declines in Fiscal Year 2003 and Fiscal Year 2004, state higher education appropriations rose 3.8 percent in FY05 and 6.0 percent in FY06, according to the Center for the Study of Education Policy at Illinois State University. Consistent with historical patterns, tuition increases have moderated in light of improved state funding, falling from 10.6 percent in 2004-05 to 7.1 percent in 2005-06. Enrollment, salary, and infrastructure needs may keep increases from slowing much further. [See Figure 1]

2. The political scene will be active at the state level. Nearly three-quarters (36) of governor’s seats and 80 percent of state legislative seats are up for grabs in 2006, with both parties jockeying for advantage ahead of the next round of redistricting (2010). Currently, Republicans hold the majority of governors’ seats (28), but

Figure 1. Change in Public University Tuition-Fees and State Higher Education Appropriations, 1995-1996 to 2005-2006



Sources: The College Board; *Grapevine* (Illinois State University).

Democrats cling to a razor-thin majority of the nation’s 7,382 legislative seats. Higher education may play a role in some races, particularly in the area of tuition/affordability, but fiscal and social “hot button” issues (taxes, immigration, gay rights) are likely to dominate. 2006 may also be an active year for ballot measures, given the unusually high number of initiatives and referenda in the 2005 election cycle. As with gubernatorial and legislative races, education issues will probably figure less prominently than pocketbook and morality issues.

3. State policymakers will tackle a number of key higher education issues in 2006 legislative sessions, especially those related to infrastructure and finances. Forty-four of the nation’s legislatures are scheduled to meet in regular session this year, and will take up a range of topics affecting state colleges and universities, including:

Capital construction/maintenance, bonding, and utilities. Campuses face a growing backlog

of construction and maintenance projects, amid rapidly rising materials and utility costs. Lawmakers in many states will be taking up significant capital funding requests from universities, as well as proposed changes in bonding terms and limits.

Financial aid. Recent tuition increases and slowed federal aid funding have shifted the focus to state aid programs, which suffered during the most recent economic downturn. A growing number of governors and legislators are focusing on building and maintaining need-based aid programs, while states with significant merit-based aid programs are exploring cost containment strategies.

Tuition policy. Concern over recent tuition/fee hikes have led to a rise in proposals to cap or index tuition rates, as well as modify authority to set rates. Additionally, some candidates and incumbents are likely to call for temporary rate

freezes or rollbacks in response to the improved financial picture.

Enrollment. States in the West and South continue to experience growth in demand that outpaces capacity, so policymakers will be forced to consider a range of options for accommodating that growth (e.g. building new campuses, expanding existing campuses, allowing two-year institutions to grant four-year degrees).

Pipeline/competitiveness issues. Increasing national focus on high school reform and college completion rates will likely bring a fresh batch of proposals to increase college readiness standards and provide incentives to reduce time-to-degree. Policymakers also are showing greater awareness of the nation's widening competitiveness gap in science/mathematics and will be offering proposals to boost degree production in these areas.

4. Governors and lawmakers will be grappling with a number of other issues affecting state colleges and universities. These include:

Tax limits/rollbacks. Despite electoral setbacks in 2005, tax/expenditure limitations are still in the works in several states, while others consider property tax remedies (i.e. rate freezes and rollbacks) that could place more pressure on state revenues.

Immigration. Mounting concern over illegal immigration, particularly among conservative groups, is fueling a backlash at the state and local levels. Debates over the admissions and tuition status of children of undocumented aliens will heat up in 2006.

Stem cell research. Several states are considering or moving forward with ambitious research agendas and funding proposals in this area, but fiscal limitations and political opposition still loom as potential stumbling blocks.

Pension funds. Aging state workforces may require more of pension funds than they are equipped to handle, which could also create problems in a number of states.

Eminent domain. A 2005 decision by the U.S. Supreme Court allowing for a liberal interpretation of eminent domain (acquisition of real property for public use) prompted an outcry from property rights advocates and has sent states scrambling to tighten their laws in this area. This could have an impact on proposed university-community development partnerships in blighted areas.

Emergency preparedness. Mindful of the slow and poorly coordinated response to Hurricane Katrina, governors and legislators will be taking a fresh look at their disaster/crisis plans, especially in the areas of communications and intergovernmental relations.

Conclusion

In the wake of the most recent boom/bust financial situation in the states, analysts pondered whether the good times were over for good in the states and what that would mean for "discretionary" services such as higher education. As 2006 gets underway, the answer to that query may be emerging. States are back on their collective feet, but at a more sustainable level. At the same time, service demands continue to rise and anti-tax sentiment is preventing better alignment of resources with demands. The upshot for state colleges and universities is that they must continue to balance their responsibilities as "the public's universities" with the need to cultivate a rising level of non-public resources to preserve and expand their human and physical infrastructures. Maintaining that balance will become more important—and perhaps more difficult—in 2006 and the years that follow.

Resources

AASCU. The association's *EdLines*, *Budget-Tuition Update*, and *Policy Matters* track current developments in state higher education policy and related trends. aascu.org

The Chronicle of Higher Education. Coverage of policy developments affecting state colleges and universities includes a state legislative preview (January) and report from the states (summer almanac issue), as well as a weekly round-up of higher education news from the states. chronicle.com (*subscription required*)

Grapevine. Housed at the Center for the Study of Education Policy at Illinois State University, this resource includes current and historical trend data on state higher education appropriations. coe.ilstu.edu/grapevine

Initiative and Referendum Institute. Based at the University of Southern California, the institute tracks and analyzes ballot measures at the state and local levels and has a library of research and publications on direct democracy trends in the United States and abroad. iandrinstitute.org

National Association of State Budget Officers (NASBO). This organization publishes two primary resources on state fiscal conditions—the *State Expenditure Report* (annual) and the *Fiscal Survey of the States* (bi-annual). nasbo.org

National Conference of State Legislatures. NCSL's Education Committee follows a wide range of P-20 state policy developments, and its Fiscal Affairs Division publishes regular updates on state budget developments and an annual assessment of state budget and tax actions. nctl.org

Stateline.org. Sponsored by the Pew Research Center, *stateline.org* provides a daily summary of state-level news from around the nation, as well as an annual look at major policy issues affecting states (*State of the States*).