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**NEW JERSEY
POLICY
PERSPECTIVE**

REPORT:

Flunking Out:

**New Jersey's
Support for
Higher Education
Falls Short**

**By Anastasia R. Mann and
Mary E. Forsberg**



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New Jersey Policy Perspective

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Foreword

There is a lot about money in the pages that follow. It takes money to build and staff institutions of higher education. It takes money for students to attend these colleges and universities. But money is not just a medium of exchange. It is also an expression of values. Spent wisely, it provides hope, opportunity and economic development—all of which are byproducts of a college education.

Over the years, New Jersey has come a long way in many areas. But with regard to access and affordability, the state's public higher education system is starting to resemble a throwback to the time when New Jersey offered its citizens a dearth of opportunities and state government played a dangerously passive role.

While it would be a mistake to conclude from this report that New Jersey is alone in letting its public commitment to higher education slide, the problem arguably is worse here. That's because New Jersey started out so far behind most of the rest of the nation and never caught up.

There are, to be sure, arguments made against providing the significant increase in funding that would meet the needs of college-age New Jerseyans. But they are for the most part rationalizations that fly in the face of the known benefits of a strong higher education presence. Yes, there are some high school graduates who leave New Jersey because they truly

want to go someplace else. This is a small state in land area and one can attend school in Massachusetts or North Carolina and be closer to home than someone from California or Texas who stays in their own state. But geography does not get New Jersey off the hook. The state still needs to try harder, and do more.

Of course, one way or another, the people of a state pay for public higher education in that state. The question is how much the burden should be shared by everyone, because higher education is a clearly demonstrable public good, and how much it should be borne by those attending college at the moment. Today in New Jersey, the equation borders on perverse: students—not the state—pay over half the costs of going to a public college or university in New Jersey. If we believe a college education should be available to anyone who is willing and able to do the work, this is too high a barrier to accept.

New Jersey's higher education situation started to improve in the 1960s when a far-sighted Governor challenged the Legislature and the public to do better. The state began to rise to its responsibilities. Today it seems that another wakeup call is in order. We hope that the facts, analysis and funding ideas contained in this report will help to rekindle the vision—as pragmatic as it was idealistic—that for a while lit the way.

— *Jon Shure*

Executive Summary

INTRODUCTION: ENVISIONING THE FUTURE

In 1966 a citizens committee organized by Gov. Richard J. Hughes issued “A Call to Action,” in which it said public higher education in New Jersey faced a crisis. At the time there were fewer than 50,000 students in the state’s public colleges and universities, leading to a push for expansion to be funded in part by passage of a three percent state sales tax.

The job of overseeing public education was taken from the state Department of Education and given to a new entity: the state Department of Higher Education, with a Chancellor of Higher Education and a state Board of Higher Education. By 1990 public college and university capacity had nearly doubled.

THE STATE OF HIGHER EDUCATION TODAY

While public institutions educate 80 percent of college students nationwide, they face serious financial problems. For every \$1,000 of income earned nationally, state appropriations for higher education have dropped, from \$8.53 in 1977 to \$6.59 in Fiscal Year 2006.

Adjusted for inflation, average tuition and fees nationwide have nearly doubled over the past two decades. Student aid has taken up some, but by no means all, of the slack. One result is that while tuition at public four-year colleges and universities cost the lowest-income families 13 percent of their income in 1980, by 2000 the burden was 25 percent.

From 1983 to 2006, the share of the New Jersey state budget appropriated to higher education sank from almost 10 percent of all state spending to just over five percent. In 2004, even the lowest priced county colleges cost the state’s poorest families 34 percent of yearly income—up from 24 percent in 1994.

New Jersey still “outsources” a college education more than any other state. It has the single highest net out-migration of college-bound students: over 20,000 a year. Approximately 36 percent of New Jerseyans who go to college leave the state to do so.

Demographers expect the growth in New Jersey’s college-age residents through 2015 to be the eighth fastest in the nation.

But the state’s current level of higher education funding assures that public and private institutions in New Jersey will fall far short of meeting demand

IT MATTERS

While some argued that having New Jersey high school graduates leave the state to go to colleges was not a problem, the Citizens Commission in 1966 recognized the flaw in the argument. It noted the obvious loss in manpower for business, higher costs of paying non-resident tuitions out of state and the concern that some students had to settle for a lower quality education in some cases.

Further, higher education is an attraction and an economic benefit to the state beyond direct educational reasons. For example, a study by Rutgers University in 2004 found that the school contributes over \$2.8 billion a year to the state’s economy.

High school graduates of color and those from low-income families tend to get squeezed out of the system when in-state capacity is lacking. Indeed, the participation gap between whites and minorities has grown substantially.

NEW JERSEY’S CAPACITY

When enrollment capacity is measured on a per capita basis, New Jersey ranks 45th in the nation. Just reaching the national mean would require adding close to 70,000 seats. Today, New Jersey’s nine state colleges and universities must reject 75 percent of residents who apply. Applications reached an all-time high in 2004.

Comparisons with similarly sized and populated states show that New Jersey’s public system educates almost 23,000 fewer students a year than North Carolina’s; 22,000 fewer than Virginia’s; 29,000 fewer than Georgia’s; and almost 48,000 fewer than Indiana’s.

The Corporation for Enterprise Development, while awarding New Jersey a high grade in a number of quality of life categories, judged the state weak in academic research and development—42nd in the nation on a per capita basis.

STRUCTURAL CHANGES

Until 1985, New Jersey allocated state funding for public higher education according to an explicit policy based on enrollment. Without such a policy, the only way to keep tuition in check is to persuade state officials to appropriate more money.

Changes in funding policy coincided to some extent with changes in the system of higher education governance in New Jersey. The State College Autonomy Act in 1985 decoupled operating support from student enrollment for senior institutions and put more power in the institutional boards of trustees to make the colleges' financial case. The Higher Education Restructuring Act in 1994 eliminated the Department and Board of Higher Education as well as the position of Chancellor. It created a sub-cabinet Commission on Higher Education supplemented by a New Jersey President's Council.

Proponents say deregulation provides colleges with flexibility and the ability to grow; others say the state no longer has a rational way to allocate resources and provide public oversight and accountability.

From 2000-01 to 2004-05, tuition and fees at public four-year colleges in New Jersey increased by 47 percent. The growth was 18.6 percent at county colleges and 26.1 percent at the private, independent colleges and universities in the state. And, with state-imposed caps on tuition increases, colleges have shifted more costs into the category of fees. Over this period at most of the state's public institutions, fees have grown as a share of student costs. At Rutgers, fees grew from 17 percent of tuition and fees in 1991 to 21 percent in 2004. The rise at the county colleges was to 20 percent from 11 percent and at the other state colleges and universities to 30 percent from 20 percent.

PAYING THE BILLS

Tuition increases at New Jersey's public institutions exceed national averages across the board, up by an average of eight percent in 2005-06 over the previous year. The national average was 7.1 percent. At public two-year colleges (New Jersey's county college system), New Jersey's increase was six percent, compared to the national average of 5.4 percent.

Even when financial aid is factored in, compared with those in other states, New Jersey families spend a larger part of their income on college costs, 34 percent in 2004 as compared to 24 percent a decade ago. Today, at least 124,316 New Jersey families rely on student loans, either because they do not qualify for need-based grant aid or because they do not receive enough

grant assistance to keep up with spiraling college costs. As of 2003, New Jersey families on average took out \$3,418 in student loans—exceeding the national average. The debts mount; over the past four years, a student attending a four-year institution in the state accumulated an average of \$14,832 in student debt. As it is, students in New Jersey are marginally more likely to default on their student loan payments than students in neighboring states.

Competition runs high among individual institutions. Most of New Jersey higher education's operating funds come as discretionary money from the state's General Fund. Appropriations for the most part do not take into consideration such factors as expanded enrollment, new curricular offerings or upgraded facilities.

Capital funding comes from three sources: the state Educational Facilities Authority, individual college borrowing and general obligation bonds sold by the state. In Fiscal Year 2006, the state appropriated over \$81 million to help institutions meet debt service on bonds. Many colleges and universities in the state have met construction needs by bonding against tuition and fees. Institutions have accumulated \$5.8 billion in debt through 2010. The public has, for the most part, not had the opportunity to cast a vote for or against a general obligation bond for higher education since 1988.

As state funds for higher education institutions decline, student aid has acted somewhat as a counterweight. In 2003-04 New Jersey provided an average of \$783 in financial aid per student, compared to the national average of \$372. Nearly 37 percent of fulltime New Jersey undergraduates receive student aid. New Jersey students are relatively more dependent on state aid, rather than federal or institutional aid, than students in other states.

Only a handful of public four-year institutions in the nation charge higher tuition than Rutgers; the National Center for Educational Statistics, in a 2004 nationwide survey, gave New Jersey a "D" for affordability, even accounting for student aid.

The state administers four types of aid: savings programs, merit-based grants, student loans and need-based grants. In 2003-04, New Jersey awarded five percent of all need-based aid given out nationally and was among a small group of states to give out more than \$150 million a year in such aid. New Jersey ranks second nationally in the percentage of full-time undergraduates receiving need-based state aid and also exceeded the national average in the size of these grants.

Over the past decade, the state's investment in need-based grants grew by 46 percent, while non-need-based assistance

grew by over 240 percent. New Jersey's system has evolved in a "high tuition/ high aid" model. Critics say the aid has not kept up with costs, which deters lower income and non-traditional students.

IN CONCLUSION

New Jersey, like many states, has experienced severe revenue constraints in recent years. Increases in higher education support have not kept pace with higher costs. And even in flush times, funding has not been adequate to keep the 1960s promise of a system that would provide quality education to those who could do the work. New Jersey's higher education funding crisis reflects institutional costs increasing at more than twice the rate of inflation, a structural budget deficit at the state level and changing priorities.

New Jersey now is one of only 11 states in the contradictory position of exceeding the national average in taxable resources per capita, but lagging behind in tax effort—the effective rate at which the public is taxed. By not taking advantage of its capacity to provide adequate, predictable funding, New Jersey has compromised the efficient and effective management of its higher education institutions and the predictability of student tuition and fees.

Major sources of revenue the state could tap include:

- ◆ Not letting the corporate Alternative Minimum Assessment expire in December 2006: up to \$300 million.

- ◆ Eliminating the state income tax exemption for 401(k) plans: up to \$500 million.
- ◆ Shifting all appropriations for county colleges to the Property Tax Relief Fund: at least \$224 million.
- ◆ Rolling back the 1990s state income tax for people who got back the most; extending the millionaires' tax: at least \$342 million
- ◆ Extending the sales tax to various services and products: \$275 million.
- ◆ Extending the sales tax to various professional services: \$900 million to \$2.2 billion.
- ◆ Extending the sales tax to gasoline: over \$540 million.

Truly living within one's means involves an honest assessment of what is needed, real thought given to priorities, investing in the future—and then doing everything possible to make sure the resources are available.

Going through such a process in New Jersey would lead to the realization that two things are required: a greater financial commitment to public higher education and—this follows logically—a higher degree of coordination and accountability for higher education at the state level. Then, the college needs of New Jerseyans could be met. The plans and dreams so boldly stated in the 1960s would be alive for generations to come.

Introduction: Envisioning the Future

Forty years ago, a citizens committee organized by Gov. Richard J. Hughes rendered a stinging indictment. In “A Call to Action,” issued in 1966, the committee declared, “The word ‘crisis’ is not too strong for the plight of public higher education in New Jersey. Both quantitatively and qualitatively, the present system is inadequate for the tasks at hand.”

If anything, the committee was understating the problem. In 1966, there were fewer than 50,000 students in a public system that was a shadow of what exists today.

- ◆ Rutgers University, founded in 1766 as Queens College in New Brunswick, was designated the state university in 1945, but only in 1956 did the state assume full control. In 1946, the school had absorbed the University of Newark and in 1950 the College of South Jersey in Camden, creating the three-campus system that exists today and the youngest major public research university in the US.
- ◆ Six state teachers colleges were founded between 1850 and 1929, starting with the New Jersey State Normal and Model School in Trenton (now The College of New Jersey) and eventually including Glassboro State College (now Rowan University), Jersey City State College (now New Jersey City University), Montclair State College (now Montclair State University), Newark State College (now Kean University) and Paterson State College (now William Paterson University). In the fall of 1966, each college for the first time admitted 50 students who would study liberal arts and not commit to being teachers—until then the schools existed solely to train teachers.
- ◆ Until 1954, there was no medical school in New Jersey. That year, the Seton Hall College of Medicine and Dentistry was established. In 1964, the state bought it from the cash-strapped Newark Archdiocese, creating what would become the University of Medicine and Dentistry of New Jersey.

- ◆ More so than students in every other state with the exception of Alaska, New Jersey high school graduates could not consider attending college in their home state because there were not enough spaces. In higher education circles, New Jersey was nicknamed the cuckoo state, after the bird that lays its eggs in the nests of other birds.

But 1966 was also a year that saw the beginning of a transformation. In his annual message, Hughes said New Jersey needed to triple or even quadruple student capacity by 1975. “If there is any resource we should not waste, it must be the brains and talent of our youth,” he declared, while calling for increases in funding for construction and student aid. In a special message to the Legislature in May 1966, Hughes kept up the pressure, saying the situation required “a commitment now of unusual effort and attention.”

Calling for the capacity to accommodate thousands of students who were leaving the state for college, Hughes declared, “while some of these students wish to go out of state, others do not—and, in any case, other states are closing their doors to the flood of New Jersey applicants.”

A year later, Hughes would come back to the Legislature and praise the

body for allocating the largest single increase in state funding to higher education ever in New Jersey, and creating a Department of Higher Education. No longer would New Jersey colleges be governed by the same board and commissioner that assumed authority over it in 1945 while also overseeing elementary and secondary education in the state.

Before 1966, the only tax that individuals paid to the state of New Jersey came when they bought gasoline, tobacco products or alcoholic beverages. Fully aware that the money for investing in higher education and other major state needs would have to come from someplace, Hughes proposed a state income tax. The Legislature would not pass such a tax, but it did approve a three percent state sales tax. The money would serve the state well. By 1990, public college and university capacity had more than doubled. New Jersey would have three new state colleges for a total of nine, 17 county colleges, three new colleges at

**By 1990, public college
and university
capacity had more
than doubled.**

Rutgers, specialized medical and engineering schools and far more graduate school opportunities than existed before. And, where in the 1960s, more than 60 percent of New Jerseyans left the state to pursue college degrees, by the 1990s, 55 percent of high school graduates would stay in New Jersey for college.

Though New Jersey came relatively late to assuming a strong government role in providing higher education opportunity, on the national level there is a long history. In 1862, the federal Land Grant College Act (the first Morrill Act) provided subsidies to public teachers colleges and mechanical and agricultural schools to build skills in areas crucial to economic development in every state. In the decades after, federal education policy continued to unfold as a response to critical social and economic imperatives. In 1944, the federal government enacted the GI Bill of Rights. Costing upwards of \$7 billion, this venture in subsidized higher education and training helped to allay fears that demobilizing 16 million World War II veterans into a peacetime economy would spark mass unemployment and even a return to the Depression. Sending veterans to college and training programs, policy makers reasoned, would not only prevent a glut of workers, but also foster better citizens, leaders and employees.¹

With this mid-century experiment in democratizing higher education an undeniable success, President Harry Truman in 1947 launched the President's Commission on Higher Education. It laid out a broad federal role in the expansion of higher education. The Commission concluded:

It is the responsibility of the community, at the local, state, and national levels, to guarantee that financial barriers do not prevent any able and otherwise qualified young person from receiving the opportunity for higher education... The democratic community cannot tolerate a society based upon education for the well-to-do alone. If college opportunities are restricted to those in the higher income brackets, the way is open to the creation and perpetuation of a class society, which has no place in the American way of life.²

Making college available and affordable has delivered clear and concrete benefits to society. For one thing, higher levels of education contribute to higher incomes and greater purchasing power. Nationally, in 2003, the median income for high school graduates was just under \$23,000. Bachelor's degree holders earned almost \$50,000, while those with master's degrees made almost \$60,000 and doctoral holders brought home almost \$80,000 a year.³ Higher education also leads to improved health, and raises levels of voting and volunteerism, while reducing dependency on public assistance and lowering crime rates. In short, having a well-educated citizenry is a big plus—and helping people to obtain that education is a highly positive investment.

Truman, Hughes and most others who took up the cause of higher education access in the postwar era have passed from the scene. And while the physical remnants of their philosophies remain, New Jersey's current funding policies create the danger that many of the glaring shortcomings present almost half a century ago—regarding access, capacity and scope of higher educational opportunities—will again threaten the state.

New Jersey Higher Education Basics

Today, public institutions of higher education educate 83 percent of college students in New Jersey: 44 percent in county colleges (sometimes called community colleges) and 39 percent in public four-year colleges and universities. The institutions are divided into three sectors: the county colleges, the state colleges and universities and the senior public research universities.

County Colleges

The New Jersey system of county colleges was established by statute in 1962. These 19 public two-year colleges enroll 350,000 students in credit, non-credit and workforce training programs. Average tuition for a full-time student in 2005 was about \$2,300. New Jersey's county colleges are: Atlantic Cape Community College; Bergen Community College; Brookdale Community College; Burlington County College; Camden County College; Cumberland County College; Essex County College; Gloucester County College; Hudson County Community College; Mercer County Community College; Middlesex County College; County College of Morris; Ocean County College; Passaic County Community College; Raritan Valley Community College; Salem Community College; Sussex County Community College; Union County College; Warren County Community College.

State Colleges and Universities

New Jersey's four public state colleges and five comprehensive state universities educate almost 75,000 undergraduates and confer about 45 percent of the baccalaureate degrees in the state, more than any other sector. About 70 percent of state college and university students attend these institutions on a full-time basis. In 2005, average tuition was \$7,600.

The state colleges and universities are: The College of New Jersey; Kean University; Montclair State University; New Jersey City University; Ramapo College of New Jersey; The Richard Stockton College of New Jersey; Rowan University; Thomas Edison State College; William Paterson University of New Jersey.

Research Universities

The state's three research universities are: Rutgers, the State University of New Jersey; The New Jersey Institute of Technology (NJIT); The University of Medicine and Dentistry of New Jersey (UMDNJ).

Since plans for a proposed merger have been shelved, New Jersey's three senior public research institutions remain distinct. At Rutgers, the State University of New Jersey, average undergraduate in-state tuition for 2005 was \$7,336. During 2005, Rutgers enrolled nearly 38,215 undergraduate and 11,801 graduate students on campuses in New Brunswick, Newark and Camden.

The New Jersey Institute of Technology (NJIT) in Newark is the state's public technological university. NJIT enrolls approximately 5,500 undergraduates. For 2005, in-state tuition was \$8,472.

The University of Medicine and Dentistry of New Jersey (UMDNJ) is the nation's largest public university of health sciences. It is spread across five campuses in Camden, New Brunswick/Piscataway, Newark, Scotch Plains and Stratford. In 2004-05, tuition was \$20,567 for New Jersey residents. Currently, UMDNJ enrolls 600 undergraduates.

The table below shows all state appropriations to higher education over a 24-year period, including operating support to the institutions, grants to county and independent colleges and financial aid to students. In Fiscal Year 2006, the state appropriated just under \$1.5 billion for these purposes. Funds from the state are distributed roughly as follows: just under \$1 billion is appropriated to the nine colleges and universities, the three public research institutions, the Agricultural Experiment Station and the Commission on Higher Education as operating aid; another \$210 million is appropriated as operating aid to the county colleges; \$25 million to private independent New Jersey colleges; and \$251 million to the Higher Education Student Assistance Authority (HESAA) for student financial aid.

The Fiscal Year 2006 appropriation for higher education is approximately 5.4 percent of the total state budget, which is down from its peak of 9.8 percent in 1983. As other areas have taken increasing shares of the state budget, the needs of higher education have not been met.

TABLE 1

State Appropriations for Higher Education 1983 to 2006

Fiscal Year	Direct State Services	Grants-In-Aid	State Aid	Capital Construction	Debt Service	Total, Higher Education	Total Appropriation All State Funds	Higher Education as % of Total State Budget
1983	\$501,648,000	\$0	\$68,263,000	\$1,087,000	\$40,703,000	\$611,701,000	\$6,262,471,000	9.8%
1984	541,617,000	0	68,311,000	2,533,000	40,552,000	653,013,000	6,860,672,000	9.5%
1985	603,026,000	0	79,134,000	5,099,000	40,184,000	727,443,000	7,869,676,000	9.2%
1986	620,857,000	0	88,764,000	7,125,000	41,564,000	758,310,000	8,652,619,000	8.8%
1987	688,843,000	0	92,695,000	12,079,000	38,987,000	832,604,000	9,443,772,000	8.8%
1988	797,024,000	0	102,290,000	15,766,000	40,644,000	955,724,000	10,577,391,000	9.0%
1989	693,336,000	156,920,000	120,575,000	20,238,000	35,830,000	1,026,899,000	11,860,452,000	8.7%
1990	699,410,000	151,193,000	111,548,000	32,734,000	39,142,000	1,034,027,000	12,151,108,000	8.5%
1991	643,715,000	142,942,000	102,480,000	412,000	44,869,000	934,418,000	12,562,308,000	7.4%
1992	703,876,000	159,146,000	104,102,000	9,000	0	967,133,000	15,143,526,000	6.4%
1993	673,453,000	165,086,000	111,939,000	42,000	0	950,520,000	14,651,711,000	6.5%
1994	767,130,000	174,042,000	120,316,000	6,356,000	0	1,067,844,000	14,963,742,000	7.1%
1995	755,249,000	184,532,000	121,153,000	5,360,000	0	1,066,294,000	15,365,404,000	6.9%
1996	849,148,000	217,137,000	124,392,000	4,823,000	0	1,195,500,000	16,230,524,000	7.4%
1997	3,460,000	1,216,799,000	126,126,000	4,285,000	0	1,350,670,000	16,304,466,000	8.3%
1998	3,934,000	983,009,000	136,290,000	6,825,000	0	1,130,058,000	17,189,368,000	6.6%
1999	4,079,000	1,035,626,000	151,247,000	8,820,000	0	1,199,772,000	18,498,999,000	6.5%
2000	4,174,000	1,103,245,000	166,740,000	3,177,000	0	1,277,336,000	19,920,688,000	6.4%
2001	4,712,000	1,149,332,000	183,138,000	10,765,000	0	1,327,813,000	21,279,359,000	6.2%
2002	4,171,000	1,113,231,000	193,521,000	12,410,000	0	1,301,859,000	22,495,603,000	5.8%
2003	3,843,000	1,202,830,000	163,798,000	0	0	1,370,471,000	24,042,768,000	5.7%
2004	3,530,000	1,115,469,000	210,780,000	0	0	1,329,779,000	25,002,729,000	5.3%
2005	3,930,000	1,278,653,000	212,120,000	0	0	1,494,703,000	28,400,429,000	5.3%
2006 est	3,930,000	1,268,093,000	209,579,000	0	0	1,481,602,000	27,412,266,000	5.4%

Source: The Governor's recommended budgets, various years.

The State of Higher Education Today

Alarms are sounding across the nation over developments in state public higher education systems. While public institutions educate 80 percent of college students nationwide, these systems face serious financial problems. For every \$1,000 of income earned nationally, appropriations by the states to higher education have dropped, from \$8.53 in 1977 to \$6.59 in Fiscal Year 2006.⁴

As costs outpace state appropriations, public institutions have been cutting programs and budgets—and raising tuition. Adjusted for inflation, average tuition and fees have nearly doubled over the past two decades. Student aid has taken up some, but by no means all, of the slack. In fact, federal student aid has waned significantly over two decades. One result has been that while tuition at public four-year colleges and universities cost the lowest-income families 13 percent of their income in 1980, by 2000 the burden had nearly doubled to 25 percent.⁵ As many as 200,000 would-be students across the nation have been priced out of the college market altogether. Meanwhile, demographers forecast that the college-age population in the U.S. is on the verge of a dramatic increase.

At the start of the 1990s, 61 percent of high school graduates in New Jersey enrolled in college. Today, that rate has risen to over 65 percent.⁶ Since fully 83 percent of college students in New Jersey today attend public institutions, support for those institutions is crucial to higher education in the state. Over the past two decades, however, the state's funding of public higher education has been inadequate.

National levels of state and local government support have remained relatively flat over the past decade. As shown in Table 1, New Jersey mirrors this trend with, at best, weak annual growth. The most telling part of the story, however, comes when appropriations to higher education are shown as a share of the state budget. From 1983 to 2006, the share of the budget appropriated to higher education sank from almost 10 percent of all state spending to just over five percent.

Inadequate state funds mean that students and their parents have had to make up the difference—through payment of tuition and fees. Between 1990-91 and 2004-05, tuition and fees at public four-year colleges in New Jersey roughly tripled—from \$2,654 to \$7,879 a year.⁷

State support below 50 percent of what it costs to operate colleges is a scenario that state higher education professionals hoped they would never see. Initially, the Citizens Committee recommended that the state cover 70 percent of higher education costs, leaving students to make up the remaining 30 percent in tuition and fees. Since 1996 the New Jersey Commission on Higher Education has repeatedly recommended a similar division, with the state paying two-thirds of the operating costs for the senior public institutions, leaving students to shoulder the remaining third.⁸

Instead, the state share has receded almost every year since 1988, leaving students to pay a growing proportion of the rising costs of their education. The table below shows the magnitude of this erosion. Clearly, as state support has gone down, students and their families have been left to make up the difference.

TABLE 2

State Support as a Share of College Budgets

Institution	1990	1995	2000	2004
Rutgers, The State University	43%	26%	24%	21%
Rutgers, Agricultural Experiment Station	49%	43%	38%	34%
UMDNJ	45%	26%	22%	12%
NJIT	49%	34%	29%	24%
State Colleges and Universities	58%	40%	34%	24%
Average state appropriation, across sectors	48%	30%	27%	19%

Source: Compiled from state budgets, various years

Even accounting for financial aid to students and their families, the cost of college is out of reach for many New Jersey families. In 2004, even the lowest priced colleges cost the state's poorest families 34 percent of yearly income—up from 24 percent in 1994.⁹ Though the state has significant wealth, New Jer-

sey's state subsidy to higher education translates to \$5.26 per \$1,000 of income—43rd nationally.¹⁰

Public colleges and universities and county colleges draw the bulk of their funding from a combination of state and local appropriations and student tuition and fees. New Jersey's public colleges and universities receive less assistance than colleges in other states from such sources as private gifts, licensing contracts, endowment proceeds and federal funds.¹¹

Other developments in the state's financing of higher education also signal a shift away from access and affordability. While New Jersey still stands out nationally both for the dollar amount of student aid it distributes and the percentage of students who receive it, the mix of that aid is changing. The state is moving away from need-based aid to merit-based aid, and from grants to loans—even as research confirms that borrowing hurts students' academic performance and lowers graduation rates, and that these effects are more pronounced for low-income and minority students.¹²

New Jersey is moving away from need-based student assistance faster than the national average. Between 1993-94 and 2003-04, New Jersey's need-based aid increased by 45 percent, compared to 102 percent nationally.¹³

And while the percentages have dropped from the mid-1960s, New Jersey still "outsources" a college education. Just as it did when the Citizens Commission weighed in 40 years ago, New Jersey has the single highest net out-migration of college-bound students of any state in the country. In 2004, 21,187

more students left the state than entered to attend college. Approximately 36 percent of New Jersey high school graduates who enter college leave the state to do so.¹⁴

By far the most popular out-of-state college choices for New Jersey high school graduates are in the region. The top three non-New Jersey schools where state high school students had the College Board send their SAT scores in 2005 were in neighboring states: Penn State, 10.9 percent of all students; University of Delaware, 10.2 percent; and New York University, 10.1 percent. The other colleges to which at least five percent of New Jersey high school students had their test scores sent were Boston University, Temple University, Drexel University, Lehigh University, University of Pennsylvania, University of Maryland, Cornell University and Villanova—all located in either Pennsylvania, Maryland, New York or Massachusetts.

**New Jersey has the
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On the flip side, an average of only 10 percent of students at New Jersey's public institutions come from other states. At the far end of this continuum are schools like William Paterson University where, this year, 98 percent of the 11,500 students enrolled are New Jersey residents.

With an explosive increase in college-age New Jerseyans predicted, the state's current level of higher education funding assures that public and private institutions will fall far short of accommodating the demand. While New Jersey had almost 700,000 college-age residents in 2000, by 2015 that number will approach 820,000—a 17 percent growth rate predicted to be eighth fastest in the nation.¹⁵

It Matters

This situation inevitably leads to the view expressed by some that as long as the state has the workforce it needs, investing in New Jersey colleges is unnecessary. Due to the mobility of highly skilled workers, this argument says, the number of college students graduating in an area need not affect the number of college graduates living there.¹⁶ It certainly is true that New Jersey businesses offer attractive employment opportunities that bring to the state many job seekers who have graduated from college elsewhere. So, despite sending so many students out of state for college, New Jersey has within its borders the nation's sixth highest percentage of college graduates. Only Massachusetts, Colorado, Connecticut, Maryland and Virginia are higher.

But the Citizens Commission on Higher Education created by Governor Hughes recognized the flaw in this line of reasoning. After detailing the extent of New Jerseyans' out-migration to colleges, the 1966 report said, "one reaction to these data would be—'What does it matter, as long as they get in college somewhere.'"

The committee listed three points to refute that view. One was the obvious manpower loss. Another was the expense imposed on New Jersey parents and students who would have to absorb non-resident tuition rates and additional travel expense out of state. And the third was the concern that some students were settling for a lower quality education "in accepting second or third choices after rejection by New Jersey institutions." In essence, the commission was saying New Jersey doesn't owe it to its *employers* to educate the state's populace, it owes this to the state's *citizens*.

Further, many people like the idea of living near a college campus, making higher education attractive even for non-educational reasons. Nor can higher education's contribution to a state's economy be ignored. Colleges employ people and buy things. And the jobs at colleges and universities tend to be stable, less inclined to layoffs than other sectors. A report produced in 2004 by Rutgers found that the university contributes over \$2.8 billion a year to New Jersey's economy. The report

noted that employees of Rutgers pay over \$30 million a year in local property taxes, \$18 million in state income tax and nearly \$7 million in sales tax.¹⁷

And while the lack of an adequate, skilled workforce is not a problem in New Jersey, the state's limited public higher education capacity raises other issues less easily dismissed. Costs associated with leaving the state certainly deter some would-be college students, most likely minority high school graduates and those from low-income families. These are precisely the individuals who tend to get squeezed out of the system when in-state capacity is lacking. Over the past decade, according to the National Report Card on Higher Education, the gap in college participation between whites and minority groups has grown substantially. While a decade ago, 28 of every 100 young minority adults in New Jersey were enrolled in college, by 2004 the number had fallen to 21. Young people who come from high-income families are three times more likely than those from low-income families to attend college, a participation gap that ranks among the widest in the nation.¹⁸ If college education is to be a road to success, this is a troubling statistic.

A generation after the 1966 report—with the out-migration problem persistent if not quite as severe—Dr. Susan Cole, president of Montclair State University, noted:

It would be an error to think that New Jersey does not have to educate its own workforce. It would be an error to think that New Jersey can continue to off-load the costs of higher education onto individual families. It would be an error to think that New Jerseyans will accept a situation in which an increasing number of young people will be turned away from state colleges and universities because there simply is no room for them...The long-term economic and social costs of not acknowledging the state's failure, to date, to develop comprehensive public policy in respect to public higher education will be great indeed.¹⁹

New Jersey's Capacity

Put simply, public colleges and universities in the state have run out of room. When enrollment capacity is measured on a per capita basis, New Jersey ranks 45th in the nation. As the state's Commission on Higher Education noted recently, if New Jersey set the modest goal of meeting the national mean in providing public baccalaureate places per capita, it would have to add close to 70,000 seats.

The Commission has proposed expanding campuses to provide high-quality higher education opportunities for between 411,600 and 415,600 students, leading to an increase of 50,000 to 54,000 students by 2010.²⁰ But, without a major increase in state support, this cannot happen.

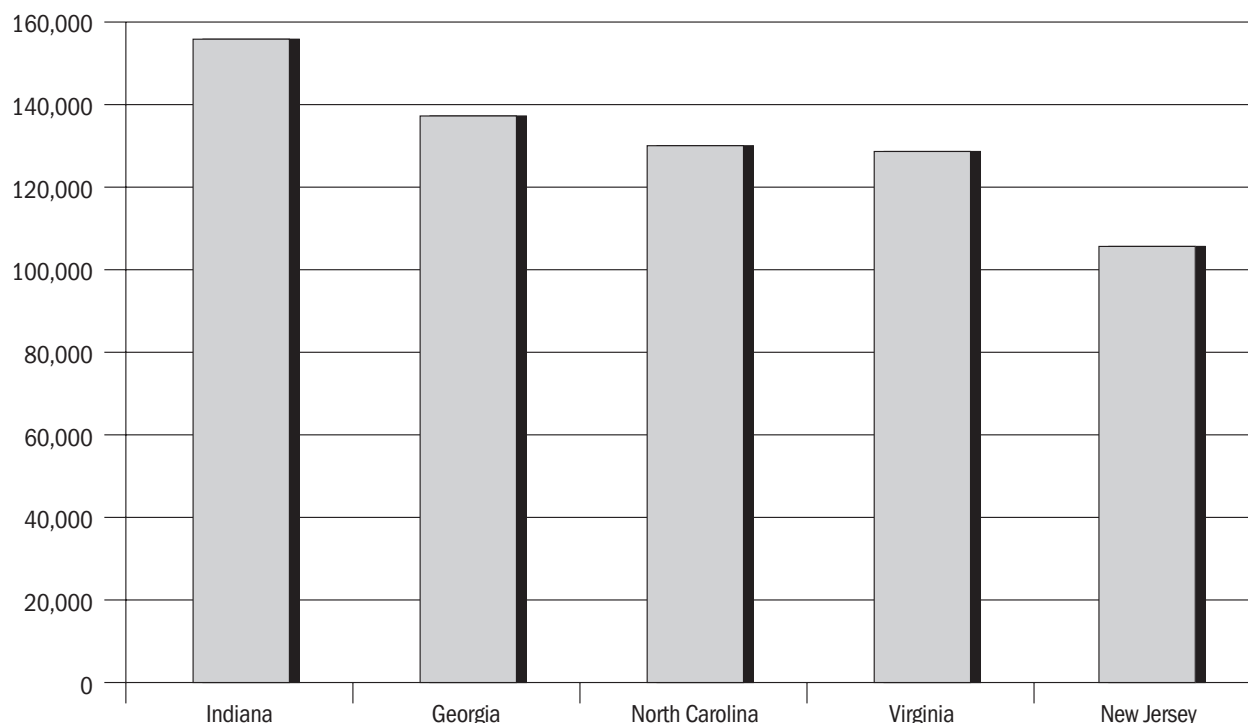
Among private institutions, exclusivity is somewhat desirable as a signal of prestige. But state public higher education systems do not aspire to be Harvard. For public institutions whose mission is to balance access and quality, high rejection rates

read as much as a limitation as a distinction. Today, New Jersey's nine state colleges and universities must reject 75 percent of the residents who apply. Total applications to these colleges reached an all-time high in the fall of 2004, with over 42,000 applications for only 9,400 freshman seats. By 2008, the New Jersey Association of State Colleges and Universities predicts, the number of applicants will reach 50,000. For its part, Rutgers University accepted just over half of freshman applicants in 2003, making it one of the 10 most exclusive public universities nationwide.²¹

To grasp the extent of New Jersey's capacity problem, basic comparisons with similarly sized and populated states are useful. In recent years, New Jersey's public four-year institutions have educated fewer students than many comparably-sized states: almost 22,000 fewer than Virginia; 23,000 fewer than North Carolina; 29,000 fewer than Georgia; and 48,000 fewer than Indiana.²²

FIGURE 1

Number of Students Enrolled at 4-Year Public Institutions in States of Comparable Size



Source: National Center for Public Policy and Higher Education, "Measuring Up 2004"

Although New Jersey is the ninth most populous state, with more than 8.7 million residents, Rutgers University, which enrolls just over 50,000 students on three campuses, is the state's only truly large public university. Montclair State University, which offers graduate studies but is not a research institution, comes in a distant second, with just over 15,000 students. Enrollment at the state's other two research institutions is about 8,000 at the New Jersey Institute of Technology and 4,500 at the University of Medicine and Dentistry of New Jersey.

Indeed, the nonprofit Corporation for Enterprise Development (CFED) recently awarded New Jersey a high grade in a number of quality of life categories, but judged the state weak in academic research and development. According to CFED,

New Jersey is 42nd in the nation in research and development spent per capita by colleges and universities.²³

By contrast, Indiana, with just over six million residents, supports four large public universities, of which two are major public research institutions. North Carolina, with a population slightly smaller than New Jersey's, houses four large public universities, including two research universities. For an even more dramatic comparison, juxtapose Michigan with New Jersey. With a population of just over 10 million, Michigan hosts eight large public universities, four of which are research universities, although all eight award doctorates.²⁴

Structural Changes

Until 1985, New Jersey allocated state funding for its public colleges and universities according to an explicit policy based on enrollment. For a growing system nearing the end of two decades of construction, this mechanism was sufficient to limit tuition. However, in the absence of such a policy, persuasion has become the accepted method for trying to keep tuition in check. For example, state colleges now are required to hold public hearings before increasing tuition. And when the state's senior public institutions announced plans to raise tuition an unprecedented 10 percent after the 2003 state budget came out, Gov. James McGreevey warned them that any school proposing a double-digit tuition hike would face the scrutiny of an audit.

Since then, the Legislature and the governor—in what might be viewed as an all-stick, no-carrot approach—have taken matters into their own hands, imposing a tuition cap on colleges and universities even as state appropriations have diminished as a share of total cost. Over the last three years, the state's higher education appropriation has come with a caveat: any school that raises tuition rates more than eight percent over the previous year will forfeit a portion of state funding.

The change in state funding policy has coincided to some extent with changes in the system of governance for higher education in New Jersey. When the state shifted in 1967 to a cabinet-level Department of Higher Education headed by a Chancellor, it was seen as a model for efficiency and accountability. While each institution still had its own governing board, one entity—the state Board of Higher Education—coordinated all higher education in New Jersey. A few years after the system took effect, the Board of Higher Education assessed the strengths of the consolidated model, writing, “The importance of this pattern of relationship cannot be overestimated. Many other states are experiencing grave difficulties in establishing clear policies because of rivalries and conflicts among groups of higher education institutions.”

The Department of Higher Education regulated many of the main functions of the diverse institutions. The Department oversaw programming and tuition and exerted influence on the

selection of the boards of trustees. But perhaps the principal arena of the Department's oversight of the state's diverse institutions was in the matter of the budget. Each institution submitted its budget request to the Department, which could and did require revisions. Guided by a statewide vision for higher education, the Department granted priority to some institutions over others. At the end of this consolidation process, the Department submitted the requests to the Department of the Treasury for final approval.

But the system would not survive the 20th century. In two steps, control over every aspect of the state's higher education system shifted away from centralized authority.

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First came passage of the State College Autonomy Act in 1985 under Gov. Thomas Kean. It decoupled operating support from student enrollments for the state's senior institutions. Institutional trustees, presidents, and advocates at the New Jersey Association of State Colleges and Universities had pushed for the legislation, which substantially freed the hand of institutional boards. Under the Act, the Board of Higher Education granted to the boards of trustees a greater degree of autonomy. State-supported colleges and

universities gained new power to appoint chief executives, set tuition and fee levels, dictate admissions and degree requirements, diversify their missions, oversee the investment of their own endowments and raise funds from private donors. Before long, most of the state colleges had won the designation as universities.

In 1994, under Gov. Christie Whitman, New Jersey adopted the Higher Education Restructuring Act, in essence a deregulation of higher education in the state. Citing a mandate to reform, deregulate and cut costs, within her first six months in office, the new governor eliminated the state Department of Higher Education, the position of Chancellor to preside over it and the state Board of Higher Education.

The Higher Education Restructuring Act of 1994 created the New Jersey Commission on Higher Education, headed by an executive director without cabinet status. As a complement to

the Commission, the Act created the New Jersey Presidents' Council composed of the presidents of all the state's public and private colleges and universities. Its responsibilities include: reviewing and commenting on new academic programs; furnishing research and public information on higher education; advising the Commission on planning, institutional licensure/mission and costly/duplicative new academic programs; making recommendations on statewide higher education issues, state aid and student assistance; and encouraging regional and cooperative programs and transfer articulation agreements.²⁵

Under the present configuration, the Commission directs system-wide planning, research and advocacy; final decisions on institutional licensure, university status and mission changes; policy recommendations for higher education initiatives and incentive programs and an annual coordinated, system-wide budget policy statement; and, upon referral from the Presidents' Council, decisions on new academic programs that exceed an institution's mission or are unduly costly or duplicative. In addition, the Commission generally supervises the Educational Opportunity Fund (EOF), a program of both financial aid and academic support for disadvantaged students. The Commission's coordinating responsibilities extend to all sectors of New Jersey higher education: the senior public colleges and universities, county colleges, private institutions that receive state support and degree-granting proprietary institutions.

Today, the boards of trustees are the principal decision makers at public colleges and universities. They define the institutions' missions, launch capital projects, initiate program changes and set tuition levels. Likewise, the boards of trustees formulate the institutions' budget requests and submit them directly to the state Office of Management and Budget, without any intervening authority or eye to developments at other institutions.

Unlike the Department of Higher Education, which exercised comprehensive regulatory responsibility, neither the New Jersey Commission on Higher Education nor the New Jersey Presidents' Council play any role in the budget-shaping process that unfolds at the various institutions. Instead, the Commission and the Council have broader responsibilities: planning and coordinating—and advocating on behalf of—New Jersey's system of higher education as a whole.

Arguments favoring deregulation say it gives colleges the flexibility to set their own course and compete in the marketplace. "New Jersey law has given state colleges and universities the agility and versatility to weather the unexpected and seize opportunities in the environment to grow needed programs, seek new revenue sources, and meet emerging workforce,

research and public needs," wrote one supporter of the changes.²⁶

Those against, however, say the previous system was not the cumbersome bureaucracy critics claimed, but rather a way to allocate resources and responsibilities and provide coordination, public oversight and accountability—as in other areas where the state plays a large role. One recent observer, citing the corruption scandals plaguing the University of Medicine and Dentistry of New Jersey called for a "restored state agency to supervise all of public higher education—from trustee selection to oversight of spending and personnel decisions and appointment of college presidents."²⁷

Since 1994, when institutional boards of trustees gained the power to set their own tuition and fee rates, what those rates should be has been a point of tension between state lawmakers and college and university officials. Elected officials have argued that major tuition hikes compromise affordability and limit access. For their part, college and university presidents and trustees say that in order to assure program and enrollment growth and quality when state appropriations fail to keep up with inflation, tuition increases, however reluctantly arrived at, are inevitable.

At the time of their creation in 1994, the Commission on Higher Education and the Presidents' Council were assigned the task of composing a broad budget policy statement that would guide the governor and Legislature in establishing funding levels. In 1995, in keeping with this mandate, the Commission recommended that the state appropriation cover two-thirds of the cost of public higher education, leaving students to make up the last third through tuition. However, having already been abandoned for close to a decade as of 1995, the recommendation has been ignored. Moreover, the deregulating act did not assign responsibility for translating the recommendation into policy. Some advocates complain that this constitutes a flaw in the present setup: the Commission lacks enforcement powers, while members of the Presidents' Council advocate more knowledgeably, enthusiastically and successfully for their own institutions than for a larger statewide vision.

Tensions became particularly pronounced in 2002 and 2003. As it became clear that the state would face a major budget gap, Governor McGreevey instituted cuts in all state appropriations including higher education. In 2002, five percent was shaved from the previous year's state allocation. Citing concerns about access, the Governor in a letter to state college and university presidents pointed out that, although the Consumer Price Index showed that inflation rose 17 percent from 1993 to 2000, spending increases at the institutions had ranged from 30 percent to 56 percent, independent of enrollment. During the same

period, the Governor noted, tuition went up anywhere from twice to more than five times the rate of inflation.²⁸

It should be pointed out that in higher education circles, some questions have been raised about whether the Consumer Price Index is a valid measure of cost increases. An alternative Higher Education Price Index (HEPI) argues that inflation has risen faster in categories where colleges spend money than it has for products and services consumed by the general public. From 1980 to 2000, while the CPI rose by 118 percent, the HEPI was up 154 percent. The index keeps track of costs for over 100 items in such categories as salaries and benefits for faculty, administrators and other staff as well as such services as data processing and transportation.²⁹

During the nearly two decades that state support has been decoupled from enrollment growth, governing boards of institutions—which under New Jersey law determine tuition rates for themselves—have turned more and more to students to make up the difference. Student demand has become, in effect, the arbiter of tuition levels. While there can be no doubt that the state still buffers students at public institutions from paying the full cost of a college education, from 2000-01 to 2004-05, tuition and fees at public four-year colleges in New Jersey increased by 47 percent. Increases were more modest at county colleges, 18.6 percent, and independent colleges and universities, 26.1 percent.³⁰

To address spiraling tuition increases, the Legislature has imposed tuition caps that limit increases from one year to the next, at the same time state appropriations constitute a declining share of university budgets. Colleges feel this squeeze, but the real losers are students: costs that would exceed the caps if added to tuition become “fees,” and students end up paying them anyway. Among the 15 categories of fees that students at some of the state colleges have been assessed over the past few years are “health and wellness,” “recreation,” “facilities

improvement,” “student center” and “library improvement.” In the current funding climate, these add-ons make college even less affordable for students.

Over this period at most of the state’s public institutions, fees have grown as a share of student costs. At Rutgers, fees grew from 17 percent of tuition and fees in 1991 to 21 percent in 2004. The rise at the county colleges was to 20 percent from 11 percent and at the other state colleges and universities to 30 percent from 20 percent.³¹

According to an analysis by the Institute for Higher Education Policy, the nation as a whole—and New Jersey in particular—offer a “provider’s market” for higher education. In other words, demand for higher education is such that tuition could rise almost without limits and all the lecture halls would still be full.

But the “demand” issue deserves further exploration, especially in the context of what has over time been the generally accepted mission of public higher education. In August 2004, the Global Credit Research division of Moody’s Investment Service issued a “Special Comment” in response to the financial situation confronting New Jersey’s public colleges and universities. Because of high demand on the part of students, the report said, “we believe that public colleges and universities will be able to grow student derived revenue to offset weak state operating and capital support without negatively affecting enrollment.” The view from Wall Street, then, is that the tight market—created in part by New Jersey’s low investment in college capacity—will help higher education make up for the lack of state support. But the report does not go into the potential adverse impact on college students and those who aspire to be—other than to note that for many New Jersey institutions, rising tuition and fees “have eaten into their price advantage relative to private competitors and out-of-state public institutions.”

TABLE 3

Resident Tuition and Fees at New Jersey Public Colleges and Universities

Institution	1991-92	1996-97	2000-01	2004-05
Rutgers University (avg.)	\$3,860	\$5,074	\$6,333	\$8,564
NJIT	\$4,288	\$5,466	\$6,730	\$9,180
8 State Colleges (avg.)	\$2,625	\$3,645	\$5,069	\$7,630
County Colleges (avg.)	\$1,403	\$2,104	\$2,338	\$2,771

Source: New Jersey Commission on Higher Education

Paying the Bills

The College Board, which collects national data on tuition levels, found that students at senior public institutions have borne greater recent increases in tuition than students at public community colleges or at private, independent four-year colleges and universities. And increases at New Jersey's public institutions exceed the national averages across all sectors. At public four-year colleges and universities around the nation in 2005-06, the average published tuition and fees were \$5,491, up 7.1 percent from the previous year. In New Jersey, the comparable cost was \$8,180, up eight percent. Those at public four-year colleges and universities in Virginia paid \$6,050, up eight percent; those in New York paid \$4,950, up one percent; and those in North Carolina paid \$3,440, up two percent.

The table below shows actual tuition and fees for both in-state and out-of-state institutions as well as the percentage of applicants admitted. In-state tuition and fees at Rutgers and the state colleges are among the highest of any listed below. For students coming from outside the state, New Jersey's tuition and fees are pretty much a bargain.

At public two-year colleges nationally, tuition and fees were \$2,191, a five percent increase over the previous year. In New Jersey, the increase was six percent, up to \$2,920. New Jersey's independent institutions also saw price increases above the national average. Nationally, four-year private institutions charged an average of \$21,235, up six percent over the previous year; comparable New Jersey schools charged \$22,020, up six percent from 2004-05.³² It should be pointed out that the overall cost of living in New Jersey is about one-third higher than the national average. So, not only are costs associated with college high, but so are other costs—especially housing. As a result it is reasonable to expect that many New Jersey families have a lower percentage of their yearly income left over for college than in many other states.

After state funding, tuition makes up the largest component of institutional operating funds. Of the array of sources, tuition is the most stable form of annual revenue for colleges and universities. Without a state funding formula allotting money on the basis of, for example, enrollment, and without a specified source of state revenue to allocate to higher education—which

TABLE 4

Selected State Higher Education Cost Comparisons

Institution	In-state tuition and fees	Out-of-state tuition and fees	Applicants admitted
Rutgers (3-campus avg.)	\$8,982	\$16,581	56%
Average New Jersey State Colleges	\$8,229	\$12,841	53%
Penn State, University Park	\$11,508	\$21,744	58%
University of Massachusetts, Amherst	\$9,278	\$18,397	81%
University of Connecticut	\$7,912	\$20,416	50%
University of Maryland, College Park	\$7,821	\$20,145	50%
University of Delaware	\$7,318	\$17,474	46%
Eastern Michigan University	\$6,508	\$17,863	78%
Central CT State University	\$6,163	\$14,102	61%
State University of New York at Binghamton	\$5,826	\$12,086	44%
Bridgewater State College, MA	\$5,506	\$11,606	76%
City University of New York: Queens College	\$4,375	\$11,175	42%

Note: The New Jersey State College numbers do not include Thomas Edison State College.

Source: CollegeBoard.com, fall 2005

could help ensure sufficient state funding—tuition becomes the residual payment when the state does not put enough money into higher education operations. At the same time, legislators and higher education administrators are loath to raise tuition, mainly because of concerns about affordability, which is a principal reason that public institutions of higher learning came about in the first place.

While New Jersey remains unusually committed to offsetting high costs with student aid, college is still unaffordable for the children of many families in this state. Even allowing for financial aid, the cost of attending one of New Jersey's public four-year institutions in 2004 amounted to 34 percent of the average family's income, up from 24 percent a decade earlier.³³ Measured this way, only six states charge more.³⁴ It is interesting to note that the share of income needed to pay college expenses at the state's community colleges and private four-year colleges has remained flat over the decade: in 2004 it took 24 percent of household income at community colleges, up from 21 percent in 1994 and 56 percent of resources at four-year private colleges, up from 53 percent. Of course, for any family whose income was below the state average, the share of income needed was much larger.

Today, over 124,000 New Jersey families rely on student loans, either because they do not qualify for need-based grant aid or they do not receive enough grant assistance to keep up with spiraling college costs.³⁵ As of 2003, New Jersey families took out \$3,418 in student loans on average—exceeding the national average.³⁶ The debts mount; over the past four years, a student attending a four-year institution in the state accumulated an average of \$14,832 in student debt.³⁷

Recent actions at the federal level could worsen the financial straits of New Jersey students and their families. The federal Deficit Reduction Act of February 2006 amounts to the largest cut in student aid funding in U.S. history. The measure will drain \$12.6 billion from federal student loan programs over five years, in part by authorizing higher interest rates for borrowers and by redirecting parents and students to private lenders. For New Jersey families, the changes will drive up the average student loan burden by \$1,864.³⁸

Students attending the state's public institutions already bear considerable financial burdens in order to attend school. Many work—some at more than one job and sometimes fulltime—to make ends meet. Unsurprisingly, national surveys show that students at public four-year institutions move more slowly towards graduation and are more likely to drop out than students at private colleges. After four years, 26 percent of the lowest income students have graduated, as compared to 50 percent of high-income students. Over six years, the relative grad-

uation rates shift to 54 percent and 77 percent, respectively.³⁹

Whether a student's debt is manageable is a function of his or her post-graduation income and interest rates on the loans. When salaries are high, the tendency to default is lower. When interest rates rise, students are more likely to miss payments. According to a study of postsecondary student aid conducted by the Department of Education, approximately 39 percent of all students graduate with unaffordable student loan payments, defined as monthly payments exceeding eight percent of the borrower's monthly income.

New Jersey students are marginally more likely to default on their loan payments than students in neighboring states.⁴⁰

TABLE 5

Student Loan Default Rates in Selected States

	Number of Borrowers	Borrowers in Default	Default Rate
New Jersey	53,323	2,487	4.7%
New York	194,463	8,357	4.3
Pennsylvania	149,530	5,861	3.9
Maryland	35,248	1,225	3.5
Delaware	5,985	309	3.5
Connecticut	23,702	776	3.3

Source: U.S. Department of Education, as of July 30, 2005⁴¹

Timely degree completion is desirable both for students and for taxpayers. The sooner students graduate, the sooner they can fully participate in the economy. Based on a purely rational economic calculation then, it is in the interests of taxpayers to remove barriers to completion for these students.⁴²

Virginia offers an interesting example of a strategy to ease the debt burden on lower and middle-income students. With the backing of the state legislature, the University of Virginia recently expanded its "Access UVa" financial aid program for low- and lower-middle income families. On top of a previous investment of \$16.4 million in 2004, the university will spend an additional \$1.5 million a year to expand eligibility. Grants will replace loans for undergraduates with family incomes under 200 percent of the federal poverty line. Need-based loans for any student will be capped at 25 percent of the in-state cost, with all loan money above that amount coming

from grants. Architects of the program describe it as “an on-ramp to higher education for many low- to moderate-income Virginians.”

State money in New Jersey comes through three distinct channels: support for operating expenses, periodic capital outlays and student aid.

OPERATING FUNDS

Though state appropriations to senior institutions grew in current dollars between 1989 and 2005, from just over \$1 billion to \$1.4 billion, this actually represented a shrinking share of the state budget—from 8.7 percent in 1989 to 5.3 percent in 2005. Over a single decade, the state’s share of institutional operating expenses shrunk considerably. County colleges fared somewhat better. State appropriations for operating expenses at these public two-year institutions actually rose slightly, from 25 percent of the schools’ operation costs in 1994 to 29 percent in 2004. Support from counties varies widely—with some paying in excess of one-third of operating expenses of their institutions and others significantly less. For county colleges as well, tuition is the main source of revenue.⁴³

In reality, higher education receives operating funds mostly as discretionary money from the state’s General Fund. In the absence of a formula, appropriations to institutions do not take into account the costs of expanded enrollment, new curricular offerings or upgraded facilities. Critics, among them the presidents of several state colleges with ambitious plans for their institutions, contend that the current system threatens to breed mediocrity by punishing the most dynamic institutions for their innovations with uniform appropriations distributed over a larger number of students and programs.

State funding for operations has not always worked this way. As mentioned earlier, until 1985, New Jersey, like most other states, used a formula to establish appropriations. Allocations were based on such objectively measurable criteria as enrollment levels, student credit hours, building size, degree levels and program fields. Upper level courses and those in the hard sciences, for example, weigh more under such a regimen because they cost more to teach. County college courses and those in the arts and liberal arts cost less, based, among other things, on the cost of the faculty who teach them.

Proponents of formula funding, among them many lawmakers, note that the methodology reduces the political complexities of the process, and helps foster equality among institutions within a state by ensuring that resources are spread across programs according to their use and cost. In a 2000 study, the American Association of State Colleges and Universities found that just over half the states used enrollment-driven funding formulas to determine at least part of their higher education budgets or at least to prepare their requests. Formulas allow institutions to predict, and to some degree control, the size of the allocation they will receive from the state on a year-to-year basis. Simultaneously, they minimize competition among institutions as well as reduce the impact of subjective factors such as lobbying clout.⁴⁴

**Appropriations to institutions
do not take into account the
costs of expanded enrollment,
new curricula offerings
or upgraded facilities.**

Some of the fiercest critics of formula funding include college presidents who hope their institutions will remain competitive in terms of admission while accepting more students and expanding academic programs and campus facilities. In other words, some of the original proponents of autonomy now lament that the current process is too discretionary and unpredictable. They say appropriations do not correspond to an institution’s enrollment, its growth, strategic

goals or programmatic needs, leaving little way around tuition and fee increases. By contrast, formulas do offer an objective and predictable calculus for allocating funds, although critics allege that in the interest of equality, formulas put institutions at risk rather than reward them for the quality of their programs. Formulas, they argue, do not ask “How good?” Rather, they ask “How much?”

In signing the 1985 State College Autonomy Act, Governor Kean shifted New Jersey from formula funding to a strategy known as incremental budgeting. Now budget negotiations each year are premised on the levels of funding from the previous year. Depending on the state’s fiscal circumstances and institutional needs, lawmakers either adjust up or down by a certain amount across the board, taking into account changes in enrollment, the rate of inflation and each institution’s lobbying efforts.

Competition runs high. With no formal procedure or recognized channels for planning and advocacy around budgetary matters, individual institutions jockey for unique recognition in the form of special allocations. In some cases institutions manage to broker special treatment in the state budget in the form of one-time add-ons or money being added to the school’s base budget.

Some states now rely on a combination of formula-funding and what is known as performance-based funding, where a portion of appropriations is contingent on institutional progress toward broad goals, to ensure that the basic needs of institutions are met *and* that the state provides incentives for the institutions to meet certain public goals, whether having to do with economizing, diversifying, raising outside funds or something else. In Texas, for example, more than two-thirds of state appropriations reflect an enrollment-driven formula. In 2005, formula-funding appropriations to the University of Houston system ranged from 81 percent of state appropriations to the main campus, to 68 percent of appropriations for smaller branch campuses.

Some have argued that taxpayers in North Carolina have an easier time understanding where higher education appropriations go because, unlike New Jersey, North Carolina's legislature uses a funding formula that sets appropriation levels on an institutional basis tied to enrollment growth, and, further enhancing transparency, differentiating among programs by cost. Approximately 15 states—including Ohio, Pennsylvania, Mississippi and North Carolina—assess expensive programs that are indispensable to the health of the state, such as nursing, and then weight them accordingly when calculating the state's allocation.⁴⁵

Formulas are neither sufficient nor necessary for a state to fund its higher education system adequately. Like New Jersey, Virginia's budget is based on the previous year's allocations. Since 1990, tuition rates at the University of Virginia had fluctuated wildly. Increases of over 15 percent alternated with rollbacks of 20 percent and periodic freezes. Then in 2004, Gov. Mark Warner won bipartisan support for a large-scale program of eliminating some corporate tax loopholes while raising the state's cigarette, sales and income taxes. Of the total increase in revenues, estimated at \$1.3 billion, \$262 million was tagged for higher education. Colleges and universities have used the infusion to close the gap in operating support.

CAPITAL INVESTMENT

According to institutional leadership, the state's approach to capital funding constitutes a serious threat. Many of the state's public higher education facilities date to the building boom of the 1960s and 1970s, when lawmakers and voters supported appropriations and bonding that tripled the system's previous capacity.

Many of the state's public higher education facilities date to the building boom of the 1960s and 1970s.

Institutions in New Jersey fund capital expenses in three ways: through the Educational Facilities Authority; through individual college debt; and through general obligation bonds. The New Jersey Educational Facilities Authority was created in 1968 to help public and private colleges and universities in New Jersey finance the construction, improvement, acquisition and refinancing of various capital projects. Through July 31, 2004, the Authority has issued \$7.159 billion in bonds and has \$3.853 billion outstanding.

In 1994, through the Educational Facilities Authority, the state launched a series of goal-oriented funding programs with renewable debt capacity. Under these programs, public and private institutions can issue new debt as old bonds are retired. Renewable debt capacity programs include:

- ◆ In 1994, a \$100 million Higher Education Equipment Leasing Fund to finance the purchase of equipment which was leased to participating institutions. After the first \$100 million in bonds was retired, another \$100 million in bonds sold, split between October 2001 and May 2003. Forty-seven institutions participated in these bond issues.
- ◆ In 1994, \$220 million in Higher Education Facilities Trust Fund bonds to aid institutions with maintenance costs.
- ◆ In 1998, \$55 million in Higher Education Technology Infrastructure Fund bonds to allow the state's institutions to enhance and acquire technology infrastructure which were matched on a 1-to-1 basis with institutional funds.
- ◆ In 1999, approximately \$43 million in bonds to provide both grant and loan assistance to five county colleges for their respective capital facilities projects and was authorized to issue up to \$550 million in Higher Education Capital Improvement bonds. The Authority has issued four series of bonds between 2000 and 2002, in which the state pays for two-thirds of the debt service on deferred maintenance at public institutions and one-half of the debt service at independent institutions.
- ◆ In 2000, after a fatal fire at Seton Hall University that exposed unsafe conditions in residence halls, zero-interest loans to public and independent institutions to allow them to upgrade their fire protection through the Dormitory Safety Trust Fund.⁴⁶

In Fiscal Year 2006, the state appropriated just over \$81 million to help institutions meet the debt service on these bonds.

Many of New Jersey's public and private colleges have met ris-

ing demand with a construction boom financed by bonding independently against tuition and fees. Bracing for the enrollments to come, individual institutions have opted to bank on the future, embarking on expansion plans they hope will allow their campuses to keep up with the student population in the state. As reported in *The Record* newspaper last year, Montclair State alone has assumed \$215 million in debt since 2000. Rutgers now has debt amounting to \$654 million. Ramapo College has a debt burden of over \$150 million to pay for dormitories, a parking garage, an academic building and a recreation center.⁴⁷ With long waiting lists for housing accommodations, both Ramapo and Montclair have added large dormitories over the past few years, increasing the amount of housing on each campus by more than one-third. (Montclair and William Paterson were so hard pressed for space they were putting up students at local motels.)

Across the higher education sector, institutions have accumulated a total debt of \$5.8 billion due through 2010. As a result, bond agencies regard New Jersey's public colleges and universities as some of the most leveraged in the nation.⁴⁸

The public has for the most part not had the opportunity to cast a vote for or against a general obligation bond for higher education since 1988. Supporters of another round of capital borrowing are lobbying for the Legislature to put a higher education general obligation bond issue on the November 2006 ballot. A potential sticking point which was partly responsible for holding up the measure last year is whether a portion of the proceeds from such a bond would be used to pay for capital construction at private colleges. As of 2004, New Jersey was one of only two states that provide public financing for construction projects at private institutions.⁴⁹

A Look at Some Other States

Many states make regular allocations to higher education through particular revenue sources. Some examples:

Arizona—Increased state sales tax in 2002, with the new money devoted to educational purposes. The move generated an additional \$52 million for higher education, which was appropriated to the Technology Research Initiative Fund for four-year public institutions. Up to 20 percent of the funds can be used for capital construction, improvements and debt service. Money deposited into the fund also pays salaries and expenses for new programs related to technology/research.

Florida—Uses a percentage of the Gross Receipts Tax to generate \$600 million annually for capital needs in school districts, state universities and community colleges. These funds, referred to as the Public Education Capital Outlay, can also be used for debt service.

Kansas—Has since 1942 levied a tax on all tangible taxable property, defined in Kansas as including motor vehicles and real estate, which generates about \$27 million annually for six state universities. Half the funds are used for debt service and half for deferred maintenance.

Pennsylvania—The state university system receives a percentage of the Realty Transfer Tax. Funding of \$10.6

million was appropriated in Fiscal Year 2004 and \$12.4 million was budgeted for 2005.

Texas—Has since 1870 constitutionally dedicated oil royalties to a permanent fund for the 15 schools of the University of Texas system. The money is mainly used for debt service and capital. However, there are funds set aside for Excellence Programs that benefit 14 other institutions not in the University of Texas system.

Oklahoma—Will dedicate an anticipated \$500 million or more annually from a new state lottery program to support the financing of construction bonds. Most of the funds will be divided among the public colleges and universities in the state. The remaining \$25 million will be set aside to establish a permanent revolving lease fund, which will function as a bond bank for institutions other than the University of Oklahoma and Oklahoma State University, which are given authority by the new state law to issue debt for future capital projects at their campuses.

Nebraska—Allocates a portion of state cigarette tax amounting to 4.4 percent for university and state college facilities.

Nevada—Just under 30 percent of the \$52 million collected in 2004 from the annual slot tax was dedicated to capital construction and debt retirement for higher education.⁵⁰

STUDENT AID

A significant stream of state assistance for public higher education in New Jersey flows directly to students. Since 1985, as New Jersey's support for the operation of senior public institutions has declined, the amount of aid dispensed to students has acted as a counterweight to rising tuition. Student aid, in other words, is New Jersey's public policy response to the question of affordability.

In 2003-04, New Jersey provided an average of \$783 of financial aid per student, as compared with \$372 nationally. Nearly 37 percent of full-time New Jersey undergraduates received need-based grant aid, while Georgia was highest, at 92 percent, and New Hampshire, at eight percent, was lowest.⁵¹ Students in New Jersey are relatively more dependent on state aid, as opposed to either federal or institutional, than students in other states.⁵²

Compared to many other states, New Jersey's investment in need-based financial aid for low-income students is impressive. In 2004, 87 percent of student aid was awarded solely on the basis of need. While the sticker price of a college education at a public institution in the Garden State has risen—only a handful of public four-year institutions charged higher tuition than Rutgers last year—this student aid has acted, in effect, as a tuition discount. The state ranks first in the nation in the college-going rate of low-income students, and the majority of those students attend college in New Jersey. With a strong commitment to equal opportunity, New Jersey ranks second in the nation in estimated need-based undergraduate grant dollars per full-time undergraduate student. In other words, New Jersey is a major player in the high tuition/high aid universe.

But while student aid has helped many college students and their families make ends meet, dramatic spikes in the cost of tuition have exceeded increases in student aid to price many families out of the higher education market. The National Center for Educational Statistics' 2004 survey of higher education gave New Jersey a "D" for affordability, even taking into account student aid.⁵³

Student aid programs in New Jersey are coordinated with or directly administered by the New Jersey Higher Education Student Assistance Authority (NJHESAA), which in Fiscal Year 2006 provided approximately \$251 million in aid annually. HESAA's purpose is to eliminate or reduce the tuition component of the cost of attending New Jersey colleges and universi-

ties for financially needy state residents. In addition to state sources of assistance, New Jersey also has access to federal matching funds through the Leveraging Educational Assistance Partnership. HESAA is governed by an 18-member board appointed by the Governor that includes voting representatives from all sectors of higher education as well as student and public members. Although HESAA works closely with the New Jersey Commission on Higher Education, they are distinct entities.

HESAA administers four types of student assistance: savings programs, merit-based grants, student loans and need-based grants.

The state's college savings plan, New Jersey Better Educational Savings Trust Scholarship (NJBEST), launched in 1999, allows investors to benefit from tax-exempt or tax-deferred vehicles that carry low levels of both risk and return, but that encourage families to put aside money for their children's education. Unlike many other states, New Jersey has contracted this plan to a private concern; Franklin Templeton runs this arm of student aid for profit. In Fiscal Year 2004, nearly 60,000 families set up an account.

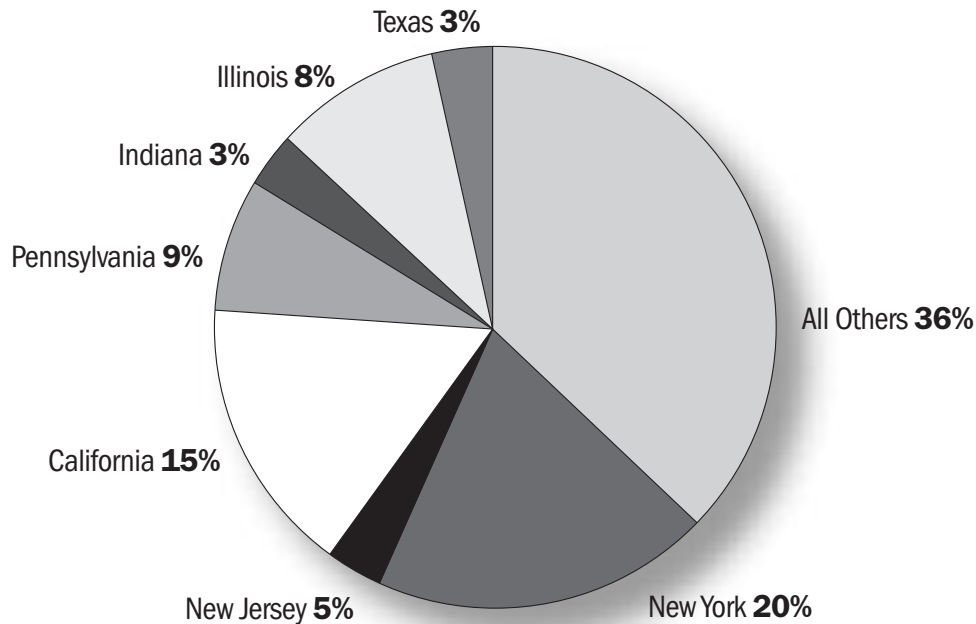
**New Jersey's investment
in need-based financial
aid for low-income
students is impressive.**

Middle-class students and families also can turn to the New Jersey College Loans to Assist State Students (NJCLASS) program available to undergraduate and graduate students. NJCLASS offers the lowest fixed-rate (currently 6.1 percent) interest in the nation on supplemental student loans. New Jersey students attending in-state or out-of-state schools, as well as non-residents studying in New Jersey are eligible. In 2004, this state-run student loan program extended over 11,700 loans exceeding \$115 million, out of a total loan portfolio of \$4.9 billion.⁵⁴

Grants to students—as distinguished from loans or investment plans—fall into two categories: those based solely on need, and those that may consider need or other qualification, but have a merit component. A student's ability to qualify for state aid reflects the cost of attendance at the institution, the type of institution and available institutional aid, state of residence and family income in the case of need-based aid, or performance, which affects merit-based aid.⁵⁵ In 2003-04, New Jersey awarded five percent of all need-based aid given out nationally, and was among the small subset of states to award in excess of \$150 million in need-based student aid. New Jersey came in at just under \$200 million.⁵⁶

FIGURE 2

Need-based Undergraduate Grant Aid by State: 2003-04



Source: National Association of State Student Grant and Aid Programs, 35th Annual Report

Ranking high nationally in the percentage of full-time undergraduates receiving need-based state financial aid, New Jersey also exceeded the national average in terms of the size of the grants.⁵⁷ In 2003-04, New Jersey ranked second in the amount of need-based student aid per fulltime equivalent student, with \$783, compared to a national average of \$372. But some states awarded more; New York's allocation was \$1,094 per student.

Meanwhile, low family income is still a solid basis on which to claim student aid in New Jersey. In 2003-04, the state awarded 89 percent of its aid dollars exclusively on the basis of need, while around the nation, 74 percent of aid money was need-based or partially-need based.⁵⁸

The main New Jersey program for need-based aid is the Tuition Aid Grant (TAG). Established in 1978, it provides comprehensive financial assistance to undergraduates attending private and public institutions in New Jersey full-time. Approximately 34 percent of full-time undergraduates attending college in New Jersey receive a TAG. Of these, nearly 64 percent come from families with adjusted gross incomes of \$22,200 or less. HESAA determines financial eligibility and the size of awards by using the New Jersey Eligibility Index (NJEI), derived from federal methodology.

Like many states, New Jersey has embraced merit scholarships, a financing strategy that swept the country during the 1990s. Among the state's various merit-based programs is the New Jersey Student Tuition Assistance Reward Scholarship (NJSTARS). Modeled after Georgia's HOPE Scholarship and launched in Fiscal Year 2005, NJSTARS initially offered two years of county college tuition to the top students in their high school. Take-up rates were lower than expected and, to enhance the appeal of the program, in 2005 legislators approved an extension allowing recipients to build on their associate's degrees with \$4,000 per year applicable toward tuition at any of the state's senior public institutions.⁵⁹

In 2004, New Jersey provided 12,000 merit-based scholarships through six separate programs, all with the goal of helping to keep its most academically capable students in New Jersey. Three relatively new merit aid programs award stipends to academically distinguished students if they pursue higher education in New Jersey. The Edward J. Bloustein Distinguished Scholars program, established in 1987, recognizes high school students that achieve high SAT scores. In 2004, 4,900 students received \$1,000 Bloustein awards. Students who rank among the top 10 percent statewide, who have at least a B average and who live in economically distressed areas can qualify for the

state's Urban Scholars award. In 2004, nearly 2,200 awards totaling \$2.1 million went to students.

The Outstanding Scholar Recruitment Program (OSRP) funds annual scholarships ranging from \$2,500 to \$7,500 for students at colleges and universities in the state. In 2004, nearly 4,900 students received scholarships in this program worth over \$13.1 million. Starting in 2003, the state began to offer a separate grant to qualifying part-time students enrolled in a degree or certificate program at any of the state's 19 county colleges, providing almost \$3 million to approximately 7,200 students. The state also awards a host of special category grants, most recently five one-time \$10,000 scholarships for students with a record of demonstrated heroism.

Based on these measures, a TAG award table determines the dollar amount that a family is required to contribute to educational costs. Each year HESAA establishes the NJEI range for each sector of higher education. Awards may be renewed for up to nine semesters. Over the past few years, TAG has been dramatically expanded. Funding in 2000–01 was \$21.9 million for approximately 13,000 graduate and undergraduate students. In 2004, the program allocated nearly 52,000 awards totaling over \$173.6 million. For 2006, TAG received a \$208.9 million appropriation from the state budget. These funds, supplemented by federal dollars through the LEAP program of the Department of Education, allow HESAA to offer grants to an

additional 1,000 New Jersey students. Over 350,000 students apply for TAG annually, but only about 61,000 students receive these grants.⁶⁰

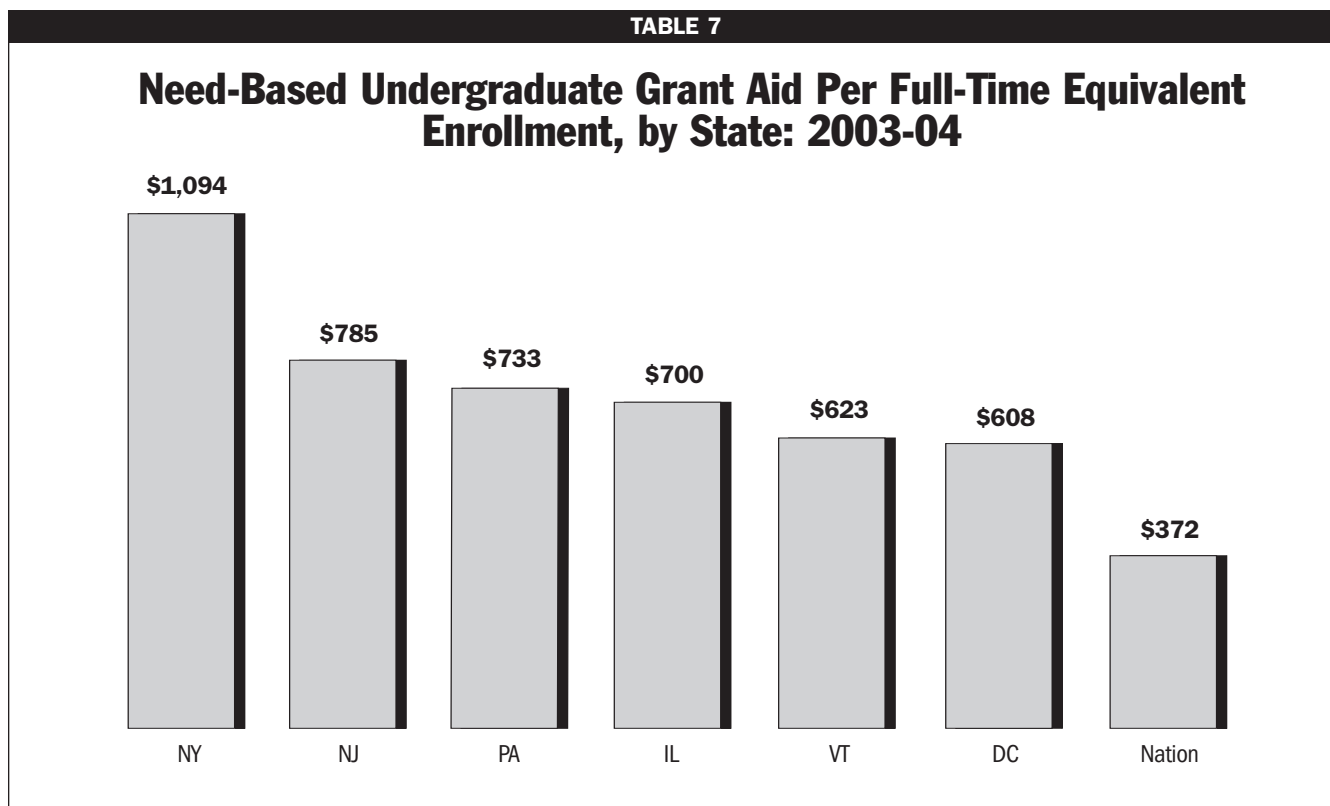
TABLE 6

Approximate Maximum Tag Awards

New Jersey County Colleges	\$2,030
New Jersey State Colleges/Universities	\$5,220
New Jersey Independent (Private) Colleges/Universities	\$9,026
Rutgers/UMDNJ	\$6,792
New Jersey Institute of Technology	\$7,918

Source: New Jersey Higher Education Student Assistance Authority for 2005-06

Second to TAG in size among the statewide grant programs HESAA offers are Educational Opportunity Fund (EOF) grants. EOF furnishes supplementary academic and financial support to students from backgrounds of historical poverty who meet the income guidelines. In 2004, 13,400 students received grants totaling almost \$22 million.



Source: National Association of State Student Grant and Aid Programs, 35th Annual Report

Notwithstanding New Jersey's historical commitment to funding student aid, the expansion of the state's programs in recent years has provoked some controversy because of the concentration on merit-based programs and new "special purpose" aid programs, as opposed to financial need. Over the past decade, the state's investment in need-based grants grew by 46 percent, while non-need-based assistance went up by more than 240 percent.⁶¹

This shift toward non-need-based aid has made it harder for low-income and minority students to enter college. Merit awards draw some criticism from those who contend that the popularity of targeted, non-means-tested student aid programs is part of a larger effort to "redistribute income to economically well-off families."⁶² Indirectly, merit-based programs can curb access by directing aid to middle-class students who would attend college without them. However, merit programs remain politically popular because they translate into public performance measures and assist middle-class households.

In a variation of student aid cropping up around the country, New Jersey has begun to target merit-based aid to meet the state's workforce needs.

The Legislature has appropriated \$3.5 million for the Social Services Student Loan Redemption Program, under which recent college graduates hired as fulltime direct care professionals at public or nonprofit social service agencies can get up to \$20,000 in redemptions on federal and state student loans.

Traditionally, states designed public colleges and universities around low tuitions, with the goal of assuring access. Most of the costs of education were paid to the institutions with public money. But under the high tuition/ high aid model, more of colleges' costs come from tuition, with need-based student aid and public subsidies helping those least able to afford tuition. By contrast, under low tuition policies, the public four-year and research universities, which are more selective in student admissions than the rest of the state system, receive the largest subsidies. Critics of the low tuition model argue that, because of the nature of students attending senior colleges and universities, these subsidy patterns mean the largest public subsidies would flow to institutions with the wealthiest, best-prepared students. This, they say, means low tuition policies are an inefficient way to protect access and an inequitable way to distribute public funds.

Critics of the trend toward high tuition/ high aid note that the "high aid" portion of the formula is simply insufficient. Need-based student aid has not kept pace with tuition hikes, and lags even farther behind the amount necessary to close the gap between low-income families' needs and college costs.

Moreover, high tuition has been shown to deter adult, part-time students, as well as minority and low-income students: categories that New Jersey needs to more actively engage. Sticker shock puts off many potential students since so-called "tuition discounting" assumes an economically sophisticated consumer. National surveys suggest that many parents, especially those of minority and disadvantaged students, already tend to over-estimate the cost of college and do not have a solid grasp of how financial aid works. Not surprisingly, low-income stu-

dent enrollments show the most sensitivity to rising tuition, with a measurable effect. One study found that for every \$1,000 increase in the price of attending a community college, enrollment declines by six percent.⁶³

The National Center for Public Policy and Higher Education has found that students from middle-income families also fare poorly in states like New Jersey that list high tuition but offer a

substantial amount of aid. Because these students cannot qualify for significant direct aid, they must manage the higher costs on their own. Their choices end up being stark: "borrow a lot or end up going somewhere else."⁶⁴ Questions about transparency worry some observers. When high tuition is accompanied by high aid, higher income students essentially subsidize the tuition of their poorer classmates. They argue that this accounting trick compromises the public's trust.

Equally troubling is the question of where this ultimately leads. Over the longer term, as public colleges and universities respond to lagging state appropriations by raising tuition and fees (or by seeking funds from private donors), lawmakers can be prone to implement new rounds of cuts in direct appropriations to the schools, leading to the potential for accelerating the spiral toward a private-like, "high tuition" equilibrium.⁶⁵

Defenders of high tuition/ high aid, or "tuition discounting," point to the array of available programs to argue that low-income students can make ends meet. The controversy remains over whether state support for student aid is the most efficient way to help New Jersey's students afford higher education.

**Need-based student
aid has not
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tuition hikes.**

Experts agree that no matter how generous a particular state may be, dollars for student aid must be distributed rationally, consistently and transparently in order to assist students and families and serve the public good. Without such assurances, it is not certain that hefty expenditures on tuition assistance can help solve New Jersey's long-term higher education problem.

But various trends—such as more lower-income and non-white students, rising demand for higher education by eager adult-learners, recurring shortfalls in the state budget and the movement away from assistance based on need and toward merit-based aid—pose challenges to the state's current system. Indeed, while New Jersey ranks sixth nationally in overall college attainment, once race is factored in that standing drops to tenth. Improvements in student aid might also boost the state's weak 40th place national standing for adults obtaining associate's degrees.⁶⁶

Some states accord student aid special consideration in their budgets. California, New York and Minnesota are examples of states that can be said to put student aid on a budgetary pedestal, above the fray of annual scrapes over discretionary items. Student aid is guaranteed in statute—either as an obligation owed to the individual student or to the institution—that does not have to be reviewed every budget cycle by the legislature. So, for example, graduates of California high schools who meet basic eligibility criteria and have demonstrated need have a statutory claim to student aid. Even at the expense of other budgetary claims, the state must offer “CalGrant” awards (equivalent to New Jersey's TAG) for full- or part-time fees at the state's public institutions, or provide tuition support at private California colleges and universities to all qualified residents.

Officials in the state of Washington made some uncomfortable observations about the cost structure of public higher education there. They noted for example, that lower income groups needed to pay a higher percent of their income to cover the cost of attendance than did students from higher income groups. And, there was a substantial difference in the level of effort required for a low-income student to attend a community college as opposed to a regional or research institution, whereas for higher income groups the difference was much less significant.

Prompted by these discoveries, higher education officials considered the implications of an income-based tuition policy, under which the actual list price of tuition would vary by income, family size, median state income or other variables. No state currently uses such a “sliding scale” approach. However, in the late 1960s, Michigan State University charged tuition that corresponded to one percent of parents' adjusted gross income. Students who met the standard for the median family income, adjusted for family size, owed a “base” tuition rate. Families with higher incomes paid more; those with lower incomes paid less. Students with extremely low incomes could qualify for free tuition. Some officials complained that the policy was politically unpopular as well as unwieldy. It was scrapped after two years. Among the sticking points were the challenges of implementation. To determine each family's tuition cost would become a heavy administrative burden. Moreover, it would be difficult to predict revenue from year to year, since family income could fluctuate. There was also the issue of perceived inequities between students still dependent on their families, and those who were on their own. For the moment at least, Washington is sticking with its old system.⁶⁷

New Jersey Can Do Better

New Jersey, like many states, has experienced severe revenue constraints in recent years. Increases in state support for higher education have not kept pace with higher costs, and higher education funding as a share of the state budget continues its descent. Even when times have been flush, funding has not been adequate to keep the 1960s promise of a system that would provide quality higher education to those who could do the work. One way to view the eroding commitment is by comparing the percentage change in the higher education budget over time with that of the state budget and New Jersey's gross state product.

resources per capita, while lagging behind the national average in tax effort—the effective rate at which the public is taxed. By not taking advantage of its capacity to provide adequate and predictable funding, New Jersey has compromised the efficient and effective management of its higher education institutions and the predictability of student tuition and fees.⁶⁸

New Jersey approaches other areas of public policy and spending in different ways. For example, businesses receiving various tax breaks the state awards in return for the decision to move to, or stay in, the state, come with far more predictability

TABLE 8

Higher Education Budget vs. Gross State Product and State Budget

	1999	2000	2001	2002	2003	2004
Increase in NJ Gross State Product	4.0%	5.5%	5.3%	4.3%	4.3%	5.5%
Increase in State Budget	7.8%	8.8%	8.8%	7.3%	4.3%	2.1%
Increase in Higher Ed. Funding	5.6%	6.1%	7.7%	2.3%	1.1%	1.9%

Source: New Jersey Commission on Higher Education

In New Jersey, the crisis in public higher education funding reflects institutional costs increasing at more than twice the rate of inflation, a structural budget deficit at the state level and changing priorities. Operating costs at the institutions have risen faster than inflation, driven up by soaring health care and energy costs. Between 2000 and 2005, the cost of utilities nearly doubled. During the same period, the cost of employee benefits—mostly health care—has been mounting.

In the late 1960s, as New Jersey was launching its effort to invest in a top-notch higher education system, the State Board of Higher Education observed that the state was just starting to utilize its taxing power to promote the public interest through higher education. The state could handle this because its economy was strong, the Board wrote in a document called “Goals for Higher Education in New Jersey.”

Today however, it is questionable as to whether that potential is being realized. New Jersey is one of only 11 states in the contradictory position of exceeding the national average in taxable

than higher education funding. Indeed, the state has made the decision to borrow the funds needed to award millions of dollars in such tax breaks, on the stated principle that businesses require a high level of certainty.

Another area where the state has made a stepped-up effort to provide consistent funding is corrections. Over the past two decades, as the level of state funding for higher education has declined relative to inflation, state lawmakers have steadily raised the level of appropriations for prisons because of new, less flexible mandatory sentencing laws. These laws, and the construction and expansion of prisons they required, have brought a 500 percent increase in state corrections spending.

Colleges and universities in New Jersey, arguably, are as important to the state's future as its business climate or system for punishing criminals. But this needs to be more than a zero-sum exercise where priorities compete against each other for pieces of a revenue pie that is simply not big enough to meet all needs.

New Jersey's appropriations to its colleges and universities come primarily from the state General Fund, composed of revenue from the state sales, business, motor fuels, inheritance and "sin" taxes as well as realty transfer fees and Lottery ticket sales. The General Fund is the state's largest source of money. Next in size is the Property Tax Relief Fund, where proceeds from the state gross income tax are directed under the state constitution. This money must be used exclusively to reduce or offset local property taxes.

The Fiscal Year 2006 state budget appropriated approximately \$28.5 billion. A significant portion was constitutionally dedicated. In other words, under provisions written into the state constitution over the years, sums of money were expressly devoted to such things as public schools and other programs supported by property taxes; senior and disabled citizens; transportation projects; state psychiatric and higher educational institutions; various types of hazardous waste cleanup; and acquiring and developing land for recreation and conservation.

Dedicating revenue has become increasingly popular in recent years, as state policymakers have sought ways to assure funding for popular programs without raising taxes or creating new revenue sources. But even this process does not guarantee that all programs funded from a dedicated revenue stream will get enough money. For example, all Lottery fund revenues must be used for education and institutions. But the Fiscal Year 2006 state budget identifies over \$2 billion in such needs—including \$1.2 billion for higher education—and less than \$1 billion in resources. As a result, only a portion of the needs are met by Lottery resources.

If dedicating revenues from the existing pot of state funds is not sufficient, the task becomes making sure that adequate revenue is available. If the pot gets bigger, more public needs can be more adequately funded. What follows are opportunities for New Jersey to step up its tax effort and provide more funding for higher education as well as other public needs.

CORPORATE BUSINESS TAXES

◆ Retain the Alternative Minimum Assessment—up to \$300 million

The state has collected approximately \$300 million annually from the Alternative Minimum Assessment since it was enacted in 2002. The law imposing the AMA was written to permit the levy to expire in December 2006 unless the state takes action to retain it.

The New Jersey Business Tax Reform Act, of which the AMA was a part, was aimed at correcting inequity in the state's tax

code that allowed large companies to pay less tax on their income than that paid by many low-income families in New Jersey. The Alternative Minimum Assessment levies a tax at graduated rates on either the gross receipts or gross profits of the state's largest corporations.

The "Final Report of the New Jersey Corporate Business Tax Study Commission" in June 2004 stated that only 3.27 percent of all New Jersey corporations were subject to this new tax. This report indicates that the tax raised approximately \$270 million from just over 2,500 companies.

GROSS INCOME TAX

◆ Eliminate the Exemption for 401(k) contributions—up to \$500 million

Those making contributions to 401(k) retirement plans in New Jersey can exclude those contributions from their taxable wages. But there is no deduction from taxable wages for contributions made to SEP IRAs, Simple IRAs, Federal 457 plans, 403(b) plans, Traditional IRAs, Keoghs and 414(h) plans.

Equity in taxation requires all taxpayers in similar circumstances be treated alike—contributions to retirement plans either should all be exempt from taxation or should all be taxed. By changing the rules to make 401(k) contributions taxable, the state could collect up to \$500 million by one estimate. The deductibility of 401(k) contributions from federal income taxes would remain.

◆ Shift all state appropriations for county colleges to the Property Tax Relief Fund instead of the General Fund—at least \$224 million

Since Fiscal Year 2001, Property Tax Relief Fund resources have been used to support 11 to 13 percent of the state aid provided to county colleges. Because the county colleges are supported largely by property taxes, it makes sense to use gross income taxes for this purpose. The total state appropriation for this purpose in Fiscal Year 2006 is almost \$224 million.

This action would free General Fund resources for other use, including the state colleges and universities.

◆ Roll back the 1990s state income tax cuts for the people who got back the most and extend the millionaires' tax—at least \$342 million

The state income tax was cut in three stages from 1994 to 1996. This has cost the state more than \$15 billion in lost revenue. In

June 2004 the income tax rate was raised for households making more than \$500,000—about 2 percent of tax filers in the state. Extending the 8.97 percent top rate to income greater than \$300,000 and raising the current rate of 6.37 percent to 7.5 percent on income between \$150,000 and \$300,000 would raise needed revenue and would *not* increase the state income tax for 90 percent of New Jersey households.

SALES TAX

In Fiscal Year 2005, New Jersey collected \$6.55 billion in sales taxes imposed primarily on durable goods and a few services. The sales and use tax is state government's second largest source of revenue after the personal income tax. It regularly accounts for more than 25 percent of total state revenue.

New Jersey could extend the sales tax in several ways to collect additional revenue that would be available for higher education and other important programs.

◆ **Extend the sales tax to various exempt services and products—\$275 million**

Included would be membership and annual fees to private clubs such as golf and country clubs; tanning, massages and tattoos; air charter services within the state; parking at event

venues, amusement parks and airports; self storage facilities; bail bond fees and private investigation services.

◆ **Extend the sales tax to cover professional services—between \$900 million and \$2.2 billion**

Depending on which professional services are covered, the state could raise significant revenues. Based on methodology used by the State and Local Expenditure and Revenue Policy Commission in 1987, the state could collect up to \$900 million if the sales tax were extended to insurance, legal and other services. In April 2004 an analysis by *The Star-Ledger* reported that the state could raise up to \$2.2 billion if consulting, legal, accounting, advertising, data processing, architectural and engineering services were taxed.

◆ **Extend the sales tax to gasoline and diesel fuels—over \$540 million**

In 11 states, sales tax is paid on the purchase of gasoline or diesel fuel, in addition to the gas tax. If sales tax were extended to the sale of gasoline and diesel fuel in New Jersey, the state would collect an additional \$542 million (from gasoline alone), based on a price per gallon of \$2.25. Unlike the gas tax—which New Jersey should retain for transportation needs—the sales tax burden on drivers would decrease as prices fall.

In Conclusion

New Jersey is being told by the state's leaders to live within its means. Whether dealing with the budget of a family or state that is always sound advice. But there must be more to the concept than simply saying "no" to spending money. Truly living within one's means involves an honest assessment of what is needed, real thought given to priorities, investing in the future—and then doing everything possible to make sure the resources are available.

Going through such a process in New Jersey would lead to the realization that two things are required: a greater financial commitment to public higher education and—this follows logically—a higher degree of coordination and accountability for higher education at the state level. Then, the college needs of New Jerseyans could be met. The plans and dreams so boldly stated in the 1960s would be alive for generations to come.

About the Authors

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APPENDIX: Significant Events in New Jersey Public Higher Education

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| <p>1766 Rutgers University founded as Queens College in New Brunswick but was not designated the state university until 1945</p> <p>1855 Legislature establishes state's first public higher education institution, the New Jersey State Normal School in Trenton, as a teacher training school</p> <p>1864 The private Rutgers Scientific School named the land-grant college of the State of New Jersey</p> <p>1884 Newark Technical School, which will eventually become the New Jersey Institute of Technology, founded</p> <p>1908 Montclair State Normal School started as two-year school</p> <p>1918 Douglass College, the largest women's college in the United States, founded in New Brunswick</p> <p>1923 Glassboro Normal School started as two-year school</p> <p>1929 Jersey City State Teachers College started as three-year school</p> <p>1930 Trenton State College moves to Ewing</p> <p>1945 State Department of Education assumes stewardship of 9,000-student state college system</p> <p style="padding-left: 20px;">Legislature designates Rutgers University as New Jersey's state university</p> <p style="padding-left: 20px;">State appropriates \$3.3 million to Rutgers, six state colleges and Newark College of Engineering</p> <p>1946 Rutgers authorized to acquire University of Newark</p> <p>1950 Rutgers authorized to acquire College of South Jersey in Camden</p> <p>1951 Voters approve \$15 million higher education bond</p> <p style="padding-left: 20px;">Paterson State College moves to Wayne</p> <p>1956 Board of Governors is instituted and Rutgers University becomes an instrumentality of the state</p> <p>1958 Newark State College, opened in 1855 as city normal school, moves to Union</p> <p style="padding-left: 20px;">"Teachers" is removed from the names of the six state colleges</p> <p style="padding-left: 20px;">Voters approve \$6.8 million higher education bond issue</p> <p>1959 Voters approve \$6 million bond for student loan and scholarship programs</p> <p>1962 New Jersey County College Act signed by Gov. Richard J. Hughes</p> <p>1964 Voters approve \$40 million higher education bond issue</p> <p>1965 Department of Education report calls for \$108 million in new construction and two new colleges in north and south</p> <p style="padding-left: 20px;">Seton Hall College of Medicine and Dentistry becomes state-run New Jersey College of Medicine and Dentistry</p> <p>1966 Citizen's Commission on Higher Education headed by Princeton University President Robert F. Goheen issues indictment of higher education in New Jersey; calls for massive expansion to serve more New Jersey high school graduates</p> | <p>First four county colleges open</p> <p>State colleges accept first liberal arts, non-teacher training students</p> <p>1967 Governor Hughes signs Higher Education Act creating Board of Higher Education and Department of Higher Education to run system</p> <p>State system tops 50,000 students; state appropriates \$91 million for operations and capital spending</p> <p>Medical school moves to Newark</p> <p>1968 Voters approve \$202.5 million higher education bond issue</p> <p>Educational Opportunity Fund and Tuition Assistance Grants established to improve student access</p> <p>New Jersey Educational Facilities Authority created in 1968 to help public and private colleges and universities in New Jersey finance the construction, improvement, acquisition and refinancing of various capital projects</p> <p>1969 Ramapo State College established in Mahwah</p> <p>Stockton State College established in Pomona</p> <p>1972 College and University Assistance Act provides state support for independent institutions</p> <p>Thomas Edison State College established in Trenton to provide alternate degree path for adults</p> <p>1975 Newark College of Engineering becomes New Jersey Institute of Technology</p> <p>1977 Dental school moves to Newark</p> <p>1981 Medical and dental schools become University of Medicine and Dentistry of New Jersey</p> <p>1984 \$90 million Jobs, Science and Technology bond assists higher education</p> <p>1985 Gov. Thomas Kean signs State College Autonomy Act, eliminating use of funding formulas for senior sector institutions</p> <p>Legislature creates New Jersey State College Governing Boards Association to advance collective interests of the nine state colleges</p> <p>1994 Gov. Christie Whitman signs Higher Education Restructuring Act eliminating the Board of Higher Education and the Department of Higher Education; establishes New Jersey Commission on Higher Education to coordinate and plan the system and act as its principal advocate; New Jersey Presidents' Council set up as advisory body</p> <p>1999 The Higher Education Student Assistance Authority (HESAA) created to develop a student assistance policy and administer the state's grant and scholarship programs</p> <p>2003 Gov. James McGreevey recommends a restructuring plan that would merge Rutgers, NJIT and UMDNJ into one entity; the plan was shelved the following year</p> |
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ENDNOTES

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