

FISCAL YEAR 2004

JOINT BUDGET POLICY STATEMENT

Submitted to

The Honorable James E. McGreevey, Governor

and the New Jersey Legislature

October 2002

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HIGHER EDUCATION: AN ESSENTIAL INVESTMENT

Introduction

In fall 2001, the New Jersey Commission on Higher Education and the New Jersey Presidents' Council jointly adopted a budget policy statement that detailed significant higher education needs supported by sound, underlying rationale and data. The statement provided a compelling message regarding the role of higher education in the knowledge-based economy and the necessity of a significantly enhanced investment in the state's system of public and private colleges and universities. The budget policy statement was of little consequence, however, as a result of the downturn in the economy and the extraordinary state revenue shortfall. The state's fiscal condition dictated difficult decisions and funding decreases across state-supported agencies and institutions.

The underlying message from last year's budget policy statement continues to be both relevant and important to the future of New Jersey. Accordingly, this year's joint statement consolidates last year's message and frames it within current fiscal realities. While demands on higher education continue to increase, the Commission and Council recognize the fiscal constraints facing the state and recommend funding priorities for FY 2004 in the context of overall needs of higher education.

Planning for Higher Education to Meet State Needs

New Jersey must strategically plan for its investment in higher education to ensure the state's continued competitiveness, future prosperity, and societal well-being. Colleges and universities prepare individuals from all segments of the community for fulfilling lives, productive careers, and lifelong learning. They develop the human resources necessary to fuel economic growth, sustain technological advantages, create new knowledge, improve education from preschool to graduate school, and provide leadership for the future. Nationally, the successful collaborative efforts of government, higher education, and the private sector are setting states apart as leaders in the new economy. New Jersey must also assume

a leadership role, building on its abundance of human, geographical, and industrial assets through investments in higher education and research that underlie economic competitiveness and quality of life.

New Jersey is currently engaged in a process to develop a long-range plan that will set a clear direction for higher education and assist the state in assuming a leadership role. In early 2003, the state will set forth a vision for higher education and several broad objectives, accompanied by specific action plans and performance measures to track progress. The resulting long-range plan will provide additional guidance for the FY 2004 budget and future state investments in higher education.

The Context for Increased Investment

Colleges and universities are increasingly a focal point of global competition, and classrooms at all levels are sources of global understanding, particularly in a state as diverse as New Jersey. The colleges and universities and the state must recognize more than ever before that higher education has a unique position in society that carries with it special and widespread responsibilities.

New Jersey colleges and universities are committed to developing the full potential of New Jersey and its people. The institutions strive to model tolerance and civility, celebrating the diversity that creates rich learning environments. Most of the colleges and universities in the state currently operate at or close to full capacity and face pressures to preserve their existing campuses and enhance capacity to address growing demands. They are actively engaged in efforts to meet needs by enhancing flexibility to serve students through nontraditional means, incorporating technology and providing distance education, advancing articulation and transfer and other means of collaboration among institutions, and strengthening enrollment parity among all ethnic minority groups.

Demographics

The growth in population and a substantial increase in the number of school-age children intensify demands on colleges and universities, as does the need for lifelong learning to upgrade skills and prepare individuals for multiple careers over a lifetime. In New Jersey, which is among the most densely populated and diverse states in the nation, the already proportionally large population of Hispanics and African Americans, among other ethnic minority groups, is expected to continue to grow. While the state's overall population is not expected to increase as much as the population in many other parts of the nation, the projected growth in the number of high school graduates in New Jersey by 2008 is among the highest in the nation and will require increased higher education capacity. The state's projected growth in the number of nontraditional students seeking higher education opportunities to meet workforce demands is also high.

As a result of the "baby boom echo" the number of high school graduates in New Jersey is projected to increase by approximately 19,000 between 2000 and 2008. Based on current projections, if the annual percentage of high school graduates who attend college within 12 months of graduation remains constant and the same percentage of graduates attend college in New Jersey, the state should expect 6,770 more college freshmen in 2008 than were enrolled in 2001. The cumulative effect of the annual increase in freshmen is substantial. Over the four-year period from 2005 to 2008, New Jersey colleges and universities would be serving an overall increase of over 22,000 more students than are currently served. Unlike the "baby boom," which was followed by a significant decrease in students, the larger number of high school graduates in 2008 is projected to drop slightly and then level off. This significant and sustained increase in the number of high school graduates, coupled with a projected annual increase of 3.3 percent in nontraditional students in need of postsecondary education, necessitates substantially augmented physical capacity and human resources at colleges and universities to serve more students.

Economics

The state's colleges and universities must compete with the best in the nation if New Jersey is to prosper. Students require excellent faculty who are equipped with the latest technology and other resources to prepare them with the strong general education and skills required for the rapidly changing workforce. All of America continues to make the transition to a technology-driven, information-based environment. New Jersey policy makers, like those across the nation, are concerned about the shortage of well-prepared, skilled, technical workers with appropriate credentials. As a leading state in pharmaceuticals, telecommunications, and other knowledge-based industries, New Jersey has a particularly widespread need for a highly skilled workforce.

The demand for well-educated, high-skilled workers, however, continues to exceed supply. In addition, an undeniable "digital divide" separates future workers into the technological "haves" and "have-nots." Educators face the difficult task of preparing individuals of all ages and backgrounds to participate successfully in society and the new economy.

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This charge falls, to a large degree, to higher education. Nationally, occupations that require a college degree are growing twice as fast as others. According to the U.S. Department of Labor, the earnings gap between college and high school graduates has grown from 38 percent in 1979 to over 70 percent today. While the fastest-growing and highest-paying jobs require a college degree, there are also existing and new jobs that require specific skills attainable through a certificate program and short-term training. The benefits of the new economy and educational opportunity beyond a high school diploma must be available to all to maintain quality of life and the nation's preeminence.

RECOMMENDATIONS FOR FISCAL YEAR 2004

The convergence of demographic trends, the knowledge-based economy, and growing workforce demands will require increased state investment in New Jersey's system of public and private colleges and universities over the next several years. The state's competitiveness requires deliberate planning and bold efforts to link higher education and other resources to address priorities and meet state goals. Higher education's vital role in establishing New Jersey as a leader in human and economic development hinges on several fundamentals, including capacity to meet student needs and state workforce demands; access to high-quality, timely educational opportunities for all segments of the population; and a commitment to excellence in education and research and development.

While recognizing current constraints on state resources, there are two fundamental areas in which an increased investment is recommended for Fiscal Year 2004: institutional operating aid and student assistance programs – both of which are necessary to provide access to high-quality higher education opportunities. In addition, initial targeted investments in the forthcoming long-range plan priorities will strengthen the state's economic competitiveness and quality of life.

Institutional Operating Aid

The need for state institutional operating support is significant in light of FY 2002 and 2003 reductions, particularly for the senior public institutions. Growing demands on colleges and universities, increasing costs to operate, and the recent significant loss of state aid and salary program shortfalls justify a minimum increase of 3.5 percent over the original FY 2002 appropriation for senior public institutions, in addition to salary program and maintenance and renewal support; continuation of annual increases for community colleges; and full funding of the independent aid act.

However, the reality of the current state revenue situation and additional projected revenue shortfalls suggests another difficult year. The Commission and Presidents' Council therefore urge avoidance of any further midyear or subsequent-year cuts to colleges and universities and set forth the following principle to guide appropriations:

- **The first funding priority for FY 2004 is to return the level of funding for the senior public institutions to the level of the FY 2002 original appropriation.**
- **The second priority is to provide some level of increase to all three sectors in FY 2004 to minimize further reliance on student tuition and fees.**

Institutional operating aid priorities are listed below:

- Increased operating aid for the senior public institutions and support for the FY 2004 salary program to cover the cost of contractual incremental increases as well as any cost-of-living adjustments that may be negotiated
- A continuation of increases in the aid for community colleges
- Increased aid for independent institutions, which sustained a cut in FY 2002 that was partially restored in FY 2003

Student Assistance Programs

The state has a longstanding commitment to student financial assistance programs that help keep higher education affordable for residents. It ranks second in the nation in the percentage of full-time undergraduates receiving need-based grant aid and in need-based dollars per student and sixth in financial aid of any kind as a percentage of total state higher education funding. In order to maintain access to higher education and the opportunities it offers for low-income and underrepresented students during this period of constrained state revenues, additional aid is recommended in the following three areas.

Tuition Aid Grants (TAG). TAG awards, the state's primary need-based aid program, should be increased to the

maximum current year (FY 2004) tuition levels for full-time students. If the recommended Jersey State Library due to fiscal constraints, the state should provide funds to cover no less than maximum FY 2003 tuition levels. When the Higher Education Student Assistance Authority adopts its budget policy statement for FY 2004, the Authority will provide estimates of the number of eligible students and the cost to support them at recommended levels. In addition, a part-time TAG program should be established if sufficient funds are available to do so without jeopardizing funding levels for full-time students.

Educational Opportunity Fund (EOF). The EOF program, which is recognized as one of the nation's premier state programs to enhance higher education access and opportunity, should receive an increase in both the Article III student grant programs and the Article IV institutional support programs consistent with the forthcoming recommendations by the EOF Board of Directors. Should fiscal constraints prevent funding for those recommendations, priority consideration should be given to a modest increase for academic support programs through Article IV.

College Bound. Through the College Bound program approximately 2,000 disadvantaged youth from Abbott school districts are prepared to enter college with skills in math, science, and technology. An increase of \$2.1 million will bring the total appropriation to \$5 million, allowing for additional campus-based programs to reach more Abbott districts and expanding the number of students served. Given the limited resources projected for FY 2004, any additional funding would increase the number of students to be served by this successful program, which has had no increase in funding for 11 years.

Targeted State Investment to Meet State Priorities/Goals

The state's ongoing long-range higher education planning process is focusing on fundamental issues that impact directly on the state's economic and societal well-being. Some state objectives that will be identified in New Jersey's plan for higher education will require targeted state investments, while others may be achieved without significant additional resources. The FY 2004 budget and budgets in future years should recognize those state objectives as priorities and provide the necessary appropriations to achieve them. For example, at some point in the near future capital investment will be essential to preserve existing campuses and address the growing need to increase the capacity of colleges and universities to serve more students.

SUMMARY

New Jersey's prosperity and competitiveness require deliberate planning and bold efforts to link higher education and other resources to address priorities and meet state goals. The vital role of colleges and universities in establishing New Jersey as a leader in human and economic development hinges on several priorities, including capacity to meet student needs and state workforce demands; access to high-quality, timely educational opportunities for all segments of the population; and a commitment to excellence in education and research and development. The convergence of demographic trends, the knowledge-based economy, and growing workforce demands will require increased state investment in New Jersey's system of public and private colleges and universities over the next several years.

Although the state is currently grappling with difficult fiscal constraints, there are two fundamental areas within the overall context of need in which increased investment is recommended for FY 2004: 1) operating aid, with a focus first on senior public institutions that sustained significant cuts and also on other sectors and 2) student assistance programs. Access to high-quality higher education opportunities is dependent on sufficient state support in both areas. In addition, a targeted investment to begin implementing the state's long-range plan for higher education is encouraged for FY 2004.

As the fiscal outlook begins to improve, New Jersey must undertake bold leadership, building on its abundance of assets through investments in higher education and research that underlie economic competitiveness and quality of life.