New Jersey Commission on Higher Education

FISCAL YEAR 1999
BUDGET POLICY STATEMENT

Submitted to
The Honorable Christine Todd Whitman, Governor
and the New Jersey Legislature

December 1997

INTRODUCTION

In each of its three previous budget policy statements, the Commission on Higher Education emphasized the advantages to individuals and society of a strong system of higher education. Although individuals clearly derive direct economic and other returns, including substantially higher lifetime earnings, there are significant returns to society as well. In a global economy based increasingly upon the transformation of knowledge rather than raw materials, social investment in the creation and dissemination of knowledge becomes ever more critical. Higher education serves society by preserving and advancing knowledge, enhancing economic growth, enriching the culture and community, developing a spirit of civic and social responsibility, and increasing tolerance and understanding in a diverse society.

Since its creation in 1994, the Commission has completed several studies that illuminate the condition of New Jersey's higher education system and the implications for budget policy. First, the Commission's 1995 *Report on Funding and Tuition Establishment* identified four goals for financing higher education. These goals are:

(1) establishment of a partnership of shared responsibility for higher education among students, government, and the institutions;

(2) adequate and predictable operating and capital support for each sector;

(3) a continued commitment to student assistance programs; and

(4) a cost-effective delivery system that embodies resource sharing for systemwide efficiencies and institutional accountability for the prudent and efficient stewardship of the state's investment in higher education.

The April 1996 systemwide accountability report, *New Jersey's Renewable Resource*, provided additional insights. For example, the report concluded that New Jersey is among the most generous states in the nation in providing financial aid to students, but that the cost of attendance is among the highest in the nation. We have succeeded in expanding opportunities for students, and retention rates for third semester students exceed national averages. The overall educational attainment of the population is high,[1] in spite of continued large numbers of students who leave the state to attend college. And, although significant progress has been made during the past 10 years in generating funding for university-based research, the state remains below the national average in research funding per capita.

The following October, the Commission completed work on a vision and long-range plan for higher education in New Jersey. Entitled *Looking to the New Millennium: New Jersey's Plan for Higher Education*, this document suggests ways in which higher education can help the state address six critical issues.[2] As essential conditions for achieving the vision, the plan calls for a partnership to fund the operating costs of the institutions, continued support for student assistance programs, public funding to preserve and renew facilities, and increased investment in technology. From the colleges and universities, the plan seeks a clear focus on their individual missions and statewide needs, collaboration and coordination to serve students effectively and efficiently, and ongoing accountability. The plan also calls for state-funded incentives to enable institutions to meet certain clearly identified needs: improving graduation and transfer rates for minority or low-income students; increasing external research funding; and supporting urban revitalization in the state.

In May 1997, the Commission adopted its second systemwide accountability report, this time focused on *Higher Education Costs and Revenues*. Using data from 1994 (the most recent available on a national level), this report concluded that, compared to other states, higher education in New Jersey was well supported by the public *considering the small size of the system and the large proportion of students who attend college out of state*. The report did not discuss, however, whether the level of support was adequate to achieve the desired quality of the system.

Comparative data for four-year institutions indicated that the state colleges, independent institutions, UMDNJ, and Rutgers relied upon tuition and fees for a share of their costs at a level that is relatively consistent with their peers nationwide. NJIT's reliance on tuition and fees was greater than that of its four public peers. Spending patterns and amounts at the four-year institutions were consistent in most areas with averages of their peers, although the eight state colleges/universities included in the report did spend at an average of approximately five percent higher per full-time equivalent student than their peers, after adjusting for higher costs in New Jersey.

For the community colleges, the data clearly indicated that students pay a greater share of the costs in

New Jersey than elsewhere in the nation. Spending per credit hour at the community colleges was five percent higher than national averages, again after adjusting for higher costs in New Jersey.

The state and county governments, institutions, and the public have been responsive to some of the needs and concerns identified in these reports. For example, the FY 1998 budget included funding for an incentive program to improve the graduation rates of minority or low-income students and for debt service on a new Higher Education Technology Infrastructure Fund, which was enacted in September 1997. Direct operating support for four-year and two-year institutions was increased, and there were reductions in fringe benefit contributions, primarily as a result of reduced costs for health benefits. In addition, the appropriation for Tuition Assistance Grants provided for a 3.5 percent increase in awards. Previous budgets increased awards for students in the Educational Opportunity Fund, made support of EOF's summer program predictable, and provided assistance for facilities and equipment.

There are, however, many remaining needs that were identified in the Commission's reports. In spite of periodic infusions of capital, deferred maintenance increases throughout the system. The goal of having the state support 2/3 of operating costs at the four-year institutions[3] becomes more elusive as tuition and fees grow at rates greater than those for state support. Moreover, tuition and fee increases have not funded a wasteful system; the Governor's College Review Team Report concluded that the four-year public institutions it examined were generally run efficiently and effectively. At the community colleges, the situation is worse. Recent spending increases averaged less than the overall rate of inflation, but even so the partnership is further from the goal of 1/3 state support, 1/3 county support, and 1/3 student support.

FISCAL YEAR 1999

The FY 1999 budget must recognize that the various sources of funding for higher education are interdependent. For public institutions, operating revenues come primarily from public support and tuition and fees. Other sources of funds are often restricted and do not address ongoing operations and the renewal of facilities. If administrative efficiencies have been implemented and the growth in public support is inadequate to meet rising costs, institutions turn to their students. The relationship for capital needs is more complex since publicly supported bonds are available and private donors are more willing to give money for new facilities than they are for ongoing operations or maintenance. Neither bonds nor donations cover all the needs, however, so that institutions may once again turn to their students or defer the necessary expenditures.

A greater reliance upon tuition and fees in turn affects the Tuition Assistance Grant (TAG) and Educational Opportunity Fund (EOF) programs. To the extent that additional state operating and capital support reduces the need for tuition and fee increases, additional state aid also reduces the need for growth in the dollar value of TAG and EOF awards. There is not a dollar-for-dollar relationship because not all students receive aid and because many students who receive TAG and EOF awards go to independent institutions. But growth in operating aid will diminish the need for additional student assistance award increases.

The choices that institutions ultimately make regarding tuition, fees, and operations affect different groups differently. Part-time students are ineligible for TAG and so directly absorb increased tuition and fees as higher costs unless they receive financial aid other than TAG or assistance from their employers or other third parties. Alternatively, they may reduce the hours they attend, thereby extending the time it takes them to attain their educational goals. For full-time students, TAG, EOF, or federal aid may offset some of the increase, but if grants are not sufficient these students, too, will absorb the costs immediately, increase their debt burdens, or take longer to complete their course work.

Institutions also face dilemmas: if they raise tuition or fees, they may find themselves facing growth in yet another cost, scholarships to enable students to continue their education. Or, having already taken administrative measures to reduce their costs, the institutions then resort to measures that directly affect students, such as eliminating courses or sections, increasing the use of adjunct faculty, or reducing academic support such as library and computer services. For institutions with high percentages of students on assistance or who are part-time, the choices can be more stark since scholarship demands are higher because it is more difficult for their students to absorb increases.

This discussion would not be complete without mention of the recently enacted federal Hope Scholarships, which promise first- and second-year students tax credits of up to $1,500 per year against payment of tuition.[4] The credits may well benefit middle class students but are unlikely to make higher education any more affordable for poor or working class students, because federal aid and state grant or scholarship assistance that a student receives is deducted from the available tax credit, or because the student's or family's tax liability is not sufficient to take advantage of the full credit.[5] Students who receive maximum TAG and EOF awards, not to mention Pell Grants, are thus unlikely to receive any federal income tax credit, since the assistance received will exceed the value of the credit (100 percent of the first $1,000 paid in tuition, and 50 percent of the next $1,000 paid). It should also be mentioned that the credit is "backloaded," that is, it will be realized in the spring, which does not address the cash flow needed to pay tuition in the fall.

Higher education finance thus resembles a partially blown-up balloon: if one tries to squeeze it in one place, needs expand in another. The FY 1999 budget policy recommendations that follow need to be taken together to ensure that the result is a system of higher education that improves, not one that declines.

Student Assistance

The Tuition Aid Grant and Educational Opportunity Fund programs are the cornerstone of New Jersey's commitment to making higher education affordable and accessible. The emphasis of the TAG program is on providing access, affordability, and choice to students demonstrating financial need, while EOF promotes access and retention for students from economically and educationally disadvantaged backgrounds by offering financial assistance and educational support services not normally provided by the institutions. Although both of these programs have received continuing support, they need increasing support to meet ever growing needs.

Tuition Aid Grants

The FY 1999 budget for tuition assistance should continue to rely on current year funding and ensure that the awards to students are based upon current tuition rates, including past increases.

During the past year, increasing attention has been focused on the issue of financial assistance for part-time students. It will not be an easy task to craft a program that meets the needs of part-time students: many receive assistance from alternative sources such as employers; part-time students are eligible for federal Pell grants and student loans; and no comprehensive data exist on how many students would otherwise qualify financially, particularly since some will now benefit from the Hope Scholarships. The task should, however, be undertaken to meet the needs of the large numbers of part-time students, particularly in the community colleges. Accordingly the Commission supports efforts to create a financial assistance program for part-time students, but funding for the program must not come at the expense of the needed increases to the existing program for full-time students.

Educational Opportunity Fund

During the past several fiscal years, two critical funding issues were addressed for the EOF program. The fiscal year 1996 budget provided the first grant increase for students in almost a decade, further enabling students to meet fee and other increased costs of attending college. The fiscal year 1997 budget provided direct funding for the summer programs, replacing the use of unreliable carry forward funds to partially finance the program. This direct appropriation assures that institutions and students can plan appropriately for summer programs. Nevertheless, since neither students nor institutions receive other funding for the summer programs, the Commission urges that the FY 1999 budget provide inflation-based increases for the summer programs. To keep pace with continuing growth in fees, books, room and board, and other costs of attending college, the FY 1999 budget should also provide an increase in the academic year grant to students.

In addition to these inflation-based adjustments, the EOF board proposed three initiatives, which the Commission endorses. First, merit grants should be awarded to EOF students who maintain grade point averages of 3.0 (B) or better to signal a commitment to academic excellence. Second, additional funds should be awarded on a competitive basis to institutions to stimulate program innovation in five broad areas: a) improving the preparation of EOF students for majors requiring strong analytical, math, and science backgrounds; b) improving student performance in so-called "gateway courses," that is, academic courses that institutions have identified as important prerequisites, yet that are major barriers to student academic progress; c) early-intervention/ pre-college programming; d) state-wide staff development; and e) initiatives that address the board's concern for a stronger connection with the world of work. Third, institutions should receive awards based upon outcomes such as retention and graduation of students or institutional commitment above minimum requirements.

Martin Luther King and C. Clyde Ferguson Scholarships

These programs provide scholarships to medical or dental and law students, respectively, who are from disadvantaged or minority backgrounds. Funding for these programs has been level since their inception while tuition and other costs have increased. As a result, the universities have reduced the number of students served, the amount of the grant, or both. While students should contribute to their education, especially at the graduate level, the Commission again recommends that sufficient funds be provided so that 60 students in each program can receive the maximum award established by law.

Capital Funding

During the last three years, major steps were taken to address several different capital needs on New Jersey's college campuses. The $220 million Higher Education Facilities Trust Fund focused on "bricks and mortar" projects, specifically instructional, laboratory, communication, and research facilities. The new Higher Education Technology Infrastructure Fund, which will be implemented in FY 1998, targets $100 million ($50 million in state-supported bonds and at least $50 million in institutional matching funds) to higher education for video, voice, and data telecommunications equipment and linkages, including transport services and network interconnections. The FY 1999 budget will contain the first full year of debt service for this program.

The Equipment Leasing Fund made grants to institutions to purchase scientific, engineering, technical, computer, communications, and instructional equipment. This program, which began in 1993, has exhausted the initial $100 million. The bonds will be completely retired in two years, at which time the Commission believes the program should be renewed. Renewing the program at that time means that debt service will remain level.

Maintenance and renewal of existing facilities is a priority of rapidly growing proportions. As a result of a primary focus on new construction during recent years, New Jersey's public higher education institutions face a crisis-level backlog of capital rehabilitation and replacement projects, which places at risk the quality of teaching, learning, and research as well as the future of the facilities themselves. Higher Education Facilities Trust Fund projects addressed some of this backlog because some projects involved renovation of buildings for which maintenance and renewal were deferred. The focus of the trust fund, however, was on instructional facilities to prepare the workforce of the future; it did not provide funding for the overwhelming backlog of facilities maintenance and renewal needs, such as repairing or replacing roofs or windows, or bringing facilities into compliance with current codes.

To address the very serious problem of capital renewal, the Commission recommends a five-year capital renewal program for the senior public institutions[6] and an expansion of the Chapter 12 debt service program for the county colleges. In FY 1998, the recommendation for the senior institutions was supported by the Capital Budgeting and Planning Commission and included in their budget request to the Governor. The program, which included mandatory matching requirements, was not in the final budget, although the FY 1997 and FY 1998 budgets did include limited funding for capital projects at the four-year public institutions. In the fiscal year 1999 budget, the Commission strongly recommends inclusion of funding for capital programs for both four-year and two-year public colleges, together with continued funding for the debt service costs of the Equipment Leasing Fund, Higher Education Facilities Trust Fund, and the Higher Education Technology Infrastructure Fund.

Educational Operating Aid

The FY 1999 budget for the state and county institutions should take the first step in achieving the recommended funding partnership for the four-year, two-year, and independent institutions. For the four-year public institutions, the goal of 2/3 state support of operating costs can be achieved by limiting the growth in student charges and providing more state support. Increased state support for the four-year public institutions should thus be contingent upon a commitment by institutions to hold tuition and fee increases approximately to the rate of inflation. For institutions to make this commitment, state support must be sufficient to fund increases in negotiated salaries, benefits, and other costs over which the institution has no control.

For the county colleges, achieving the goal of 1/3 state support, 1/3 county support, and 1/3 student support realistically requires that reliance on tuition be reduced and state support dramatically increased, while county support grows at roughly the rate of inflation. At a minimum, therefore, FY 1999 state support for the community colleges should be sufficient for them to forego tuition and fee increases.

For independent institutions, the Commission continues to recommend full funding of the Independent College and University Assistance Act.

The FY 1999 budget should provide additional incentives to four-year public institutions that freeze tuition and fees and to county colleges that reduce student charges. To improve the partnership permanently, these incentives would be built into operating aid for FY 2000 and subsequent years, dependent upon the institutional commitment to the funding partnership. These steps, taken together and consistently for the next several years, will bring the state closer to the recommended partnership for all institutions.

Other Higher Education Programs

For several years, the state has supported a number of higher education programs that have enabled institutions to compete for other funding, serve groups with special needs, or provide other specialized opportunities. These programs are integral to higher education in New Jersey, and the Commission recommends continued support. Recent reviews of the programs for special needs and for language minority students indicate that additional funding is appropriate to serve these growing populations.

The long-range plan identified three incentive programs to enable institutions to meet certain clearly identified needs. The needs identified in the plan are the following: improving graduation and transfer rates for minority or low-income students; increasing external research funding at research universities;

and supporting urban revitalization in the state. The FY 1998 budget contained a one-time appropriation of $1.0 million for grants to institutions to address graduation rates, and ten programs are currently underway. For FY 1999, the Commission proposes the first year of a two-year program of urban revitalization incentive grants and matching grants to public and private research institutions when state assistance is vital to obtain external research funds. Each of these incentive programs is intended to stimulate activity in a limited number of institutions, both public and private.

ACCOUNTABILITY AND FUNDING FOR STATEWIDE GOALS

Students, policy makers, donors, and the public expect institutions to deliver a quality education at an affordable price. As part of a continued emphasis on excellence, the Commission encourages institutions to increase their use of performance indicators as measures of progress toward institutionally defined goals, consistent with their mission as well as state needs. Progress toward goals should be monitored and reported in institutional or sector budget requests. The Commission also encourages institutions to engage in periodic external reviews to enhance their effectiveness and efficiency.

With the adoption of *Looking to the New Millennium*, the higher education community agreed upon several statewide goals. The Commission believes that FY 1999 is an appropriate year to begin to reward and encourage performance by the public two-year and four-year colleges in achieving the goals identified in the plan. The Commission further believes that funding for performance should focus attention on outcomes, such as academic success, rather than processes. The existing accountability reporting process, which was developed jointly by the Commission and the institutions, provides an additional foundation for a performance funding system in New Jersey.

When implemented consistently over a number of years, rewarding past performance creates incentives for continued achievement. Other states have found that relatively small monetary rewards, such as an additional two percent of an institution's budget, are sufficient to motivate change because much of the institution's budget is fixed. While the details of a performance program should be developed with broad participation by the higher education community, the Commission recommends that the equivalent of an additional two percent of operating aid be set aside to reward public institutions that demonstrate improved performance, beginning with key areas such as graduation and transfer rates and operating efficiency. The performance awards proposed for the EOF program would be separate from this program and are targeted to the achievement of specific EOF goals.

Institutions should be evaluated on their year-to-year performance using data from statewide student records and other sources. To ensure that achieving statewide goals continues to command the attention of the institutions, the Commission recommends a commitment to performance funding for at least four years. This time period will also allow for new measures to be developed and existing ones refined to improve the system.

CONCLUSION

Since its inception in 1994, the Commission has viewed its role as being a responsible advocate for higher education whose decisions are driven by data and analysis. Previous budget policy statements have been particularly sensitive to the state's fiscal condition. With improved economic conditions, the Commission believes it is an appropriate time for the state to reaffirm its commitment to a balanced partnership in higher education. The imbalance in the partnership cannot be overcome in one year, but important steps to change it can be taken in the fiscal year 1999 budget.

ENDNOTES

[1] According to the 1990 Census, 30 percent of New Jersey residents have at least an associate degree and 25 percent have at least a baccalaureate degree.

[2] The six critical issues are: the effective and efficient use of public resources; eduation and workforce training; economic growth; community civility; the environment; and health and health care.

[3] The 2/3 recommendation does not apply to the University of Medicine and Dentistry of New Jersey (UMDNJ) or to Thomas Edison State College, both of which have unique funding requirements because if their unique missions. For UMDNJ, the Commission recommended that students and their families provide 10 percent of the cost of their medical education, with the remaining 90 percent from public support. For Edison College, the Commission concluded that the state should provide adequate support for the core staff, activities, and facilities of the college.

[4] The law also provides Lifetime Learning Credits for subsequent education. The credit is equal to 20 percent of the first $5,000 of tuition and fees paid, or $1,000; the value of the credit will grow as tuition and fee cap increases to $10,000 (a $2,000 credit).

[5] The isuue of tax liability arises because the credit is not refundable. In other words, if a student or family only owes $750 in federal income taxes, the maximum Hope Scholarship credit is the same $750.

[6] The proposal calls for annual state appropriations equal to 1.0 percent of the replacement value of buildings on the campuses. Half of the appropriation would require a dollar-for-dollar match by the institution, making the total value of the program equal to 1.5 percent of the replacement value of the buildings.

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