

NEW JERSEY COMMISSION ON HIGHER EDUCATION

**FISCAL YEAR 2005
BUDGET POLICY STATEMENT**

**Submitted to
The Honorable James E. McGreevey, Governor
and the New Jersey Legislature**

November 2003

New Jersey Commission on Higher Education

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HIGHER EDUCATION: PREPARING NEW JERSEY FOR THE FUTURE

Introduction

The New Jersey Commission on Higher Education is pleased to provide this budget policy statement for Fiscal Year (FY) 2005 to the Governor and Legislature. Recognizing the continuing fiscal constraints facing the state, the Commission recommends only the highest funding priorities for FY 2005 in the context of higher education's overall needs.

The Commission has been engaged with the Presidents' Council and a broad group of stakeholders in a long-range planning process for the past 18 months. Stage 1 of the plan, *A Blueprint for Excellence*, was adopted concurrently with this budget policy statement at the November 21, 2003 Commission meeting. The plan highlights the role of higher education in the knowledge-based economy and proposes an unprecedented new compact between the state and the higher education community. It calls for a significant state investment and a measurable return on that investment by the state's public and private colleges and universities. This Fiscal Year 2005 budget policy statement reflects several of the primary objectives and recommendations in the long-range plan.

The Context for Investment in Higher Education

The state's fiscal condition has required difficult decisions and funding decreases across state-supported agencies and higher education institutions over the past few years. A slow recovery from the recent economic recession continues to place considerable pressure on state budgets. Deliberate state efforts are essential to reenergize the economy and emerge as a competitive force in the coming years.

As New Jersey plans for the future, it stands at a crossroads. There will be a handful of states that separate themselves from the others by harnessing the intellectual power of their colleges and universities to propel their economies forward and to increase the quality of life for all residents. The long-range plan for higher education lays out a blueprint to firmly establish New Jersey among those few special states. The plan is focused on capacity, quality, collaboration, and resources, and it espouses a vision to create and sustain a higher education system that is among the best in the world. Achievement of that vision will require a commitment of additional investments by the state over time and a commitment by higher education to achieve principal state objectives.

New Jersey colleges and universities are dedicated to developing the full potential of the state and its people. 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 increase capacity to address growing demands. They are actively engaged in efforts to meet the state's essential needs by enhancing flexibility to serve students through

traditional and nontraditional means. Their efforts include such things as incorporating technology, providing distance education, and advancing articulation and transfer and other means of collaboration among institutions.

Demographics and Economics

Population growth and a substantial increase in the number of school-age children intensify demands on colleges and universities to extend opportunities for success, as does the need for lifelong learning opportunities 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 proportionally large population of Hispanics, African Americans, and Asians is expected to continue growing. The state's overall population is not expected to increase as much as the population in many other parts of the nation. However, 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. There is also a continuing need to prepare nontraditional students (those who are not recent high school graduates) who seek higher education opportunities to meet workforce demands.

All of America continues to make the transition to a technology-driven, information-based environment. New Jersey policymakers, like those across the nation, are concerned about the shortage of well-prepared, skilled workers with appropriate credentials. As a leading state in pharmaceuticals, biotechnology, telecommunications, and other knowledge-based industries, New Jersey has a particularly acute need for a highly skilled workforce. The demand for well-educated, high-skilled workers, however, continues to exceed supply. Educators face the difficult task of preparing individuals of all ages and backgrounds to participate successfully in society and the new economy.

This charge falls primarily on higher education. Nationally, occupations that require a college degree are growing faster than 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.

As the long-range plan for higher education continues to evolve, significantly increased levels of state funding will be proposed commensurate with other states that aspire to national leadership. In return, higher education proposes a comprehensive response to state priorities, increasing capacity, enhancing quality, and collaborating with the preschool-to-grade-twelve community and business and industry to effectively meet needs.

RECOMMENDATIONS FOR FISCAL YEAR 2005

The Commission recognizes current constraints on state resources, but there are two fundamental areas in which an increased investment is recommended for FY 2005: institutional operating aid and student assistance programs – both of which are essential to provide access to high-quality higher education opportunities.

Institutional Operating Aid

The need for state institutional operating support is significant in light of reductions and funding limitations since FY 2002, particularly for the 12 senior public institutions. The Commission and Presidents' Council urge avoidance of any further reduction in support for colleges and universities and set forth the following priorities to guide appropriations:

- **Return the level of funding for the public research universities and state colleges and universities to the level of the original FY 2002 appropriation.**
- **Provide some level of increase for all sectors in FY 2005 to minimize further reliance on student tuition and fees.**

Consistent with the long-range plan, targeted operating aid increases are listed below:

- **Public research universities:** \$80.2 million to restore state support to the FY 2002 appropriation level; funding for the 2005 salary program; and funding to cover fringe benefits.
- **State colleges and universities:** \$37.4 million to restore state support to the FY 2002 appropriation level; funding for the 2005 salary program; and funding to cover fringe benefits.
- **Community colleges:** \$17.5 million to continue moving toward a one-third state share of operating costs by 2010.
- **Independent institutions:** \$5.74 million to begin moving toward full funding of the Independent College and University Act by 2010.

Student Assistance Programs

The state has a longstanding commitment to student financial assistance programs that help keep higher education affordable. New Jersey ranks third in the nation in need-based aid and total grant dollars awarded per full-time undergraduate student, sixth in the proportion of undergraduates receiving need-based aid, and seventh in the number of undergraduates receiving any form of aid. 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 two areas.

Tuition Aid Grants (TAG). It is recommended that TAG awards, the state's primary need-based student assistance vehicle, be increased to fund FY 2005 awards for the

lowest income students at public institutions at no less than the FY 2004 tuition levels and to adjust other awards proportionately to maintain a lag of no greater than one year. For independent institutions, awards should fund up to 50 percent of their weighted average tuition, consistent with statute.

Educational Opportunity Fund (EOF). The EOF program is recognized as one of the nation's premier state programs to enhance higher education access and opportunity. An additional \$3.8 million is recommended to strengthen foundational EOF Article IV support services linked to program outcomes. Also, an additional \$3.0 million is recommended to assist students with rising costs and to serve a larger number of students as enrollments increase. Should fiscal constraints prevent funding for those recommendations, priority consideration is recommended for a modest increase for academic support programs through Article IV.

Other Needs

Capital Maintenance and Renewal for Senior Public Institutions. Nationally recognized standards for annual maintenance of colleges and universities recommend that between 1.5 percent and 3.0 percent of current replacement value be dedicated annually to maintenance and renewal. Yet the state has been able to provide only intermittent funding to maintain the capital assets of its public research universities and state colleges and universities. A recent Commission questionnaire indicates a need for over \$170 million to address preservation and maintenance, regulatory compliance, and deferred maintenance needs that will not be met as a part of major renovation and construction projects anticipated over the next six years.

The long-range plan recommends that the Commission, Presidents' Council, and Administration propose a program for future years with annual state appropriations for renewal of facilities at these institutions to provide for rational planning for the maintenance of the state's higher education assets. In the interim, an appropriation of \$36.3 million is recommended, which is 1.0 percent of current replacement value (estimated at over \$3.6 billion), along with a required match of 0.5 percent by the institutions, to avoid additional deferral of critical maintenance and compliance projects.

Restructuring of Public Research Universities. The Commission recognizes that there may be a need for targeted funds in FY 2005 for the initial implementation stages of restructuring the public research universities. The long-range plan acknowledges the restructuring of these universities to improve (1) the overall educational excellence of the universities, (2) collaboration in teaching, research, and service, and (3) the state's competitiveness for federal and other support for biomedical, biotechnology, and related research. Funding considerations are now being explored by the Review, Planning and Implementation Steering Committee and the Jobs Growth and Economic Development Commission.

SUMMARY

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; ability to provide access to high-quality, timely educational opportunities for all segments of the population; and a commitment to excellence in education and research and development. *A Blueprint for Excellence*, the long-range plan for higher education, seeks an increased state investment in New Jersey's system of public and private colleges and universities over the next several years to address the convergence of demographic trends, an expanding knowledge-based economy, and growing workforce demands. The plan proposes a new compact between higher education and the state to prepare students for the future, support economic development, and enhance quality of life in New Jersey.

Although the state is currently grappling with difficult fiscal constraints, there are two fundamental areas within the context of overall needs in which increased investment in higher education is recommended for FY 2005: (1) institutional operating aid, with a focus on public research universities and state colleges and universities that sustained significant cuts and also on increases for other sectors, and (2) student financial assistance programs. Access to high-quality higher education opportunities depends on sufficient state support in both areas. In addition, an interim investment to provide capital maintenance and renewal support for the public research universities and the state colleges and universities is recommended while a state policy is developed for future years.

As the fiscal outlook continues to improve, bold leadership will be necessary to significantly strengthen New Jersey's economy and prosperity. Investments in higher education and research, which underlie economic competitiveness and quality of life, will enable the state to build on its abundance of assets. Higher education will provide measurable returns on that investment through increased capacity and enhanced quality and effectiveness in meeting student and state needs.