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Assembly Bill No. 552
Assembly Higher Education Committee
February 22, 2016

The state colleges and universities respectfully but strongly oppose this legislation. Capping tuition without making a commitment for greater state funding is an unbalanced equation that could jeopardize access and the quality of the education that our students receive.

State appropriations and tuition are the two major sources of revenue for our institutions. New Jersey's current budget cut the operating appropriations to the state colleges and universities by 7.3 percent, making New Jersey one of only nine states to cut fiscal support to higher education in FY2016, according to the Center for the Study of Education Policy at Illinois State University. In fact, appropriations for New Jersey's state colleges and universities are nearly identical to the operating aid they received 25 years ago, in Fiscal Year 1991, as indicated on the attached pages from the FY1992 budget and from the FY2017 *Budget in Brief*.

In spite of these funding challenges, New Jersey's senior public colleges and universities only slightly increased in-state tuition and fees this year, by an average of less than 2.3 percent. Over the past five years, the public four-year institutions in New Jersey were some of the most cost-conscious institutions in the country. Between 2010-2011 and 2015-2016, they increased in-state tuition and required fees by only four percent, tied for the fourth-lowest percentage nationally, according to the College Board. Our institutions' leadership accomplished this by keeping students first in mind, without legislated mandates.

The state colleges and universities have been asked to do more with less, and they are serving more students than ever. Between 1989 and 2014, full-time-equivalent enrollment at four-year public colleges and universities in New Jersey increased over 70 percent, from 161,135 students to, according to the State Higher Education Executive Officers association (SHEEO). Serving this record number of New Jersey students stretched the resources that our institutions receive from the state. Between 1989 and 2014, educational appropriations per full-time-equivalent student dropped over 46 percent, also according to SHEEO, as reflected on the attached chart.

On the spending side of the ledger, our institutions are tightening their belts and operating more efficiently. Our institutions have contained costs in a number of ways:

- They all participate in a library consortium that enables cost sharing.
- They have significantly cut energy costs by, in some cases, building cogeneration plants; installing automated systems that conserve energy, and conducting energy audits.
- Some institutions eliminated or consolidated administrative departments.
- Some institutions use web-based data storage to reduce hardware costs.

Our institutions are also more entrepreneurial than ever in finding alternative revenue sources. For example:

- Public-private partnerships with developers enabled construction of mixed-use projects that benefit campuses and their neighboring communities.
- Institutions are renting out athletic facilities and meeting rooms during off-season, off-peak times.
- Continuing education programs bring in revenue while providing certificates and other credentials for adults to help advance their careers.

Tuition caps would not only affect the ability of our institutions to balance their budgets, but could jeopardize their credit ratings. In 2007, Moody's Investment Services cautioned states against tuition caps in a report that is attached. Moody's stated in the report:

> [F]ormal state regulation of public university tuition rates would negatively affect credit quality because of the increasingly critical role of tuition as the revenue source that enables public universities to sustain fiscal balance while adjusting to state funding volatility. . . . Moody's believes legislated controls would likely limit revenue flexibility during times when higher education institutions need it most ...."

The New Jersey Higher Education Task Force, chaired by Governor Tom Kean, warned against the effect of tuition caps, which "threaten the ability" of campus leaders "to maintain the quality of their institutions." Among its recommendations, the Task Force wrote: "Institutional leaders, not officials in Trenton, know the needs of their campuses, and they are best positioned to set the level of tuition appropriate for raising the funds needed to support their institutional operations."

We urge the committee to continue to follow the recommendation of the Kean Commission and not cap tuition.

DEPARTMENT OF HIGHER EDUCATION

Summary of Appropriations by Organization
(thousands of dollars)

Year Ending June 30, 1990							Year Ending June 30, 1992	
Orig. & (S)Supple- mental	Reapp. & (R)Recpts.	Transfers & (E)Emer- gencies	Total Available	Expended		1991 Adjusted Approp.	Requested	Recom- mended
					Higher Educational Services			
10,843	2,378	594	13,815	11,648	Office of the Chancellor	11,575	12,209	10,654
3,684	—	61	3,745	3,745	Thomas A. Edison State College	3,722	3,900	3,422
28,982	—	339	29,321	29,321	Glassboro State College	29,413	31,170	27,044
27,005	—	261	27,266	27,266	Jersey City State College	26,710	28,900	24,558
29,861	—	363	30,224	30,224	Kean College of New Jersey	29,247	31,190	26,891
32,432	—	400	32,832	32,832	The William Paterson College of New Jersey	32,562	34,700	29,939
37,139	—	446	37,585	37,585	Montclair State College	36,726	38,800	33,768
31,376	—	335	31,711	31,711	Trenton State College	30,935	32,900	28,443
16,159	—	198	16,357	16,357	Ramapo College of New Jersey	15,964	17,300	14,678
16,917	—	230	17,147	17,147	Richard Stockton State College	17,200	18,300	15,815
223,555	—	*2,633*	*226,188*	*226,188*	*Total State Colleges*	*222,479*	*237,160*	*204,558*
231,520	—	3,112	234,632	234,632	Rutgers, The State University	234,514	252,000	215,625
19,723	—	228	19,951	19,951	Agricultural Experiment Station	20,385	21,967	18,743
161,815	—	3,153	164,968	164,968	University of Medicine and Dentistry of New Jersey	165,818	176,300	152,463
41,274	—	749	42,023	42,023	New Jersey Institute of Technology	41,514	46,100	38,170
688,730	***2,378***	***10,469***	***701,577***	***699,410***	***Total Appropriation***	***696,285***	***745,736***	***640,213***

Higher Education

(In Thousands)

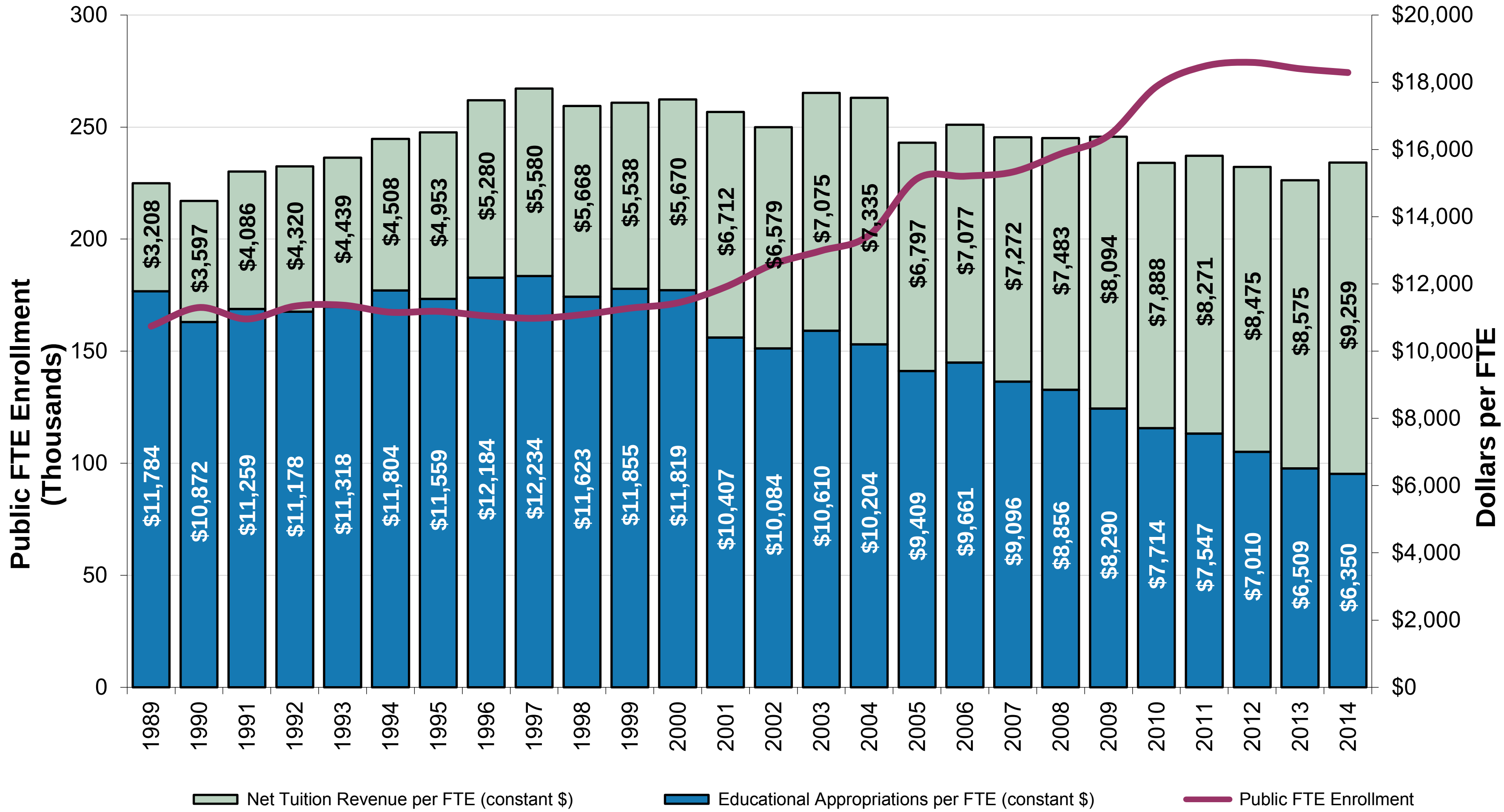
	FY 2016 Adjusted Approp.	FY 2017 Budget	Change $	%
Senior Public Institutions				
Rutgers University	$ 393,984	$ 393,984	-	-
New Jersey Institute of Technology	35,440	35,440	-	-
Thomas Edison State University	3,292	3,292	-	-
Rowan University	86,583	85,383	(1,200) [(a)]	(1.4)
New Jersey City University	24,154	24,154	-	-
Kean University	30,469	30,469	-	-
William Paterson University	30,357	30,357	-	-
Montclair State University	35,859	35,859	-	-
College of New Jersey	27,177	27,177	-	-
Ramapo College of New Jersey	14,953	14,953	-	-
Stockton University	18,391	18,391	-	-
Subtotal Senior Publics Direct Aid	700,659	699,459	(1,200)	(0.2)
Senior Publics Net Fringe Benefits	747,245	706,006	(41,239)	(5.5)
Total Senior Public Institutions	$ 1,447,904	$ 1,405,465	(42,439)	(2.9)
County Colleges				
Operating Support [(b)]	$ 134,123	$ 134,123	-	-
Fringe Benefits	$ 49,160	$ 52,008	2,848	5.8
Chapter 12 Debt Service	37,390	36,723	(667)	(1.8)
Total County Colleges	$ 220,673	$ 222,854	2,181	1.0
Total Independent Colleges and Universities	$ 1,500	$ 1,000	(500)	(33.3)
Student Financial Assistance				
Tuition Aid Grants	$ 385,830	$ 403,647	17,817	4.6
Part-Time Tuition Aid Grants for County Colleges	8,737	8,737	-	-
NJSTARS I & II	6,907	6,907	-	-
EOF Grants and Scholarships	41,387	38,822	(2,565)	(6.2)
Governor's Urban Scholarship Program	945	945	-	-
Other Student Aid Programs	2,260	2,260	-	-
Total Student Financial Assistance	$ 446,066	$ 461,318	15,252	3.4
Other Programs				
Debt Service	$ 103,346	$ 101,772	(1,574)	(1.5)
All Other Programs	4,816	15,816 [(c)]	11,000	228.4
Total Other Programs	$ 108,162	$ 117,588	9,426	8.7
Grand Total Higher Education	$ 2,224,305	$ 2,208,225	(16,080)	(0.7)

(a) Fiscal year 2016 includes a one-time payment to Rowan University of $1.2 million.

(b) Includes funding from the Supplemental Workforce Fund for Basic Skills of $18.8 million.

(c) Includes $10 million in funding for Seton Hall University School of Health and Medical Services and $1 million for College Readiness Now.

Public FTE Enrollment, Educational Appropriations and Total Educational Revenue per FTE, New Jersey -- Fiscal 1989-2014



Note: Constant 2014 dollars adjusted by SHEEO Higher Education Cost Adjustment (HECA). Educational Appropriations include ARRA funds.
Source: SHEEO

March 2007

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Hot Topic

State Regulation of Public University Tuition Rates Carries Negative Credit Implications

Summary

The continuing and rapid rise in public university tuition rates this decade has prompted several states to discuss ways of regulating or limiting tuition increases, even though the tuition increases are often generated by cuts in state funding. Moody's believes that formal state regulation of public university tuition rates would negatively affect credit quality because of the increasingly critical role of tuition as the revenue source that enables public universities to sustain fiscal balance while adjusting to state funding volatility. While most state legislatures continue to have significant influence over tuition rates through budget and funding appropriation negotiations, Moody's believes legislated controls would likely limit revenue flexibility during times when higher education institutions need it most and that controls would likely affect the ability of institutions to invest and compete with private universities.

Overview of the Public Higher Education Sector

Moody's currently rates nearly 200 four-year public colleges, universities, and higher education systems in the United States - over $80 billion in outstanding debt - on a non-credit enhanced basis. The median rating for public universities is A2 with the average climbing to Aa3 when weighted by the amount of rated debt. Nearly 66% of public universities are rated in the A category with 28% rated either Aaa or Aa.

The four-year public higher education sector enrolls 39% of all students. Public community colleges enroll an additional 36%, with the remaining students attending private colleges.

Long-Term Trend of Higher Education 'Privatization'

There is a long-term trend of "privatization" of public higher education in the United States. In 1981, according to the U.S. Department of Education, state appropriations accounted for 46% of public university operating funds. Twenty-five years later, Moody's medians show that state funding comprises less than a third of public higher education operating revenues.[1] Moreover, public higher education institutions have assumed increasing responsibility for covering the costs of their buildings, both construction of new facilities and maintenance of existing facilities.

Tuition revenue has risen to fill the gap left by decreasing state support. Based on Moody's data, tuition and fee revenue on the median now accounts for over a quarter of public higher education revenues. From 2002-2006, while state appropriations on a per-student basis declined by 5%, net tuition revenue rose by almost 48%, enabling the sector to sustain, indeed improve, credit quality during a challenging external funding environment. While the 48% increase is large in percentage terms, the median net tuition per-student rose approximately $1,700 in dollar terms over that time frame, a relatively moderate amount.

Figure 1

	2002	2003	2004	2005	2006*
Net Tuition per Student	$ 3,516	$ 3,860	$ 4,381	$ 4,900	$ 5,194
Tuition as % of Revenue	20%	22%	24%	25%	26%
State Appropriations Per Student	$ 7,089	$ 6,912	$ 6,534	$ 6,658	$ 6,725
State Appropriations as % of Revenue	39%	37%	34%	33%	31%

**2006 is estimated based on 40% of Moody's rated public university portfolio*
SOURCE: Moody's

States Re-Examining Control over Tuition-Setting Authority

Over the past two years, policymakers have been considering steps to potentially increase state control over tuition and fees in response to mounting public concerns related to affordability and access to higher education. The discussion of tuition caps also can stem from a belief by policymakers that public universities can make efficiency gains through cost controls rather than continuously increasing expenses and passing the cost on to families. According to a November 2006 report from the State Higher Education Executive Officers (SHEEO) based on a survey of the states, 18 had some sort of tuition curb, cap, or freeze placed on tuition over the prior three years while 33 declined to do so and 23 states established study groups to focus on higher education policies, including tuition policies.[2]

The tuition-pricing discussions are most pronounced for in-state undergraduate students, with nonresident and graduate students typically expected to bear a more market-oriented price. The pressure has also been especially felt in states with state financial aid programs that cover tuition expenses. Incremental tuition increases directly raise the cost of providing the politically popular aid, creating a direct impediment to lawmakers considering tuition increases.

Actual tuition-setting authority varies from state to state, but in most states the legal authority now rests with the board of trustees overseeing each individual institution or system. Indeed, during the period from 2002-2005, Texas and many other states took action to loosen direct state regulation of tuition or fees in order to provide their constituent institutions with the ability to respond to large and unexpected cuts in state support. In some cases where tuition regulation has been lessened, institutions have been required to dedicate a portion of tuition increases to financial aid.

More recent regulation proposals include:

- Linking permitted tuition increases to growth in family income levels (proposed in Indiana this session)
- Regulating the dollar or percentage increases permitted each year (Ohio typically establishes caps in the biennial operating budget bill with a current fiscal year cap of 6% or $500 for a full-time student, whichever is less; the Governor is proposing moving to a compact strategy akin to California),
- Guaranteeing tuition levels for four years for entering students (Illinois adopted in 2005).

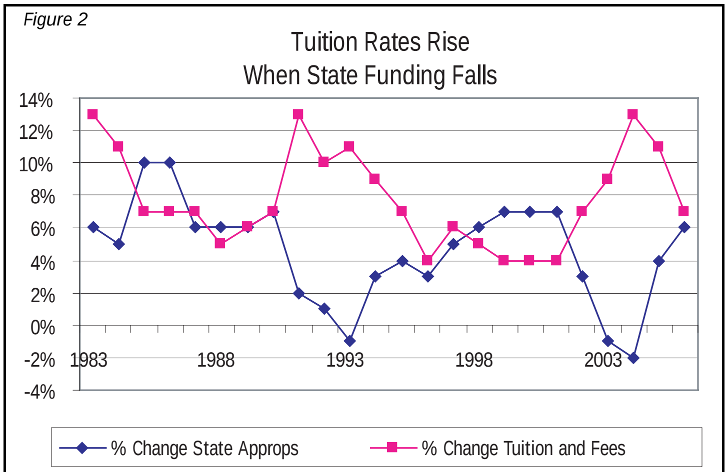
We believe that these discussions are part of an ongoing dialogue that is likely to continue over the coming years as states and their higher education systems work through broader questions of control and oversight in an increasingly privatized environment. Even absent direct regulation of tuition rates, however, states maintain significant control over tuition increases through the negotiations that occur each budget session. For example, some states link increases in direct state funding to actions by institutions on limiting tuition increases.

1. *DOE and Moody's data may not be exactly comparable due to different calculation methods but we believe these figures accurately reflect the trend that has occurred.*
2. *State Tuition, Fees, and Financial Assistance Policies for Public Colleges and Universities, 2005-2006*

Direct Regulation of Tuition Could Negatively Affect Bondholders

As tuition has become an increasingly important revenue stream for public higher education institutions, we believe formal regulation or control of tuition rates by states could have a negative impact on bondholders in the following ways:

Figure 2



Sources: Center for the Study of Higher Education Policy, Illinois State University; The College Board

- Many institutions pledge tuition and fees to bondholders in order to pay debt service, either through a direct pledge of specific portions of tuition and fees or through a broader legally available funds pledge. State control would potentially limit the ability to increase tuition to offset increasing debt service costs or limit the ability of institutions to debt-finance critical capital projects.
- Increases in tuition are often used to fund strategic initiatives such as maintaining competitive faculty salaries, sustaining or enhancing academic program offerings, tackling deferred and ongoing plant maintenance, improving available technology, and maintaining manageable class sizes. Inability to raise tuition could inhibit these investments, potentially affecting student demand and enrollment.
- Legislative caps on raising tuition could prevent institutions from being able to rationally react to unexpected cuts in state funding and could make achieving fiscal balance increasingly challenging during the normal swings in state support driven by economic cyclicality.
- As with private institutions, tuition and financial aid policies and strategies have become a critical tool in marketing to and attracting students. The inability of an institution to establish market-appropriate pricing policies could impact student demand. Overall centralized pricing policies ignore substantial variations in the market profile of individual public universities within a state potentially punishing those with uncommonly strong or weaker student demand.

Moody's will continue to monitor legislative proposals regarding the regualtion of tution and report on any that we believe could clearly have a negative impact on credit quality for higher education institutions in that state.

Related Research

Special Comment:

Public College and University Medians 2006, June 2006 (98025)

Rating Methodology:

Public Colleges and Universities, November 2006 (100363)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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Report Number: 102534

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