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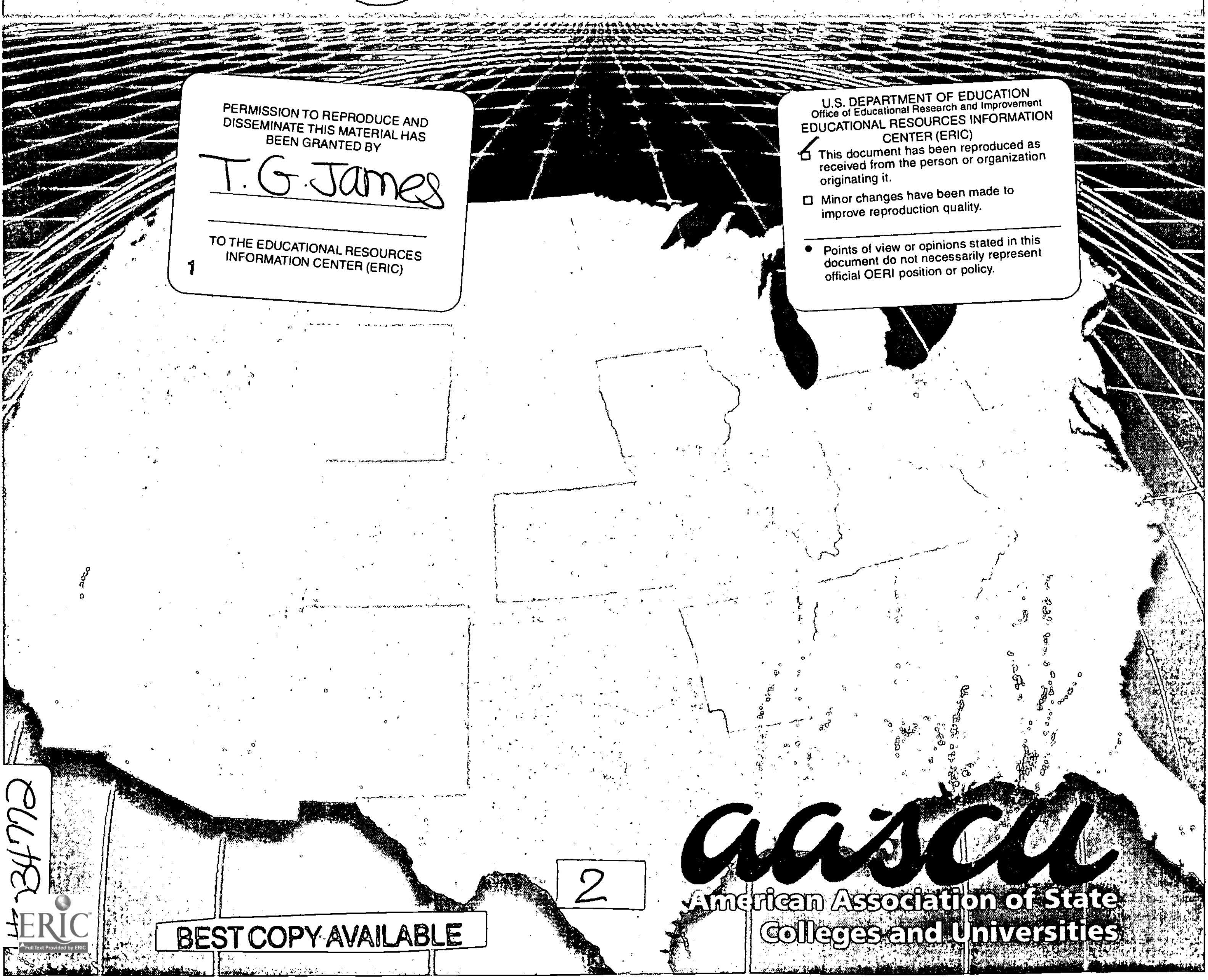
ABSTRACT

This report looks at higher education policy issues that are taking shape at the state level and provides data on key trends and indicators. The first section presents findings from the 2001 State Issues Survey. Topics discussed include: fiscal issues; governance/management; economic development; academic issues; distance education; and relationship issues between educational institutions and state entities. The second section gives a state fiscal update for fiscal year 2002, focusing on the drop in economic activity following the September 11 terrorist attacks. Discussed are the economy; impact on state finances (revenue, expenditures, remedies for shortfalls); what the economic downturn and tight state budgets mean for higher education; and what is next for state legislatures and state colleges and universities (looking ahead to fiscal year 2003). The third section presents key higher education indicators that may help to inform or enrich policy. The indicators include: finance; demand (enrollment); population projections; public and policymaker perceptions; and institutional responsiveness. Data in the three sections are presented in tables and figures. (KN)

State Issues Digest



2

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Contents

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February 2002

From the President

Dear Colleague:

As the nation's legislators return to statehouses to once again take up the people's business, all states face the daunting challenge of balancing their budgets while providing for basic services and enhancing the security of their citizens and infrastructure. At the same time, many state colleges and universities are witnessing unprecedented student demand. Simply put, we are entering a period where public resources will be taxed as never before.

It is in this context that I present to you the 2002 edition of AASCU's *State Issues Digest*. The *Digest* is intended to provide you and your leadership team with a "bird's-eye view" of higher education policy issues that are taking shape at the state level, as well as useful data on key trends and indicators.

As with all of AASCU's member services and products, I encourage you to give us your feedback and suggestions regarding the *Digest*. Best wishes for a successful year ahead.

Sincerely,

Constantine W. Curris
President

2001 State Issues Survey

AASCU conducted its annual survey of the Council of State Representatives during September and October of 2001 and received 44 responses. A slowing economy and shrinking state budgets have dramatically impacted public colleges and universities. Following are selected points of interest from the 2001 findings.

Fiscal Issues

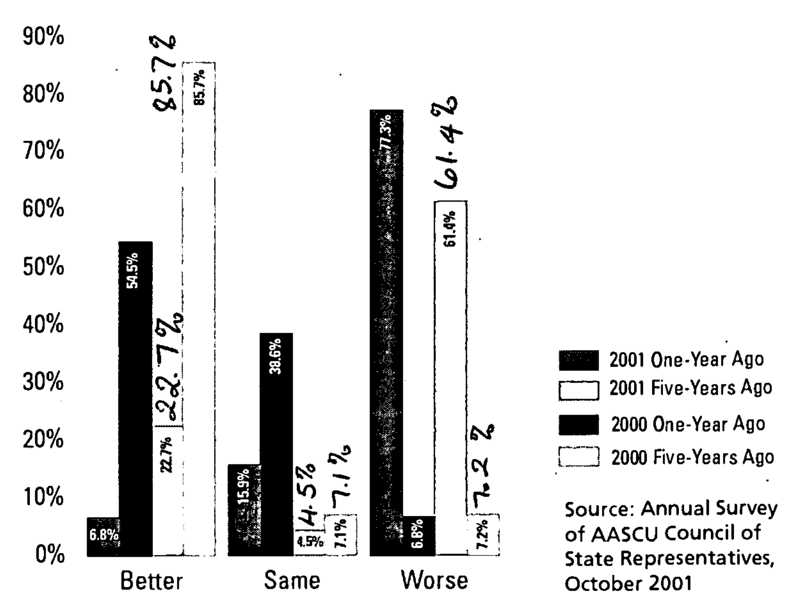
As a result of the fiscal downturn exacerbated by the terrorist attacks on September 11, respondents to the 2001 survey expressed relatively little confidence about their states' fiscal prospects. Presidents and chancellors indicated that they have begun to feel the effects of the slowing economy as budgets shrink and enrollments rise, spurring new challenges for administrators and governing boards. Notably, many respondents answered the survey when the impact of the attacks had barely been felt, underscoring the notion that campuses were already bracing for a more trying fiscal year.

Over three-fourths of the respondents (77.3 percent) described the current economic conditions of their state as "somewhat worse" or "much worse" compared with economic conditions a year ago. When asked to compare the current economic condition of their state to the condition of five years ago, nearly two-thirds of respondents (61.4 percent) identified their current condition to be "somewhat worse" or "much worse." In 2000, only 6.8 percent of respondents described the then-current economic conditions of their state as "somewhat worse" or "much worse." Over half of the respondents in 2000 (54.5 percent) described the economic conditions as "much better" or "somewhat better" than those of 1999. *[see Figure 1]*

Respondents were largely pessimistic in their one-year forecasts for states' finances. Asked to predict the financial condition of their states a year from now, 54.6 percent of respondents selected "somewhat worse" or "much

Figure 1

Assessment of State Fiscal Conditions
(compared with one and five years ago)



worse" (up from 34.1 percent in 2000), 22.7 percent selected "same" (down from 40.9 percent in 2000), and 13.6 percent selected "much better" or "somewhat better" (down from 20.5 percent in 2000).

The same pessimism filtered into respondents' projections of their state's higher education budget. Over half of the respondents (52.3 percent) indicated that their state's higher education budget would be "somewhat lower" or "much lower" in a year, acknowledging the reality of the national and local economic downturn. Only 13.6 percent of respondents predicted that their higher education budget will be somewhat higher in 2002, and 29.5 percent conceded that the budget would remain the same.

More than half of presidents and chancellors responding (57 percent) indicated that capital improvements, facility expansion, and deferred maintenance were some of the top priorities for state funding, followed by technological improvements and maintenance (34 percent). The fiscal slowdown, however, is likely to slow or suspend many projects.

Over the next five years, 54.7 percent of respondents reported that they expect to see higher education's share of their state's general funding budget to fall, as compared with only 29.5 percent in 2000. In contrast, a third of respondents expect higher education's share to hold steady, compared with 54.5 percent in 2000. *[see Figure 2]*

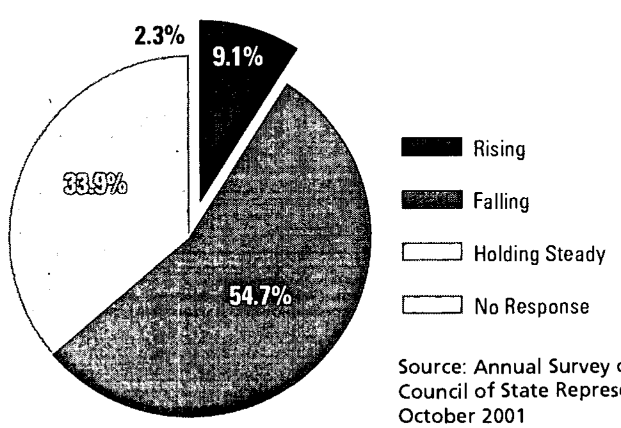
Governance/ Management

Respondents suggested a picture of general stability on this front, which historically has been marked by greater turbulence in the face of state fiscal woes. While there appear to be only pockets of controversy pertaining to open meetings/records laws at present, those numbers may increase as new security policies take effect.

A significant number of respondents (40.9 percent) described the relationships between presidents/ chancellors of public colleges and universities and the governing/ coordinating boards as "good," while nearly one-third of respondents described relationships as "fair" or "poor." *[see Figure 3]*

Figure 2

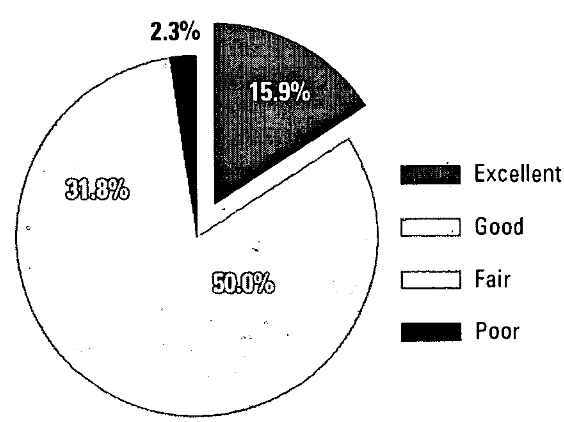
Forecast for Higher Education as Share of State General Fund Spending
(next five years)



Source: Annual Survey of AASCU Council of State Representatives, October 2001

Figure 3

Relationship Between Public Two-Year and Four-Year Institutions



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Slightly more than three-fourths of the respondents (77.3 percent) indicated that open records/ meeting laws have not surfaced as an issue in the context of presidential searches, or the effectiveness of the institutional or system governing board. Three-quarters (75 percent) believe that the existing open records/meeting laws are appropriate and necessary, as opposed to the 25 percent of respondents who believe these laws require some form of revision.

Economic Development

Economic development continues to play a vital role in campus and system planning and programming, as policymakers increasingly discover the importance of postsecondary education in The New Economy. More than two-thirds of respondents (70.5 percent) suggested that the promotion of economic development ranked "very high" or "relatively high" among their state's priorities for higher education in 2001.

Respondents recognized that the relationship among colleges and universities, state and local government, and the private sector are increasingly important to the overall success of their student population. Although 27.3 percent indicated that their relationships were "very collaborative," 63.6 percent indicated that their relationships were only "somewhat collaborative," highlighting the need for greater emphasis on the benefits of collaboration across various constituencies.

The most popular public policy agenda item in the area of economic development was educational attainment/"brain drain," as indicated by 18 of the 2001 survey respondents, followed by research and development (15 respondents), applied research (12 respondents), business creation/ incubation (five respondents), and technical assistance to business/ industry (four respondents).

Academic Issues

A number of issues related to general academic needs figured prominently on state policy agendas in 2001:

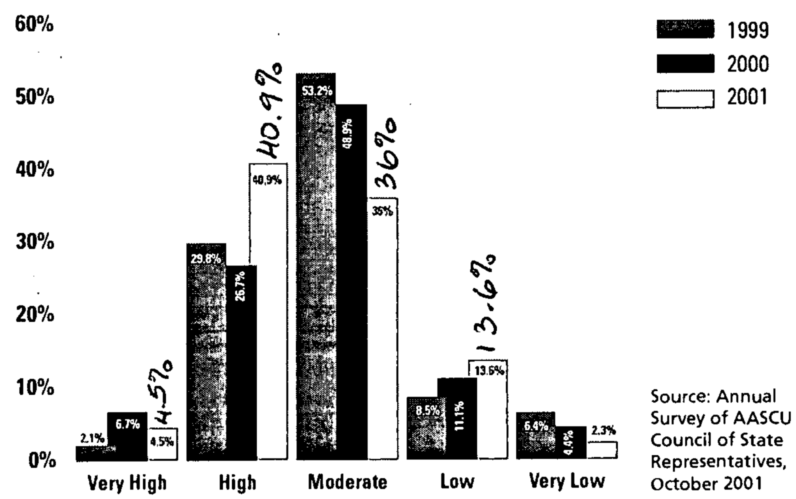
- ☐ Slightly more than two-thirds of the respondents (68.2 percent) indicated that P–16/"seamless education" initiatives were at the forefront of governing or coordinating board agendas in 2001. However, governors (45.5 percent) state legislatures (29.5 percent) took interest in these initiatives.
- ☐ Outcomes assessment for students are beginning to rise to the forefront of governing or coordinating boards' agendas, as indicated by 54.5 percent of the respondents. However, more than a quarter of the respondents (29.5 percent) indicated that the issue had not been raised in the past academic year. This suggests that the issue is still taking shape at the postsecondary level in many states, and bears watching in the year ahead.
- ☐ As a result of the changing economy, all sectors of governance in higher education are focusing on workforce development and preparation programs. Nearly three-quarters of respondents (72.7 percent) indicated that their state's governing or coordinating board addressed this issue. Additionally, just under two-thirds of respondents (61.4 percent) indicated that lawmakers in their states had engaged in debate over the issue, and 63.6 percent reported that the governor had significantly addressed workforce development in the past year.

Distance Education

Distance education has had a dramatic impact on the lives of institutions and students. Public

Figure 4

Perceived Level of Agreement Between Higher Education Leaders and State Policymakers on Key Policy Priorities



colleges and universities are quick to embrace the opportunities for ongoing development and expansion.

Over half of the respondents (60.6 percent) pointed out that their institutions are very involved with developing, offering or marketing their own distance education based courses, as compared to only 32.5 percent of respondents who reported that their institutions are not very involved.

Few respondents (2.3 percent) indicated that their institutions were contracting with private vendors to develop and market their distance education courses. Instead, a large number of institutions (55.9 percent) are developing their own courses and/or collaborating with other institutions in consortia to offer and market their classes.

Relationship Issues

The 2001 survey suggests that AASCU institutions continue to enjoy generally positive relationships with a number of state entities, but the strength of those relationships may be tested in an environment of heightened security and economic uncertainty.

Half of respondents (50 percent) characterized the relationship between public two-year and public-four year institutions in their state as "good," while over a third (34.1 percent) characterized these relationships as "fair" or "poor." *[see Figure 3]* Articulation and transfer continue to be the primary policy issues pertaining to the relationship between public two-year and public four-year institutions, as indicated by 93.2 percent of respondents. Additionally, 22.7 percent of respondents indicated that community college baccalaureates are a sound topic for discussions in the year ahead.

Ironically, with the economic downturn and the trimming of state budgets, nearly half of the respondents (45.4 percent) described the level of agreement on key policy priorities between public higher education and state policy makers as "very high" or "high," while an additional 36.4 percent indicated that the level of agreement is "moderate." A year ago, only 33.4 percent described the level of agreement as "very high" or "high" and 15.5 percent felt that the level of agreement was "low" or "very low." *[see Figure 4]*

Currently, AASCU is cultivating several partnerships to address some of the challenges facing these relationships in the coming year.

State Fiscal Update: Has the Other Shoe Dropped?

In September 2001, before the terrorist attacks, AASCU issued an assessment of state fiscal conditions that predicted an uncertain economic outlook and a "lean year" for state budgets in Fiscal Year 2002. Just three months later, there is more certainty about both the condition of the economy and the prospects for state budgets—but not for the better. The economy, already displaying symptoms of a significant slowdown in late summer, was pushed toward full-blown recession by the September 11 attacks and their aftermath.

The precipitous drop in economic activity post-September 11, compounded by sluggish revenue growth during the summer, has resulted in a cumulative shortfall of at least $40 billion—and growing. This gap has prompted mid-year cuts and spending of reserves for FY02 budgets in most states and a complete rethinking of FY03 spending in nearly every state. Consistent with previous downturns, higher education in most states is not exempt from the sudden contraction in spending. While major economic indicators suggest that a recovery may be on the horizon, the next couple of years will definitely be leaner for most state colleges and universities.

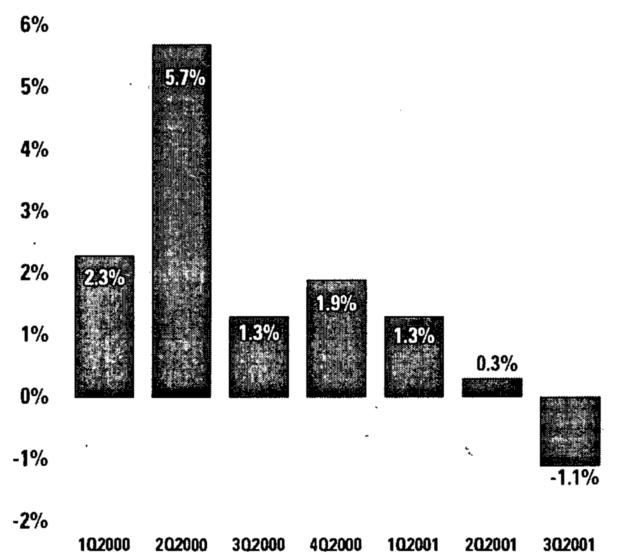
The Economy

According to leading economists and analysts, the nation's economy has been in a recessionary state for the better part of the last year, with the September terrorist attacks exacerbating already weak conditions. Looking ahead, experts are increasingly calling for a recovery sometime in 2002, but the strength and timing of that recovery are still subject to debate.

The real (inflation-adjusted) Gross Domestic Product (GDP) (a measure of goods and services

Figure 1

Change in Real Gross Domestic Product



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

produced in the nation) fell 1.1 percent in the third quarter of 2001, after several consecutive quarters of marginal growth.[1] *[see Figure 1]*

Personal income and spending has retreated into negative territory in recent months. For November, personal income fell 0.1 percent ($5.6 billion), while spending for personal consumption fell 0.7 percent ($52.8 billion). The drop in spending was particularly striking, following a 2.9 percent increase for October.[2]

The nation's jobless ranks continue to swell, but at a slower rate. Unemployment rose to 5.8 percent in December, an increase of 1.8 percentage points in just over a year, and stands as the highest jobless rate in more than six years. The increase was led by continued job losses in manufacturing, transportation, and trade, but was partially offset by gains in government and service sector employment.[3]

Accordingly, consumer confidence has taken a beating in recent months, but consumers are expressing some optimism as they look ahead. The Conference Board's Consumer Confidence Index, which posted declines in September, October, and November, showed a rebound in December. The "Present Situation" component of the index rose

Table 1

Projected Change in Real Gross State Product, Second Quarter 2001–Second Quarter 2002
(Pre-September 11 and Post–September 11)

State	Projected Change Pre–September 11	Projected Change Post–September 11
Alabama	2.11%	0.42%
Alaska	2.95%	1.60%
Arizona	3.64%	1.95%
Arkansas	.83%	0.13%
California	2.95%	0.64%
Colorado	3.57%	1.48%
Connecticut*	2.97%	-0.59%
Delaware	3.59%	1.72%
Florida	2.42%	0.30%
Georgia	3.45%	1.56%
Hawaii*	.75%	-1.06%
Idaho	3.03%	1.37%
Illinois	2.35%	0.07%
Indiana	2.41%	0.22%
Iowa	2.01%	0.04%
Kansas	2.35%	0.25%
Kentucky	2.45%	0.61%
Louisiana	2.13%	0.83%
Maine*	.50%	-0.29%
Maryland	2.60%	0.84%
Massachusetts*	2.63%	-0.53%
Michigan	2.49%	0.25%
Minnesota	2.39%	0.80%
Mississippi	.98%	0.37%
Missouri*	.96%	-0.09%
Montana	3.01%	1.81%
Nebraska	2.25%	0.64%
Nevada	4.24%	1.73%
New Hampshire	2.90%	0.57%
New Jersey	2.60%	0.68%
New Mexico	2.65%	1.35%
New York*	2.49%	-2.29%
North Carolina	2.77%	0.78%
North Dakota	2.36%	0.89%
Ohio*	2.05%	-0.02%
Oklahoma	2.47%	0.84%
Oregon	2.60%	0.74%
Pennsylvania	.99%	0.00%
Rhode Island*	.98%	-0.81%
South Carolina	2.27%	1.10%
South Dakota	.70%	-0.04%
Tennessee	2.63%	0.63%
Texas	3.10%	1.18%
Utah	3.72%	2.04%
Vermont*	.91%	-0.11%
Virginia	3.14%	1.32%
Washington	3.32%	0.72%
West Virginia*	.48%	-0.03%
Wisconsin*	2.12%	-0.02%
Wyoming	.98%	0.95%

***States expecting negative year-over-year change in real (inflation-adjusted) Gross State Product.**

Source: Economy.com, November 2001.

slightly from November to December (96.2 to 96.9), while the "Expectations" component of the index jumped from 77.3 to 91.5 over this period.[4]

At the state level, the view is roughly the same. According to an analysis prepared by Economy.com for the National Governors Association (NGA), pre-September 11 estimates called for every state to experience at least a modest increase in Gross State Product (GSP) (a measure of goods and services produced in a particular state) from the second quarter of 2001 to the second quarter of 2002. In a post-attack revision, GSP growth is predicted to grind to a halt in virtually every state, and 12 states are now looking at a negative one-year change in their GSP. *[see Table 1]*

The Economy.com analysis also calls for the Northeast and Midwest to experience recession-like conditions for the near-term (calendar year 2002), while the South and West are expected to post marginal growth over the period. Additionally, forecasters predict considerably less regional variation in this recession than in previous downturns.[5]

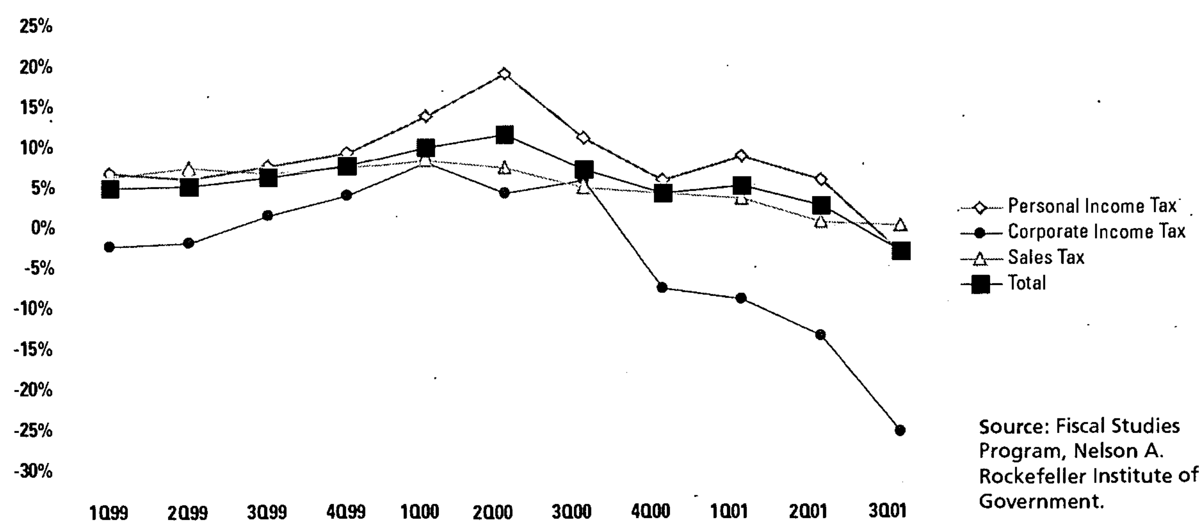
There is no consensus about the length or severity of the recession, but recent stock market activity, strength in the housing market, and rising consumer confidence suggest that a recovery may be possible by mid–2002. Even if that scenario materializes, most states can expect at least one or two more years of lean budgets.

Impact on State Finances

Most states were already preparing for an economic slowdown and a tighter budget year, but the bad news came virtually from the start of the new fiscal year in July. Revenue collections, expected to slow from their FY01 pace, are behind expectations in most states, while spending, also increasing below FY01 levels, is exceeding budgets in many states. This combination of unhappy circumstances has brought a growing list of mid-year budget adjustments, and has substantially lowered expectations for the next fiscal year's budget. While states vary in the scope of their shortfalls and their remedies for the emerging gaps, they are largely resistant to raising taxes as a solution. Thus, many legislatures will face two

Figure 2

Change in State Revenue, First Quarter 1999–Third Quarter 2001



Source: Fiscal Studies Program, Nelson A. Rockefeller Institute of Government.

budget struggles this spring—keeping the FY02 budget in balance, and passing a realistic FY03 budget. In a third of the states, this work will be complicated by the fact that many of the key lawmakers in those states have no experience in recession budgeting.

Revenue

For FY02, states are currently facing an aggregate revenue shortfall that will likely top $50 billion, according to a mid-December statement by the head of the National Governors Association.[6] State tax collections, which began to slump earlier this year, dropped significantly in the third quarter of 2001 (July–September), posting a 3.1 percent decrease over the same period a year earlier. The decline was led by a greater than expected drop in personal income tax revenues (driven by mounting layoffs), as well as continued weakness in sales and corporate income tax collections.[7] *[see Figure 2]* As a result, 43 states and the District of Columbia currently have revenues below forecasted levels for FY02, and a growing number of states are facing shortfalls in excess of $1 billion.[8]

The growth of e-commerce is not likely to help state revenue situations in the year ahead. According to a study released in October by the Center for Business and Economic Research at the University of Tennessee, states could lose as much as $400 billion in sales tax revenue over the next 10 years due to the non-taxability of Internet-based sales. The study further reports that earlier loss projections have been revised upward, as business-to-business (B2B) e-commerce activity has exceeded initial forecasts.[9]

Expenditures

On the spending side, most states had already planned on smaller increases for FY02, but 21 states and the District of Columbia currently report that expenditures are exceeding budgeted amounts, with Medicaid most frequently

Table 2

Condition of State Finances
(revenues compared with expenditures)
November 2001

Good Revenues and Spending on Target	**Fair** Revenues on Target; Spending Overruns
Delaware	Louisiana
Montana	
New Hampshire	
North Dakota	
West Virginia	
Texas	

Serious Revenues Below Target; Spending on Target	**Critical** Revenues Below Target; Spending Overruns
Alabama	Alaska
Arkansas	Arizona
California	Connecticut
Colorado	District of Columbia
Florida	Georgia
Indiana	Hawaii
Iowa	Idaho
Maine	Illinois
Minnesota	Kansas
Missouri	Kentucky
Nebraska	Maryland
Nevada	Massachusetts
New York	Michigan
Ohio	Mississippi
Oklahoma	New Jersey
Pennsylvania	New Mexico
South Carolina	North Carolina
South Dakota	Oregon
Tennessee	Rhode Island
Utah	Virginia
Vermont	Washington
Wisconsin	
Wyoming	

Source: National Conference of State Legislatures (NCSL)

Table 3

States Considering/ Implementing Mid-Year Budget Cuts, FY02*

State	Budget Cuts
Alabama	Yes
Alaska	No
Arizona	Yes
Arkansas	Yes
California	Yes
Colorado	Yes
Connecticut	Yes
Delaware	Yes
Florida	Yes
Georgia	Yes
Hawaii	Yes
Idaho	Yes
Illinois	Yes
Indiana	Yes
Iowa	Yes
Kansas	Yes
Kentucky	Yes
Louisiana	No
Maine	Yes
Maryland	Yes
Massachusetts	Yes
Michigan	Yes
Minnesota	Yes
Mississippi	Yes
Missouri	Yes
Montana	No
Nebraska	Yes
Nevada	Yes
New Hampshire	No
New Jersey	Yes
New Mexico	No
New York	Yes
North Carolina	Yes
North Dakota	No
Ohio	Yes
Oklahoma	No
Oregon	Yes
Pennsylvania	Yes
Rhode Island	No
South Carolina	Yes
South Dakota	No
Tennessee	No
Texas	No
Utah	Yes
Vermont	Yes
Virginia	Yes
Washington	Yes
West Virginia	No
Wisconsin	No
Wyoming	No

*As of December 3, 2001

Source: National Conference of State Legislatures (NCSL)

cited as the cause of the overruns (18 states plus D.C.).[10] In December, the nation's governors issued a plea to the White House for a one-year, $5.5 billion federal Medicaid relief package, but to date, the Bush Administration is balking at the request.[11]

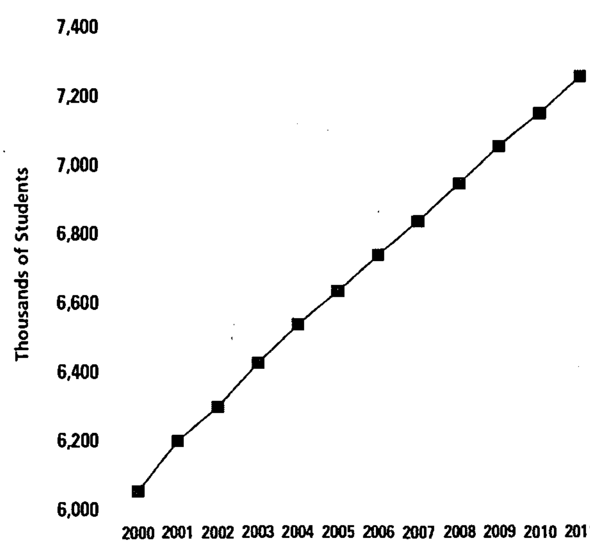
The combination of revenue and spending estimates offers four budget scenarios, ranging from "good" to "critical." Nearly half the states (24) fall in the "fair" or "serious" categories, but the number of states in the "critical" category increased from 17 in October to 21 in November.[12] *[see Table 2]*

Remedies for Shortfalls

States are pursuing a range of strategies to bring their FY02 budgets into balance. The most prevalent action to date is holding back appropriations, which is reported by 36 states (up from 28 in October). This reflects a doubling from FY01, when only 17 states were forced to make mid-year reductions. In many states, public safety, K–12 education, and some public assistance programs are being exempted from cuts, but with a limited number of exceptions, higher education is not being held harmless from the adjustments. *[see Table 3]*

Figure 3

Projected Enrollment at Public Four-Year Institutions, 2000–2011*



Source: National Center for Education Statistics, Projections of Education Statistics to 2011.

*Reflects midde alternative projections for full- and part-time students.

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Moreover, nearly half the states (24) report that they have tapped or are likely to tap their reserve/ "rainy day" funds to balance FY02 budgets. However, with only seven states drawing down reserves to date, it is likely that legislators and governors are waiting to see how budgets for FY03 shape up before spending too far into reserves.

Finally, many states are supplementing their holdbacks and reserve spending with other measures. These include freezes and delays on capital project spending (at least six states), as well as restrictions on hiring and travel (at least seven states).[13]

What It Means for Higher Education

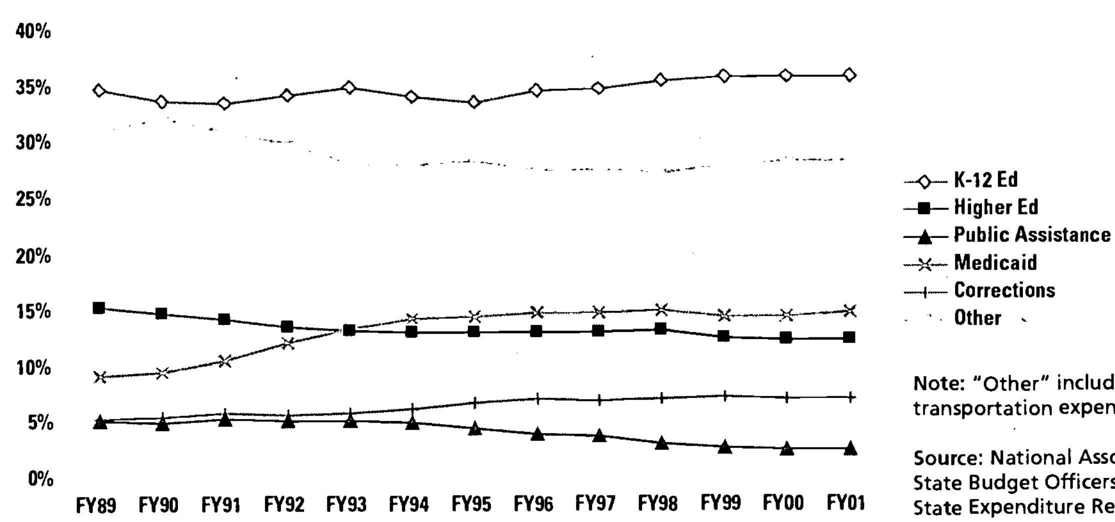
Economic downturns and tight state budgets usually spell trouble for higher education, and the current period is proving to be no exception. Because colleges and universities are not likely to enjoy protection from mid-year budget trimming in most states, institutions are cutting back and implementing efficiency measures, and expect to continue this activity in the year ahead.

One of the most visible impacts is the return to higher tuition increases after several years of moderation. The number of states edging toward double-digit tuition hikes is on the rise, and states that enjoyed tuition freezes or rollbacks in recent years will likely be forced to reverse course. Unfortunately, it is highly unlikely that federal and state student aid programs will be able to keep pace with the increases, thus squeezing low income students.

From an enrollment standpoint, the current recession and resulting budget crunch could not have come at a less opportune time. Over the next several years, public four-year institutions can expect at least one million additional students, owing to the "Baby Boom Echo" and other factors.[14] Moreover, weaker economies tend to bring more people back to college which could further tax capacity in many states (especially those hardest hit by the recession). *[see Figure 3]*

Figure 4

Higher Education as Share of General Funds Budgets Fiscal Year 1989–Fiscal Year 2001



Note: "Other" includes transportation expenditures.

Source: National Association of State Budget Officers, 2000 State Expenditure Report.

The bottom line: public higher education is facing rising demand without a commensurate increase in public investment. In fact, higher education continues to decline as a share of state budgets.[15] *[see Figure 4]* As a result, many presidents and chancellors and their boards will have to make difficult decisions about allocating resources to maintain access and quality at their institutions.

What Next?

Looking ahead, it is safe to assert that this year's legislative sessions will be primarily occupied with fixing the lingering problems with FY02 budgets while developing realistic FY03 budgets. This will take place against the backdrop of an election year, the first following the decennial re-drawing of legislative districts. To borrow a phrase, the mantra in statehouses this year will be "It's the budget, stupid."

For state colleges and universities, the key for the immediate future will be engagement—engagement in economic recovery and security issues, engagement with communities, and more. Policymakers will be looking to higher education for leadership, knowledge, and assistance as states make their way through largely uncharted policy terrain. The ability of institutions and systems to meaningfully engage the world around them will have a lot to do with their success in maintaining and increasing their public investment.

Endnotes

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Facts and Figures for State Higher Education Policymakers

Following are a number of key higher education indicators that may help to inform or enrich policy conversations in the year ahead: finance, demand (enrollment), population projections, public and policymaker perceptions, and institutional responsiveness. These figures should serve as a guide and resource for future discussions and reflections that pertain to expanding the opportunity for higher education.

Finance

Over the most recent one-year, two-year, and five-year periods, appropriations for colleges and universities have varied widely by state, but overall have increased significantly. The onset of

Table 1

State Appropriations for Higher Education
One-Year, Two-Year, and Six-Year Annual Average Change

State	FY00–FY01 (one-year)	FY99–FY01 (two-year)	FY96–FY01 (annual average)	State	FY00–FY01 (one-year)	FY99–FY01 (two-year)	FY96–FY01 (annual average)
Alabama	5.3%	11.7%	3.9%	Nebraska	10.7%	19.5%	6.4%
Alaska	8.0%	11.8%	1.9%	Nevada	3.5%	9.0%	7.2%
Arizona	3.1%	6.7%	5.1%	New Hampshire	3.0%	8.3%	3.5%
Arkansas	2.1%	11.0%	6.1%	New Jersey	8.4%	14.9%	4.3%
California	17.0%	24.4%	11.7%	New Mexico	4.4%	9.9%	4.0%
Colorado	3.4%	9.0%	5.1%	New York	7.6%	11.2%	4.0%
Connecticut	2.0%	13.9%	6.1%	North Carolina	5.6%	11.6%	6.4%
Delaware	5.8%	13.2%	5.4%	North Dakota	0.6%	6.7%	4.0%
Florida	7.2%	13.1%	9.1%	Ohio	7.0%	14.1%	5.6%
Georgia	3.0%	7.8%	5.5%	Oklahoma	5.3%	7.5%	7.2%
Hawaii	-0.9%	5.2%	-1.1%	Oregon	1.3%	19.9%	7.2%
Idaho	6.8%	11.9%	5.1%	Pennsylvania	6.8%	13.1%	4.1%
Illinois	4.9%	11.8%	6.3%	Rhode Island	7.1%	13.8%	6.0%
Indiana	4.6%	11.8%	5.6%	South Carolina	8.3%	13.2%	5.3%
Iowa	3.3%	8.4%	4.8%	South Dakota	3.4%	7.1%	2.8%
Kansas	4.7%	12.5%	5.3%	Tennessee	5.5%	8.5%	2.8%
Kentucky	8.2%	12.7%	8.1%	Texas	-1.0%	14.2%	4.5%
Louisiana	-0.3%	2.4%	8.2%	Utah	6.4%	11.1%	5.1%
Maine	7.5%	14.9%	5.0%	Vermont	6.9%	14.5%	4.3%
Maryland	12.5%	24.6%	7.5%	Virginia	10.0%	25.4%	10.7%
Massachusetts	10.1%	17.4%	8.2%	Washington	7.8%	16.4%	6.0%
Michigan	7.0%	18.5%	5.9%	West Virginia	6.8%	6.9%	3.4%
Minnesota	4.9%	8.9%	4.8%	Wisconsin	8.9%	12.5%	3.8%
Mississippi	0.5%	17.4%	7.1%	Wyoming	9.9%	9.9%	3.5%
Missouri	5.1%	11.7%	7.3%	U.S.	7.0%	14.4%	6.4%
Montana	2.3%	9.1%	2.9%				

Source: Grapevine (Illinois State University) recession, however, means that these numbers will be considerably lower a year from now. *[see Table 1]*

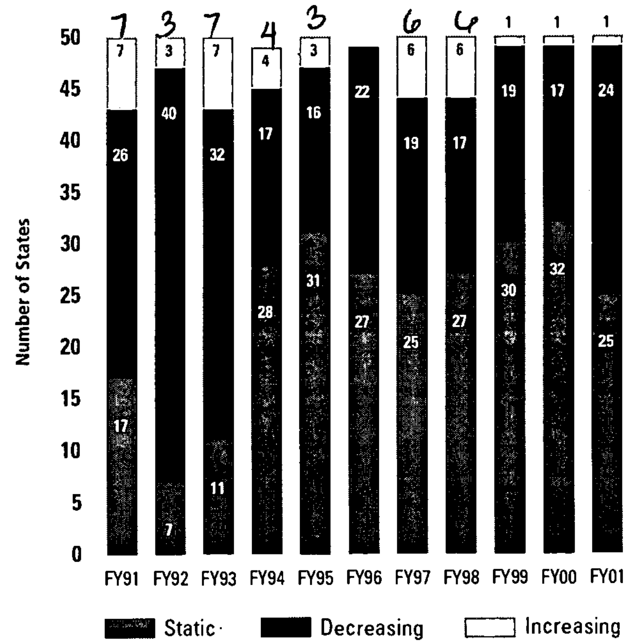
Figure 1 shows the severe impact of the 1990–91 recession on state higher education spending, as well as its subsequent recovery. The figure also shows recent growth in the number of states posting two-year appropriations declines—a harbinger of the difficult times now facing most states.

Over the past decade, funding responsibility for public colleges and universities has shifted away from states and toward students (via tuition) and other private funding sources. The continuation of this trend raises a number of difficult policy questions with respect to maintaining student access, accountability, and more. *[see Figure 2]*

Another frame of reference for long-term funding trends is the measurement of higher education appropriations relative to disposable personal income (funding effort). Over the past decade, only eight states have maintained or increased their higher education funding effort, and only seven states have seen increases in funding effort over the past 20 years. *[see Table 2]*

Figure 1

Number of States Reporting Increasing, Decreasing, Static Two-Year Appropriations Change

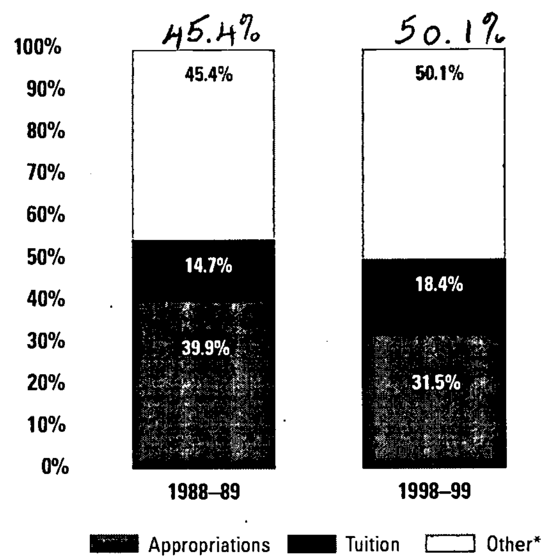


Source: Grapevine (Illinois State University)

Note: FY96 does not have totals from all states.

Figure 2

Primary Sources of Funding Public Four-Year Institutions, 1988–89 and 1998–99



Source: U.S. Department of Education (National Center for Education Statistics), Integrated Postsecondary Education Data System (IPEDS).

*Includes grants, contracts, gifts, and endowment proceeds.

Table 2

State Higher Education Funding Effort, FY81–FY01

(appropriations per $1,000 of disposable personal income)

State	FY81	FY91	FY01	10–Year Change	20–Year Change
Alabama	$15.67	$14.29	$12.72	-11.0%	-18.8%
Alaska	15.86	17.04	11.62	-31.8%	-26.7%
Arizona	12.06	10.67	7.93	-25.7%	-34.2%
Arkansas	12.16	10.76	11.87	10.3%	-2.4%
California	12.64	9.65	9.93	2.9%	-21.4%
Colorado	9.71	8.93	6.27	-29.8%	-35.4%
Connecticut	7.55	6.83	6.41	-6.1%	-15.1%
Delaware	11.94	9.43	9.02	-4.3%	-24.5%
Florida	8.09	6.71	7.35	9.5%	-9.1%
Georgia	10.58	9.51	8.24	-13.4%	-22.1%
Hawaii	13.91	13.46	11.39	-15.4%	-18.1%
Idaho	12.77	12.92	11.03	-14.6%	-13.6%
Illinois	8.86	8.40	8.00	-4.8%	-9.7%
Indiana	10.15	10.25	9.20	-10.2%	-9.4%
Iowa	13.63	13.64	12.56	-7.9%	-7.9%
Kansas	12.65	11.36	10.63	-6.4%	-16.0%
Kentucky	11.55	12.11	11.89	-1.8%	2.9%
Louisiana	12.23	10.15	9.60	-5.4%	-21.5%
Maine	7.41	9.07	8.19	-9.7%	10.5%
Maryland	9.13	8.56	7.88	-7.9%	-13.7%
Massachusetts	6.15	5.82	5.82	0.0%	-5.4%
Michigan	9.79	8.79	8.97	2.0%	-8.4%
Minnesota	13.20	13.25	10.21	-22.9%	-22.7%
Mississippi	16.30	12.96	16.59	28.0%	1.8%
Missouri	8.76	7.52	7.81	3.9%	-10.8%
Montana	10.53	10.58	7.98	-24.6%	-24.2%
Nebraska	13.05	12.96	12.88	-0.6%	-1.3%
Nevada	7.41	7.40	6.07	-18.0%	-18.1%
New Hampshire	4.07	3.56	2.78	-21.9%	-31.7%
New Jersey	5.81	6.42	6.50	1.2%	11.9%
New Mexico	14.56	16.48	16.04	-2.7%	10.2%
New York	9.87	8.88	6.43	-27.6%	-34.9%
North Carolina	15.54	14.61	12.83	-12.2%	-17.4%
North Dakota	16.32	14.67	12.93	-11.9%	-20.8%
Ohio	7.58	8.25	8.09	-1.9%	6.7%
Oklahoma	10.71	11.13	11.05	-0.7%	3.2%
Oregon	10.79	9.18	8.19	-10.8%	-24.1%
Pennsylvania	7.09	6.73	6.50	-3.4%	-8.3%
Rhode Island	9.69	6.47	6.10	-5.7%	-37.0%
South Carolina	15.98	12.85	10.42	-18.9%	-34.8%
South Dakota	10.07	8.76	7.66	-12.6%	-23.9%
Tennessee	9.87	9.58	7.89	-17.6%	-20.1%
Texas	11.86	9.70	7.97	-17.8%	-32.8%
Utah	14.53	13.35	11.75	-12.0%	-19.1%
Vermont	7.76	6.35	4.84	-23.8%	-37.6%
Virginia	10.81	9.61	8.83	-8.1%	-18.3%
Washington	11.80	10.43	8.43	-19.2%	-28.6%
West Virginia	12.15	11.83	11.13	-5.9%	-8.4%
Wisconsin	12.31	10.88	9.17	-15.7%	-25.5%
Wyoming	14.63	17.13	13.42	-21.7%	-8.3%
U.S.	**10.45**	**9.34**	**8.60**	**-7.9%**	**-17.7%**

Sources: Grapevine (Illinois State University); U.S. Department of Commerce (Bureau of Economic Analysis) Annual State Personal Income (SA51-52), April 2001

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Table 3

States with Projected Structural Deficits

State	Structural Deficit	State	Structural Deficit
Alabama	Yes	Montana	Yes
Alaska	Yes	Nebraska	No
Arizona	Yes	Nevada	Yes
Arkansas	Yes	New Hampshire	Yes
California	Yes	New Jersey	Yes
Colorado	Yes	New Mexico	Yes
Connecticut	No	New York	No
Delaware	Yes	North Carolina	Yes
Florida	Yes	North Dakota	No
Georgia	Yes	Ohio	No
Hawaii	Yes	Oklahoma	Yes
Idaho	Yes	Oregon	Yes
Illinois	Yes	Pennsylvania	Yes
Indiana	Yes	Rhode Island	Yes
Iowa	No	South Carolina	Yes
Kansas	Yes	South Dakota	Yes
Kentucky	No	Tennessee	Yes
Louisiana	Yes	Texas	Yes
Maine	No	Utah	Yes
Maryland	Yes	Vermont	Yes
Massachusetts	No	Virginia	Yes
Michigan	No	Washington	Yes
Minnesota	No	West Virginia	Yes
Mississippi	Yes	Wisconsin	Yes
Missouri	Yes	Wyoming	Yes

Source: State Policy Research, Inc., 1999.

*Note: Based on eight-year projection from current revenue/spending patterns.

While nearly all states are currently grappling with short-term fiscal challenges related to the economic downturn, many states are likely to confront longer term fiscal difficulties. These difficulties center around a projected imbalance between states' spending demands for current services and the capacity of the revenue systems to meet those demands, otherwise known as a structural deficit. Over the next several years, more than three-quarters of the states are likely to suffer from the effects of structural deficits. *[see Table 3]*

States' fiscal woes are being compounded by the projected revenue losses resulting from the current non-taxability of most Internet-based transactions. The following table shows annual estimates of foregone revenue from new e-commerce transactions, which are expected to triple over the next decade. *[see Table 4]*

Demand (Enrollment)

Changes in age-specific enrollment rates and the college-age population will contribute to an increase in enrollments at public four-year degree-granting institutions by the year 2011. Using the middle alternative, college enrollments at public four-

Table 4

Estimated State-Local Revenue Losses Due to New E-Commerce, 2001, 2006, and 2011
(in millions)

State	2001	2006	2011	Percent Change (2001–2011)
Alabama	$94.0	$322.9	$390.6	315.5%
Alaska	—	—	—	N/A
Arizona	122.4	427.1	522.5	326.9%
Arkansas	76.1	260.8	314.2	312.9%
California	926.8	3,180.7	3,842.2	314.6%
Colorado	106.3	366.8	444.7	318.3%
Connecticut	100.9	346.8	419.2	315.5%
Delaware	—	—	—	N/A
District of Columbia	19.4	65.8	78.6	305.2%
Florida	493.7	1,717.5	2,097.6	324.9%
Georgia	232.5	811.1	992.1	326.7%
Hawaii	55.7	191.9	233.1	318.5%
Idaho	23.5	81.0	98.2	317.9%
Illinois	282.2	959.4	1,149.6	307.4%
Indiana	114.1	389.3	467.9	310.1%
Iowa	59.2	199.0	235.9	298.5%
Kansas	71.2	241.3	288.3	304.9%
Kentucky	84.0	286.2	343.5	308.9%
Louisiana	160.2	538.7	639.5	299.2%
Maine	22.8	78.2	94.4	314.0%
Maryland	103.0	355.0	430.3	317.8%
Massachusetts	106.2	365.0	440.7	315.0%
Michigan	266.3	906.5	1,086.8	308.1%
Minnesota	143.3	492.0	594.2	314.7%
Mississippi	72.3	247.3	297.8	311.9%
Missouri	138.5	472.4	567.3	309.6%
Montana	—	—	—	N/A
Nebraska	37.5	127.6	152.8	307.5%
Nevada	66.9	236.1	292.0	336.5%
New Hampshire	—	—	—	N/A
New Jersey	178.9	614.5	742.5	315.0%
New Mexico	68.4	235.3	284.7	316.2%
New York	557.6	1,907.4	2,296.5	311.9%
North Carolina	155.4	540.2	659.1	324.1%
North Dakota	14.0	46.8	55.2	294.3%
Ohio	236.6	802.8	960.4	305.9%
Oklahoma	107.4	358.4	422.5	293.4%
Oregon	—	—	—	N/A
Pennsylvania	236.4	803.4	963.1	307.4%
Rhode Island	19.5	66.5	80.0	310.3%
South Carolina	81.2	280.5	340.6	319.5%
South Dakota	20.8	71.3	85.8	312.5%
Tennessee	191.9	664.1	807.7	320.9%
Texas	615.5	2,114.6	2,555.6	315.2%
Utah	55.3	191.8	233.6	322.4%
Vermont	11.1	38.3	46.4	318.0%
Virginia	126.3	436.6	530.3	319.9%
Washington	220.6	762.8	928.1	320.7%
West Virginia	37.1	124.2	146.9	296.0%
Wisconsin	113.1	385.6	463.2	309.5%
Wyoming	13.8	45.5	53.2	285.5%
U.S.	**7,039.9**	**24,157.0**	**29,169.4**	**314.3%**

Source: Center for Business and Economic Research, University of Tennessee, September 2001

Notes: (1) "New e-commerce" refers to sales made through the Internet, both on goods that would have otherwise been purchased over-the-counter and projected new goods that will be purchased over the Internet. (2) States marked "N/A" do not levy a broad-based sales/use tax.

year institutions are expected to rise by almost 12 percent between the years 2000 and 2011. *[see Table 5]*

At the same time that enrollment will be climbing at state colleges and universities, the student population will become more racially and ethnically diverse. The figure below boldly underscores the changes that public campuses are likely to see over the next several years. *[see Figure 3]*

Population Projections

The U.S. Census Bureau estimates that the number of 18–24 year olds will drop from 9.5 percent of the total population to 9.1 percent of the total population by the year 2025.

Decreases in the number of 18–24 year olds are expected across all regions in the U.S. except in New England and the Far West, where populations will increase by 1 percent and 0.5 percent, respectively. *[see Table 6]*

The U.S. will see a much sharper decline in the number of 25—64 year olds by the year 2025. Regions such as the Far West, Rocky Mountains, and Southwest will experience the biggest declines in population for this age group, at

Table 5

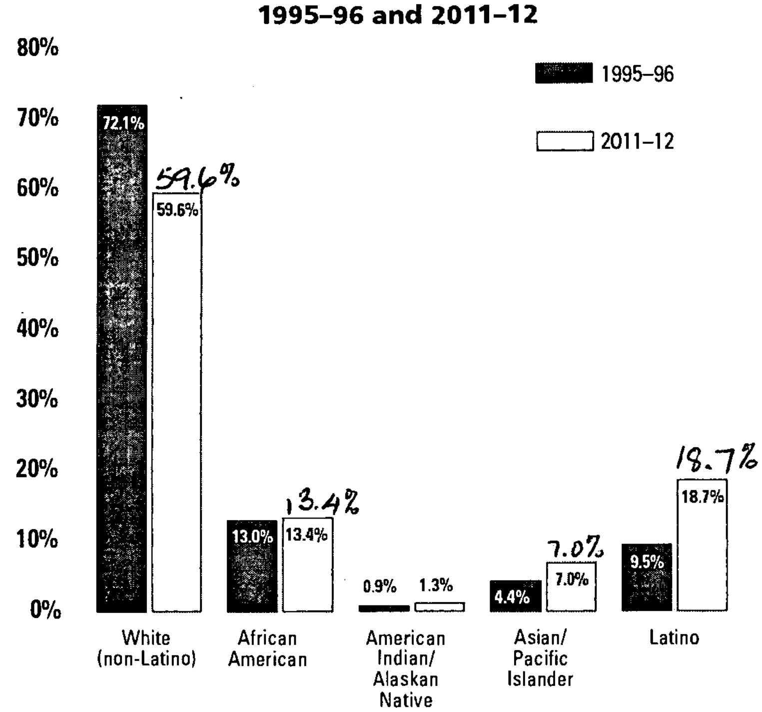
Total Enrollment in Public Four-Year Degree Granting Institutions

Year	High Alternative Projections	Middle Alternative Projections	Low Alternative Projections
2000	6,116	6,055	5,994
2001	6,258	6,202	6,146
2002	6,357	6,300	6,243
2003	6,498	6,427	6,356
2004	6,682	6,538	6,394
2005	6,833	6,634	6,435
2006	6,940	6,738	6,536
2007	7,040	6,835	6,630
2008	7,152	6,944	6,736
2009	7,264	7,052	6,840
2010	7,361	7,147	6,933
2010	7,471	7,253	7,035

Source: National Center for Education Statistics.

Figure 3

Distribution of Public High School Graduates, 1995–96 and 2011–12



Source: Western Interstate Commission on Higher Education (WICHE).

Table 6

Population Projections for Adults 18-24 Years Old, 1995 & 2025

Region	1995 18–24 Year Olds Percentage of Population	2025 18–24 Year Olds Percentage of Population	Percent Change
New England	8.70%	8.80%	0.10%
Mid East	8.80%	8.90%	-0.10%
Great Lakes	9.60%	8.90%	-0.70%
Plains	9.40%	8.70%	-0.70%
Southeast	9.80%	8.40%	-1.40%
Southwest	10.10%	9.70%	-0.40%
Rocky Mountain	10.40%	9.20%	-1.20%
Far West	9.40%	9.90%	0.50%
Total U.S.	**9.50%**	**9.10%**	**-0.40%**

Source: U.S. Census Bureau.

Table 7

Population Projections for Adults 25–64 Years Old, 1995 and 2025

Region	1995 25–64 Year Olds Percentage of Population	2025 25–64 Year Olds Percentage of Population	Percent Change
New England	53.10%	50.10%	-3.00%
Mid East	52.60%	49.80%	-2.85%
Great Lakes	51.50%	48.90%	-2.60%
Plains	50.30%	47.70%	-2.60%
Southeast	51.40%	48.80%	-2.60%
Southwest	50.20%	46.50%	-3.70%
Rocky Mountain	50.30%	46.30%	-4.00%
Far West	52.00%	47.50%	-4.50%
Total U.S.	**51.60%**	**48.30%**	**-3.30%**

Source: U.S. Census Bureau.

Table 8

Population Projections for Adults 65+ Years Old, 1995 & 2025

Region	1995 65+ Year Olds Percentage of Population	2025 65+ Year Olds Percentage of Population	Percent Change
New England	14.00%	18.60%	4.60%
Mid East	13.90%	17.80%	3.90%
Great Lakes	12.80%	18.50%	5.70%
Plains	13.70%	20.60%	6.90%
Southeast	13.50%	21.50%	8.00%
Southwest	11.10%	17.50%	6.40%
Rocky Mountain	10.30%	20.10%	9.80%
Far West	11.20%	14.90%	3.70%
Total U.S.	**12.80%**	**18.50%**	**5.70%**

Source: U.S. Census Bureau.

an average rate of 4 percent. *[see Table 7]*

By the year 2025, the U.S. will see a dramatic increase in the number of citizens age 65 and older. On average, this age group is projected to grow by 6.1 percent by the year 2025. Regions that will see the largest population growth for this group are the Rocky Mountain region, the Southeast and the Plains, with population increases of 9.8 percent, 8 percent and 6.9 percent, respectively. *[see Table 8]*

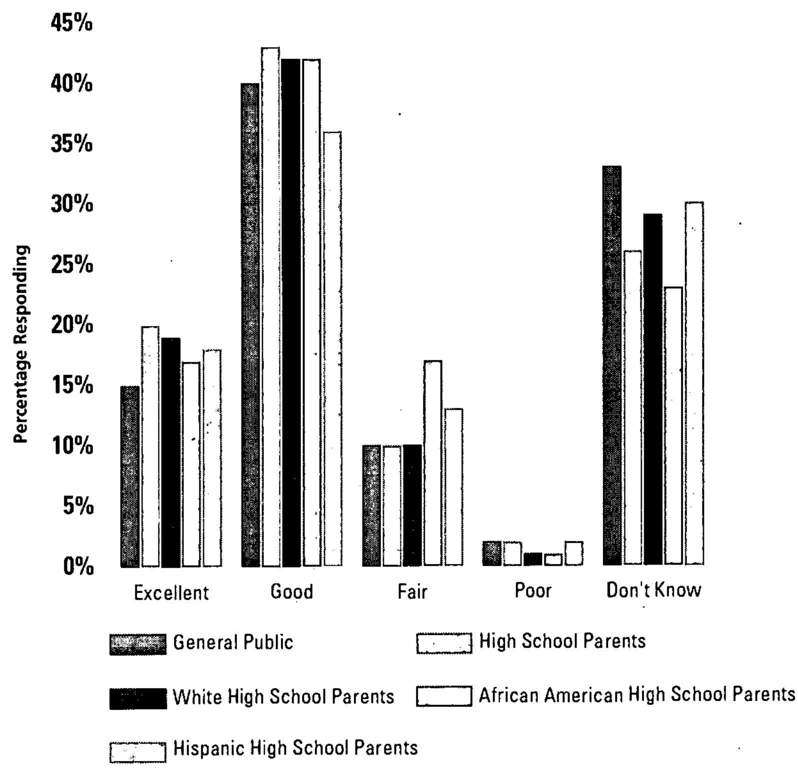
Public and Policymaker Perceptions

Nearly a third of all publics surveyed about their satisfaction with colleges "did not know" if the colleges in their state were performing at a satisfactory level. There could be a variety of reasons for the mass uncertainty, including a lack of publicity about the institutions, or a disconnect between the mission and expectations of higher education. *[see Figure 4]*

When asked what students should gain from college, 71 percent of members of the general public surveyed reported that "a sense of maturity and how to manage on their own" is absolutely essential. Similarly, parents of high school

Figure 4

Level of Satisfaction with Four-Year Colleges



Source: "Great Expectations: How the Public and Parents—White, African American, and Hispanic—View Higher Education," by John Immerwahr with Tony Foleno, May 2000, National Center for Public Policy and Higher Education and Public Agenda, p. 37.

students reported that "maturity" was an absolutely essential quality that should be an outgrowth of the college experience.

Typically, college is associated with preparing students for the workplace and lifelong career success. On average, 34 percent of parents reported that "specific expertise and knowledge in the careers they have chosen" is "important, but not essential" to a college experience.

Likewise, the importance of exposure to great literary writers and historical thinkers is believed not to be as important as it once was. Thirty-one percent of parents believe exposure to great writers and thinkers to be absolutely essential, while 66 percent believe that learning high-tech skills, such as computers and the Internet, is absolutely essential. This shift is an obvious product of the technological society that engulfs our institutions, and should have a dramatic impact on the perceived importance of the liberal arts curriculum in years to come. *[see Figure 5]*

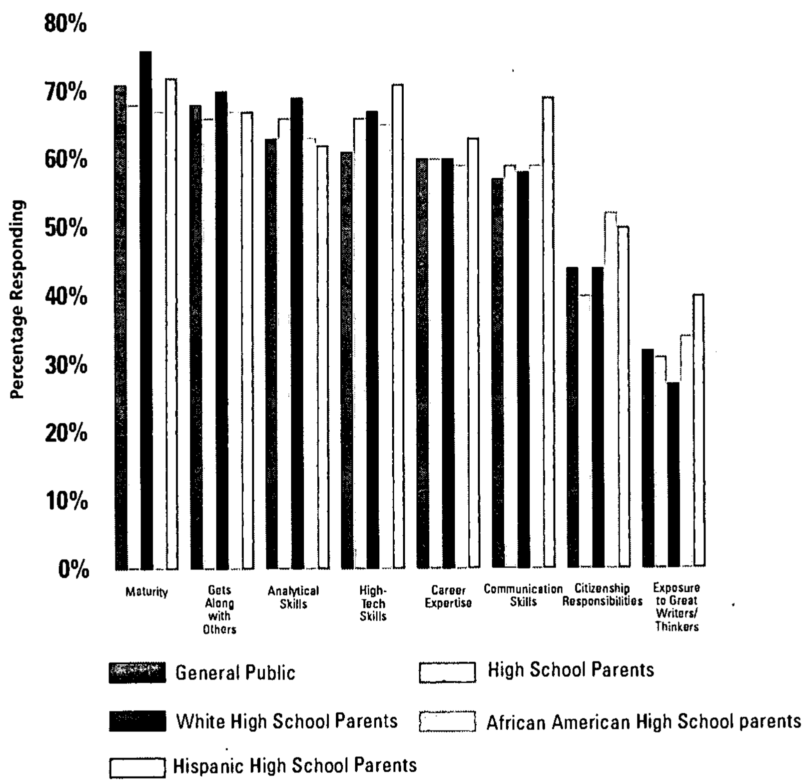
On the other hand, 89 percent of professors, deans and administrators, government leaders and business executives believe that students should graduate from college with top-notch writing, speaking, and communication skills. Fifty percent of these leaders believe that students should have a solid foundation in history, literature, philosophy and the arts, while only 45 percent of them believe that students' knowledge of high-tech skills is absolutely essential. *[see Figure 6]*

Ninety-two percent of the nation's leaders believe that society should not let the price of a college education prevent qualified and motivated students from obtaining a college education. However, 46 percent of the general public believe that qualified students from low-income families, regardless of their ethnic background, have less opportunity than others to get a college education.

Forty-five percent of high school parents believe the same disparity exists regarding opportunity for low-income students. Specifically, 44 percent of white high school parents, 50 percent of African American high school parents, and 38 percent of Hispanic high school parents believe that there is less opportunity for low-income students to attend a college or university.

Figure 5

Skills/Qualities Gained from the College Experience



Source: "Great Expectations: How the Public and Parents—White, African American, and Hispanic—View Higher Education," by John Immerwahr with Tony Foleno, May 2000, National Center for Public Policy and Higher Education and Public Agenda, p. 40.

When asked about some of the greatest problems facing colleges, 73 percent of the nation's leaders indicated that too few African Americans and Hispanics graduate from college and 56 percent pointed toward the high cost of higher education as a deterrent for many aspiring and qualified college students. *[see Table 9]*

When presented with nine options for ways to improve higher education, academic, community and business leaders overwhelmingly supported (91 percent) more direct collaboration with K–12 schools to help prepare students for higher education.

Members of each constituency seemed to favor proposals that would directly affect them, or allow them to be more invested in finding a solution for higher education. For example, 95 percent of government leaders favored collaboration with K–12 schools and 45 percent desire to have more control over state governance of higher education. Conversely, only 32 percent of professors are in favor of expanding distance-learning opportunities and only 23 percent are inclined to support an effort to phase out the tenure system.

These figures clarify the on-going challenge facing those who are broadly invested in higher education. All of the involved parties have different objectives and agendas, which complicates the process of determining a solution that will open the doors of higher education to all qualified students. *[see Figure 7]*

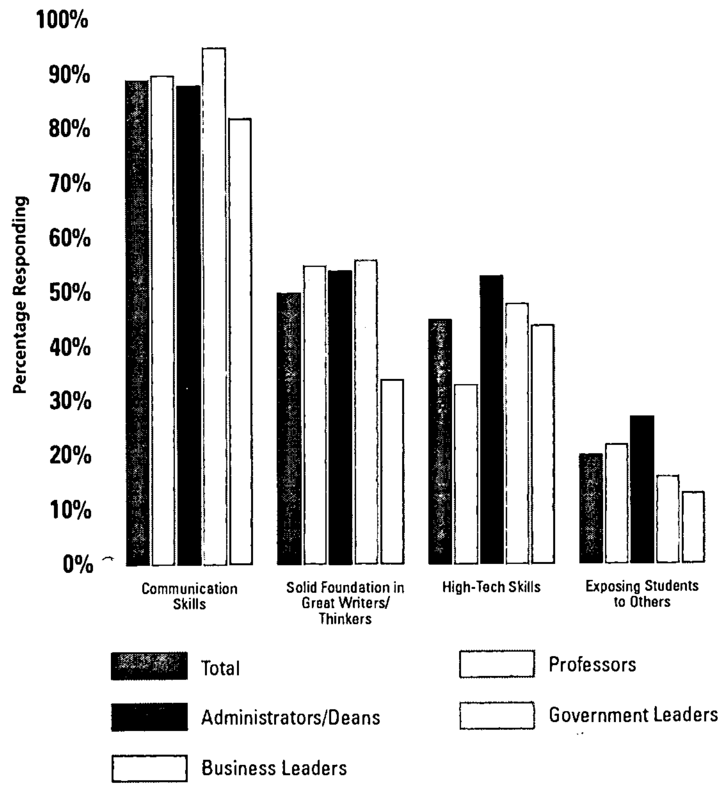
Institutional Responsiveness

Sources say that there is a need for "higher education to be responsive to a broadly defined external constituency that includes employers, students, and the public" and legislators are increasingly thinking about higher education in business terms. State legislators were recently asked about the responsiveness of different types of higher education providers in the state in meeting those needs.

With respect to public four-year institutions, legislators indicated that they have been responsive to state needs. However, there are concerns about the way public four-year institutions use existing

Figure 6

The Goals of a College Education



Source: "Taking Responsibility: Leaders' Expectations of Higher Education," by John Immerwahr, January 1999, National Center for Public Policy and Higher Education and Public Agenda, p. 31.

facilities and how they create a more 'student centered' approach. Legislators suggest that four-year institutions make better use of their facilities by offering year-round classes and more convenient scheduling of evening and weekend programs for non-traditional students. As we have seen, this student population is growing, and public four-year institutions could have the opportunity to accommodate this growing student population. In addition, legislators argue that

Table 9

Paying for College

Perspective	Total	Professors	Administrators/Deans	Government Leaders	Business Leaders
Since society benefits from having a large number of college graduates, taxpayers should pay more of the cost of a college education	44%	49%	48%	49%	30%
Since students reap the benefits of going to college, they and their families should be responsible for paying most of its costs.	43%	34%	35%	39%	62%

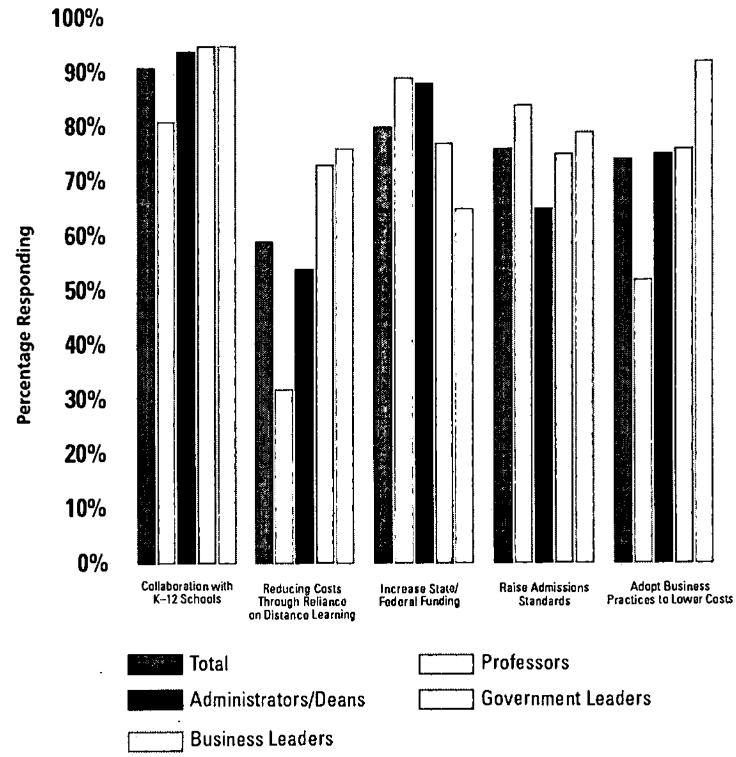
Source: "Taking Responsibility: Leaders' Expectations of Higher Education," by John Immerwahr, January 1999, National Center for Public Policy and Higher Education and Public Agenda, p. 29.

more accommodations should be made to assist students with unique learning styles.

Funding for higher education is by far one of the most attention-getting issues for state legislators. When state legislators were asked in late 2000 to early 2001 before the onset of the current recession whether they thought the current level of state funding was adequate for higher education, over 75 percent said "no." *[see Figure 8]*

Figure 7

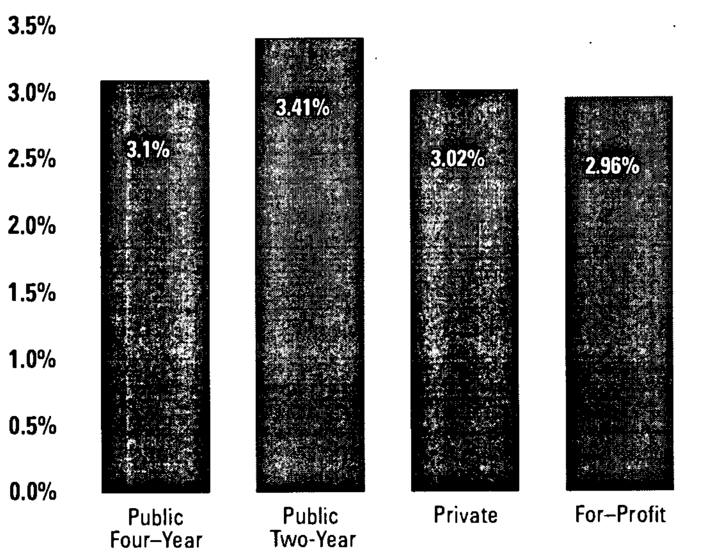
Ways to Improve Higher Education



Source: "Taking Responsibility: Leaders' Expectations of Higher Education," by John Immerwahr, January 1999, National Center for Public Policy and Higher Education and Public Agenda, p. 32.

Figure 8

Responsiveness of Higher Education to State Needs



Source: "Responsiveness of Higher Education to State Needs" reflects data from Educational Systems Research.

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