Research

Free College Proposals Costs for States

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Executive Summary

In his 2015 State of the Union address, President Obama announced a $60 billion initiative to provide students with two years of free community college. The program would require states to opt in and commit 25 percent of the necessary funding. In return, the federal government would pick up the remaining 75 percent of funding for tuition and fees.

In this paper, the American Action Forum (AAF) examines the impact of "free college" proposals on states, finding:

- State spending would need to increase by approximately 5 to 13 percent in order to meet the contribution to be eligible to receive federal matching funds.
- All states would spend at least $3.7 billion to $4.1 billion annually.
- Only $32 billion of the $80 billion combined federal and state investment for President Obama's proposed free college program would result in a degree or credential. The majority – $48 billion- would be a loss.

Introduction

Recent proposals to provide the first two years of community college to students for free have become popular. These proposals do not fully cover the cost of attendance, just tuition and fees. The proposals also rely on states to provide funding commitments and meet "maintenance of effort" conditions. In addition, the proposals do nothing to actually lower the cost of college, but merely subsidize today's expensive tuition rates. Free in this context does not attempt to drive down the cost of providing education, but instead shifts the burden of paying for higher education away from students and onto taxpayers.

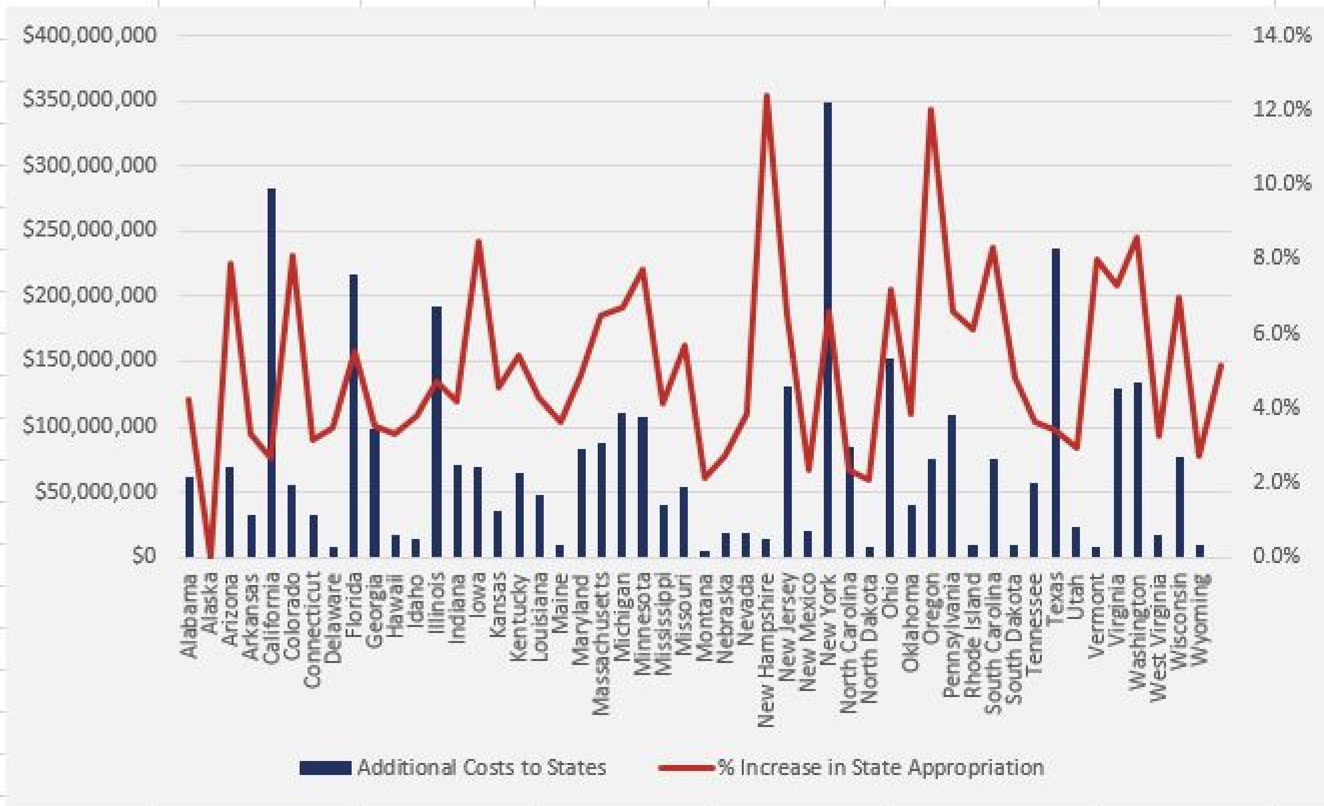
The Cost of State (Lack of) Participation[1]

The president's proposal is structured as a matched investment, including an additional commitment to making and sustaining appropriate funding increases. The annual cost of expected state investment varies substantially, from as low as $7.4 million in Vermont to more than $349 million in New York (see Chart 2). At a minimum, the incremental one-year additional cost for all states would be approximately $3.7 billion.[2] This does not take into account tuition increases nor does it address the potential for students not currently in the higher education market to enroll in community colleges or for students at 4-year institutions to shift to community colleges. Under very simple assumptions[3] the collective annual cost to states could easily reach $4.1 billion.

Pairing these minimum additional commitments with existing annual state appropriations for higher education[iii] suggests that the average state would need to increase its annual appropriations by 5.1 percent to 5.7 percent to

cover states' shares of the proposal's match requirement. Across individual states those percentages vary from as low as 2.1 percent in Montana to 12.4 percent in New Hampshire.

Chart 2: Baseline Estimate of State Costs & Percentage of Budget Increase Needed to Cover Costs



Source: AAF Analysis (See Appendix 1)

States must not only be fiscally capable of such investments but also be willing to participate in the program. While the program currently has yet-to-be-defined performance standards, these standards and the necessity of reporting on them will impose further regulatory costs and paperwork burdens. In either case the incentive grant structure means that different levels of state participation will impact the eligible college-going population differently. Just four states enroll one-third of all public college students (California, New York, Texas and Florida) and half of all public community college students come from just seven states. California alone enrolls approximately one out of every five community college students in the United States.

Given that states, not students, initially determine participation levels, they substantially determine which students are eligible. For one or more of the "Big Four" states above to either be unwilling or unable to meet the incentive grant requirements, the result would result in anywhere from 200,000 to 1.6 million students to be ineligible for the proposed public subsidy.

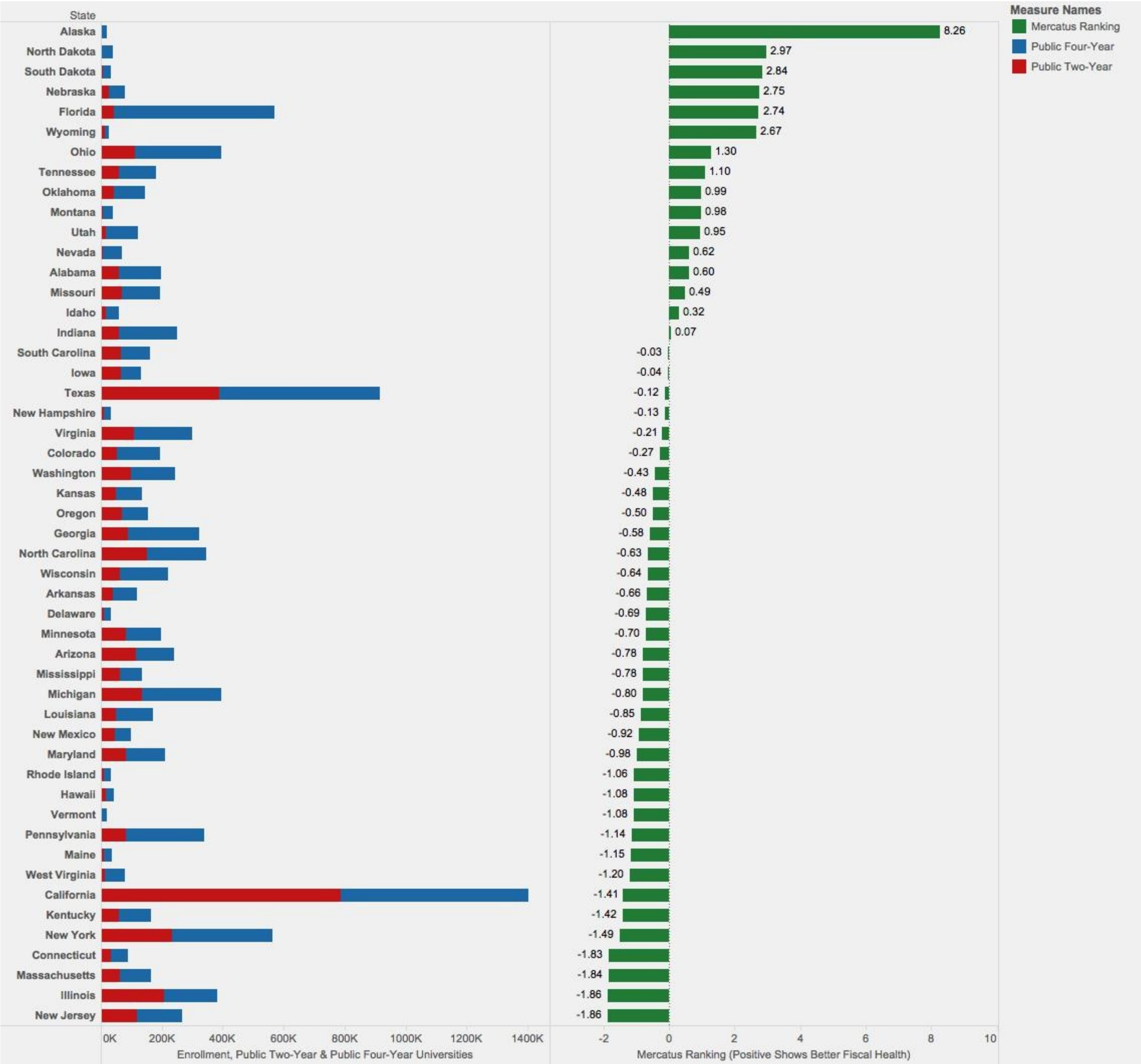
The ability to both inject and sustain additional resource commitments into public higher education will depend in part on individual states' public priorities, notably health care and pensions commitments. Despite the last recession ending just five years ago and a number of states having experienced budget surpluses in recent years,

declines in state higher education investment continues to persist. Between 2008 and 2015, 31 states cut per-student funding by more than 20 percent, and 6 states cut funding by more than one-third.[5]

Proposals for free college are expected to offset such declines by creating matching federal investments, however, it is unclear to what extent capacity for such investments exists. Up to 16 states are expected to run deficits in the next year or two years. In states with sizeable public higher education systems like Illinois, Maryland, Wisconsin and Pennsylvania, deficits are expected to run between $750 million and $6 billion.[6]

Chart 3 plots state 2- and 4-year enrollments against George Mason University's *Mercatus Center* index of states' fiscal health.[7] The bottom five states in particular are classified by the Center as being in "financial peril" based on high deficits and unfunded debt obligations. If one assumes that the bottom quintile was financially unable to meet the matching fund requirements, more than 1.6 million community college students in these states would find themselves ineligible for relief provided by the president's proposal.

Chart 3: Ranking of States' Fiscal Health Compared to Public Full-Time Equivalent Enrollment in Degree-Granting Institutions, by State, Fall 2012



Note: Based on FTE fall enrollments.

Source: NCES, Digest of Education Statistics 2013, Table 307.20.; Mercatus Center at George Mason University

State willingness to participate may also be affected by college graduates' migration patterns. Unlike other infrastructure investments, such as highways, human capital does not have to remain within the state where it was created. As Figure 1 shows, hundreds of thousands of students with either some college or associates degrees annually move to different states.

Figure 1: