



# STATE INVESTMENTS IN PUBLIC COLLEGES CENTRAL TO COLLEGE AFFORDABILITY

Advocates seeking to increase the college-going and graduation rates of low-income and first-generation students often focus primarily on state financial aid systems. While they are important, college affordability within a state is also heavily dependent on the state's overall investments in higher education. In this [brief](#), the third in our series on state financial aid systems, we discuss how state investments in higher education are a critical piece of the affordability puzzle.

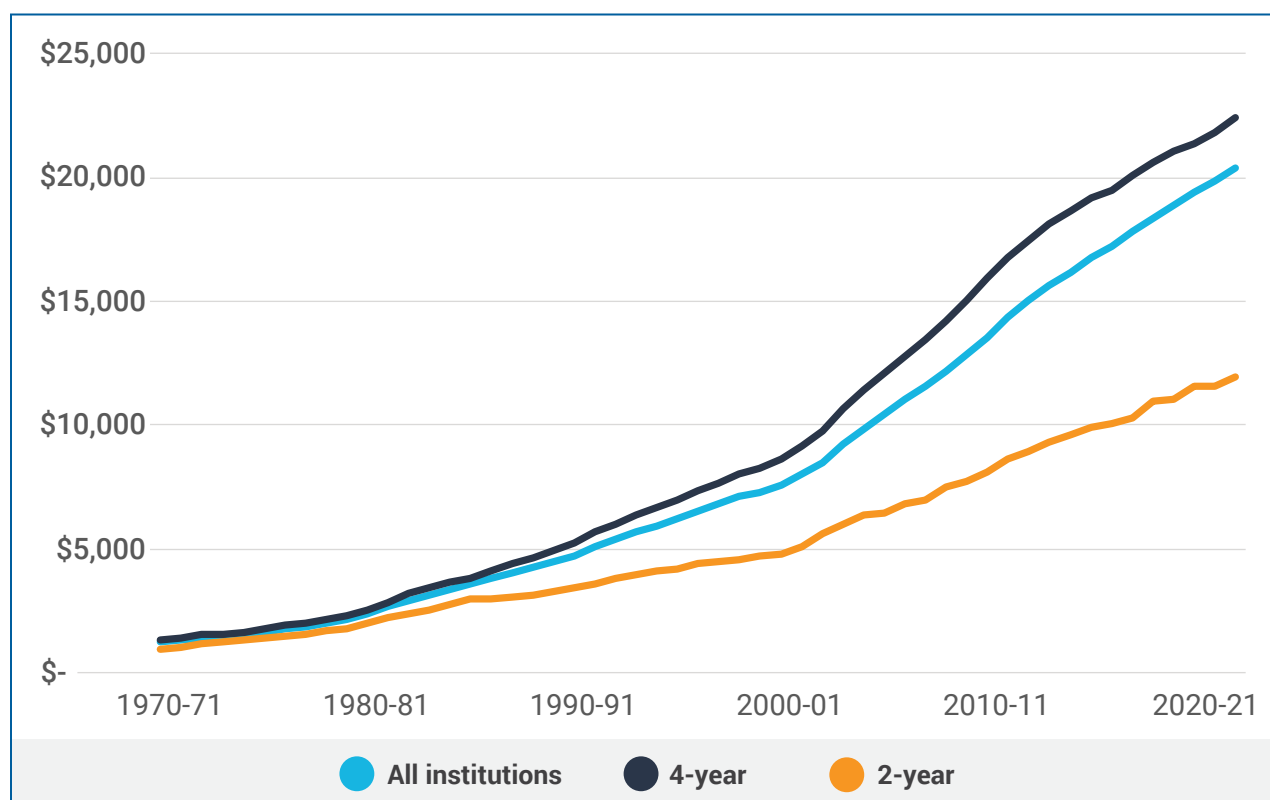
## INTRODUCTION AND RESEARCH BASIS

The long-term trend of rising college prices is well known. Yet the ways in which state investments and tuition costs intersect with financial aid systems is more complex and receives far less publicity. In the below section, we discuss the status of state investments in higher education and the research on why they matter for students and states.

### DECLINING AFFORDABILITY OF A COLLEGE EDUCATION

Even holding constant for inflation, the average price of tuition and fees for full-time students to attend public institutions of higher education has been rising since the 1970s.<sup>1</sup> And though the inflation-adjusted price of tuition and fees has flattened and even slightly declined in the last couple of years<sup>2</sup> due to a combination of smaller price increases and an unusually high inflation rate,<sup>3</sup> the overall cost of going to college is still much higher than a generation ago. Compared to students attending 20 years ago, the inflation-adjusted tuition and fees for the average 4-year public college has doubled.<sup>4</sup>

FIGURE 1. Cost of tuition, fees, and room and board at public institutions over time



SOURCE: U.S. Department of Education, National Center for Education Statistics, [https://nces.ed.gov/programs/digest/d23/tables/dt23\\_330.10.asp](https://nces.ed.gov/programs/digest/d23/tables/dt23_330.10.asp)

In school year 2023-24, the average in-state sticker price for tuition and fees at a four-year public institution was \$11,260; for out-of-state students, the price was \$29,150.<sup>5</sup> According to an NCAN study on college affordability, only 31 percent of public 4-year colleges are considered affordable, and the unmet financial need for the average student is \$2,256.<sup>6</sup> For two-year public institutions, the average annual cost for in-district students was \$3,990.<sup>7</sup> NCAN found that only 63 percent of 2-year colleges are considered affordable, leaving the unmet financial need for students at \$1,022 per year.<sup>8</sup>

Some college students, particularly nontraditional students, have financial responsibilities that create even larger affordability gaps. Students who have children are one example: in 2022, The Education Trust found that “there is no state in which a student parent can work 10 hours a week at the minimum wage and afford both tuition and childcare at a public college or university.”<sup>9</sup>

As the next section details, declining state investments in higher education are an important contributing factor in rising tuition costs and the college affordability crisis. For students in states that fail to invest in their institutions of higher education, the high costs of out-of-state tuition and barriers to attending college further from home may mean students, especially low-income students, are left with few viable options.

## STATE INVESTMENTS IN HIGHER EDUCATION ARE AN IMPORTANT PIECE OF THE AFFORDABILITY PUZZLE

At \$108 billion nationally, higher education is the third largest portion of state budgets; yet only 11% of that (\$12.8 billion) is spend on state financial aid programs.<sup>10</sup> Given that financial aid comprises a relatively small portion of states' overall higher education budgets, efforts to increase college affordability must target broader state-level investments in higher education as well.

The importance of state investments is underscored by research demonstrating that state public institutions play an outsized role in educating low-income and first-generation students, who are more likely than their peers to attend college locally.<sup>11</sup> For students in states that fail to invest in their institutions of higher education, the high costs of out-of-state tuition and barriers to attending college further from home may mean residents have no viable options when local institutions are too costly or of low quality.

## STATE INVESTMENTS IN HIGHER EDUCATION BENEFIT STUDENTS

Given that the vast majority of state spending on higher education goes directly to institutions for operational support, it is unsurprising that research demonstrates the benefits of these investments on student outcomes. However, many of these benefits stem not from the investments leading to reduced costs for students, but rather through an indirect mechanism wherein state investments lead to improvements in college quality, which has positive outcomes for students.

For example, increasing state spending can have outsized influence on students' enrollment decisions and graduation rates, especially if the funds are spent on evidence-based student support services rather than tuition reductions.<sup>12</sup> Increased state funding can be especially impactful at community colleges, which are often operating in a very tight budgetary environment, as they are likely to direct additional resources toward instructional and student supports.<sup>13</sup>

Simulations of increasing state funding by \$1,000 per student compared to increasing grant aid by the same amount estimate that state investments have a larger impact on associate and bachelor's degree attainment than equivalent financial aid funding.<sup>14</sup> For students at community colleges, increases in state investments also increase the likelihood that they will eventually transfer to a four-year college and obtain a bachelor's degree.<sup>15</sup>

Higher state investments also reduce the likelihood that students will take out loans at both two- and four-year schools. For students with loans at two-year schools, higher state investments make it less likely that a student's loans will end up in default or delinquency.<sup>16</sup>

## THE BENEFITS TO STUDENTS AND THE STATE ACCRUE LONG AFTER GRADUATION

The higher graduation rates associated with investment in higher education<sup>17</sup> in turn come with a host of additional benefits for students. Throughout their lifetime, college graduates experience higher earnings; a lower likelihood of becoming unemployed; access to safer, more independent, and more creative jobs; and better retirement funding through their workplace.<sup>18</sup> Higher educational attainment is also associated with better health outcomes, longer life expectancy, and higher reported happiness.<sup>19</sup>

Investments in college quality are positively associated with higher lifetime earnings and greater likelihood that students will work in high-paying occupations,<sup>20</sup> an effect that appears to be growing.<sup>21</sup> Because of their relatively higher earnings, those with a degree pay more than twice as much in lifetime taxes as their peers without a college degree; including almost three times more state income taxes.<sup>22</sup> College graduates are also less likely to need government-funded programs like unemployment, disability, and other means-tested programs, and are less likely to go to prison.<sup>23</sup> Higher education funding has also been squeezed by rising health care costs, particularly for Medicaid, and increasing costs for other state responsibilities like child welfare, public health, and salaries and pensions for state government employees.

These benefits aren't only important for graduates themselves but can fuel state economic success as well. Regional economies reap substantial benefits from both the consumption boost associated with local universities and a highly educated workforce as well as the increase in innovation and development of local industry hubs.<sup>24</sup>

## WHAT IS LOST WHEN STATES FAIL TO INVEST IN HIGHER EDUCATION

Unfortunately, when states do not adequately invest in higher education, both students and the state economy can suffer. Decreases in state higher education investments are associated with declining enrollment and graduation rates at both two- and four-year institutions.<sup>25</sup> Despite this, higher education is often the first line item to get cut in state budgets. Higher education spending is particularly vulnerable because legislators perceive that the revenue shortfall can be closed by raising tuition—even though many families are unable to manage increased higher education costs—and because many other portions of state budgets are mandatory or are tied to significant federal funding incentives.<sup>26</sup>

This vulnerability is one reason why the portion of state general funds that is spent on higher education has been declining for decades, accounting for about 13% of state spending in 1995 but falling below 10% in 2012 and staying below that threshold through 2023.<sup>27</sup> For students in states that fail to invest in their institutions of higher education, the high costs of out-of-state tuition and barriers to attending college further from home may mean students, especially low-income students, are left with few viable options.

After the Great Recession in 2008, most states were forced to make significant budget cuts. It took a long time to recover from these cuts, but while nearly all states' K12 spending had rebounded by 2017, state higher education funding nationally was still below pre-recession levels in 2018-19,<sup>28</sup> and only rebounded in 2022.<sup>29</sup> These funding shortfalls have also been exacerbated by the post-2008 recession trend of slashing state taxes as revenue began to rebound, which left states unable to reinvest in higher education.<sup>30</sup>

One of the results of state disinvestment in higher education is higher tuition at public colleges. In some states, tuition for four-year public colleges rose by more than 50 percent in the decade following the 2008 recession, even after accounting for inflation.<sup>31</sup> In the same time period, community college tuition also increased by an average of 37.5 percent.<sup>32</sup> Because it is more difficult for community colleges to increase tuition, budget cuts at these institutions often mean reduced spending on instruction and services as well.<sup>33</sup>

Tuition increases are associated with a decrease in the racial and ethnic diversity of students at two-year colleges and four-year colleges that are not selective.<sup>34</sup> They may also result in highly qualified low-income students attending institutions that are less selective. Because low-income students are more likely to lack access to accurate information about net costs—meaning how much their financial aid package will reduce the price of attending college—they tend to estimate affordability based on tuition prices only.<sup>35</sup> Some research suggests that reduced state funding can also crowd out in-state students from flagship and prestigious state universities because these institutions make up for lost revenue by letting in more out-of-state students who must pay higher tuition.<sup>36</sup>

Increases in tuition and state disinvestment mean that the proportion of higher education costs borne by students has increased over time. While the average student share of the cost of college was 20.9% in 1980, it was 41.7% by 2022.<sup>37</sup> However, with 50 different states each operating their own public higher education systems, national statistics like this can hide significant variation in how states have prioritized and invested in their systems. In the next section, we will provide 3 case studies of state systems, the ways investment (or disinvestment) and financial aid interact, and the impact it has on students.

# STATE CASE STUDIES

Because public colleges are a state responsibility in the U.S., policy can vary significantly, with some states prioritizing and investing heavily and others contributing far too little revenue to support a high-quality higher education system. Below are some examples from across the spectrum that demonstrate how state investments ultimately affect students.

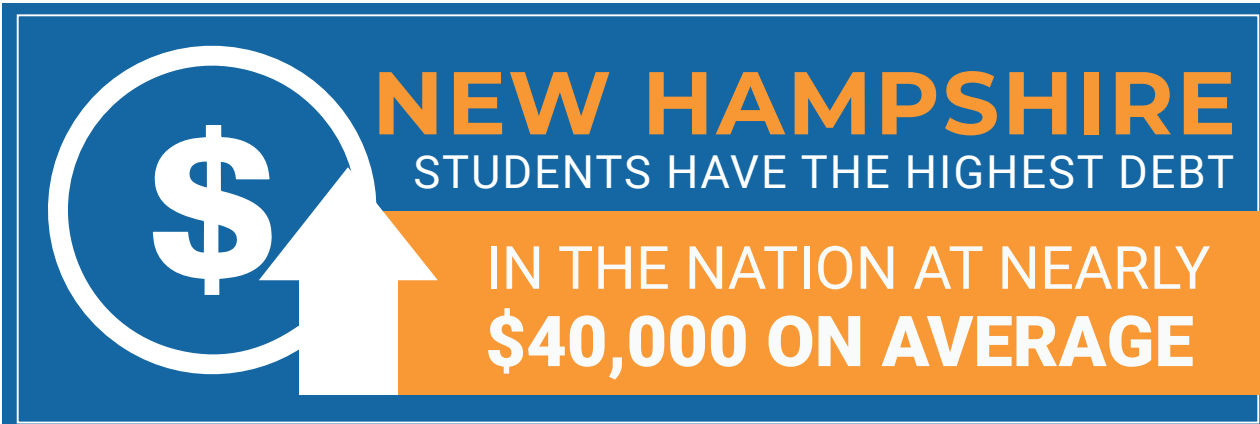
## NEW HAMPSHIRE: A cautionary tale

New Hampshire's overall investment in higher education is very low<sup>38</sup>: at \$3,699 per student, the state has the lowest appropriations funding per full-time equivalent (FTE) student of any state in the country.<sup>39</sup> New Hampshire also provides significantly less in education appropriations per FTE student to community colleges than to four-year colleges, even though nationally states tend to provide similar funding to these two types of institutions to keep community college costs low.<sup>40</sup>

As one of only a handful of states with no state tax on personal earned income (other than interest and dividends), New Hampshire's low investment is partly a result of the state's limited tax base.<sup>41</sup> However, the state also falls short of the total education expenditures it could provide, even accounting for its low revenue numbers. New Hampshire appropriates 35% less per FTE than it did in 2001 for general operating expenses at public institutions of higher education),<sup>42</sup> ranks last in the nation in total financial aid dollars spent at \$4.9 million,<sup>43</sup> and provides the lowest support per \$1000 in personal income of all 50 states.<sup>44</sup>

Not surprisingly, New Hampshire has the highest affordability gap in the nation: going to college at a four-year institution in New Hampshire costs nearly 40% more than the national average.<sup>45</sup> An in-state student at a four-year state school receiving maximum financial aid and working 10 hours per week would still need to take out more than \$12,000 per year in loans to pay for school.<sup>46</sup>

Even after financial aid, that student would have to work more than 40 hours a week at a minimum wage job to pay for a four-year college without any loans, meaning that debt-free college is not an option for New Hampshire's low-income students.<sup>47</sup> Indeed, New Hampshire students have the highest debt in the nation at nearly \$40,000 on average and the state has the second highest percent of students graduating with debt at 70%.<sup>48</sup>



**NEW HAMPSHIRE**  
STUDENTS HAVE THE HIGHEST DEBT

IN THE NATION AT NEARLY  
**\$40,000 ON AVERAGE**

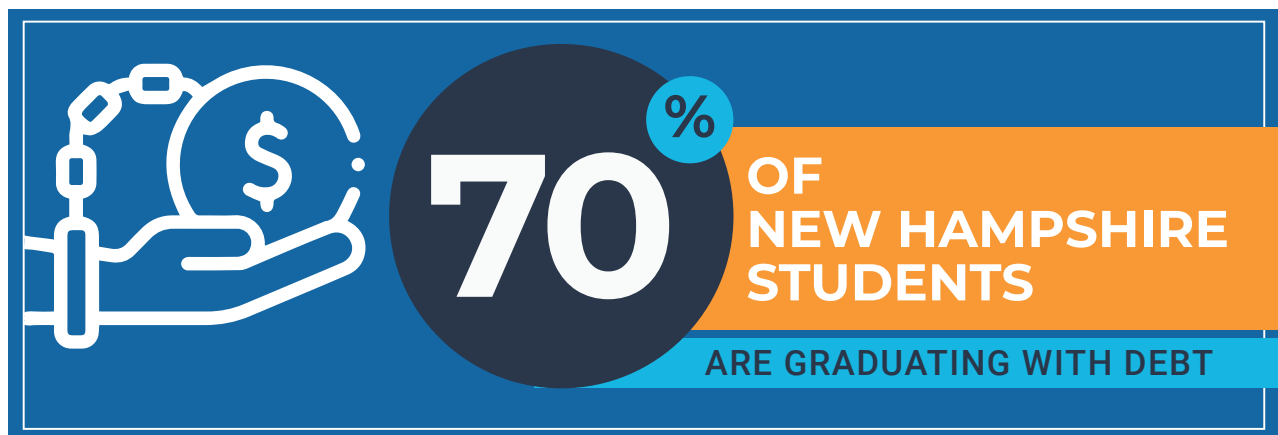
Even students attending community college in New Hampshire face a \$10,000 affordability gap while working part-time and receiving financial aid. Community colleges in other states are typically much more affordable: in about half of U.S. states, students can pay for community college loan-free while working 15 hours or less per week at minimum wage.<sup>49</sup>

While New Hampshire's proximity to Boston and the state's robust tourism industry mean the state's economic outlook continues to be strong, the state's high cost of living and high housing prices<sup>50</sup> put first time homebuyers with college debt at a double disadvantage. This may be one reason why New Hampshire has the third worst "brain drain" of college-educated professionals of any state: only about half of the state's college students remain in state after graduation.<sup>51</sup>

Even knowing these economic consequences, New Hampshire policymakers have continued to make decisions that hurt college affordability in the state. For example, despite its already low funding for higher education, New Hampshire enacted a tax cut in 2021 for that year and future years, lowering available revenue even further.<sup>52</sup>

Thankfully, the state has recently made some attempts to reinvest in its higher education system. Governor Sununu created a task force to develop solutions to New Hampshire's enrollment drop—which during the pandemic was higher than the national average<sup>53</sup>—but many of the issues the higher education sector faces are related to the state's tax and revenue system, which the Governor cannot change unilaterally.<sup>54</sup> The state's most recent budget also included some additional funding for both community colleges and universities in the state, but these increases are not enough to make up for the many previous years of disinvestment.<sup>55</sup>

As many other states enact or consider tax cuts<sup>56</sup> without regard to the impact on higher education and other important state responsibilities—not to mention the need to prepare for future cyclical recessions—advocates should point to New Hampshire as a cautionary tale of what happens when a state relentlessly pursues lowering taxes at the expense of adequate state revenue.



## CALIFORNIA: Historic investment that fueled economic growth and must be maintained

California provides over \$1 billion in scholarships and grants for low-income students each year, the most in the nation.<sup>57</sup> And while California is a large state, it is still third in the nation for per capita support of higher education. California's investment effort—the percent of tax revenue the state allocates to higher education—is also above the national average.<sup>58</sup> The average amount of grant or scholarship aid from state and local government awarded to full-time, first-time undergraduate students in California is \$3,909 (18<sup>th</sup> in the nation)<sup>59</sup> and the state has the fourth highest community college enrollment in the country.<sup>60</sup>

California's university system is built upon a 1960 "Master Plan" that sought to create a tiered system of community colleges, state universities, and flagship research universities to maximize educational opportunity and access to higher education for state residents. Though the master plan is now overdue for an update, at its inception it was a progressive approach that spurred the state to invest considerably in its higher education system and is credited with much of the state system's subsequent success.<sup>61</sup> For example, the current economic impact of the California higher education sector on the state is an estimated \$82 billion per year,<sup>62</sup> and the California State University system ranks highly for contributing to social mobility.<sup>63</sup>

But while California's early investments gave its higher education system a head start, some argue that those investments have not been sufficiently maintained to realize the promise of the master plan. Budget cuts from 2007 to 2012 cut the per-student funding from the state for the UC and CSU systems approximately in half,<sup>64</sup> and tuition more than doubled as a result.<sup>65</sup> In the meantime, an increasing number of students who meet the admissions criteria for UC and CSU programs are being turned away due to lack of capacity.<sup>66</sup>

Some of the consequences of declining affordability and access in California, are the highest number of residents leaving to go to college of any state,<sup>67</sup> fewer students than hoped successfully transferring from community college to 4-year schools; and Black and Latino students still woefully underrepresented in the state's college-going population.<sup>68</sup>

Advocates can learn from California's successes and struggles in higher education funding. The state's historic leadership boosted its economy and expanded access to college for residents. Yet, California's story also demonstrates what happens when a state fails to maintain its investments and to adapt to its residents' changing demographics, enrollment patterns, and economic needs.



**CALIFORNIA'S BUDGET CUTS FROM 2007 TO 2012**

**CUT THE PER-STUDENT FUNDING APPROXIMATELY IN HALF AND DOUBLED TUITION AS A RESULT**

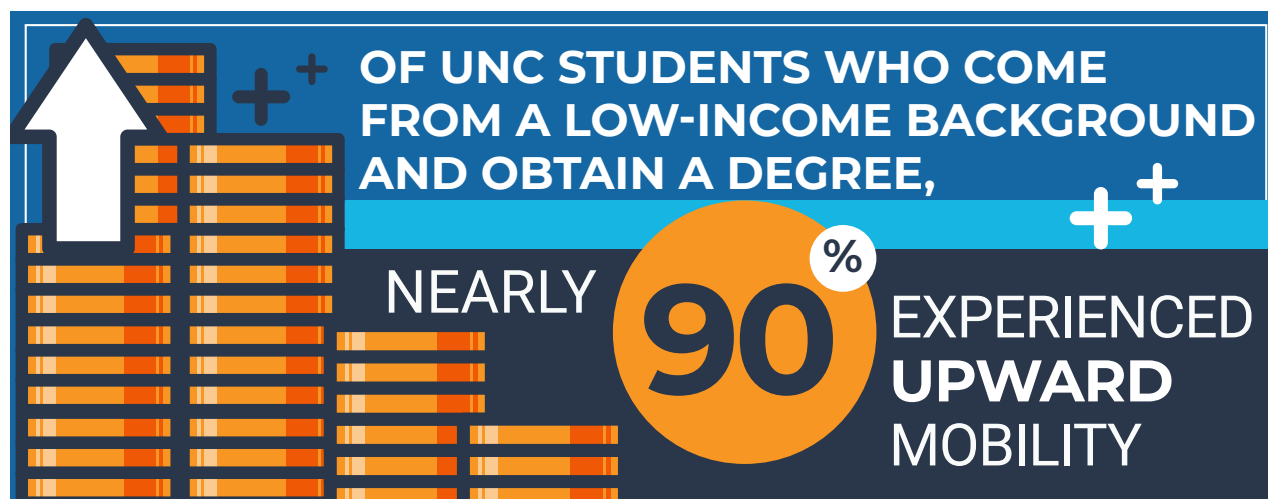
## NORTH CAROLINA: Ambitious investments in higher education but room for improvement

Like California, North Carolina has a history as a first mover in education. The state can trace its higher education system back to 1789 when it chartered the first degree-granting public university in the newly established country.<sup>69</sup> Today, North Carolina is eighth in the nation in per capita higher education support,<sup>70</sup> and one of only a few states to allocate over 10 percent of state revenue to higher education.<sup>71</sup>

These above-average state appropriations contribute to a lower portion of higher education costs borne by students: in North Carolina, the student share is 30% versus the national average of 42%.<sup>72</sup> And though affordability advocates point out that state spending per full time student is down from over \$16,000 prior to the Great Recession to just over \$13,000 in 2020-21,<sup>73</sup> North Carolina still has the 8<sup>th</sup> highest state and local support per capita.<sup>74</sup>

North Carolina is an example of how a state's overall investment matters, as the state's investments tend to target the overall cost of attendance rather than individual aid. The state has a lower than average affordability gap for 4-year public schools (\$5,387 for North Carolina vs. a national average \$6,550)<sup>75</sup> and its community colleges are 29% less expensive than the national average.<sup>76</sup> This despite the fact that the average amount of grant or scholarship aid from state and local governments awarded to full-time, first-time undergraduate students in North Carolina is \$3,165, which is only in the middle of the pack as compared to other states (21<sup>st</sup> in the nation).<sup>77</sup>

While there is certainly room for improvement in college affordability in the state, North Carolina has made a significant effort to use the state revenue it has to invest in a system of quality higher education. A 2023 study commissioned by the state's general assembly on the costs and benefits of attending and graduating from the UNC system confirms the wisdom of this investment. The report found that the lifetime return on investment for a degree at UNC was \$500,000 and that the vast majority of students (almost 90%) who came from low-income families experienced upward economic mobility after obtaining their degree.<sup>78</sup>



A similar study of the state’s community colleges found that graduates contribute approximately \$17 billion to the state’s economy each year.<sup>79</sup> Further, the state retains about two thirds of UNC system graduates, 14<sup>th</sup> in the country,<sup>80</sup> and likely an even higher proportion of community college graduates since they tend to stay closest to home to attend college,<sup>81</sup> so graduates’ increased income also contributes to state revenue.

However, like other state case studies discussed in this paper, the 2008 recession, enrollment declines during the pandemic, policy decisions and political controversy have made it difficult for the state to achieve its goal of 2 million residents 25-44 having a high-quality credential or postsecondary degree by 2030.<sup>82</sup> Like many states, North Carolina made big cuts to higher education in the wake of the Great Recession and funding was below pre-recession levels for over a decade.<sup>83</sup>

North Carolina was also one of about half of states that enacted tax cuts, but North Carolina stands out as enacting some of the most drastic cuts, which are expected to decrease state revenue by over 10% in the next 5 years and are permanent.<sup>84</sup> These cuts will likely force the state to enact cuts to services and programs, and since the state’s spending effort on K-12 education is already one of the lowest in the country,<sup>85</sup> it is reasonable to predict that such cuts will disproportionately affect higher education.

Further, the UNC system board of governors, which is elected by the state legislature,<sup>86</sup> has recently stirred up partisan controversy by criticizing the utility of the state’s higher education system and enacting a ban on some speech related to diversity, equity, and inclusion.<sup>87</sup> The board has also threatened to make system cuts even though an independent audit confirmed that the system is currently financially sound,<sup>88</sup> spurring student protests.<sup>89</sup>

North Carolina’s commitment to higher education investment—which helped the state establish a relatively affordable, high-quality system despite a below-average per capita income<sup>90</sup>—may have reached a breaking point. While the full effects of recently-enacted tax cuts and partisan tension remain to be seen, North Carolina is at risk of losing its status as a success story for a mid-sized, middle-income state to maintain a quality higher education system.



## NORTH CAROLINA

MADE DRASTIC TAX CUTS

EXPECTED TO DECREASE  
STATE REVENUE BY **10%**  
IN THE NEXT 5 YEARS

# RECOMMENDATIONS FOR POLICYMAKERS

## **1. In addition to a generous and well-targeted state financial aid system, invest in the higher education sector through state appropriations.**

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As discussed in previous sections, evidence-based programs to increase instructional quality and student support services are a good use of additional state appropriations, and are associated with positive benefits for students and state economies.

## **2. When making difficult funding decisions in times of declining revenue, protect the most vulnerable students AND the most vulnerable institutions.**

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Maintaining financial aid for low-income students as well as funding for community colleges and nonselective four-year institutions is key to bolstering the long-term success of a state's higher education system in the face of recessions, pandemics, and other unforeseen events. Low-income students, first-generation students, and students of color disproportionately attend these types of institutions; if budget cuts mean the loss of services and instructional quality, it decreases the likelihood that these students will have the support they need to complete their degree.

## **3. Take the long view of higher education's benefits.**

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As the California case study shows, a well thought out long-term vision for what higher education could be and how it can support the state's other goals can reap benefits for generations. There are long-term benefits to states if students have access to institutions of higher education that serve them well and don't require that they take on significant debt: a better educated workforce, higher tax revenues, and the potential to attract or create local jobs and industry.

# CONSIDERATIONS FOR ADVOCATES

Advocates should treat state investments and financial aid as a combined package, as both contribute to affordability. Specifically, advocates should weigh the following as they work with state policymakers:

## **1. Advocating exclusively for financial aid is not enough.**

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States can't invest if the revenue for investment isn't there. In addition to pushing for a generous, targeted, and transparent state financial aid system, advocates should also focus on tax revenue and overall investments in higher education. Advocates can work in coalition with those from other communities that also benefit from increases in state investment—such as K12 education, early childhood education, and services for low-income families—to prevent tax cuts that make it difficult to fund these services adequately.

## **2. Just say no to across-the-board cuts.**

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Across the board cuts, like when a state says all institutions of higher education will receive a 5% cut, covertly perpetuates inequities. This is because community colleges and nonselective public institutions, which disproportionately serve low-income and first-generation students, operate under tighter budget constraints and don't have the same ability to raise tuition as more selective and flagship institutions. The costs then get passed on in the form of decreases in support services or cuts that affect instructional quality to the students who can least afford it.

## **3. If tuition increases do occur as a result of state cuts, focus on outreach and education.**

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While advocates will always work hard to keep net prices stable for low-income students, in the event of tuition increases, there is also a role for advocacy after such laws are passed. Research discussed earlier in this brief showed that low-income students are more likely than their higher income peers to make enrollment decisions based on a school's sticker price rather than what they will pay after financial aid is taken into account and that tuition increases have a significant impact on their enrollment decisions. For this reason, it is important for advocates to accelerate their outreach efforts, providing low-income students with updated information about how net prices have changed or (hopefully) remained fixed after tuition hikes.

# CONCLUSION

Through three case studies, this paper explored how states have invested or failed to invest in higher education, and the precarious point even states that were once national leaders now find themselves as politics, policy decisions, and tight budgets squeeze higher education funding. This brief also provides advocates with current research on how state investments in higher education benefit students and states, and can be used to make the case that state investments are an important contributor to college affordability.

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## Endnotes

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