State Outlook:
Fiscal and State Policy Issues Affecting Postsecondary Education

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Fiscal Conditions and Economic Outlook

Global/U.S. Economic Output

A return to positive growth domestically: Despite Wall Street having served as the epicenter for this recession, ripple effects from the downturn have been felt throughout the world economy. The recession spared few countries, resulting in a contraction in total global output of about 1 percent in 2009, its lowest rate since World War II, before an expected expansion of about 3 percent in 2010 according to the International Monetary Fund (IMF). Following its worst six-month performance in 50 years, U.S. economic output returned to positive growth in the third quarter of 2009. Overall in 2009, U.S. economic growth was 2.7 (compared to China's at 9.0 percent). Looking ahead, the Congressional Budget Office (CBO) projects a 2.1 percent growth in GDP for 2010, rising to 2.4 percent growth in 2011.

Economic Recovery Projections

After a 25-month recession, a return to positive national growth, but with a multi-year state budget hangover: Despite increases in unemployment and reduced state revenues there are several economic indicators that suggest that the worst is behind us and a recovery is underway. A majority of economists believe that the recession (as formerly defined) came to an end in the third quarter of 2009; however, the National Bureau of Economic Research, a private firm that calculates the official dates of recessions, has yet to declare and end to the current downturn. Based on an analysis of employment rates, home prices, residential construction and manufacturing production figures by Moody's Economy.com, 10 states and the ***District of Columbia*** have entered economic recovery mode. These include ***Alaska***, ***Idaho***, ***Indiana***, ***Iowa***, ***Louisiana***, ***Mississippi***, ***Missouri***, ***Montana***, ***Nebraska***, ***North Dakota*** and ***South Dakota***. While key national economic indicators are returning to positive growth, such is not the case when it comes to most states' budget conditions, which will likely continue to be severely constrained for several years.

State Revenue Forecast

A return to sunny skies – in 2013: State revenues are expected remained depressed throughout FY10 and likely into fiscal years 2011 and 2012, continuing downward for another one or two quarter before returning to positive, but slow growth, according to NGA/NASBO estimates. State revenues will not return to 2008 levels in real terms until fiscal year 2013 or 2014, predict several studies. NASBO data suggest that state revenue growth over the next five to 10 years will be roughly half of what has taken place over the past 30 years. Three percent may well be the "new normal" state revenue annual growth rate. Fiscal Year 2011, which begins July 1 for most states, will be "the most difficult to date," according to a survey of 45 states released at the at the annual winter meeting of the National Governors Association, held in Washington, D.C. in mid-February.

Unemployment – Taking a Stark Human Toll

Continued bad news for a leading economic indicator

The most pronounced human toll of the recession is reflected in unemployment figures. Since the start of the recession in December 2007, a 8.4 million payroll jobs have evaporated. The national unemployment rate reached 10.2 percent in October 2009, the highest level in 26 years, and stood at 10 percent in December. Jobs continue to evaporate but at a slower pace; 85,000 jobs were shed in December. The number of individuals working part-time jobs but seeking full-time employment has reached a record 9.2 million. The combined unemployment and "under-employment" rate is 17 percent, the highest level in the 16 years that this reading has been calculated. It includes the officially unemployed, all part-time workers who prefer full-time jobs, and discouraged job seekers who have stopped looking for work. The average time jobless individuals have been out of work has extended beyond six months for the first time since data collection began 60 years ago. All told, nearly 15 million Americans are currently seeking employment. Gender is also playing a role in this "mancession"—three out of four people who have lost jobs have been male. The CBO projects that unemployment will stay above 9.5 percent *through* 2011. The national unemployment rate, which is closely coupled with state revenues and remained at a rather consistent 5.5 percent during the 2001–2007 period, will not return to that level until 2014 based on projections.

Harmful Effects of High Unemployment

Recently released U.S. Census Bureau data provide insight into the effects of rising unemployment in the early part of the recession: among them, decreasing household incomes and increasing poverty. In 2008, median U.S. household incomes declined 3.6% from the prior year, the steepest rate decline since 1947. Meanwhile, the proportion of people living in poverty reached 13.2%, an 11-year high. Welfare rolls increased by 5 percent in the 2009 fiscal year, rising from 3.8 million to 4 million people, the first increase in 15 years. Likewise, enrollment in food stamp programs rose 18 percent during that time, with 37 million people in the U.S. receiving them as of September 2009. Additionally, domestic (state-to-state) migration has been impaired by the fact that 15.6 million homeowners are "under water" on their homes–owing more than their homes are worth, thus making it difficult and arguably imprudent to sell.

On the Bright Side: An Affirmation of the Public College Mission

One silver lining is that the unemployment numbers associated with the recession once again bear out that education pays. As of December 2009, those with a college degree were less than one-half as likely to be unemployed compared to those with a high school diploma (5 percent compared to 10.5 percent). The numbers also affirm the importance of a core tenet of state colleges' missions: facilitating college access and success that leads to upward economic mobility for traditionally underserved populations. While the national unemployment rate is 10.0 percent, for African Americans it is 16.2 percent; among the ranks of the nation's fastest growing demographic population, Hispanics, 12.9 percent are unemployed.

Current State Budget Conditions

Historic revenue drop-off*:** For the first time on record, states' overall spending declined for two consecutive years, shrinking 4.8 percent in FY09 and at least 4 percent in FY10, according to an analysis of latest state budget conditions by the National Governors Association (NGA) and National Association of State Budget Officers (NASBO). The Nelson A. Rockefeller Institute of Government's most recent analysis of state tax revenues indicates that the last quarter of 2009 marked the fifth consecutive quarter of declining revenues, down 4.1 percent, marking the longest decline since at least the Great Depression. ***Oklahoma witnessed the largest revenue drop for the quarter at 27 percent, followed by ***Arizona*** at 17 percent.

Few states spared: Budgets in the great majority of states have been significantly and negatively affected by the current recession. The few states that have to this point largely weathered the economic downturn include ***North Dakota***, ***Montana*** and ***Wyoming***, thanks largely due to strong returns in agriculture and energy production (oil, coal). States previously thought to be escaping the recession's wrath are now witnessing delayed effects in the form of tax revenue reductions; these include ***Oklahoma***, ***Texas***, and ***West Virginia***.

Several states hit particularly hard by the recession: A recent Pew Center on the States study looked at a number of factors leading led to both chronic and severe state budget gaps and have identified 10 states that have been especially hard hit by the recession. Collectively, these 10 states account for more than one-third of the nation's population and economic output. Leading the list is ***California***, the most populous state and eighth-largest economy in the world. Lawmakers in that state closed a $60 billion budget gap in closing out fiscal year 2009, and a $21 billion deficit already looms for the current and coming fiscal years. The ability of California lawmakers to address budget problems are constrained by unrealistic budget assumptions and a number of voter-imposed restrictions, including requirements that all budgets and tax increases pass the legislature by a two-thirds majority. Other states include neighboring ***Arizona***, ***Nevada*** and ***Oregon***, and fellow Sun Belt state ***Florida***, which were hit especially hard by the burst housing bubble. The Midwestern states of ***Illinois***, ***Michigan*** and ***Wisconsin*** and Northeastern states of ***New Jersey*** and ***Rhode Island*** were among those with the greatest declines in revenues, largest budget gaps, highest unemployment and foreclosure rates and poor state government money-management practices. Close behind on the Pew Center list of especially hard-hit states are ***Colorado***, ***Georgia***, ***Kentucky***, ***New York*** and ***Hawaii***. The report cites four common threads that have led to increased fiscal vulnerability in these states: unbalanced economies, revenues and expenditures out of alignment, a limited ability to act by the legislature and the putting off of tough decisions by state policymakers.

State Budget Deficits

Big, structural, and here to stay: States passed fiscal year 2010 general fund budgets totaling $628 billion, 5.4% less than the year prior, according to the NASBO/NGA. Since the fiscal year began, states have cut $56 billion. According to the National Conference of State Legislatures (NCSL), persisting shortfalls totaling $28 billion exist for 36 states in the current fiscal year. The group's assessment predicts another $56 billion in shortfalls across 35 states for fiscal year 2011 and $69 billion in shortfalls across 23 states in fiscal year 2012. All but two states, ***Montana*** and ***North Dakota***, faced budget shortfalls for FY10.

State Budget Pressures

Medicaid–The greatest pressure on state spending: Increased Medicaid spending has been particularly problematic for states. Medicaid funds made up just over 25 percent of state spending as recently as 2008 before jumping to 30 percent by the end last fiscal year. States' enrollment in Medicaid grew by an average of 5.4 percent in fiscal year 2009, the highest rate in six years, according to a recent Kaiser Family Foundation report. To fund the increasing caseload, states' Medicaid spending grew by 7.9 percent, higher than the 5.8 percent projected growth. The current health care overall legislation in Congress seeks to expand Medicaid coverage, adding to states' spending burden; this may well further erode general fund discretionary dollars that compose the public finance portion of state colleges and universities.

State unemployment compensation funds exhausted: The recession's jobless toll is draining unemployment compensation funds so fast that according to federal projections, 40 state programs will go broke within two years and need $90 billion in loans to keep issuing the benefit checks, reports the *Washington Post*. Currently, 25 states have run out of unemployment money and have borrowed $24 billion from the federal government to cover the gaps. The shortfalls are adding pressure to state governments to either raise taxes or decrease the aid payments to unemployed individuals. State unemployment compensation funds are separated from general budgets, so when shortfalls exist, only two primary solutions are considered – either reducing the benefit or raising the payroll tax. Debates over the state benefits programs are taking place in ***Indiana***, ***Kansas***, ***Nevada***, ***South Carolina*** and ***Vermont***.

State "Rainy Day" funds going dry: States have used their reserve accounts—so-called Rainy Day Funds—to balance budget shortfalls at levels not seen since the 2001 recession. Thirteen states have completely tapped these funds. Sixteen states relied on these funds to balance their current year budgets, on top of 25 states that relied on their reserves to eliminate fiscal year 2009 shortfalls. Excluding ***Texas*** (with its still in-tact fund of $8 billion fund) and ***Alaska*** ($6.9 billion fund), states that have rainy day funds have an aggregate amount equal to 2.7 percent of their overall budgets, far below the 5 percent that many experts call for, according to NASBO. ***Arkansas***, ***Montana*** and ***Kansas*** do not as of yet created such funds.

State employee pension programs tremendously underfunded: While all states are constitutionally required to balance their budgets each year, this does not mean that they can't budget in a manner that results in massive future spending obligations and without funding resources or plans to meet these obligations. Such is the case with state pension programs. The Pew Center on the States analysis of state-administered pension plans estimates that an astounding $1 trillion gap exists between what states have promised to pay retirees and what they have set aside to cover those costs. The study did not include many city, county and municipal pension plans, which may well have similar insufficient funding. As of 2008—before the recession's full impact—states had $2.4 trillion to meet $3.4 trillion in promised pension, health care and other post-retirement benefits. The Pew study assessed 16 states as solid performers in how they fund pensions, 15 needing improvement, and 19 they consider as meriting serious concerns. ***Florida***, ***Idaho***, ***New York***, ***North Carolina*** and ***Wisconsin*** began the current legislative session with fully funded pension systems. On the contrary, ***Illinois'*** pension system was rated the most troubled, with a 54 percent funding level and a total liability of more than $54 billion. The study found that 15 states made some legislative changes to their state-run systems in 2009, 12 did so in 2008, and 11 in 2007. The recently elected governors of ***New Jersey*** and ***Virginia*** and leaders in 15 other states are calling for changes in state pension system funding that could result in lower benefits, higher retirement ages, freezes in cost-of-living adjustments and increased employee contributions.

Gambling revenues no longer a safe bet: One atypical weakness in state revenues is gambling proceeds, which have historically been buffered during downturns. States that have relied on gambling revenues the longest have been hit the hardest, among them, ***Illinois***, ***Nevada*** and ***New Jersey***. This unfortunately coincides with an increase in an expansion of gambling among the states in efforts to shore up state revenues. The 12 states that have casinos made $4.5 billion in FY 2009, which ended June 30, a 7.4 percent decline. Among the 42 states with lotteries, 38 have reported a collective income of $14.5 billion, a 2.6 percent drop in revenues from a year prior. October marked the 22nd straight month of declining gaming revenues in Nevada and was the lowest monthly figure since December 2003. In 1979, gamblers had to head to *Las Vegas* or *Atlantic City* to bet legally. Today, 12 states have commercial casinos, 12 have "racinos," or slot machines and other games that are placed at racetracks, 29 states have Indian casinos, and at least 42 states and the *District of Columbia* have lotteries. Racinos were the one form of legalized gambling that generated increased revenue in the past year, posting a 6.7 percent increase.

The latest state to bet on gambling is ***Ohio***, where voters in November approved a constitutional amendment allowing for the construction of casinos in *Cincinnati*, *Columbus*, *Cleveland* and *Toledo*. It was the fifth time that Ohio voters have considered gambling measures on the state's ballot. Officials in ***Kentucky*** and ***Indiana*** are now strategizing on measures to fend off lost gambling revenues, which could reach hundreds of millions annually.

State Budget Reduction Strategies

Cut, and cut again: To remedy budget shortfalls, states have turned to a number of strategies. Half of states have either have laid off or plan to lay off employees this fiscal year. Several others have tapped their "Rainy Day" funds. Pay freezes, state employee furloughs, reductions in police and fire protection, the premature release of nonviolent felons from state prisons, the closure of state parks and the selling of state assets have been commonly used strategies for paring back spending.

State Revenue Enhancement Strategies

Record tax and fee increases, but nowhere close to addressing budget gaps

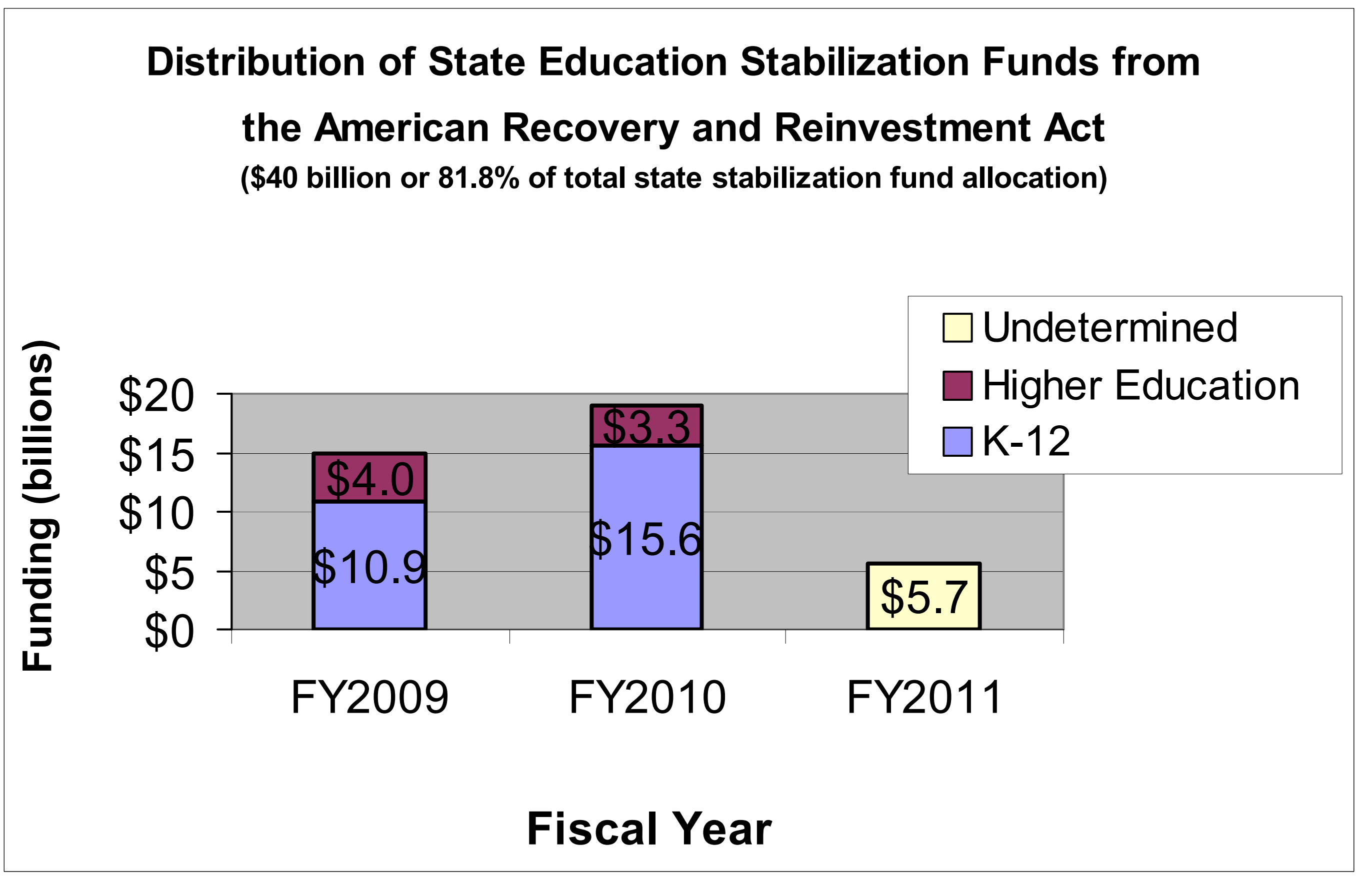
Not surprisingly, state policymakers have been hesitant to raise taxes during the recession. Nevertheless, the pressure to address gaping budget shortfalls has led states to increase taxes and fees by a record $24 billion and additional revenue measures totaling $7.7 billion for FY10. In January, ***Oregon*** voters approved a general tax increase for the first time since 1930, estimated to generate $727 million annually, and which targets corporations and the wealthy. Some states are turning to increasing borrowing to meet spending obligations. ***Illinois*** lawmakers are on pace to take out more than $6.5 billion in loans to shore up budget shortfalls. ***Arizona*** lawmakers are poised to borrow money to shore up a budget deficit for the first time in the state's history, seeking $700 million from outside lenders to address a $2 billion current year shortfall. Municipal revenue enhancement strategies may also impact colleges and universities. For the second time in a year, a mayor of a large city has called for a tuition tax (***Providence's*** in April, ***Pittsburgh's*** in December).

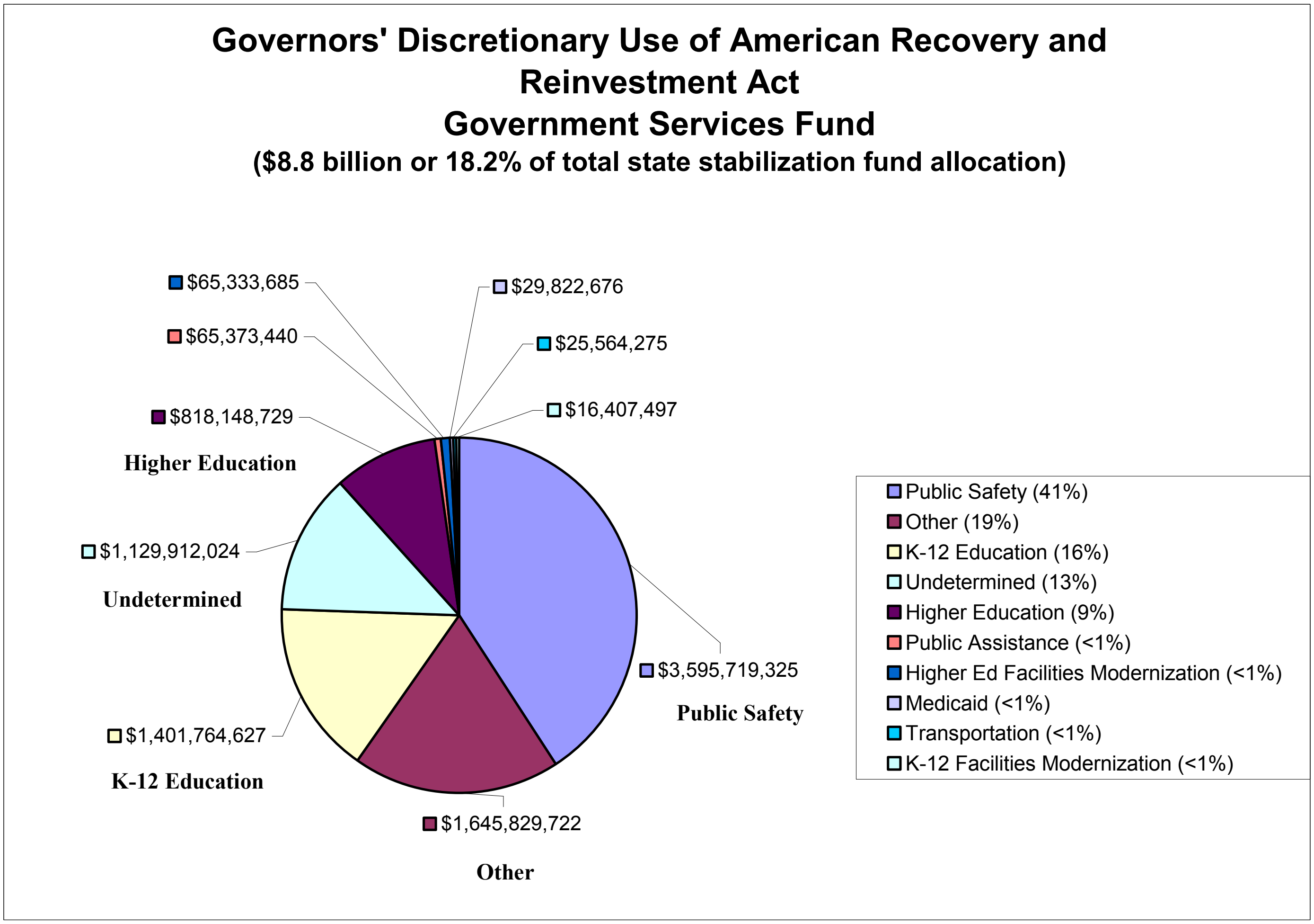
The mayor of Pittsburgh had proposed a 1 percent tuition tax to be applied to all students attending both public and private postsecondary institutions in the city in hopes of raising $16 million annually. After much debate, the proposal was done away with after the city's postsecondary institutions agreed to make significant annual contributions in monetary aid to the city.

Federal Stimulus

Much needed – short-term – relief: The American Recovery and Reinvestment Act (ARRA) was passed by Congress and signed into law by President Obama in February of 2009. Included in the $789 billion package was a $53.6 billion State Fiscal Stabilization Fund (SFSF) that invests in state K-12 and postsecondary education programs for fiscal years 2009, 2010 and 2011. The ARRA stipulates that the Secretary of Education may retain $5 billion of this fund to target certain "education-related" activity. Of the remaining $48.6 billion, 81.8 percent is designated to fill funding gaps in state budgets for K-12 and postsecondary education. The remaining 18.2 percent of the funds are designated for a Government Service Fund to be prioritized for the state at the discretion of the state's governor. States have filled 30% to 40% of their fiscal year 2010 budget gaps with the federal stimulus monies.

While public colleges and universities benefited greatly by the federal stimulus legislation—it has largely served as a "jobs retention" and "tuition mitigation" program—an inevitable funding cliff is likely to occur, given a slow return to stronger state revenue streams.





Detailed data on ARRA state applications and funds distribution available at:
congressweb.com/aascu/FederalRecoveryAct.htm

Recessionary Impacts on State Higher Education Finance, Policy and Programs

Recession-Induced Reductions in State Support for Higher Education: The recession's impact on public postsecondary funding is evident based on recently released data from the State Higher Education Executive Officer's *State Higher Education Finance* report. In fiscal year 2009 state appropriations for higher education fell by 2 percent, but federal fiscal stabilizations funds permitted an increase of 1 percent. State funding fell another 3 percent in fiscal year 2010, but fiscal stabilization funds attenuated that decrease to a –2 percent. In fiscal year 2010, 5 percent of all support for higher education came from the fiscal stabilization fund. Within the states, that percentage ranges from zero to 18 percent. Fiscal year 2009 funding comprised 10 percent or more of stabilization funds in three states. For fiscal year 2010, funding comprised 10 percent or more of stabilization funds in nine states. An analysis by AASCU indicates that 85 percent of all State Fiscal Stabilization Funds will be exhausted by the end of FY 2010, which ends June 30 for 46 states, thus setting up a precipitous "funding cliff" for many states.

Inflation—In Check for the Moment: The costs of goods, services, pay and employee benefits in higher education rose 2.3% for the year ending June 30—a figure that is (as typical) nearly a percentage point higher than the Consumer Price Index for the same period but less than the 5 percent rate that colleges experienced in the 2008–09 academic year. Administrative salaries and fringe-benefit costs witnessed the biggest increases.

State Student Loan Guarantee Programs: Credit remains tight for some states' student loan programs. The programs have also been impacted by reduced federal subsidies and the threat of legislation in Congress to end the Federal Family Education Loan (FFEL) program.

State Student Aid Programs: While a politically unpopular move, some states are scaling back their student aid and scholarship programs. States that have either made changes or at least threatened to make changes in funding allocations or eligibility to grant and scholarship programs include ***Georgia***, ***Florida***, ***Illinois***, ***Michigan***, ***Missouri***, ***Ohio***, ***Rhode Island***, ***Utah, Washington*** and ***West Virginia***. ***California*** students were spared in 2009 from a major cut to the huge Cal Grant program.

State Loan Forgiveness Programs: Reductions are being made to state loan forgiveness programs aimed at incenting students to pursue training in high-demand occupations and/or serve in geographically remote or underserved areas. Cuts have been made to such programs in ***California***, ***Connecticut***, ***New Hampshire***, ***Iowa***, ***Kentucky***, ***Missouri*** and ***Pennsylvania***.

State Pre-Paid and 529 Savings Programs: Turbulence in the stock market has led to huge losses to some states' college savings programs. A recent *New York Times* investigation revealed that 16 of the existing 18 state prepaid college savings plans currently have funds insufficient to meet future obligations as a result of the stock market slump and rising college costs. Programs under particularly severe fiscal stress include those in ***Alabama***, ***Illinois*** and ***South Carolina***. The board of ***Alabama's*** pre-paid tuition plan has just announced that it will no longer pay participants' full tuition at public state universities. Instead, starting next fall, it will pay a fixed amount based on average tuition costs. Only two states have programs that do *not* have actuarial deficits, those in ***Colorado*** and ***Florida***.

Other Recessionary Impacts Affecting Higher Education Institutions

Enrollment Up, at an All-Time High: Managing enrollment has been a particularly turbulent exercise in this recession. Preliminary data released by the National Association of College Admissions Counselors (NACAC) indicated that for the fall 2009 semester, enrollment increased across the board, with 71 percent of publics and 52 percent of privates reporting gains. However, more private institutions than publics (24 percent vs. 14 percent) reported declines. In terms of freshman enrollment, public colleges were more likely than privates to see increases (58 percent vs. 44 percent). And the gap was greater for new transfer students, suggesting that cost may be a motivating factor for the rising numbers of transfers. Of public institutions, 72 percent reported increases in transfer enrollment, compared to only 45 percent of private institutions. Still not known is the extent to which public colleges will enroll fewer out-of-state students as a result of decreasing ability for students to pay non-resident tuition rates – or whether the opposite will be true, based on state institutions' stepped up efforts to recruit higher tuition-paying students.

The share of 18- to 24-year-olds attending college in the United States hit an all-time high in October 2008, driven by a recession-era surge in enrollments at community colleges, according to a Pew Research Center analysis of newly released data from the U.S. Census Bureau. Just under 11.5 million students, or 39.6 percent of all young adults ages 18 to 24, were enrolled in either a two- or four-year college in October 2008 (the most recent date for which comprehensive nationwide data are available). Both figures–the absolute number as well as the share–are at their highest level ever. The share of women in college continues to increase. By 2011 there will be 2.6 million more female that male university students in the U.S.

Institutional Financial Aid on the Rise: The aforementioned NACAC survey found that 90 percent of colleges reported increases in financial aid applications this year, with 74 percent of colleges reporting an increase in the number of students offered institutional grant aid.

Private Fundraising Expected to Rebound After Slump: The latest Council for Advancement and Support of Education (CASE) Fundraising Index predicts a 3.7 percent increase in giving to education for the 2009–

10 academic year. Over the last 20 years, the average annual rate of growth for giving to education has been 7.1 percent.

Endowments Take a Hit: The value of college endowments declined by an average of 23 percent from 2008 to 2009, impacted by combined investment losses and a drop-off in giving. The average investment return for fiscal year 2009 was –18.7 percent, the worst result in the history of the annual endowment study conducted by the National Association of College and University Business Offices (NACUBO). Since March 2009, most endowments have rebounded quite significantly. The average five-year return for all endowments was 2.7 percent, and the average 10-year return was 4 percent.

Some Private Institutions in Tough Straits: Broader economic circumstances are affecting the various sectors within higher education differently. Perhaps most vulnerable are small and less well-endowed private liberal arts institutions. Even a small decline in enrollment combined with massive losses in their endowment portfolios can result in financial catastrophe. In a recent assessment, the U.S. Department of Education indicated that 114 private nonprofit degree-granting colleges were in such fragile financial condition at the end of their last fiscal year that they had failed the department's fiscal-responsibility test. Such conditions could lead to closures and/or consolidations in some cases. Meanwhile, some private colleges have increased financial aid and decreased selectivity to help sustain enrollment in the economic downturn, with a significant number still expecting tuition and fee revenues to decline this year, based on a recent survey by Moody's Investors Service. However, some institutions have budgeted conservatively, resulting in upgrades in bond ratings for 19 colleges in 2009.

Other Higher Education State Policy Issues in the Mix

Tuition Policy for Undocumented Students: Considerable legislative activity continues in state legislatures regarding public college admissions and resident tuition eligibility for undocumented individuals. At the federal level, President Obama has indicated intentions to initiate substantive immigration reform. It is debatable whether congressional action will take place in 2010 given mid-term elections and more pressing issues being addressed such as health care reform, climate and energy legislation, and financial regulatory changes. On the state level, much attention will be given to the first state supreme court case on the issue, in ***California***, where that state's statute providing for in-state tuition to non-residents is being challenged. The ***New Jersey*** legislature recently failed to pass a hotly contested measure to provide in-state tuition rates to undocumented students who meet specific conditions.

Concealed Weapons Policy on Campus: The gun lobby continues to aggressively push legislation in many states that would prohibit public colleges and universities from adopting policies that regulate firearms on campus. Legislation to allow concealed weapons on campus was introduced in 11 states in the last session, including in ***Louisiana***, ***Missouri*** and ***Texas***. The issue is currently being debated in the ***Georgia*** legislature. A total of 33 bills seeking to ease restrictions of firearms on campus have been introduced in 22 states in the past three years. None have passed.

Textbook Costs: Since 2004, 36 states have introduced and 17 have enacted legislation addressing college textbook issues such as greater transparency from publishers and institutions, faculty behavior and ethics in adopting texts, student access to credit, and exemption of textbooks from state sales tax. Several studies have also been requested by state legislatures. In the summer of 2008, as part of the Higher Education Opportunity Act, new provisions were included that address textbook concerns related to publishers, institutions, faculty, and bookstores, as well as accessibility for students with disabilities. Since HEOA's passage, some state legislatures have focused on incorporating the federal provisions into state law and others have introduced new requirements going beyond federal law. In 2009 a number of state legislatures, including ***Washington***, ***California***, ***Texas***, and ***Florida***, have also turned attention to promoting the development and use of open source course materials as a possible way to lower textbook prices at both the K-12 and postsecondary level.

System Governance, Restructuring and Tuition-Setting Authority: The recession has facilitated discussion and action on issues of governance and restructuring. Discussions have taken place in ***Maine***, and calls for system realignment have taken place in ***Georgia*** and ***Tennessee***. Most recently, ***Mississippi*** Gov. Haley Barbour unveiled a budget that includes sweeping reorganization of state government, including proposals to merge eight universities into five, involving the consolidation of three HBCUs.

Affirmative Action: ***Arizona*** is the first state to put affirmative action on the state's 2010 general election ballot. It marks the first time that a ban on preferences in the public hiring process has been put on the ballot by the legislature, as opposed to by Ward Connelly and his network. ***California***, ***Washington***, and ***Michigan*** are other states that have passed bans on affirmative action via the ballot box. A federal appeals court is about to consider a lawsuit challenging ***Michigan's*** ban against racial preferences in public university admissions and government hiring. Civil rights groups and University of Michigan students, faculty and applicants say the 2006 ballot measure approved by voters is unconstitutional, and cite that the constitutional amendment has created an unfair process where universities give weight to geographical diversity and legacy status but not racial identity. Supporters say the law reflects the will of the people.

Finally, On the State Elections Front…

2009: Only two statewide elections took place in 2009, and since the 2008 general election in which the Republican Party lost control of the White House, control of Congress and majorities in governorships and state legislatures. ***New Jersey*** and ***Virginia*** had gubernatorial contests; both seats are currently held by Democrats but were won by Republicans. The 2009 elections included 26 ballot measures across the states, smaller than the average 33 that have occurred in odd-year general elections in the past decade. Three measures on November's state ballots are of note, given their intended effect on higher education:

Taxpayer Bill of Rights (Maine, Washington): Voters in ***Maine*** turned down a ballot measure aimed at severely restricting state spending, including that for higher education. Voters in ***Washington*** denied passage of a similar, albeit less restrictive, spending cap measure. Maine voters rejected a similar initiative in 2006, as did voters in ***Nebraska*** and ***Oregon***. Measures were withdrawn from ballots that same year in ***Michigan***, ***Montana***, ***Nevada*** and ***Oklahoma*** due to unverifiable signatures. While these votes mark an additional setback to the anti-tax movement as reflected in the outcomes of state ballot measures, some 14 states are set to proceed with tax restriction measures.

University Research Fund (Texas): In this November's general election, voters in ***Texas*** strongly endorsed a constitutional amendment that will create a $500 million fund designed to help turn seven institutions in the state into top tier research universities. The overwhelmingly approved amendment is part of a larger effort to elevate more institutions into the top national tier of research universities. The change in the Texas Constitution will transfer $500 million from a largely dormant existing fund into a new National Research University Fund, which will spin off money – about $25 million a year – to hire faculty members and for other purposes at the seven institutions.

2010: Thirty-seven states will hold elections for governor next year. Democrats will defend 19 of those, and Republicans 18. The races will be open in at least 20 states because incumbents either will retire or are term-limited. The severe economic pressures that call for either further sharp reductions in state spending or additional tax increases are sure to heighten the political and policy debate encompassing these elections.

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