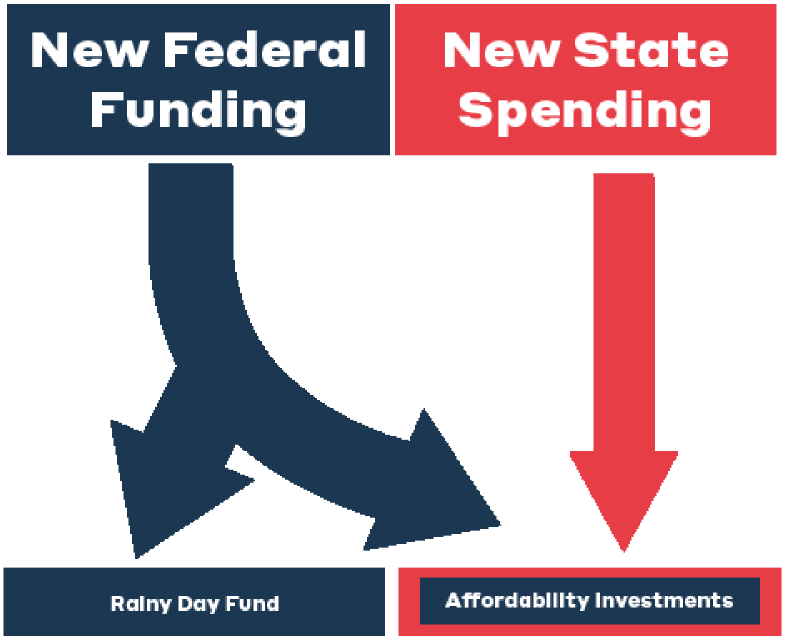
Bipartisan Policy Center

Making College More Affordable and Recession-Proof in Tennessee

College prices in the United States continue to rise, fueling the problem of student debt as well as reducing college enrollment and completion. Now is the time for a major federal investment in college affordability: flexible federal block grants. These grants would allow states to make college more affordable and also stabilize state spending on higher education during recessions, precluding the need for emergency federal spending. This new $6 billion federal investment—up to $136 million in Tennessee—would be used to bring down the price of college in a manner determined by each state: through direct student grants, investments in public institutions to bring down tuition and other costs, or investments in programs like College Promise.

Mechanisms that protect funding during economic downturns are critical to maintaining state support for higher education. Research shows that previous recessions, during which state governments cut spending, have produced long-term impacts on college affordability. Specifically, reductions in state investment in higher education have led to decreasing college affordability for low- and middle-income students when tuition costs increase, as well as concerns about public institutions enrolling more lucrative out-of-state and international students to make up budget gaps.



New federal support for higher education could be used to create state rainy day funds, to which federal funding would flow automatically during a recession to preempt spending cuts and maintain consistent costs for students. The Bipartisan Policy Center modeled a system of these rainy day funds to determine how large those funds would need to be to offset the state budget impact of a recession and how large of a federal investment would be necessary to fill those funds in a reasonable span of time. An annual investment of $6 billion from the federal government—$4 for each new dollar of state investment in higher education—could be split evenly between the goal of filling rainy day funds to "recession-proof" state higher education spending and the goal of immediate investments to bring down the price of college.

In the event of a recession, Tennessee's government could draw on the rainy day fund to prevent cuts to its higher education budget, stabilizing resources and costs for colleges and universities as well as current and prospective students. During a recession, the requirement for a state match to receive federal funds would be relaxed, allowing the state to maintain higher education spending at previous levels with the help of the rainy day fund rather than requiring any increase over previous year levels.

Tennessee at a Glance

In Tennessee, BPC estimates that $136 million in new federal funding would be provided annually paired with a new state investment of $34 million above prior year levels, for a total new investment in higher education of $170 million to be split between the rainy day fund and affordability investments.

Annual federal investment in Tennessee's rainy day fund would be $68 million, taking 4 years to fill a rainy day fund of $330 million, assuming that invested funds receive a 6% annual rate of return.

The remaining $102 million of new combined federal and state funding would be devoted to immediately bringing down the price of college in Tennessee.

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