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Removing Barriers to Higher Education: The Economic Benefit of Tuition Opportunity in Tennessee

By the Partnership for a New American Economy

Increasing access to higher education is a top priority in Tennessee. In 2014, Governor Bill Haslam launched the Drive to 55, an ambitious initiative designed to promote workforce and economic development, reduce unemployment, and improve quality of life by aiming to equip 55 percent of Tennessee residents with a college degree or certificate by 2025.

Yet the state's current policies are leaving thousands of potential college graduates who could benefit from that program out of the equation—specifically, undocumented students who have grown up in the state, graduated from Tennessee high schools, and are lawfully present in the United States. These students—all recipients of Deferred Action for Childhood Arrivals (DACA)—are currently ineligible to pay the in-state tuition rate at Tennessee's public college and universities, putting the cost of completing higher education out of reach for many of them.

Recognizing the financial barrier out-of-state tuition imposes for undocumented students, more than 20 other states – including Kentucky, Virginia, Florida, Oklahoma, Kansas and Nebraska –already allow these students access to in-state tuition. These policies are a logical step for many states, given that their taxpayers have already invested in the education of undocumented students in public schools at the elementary and high school levels.

There is evidence that in many states this policy is already achieving its goal of increasing college enrollment among disadvantaged students. Previous studies have found that Latino non-citizens residing in states with in-state tuition

Key Figures from an In-State Tuition Policy in Tennessee:

2,844 Number of additional Tennessee residents who could enroll in college

653 Under a policy restricted to lawfully-present DACA students

\$13.78 MILLION Additional aggregate earnings for this group annually within six years of college completion

\$3.16M Under a policy restricted to lawfully-present DACA students

\$10.57 MILLION Additional aggregate spending power for this group annually within six years of college completion

\$2.4M Under a policy restricted to lawfully-present DACA students

\$3.2 MILLION Additional aggregate state and federal tax revenue from this group annually within six years of college completion

\$736K Under a policy restricted to lawfully-present DACA students

All figures are in 2013 dollars.

KEY FINDINGS:

- **Nearly 3,000 more Tennessee students could enroll in college under an in-state tuition policy.** Based on the college enrollment rates of students from similar demographic and socioeconomic backgrounds, we estimate that an additional 2,844 undocumented young people in the state would be able to enroll in college under a policy allowing undocumented students to pay the in-state tuition rates. Under a policy restricted to only residents with Deferred Action for Childhood Arrivals (DACA) status—those lawfully present in the United States—we estimate that an additional 653 young people would be able to enroll.
- **Earning a college degree would boost the earnings of Tennessee’s undocumented students by nearly \$14 million annually.** We estimate that if an in-state tuition policy covering undocumented students were to become law in Tennessee, at least 1,362 of the new students who enroll would go on to graduate college within six years. Collectively, that group would earn \$13.78 million in additional income annually following graduation. Under a policy restricted to only lawfully present residents with Deferred Action for Childhood Arrivals (DACA) status: we estimate 313 of the new students who enroll would go on to graduate within six years, and that this group would collectively earn \$3.16 million in additional income annually.
- **The additional wages earned by these college graduates would elevate their spending power by more than \$10 million annually.** After graduation, these students would hold a collective spending power of \$10.57 million that could be put back into the state and local economy through consumer spending. Under a policy restricted to only lawfully present residents with Deferred Action for Childhood Arrivals (DACA) status: we estimate \$2.4 million in additional spending power.
- **An in-state tuition policy could add up to \$3.2 million more per year to state and federal tax revenues.** Although Tennessee lacks an income tax, the higher wages of new graduates would allow them to spend more as consumers, benefitting the state in the form of sales and property tax revenues. We estimate that within six years of completing graduation, the 1,362 students who could benefit from the policy would be paying as much as \$3.2 million in additional, aggregate annual taxes into federal and Tennessee’s state coffers. Under a policy restricted to only lawfully present residents with Deferred Action for Childhood Arrivals (DACA) status: we estimate a \$736,000 annual boost to federal and state tax revenues.

policies are anywhere from 31¹ to 54 percent² more likely to be enrolled in higher education than their peers in other states. Research also shows that these policies impact high school completion as well, reducing drop out rates among Mexican non-citizens by as much as 14 percent.³

In this brief, we use data from the American Community Survey, as well as *The Chronicle of Higher Education*, to examine for the first time the impact of Tennessee passing Tuition Opportunity legislation. Our brief quantifies the added earnings undocumented students would obtain

as a result of their added education, as well as the potential impact on state and local tax revenues. The results our analysis produces are clear. We estimate that the additional students who could potentially enroll in and complete college as a result of a change in Tennessee’s policy would earn millions of dollars in additional income—translating into meaningful financial benefits for the state.

In this brief, we highlight an important reason why this legislation makes sense for the state of Tennessee: The real financial benefits that helping additional students attend college will have on the state. Passing this legislation would provide a valuable stimulus to Tennessee’s economy in the long term—one the state would be remiss to pass up.

1 Kaushal, N. (2008). In-State Tuition for the Undocumented: Education Effects on Mexican Young Adults. *Journal of Policy Analysis and Management*, Vol. 27, No. 4.

2 Flores, S. M. (2010). State Dream Acts: The Effect of In-State Resident Tuition Policies and Undocumented Latino Students. *The Review of Higher Education*, Vol. 33, No. 2.

3 Potochinick, S. (2010) How States Can Reduce the Dropout Rate for Undocumented Immigrant Youth: The Effects of In-State Resident Tuition Policies. Paper presented at the APPAM Conference.

EXPLANATION OF METHODOLOGY:

Estimating the Number of Students Eligible for In-State Tuition and Tuition Opportunity Policies and Expected Graduation Rates:

The number of people covered by Tennessee's potential tuition opportunity program was estimated in two ways. The first, to show what the benefits of a broader program assumed that the beneficiary population would be undocumented immigrants between the ages of 16 and 44. Estimates for this were generated using demographic and rate of poverty data from the Migration Policy Institute's (MPI) "Profiles of the Undocumented Tool." This data was combined with data on the school attendance, educational attainment, and earnings of non-citizen foreign nationals to produce estimates on how many eligible people would enroll under the tuition opportunity program, how many of these enrollees would eventually successfully graduate, and what the economic impacts of these newly minted graduates would be in the state of Tennessee. The second set of estimates is calculated much in the same way with the key difference that we now use a more restricted population limited to those who currently are, or who would eventually become eligible for DACA. The data on this population were obtained using the Migration Policy Institute's DACA profile for Tennessee.

We assume that easing the financial burden will result in the same college attendance rates for the undocumented population that does not yet attend college. To estimate the share of enrollees that would ultimately graduate, we apply statistics from the Chronicle of Higher Education regarding public 4-year colleges.⁴ This estimate gives us the number of additional successfully graduating students within 4 years as well as within 6 years of their enrollment that would be attributable to the state's tuition opportunity program.

Wage Premium:

We use regression analysis to arrive at the total yearly gain in income resulting from obtaining a college degree. Our sample includes full-time employed non-citizen workers aged 25 and above. The model regresses the log of wages on education and controls for race, sex, age, marital status, and English language skills. The model allows for wage levels and returns to education to vary by citizenship status. Our analysis of the wage premium that undocumented students gain from earning a college degree shows that each graduate in Tennessee would earn \$11,895 in additional annual earnings each year (in 2013 dollars) as a direct result of earning a bachelor's degree.

Tax Estimates:

Figures on the additional taxes that would be paid as a result of this policy were calculated using the increase in wages mentioned above multiplied by the per capita incidence of state and local taxes in Tennessee as well as the federal income tax rate. The state and local tax incidence rate used was taken from the Tax Foundation, one of the country's leading independent tax policy research organizations. This percentage represents the total amount of taxes paid to state and local governments divided by the total amount of income earned by all state residents. The state and local taxes included in the Tax Foundation's calculation include income, sales, excise, property, public utilities, motor vehicle, death, severance, and other licensing taxes.⁵ Since the state of Tennessee's income tax only applies to investment and dividend income, the vast majority of our estimate for additional taxes generated is made up of non-income taxes. The federal income tax rate was taken from TaxAct.com, a tax preparation website.

4 The Chronicle of Higher Education, "College Completion: Tennessee" (2013 Rates). Available here: http://collegecompletion.chronicle.com/state/#state=tn§or=public_four.

5 Liz Malm and Gerald Prante (2014) "Tax Foundation State-Local Tax Burden Estimates: An Overview of Methodology," Tax Foundation, April 2, 2014. Available at: <http://taxfoundation.org/article/tax-foundation-state-local-tax-burden-estimates-overview-methodology>