Update on Higher Education Affordability

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House Appropriations Committee Retreat
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HIGHER EDUCATION AFFORDABILITY
Affordability Factors

Tuition and E & G Fees
State GF & Policies
Comp Fee
Other Costs
Financial Aid
Inst. Value
Inst. Spending
Family Income

Cost to Educate
AFFORDABILITY
Undergraduate Tuition
Public 4-Year Institutions

Inflation, measured by CPI, has grown about 36% since 2004

Source: Bureau of Labor Statistics
Undergraduate Tuition

Public 4-Year Institutions

GF per I/S FTE has tracked economic conditions. Until 2009, GF per FTE kept up with inflation. However, overall, GF has grown 16% since 2004.

Undergraduate Tuition

Public 4-Year Institutions

Since 2004, I/S Tuition has increased by almost 192% compared to 36% inflation.

Increased GF but no real moderation in tuition

GF per I/S FTE

I/S T & F

Inflation

Source: Bureau of Labor Statistics, Various Appropriation Acts & SCHEV EO5 & TF03 Reports
Since 2004, O/S Tuition has increased by almost 114% compared to 36% inflation and compared to a 192% increase in I/S Tuition.

Source: Bureau of Labor Statistics, Various Appropriation Acts & SCHEV EO5 & TF03 Reports
Undergraduate Tuition

*Public 4-Year Institutions*

Tuition increases fueled growth in Total E & G Spending per FTE of 77%, more than twice the rate of inflation.

Source: Bureau of Labor Statistics, Various Appropriation Acts & SCHEV EO5 & TF03 Reports
Overall I/S Undergrad Tuition growth in last 15 years is greater than growth in Median Household Income

Source: Bureau of Labor Statistics, US Census Data & SCHEV TF03 Reports
From 2004 to 2019, the current dollar cost of public 4-year institutions has increased significantly

- College costs continue to rise faster than inflation and have outstripped family income in the last 15 years
- Reasons for rapid increase:
  - Uneven state support in part
  - Growth in non-instructional costs
  - Spending at more than twice the rate of inflation
- The growth in E & G spending is fueled by undergrad tuition increases well in excess of inflation

Source: Bureau of Labor Statistics, Commonwealth Accounting & Reporting System Data
4-Year Undergraduate Tuition Increased Beyond GF Support Lagging Inflation

- GF per Student went down by $1,249 in constant dollar terms from ‘04 to ‘19
- I/S UG Tuition increased by $4,949 over the same period
  - Essentially, I/S Tuition grew almost $4 for every $1 loss in GF
- In addition, O/S UG increased by $10,074
  - The proportion of O/S UG students over this period also slightly increase from 23.9% to 24.6%
- Spending per FTE increased by $4,546 or about 30% more than inflation

Source: Bureau of Labor Statistics & SCHEV TF03 Reports
From 2004 to 2019, the current dollar cost of community colleges has also increased significantly

- College costs have risen faster than inflation and outstripped family income
- Reasons for rapid increase:
  - Swings in enrollment
  - Spending at nearly twice the rate of inflation
- The growth in E & G spending is fueled by tuition increases well in excess of inflation

Source: Bureau of Labor Statistics, Commonwealth Accounting & Reporting System Data
VCCS Undergraduate Tuition Also Increased Beyond GF Support

- GF per Student went down slightly by about $100 in constant dollar terms from ‘04 to ‘19
- I/S UG Tuition increased by $2,064 over the same period – 81% greater than inflation
- O/S UG increased by $1,971, however, the VCCS enrolls only 4 to 5 percent O/S students
- Spending grew by 24% greater than inflation

Source: Bureau of Labor Statistics & SCHEV TF03 Reports
Tuition, Fees & GF Support Summary

• GF support per FTE student has not kept up with inflation over the last 15 years
  – Generally, mirrors economic situation although in recent years since the Top Jobs legislation the General Assembly has provided increased higher education GF support even under trying economic conditions
  – However, since FY 15,

• Spending increased at more than the rate of inflation fueled by tuition

• Tuition moderation has typically occurred only as a result of state intervention
  – Tuition increases for undergraduate students have exceeded inflation growth for both I/S & O/S undergrads
  – FY 20 general fund to freeze tuition

• Rates of tuition growth exceed growth in median income

• It could be argued that colleges have a spending problem, not a revenue problem?
Spending Per Student By Program

Percent Change from FY 04 to FY 19 at 4-Years

- Instructional spending per student grew by about 67%
  - Exceeds inflation but lags other programs
- Spending per student on support programs, admin and especially plant grew at a greater rate
  - Plant costs are impacted by the significant capital outlay investment over the last 20 years

Source: Bureau of Labor Statistics, Commonwealth Accounting & Reporting System Data
Proportion of E & G Spending By Program at 4-Years

Source: Commonwealth Accounting & Reporting System Data
Spending Per Student By Program
*Percent Change from FY04 to FY19 at VCCS*

- VCCS has similar pattern as 4-Years in per student spending
  - Instruction spending growth exceeds inflation but lags all other programs
- Administrative costs are the single largest driver

Source: Bureau of Labor Statistics, Commonwealth Accounting & Reporting System Data
Proportion of E & G Spending By Program at VCCS

2004
- Instruction, 48.2%
- Inst Spt, 22.9%
- Acad Spt, 11.6%
- Std Svc, 8.1%
- Plant, 9.3%

2019
- Instruction, 44.9%
- Inst Spt, 24.3%
- Acad Spt, 10.5%
- Std Svc, 10.2%
- Plant, 10.0%

Source: Commonwealth Accounting & Reporting System Data
Higher Education Spending Summary

• Spending per FTE student has increased at 4-year inst & VCCS at rates greater than inflation, supported primarily by undergrad tuition growth

• Spending increases driven primarily by overhead costs
  – Instructional costs have grown but at a lower rate than overhead
National Comparisons

• Based on data provided by the State Higher Education Executive Officers Association (SHEEO)
  – Looking at state support plus tuition
• Compared to the 50 states, Virginia ranked 31\textsuperscript{st} in total spending per FTE in 2004 but by 2018 ranked 21\textsuperscript{st} in spending
  – In terms of spending per FTE, Virginia now ranks ahead of all but three AAA bond rated states (Del, Ind & Md)
  – Virginia also ranks ahead of such states as NC, Fla, Cal, Ga, Oh, Tx, Wash, & Wisc
• Virginia appears to be very competitive in terms of spending per student
• So, how much more should spending need to increase?
FINANCIAL AID

“THE OTHER SUBSIDY”
Financial Aid

• Two major forms of financial aid
  – Grants
  – Loans

• Grants
  – Pell
  – State (VGAP & Commonwealth)
  – Institutions also provide grant aid through use of tuition & in some cases endowment income

• Loans
  – Federal programs (Stafford, PLUS)
  – Private loans

• In order to qualify for financial aid a student must file a Free Application For Federal Student Aid (FAFSA)

• FAFSA at 4-Years:
  – In FY 2004 about 55,000 or 51% of in-state undergrads filed a FAFSA
  – In FY 2018 about 92,000 or 65% of in-state undergrads filed a FAFSA
Since FY 04 Total GF Financial Aid Has Increased Significantly at the 4-Years, About 211%
Average state fin aid grant awards in FY 2018 have increased by 72% at 4-years since 2004, tuition has increased by more than 176% over same period
Since FY 04 Total GF Financial Aid Has Increased Significantly at the VCCS As Well, About 341%
Average state fin aid grant awards in FY 2018 have increased by 114% at the VCCS since 2004, tuition has increased by more than 140% over the same period.
• Avg Pell & State Aid has been able to keep up with E & G Tuition. However, once student life fees are added, loans become the means to finance college
STUDENT DEBT
Student Debt

- Per the Federal Reserve, nationally, student debt is reaching ~$1.6 trillion and about 45 million borrowers
- Vast majority of debt borrowed under federal programs
  - Per Studentaid.Ed.Gov Stafford loan programs alone account for $767 billion & 33 million borrowers
  - 14% of their parents took out federal PLUS loans averaging almost $36,000
  - About 40% of loans are related to graduate & professional programs
- Data for the Class of 2018 from College-Insight.Org is shown in the table below

<table>
<thead>
<tr>
<th></th>
<th>Nation</th>
<th></th>
<th>Virginia</th>
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<tbody>
<tr>
<td>4-Year Inst.</td>
<td>Average Debt</td>
<td>% of Grad</td>
<td>Average Debt</td>
<td>% of Grad</td>
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<tr>
<td>Public</td>
<td>$27,800</td>
<td>57%</td>
<td>$30,300</td>
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<tr>
<td>Private</td>
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<tr>
<td>All</td>
<td>$29,500</td>
<td>57%</td>
<td>$30,400</td>
<td>57%</td>
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</tbody>
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Loans

• The use of loans has increased by in-state undergraduates

• Public 4-year institutions:
  – In FY 04, about 50,000 or about 47% of in-state undergraduates borrowed $293 million
  – In FY 18, 74,000 or about 54% of in-state undergraduates borrowed $767 million
  – Average borrowing from FY 04 to FY 18 has increased from about $5,800 to $10,300
Loan Programs at 4-Years

- 60% are made through the Stafford loan program
- Along with PLUS & Perkins, federal loans account for 82%

Source: SCHEV FA 22 Report
Loan Programs at VCCS

- About 96% are made through the Stafford loan programs
- Along with PLUS federal loans account for 97%

Source: SCHEV FA 22 Report
POLICY OPTIONS GOING FORWARD
What is the Affordability Issue?

• Most simply continue to point to reduced state support as the culprit in the high cost of college
  – E & G Tuition is the only factor impacted by shifts in general fund
• However, since 2004, about a quarter of the tuition growth was the result of state GF reductions
  – The remaining increase was used by institutions to increase spending beyond inflationary growth & address other institutional priorities
• Are these spending increases justified?
• Is affordability simply finding another source of revenue?
• Need to begin examining cost containment
Shift of I/S Undergrads With Need
At 4-Year FY 04 vs FY 18

Source: SCHEV FA 01 Report
Shift of I/S Undergrads With Need
At VCCS FY 04 vs FY 18

Source: SCHEV FA 01 Report
Cost Containment

• Higher education is a partnership
  – Students
  – Institution
  – State

• Increasingly Business & Industry has become a key component
Cost Containment

• Colleges have engaged over the years in improving efficiency in certain strategic areas:
  – Energy Management
  – Improved Business Services
  – Purchasing Consortia

• May need to look at academic areas more closely
  – Course loads / class size
  – Adjunct faculty
  – Expand use of online
  – Course offerings / program review
  – Departmental mergers
  – Balance these efforts to ensure quality is not impacted

• Need to ensure that the results of any cost containment effort are quantified and reported
Cost Containment

• Right-sizing institution
• Reduce time to degree
  – 6 Year Graduation rates are typically the metric
  – 4 years or less should become the expectation
• Increase use of community colleges
  – Passport Program
  – Stronger articulation agreements
  – Senior institutions should encourage students to complete Associates before transfer
• Expand Alternative Pathways
  – Dual enrollment
  – Online
  – Workforce Credentials
Cost Containment

• State funding options
  – Outcome Based Funding
  – Tuition moderation
    • “Free” College
• Institutional Performance Pilot Agreements
• Provide institutions flexibility in key areas
  – Procurement
  – Enrollment
• Meaningful benchmarks and metrics to measure results
“Free” College Concept

• Notion of providing enough funds to make community college “free”
  – Typically covers Tuition & Mandatory Fees not the other costs / allowances of attending college
  – Last dollar approach – apply other fin aid first (Pell)
• Estimated total revenue associated with the VCCS for in-state is about $462 million
  – About $435 million in tuition & $27 million in fees
• Proposals could be limited
  – Students with financial need
  – Certain degree programs
  – Full-time vs part-time
  – First degree
Current Financial Aid at VCCS

• About 36% to 42% of VCCS students are identified as having financial need & fin aid eligibility
  – These students account for about $170 to $190 million of total I/S revenue

• Gift aid available for these students is about $263 million
  – Pell is about $190 million alone
  – State aid is about $50 million
Policy Issues Regarding “Free” College

• Student / institution accountability
  – How do we address non-completers?
  – Program switchers?

• Expansion of the initiative

• What are the metrics of success?

• Governance
  – Who will decide new spending?
  – Tuition increases?
Enrollment Flexibility

• Several institutions have requested that they be allowed to increase enrollments of out-of-state students
  – Not so much a cost containment as a revenue enhancement
• For institutions with low O/S enrollment, allowing them flexibility in terms of enrollment and the 100% tuition policy may be very helpful and provide some potential relief from GF reliance
• For institutions with high O/S enrollment, the state might want to limit the flexibility to certain programs (Tech Talent) and have this new revenue stream provide some tuition relief for I/S undergraduates
• Other states are already pursuing non-resident students including Virginia students with the promise of lower tuition
  – Alabama, Clemson, South Carolina and Ohio State are some of the institutions using this approach
• Likely only a temporary solution
Six-Year Plan Process

• As in recent years, HAC staff will use the six-year plans in evaluating potential policy choices
• The 6YP process may need some tinkering
• Institutions still seem to develop their spending first and then back into how much revenue will need to grow
• This needs to be reversed and institutions should answer two basic questions:
  – How much can I reasonably increase what I charge students?
  – How would I allocate the revenues generated?
• Colleges can then make a case for other unaddressed needs or mandated requirements
• Approach needs to be all-inclusive and take into account the overall cost of attendance that will impact students
2019 6YP Results

• 4 Year institutions have plans that total about $185 million in new spending with the top two priorities being
  – Salary increases - about 32% of the plans
  – Use of tuition for financial aid - about 17% of the plans
• To pay for the new spending in the 6YP, institutions would raise half the money from in-state undergraduates with the remainder coming from O/S undergrads, graduate & 1st professional and other NGF
• 6YP I/S undergraduate tuition increases average about 6.5%, ranging anywhere from 3% to 15%
  – Many of the high increases were simply math exercises and do not reflect what an institution would actually propose
Use of Tuition for Fin Aid

• Use of tuition for financial aid has grown in recent years
• Five institutions provide about 10 or more percent of their in-state tuition revenue as financial aid
  – UMW 20% (about 48% of I/S undergrads have need)
  – UVA 20% (over 35% of I/S undergrads have need)
  – CWM 20% (about 42% of I/S undergrads have need)
  – VSU 13% (about 92% of I/S undergrads have need)
  – NSU 10% (about 92% of I/S undergrads have need)
• Three institutions utilize about 8% to 9% (CNU, Longwood & VCU)
• Remaining institutions are in the 1% to 4% range
• Is this practice sustainable? Practical?
• Should there be limits?
2019 6YP Results

- Salary increases and tuition for financial aid are stand-alone, statewide issues
- The remainder of the 6YP could be funded with a zero percent increase in I/S UG tuition for about $29 million GF
  - $22 million at 4-Years & about $7 million at VCCS
- Additional GF for financial aid is required
- Salary increase issues / questions
  - Consistent treatment across higher education?
  - Require reallocation of existing resources?
  - Should there be limits on amounts & application?
Increased Concerns About College Affordability “The Value Proposition”

- Questions are being raised about value of higher education degree relative to cost
- Recent report by the Georgetown University Center on Education and Workforce indicated that, nationally, about two-thirds of the 55 million job openings in the economy through 2020 will not require a bachelors degree
  - Virginia data follows national trend in terms of total jobs & job openings

Virginia Job Openings

- HS or less 33%
- BA / Masters 37%
- Some College / Assoc 30%

Source: Georgetown U Ctr on Educ & Workforce
Questions