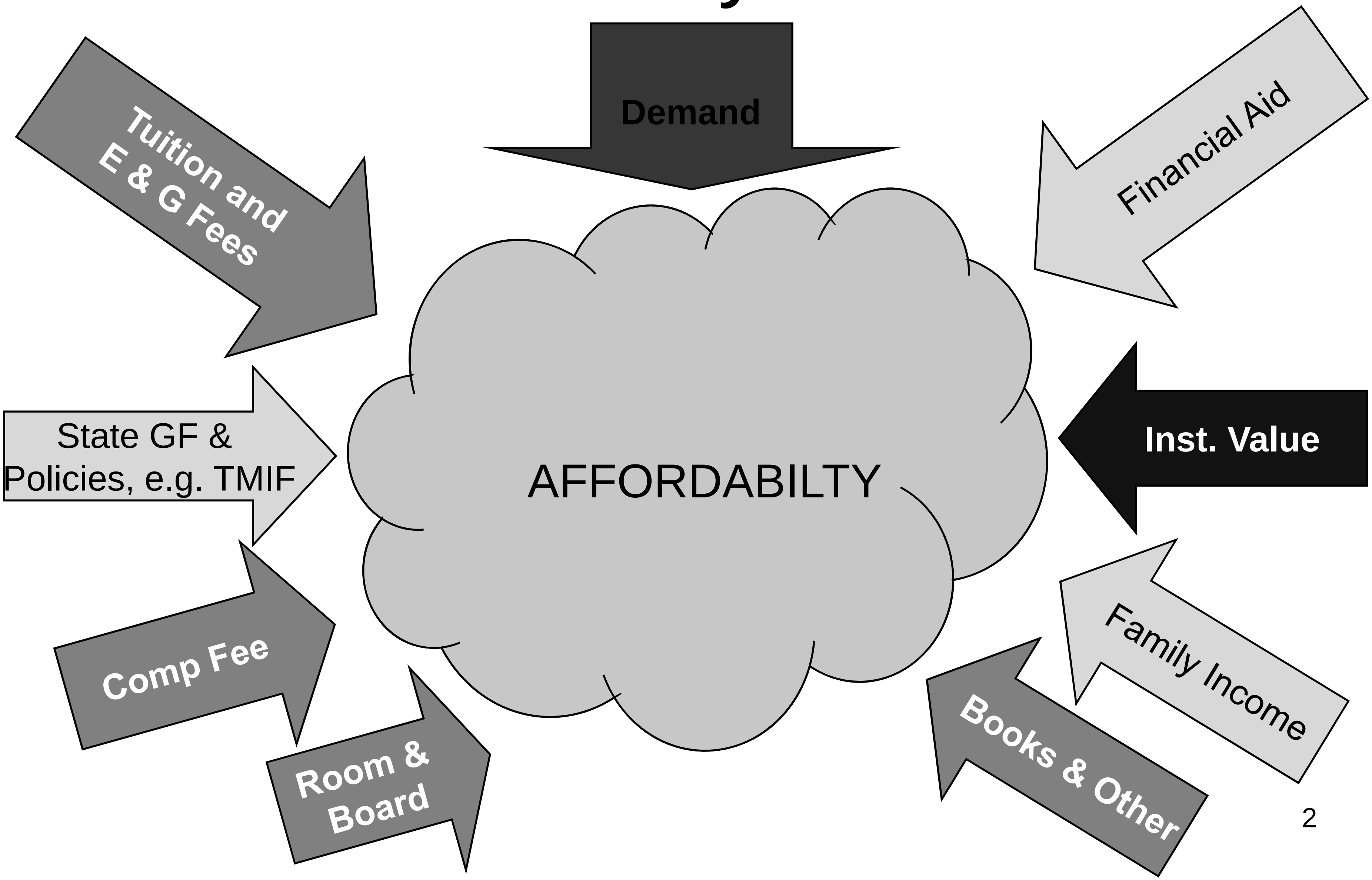
Higher Education Affordability

House Appropriations Committee Retreat

November 18-19, 2008

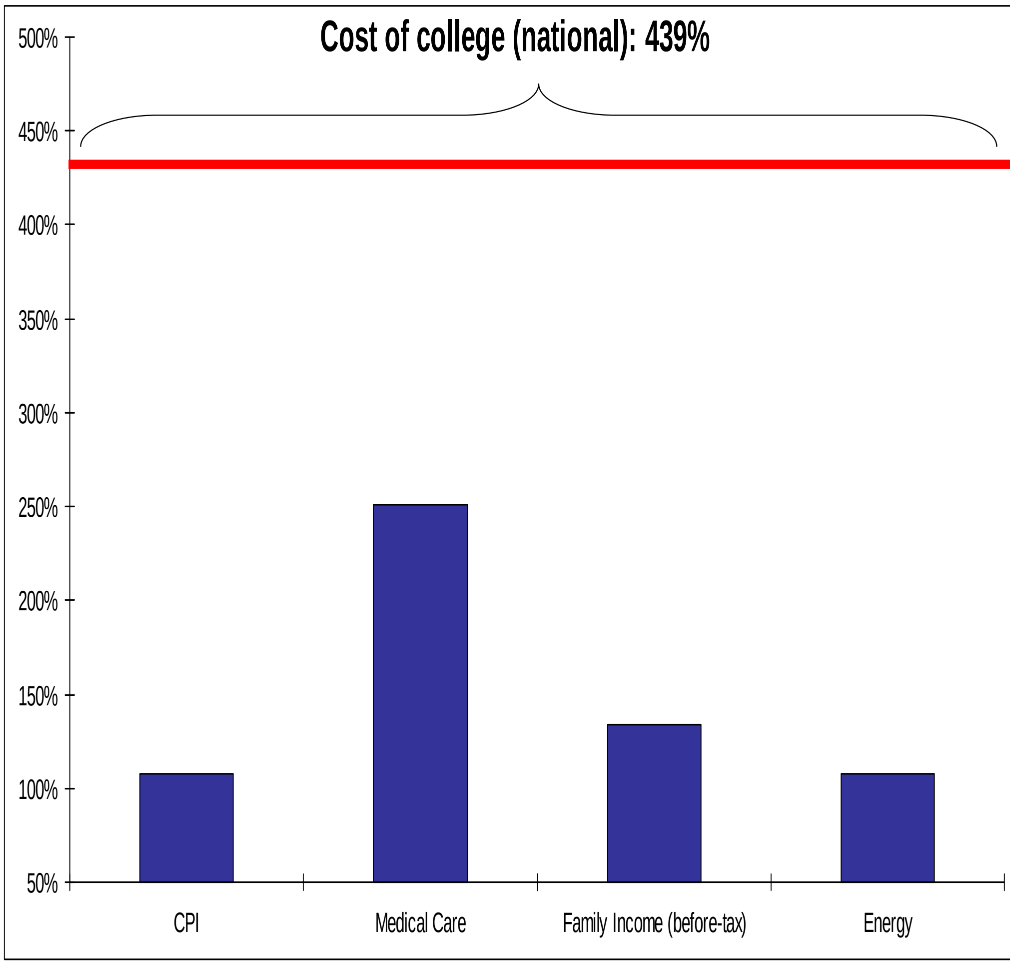
Affordability Factors



Measuring Up 2006: National Report Card

- States generally do not receive high grades on affordability
  - 43 states, including Virginia, were assigned a grade of “F”
  - 5 grades of “D”
    - Idaho, Hawaii, Minn., NJ, Washington
  - 2 grades of “C-”
    - Utah & California
- They use factors such as family ability to pay, debt load, and availability of state financial aid relative to federal aid

Nationally, from 1985 to 2005,the current dollar cost of college has increased rapidly

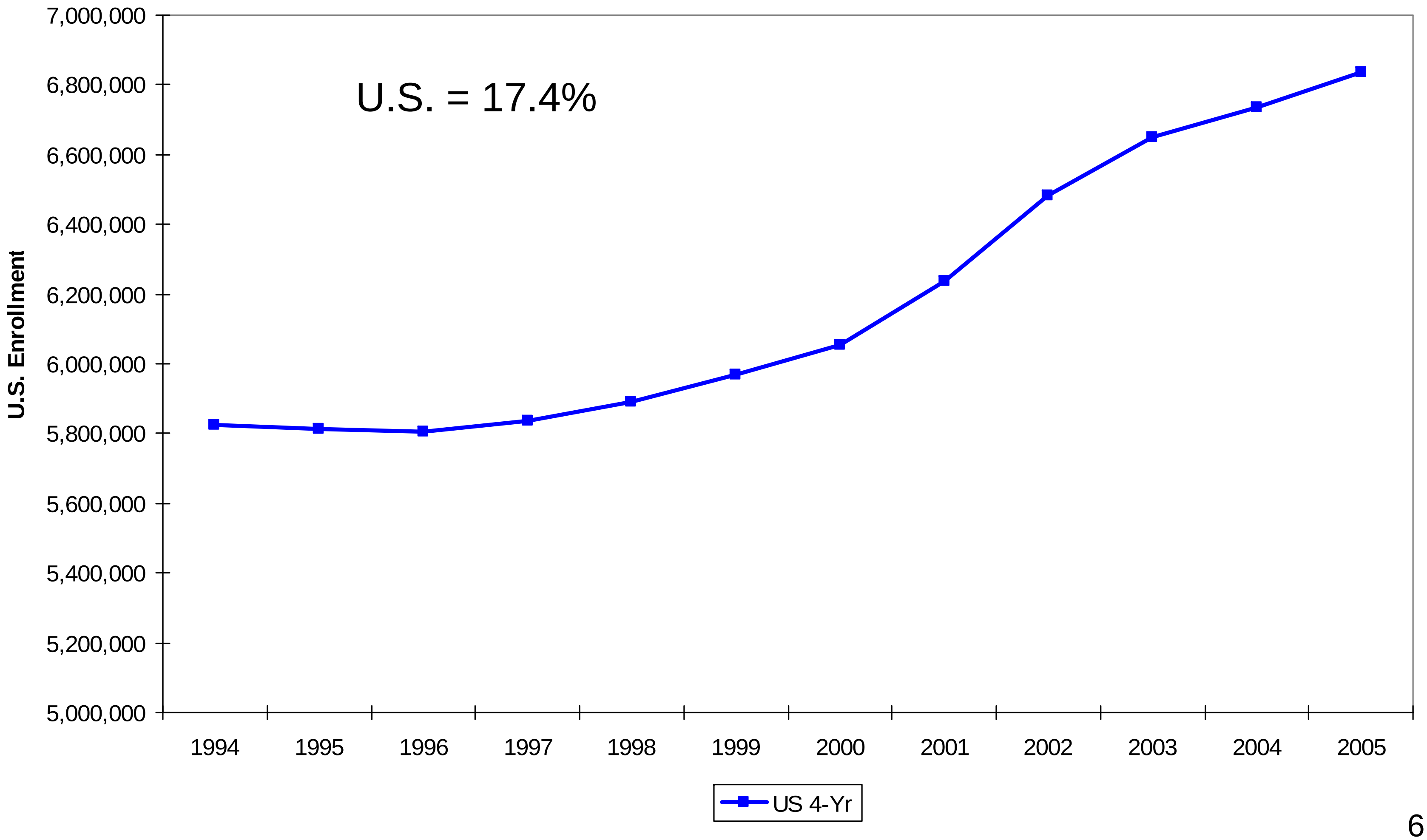


- College costs have risen faster than any other product or service in last two decades
- Reasons cited for rapid increase:
  - Uneven state & federal support
  - Increasing demand for education / enrollment
  - Growth in non-instructional costs

Demand for Postsecondary Education
Enrollment Trends

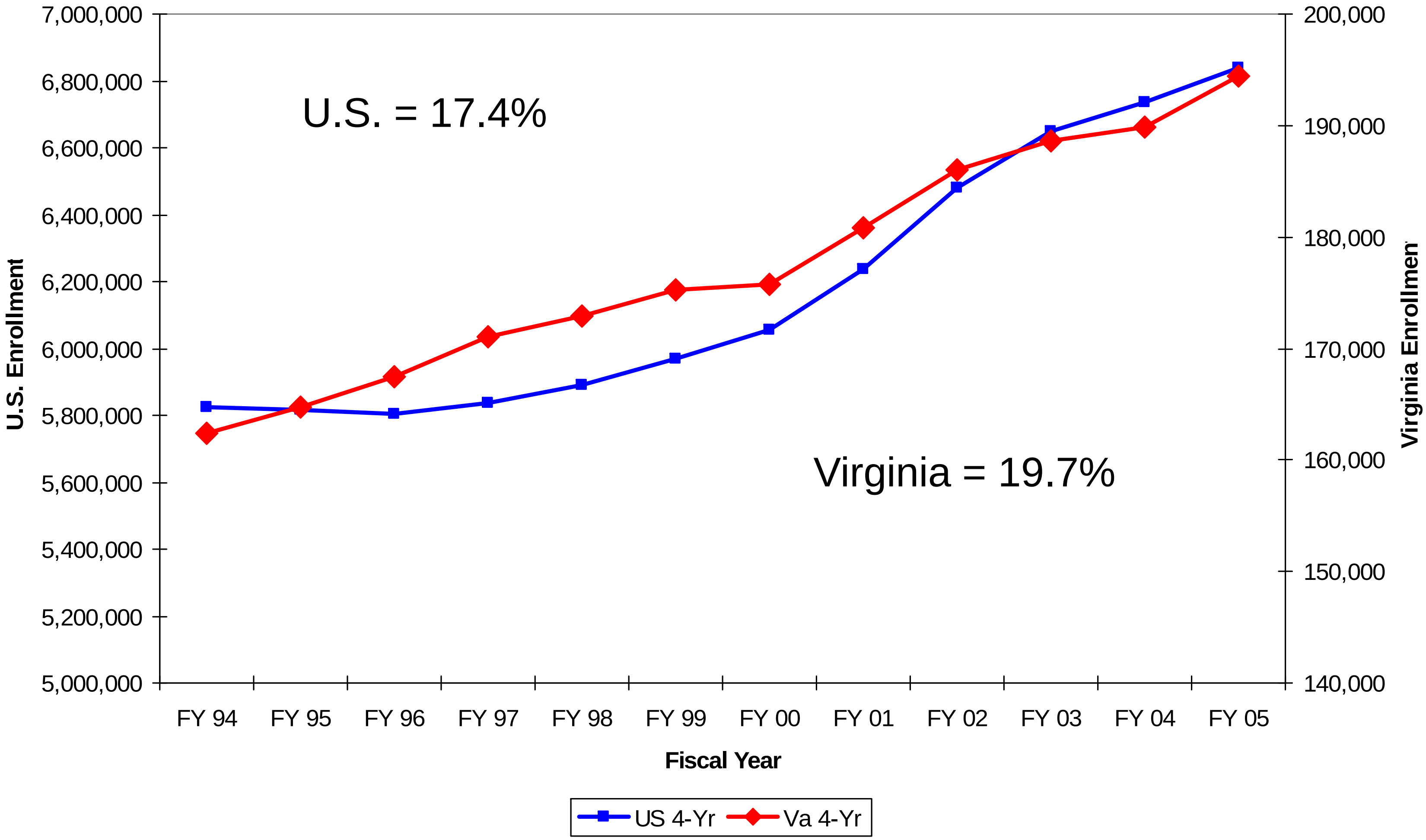
Virginia had a similar experience as the nation

Enrollment Trends
4-Year Public Institutions

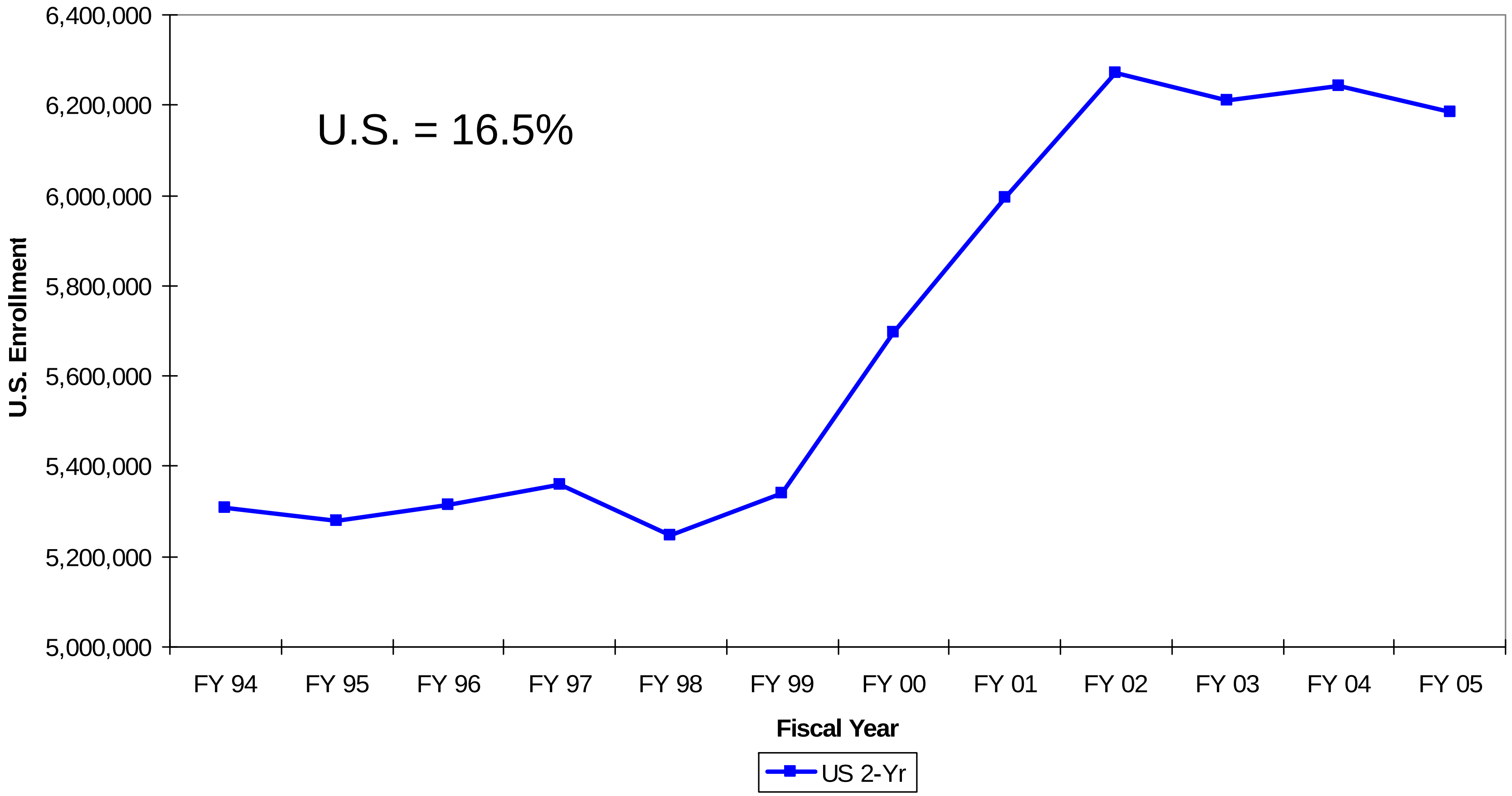


Enrollment Trends

4-Year Public Institutions



Enrollment Trends
2-Year Public Institutions



Enrollment Trends
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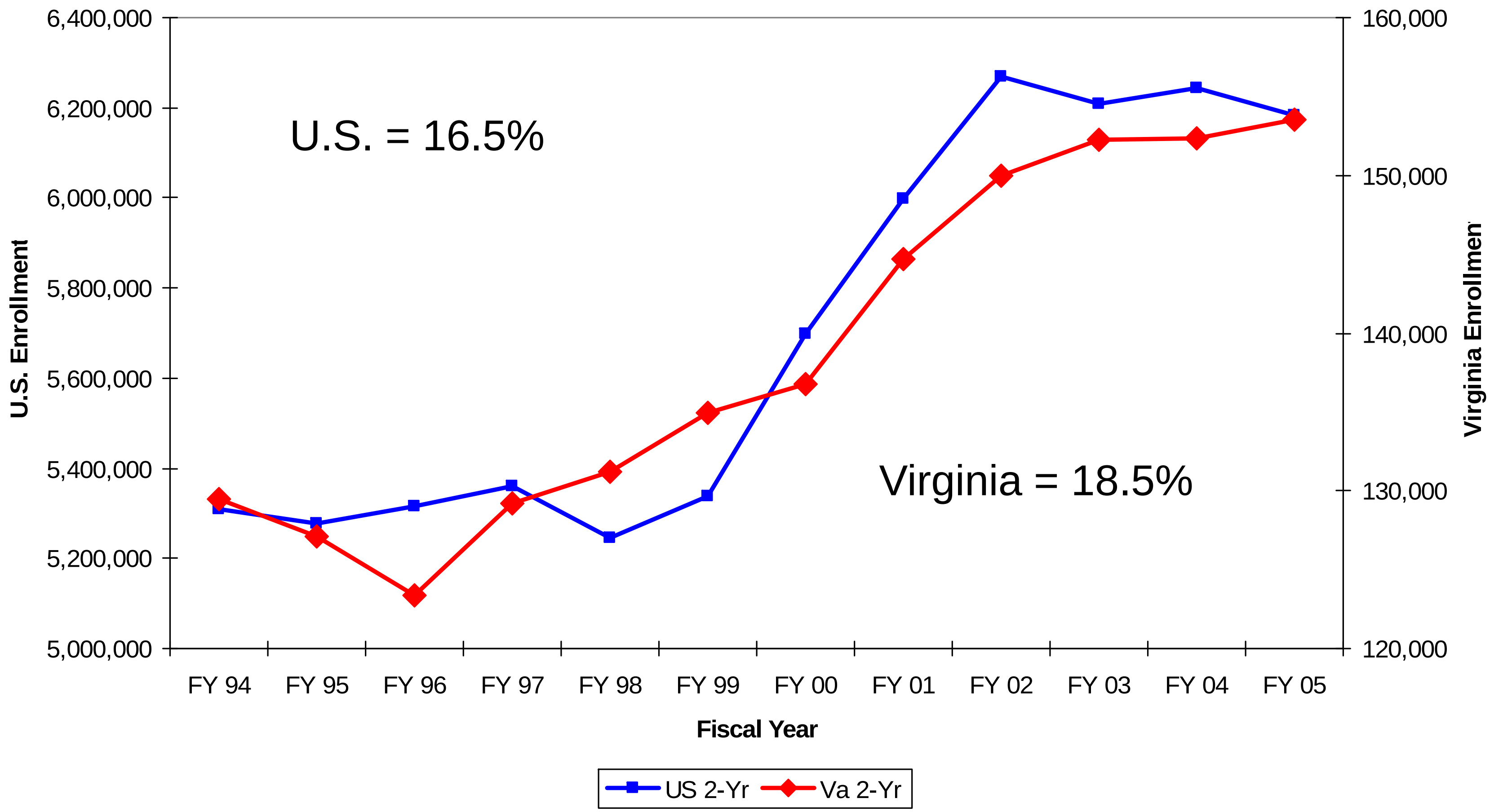


Tuition and E & G Fee History & Significant State Policy Decisions

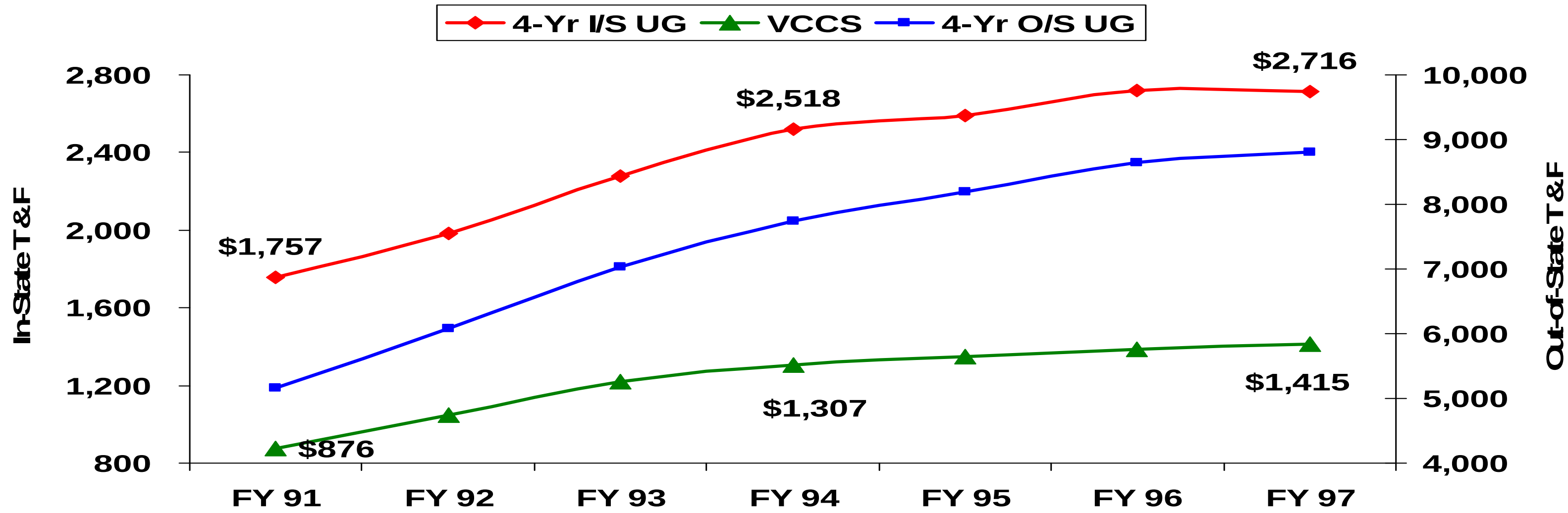
Instructional Costs

- Educational & General Programs (E & G)
  - Based on Virginia's funding policy, we only subsidize the education general programs costs
  - Funding streams
    - State general fund
    - Tuition and Mandatory E & G Fees (Tuition & Fees)
      - In-state policy goal of 33 percent of the cost of education
      - Out-of-state required to pay at least 100 percent of the cost of education
- Books & supplies

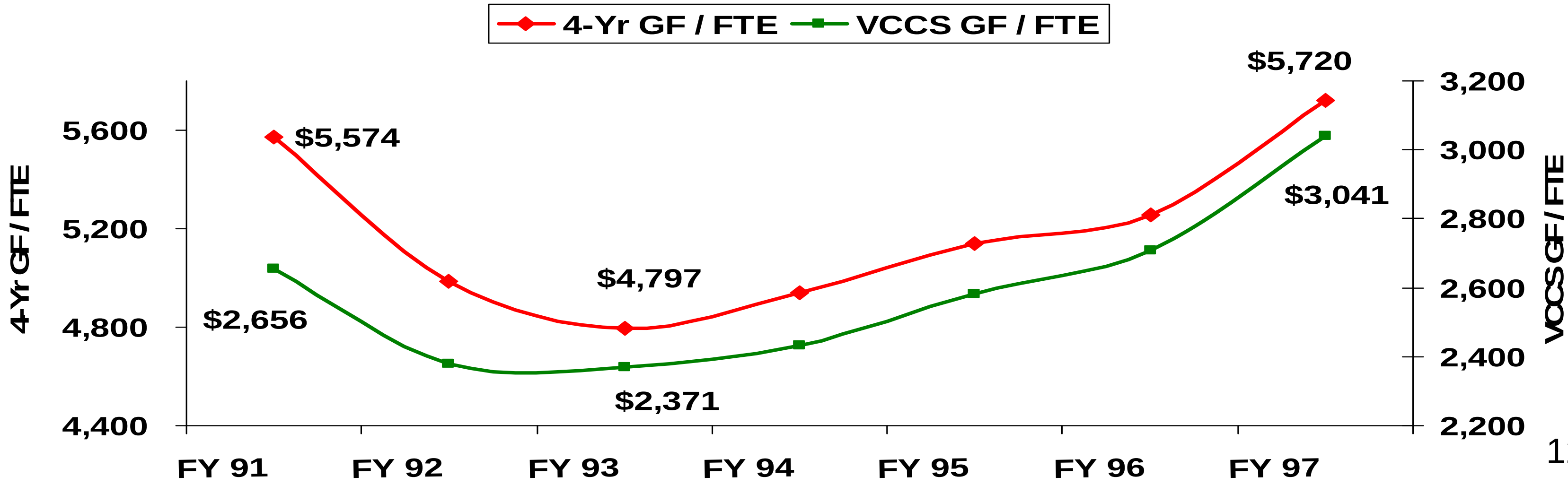
1991-1997

Abandon Appendix M Funding Guidelines & Tuition Controls

Tuition & E & G Fees



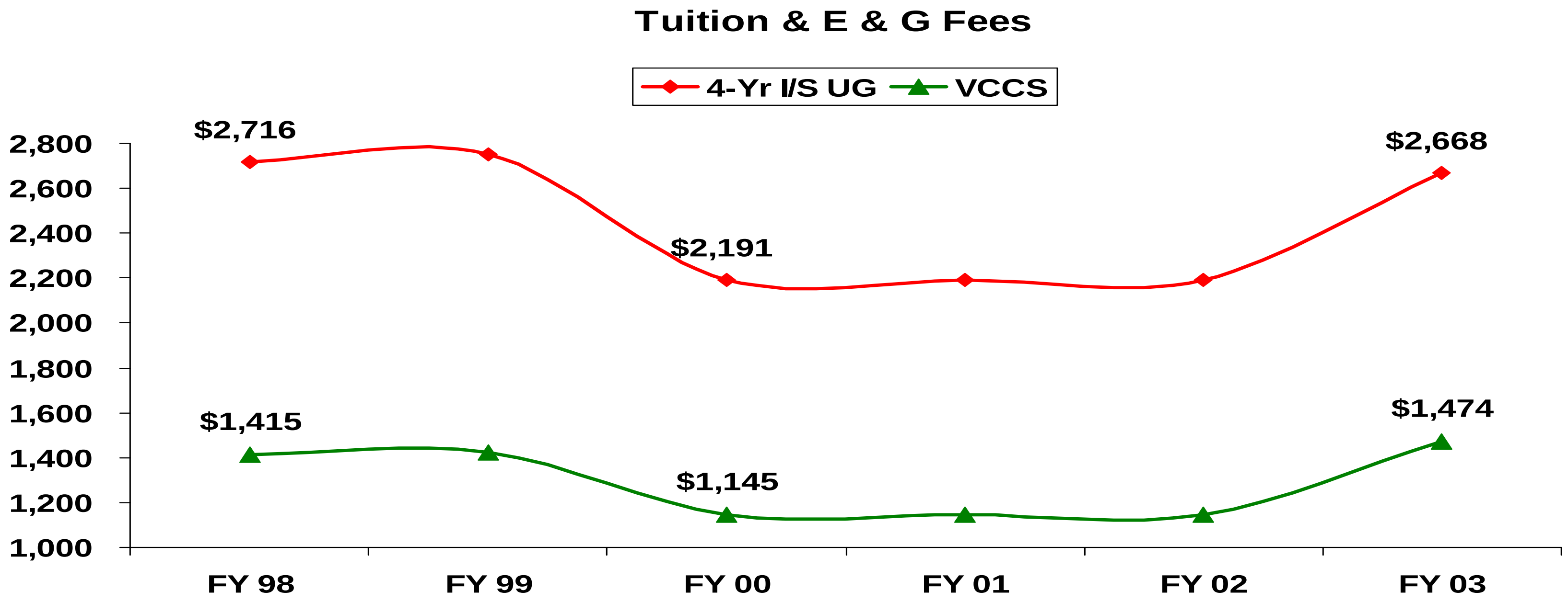
General Fund Per FTE

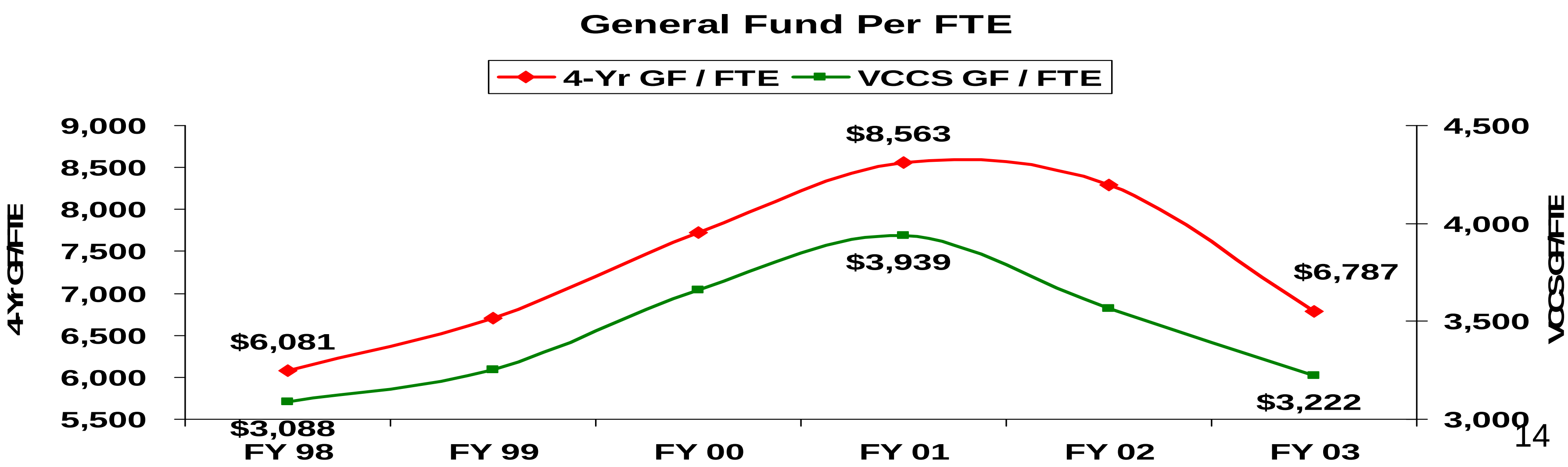


1991-1997
Abandon Appendix M Funding Guidelines & Tuition Controls

- In response to the 1991 recession, general fund support per FTE dropped in the early 1990s by about 19 percent
- From 1991 to 1994, in-state tuition & fees grew by over 40 percent in response to those reductions
- As a result, tuition caps were implemented beginning in FY 94 through FY 96 and then in FY 97, a tuition freeze was implemented
- As the economy began to rebound, Virginia provided increased general fund support in order to fund higher education programs under a capped and then frozen tuition environment
  - GF increased by 17 percent at 4-year institutions & 25 percent at the VCCS
- Out-of-state tuition growth during the period was due to state policy requiring that those students pay at least 100 percent of educational cost

1998 – 2003
General Fund Buildup and Continuation of Tuition Controls

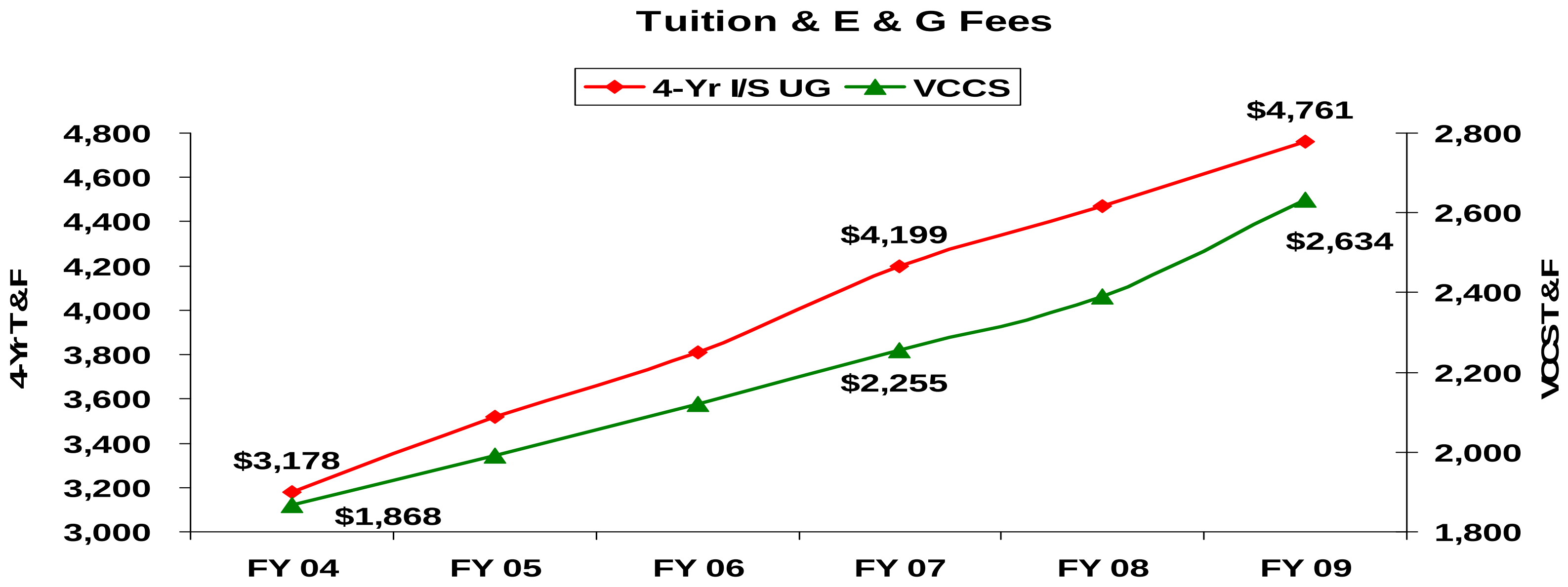


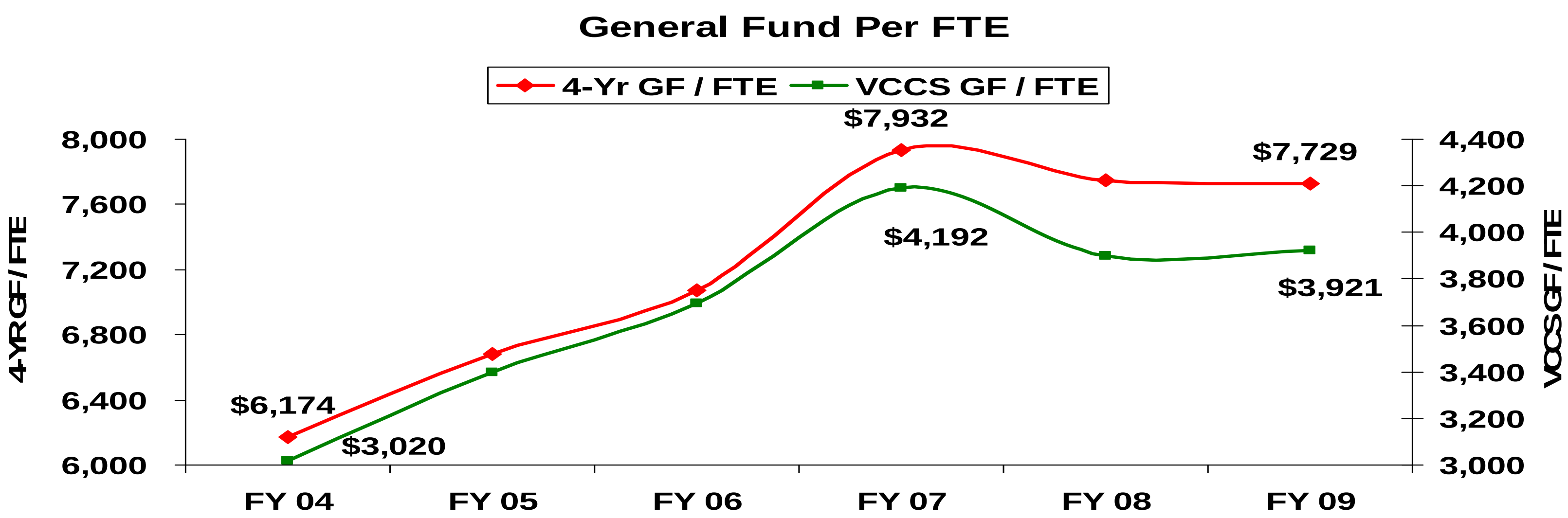


1998 – 2003
General Fund Buildup and Continuation of Tuition Controls

- With state revenues increasing annually at double-digits, general fund support for higher education also grew significantly under the tuition freeze
  - For the two-year period of FY 98 & 99 GF grew a total of about 17 percent
- FY 2000, a 20 percent tuition rollback was implemented
  - NGF revenues were replaced with GF which grew by 15 percent in one year from FY 1999 to FY 2000
- The tuition freeze was then kept in place until FY 2003 when general fund support again dropped about 20 percent as a result of the recession
- The tuition freeze was lifted and institutions increased tuition to help offset the reductions
  - In FY 2003, institutions instituted a mid-year tuition increase in response to the October 2002 budget cuts

2004 – Present
Funding Guidelines, Restructuring & the Tuition Moderation Fund





2004 – Present
Funding Guidelines, Restructuring & the Tuition Moderation Fund

- General fund support grew under the funding guidelines
  - Higher education moved from 85 percent of its guideline funding to over 95 percent by FY 2007
  - GF per FTE grew by 17 percent at 4-year institutions and over 30 percent at the VCCS
- Under restructuring agreements, tuition and fee control was restored to Boards of Visitors
- Even with the significant general fund increases from FY 2004 to FY 2007, tuition and fees continued to increase at nearly double-digit rates annually
- As a result, the state implemented a Tuition Moderation Incentive Fund in FY 2008 and continued the policy into the FY 09-10 biennium
  - Tuition increases moderated to 6 percent in FY 2008 & 6.6 percent in FY 2009
  - 11 of 17 institutions followed the TMIF in FY 2009 keeping tuition increases to no more than 4 percent
  - The remaining six institutions (GMU, UVA, VCU, VCCS, VT, WM) increased tuition by about 10 percent in FY 2009

Student Life

“Club Ed”

Non-Instructional Costs

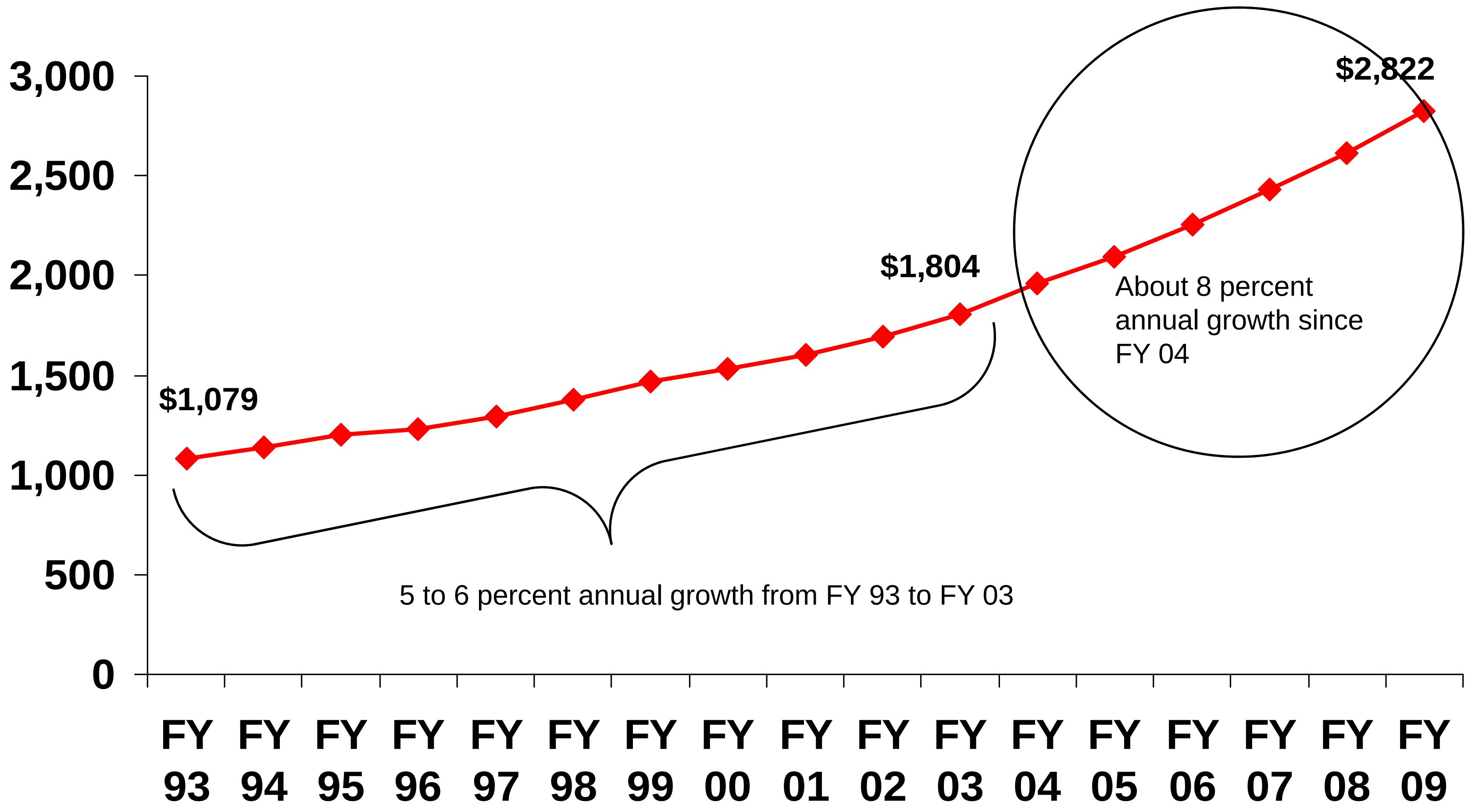
- Student Life costs are covered under the auxiliary enterprise operations of an institutions
  - State does not subsidize these activities with general fund
    - They are required to be self-supporting
- Includes dorms, food services, bookstores, athletics, recreation, student unions
- Revenues derived mainly from student fees
  - Mandatory Non-E & G Fees or the “Comp” Fee
    - Athletics, student unions, recreation
    - Same for all students
  - Room & Board fees
  - Other revenue from sales & services
    - Bookstore
    - Ticket sales

Growing Influence of Student Life

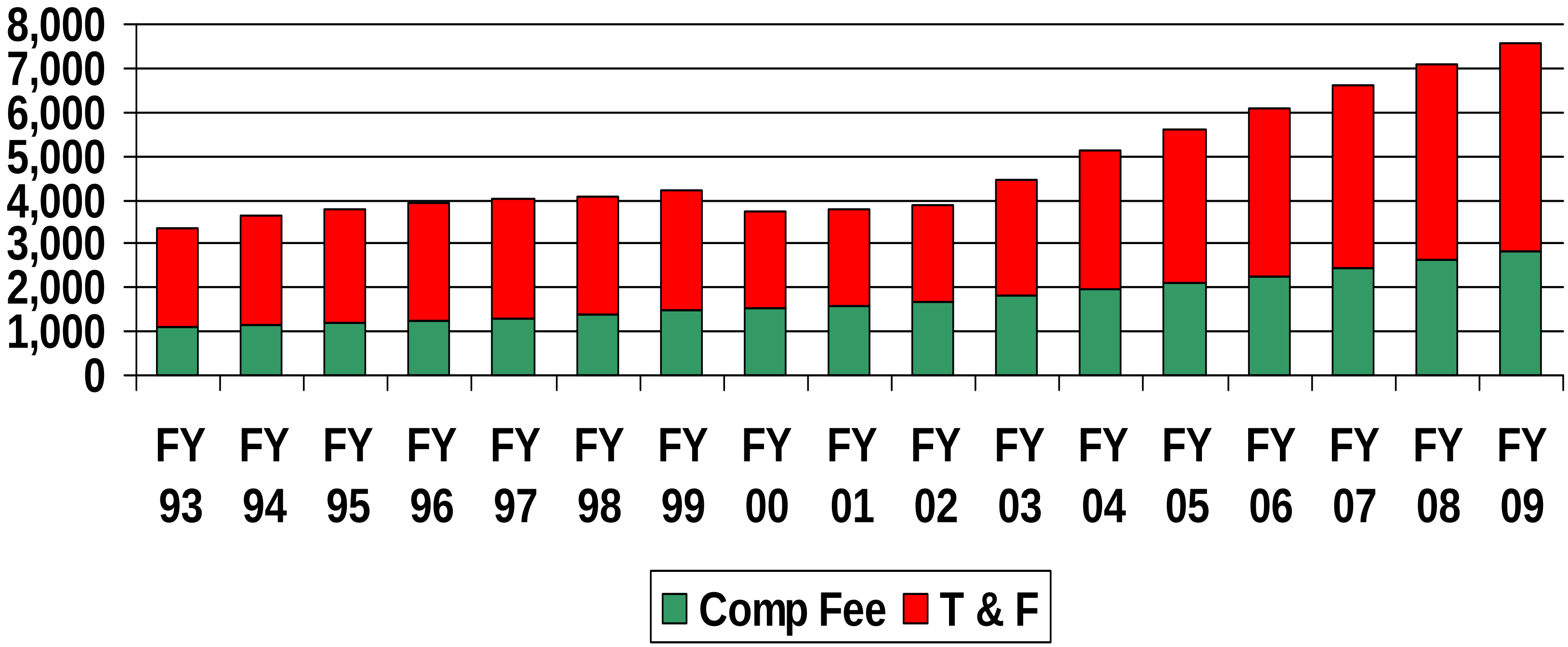
- Comp Fee and Room & Board charges continue to grow
  - Rate of growth in Virginia has about 7% annually for the comp fee and 5% annually for room & board charges
- Demand for fitness centers, dining options and more elaborate dorms is on the rise
- Meet parents / students expectations
- Goal is to attract more students by both public and private institutions
  - This allows institutions to be more selective which results in an improving ranking in publications like U.S. News

Growth in the Comprehensive Fee

162% Since FY 93, Almost 7% Annually



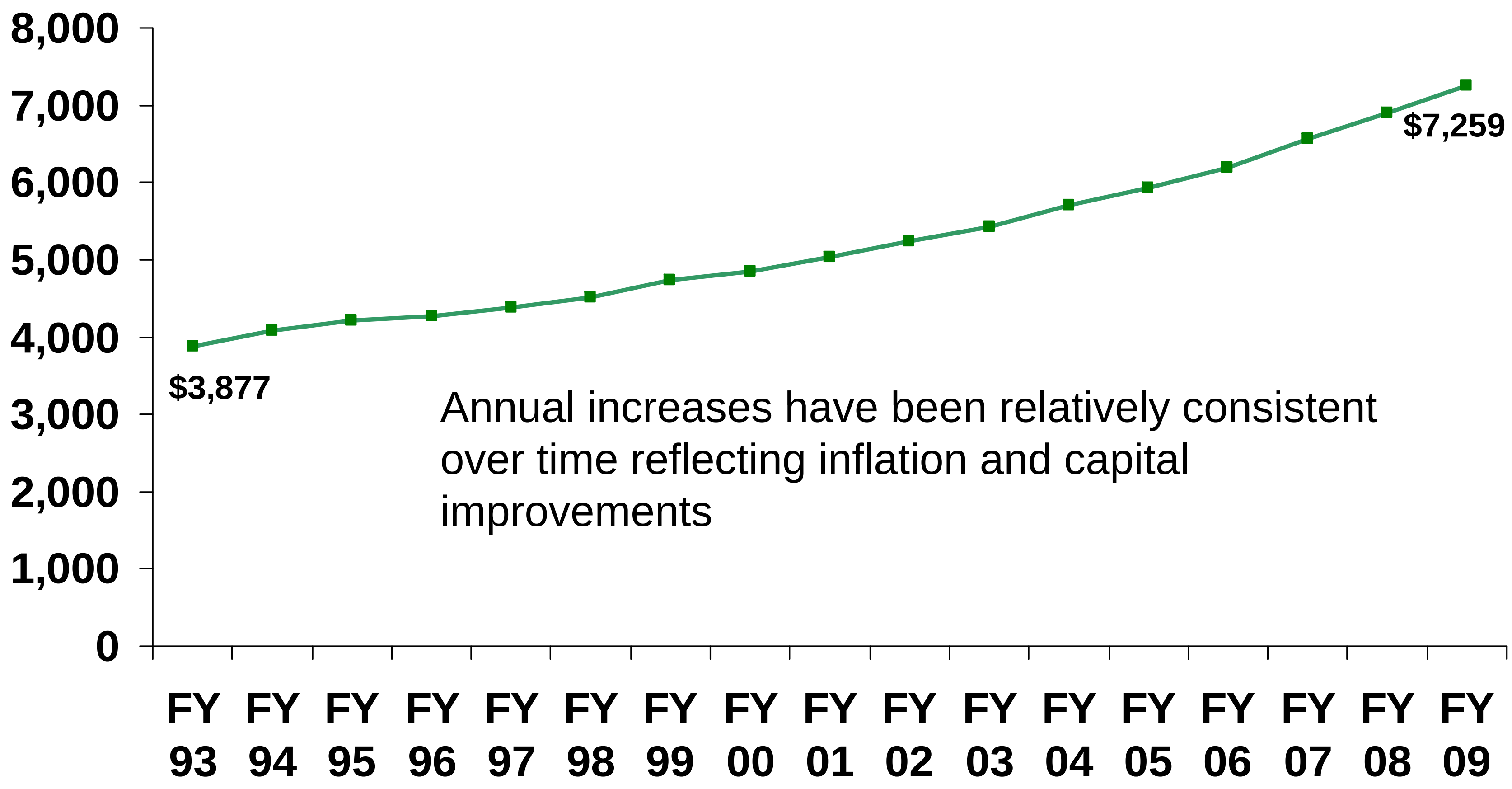
Cost of Student Life Taking Up A Larger Proportion of Overall Cost of Attendance



- Since FY 1993, the “comp” fee comprises a greater share of the overall mandatory cost of attendance at public 4-year institutions increasing from 32 percent to slightly more than 37 percent

Growth in Room & Board Charges

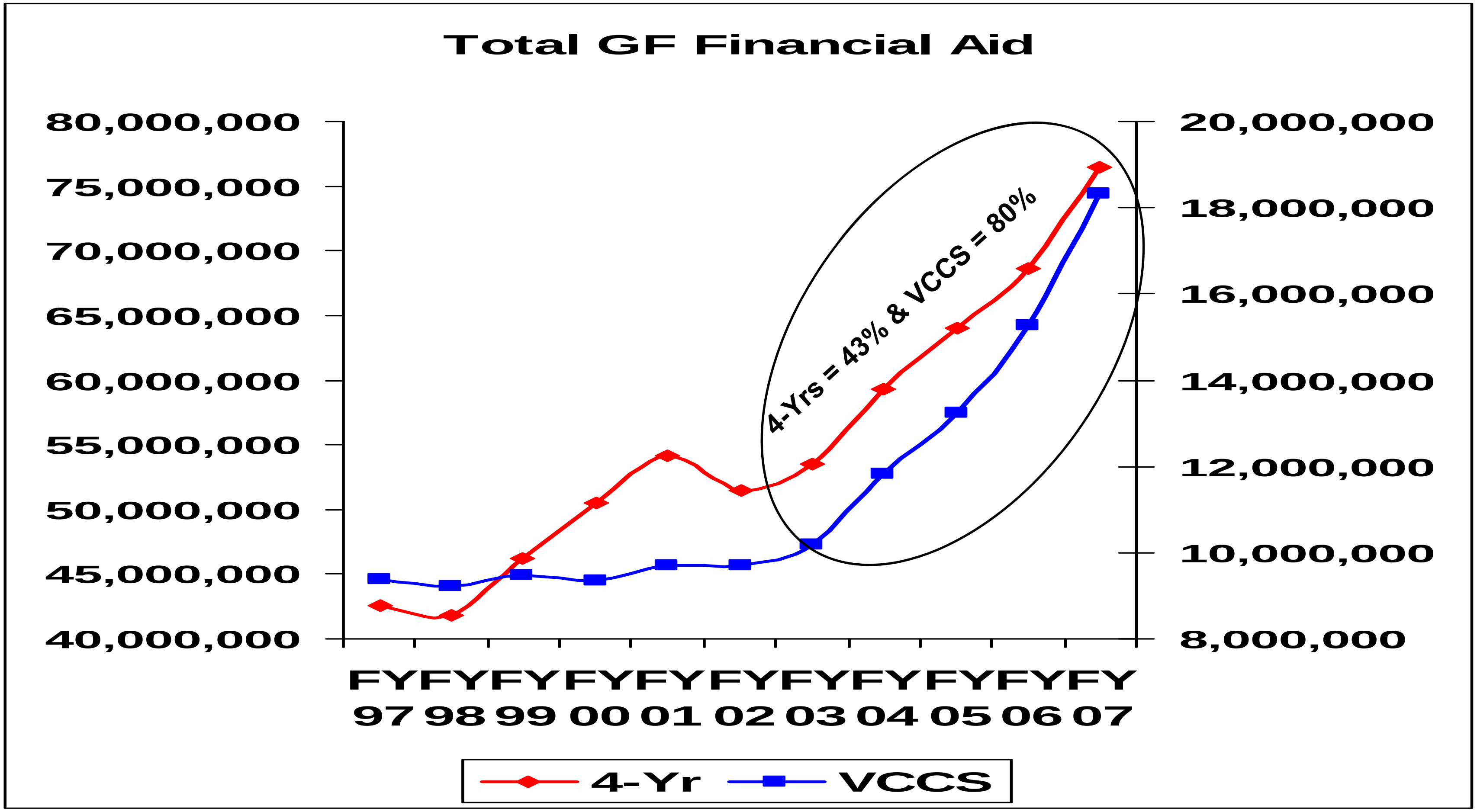
87% Since FY 93, About 5% Annually



Financial Aid

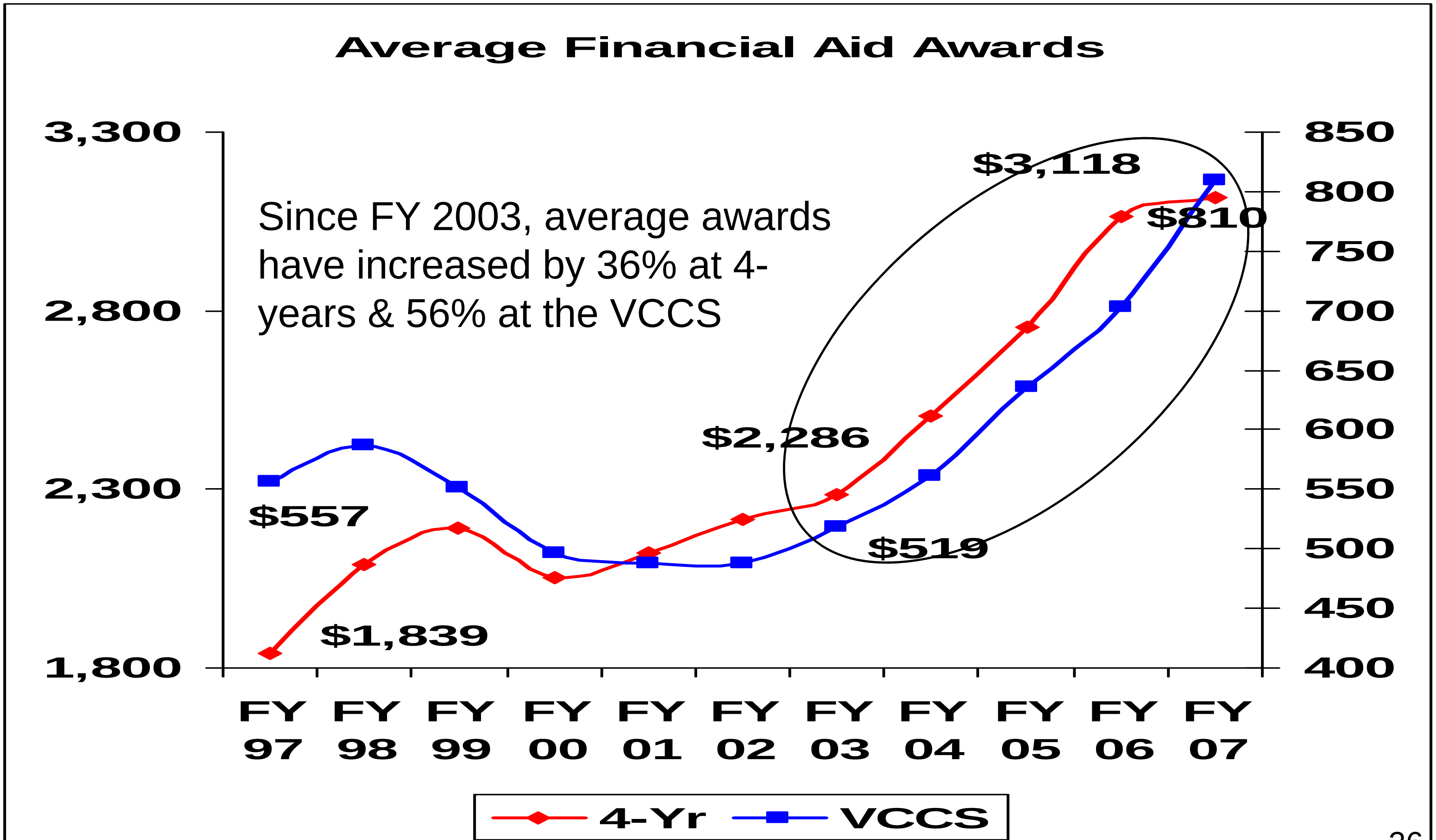
Financial Aid Has Increased Significantly Since FY 97

4-Years = 80% & VCCS = 95%

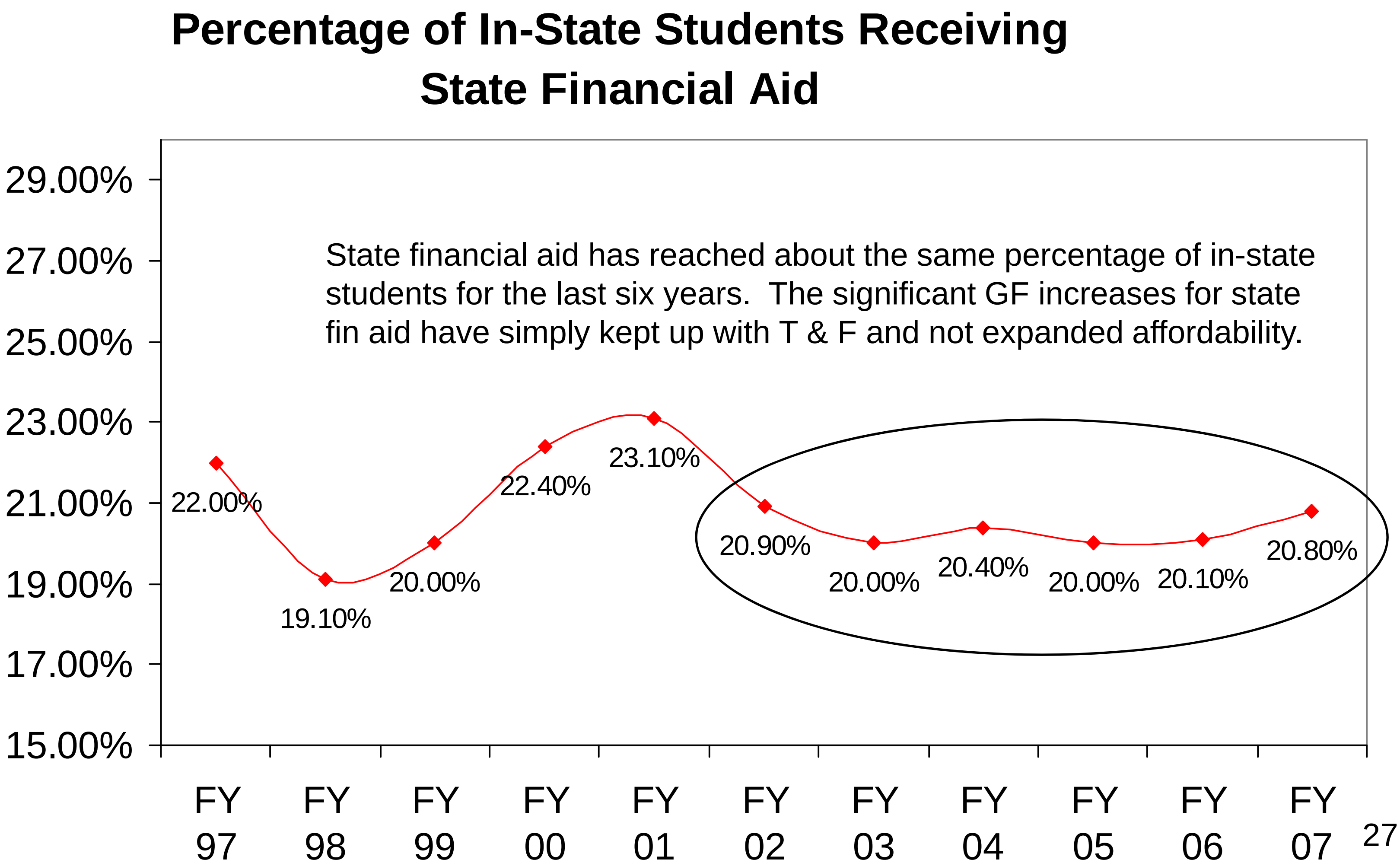


Average Awards Have Increased Significantly Since FY 97

4-Years = 70% & VCCS = 45%

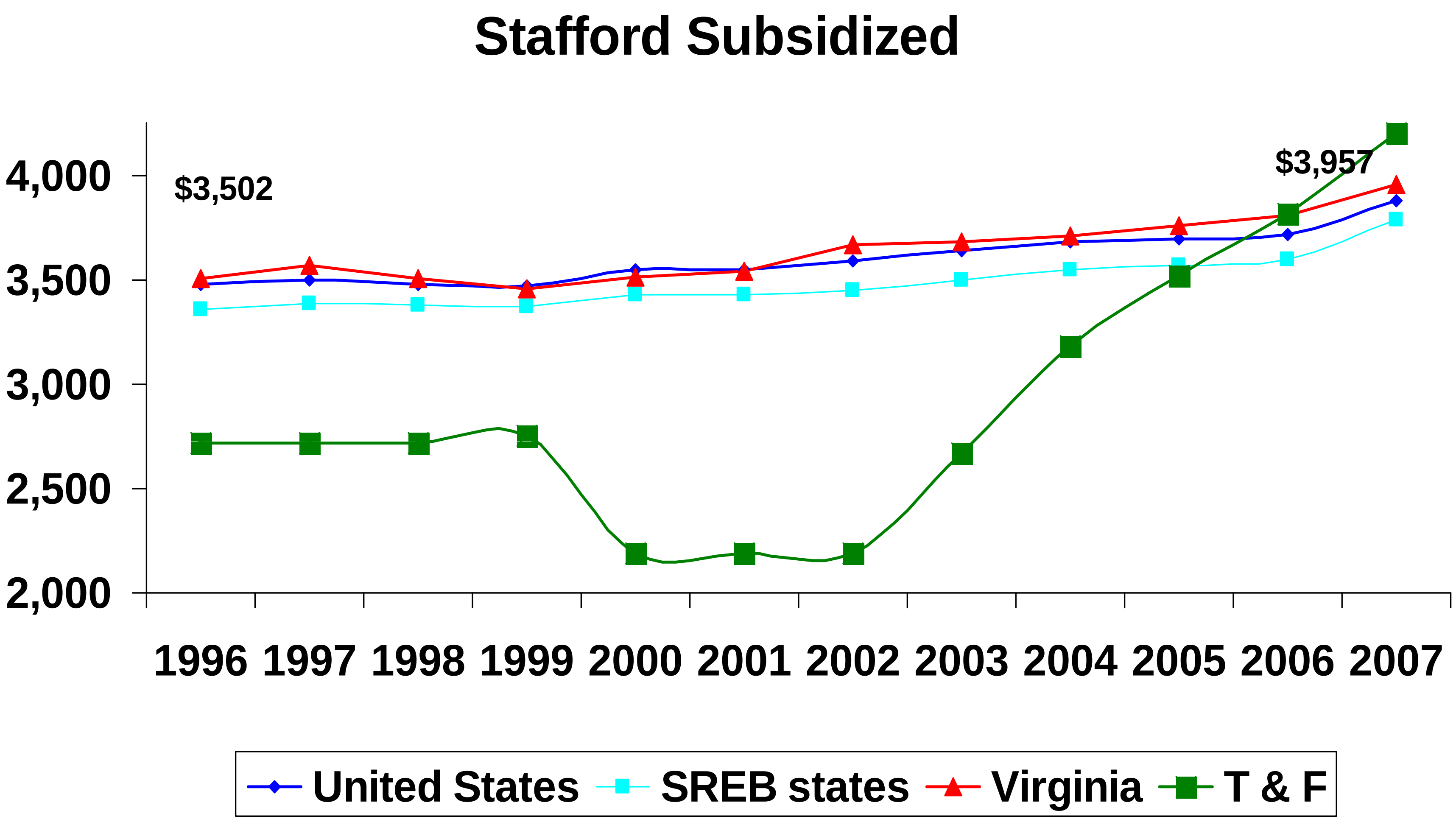


Results of Financial Aid Increase



Student Debt

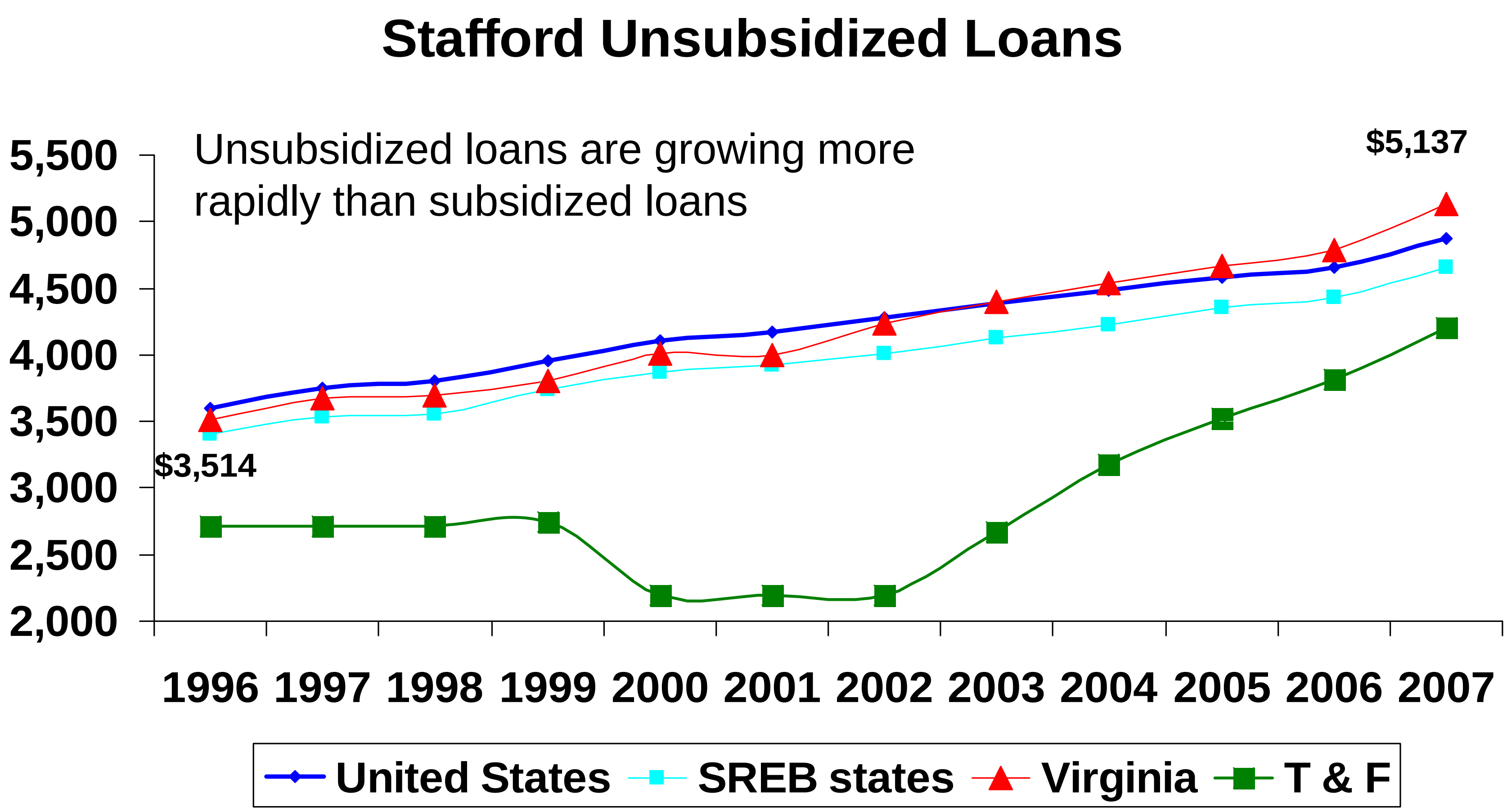
Student Debt



Student Debt

- The use of Stafford loans have grown in Virginia even when tuition and fees were either frozen or reduced
- The growth in Virginia students utilization of subsidized loans is consistent with national and regional averages

Student Debt



How Does Virginia Rank in Terms of Student Debt?

- Based on data collected by the Project on Student Debt (October 2008 report), Virginia ranks 38th lowest among states in terms of average debt of graduates for the Class of 2007
  - Class of 2006 ranked 39th lowest & Class of 2005 29th lowest
- Virginia also ranks well in terms of the percentage of graduates with debt with a rank of 31st lowest among states for the Class of 2007
  - Class of 2006 ranked 29th lowest & Class of 2005 31th lowest
- Data includes both public and private institutions

What Influences Debt Levels

- Availability of state grant aid to students with financial need
- Income profile of the student population
- Tuition and fee levels
- Discounts or “institutional aid” offered by colleges, and the degree to which that aid is targeted to students with financial need
- College location and students’ ability to live with parents or relatives while attending school
- Availability of low-cost community colleges, and the policies related to transferring to four-year schools
- Cost of living (e.g., food, rent, transportation)
- Wage levels for students working part-time and summer jobs
- Time to complete a degree

Concerns About Student Loans

- Tightening credit and loan standards could bump up against rising tuition costs
  - More than 60 percent of student cost comes from third-part payers
    - Federal & state grants
    - Loans
    - Other gift aid
  - Loans comprise about 50 percent of all financial aid
  - If availability of student loans decreases, students ability to pay increasing tuition & fee costs could be impacted
- Ensuring that students complete college in timely manner
  - SCHEV is working on a measure for debt load related to non-graduates
- Increased use of private loans
  - Nationally more than half of students with private loans have family incomes above $50,000

State Policies Options Affecting Affordability

Tuition Incentive Moderation Fund (TMIF)

- The TMIF was first implemented in the 2007 Session of the General Assembly
  - $7.2 million was allocated to institutions who kept tuition increases for in-state undergraduates to six percent
  - All institutions complied
- In the 2008 Session, the General Assembly increased the TMIF to $17.5 million each year
  - To be eligible institutions were asked to keep tuition increases for in-state undergraduates to three percent with an additional percent that could be imposed if used for financial aid
  - All but six institutions (GMU, UVA, VCU, VT, CWM & VCCS) complied

Institutional Reasons for Noncompliance with the 2008 TMIF

- No guarantee that the funds would be on-going to offset foregone tuition revenue
- One size fits all nature of the tuition increase allowance under TMIF
  - Should TMIF take ability to pay into consideration in determining both GF allocation and tuition moderation goal for an institution?
  - Should TMIF take into consideration increases dedicated for financial aid programs started under restructuring agreements?
- The amounts in the fund were insufficient to meet certain costs increases when coupled with a three percent tuition increase
  - Salary increases, energy costs, financial aid & institutional spending initiatives were often cited in newspapers

TMIF Moving Forward

- Concept is valid within the framework of restructuring
  - Incentive fund as opposed to a mandate
  - Allows for targeted growth in general fund which could correct the funding imbalance often cited by institutions
- Consider modifying the fund to address some concerns
  - Differential GF / tuition incentives
  - Clarify second year funding when applicable
  - Financial aid programs

Other Policy Options

- Create a more defined financial program
  - Amounts of aid are simply distributed to institutions in a lump sum and then allocated among students by financial aid counselors
    - Parents / students do not know what they are getting
  - Many states use a fixed grant amount based on family income, family size, and institution type
- Fund in-state enrollment growth as a priority at the appropriate fund split
- Control unit cost growth
  - Higher education is labor intensive so we will need to look for ways to improve productivity
  - From FY 1996 to FY 2008, E & G per FTE spending at public colleges and universities has grown by about 60 percent

Other Policy Options

- Re-examine performance measures
- Get control over mission drift
  - Institutions inevitably want to move up the ladder
  - Competition for students
- State could reevaluate its role and become a buyer of certain services that provide instruction, research and public service
  - Contractual basis
  - Prices would be set for state and students