Higher Education Affordability

House Appropriations Committee Retreat

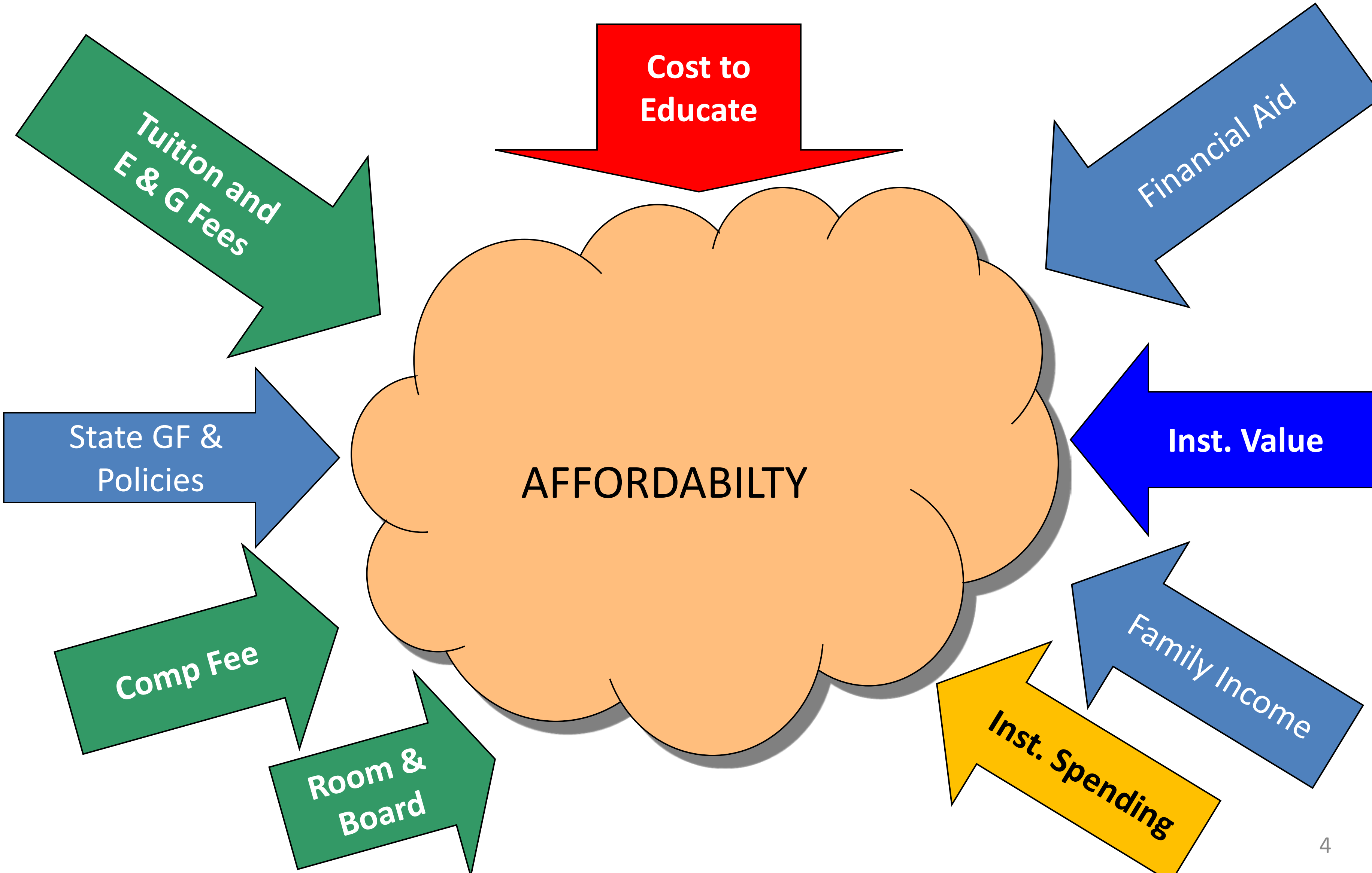
November 15-16, 2016

HIGHER EDUCATION AFFORDABILITY

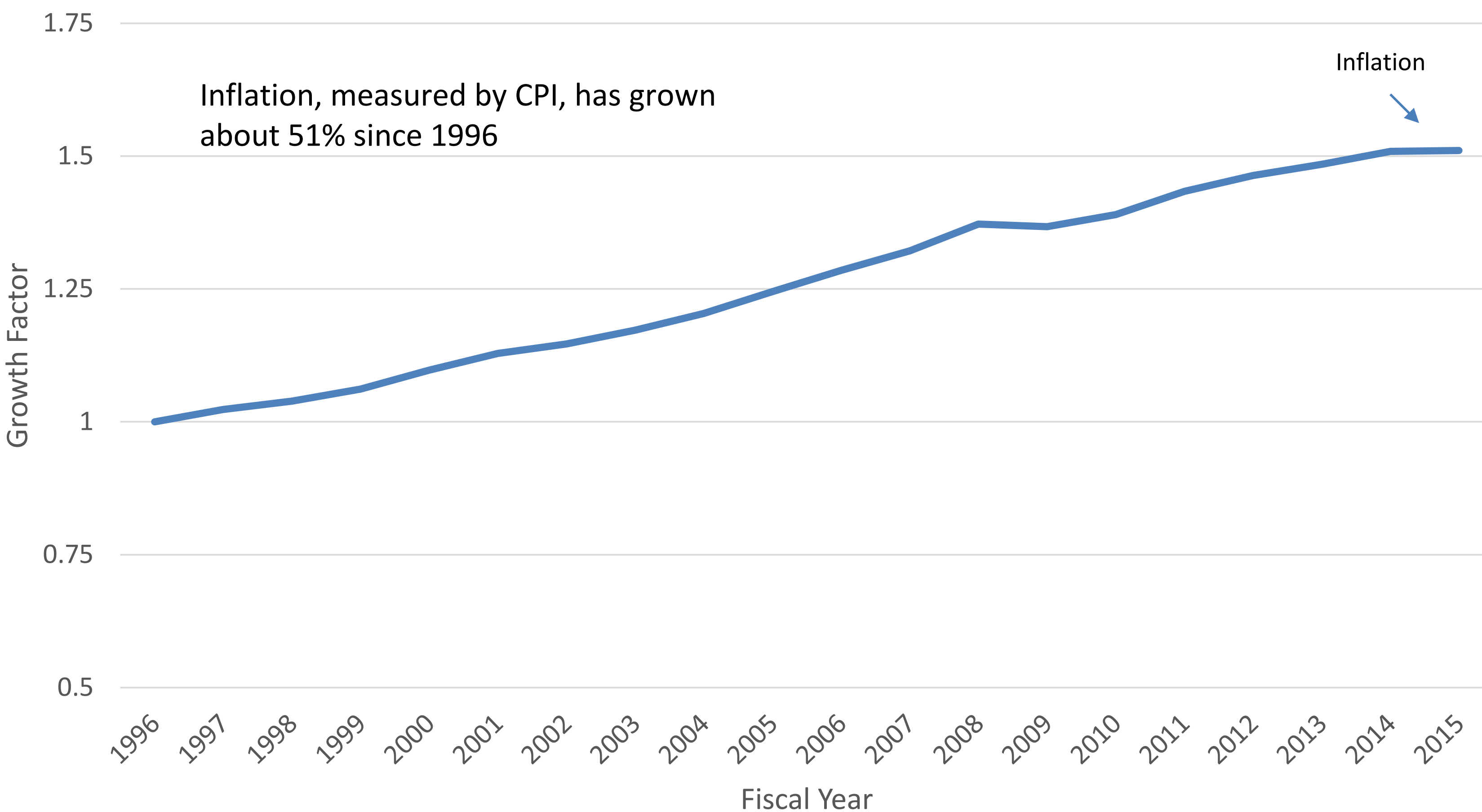
Increased Concerns About College Affordability

- Nationally, student debt reaching ~$1.4 trillion
  - About 44 million borrowers
  - Vast majority under federal programs
  - About 40% related to graduate programs
- Employment prospects post-graduation raise questions about value of higher education degree
- Continued growth in the cost of attendance above inflation
  - Tuition & fees
  - Auxiliary mandatory fee
  - Room & Board

Affordability Factors



In-State Undergraduate Tuition
Public 4-Year Institutions



Source: Bureau of Labor Statistics

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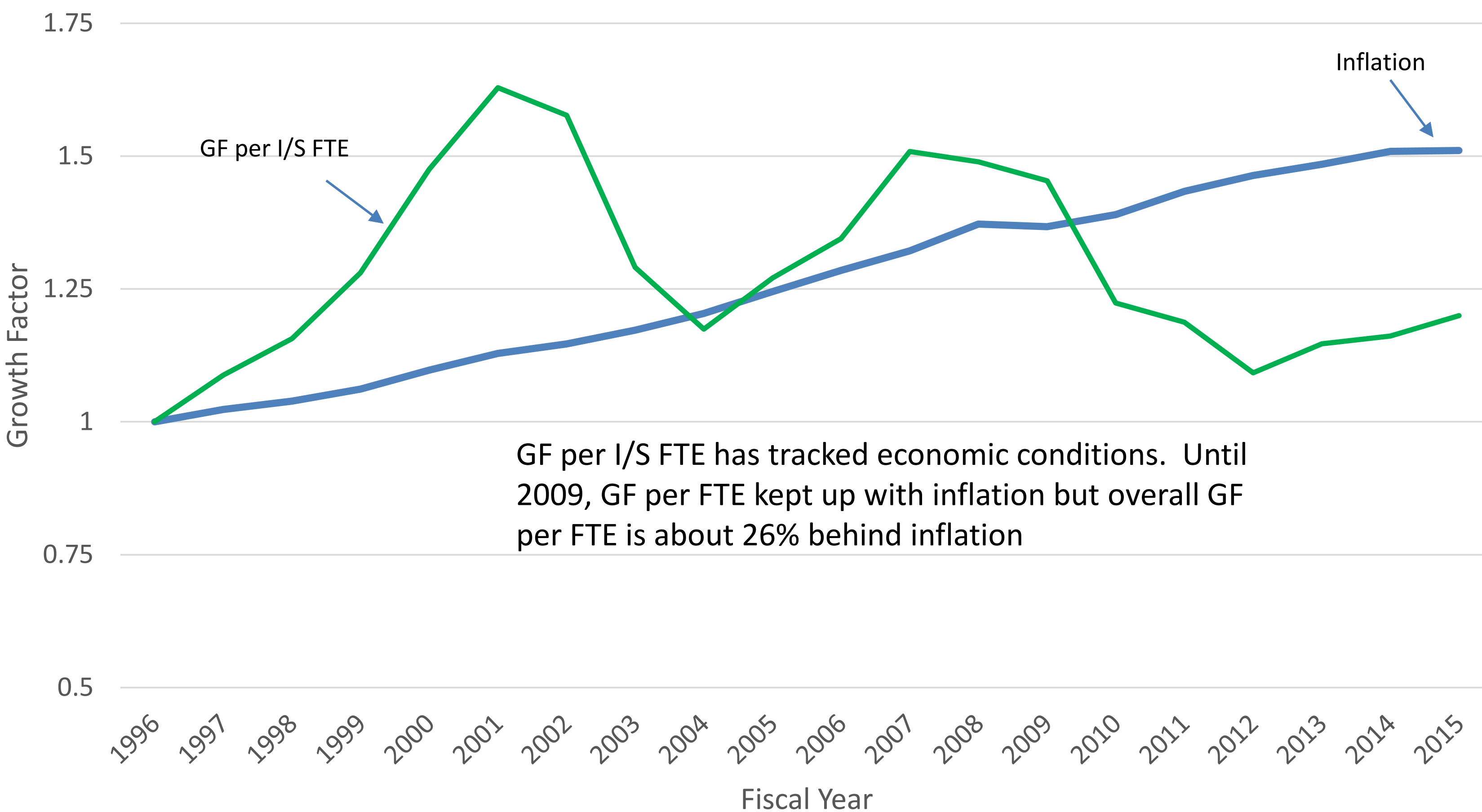

Source: Bureau of Labor Statistics, Various Appropriation Acts & SCHEV EO5 Reports

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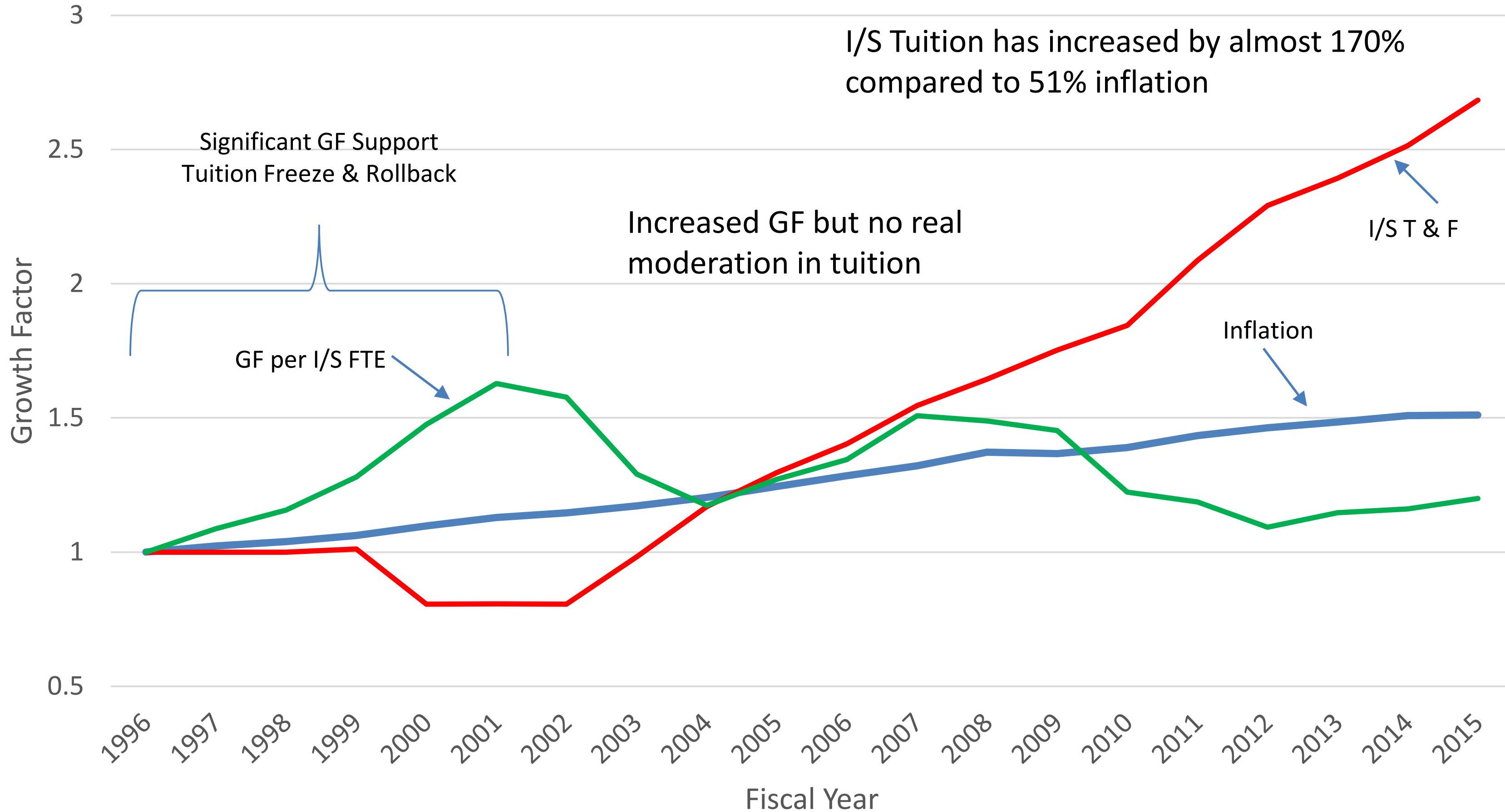
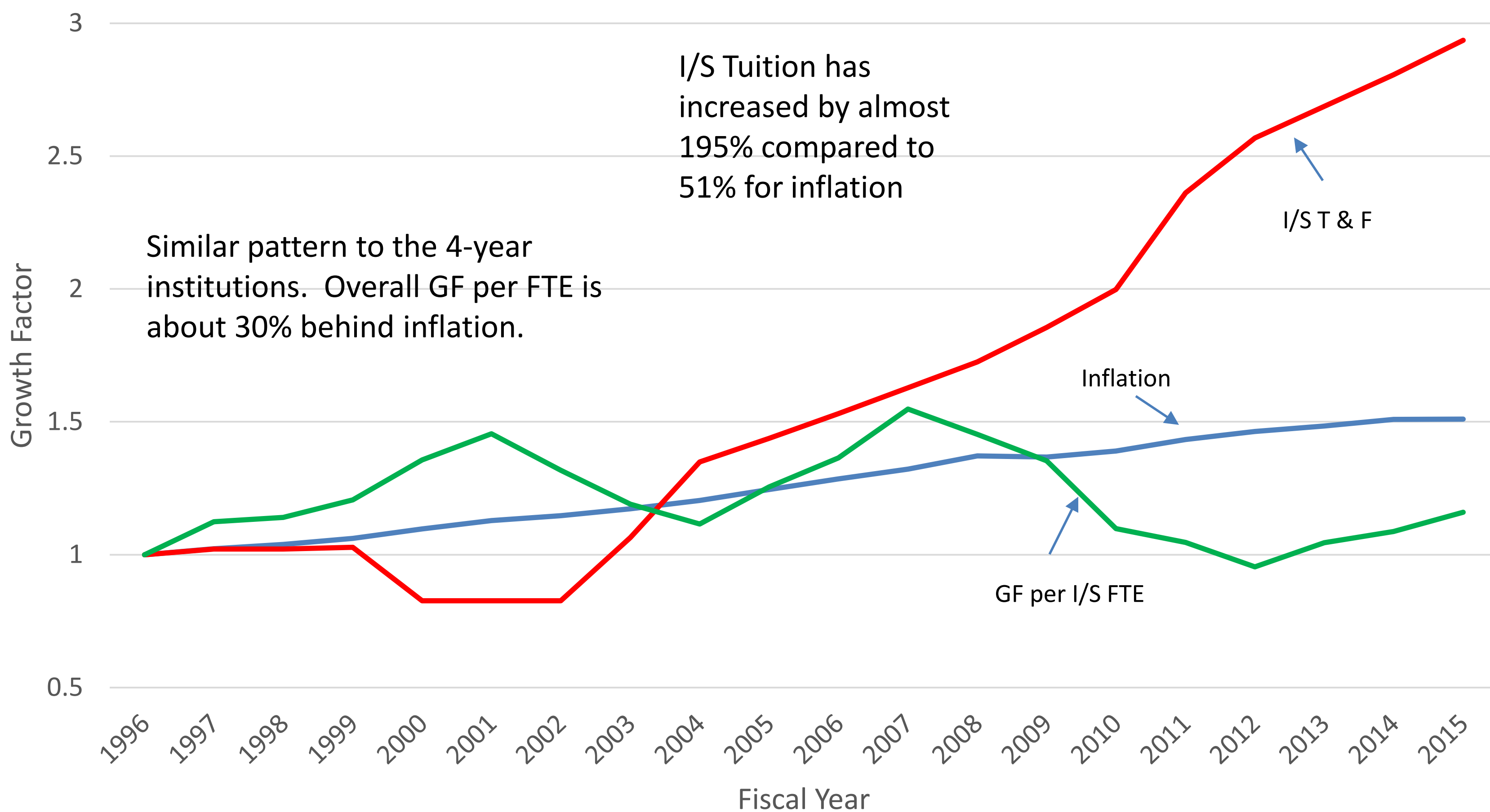


Source: Bureau of Labor Statistics, Various Appropriation Acts & SCHEV EO5 & TF03 Reports

In-State Undergraduate Tuition
Community Colleges



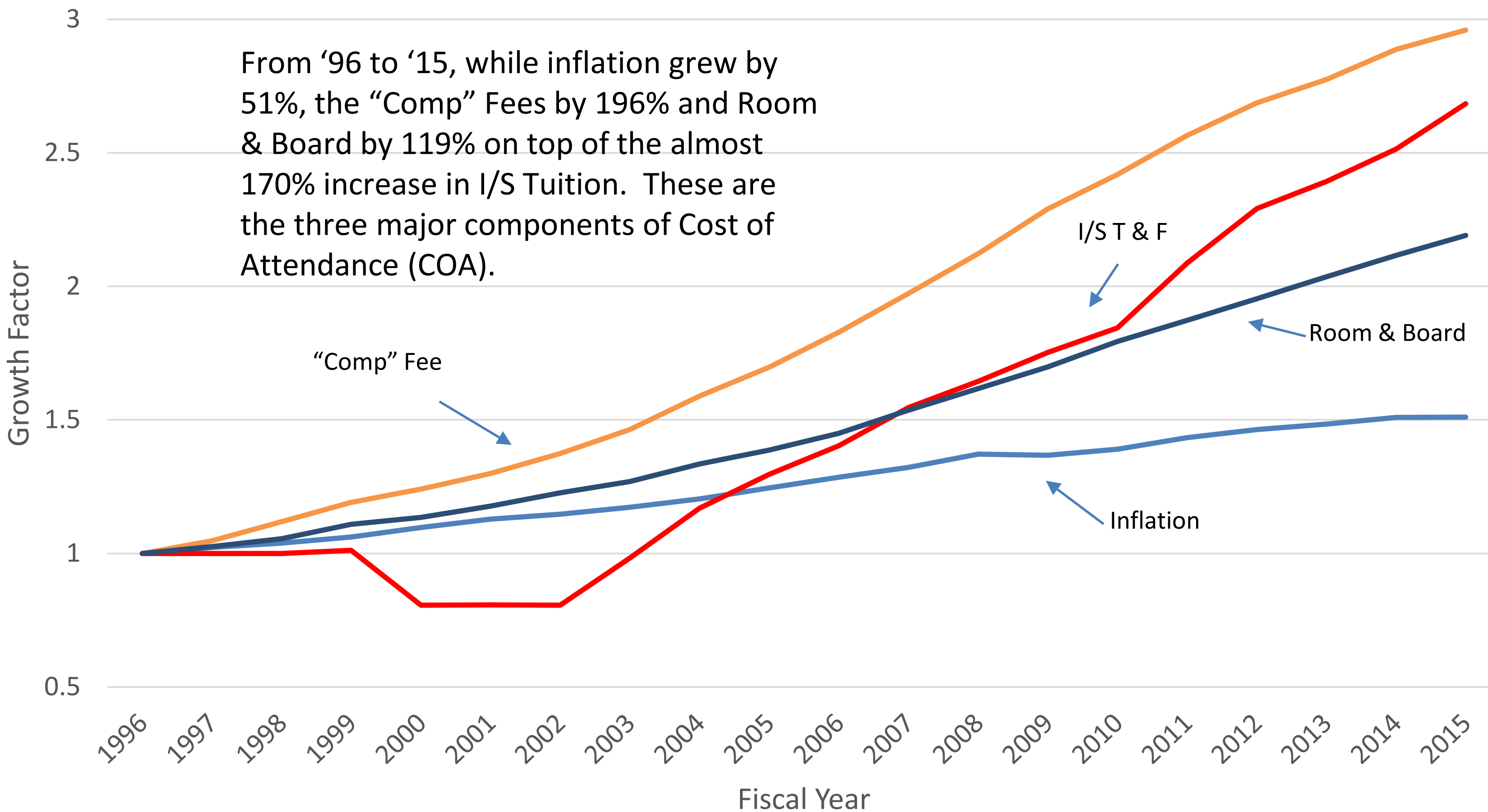
Source: Bureau of Labor Statistics, Various Appropriation Acts & SCHEV EO5 & TF03 Reports

Other Affordability Components

Cost of Attendance (COA)

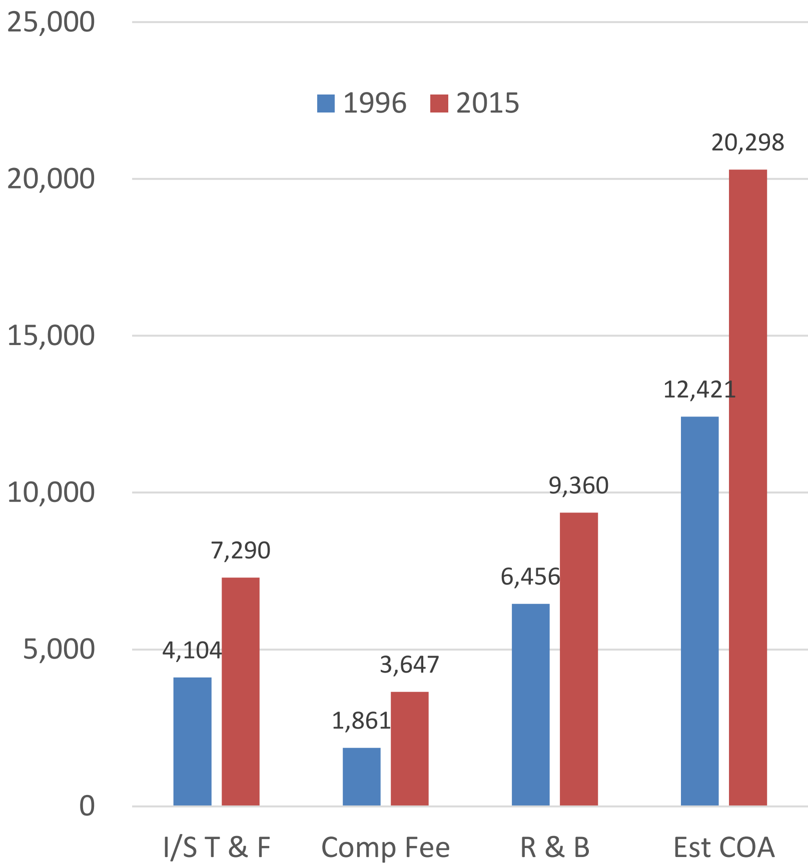
- COA is primarily comprised of:
  - E & G Tuition
  - Comp Fees
  - Room and Board
- Other COA costs include books, transportation & personal expenses
- VCCS does not have room & board but allowances for such under federal methodology are larger than tuition
  - VCCS has a nominal auxiliary fee of $14 which has not changed since 1996
- Tuition represents about 28% of the overall COA at 4-years and about 25% at the VCCS
- COA is the basis for financial aid calculations including loan borrowing limits

Other Affordability Components
Public 4-Year Institutions



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

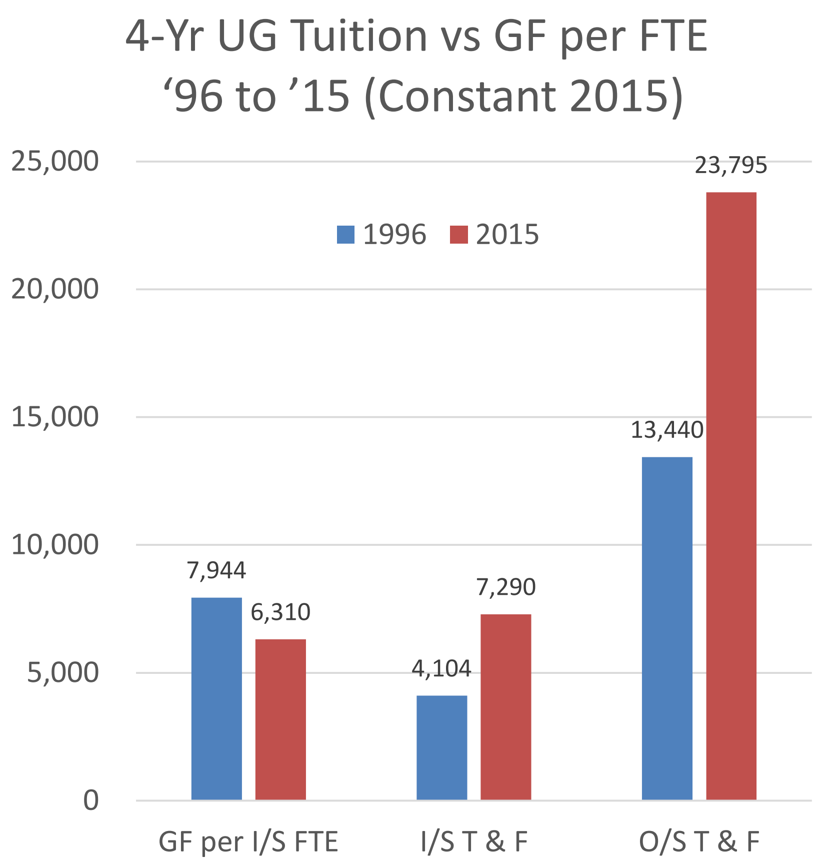
From '96 to '15, Overall COA Rose By 63% in Constant 2015 at 4-Years



Source: Bureau of Labor Statistics & SCHEV TF03 Reports

- Increases in student life fees drove 60% of the COA increase
  - Changes in GF support do not affect student life costs
- Tuition increases account for the remaining 40%
  - About one-half of that increase is the result of reduced GF support relative to inflation

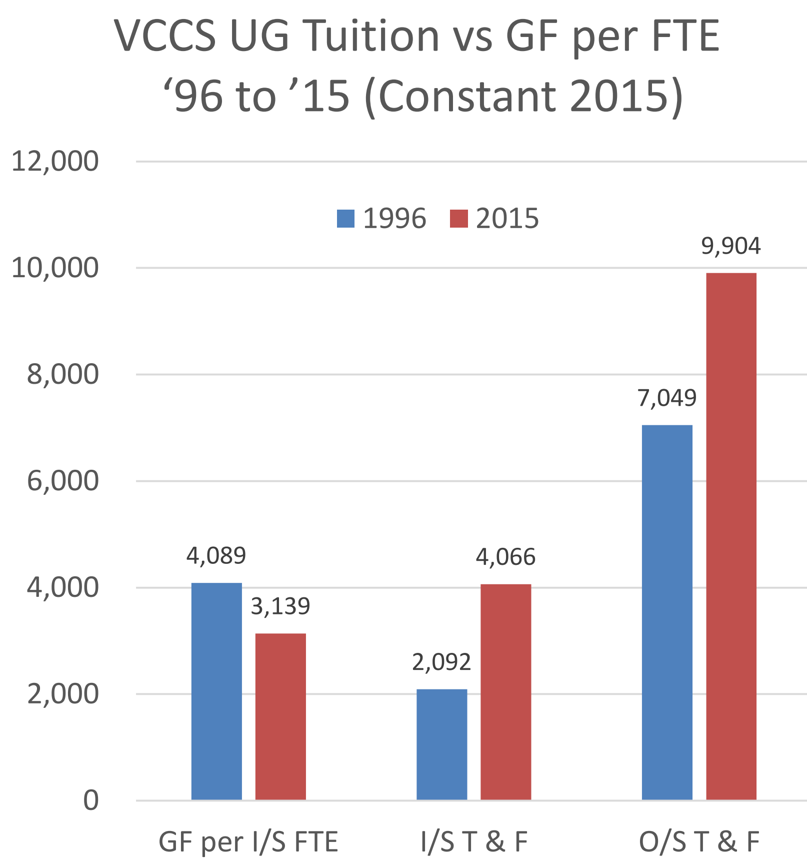
4-Year Undergraduate Tuition Increased Beyond Cuts in GF Support



Source: Bureau of Labor Statistics & SCHEV TF03 Reports

- GF per Student went down by $1,634 in constant dollar terms from '96 to '15
- I/S UG Tuition increased by $3,186 over the same period
  - Essentially, I/S Tuition grew $2 for every $1 loss in GF
- In addition, O/S UG increased by $10,355
  - The proportion of O/S UG students over this period did not increase remaining at about 20%

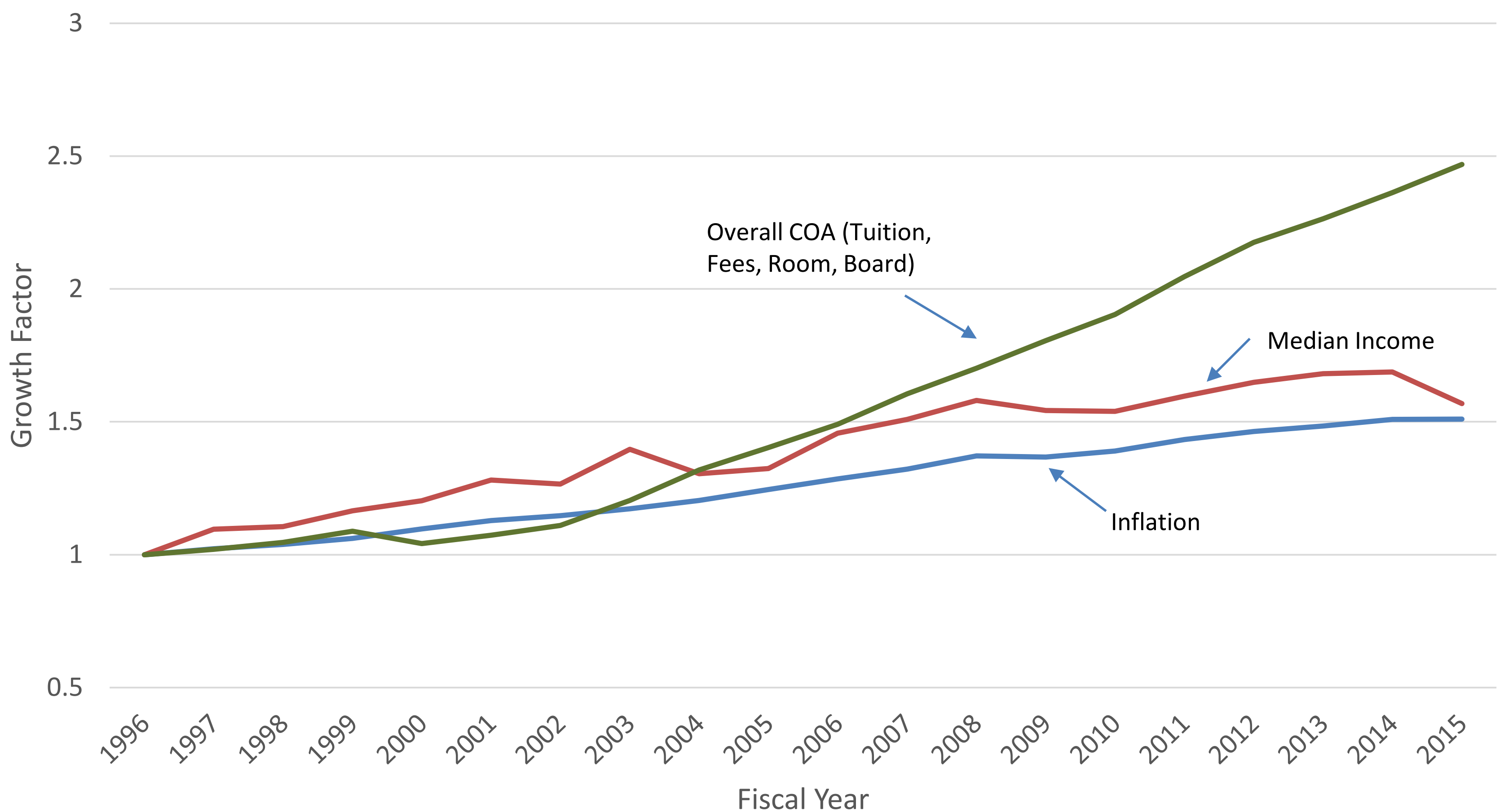
VCCS Undergraduate Tuition Also Increased Beyond Cuts in GF Support



Source: Bureau of Labor Statistics & SCHEV TF03 Reports

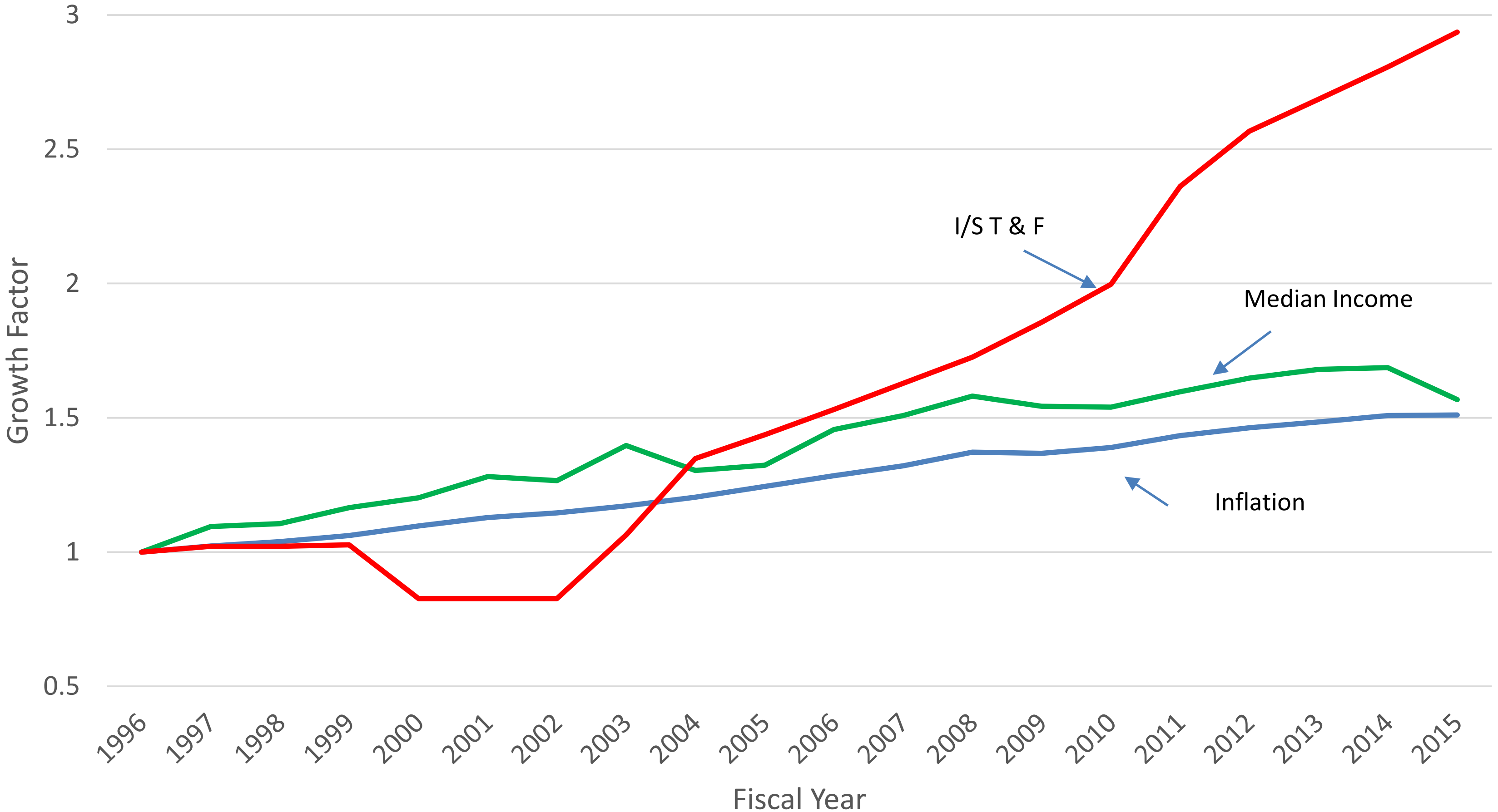
- GF per Student went down by $950 in constant dollar terms from ‘96 to ‘15
- I/S UG Tuition increased by $1,974 over the same period
  - Essentially, I/S Tuition grew $2 for every $1 loss in GF
- While O/S UG increased by $2,855, the VCCS enrolls only 4 to 5 percent O/S students

Overall COA growth in last 10 years is greater than growth in Median Household Income



Source: Bureau of Labor Statistics, US Census Data & SCHEV TF03 Reports

Almost 200% VCCS Tuition Growth in Last 10 Years Exceeds Median Income Growth



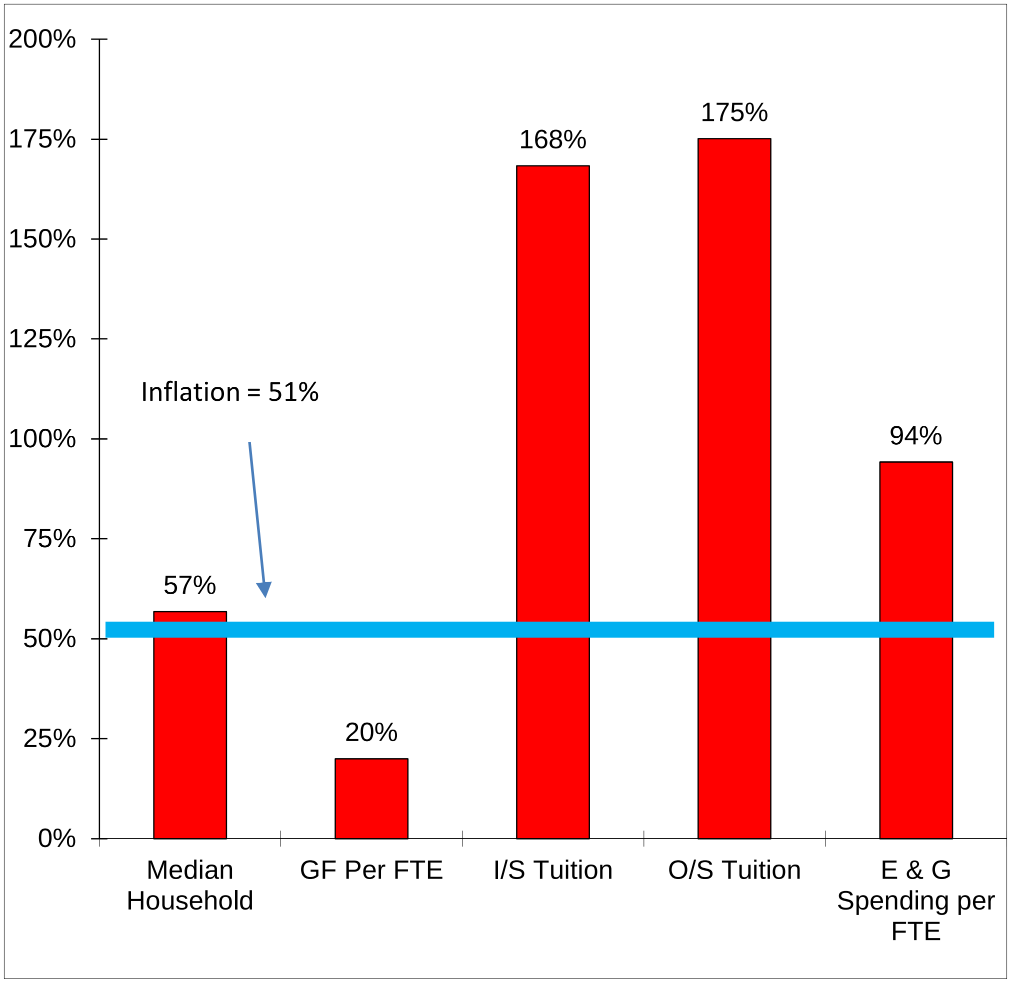
Source: Bureau of Labor Statistics, US Census Data & SCHEV TF03 Reports

Tuition, Fees & GF Support Summary

- GF support per FTE student has been erratic over the last 20 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
  - GF support fell below inflationary growth levels during the recession of 2009
- 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
- At 4-years, auxiliary fees (comp fee) grew at rates that exceed even tuition growth
- Room & board fees also grew significantly
- Rates of growth exceed growth in median income

HIGHER EDUCATION SPENDING

From 1996 to 2015, the current dollar cost of public 4-year institutions has increased significantly

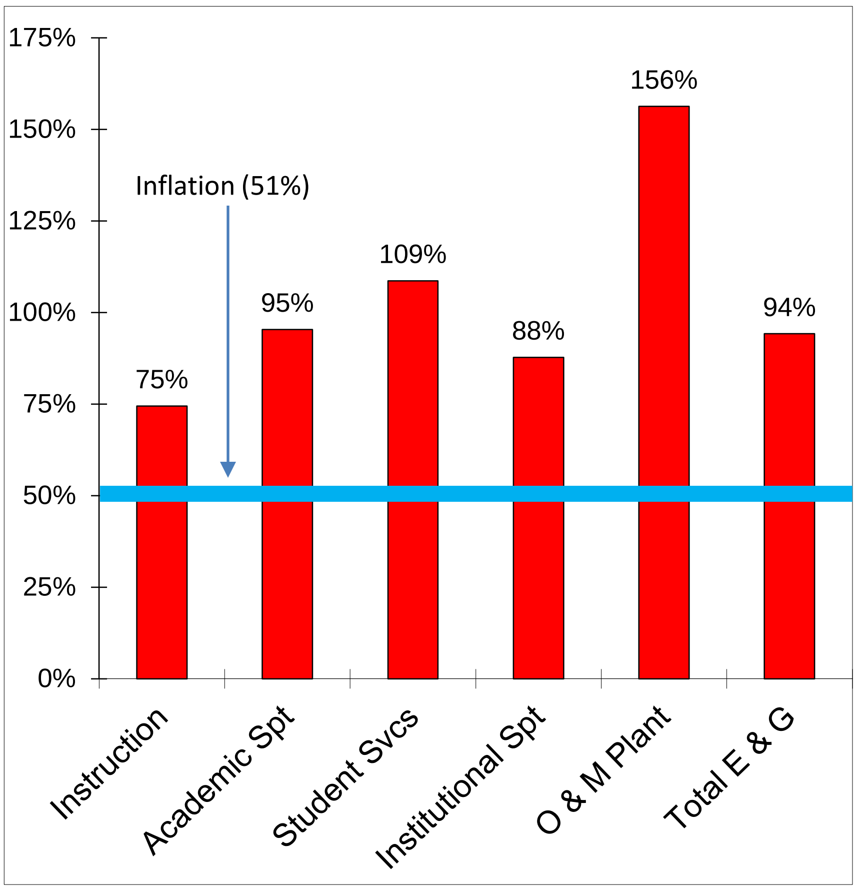


- College costs have risen faster than inflation and outstripped family income in the last two decades
- Reasons for rapid increase:
  - Uneven state support in part
  - Growth in non-instructional costs
  - Spending at twice the rate of inflation
- The growth in E & G spending is fueled by undergrad tuition increases well in excess of inflation
  - The I/S Tuition increase in constant 2015 is about $3,200 compared to GF per FTE decrease of about $1,600
  - O/S increased about $11,000 in constant 2015

Source: Bureau of Labor Statistics, Commonwealth Accounting & Reporting System Data

Spending Per Student By Program

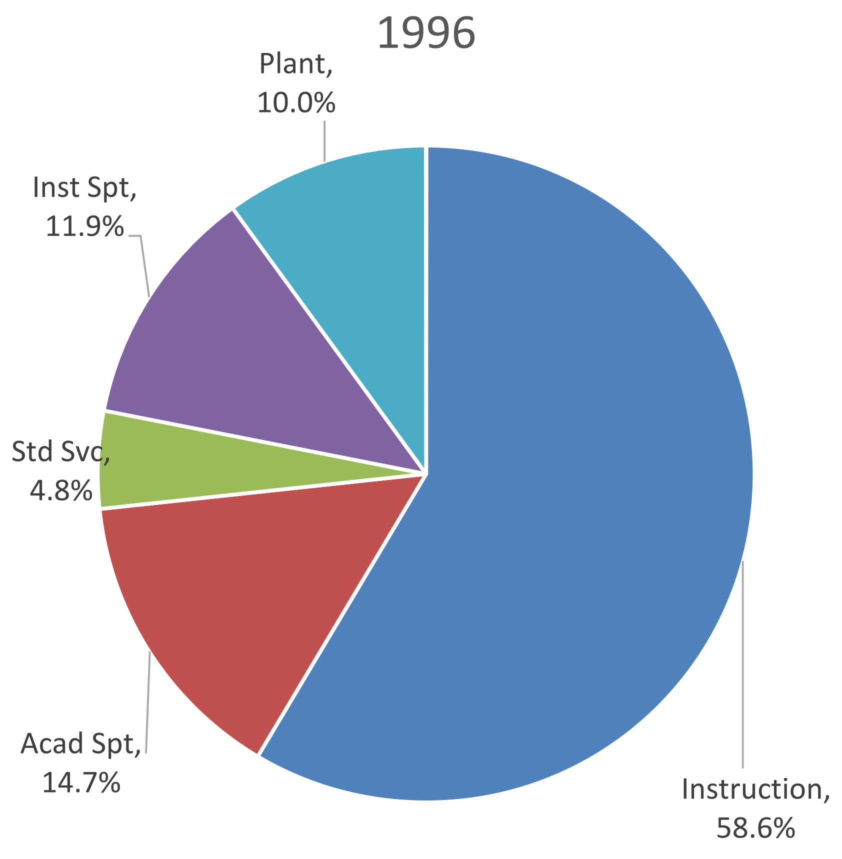
Percent Change from FY96 to FY15 at 4-Years

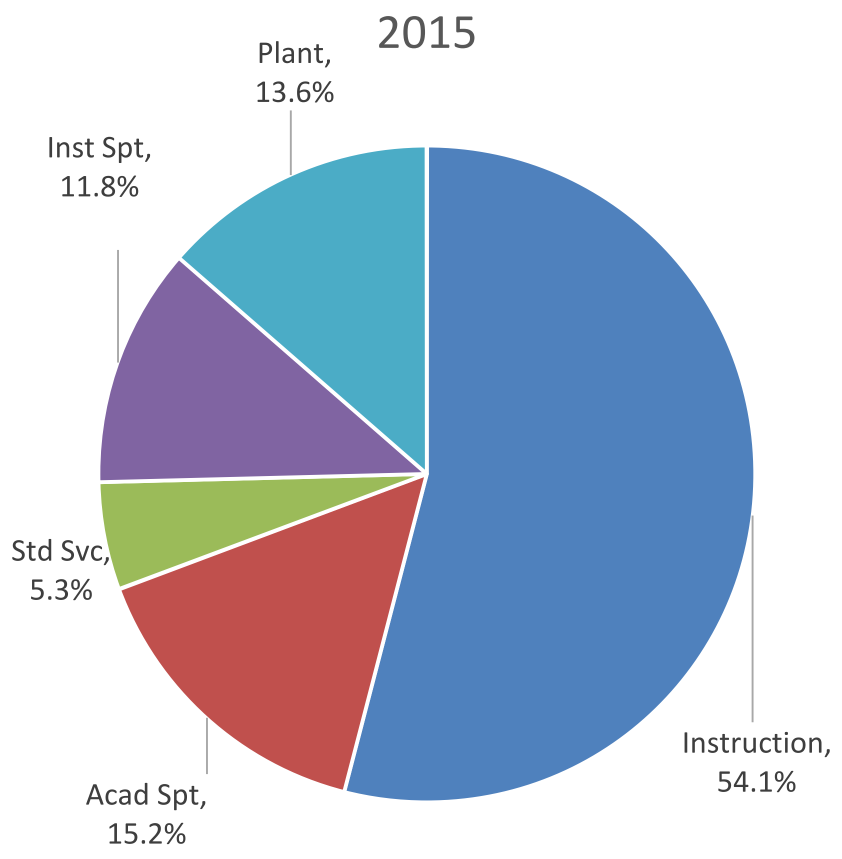


- Instructional spending per student grew by about 75%
  - Exceeds inflation but lags other programs
- Spending per student on support programs, admin and especially plant grew at a greater rate
  - Plant costs are impacted by the significant capital outlay investment over the last 15 years

Source: Bureau of Labor Statistics, Commonwealth Accounting & Reporting System Data

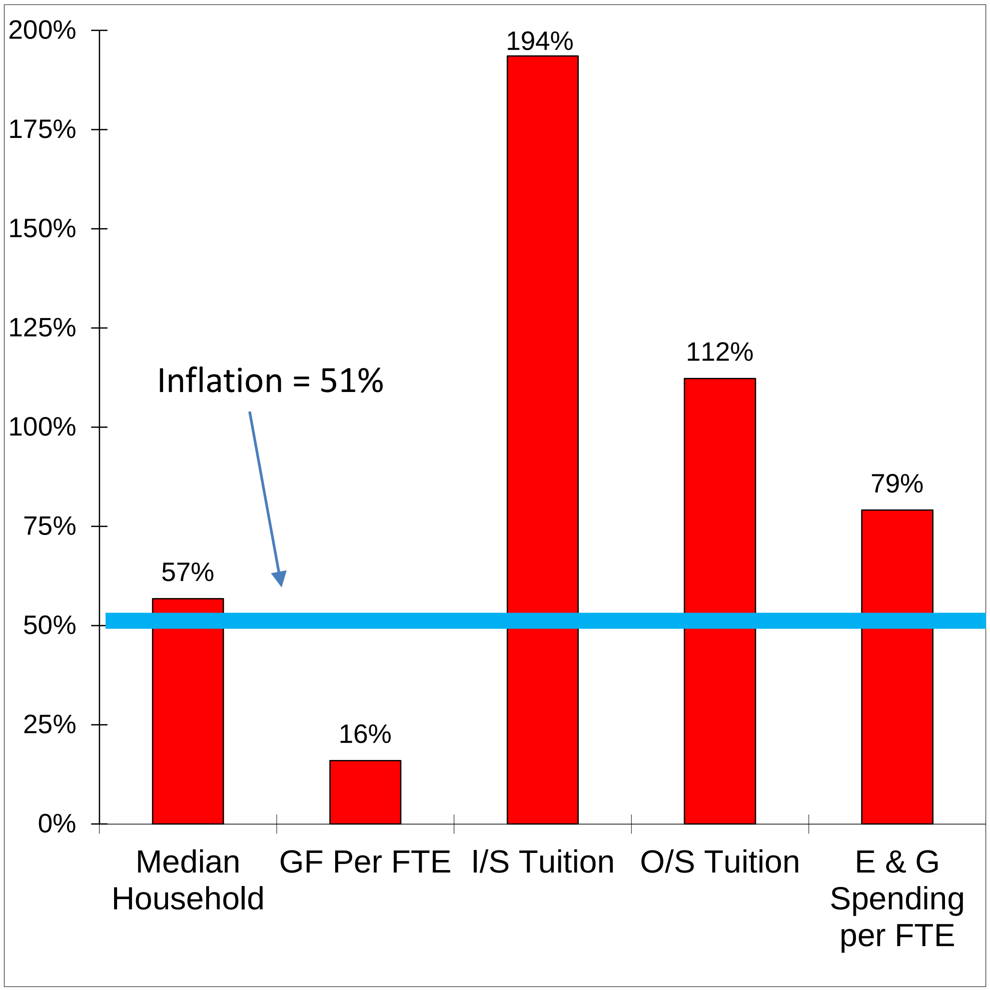
Proportion of E & G Spending By Program at 4-Years





Source: Commonwealth Accounting & Reporting System Data

From 1996 to 2015,the current dollar cost of community colleges has also increased significantly

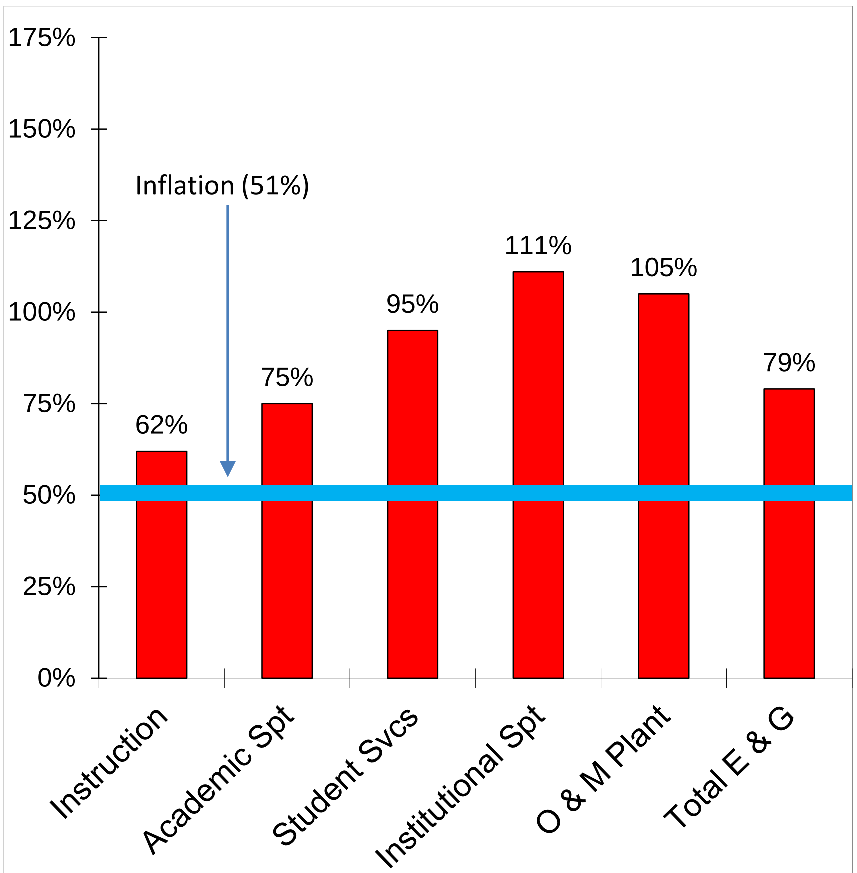


Source: Bureau of Labor Statistics, Commonwealth Accounting & Reporting System Data

- College costs have risen faster than inflation and outstripped family income in the last two decades
- Reasons for rapid increase:
  - Uneven state support
  - Swings in enrollment
  - Growth in non-instructional costs
  - Spending at 1.5 time the rate of inflation
- The growth in E & G spending is fueled by tuition increases well in excess of inflation
  - I/S Tuition increase in constant 2015 is about $2,000 compared to GF per FTE decrease of about $950
  - O/S increased about $2,900 in constant 2015

Spending Per Student By Program

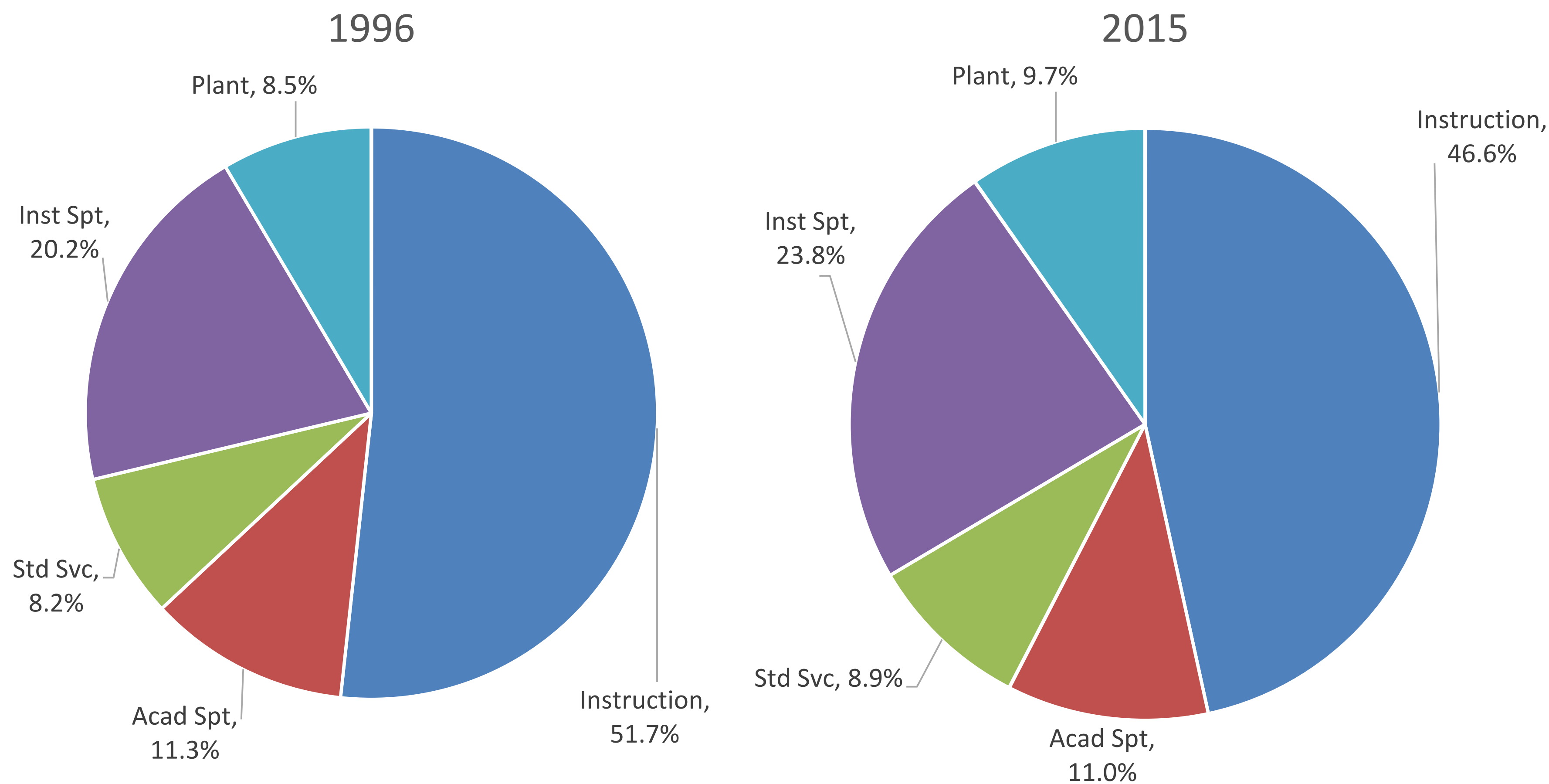
Percent Change from FY96 to FY15 at VCCS



- 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
  - Slightly greater than plant

Source: Bureau of Labor Statistics, Commonwealth Accounting & Reporting System Data

Proportion of E & G Spending By Program at VCCS



Source: Commonwealth Accounting & Reporting System Data

Higher Education Spending Summary

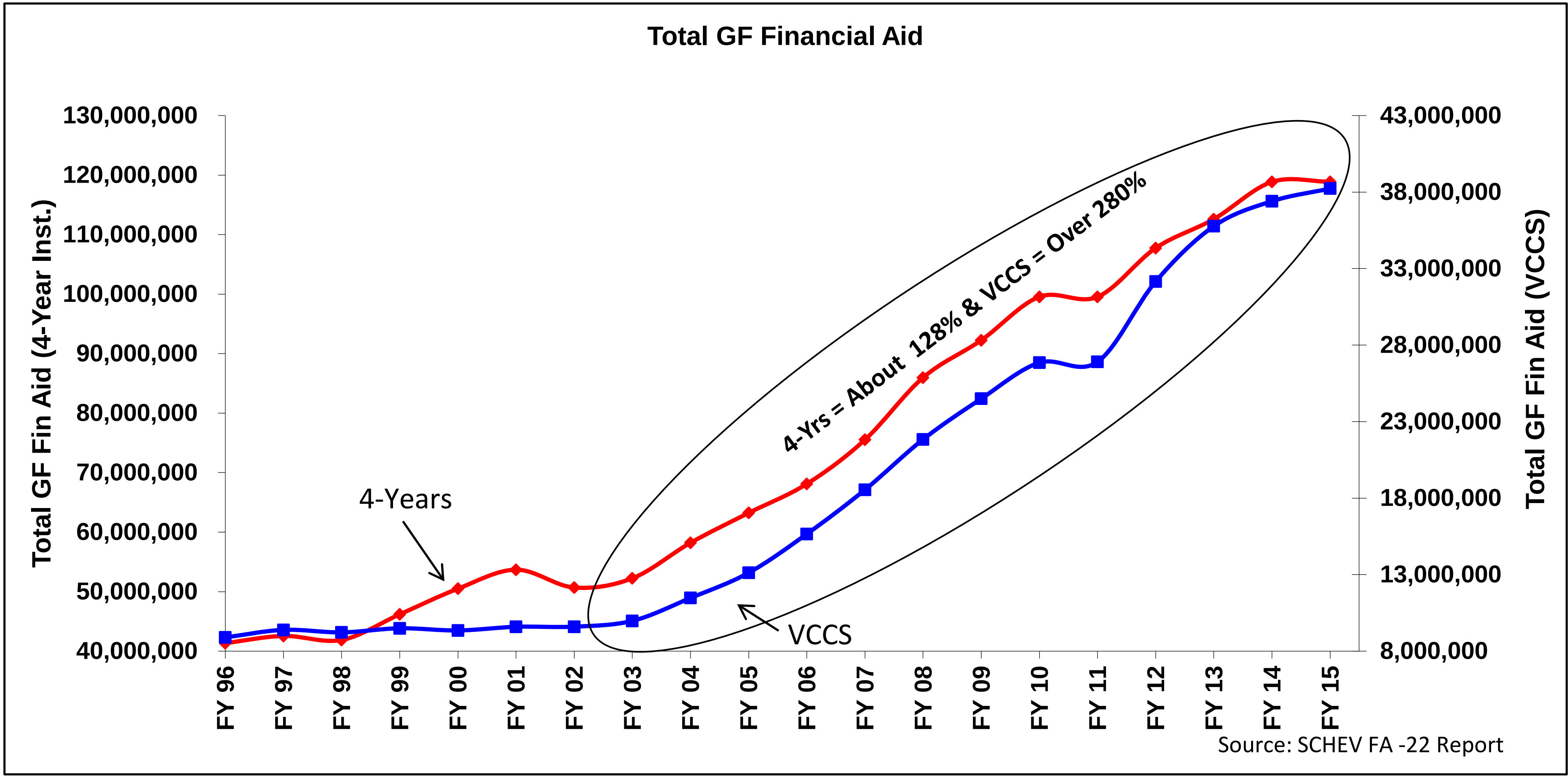
- Spending per FTE student has increased at both 4-year and VCCS at rates greater than inflation supported primarily by undergrad tuition growth
- Spending increases driven primarily by operations & maintenance of plant, support costs and administration
  - Instructional costs have grown but at a lower rate than overhead

FINANCIAL AID

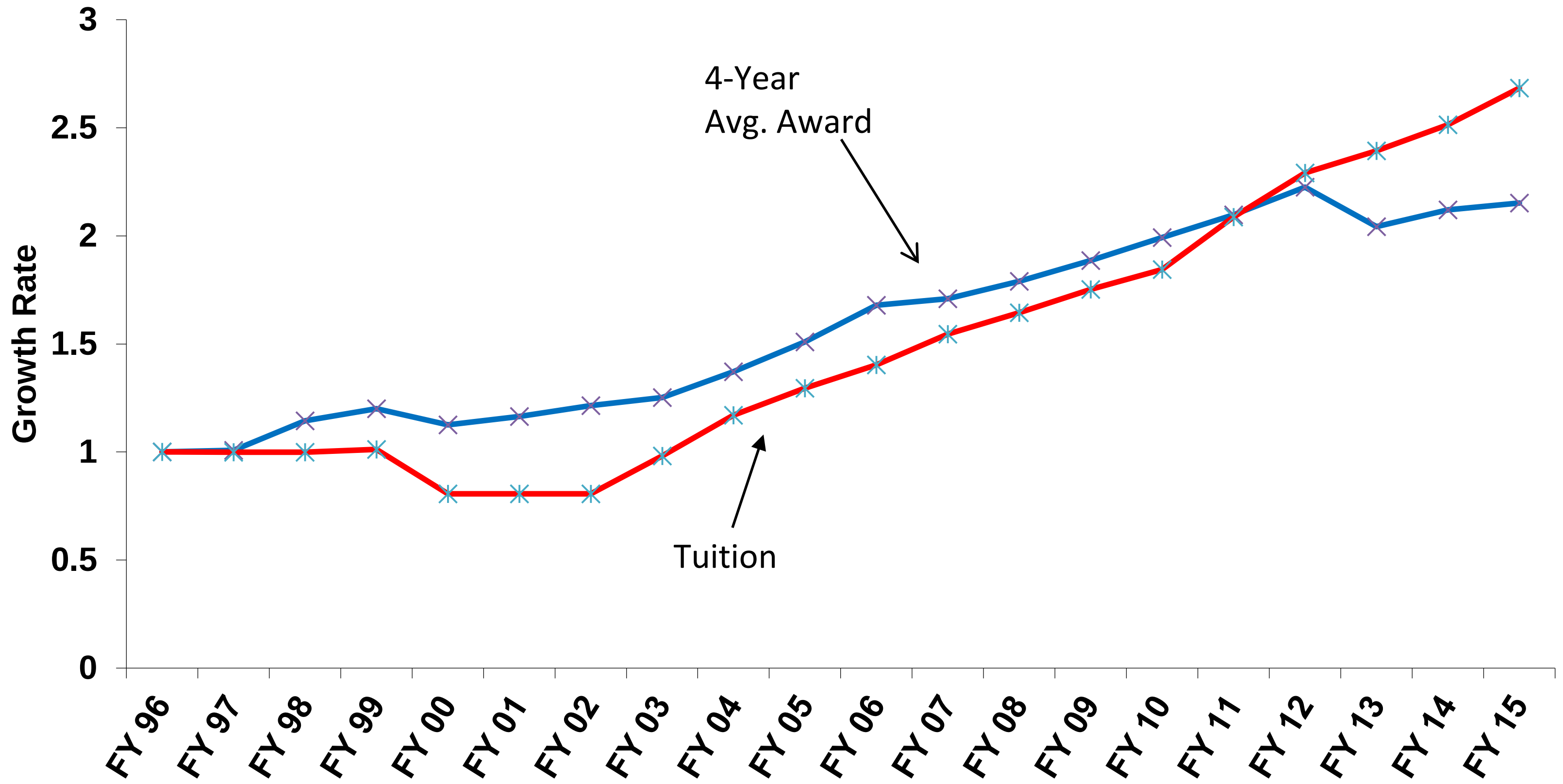
Financial Aid

- Two major forms of financial aid
  - Grants
  - Loans
- Grants
  - Pell
  - State (VGAP & Commonwealth)
  - Institution 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 1996 about 47,000 or 48% of in-state undergrads filed a FAFSA
  - In FY 2015 about 88,000 or 64% of in-state undergrads filed a FAFSA
- FAFSA at the VCCS:
  - In FY 1996 about 29,000 or 24% of in-state students filed a FAFSA
  - In FY 2015 about 81,000 or 46% of in-state students filed a FAFSA

Since FY 96 Total GF Financial Aid Has Increased Significantly: 4-Years 188% & VCCS 330%

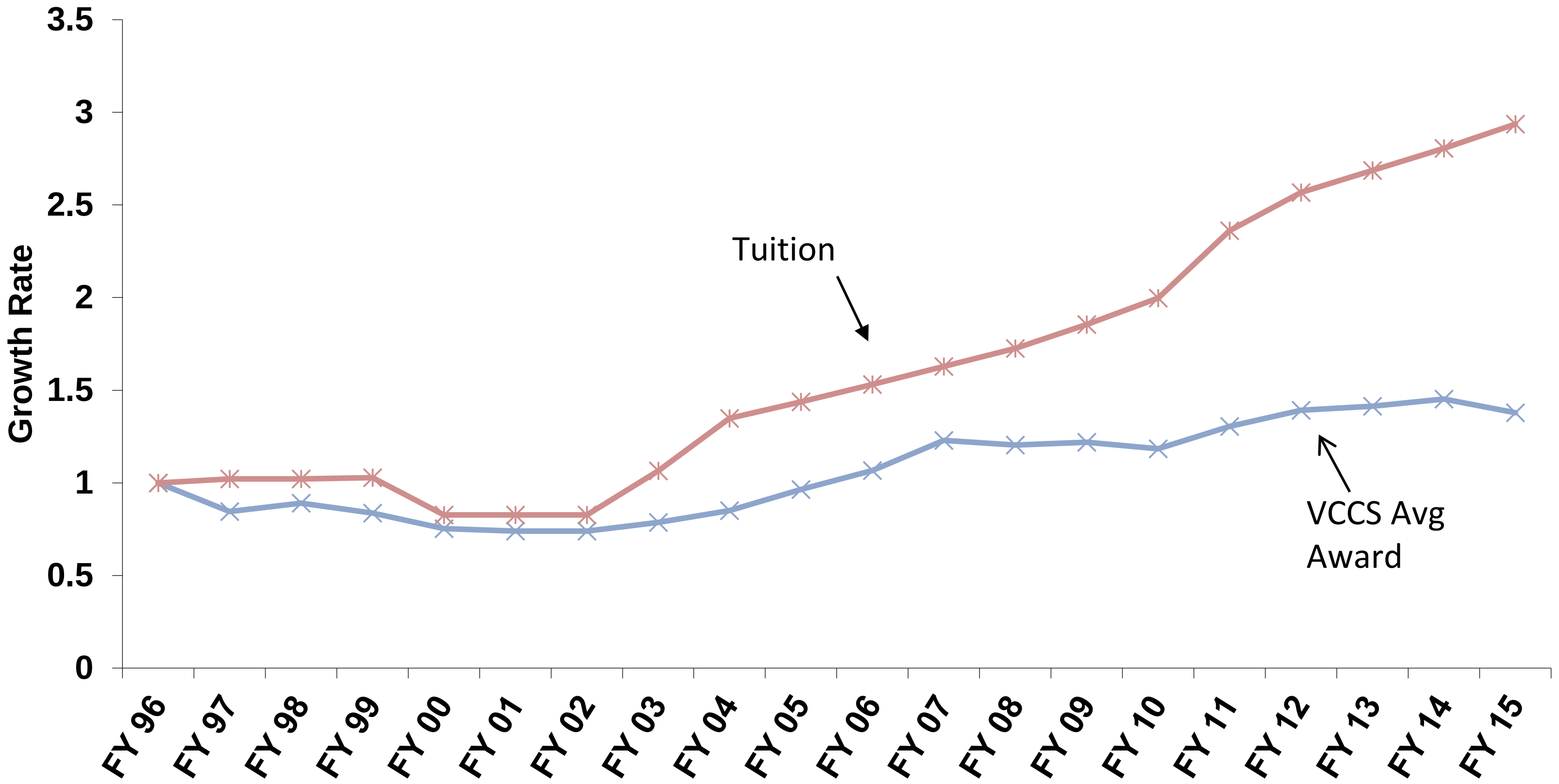


While average state fin aid grant awards have increased by 75% at 4-years since 2003, tuition has increased by more than 170% over same period



Source: SCHEV FA-13 Report

Since FY 2003, average awards have increased by 75% at the VCCS, however tuition increased by 176% over same period

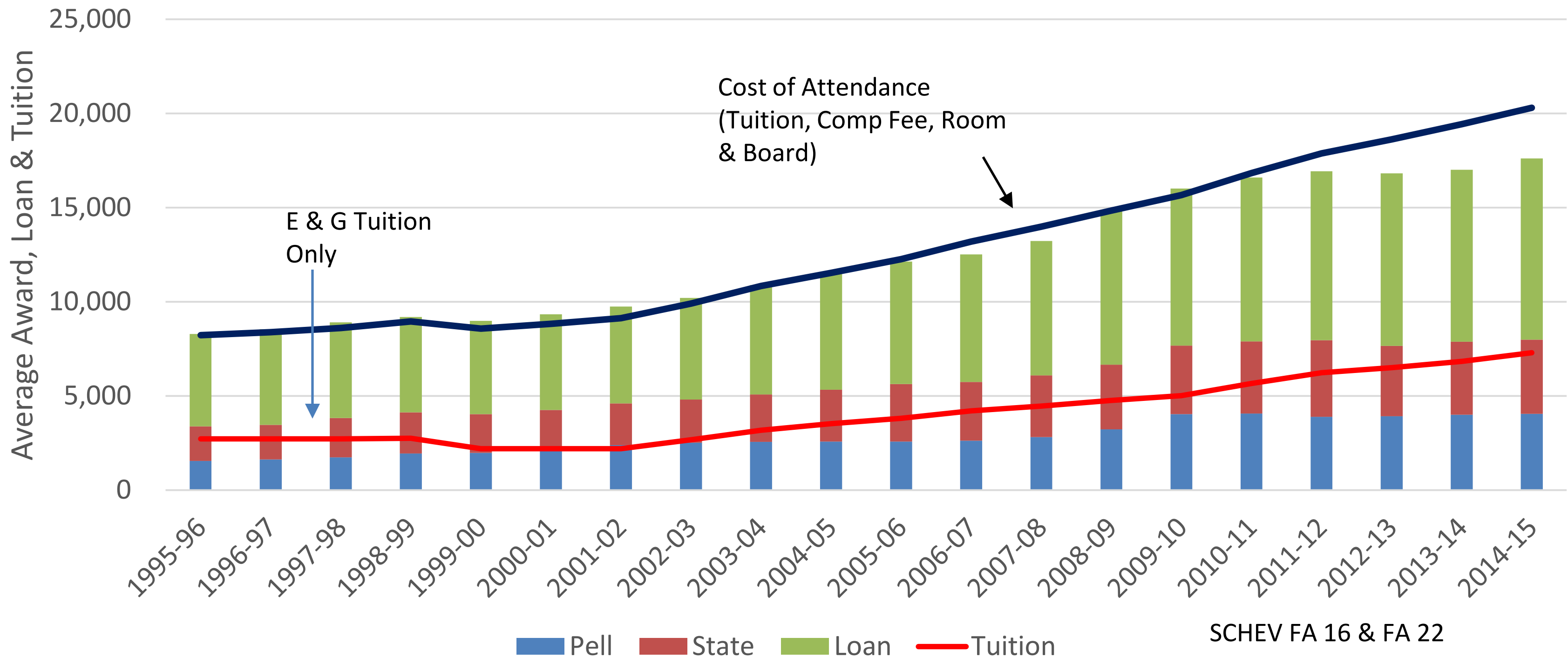


Source: SCHEV FA-13 Report

Loans

- The use of loans has increased by in-state undergraduates
- Public 4-year institutions:
  - In FY 96, about 41,000 or about 42% of in-state undergraduates borrowed $201 million
  - In FY 15, 74,000 or about 54% of in-state undergraduates borrowed $716 million
  - Average borrowing increased from about $4,900 to $9,600
- VCCS:
  - In FY 96 about 6,000 or about 5% of in-state students borrowed $15 million
  - In FY 15, about 32,000 or about 19% of in-state students borrowed $171 million
  - Average borrowing increased from about $2,400 to $5,300
  - Note, average borrowing has exceeded tuition and fees at the VCCS every year by $1,000 to $2,000

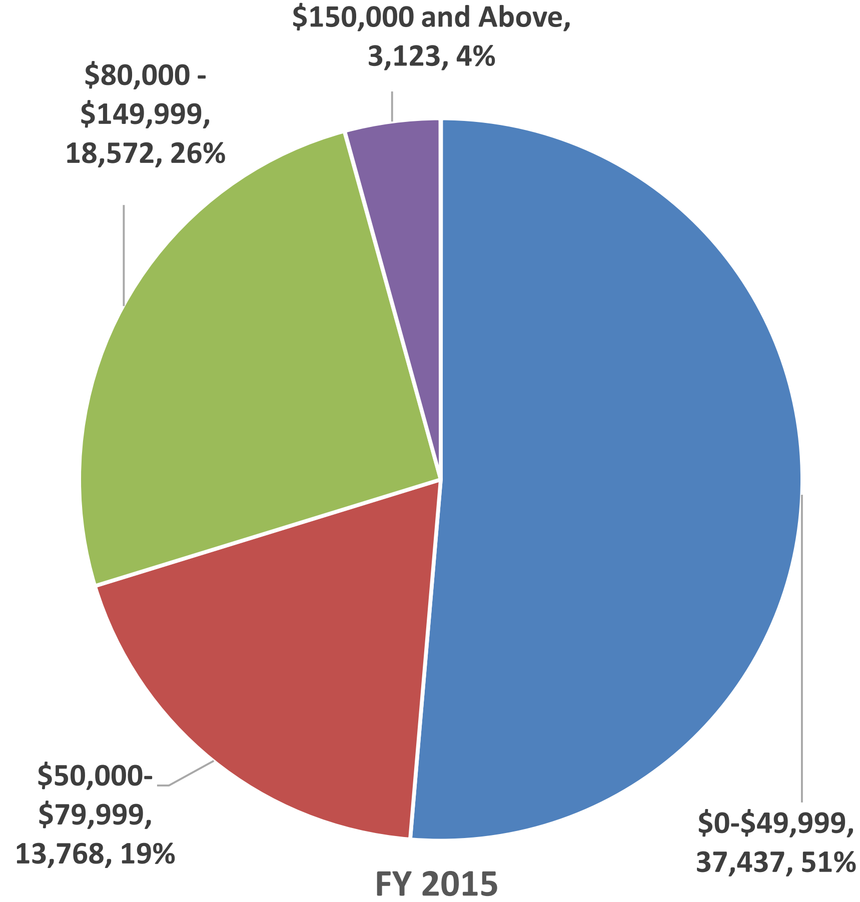
4-Year Financial Aid



- Borrowing by 4-Year students has increased significantly as student life costs have driven up COA

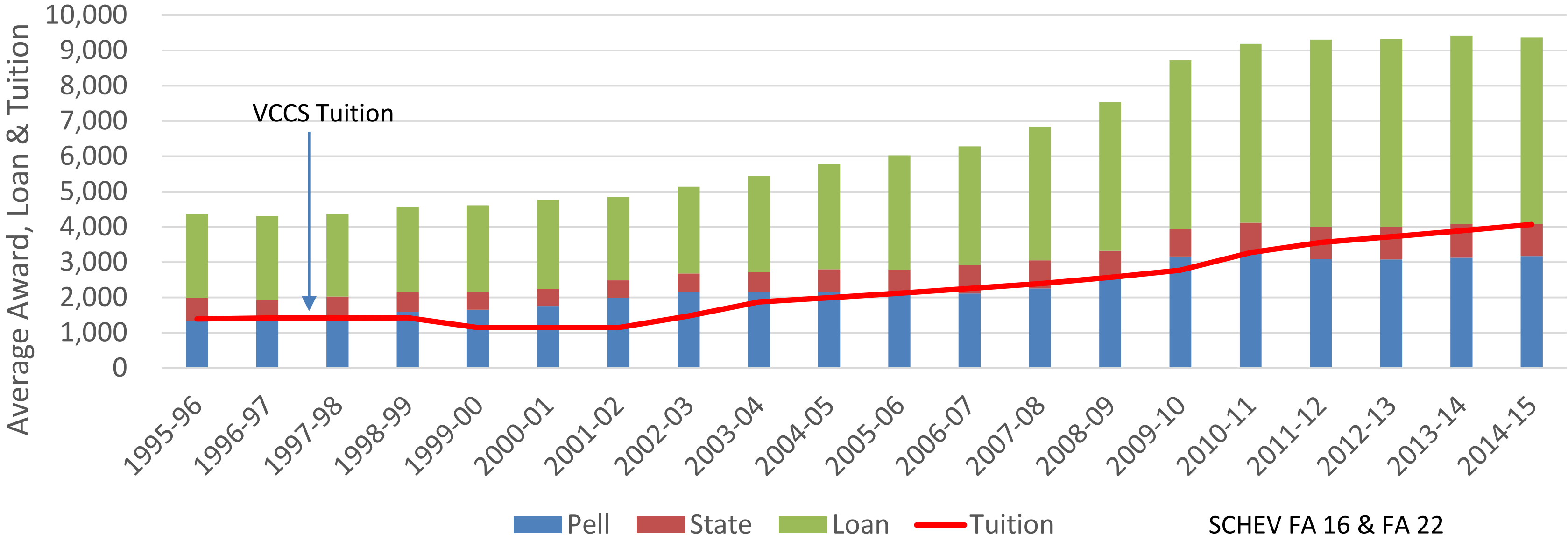
I/S Undergrads With Need at 4-Year

- Middle class students comprise about 30% of all in-state students having financial need
- Typically, Pell and State grants are allocated to students from income ranges below $80,000
- Stafford loan programs are predominantly used by students with family incomes below $80,000



Source: SCHEV FA 01 Report

VCCS Financial Aid

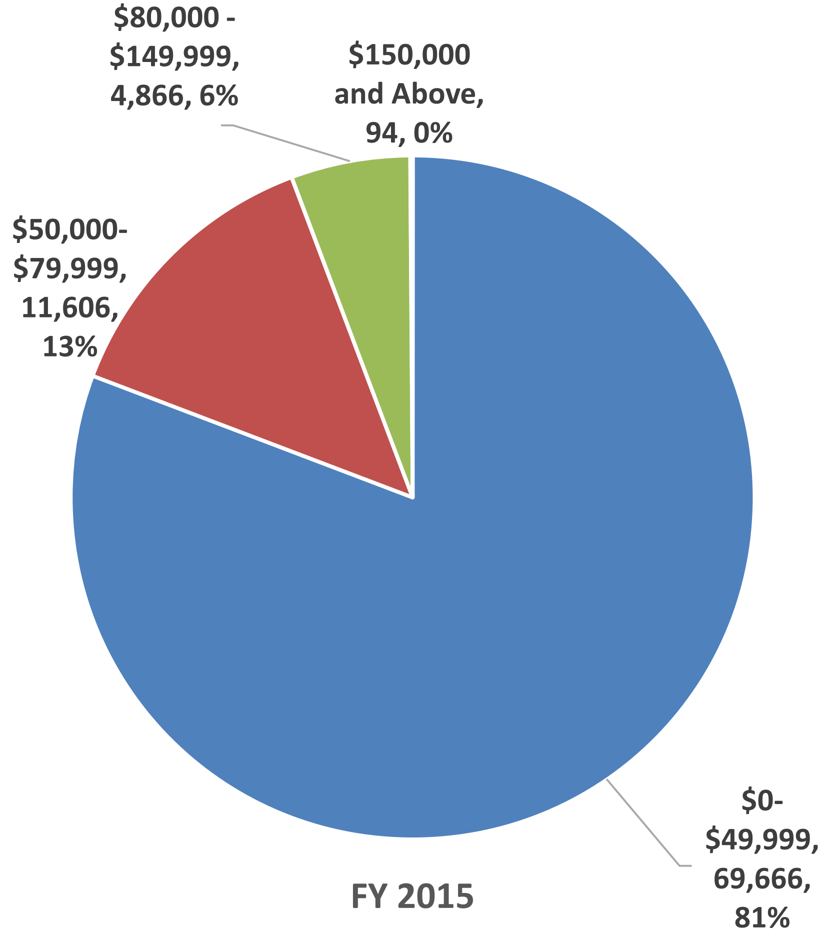


SCHEV FA 16 & FA 22

- Borrowing by VCCS students has increased significantly even as grant aid has kept up with tuition costs
- Cost of Books explains a portion of this trend
- Remainder are students essentially borrowing to subsidize daily life expenses

I/S Students With Need at VCCS

- Students with need are predominantly from lower and lower-middle income bands
- Average Pell plus State award for these students is essentially equal to tuition costs at the VCCS
- In addition, students from low income bands borrow on average over $5,000 mainly from Stafford loan programs



Source: SCHEV FA 01 Report

POLICY OPTIONS GOING FORWARD

What is the Affordability Issue?

- Most simply point to reduced state support as the culprit in the high cost of college
- However, since 1996, COA growth was driven primarily by student life components (60%) which is not impacted by general fund
- E & G Tuition is the only factor impacted by shifts in general fund
  - Tuition represents about 25 to 30 percent of the cost of attendance (COA)
  - Since 1996, about half 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

What Can the State Do?

- Tuition Policy / Cost Containment
- Student Life Fees
- Transparency of Tuition Charges
- Alternative Pathways
- Financial Aid Reform

Tuition Policy Options

- Tuition moderation has only occurred after state intervention
- In the middle 1990's the state imposed caps, a freeze and then a rollback
- General fund support increased during this period but was not sustainable under recessionary economic conditions
- More GF Support does not address the greater than inflationary increases on spending in higher education

Tuition Policy Options

- Other states have placed limitations on annual tuition increases
- Missouri
  - Limits tuition increases to inflation (CPI) for institutions with tuition above the state average
  - Those below the state average are allowed to increase tuition by CPI times the state average tuition
  - Loss of state appropriation for those who exceed limits
  - Exemptions if state support declines during recessions
- Maryland
  - Limits tuition increases based on a three-year rolling average of median income growth
- Washington
  - Tuition rates tied to median wage in the state with higher percentage allowed for research institutions compared to community colleges
  - State support is expected to increase by rate of inflation each year
- Texas
  - Proposed legislation to tie tuition increases to institutional performance
  - Meeting majority of measures provides ability to raise tuition by inflation plus 3% while failing to meet measures limits increases to just inflation

Cost Containment

- Changes in tuition policy may require a greater understanding of current operations of each institution
- Currently, we accept what the higher education community tells us about their spending requirements
- Cost Containment proposals from institutions or advocacy groups often look at ways to increase subsidy or "shift" the subsidy among students
- A better understanding of what it actually costs an institution to deliver undergraduate and graduate programs is necessary before directing or re-directing limited dollars

Cost Containment

- OPSIX Advisory Committee should examine undergraduate & graduate costs and establish baselines for each institution
- Change six-year plan process to require tuition setting & justification as the first step before new spending is examined
- Examine proposed tuition increases in a broader context to include but not be limited to:
  - GF subsidy
  - New spending requirements
  - Financial aid
  - Instruction vs non-instruction costs
  - Inflation & family income

Student Life Fees

- Recently, the General Assembly examined athletic fees as a result of work done by JLARC
  - 2015 Session Chapter 704 / HB 1897 (Cox)
- May be time to implement the next portion of JLARC's recommendation to evaluate non-athletic auxiliary services and activities
- Evaluate fee increases related to auxiliary capital projects

Transparency of Tuition Charges

- Reporting how much undergraduate tuition is used for purposes beyond the cost of an undergraduate program such as:
  - Graduate program cross-subsidy
  - Financial aid
  - Indirect cost of research

Alternative Pathways

- Goal to provide viable lower cost pathways to degree
- For “2 + 2” pathway to be truly successful, students should complete associates degree at community college before transferring
  - Average time to associates degree is over 3+ years
  - Transfer grant incentives have been put in place
  - Time to associates degree needs to improve
- Online degree options
  - Lower cost
  - Flat fee degree opportunity
- Standardization of AP, CLEP and other programs to shorten time to degree

Financial Aid Reform

- Higher Ed Joint Subcommittee has just begun to delve into the topic of financial aid reform
  - Virginia's financial process has been in place for more than 30 years and is virtually unchanged
- Process itself may require some fine tuning
  - Assumptions of the current SCHEV model need to be examined
  - Standardization of various cost drivers across institutions
  - Distribution of other gift aid across COA components
  - Provide aid for E & G costs before auxiliary enterprise
- Using financial aid as an incentive to timely degree completion
  - Indiana has moved forward with this type incentive providing aid based on completion of 30 credit hours per year
  - This has resulted in an over 50% increase in students enrolling & completing 30 or more credit hours

Financial Aid Reform

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
  - VSU 25% (over 90% of I/S undergrads have need)
  - UVA 20% (over 34% of I/S undergrads have need)
  - CWM 15% (over 36% of I/S undergrads have need)
  - VMI 13% (over 44% of I/S undergrads have need)
  - NSU 10% (over 88% of I/S undergrads have need)
- Three institutions utilize about 5% to 7% (CNU, Longwood & UMW)
- Remaining institutions are in the 1% to 4% range
- Nationally several states have proposed moving away from this practice
  - Arizona and NC have proposed limits
  - Iowa Board of Regents proposed to eliminate using tuition for financial aid
    - University requested that the state create a need-based program
    - University increased fund raising efforts

Questions