

**EXECUTIVE SUMMARY**

**AFFORDABILITY AND TOTAL COST  
POLICY DISCUSSION**

**January 7, 2008**

**OVERVIEW**

Under the leadership of new chairman Whittington Clement, the State Council has changed its bylaws, meeting agendas, and foci to become a more issue- and policy-oriented coordinating body. Toward this end, panel discussions of important or emergent higher-education topics have been initiated as part of the Council's bi-monthly two-day meetings. National and state experts on selected policy issues are being invited to share their perspectives with the Council and to assist in SCHEV's considerations of possible strategies for addressing each issue.

The Council selected "affordability and total cost" as its first panel-discussion topic. Developing an informed comprehension of the complexities of, and potential state-level responses to, these issues – and working toward "a clearly understandable measure of affordability" as required by the *Appropriation Act* – served as the focal points of the first policy discussion on Monday, January 7, 2008. The panelists were Hans L'Orange, Cheryl Blanco, and Barry Simmons.

Mr. L'Orange, vice president for research and information resources for the State Higher Education Executive Officers (SHEEO), opened the discussion by providing background on cost, price, and affordability. He noted the large number and great variety of drivers of college cost, and he highlighted efforts made by selected states, organizations, and the federal government to address costs. His remarks concluded with a set of questions for the Council to consider as it addresses issues of college costs.

Dr. Blanco, executive director of the Pathways to College Network for The Education Resources Institute (TERI), focused on affordability as both a subjective and an objective concept. She discussed different perceptions of the term, as well as various potential and in-practice means of defining and measuring affordability. She also offered insights into the connections between affordability and access and into strategies employed in other states to address these two issues. Her remarks closed with some "nagging questions" for the Council's consideration.

Dr. Simmons, director of university scholarships and financial aid at Virginia Tech, addressed the roles that students, families, institutions, the Commonwealth, and the federal government play in determining total cost and the roles that each can play in working toward maintaining, if not improving, affordability. He presented institutional examples from Virginia and elsewhere, finishing with a list of policy questions and their answers' potential implications for access, cost, and affordability in Virginia.

Following the panelists' presentations and discussions with the Council, SCHEV staff was directed to utilize the presented information, as well as information from other sources and its own expertise, to prepare a summary of potential models and strategies that the Council could consider in its development of both an action plan for itself and a set of recommendations for students, families, institutions, the Governor, and the General Assembly.

## SUMMARY OF PRESENTATIONS

### ***Hans L'Orange: Higher Education Affordability and Cost – A Complex Relationship***

- Higher education's cost, price, and affordability are interrelated issues that factor significantly in determining whether a state achieves its goals for access and success.
- In states' considerations of cost, price, and affordability, multiple indicators should be monitored, including "sticker price," "net price," state appropriations to institutions, operational costs, productivity outcomes, and access and success for all students, especially lower income students. States should consider how "pricing strategies" can impact different institutions and different student populations in different ways.
- While Virginia currently compares favorably to the national averages on several of the education factors in the Educational Needs Index (ENI),\* the Commonwealth faces a number of current and future challenges, including: (i) high levels of educational need in many counties; (ii) very large income gaps and educational-attainment gaps between its highest and lowest counties; (iii) a growing population and changing demographics; and (iv) growing enrollments and declining state appropriations per FTE student. (\*The Lumina Foundation-funded ENI, or Educational Needs Index, uses an econometric model to assess conditions and trends for all 3,140 U.S. counties or their equivalents and allows peer comparisons across a variety of indicators that influence educational policy and planning.)
- A variety of factors impact college cost. These cost drivers include: faculty salaries; financial aid; capital costs; energy costs; technology costs; student services; student amenities; and reporting requirements.
- Efforts to control costs in states such as Maryland and Illinois share some common themes: (i) leadership and encouragement at the state level that impact state and institutional priorities; (ii) savings are reinvested in the priority areas/efforts; (iii) data are used to stimulate conversations and considerations; and (iv) shared ownership and accountability are ensured.
  - The University System of Maryland's recent Effectiveness & Efficiency (E&E) initiative is expected to enable the system to serve an additional 2,100 students over the next three years at no additional cost to the state by reducing operating costs (\$9.5M in academic items; \$17.1M in administrative items) to free funds that may be invested in quality and/or to mitigate tuition increases.
  - The Illinois Board of Higher Education's 1995 Priorities, Quality, and Productivity (PQP) initiative set priorities and broadly conceived "productivity" in a successful effort to: (i) use resources efficiently; (ii) allocate available resources optimally; and (iii) pursue targeted and agree-upon goals.
- The U.S. Senate and House are considering new provisions to the yet-to-be reauthorized *Higher Education Act* that are intended to ensure, respectively, "transparency for consumers" and "states' commitment to affordable education." These provisions differ in various ways, but share proposals of price indexes and appropriations charts.
- Recent publications such as "Good Policy, Good Practice" (issued jointly by the National Center for Public Policy & Higher Education and the National Center for Higher Education Management Systems; [www.highereducation.org/reports/Policy\\_Practice/index.shtml](http://www.highereducation.org/reports/Policy_Practice/index.shtml)) and recent efforts such as the Making Opportunity Affordable initiative (supported by the Lumina Foundation; [www.makingopportunityaffordable.org](http://www.makingopportunityaffordable.org)) call for the use of state finance policy and strategic resource investment to improve outcomes, better focus financial aid, and establish model/pilot programs.

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- The State Council should contemplate: (i) what it wants Virginia's system and goals to be; (ii) how Virginia's financial policies – including costs, price, tuition, financial aid, and appropriations – impact the Council's vision and goals; and (iii) what leadership will be required of the Council to achieve its vision and goals. Virginia should develop its own ideas and initiatives rather than implementing others' models.

### ***Cheryl Blanco: Affordability and Higher Education in Virginia***

- The affordability of college is dependent on at least three factors, each of which is different for each prospective or enrolled student: (i) the cost of attendance at each institution; (ii) the financial resources of each student and family; and (iii) the financial aid available from federal, state, and other sources.
- Affordability is “in the eye of the beholder.” Most parents believe that higher education improves job prospects, but also that affordability is in jeopardy and that opportunity is being threatened. Nearly all high school youths and their parents believe that the child will attend college, but few have obtained information on what it will cost, especially few Black and Hispanic families. Students and families both substantially overestimate tuition amounts, especially for public institutions, when asked to estimate tuition and fees at intended types of institutions.
- Measuring affordability:
  - Affordability can be measured as a % of: (i) net price – after grants, scholarships, and loans; (ii) cost of education; and (iii) income – gross, net, or disposable.
  - Affordability can also be measured by: (i) enrollment trends – generally; for income categories; and for racial/ethnic groups; (ii) financial aid packages, especially loan volume; (iii) enrollment status; (iv) institutional choice; and (iv) delayed participation.
- Connections between affordability and access:
  - Price affects access and choice. Cost is a major factor in perceiving college as a reachable objective, in making institutional choices, and in making matriculation decisions. Low income students are highly susceptible to tuition price increases and tend to be debt averse. Their enrollment numbers tend to drop as tuition increases, and they are less likely than other students to take out loans (and when they do, these loans are likely to be smaller than other students’).
  - Culture counts. Affordability is often a reflection of cultural practices surrounding money, and attempts to disseminate information have yielded minimal improvements to the college-financing perceptions of those most in need.
  - Both price and grant aid count. Most undergraduates receive financial aid, and about half take out student loans. At the same time, most Latino students seek and receive only one source of aid, Pell Grants. Student affordability will be increased only if college prices are stabilized and more need-based grant aid gets to the poorest students.
- Strategies in other states:
  - Making college affordable for low-income families: (i) early-commitment financial aid programs for middle school youth (Indiana's 21<sup>st</sup> Century Scholars; Oklahoma's Promise; Wisconsin's Covenant); (ii) education individual development accounts (IDAs) for high-school youth (Central New Mexico Community College; Canada Community College—California; Community College of Denver); and (iii) lifelong learning accounts (LiLAs) for adults (Illinois; Maine).

## STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA

- Aligning financing and financial aid policies: (i) dedicating a % of tuition increases to need-based aid (Arizona sets aside 25%); (ii) linking financial aid with rigorous course taking (Indiana awards additional aid to low-income high-school students who complete a specified college-prep curriculum); (iii) rewarding students with tuition rebates (giving back a semester's tuition for graduation in less than four years); and (iv) developing a "shared responsibility" approach (Oregon and Minnesota assume that the student bears the first and most significant responsibility for paying for college).
- Nagging questions:
  - How do you know that higher education in Virginia is, or is not, affordable?
  - How will the State Council's position on affordability promote the development of human capital to support economic and workforce development in Virginia?
  - How can the Commonwealth maximize its investment in financial aid and its interests in well-prepared high school graduates to neutralize affordability concerns?
  - How will the State Council's decisions on affordability impact college-going rates for different categories of students?

### ***Barry Simmons: SCHEV Policy Issue Discussion on Higher Education Affordability***

- Overarching assumption: Affordability is enhanced through need-based financial aid; merit-based aid does little to enhance affordability and access.
- Affordability for whom? Who plays what role?
  - The nation's role(s): Pell Grants; tax credits; GEAR UP; Challenge Grants; TRIO Programs; LEAP; Other (Head Start, CSBG, GI Bill, Loans, et al)
  - The Commonwealth's role(s): Should the state provide: a static base of funding; a percentage of cost; a percentage of unmet need; grant equity in student aid; direct or indirect aid to students; subsidies to the student, the institution, or both; and/or infrastructure for aid delivery? Should the state institute price controls/incentives? Should the state encourage innovation?
  - The institution's role(s): Maintain reasonable tuition and fees rates, reasonable auxiliary fees, and transparent financial aid processes. Provide need-based financial aid, financial counseling, and financial literacy training.
  - The student's/family's role(s): Provide financial support from income and from assets (in line with student/family financial strength). Search out and earn scholarships. Maintain reasonable consumer expenditures. Be willing to assume reasonable loan debt and to consider part-time work.
- Families with low socio-economic status (SES), and increasingly those with middle SES, are often unable to mitigate the many and varied factors that determine affordability; such factors include: complexity, opportunity costs, sticker price, net price, competing priorities, and deferred costs.
- Some exemplary institutional access-enhancing efforts share a common element, namely, that funding is provided through a combination of federal, state and institutional funds.
  - Harvard's recently-announced need-based program ensures that family contribution is no more than 10% of family income (based on an income range) and at levels below \$60,000 will be 0%. Students need not take out loans up front, but families may choose loans to fund their expected contribution.

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- William and Mary's Gateway Program is a need-based program in which students from families with incomes below \$40,000 have all their financial need met by grants (expectation may exist for a modest family contribution), which may meet full need up to the cost of education.
- University of Virginia's Access UVA Program is a need-based program comprised of four components: (1) grant aid up to cost of education for families with income up to 200% poverty level; (2) loan cap at about 25% of four-year cost of education; (3) meet full need for middle income; and (4) training in financial literacy.
- Virginia Tech's Funds for the Future Program is a need-based program for students with family incomes below \$99,999; it protects them, incrementally based on income ranges, from increases in tuition and fees. Students from families with incomes below \$30,000 receive 100% protection from increases; \$30,000-\$49,999 incomes receive 70% protection; \$50,000-\$74,999 incomes receive 30% protection; and \$75,000-\$99,999 incomes receive 10% protection.
- The complexity of Virginia's aid system is problematic for all SESs; the variety of applications, application deadlines, and deadline ranges is striking.
  - Would the Commonwealth find merit in centralizing some, more or all of the state aid process? What opportunities exist to restructure/simplify/expand existing need-based aid programs?
  - Would the Commonwealth find merit in a strategic early-awareness marketing campaign for post-high-school educational affordability?
- The Commonwealth is not alone in seeking an educated populace; business, industry, and communities benefit too.
  - What protocols might be adopted to partner with business, industry, and community organizations in awareness initiatives, as well as in joint funding ventures of student/institutional incentives?
- The six-year graduation rates for financial aid recipients are lower than those of non-recipients at 12 of Virginia's 15 four-year public institutions.
  - Should the Commonwealth measure affordability as diminishing the graduation-rate gap between cohorts of financial-aid recipients and non-recipients, while requiring a maintenance of effort level for graduation rates and institutional aid expenditures?
- Public higher education in Virginia is undergoing a restructuring effort measured by Institutional Performance Standards (IPS).
  - Do opportunities exist to review and refine the IPS to reflect (better) affordability? How might tuition increases be more effectively used to help fund need-based aid and to ensure that institutions are fully utilizing the resources available to them?
- SCHEV has adopted the "partnership model" of funding for state need-based aid to public two- and four-year institutions.
  - Do opportunities exist to further refine this model to more appropriately reflect enrollment trends and funding demands, as well as to provide incentives for/to institutions?
- Affordability, as a policy concept, may carry negative implications, especially with lower SES populations. Simply by using the term "affordability," we may be implying that higher education is not affordable.
  - Consider a change in concept and terminology to "access," and identify a "champion." SCHEV can be this champion by providing more visibility and aggressiveness to access efforts at all levels and with all audiences.