Texas House of Representatives: Select Committee on Higher and Public Education Finance

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David Longanecker
President, Western Interstate Commission for Higher Education (WICHE)
www.wiche.edu

Issues and Developments in Student Financial Aid:

In Texas
Throughout America
Around the World
Evolution of the Access Agenda In America – *Cogent philosophies for the times.*

- Low tuition – a worthy public investment
- Geographic access
  - A truly great American invention -- the community college
- Financial aid
  - **Grants** for the poor – to remove financial barriers (cash poor)
  - **Loans** for the less poor – to reduce financial burdens (cash flow)
SUCCESS ON ACCESS ERODED
EFFICACY OF THESE PHILOSOPHIES

- Geographic proximity aided access did not ensure success
  - If you build it, they will come
  - But will they succeed?
    - Progression rates low by international standards
    - Particularly low in some sectors of higher education

- Low tuition limited supply, as demand grew
  - Limits in public resources limited “per student” funding
  - Left tuition as the revenue gap filler
The wealth of the 90’s drove policy

Tuition increased, because it could

State support increased, because it could

Students paid, because they could

More students went, because they could

But Access and Success did not “increase”
SUCCESS ON ACCESS ERODED
EFFICACY OF THE TRIAD

- Financial Aid Strategy wasn’t working well.
  - Subsidy structures evolved -- from those who were disenfranchised to those who were enfranchised
    - From Grants to Loans & Tax Benefits
    - Amounts grew, but not as rapidly as college costs or eligibility
  - Original access agenda lost momentum
    - Our standard line: “More is better but never enough” got old
    - Students weren’t succeeding as expected
    - Other public agendas began to take hold

- A new business model was taking hold in American higher education – Privatization
THE 1990s: ERA OF TUITION HIKES AND MERIT AID

- The advent of merit aid
  - it promised:
    - Greater participation by the middle-class
    - Holding power on *the best and the brightest*
    - *Political prowess*
  - On access
    - Didn’t undercut need-based aid (usually)
    - Serendipitously helped many access students
The New Millennium – A Sobering Time

- The shock of the economic downturn
  - Financial access eroded
    - Tuition increased
    - Aid did not
    - Enrollments began to erode
- Texas was an anomaly
  - Yes, tuition increased
  - But, so did aid – quite a bit
  - And enrollments didn’t erode
  - (They just didn’t increase, as needed)
The New Millennium – A Renaissance of Sorts – *Access to Success As a New Theme*.

Returning to First Principles -- Reemergence of focus on need

- The West – 15 States
  - Two states were already there – California and Washington
  - Two more have emerged – Wyoming & Oregon
  - 11 of fifteen engaged or reengaged
The New Millennium – The Renaissance in Texas

- Substantially increased need-based financial aid
  - 2nd in % growth over ten years (95-05)
  - 11th in funding per FTE ($449 versus U.S. average of $415)
  - 26th in awards per FTE
    - The impact of rationing and decentralized decision-making

- Moved to Middle of the Pack

- But is middle of the pack good enough?
  - Given demographic challenge of the State
The New American Access Agenda: Blending merit and need

- Direct *BLENDED* Programs
  - Indiana 21st Century Scholars
  - Oklahoma OLAP
  - And Texas

- Indirect *BLENDED* Programs
  - Oregon *Shared Responsibility/Earned Opportunity* Program
And Texas Lead The Way

- One generation ahead of the game
  - Had a blended program
    - Indeed, a smart blended program – based on rigorous curriculum, not GPA
    - Grow out of this when rigorous curriculum became the default curriculum
The **New World’s** Access Agenda

- The Past: Free, but for few
- The New International Paradigm: Egalitarian, but at a price
Vouchers/Grants to Students
- For all expenses (U.S. France, most Francophone Countries, and Canada)
- For tuition & fees (Colorado)
- For living expenses (Denmark)

Strength: Market mechanism. Transparent system
Weakness: Expensive

More about What in the World is Happening: International Approaches to Financial Aid in The Modern Era

- Indirect transfers through institutions to students
  - Many States in U.S.
  - Most Countries (Hungary, Lithuania, Poland, Portugal)

- Strength: Efficient delivery & reasonable strategy in triage situation
- Weakness: Reflects institutions agenda/not public agenda. Not transparent, so not effective in behavior change

Even more about What in the World is Happening: International Approaches to Financial Aid in The Modern Era

- Tax Benefits
  - Come in different forms
    - Tuition offsets for individuals
    - Tuition offsets for business
    - Family allowances
  - Countries involved: U.S., Belgium, Czech Republic, France, Germany, Netherlands, Slovenia.

- Strength: Efficient Delivery mechanism & politically popular
- Weakness: Modest impact of participation, poorly targeted for access

The New World’s Access Agenda: International Approaches to Financial Aid in The Modern Era

- Loans, Loans, & More & Different Loans
  - 60 Countries
  - Standard Repayment Versions
  - Income Contingent (the popular model)
    - Mandatory – Borrow to Pay, Repay (South Africa, Sweden, New Zealand, Germany . . )
  - Pay in Backward
    - Australia’s HECS, Scotland, England
    - Dilemma – collecting from emigrants

And More

- Other *Repayment Schemes*
  - Blended Options: US, New Zealand, and States differential subsidy programs
  - Graduated Tax: Pay forever
  - Human Capital Contracts
    - Popular in South American (Chile, Columbia)
    - Modern indentured servitude

Enough Already: The New World’s Access Agenda: International Approaches to Financial Aid in The Modern Era

In Sum:

- Many mechanisms
  - Grants
  - Loans
  - Grant/Loans
- Many financing streams
  - Direct appropriations
  - Foregone tax revenues
  - Mandated funding of others
- Many philosophies
  - Access
  - Access with Responsibility
  - Access with ROI
What Makes for Efficacious Student Aid Policies

- Contemporary “Local” Philosophy
- Affordability
  - To students – does it eliminate the barriers
  - To the State of Texas
    - Is it defensible
    - Is it fundable
- Transparency
  - Can consumers understand it – is it simple
  - Can institutions buy it (and complement it)
  - Do folks know about it
- Is it efficient
  - Does it leave others’ money on the table
  - Can it be implemented effectively & efficiently
How Does Texas Stack Up

- **On Philosophy**
  - Heroic efforts beg for more heroic efforts, because you started from such a deficit.
  - Does your current argument have staying power.

- **On Affordability/Sufficiency**
  - Re. Demand – funding is way low
    - Rationing can be “rational”, but is still rationing.

- **On Transparency**
  - A Rationing System & Decentralized decision-making does not provide a lot of transparency

- **Efficiency**
  - Tuition waivers limit tax credit eligibility
  - Low tuition, without financial aid, isn’t financial access.
  - A state system need not be centralized to be efficient.
A Brave New World for Texas

- Blending Academic Preparation and Targeted Financial Support -- Texas is there

- Rationing is “rational”, but not effective at breaking financial barriers

- A Missing Link—Financing Adult Learners
  - The same philosophy doesn’t/won’t work – I don’t think Texas is there

- **STUDENT FINANCIAL CONTRIBUTIONS & FINANCIAL AID – AN INCOMPLETE AGENDA for TEXAS**