

Action Item

California Student Aid Commission

Consideration of a policy framework and plan for 2013

The Commission will engage in a facilitated discussion to come to agreement on a Strategic Framework and to consider support for a range of programmatic options.

Information provided for this tab includes an overview of the evolution of Cal Grants and a Strategic Framework discussion piece. In addition, other reference materials included provide recent studies and news stories on topics relevant to the financial aid challenges the Commission faces, as well as assessments of college affordability at both the state and national levels.

Facilitator: Assisting the Commission with its discussion will be Kathleen Beasley, a communications consultant with an extensive background in the K-12 and higher education fields. As the owner of The Write Connection for the past 15 years, she has worked with a variety of policy leaders and organizations, including Senator Gary Hart's Institute for Education Reform, the Center for Studies in Higher Education at UC Berkeley, and the statewide Alliance for Regional Collaboration to Heighten Educational Success (ARCHES).

Recommended Action: Adopt the policy framework and Plan for 2013

Responsible Person(s): Diana Fuentes-Michel
Executive Director

Yesterday, Today and Tomorrow: Overview of the Cal Grant Evolution

Since 1955, California has provided financial support for economically disadvantaged students to attend college. During the past 57 years, the program has continually evolved, always in the direction of giving more students greater opportunities and increasing the State's investment in the educated workforce that California needs for its economy to thrive. By the 2011-12 academic year, the State provided \$1.516 billion in support for 354,218 students, including both low-income and middle class students in danger of being priced out of the higher education market because of spiraling tuition/fee costs.

With the adoption of the 2012-13 budget, however, the trend is changing, and support for the philosophical underpinnings that have dominated discussions about higher education access and affordability in the past appears to be diminishing. Because of continuing economic conditions and budget constraints, recent financial aid policy proposals have focused on cutting costs and reducing the State's obligation rather than broadening student access to higher education wider.

This is in sharp contrast to priorities in the past that centered on the needs of students, particularly low-income students from historically underrepresented groups, and the benefits of giving the least advantaged among us the opportunity to improve their lives and enhance their capabilities as productive, tax-paying citizens. In more recent years, as tuition has risen and median incomes have declined in California, increasingly middle class students also have benefitted from state support for their higher education aspirations.

The danger is not the evisceration of a program that works well and has proven its value over the years; there likely is too much public support for student financial aid for that to occur (as evidenced by the backing in the Legislature for expanding the State's assistance to students whose parents earn up to \$150,000). Instead, something far more problematic appears to be

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occurring: the incremental erosion of commitment to and resources for disadvantaged students, as well as a focus on institutional rather than student needs. Both developments fail to take into account the best interest of students and their ability to make use of aid in the amount and way it is delivered.

During the 2012-13 budget discussions, a number of proposals were on the table: trimming award amounts (particularly for private institutions), raising GPA standards for student eligibility, adopting a Pell Grant model, and tightening institutional eligibility, among them.

In the end, a compromise was reached that carried out the primary purpose of cutting state costs. Students across a broad spectrum of Cal Grant programs, particularly those who pursue their academic goals at private institutions, saw awards reduced despite the ever-rising price tag for attending college. In addition, proprietary institutions that have fallen short of benchmarks for student support (as reflected by low graduation rates) and job placement (as reflected by high loan default rates) were eliminated from the program.

If the 2012-13 budget decision were an anomaly, we could all simply acknowledge these are tough times and hope for a more generous decision in the next budget cycle. However, there is no sign that conditions will improve enough to eliminate the ongoing pressure for changes in the Cal Grant program.

Therefore, it is critical for the California Student Aid Commission to establish goals and set priorities regarding the State's future financial aid support. This framework of goals and priorities – a strategic framework – can then be used to give policy makers the benefit of the Commission's knowledge and expertise so they can make informed, data-driven decisions that accomplish dual goals: 1) equity, in the form of a place at the table for students who otherwise would not have access to higher education, and 2) efficiency, through promoting education quality, student persistence and program completion.

Who received 2012-13 Cal Grants?

Cal Grant A and B: 120,000 out of 400,000 graduating high school seniors received a Cal Grant A (family income less than \$92,600) or Cal Grant B (family income less than \$50,900).

Community College Transfer Entitlement: 37,000 students who transferred to a 4-year institution received new Cal Grant A or B awards.

Competitive Cal Grant: 317,000 post-high-school adults who want a second chance to improve their lives were eligible for the 22,500 statutorily authorized awards.

Cal Grant C: More than 13,000 students seeking career or technical education were eligible for the 7,761 statutorily authorized awards.

The following briefing paper sets the foundation for the Commission's discussion about a strategic framework by providing historical background on the Cal Grants program and an overview of proven benefits of providing financial aid to students.

Historical Perspective

The Cal Grant program has grown dramatically since its inception, not just in response to the State's increasing student population but also in tandem with the realization by policy makers that supporting the aspirations of those at the bottom of the socio-economic ladder makes sense. Providing opportunities to the disadvantaged makes for a more equitable society and expands the pool of the skilled and educated workforce that California needs for a vibrant economy.

In 1955, the first California State Scholarship program gave a limited number of high school graduates up to \$600 to cover tuition and fees. The landmark Master Plan for Higher Education in 1960 inspired legislators to raise the award to \$900 and gradually increase the eligibility to more than 5,000 students. Successive updates of the Master Plan over time led legislators to continually increase the number of students, the types of awards and the amounts given under the umbrella of the Cal Grant program. (See Appendix A for a timeline of Master Plan reviews and legislative changes to California's student financial aid initiatives.)

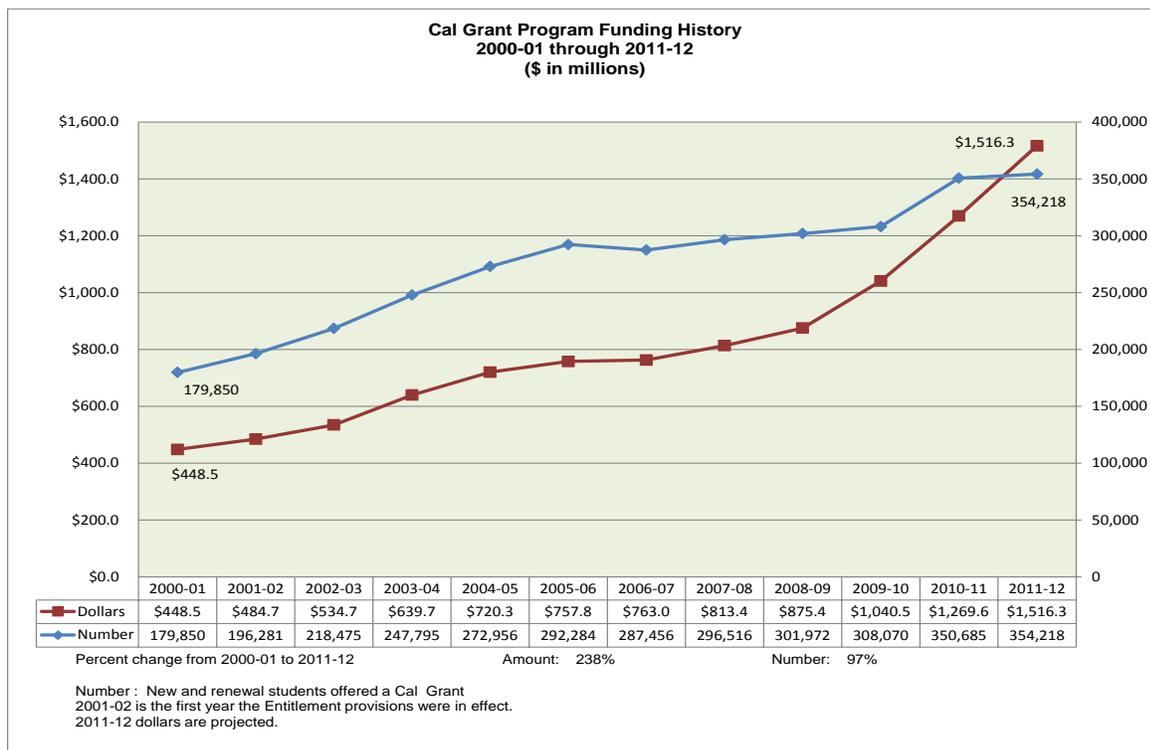
Until 2000, the Cal Grant program was based on a competitive process that considered a number of factors, such as GPA, financial need and career choice. The number of students receiving awards was limited based on a pre-established percentage of high school graduates.

However, in 2000, following up on recommendations that were made 25 years earlier with a 1987 review of the Master Plan, legislators for the first time made affordable access to higher education a guarantee for every qualified California student. Cal Grants became an entitlement that covered any and all students who met the eligibility criteria and wanted to pursue education

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beyond high school, whether at a public, private nonprofit or for-profit institution.

As an entitlement program, the impact of Cal Grants grew over the next decade. As the chart on the next page indicates, in the 2000-01 academic year, state financial aid was delivered to 179,850 students in the amount of \$448.5 million. By the 2011-12 academic year, the numbers had increased to 354,218 students and \$1.516 billion. (See Appendix B for a breakout of spending and recipients by program category for the 2010-11 budget year. The 2011-12 budget year data will be available in January 2013.)



Over the 12 years covered by the chart above, the number of students receiving grants increased by 97 percent and the cost to fund the awards rose 238 percent. The Cal Grant growth was driven by a number of factors, including growth in the number of graduating high school students and a recent decline in median family income and increase in families below the poverty line. During the same period covered by the chart:

- The number of students graduating from high school in California increased 26.2 percent, according to Department of Education figures.
- Median family incomes increased 23.3 percent from \$46,802 to \$57,708. However, they declined 11 percent between 2007 and 2011, according to the Public Policy Institute of California. By 2010, only

about half of Californians lived in middle class families, down from 60 percent in 1980.

- By 2010, 16 percent of California’s families were living on incomes below the federal poverty line, up from the 12 percent low mark in 2006.

However, the key driver of cost for the Cal Grant program has been the steep increase in the fees for public higher education. This made college unaffordable for more students, including those from middle class families. At the same time, the rising costs increased the dollar amount of Cal Grant awards, which are keyed to covering the fees to attend the University of California and the California State University systems.

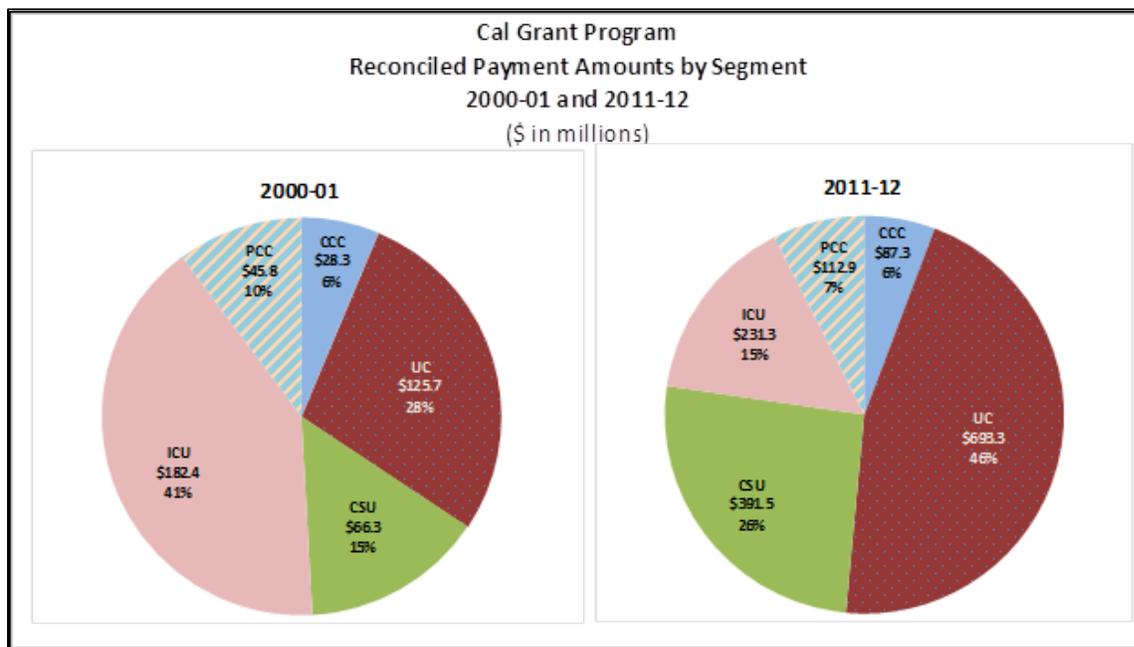
During the 12-year period covered by the chart on the previous page, the cost of attending a University of California campus soared 220 percent, and annual fees at the California State University system climbed 171.3 percent. The chart below shows that the interplay of these increased fees and the growing number of students enrolled has greatly multiplied the Cal Grant awards sent to UC students (452 percent increase in the dollar amount) and CSU students (490 percent increase).

Cal Grant Program Award Offers and Reconciled Payment Amounts by Segment 2000-01 through 2011-12 (\$ in millions)														
		2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Percent Change from 2000-01 to 2011-12
California Community College (CCC)	Dollars	\$28.3	\$46.1	\$60.4	\$66.9	\$74.0	\$76.2	\$74.4	\$75.1	\$74.1	\$78.2	\$82.3	\$87.3	208%
	Number	59,565	71,197	86,396	103,453	116,599	126,461	124,078	124,931	123,748	126,780	136,821	134,668	126%
University of California (UC)	Dollars	\$125.7	\$128.7	\$139.0	\$196.3	\$235.3	\$260.1	\$264.1	\$295.2	\$338.7	\$425.9	\$561.8	\$693.3	452%
	Number	41,528	42,262	43,048	45,497	47,685	50,230	51,090	53,090	55,869	59,079	65,609	65,346	57%
California State University (CSU)	Dollars	\$66.3	\$78.1	\$91.8	\$123.6	\$151.1	\$166.0	\$172.7	\$192.9	\$210.4	\$263.2	\$301.2	\$391.5	490%
	Number	44,784	48,613	53,950	59,130	65,028	69,916	69,746	74,825	79,356	78,444	94,472	100,162	124%
Independent Colleges and Universities (ICU)	Dollars	\$182.4	\$186.6	\$184.9	\$184.8	\$184.1	\$177.0	\$170.3	\$164.6	\$166.6	\$179.2	\$207.6	\$231.3	27%
	Number	26,017	25,518	25,129	26,228	27,685	27,886	25,197	23,968	23,162	23,489	28,901	29,724	14%
Private Career Colleges (PCC)	Dollars	\$45.8	\$45.2	\$58.6	\$68.1	\$75.8	\$78.5	\$81.5	\$85.6	\$85.6	\$94.0	\$116.7	\$112.9	147%
	Number	7,956	8,691	9,952	13,487	15,959	17,791	17,345	19,702	19,837	20,278	24,882	24,318	206%
Total	Dollars	\$448.5	\$484.7	\$534.7	\$639.7	\$720.3	\$757.8	\$763.0	\$813.4	\$875.4	\$1,040.5	\$1,269.6	\$1,516.3	238%
	Number	179,850	196,281	218,475	247,795	272,956	292,284	287,456	296,516	301,972	308,070	350,685	354,218	97%

Also adding to the cost of the Cal Grant program was the rise of proprietary colleges that built Cal Grants into their business model for setting fees. Unlike many other states, California provides awards to students who choose non-public schools, including nonprofit and for-profit independent institutions.

In a state as large and diverse as California, the decision makes sense on a practical level. Not all students in all areas of the state have access to a public institution for a variety of reasons, including admissions selectivity, absence of preferred academic programs, insufficient academic preparation offered by local schools, or lack of schedule flexibility to accommodate students who have jobs because they must support their families. Recently, however, proprietary schools have come under increasing criticism for failing to provide enough support to ensure student success, both in terms of graduation and career attainment sufficient to allow students to repay financial aid loans. This led to the State’s decision for this fiscal year to set higher institutional performance standards than the federal benchmarks to ensure Cal Grants are used by students to enter solid programs that deliver proven educational and career value.

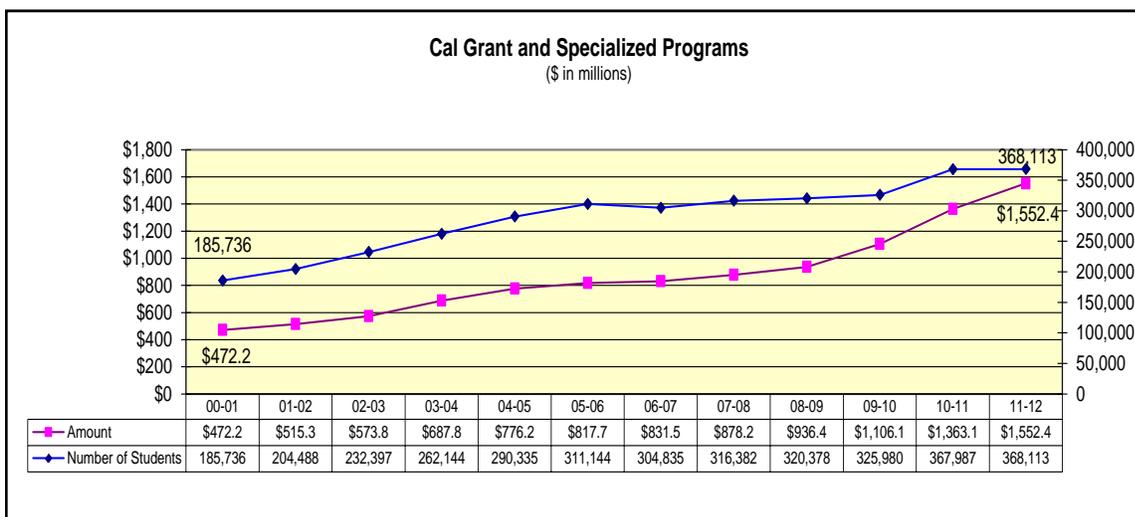
The rapid growth in the number of Cal Grant students enrolled in proprietary schools (as indicated in the chart on the prior page, the number tripled over the past 12 years) has driven award costs higher (147 percent). However, as the pie charts below make clear, the increased fees at UC and CSU campuses has resulted in a dramatic shift in funding toward public options and away from independent and proprietary schools.



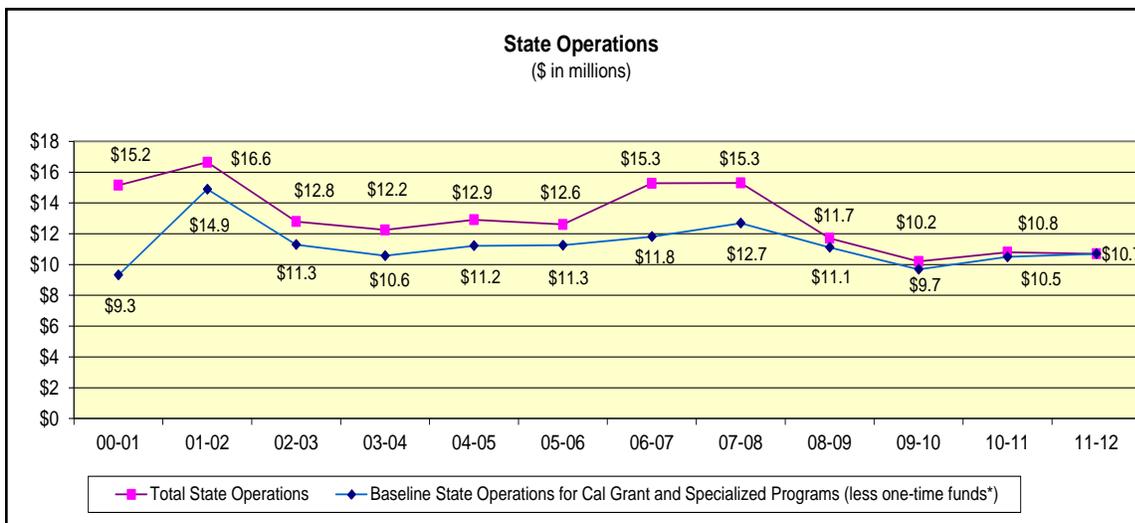
As the charts above show, 12 years ago students at private schools collected slightly more than 51 percent of Cal Grant award amounts. By the 2011-12 year, their share had declined to 22 percent.

All of the factors noted above have contributed to the growth in spending on the Cal Grant program. However, it is worth noting that one area that has contributed very little to the Cal Grant spending increase has been administration through the California Student Aid Commission.

The first chart below shows the growth of Cal Grants and other specialized programs that the Commission administers. The other three charts track the Commission's cost of operations, administrative overhead as a percentage of student financial aid awarded, and the number of authorized positions.



Percent Change from 2000-01 to 2011-12 Amount: 229% Number: 98%

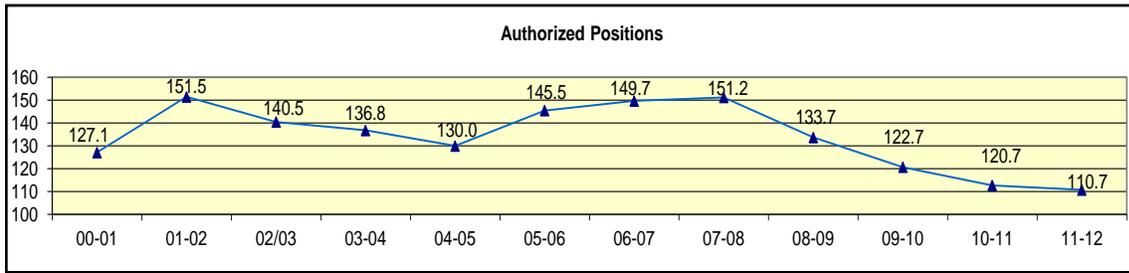


Percent Change from 2000-01 to 2011-12 Total: 29% Baseline: 15%

"One-time funds" include funding for the implementation of the Cal Grant Entitlement Program (SB 1644), the SEARS survey and Grant Delivery System Enhancements

Percent Change from 2000-01 to 2011-12: Overall: -65%

Baseline: -78%



Percent Change from 2000-01 to 2011-12: 13%

Administrative Overhead												
Fiscal Year	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12
Overall rate	3.1%	3.1%	2.2%	1.7%	1.6%	1.5%	1.8%	1.7%	1.2%	0.9%	0.8%	0.7%
Baseline Rate	2.0%	2.9%	2.0%	1.5%	1.4%	1.4%	1.4%	1.4%	1.2%	0.9%	0.8%	0.7%

As the Authorized Positions chart shows, in 2011-12 the Commission administered a program that has grown 206 percent with a staff that has been reduced 13 percent.

The Administrative Overhead chart tells a similar story of reductions in the face of growth. It shows that overhead has declined 76 percent over the past decade.

Today, staff operates the multi-faceted Cal Grants program and a number of other financial aid programs on about 0.7 percent overhead. This is a significant achievement, especially in light of recent added responsibilities such as implementation of the DREAM Act and SB70 data gathering.

How has staff kept up?

By making good use of technology, Commission staff has managed a growing program with fewer resources. For example:

- Five years ago, 300,000 paper reports about financial aid awards were mailed to students.
- Today, fewer than 30,000 are mailed; the rest of the students are notified electronically.

Is Investing in California Students Worthwhile?

One persistent thread throughout the 50-plus years of policy discussions regarding student financial aid has been that higher education is as much a public as private good. In other words, there has been broad-based recognition that making sure all students have access to higher education benefits not just the individual but also society

at large. Yes, the student gains the ability to get a higher-paying job and live a better, more satisfying life by at least some measures. But society also gains because that individual is a more capable, productive citizen, more likely to be engaged in his/her community, more able to contribute to the tax base, and less likely to impose costs on society through social support and law enforcement programs.

In keeping with this public-good belief, the general flow of policy decisions over the years has been to broaden access and increase affordability by casting the support net ever more widely. Today, Cal Grants can be awarded to a student in a household with income of up to \$90,000, depending on the size of the family and type of institution.

While policy makers have continued this trend with achievements like the CA DREAM Act, recent policy discussions and proposals to cut aid indicate the consensus around the value of the investment in student financial aid may be faltering.

At a time of rising income inequality, increasing college tuition costs, continued racial disparity in K-12 student achievement, and troubling numbers of disadvantaged students who leave high school with no clear path forward to a successful future, it is critical that policy makers recognize that higher education is a public good. The following data reinforces the value of the State's investment in higher education access for all students.

If current trends continue, the state will see a shortfall of one million college graduates [by 2025] needed to drive economic success. Among the solutions...is for the State to adopt policies to increase the rates of college attendance and graduation.

- **Need for educated workforce.** A 2009 report by the Public Policy Institute of California estimated that by 2025, if current trends continue, the state will see a shortfall of one million college graduates needed to drive economic success. Among the solutions offered by the report's authors is for the State to adopt policies to increase the rates of college attendance and graduation.
- **Productive, tax-paying citizenry.** Census Bureau data from 2011 demonstrate that a college graduate who works full time for 40 years will earn \$1 million more than someone with only a high school diploma. The average annual earnings for full-time workers at each level of education are:

High school dropout \$27,470	Associate degree \$44,086
High school graduate \$34,197	Bachelor's degree \$57,026
Some college \$40,556	Professional degree \$103,411

Increased earnings drive economic activity through spending, as well as support state programs through taxes. In fact, a 2007 paper published in the NASFAA Journal of Student Financial Aid (“The Financial Value of a Higher Education”) found that the federal government sees a return on financial aid through increased tax revenues of 14 percent and a payback period of less than six years to recoup its costs.

- **Employment stability.** Several reports have found that college graduates have fared better in the recession compared to high school graduates and dropouts, with greater numbers hanging on to their jobs or finding re-employment more quickly if they are laid off. As such, college graduates generate greater economic activity and require lower government support than their less-educated counterparts.

In addition, a number of studies support the concept that student financial aid makes a significant difference in the post-high school path of students:

- **Immediate enrollment.** “Determined to Succeed: Realizing the College Dream in California,” a 2004 CSAC study about the effectiveness of Cal Grants, provides compelling evidence that students are able to enter, continue and complete college at much higher rates when they have access to sufficient financial aid – and to Cal Grants in particular. The study, conducted by a researcher with a doctorate in education economics, offers sophisticated insight into the experience of 100,000 financial aid applicants. Using empirical data and regression analysis, the CSAC study found that receiving a Cal Grant was significant in determining whether students enroll immediately after high school, re-enroll for a second year, stay at the same institution for all four years, or remain enrolled somewhere for four years.
- **College persistence.** A 2010 federal study (“The Rising Price of Inequality: How Inadequate Grant Aid Limits College Access and Persistence”) found that as the gap between grant aid and college costs grew, disadvantaged students increasingly were unable to start their college careers at four-year institutions. This is important because high school graduates from low-income families who start at a four-year college earn a bachelor’s degree at more than triple the rate of their peers who start at a two-year college (62 percent vs. 20 percent). In addition, the study noted that raising the rate at which students complete bachelor degrees (22 percent for low-income students) can be partially accomplished through better academic preparation (27 percent completion). But improving access (33 percent) and persistence (34 percent) through financial aid have a much stronger effect.

For those who believe that economically disadvantaged students should be offered a level playing field when it comes to higher education opportunities simply as a matter of equity, the data above should be a convincing argument for the value and effectiveness of Cal Grants. In addition, in purely financial terms – divorced from any consideration of equity – there is strong evidence that governments should make such investments because of the benefits they reap.

Appendix A: Timeline for Cal Grant Evolution

For the past five decades, California policymakers have taken an increasingly expansive approach to the best way to help students pursue a college education. Often their decisions were shaped by analytical studies that built the case for more financial aid, in both dollars and variety. The following timeline interweaves program status and statistics (**bold**) with the source of some of the thinking behind the innovations and growth of the State's financial aid investment.

1955: The new California State Scholarship program gave a limited number of undergraduates up to \$600 to cover tuition and fees, but not living expenses.

1959: 2,560 students were provided scholarships totaling \$1.224 million.

1960: The Master Plan for Higher Education was created and a special legislative session was called by then-Gov. Edmund G. "Pat" Brown to enact a series of recommendations from the plan. The provisions relating to state scholarships included:

- **Increasing the maximum number of scholarships from 2,560 to 5,120 by 1964.**
- **Increasing the maximum award from \$600 to \$900.**
- **Holding awards in trust for winners who chose to first go to a two-year college.**
- **Repealing the 1964 sunset date for the program.**

1968: The State Scholarship Program awarded \$1,500 each to 6,400 students. More importantly, the College Opportunity Grants (now known as Cal Grant Bs) were created. These provided \$900 for living expenses (now known as Access Awards) to 1,000 students attending California Community Colleges.

1973: The Occupational Education and Training Grant (now known as Cal Grant C) was created to assist students attending vocational and technical schools. That year, it provided \$2,500 scholarships (\$2,000 for tuition/fees and \$500 for books and supplies) to 500 students.

1973: As the Master Plan for Higher Education neared the 15-year mark, policy makers decided a review was in order. The major recommendation in the Joint Committee Report on the Master Plan was to establish a comprehensive, interrelated program of state financial assistance that was linked to helping a set percentage of the number of high school graduates. Funds were to be allocated on the following basis:

- State Scholarships for 5% of high school graduates.
- College Opportunity grants for 1% of high school graduates.
- Educational Opportunity Program (EOP) support for 5% of enrollment at an average of at least \$500 per award, with the money to be awarded to campuses.
- Occupational Education and Training grants for 0.5% of high school graduates.
- Graduate Fellowship grants continuing at the then-current authorized level of 2% of bachelor degrees, with recipients limited to four renewals.

1987: In a report entitled Master Plan Renewed, there was a distinct shift for the first time from supporting a set number of students to an entitlement strategy that addressed “all needy students who perform well, as evidenced by being regularly admissible to the University of California or the California State University.” The students were to be provided “adequate financial support to attend an accredited California institution of their choice, based on uniform estimates of need.”

The report also recommended that the Governor and the Legislature adjust support for financial aid to keep pace with enrollment growth and the “average full operating cost per student” for CSU and UC. Further, taking note of the burden of student loans, the report recommended state support for student employment to limit reliance on loans, as well as loan forgiveness tied to public service.

1989: The report from the Joint Committee for Review of the Master Plan recommended retaining a numerical approach to financial aid, but supported a huge expansion of the program. It recommended that by 1994/95, first-year Cal Grant As and Bs would be provided to one quarter the number of graduating high school seniors. However, the maximum award would be limited to the amount of non-resident tuition, plus relevant fees, for the CSU system.

The report also recommended that Cal Grants be extended automatically for those admitted to teacher credentialing programs, and that the number of State Graduate Fellowship program awards be tripled by 1994.

2000: The following is the number and amount of awards for the final year that the Cal Grant system was based on a competitive process that considered different factors for each program, such as GPA, financial need, disadvantaged characteristics and career choice.

- **Cal Grant A: 34,921 (systemwide tuition/fees at UC and CSU, \$9703 for non-public institutions).**
- **Cal Grant B: 34,921 (\$1,548 access award, systemwide tuition/fees at UC and CSU, \$9703 for non-public institutions).**
- **Cal Grant C: 7,761 (\$2,592 tuition/fees, \$576 books and supplies).**

2000: The Ortiz-Pacheco-Poochigian-Vasconcellos Cal Grant Act made affordable access to higher education a guarantee for every qualified California student, for the first time turning Cal Grants into an entitlement (as had been recommended in 1987).

2001: In the first year of the new Cal Grant Entitlement (High School and California Community College Transfer) and Competitive programs, the following number of awards were made:

- **High School Entitlement: over 48,000 award offers in 2001-02**
- **California Community College Transfer Entitlement: 563 award offers in 2002-03**

- **The Competitive Cal Grant Program retained many of the same characteristics of the old Cal Grant Program. 22,500 awards were authorized: 11,500 for the March 2 deadline (students could attend any type of eligible institution); 11,500 for the September 2 deadline for students attending a community college.**

2002: The report from the Joint Committee to Develop a Master Plan for Education recommended continuing to emphasize financial need in the award of grants, expressly supporting the Cal Grant entitlement as defined in SB 1644 (Statutes of 2000). It also recognized the importance of outreach and distribution of financial aid information to students. Without establishing specific guidelines, the report recommended periodic reviews and adjustments to award levels and eligibility requirements to be consistent with the evolving needs of students.

2011: In the past year, the following number of awards were made:

- **High School Entitlement: over 84,500 offers**
- **California Community College Transfer Entitlement: over 12,000 award offers**
- **The Competitive Cal Grant Program: 22,500 awards were authorized (11,500 for the March 2 deadline (students could attend any type of eligible institution); 11,500 for the September 2 deadline for students attending a community college)**
- **Cal Grant C: 7,761 (\$2,592 tuition/fees, \$576 books and supplies)**

Appendix B: Cal Grant and Specialized Programs for 2010-11

This chart provides cumulative totals of spending and the number of paid recipients for the 2010-11 award year for the programs that CSAC administers.

PROGRAM	Recipients	Amount (\$ in millions)
Cal Grants	236,112	\$1,269.60
Assumption Program of Loans for Education (APLE)	10,243	\$31.69
CAL-SOAP	N/A	\$7.11
Chafee Foster Youth	2,505	\$11.22
Graduate APLE	27	\$0.05
BYRD Scholarship	3,419	\$5.48
Child Development Teacher and Supervisor Grant	304	\$0.30
Law Enforcement Personnel Dependents Scholarship	10	\$0.10
National Guard APLE	62	\$0.01
SNAPLE for Nursing Faculty	48	\$0.40
SNAPLE for Nurses in State Facilities	2	\$0.01
California National Guard Education Assistance Award	488	\$3.02
Cash for College	N/A	\$0.20
John R. Justice Grant	188	\$0.47
TOTAL	253,408	\$1,329.66

Strategic Framework for Future Cal Grants

In a time of budget constraints, spending choices must be based on what can make the most difference for California citizens today and in the future. As college costs rise and family incomes plateau, student financial aid is an investment that the State cannot afford to handle poorly.

In the past, policy leaders came to a consensus about the value of different options through the Master Plan for Higher Education process. The first plan, adopted in 1960, has been reviewed and revised several times over the years. However, the last full review of the Master Plan was in 2009, a point at which it was not yet evident that California would endure a painfully slow pace of economic recovery that would make full-funding of Cal Grants politically impossible.

During the past few budget cycles, many proposals have been put forth, almost all with the focus of reducing the State's student financial aid obligations. When rushed through in the final days of the budget approval process, last-minute changes can have unintended consequences for students and institutions. At the same time, legislators and the administration continue to seek information from a variety of sources about the impact of their choices. What is clear is that policy makers are receptive to well-grounded advice and guidance.

The Commission, with its long experience in administering the Cal Grant programs, its wealth of data for analysis, and a membership that provides broad stakeholder representation, is well-positioned to play a pivotal role in the financial aid discussion. To do so effectively, the Commission should:

- Create a Strategic Framework that establishes our broad vision for the critical elements of financial aid.
- Prioritize programmatic options in line with our Strategic Framework.
- Create an action plan for 2013 that reflects both our framework and our preferred options.

The following pages provide concepts for discussion for both a Strategic Framework and programmatic options.

Elements for a Strategic Framework

Staff recommends the Commission consider the following elements for inclusion in a Strategic Framework.

1. **Broad access:** *Policy decisions about Cal Grants should be examined against the potential impact on California's decades-long commitment to provide broad, affordable access to college for every eligible student.*

At one time, California offered students some of the most economical options for higher education in the country. Today, the cost of a UC education has risen above the national average for similar institutions and is a challenge for middle class families, while even a CSU education can seem impossibly out of reach for low-income students and their families. With recent cuts in Cal Grants for private institutions, students looking for a non-traditional college education because of their work needs or career objectives have fewer choices.

While these changes can be laid at the doorstep of the lingering effects of the recession, the faltering economy has also made it brutally clear that students who end their education at high school are at a financial disadvantage for the rest of their lives. This is a fact that has implications for California's future workforce and tax base. Investing in student support is a sound policy that benefits both students and society.

2. **Quality education:** *Policy decisions about Cal Grants should support education quality, including providing accurate, transparent information to students and providing incentives/disincentives through institutional eligibility linked to high standards.*

A college education that leaves a graduate unprepared to succeed in life is of questionable value to both the individual and the State. While the quality of college programs is a matter for accreditation bodies to weigh, it is reasonable for the State to seek assurance that its investment in financial aid supports high-quality education opportunities for students. One pathway is to provide easy access to comparative information for students who are weighing their options. Another pathway is to encourage, through incentives and disincentives, institutions that want to participate in the Cal Grants program to adhere to high standards.

3. **Persistence and completion:** *Policy decisions about Cal Grants should reflect the need to help students persist and complete their education once they make it through the college doors.*

According to the National Center for Higher Education Management Systems, almost 64 percent of California students who enter college are able to earn a bachelor's degree within six years; only 38 percent finish an associate degree within three years. Federal and state studies have indicated these numbers are far smaller for low-income students, who often drop out of college when they run out of money to pay fees or when they must devote time to jobs instead of studying. To ensure the State's investment is not wasted, decisions about financial aid should move beyond a focus on broad access to take into account the persistence and completion performance of students at institutions that participate in the Cal Grants program.

Using this framework as a metric, several recent policy decisions are clearly taking the Cal Grant program in the right direction. For example:

- The DREAM Act legislation removes a barrier (lack of a Social Security number) to access by making Cal Grant and institutional aid available to low-income and underrepresented students.
- SB70 mandates the gathering of statistics that – when presented in an easy-to-use online format – can help all students make good decisions about the quality of education offered by a specific school, as reflected by graduation and loan default rates.
- Budget decisions that denied Cal Grant eligibility to institutions – not students, but the institutions they may be considering attending – because of high loan default rates and low graduation rates also fit the framework by supporting quality programs.

Some proposals put forth in the past few years would fall short of a student-focused Strategic Framework. Others may be worth exploring. What follows is a brief examination of several programmatic options that the Commission could consider opposing, supporting or studying further through the committee system.

Pell Grant Model

Today's Cal Grants are directly linked to full funding for mandatory fees at the UC and CSU systems. Under the Pell Grant model, the amount of a Cal Grant award would be keyed to the percentage of a full Pell Grant that a student is eligible to receive. Instead of assuring low-income students that college fees and tuition will be covered, a Pell Grant model would attempt to provide the minimum grant that could support college attendance, based on federal algorithms.

Pro

- Because awards for students would be on a sliding scale, total award amounts would be reduced, lowering the cost of the Cal Grants program.
- Students with more personal or family resources would receive less in Cal Grant assistance, allowing the State's investment in financial aid to be more sharply focused on the lowest-income students.

Con

- A program that does not meet full tuition/fees is likely to lead to greater student borrowing. Higher debt load for college graduates is widely recognized as a mounting crisis that leads to higher default rates, restrictive career choices (fewer can afford to work at low-paying jobs) and fewer resources to begin a family, buy a house and fully participate in society.
- Many low-income students may perceive that college is simply out of their reach once their Cal Grant is reduced to a fraction of institutional fees. This is particularly true for those already working to pay for living expenses and/or contribute to family support.
- Decisions about supporting California students – who is eligible and how much they will receive – would be driven by federal decisions about the level of awards given in the Pell program. Legislators and the governor would lose the ability to set priorities and establish parameters for California's student financial aid program.

Raising the GPA Standard

A student's high school grade point average (GPA) historically has been one of many factors for determining Cal Grant eligibility. In the past, it was used as a cut-off metric to distinguish which students qualified for a Cal Grant A. More recently, separate GPA metrics have been established for the Cal Grant A and B programs to recognize the different student populations that are reached by each program.

Pro

- Raising the GPA standard allows the State to narrow its investment to students who show the greatest promise (using GPAs to identify high achievers rather than as a minimum standard of performance).
- Because fewer students would be eligible, the Cal Grants program would cost less.
- If the program were appropriately phased in, raising the GPA cutoff would provide an incentive for students to work harder so they would be eligible for financial aid.

Con

- There is an inherent inequity in overreliance on GPAs to pick “winners” from a K-12 system that fails to meet the needs of many students. High school GPAs are correlated not only to college success, but also to family affluence and better schools with challenging curriculums and experienced teachers – exactly the factors that many economically disadvantaged and underrepresented students do not have access to. Their local high schools may not offer Advanced Placement courses, highly qualified teachers and the rigorous academic preparation that is much more common in suburban areas.
- Many disadvantaged high school students find they must work to support their families, making it much more difficult for them to devote the time to studying that is required to achieve a high GPA. As a result, many of these students lag behind their peers in academic achievement.
- If the program is not phased in over time, raising the current GPA standards without warning would eliminate students who are eligible today for Cal Grants and who have fulfilled the requirements for UC or CSU admission. It seems particularly punitive to move the bar for students who are close to graduating and who were working toward a different eligibility criteria.
- It also may have unintended consequences, such as grade inflation by sympathetic teachers or discouraging “late bloomers” from getting their lives back on track and attending college.

Australian Model

A recent Sacramento Bee opinion piece authored by Steve Weiner and former Senator Gary Hart (see attachment) advanced the Australian model of financial aid as a supplement to current state and federal programs. This model has several components, including a loan repayment system that is tied to a college graduate's earnings without the element of deferred payments adding to the overall debt. The debt is forgiven at the end of a pre-set payment period. Payments are collected through the tax system.

Pro

- Students who decide to borrow money to pursue their college dreams know they will not have payments that disproportionate to their earnings and there is certainty about the repayment period (typically 10 years).
- Graduates know they can choose lower-paying careers, such as public service or non-profit jobs, and still complete their loan repayment obligations.

Con

- With already-existing state and federal programs, this will add another complexity for students to understand and consider as an option.
- Other countries have adopted this approach at the federal level; working out the logistics at the state level will take careful planning.

Texas Loan Forgiveness Model

Texas has instituted programs to encourage students to graduate on time and do well in their studies. The B-on-Time loan program offers interest-free loans to students who graduate with GPAs of B or better within four years of starting college (five if the specific curriculum requires it). Another pilot program at the University of Texas at Austin targets annual progress toward a degree by experimenting with providing loan forgiveness of up to \$2,000 of the principal of federal unsubsidized loans to students who complete a certain number of course credits each semester.

Pro

- Using incentives to encourage students to complete their studies more quickly gives institutions capacity to serve other students. This serves the State's interest because of the need to invest in growing capacity at public institutions.
- The incentive approach (rather than punitive measures) still gives students the freedom to change majors or make other decisions that slow their progress but are more in line with their personal goals.

Con

- Instituting a loan forgiveness program would take an investment of resources upfront, with the payback in terms of increased institution capacity coming in future years.

Fraud Prevention

The San Diego Union Tribune recently published an article on “students” committing fraud by signing up for community college classes, collecting federal financial aid, and then dropping out. The U.S. Attorney’s Office in Sacramento issued 21 indictments in cases involving \$770,000 in fraudulently obtained aid. A U.S. Department of Education was quoted as noting that between 2005 and 2011, 215 people have been convicted of fraud rings connection with distance learning, which the federal experts say is particularly vulnerable to student aid fraud.

This is an area the Commission could explore further with regard to:

- Assessing current procedures to identify opportunities for increasing fraud prevention measures that are already part of the Cal Grants program.
- Identifying and promoting best practices for preventing fraud in distance learning programs.

Reserved Award Program/Partnerships

Each year, hundreds of thousands of young adults realize their aspirations for a better life require them to return to school. However, as post-high-school graduates, or dropouts who now have GEDs, they are not eligible for funding except through the competitive Cal Grant process. This year, 240,000 applied for competitive grants; there were funds for only 22,530 awards.

The shortfall represents not just a disappointment for individuals but also a missed opportunity for the State to invest in helping these young people become more productive citizens, with the potential to contribute more to society in terms of engagement and taxes.

The Commission could explore creating:

- A reserved award system that allowed a high school graduate to work for one or more years before returning to an academic life with more focus and commitment, as well as savings.
- A private-public partnership program that allowed young workers after high school and their employers to “bank” savings toward higher education that would be matched by a Cal Grant when the worker chose to enter the higher education system.

Improving Student Outreach

Under financial pressure, many school districts have had to cut back on the number of high school counselors – and those that remain often have much of their time absorbed by dealing with problem students and disciplinary processes. The Commission already performs extensive outreach through our Cash for College programs and partnerships.

The Commission can further support schools through:

- Creating incentives for schools to focus on helping students understand the college application process and complete FAFSAs. This would include a Cal Grant Champion designation for schools with high numbers of students completing FAFSAs and going to college.
- Offering tool kits that supplement resources that counselors already use to reach students.

COMPLETE TO  COMPETE

California
Higher Education Data Dashboard



NGA Center for
BEST PRACTICES

Context

Over the last two decades, state support for higher education has grown by \$50 billion; yet, the nation has fallen from first to eighth in the world in the percentage of young adults with college degrees. To enhance U.S. competitiveness, grow the economy, and increase the income of the U.S. workforce, it is essential for states to increase college completion—and do it efficiently.

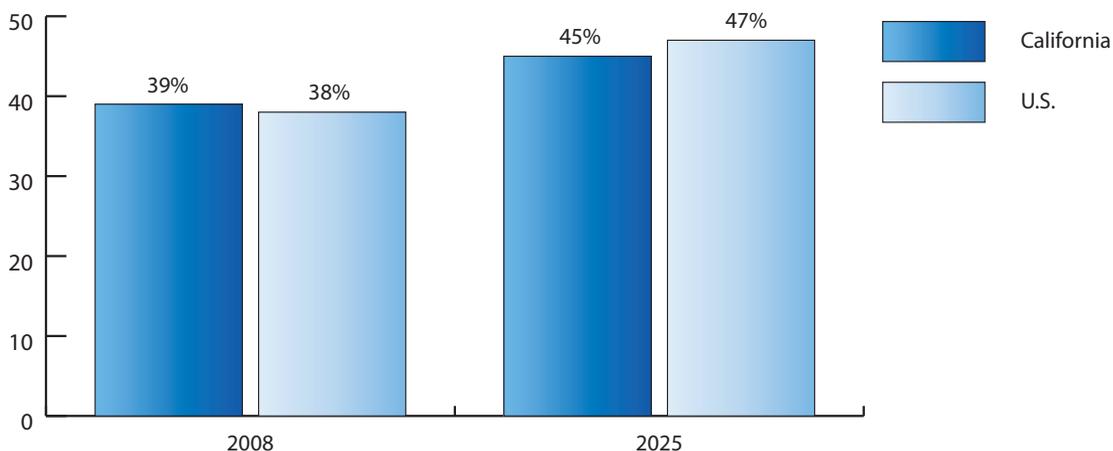
The indicators included in this document summarize information in three key areas:

- **An Educated Workforce:** In states across the nation, the economy is demanding more workers with education beyond high school. The Center on Education and the Workforce projects that by 2018, 63 percent of all jobs will require some college education.
- **College Access and Success:** Having a more educated workforce means not just getting more students to college, but getting them through college. Whether it comes as a certificate, an associate’s degree, or a bachelor’s degree, the majority of individuals will need a postsecondary credential for personal and statewide economic viability.
- **Higher Education Finance:** Finance is one of the most powerful levers affecting higher education performance. For states, the question of how to gain the greatest return on investment looms large. For institutions, revenue drives their choices and priorities. For students, the amount they are asked to pay for college affects where, how, and even whether they go to college.

Data for Your State

Percentage of Adults 25-64 with an Associate’s Degree or Higher (2008 and 2025 projection)

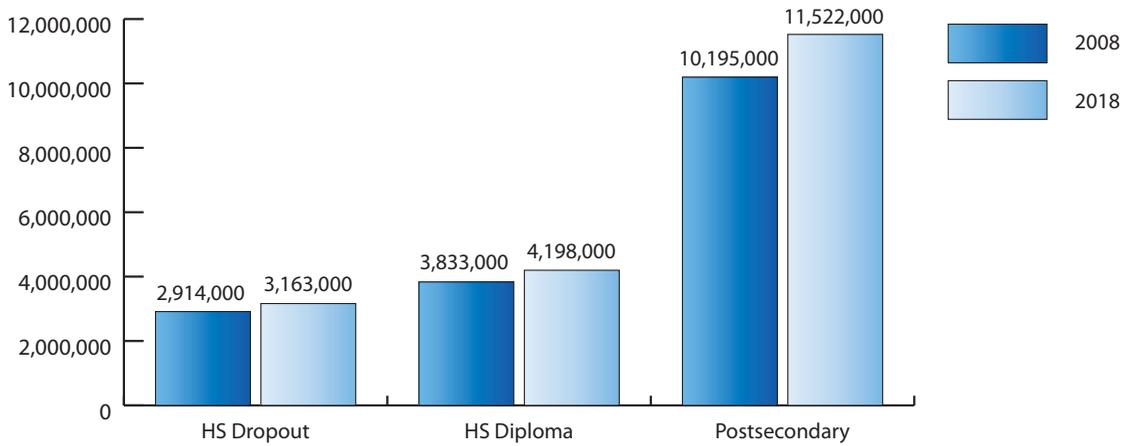
This indicator provides a current snapshot and projection of the state’s educational capital, assuming no change in degree production rates. By 2025, leading nations are expecting to average 55 percent in the share of the adult population with a college degree.



Source: U.S. Census Bureau; National Center for Higher Education Management Systems

Number of Jobs Requiring Postsecondary Education (2008 and 2018 projection)

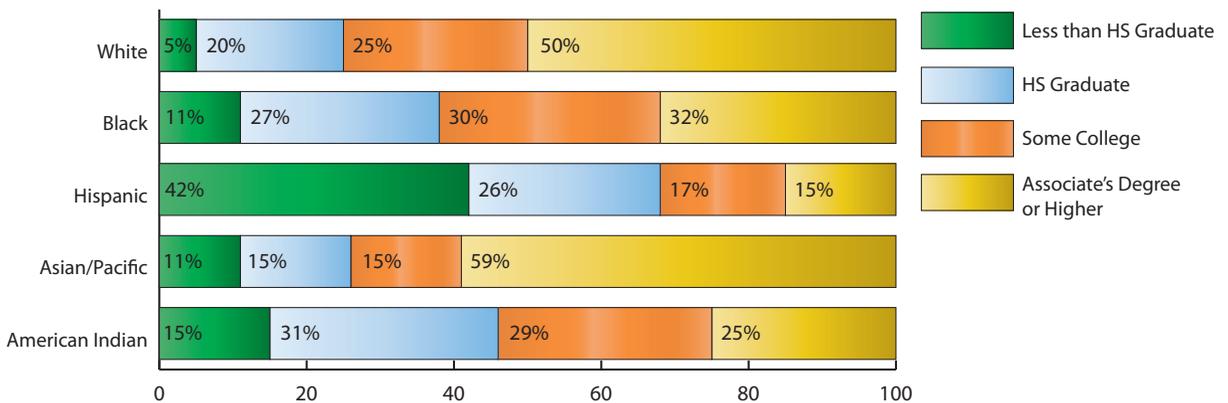
This indicator shows the workforce demand for a college education in the state.



Source: Center on Education and the Workforce, Georgetown University

Educational Attainment by Race/Ethnicity (2008)

This indicator shows the educational attainment of racial/ethnic subgroups within the state.

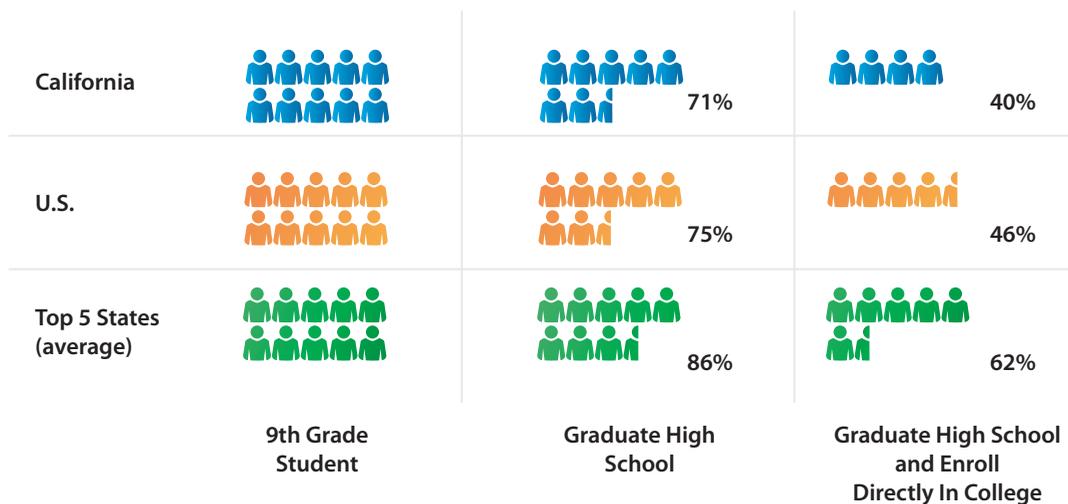


All totals are rounded to 100.

Source: U.S. Census Bureau; National Center for Higher Education Management Systems

Student Progress through the Educational Pipeline (2008)

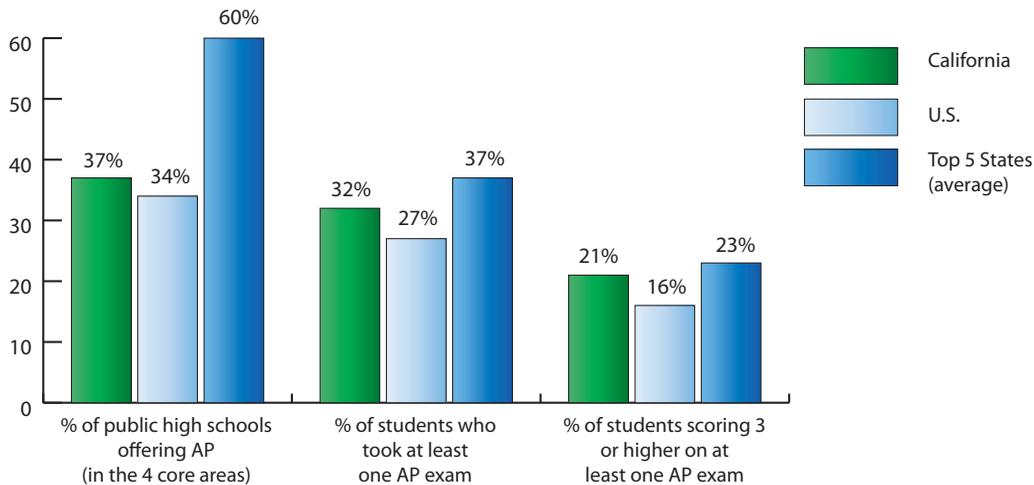
This indicator shows the population of students completing high school and enrolling directly in college within 12 months of graduation. Delayed entry into college reduces the likelihood of degree completion.



Source: U.S. Department of Education; National Center for Higher Education Management Systems

Percentage of Students Participating and Succeeding in College-level Courses in High School (2009)

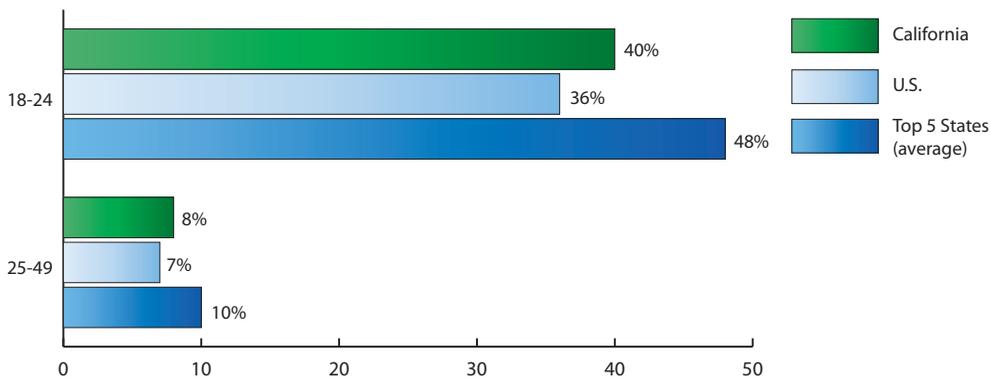
This indicator offers a snapshot of college readiness, as well as the availability of “head start” options. Students that complete college-level courses in high school are more likely to enroll in and complete college.



Source: The College Board

Percentage of Adults Enrolled in College by Age (2009)

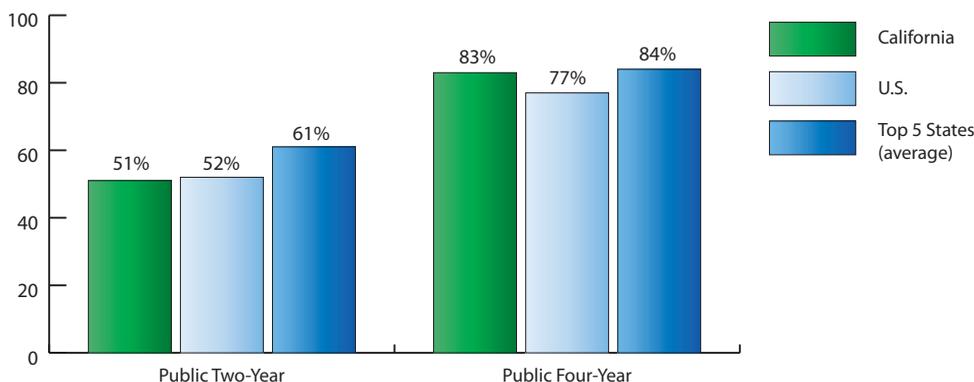
This indicator shows how well the state is reaching different segments of the population through higher education.



Source: U.S. Department of Education; National Center for Higher Education Management Systems

Persistence of Students from First to Second Year in College (2008)

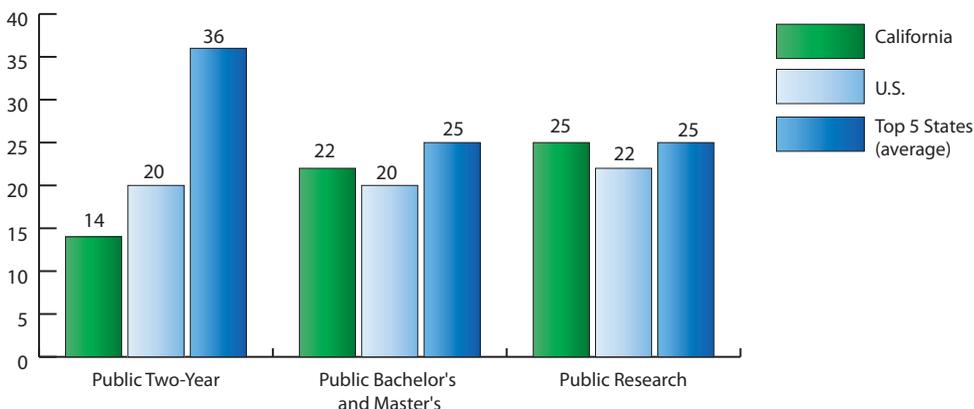
This indicator gauges how well institutions perform in moving students from their first to second year, which is a key predictor of completion.



Source: U.S. Department of Education; National Center for Higher Education Management Systems

Number of Certificates and Degrees Completed per 100 Students Enrolled (2008)

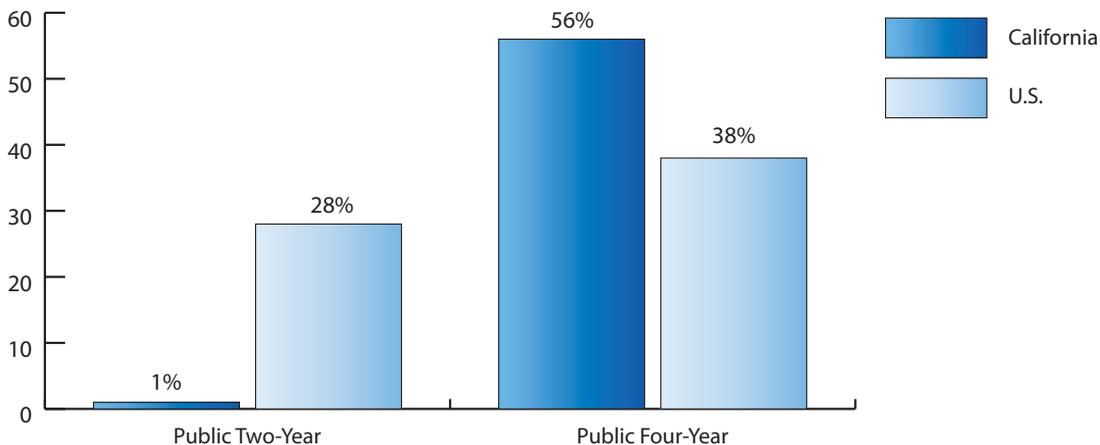
This indicator provides a basic measure of degree productivity—output relative to input—for the state’s postsecondary system. This information is important to track over time in conjunction with enrollment to ensure that productivity is not increasing as a direct result of limiting access to college.



Source: U.S. Department of Education; National Center for Higher Education Management Systems

Percentage Change in In-state Tuition (2004-05 to 2009-10, not adjusted for inflation)

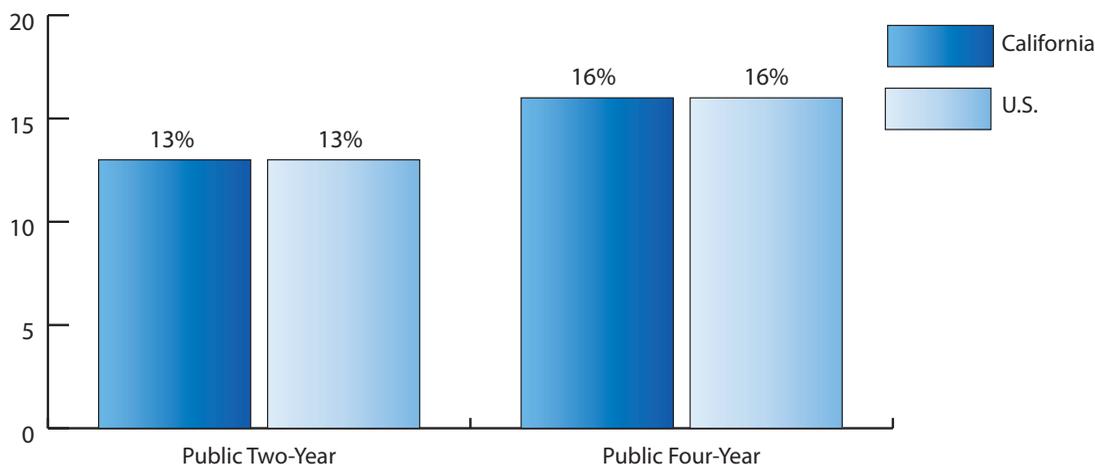
This indicator gauges the degree to which state colleges and universities have used tuition as a funding source during the recent economic downturn.



Source: *The College Board*

Price of College as a Share of Median Family Income (2009)

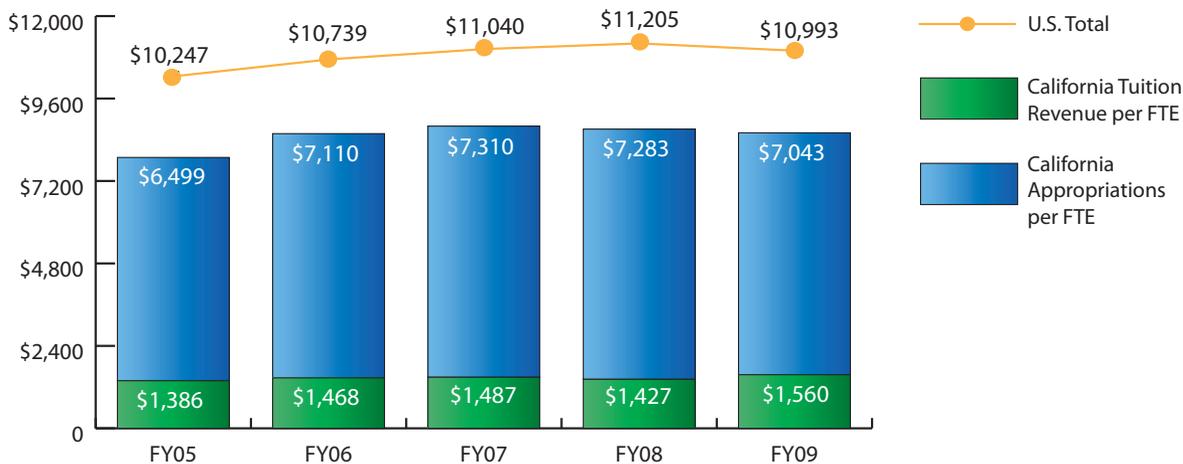
This indicator captures college affordability for the average family in the state. It takes into account the average cost of attending a state institution minus the average aid provided to a family.



Source: *U.S. Census Bureau; National Center for Higher Education Management Systems*

State Higher Education Funding (FY05-FY09)

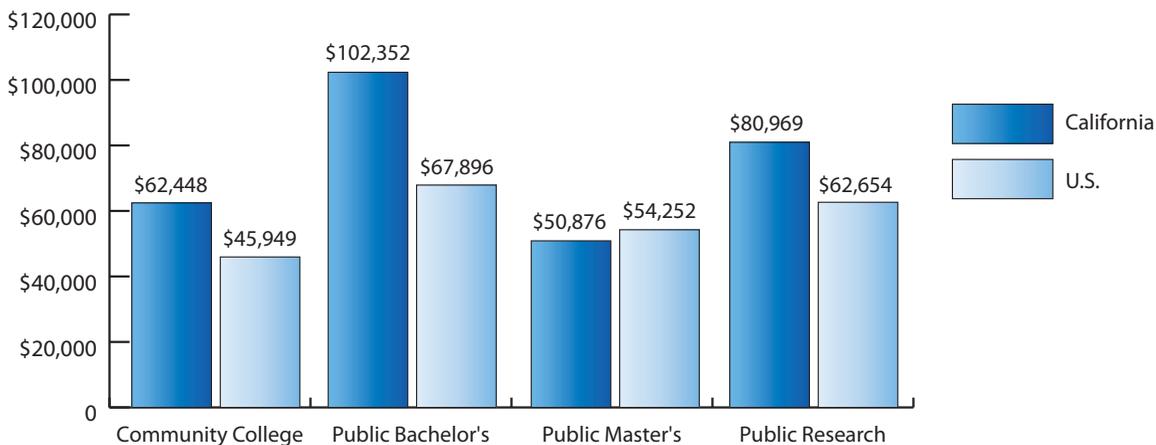
This indicator shows funding per full-time student received by institutions.



Source: State Higher Education Executive Officers

Education and Related Spending per Completion (2008)

This indicator provides another view of output in relation to input—how much it costs to produce certificates and degrees by institution type.



Source: Delta Cost Project

Policy Questions and Directions

- **Higher Education and Economic Development** – Are public postsecondary institutions producing enough degrees in “high-growth” fields to meet the state’s current and future demands? Establish goals for increasing college attainment in the state (if they do not already exist) and link the goals to current/ projected workforce needs.
- **Attainment Gaps** – Are groups whose population is significantly increasing simultaneously increasing their educational attainment? Include goals for closing educational attainment gaps as part of the state’s overall goals for higher education performance.
- **Preparation** – Are high school graduates prepared to succeed in first-year, credit bearing coursework? Are there significant gaps across groups in college preparation? Align requirements for high school graduation with entrance requirements for the state’s public colleges and universities. Establish an assessment of college and career readiness in high school and develop a statewide strategy to remedy skill gaps.
- **Completion** – What state policies are in place to encourage students to complete a degree or certificate, particularly students from groups historically at greater risk of not completing degrees? Review the state’s financial aid program and institutional funding mechanisms to determine if there are incentives for completion.
- **Performance Funding** – Does the state fund institutions based only on enrollment? Are there incentives for institutions to focus on progress to or completion of a certificate or degree (i.e., number of transfers, degrees produced in “high-growth” fields, percentage of students graduating on-time)? Set a goal of allocating a significant portion (e.g. at least 10 percent) of institutional funding on the basis of performance measures aligned with state goals.

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The College Board - <http://professionals.collegeboard.com/data-reports-research>;
<http://completionagenda.collegeboard.org/?affiliateId=profad&bannerId=compagenda>

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Delta Cost Project - <http://www.deltacostproject.org>

State Higher Education Executive Officers - <http://www.shceo.org>

U.S. Census Bureau - <http://www.census.gov>

Center on Education and the Workforce, Georgetown University - <http://cew.georgetown.edu>

National Center for Education Statistics, U.S. Department of Education -
<http://nces.ed.gov/ipeds>

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EXCERPT FROM PRESENTATION

Beyond Need & Merit

Strengthening State Grant Programs

A Product of:

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*Annual Student
Financial Aid
Research Network
(SFARN)
Conference
Memphis, TN
June 14, 2012*

Presentation by:

David Longanecker

President, Western
Interstate Commission
for Higher Education
(WICHE)

Beyond Need & Merit

Strengthening State Grant Programs

- ❑ Circumstances
 - ❑ Affordability at risk because of cost increases
 - ❑ Tuition increasing
 - ❑ State support constrained
 - ❑ Income stagnant or falling for most at-risk populations
 - ❑ Size of most at-risk populations increasing

Beyond Need & Merit

Strengthening State Grant Programs

- ❑ State Financial Aid As A Response
 - ❑ More important than ever
 - ❑ No “One Best Plan”
 - ❑ “One Common Goal” - increased educational attainment
 - ❑ But lots of room for improvements in effectiveness
 - ❑ Resource constraints can't be ignored

Recommendation 1: *States should focus resources on students whose chances of enrolling and succeeding in college will be most improved by the receipt of state support.*

❖ Findings:

❖ States vary greatly on whom and how they finance

- ❖ Low tuition/low aid: Alaska, Utah
- ❖ High tuition/high need-based aid: New Jersey, Minnesota
- ❖ High tuition/high merit-based aid: South Carolina
- ❖ High tuition/low aid: New Hampshire, Michigan
- ❖ Low tuition/high aid (merit aid): Louisiana, West Virginia, Nevada

Recommendation 1: *States should focus resources on students whose chances of enrolling and succeeding in college will be most improved by the receipt of state support.*

❖ Findings (continued):

- ❖ States have increased both need-based and non-need based aid over the years.
 - ❖ Share of higher education dollars going to grant aid increased from 4% in 1980-81 to 12% in 2010-2011
 - ❖ States tend to focus on one or the other, though some “blend” the two
 - ❖ And a lot of states have a plethora of programs
 - ❖ Currently 70% need-based (at least in part); 30% non-need based
- ❖ Summary: Programs reflect
 - ❖ Legitimate differences in state circumstances
 - ❖ And a lot of well- intentioned but poorly designed programs

Recommendation 1: *States should focus resources on students whose chances of enrolling and succeeding in college will be most improved by the receipt of state support.*

❖ Basis for Recommendation 1

- ❖ Research is clear -- Low-income students are most sensitive to price of college
- ❖ Recent tuition increases may be affecting success of middle-income, as well.
- ❖ TARGETING financial aid can address both (eg: Minnesota's program)
- ❖ Must be sufficient to break the barrier of financial access, in combination with others
 - ❖ Suggests not only targeting, but intentional/smart partnership (beware of unaffordable liaisons)
 - ❖ Don't ignore institutional aid – larger amount and less targeted than state need-based aid

Recommendation 1: *States should focus resources on students whose chances of enrolling and succeeding in college will be most improved by the receipt of state support.*

- ❖ Essence of Recommendation 1:
 - ❖ Target where it makes the desired difference

- ❖ Special Note: Don't ignore non-traditional students
 - ❖ Older students must be part of the equation on the *completion* agenda
 - ❖ 40 million with some college; no degree
 - ❖ But serving them may require a different approach/rationale/program than serving traditional age students

Recommendation 2: Consolidate and simplify programs in order to make them easily understood by prospective college students and their families.

● Findings:

- System is too complicated
 - Applications too complicated
 - Not predictive enough
- Conundrum -- simplification can conflict with goal of targeting
- Research supports simplification to enhance program efficacy
 - Feds doing so (FAFSA simplification & IRS connect)
 - States – not so much
 - College Board study shows it is possible
 - “Just Do It”
 - Still no “one best solution” – depends on income distribution.

Recommendation 2: Consolidate and simplify programs in order to make them easily understood by prospective college students and their families.

- **Basis for Recommendation:**
 - Programs can be well-targeted but simple
 - A simple income or benchmarked look up table
 - Beware of oversimplification
 - Can create a cliff effect, can tie you to an uncontrollable event
 - Consolidation of programs can improve efficacy and sustainability
 - Good programs include good communication and transparency
 - States need a net-price indicator
 - That discriminates on important student characteristics
 - And that provides institutional comparisons

Recommendation 2: *Consolidate and simplify programs in order to make them easily understood by prospective college students and their families.*

- Essence of Recommendation 2:
 - Consolidate
 - Get Smart

Recommendation 3: *Design programs so that they not only help students gain access to college but also encourage success after they arrive.*

● Findings:

- All grant programs embody incentives; those incentives must be designed carefully to encourage success, not failure.
- Most state programs with academic success components today look backwards rather than forward.
 - Cost ineffective – benefits those who would succeed without student aid
 - Exclusion of most at risk
 - No incentive for college success, per se.
 - Need is for college grads – not superstars

Recommendation 3: *Design programs so that they not only help students gain access to college but also encourage success after they arrive.*

- Findings:
 - State postsecondary policy is increasingly focused on both access & Success
 - The logic:
 - States need more college graduates
 - Students that don't progress don't graduate
 - It's that simple
 - Programs not aligned will not thrive

Recommendation 3: *Design programs so that they not only help students gain access to college but also encourage success after they arrive.*

- Basis for Recommendation:
 - Current “satisfactory progress” not adequate
 - Lacks both content and face validity
 - Programs that blend need and merit make a difference
 - Early intervention experience
 - Oklahoma OLAP/Promise
 - 21st Century Scholars
 - State Need-based Program efforts
 - Minnesota – 15 hours for full-time
 - MDRC experiments -- Massachusetts Pilot
 - Need for “redemption” -- kick out provisions impeding progression.

Recommendation 3: *Design programs so that they not only help students gain access to college but also encourage success after they arrive.*

- Essence of Recommendation 3:
 - Support Student Success

Confronting Budgetary Challenges

- Rationing when full funding is not available.
 - What not to do (which is what we mostly do):
 - Increase academic requirements
 - Dilemma: eliminates those most in need of financial resources
 - Impose first-come/first-serve or cut-off dates.
 - Dilemma: eliminates those most likely to apply late, which particularly disadvantages students attending community colleges

Confronting Budgetary Challenges

- Rationing when full funding is not available.
 - Better ideas
 - Increase expected family contribution by percentage necessary to live within financial constraint.
 - Advantage: protects the disadvantaged students the most
 - In a program with progressive benefits, cut all students by an equal amount
 - Advantage: still protects the most disadvantaged; eliminating those with the least amount of aid. Perceived as “fair” by all.

Confronting Budgetary Challenges

- In the Spirit of *A Crisis Is A Terrible Thing To Waste*
 - Consolidate and simplify programs
 - Rethink and evaluate (on evidence) all programs
 - Think of the interrelationships between state policy – Appropriations, Tuition, and Financial Aid (ATFA)

Concluding Comments

Financial Aid should be designed to use taxpayer dollars as effectively as possible to achieve the State's objective – which is to increase educational opportunity and attainment.

And, the historic dichotomy between “need-based” and “merit-based” aid is no longer constructive.



Tab 3.e

Demography Is Not Destiny:

*Increasing the
Graduation Rates
of Low-Income
College Students
at Large Public
Universities*



Tab 3.e

Demography Is Not Destiny:

*Increasing the
Graduation Rates
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Jennifer Engle
Colleen O'Brien

THE PELL INSTITUTE
for the Study of Opportunity in Higher Education

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The Pell Institute for the Study of Opportunity in Higher Education, sponsored by the Council for Opportunity in Education, conducts and disseminates research and policy analysis to encourage policymakers, educators, and the public to improve educational opportunities and outcomes of low-income, first-generation, and disabled college students. The Pell Institute is the first research institute to specifically examine the issues affecting educational opportunity for this growing population.

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Finally, we would like to thank the Lumina Foundation for Education. Through its support of both this project and our previous work, we hope that we are able to add to the body of knowledge and ultimately improve institutional practices towards the retention of low-income students. The opinions expressed in this report are those of the authors and do not reflect the policies or positions of the Lumina Foundation for Education, its officers or members of its board of directors.

We heartily acknowledge the efforts of these individuals in the process of conducting this research. We also recognize that responsibility for the content of this report, including any errors or omissions, rests solely with the authors.



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EXECUTIVE SUMMARY

What accounts for the differences in retention and graduation rates among large public colleges and universities that serve *high numbers* of low-income students? To answer this question, the Pell Institute for the Study of Opportunity in Higher Education conducted a study to examine the institutional characteristics, practices, and policies that might account for such differences. This study, funded by the Lumina Foundation for Education, continues previous research conducted by the Pell Institute that analyzed retention policies and practices at smaller public and private four-year institutions with *high percentages* of low-income students. In the first study, we identified 20 four-year institutions with large proportions of Pell Grant recipients – 10 with higher than average graduation rates and 10 with lower than average graduation rates. Despite design limitations, the first study yielded important findings about what colleges and universities can do to improve student persistence.

The purpose of the current study was to determine whether the conditions for improving graduation rates that were observed at the smaller institutions are present or even possible to create at larger public institutions, where most low-income students in this sector are enrolled. The current study improves on the previous design by comparing 14 public four-year institutions with large numbers of Pell Grant recipients – 10 with higher-than-expected and 4 with lower-than-expected graduation rates given the characteristics of their incoming student population and other important institutional characteristics. By controlling for student and institutional “inputs” using regression analysis, we can more confidently attribute differences in graduation rate outcomes between “higher” and “lower” performing institutions to differences in policies and practices that were observed during this study.

In this report, we describe differences in institutional policies and practices, as well as commonalities among the higher-performing institutions. We discuss differences between the findings from the previous study and this one. Finally, we consider if practices aimed at improving overall graduation rates also work for low-income students, and offer recommendations for institutions. It is our hope that the cumulative results of our two studies will be instructive for policymakers and practitioners who seek to improve the chances for success for low-income students in higher education.

Findings from Large Public Institutions

The 14 institutions that participated in this study represent a diverse group of public four-year universities in terms of geographic location, institutional mission, and student body characteristics. Ten of the institutions graduate students at higher than expected rates, and four at lower than expected rates, after controlling for student and institutional characteristics through regression analysis.

To more fully capture and contextualize the differences between the institutions, we developed a typology with four categories that generally correspond to the relationships between institutions' actual and predicted graduation rates and between their actual rates and the national average. By describing our findings in this manner, we hope that practitioners and policymakers will be able to more readily see their institutions reflected in the study and be able to use its findings in ways that make sense given the realities on their own campuses.

- **High-Highs have higher-than-expected graduation rates and high graduation rates relative to the national average.** High-Highs a.k.a. “The Traditionalists” are large research-extensive institutions with selective admissions that serve traditional student bodies. However, their students are graduating at better than expected rates, even after taking their strong academic backgrounds into account. High-Highs offer a wide range of support programs and services; but they place a high degree of responsibility on the students themselves by operating on a “self-service model.” Improving retention is important at the High-Highs, although it is not necessarily their most pressing concern since graduation rates have been high and stable for years. Faculty support for retention initiatives was described as low, though, because they feel they are not provided with adequate resources or rewards for focusing on improving undergraduate success. This reflects the tension observed between the multiple and conflicting missions (i.e. research vs. teaching) at the High-Highs.
- **High-Averages have higher-than-expected graduation rates that are near the national average.** High-Averages a.k.a. “The True Believers” are medium-sized institutions with moderately selective admissions that serve mostly traditional student bodies. Despite their size, High-Averages have a “small school feel” with high levels of student engagement on campus and student-faculty interaction. A student-centered culture is the result of intentional retention policies and practices that aim to institutionalize a “holistic approach to student development and the campus experience.” High-Averages take a large degree of responsibility for student success by communicating expectations to students early through first-year programs, systematically monitoring student progress through “intrusive” advising and early warning systems, and providing students with ample support services. Improving graduation rates is a high priority for top administrators, who are “true believers” in the retention literature. Administrators create an institutional culture that promotes student success by providing adequate resources to fund programs, and offering rewards to faculty and staff for getting involved in retention efforts.
- **High-Lows have higher-than-expected graduation rates given their incoming student characteristics, but are lower than national averages.** High-Lows a.k.a. “The Strivers” are medium to small-sized institutions with the least selective admissions in the sample that serve largely non-traditional students. Given such challenges, High-Lows may seem unlikely to include as “higher-performing” institutions. However, they can offer useful insights given their “relative” success. To improve retention, High-Lows are integrating traditional freshmen programming with

curricular and instructional reforms in general education and remedial courses in order to transform the first-year experience. There is also high participation in special programs for at-risk populations that provide structured and intensive support to students through bridge programs, advising and mentoring, tutoring, and financial aid. Campus-wide expansion of special programs could result in higher overall graduation rates, although doing so is constrained by both the scale of the retention problem and inadequate resources at these institutions.

- **Low-Lows have lower-than-expected graduation rates that are lower than national averages.** Low-Lows a.k.a. “The Underperformers” are medium- to large-sized institutions with moderately selective admissions that serve mostly, but not exclusively, traditional student populations. Compared to High-Lows, students at Low-Lows are somewhat more prepared for college and generally have fewer risk factors, but have similar or lower persistence rates. Thus, factors beyond student demographics related to institutional resources, policies, and leadership limit the effectiveness of retention efforts. Like High-Lows, Low-Lows face barriers to campus-wide implementation of effective retention programs for special populations, such as lack of resources and “turf wars.” Administration-led retention efforts are underway, but there are also barriers to implementation such as a history of “failed” retention efforts, heavy turnover among top leaders responsible for retention, lack of coordination of retention efforts, and lack of commitment to retention by administrators and faculty.

Common Practices and Policies Across “Higher-Performing” Large Public Institutions

As in the previous study, the majority of higher-performing institutions have moderately selective admissions and serve mostly full-time, residential, traditional-age student bodies. However, all the institutions in this study were selected because they serve large numbers of low-income students who are at risk for not completing college. Furthermore, students at the higher-performing institutions are graduating at better than expected rates, even after taking their relatively strong academic backgrounds into account. Therefore, what these universities *do* in terms of policies and programs, not just who they *are* in terms of student and institutional characteristics, contributes to the success of their students. Common practices and policies at higher-performing institutions include:

- Designated **faculty or staff members as “first responders”** to students’ needs, helping students navigate these large, complex institutions.
- Relatively high levels of **student involvement and engagement** in campus activities and programs, which personalize the college experience for students.
- Well-developed **first-year programs**, such as freshman orientation programs, freshman success courses, freshman interest groups, and first-year learning communities, in which student participation is mandatory or high.
- Efforts to improve **instruction in “gatekeeping” introductory courses**, particularly in mathematics, such as reducing class sizes or keeping class sizes “small” through supplemental instruction.

- **Early warning and advising systems** in place to monitor student progress and to intervene when student performance is low.
- **Ample academic and social support services**, which are well-utilized by students due to proactive efforts to coordinate services with advising systems, to advertise services widely, and to train faculty and staff about available services.
- **Special programs for at-risk student populations** that incorporate many of the “best practices” in the retention literature.
- **Strong leadership** from top administrators who create an institutional culture that promotes student success by using rhetoric that demonstrates their commitment to retention, providing adequate resources to fund programs, and offering rewards to faculty and staff for getting involved in retention efforts.
- A **central person, office, or committee** that coordinates undergraduate education and/or retention activities across academic and student affairs staff and programs in order to foster collaboration.
- An emphasis on **using data** about retention in the decision-making process as well as on evaluating new retention programs in order to improve delivery of services, outcomes, and the efficient use of limited resources.

Does What Works for All Students Work for Low-Income Students at Large Public Universities?

The institutions in both studies were primarily focused on improving overall retention rates by implementing strategies that addressed the needs of the general student population rather than focusing specifically on the needs of at-risk students. In the previous study, low-income students were as likely to benefit from these retention efforts as other students since they were in the majority on these small campus. In the current study, however, low-income students differed from their peers in ways that limited the extent to which they utilized available retention services and programs at these large institutions. Barriers to participation include:

- Due largely to their lack of exposure to college, **low-income students aren’t aware of the programs and services** that exist on campus, or they don’t understand the function these programs serve or how they could benefit from them.
- A number of programs and services, such as orientation and tutoring, are fee-based and **low-income students cannot afford** them. Students also cannot afford the incidental costs associated with such programs (i.e. costs incurred during travel and/or in taking time off work).
- Low-income students who live and work off-campus **cannot take advantage of available services or programs** because these are not offered at times that are convenient for them.

- Low-income students face difficulties with seeking and asking for help because **they fear exposing or stigmatizing** themselves.
- Low-income students “fall through the cracks” when **retention services and programs lack centralization, coordination, or resources**. Such programs were most likely to reach low-income students when they were offered to and/or mandatory for all students.

Impact of State and System Policies on Low-Income Students at Large Public Universities

Unlike in the previous study, state and system higher education policies had a major impact on retention efforts at the large public universities, with mostly negative results for low-income students:

- **Admissions** - All of the large institutions have recently increased admissions standards (e.g. restrictions on remediation) and most have undertaken efforts to further increase recruitment and enrollment of more academically-qualified students (e.g. offering more merit-based financial aid). These trends had a negative impact on access for low-income and minority applicants at many of the institutions.
- **Funding and Financial Aid** - All of the large institutions were negatively affected by steep declines in state funding for public higher education over the past five to ten years. In response, all of the institutions have raised tuition in recent years, in some cases dramatically. As a result, many of the institutions report high and increasing levels of unmet financial need among students.
- **Mission** - The large institutions serve multiple, and at times conflicting, constituencies and missions. Most of the higher-performing institutions were concerned about improving their reputations and rankings given current performance by “objective” graduation rate standards that fail to account for student inputs as we did. The institutions felt the need to compete with more highly regarded institutions, often in the same system, by recruiting the most academically-qualified students rather than serve as an access point for the diverse populations they are already serving well.

Conclusions and Recommendations

Our research indicates that many of the same conditions for success were, in fact, present at the small and large higher-performing institutions in both studies:

- **A personalized education experience.** Despite much higher enrollments than the small institutions, many of the higher-performing large public universities were able to “personalize” the undergraduate experience by making early contact with students through first-year programs, closely monitoring student progress through advising and early warning systems, limiting class size and/or reducing the negative effects of larger class sizes through supplemental instruction programs, and offering students individualized services and support in special programs.
- **A commitment to undergraduate education.** Though they serve multiple missions and constituencies, which conflict at times, a commitment to teaching and serving undergraduates was still an important part of the mission at all of the higher-performing large institutions. Some of the higher-performing institutions intentionally recruit and hire faculty who support the teaching mission of the institution. They also reward faculty in terms of promotion and tenure for focusing their time and attention on teaching undergraduates.
- **A sense of shared community.** Despite more heterogeneous student populations and less geographically isolated locales than the small institutions, many of the higher-performing large institutions were able to create a sense of community by promoting student involvement in campus activities and events, even at the institutions where the majority of students live and work off-campus. Participation in special programs also gave students a greater sense of belonging, as did involvement in college- and/or department-sponsored programs and events.
- **An institutional culture that promotes success.** Given the size of the institutions in the current study, creating a success- or improvement-oriented culture required much stronger leadership and higher levels of coordination than in the previous study. The higher performing institutions in this study were characterized by: key administrators who articulated a centralized vision and commitment to retention; support for and involvement in retention efforts from all members of the campus community; and campus-wide coordination and/or collaboration in retention programs, even when offered by separate offices or departments.

A major difference in this study, however, was that low-income students faced barriers that limited the extent to which they could participate in retention programs at large public universities. Furthermore, trends toward greater selectivity and reduced affordability at these institutions had a negative impact on college access and success for low-income student populations, which raises questions about which “public” is being served. In this era of college rankings, the institutions felt immense pressure to prioritize “excellence” over “access.” If our research is any indication, it is indeed possible to serve as both a point of access and an exemplar of excellence. In order to re-align their priorities toward access, large public universities will need better incentives and rewards from systems and states for serving and graduating underrepresented populations. Given the rapidly changing demographics of higher education, such realignment is imperative.

While the findings we present here identify a number of promising institutional practices and policies that aid student retention at large public institutions, we also identify improvements that need to be made in order to increase

access to and success in these institutions, particularly for low-income students. Based on our research, we offer the following recommendations to be implemented at the institutional, state, and/or federal levels:

- **Develop retention programs with low-income students in mind.** The institutions we visited were primarily focused on improving overall retention rates by implementing strategies that addressed the needs of the general student population rather than focusing specifically on the needs of at-risk students. However, low-income students differ from their peers in ways that limit the extent to which they can utilize or participate in retention services and programs. Thus, institutions need to focus on the special characteristics and circumstances of low-income students when developing and implementing retention policies and practices on their campuses.
- **Increase the use of disaggregated data in retention decision-making and program evaluation.** While many promising retention practices were identified in the study, the use of data and evaluation was not as prevalent as it could or should have been at many of the institutions. In fact, most institutions could not provide persistence and graduation rates for low-income students due to limited data capabilities. Institutions need to improve their ability to collect disaggregated data in order to inform programmatic and policy decisions about retention.
- **Implement provisional admissions programs to increase economic diversity.** Given the trend toward greater selectivity in public colleges and universities, institutions should consider implementing provisional admissions programs like those described in this report in order to maintain economic diversity on campus. Many of the institutions in this study have evaluation research that shows that participants in such programs have the same or higher persistence rates as the overall student population despite entering with lower high school GPAs and/or SAT scores. However, institutions that choose to implement such programs will also need to increase their recruitment efforts among low-income and minority students because more stringent admissions requirements may be discouraging these students from applying at all.
- **Reward institutions that provide an excellent education for all while maintaining access for low-income populations.** Systems and states need to revisit how distinctive missions for different institutions are defined and assess institutional success accordingly. Otherwise, systems and states are allowing, and to some extent, encouraging universities in the same system to duplicate missions as research-focused institutions. Alternatively, systems and states may need to create better incentives to reward universities for serving both access and excellence missions. This is increasingly important given rapidly changing demographics and labor market demands.
- **Require institutions to report retention and graduation rates by income.** Postsecondary institutions are not required to disaggregate and report six-year graduation rates by student income level or even Pell Grant recipient status. As a result, few colleges and universities analyze and report such information, which makes it unlikely that institutions will identify or address retention gaps between low-income students and their peers. This needs to change. A national system of student-level data, based on the statewide systems currently in place in more than 40 states, could address this and other limitations in the available data. The U.S. Department of Education could further strengthen support for this proposal by providing the incentive of federal money to institutions that participate in the system and address achievement gaps that are identified as a result.

INTRODUCTION

This report presents major findings from a study about the retention of low-income college students. This study was conducted by the Pell Institute for the Study of Opportunity in Higher Education, with funding from the Lumina Foundation for Education. The study examined the policies and practices that affect retention and persistence at large public colleges and universities that serve *high numbers* of low-income students as indicated by Pell Grant recipient status.

This study continues previous research conducted by the Pell Institute, also sponsored by the Lumina Foundation, which examined retention policies and practices at four-year institutions with *high percentages* of low-income students. In the first study, we identified 20 four-year institutions with large shares of Pell Grant recipients – 10 with higher than average graduation rates and 10 with lower than average graduation rates. The first study was designed to compare colleges with high and low graduation rates in order to identify institutional factors that might account for these differences.

As a by-product of the research design, however, the sample selected for the first study consisted mostly of small public and private institutions with average enrollments under 5,000 students. Large public institutions were inadvertently excluded from the first study because low-income students make up a smaller share of their populations than at the small institutions, even though there are a large number of low-income students on these campuses. As a result, the sample was not representative of where the majority of low-income students who attend four-year institutions are enrolled.

Furthermore, we found that comparing institutions with the highest and lowest graduation rates was problematic because the institutions with the lowest graduation rates had far fewer economic resources, had less selective admissions requirements, and served an older, part-time student population than the institutions with the highest graduation rates. These confounding factors made it difficult to isolate specific policies and practices that could account for improved student retention and graduation rates.

Despite the design limitations, however, the first study did yield important findings about what institutions can do to improve student persistence. Across the 10 institutions with high graduation rates (HGRs), we observed four common factors or conditions that may account for their success:

- **HGRs created a personalized educational experience for students** by keeping close track of student progress through intrusive advising, getting to know students and getting them involved in small classes, and giving students individualized attention and services in special programs.
- **HGRs demonstrated their commitment to undergraduate education** by offering small classes, even at the introductory level, taught by full-time faculty for whom teaching was their primary responsibility. HGRs also provided extensive academic support to undergraduates, especially during freshman year, including courses and services to improve students' basic skills.
- **HGRs had a shared sense of values and community** among students, faculty, and staff. Most HGRs were residential campuses that were geographically isolated in rural areas, making the campus experience the center of students' lives. Many had a unique mission — half were Historically Black Colleges and Universities (HBCUs) — that attracted students and faculty with similar backgrounds and values.
- **HGRs were explicitly concerned with retention and graduation**, setting goals and measuring institutional performance. There was, in short, an institutional culture promoting success.

The main purpose of the current study was to determine whether the conditions for improving graduation rates that were observed at the smaller institutions are present or even possible to create at larger public universities, which serve much greater numbers of low-income students. The current study improves on the previous design by comparing public four-year institutions with higher- or lower-than-expected graduation rates, given the characteristics of their incoming student population and other important institutional characteristics. By controlling for student and institutional “inputs” in this study using regression analysis, we can more confidently attribute differences in graduation rate outcomes between “higher” and “lower” performing institutions to the differences we observed in terms of institutional policies and practices.

College Access and Success for Low-Income College Students

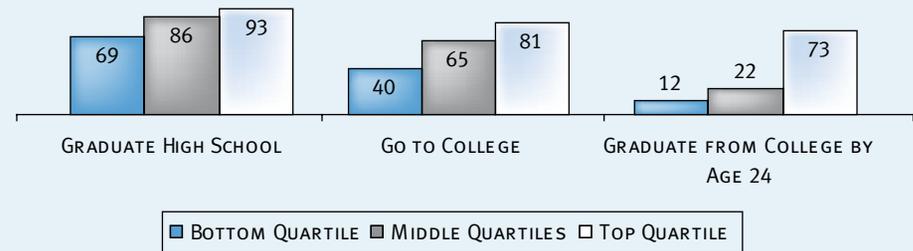
A college education is widely considered the key to achieving economic success and social mobility in American society. Higher levels of educational attainment are related to higher incomes and lower rates of unemployment, and the earnings gap between high school and college graduates only widens over time (College Board, 2004; Institute for Higher Education Policy, 2005). While access to higher education has expanded dramatically in recent years, students from low-income backgrounds remain at a distinct disadvantage. By age 24, only 12 percent of students from low-income families will earn a bachelor’s degree compared to 73 percent of their higher-income peers. The gap in college degree attainment is partly explained by lower college-going rates among low-income students. However, even low-income students who do enroll in college are less likely to persist through degree completion than their higher-income peers (Mortenson, 2007).

The higher attrition rates of low-income students from postsecondary education can be partly explained by their background characteristics and experiences. Academically, low-income students tend to be less prepared for college than their peers. They are less likely to have taken a rigorous high school curriculum, generally have lower college entrance examination scores, and are more likely to need remediation in college. Demographically, low-income students are more likely than their higher-income peers to be female, older, Black or Hispanic, and to be the first in their families to go to college. Low-income students are also more likely to be financially independent, to have dependent children, be married, and be single parents. All of these characteristics are associated with lower rates of college degree attainment (Berkner et al, 2002).

Low-income students’ higher attrition rates can also be partly explained by how and where they attend college. Due largely to a lack of resources, low-income students are more likely than their peers to delay entry into postsecondary education, begin at two-year institutions, live at home with parents and commute to campus, and take classes part-time while working full-time, and to stop in and out of college. All of these enrollment characteristics have been shown to put students at risk for dropping out of college without earning a degree, particularly the bachelor’s degree. Low-income students are also more likely to attend less selective, public institutions than their higher income peers. Such institutions tend to have fewer economic resources, serve students with greater academic and financial need, and have lower overall graduation rates (Berkner et al, 2002).

Demography is not destiny, however. In our previous research, we studied institutions that both serve high percentages of low-income students and have high graduation rates. In the current study, we identified public four-year institutions that serve large numbers of low-income students that not only perform better than expected after taking the diverse academic and economic backgrounds of their students into account, but also perform better than the national average. Thus, some institutions are indeed more successful than others at graduating low-income students. The collective purpose of our series of studies is to identify those institutional characteristics, practices, and policies that account for the differences in retention and graduation rates among colleges and universities that serve large populations of low-income students in order to improve the chances of college success for this at-risk group.

PIPELINE TO COLLEGE BY FAMILY INCOME
OUT OF 100 HIGH SCHOOL STUDENTS, HOW MANY WILL...



SOURCE: Mortenson (2007).



STUDY DESIGN

The first step in selecting the sample for the current study was determining the actual and predicted six-year cohort graduation rates for our study universe of all four-year public institutions. Actual graduation rates were obtained using the most recently available data at the time (2002) from the Integrated Postsecondary Education Data System (IPEDS). Drawing on our review of the college student retention literature as well as our findings in the previous study, we developed a regression model — also using IPEDS data — that controlled for student and institutional characteristics independently associated with graduation rates. The model was then used to calculate predicted or expected graduation rates for all public four-year colleges and universities.

From this universe, we selected a sample of 15 institutions — 10 with higher-than-expected and five with lower-than-expected graduation rates. All of the institutions selected for the sample serve large numbers of low-income students, ranking in the top half of public four-year institutions in terms of the number of Pell Grant recipients enrolled. In order to reflect the diverse characteristics and missions of public, four-year institutions, we included 10 doctoral institutions (five research-extensive and five research-intensive) and five non-doctoral (master’s comprehensive I) institutions in the sample.¹ Institutions were also chosen to represent adequate geographic diversity and student racial and ethnic diversity.

After institutions were selected and agreed to participate in the study, we conducted site visits at 14 of the 15 institutions in Spring and Fall 2005.² Prior to the visits, we developed a detailed institutional profile using publicly available information about each school (i.e. demographic profile of student body, financial resources and expenditures, financial aid awarded to undergraduates, campus programs, services, and resources listed on their website).

Two members from our research team of nine higher education research professionals visited each university. Over a two- to three-day period, the researchers interviewed administrators, faculty, staff, and students using an extensive interview protocol developed for this study based on our review of the retention literature. The researchers also collected relevant information on-site, such as internal institutional research data.

At the conclusion of each site visit, the researchers wrote a case study narrative about the policies, programs, and practices in place at the university that could help explain its performance. A data aggregation and reduction approach was used to systematically analyze the qualitative data from the site reports, the results of which are presented here.

- ¹ Institutions were selected based on their Carnegie classifications from 2000, which were in effect at the time of site selection. Definitions of the classifications are as follows. **Doctoral/research-extensive universities** offer degree programs from the baccalaureate through the doctorate. They award 50 or more doctoral degrees per year across at least 15 disciplines. **Doctoral/research-intensive universities** offer degree programs from the baccalaureate through the doctorate. They award at least 10 doctoral degrees per year across three or more disciplines, or at least 20 doctoral degrees per year overall. **Master’s (comprehensive) colleges and universities** offer degree programs from the baccalaureate through the master’s degree. They award 40 or more master’s degrees annually across three or more disciplines. The Carnegie classification system was since revised in 2006.
- ² One institution that was scheduled for a site visit in Fall 2005 withdrew from the study at a late date and we were not able to find a replacement.



LITERATURE REVIEW: A PRIMER ON COLLEGE STUDENT RETENTION

In the report from our previous study (The Pell Institute, 2004), we presented a comprehensive review of the persistence literature with a focus on institutional practices and programs that improve student retention and graduation rates. In this report, we offer a primer on the college student retention literature that complements our previous work. Here we categorize the vast research literature on college student retention into three major areas of inquiry: (1) student and institutional characteristics, (2) institutional policies and practices, and (3) institutional cultures that affect persistence to degree.

Student and Institutional Characteristics

The first and largest area of research focuses on the student and institutional characteristics that predict success. Students' level of academic preparation has been shown to be the strongest predictor (Adelman, 1999; Astin & Oseguera, 2005a). Rigor of high school curriculum as well as grade point average and college entrance examination scores are all positively correlated with success in college. Demographic characteristics such as race/ethnicity, income, and first-generation status are also predictive factors. Non-traditional student characteristics such as being older, financially independent, and/or a single parent are negatively associated with college graduation rates (Berkner et al, 2002). Academic performance during college, college major, as well as the intention to earn a degree can also affect students' persistence behavior (Tinto, 1993).

Students' enrollment patterns, which are influenced by their demographic characteristics, also affect retention. Students who delay entry into postsecondary education after high school, begin their studies at two-year institutions, take classes part-time while working full-time, and/or live off-campus are less likely to earn degrees, particularly bachelor's degrees (Berkner et al, 2002). The types of institutions that students attend also affect their chances for success. Graduation rates are generally lower at large public institutions with less selective admissions (Astin & Oseguera, 2005b). Institutions with low levels of expenditures on instruction and support services and high student-faculty ratios also have lower graduation rates (Astin & Oseguera, 2005b; Gansemer-Topf & Schuh, 2003-2004; Goenner & Snaith, 2003-2004). Furthermore, graduation rates are generally lower at institutions that serve greater proportions of at-risk students such as commuter students and low-income students (Astin & Oseguera, 2005b; Fiske, 2004).

Research has shown, however, that student and institutional "input" characteristics do not fully explain differences in graduation rates between colleges and universities. Mortenson (1997) found considerable variation in graduation rates remained even after controlling for characteristics such as the average SAT scores of incoming freshmen, the percent of students who attend part-time, and the percent who live on-campus. According to his regression analyses, some colleges and universities perform better than expected given the characteristics of their student body, while others perform worse. Mortenson attributes the differences between such "higher-" and "lower-performing" schools to institutional efforts (i.e. policies and practices) to provide supportive academic and social environments that foster student persistence and degree attainment. Using this type of analysis, recent research — including our own — has sought to identify and study "higher-performing" colleges and universities in order to determine and describe the

**UNITED STATES
DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL**



Investigative Program Advisory Report

Distance Education Fraud Rings

Control Number: L42L0001

September 26, 2011

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Investigative Program Advisory Report

Distance Education Fraud Rings

I. EXECUTIVE SUMMARY

The purpose of this report is to alert Federal Student Aid (FSA) and the Office of Postsecondary Education (OPE) to a serious fraud vulnerability in distance education programs and to make recommendations which, if implemented, would mitigate future additional risks of fraud in Title IV programs. The Office of Inspector General (OIG) has identified an increasing number of cases involving large, loosely affiliated groups of individuals ("fraud rings") who conspire to defraud Title IV programs through distance education programs.

To be eligible to receive assistance under the Title IV programs of the Higher Education Act of 1965, as amended (HEA), generally, a person must be a regular student enrolled or accepted for enrollment in an eligible program at an eligible institution. 34 C.F.R. § 668.32(a)(1)(i).¹ A regular student is someone who is enrolled or accepted for enrollment at an institution for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by that institution. 34 C.F.R. § 600.2. To qualify to receive Title IV funds, a student must have obtained a high school diploma or its recognized equivalent (e.g., General Educational Development (GED) certificate). 34 C.F.R. § 668.32(e)(1).

Nearly all the individuals we identified as participants in fraud rings failed to meet the basic eligibility requirement of enrollment for the purpose of obtaining a degree, certificate, or other recognized credential. Many also did not have a high school diploma or its recognized equivalent. Lastly, some fraud rings have enrolled incarcerated inmates who are ineligible to receive Title IV funds under 34 C.F.R. § 668.32(c).

This report focuses on fraud involving persons who enroll in distance education programs in which instruction is delivered solely through the Internet. Over the past six years, OIG has responded to a dramatic increase in fraud in these programs. Education programs that are delivered solely through the Internet present unique opportunities for fraud and challenges for oversight, because Title IV programs were designed primarily to deliver aid to students who are physically present in traditional classrooms, rather than alternative on-line environments. All aspects of the application for admission and student financial aid and the delivery of instruction take place through the Internet, and students are not required to present themselves in person at any point. Because institutions offering distance education -- like all Title IV institutions -- are not required to verify prospective and enrolled students' identities, ringleaders can easily use others' identities (with or without their consent) to obtain Title IV funds. The Department's Title IV regulations and application systems also do not require the verification of identity and can be exploited to cause improper delivery of Title IV funds. In this report we make recommendations

¹ Unless otherwise noted, all references to statutes and regulations are to the most recent 2010 versions.

to reduce the program vulnerabilities identified by our investigations of fraud rings and distance education programs.

This report was prepared in accordance with the Council of Inspectors General for Integrity and Efficiency's *Quality Standards for Investigations* and its *Quality Standards for Offices of Inspectors General*.

I. DISTANCE EDUCATION AND TITLE IV

Background

Congress authorized the Distance Education Demonstration Programs (DEDPs) in the Higher Education Amendments of 1998 (Pub. L. No. 105-244) to help determine the specific statutory and regulatory requirements that should be altered to provide greater access to distance education and the appropriate level of Title IV assistance for students enrolled in distance education programs. 20 U.S.C. § 1093(a)(1999). The amendments authorized the Secretary to grant waivers of statutory and regulatory provisions governing the Title IV programs to participating institutions to enable them to provide Title IV funds to distance education students more efficiently and, in some instances, to expand their distance education programs beyond otherwise applicable statutory limits. This included granting waivers of the so-called "50 percent rule."

The 50 percent rule provided that (1) institutions that offered more than 50 percent of their courses via correspondence were not eligible to participate in the Title IV programs; (2) institutions were not eligible to participate in the Title IV programs if 50 percent or more of their regular students were enrolled in correspondence courses; and (3) a student enrolled in correspondence courses was eligible to receive Title IV funds only if the correspondence courses were part of a program that led to an associate, bachelor's, or graduate degree.² 20 U.S.C. § 1002(a)(3)(A) & (B)(1999); 34 C.F.R. §§ 600.7(a)(1)(i)-(ii), 668.32(a). Under certain conditions, "telecommunications courses" were considered to be correspondence courses and were also subject to the 50 percent rule. 20 U.S.C. § 1091(l)(1)(1999); 34 C.F.R. §§ 600.2, 600.7(b)(1999).

The Department made three reports to Congress regarding DEDPs' results, in January 2001, July 2003, and April 2005, and each identified problems associated with distance education programs. The reports reflected the Department's position that there were new risks associated with the growth of distance education that had to be anticipated and managed to protect the integrity of the Title IV programs. The reports also emphasized the need to expand the opportunities for

² "Correspondence course" was then defined as (1) a home study course provided by an institution under which the institution provided instructional materials, including examinations on the materials, to students who were not physically attending classes at the institution. When students completed a portion of the instructional materials, the students took the examinations that related to that portion of the materials and returned the examinations to the institution for grading; (2) a home study course that provided instruction in whole or in part through the use of video cassettes or video discs in an award year unless the institution also delivered the instruction on the cassette or disc to students physically attending classes at the institution during the same award year; (3) a course at an institution if the sum of telecommunications and other correspondence courses offered by that institution equaled or exceeded 50 percent of the total courses offered at that institution; (4) a course that was part correspondence and part residential training. 34 C.F.R. § 600.2 (1999). Under HERA, this definition changed.

distance education to address the growing demands of an increasingly non-traditional student population and called for eliminating the 50 percent rule for distance education.

The Higher Education Reconciliation Act of 2005 (HERA)(Pub. L. No. 109-171) modified the 50 percent rule. 20 U.S.C. §§ 1002(a)(3), 1091(1) (2006). Students enrolled in a course of instruction that was offered through telecommunications and that led to a recognized certificate, associate, bachelor's, or graduate degree were no longer considered to be enrolled in correspondence courses. *Id.* § 1091(1) (2006). Thus, otherwise eligible institutions that offered over 50 percent of their courses by telecommunications, or had 50 percent or more of their regular students enrolled in telecommunications courses, became eligible to participate in the Title IV programs.

HERA also allowed students enrolled in certificate and degree programs offered wholly or in part by telecommunications to be eligible to receive Title IV funds. *Id.* However, the 50 percent rule continued to apply to correspondence courses and students.

II. PROGRAM DEFICIENCIES

Distance Education Growth and Increased Risk

The introduction of the Internet to higher education and statutory changes that removed the restrictions on the eligibility of distance education programs have led to an increase in the number of education programs offered solely on-line and the number of students receiving Title IV funds to pursue such programs. While the Department does not maintain data to identify which students receive Title IV funds to attend distance education programs, data from the National Postsecondary Student Aid Study conducted by the Department's National Center for Education Statistics show that the volume of students who took distance education courses increased from 8.2 percent in 1999-2000 to 20.4 percent in 2007-2008. For academic year 2006-2007, distance education programs were offered by 97 percent of public two-year institutions and 89 percent of public four-year institutions of higher education.

While the Internet offers an easy method for delivering education programs to geographically dispersed students, it also provides users anonymity. In traditional educational settings, most students pursuing educational programs present themselves in person at sometime during the enrollment and registration process. In contrast, distance education students may enroll in and pursue their educational programs online without having any in-person interaction with the institution.

Fraud rings have taken advantage of the expansion of distance education to commit significant fraud against Title IV programs and the higher education community. In 2005, OIG had opened 16 distance education fraud ring investigations. As of August 1, 2011, OIG had opened 100 investigations. Fraud ring investigations currently constitute about 17 percent of all open OIG investigations. We expect complaints about distance education fraud rings from institutions and other sources to increase. As of August 1, 2011, we have been evaluating 49 additional complaints for investigative merit, including one referral that one large for-profit institution believes represents over 600 different potential fraud rings involving over 10,000 participants.

Because of the sheer volume of referrals, finite resources, and other external limitations, we cannot investigate all of the referrals we receive concerning distance education fraud rings.

Distance Education Fraud Rings

What They Are and How They Work

Fraud rings generally are comprised of one or more ringleaders who facilitate enrolling “straw students” in distance education programs in exchange for receiving a portion of the Title IV funds that the institution disburses to the straw students. Straw students willingly provide their identities to fraudulently obtain Title IV funds and enroll in on-line programs at eligible institutions. Some of the larger cases OIG has investigated involve recruiters who bring in additional straw students and a portion of the Title IV funds goes to both the recruiter and the ringleader for their personal use.

Because Title IV applicants and enrollees are not required to have their identities confirmed, and because institutions do not always otherwise verify students’ identities for their own purposes, ringleaders with access to a computer and the Internet can apply for Title IV funds at institutions around the country using the identities of multiple straw students. Fraud ring participants exploit the Department’s Title IV application systems, which are designed to encourage electronic access to Title IV assistance. The Department provides personal identification numbers (PINs) used to sign the Federal Application for Financial Student Assistance (FAFSA) and student loan promissory notes, as well as to access accounts online, in response to any online submission of a valid name, date of birth, and Social Security number (SSN).³ The Department delivers PINs electronically to any specified email address (previously the Department required PINs to be mailed to a permanent address on record, a security precaution frequently utilized for bank ATM cards). Because valid SSNs are used, and the straw students are not currently in default, the applications from the fraud rings satisfy edits and matches in the Department’s Central Processing System (CPS), resulting in issuance of Institutional Student Information Records (ISIRS). The ISIRS are utilized by institutions to award Title IV funds.

Participants in the fraud rings obtain Title IV funds when institutions return credit balances to the straw students. When an institution draws down Title IV funds, it applies these funds to a student’s account to cover the student’s allowable costs such as tuition and fees and other educationally related charges incurred by the student at the institution. 34 C.F.R. § 668.164(d). If the total amount of all Title IV funds credited to the student’s account exceeds the total amount of authorized charges, then the institution must pay the resulting credit balance (sometimes referred to by institutions as a “refund”) to the student or parent, if applicable, within a specified time period. 34 C.F.R. §§ 668.164(d)-(e).

When completing the FAFSA, all students must certify they will use Federal student financial aid to pay only the cost of attending an institution of higher education. Students are to use credit

³ The Department maintains computer matching agreements with nine other departments/agencies to verify various aspects of eligibility, such as ensuring that the reported SSN agrees with the name and date of birth and that applicants do not have disqualifying drug-related convictions.

balances to pay for expenses related to their education (e.g., books, room and board, and commuting expenses) outside of tuition and fees and any other allowable charges the institution applies to their account. Our investigations have demonstrated that fraud ring participants have obtained and used their credit balance payments for other than allowable charges.

Our investigations have also found that straw students drop or withdraw from programs after they receive their credit balance payments and then kick back a portion of the funds to the ringleader and, if applicable, a recruiter. In many cases, ringleaders will keep straw students enrolled up to 30 days in order to obtain Title IV loan funds.⁴

Fraud rings primarily target community colleges and other open enrollment institutions that have on-line programs with lower tuition, because Title IV awards are sufficient to satisfy institutional charges (such as tuition) and thus result in disbursement of the balance of an award to the student for other educational expenses.⁵ Fraud rings also target these institutions because the application and enrollment processes there are relatively simple. They do not require submission of academic credentials, such as admissions test scores, academic transcripts, or faculty recommendations (which also serve to corroborate identity) and do not require a person to appear in-person at any point in the process.

Exploiting these weaknesses, fraud ring leaders and their lieutenants are able to control enrollment and disbursement of aid for multiple individuals. Some participants have each caused the delivery of aid for up to 100 individuals.

Findings from Investigations of Distance Education Fraud Rings

OIG has had success in its distance education fraud ring investigations. Since 2005, 215 distance education fraud ring participants from 42 different fraud rings have been criminally convicted as a result of our investigations, and \$7,521,840 in restitution and fines have been ordered.⁶ However, these numbers do not reflect the full scale of these fraud rings because in many cases, only the ringleaders, and not all participants, have been prosecuted. Some of the fraud rings we are currently investigating involve over 400 participants. From past experience, we know that only a small fraction of participants will be prosecuted and only a fraction of Title IV losses will be recovered. Considered individually, most fraud ring participants have not fraudulently obtained the amount of funds necessary to meet the financial thresholds for prosecution employed by prosecutors. And, as previously stated, because some of the known fraud rings involve hundreds of participants, it is unlikely that OIG or the Department of Justice will have the resources to investigate and prosecute them all. However, administrative remedies to demand repayment of ineligible assistance could be utilized.

Our investigations have determined that most fraud ring participants do not meet the basic student eligibility requirements to obtain Title IV funds. Most participants have no intention of

⁴ 34 C.F.R. § 668.164(f)(3) prohibits institutions from disbursing loan funds to first-year first-time student borrowers until 30 days after the first day of the student's program of study.

⁵ Open enrollment institutions are schools that enroll students without regard to prior academic achievement.

⁶ These statistics are as of August 1, 2011.

enrolling to obtain a degree, certificate, or other credential. For example, in one ongoing investigation of a very large fraud ring, we interviewed and obtained affidavits from 45 participants, all of whom admitted they did not intend to earn a degree, certificate, or other credential. Some of these individuals are illiterate and were unable to write a statement or read a summary of their verbal statement to our investigators.

Many of the fraud ring participants also do not have a high school diploma or its equivalent.⁷ Ringleaders are able to apply for and enroll these participants by falsely indicating on the FAFSA that participants satisfy this eligibility requirement. Because applicants generally are not required to present proof of their high school diplomas or GEDs to a school either before they are admitted or upon enrollment, ring leaders can apply for and enroll straw students without fear that they or the students they enroll will be detected. Additionally, participants are able to evade detection because they have bona fide identity credentials, are not in default on prior student aid, and are therefore able to pass all of the Department's automated eligibility checks with the Social Security Administration, other government databases, and the Department's internal systems.

Two recent investigations illustrate some of the issues associated with distance education fraud rings. One involved a distance education fraud ring that targeted Rio Salado College in Arizona in which 64 individuals were indicted, convicted, and sentenced for their roles in a \$538,000 Title IV fraud scheme. The investigation determined that the ringleader recruited individuals to act as straw students at the institution in order to apply for and receive Title IV funds, and completed and submitted admission, financial aid, and supporting documentation containing forged documents and false statements on behalf of the straw students.

Consistent with other distance education fraud ring investigations, we found that many of the straw students did not meet the basic eligibility requirement of possessing a valid high school diploma or its equivalent, but the ringleader falsely indicated on the FAFSA that they did. The ringleader also used the Internet to access enrolled straw students' on-line classes in order to meet the institution's attendance requirement for first-time student borrowers, resulting in Title IV funds being disbursed to the straw students. A substantial portion of these payments were kicked back to the ringleader, who was subsequently sentenced to 41 months in prison and ordered to pay more than \$581,000 in restitution, which included student loan interest accrued.

This case was different from others OIG has investigated in that all the fraud ring participants were prosecuted. Prosecuting all the participants placed a significant burden on the criminal justice system. It is unlikely that such a robust effort to prosecute all participants in such a large investigation will be repeated in the future.

In another similar investigation involving a fraud ring that targeted the Los Rios Community College District in California, six individuals were indicted and pled guilty for their roles in a

⁷ A student who does not have a high school diploma or its equivalent can qualify to receive Title IV funds in one of several ways including demonstrating an ability to benefit from the program of instruction by passing a Department of Education-approved test, completing home schooling at the secondary level, or by satisfactorily completing six credits or the equivalent course work that are applicable toward a degree or certificate offered by the school. 20 U.S.C. § 1091(d). The fraud ring participants OIG investigated claimed to have established eligibility to receive Title IV based on having a high school diploma or GED.

\$200,000 fraud scheme where the ringleader and other recruiters completed all paperwork and enrollment procedures necessary for 62 straw students to obtain Title IV funds. This case involved recruiters that recruited individuals to act as straw students in order for them to apply for and receive Title IV funds, and completed and submitted admission, financial aid, and supporting documentation containing forged documents and false statements on behalf of the straw students. Also consistent with Rio Salado and other distance education fraud ring investigations, many of the straw students did not meet the basic eligibility requirement of possessing a valid high school diploma or its equivalent.

Findings from Investigations Involving Inmates

OIG has also successfully investigated and had prosecuted fraud ring participants and identity thieves who utilized the identities of inmates incarcerated in prison to obtain Title IV funds. Incarcerated persons are not eligible to receive Title IV funds under 34 C.F.R. § 668.32(c).

With the assistance of persons who were not incarcerated and who used the Internet to apply to and enroll in distance education programs on the inmates' behalf, inmates fraudulently obtained Title IV funds through their co-conspirators. One investigation found that the co-conspirators received the credit balances from the institutions; they then converted those Title IV funds into money orders which were sent to the inmates in prison. In this case 15 inmates' identities were used to obtain over \$110,000 in Title IV funds.

The theft of inmates' identities to obtain Title IV is another scheme involving distance education programs we have investigated. In one investigation, the defendant utilized the identities of over 50 inmates, typically those serving long prison terms, and obtained over \$300,000 in Title IV funds. This investigation also determined that the defendant had obtained the identities of approximately 45 additional inmates and would have utilized these identities for additional Title IV applications had he not been apprehended.

OIG's Semiannual Reports to Congress contain other examples of distance education frauds nationwide that have been prosecuted. (<http://www2.ed.gov/about/offices/list/oig/sarpages.html>).

III. AREAS FOR IMPROVEMENT

Distance education fraud rings exploit weaknesses in the Title IV programs, rapid growth of distance learning programs, and the expanded pool of eligible institutions and Title IV recipients. Statutes, regulations, and policies need to be strengthened to improve the integrity of the Title IV programs that are delivered entirely through distance education. Existing controls in Title IV programs were designed primarily to deliver aid to students who are physically present in a traditional classroom, rather than an alternative on-line environment. They leave gaps in controls that have been identified by our investigations of distance education fraud. Some improvements have been made to address these weaknesses, but the changes have not been fully implemented.

Improving Program Weaknesses

The Department could take action to require schools to verify the identity and regular student status of those enrolled in solely distance education programs, and reduce the cost of attendance for Title IV awards to these students. The Department could also take action to ensure that ineligible incarcerated persons not obtain Title IV awards.

Verification of Student Identity

The HEA does not directly require the verification of student identity as part of the Title IV application or disbursement process. Section 495(1)(A) of the Higher Education Opportunity Act did amend the HEA to require accrediting agencies to ensure that institutions offering distance education programs have processes in place to establish that the student who registers for a distance education course or program is the same student who participates in, completes the program, and receives academic credit. While this requirement directed at securing academic integrity helps address the risks to the Title IV programs associated with distance education, it does not ensure this verification actually takes place as part of the student aid process or identify penalties for institutions that do not comply.

Pursuant to 34 C.F.R. Part 668, Subpart E, the Department may require an institution to verify data elements affecting financial eligibility, i.e., income, taxes paid, household size, family members also enrolled in higher education, and certain untaxed income. 34 C.F.R. § 668.56(a). Beginning with the 2012–2013 award year, the Department also has the ability to annually designate additional elements from the FAFSA data for verification and require selective verification to target particular issues of concern. 34 C.F.R. § 668.56 (75 F.R. 66956). This authority could be utilized to require verification of identity and regular student status as well.

Reducing Cost of Attendance

Since 2001, OIG has raised concerns about the cost-of-attendance calculation for distance education students because an allowance for room and board does not seem appropriate to these programs, which are largely designed for working adults. The HEA authorizes students enrolled in distance education to receive the full amount of Title IV assistance available to students attending any on-campus program. This is in contrast to the HEA requirement for students enrolled in correspondence courses, which limits cost of attendance to tuition and fees, and if required, books, supplies and travel. Limiting the allowances for room and board for distance education students would reduce the amount of Title IV funds obtained, decrease loan debt, and reduce the amount of refunds available to distance education fraud rings.

The HEA does authorize financial aid administrators to exercise professional judgment to reduce Title IV awards to distance education students based on a “substantially reduced cost of attendance.”⁸ This statutory provision could address distance education fraud rings trying to

⁸ 20 U.S.C. § 1091(1)(2) provides, “A student’s eligibility to receive grants, loans, or work assistance under this title shall be reduced if a financial aid officer determines under the discretionary authority provided in section 479A [20 U.S.C. § 1087tt] that distance education results in a substantially reduced cost of attendance to such student.”

maximize the credit balances they receive by reducing the amount of Title IV funds available to the students. However, our investigations have demonstrated that this statutory provision has not prevented or mitigated the growth of fraud rings. For example, one defendant in the Rio Salado College investigation incurred only \$600 in tuition and fees for institutional charges for a summer semester, but was awarded a total of \$7,060 in Title IV funds, netting him a \$6,460 credit balance. Based on our experience with the fraud ring cases, this authority -- which has been in place since 1992 -- has not served to reduce funds disbursed to distance education students.

Preventing Title IV Awards to Ineligible Inmates

The Department currently utilizes Computer Matching Agreements (CMA) with nine other Federal departments/agencies to help ensure that ineligible persons do not obtain Title IV awards.⁹ Pursuant to 34 C.F.R. § 668.32(c) persons incarcerated in Federal or state prison are not eligible to receive Title IV awards. As discussed above, our investigations have demonstrated that fraud rings, as well as identity thieves, have exploited the vulnerabilities in distance education programs to commit fraud against Title IV programs by enrolling ineligible prison inmates. Currently, there is no method to ensure that ineligible prison inmates are not awarded Title IV funds. The Department currently has a CMA with the Department of Justice to prevent persons convicted of drug trafficking and possession offenses from obtaining Title IV awards; it does not however have a CMA with the Department of Justice for persons incarcerated in Federal prisons, which are operated by the Bureau of Prisons within the Department of Justice. Establishing CMAs with prisons systems, including state prison systems, would provide an additional layer of verification to prevent ineligible persons from obtaining Title IV awards.¹⁰

Improving Detection of Fraud Rings

The Department could improve the detection of fraud rings by alerting institutions to the problem of fraud rings, highlighting their obligation to disburse Title IV aid only to eligible students, identifying practices for institutions to detect and prevent distance education fraud, and specifying when the Department will hold institutions responsible for disbursing Title IV funds to ineligible persons. As set forth below, the Department could also analyze its own data to detect fraud rings.

Institutions are required to develop and apply an adequate system to identify and resolve information discrepancies from student applicants and recipients of Title IV funds. 34 C.F.R. § 668.16(f). There are a number of institutions, lenders, and guarantee agencies that have developed processes for systematically and proactively analyzing available data to detect possible fraud. Many of OIG's fraud investigations have developed based on referrals from institutions and other entities who have noted common and repeated addresses, telephone numbers, enrollment and drop out patterns, and other commonalities and discrepancies. OIG has

⁹ CMAs are authorized by an amendment to the Privacy Act [Computer Matching and Privacy Protection Act of 1988 (Pub. L. No. 100-503)]. The overriding purpose of matching efforts is to safeguard taxpayers' dollars by combating fraud, waste, and abuse while assuring compliance with the Privacy Act of 1974.

¹⁰ OIG investigations related to ineligible inmates have to date involved only inmates incarcerated in state prisons.

received particularly effective referrals from institutions that retain and analyze the web server logs for Internet Protocol (IP) addresses or have mechanisms in place to identify common email and home addresses being used by many different individuals.¹¹ IP information can provide the Internet address of computers used in distance education fraud. Just as a common street address can be used to identify possibly fraudulent FAFSAs mailed to the Department, common IP information can be used to help identify fraudulent activity originating from a common computer.

Participating institutions offering distance education programs, especially those who chose not to verify identity, could be required to capture and track IP information throughout the admissions, enrollment, and attendance phases of a student's participation in a distance education program. IP information could assist an institution in identifying patterns that indicate fraud such as multiple users with common email and home addresses. This tracking would promote better monitoring and compliance by institutions, accrediting agencies, the Department, and other entities with program oversight responsibilities. It also could facilitate the identification of straw students and fraud rings, as well as ease the burden of investigating those individuals by capturing more specific information about those users.

The Department has the ability to collect and analyze web server logs for IP information in its own systems, as well as examine and correct vulnerabilities in its systems that create opportunities for the fraud rings to operate. As noted previously, the Department delivers PINs electronically to any person that submits a valid SSN. The Department does not verify that the submitter of the PIN request is the actual holder of the SSN. We found that from January 2010 to May 2011, 1,335 email addresses were used for over 19,000 PINs. Each of these 1,335 email addresses was used to receive PINs for five or more individuals. The top 100 email addresses received over 10,000 PINs. Twelve email addresses associated with our fraud ring investigations received PINs for 200 separate individuals; one email address received PINs for over 50 people. While all of these 19,000 PINs cannot be associated with fraud rings, because many appear related to financial aid advisory services, these numbers reflect the vulnerability to fraud and extensive violation of rules related to PIN security.¹² Some fraud rings avoid using common email addresses. Web server logs (which include IPs) could be used to identify these rings, which also exploit the lack of identity verification in the PIN system to direct PINs to individual specified email addresses.

Our investigations have identified numerous fraud ring straw students that have enrolled and obtained Title IV funds at one institution then withdrawn and enrolled at subsequent institutions to obtain Title IV funds. In one investigation we have identified some straw students that have enrolled in at least six institutions over successive award years. The National Student Loan Data System (NSLDS) currently has a code for withdrawals and could be programmed to more easily identify repeated withdrawals. This could help institutions identify persons who are not enrolled

¹¹ Internet Protocols are responsible for routing outgoing messages and recognizing incoming messages through the Internet.

¹² The PIN application process requires applicants to agree not to share a PIN with anyone, including commercial services that offer to help applicants complete a FAFSA. The FAFSA reinforces these requirements by including a certification that the applicant is the person identified by the PIN and the applicant has not disclosed the PIN to anyone else.

or accepted for enrollment for the purpose of obtaining a degree, certificate, or other recognized credential, and who are enrolled solely to fraudulently obtain Title IV funds. It could also help institutions to develop and apply an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid. See 34 C.F.R. § 668.16(f).

Improving Remedial Action

As noted previously, neither OIG nor the Department of Justice has the resources to pursue to conviction all identified participants in the fraud ring investigations. Alternative remedies could be pursued, not only to recover the Departments losses, but also to prevent future fraud.

Our investigations have revealed that some participants in a fraud ring who are not charged or convicted continue to enroll in institutions and engage in fraud against the Title IV programs. Current regulations already provide the Department and institutions with some effective tools for preventing these fraud ring participants from receiving additional Title IV funds. Direct Loan regulations permit the Department to classify borrowers as ineligible to receive Title IV funds if they meet certain conditions. 34 C.F.R. § 685.211(e) provides that a borrower is ineligible if, at the time the loan was made and without the institution's or the Secretary's knowledge, the borrower or the student on whose behalf a parent borrowed, provided false or erroneous information or took actions that caused the borrower or student to receive a loan for which the borrower was wholly or partially ineligible, or to receive loan proceeds for a period of enrollment for which the borrower was not eligible.¹³ Further, existing regulations at 34 C.F.R. § 690.79 state that a student is liable for any Federal Pell Grant overpayment made to him or her.

These regulations provide the Department with methods to demand repayment of loan funds disbursed to ineligible borrowers or Pell Grants disbursed to ineligible students. For instance, 34 C.F.R. § 685.211(e)(2) requires the Secretary to send an ineligible borrower a demand letter requiring that the borrower repay any principal amount and any accrued interest for which the borrower was ineligible. If the borrower does not comply with the demand letter, then the borrower is held to be in default on the entire loan. Similarly, 34 C.F.R. § 690.79 allows an institution to send a student who has received a Pell Grant overpayment a demand letter requesting repayment and notifying the student that failure to make satisfactory repayment arrangements makes the student ineligible for further Title IV until final resolution of the overpayment. An institution may refer to the Department for collection any overpayment that a student fails to repay or to make satisfactory arrangements for repayment. Once a student

¹³ 34 C.F.R. Section 682.412(a)(3) contains a similar provision for FFEL loans borrowers whom lenders determine provided false or erroneous information or took actions that caused the student or borrower to receive loan proceeds for a period of enrollment for which he or she failed to attend school and has not paid those funds to the school or repaid them to the lender. While new FFEL loans are no longer being made, this provision would apply to existing FFEL loans that lenders determined were issued to borrowers who were not eligible to receive them.

defaults on repayment demands, ineligibility for further Title IV assistance could be established pursuant to 34 C.F.R. § 668.32(g) and the account flagged in NSLDS.¹⁴

Those accounts that are subject to repayment demands could also be flagged in NSLDS as ineligible for loan consolidation. Current regulations contain a provision that prevents Direct Loan borrowers from receiving a consolidation loan to repay loans for which the borrower was wholly or partially ineligible. 34 C.F.R. § 685.211(e)(4).¹⁵ Using a consolidation loan to repay fraudulently obtained Title IV funds would result in further expenditure of program funds for the benefit of those already convicted of Title IV fraud.

For individuals who are not formally charged with a crime, but are handled alternatively through the criminal justice system, the Department could expand its application of the student eligibility provisions of the HEA. Under 20 U.S.C. § 1091(a)(6) (2006), as added by HERA, individuals convicted of fraud in Title IV programs are not eligible for Title IV funds until any court ordered restitution has been satisfied. Due to limited prosecutorial resources, lower loss amounts, or lack of prior criminal records, fraud ring participants are often offered pretrial diversion (PTD) agreements. PTD's are an alternative to prosecution which seeks to divert certain offenders from traditional criminal justice processing into a program of supervision and services administered by a probation department. Offenders are often diverted at the pre-charging stage, and participants that successfully complete the program will not be charged, or if charged, will have the charges against them dismissed. Under the Department's regulations, PTD's entered with court supervision or with an admission of guilt satisfy the definition of a criminal conviction for the purposes of government-wide suspensions and debarments. 34 C.F.R. § 85.925(b); 2 C.F.R. § 180.920 (b). The same interpretation to the Title IV fraud eligibility provision can be applied.

IV. RECOMMENDATIONS

The OIG makes the following recommendations based on our investigations of distance education fraud rings. The Department should:

1. Include in the upcoming 2011 negotiated rulemaking session changes to the regulations to require institutions that enroll students exclusively in distance education programs to:
 - a. confirm student identity if they do not already do so as part of the institutions' enrollment processes, and
 - b. collect and retain IP information for such student during application, enrollment, and attendance.
2. Designate identity, high school graduation status, and statement of educational purpose as information required to be verified pursuant to 34 C.F.R. § 668.56(a) (75 F.R. 66956) for

¹⁴ Effective use of these provisions will require policies and procedures to define the satisfactory repayment arrangements under 34 C.F.R. § 668.35(a)(1)(i), (b)(1)(i) & (c)(2) to prevent those committing fraud from reestablishing eligibility with minimal payments.

¹⁵ 34 C.F.R. § 682.201(d)(2) contains a similar prohibition for borrowers of FFEL loans.

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the 2013-2014 and subsequent award years for students identified by appropriate edits as potential fraud ring participants.

3. Establish edits within the Central Processing System and the National Student Loan Data System to flag potential fraud ring participants who repeatedly enroll and withdraw, to assist institutions before disbursing Title IV assistance.
4. Seek statutory change to the cost of attendance calculation for students enrolled in distance education programs under the HEA to limit the payment for room and board, and other costs that distance education programs do not incur.
5. Seek a CMA with the Department of Justice for its Bureau of Prisons and explore the feasibility of data matching agreements with State and Federal Trust Territory prison systems to ensure incarcerated persons do not receive Title IV funds for which they are ineligible.
6. Implement controls in the Department's PIN delivery system to identify and prevent the issuance of multiple PINs to the same email address without confirmation of identity.
7. Consider utilizing existing regulations (34 C.F.R. §§ 682.201(d)(2) and 685.211(e)(2) and 34 C.F.R. § 690.79) to establish repayment liabilities for fraud ring participants that are not subject to criminal prosecution.
8. Issue a Dear Colleague Letter to alert institutions to the problem of distance education fraud rings, highlight the institutions' obligation to disburse Title IV aid to only eligible students, identify practices for institutions to detect and prevent distance education fraud, and specify when the Department will hold institutions responsible for disbursing Title IV funds to ineligible persons.
9. Ensure that pretrial diversions are recognized as convictions for program debarment or exclusion purposes under HERA by establishing processes to prevent individuals who enter into pretrial diversion agreements from obtaining Title IV funds until the requirements of HERA for eligibility are satisfied.

Investigative Program Advisory Reports issued by the Office of Inspector General will be made available to members of the press and general public to the extent information contained in the report is not subject to exemptions in the Freedom of Information Act (5 U.S.C. § 552).



October 11, 2011 - 3:00am

Hitting Hard on Fraud

By [Paul Fain](#)

A fast-moving effort by the U.S. Education Department to crack down on financial aid fraud faces a common dilemma in higher education: how to protect the integrity of government aid coffers without harming students.

Fraud rings that use “straw students” to pilfer federal financial aid are a growing problem, particularly in online programs at largely open-access community colleges and for-profit institutions. But proposed regulatory fixes, even if well-meaning, could create layers of red tape for colleges and make it harder for some students to receive financial aid.

“It’s a balancing act,” said Evan Montague, dean of students for Lansing Community College. Montague said the fraud rings are a threat, but that his college has adequate safeguards in place, thanks to a recent upgrade. He worries that the proposed federal policies would be an added “regulatory burden.”

The department’s Office of the Inspector General has seen a dramatic increase in online education scams, according to a [report](#) released last month. The crimes typically feature a ringleader and phony students who enroll, receive federal aid and split the proceeds with the ringleader. Community colleges may be targeted more often than for-profits because they typically charge less in tuition, leaving more of a leftover aid balance for thieves to pocket.

Federal investigators have busted 42 fraud rings since 2005, resulting in \$7.5 million in fines against the perpetrators, who range from savvy identity thieves with multiple aliases to illiterate straw students. But that’s just the tip of the iceberg, according to the report, and the department lacks the resources to pursue most of the cases it receives. Investigators were working on 49 new complaints about fraud rings as of August.

The rings first became a problem for the Apollo Group in 2008, said James Berg, Apollo's vice president for ethics and compliance. Since then the company has identified over 15,000 fraudulent students, many of whom enrolled at its Axia College, an open enrollment institution. Apollo has referred about 750 fraud rings to the inspector general, with the average scheme the company has uncovered involving 19 students.

The report from the inspector general features nine recommendations to make it harder for fraudsters. They include requirements for colleges to confirm students' identities and collect and retain their computer IP addresses, as well as a proposed statutory change to the cost of attendance calculation for students enrolled in online programs, which would limit federal aid payments for room and board, and for "other costs that distance education programs do not incur."

Federal regulators, department officials and the Republican and Democratic leaders of the U.S. House of Representatives' Committee on Education and the Workforce have weighed in with [letters](#), urging quick action on the report. The department has formed a task force to create a "final corrective action plan" by November 10. Sara Gast, a department spokeswoman, said the task force would work closely with colleges to iron out the details of any possible new rules.

"The team is continuing to identify what actions can be undertaken swiftly that will have the most impact on curbing fraudulent practices," Gast said in a statement, adding that the task force "is specifically looking at what steps in the student aid application process and systems changes could be implemented to flag potential fraudulent activity."

Berg said Apollo devotes substantial resources to combating the rings, including employee training programs. Apollo's "fraud squad" has improved what Berg calls its "catch rate," which refers to the percentage of phony students they can identify before the students receive federal aid. That rate was over 80 percent last month, Berg said. Apollo has regular meetings with staff from the inspector general's office, which has studied the company's fraud-prevention techniques.

"We've got antennae out there," said Berg, adding that "this is an industrywide issue."

Using a 'Sledgehammer'

Officials representing both community and for-profit colleges said fraud rings are a serious problem. But some argue that their institutions are responding to the challenge, and that the proposed regulations go too far and would have unintended consequences.

The required collection of IP addresses, for example, could threaten student privacy. And particularly rankling to community colleges is the proposed limit on the use of financial aid for online education expenses other than tuition and fees, which some observers called discriminatory to needy online students.

Some of the recommendations make sense, said Christine Mullins, executive director of the Instructional Technology Council, which is affiliated with the American Association of Community Colleges and represents many community colleges with large online programs. She likes the idea for the Education Department to work with the Department of Justice to ensure that prisoners are not being used as straw students and receiving aid for which they are ineligible -- the inspector general busted one scheme in which an alleged thief stole the identity of 50 inmates, enrolled them and made off with more than \$300,000.

But Mullins said the financial aid limitation and several other recommendations “seemed a little draconian,” and are “like taking a sledgehammer to this issue, which isn’t necessary.” (On Friday she submitted a [letter](#) to the Education Department detailing the council’s concerns.)

The American Public University System, however, supports the proposal to limit student aid eligibility to tuition, fees and textbooks.

“Institutions with a commitment to maintaining low costs should not be targeted by students with an interest in borrowing money in excess of these costs,” Wallace E. Boston, the system’s president and chief executive officer, said in a written statement.

Michael B. Goldstein, a lawyer who heads the higher education practice at the Washington law firm Dow Lohnes, said the inspector general’s role is to identify weaknesses in regulation, not to think about all the practical applications of fixes they recommend. The Education Department and Congress will likely reel back some of the stronger suggestions, he said.

“There need to be measures to constrain these criminals,” Goldstein said. “But it has to be done so it doesn’t constrain a very valuable, and increasingly valuable, portion of higher education.”

Big Busts

The financial aid scams are typically run by a ringleader who rounds up students who willingly participate, according to the inspector general. Most of the straw students have no intention of earning a credential. They use legitimate identities to enroll in class, often online, and receive federal aid -- including Pell Grants and loans. When the checks arrive, the students and ringleaders split the money and vanish, often without ever attending class.

Ringleaders sometimes work with deputies to recruit many students.

“In one ongoing investigation of a very large fraud ring, we interviewed and obtained affidavits from 45 participants, all of whom admitted they did not intend to earn a degree, certificate or other credential,” the report stated. “Some of these individuals are illiterate and were unable to write a statement or read a summary of their verbal statement to our investigators.”

The [rapid growth](#) of online education has been a boon to fraud rings, according to the inspector general, because students rarely have to be physically present when they apply for aid.

Federal investigators have had success in prosecuting online financial aid schemes, the most notable being the 2009 convictions of 64 people who targeted Rio Salado College, a major online provider that is part of Phoenix's Maricopa Community College District, making off with \$538,000 in federal aid.

But the report said big busts are too labor-intensive to pursue in court: “It is unlikely that such a robust effort to prosecute all participants in such a large investigation will be repeated in the future.”

Lansing Community College was hit by a fraud ring last year, and has since strengthened its financial aid abuse detection efforts. The college also changed how it distributes aid.

The fraud emerged when administrators noticed that a dozen students were sharing the same IP address and a house in Michigan City, Ind. They eventually referred the case to the inspector general.

The college then began looking for patterns and activities that raised red flags, such as out-of-state students who apply for financial aid. They also enlisted the help of faculty members to identify “students who had no interest in participation in the courses,” Montague said.

Any staff member can refer suspicious student behavior to the college’s judicial affairs department. For example, Montague said a student affairs employee might send a tip about a student who called six times in one week to ask about financial aid payments.

This fall the college began delaying its disbursement of federal aid, including Pell Grants and loans, as a further attempt to prevent fraud. Students receive aid for books and supplies at the beginning of the semester. The first larger aid installment, however, wasn't sent out until September 26, which is four weeks into the semester. Previously the college released all of the funds a day before the semester began. A second disbursement is scheduled for later this fall.

“We’re splitting it throughout the semester,” Montague said, to help ensure that “we don’t have phantom students.”

Some students were frustrated by the delayed aid payments, said Montague. But others say it has helped them budget better. Montague is confident that the strengthened fraud protection efforts are working. They can take a lot of work, however. And he worries about the staff time and money needed to comply with possible new federal regulations.

With more than 30,000 total students, Montague said Lansing administrators already have their hands full. The federal government currently requires colleges to verify some student applications for financial aid, often by using tax returns. While a relatively small percentage of students should trigger those checks, according to the government, Montague said applications for 62 percent of Lansing students require verification.

“We’re reviewing a heck of a lot of paper,” he said.

Read more:

http://www.insidehighered.com/news/2011/10/11/community_colleges_push_back_on_proposed_regulations_targeting_fraud_rings#ixzz277bWA8rZ

Inside Higher Ed

Work-Life Earnings by Field of Degree and Occupation for People With a Bachelor's Degree: 2011

American Community Survey Briefs

By Tiffany Julian

Issued October 2012

ACSB/11-04

INTRODUCTION

Individuals make a variety of choices over the course of their careers that impact their earning potential. These choices include how far to go in school, what to study in school, and what job to take. This brief explores the relationship between how far one goes in school (educational attainment) and how much money one might make over the course of a career (work-life earnings). It goes into further detail for people whose highest degree is a bachelor's by investigating how college major (field of degree) and occupation impact these work-life earnings.

The U.S. Census Bureau has developed an estimate of the amount of money a person might expect to make over the course of a career called the Synthetic Work-Life Earnings (SWE) estimate. This estimate is not intended to be a prediction but an illustrative example of the magnitude of differences in earnings based on factors such as education and occupation added up over a work life. For example, the difference between earning \$125,000 per year and \$150,000 per year might not seem particularly large, but the difference over a 40-year work life is a million dollars. In this way, SWE estimates demonstrate how seemingly small differences add up over a lifetime.

These estimates reflect calculation assumptions that should be noted. Not everyone begins and ends their career at the same age. Some people completely switch career fields several times, while others stay in the same position at the same company for their entire work life. Some occupations such as those in management may be the result of years of working in another occupation at a lower level. Some people go back to school later in life as well, and this continued

How Synthetic Work-Life Earnings Estimates Are Calculated

1. Find median earnings for each group: Ages 25–29, 30–34, 35–39, 40–44, 45–49, 50–54, 55–59, and 60–64.
2. Multiply the earnings for each group by the number of years in that group—5 to represent the amount of money earned in that stage of life.
3. Add the totals together to represent 40 years of earnings.
4. Repeat for every combination of education level and occupation group.

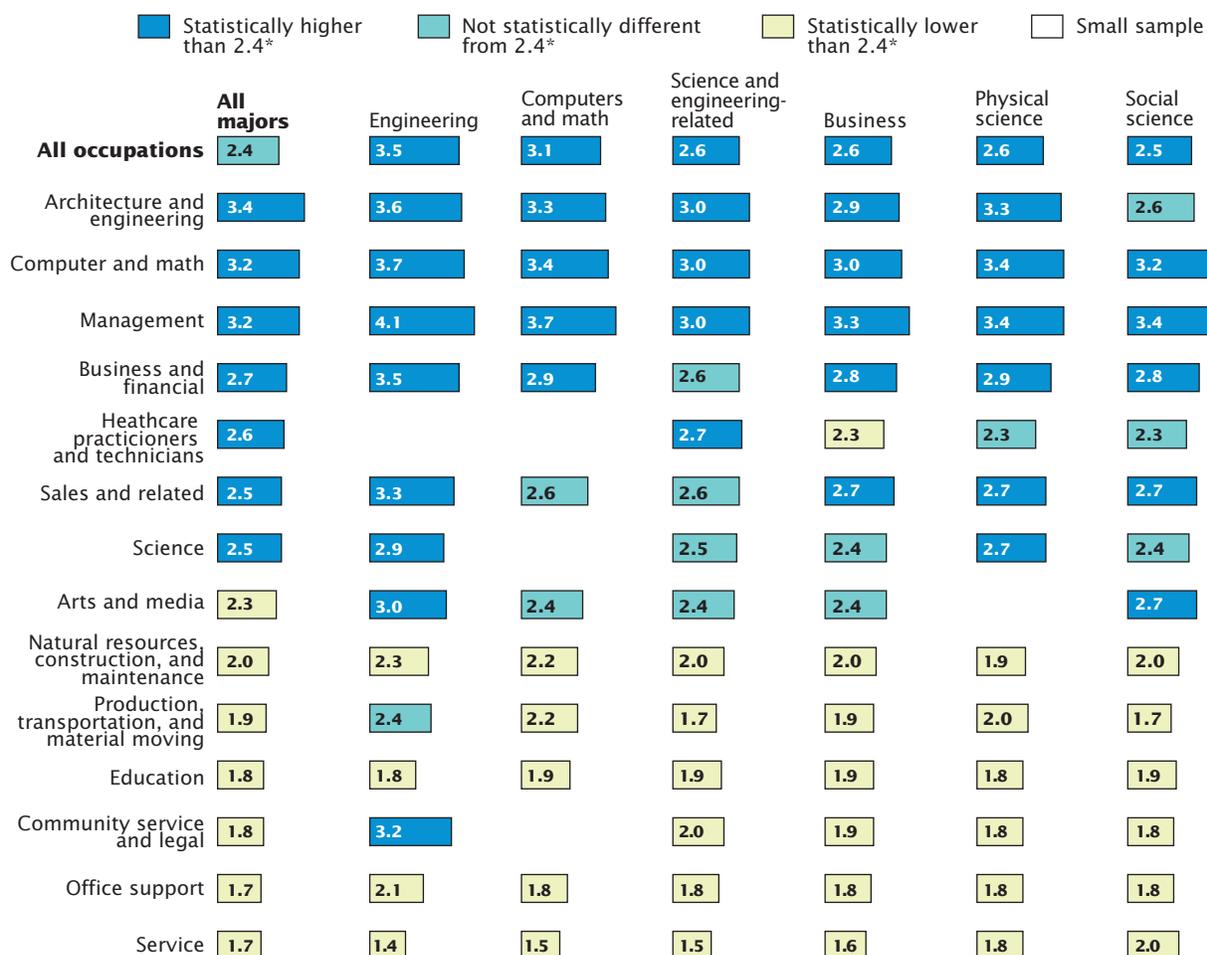
education will not necessarily be in the same field as their degree. These estimates represent a national median. Some people may earn much more than others. No estimate can predict the exact course a career will take over the next 40 years, but these SWE estimates can provide information about the general impact education and occupation might have.

A previous report based on American Community Survey (ACS) data demonstrated that educational attainment is by far the most important social characteristic for predicting earnings.¹ This report uses 2011 ACS data to create the SWE estimates. Table 1 shows how earnings increase as educational attainment increases. SWE estimates based on educational attainment alone range from less than \$1 million for

¹ Julian, Tiffany, and Robert Kominski, "Education and Synthetic Work-Life Earnings Estimates," American Community Survey, U.S. Census Bureau, September 2011, available at <www.census.gov/prod/2011pubs/acs-14.pdf>.

Figure 1.
Synthetic Work-Life Earnings by Field of Bachelor's Degree and Occupation Group for Full-Time, Year-Round Workers Whose Highest Attainment is a Bachelor's Degree

(In millions of dollars. Data based on sample. For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/acs/www/.)



See notes and source at end of figure.

those with the lowest education to about \$4 million for those with a professional degree. The difference in work-life earnings between workers with a high school diploma and those with a college degree is about \$1 million and the difference between the estimate for workers with a college degree and the estimate for those with a doctorate is another \$1 million.

COLLEGE MAJOR AND OCCUPATION

Table 1 shows that a bachelor's degree holder can expect to earn about \$2.4 million over his or her work life. There is a great deal of diversity among the 20 million full-time, year-round workers whose highest degree is a bachelor's.² They studied many different

subjects and work in many different jobs.

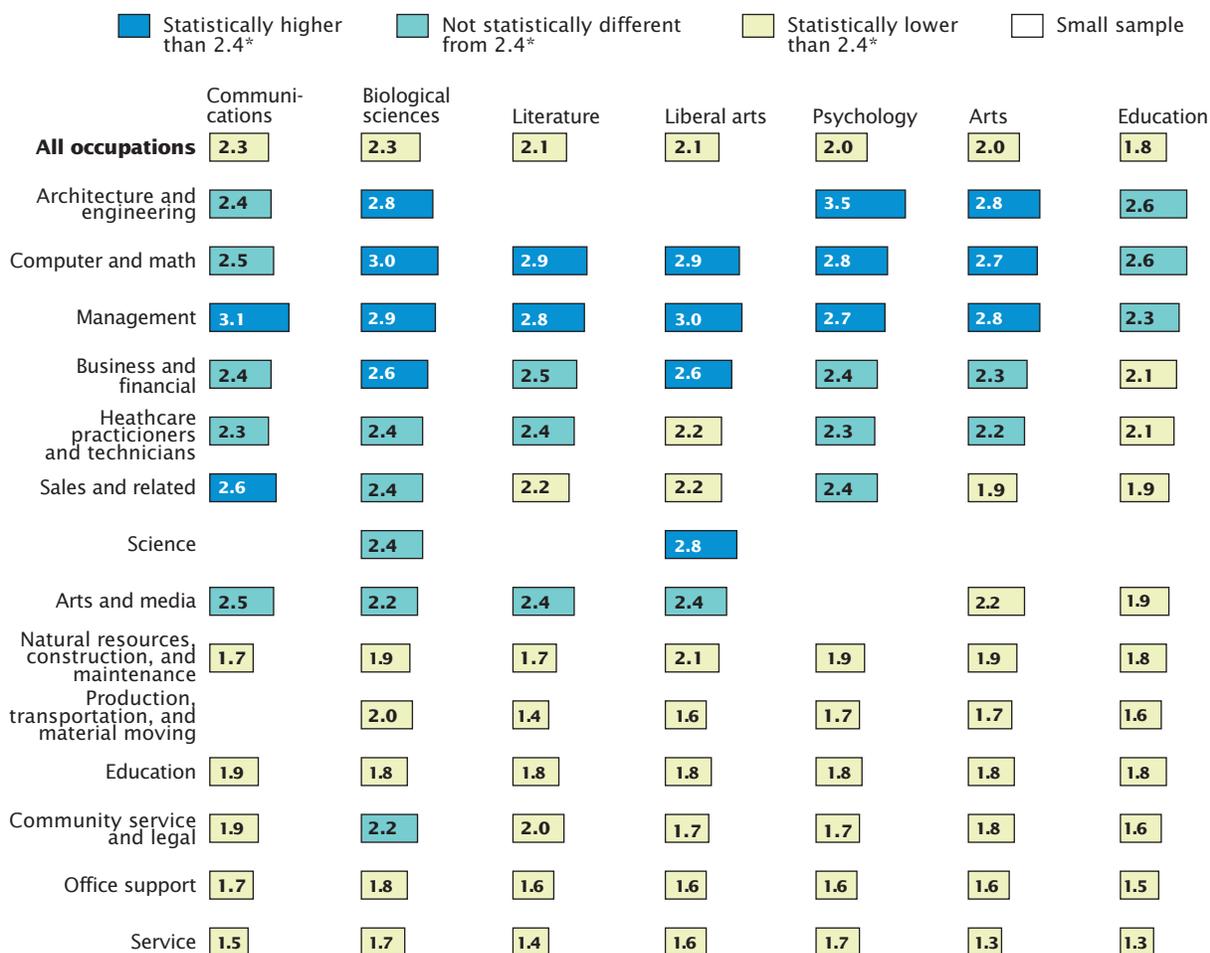
Figure 1 demonstrates variation in SWE estimates for people whose highest degree was a bachelor's. Darker colors represent higher than average work-life earnings while light colors represent lower than average work-life earnings. People working in architecture and engineering, computers and

² Population aged 25-64.

Figure 1.

Synthetic Work-Life Earnings by Field of Bachelor’s Degree and Occupation Group for Full-Time, Year-Round Workers Whose Highest Attainment is a Bachelor’s Degree—Con.

(In millions of dollars. Data based on sample. For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/acs/www/)



*Colors represent statistical difference from the average for all bachelor’s degree holders—2.4 million.

Notes: Synthetic work-life earnings represent expected earnings over a 40-year time period for the population aged 25–64 who maintain full-time, year-round employment the entire time. Calculations are based on median annual earnings from a single point in time for eight 5-year age groups multiplied by five. Not all fields of degree and occupations are shown here. Please see Appendixes A and B at www.census.gov/prod/2012pubs/acsbr11-04a.pdf for more details on the creation of these categories.

Source: U.S. Census Bureau, 2011 American Community Survey.

math, management, business and financial, healthcare practitioners and technicians, sales, and science all earn more than the average of \$2.4 million earned in a work life. People who majored in engineering, computers and math, science and engineering-related fields, business, physical science, or social science also earn more than the average.

Variations in earnings can be compared across occupations for a single field of degree or compared across fields of degree for single occupations. For example, the average liberal arts major earns \$2.1 million in their work life but those working in office support jobs can expect to earn \$1.6 million, while those working in computers and math can expect to earn \$2.9 million. Engineering majors make the

most, at \$3.5 million, but this estimate varies widely between service workers (\$1.4 million) and managers (\$4.1 million). Education majors make the least, at \$1.8 million, and no occupation for education majors provides higher earnings than the average for bachelor’s degree holders. In fact, education majors working in service jobs earn less than people whose highest attainment is a high school diploma.

Table 1.
Synthetic Work-Life Earnings by Educational Attainment

(In dollars. For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/acs/www)

Educational attainment	Synthetic work-life earnings	Margin of error ¹
None to 8th grade	936,000	7,000
9th to 12th grade	1,099,000	7,000
High school graduate	1,371,000	3,000
Some college	1,632,000	5,000
Associate's degree	1,813,000	9,000
Bachelor's degree	2,422,000	8,000
Master's degree	2,834,000	13,000
Professional degree	4,159,000	33,000
Doctorate degree	3,525,000	29,000

Note: Synthetic work-life earnings represent expected earnings over a 40-year time period for the population aged 25–64 who maintain full-time, year-round employment the entire time. Calculations are based on median annual earnings from a single point in time for eight 5-year age groups and multiplied by five.

¹ The margin of error can be interpreted roughly as providing a 90 percent probability that the interval defined by the estimate minus the margin of error and the estimate plus the margin of error (the lower and upper confidence bounds) contains the true value.

Source: U.S. Census Bureau, 2011 American Community Survey.

What Is the American Community Survey?

The American Community Survey (ACS) is a nationwide survey designed to provide communities with reliable and timely demographic, social, economic, and housing data for the nation, states, congressional districts, counties, places, and other localities every year. It has an annual sample size of about 3.3 million addresses across the United States and Puerto Rico and includes both housing units and group quarters (e.g., nursing facilities and prisons). The ACS is conducted in every county throughout the nation, and every municipio in Puerto Rico, where it is called the Puerto Rico Community Survey. Beginning in 2006, ACS data for 2005 were released for geographic areas with populations of 65,000 and greater. For information on the ACS sample design and other topics, visit www.census.gov/acs/www.

Not everyone working in the same occupational category with the same level of education earns the same amount. For example, sales workers who majored in engineering make an estimated \$3.3 million in their work life, while arts majors make \$1.9 million in the same type of work. Service workers who majored in social science earn \$2.0 million, compared with \$1.3 million for education majors. For more information on fields of degree and occupations, see Appendixes A and B on the Census Bureau's Web site at www.census.gov/prod/2012pubs/acsbr11-04a.pdf.

CONCLUSION

Many factors affect the amount of money a person earns during his or her career. This brief has used data from the American Community Survey (ACS) to demonstrate that educational attainment, college major, and occupation all affect work-life earnings. How far one goes in school can mean a difference of about \$3.2 million.³ Even within one level of attainment—the bachelor's degree—what one chooses to study in college and the careers

³ Workers with none through eighth grade earn \$936,000 compared with \$4,159,000 for workers with a professional degree.

pursued after college can also mean a difference of \$2.8 million.⁴

SOURCE AND ACCURACY

The data presented in this report are based on the ACS sample interviewed in 2011. The estimates based on this sample approximate the actual values and represent the entire household and group quarters population. Sampling error is the difference between an estimate based in a sample and the corresponding value that would be obtained if the estimate were based on the entire population (as from a census). Measures of the sampling errors are provided in the form of margins of error for all estimates included in this report. All comparative statements in this report have undergone statistical testing, and comparisons are significant at the 90 percent level unless otherwise noted. In addition to sampling error, nonsampling error may be introduced during any of the operations used to collect and process survey data such as editing, reviewing, or keying data from questionnaires. For more information on sampling and estimation methods, confidentiality protection, and sampling and nonsampling errors, please see the 2011 ACS Accuracy of the Data document located at www.census.gov/acs/www/Downloads/data_documentation/Accuracy_of_ACS_Accuracy_of_Data_2011.pdf.

Additional information about Synthetic Work-Life Earnings estimates and educational attainment are available on the Census Bureau's Web site at www.census.gov/hhes/socdemo/education/.

⁴ Arts and education majors working in service earn about \$1.3 million compared with engineering majors working in management \$4.1 million.

Field of Degree and Earnings by Selected Employment Characteristics: 2011

American Community Survey Briefs

By Camille Ryan
 Issued October 2012
 ACSBR/11-10

INTRODUCTION

This brief provides information about the field or major of bachelor's degrees, earnings, and selected employment characteristics for the population aged 25 and over with a bachelor's degree or higher. Data on field of bachelor's degree was first collected in the American Community Survey (ACS) in 2009. Respondents who reported that their highest degree completed was a bachelor's degree, master's degree, professional degree, or doctorate degree were asked to write in the specific major(s) of their bachelor's degree. Respondents with more than one bachelor's degree, or with more than one major field, were allowed to report multiple fields of degree. This brief examines only the first field of degree reported. Identification of the field of degree was collected only for the bachelor's degree.

GENERAL FINDINGS

Detailed Field of Degree and Work Status

There were 59 million people 25 years and older who held a bachelor's degree or higher in 2011 (Table 1). Business continued to be a popular major, with 12 million people who majored in this field. People who majored in business were also among those who were most likely to be employed full-time, year-round (64.1 percent). Education was the second most popular major at 8 million, but education majors were the least likely to be employed full-time, year-round (41.0 percent).¹

¹ Full-time, year-round is defined as working 50 to 52 weeks per year and 35 hours or more per week. Therefore, teachers who did not work during the summer months would not be considered full-time, year-round.

In addition to business, people who majored in a science and engineering field also tended to have high percentages who were employed full-time, year-round. People who majored in computers, mathematics, and statistics, or majored in engineering were the most likely to report working full-time, year-round and among the least likely to report that they did not work at all.² In contrast, most fields that were classified as arts, humanities, or other had lower rates of full-time, year-round employment. Less than half of those who majored in literature and languages (46.0 percent) or visual and performing arts (48.3 percent) were employed full-time, year-round.

Detailed Field of Degree, Earnings, and Class of Worker

Table 1 also shows that median annual earnings varied by field of degree and class of worker for those who were employed full-time, year-round. Class of worker is defined according to the type of employment organization of the respondent or whether the respondent was self-employed. Private sector includes both private for-profit and private not-for-profit employment. Government includes local, state, and federal government employment. Self-employed is defined as employment in one's own business, professional practice, or farm.

² The percentage of people who majored in computers, mathematics, and statistics and were employed full-time, year-round was statistically different from the percentage of people who majored in engineering and were employed full-time, year-round. The percentage of people who majored in computers, mathematics, and statistics and did not work at all was not statistically different from the percentage of people who majored in multidisciplinary studies and did not work at all. The percentage of people who majored in engineering and did not work at all was not statistically different from those who majored in social sciences or visual and performing arts and did not work at all.

Table 1. Detailed Field of Bachelor's Degree by Median Annual Earnings and Selected Employment Characteristics for the Population 25 Years and Over: 2011
 (For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/acs/www)

Field	Work status (percent)		Did not work	Median earnings for full-time, year-round workers (dollars)			Class of worker ² and earnings for full-time, year-round workers (dollars)					
	Full-time, year-round	Less than full-time, year-round		Total	Men	Women	Private sector		Government		Self-employed	
							Percent	Median earnings ³	Percent	Median earnings ³	Percent	Median earnings ³
Total	56.5	21.5	22.1	64,396	54,796	67.4	67,125	23.6	59,929	9.0	62,283	
Science and engineering:												
Computers, mathematics, and statistics	66.6	16.9	16.5	80,180	67,533	77.9	82,734	16.8	67,344	5.3	62,841	
Biological, agricultural, and environmental sciences	61.3	21.3	17.5	70,025	59,646	62.7	71,367	23.2	61,719	14.1	85,744	
Physical and related sciences	57.4	18.3	24.4	80,037	61,363	68.3	82,910	21.4	67,077	10.4	91,697	
Psychology	53.7	25.7	20.7	55,509	50,880	62.7	53,533	28.8	57,072	8.6	61,567	
Social sciences	57.0	21.6	21.4	70,197	57,370	62.7	70,970	25.9	65,887	11.4	75,471	
Engineering	64.7	14.2	21.2	91,611	77,714	78.6	94,488	13.6	83,977	7.7	71,178	
Multidisciplinary studies	56.4	26.1	17.6	55,704	51,959	64.7	57,334	28.7	53,816	6.6	55,751	
Science and engineering-related fields	56.1	24.0	20.0	69,615	65,761	74.8	70,599	18.4	64,257	6.8	70,844	
Business	64.1	17.4	18.6	66,605	56,152	75.9	68,465	13.9	61,490	10.2	62,159	
Education	41.0	25.1	33.9	50,902	49,053	38.9	47,452	55.8	52,141	5.3	42,068	
Arts, humanities, and other:												
Literature and languages	46.0	26.4	27.6	58,616	54,026	63.7	58,887	27.0	58,576	9.3	56,986	
Liberal arts and history	52.0	23.4	24.6	58,761	51,548	64.9	56,043	24.5	61,165	10.6	63,481	
Visual and performing arts	48.3	30.8	20.9	50,484	46,670	69.7	50,432	16.6	52,738	13.7	42,344	
Communications	60.5	24.0	15.6	55,859	51,447	75.9	56,144	15.5	55,562	8.7	52,188	
Other	59.4	21.8	18.9	52,490	46,534	55.3	50,675	38.6	57,085	6.1	51,719	

¹ Numbers in thousands.

² This distribution does not include those who were unemployed or were unpaid family workers.

³ Median earnings were calculated for those with earnings greater than zero.

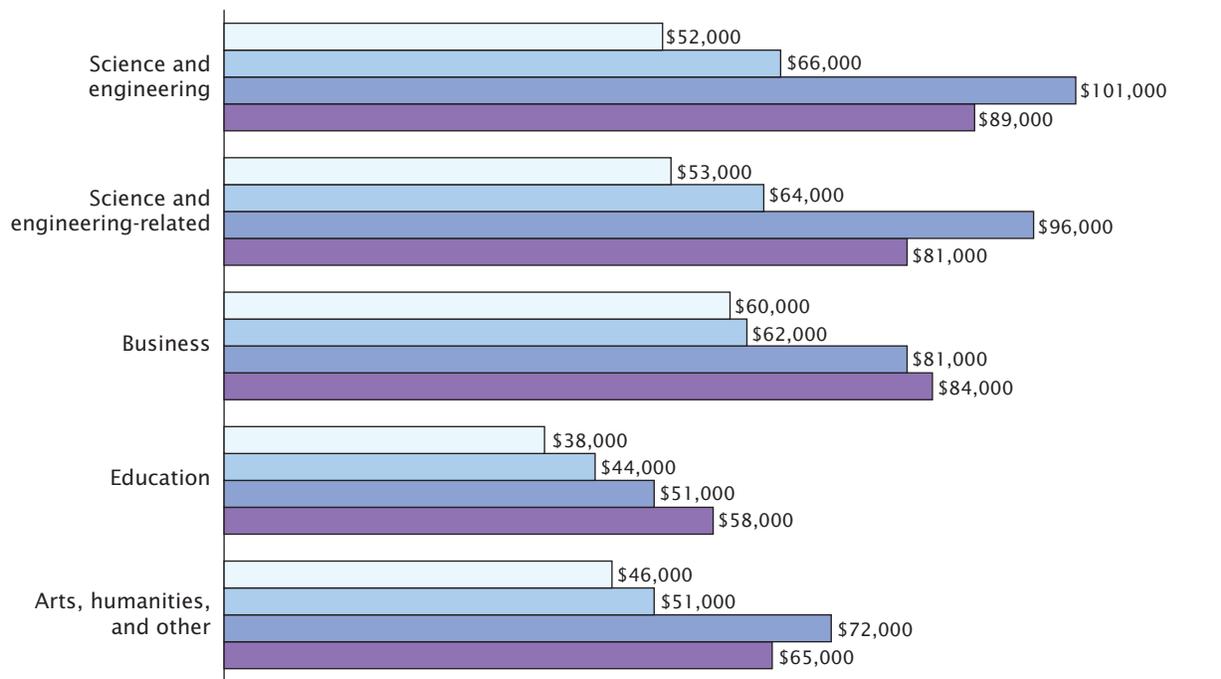
Note: For more information about the margins of error for this table, see Appendix Table 1 at the end of this report.

Source: U.S. Census Bureau, 2011 American Community Survey.

Figure 1.
Median Annual Earnings by Field of Bachelor's Degree by Class of Worker and Educational Attainment: 2011

(Population 25 years and over, full-time workers. For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/acs/www)

Self-employed workers, bachelor's degree
 Wage and salary workers, bachelor's degree
 Self-employed workers, advanced degree
 Wage and salary workers, advanced degree



Note: For more information about the margins of error for this figure, see Appendix Table 2 at the end of this report.
 Source: U.S. Census Bureau, 2011 American Community Survey.

People who majored in engineering had the highest earnings at \$92,000 per year. They were also the most likely to be employed in the private sector (78.6 percent). Majors with the lowest overall median annual earnings, about \$55,000 or less per year, included such fields as visual and performing arts, communications, education, and psychology.³

The fields of degree associated with the highest median earnings for women were the same as those for men, with median earnings of

³ The median earnings for communication majors were not statistically different than the median earnings for psychology majors or multidisciplinary majors. Also, the median earnings of those who majored in psychology were not statistically different than those who majored in multidisciplinary studies.

engineering majors being highest for both. However, women earned less than men for every field of degree.

Earnings tended to be higher for all fields of degree among those who worked in the private sector compared with earnings of those who worked in government.⁴ One exception was earnings for those who majored in education. Full-time, year-round government workers who held bachelor's degrees in this field earned \$52,000 per year, compared with \$47,000 per year among those who worked in the

⁴ Median earnings for private sector workers compared with government workers were not statistically different for those who majored in multidisciplinary studies, literature and languages, and communications.

private sector. Education majors were also the most likely to work in government of all fields of degree. More than half of all people who majored in education (55.8 percent) were government employees. This is not surprising given that public school teachers are classified as government employees.

Broad Field of Degree, Earnings, and Self-Employment

Figure 1 highlights differences in earnings by broad field of degree for wage and salary workers versus people who were self-employed. It also shows differences for these two groups between those whose highest degree was a bachelor's degree and those who went on to earn an advanced degree, such as

What Is the American Community Survey?

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a master's, professional, or doctorate degree.⁵ Earnings are shown for full-time, year-round workers aged 25 and over.

Among those whose highest degree was a bachelor's, wage and salary workers consistently earned more than those who were self-employed. This difference was most apparent among those who majored in science and engineering, where wage and salary workers earned \$66,000 per year compared with \$52,000 for self-employed workers.

Higher earnings for wage and salary workers were not always the

⁵ It is important to note that Figure 1 shows only the field of **bachelor's** degree. A respondent who went on to earn a master's, professional, or doctorate degree may not have earned their advanced degree in the same field shown in the figure.

case among those with advanced degrees. Self-employed people who majored in arts, humanities, and other fields earned \$72,000 per year, compared with \$65,000 per year for those who were wage and salary workers. For self-employed people who majored in science and engineering and held an advanced degree, the median annual earnings were about \$100,000 per year. The earnings for self-employed people who majored in science and engineering-related fields and held advanced degrees were not far behind, at \$96,000 per year.

SOURCE AND ACCURACY

The data presented in this report are based on the ACS sample interviewed in 2011. The estimates based on this sample approximate

the actual values and represent the entire household and group quarters population. Sampling error is the difference between an estimate based in a sample and the corresponding value that would be obtained if the estimate were based on the entire population (as from a census). Measures of the sampling errors are provided in the form of margins of error for all estimates included in this report. All comparative statements in this report have undergone statistical testing, and comparisons are significant at the 90 percent level unless otherwise noted. In addition to sampling error, nonsampling error may be introduced during any of the operations used to collect and process survey data such as editing, reviewing, or keying data from questionnaires. For more information on sampling and estimation methods, confidentiality protection, and sampling and nonsampling errors, please see the 2011 ACS Accuracy of the Data document located at www.census.gov/acs/www/Downloads/data_documentation/Accuracy_of_ACS_Accuracy_of_Data_2011.pdf.

Appendix Table 1. **Margins of Error¹ for Table 1: Detailed Field of Bachelor's Degree by Median Annual Earnings and Selected Employment Characteristics for the Population 25 Years and Over: 2011**

(For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/acs/www)

Field	Total ²	Work status (percent)			Median earnings for full-time, year-round workers (dollars)			Class of worker ³ and earnings for full-time, year-round workers					
		Full-time, year-round	Less than full-time, year-round	Did not work	Total	Men	Women	Private sector		Government		Self-employed	
								Percent	Median earnings ⁴	Percent	Median earnings ⁴	Percent	Median earnings ⁴
Total	172	0.117	0.091	0.095	231	178	199	0.148	151	0.147	303	0.088	301
Science and engineering:													
Computers, mathematics, and statistics	16	0.564	0.373	0.440	732	1,585	2,039	0.563	1,179	0.518	1,731	0.290	5,482
Biological, agricultural, and environmental sciences	20	0.383	0.357	0.286	925	896	1,101	0.488	587	0.487	636	0.364	5,039
Physical and related sciences	17	0.647	0.465	0.545	1,257	936	861	0.699	1,844	0.553	1,704	0.451	5,560
Psychology	16	0.521	0.430	0.393	455	1,352	358	0.771	992	0.712	781	0.460	1,187
Social sciences	27	0.390	0.316	0.292	443	646	798	0.488	607	0.463	804	0.341	1,975
Engineering	22	0.410	0.302	0.343	374	787	2,128	0.398	829	0.352	2,025	0.222	2,039
Multidisciplinary studies	6	1.391	1.271	1.087	1,431	3,228	805	1.994	3,167	1.797	2,189	0.943	12,842
Science and engineering-related fields	26	0.386	0.298	0.240	620	1,701	335	0.426	279	0.430	1,001	0.239	2,293
Business	38	0.219	0.163	0.189	262	300	333	0.280	728	0.259	349	0.185	539
Education	31	0.313	0.262	0.310	139	517	306	0.443	571	0.484	169	0.241	2,143
Arts, humanities, and other	17	0.548	0.453	0.462	1,090	1,352	997	0.747	1,462	0.697	1,378	0.380	4,715
Literature and languages	17	0.505	0.365	0.422	935	584	440	0.638	793	0.589	665	0.372	5,880
Liberal arts and history	18	0.643	0.519	0.425	285	1,534	504	0.695	348	0.615	1,203	0.533	3,464
Visual and performing arts	17	0.540	0.547	0.429	622	674	421	0.705	748	0.598	1,103	0.404	3,255
Communications	17	0.531	0.409	0.370	465	445	394	0.707	398	0.642	627	0.349	1,450

¹ The margin of error can be interpreted roughly as providing a 90 percent probability that the interval defined by the estimate minus the margin of error and the estimate plus the margin of error (the lower and upper confidence bounds) contains the true value.

² Numbers are in thousands.

³ This distribution does not include those who were unemployed or were unpaid family workers.

⁴ Median earnings are calculated for those with earnings greater than zero.

Source: U.S. Census Bureau, 2011 American Community Survey.

Appendix Table 2.

Margins of Error¹ for Figure 1: Median Annual Earnings by Field of Bachelor's Degree by Educational Attainment and Class of Worker: 2011

(For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/acs/www)

Broad field	Median earnings ² for full-time, year-round workers (dollars)			
	Highest degree is bachelor's degree		Highest degree is advanced ³ degree	
	Self-employed	Wage and salary	Self-employed	Wage and salary
Science and engineering	478	304	648	778
Science and engineering-related fields	4,790	753	8,692	455
Business	635	210	2,388	1,128
Education	3,676	368	2,073	579
Arts, humanities, and other	1,277	181	1,759	612

¹ The margin of error can be interpreted roughly as providing a 90 percent probability that the interval defined by the estimate minus the margin of error and the estimate plus the margin of error (the lower and upper confidence bounds) contains the true value.

² Median earnings are calculated for those with earnings greater than zero.

³ Advanced degrees refer to a master's, professional, or doctorate degree.

Source: U.S. Census Bureau, 2011 American Community Survey.

Policy Brief: College Affordability



Summary:

The United States ranks 11th among developed countries for the percentage (41.6%) of young adults who hold an associate's degree or higher. We used to be first, but we are falling behind. Our country's economic competitiveness will depend on increasing the number of Americans who have access to a college education. College affordability remains one of the largest barriers to making progress in this respect, as the cost of a degree has more than tripled over the past thirty years, outpacing inflation and income.

Government can help lower costs not only by stepping up its commitment to public funding of higher education, but also by incentivizing academic institutions to restrain tuition increases and holding states accountable to meet their own obligations.

Key Facts:

- **Tuition increases.** In 2011-2012 academic year, the average cost (tuition and fees, excluding room and board) of an in-state public four-year school increased 8.3% to \$8,244. The average cost of private four-year school increased 4.5% to \$28,500. And the average cost for a private for-profit tuition increased 3.2% to \$14,487.
- **Over time.** Over the decade from 2001-02 to 2011-12, published tuition and fees for in-state students at public four-year colleges and universities increased at an average rate of 5.6% per year beyond the rate of general inflation. This rate of increase compares to 4.5% per year in the 1980s and 3.2% per year in the 1990s.
- **Enrollment.** Total postsecondary enrollment increased by 22% between 2005-06 and 2010-11. The largest increases have been in public two-year and for-profit institutions.
- **Student aid.** In 2011-12, students received an average of \$5,750 in aid from all sources and federal tax benefits at public four-year institutions and \$15,530 at private nonprofit four-year institutions. Net tuition and fees for students at private four-year institutions were actually lower than they were in the 2006-2007 academic year.
 - Over the last decade, both grant aid and federal loans per full-time equivalent (FTE) undergraduate increased by about 5% per year after adjusting for inflation.
 - From 1980-81 to 2010-11, total public support for public higher education per FTE decreased 13.9% from \$8,326 to \$7,171. This highly varies by state.
- **Sources of aid.** In 2010-11, 46% of grant aid came from the federal government (up from 29% a decade ago). Some 36% of all grant aid came from colleges and universities, 9% came from state governments, and 10% came from employers and other private sources.
 - Largely due to the recession, state appropriations declined by 9% in constant dollars in 2008-09, by another 6% in 2009-10, and by 4% in 2010-11.

Policy Brief: College Affordability



- **Net Tuition.** Average net tuition and fees, after subtracting grant aid from all sources and federal education tax credits and deductions, is about \$170 higher in 2011 dollars for public four-year college and university students than it was five years ago, but lower in all other sectors.

Background:

The issue of college affordability has most recently been addressed by increasing federal government subsidies, so that students can better afford the cost of education.

The American Recovery and Reinvestment Act of 2009 included \$30.8 billion in education funding for this purpose. Among other things, the legislation increased the tuition tax credit from \$700 to \$2,500 for families earning up to \$180,000.

The Health Care and Education Reconciliation Act of 2010 included additional funding for Pell Grants, which will increase maximum grants to \$5,975 by 2017 by pegging it to increases to the Consumer Price Index.

Policy Horizon:

President Obama rolled out a blueprint for college affordability in early 2012, beginning with his State of the Union Address. The president's plan includes:

- Tying federal aid to specific academic institutions to their ability to restrain tuition growth, produce graduates who are able to obtain employment and pay back loans and serve and graduate low-income students;
- Establishing a \$1 billion "Race to the Top" fund for college affordability, whereby additional federal funding will be made to "entice state governments to revamp the structure of state financing for higher education, maintain adequate levels of funding for colleges and universities, and help kids graduate on time";
- Creating a "College Scorecard" that would provide additional information to students and their families, helping them identify "high-quality, affordable colleges that provide good value";

Other organizations have advocated additional means of making college more affordable. The

Policy Brief: College Affordability



Heritage Foundation, for example, has suggested focusing policy on incentivizing saving for college rather than subsidizing costs by:

- Giving direct spending on human capital such as education the same tax preferences as physical capital, such as business equipment, since each generates future taxable income;
- Extending the limited tax benefits available for Section 529 college savings accounts to all saved income until it is spent;

In addition, Heritage suggests that innovative new approaches to higher education, such as new technology-based ventures, can be also be fostered by “loosening accreditation requirements associated with federal assistance.”

Sources & More Information:

- “Trends in Student Aid.” The College Board. October 2011.
- “Trends in College Pricing.” The College Board. October 2011.
- “Making College More Affordable.” www.WhiteHouse.gov
- “Assessing the President’s Proposals on Higher Education Costs.” Heritage Foundation. February, 2012.



Defunding Higher Education

What Are the Effects on College Enrollment?

Hans Johnson

with support from Belinda Reyes and David Ezekiel

Supported with funding from the Donald Bren Foundation and The James Irvine Foundation



REUTERS/LUCY NICHOLSON

SUMMARY

California's financial commitment to higher education has been compromised by fiscal crises and competing state priorities. Despite large increases in the demand for higher education, state general fund spending in this area has declined notably over the past ten years. California now spends more on corrections than on its public universities.

This report examines the effects of this disinvestment on the enrollment rates of recent high school graduates at the University of California (UC), the California State University (CSU), and the California Community Colleges. Key findings include:

- Increasingly, high school graduates in California are less likely to enroll in any four-year college.
- Enrollment rates at UC and CSU have fallen by one-fifth over the past five years, from about 22 percent of all high school graduates to below 18 percent.
- Among the state's most highly prepared high school graduates, the enrollment rate has declined even more—from around 67 percent to 55 percent.
- Many opt for overcrowded community colleges, but increases in enrollment rates there do not make up for the declines at UC and CSU.
- A small but notable share of those who were eligible and even accepted into UC and CSU do not attend college anywhere.

These enrollment declines have occurred as California's public colleges and universities have employed various strategies to balance their budgets. Those strategies include cutting courses, programs, and student services, as well as making administrative cuts. Certain policies and practices have been designed to limit enrollment, including capping enrollment at more desirable campuses. From a student perspective, the increased tuition and fees at UC and CSU campuses have been the most dramatic change, and community college students have faced greater difficulties in finding classes.

Increased state funding for higher education would almost certainly reverse these trends. A proposed tax initiative could lead to increased revenue for the state, with policy-makers explicitly identifying higher education as a primary beneficiary if the initiative passes. Regardless of the success of the initiative, steps could and should be taken to ensure that higher education expenditures are allocated in as efficient a manner as possible. One suggestion, for example, would fund the state's colleges on the basis of student outcomes, such as courses and degrees completed, as well as enrollment. But without additional revenue, such steps are not likely to fully overcome the overall decline in state support for higher education.

If current enrollment trends persist, California faces an alarming loss of college graduates—at a time when the state needs to be developing a more highly skilled workforce to ensure its future prosperity. PPIC has projected that the state will fall one million college graduates short of economic demand by 2025 unless enrollment and graduation rates improve substantially. Had enrollment rates not declined over the past few years, California would be on a path toward closing this workforce gap. Instead, it looms as large as ever.

Please visit the report's publication page to find related resources:
www.ppic.org/main/publication.asp?i=988

Introduction

California, once a leader in higher education, is falling behind other states and nations in developing the highly skilled workforce necessary for our future prosperity. By 2025, two of every five jobs in California will require a bachelor’s degree (Reed 2008), and nationwide, more than 60 percent of all new jobs will require some form of postsecondary education (including associate’s degrees and certificates as well as bachelor’s degrees).¹ Yet the enrollment rates of recent high school graduates in California’s public colleges and universities have not kept pace with rising demand. For the first time in our state’s history, young adults in California are less likely than older adults to have graduated from college (Johnson 2010). If current trends persist, PPIC projects that the state will fall one million college graduates short of economic demand by 2025.²

The size of this gap means that the state cannot rely on just one approach to closing it. Rather, the state will need more high school graduates to earn certificates and degrees from technical and community colleges and more to graduate from four-year institutions. Reaching underrepresented groups, particularly the large and growing Latino student population, is key to closing the gap.³

California’s ongoing budget crises have dramatically reduced state support for higher education. The University of California (UC) and the California State University (CSU) have responded by reducing costs, increasing tuition and fees, and limiting enrollment. Along with the California Community Colleges (CCC), they have reduced course offerings and other resources for students.⁴ These restrictions vary across institutions and campuses but are likely to be felt most strongly among recent high school graduates as they decide whether to enroll in college.

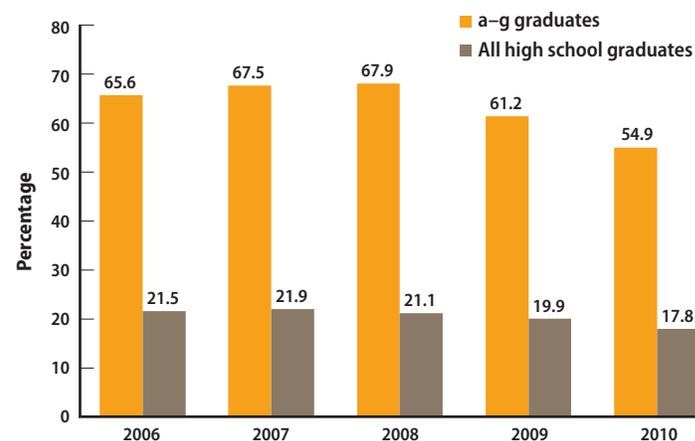
In this report, we examine the effects that these fiscal crises have had on student enrollment at the state’s public colleges and universities. We focus on the college enrollment of recent high school graduates because this is a pivotal point in an individual’s educational direction. The vast majority of students who earn a college degree, including an associate’s degree, first enter college shortly

after graduating from high school. Changes in the share of high school graduates who enroll in college have long-term implications for the state.⁵ Declines in enrollment rates mean that California’s future workforce will be less skilled and less able to meet the demands of an economy that increasingly rewards more highly educated workers.

California’s budget crises have dramatically reduced state support for higher education.

Our key finding is that the share of recent California high school graduates enrolling in the state’s public colleges and universities has declined over the past five years. Enrollment rates to UC and CSU have fallen by one-fifth, from about 22 percent to below 18 percent. Among the state’s most highly prepared high school graduates—those completing the a–g courses required for admission to UC and CSU—the enrollment rate has declined from around 67 percent to 55 percent (Figure 1).

Figure 1. Enrollment rates of recent high school graduates to UC and CSU have declined



SOURCE: Author’s calculations based on California Postsecondary Education Commission (CPEC) (2010). NOTE: Data are restricted to California high school graduates and residents.

To understand these declines, we first describe reductions in state support for higher education, then we assess the responses of the state’s public colleges and universities. Finally, we examine trends in student enrollment and conclude with a discussion of policy implications and recommendations.

Reductions in State Support for Higher Education

Despite large increases in the number of high school graduates, state general fund spending on higher education has declined notably. In 2010–11, the state spent \$1.6 billion less on higher education than it did ten years earlier.⁶ These declines partly reflect California’s severe recession and lower general fund revenues. But they also reflect changing state priorities: Declines in higher education expenditures have exceeded those for other state functions. For example, over the past ten years, general fund expenditures for higher education have *fallen* 9 percent, whereas general fund expenditures for corrections and rehabilitation have *increased* 26 percent.⁷ Indeed, the state now spends substantially more on corrections and rehabilitation than it does on its public universities (UC and CSU combined).⁸ It is worth noting that between 2003 and 2010, the prison population increased 1 percent, whereas CSU and UC enrollment (full-time-equivalent students) increased 13 percent.⁹

This decline in the budgetary priority of higher education is part of a much longer historical trend. In the mid-1970s, for example, the state spent almost four times more on higher education than on corrections, and almost 18 percent of all general fund expenditures went to higher education. Today, higher education receives around 12 percent (Figure 2).

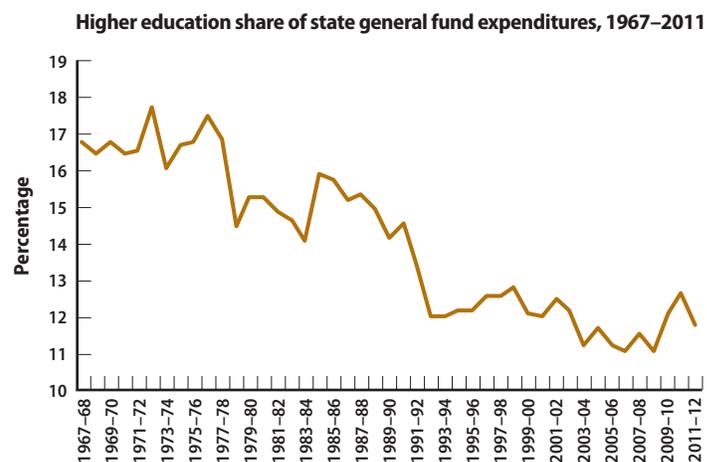
These changing priorities are not the consequence of well thought out planning and priority setting on the part of the state.¹⁰ Nor are they aligned with the desires of most Californians: In the May 2011 PPIC Statewide Survey, 68 percent of respondents *opposed* spending cuts in higher

education to reduce the state budget deficit, and 62 percent *supported* spending cuts in prisons and corrections to do so (Baldassare et al. 2011).

Policymakers often insist that their hands are tied with respect to budgeting and expenditures and that they have relatively little latitude to increase expenditures or even move funding from one area of government function to another.¹¹ And to a certain extent, the state’s budget priorities are driven by federal and state requirements, voter-approved initiatives, court mandates, and caseloads. UC and CSU are especially vulnerable in this context, as there are no mandates or requirements that the state provide funding for its public universities. Community colleges are somewhat more protected, because they are part of the Proposition 98 guarantee for K–14 education.¹²

Furthermore, higher education is seen as a budget area that, unlike other government services, has the ability to compensate for cuts in state expenditures. A common and not incorrect assumption is that public colleges and universities have sources of funds, particularly students and the tuitions they pay, that are not available to other government services. (Prisoners cannot pay for the cost of their own incarceration, and it would be nonsensical for welfare recipients to pay for their welfare.) This assump-

Figure 2. Relative spending on higher education has declined



SOURCES: CPEC (2010); LAO (2011).
 NOTES: Data for 1967–2010 show the higher education share of state general fund expenditures. Figures for 2011–12 are estimates.

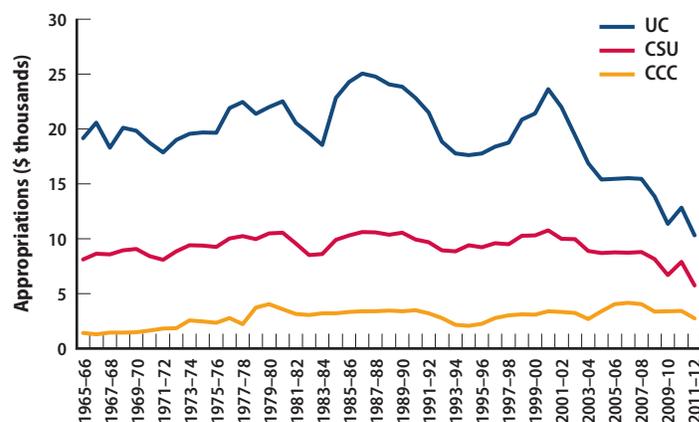
tion makes higher education vulnerable to cuts during tough budgetary times, when policymakers tend to focus on solving short-term issues rather than on addressing long-term needs.

The state has also, perhaps unintentionally, shifted spending priorities among the UC, CSU, and CCC systems. Specifically, community colleges have grown as a share of higher education spending, whereas funding for CSU and especially UC has declined. In the 2010–11 budget, community colleges received over 40 percent of all general fund expenditures that were devoted to any of the three segments.¹³ This emphasis on funding community colleges is new. In the late 1960s, community colleges received only about 18 percent of general fund higher education expenditures, and even as recently as a decade ago, community colleges received less than one-third of higher education expenditures. The large increase in the share of funding devoted to the community colleges over the past ten years does not correspond with a large increase in enrollment. Indeed, the number of students in community colleges increased 21 percent from 2000 to 2010, compared to 40 percent at UC and 21 percent at CSU.¹⁴

This change in relative spending is not necessarily the result of any deliberate planning process. To a certain extent, the community colleges have benefited from being a part of the Proposition 98 guarantee. Moreover, California has a longstanding commitment, enshrined in the state’s Master Plan for Higher Education (1960), to providing inexpensive access to higher education, a commitment that is now largely achieved through community colleges rather than through the state’s public universities.¹⁵

Despite the larger share of funding that community colleges now receive, they still get far fewer per-student dollars than UC or CSU (Figure 3).¹⁶ Considering higher education funding over time, two characteristics of state support per student stand out. First is the recent sharp decline in funding, especially for UC and CSU. This has been so severe that current state funding per student is far below long-term historical averages. In comparison, per-student funding at the community colleges remains higher than the long-term historical average, despite the recent

Figure 3. General fund appropriations per student have declined sharply



SOURCES: CPEC (2010); LAO (2011).
 NOTES: Data for the 2011–12 school year are LAO estimates. Figures are per full-time-equivalent student with American Reinvestment and Recovery Act (ARRA) funds. Appropriations are adjusted for inflation and reflect 2010 dollars (see Technical Appendix A).

decline. Second is the tremendous volatility, with dramatic changes in state support from one year to the next (these changes are tied to downturns in the state budget and coupled in some years with significant enrollment growth). For example, UC’s general fund support per student fell by about a third over a relatively short period, from almost \$25,000 in 2000–01 to just over \$16,000 in 2004–05. (The scale obscures the volatility at CSU and the community colleges, but the relative variation is similar for each system, with the community colleges actually experiencing higher relative variation and CSU slightly lower.) This volatility matters, because it makes planning especially difficult for both institutions and students.

The budget picture is particularly dire for 2011–12. To close the state’s budget gap of \$11.1 billion, the state’s public colleges and universities incurred a disproportionately large cut of \$1.8 billion—\$419 million to the CCCs and \$1.4 billion to UC and CSU combined (LAO 2011). The governor has announced that an additional \$200 million in expenditure reductions will occur for UC and CSU (\$100 million each), because revenues have fallen sufficiently short of forecasts. These are the largest cuts faced by any function of state government.

How Have Higher Education Institutions Responded to Cuts?

In the face of these cuts, California's public colleges and universities have adopted a number of strategies to balance their budgets. In general, these strategies fall into one of three categories: tuition increases, expenditure reductions, and enrollment management.

Tuition Increases

At both UC and CSU, increases in tuition and fees have been perhaps the most prominent of these strategies in terms of both dollars and the effect on students.¹⁷ Both UC and CSU have the ability to raise tuition and fees independently and do not require state approval to do so.¹⁸ As we will discuss below, community colleges do not have the same independence.

Until the early 1990s, tuition and fees at both UC and CSU remained very low—among the lowest in the nation. During the severe recession at that time, state support declined and both systems increased tuition and fees in response. Tuition and fees more than doubled from the late 1980s to early 1990s, reaching about \$4,000 per year at UC and \$2,000 per year at CSU.¹⁹ A period of relative stability prevailed until the early 2000s, but since that time, tuition and fees have been on a dramatic and relentless upward climb—more than tripling—reaching over \$12,000 per year at UC and over \$6,000 per year at CSU by 2011–12 (Figure 4; note the scale differences).

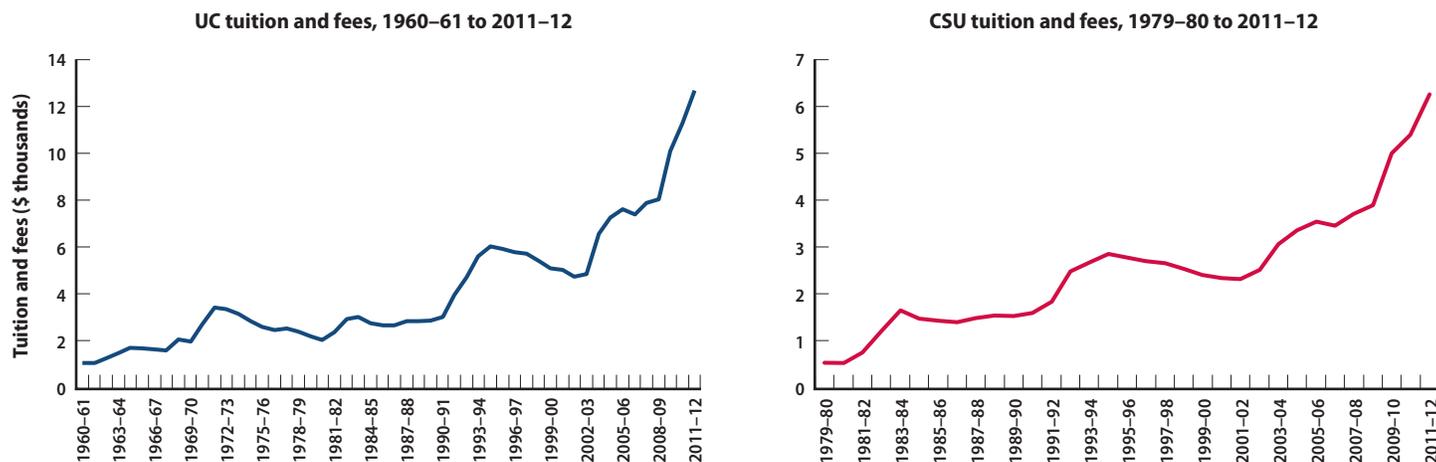
Even with the increases, CSU remains fairly affordable relative to comparable institutions in other states.²⁰ In 2010–11, tuition and fees were 23 percent lower at CSU than at comparison institutions; as recently as 2007–08, they were 38 percent lower. But increases in tuition and fees were far higher at CSU campuses (47%) than at the comparison institutions (19%) over this same time period—a trend that if continued would make CSU less affordable relative to its peers. CSU increased tuition an additional 16 percent from 2010–11 to 2011–2012 and is considering a proposal to raise tuition and fees another 9 percent for 2012–13 (CSU 2011a).²¹

In contrast, UC has already become one of the most expensive public university systems in the country, with 2010–11 tuition and fees 33 percent higher than the average of other large public research universities; in 2007–08, tuition and fees were just 9 percent higher.²² Of 71 large public research universities in the nation, UC has the eighth highest tuition and fees. Moreover, dramatic increases could continue if the state continues to cut higher education allocations. Between 2007–08 and 2010–11, tuition and fees increased by 50 percent (\$3,772) at the UC campuses but only by 24 percent (\$1,627) at comparison institutions (and 19%, or \$2,083, at the more expensive comparison institutions). If current trends in tuition increases persist, UC will become the most expensive public higher education system in the country within the next five years.²³ Of course, for students paying full tuition, UC tuition remains substantially lower than that of most private institutions.

At both UC and CSU, tuition and fee increases have offset only a portion of the reductions in state support. Moreover, a portion of the fee increases went directly to students in the form of grants rather than to instruction and other functions supported by state allocations. UC and CSU both withhold a substantial share of the tuition increases to provide increased financial aid for low- and moderate-income students. Because UC and CSU enroll large numbers of these students relative to other public research universities in the country, UC's net tuition (defined as tuition not covered by grants) is still lower than that of many other state universities. Thus, the net revenue from the fee increases is lower than the gross revenue generated by the total fee increase.

Unlike UC and CSU, community colleges do not control their own fees, which are set by the state. Those fees have been quite low, and many students qualify for waivers that allow them to forgo the fees. Therefore, community colleges rely almost exclusively on state general fund support for their funding. It is worth noting that California's community colleges currently have the lowest fees in the nation: In 2010–11, average tuition and fees for full-time students was \$732, compared to \$1,386 in

Figure 4. UC and CSU have rapidly increased tuition and fees



NOTES: In 2010 nominal dollars, per year, for full-time undergraduate California residents. Includes average of campus-based fees.

New Mexico (the state with the second lowest costs) and a national average of \$2,714.²⁴ Even with an increase in fees to over \$1,000 per year for full-time students in 2011–12, California’s community colleges still had the lowest fees in the nation. Scheduled increases to \$1,380 for full-time students (\$46 per unit) for the 2012–13 academic year will put California’s community colleges at about the same level as those in New Mexico, still relatively low compared to the national average but almost twice what they were just a few years ago.

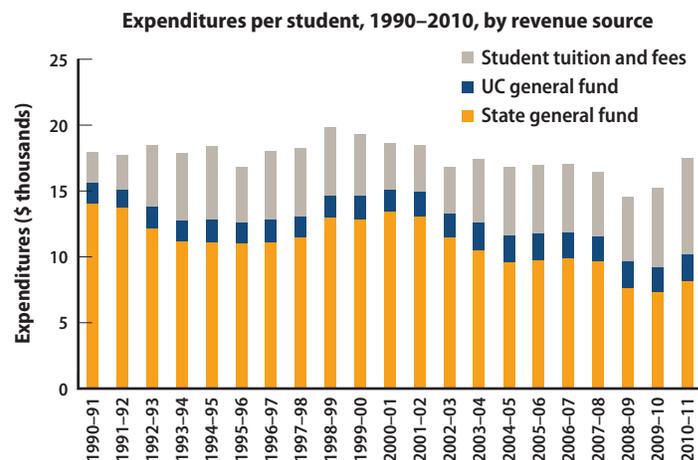
Cuts to Per-Student Spending

Because increases in tuition and fees do not fully offset reductions in state funding, both UC and CSU now spend less per student than they did in the past. At UC, for example, expenditures per student have fallen substantially over the past decade—from about \$20,000 per student in 1998–99 to less than \$15,000 in 2008–09 (in real dollars; see Figure 5). This entire decline is the result of losses in state general fund support.

By 2009–10, for the first time ever, the state was providing less than half of UC education expenditures—private sources are now a larger source of revenue. This shift suggests that UC has become a public assisted rather than a public supported institution.

At CSU, state funds per student have also declined dramatically. Net tuition and fee revenue has risen, but it only partially offsets the loss of state funds. In 1998–99, revenue per student totaled \$13,502 (with 81% from the state and 19% from net tuition and fees); by 2011–12, total revenue

Figure 5. UC’s spending per student has dropped



SOURCES: University of California Office of the President (UCOP) (2011), Table 1.5.1, per-student average expenditures for education, 1990–91 to 2009–10; UC Budget and Capital Resources.

NOTES: All figures are in 2010–11 dollars (using the Consumer Price Index). ARRA funds are included in state support for 2008–09, 2009–10, and 2010–11. State and UC general fund figures for 2011–12 are expected to decline as a result of enrollments that are higher than budgeted. Expenditures for 2010–11 are estimates. UC general fund includes nonresident supplemental tuition, a portion of indirect cost recovery revenue associated with federal contracts and grants, and other funds. Figures are net of institutional financial aid.

Unlike UC, CSU does not refer eligible students to other campuses, meaning that thousands of eligible students have been denied admission.

had fallen to \$11,971 per student (with 54% from the state and 46% from net tuition and fees).²⁵ These declines in revenue have required reductions in expenditures. For example, between fall 2008 and fall 2010, the total CSU workforce declined almost 10 percent (CSU 2012).

Cuts to community colleges have been less dramatic than those at UC or CSU. Per-student revenue from the state general fund fell about 18 percent between 2006 and 2010, from \$4,110 to \$3,370 per student. Because other sources of funds for the community colleges are limited and relatively small amounts, these general fund revenues are by far the most important determinant of trends and levels in community college expenditures per student.

As noted above, community colleges are already operating with relatively low contributions from the state and therefore have arguably less room for making further cuts. In addition, large shares, about 30 percent, of the state's community college students receive waivers that allow them to attend without paying any fees (LAO 2009). As we shall see below, community colleges have to rely on tools other than fee increases to compensate for state budget cuts.

Enrollment Reductions

In the face of decreasing state support, both UC and CSU have adopted policies and practices intentionally designed to reduce enrollment. Community colleges are required to admit any California resident with a high school diploma (or equivalent)—but they, too, have adopted policies that, in effect, reduce enrollment.

UC has reduced its campus enrollment targets, leading many campuses to become more selective. According to UC, these targets led to a decline in enrollment of 7 percent, or 2,600 students per year. More striking, perhaps, is the shift

in admission away from UC's most prestigious campuses. In 1994, half of students who applied to UC were admitted to either UC Berkeley or UCLA; in 2009, this dropped to 27 percent. Applicants who are UC-eligible but are not admitted to their campuses of choice are placed in a "referral pool" and admitted to a less-selective campus, even if they have not applied to it. In recent years, the size of the referral pool has grown dramatically, to over 10,000 students.

Students are much less likely to attend a college that is not their first choice. Indeed, our evaluation of UC yield rates—the number of accepted applicants who ultimately decide to attend a college—shows that these rates have not changed appreciably for individual campuses. Yield rates at UC Berkeley and UCLA are relatively high and exceeded 40 percent in 2009. In contrast, only 6 percent of students admitted to UC Merced actually enrolled there. In other words, students are increasingly being admitted to campuses they do not want to attend. Many students and their families might be willing to pay tuition of \$13,000 per year at Berkeley or UCLA but not at Merced.

CSU campuses have also adopted practices that limit enrollment. One practice is to designate a campus as "impacted," meaning that some students (generally those outside the local admission area) will face elevated eligibility criteria. For example, to gain admission to CSU Northridge, students who applied to the campus from outside the admission area (defined as parts of Los Angeles and Ventura Counties) had to have either a higher GPA (by 0.375 points) or a higher SAT score (by 300 points) than the CSU minimum eligibility requirements. For students applying as first-time freshmen for the 2012 fall semester, 16 of the 23 CSU campuses were impacted, including all of the system's largest campuses, up from only four impacted campuses in 2008–09.²⁶ Moreover, the number of students meeting the eligibility criteria but not offered admission at any CSU campus has grown from fewer than 4,000 applicants (out of 115,000 eligible applicants) in fall 2008 to almost 15,000 applicants (out of 124,000 eligible applicants) in 2010, and the number remained relatively high in fall 2011 (over 12,000 out of a total of 133,000).²⁷ Unlike UC, CSU does not refer eligible students to other campuses,

meaning that thousands of eligible students have been denied admission.²⁸

In contrast to the state's university systems, community colleges do not refuse any students because of their high school grades or course curriculum—therefore, they cannot cut admissions to reduce costs. Instead, community colleges have managed increasing demand and limited funding with a variety of strategies, including increasing class sizes, reducing programs and course offerings, and limiting the period in which students can apply to enroll for courses—all of which, in effect, ration enrollment.²⁹ One indicator of the extent of such rationing is the growing share of students who attend more than one community college: In 1992–93, 5.9 percent of community college students attended more than one college, and by 2009–10, 9.6 percent did so (Baron 2011).³⁰ Presumably, many of these students attend more than one college because they are not able to enroll in some desired courses at a single institution.

Enrollment Trends

Ultimately, the effects of budget cuts to public higher education in California are most problematic for California's future if they lead to less educational attainment in the state. Budget reductions for public higher education could affect potential students in a number of ways, from college preparation to enrollment decisions. In this section, we examine the demand for college and analyze enrollment trends.

Demand for College Is Growing

Californians are well aware of the budget problems facing our higher education institutions: 74 percent of respondents to a November 2010 PPIC Statewide Survey stated that the level of state funding was “not enough,” and 74 percent of parents agreed with the statement that “the price of a college education keeps students who are qualified and motivated to go to college from doing so” (Baldassare et al. 2010). However, even as Californians are concerned about rising college costs, they are also well aware of the advantages of college. In the November 2010 PPIC Statewide

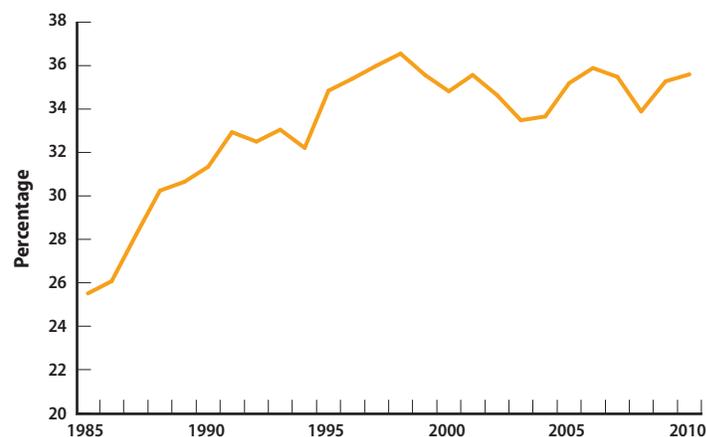
Survey, 70 percent of parents and 80 percent of Latinos agreed with the statement that “a college education is necessary for a person to be successful in today's work world” (Baldassare et al. 2010).

The most significant measure of the demand for college is the number of recent high school graduates. Most adults who attend college do so shortly after graduating from high school. Over the past 25 years, California has seen a rapid increase in the number of high school graduates, which reached an all-time high of 405,000 in 2010.³¹

Of course, not all high school graduates intend to pursue higher education. Thus, a more pointed measure of college demand is the number of high school graduates who have taken a college preparatory curriculum while in high school. In California, UC and CSU identify a set of courses for high school students, known as the “a–g” courses, which students must complete to be eligible for admission. The share of high school graduates who have completed the a–g course requirements increased sharply from the mid-1980s to the mid-1990s and has remained at historically high levels since then (Figure 6).³²

Other measures of college preparation show similar trends. For example, the share of high school graduates completing calculus, a college-level course, almost doubled between 1994 and 2005, reaching more than one in every

Figure 6. The percentage of students completing a–g requirements remains at high levels



SOURCE: Author's calculations based on CPEC online data system and California Department of Education (CDE) Dataquest (for 2008–10).

five high school graduates. California has also experienced sharp increases in the number of students taking and passing advanced placement exams and now has one of the highest rates of advanced placement credits earned in the United States.

Not only are high school graduates improving in their college readiness, they are increasingly likely to apply to and be eligible for UC and CSU, despite tuition increases. The share of California high school graduates eligible for and applying to UC increased from 12.4 percent in 1994 to 16.4 percent in 2009 (Figure 7). Similarly, the share of high school graduates who apply to CSU and meet CSU requirements increased from 19 percent in 1997–98 to 33 percent in 2008–09.

Clearly, over the long run, demand for public college has increased in California. It has increased as the number of high school graduates has grown rapidly and as greater shares of high school graduates are completing a college preparatory curriculum. Moreover, increasing shares of high school graduates are applying to, eligible for, and accepted at UC and CSU.

College Enrollment Rates Are Declining

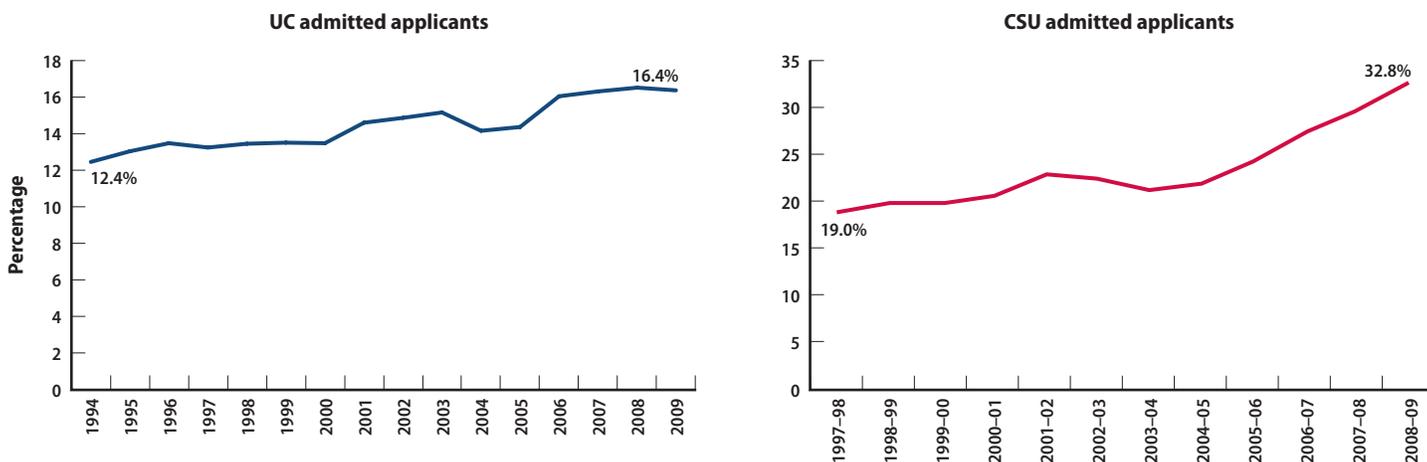
Is the increasing demand for higher education being realized? Are recent high school graduates in California more likely to enroll in college today than in the past?

The unfortunate answer is that the college enrollment rates of recent high school graduates have declined over the past five years. The share of California’s top high school graduates enrolling in either UC or CSU has declined from 68 percent in 2008 to 55 percent in 2010, and the share of *all* recent high school graduates enrolling in either UC or CSU has declined from 21.9 percent to 17.8 percent.

Specifically, the share of recent high school graduates enrolling at CSU has declined from about 13 percent to less than 10 percent, and at UC, the decline has been from almost 9 percent to just over 7. The share of a–g high school graduates who enroll at CSU and UC has declined even more, with 22 percent of the state’s most qualified high school graduates enrolling in UC in 2010 compared to 27 percent a few years ago; at CSU, the share has declined from 41 percent to 33 percent (Figure 8).

Had the enrollment rates of recent high school graduates remained at 2007 levels, then almost 20,000 additional students would have attended either UC or CSU in 2010 than actually did so: The total number of first-time freshmen would have been about 98,000 instead of the actual number of 79,000. At current completion rates, these enrollment declines translate into a loss of about 12,000 college graduates per year.³³

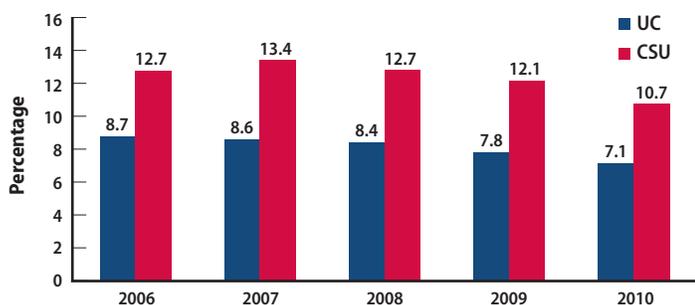
Figure 7. The share of high school graduates accepted to UC or CSU is growing



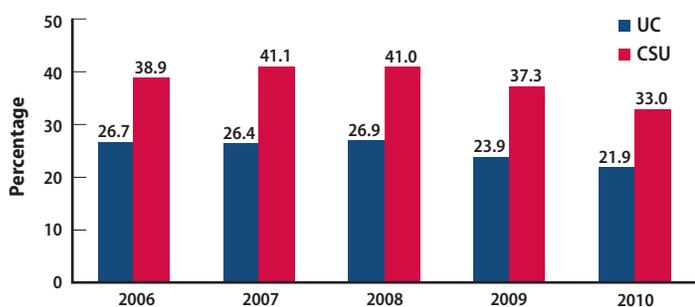
SOURCES: UCOP statfinder and CSU statistical abstract.
NOTE: All eligible applicants were admitted to UC except in 2004.

Figure 8. High school graduates are less likely to enroll at UC or CSU

Panel A. Share of all recent high school graduates enrolling at UC and CSU



Panel B. Share of recent a-g high school graduates enrolling at UC and CSU



SOURCE: Author's calculations based on CPEC data.

NOTES: Panel A includes both private and public high school graduates. Data on the number of private high school graduates are not available for 2010. We estimated the number of private high school graduates in 2010 by applying the 2009 ratio of private to public high school graduates to the 2010 number of public high school graduates. Less than 10 percent of high school graduates in California graduated from a private school.

The lower enrollment rates at UC and CSU are not the result of a decline in the share of applicants or a lessening of the academic qualifications of applicants. As we have seen, the share of high school graduates who meet UC and CSU requirements *and* who apply to those systems has increased slightly over the past five years. Instead, these recent declines in enrollment rates can be attributed both to direct actions taken by the universities to limit enrollment and to the indirect enrollment consequences of higher tuition. The enrollment rate declines coincide with sharp increases in tuition, suggesting that increased tuition has played a role.³⁴

Enrollment Trends for Underrepresented Groups

Because of the state's diverse population, a significant concern in California is how budget cuts in higher educa-

tion have affected students who are underrepresented in the state's higher education systems. At both UC and CSU, and among transfer students from the community colleges, Asians and whites are overrepresented (relative to their share of all high school graduates), and Latinos and African Americans are underrepresented. To a large extent, these differences reflect different rates of preparation for college; for example, in 2010, 60 percent of Asian high school graduates had completed the a-g curriculum, compared to less than 30 percent of Latino and African American high school graduates. But for every ethnic group in the state, we see notable increases in the number and share of high school graduates who have completed the a-g curriculum.³⁵

The enrollment rates of recent high school graduates to UC and CSU are declining for each of the state's four largest ethnic groups (see the table). The enrollment rates to community colleges appear to have increased slightly

Enrollment rates of recent high school graduates have dropped across racial and ethnic groups

	Latino	White	Asian	African American
Enrollment rates to UC (%)				
2006	4.4	7.6	26.5	4.2
2007	4.5	7.4	26.3	4.8
2008	4.6	7.4	24.8	5.2
2009	4.1	7.0	23.7	4.6
2010	4.0	6.3	23.1	4.3
Enrollment rates to CSU (%)				
2006	10.8	12.3	17.5	14.2
2007	11.4	12.8	18.5	14.9
2008	11.2	12.5	17.2	14.1
2009	11.1	11.6	14.9	11.0
2010	10.2	10.5	14.7	9.4
Enrollment rates to UC or CSU (%)				
2006	15.1	20.0	44.0	18.4
2007	15.9	20.3	44.8	19.7
2008	15.8	19.9	42.0	19.3
2009	15.3	18.6	38.6	15.7
2010	14.2	16.9	37.7	13.7

SOURCE: Author's analysis of CPEC and CDE data.

NOTES: Restricted to California public high school graduates. "Asian" includes Pacific Islanders.

overall but with a larger share of those students attending part-time rather than full-time.³⁶

Overall, the evidence suggests that despite improvements in college readiness, the university enrollment rates of recent high school graduates have declined for each of California's four largest ethnic groups (Latinos, whites, Asians, and African Americans). Declines are sharpest among African Americans and are the lowest among Latinos.³⁷ The relatively small decline in the likelihood that a Latino high school graduate attends either UC or CSU is notable, given the very large and growing number of Latino high school graduates in California.

Where Are Students Going?

From the perspective of the state and its future economic outlook, declines in the number of accepted applicants at UC and CSU who actually enroll would not be so problematic if students were choosing to pursue some other higher education opportunity. Many do, but overall the evidence suggests that some do not.

UC figures show that the primary destination of students who rejected their UC offer in 2010 was a private university (34%), followed by CSU (30%), a California community college (12%), and, finally, an out-of-state public college (8%). However, about one in ten did not appear to enroll in any college.³⁸ Over the past ten years, CSU has grown slightly as a destination, with no significant change in the other destinations. Among eligible applicants to CSU who were not accepted to their chosen campus, it appears that less than 10 percent did not appear to enroll in any college.³⁹

We see some evidence of increases in enrollment rates at community colleges. Our best estimate suggests that the enrollment rates of recent high school graduates have slightly increased (from 34.1% in 2006 to 35.4% in 2009).⁴⁰ But these very slight changes in community college enrollment rates do not make up for the declines in enrollment rates at UC and CSU. That is, even if the community college enrollment rates of recent high school graduates increased 1.3 percent, the enrollment rate decline of 4.2 percent at UC and CSU combined is much larger.⁴¹

We do not see any evidence that recent high school graduates in California are increasingly choosing private institutions in the state.⁴² Our best estimates indicate that the share of recent California high school graduates enrolling in private colleges in the state has remained at 3.5 percent for the past five years.⁴³

However, the number of recent high school graduates leaving California to attend four-year colleges in other states appears to have increased. By 2008, California was losing about 2,500 more students to other states than it was in 2006.⁴⁴ If this trend continued to 2010, the increase in the number of students leaving the state would have been about 5,000. Thus, it seems likely that a small but notable share of the enrollment rate declines observed at UC and CSU between 2007 and 2010 (which amounted to about 20,000 students) can be attributed to an increase in the number of students leaving the state.⁴⁵

The number of recent high school graduates leaving California to attend four-year colleges in other states appears to have increased.

When we consider enrollment decisions in terms of race and ethnicity, we find that whites, Asians, and African Americans are more likely than Latinos to choose out-of-state or private colleges. But even for those groups, only about 3 percent enroll in accredited private institutions.⁴⁶

In sum, California's recent high school graduates are less likely to find a place at UC or CSU than they were a few years ago. These declines coincide with actions taken to limit enrollment as well as with the most dramatic increases in tuition and fees in the history of those institutions—increases that were substantially higher than those of similar public universities in other states. Indeed, enrollment rates have risen in other states even as they have fallen in California. It appears that sizable numbers of high school graduates in California are increasingly less likely to enroll in any four-year college and that a small but notable share of

those who were eligible and even accepted into UC and CSU do not attend college anywhere.

Policy Implications

The benefits of higher education are at or near all-time highs, with wages for workers with a bachelor's degree approaching twice those of a worker with only a high school education. And California's high school students are making great gains in college readiness. This is important, because economic projections suggest that California will need increasing numbers of college graduates to meet the rising demand for highly educated workers.

However, despite these gains, California's high school graduates are now less likely to enroll in a four-year college than they were just a few years ago. As the state has reduced higher education budgets for UC and CSU, these institutions have dramatically increased tuition and fees and taken other measures that have led to a decline in enrollment rates. This decline represents a significant loss of human capital to California—one that the state can ill afford. Between 2007 and 2010, California lost almost 20,000 new students at UC and CSU. Moreover, the total number of students admitted but not enrolling at UC and CSU has risen by tens of thousands over the past ten years.

Discussions of the future of public higher education in California often start with an assumption that the fundamental relationship between the state and its universities has changed, with the state expected to be a less prominent—if not a slowly disappearing—partner. The specter of “privatization” of the state's public universities arises, especially with regard to UC. In the face of reduced state support, key questions emerge about how best to provide quality higher educational opportunities to the most students possible. The following recommendations offer some initial considerations.

Some have characterized the high cost of college as a short-term liquidity crisis. One response is to increase the availability and amount of loans. However, many students resist loans, as they are uncertain about future economic

prospects and worry about debt loads. One option is to offer a deferred tuition plan, in which students pay back their tuition after they graduate, with payments based on a share of their wages.⁴⁷ In this way, students have certainty that their future payments will be based on their ability to pay, offsetting some of the concern about future debt burdens. Uncertainty about the costs of college could also be resolved by guaranteeing a set, four-year tuition schedule for new students, as is done at some other colleges. Lowering the uncertainty about future costs would help students and their families make financial plans for higher education.

Another approach is to prioritize expenditures where they will create the greatest benefits.⁴⁸ Identifying and measuring those benefits is difficult, but one obvious place to start is with the state's Cal Grants program (which provides grants of about \$1 billion to low-income students in California). A complete review of student outcomes at all Cal Grant institutions, including completion, loan default, and indebtedness, should be conducted to ensure that funds are being spent efficiently and to evaluate which institutions should qualify for Cal Grants. CSAC, which administers the Cal Grant program, should determine whether it could better target aid to institutions that most effectively serve low-income and underrepresented students. In accordance with



HUMBOLDT STATE UNIVERSITY

California needs to find ways to provide quality higher educational opportunities to as many students as possible.

Senate Bill 70, CSAC has already prohibited some institutions with high student loan default rates from participating in the Cal Grants program. Redirecting Cal Grants to institutions with the best track records of serving students could improve outcomes without generating additional costs.

Along the same lines, the state should consider funding public colleges and universities on the basis of, at least partly, student outcomes. Currently, funding is determined by student enrollment. Providing funding based on course and degree or certificate completion in addition to student enrollment should lead to greater efficiencies and an increased emphasis on improving student outcomes.

Finally, community colleges serve a majority of the state's lower-division undergraduates and do so at a relatively low per-student cost. Policies and practices that improve outcomes for community college students could be especially cost-effective. The California Community College Student Success task force has issued 22 recommendations across eight broad areas that include these and other recommendations, all of which could help improve

student outcomes including completion of career technical certificates, associate degrees, and transfer.

These strategies may help ameliorate some of the difficulties faced by California's public higher education system. But they cannot completely overcome the hardship brought on by the combination of severe budget cuts and increased student demand. Persistent and continued cuts in state support for California's public colleges and universities and the commensurate increases in tuition and fees are not sustainable if the state is to meet future demands for a highly educated workforce. In light of enrollment declines at the state's public universities, policymakers should be especially wary of making further cuts. No one doubts that difficult fiscal decisions lie ahead, with unattractive tradeoffs. Setting state priorities and funding those priorities should be the first step in moving forward. The ultimate goal, of providing more opportunities to attend and complete college, is one that California has adopted in the past with great success. With planning and foresight, Californians today can achieve that same goal. ●

Acknowledgments

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Technical Appendices to this report are available on the PPIC website:
www.ppic.org/content/pubs/other/512HJR_appendix.pdf

Notes

¹ These projections are not based on job requirements as identified by the Bureau of Labor Statistics but instead rely on the practices of employers. See Reed (2008) for more detail. National projections are to 2018.

² According to current demographic and education trends, 8.1 million Californians will have bachelor's or graduate degrees by 2025. See Johnson (2010) for more detail.

³ See Johnson (2010) and Johnson and Sengupta (2009) for detailed analyses and discussions of how California could close the gap.

⁴ Community college fees have increased to \$36 per unit from \$26 per unit beginning with the 2011–12 academic year. Fees are currently scheduled to increase again to \$46 per unit beginning in the summer 2012 term.

⁵ In future work we will examine how budget cuts have affected completion and transfer from community colleges to four-year universities.

⁶ In 2001–02, general fund expenditures on higher education totaled \$13.3 billion, compared to \$11.7 billion in 2010–11. Unless otherwise noted, all dollar figures are adjusted for inflation. See Technical Appendix A.

⁷ In real dollars.

⁸ This threshold was crossed for the first time in 2004–05. In 2003–04, general fund expenditures were about equal between public universities and corrections. Rapid increases in corrections and rehabilitation budgets and declines in higher education mean that the state now spends about \$1.65 on corrections for every dollar it spends on UC and CSU combined (CPEC 2010).

⁹ See California Department of Corrections year-end data and CPEC (2010).

¹⁰ For example, the California Postsecondary Education Commission was eliminated from the state budget in 2011. The Legislative Analyst's Office (LAO) notes that the state currently has no statewide higher education coordinating body (Taylor 2012).

¹¹ For example, California is one of only a few states that require a two-thirds legislative majority to increase taxes.

¹² In practice, the Proposition 98 guarantee can be suspended or deferred.

¹³ Another \$1.1 billion was spent on the California Student Aid Commission (CSAC), whose primary expenditure is on higher education grants to students (Cal Grants). Compared to the early 2000s, community colleges received substantially more general fund allocations in 2010–11 (from less than \$3 billion per year to almost \$4 billion, not adjusted for inflation) whereas CSU received about the same amount (about \$2.5 billion) and UC received less (from about \$3.2 billion to just less than \$3.0 billion) according to CPEC (2010).

¹⁴ Based on full-time-equivalent undergraduate students as reported by CPEC (2010).

¹⁵ Indeed, despite recommendations by the LAO (2009), legislators have been reticent to increase fees paid by community college students.

¹⁶ These per-student funding differences partly reflect the different missions and levels of education of these institutions, which translate into different cost structures. UC serves as the state's major doctoral granting research university, CSU primarily provides undergraduate education along with some professional graduate programs, and community colleges offer lower division academic courses as well as nonacademic courses, including career technical education, basic skills, and enrichment classes.

¹⁷ A portion of the tuition increases were reserved for grants. A substantial share of UC and CSU students are from low- and moderate-income families, and are, therefore, eligible for grants.

¹⁸ Of course, UC and CSU must take into account any political—and potentially fiscal—reactions to tuition increases by the legislature and the governor.

¹⁹ In nominal dollars.

²⁰ Based on the author's analysis of data from the Integrated Postsecondary Education Data System (IPEDS). The comparison is restricted to large public research universities (enrollment of at least 10,000 students) with a Carnegie classification of "Master's colleges and universities (larger programs)." Nationally, 91 colleges meet these criteria, including 14 CSU campuses. The most recent year available for comparisons across the nation was 2010–11. See Technical Appendix B.

²¹ Based on system-wide tuition.

²² Based on the author's analysis of IPEDS data. The comparison is restricted to large public research universities (at least 10,000 students), with a Carnegie classification of "very high research activity." In 2010–11, 71 universities across the nation, including all the UC campuses except Merced, met this classification. Only seven of those universities—Pennsylvania State University (main campus), University of Pittsburgh, Rutgers University, University of Illinois, University of Minnesota (Twin Cities campus), University of Massachusetts Amherst, and University of Michigan—exceeded the UC average. Colleges with substantially lower tuition and fees include University of Virginia, University of Texas, University of Wisconsin, and University of Washington.

²³ UC developed a tentative plan that would have raised tuition above \$20,000 by 2015–16, depending on the level of state support (T. Chea, "UC Tuition Could Nearly Double Under Budget Plan," Associated Press, September 15, 2011). However, this plan was not sent to the regents and so is not currently being considered.

²⁴ Author's calculations based on IPEDS data for public two-year colleges. Data for comparison institutions were not available beyond 2010–11.

²⁵ In 2011 constant dollars, as reported by CSU (2012).

²⁶ The 16 impacted campuses enrolled 87 percent of all CSU first-time freshmen in 2010. The CSU Chancellor's Office provides details on impacted campuses and majors at www.calstate.edu/pa/News/2011/Release/fall2012.shtml. For details on impactation at CSU Northridge, see www.csun.edu/anr/impaction.html. Information on the number of impacted campuses in 2008–09 was provided by Marsha Hirano-Nakanishi of the CSU Chancellor's Office.

²⁷ The number of eligible but not admitted students is based on a special run of CSU admissions data from the Academic Research Office of the CSU Chancellor's Office.

²⁸ CSU is working to develop a process that will admit all eligible students to at least one CSU campus.

²⁹ According to the LAO (2011), community colleges report that "many students" are not able to enroll in classes they need; further research is necessary to gauge the extent of the restrictions and their effect on student enrollment and completion.

³⁰ The percentage reflects the share of community college students who are enrolled in more than one college at the same time.

³¹ Projections by the California Department of Finance suggest that the number of high school graduates will remain high but

decline slightly from the 2010 peak, falling gradually to 380,000 in 2017 before increasing again to 389,000 in 2021.

³² It is possible that the share of high school graduates completing the a–g requirements would have continued to increase were it not for the rapid increases in tuition that began around 2000.

³³ The estimate of first-time freshmen enrollment numbers refers to 2010 only. The number of graduates is based on six-year graduation rates at UC and CSU.

³⁴ Students and their families are not especially sensitive to increases in tuition, but higher costs do affect enrollment decisions. Recent research examining trends in enrollment and tuition at public higher education institutions across the nation suggests that a 10 percent increase in tuition and fees will lead to a decline in total enrollment of 1.1 percent and a decline in first-time freshmen enrollment of 1.6 percent (Hemelt and Marcotte 2008). That research also suggests that students are more sensitive to tuition increases than they are to increases in aid. In other words, the positive effects of increases in grants do not seem to fully offset the negative effects of increases in tuition. Moreover, selective public research universities, with their higher tuitions and with applicants who have other options, seem most vulnerable to enrollment declines. It is important to note that increases in applications can occur as high school graduating classes increase, as was the case in California up to 2010, and as the number of college applications per high school graduate increases. Our results are generally consistent with the elasticities observed in the literature. Specifically, we observe a 43 percent increase in tuition and fees at UC (50% in nominal terms) and a 17 percent decline in the enrollment rates of recent high school graduates between 2007 and 2010; at CSU, tuition and fees increased 46 percent (53% in nominal terms), whereas enrollment rates declined 20 percent. These implied elasticities are higher than those identified by Hemelt and Marcotte (2008) but are similar to the higher elasticities in some previous research. The decline in enrollment rates at UC and CSU reflects student responses to more than just the price increases. A real or perceived reduction in quality, including larger class sizes and reduced student services, as well as administrative actions taken by the universities—such as redirecting more students to less preferred campuses—would also have affected enrollment.

³⁵ See Technical Appendix D for a–g course data.

³⁶ See Technical Appendix E for a discussion of community college enrollment rates.

³⁷ The data show that relatively few California high school graduates opt for out-of-state and private colleges. Whites, Asians, and African Americans are more likely to do so than Latinos, but only about 3 percent enroll in accredited private institutions. (These assumptions are based on our analysis of data from CPEC and CDE. Enrollment rates are restricted to California public high school graduates and include only schools accredited by the Western Association of Schools and Colleges [WASC].)

³⁸ The unadjusted estimate is 16 percent, but this is probably overstated because of the difficulty of matching students. Assuming a match rate of 95 percent, a more plausible figure would be about 11 percent of admitted applicants not enrolling in any U.S. college. These University of California Office of the President estimates are based on National Clearinghouse data on individuals enrolling in college in the United States.

³⁹ Based on data provided by Marsha Hirano-Nakanishi of the CSU Chancellor's Office. If we assume a 95 percent match rate, then the estimate would be only 5 percent.

⁴⁰ According to CPEC data, the share of California high school graduates (ages 19 and under) enrolling in community colleges declined from 30.6 percent in 2006 to 28.3 percent in 2010. However, enrollment data are missing for quite a few colleges. Our best estimate adjusts for missing data by linearly interpolating between known enrollment values.

⁴¹ The 4.2 percent decline in enrollment rates is calculated as the difference between the 22 percent share of recent high school graduates enrolling in UC or CSU in 2007 and the 18 percent share in 2010.

⁴² California's selective private universities have not appreciably enlarged their freshmen classes despite high numbers of applications.

⁴³ Based on our adjustments of CPEC data. Unadjusted data show even fewer high school graduates choosing private colleges and a downward trend. We adjusted the data for missing values. For institutions with missing values for enrollment of recent high school graduates, we interpolated between known values. Analyses were conducted using both CPEC and IPEDS data, and trends were similar between the two data sources.

⁴⁴ Data on student migration are available only every other year.

⁴⁵ It is not possible to determine what share of these students had been admitted at UC or CSU.

⁴⁶ Based on our analysis of CPEC and CDE data. Enrollment rates are restricted to California public high school graduates and include WASC accredited institutions only.

⁴⁷ One recent proposal by UC Riverside students would require no upfront tuition; instead, students would agree to pay the university 5 percent of their income for 20 years after graduation.

⁴⁸ In California, identifying costs and benefits is especially difficult because of the lack of an integrated longitudinal student data system linking student records from K-12 to college. Ideally, such a data system would include employment and wage data as well as student records.

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Hans Johnson is a Bren policy fellow at PPIC. His work focuses on the dynamics of population change in California and policy implications of the state’s changing demography, with a focus on higher education. At PPIC, he has conducted research on education projections and workforce skills, population projections, international and domestic migration, and housing. Before joining PPIC, he was senior demographer at the California Research Bureau, where he conducted research on population issues for the state legislature and the governor’s office. He has also worked as a demographer at the California Department of Finance, specializing in population projections. He holds a Ph.D. in demography from the University of California, Berkeley.

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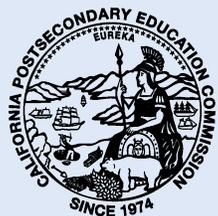
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CPEC

College Costs and Family Income: The Affordability Issue at UC and CSU

California Postsecondary Education Commission
www.cpec.ca.gov

Report 11-02 • March 2011 • by Jessika Jones

Rising costs are putting an education at California's public universities out of reach for many Californians. Eroding state funding for higher education has meant that more costs are passed on to students and their families in the form of increased fees. Room and board and other costs have grown much faster than inflation. Incomes have not kept pace with these rising costs, particularly for lower- and middle- income families who have seen little income growth in recent years.

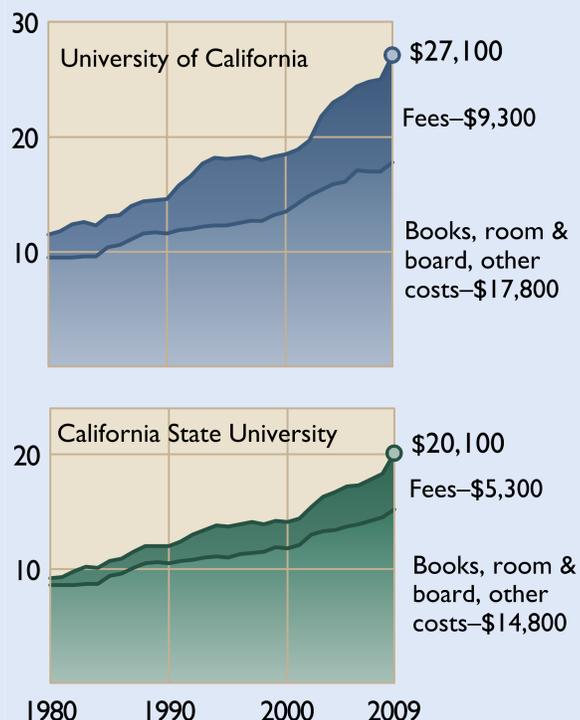
- In 2009, the total cost of attendance for a student living on campus at the University of California was \$27,100, up by 18% from three years earlier. Costs at California State University increased by 23%, to \$20,100, in this period.
- Even with grants and fee waivers, the net cost of a year at a UC or CSU campus is one-third of annual income for a lower-income family. Net costs for middle-income families are about one-quarter of annual income.
- Grants have increased in recent years, but not enough to offset rising costs. Net costs for a middle-income student living on campus at UC grew by 10% between 2006 and 2009. At CSU, net costs for a similar student grew by 20%.
- Costs for students living with their families are lower, but have risen sharply as fees have increased. In 2009, net costs for a CSU commuter student from a lower-middle-income family were \$8,200, 15% of annual income.
- These increases come after many years of rising costs. Between 1990 and 2009, costs for a UC student living on campus rose by 70%. Costs for a CSU student living with their family rose by over 80%. In this period, California median family income grew by only 16%.

Affordability of higher education was a problem even before the state's current budget crisis. But with recent budget cuts, the situation is worsening. Students and their families are taking on higher debt, and costs may deter students from attending college. An ongoing trend of declining affordability will compromise the state's ability to maintain the educated and innovative workforce needed for California's future.

Costs at UC and CSU

Costs have grown significantly, even when adjusted for inflation. Fees have increased sharply in the last 5–10 years.

Annual costs for students living on campus
Thousand \$



Costs adjusted to constant 2009 dollars using the U.S. Consumer Price Index.

Rising Costs at UC and CSU

Costs at UC and CSU have grown significantly over the past decade. In 2000, the total cost of a year of education at UC was \$15,000. By 2009, this figure had nearly doubled to \$27,000. Costs at CSU are lower, but still increased by nearly 70% in this period. These increases far outpace inflation, which was 25% from 2000 to 2009.

A major driver of the rising cost of education is increased fees. Since the 1980s, a continuous erosion of state funding has shifted higher education from a public service heavily subsidized by the state to an expense largely shouldered by students and families. In the 1970s, the State General Fund provided \$12 for every dollar that students paid in fees. By 2009, this had fallen to \$1.40 for every dollar in student fees. With limited state funding, the university systems have had to raise fees. In the 2010–11 school year, fees reached \$11,300 at UC and \$5,300 at CSU, up 50% from only three years earlier.

Although fees have risen substantially, living costs while attending a university are the largest part of costs. These account for two-thirds of costs for a student living on campus and half of costs for students living with their families. These costs have not risen as much as fees, but have still increased much faster than inflation.

On-campus room and board at UC increased by 68% between 2000 and 2009, and by 51% at CSU. The total cost of attendance including books and other living expenses increased by 70–80% between 2000 and 2009. These rising costs are a hardship even for students who live in their family home; high college costs can restrict low- and middle-income students who want to attend a university that is not in their region, but cannot afford to move out of the family home.

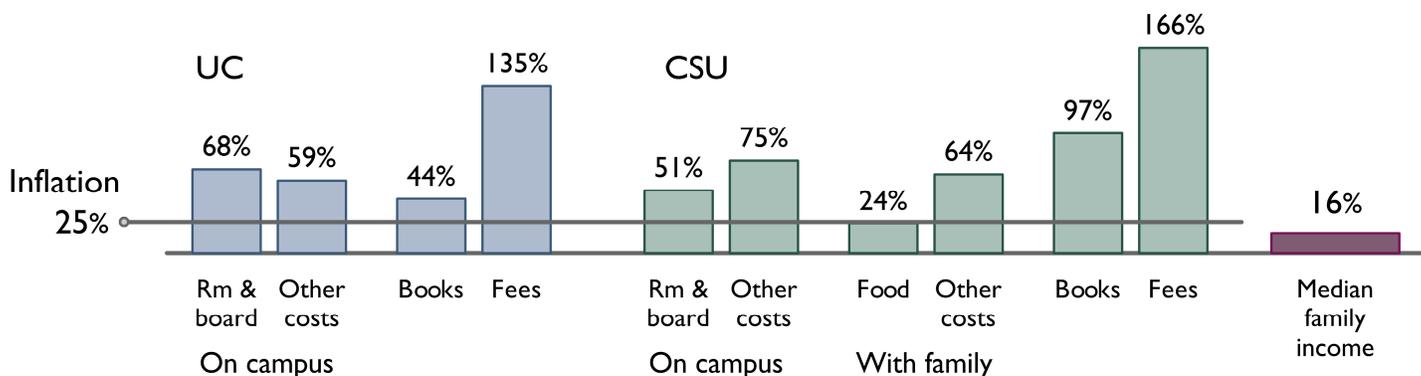
Recent fee increases

	UC		CSU	
	Fees	Increase	Fees	Increase
2000	\$3,970	–	\$1,840	–
2006	6,850	73%	3,200	74%
2007	7,520	10%	3,500	10%
2008	8,030	7%	3,850	9%
2009	9,310	16%	4,890	27%
2010	11,280	21%	5,290	8%
Increase 2000–2010		185%		188%

Annual fees for full-time in-state undergraduate students. More data on costs and fees is on page 7.

Costs for students have risen much faster than inflation

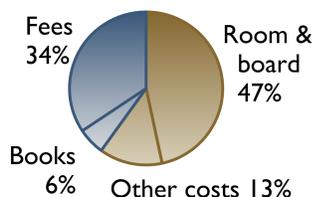
Percent increase in costs, 2000–2009. California median family income increased by only 16% in these years — less than university costs or general inflation.



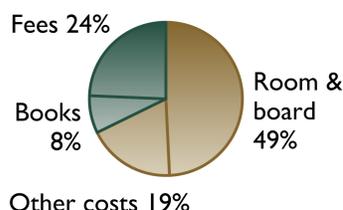
Other costs include clothing, laundry, transportation, entertainment, and miscellaneous expenses.

Costs at UC and CSU, 2009

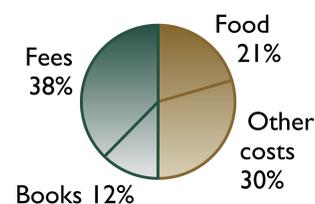
UC student living on campus
Total costs — \$27,120



CSU student living on campus
Total costs — \$20,100



CSU student living with family
Total costs — \$12,980



Costs and Incomes

Rising costs are only part of the affordability problem for low-income and middle-income families. Since the early 1990s, earnings for middle- and low-wage workers have stagnated, even as incomes for top earners have continued to grow. Between 1990 and 2001, incomes grew, beating inflation, but family incomes at the lower-middle levels saw income growth only half that of upper-income families. Since 2001 incomes at the lower and middle levels have fallen behind inflation. Middle- and lower-middle-income families saw their incomes fall 2–3% between 2001 and 2009 when adjusted for inflation and low-income families saw an income drop of 6.5%.

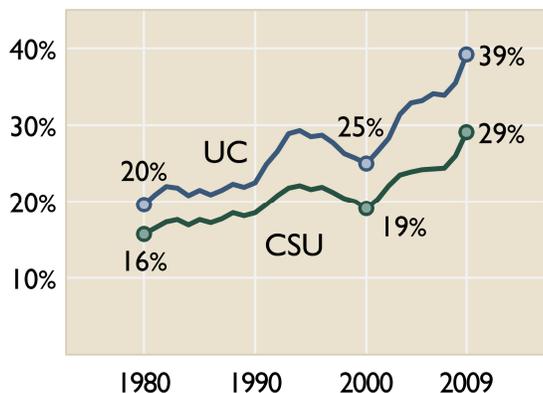
With rising costs, and flat or falling incomes, supporting a student is taking an increasing percentage of incomes. In 2000, the cost of attendance for a UC student living on campus was 25% of California median family income. In 2009, this had grown to 39% of median family income. Costs at CSU also grew relative to incomes, going from 19% of median family income in 2000 to 29% of median family income in 2009.

Income level	Some occupations paying at this level	Change in income after inflation	
		1990–2001	2001–2009
Low income Annual income about \$31,000 <i>20% of families have incomes below this level</i>	Receptionists, preschool teachers, office machine operators, ticket agents, medical assistants, cafeteria cooks	Up 14%	Down 6.5%
Lower-middle income Annual income about \$55,000 <i>40% of families have incomes below this level</i>	Social workers, legal secretaries, bricklayers, food service managers, police dispatchers, plumbers, tax preparers	Up 16%	Down 2.9%
Middle income Annual income about \$84,000 <i>60% of families have incomes below this level.</i>	Police officers, registered nurses, computer network administrators, medical lab technicians, urban planners, court reporters	Up 25%	Down 2.2%
Upper-middle income Annual income about \$130,000 <i>80% of families have incomes below this level</i>	Pharmacists, college instructors, airline pilots, veterinarians, software engineers, public relations managers	Up 34%	No change
High income Annual income about \$230,000 <i>Only 5% of families have incomes above this level</i>	Physicians, surgeons, top executives, athletes, entertainers	Up 48%	Up 1.5%

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Costs at UC and CSU have grown faster than incomes in the past three decades

Total cost of attendance for a student living on campus as a percent of California median family income



Grants and Net Costs

Many students receive grants that lower the net cost of attendance. These include the federal Pell grant, Cal Grants, fee waivers, and university grants. For a student from a low-income family, this aid can cover nearly 70% of costs at UC and 50% of costs at CSU.

Fortunately, in recent years as fee increases and living costs have increased, so have grant awards. Since 2006, grant aid at UC has increased by 50–60% for students from middle-income families and by 29% for students from low-income families. At CSU, grants increased by 70–80% for middle-income students and 40% for low-income students. Students from families earning under \$55,000 can expect to receive an annual grant of \$12,000–\$17,000 while attending UC, and \$5,000–\$9,000 while attending CSU.

Nevertheless, costs are still a high percentage of income for middle- and lower-income students. At UC, the net cost for a student from a family earning under \$55,000 is about \$15,000, or 27% of annual income. For low-income students, grants cover about 60% of the cost of attendance, but the net cost was still 34% of income for on-campus students in 2009. At CSU, the net cost for lower-income families is about 37% of income, up from 32% in 2006. It now costs a low-income family 18 weeks of earnings to support a student at UC. At the middle level, net costs take 10–14 weeks of earnings. Simply put, paying for a university education is a financial hardship for most working families.

Net costs for students

Income level	Average grant	Net cost	Percent of income
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UC student on campus

Low income	2006	12,900	10,000	32%
	2009	16,600	10,500	34%
Lower middle	2006	8,500	14,400	27%
	2009	12,200	14,900	27%
Middle income	2006	3,500	19,400	24%
	2009	5,900	21,200	25%
Upper middle	2006	1,600	21,300	17%
	2009	2,900	24,200	19%

CSU student on campus

Low income	2006	6,300	10,000	32%
	2009	8,800	11,300	37%
Lower middle	2006	2,700	13,600	25%
	2009	4,800	15,300	28%
Middle income	2006	800	15,500	19%
	2009	1,500	18,600	22%
Upper middle	2006	400	15,900	13%
	2009	700	19,400	15%

CSU student living with family

Low income	2006	6,300	4,300	14%
	2009	8,800	4,200	14%
Lower middle	2006	2,700	7,900	15%
	2009	4,800	8,200	15%
Middle income	2006	800	9,800	12%
	2009	1,500	11,500	14%
Upper middle	2006	400	10,200	8%
	2009	700	12,300	10%

Figures in actual dollar amount. See page 7 for sources of these estimates.

Effect on Students

Rising costs raise issues of access and student success. Students must make tough decisions that may include not leaving home to attend a university out of their area, taking on extra employment, or incurring high levels of debt. Many low-income families are not accustomed to borrowing. Latino and Southeast Asian families tend to be more debt averse than other ethnic groups. Students may be intimidated by the amount needed to borrow for an education and conclude that college is not within reach.

Once a student decides to enroll, increased costs can hinder their progress toward a degree. With unexpected annual increases of hundreds of dollars, some students will find that they are unable to cover their costs. They may cut their class load to work more hours, leave for semesters at a time, or drop out of school entirely. Previous generations of students could cover much of their college expenses with a summer job. Today, a 12-week summer job will only cover about 40% of costs, even for a student living with their family.

The inability to cover costs with savings or part-time or summer employment forces students to take out loans. California students incur less debt than students in many other states. Nonetheless, the Project on Student Debt reports that average debt accumulation for California students at public universities has risen by 18% since 2005. Loan repayment is often manageable for graduates with good jobs, but students who drop out without completing a degree may do so with significant debt and may have difficulty paying back loans.

Implications

The trend of rising costs should be of concern for all Californians, regardless of whether they have current or future students in the home. The state's 1960 Master Plan for Higher Education called for making a college education accessible and affordable to every qualified California high school graduate. But public higher education is no longer affordable in the way it was in the 1960s and 1970s. This problem has no easy solution. In the past five years, the country has suffered an economic recession that has deepened the state budget crisis, frozen or cut incomes of working families, and left California with a 12% unemployment rate. All the while, college costs continue to rise.

Attacking the affordability issue can occur on a couple of different fronts. Restoring General Fund allocations and making higher education a priority in the state budget is imperative to keeping costs to students down. The proposed 2011–12 budget calls for deeper cuts to higher education including \$500 million each to UC and CSU. The state must also avoid cuts to the Cal Grant system, and evaluate the need to increase grants for low and middle-income families. The notion that a student must borrow — sometimes in the tens of thousands of dollars — to finance an education is now widely accepted, but how far can this trend go? Policymakers and the higher education community must determine what is an acceptable amount of debt for students to incur in pursuit of a degree.

Weeks of a family's income needed to support a student at UC or CSU

	At UC	At CSU
Low-income families	18 weeks 34% of income	19 weeks 37% of income
Middle-income families	13 weeks 25% of income	12 weeks 22% of income
Upper middle families	10 weeks 19% of income	8 weeks 15% of income

Total cost of attendance for a student living on campus, less grants, as a percent of annual income

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California faces many problems right now with K-12 education, infrastructure, health and social services, and many other needs competing for state funding. Budget prioritization is not easy. But higher education is an investment in our future. Not only does investing in higher education generate increased future income tax revenue, it also creates a citizenry of innovators and problem solvers. The innovation and creativity that is trademark of California industry is due in part to accessibility to affordable learning opportunities. A renewed commitment to the students of today is paramount to ensuring the state’s social and economic well-being.

Can students work their way through college?

In the past, many students financed their education with part-time or summer jobs. However, wages in low-skilled jobs have not kept up with inflation. Today seasonal or part-time work in construction, retail, or food service does not pay enough to make much of a dent in college costs.

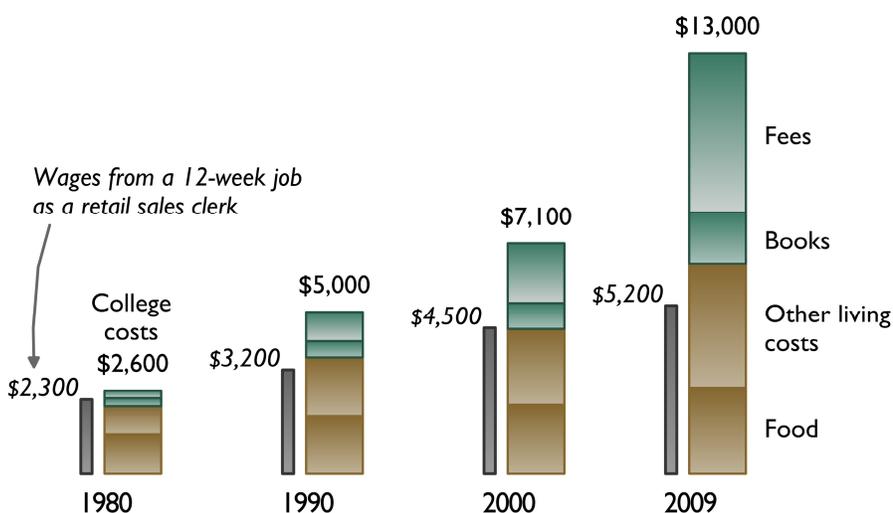
In 1980, the average wage for retail workers was \$4.90 an hour. By working 12 weeks over the summer at 40 hours a week a student could earn \$2,300, over half of the cost of attending UC as residential student for a year and nearly all of the cost of attending CSU as a commuter student.

College costs have grown much faster than wages. In 2009, the average wage for retail salespeople was \$10.90 an hour. A student working 12 weeks over the summer would earn \$5,200, only enough to pay 20% of the current cost of a year at UC, and 40% of the cost of attending CSU as a commuter student.

Students who need to support themselves with jobs to pay for their education and living expenses now have to work many more hours during the school year and the summer. This level of work is likely to interfere with their studies and stretch out the time they need to complete their degrees.

College costs and earnings from a summer job

Annual costs for a CSU commuter student compared with wages from a 12-week summer job



In 1980, a 12-week job as a retail sales clerk would pay most of what was needed to pay a commuter student’s costs for a year. In 2009, a similar job would pay only 40% of a year’s costs.



California Postsecondary Education Commission

Community Colleges: Still an Affordable Route to a Degree?

Commission Report 08-14 • September 2008 • www.cpec.ca.gov

This white paper continues the Commission's examination of how rising college costs are affecting California families. An earlier paper looked at the costs for students living on campus at the University of California and the California State University. Rising costs for UC and CSU have been particularly hard on middle- and lower-income families whose incomes have not kept up with inflation in the last 20 to 30 years.

This paper looks at costs for students who live with their parents and commute to a nearby community college. Costs for these students have grown over the last few decades, but more moderately than costs for students at residential university campuses.

Findings

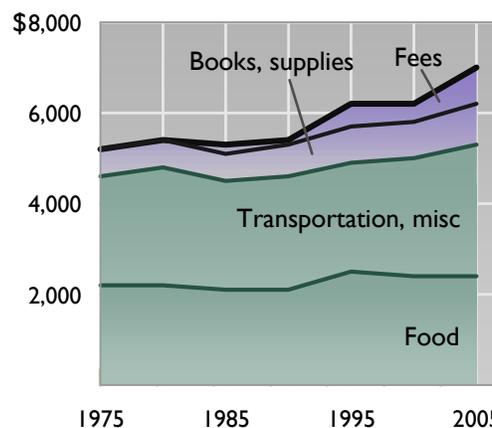
Costs are still relatively low, but a community college education is no longer easily affordable in the way that it was in the past. In the 1970s, a commuter student who worked full-time during the summer or part-time during the school year could easily cover their expenses. With stagnating wages for low-skill jobs, students can no longer pay their way with part-time work. Today, even community college commuter students must seek financial aid and turn to their parents for support.

For many students community colleges are still an affordable route to a degree. Most students in California live within easy reach of one of the state's 110 community college campuses. Students who take their lower-division work at a community college and transfer to a four-year university as a junior can complete their education without building up the debt that plagues so many four-year college students today. An efficient transfer system is an important way of broadening access to public universities. Living costs are a major driver of the cost of a community college education, so it is important that students get the counseling and guidance they need to complete their studies in a timely manner.

- For middle-income families the percentage of income needed to support a commuter student is about the same as in the 1970s and 1980s. For low-income families, costs have increased as a percentage of their incomes.
- In 1975, a 12-week summer job in retail would pay well over what was needed to cover a year's expenses for a commuter student. In 2005, a similar job would only cover two-thirds of these costs.
- Living costs are by far the most significant part of the cost of a community college education. Tuition is only 11% of the total, and is less than the cost of books and supplies.

Costs for Commuter Students Constant 2005 dollars

A commuter student's costs at a community college for a year were about \$7,000 in 2005. This is an increase of 13% from 10 years earlier when adjusted for inflation.



Annual costs for students at community colleges living with their parents. These students have expenses for food, transportation, miscellaneous items, books, and tuition, but not for rent.

Costs for Community College Students

The cost of a community college education remained fairly stable until the early 1990s, with costs increasing at about the same rate as general inflation. Throughout the 1970s and 1980s, the cost of supporting a community college student living with his or her parents was about \$5,000 when measured in 2005 inflation-adjusted dollars.

College costs began to increase in the mid-1990s. In part, this was driven by fee increases, but other costs began to increase faster than inflation then. For example, the costs of miscellaneous items went up by 24% between 1995 and 2005 when measured in constant inflation-adjusted dollars. Although tuition has increased nearly eight-fold since the community colleges started charging fees in 1984, tuition is still a small part of the total cost of attendance. In 1985, tuition and books accounted for 15% of the total cost of attendance. In 2005, tuition and books combined were still less than a quarter of total costs.

Costs increased sharply between 2000 and 2005. Overall, the price tag in 2005 for supporting a commuter student for a year at a community college was \$7,000.

A key component to maintaining affordability is a student's ability to live rent-free in a parent's home. Costs of students who live independently from their family are strikingly different, with housing costs roughly doubling the total cost of attendance.

Cost Burden by Family Income

The recent increases in costs affect various segments of the population differently. The cost of a year at community colleges has remained at about 10% of annual income for middle-income families and has actually fallen as a percentage of income for families in the top income brackets. Wage stagnation for families in the low-income groups has meant that supporting a student at a local community college has gone from about 23% of annual income to 27% of annual income in 2005. Some of these costs are offset by grants or fee waivers, but with rising living costs, financing a community college education is becoming increasingly difficult.

In some cases, a student may not have all of these costs. For example, a student living modestly, riding a bike, or using a public transit pass provided by their college, would not have transportation costs. Also, some families might be willing to continue to support a student in the same way as they did when the student was in high school — these families might not view food as an additional cost. If transportation and food costs are eliminated, the minimum annual cost of a community college education drops to \$3,600. Nonetheless, this is still a significant burden for many families, equating to seven weeks of income for a low-income family.

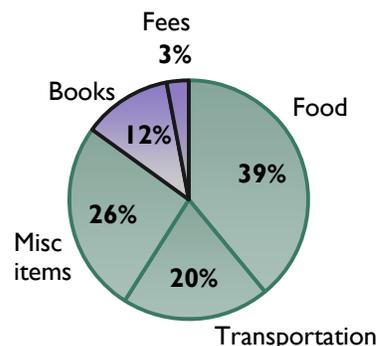
Costs for Students at UC and CSU

Costs for students living on-campus at CSU and UC are in *Who Can Afford it? How Rising Costs are Making College Unaffordable for Working Families*, published in June 2008 and available at www.cpec.ca.gov.

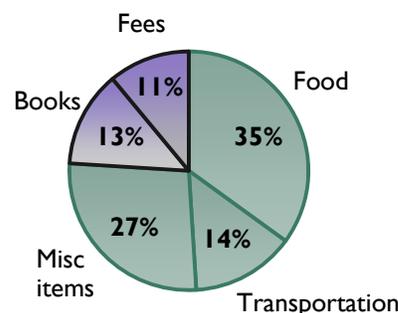
Costs for Commuter Students at Community Colleges

1985 — Total \$3,100

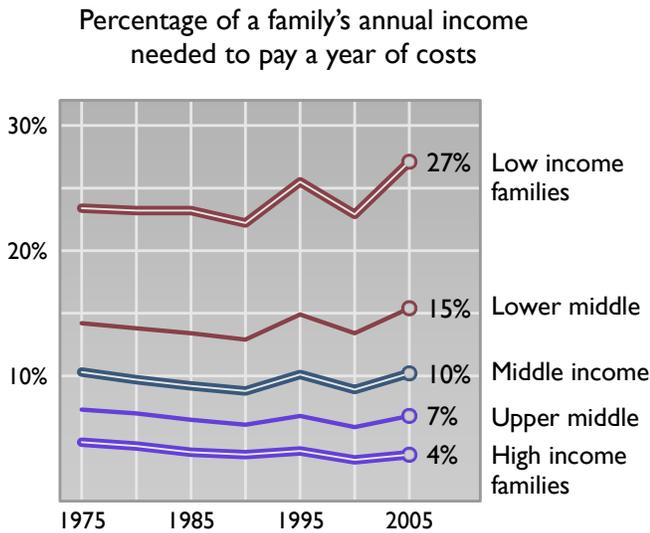
Equivalent to \$5,300 in 2005 dollars



2005 — Total \$7,000



Costs for Commuter Students Compared with Family Incomes



Number of weeks of income needed to pay a year of costs

	Low-income families	Middle-income families
Commuter students		
1975	12 weeks	5 weeks
2005	14 weeks	5 weeks
Students with minimum costs		
1975	5 weeks	2 weeks
2005	7 weeks	3 weeks

Costs for commuter students include expenses for food, transportation, miscellaneous items, books, and tuition, but not for rent. Costs for students with minimum costs exclude transportation and food.

Income group		Sample of occupations paying at this level
Low income	Annual income about \$25,000 <i>20% of families have incomes below this level</i>	Delivery drivers, receptionists, preschool teachers, hospital cooks, office machine operators, ticket agents, bank tellers, medical assistants, farm foremen, electronic assemblers, machine minders
Lower-middle income	Annual income about \$43,000 <i>40% of families have incomes below this level</i>	Bricklayers, food service managers, legal secretaries, police dispatchers, plumbers, production foremen, air conditioning repairmen, vocational nurses, motel managers, news reporters
Middle income	Annual income about \$66,000 <i>60% of families have incomes below this level</i>	Police officers, medical lab technicians, computer network administrators, registered nurses, budget analysts, real estate appraisers
Upper-middle income	Annual income about \$103,000 <i>80% of families have incomes below this level</i>	Pharmacists, personnel managers, marketing managers, research and computer scientists
High income	Annual income about \$185,000 <i>Only 5% of families have incomes above this level</i>	Physicians, top executives

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Grant Awards

Estimating the way that financial aid affects the cost burden for community college students, by factoring in grants and tuition waivers is a tricky endeavor due to data inconsistency and caveats that must be applied to any analysis. Although the California Community Colleges System Office collects and maintains some student financial data, its staff advise researchers to use data from the U.S. Department of Education, National Center for Education Statistics. This includes data from the National Postsecondary Student Aid Study (NPSAS).

The NPSAS data can be used to give a general indication of grant levels but the data are not broken down in a way that allows an estimate of grants received by full-time commuter students in particular income brackets. When confining the NPSAS data parameters to California two-year public institutions, the sample size becomes too small to place great reliability on the outcome.

The NPSAS figures give a general indication of grant levels for students at the lower end of the income scale. These students receive approximately \$2,900 annually, mostly in federal grants. It is estimated that 13% of students at the lower income levels do not receive any grant money. These award amounts are significant in relation to the cost of attendance at community colleges and, for the students that receive them, alleviate a substantial burden for students in the lowest income percentiles.

More comprehensive information on grants would be beneficial to state policymakers in developing an understanding of a student's financial situation and the degree to which costs are offset by grant funds. As resources become available, it would be useful for the California Community Colleges System Office to collect more data on the sources of financial aid used by community college students.

Implications for California

Community colleges, due to low fees, remain an affordable higher education option for working families, when compared not only to four-year universities but also to two-year institutions across the country. But the low cost of a community college education rests heavily on the student's ability to live at home and have housing costs and other living expenses absorbed by their family. The cost burden will vary according to the financial contributions expected of students by their parents. In addition, the option of taking lower-division work at a local community college may not be available to students who live in remote areas or in towns that are too small for a community college center that can offer a full range of lower-division courses.

Can community college students work their way through college?

In the 1960s and 1970s, it was easy for commuter students to finance their education with part-time jobs. Seasonal or part-time work in construction, retail, or food service paid well enough to cover living and educational expenses for these students.

In 1975, the average wage for retail salespeople was \$4.75 an hour. By working 12 weeks over the summer at 40 hours a week, a student could earn \$2,300, well over the \$1,600 needed to pay the costs of food, transportation, books, and other items for a year.

Wages for low-skill jobs have not kept up with college costs. In 2005, the average wage for retail salespeople was \$8.75 an hour. The 12-week summer job would pay \$4,200, enough to pay only 60% of the \$7,000 needed to pay for a year at community college.

Community college students with part-time jobs are in a better position to offset their costs than students living on campus at 4-year universities, where a job makes a smaller dent in college costs. But commuter students can no longer pay as they go. Rising costs mean that today even community college students living with their parents must turn to their families for support, seek financial aid, and carefully weigh the costs of loans against the value that they may get from a college education.

Although students living with a parent do not have housing costs they still have other living costs, so it is important that they do not prolong their studies, possibly building debt. It is critical that community colleges have the resources to give students the guidance they need to plan their studies and to make courses available so that students can complete their studies in a timely manner.

As costs at four-year institutions increase at a sharper rate, and debt levels upon graduation become increasingly daunting, families across all income levels are more likely to turn to community colleges for their postsecondary education needs. In addition, the weak economy and increasing unemployment will spur many workers to seek training for new occupations. The increased benefits available to veterans from the 21st Century GI Bill will encourage veterans and their family members to attend college.

That said, it is evident that many community colleges are at capacity and require construction of new facilities and updating of current facilities to accommodate enrollment growth. In the current budget crisis there are many demands for state funding and voters may be reluctant to approve bond measures for new community college facilities. Nonetheless, the community college system should maintain affordability, should continue to grow to accommodate enrollment demand, and should be provided with the resources needed to accomplish these tasks.

Sources of data

Student fees. Data from Commission report *Fiscal Profiles*. Includes total fees for California community colleges from 1975 to present.

Food, books, supplies, transportation, miscellaneous. Data for years after 1984 from the College Board. Costs for earlier years were estimated from 1984 costs using the change in the appropriate component in the Consumer Price Index from the U.S. Bureau of Labor Statistics.

Income and Wages. Family incomes by percentile from the U.S. Census. Wages by occupation from the U.S. Bureau of Labor Statistics.

Grants. Median federal, state, and institutional grant award amounts from the National Postsecondary Student Aid Study. Figures for California public, two-year institutions.

California Postsecondary Education Commission

Student Costs Compared to Family Incomes

Year	Family income	Commuter Student			Student with minimum costs		
		Total cost	Percent income	Weeks of income	Total cost	Percent income	Weeks of income
Low-income families – 20th percentile							
1975	\$6,987	\$1,636	23%	12	\$629	9%	5
1980	\$10,400	\$2,416	23%	12	\$897	9%	5
1985	\$13,285	\$3,083	23%	12	\$1,271	10%	5
1990	\$16,846	\$3,736	22%	12	\$1,571	9%	5
1995	\$19,070	\$4,880	26%	13	\$2,215	12%	6
2000	\$24,000	\$5,476	23%	12	\$2,518	11%	6
2005	\$25,616	\$6,961	27%	14	\$3,570	14%	7
Lower-middle-income – 40th percentile							
1975	\$11,505	\$1,636	14%	7	\$629	5%	3
1980	\$17,510	\$2,416	14%	7	\$897	5%	3
1985	\$22,886	\$3,083	13%	7	\$1,271	6%	3
1990	\$29,044	\$3,736	13%	7	\$1,571	5%	3
1995	\$32,985	\$4,880	15%	8	\$2,215	7%	4
2000	\$40,840	\$5,476	13%	7	\$2,518	6%	3
2005	\$45,021	\$6,961	15%	8	\$3,570	8%	4
Middle-income families – 60th percentile							
1975	\$16,000	\$1,636	10%	5	\$629	4%	2
1980	\$24,800	\$2,416	10%	5	\$897	4%	2
1985	\$33,152	\$3,083	9%	5	\$1,271	4%	2
1990	\$42,040	\$3,736	9%	5	\$1,571	4%	2
1995	\$48,985	\$4,880	10%	5	\$2,215	5%	2
2000	\$61,325	\$5,476	9%	5	\$2,518	4%	2
2005	\$68,304	\$6,961	10%	5	\$3,570	5%	3
Upper-middle-income families – 80th percentile							
1975	\$22,153	\$1,636	7%	4	\$629	3%	2
1980	\$34,800	\$2,416	7%	4	\$897	3%	1
1985	\$48,229	\$3,083	7%	3	\$1,271	3%	1
1990	\$61,490	\$3,736	6%	3	\$1,571	3%	1
1995	\$72,260	\$4,880	7%	4	\$2,215	3%	2
2000	\$91,374	\$5,476	6%	3	\$2,518	3%	1
2005	\$103,100	\$6,961	7%	4	\$3,570	4%	2
High Income Families – 95th percentile							
1975	\$34,700	\$1,636	5%	2	\$629	2%	1
1980	\$55,000	\$2,416	4%	2	\$897	2%	1
1985	\$78,965	\$3,083	4%	2	\$1,271	2%	1
1990	\$102,358	\$3,736	4%	2	\$1,571	2%	1
1995	\$123,656	\$4,880	4%	2	\$2,215	2%	1
2000	\$160,120	\$5,476	3%	2	\$2,518	2%	1
2005	\$184,500	\$6,961	4%	2	\$3,570	2%	1

Income groups are based on percentile of income as reported by the U.S. Bureau of the Census.

Sources of data

Student fees. Data from CPEC report *Fiscal Profiles, 2010*.

Campus housing. Data from the Integrated Postsecondary Education Data System, U.S. Department of Education.

Books and other costs. Data after 1984 from the College Board. Costs for earlier years were estimated from 1984 costs using the change in the appropriate component in the Consumer Price Index from the U.S. Bureau of Labor Statistics.

Income and wages. Family incomes by percentile from the U.S. Census. California figures estimated by CPEC from state wage data from the U.S. Bureau of Economic Analysis. Wages by occupation from the U.S. Bureau of Labor Statistics.

Grant Awards. Grant awards by income derived from grant-income estimates provided by UC Office of the President and the CSU Chancellor's Office.



California Postsecondary Education Commission

Community Colleges: Still an Affordable Route to a Degree?

Commission Report 08-14 • September 2008 • www.cpec.ca.gov

This white paper continues the Commission's examination of how rising college costs are affecting California families. An earlier paper looked at the costs for students living on campus at the University of California and the California State University. Rising costs for UC and CSU have been particularly hard on middle- and lower-income families whose incomes have not kept up with inflation in the last 20 to 30 years.

This paper looks at costs for students who live with their parents and commute to a nearby community college. Costs for these students have grown over the last few decades, but more moderately than costs for students at residential university campuses.

Findings

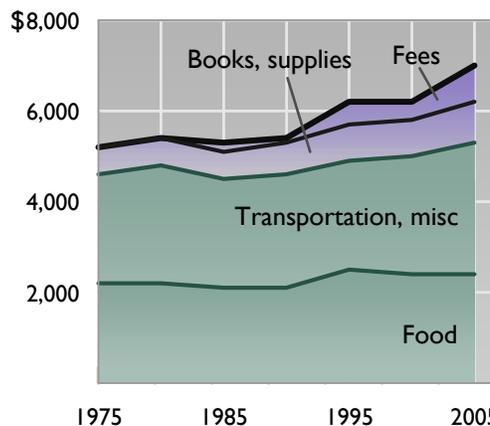
Costs are still relatively low, but a community college education is no longer easily affordable in the way that it was in the past. In the 1970s, a commuter student who worked full-time during the summer or part-time during the school year could easily cover their expenses. With stagnating wages for low-skill jobs, students can no longer pay their way with part-time work. Today, even community college commuter students must seek financial aid and turn to their parents for support.

For many students community colleges are still an affordable route to a degree. Most students in California live within easy reach of one of the state's 110 community college campuses. Students who take their lower-division work at a community college and transfer to a four-year university as a junior can complete their education without building up the debt that plagues so many four-year college students today. An efficient transfer system is an important way of broadening access to public universities. Living costs are a major driver of the cost of a community college education, so it is important that students get the counseling and guidance they need to complete their studies in a timely manner.

- For middle-income families the percentage of income needed to support a commuter student is about the same as in the 1970s and 1980s. For low-income families, costs have increased as a percentage of their incomes.
- In 1975, a 12-week summer job in retail would pay well over what was needed to cover a year's expenses for a commuter student. In 2005, a similar job would only cover two-thirds of these costs.
- Living costs are by far the most significant part of the cost of a community college education. Tuition is only 11% of the total, and is less than the cost of books and supplies.

Costs for Commuter Students Constant 2005 dollars

A commuter student's costs at a community college for a year were about \$7,000 in 2005. This is an increase of 13% from 10 years earlier when adjusted for inflation.



Annual costs for students at community colleges living with their parents. These students have expenses for food, transportation, miscellaneous items, books, and tuition, but not for rent.

Costs for Community College Students

The cost of a community college education remained fairly stable until the early 1990s, with costs increasing at about the same rate as general inflation. Throughout the 1970s and 1980s, the cost of supporting a community college student living with his or her parents was about \$5,000 when measured in 2005 inflation-adjusted dollars.

College costs began to increase in the mid-1990s. In part, this was driven by fee increases, but other costs began to increase faster than inflation then. For example, the costs of miscellaneous items went up by 24% between 1995 and 2005 when measured in constant inflation-adjusted dollars. Although tuition has increased nearly eight-fold since the community colleges started charging fees in 1984, tuition is still a small part of the total cost of attendance. In 1985, tuition and books accounted for 15% of the total cost of attendance. In 2005, tuition and books combined were still less than a quarter of total costs.

Costs increased sharply between 2000 and 2005. Overall, the price tag in 2005 for supporting a commuter student for a year at a community college was \$7,000.

A key component to maintaining affordability is a student's ability to live rent-free in a parent's home. Costs of students who live independently from their family are strikingly different, with housing costs roughly doubling the total cost of attendance.

Cost Burden by Family Income

The recent increases in costs affect various segments of the population differently. The cost of a year at community colleges has remained at about 10% of annual income for middle-income families and has actually fallen as a percentage of income for families in the top income brackets. Wage stagnation for families in the low-income groups has meant that supporting a student at a local community college has gone from about 23% of annual income to 27% of annual income in 2005. Some of these costs are offset by grants or fee waivers, but with rising living costs, financing a community college education is becoming increasingly difficult.

In some cases, a student may not have all of these costs. For example, a student living modestly, riding a bike, or using a public transit pass provided by their college, would not have transportation costs. Also, some families might be willing to continue to support a student in the same way as they did when the student was in high school — these families might not view food as an additional cost. If transportation and food costs are eliminated, the minimum annual cost of a community college education drops to \$3,600. Nonetheless, this is still a significant burden for many families, equating to seven weeks of income for a low-income family.

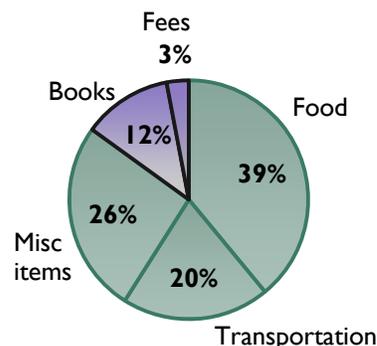
Costs for Students at UC and CSU

Costs for students living on-campus at CSU and UC are in *Who Can Afford it? How Rising Costs are Making College Unaffordable for Working Families*, published in June 2008 and available at www.cpec.ca.gov.

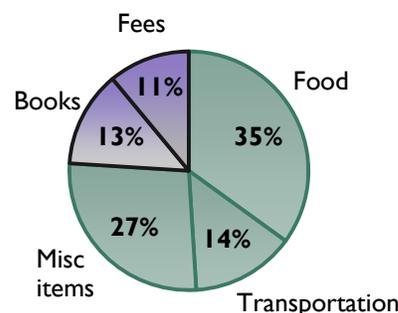
Costs for Commuter Students at Community Colleges

1985 — Total \$3,100

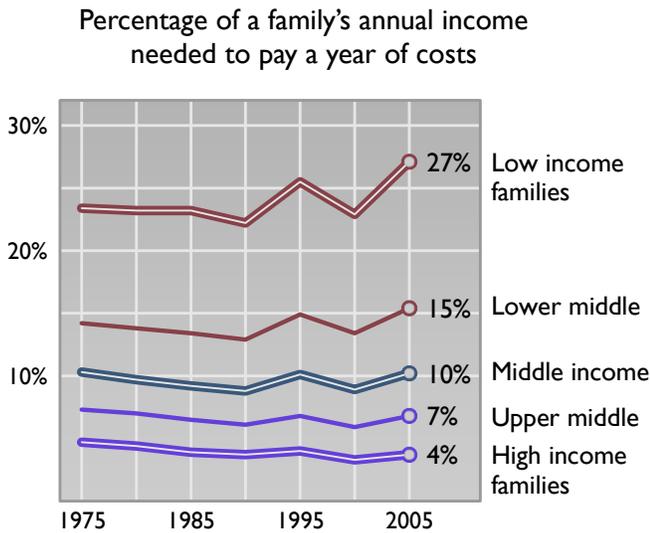
Equivalent to \$5,300 in 2005 dollars



2005 — Total \$7,000



Costs for Commuter Students Compared with Family Incomes



Number of weeks of income needed to pay a year of costs

	Low-income families	Middle-income families
Commuter students		
1975	12 weeks	5 weeks
2005	14 weeks	5 weeks
Students with minimum costs		
1975	5 weeks	2 weeks
2005	7 weeks	3 weeks

Costs for commuter students include expenses for food, transportation, miscellaneous items, books, and tuition, but not for rent. Costs for students with minimum costs exclude transportation and food.

Income group		Sample of occupations paying at this level
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California Postsecondary Education Commission

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Upper-middle-income families – 80th percentile							
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2005	\$103,100	\$6,961	7%	4	\$3,570	4%	2
High Income Families – 95th percentile							
1975	\$34,700	\$1,636	5%	2	\$629	2%	1
1980	\$55,000	\$2,416	4%	2	\$897	2%	1
1985	\$78,965	\$3,083	4%	2	\$1,271	2%	1
1990	\$102,358	\$3,736	4%	2	\$1,571	2%	1
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Income groups are based on percentile of income as reported by the U.S. Bureau of the Census.