

COLLISION COURSE:

Rising college costs threaten America's future and require shared solutions

By Robert C. Dickeson

CONTEXT AND PURPOSE

One of the most critical issues affecting higher education access today is the rising cost of going to college. Symptoms of the trend include dramatic increases in tuition and fees, reduced state higher education budgets, declines in the purchasing power of student grant aid, increasing student debt burdens and heightened demand for institutional accountability.

Tuition increases pose a serious problem, particularly for families whose incomes cannot keep pace. Significant increases in government and institutional financial aid have mitigated the cost hikes for some students. However, left unchecked, the real and perceived cost spiral can have serious consequences. It can limit access and lifetime opportunity for aspiring college students, particularly low-income students, thereby threatening America's future in the global, knowledge-based economy.

Dialogue about the issue has become counterproductive. Harsh proposals and counterproposals and arguments about who's to blame add to the divisive nature of this topic.

To raise the dialogue to a more constructive level, Lumina Foundation for Education proposes an initiative to improve discourse and find shared solutions. It turns out that practical, low-cost solutions to this problem exist and are available for shared implementation. Additional creative solutions are sure to be found when people come together for the common good.

Rising college costs cannot be reversed by a single act or in a few days. The problem took years to unfold and operates at the confluence of multiple forces that will take time, energy and will to untangle. Tackling and surmounting this complex issue will require efforts undertaken by many parties working in a common direction.

Access to higher education is so critical to our nation's future that it justifies a more creative application of *what we know* to *what we do*. This policy brief proposes to be a first step in that process. It provides essential background, and then identifies potential strategies that stakeholder groups might consider in addressing the issue. These strategies are neither comprehensive nor sacred. Rather, they are intended as a point of departure for elevated discourse on this issue.



BACKGROUND

American higher education is confronting a series of significant issues created by the multiple impacts of four forces. It is as if these forces have intensified and been set on a collision course that is driving up college costs, thus threatening America's future. These forces affect all American colleges and universities, to varying degrees:

I. INCREASED DEMAND

- Higher education increasingly is seen as the means to achieve economic, social and political goals for more people.
- The number of American high school graduates will increase annually for most of the next decade. The ages and racial, ethnic and economic makeup of these students will be markedly different, as will the distribution of these graduates among the states, thus placing new demands on the system.
- Increased demand drives up costs, as more campuses compete for better students, and more students want to major in costlier programs.
- Many students and families are willing to sacrifice financially and even take on significant debt to afford the increasing price of postsecondary education.

II. DIMINISHED CAPACITY

- Several states are experiencing shortages of spaces for incoming students, while other states have excess capacity.
- To rectify the problem, some states are adjusting admission standards, standards that are not necessarily related to readiness for college or to eventual success in college.
- Some institutions enroll students who are unlikely to succeed without extra support services, but these services are often cut in hard times.

III. ECONOMIC AND FISCAL PROBLEMS

- States play a critical role in funding higher education. At the same time, most states face long-term budget shortfalls. Virtually all states cut higher education appropriations in the most recent fiscal year.
- Many states and institutions are passing along steep cost increases in tuition and fees to students and their parents, thus evoking negative public opinion.
- At the state level, the fiscal woes are structural, not cyclical, and will not go away without treating the underlying causes.
- At both state and federal levels, financial support for higher education programs is seen as less important or urgent than other budget priorities (defense at the federal level, Medicaid at the state level, for example).

IV. DEMANDS FOR ACCOUNTABILITY

- In a time of scarce resources, and at the urging of concerned constituents, state and federal officials are increasingly demanding justification for the higher costs of higher education.
- Long regarded as the world's best system of postsecondary education, America's vaunted position is being challenged by institutions in other countries.
- Calls for accountability are not just about numbers; they focus on institutional purposes and high-quality outcomes of postsecondary education, normally the sole province of accrediting agencies.

Lumina Foundation believes that the collision of these four forces offers a challenging opportunity for all stakeholders of American postsecondary education. Solutions to these issues require an understanding of four basic points:

- No single party bears responsibility for the solution.
- No simple solution will suffice.
- Solutions based on evidence and experience offer greater promise for success.
- Solutions that are cost-effective are more likely to secure approval in tight fiscal times.

Higher education increasingly is seen as the means to achieve economic, social and political goals.

The solutions that surface must emerge from and be implemented by six major constituencies: colleges and universities, the 50 state governments, the federal government, students and families, secondary schools and the private sector.

Accordingly, we encourage the six major constituencies to consider the following strategies:

WHAT CAN COLLEGES AND UNIVERSITIES DO?

1. Colleges and universities that show themselves to be models of efficiency can improve their credibility with the public and with policy-makers. Other institutions can follow that lead, working assiduously to cut costs while maintaining quality. Several institutional best practices are available, including joint purchasing arrangements, outsourcing of non-mission-critical functions, streamlining of processes, facility sharing and program delivery arrangements with nearby institutions.
2. The most likely source of funds for institutions will come from reallocating existing resources from lower to higher priorities. This approach requires a systematic, rigorous and academically responsible prioritization process. Hundreds of colleges and universities have undertaken such a process with significant results.
3. Many institutions – public as well as private – are stepping up efforts to increase revenues from fund raising, auxiliary enterprise income, and other non-student sources. Institutions can further reduce the load that tuition must carry to achieve institutional revenue goals.
4. National bond-rating services have advised institutions to watch out for cash flow “warning signs,” including serious debt service and liquidity problems due to tuition discounting. Institutional governing boards and management would do well to heed these signs as a part of fiscal self-evaluation.
5. Independent institutions – and, to a lesser extent, public institutions – can work with peer institutions to reduce the potentially harmful effect of tuition discounting.
6. States and institutions can limit tuition increases to reflect justifiable growth in direct educational expenses. They can resist increases that merely offset governmental cuts or that fund programs that are not student oriented.
7. Institutions can expand communication efforts to tell their constituents about efforts to improve the institutions’ accountability and measure their performance outcomes. Making cost, price and accreditation information more transparent can achieve greater credibility.

TEN CRITERIA TO MEASURE ACADEMIC AND NON-ACADEMIC PROGRAMS AT COLLEGES AND UNIVERSITIES

1. History, development and expectations of the program
2. External demand for the program
3. Internal demand for the program
4. Quality of program inputs and processes
5. Quality of program outcomes
6. Size, scope and productivity of the program
7. Revenue and other resources generated by the program
8. Costs and other expenses
9. Impact, justification and overall essentiality of the program
10. Opportunity analysis of the program

Source: Robert C. Dickeson, *Prioritizing Academic Programs and Services: Reallocating Resources to Achieve Strategic Balance*. San Francisco: Jossey-Bass Publishers, 1999.

The most likely source of funds for institutions will come from reallocating existing resources.

Solutions that surface must emerge from and be implemented by six major constituencies.

8. To save on college costs, a growing number of baccalaureate-bound students are starting out at community colleges with the intention of transferring. Two-year and four-year institutions can guarantee transfer-of-credit for college-level work and can take other steps – such as eliminating transfer caps – to facilitate smooth transfers.
9. A significant national problem occurs when students drop out of college with high debt levels and have no certificate or degree to enhance earning power with which to repay the debt. Colleges and universities can make a commitment to the students they admit by fostering retention efforts that support increased student success.

PINPOINTING THE LEAKS IN THE NATION'S HIGHER EDUCATION PIPELINE

Why is the college cost issue of concern? Because it is one key factor in determining student access to and success in postsecondary education. As this chart shows, the higher education pipeline, though increasing in student volume, suffers leaks along the way. These leaks represent lost opportunities for students and society.

Of 100 ninth-graders in this state, how many...	Graduate from high school on time?	Directly enter college?	Are still enrolled their sophomore year?	Graduate within six years?	Percent of population 25-44 with bachelor's degree or higher, 2000	Of 100 ninth-graders in this state, how many...	Graduate from high school on time?	Directly enter college?	Are still enrolled their sophomore year?	Graduate within six years?	Percent of population 25-44 with bachelor's degree or higher, 2000
Massachusetts	75	52	41	28	38.8	Maryland	73	40	30	18	33.8
Iowa	83	54	37	28	25.0	Ohio	70	39	28	17	24.2
Pennsylvania	75	46	36	27	26.7	California	69	33	22	17	26.7
New Hampshire	74	44	34	27	30.1	Montana	78	42	28	17	25.5
Rhode Island	70	46	37	26	28.5	Utah	84	32	21	16	25.8
Connecticut	77	48	37	26	34.9	Washington	71	32	22	16	28.5
Minnesota	84	53	38	25	31.7	West Virginia	75	39	27	15	16.6
New Jersey	86	55	40	24	34.1	Oregon	67	34	23	15	25.8
North Dakota	84	58	42	24	26.4	Florida	55	32	23	14	23.5
Maine	77	42	31	23	23.5	Arizona	59	30	18	14	23.4
Nebraska	84	50	38	22	27.6	South Carolina	51	34	23	14	21.8
Wisconsin	78	45	33	22	25.4	Idaho	77	34	23	14	22.0
South Dakota	74	47	31	22	24.8	Tennessee	55	34	23	14	22.1
Kansas	74	50	32	22	28.9	Alabama	59	34	23	13	21.3
Vermont	79	36	28	21	29.9	Kentucky	66	39	25	13	19.4
Indiana	68	41	30	21	22.1	Hawaii	64	38	22	13	27.3
Virginia	74	39	30	20	32.1	Mississippi	56	36	23	13	17.8
Delaware	61	36	28	19	27.7	Arkansas	74	39	26	12	18.2
Illinois	71	43	29	19	30.1	Louisiana	56	33	22	12	19.8
Missouri	73	39	27	18	25.0	Oklahoma	73	36	23	12	21.3
New York	59	37	28	18	31.0	Georgia	52	32	21	12	26.9
Colorado	71	37	26	18	34.1	New Mexico	60	36	22	11	21.2
Wyoming	75	39	NA	18	21.6	Texas	62	32	19	11	24.0
Michigan	69	40	28	18	24.2	Nevada	69	28	19	11	17.6
North Carolina	59	38	28	18	25.4	Alaska	62	28	NA	6	22.2
						United States	67	38	26	18	26.7

Note: This information was originally published in the May 2003 issue of NCHEMS News and is used by permission from the National Center for Higher Education Management Systems. The issue is available online at: <http://www.nchems.org/News-May 2003/NCHEMS News May 2003.pdf>

WHAT CAN STATE GOVERNMENTS DO?

10. States play a critical, historical role in supporting higher education. Most of the fiscal problems of the states are structural, not cyclical. Funding higher education – an important continuing role of state government – will require conscientious efforts, leadership and political courage to tackle this dilemma.
11. We have not made enough progress in admitting college-ready students from lower-income groups to postsecondary education in the past 30 years. States should consider the various alternatives available to establish or expand need-based grant aid programs. Such investments in the future seem prudent for a state concerned about long-term reductions in the costs of welfare, Medicaid and corrections, as the public benefits of higher education attainment are both economic and social. Tuition-setting policies that are more stable and predictable would benefit institutions, students and families, and the states themselves.
12. Statewide planning for higher education is often given short shrift. To avoid unnecessary duplication and pinpoint resources on state needs, higher education planning can be matched with tough decisions to fund institutions according to limited, focused missions. States could also integrate workforce-development plans with postsecondary resources to better serve adult learners.
13. States can provide budgetary incentives to colleges (private as well as public) to *graduate* students on a timely basis, not just *admit* them. Rewarding institutions for student persistence and attainment would go a long way toward reducing costs – by focusing on success and access – as well as achieving state goals for higher education. Such approaches should take into account the significant differences among institutions' missions, student constituencies served, admissions requirements and graduation expectations data.
14. Colleges and universities offer great promise, both for economic development and quality-of-life purposes that are consistent with state aims. However, as resources get tighter, some public officials engage in unfortunate rhetoric and heightened animosity toward public higher education institutions. Some institutional leaders respond in kind. Both sides can embrace a more civil, statesmanlike relationship.
15. Research shows that significant higher education access decisions are made in isolation at the state level. States can integrate what are now separate fiscal policy, financial aid and tuition-setting functions under their authority.

WHAT CAN THE FEDERAL GOVERNMENT DO?

16. The keystone of the student financial aid system is the Pell Grant. More good can accrue to more deserving students to accomplish more educational ends through the Pell program. Congress can focus national resources on improving the purchasing power of the Pell award.

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THE MAXIMUM PELL GRANT: WHAT DOES IT BUY?

Proportion of average price of tuition, fees and on-campus room and board

1979-80	Institutional type	2002-03
99%	Public two-year institution	68%
77%	Public four-year institution	41%
36%	Private four-year not-for-profit institution	16%

Source: Adapted from Jacqueline E. King, "2003 Status Report on the Pell Grant Program," Washington: American Council on Education, October 2003.

17. Costly rules, regulations and procedures to maintain the federal financial aid regulatory system have proliferated over the decades, with questionable results. Undertaking true regulatory reform can free up resources that could go directly to deserving students.
18. Policy-makers can consider eliminating the FAFSA (Free Application for Federal Student Aid) to save hundreds of millions of dollars. Changing laws to permit the use of IRS data to assess qualification for financial aid can simplify processes, save significant dollars and remove bureaucratic barriers to postsecondary access.
19. The LEAP Program (Leveraging Education Assistance Partnerships) can be expanded, including private-sector matches from organizations such as Scholarship America and community foundations. This public-private approach could leverage scarce resources to benefit more students.
20. Antitrust regulations can be eased to permit colleges and universities to work together to eliminate undue price competition and reduce unwise tuition-discounting practices. Ironically, rules against price fixing actually may have contributed to price increases.
21. Federal tax restrictions against colleges' and universities' "unrelated income" can be eased when such income is used to reduce student tuition and fee levels. This change can help institutions become more entrepreneurial to offset over-reliance on tuition revenue.
22. Financial policies based on national averages are inherently inequitable because they ignore the significant disparities among the 50 states. State fiscal capacity and tax effort in support of higher education can be taken into account – and in some cases, rewarded – to redress fiscal inequalities that affect student cost.

Undertaking true regulatory reform can free up resources that could go directly to deserving students.

Antitrust regulations can be eased to permit colleges and universities to work together.

WHAT CAN STUDENTS AND FAMILIES DO?

23. Preparing for college requires academic planning and effort, and the earlier the start, the better. To enhance the chances of success in college, a student should take rigorous courses in high school. The rigor of the student's high school courses counts more for eventual bachelor's degree completion than either test scores or class rank/academic grade point average.

THE NEW RULES OF THE GAME

Since the playing field has drastically changed in the worlds of education and labor markets, new "rules of the game" have arisen. Students and educators should know these rules, but they probably do not because many high school effects cannot be easily seen. The new rules of college and the labor market can be summarized succinctly:

- All students can attend college, but low-achieving students should be warned about remedial courses and their own likely prospects.
- All students can plan to get a college degree; but, if they are unprepared, they must be willing to repeat high school courses in college, spending the extra time and effort in non-credit remedial courses, with higher risks of failure.
- Even if students have college plans, they must still prepare for work. All career plans should include multiple options, particularly for students who have poor likelihood of completing college.
- College plans *require* increased school effort. If students delay their effort until they get to college, the delay will make degree completion take longer and be less likely.
- Policies to improve college preparation do not remove the need to provide information about students' prospects or to provide other options.

Source: James E. Rosenbaum, author of *Beyond High School for Everyone*. Unpublished paper presented at the Aspen Institute, 2003.

24. Parents typically overestimate college prices and underestimate the amount of financial aid that will be available to their children when they go to college. Starting as early as the eighth grade, parents can take a look at “early estimators” or other pre-qualification guides to assess the likelihood of available aid and actual out-of-pocket costs.

“PRICE” VS. “COST”

Higher education is fundamentally different from the world of commerce.

For almost every other sector of the American economy, price equals cost plus (it’s hoped) profit. For colleges and universities, price equals cost minus subsidy.

“**Price**” represents the tuition and fees institutions charge. “**Cost**” is what colleges and universities spend to provide education. “**Subsidy**” is the difference between the cost to the institution and the tuition and fees charged to students.

All college students, whether they attend a public or private institution, receive this subsidy and pay a price that is often significantly less than cost. This general subsidy does not include the additional subsidy many students receive through scholarships and other forms of financial aid.

For most American families, the most meaningful distinction is not cost vs. price but net price – what students pay after financial aid is subtracted from the total price of attendance. With almost three in four undergraduates receiving some type of financial aid, getting a clear picture about net price and net price increases is the crux of determining college affordability.

William E. Troutt
The Washington Times (November 7, 2003)

Troutt is president of Rhodes College and immediate past chairman of the American Council on Education. He served as chairman of the Congressional Commission on the Cost of Higher Education.

25. Students can consider every opportunity for enrolling in Advanced Placement, International Baccalaureate, College Level Examination Program, accredited distance learning and dual-enrollment programs. Such approaches can materially reduce the time and cost of securing a college education.
26. Parents who can – and who qualify for tax benefits – should invest early in their children’s educational planning through tax-preferred programs, such as the state 529 plans and the Coverdell Education Savings Accounts, and supplement these plans with other savings. When borrowing for college expenses, parents can take full advantage of federally subsidized or tax-advantaged loans and PLUS loans rather than resorting to expensive private loans and unwise credit card debt. Parents also can seek expert advice on the impact that savings plans may have on financial aid need analysis.

WHAT CAN SECONDARY SCHOOLS DO?

27. Secondary schools can recognize that an increasing proportion of their students are college-bound and make corresponding adjustments in curriculum offerings. The rigor of the high school curriculum is a major factor in assuring college success. Note: Students with risk factors (coming from a low-income family, attending a high school in which 25 percent or more of the students were eligible for free or reduced-price lunches, or having no parent who has gone beyond high school) are as likely as other students to remain enrolled in a four-year institution after three years if they completed at least the New Basics curriculum in high school (four years of English and three years each of mathematics, science and social sciences).

Parents typically overestimate college prices and underestimate the amount of financial aid that will be available.

The rigor of the high school curriculum is a major factor in assuring college success.

28. Secondary schools can be open to offering Advanced Placement, International Baccalaureate, and dual-enrollment programs in cooperation with local colleges and universities. Such programs help secondary students get a jump-start on college and reduce out-of-pocket costs for college credits. These programs also help secondary teachers beef up the secondary curriculum, a benefit for all high school students.
29. College preparation and bridge programs can enhance and supplement a school's regular activities to assist students in their plans to attend college. The need for such programs is especially acute for low-income and minority youth who might not otherwise be able to attend college. Exemplary programs can reach out to more parents to help them understand the importance of curriculum, college planning, and how to support their children's educational aims.

WHAT CAN THE PRIVATE SECTOR DO?

30. Individuals, corporations and foundations can expand private support for higher education institutions, particularly those institutions that are willing to take on the challenge of educating promising low-income students. Building endowment – and using it wisely – is the only long-term solution to reducing college dependence on tuition as a revenue source.
31. As part of cafeteria-style benefits plans, employers can consider funding tuition-reimbursement programs for employees and matching employee contributions to state-based 529 plans for college savings.
32. Communities can establish and support “Dollars for Scholars” chapters, community foundations or other community-based efforts to coordinate fund raising for needed scholarships for postsecondary education.
33. Nonprofit organizations – or business/school partnerships – can help get accurate information about college-going to citizens. Such groups can also support high-school-to-college bridge programs and reinforce policy-makers' efforts to champion college access and affordability.

CONCLUSION

As this list of potential strategies demonstrates, the college cost issue has many facets and requires shared solutions. These strategies are offered as potential points of consideration to stimulate further discussion. In calling for a new national discussion on this critical subject, Lumina Foundation invites all stakeholders to react to this paper, share thoughts on viable solutions, and join in cooperative responses. Lumina Foundation pledges to support these efforts through research, convenings, communication and partnerships that pursue reasoned solutions.

We encourage this pursuit of civil dialogue and responsible solutions to the college cost issue because so much is at stake. Continued access to higher education builds a stronger America, economically and socially. It creates brighter futures for millions of American students and gives hope of a better life for low-income families. That's the promise on which this nation is built.

Lumina Foundation for Education, a private, independent foundation, strives to help people achieve their potential by expanding access and success in education beyond high school. Through research, grants for innovative programs and communication initiatives, Lumina Foundation addresses issues surrounding access and success – particularly among underserved student groups, including students 25 and older. The Foundation bases its mission on the belief that post-secondary education remains one of the most beneficial investments that individuals can make in themselves and that society can make in its people.

For more information about this project, visit www.luminafoundation.org.

The college cost issue has many facets and requires shared solutions.

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THE BENEFITS OF HIGHER EDUCATION

Public economic benefits

Public economic benefits are those benefits for which there can be broad economic, fiscal or labor market effects. In general, these benefits result in the overall improvement of the national economy, or major segments of the economy, as a result of citizens' participation in higher education. Some of the public economic benefits of higher education include:

- *Increased tax revenues*
- *Greater productivity*
- *Increased consumption*
- *Increased workforce flexibility*
- *Decreased reliance on government financial support*

Private economic benefits

This is the most commonly discussed category of higher education benefits. Private economic benefits are those benefits that have economic, fiscal or labor market effects on the individuals who have attended post-secondary education. Examples include:

- *Higher salaries and benefits*
- *Higher rates and consistency of employment*
- *Higher savings levels*
- *Improved working conditions*
- *Personal/professional mobility*

Public social benefits

Public social benefits are benefits that accrue to groups of people, or to society broadly, but are not directly related to economic, fiscal or labor market effects. Examples of such benefits include:

- *Reduced crime rates*
- *Increased charitable giving/community service*
- *Increased quality of civic life*
- *Social cohesion/appreciation of diversity*
- *Improved ability to adapt to and use technology*

Private social benefits

Private social benefits are benefits that accrue to individuals or groups but are not directly related to economic, fiscal or labor market effects. Examples of these benefits include:

- *Improved health/life expectancy*
- *Improved quality of life for offspring*
- *Better consumer decision making*
- *Increased personal status*
- *More hobbies, leisure activities*

Source: "Reaping the Benefits: Defining the Public and Private Value of Going to College," Washington: Institute for Higher Education Policy, 1998.

Endnotes

Note: Each endnote is numbered to correspond to the specific recommendation.

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About the author

Robert C. Dickeson comes to the issue of college costs from multiple leadership perspectives: chair of governors' cabinets in two states, university president, business CEO and foundation executive. He earned his doctorate in political science from the University of Missouri, and he has served on the graduate faculties of four universities. Dickeson served as the director of the department of administration and chair of the cabinet of Arizona Gov. Bruce Babbitt. He was chief of staff, executive director of the office of state planning and budget, and chair of the cabinet of Colorado Gov. Roy Romer. He served in administrative posts at three universities and was president of the University of Northern Colorado from 1981-1991. He served as president and CEO of Noel-Levitz Centers Inc., division president of USA Enterprises Inc., and senior vice president of USA Group Inc., heading the USA Group Foundation. Dickeson has received national awards from the American Council on Education, the American Association of Colleges for Teacher Education, and the American Association of State Colleges and Universities. He has authored more than 100 publications and is currently senior vice president for policy and organizational learning at Lumina Foundation for Education in Indianapolis, Ind.

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