A POLICY ALTERNATIVE
Higher Tuition / Higher Aid

Oregon State Board of Higher Education
February 2006
Major Topics

- Oregon’s Context
- A Policy Alternative: Higher Tuition / Higher Aid
- Discussion
Major Topics

- Oregon’s Context:
  - More Important to Economy & Quality of Life
Oregon Leadership Summit
Improving Education Is Crucial to Economic Competitiveness

Some Ways OUS Could Contribute to Improving Education in Oregon

- Improve Teacher Training and Professional Development
- Increase the Number of Highly Educated Graduates for Growing Number of Professional, Managerial and Technical Jobs
Well-Paying Jobs Are Linked to Levels of Education

Source: Bureau of Labor Statistics
Oregon Leadership Summit
Improving Education Is Crucial to Economic Competitiveness

Some Ways OUS Could Contribute to Improving Education in Oregon

- Improve Teacher Training and Professional Development
- Increase the Number of Highly Educated Graduates for Growing Number of Professional, Managerial and Technical Jobs
- Help Create Fast-Growing Companies and Produce the Discoveries that Lead to New Products and Process Improvements
“The ‘innovative capacity’ of a region is a driver of competitiveness in a knowledge-based economy.”

“A fundamental priority must be to upgrade the university system’s research capacity in relation to key industry clusters.”

Professor Michael Porter
Harvard Business School
Major Topics

- **Oregon’s Context:**
  - More Important to Economy & Quality of Life
  - But, Low State Subsidies
    - State funding per student is one of the lowest in the nation
    - Undergraduate tuition for Oregonians is moderate in comparison to other states
    - State financial aid is a fraction of the national average

Past Policy Choices: A higher priority to access and low price than to indicators of quality (e.g., s/f ratio, faculty salaries, academic support)
Growing Gap Between Public and Private Universities

U.S. public universities raised tuition to offset State budget cuts. Privates raised price to improve quality.
Growing Gap Between Public and Private Research Universities

Average Faculty Salaries in 2003-04 Dollars

Stanford, MIT, Harvard, Yale

Michigan, Illinois, Virginia, SUNY

Four leading public universities were 10% below four leading privates in 1980. Now, they are 35% below.
Oregon’s Salaries Are Below the Leading Public and Private Universities

Oregon was 31% below the four publics in 1980. Now, it is 45% below.
The Cost of Education at OUS Is NOT Spiraling Out of Control

Students are paying more because the State subsidy has declined.
The Future

OUS funding problems are not likely to improve because the State will have added costs as baby boomers age.
Oregon’s Population in 1960

Age Distribution of Oregon’s Population

Baby Boom

1960

Oregon’s Population in 1960

Baby Boom
Oregon’s Population in 1980

Baby Boom

Age Distribution of Oregon’s Population

0-4 10-14 20-24 30-34 40-44 50-54 60-64 70-74 80-84
Oregon’s Population in 2000

Age Distribution of Oregon’s Population

Baby Boom

2000
Oregon’s Population in 2020

Age Distribution of Oregon’s Population

Baby Boom

2020
Oregon’s Population in 2025

30% More Workers to Pay for 19% More Children and Twice as Many Seniors
Major Topics

- Oregon’s Context:
  - More Important to Economy & Quality of Life
  - But, Low State Subsidies

- A Policy Alternative: Higher Tuition / Higher Aid
  - What Is It?
What Is Higher Tuition / Higher Aid?

- Governing Board Increases Tuition to Offset Low State Subsidies and Improve Quality
- It Also Provides More Financial Aid, So That the University Is Still Affordable
  - “Tuition Discounting” to Increase the Amount of Institutional Need-Based Aid
  - Common Practice at Private Institutions and Many Public Universities
Major Topics

- Oregon’s Context:
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- A Policy Alternative: Higher Tuition / Higher Aid
  - What Is It?
  - One Way to Implement Higher Tuition / Higher Aid
One Way to Implement Higher Tuition / Higher Aid

- Phase-In the Tuition Increases over 5 Years
- Possible State Board Policies:
  - Maximum Supplemental Tuition Increase of $1,000
  - None of the Needy Students Would Pay the Supplemental Increase
  - Campus Proposals Must Demonstrate How Additional Revenue Would Enhance Quality, Improve Services, Increase Competitiveness, and Maintain Affordability
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  - Effect on Affordability
OUS Universities Have a High Percentage of Low-Income Students

Some Public Peer Universities

Percent of Undergraduates Who Receive Pell Grants

- U of Virginia
- U of Michigan
- U of North Carolina
- Purdue
- Penn State
- UW
- U of O
- Oregon State

OUS Universities Have a High Percentage of Low-Income Students
## Hypothetical Example

Oregon State University

<table>
<thead>
<tr>
<th>Maintaining Affordability</th>
<th>10,650</th>
<th>Full Fee-Paying Undergraduate Students</th>
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<tbody>
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<td>4,350</td>
<td>29% Low-Income Students (Pell Grant Recipients) Would Not Pay the Increase</td>
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<td>Current State Support + Tuition Revenue</td>
<td>$200,000,000</td>
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<tr>
<td>Additional Revenue from Full Fee-Paying Undergraduate Students in Year 1</td>
<td>$10,650,000</td>
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<tr>
<td>Increase in Year 1 (Growing to 26.5% at End of 5-Year Phase-In Period)</td>
<td>5.3%</td>
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*Jerry Kissler*  
*Paso Seguro Consulting*
University of California a Has Long History with Tuition Discounting

would OUS Universities Still Be Affordable?

Percent of Undergraduates Who Receive Pell Grants

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- Oregon State
- UC Systemwide

Some Public Peer Universities

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Would OUS Universities Still Be Affordable?
California’s Middle-Income Families

Percent with Family Incomes of $60,000 - $100,000:
(2002 Constant Dollars)

California Families

Despite Fee Increases, About Same % Freshmen from Middle-Income Families

Despite Fee Increases, About Same % Freshmen from Middle-Income Families
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Oregon’s Universities Have Been Taking Action

- Private Fund Raising Has Grown
- More Flexibility Could Cut Costs Further
- **Fundamental Issue:** The State Subsidy Is Low
  - The Governor’s “110% Plan” Stops the Bleeding
  - But, It Doesn’t Restore Funding or Provide Additional Resources Required to Increase Economic Competitiveness
The Board Has Options

- Hope That the State Will Substantially Increase State Funding for Higher Education
Long-Term Decline in OUS Share of State General Fund Budget

Graph showing the decline in the OUS share of State General Fund Appropriations from 1985 to 2007.
The Board Has Options

- Hope That the State Will Substantially Increase State Funding for Higher Education
- Reduce Enrollment
The Board Has Options

- Hope That the State Will Substantially Increase State Funding for Higher Education
- Reduce Enrollment
- Adopt a Tuition Increase Policy That Is Modest, Stable and Predictable
Policy of Modest Increases Breaks Down When State Subsidy Is Slashed

- Actual Tuition & Fees (Current Dollars)
- If Regular Increases Based on CPI-U

Jerry Kissler
Paso Seguro Consulting
The Board Has Options

- Hope That the State Will Substantially Increase State Funding for Higher Education
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- Adopt a Tuition Increase Policy That Is Modest, Stable and Predictable
- Increase Tuition Less, While Looking for Other Sources of Financial Aid
The Board Has Options

- Hope That the State Will Substantially Increase State Funding for Higher Education
- Reduce Enrollment
- Adopt a Tuition Increase Policy That Is Modest, Stable and Predictable
- Increase Tuition Less, While Looking for Other Sources of Financial Aid
- No Change in Policy
Long-Term Decline in OUS Share of State General Fund Budget

Change in State General Fund Spending per Capita
(1989-91 to 2005-07 in Constant Dollars)

- Oregon University System: -44%
- Community Colleges & Workforce Development: 93%
- State School Fund: 117%
- Human Services: 16%
- Public Safety & Judicial: 50%

Source: Staff calculations for Office of Economic Analysis Data
Tuition Is Only a Portion of the Cost of Attending OSU

- Tuition: 34%
- Room & Board, Books & Supplies, and Personal Expenses: 66%
Private Universities Are Much More Expensive

Oregon State University

Room & Board, Books & Supplies, and Personal Expenses: 66%
Tuition: 34%

Average for Stanford, Cal Tech and USC
Growing Gap Between Private and Public Research Universities

Tuition and Fees in U.S. Universities and Colleges (in 2000 $)

Source: National Center for Educational Statistics