California Postsecondary Education Commission

January 2007

The Affordability Challenge in California Higher Education: Options for Change

California's Master Plan for Higher Education represented a promise, of an affordable college education, to every person who could benefit. For decades, California's lawmakers honored that promise. But rapidly increasing college fees, coupled with higher costs for room and board, books, transportation, and healthcare are pricing students out of higher education or burdening them with excessive debt. The following anthology of the Commission research provides insights into why college is less affordable and what California's leaders can do to make higher education affordable once again.

Contents

The Commission advises the Governor and Legislature on higher education policy and fiscal issues. Its primary focus is to ensure that the state's educational resources are used effectively to provide Californians with postsecondary education opportunities. More information about the Commission is available at www.cpec.ca.gov.

Commission Report OP/07-01

One of the strongest threads in California's economic and social fabric has been the long standing commitment to affordable, high quality postsecondary education. Since the inception of the Master Plan for Higher Education in the 1960's, the ability of California Higher Education to provide a pathway to a better life for individual citizens while sustaining and growing one of the worlds most vibrant economies has been unmatched. However, a combination of budget downturns, competing state priorities, and relentless increases in college costs have caused many to question the State's claim as one of the nation's great educational bargains.

Central to this concern is the conviction that the cost of attendance, particularly at California's public universities, is putting educational opportunity beyond the reach of many low- and middle-income Californians. Given the importance of this issue and its centrality to the State's future both economically and socially, the California Postsecondary Education Commission undertook a year long study that resulted in a series of conclusions and recommendations for use by policy makers. The recommendations, endorsed at the December 13, 2006, meeting of the Commission, range from student fees and financial aid to textbooks and housing. They are intended to provide options for the Governor and members of the Legislature seeking policies and programs specifically targeted at lowering the cost of higher education in California.

To assist in its work the Commission's executive Director appointed a special panel of higher education representatives, as well as persons from beyond the higher education community, to offer ideas and initiatives, analyze data, and report its findings to the Commission. The special panel was itself an outgrowth of studies and hearings conducted by the Commission and Commission staff in the first half of 2006.

In order to provide a comprehensive overview of the Commission's work on the issue of Affordability in California higher Education, Commission staff has assembled the following documents for your review and reference:

- Staff Recommendations
- Keeping College Affordable – report of the special panel
- Developing a Statewide Affordability Policy – June 2006 report to the Commission
- Development of a New Commission Policy on Higher Education Affordability: A Set of Principles
- Resident Undergraduate Fees: Issues and Options

Taken together they constitute a considerable body of evidence that California must quickly and comprehensively address the issue of affordable higher education.

December 2006

California Postsecondary Education Commission

Keeping College Affordable in California: Recommended Policy Options and a Panel Report on College Affordability

Report 06-22

The following policy options for legislative action were adopted by the Commission at its December 12, 2006 meeting.

In adopting these policy options the Commission reviewed findings and recommendations from a Special Panel on Affordability composed of experts and stakeholders appointed by the Commission to examine college affordability in California. The report of the special panel is attached. The Commission also considered policy options based on research and expert information compiled by the Commission's staff. Many of the college affordability policy options adopted by the Commission were informed by the work of the panel, but also reflect findings of the Commission based on additional expert sources as well. The Commission recognizes and appreciates the discussions and priorities reflected in the panel's report, particularly the commitment to increasing need-based student aid. However, the Commission also believes that a "middle-income squeeze" is a very real phenomenon that makes college less affordable for many students and their families. Preserving access and relieving the economic burden imposed on students and families must remain a priority. Therefore, the Commission believes that a full range of options should be included in a legislative agenda addressing college affordability.

The Commission recommends the following as the basis for a College Affordability Legislative Agenda for the 2007-2008 session:

Assisting Students Financially

- All Californians benefit from a well educated population and a world-class postsecondary system. But, support for higher education has slipped from 17% of the state general fund budget in 1976 to 11% in 2006. A declining public commitment to pay the costs of postsecondary education has forced higher education institutions to look elsewhere for financing. The result is that students are paying a greater share of higher education costs and to pay those costs they are assuming greater debt. To make college more affordable for students, California should once again provide support commensurate with the public's commitment in previous decades.
- The Commission reaffirms its support of a five-year "freeze" on mandatory state-wide fees, contingent on sufficient general fund support. The only direct impact the State can have on reducing college costs for middle-income families is through a reduction of fees or by substantially increasing need-based aid.
- Increases to the state's Cal Grant programs should recognize and reflect the total cost of attendance, not just fees, as the basis for funding increases in these and other state funded programs.
- The Commission supports efforts that make costs, particularly fees, predictable over a given period of attendance. Programs such as those being actively explored and implemented in Illinois that freeze fees at the initial point of enrollment might provide a good model for California higher education.
- Middle income-families are often ineligible for the need-based grant aid that accompanies fee increases. Without access to grant assistance these families bear an ever greater share of the burden

for fee increases. The Commission believes that additional assistance for such families is critical to maintaining and increasing support for higher education in California.

- The Commission supports decentralizing the administration of the Cal Grant programs. Packaging all forms of student aid at the campus level helps students, families, and schools better access aid and creates greater efficiencies by eliminating duplication.
- Many of the neediest students, particularly students from underserved populations, continue to be unaware of their ability to utilize financial aid. California should expand its efforts to inform and market financial aid assistance to the neediest students and ensure that this outreach effectively informs the decisions of potential postsecondary students.

Borrowing

State policy makers should recognize the impact that borrowing for higher education has on access to higher education, as well as its impact on the state's economy. With the growth of the student loan program for parents, higher education costs are affecting the ability of multiple generations to fully participate in the state's economy.

- The Legislature and the Governor should actively explore the option of a state-financed low-cost loan program that could be used by middle-income families. Such a program could be financed through general obligation bonds or other financing mechanisms. It would not be fully self-financing, but the repayment streams from a low-cost loan program, combined with a modest level of state subsidy for delivery and servicing, could provide a low-cost borrowing option that would have broad based public support.
- If a low-cost loan program is implemented, it should have options for loan forgiveness/cancellation for students choosing to work in the public sector or other fields that the State determines to be a high priority.

Tax Policy

State tax policy can mitigate and lessen the impact of out-of-pocket college costs. It can also send a positive signal from state policy makers that making college costs affordable is a priority.

- The State should explore the use of tax policy to lower the cost of higher education in California. Tax credits, when sufficiently robust and broadly applied, could have a major impact on Californian's willingness and ability to access higher education. Tax credits directed at offsetting the cost of attendance at California colleges should have a refundable component so that low as well as middle-income families can directly benefit from the full out-of-pocket expenses associated with the total cost of attendance.
- State tax credits should be considered for other items in the student expense budget such as housing, transportation, and technology related expenses.
- Alternately, state tax incentives could be provided to families with dependent students attending public higher education institutions. Additionally, specific health care incentives could be provided to students who are attending institutions on a full-time status.

Textbooks

The Commission supports reducing the cost of textbooks for students attending California institutions. The State should explore, and possibly provide, financial and other incentives for campuses to do the following:

- Provide incentives and/or funding for textbook rental programs for large general education courses requiring high-priced textbooks;
- Explore emergency textbook loans and consider turning a proportion of them into textbook scholarships for high-need students;
- Provide incentives to campuses using technology-based solutions for textbook materials, including the establishment of an online textbook community (like WIKIPEDIA), where professors peer-review each other's work;
- Encourage publishers to print and sell supplemental additions to large textbooks rather than reissuing the same textbook with minor changes; and
- Encourage professors to distribute syllabi well before classes begin, so students can shop for texts on the open market, and provide professors with a textbook price list so they are aware of the costs to students.

Health

The Governor and the Legislature have expressed their intent to address the rising costs of health care. Students and California's colleges and universities are acutely impacted by increasing health care costs. As part of any meaningful effort to improve affordability and health care coverage, the needs of students must be directly addressed.

- The State should assess the eligibility requirements for public health care coverage to identify and eliminate barriers to needy students.
- The State should explore efforts to make health care coverage options more affordable through consolidated purchasing of health care services.

Housing

The costs of housing, both on- and off-campus, are a major expense for students and families in a high-cost state such as California. Traditionally, on-campus housing has been self-financing while off-campus housing has been subject to local market forces. Because it is a major part of the increase in the total cost of attendance, alternatives to current practices should be explored, including:

- State level legislative initiatives using tax exempt bond funds to finance off campus housing were introduced in the last legislative session. The Commission recommends that this approach be explored further in the upcoming legislative session.
- The Commission recommends exploring programs that could facilitate partnerships with the Housing and Urban Development (HUD) agency, state, and local housing and redevelopment agencies to provide seed money for low-cost student housing.

California Postsecondary Education Commission

Keeping College Affordable in California

A Report of the Special Panel on Affordability to the California Postsecondary Education Commission

December 2006

This report synthesizes the discussions of the Commission's Panel on Affordability, provides background information, and presents policy options.

Contents

The Commission advises the Governor and Legislature on higher education policy and fiscal issues. Its primary focus is to ensure that the state's educational resources are used effectively to provide Californians with postsecondary education opportunities. More information about the Commission is available at www.cpec.ca.gov.

Study Conclusions

The assumption of an older generation -- that California's unique system of community colleges and affordable public and private four-year institutions remains accessible and affordable -- is not shared by the current, very different, population of students. The affordability panel concluded that without the recognition of the role played by the total cost of attendance, and without adequate attention and resources, California's system of higher education will no longer be able to provide affordable education for its citizens. Based on the panel's deliberations, the following study conclusions are provided for the Commission's consideration:

- Reestablish a system of higher education that is both accessible and affordable as a major focus of policy makers. Without the attention it deserves, California will be unable to accommodate the growing population of low- and middle-income families from underrepresented populations seeking higher education. The State must remained committed to increasing need-based grant aid and expanding current programs to recognize the impact of the total cost of attendance on students and families.
- California must move beyond the current budget-driven system of funding for public higher education. Students and families should no longer be expected to fund state budget shortfalls. At the same time, it is imperative that the Governor and the Legislature recognize that only by adequately funding programs, services, enrollment growth, and financial aid, can they expect to ease the burden of college costs for California families.

- Policy discussions, proposals and initiatives on affordability must move beyond student fees and recognize that it is the total cost of attendance that state policy should address. In so doing, however, it must look beyond the "sticker" shock caused by posted price information and recognize the affordability gap that remains between the net cost of attendance and a student or family's available financial resources.
- Although the financial burdens, particularly indebtedness, continue to grow, they have not yet reached "crises" proportions, primarily because grants and scholarships help keep higher education within the reach of many low-income students. However, grants and scholarships have not kept pace with increases in total college costs, resulting in higher levels of borrowing, even among students with the greatest financial need. Increased demands on families at all income levels threaten the State's historic commitment to California higher education for each of its citizens.
- Efficiency and accountability are keys to maintaining public support. Higher education must demonstrate that its costs are reasonable and that its programs are relevant to today's economy. It must also provide convincing data to demonstrate that increases in the price of attendance are justified by increases in the costs of delivering its programs and services. With costs consistently outstripping price increases in other areas of the economy, higher education should no longer remain exempt from scrutiny and accountability.
- Market forces and alternative forms of higher education delivery will continue to make inroads if public higher education cannot or will not adjust to the reality of today's diverse and non-traditional college going population. Institutions need to offer more flexible course offerings allowing working students to complete their degree in a timely fashion.
- The Commission should recognize the substantial role played by private, for-profit education in California's economy and attempt to integrate this important segment into its policy and planning efforts. This segment has much potential, but is plagued by a myriad of administrative and regulatory problems that are effectively preventing growth without adequately protecting students.
- Borrowing by students and families to finance higher education must be curbed before it becomes a major impediment to career aspirations as well as a substantial drag on the state's economy. Although reasonable levels of borrowing for higher education can be a wise investment, the specter of substantial indebtedness after graduation is already impacting students' decisions about when, whether, and how to access postsecondary education. It also affects options for postgraduate education and career choices.
- Many of the drivers of the total cost of attendance are local and not amenable to state level intervention or policy making. These include housing, health care, transportation, and textbooks, as well as a myriad of locally imposed "discretionary" fees for everything from parking to technology. However, the State can encourage and facilitate programs that seek to mitigate these costs and may want to consider incentives for systems, districts and institutions to curb local costs.
- Knowledge of college costs and financial aid is often lowest among low-income, underrepresented, and non-traditional students most in need of financial help. The Commission should support more and better information to these students through more focused financial literacy campaigns.
- The Commission should continue to support the simplification of financial aid delivery in California by advocating for changes at the federal level and for decentralization of the State's Cal Grant programs.

Introduction

Historically, higher education has been viewed as one of California's biggest success stories. Its system of high quality public universities, first-rate independent institutions and accessible community colleges has helped integrate millions of Californians into its diverse and vibrant economy and culture. In the past, it has achieved this feat by a combination of strong state budget support, modest student fees at public institutions, and generous financial aid.

But this picture of postsecondary education in California is dated, incomplete, and fails to recognize a disturbing and increasing reliance placed on students and families to shoulder the costs of postsecondary education to its citizens. State support for higher education has dwindled in the past 20 years and student fees have increased exponentially at California's public four-year universities to offset the loss. Yet this is only part of the story. Other components included in the total cost of attendance (e.g. housing, transportation, textbooks) have increased at an even greater rate. In the decade from 1994-95 to 2003-04, median household income in California rose 13%, keeping pace with student fee increases. However, non-fee related costs increased from $7,355 to $9,689 (32%) at UC and from $6,533 to $7,881 (21%) at CSU. The net result is that the total cost of attending California's public four-year universities is no longer the bargain it once was compared to the rest of the nation.

Still, many would argue that the cost of attendance, or posted price, is not an accurate indicator of what students and families actually pay. It is the net cost, after financial aid has been considered, that is the proper indicator of college costs. Moreover, it has been suggested that lack of access to postsecondary education is more a product of the shortcomings of California's K-12 system, socio-economic and/or cultural barriers, or other factors not related to price.

If price is not a barrier as some suggest, why is the level of education-related debt incurred by students and their families growing so substantially? In California, the indebtedness level of borrowers entering repayment has increased by 60% in the last decade (*EdFund Trends in Student Aid 2006 report*). This reliance on debt as a method of financing the costs of higher education has taken students, families, and educational institutions into uncharted territory. While the unpleasant consequences of student loan defaults have been apparent for decades, the long term implications of students graduating from colleges with substantial debt burden are only now being examined and understood.

Moreover, those most affected by student debt -- low-income, non-traditional and underrepresented student -- often carry the heaviest debt burdens. In 2004, 88.5% of all Pell Grant recipients nationally took out student loans. On average, borrowers who were not Pell recipients took out smaller loans. California enrollment growth projections indicate that it is the neediest students who will make up an ever-increasing percentage of the college going population.

Other well-documented consequences of rising college costs include the need to work more hours, increased time-to-degree, stagnant graduation and degree production numbers, and, perhaps most importantly, an erosion in the long-held belief that the benefits of higher education far outweigh the costs.

Concern for the impact of rising college costs has broadened to include fears that financial barriers may hamper the ability of California and the nation to compete in a knowledge-based global economy. A recent draft report by the Advisory Committee on Student Financial Assistance, *Mortgaging Our Future: How Financial Barriers to College Undercut America's Global Competitiveness*, declares that in the 1990's, between 1 and 1.6 million bachelor's degrees were lost because financial barriers prevented otherwise qualified applicants from attending four year universities and colleges. If this figure is even modestly accurate, it is difficult not to conclude that the price of attendance is creating barriers not only to personal aspirations but to the economic well-being of California and of the nation as a whole.

Differing Perspectives

Although concern about the rising level of college costs has found its way to the forefront of political and legislative agendas (particularly at the national level), the concept of affordability is not an easily defined or understood concept. The basic question, "Has California higher education become unaffordable?" is illusive and not given to easy definitions or a simple response. There are a number of alternative perspectives on the issue including those of parents and students, college and university governing boards and administrators, policy makers, and planners. A balanced and informed understanding of the issue should take into consideration the views and perspectives of the various stakeholders as well as the empirical evidence.

Schools and colleges in California point with justification to students they continue to serve despite rising college costs. Both the University and State University target financial assistance in a manner that allows them to continue to enroll the State's neediest students at a rate much greater than that of comparable public four-year institutions around the country. California's Community College system remains the single largest point of access to higher education in the country at a cost that has remained within reach of most students and families. The State's private institutions have long sought to ensure that all qualified students are able to attend the institution of their choice, regardless of financial circumstances. In fact, the fundamental idea of access coupled with a wide range of educational opportunities has been the distinguishing characteristic of California higher education.

The California higher education community also points to a substantial commitment to institution-based financial aid. This commitment goes beyond simply setting aside a certain percentage of fee revenue to fund need-based aid. The community college fee waiver program (BOG grant) is accessed by as many as 40% of students enrolling. At the State University, the university grant is an integral component of financial aid packages for needy students. The University of California's institution-based aid actually helps defray some of the increases in the total cost of attendance faced by students with demonstrated need.

Institutions and systems of higher education also correctly point out that most of the drivers of increased costs (particularly at two- and four-year public institutions) are simply beyond the control of the institutions themselves. Student fee increases, precipitated by state budget shortfalls, have driven costs in ways that could not have been anticipated nor prevented by the segments. Budget shortfalls have also forced public institutions to redirect limited resources to areas of greatest priority. Many of the fundamental drivers of cost (labor and collective bargaining, health care, housing, transportation, technology, and capital costs) are beyond the limited control of systems and institutions. Another area of increased costs has been that associated with regulatory requirements, both state and federal. Regulatory compliance is the price to be paid for continued eligibility for state and federal assistance -- but it is often costly and comes as an added expense, not funded by the regulatory entity.

To their credit, the public and private systems of higher education in California have been unwilling to sacrifice either educational quality or access – even when the State's budget has left them short of funding. Instead, they have chosen a path that protects the most vulnerable, while seeking to further their mission. Those most impacted by this ordering of priorities -- middle-income families -- are at least more able to afford and manage increased costs than low-income families.

Moreover, much of the data used to measure longitudinal trends in affordability show patterns that are less alarming than generally understood. While the average debt level of students (and parents) entering repayment has increased substantially, California has the second lowest average debt level in the country. Similarly, both the average level of indebtedness and the overall cost of attendance, when measured in constant dollars, have remained relatively stable over time. It is, however, apparent from the data below that the net cost of attendance faced by California students and their families, when considered in constant dollars, is increasing steadily.

Advocates of postsecondary education point to the underlying idea that higher education should be viewed as an investment whose costs should be weighed against the benefits provided. They point to studies that indicate that in terms of increased income, economic opportunity and mobility, and an array of measures ranging from physical and mental health to civic involvement, the benefits of higher education even at today's prices far outweigh the costs.

Another factor critical to the perception of affordability in California is the role played by the State's Master Plan for Higher Education. Public knowledge and understanding of the Master Plan's goals tend to be limited to the belief that the Master Plan anticipated low fees as a way to ensure continued access for Californians. The unwillingness to even use the term "tuition" is an indication of the public and political importance attached to low fees in California. Other states, many without California's commitment to a comprehensive system of public higher education, have instituted policies that presume significantly higher tuition and fee levels and correspondingly lower state subsidies in support of higher education.

Finally, many in higher education would argue that the emphasis on such visible indicators as the posted price, costs that outstrip general indicators of inflation, and increased debt levels, may have the unintended consequence of discouraging those who could benefit most by postsecondary education.

Affordability and Public Policy in California

Current state policy relative to higher education offers little real guidance on the issue of affordability. The Master Plan specified that students should pay only fees, not tuition. State-based financial aid (the means by which the State seeks to insulate low income students and families from the impact of fee increases) has long been limited to mandatory fees. State-level policy has been almost exclusively aimed at mitigating the impact of mandatory fee increases caused by shortfalls in general fund appropriations for postsecondary education. There has been little acknowledgement or understanding of the impact of increases in the total cost of attendance.

Historically, the focus of the California Postsecondary Education Commission (the Commission) has been on the development and implementation of a policy for setting and adjusting statewide mandatory student fees. The emphasis has been on "gradual, predictable and moderate" fee increases tied to very general indicators of the public's ability to pay. In fact, the Commission's initial efforts in the area of affordability remained focused on modifying its policy to meet the needs of students as well as recognizing the State's continuing inability to adequately support higher education through general fund expenditures. In doing so, however, the Commission was faced with the fact that in California, as elsewhere in the nation, major shifts in financing higher education were occurring, including the following:

- **Borrowing** has become the principle mechanism for keeping higher education within the reach of most families, resulting in a substantial increase in levels of indebtedness;
- **Grant aid** has not kept pace with increases in total college costs, resulting in higher levels of borrowing, even among students with the greatest financial need;
- **Barriers to access** presented by the total cost of attendance remain a problem even at the State's community colleges where the ability of many non-traditional students to attend is exacerbated by their need to work as well as care for families; and
- **The Total Cost of Attendance** consistently outruns California families' ability to pay as measured by median household income.

The Role of the Affordability Panel

The convening of the Commission's Panel on Affordability was the direct result of efforts to develop new Commission policy around the issue of affordability. These efforts were driven by the Commission's view that access and educational opportunity in California are being compromised by steep increases in college costs. At its March 28-29, 2006, meeting, the Commission endorsed a set of "principles" for the development of an affordability policy, including the recommendation that student fees be held to the current levels for the next five years. It also stipulated that adequate general funds be appropriated to California's public segments of higher education to allow for such a freeze. At the same time, the Commission recognized that increases in student fees were not the only (or the greatest) driver of the cost of a higher education. Therefore, efforts to reduce or slow the growth of college costs in California would require an understanding of, and options for, reducing the steady increases in the total cost of attendance.

Discussion of affordability and the drivers of college costs in California culminated in a hearing on affordability at the Commission's June 27-28, 2006, meeting. At that meeting, the Commission heard testimony from a wide range of representatives in higher education, as well as those directly impacted by rising costs and the impact of student debt.

The result of these activities was the Commission's decision to convene a special panel on Higher Education Affordability in California, bringing together representatives of the higher education community and others with an interest in the issue of affordability. The panel's charge was to:

- Determine the nature and scope of the problem of affordability in California higher education; and
- Recommend policy options and initiatives for reducing and/or slowing the rate of increase in college costs.

The Commission wished to examine the nature of the expenses driving the total cost of attendance. Therefore, the panel was to examine all elements of a student expense budget to better understand the major drivers of increases in the total cost of attendance and provide policy options and recommendations for the Commission's consideration.

The panel was directed to report its findings and recommendations to the Commission in time for consideration at the Commission's December 12-13, 2006, meeting. This paper summarizes the work of the affordability panel and includes:

- A summary of the panel's deliberations in various issue areas;
- Information and data developed during meetings and exchanges among panel members; and
- A series of recommendations for the Commission's consideration.

The Work of the Affordability Panel

In order to assure a broadly representative point of view on the cost of higher education in California, a broad cross-section of institutional and subject matter experts were asked to participate. These included representatives from housing agencies, tax experts, and textbook publishers as well as representatives from all of California's segments of postsecondary education.

The challenge to the panel was to explore and ultimately recommend policies and initiatives that help foster affordable and accessible higher education for all Californians. The panel reviewed background materials and report drafts via e-mail as well as meeting in person on four occasions in 2006. In attempting to more clearly define its focus, the panel considered a number of issues and approaches as reflected below.

Cost vs. Price

The panel considered at length whether it should focus on the drivers of "costs" of higher education or on the "price" as experienced by students and families. Costs were seen as the structural and systemic expenses associated with the delivery of higher education, and would include everything from labor and capital costs to issues associated with technology, governance and public finance. "Price" was generally associated with the posted price of attendance and the elements of a student expense budget such as tuition/fees, housing, transportation, and textbooks. The panel recognized the fundamental influence of the "cost" of higher education on the "price" of attendance. At the same time, it recognized the Commission's desire to focus on the impact of the "price" of attendance on students and families. It was agreed that the relationship between "cost" and "price" should be integrated into the body of the report to the Commission as well as its recommendations.

Defining Terms and Reference Points

The panel also discussed the usage and meaning of the terms that describe both cost and price. A number of definitions were discussed with panel members, including the following:

- *Cost of Attendance"* is defined in federal statute and is used by postsecondary institutions for federal Title IV financial aid purposes. An essential requirement for receipt of need-based Title IV aid is that financial aid cannot exceed the cost of attendance as defined by the institution. It is viewed as the upper limit for aid eligibility, depending on the calculated financial need of the student or family;
- *"Cost of Education"* is a term used to describe the cost to the state/university of providing direct education services;
- *"Net Cost"* can refer to the posted price of attendance less whatever aid the student/family may receive;
- *"Net Price of Attendance"* typically refers to posted price less grant aid received by the student/family.

The panel noted that posted price affects behavior and attitudes in higher education as elsewhere in the economy. It was pointed out that posted price and its attendant sticker shock to students and families should always be viewed in the context of the "net price". That is, the net price is the actual cost (including borrowing) for which an individual student or family may be responsible. Net price is not only a more accurate picture of actual costs, it substantially reduces barriers created by a lack of knowledge or understanding of financial resources available to low and middle-income families.

Regardless of perception and definition of terms, data from the federal Department of Education indicates that the total cost of attendance at California's public four year universities is now comparable to that of the nation as a whole. As Display 1 on page 7 indicates, California is well above the national average and even ranks above such states as Massachusetts, New York, and Michigan when the full cost of attendance is considered.

Data – Sources and Analysis

The panel discussed what data would be most useful in:

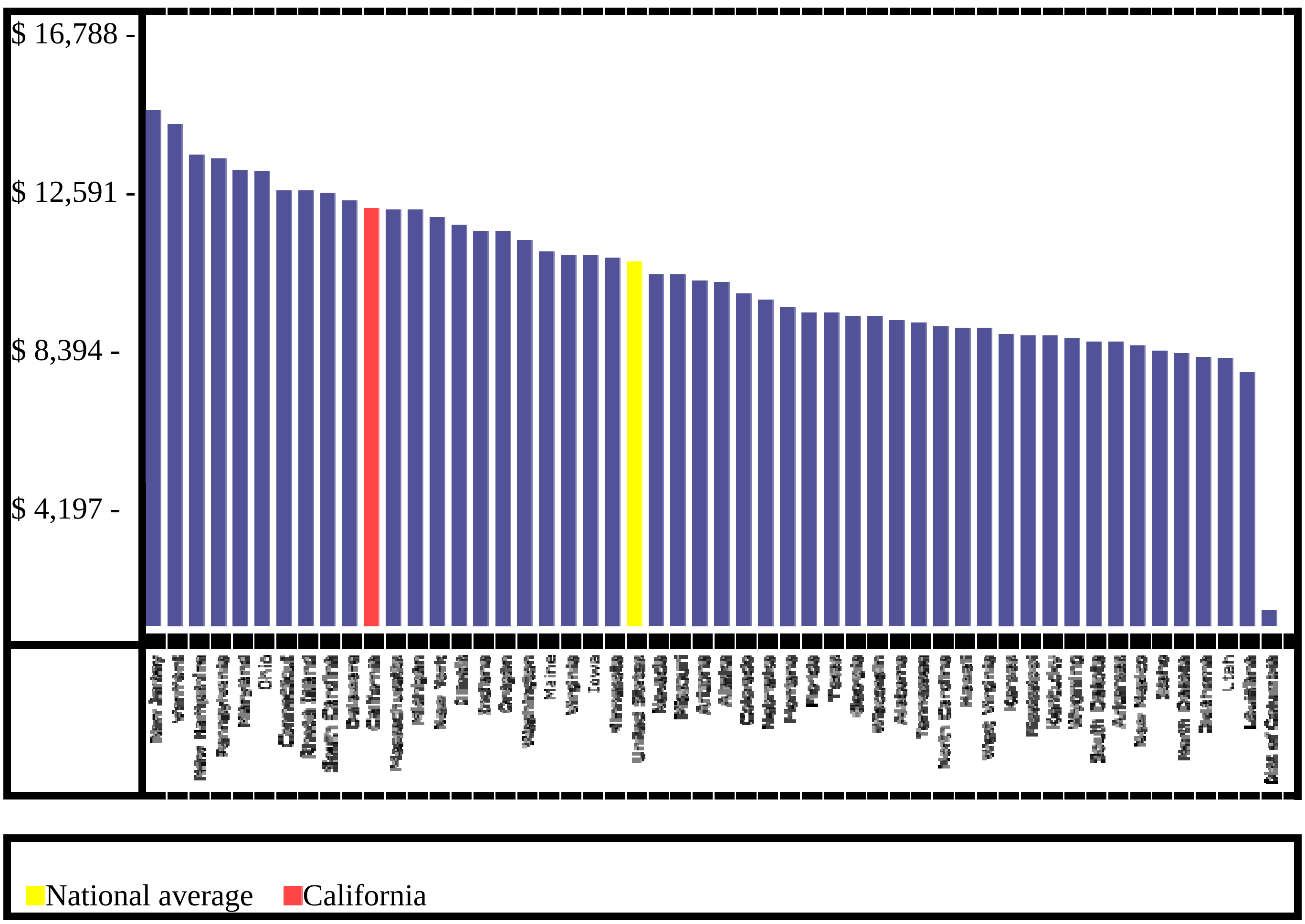
- Identifying those groups most impacted by rising college cost;
- Helping to target resources effectively and efficiently;

- Determining if there are particular students that have higher/lower costs within each income level; and
- Determining whether the net cost for students at different income levels is affordable.

An informal workgroup was formed to develop a data set that would help panel members assess the current distribution of assistance to students by segment, income level, and type of aid. The panel also requested that, if possible, longitudinal data be included in the analysis. It was initially decided that a California extract of the most recent NCES/NPSAS data would be used to develop an affordability profile for California public and private four-year institutions. However, insufficient data for the independent institutions caused the committee to turn to data developed by the segments using agreed upon criteria.

The data gathering efforts were primarily focused on UC and CSU and appear in Appendix A. Comparable data was not available for the California Community Colleges although federal costs of attendance data for all three segments for a three-year period is included in Appendix B. Cost of attendance data for independent institutions were prepared by the Association of California Independent Colleges and Universities (AICCU) and appear in Appendix C.

DISPLAY 1 Average Undergraduate Tuition, Fees, Room, and Board Charged for Full-Time Students in Public, Four-Year, Degree-Granting Institutions, 2003-04

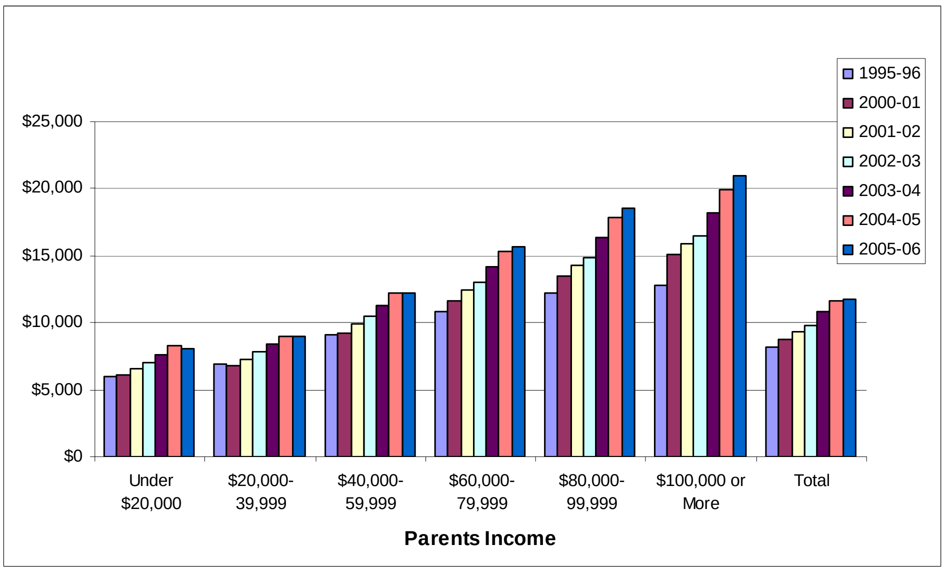


Source of Data: National Center for Education Statistics (NCES).

At the University and State University, data include the cost of attendance, gift aid received, the average cost of attendance less gift aid, and the average level of borrowing – all by income range. Also included are data for parent (PLUS) borrowing and unsubsidized loan program borrowing for both need-based and non-need based students. In order to provide a picture over time, data are provided for 1995-96 and for the years 2000-01 through 2005-06. The data are displayed in current dollars below and in both current and constant dollars in Appendix A. Data were held in constant dollars by using multipliers for cost of attendance and gift aid as well as income ranges using the CPI index in Appendix B.

As Displays 2 below and Display 3 on page 10 illustrate, the last five years have seen dramatic increases in both the cost of attendance and the average net price of attending California's public four-year universities. While the net cost of attendance remained relatively stable, with little increase between 1995-96 and 2000-01, the average net cost of attendance increased from $8,747 to $11,722 at the University and from $6,717 to $9,734 at the State University. The same data is displayed in constant dollars in Appendix A.

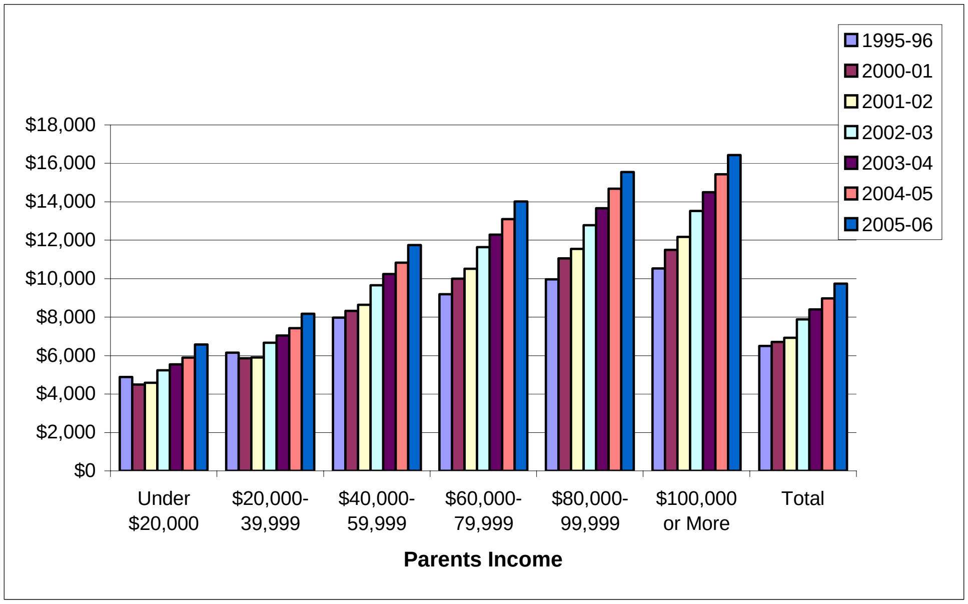
DISPLAY 2 Net Cost of Attendance at UC (Current Dollars - Full-Time Dependent, Need-Based Students)



One simple measure of the impact of recent increases is the number of dependent undergraduate students eligible for need-based financial assistance. As indicated in Appendix A, this number increased by only about 4,000 students at the University and slightly more than 1,000 at the State University in the period 1995-96 through 2000-01. The most recent five-year period had increases of 10,000 needy students at the University and more than 13,000 at the State University.

As Displays 2 and 3 illustrate, the University and State University have packaged student assistance in a manner that has maintained an equitable distribution of aid among income brackets. Low income student and families continue to receive the greatest average gift aid and have the lowest average levels of student loans. The commitment to need-based aid for lower-income students and families is consistent with state policies of equity and access for Californians, regardless of income level. With limited access to need-based grant aid and continuing pressure from state budget constraints in recent years, the priorities of the public four-year segments as well as the independent institutions have remained consistent.

DISPLAY 3 Net Cost of Attendance at CSU (Current Dollars - Full-Time Dependent, Need-Based Students)



Displays 2 and 3, however, also serve to illustrate the difficult position of middle-income families due to rising college costs. The net cost of attendance increases sharply for incomes ranging between $40,000 and $100,000. As eligibility for federal and state need-based grant aid declines and expected student/family contributions increase, middle-income families must absorb even greater levels of expense. The level of borrowing increases and so presumably does the need for students to work. If these trends continue over time and middle-income families are expected to assume an even greater share of the burden for financing higher education, the current level of public concern over college costs will continue to grow.

Another striking element of the data is the substantial gap between the net cost of attendance (average cost less gift aid) and the average level of borrowing. It is clear that for many students and families with demonstrated need, resources other than those available through the loan programs are being tapped. For example, at the State University in 2005-06, 13,625 need-based aid recipients in the $40,000 to $60,000 income range had a net cost of attendance averaging $11,744. Average borrowing was only $2,500. Less than one-tenth of this number availed themselves of other federal loan programs such as Parent Loans and unsubsidized Stafford loans. Although need analysis generates an Expected Family Contribution (EFC), the total EFC does not approach the amount necessary to cover the net cost of attendance. The question is, then, how do students and families fill this gap? The answer appears to be some combination of working, scrimping, saving, doing without, and borrowing from other sources.

Looking at the data in Appendix A, average student loan levels appear relatively modest at UC and CSU, particularly when viewed in constant dollars. However, these figures include need-based recipients who choose not to borrow. Also, the use of the more expensive unsubsidized Stafford Loan program continues to grow. Although the total number of borrowers remains modest, particularly for low-income groups, rising costs are causing an ever greater percentage of need-based aid recipients in the higher income groups to access this costlier program.

Because federal loan limits remained unchanged until the most recent budget reconciliation act, increases in borrowing in the PLUS program -- the credit based, federally guaranteed program for parents of undergraduates -- has also grown substantially. The number of families accessing this program doubled at the University and tripled at the State University during the period 1995-96 to 2005-06. But it should be noted that while the number of borrowers in the PLUS program has increased overall, as a percentage of dependent undergraduates with need, it has remained relatively constant.

The data also makes it clear that increasing numbers of students and families without demonstrated need are borrowing to finance higher education. An escalating number of students at UC and CSU who do not qualify for need-based aid in the current need-analysis process are availing themselves of both federally unsubsidized loans and the credit based Parent Loan Program. The advent of the new “Grad-Plus” program extends the eligibility of the current PLUS program to qualifying graduate students up to the cost of attendance. This new program has resulted in substantial new borrowing since its inception this year.

Appendix C provides information on the average cost of attendance, net cost of attendance and the type of financial aid packages typically used by California’s independent institutions. The data was provided by the Association of Independent California Colleges and Universities from a sample survey of institutions that are, to some degree, comparable to UC and CSU campuses. The independent institutions provide deep discounts on the average cost of attendance through a combination of federal, state, private, and institutional aid. What is also clear is the critical role played by state grant aid in the ability to maintain and foster educational choice for all Californians. One important objective of independent institutions is to use all forms of financial aid in order to remain as affordable as possible, particularly for low-income students. The partnership between these institutions and federal and state government helps to reduce the level of debt students at independent institutions assume.

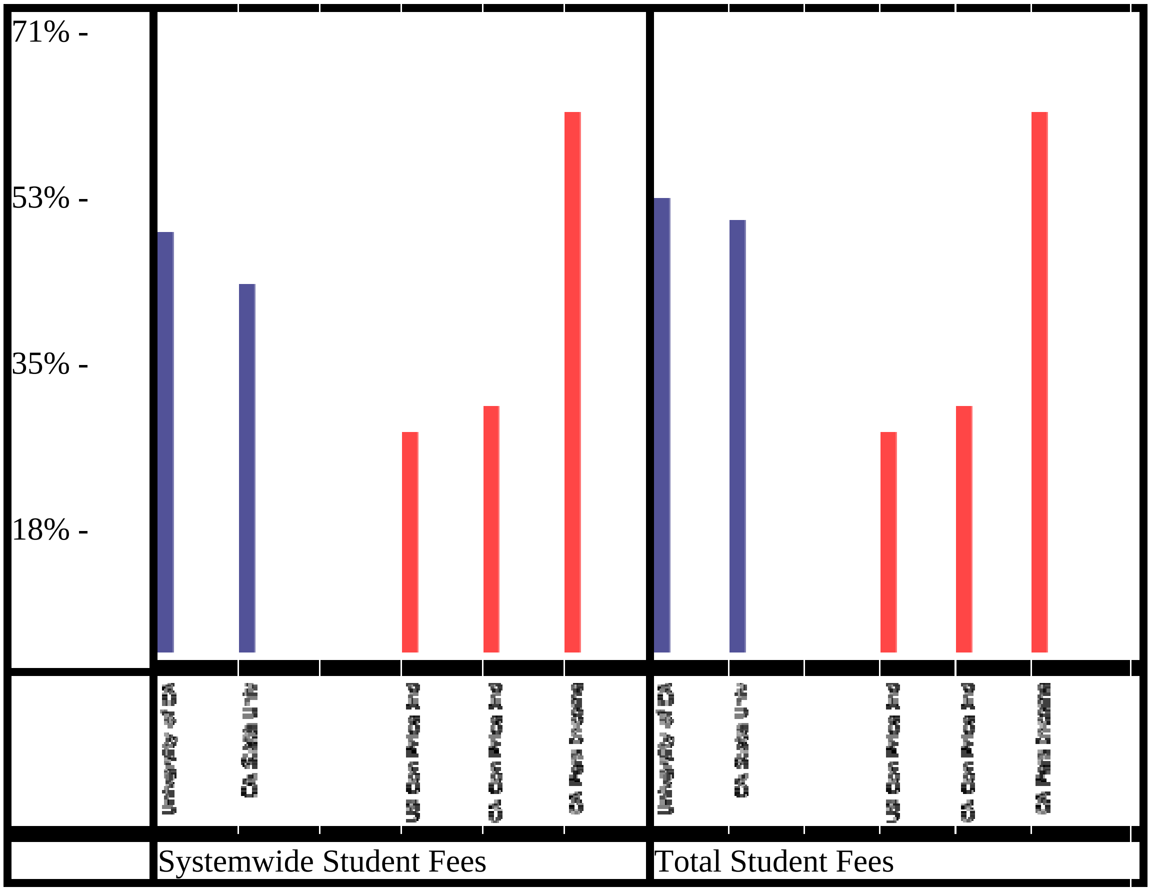
Student Fees and State Support

As long as higher education remains one of the few areas of discretionary spending in the state budget, student fees will be viewed as a source of revenue available to back-fill budget shortfalls. It has been suggested that limits on student fee increases be placed in California’s constitution, thereby ensuring the vision of the original Master Plan for Higher Education. However, without access to revenue generated from student fees, California higher education would be at risk of severe declines in educational quality and access during periods of budget shortfalls.

As noted earlier, mandatory statewide student fees have increased sharply in the past decade. Display 4 shows a comparison of the change in resident undergraduate fees charged at California's public universities to the change in several economic indicators. As the graph indicates, student fees have increased at a greater rate than all the economic indicators other than the growth in total personal income.

It is unlikely that California will return to a time when state funding can keep pace with enrollment and price increases. Only a major shift in tax and spending policies will alter the proportion of state and federal funding allocated to higher education. In fact, the state percentage of general fund resources is predicted to decline in every state. Increases in student fees impact families particularly hard due to their unpredictability. Students at four-year institutions are unable to plan for educational costs when fee levels cannot be reasonably estimated for their period of enrollment.

DISPLAY 4 Comparison Between Fees and Economic Indicators, 10 Years (1994-95 to 2004-05)



Source: CPEC Fiscal Profiles.

Another growing affordability barrier has been the steady increase in campus-based fees. In the past ten years, the average of campus-based fees has increased from $367 to $661 at UC and from $351 to $644 at CSU. This represents an 80% increase in contrast to the 60% increase in mandatory system-wide fees for the same period. One issue endemic to campus-based fees is the question of taxing future classes of students for projects or improvements voted on by currently enrolled students.

Financial Aid in California

Funds from all sources of financial aid have more than doubled in the last 10 years – from $4.2 billion in 1994-95 to $9.05 billion in 2003-04. However, in the same period, enrollments have increased by about one-third at the public four-year segments and the community colleges while borrowing has increased by 60%.

Investing in need-based grant aid appears to be a cost effective method for increasing access and, just as importantly, for encouraging persistence and completion in California higher education. Receiving a Cal Grant was found to be significant in determining whether students enrolled immediately in the first year or stayed at the same institution all four years. However, the availability of grant aid has been constrained both at the federal and state levels and, coupled with persistently escalating costs, has led to substantial increases in borrowing for both low- and middle-income families.

Much has been written about the shift from need-based to merit-based grant aid. However, the primary focus has been on: (1) state grant programs that emphasize merit components that may reward students without demonstrated need (e.g. the Georgia's HOPE scholarship program); and (2) tuition discounting and awarding of institutional grant aid to students that may excel academically but demonstrate little or no financial need. The latter practice is intended to increase an institution's academic prestige by emphasizing more selective enrollments. Although California's Cal Grant program has a merit component, it is realistically an academic floor -- with the real rationing of awards based on financial need. The need vs. merit debate has not been a major factor in California -- particularly for the public institutions. The overwhelming majority of UC and CSU institutional aid has historically been awarded on the basis of need.

Borrowing and the Impact of Debt

As Display 5 indicates, the aggregate average debt level for California borrowers in the period 1995-96 to 2003-04 has increased by over 60% for all segments of California higher education. Of particular concern is the average level of indebtedness for students attending vocational proprietary schools. Not only do they have, on average, the highest level of indebtedness, these students also have higher default rates and less ability to repay educational debt than those attending the other segments. Also, students who attend on a part-time basis are in a more precarious financial position, with higher debt, higher credit card utilization, and lower incomes than either full-time students or students who were repaying their loans.

Although education debt has grown substantially, there is no indication that borrowers are unable to manage current levels. There has not been an epidemic of defaulted loans or overwhelming evidence that educational debt is effectively preventing borrowers from obtaining economic or personal goals. However, trends in credit-based financing for higher education are not reassuring.

- The parent loan, or PLUS program, had enormous growth over the period from 1994-95 through 2003-04, posting a 260% increase;
- Use of unsubsidized borrowing with its consequent high level of repayment obligation resulting from capitalization of interest continues to grow as costs continue to rise; and
- The wave of student loan consolidations resulting from the recent low interest rate environment may have eased monthly payment obligations, but they have also resulted in significantly greater debt obligations due to extended repayment schedules.

DISPLAY 5 Average Cumulative Family Borrowing From Federal Stafford Programs for Undergraduates Entering Repayment

	UC	CSU	Private 4-Year	Voc/Prop	All
1995-96	$10,763	$9,503	$14,578	$22,602	$11,352
1996-97	$11,475	$10,325	$16,191	$24,068	$12,340
1997-98	$13,911	$11,355	$17,552	$25,139	$13,709
1998-99	$15,167	$12,462	$18,139	$26,081	$14,761
1999-00	$15,613	$12,992	$19,328	$29,168	$15,495
2000-01	$15,652	$13,498	$20,408	$29,918	$16,045
2001-02	$16,516	$13,933	$20,977	$22,960	$16,766
2002-03	$16,363	$13,861	$21,070	$22,715	$16,866
2003-04	$17,075	$14,386	$21,982	$29,003	$17,884

Source: EdFund.

Note: The above figures reflect borrowing only on the part of the student and represent averages only for those borrowers under the FFEL Program whose loans were guaranteed by EdFund.

Tax Policy

The panel considered the role of tax policy at the federal and state level as both a barrier to access and a mechanism to help families lessen the burden of college costs. Tax subsidies for higher education are intended in various ways to reduce the cost of attendance and increase enrollment. They include:

- The Hope Scholarship and Lifetime Learning Credits;
- Education expense and student loan interest deductions; and
- Savings vehicles such as Section 529 plans and Coverdell savings accounts.

Tax and spending programs aimed at financing postsecondary education are designed to benefit different groups of people. Grants and subsidized loans tend to benefit lower-income students and their families, whereas unsubsidized loans and tax programs tend to benefit middle-income students and their families. Tax programs provide limited benefits to lower-income students and their families because the tax subsidies are not refundable -- that is, they are not available to people who do not have income tax liabilities to offset. In addition, tax aid often occurs before or after the actual expenses are incurred.

Recognizing the Role of the Proprietary Segment

Often lost in any discussion of California higher education and its costs is the role played by California's private for-profit postsecondary institutions. There are approximately 3,000 private proprietary schools operating in California. According to the California Association of Private Postsecondary Schools (CAPPS), at any given moment these schools enroll almost 400,000 students -- almost as many students as in the University and State University systems combined.

These schools play a critical role in providing workforce training and development and account for $1.2 billion or 14% of total financial aid dollars in California. Many for-profit California schools are exceptional and effectively compete with, and compliment, public higher education. These schools are particularly noteworthy for their direct ties to meeting California's economic needs and their innovative delivery options. They also compete in a highly competitive marketplace that effectively measures success in educational outcomes. Their impact on California's economy is substantial. Proprietary institutions also have the lowest ratio of grant to loan aid with only 25% of total aid coming in the form of grants. This compares to 56% for the University of California, 47% for the California State University and 88% for the California Community Colleges. The cost of attendance at these institutions varies greatly, but can be substantially higher than the cost of attending a public institution. Average debt levels for students entering repayment at proprietary institutions often exceed that of students attending independent four-year institutions.

The range and quality of private proprietary institutions in California varies greatly. State oversight and regulation has been inconsistent, and the state agency responsible for licensing and monitoring these schools is largely dysfunctional. But private for-profit postsecondary education in California remains the postsecondary educational choice for hundreds of thousands of Californians and should be more fully integrated into higher education policy planning in California, including issues of affordability.

Information and Outreach

An area critical to the debate over affordability is the role of information and outreach in providing Californians with the knowledge and understanding of both the real nature of college costs and the resources available to meet them. This is particularly critical for students who may be the first in their families seeking to attended college and for whom traditional methods of information dissemination are not easily understood or applied to their own situation.

Understanding and applying for financial aid is a complex and daunting undertaking even for the most sophisticated applicants. Determining eligibility for financial aid is itself a major barrier to obtaining aid. The complexity of the Free Application for Federal Student Assistance (FAFSA) form is often viewed as a major barrier for low and even middle income families. A degree of basic financial aid literacy, available and understandable in multiple languages, is essential for successful outreach efforts.

In addition, there should be better coordination between and among campuses and systems when disseminating information. One effort of note is the Student Friendly Services project. Recent efforts to simplify and expand the project's website, www.californiacolleges.edu, are designed to develop a user-friendly portal for use by all California students, parents, and counselors. Although much has been done to improve access to information, efforts at the federal and state levels also remain fragmented.

The panel discussed and recommended the production and distribution of an annual California Affordability Report. The report should include questions such as: At each institution, how many students from various income brackets applied for and received aid? How much did they receive? How much debt did they incur? The report's findings could be used to provide information to legislative staff and members as well as students and parents.

Credit Card Debt

A recent study reported that in 2003-2004, 56% of dependent undergraduates owned at least one credit card and 25% carried a balance. Another study found that entering college students were approached with an average of eight credit card offers during the first week of college and half received offers on a daily or weekly basis. Finally, a recent survey by the National Association of College and university Business Officers found that credit cards account for 18% of tuition payments. How and why a student uses a credit card may be related to the rising costs of attendance. Although addressing this problem would not directly "solve" the affordability issue, it may be one way to limit the harm done when students apply for additional or unnecessary credit lines.

The Need to Work

A large number of undergraduate students enroll on a part-time basis and work while enrolled, yet these decisions can have unforeseen consequences that impact student success. In recent years, several studies have examined the impact of work on student performance and persistence. Studies show that students who work full-time and attend school part-time take longer to graduate and have a higher likelihood of dropping out.

The financial aid system currently provides some students with a disincentive to work. Students who work during the school year may be penalized in the following year with a decrease in their financial aid awards. A decrease in financial aid may lead a student to increase the number of hours they work in an attempt to recover from the financial loss. The more hours students spend at work, the fewer hours they have available to attend or prepare for class.

The Cost of Textbooks

Textbooks have become a pertinent issue for both students and their families, who often share the burden of paying for increasing textbook costs. An average student can spend between $400 and $1200 a year on textbooks, varying by major, student preferences and choices, and school. The Assembly Higher Education Committee held a hearing earlier this year to examine the rising costs of textbooks and their cost drivers. The national Advisory Committee on Student Financial Assistance is also focusing on textbook costs and what can be done to reduce or slow the rate of increase in their cost. The "Recommendations" section below contains a number of possible initiatives in this area.

The Lack of Affordable Housing

An increasing proportion of students' budgets are spent on food and housing. At least 50%, if not more, of a student's total expenses in an academic year will go toward paying for their housing and food, regardless of campus, system, and housing situation (such as living at home, on-campus, or off-campus). In general, institutions view housing prices as something that is market-driven and for which they have little control. Solutions to the housing problem are generally seen as something that must be addressed on the local level, although more research is needed in the area of use of public subsidies to cap the rising cost of housing for college students.

The Middle Income "Squeeze"

The concept of a "middle-income squeeze" is the idea that current eligibility ceilings for need-based aid are not reflective of a family's true ability to pay. This in turn requires middle-income families to borrow heavily, particularly through such vehicles as the PLUS and so-called "alternative' loan programs. In many respects, the Master Plan's vision of low-cost local educational opportunities was directed at such students and their families.

Health Care Costs

Health care costs impact college costs in two ways. First, the direct delivery of on-campus health services is financed by campus-based fees which have increased along with the delivery of the services. Second, the indirect impact of health care costs creates barriers to access and persistence in higher education. The need to work in order to retain health benefits can be a significant impediment to independent and non-traditional students

Policy Options

The panel suggests to the Commission numerous policy and program options, many with a great level of specificity. However, panel members felt that they should provide general policy direction rather than detailed recommendations for the development and/or support of specific programs. The panel also felt that recommending, advocating, or otherwise opining on federal programs was simply too large a task. Even though federal programs often drive State programs, particularly financial aid programs, the development of a State level policy/legislative agenda around the issue of affordability should be focused on State level analysis and policy initiatives.

Student Fees/State Support

Perspectives of panel members regarding student fees ranged from endorsement of the Commission's call for a five-year freeze on fee increases, to the view that this policy was counterproductive and unrealistic. Similarly, the Commission's historic position of a 'gradual, moderate and predictable' policy for setting and adjusting student fees was viewed by some as an endorsement of fee increases. The view was also expressed that efforts to develop a statewide student fee policy were a "dead end" that should be abandoned in favor of a more comprehensive approach that considers the total cost of attendance in the context of all revenue sources and financial aid programs.

Clearly, the Commission's emphasis on the total cost of attendance is productive in that it recognizes the limitations of the historic approach of offsetting mandatory fee increases with corresponding increases in need-based aid. At the same time, student fees are likely to remain a potent political issue and the allure of fee 'buy outs' that often contribute to the extreme fee increases characteristic of difficult budget years will continue.

It is also true that the only direct impact the State can have on reducing college costs for middle-income families is through a reduction of fees or by substantially raising the income and asset limitations in the State's Cal Grant programs. Currently, middle income families are often ineligible for the need-base grant aid that accompanies fee increases and, without the disposable income that is available to upper income families, are left with unattractive financing options such as additional work (for students) and borrowing (for parents).

Financial Aid

Increases in funding for the State's need-based Cal Grant programs are critical to any effort aimed at reducing the total cost of attendance. Of particular importance is the need to provide funding for first-year fees for Cal Grant B recipients as well as increasing the buying power of the so-called access subsistence grants designed to offset some of the basic subsistence expenses.

Simplifying and streamlining the financial aid application and delivery process at the State level in a manner that compliments similar efforts at the federal level is an approach that should be explored further. In particular, the Commission should continue to provide leadership on the issue of decentralizing the administration of the Cal Grant programs.

Borrowing

The panel examined possible alternatives to current borrowing programs, particularly the possibility of using federal tax-exempt bond-cap or even State general obligation bonds to provide programs with lower costs and/or opportunities for loan forgiveness for borrowers. Although many questions remain unanswered regarding the feasibility of such programs, the panel felt that its continued exploration was worthwhile. The panel also believed that the example provided by the University of California for obtaining low cost private loans by leveraging system-wide loan volume should be explored further.

There is also an effort at the federal level to reform loan repayment requirements for student loans. The effort includes additional options for hardship deferments, income contingent repayment, and loan forgiveness after 20 years of payments. The Commission may wish to explore the extent to which such efforts could be implemented at the State level.

Another option is the expansion of loan forgiveness/cancellation for students choosing to work in the public sector in such areas as health, law, and education.

Yet another option would be the development of targeted borrowing programs at California's community colleges that have the goal of increasing persistence and actually reducing overall costs of attendance for students to progress more quickly toward their educational goals.

Tax Policy

The Commission may wish to explore the use of tax policy to impact the cost of higher education in California. Tax experts participating on the panel framed a set of principles that should help guide the Commission's deliberations in this area. They include:

- Tax credits and/or deductions should be sufficiently substantial to affect behavior such as increasing access and/or persistence;
- Tax policy should include components that mirror the earned income tax credit so that families of all income levels can benefit from them; and
- Tax credits/deductions should be clearly and timely connected to attending school (e.g. paying tuition, borrowing).

Textbooks

The cost of textbooks is an issue that is currently being debated extensively at the local, campus, and national levels. The role that State policy can play in the complex interplay between professors, publishers, students, campus administrators, and bookstores is limited. However, textbook costs are an issue that the panel explored in some depth and, if the Commission believes that it can play a positive and constructive role in this area, it should recommend best practices and initiatives.

Housing

The panel recommended further exploration of subsidized housing programs targeting students. State level legislative initiatives using tax-exempt bond funds were introduced in the last legislative session. The Commission may wish to explore this avenue further as well as explore programs that could partner with Housing and Urban Development (HUD), State, or local housing and redevelopment agencies to provide seed money.

Credit Cards

The use of credit cards as a means of financing higher education costs continues to grow. Concern with increasing instances of credit card distribution on campuses prompted the passage of the Student Financial Responsibility Act (Stats. 2001, Ch. 294; AB 521) by the California Legislature effective January 1, 2002 (codified in Section 99030 of the California *Education Code*). The Act required the Board of Trustees of the California State University and the Board of Governors of the California Community Colleges, and requested the Regents of the University of California and the governing body of each accredited private or independent college or university in the state, to adopt policies "to regulate the marketing practices used on campuses by credit card companies" and expressed intent that credit card and debt education and counseling information be included in student orientation sessions. In response, the CSU Board of Trustees amended Section 42350.6 of Title 5, *California Code of Regulations*, to add a new subdivision addressing the marketing to students of credit cards, authorizing campus presidents to limit and register the sites available for credit card marketing, and prohibiting credit card marketers from offering gifts to students for filling out credit card applications.

Students Who Work

The Commission may wish to support programs that encourage universities to partner with local businesses to provide paid internships for students. Students could be awarded course credit for work, and institutions could subsidize students' pay so that they earn a reasonable income.

Acknowledgement

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Appendix A

UC Cost of Attendance, Gift Aid, and Loan Statistics for Need-Based Aid Recipients
In Constant Dollars

	Need-based Aid Recipients	Average COA (Constant Dollars)	Average Gift Aid (Constant Dollars)	Average Cost Less Gift Aid (Constant Dollars)	Avg. Student Loan (incl. Non-Borrowers) (Constant Dollars)	Need Based Borrowers: Parent Loans		Need Based Borrowers: Unsubsidized Loans		Non-Need Based Borrowers: Parent Loans		Non-Need Based Borrowers: Unsubsidized Loans	
						Number	Average	**Number**	Average	**Number**	Average	**Number**	Average
2005-06													
Dependent Undergraduates													
Under $20,000	13,236	$21,139	$13,082	$8,057	$3,080	521	$5,723	818	$5,219	545	$6,269	372	$5,025
$20,000-39,999	18,519	$21,046	$12,052	$8,994	$3,039	1,163	$5,417	1,803	$4,790	1,197	$5,799	777	$3,936
$40,000-59,999	12,747	$21,108	$8,849	$12,259	$3,247	1,801	$6,753	2,527	$6,233	1,868	$7,065	989	$4,871
$60,000-79,999	8,297	$21,240	$5,596	$15,644	$3,482	1,906	$9,718	2,666	$8,849	2,124	$10,145	1,411	$5,446
$80,000-99,999	4,754	$21,503	$2,897	$18,606	$3,885	1,586	$11,934	2,184	$10,820	2,699	$12,615	2,813	$5,302
$100,000 or More	2,906	$22,676	$1,679	$20,996	$4,186	1,221	$13,582	1,607	$12,488	4,968	$14,142	6,032	$5,062
Total	60,459	$21,220	$9,498	$11,722	$3,274	8,198	$9,207	11,605	$8,268	13,401	$11,147	12,394	$4,872
2000-01													
Dependent Undergraduates													
Under $20,000	11,455	$17,165	$10,089	$7,075	$3,433	365	$4,912	639	$4,285	421	$5,736	416	$3,919
$20,000-39,999	14,549	$17,275	$9,378	$7,897	$3,426	720	$4,129	1,542	$3,356	745	$4,364	962	$2,758
$40,000-59,999	10,629	$17,260	$6,533	$10,726	$3,698	1,324	$5,175	2,309	$4,440	1,404	$5,440	1,391	$3,146
$60,000-79,999	7,401	$17,338	$3,822	$13,517	$3,827	1,575	$7,503	2,589	$6,533	1,802	$7,775	1,986	$4,051
$80,000-99,999	3,379	$17,649	$1,960	$15,688	$4,209	1,002	$9,271	1,611	$8,198	1,783	$9,479	2,546	$4,627
$100,000 or More	2,655	$18,660	$1,050	$17,609	$4,212	913	$10,770	1,440	$9,236	4,553	$10,690	7,391	$4,832
Total	50,068	$17,355	$7,173	$10,181	$3,639	5,899	$7,215	10,130	$6,079	10,708	$8,674	14,692	$4,405
1995-96													
Dependent Undergraduates													
Under $20,000	12,064	$17,637	$9,659	$7,979	$3,904	548	$4,640	414	$2,975	-	-	-	-
$20,000-39,999	13,502	$17,591	$8,455	$9,135	$4,051	842	$4,880	751	$2,665	-	-	-	-
$40,000-59,999	9,433	$17,476	$5,382	$12,094	$4,404	1,102	$5,450	802	$2,889	-	-	-	-
$60,000-79,999	6,193	$17,516	$3,128	$14,388	$4,291	1,202	$6,716	1,012	$3,481	-	-	-	-
$80,000-99,999	2,931	$17,782	$1,501	$16,281	$4,513	715	$8,187	675	$3,786	-	-	-	-
$100,000 or More	1,943	$18,183	$1,089	$17,095	$4,321	570	$9,595	581	$3,604	-	-	-	-
Total	46,066	$17,606	$6,672	$10,935	$4,158	4,979	$6,438	4,235	$3,240	-	-	-	-

Note: Figures include all dependent need-based aid recipients with a known income (including non-residents). Figures exclude any student enrolled for less than a complete academic year.

Note: Conclusion about the change in UC cost of attendance and net cost between 2005-06 and prior years cannot be made due to a change in UC data reprting standards. Data for years prior to 2005-06 include 12-month student expense budgets for students en

Note: In Constant Dollars

UC Cost of Attendance, Gift Aid, and Loan Statistics for Need-Based Aid Recipients
In Current Dollars

	Need-based Aid Recipients	Current Dollars: Average COA	Current Dollars: Average Gift Aid	Current Dollars: Average Cost Less Gift Aid	Current Dollars: Avg. Student Loan (incl. Non-Borrowers)	Need Based Borrowers: Parent Loans Number	Need Based Borrowers: Parent Loans Average	Need Based Borrowers: Unsubsidized Loans Number	Need Based Borrowers: Unsubsidized Loans Average	Non-Need Based Borrowers: Parent Loans Number	Non-Need Based Borrowers: Parent Loans Average	Non-Need Based Borrowers: Unsubsidized Loans Number	Non-Need Based Borrowers: Unsubsidized Loans Average
2005-06													
Dependent Undergraduates													
Under $20,000	13,236	$21,139	$13,082	$8,057	$3,080	521	$5,723	818	$5,219	545	$6,269	372	$5,025
$20,000-39,999	18,519	$21,046	$12,052	$8,994	$3,039	1,163	$5,417	1,803	$4,790	1,197	$5,799	777	$3,936
$40,000-59,999	12,747	$21,108	$8,849	$12,259	$3,247	1,801	$6,753	2,527	$6,233	1,868	$7,065	989	$4,871
$60,000-79,999	8,297	$21,240	$5,596	$15,644	$3,482	1,906	$9,718	2,666	$8,849	2,124	$10,145	1,411	$5,446
$80,000-99,999	4,754	$21,503	$2,897	$18,606	$3,885	1,586	$11,934	2,184	$10,820	2,699	$12,615	2,813	$5,302
$100,000 or More	2,906	$22,676	$1,679	$20,996	$4,186	1,221	$13,582	1,607	$12,488	4,968	$14,142	6,032	$5,062
Total	60,459	$21,220	$9,498	$11,722	$3,274	8,198	$9,207	11,605	$8,268	13,401	$11,147	12,394	$4,872
2000-01													
Dependent Undergraduates													
Under $20,000	11,455	$14,746	$8,668	$6,079	$2,949	365	$4,220	639	$3,681	421	$4,928	416	$3,367
$20,000-39,999	14,549	$14,841	$8,057	$6,785	$2,944	720	$3,547	1,542	$2,883	745	$3,749	962	$2,370
$40,000-59,999	10,629	$14,828	$5,613	$9,215	$3,177	1,324	$4,446	2,309	$3,814	1,404	$4,673	1,391	$2,703
$60,000-79,999	7,401	$14,895	$3,283	$11,612	$3,288	1,575	$6,446	2,589	$5,612	1,802	$6,680	1,986	$3,480
$80,000-99,999	3,379	$15,162	$1,684	$13,478	$3,616	1,002	$7,965	1,611	$7,043	1,783	$8,144	2,546	$3,975
$100,000 or More	2,655	$16,031	$902	$15,128	$3,619	913	$9,253	1,440	$7,935	4,553	$9,184	7,391	$4,151
Total	50,068	$14,909	$6,163	$8,747	$3,127	5,899	$6,198	10,130	$5,223	10,708	$7,452	14,692	$3,785
1995-96													
Dependent Undergraduates													
Under $20,000	12,064	$13,251	$7,257	$5,994	$2,933	548	$3,486	414	$2,235	-	-	-	-
$20,000-39,999	13,502	$13,216	$6,353	$6,863	$3,043	842	$3,666	751	$2,002	-	-	-	-
$40,000-59,999	9,433	$13,130	$4,043	$9,087	$3,309	1,102	$4,095	802	$2,170	-	-	-	-
$60,000-79,999	6,193	$13,160	$2,350	$10,810	$3,224	1,202	$5,046	1,012	$2,615	-	-	-	-
$80,000-99,999	2,931	$13,360	$1,128	$12,232	$3,391	715	$6,151	675	$2,845	-	-	-	-
$100,000 or More	1,943	$13,661	$818	$12,843	$3,247	570	$7,209	581	$2,708	-	-	-	-
Total	46,066	$13,228	$5,013	$8,215	$3,124	4,979	$4,837	4,235	$2,434	-	-	-	-

Note: Figures include all dependent need-based aid recipients with a known income (including non-residents).
Figures exclude any student enrolled for less than a complete academic year.

Note: Conclusion about the change in UC cost of attendance and net cost between 2005-06 and prior years cannot be made due to a change in UC data reprting standards. Data for years prior to 2005-06 include 12-month student expense budgets for students en
Note: In Current (Nominal) Dollars

CSU Cost of Attendance, Gift Aid, and Loan Statistics
In Constant Dollars

	Need-based Aid Recipients	Constant Dollars: Average COA	Average Gift Aid	Average Cost Less Gift Aid	Average Student Loan (incl. Non-Borrowers)	Need Based Borrowers: Parent Loans Number	Parent Loans Average	Unsubsidized Loans Number	Unsubsidized Loans Average	Non-Need Based Borrowers: Parent Loans Number	Parent Loans Average	Unsubsidized Loans Number	Unsubsidized Loans Average
2005-06													
Dependent Undergraduates													
Under $20,000	17,544	$14,395	$7,829	$6,566	$1,538	340	$6,195	406	$4,076	8	$11,153	81	$6,768
$20,000-39,999	22,091	$14,376	$6,209	$8,167	$1,718	723	$6,587	964	$3,357	15	$10,951	101	$4,791
$40,000-59,999	13,625	$14,766	$3,022	$11,744	$2,500	1,152	$8,618	1,374	$3,840	53	$10,190	335	$4,637
$60,000-79,999	7,284	$15,581	$1,562	$14,019	$3,155	1,082	$10,053	1,712	$3,824	202	$9,046	1,275	$4,514
$80,000-99,999	3,012	$16,330	$786	$15,544	$3,713	712	$10,892	1,010	$3,852	597	$9,727	2,369	$4,460
$100,000 or More	2,100	$17,044	$605	$16,439	$3,860	642	$11,274	1,018	$3,859	2,001	$10,984	6,325	$4,452
Total	65,656	$14,771	$5,037	$9,734	$2,152	4,651	$9,174	6,484	$3,784	2,876	$10,572	10,486	$4,489
2000-01													
Dependent Undergraduates													
Under $20,000	16,580	$11,726	$6,503	$5,223	$1,704	143	$5,312	270	$2,750	9	$7,714	114	$4,565
$20,000-39,999	16,390	$11,842	$5,017	$6,825	$2,084	313	$5,508	756	$2,678	10	$7,263	87	$4,690
$40,000-59,999	10,435	$12,205	$2,520	$9,685	$2,818	538	$6,832	1,162	$3,189	27	$7,297	293	$4,747
$60,000-79,999	5,626	$12,920	$1,287	$11,633	$3,363	586	$7,944	1,428	$3,288	107	$6,561	1,229	$4,617
$80,000-99,999	2,167	$13,626	$741	$12,885	$3,846	306	$8,248	785	$3,462	363	$7,844	2,204	$4,699
$100,000 or More	1,328	$14,057	$667	$13,390	$3,881	266	$8,597	643	$3,590	1,158	$8,586	5,267	$4,707
Total	52,526	$12,123	$4,304	$7,819	$2,365	2,152	$7,261	5,044	$3,211	1,674	$8,262	9,194	$4,693
1995-96													
Dependent Undergraduates													
Under $20,000	18,955	$12,122	$5,612	$6,510	$2,268	211	$5,682	208	$3,138	5	$7,242	54	$5,740
$20,000-39,999	15,767	$12,239	$4,057	$8,182	$2,770	307	$5,972	452	$2,638	1	$9,983	49	$5,684
$40,000-59,999	9,133	$12,544	$1,939	$10,605	$3,454	420	$7,150	660	$2,995	9	$7,812	171	$5,760
$60,000-79,999	4,553	$13,168	$935	$12,233	$3,912	329	$7,864	853	$3,607	47	$8,261	631	$5,338
$80,000-99,999	1,799	$13,750	$477	$13,273	$4,313	214	$8,347	550	$3,595	165	$8,072	1,191	$5,448
$100,000 or More	924	$14,420	$411	$14,009	$4,492	166	$8,407	454	$4,013	411	$8,305	2,257	$5,443
Total	51,131	$12,425	$3,785	$8,640	$2,893	1,647	$7,167	3,177	$3,367	638	$8,229	4,353	$5,448

Note: Figures include all dependent need-based aid recipients with a known income.
Figures exclude any student enrolled for less than a complete academic year.
Note: In Constant Dollars

CSU Cost of Attendance, Gift Aid, and Loan Statistics
In Current Dollars

	Need-based Aid Recipients	Current Dollars: Average COA	Average Gift Aid	Average Cost Less Gift Aid	Average Student Loan (incl. Non-Borrowers)	Need Based Borrowers: Parent Loans Number	Parent Loans Average	Unsubsidized Loans Number	Unsubsidized Loans Average	Non-Need Based Borrowers: Parent Loans Number	Parent Loans Average	Unsubsidized Loans Number	Unsubsidized Loans Average
2005-06													
Dependent Undergraduates													
Under $20,000	17,544	$14,395	$7,829	$6,566	$1,538	340	$6,195	406	$4,076	8	$11,153	81	$6,768
$20,000-39,999	22,091	$14,376	$6,209	$8,167	$1,718	723	$6,587	964	$3,357	15	$10,951	101	$4,791
$40,000-59,999	13,625	$14,766	$3,022	$11,744	$2,500	1,152	$8,618	1,374	$3,840	53	$10,190	335	$4,637
$60,000-79,999	7,284	$15,581	$1,562	$14,019	$3,155	1,082	$10,053	1,712	$3,824	202	$9,046	1,275	$4,514
$80,000-99,999	3,012	$16,330	$786	$15,544	$3,713	712	$10,892	1,010	$3,852	597	$9,727	2,369	$4,460
$100,000 or More	2,100	$17,044	$605	$16,439	$3,860	642	$11,274	1,018	$3,859	2,001	$10,984	6,325	$4,452
Total	65,656	$14,771	$5,037	$9,734	$2,152	4,651	$9,174	6,484	$3,784	2,876	$10,572	10,486	$4,489
2000-01													
Dependent Undergraduates													
Under $20,000	16,580	$10,074	$5,586	$4,488	$1,464	143	$4,563	270	$2,363	9	$6,627	114	$3,922
$20,000-39,999	16,390	$10,173	$4,310	$5,863	$1,790	313	$4,732	756	$2,301	10	$6,240	87	$4,029
$40,000-59,999	10,435	$10,485	$2,165	$8,320	$2,421	538	$5,870	1,162	$2,740	27	$6,269	293	$4,078
$60,000-79,999	5,626	$11,099	$1,105	$9,994	$2,889	586	$6,824	1,428	$2,825	107	$5,636	1,229	$3,967
$80,000-99,999	2,167	$11,706	$637	$11,069	$3,304	306	$7,086	785	$2,974	363	$6,739	2,204	$4,037
$100,000 or More	1,328	$12,076	$573	$11,503	$3,334	266	$7,386	643	$3,084	1,158	$7,376	5,267	$4,044
Total	52,526	$10,415	$3,698	$6,717	$2,032	2,152	$6,238	5,044	$2,758	1,674	$7,098	9,194	$4,031
1995-96													
Dependent Undergraduates													
Under $20,000	18,955	$9,107	$4,217	$4,890	$1,704	211	$4,269	208	$2,357	5	$5,441	54	$4,312
$20,000-39,999	15,767	$9,195	$3,048	$6,147	$2,081	307	$4,487	452	$1,982	1	-	49	$4,271
$40,000-59,999	9,133	$9,424	$1,457	$7,967	$2,595	420	$5,372	660	$2,251	9	$5,870	171	$4,328
$60,000-79,999	4,553	$9,893	$703	$9,190	$2,939	329	$5,908	853	$2,710	47	$6,206	631	$4,010
$80,000-99,999	1,799	$10,331	$358	$9,973	$3,240	214	$6,272	550	$2,701	165	$6,065	1,191	$4,093
$100,000 or More	924	$10,834	$309	$10,525	$3,375	166	$6,316	454	$3,015	411	$6,240	2,257	$4,089
Total	51,131	$9,335	$2,844	$6,491	$2,174	1,647	$5,385	3,177	$2,530	638	$6,182	4,353	$4,093

Note: Figures include all dependent need-based aid recipients with a known income.
Figures exclude any student enrolled for less than a complete academic year.
Note: In Current (Nominal) Dollars

Appendix B

Dependent Full-Time Undergraduate Students
NPSAS Data indexed to 2005-06

Parents' Income	Cost of Attendance			Net Cost of Attendance		
	UC	CSU	CCC	UC	CSU	CCC
< $20,000	$ 20,447	$ 14,360	$ 10,502	$ 10,065	$ 7,826	$ 8,542
$20,000 - $39,999	$ 19,677	$ 14,765	$ 9,863	$ 12,575	$ 9,229	$ 8,449
$40,000 - $59,999	$ 20,525	$ 14,257	$ 10,487	$ 15,034	$ 12,753	$ 10,061
$60,000 - $79,999	$ 20,263	$ 15,556	$ 10,255	$ 16,964	$ 15,088	$ 10,181
$80,000 - $99,999	$ 19,833	low n	$ 10,522	$ 17,346	low n	$ 10,359
>= $100,000	$ 19,924	$ 14,964	$ 10,072	$ 18,834	$ 14,308	$ 10,010

Appendix C

CSU Comparable Institutions*

Parent income	Cost of Attendance	Grant Aid	Cost of Attendance less Grant Aid	Student Loans	Cost of Attendance less Grant Aid and Student Loans	Subsidized Loans	Unsubsidized Loans
Less than $20,000	$ 33,121	$ 19,951	$ 13,170	$ 7,461	$ 5,709	$ 4,065	$ 4,314
$20,000 to $39,999	$ 33,137	$ 17,053	$ 16,084	$ 7,594	$ 8,490	$ 3,272	$ 2,903
$40,000 to $59,999	$ 34,562	$ 20,118	$ 14,444	$ 7,393	$ 7,051	$ 3,988	$ 4,287
$60,000 to $79,999	$ 34,599	$ 18,580	$ 16,019	$ 6,461	$ 9,558	$ 3,673	$ 3,680
$80,000 to $99,999	$ 34,619	$ 17,359	$ 17,260	$ 6,282	$ 10,978	$ 3,352	$ 5,113
$100,000 or more	$ 34,590	$ 11,870	$ 22,720	$ 6,395	$ 16,325	$ 2,800	$ 4,938

*Data provided for CSU Comparable Institutions are from four institutions. These institutions range in enrollment from 1,200 to 3,900. Three of the institutions are located in Northern California and one is located in Southern California.

UC Comparable Institutions*

Parent income	Cost of Attendance	Grant Aid	Cost of Attendance less Grant Aid	Student Loans	Cost of Attendance less Grant Aid and Student Loans	Subsidized Loans	Unsubsidized Loans
Less than $20,000	$ 41,067	$ 29,880	$ 11,187	$ 5,896	$ 5,291	$ 5,193	$ 1,152
$20,000 to $39,999	$ 41,726	$ 29,571	$ 12,155	$ 5,824	$ 6,331	$ 5,100	$ 1,232
$40,000 to $59,999	$ 41,842	$ 27,027	$ 14,815	$ 5,681	$ 9,134	$ 4,641	$ 1,581
$60,000 to $79,999	$ 41,796	$ 24,935	$ 16,861	$ 5,021	$ 11,840	$ 3,883	$ 1,796
$80,000 to $99,999	$ 41,568	$ 22,995	$ 18,573	$ 5,059	$ 13,514	$ 3,549	$ 1,847
$100,000 or more	$ 41,782	$ 17,522	$ 24,260	$ 5,034	$ 19,226	$ 2,555	$ 3,330

*Data provided for UC Comparable Institutions are from four institutions. These institutions range in enrollment from 1,100 to 16,900. Three of the institutions are located in Southern California and one is located in northern California.

The Data provided is for full-time/full-year dependent UG students who were enrolled full-time for 9 or more months from July 1, 2005 to June 30, 2006 and who received financial aid. The price of attendance includes tuition and fees charged by the institu

CSU Comparable Institutions*

Parent income	Federal Grant	State Grant	Institutional Grant	Private Grant	Total Financial Aid Package without Loans	Loans	Total Financial Aid Package with Loans
Less than $20,000	$ 4,016	$ 6,565	$ 8,114	$ 1,676	$ 20,371	$ 7,461	$ 27,832
$20,000 to $39,999	$ 3,159	$ 5,858	$ 8,665	$ 2,167	$ 19,849	$ 7,594	$ 27,443
$40,000 to $59,999	$ 1,287	$ 5,193	$ 10,077	$ 3,562	$ 20,119	$ 7,393	$ 27,512
$60,000 to $79,999	$ 846	$ 4,328	$ 10,553	$ 2,854	$ 18,581	$ 6,461	$ 25,042
$80,000 to $99,999	$ 24	$ 3,077	$ 10,392	$ 3,875	$ 17,368	$ 6,282	$ 23,650
$100,000 or more	$ 8	$ 64	$ 8,583	$ 3,263	$ 11,918	$ 6,395	$ 18,313

*Data provided for CSU Comparable Institutions are from four institutions. These institutions range in enrollment from 1,200 to 3,900. Three of the institutions are located in Northern California and one is located in Southern California.

UC Comparable Institutions*

Parent income	Federal Grant	State Grant	Institutional Grant	Private Grant	Total Financial Aid Package without Loans	Loans	Total Financial Aid Package with Loans
Less than $20,000	$ 5,177	$ 7,019	$ 16,894	$ 1,054	$ 30,144	$ 5,896	$ 36,040
$20,000 to $39,999	$ 3,853	$ 6,929	$ 17,247	$ 2,056	$ 30,085	$ 5,824	$ 35,909
$40,000 to $59,999	$ 1,967	$ 6,446	$ 17,468	$ 1,528	$ 27,409	$ 5,681	$ 33,090
$60,000 to $79,999	$ 1,903	$ 5,577	$ 16,614	$ 1,121	$ 25,215	$ 5,021	$ 30,236
$80,000 to $99,999	$ 1,618	$ 5,156	$ 15,307	$ 1,220	$ 23,301	$ 5,059	$ 28,360
$100,000 or more	$ 2,038	$ 4,663	$ 10,118	$ 1,617	$ 18,436	$ 5,034	$ 23,470

*Data provided for UC Comparable Institutions are from four institutions. These institutions range in enrollment from 1,100 to 16,900. Three of the institutions are located in Southern California and one is located in northern California.

The Data provided is for full-time/full-year dependent UG students who were enrolled full-time for 9 or more months from July 1, 2005 to June 30, 2006 and who received financial aid. All data are unweighted averages.

9 out of 10 AICCU UG Dependent Students receive some form of financial aid whether it be grants, scholarships, or loans.

California Postsecondary Education Commission

Developing a Statewide Higher Education Affordability Policy

June 2006

This report addresses the "affordability crisis" in California higher education today. It served as a background piece for panel discussions that were held at the Commission's June 27, 2006, meeting.

Contents

The Commission advises the Governor and Legislature on higher education policy and fiscal issues. Its primary focus is to ensure that the state's educational resources are used effectively to provide Californians with postsecondary education opportunities. More information about the Commission is available at www.cpec.ca.gov.

Commission Report 06-10

Background

The Postsecondary Education Commission is currently examining the question of affordability at California's colleges and universities. It is a pivotal issue that is being debated both within and outside the higher education community. Clearly, the ability of students and families to finance a higher education is becoming a critical issue.

A recent public opinion poll showed growing concern about college costs and accountability eroding an otherwise favorable view of higher education. Nearly half of registered voters questioned whether higher education provides value in proportion to its costs (Winston and Associates 2006).

A linkage is being made by the public between price, quality, and accountability, resulting in a general perception that higher education is less affordable and less responsive to the aspirations of individuals and the needs of today's workforce. Without question, political and policy discussions emanating from a perceived "affordability crisis" cannot, and should not, be viewed in isolation from issues of quality and value.

In a recent paper prepared for the *National Commission on the Future of Higher Education*, the Public Policy Institute for Higher Education identified four major policy concerns surrounding higher education:

1. **Student Affordability** -- The ability of students and families to have access to and success in pursuing a postsecondary education;
2. **Institutional Cost Control** -- Productivity and the need to focus on public as well as institutional priorities;

3. **State and National Capacity** -- The ability to remain economically competitive through a sufficient supply of workers and investments in research and technology; and

4. **Public Credibility** -- Support for the enterprise through accountability for the use of public and private resources to produce a high quality product.

These concerns constitute a hierarchy of interrelated issues that begin with access and affordability and culminate with the public's skepticism of higher education as an investment worth making -- whatever the cost.

The Commission's Principles

At its March 2006 meeting, the Commission adopted a set of principles (see Appendix A) that should serve to guide the development of an affordability policy for California higher education. This action was predicated on the fact that student fees are no longer the driving element in whether or not a student can afford to enroll in a public university. Rather, student fee issues have been eclipsed by the need to examine the total cost of attendance. Colleges costs in areas other than fees have far outstripped fee increases, and the focus of state policy makers must shift from cost containment through a patchwork of fee buyouts or reductions to addressing the actual costs that must be financed by students and families.

This change in policy focus recognizes that major shifts in financing higher education have occurred, including:

- **Borrowing** has become the principle mechanism for keeping higher education within the reach of most families, resulting in a substantial increase in levels of indebtedness;
- **Grant aid**, as a percentage of total college costs, has declined to the point that even students with the greatest demonstrated need are expected to assume some level of indebtedness; and
- **Barriers to access** presented by the real cost of attendance remain a problem even at the State's community colleges where the ability of many non-traditional students to attend is exacerbated by their need to work as well as care for families.

Driving this shift in the financial burden for higher education costs in California has been the steady decline in state support for higher education. Overall general fund revenues, as a percentage of total general fund spending, have declined precipitously in the past 20 years. This shortfall has been made up through sharp increases in student fees that have often been financed through increased borrowing.

Even if fee increases had not been driven by budget shortfalls, it is likely that the overall cost of education would have substantially increased the need to borrow.

- In the last ten years, the total cost of attendance has risen significantly. The current estimated cost of attendance per year for CSU ranges from $14,029 to $19,624. At UC, the cost of attendance ranges from $19,596 to $26,177. For detailed cost information on all of the public university campuses, see Appendix B.
- The greatest expense to students comes in the form of housing costs, which can vary substantially depending on the region of the state where the student attends school. Most college students reside in off-campus housing and their housing options can be very costly, particularly in California's urban areas. For students at some campuses, housing accounts for over 50% of total college expenses, while at other campuses it can account for less than 30%. CSU campuses will show housing costs as a greater percentage than UC, in many cases, because tuition takes up a smaller share of the budget. The most expensive CSU campuses are in San Francisco and Pomona and the most expensive UC campuses are in San Diego, Los Angeles, and Irvine. The most affordable CSU campuses, with respect to housing costs, are in Fresno, Stanislaus, Bakers-

field, and Chico. UC campuses with the most affordable off-campus housing are in Merced and Riverside.

- Over the course of the decade ending in 2003-04, median household income rose 13%. This was more than the fee increases at the state's four-year public institutions, but significantly less than the approximately 20% increase in costs of attendance at the University of California, the California State University, and the independent institutions.

It is unlikely that California will return to a time when state funding can keep pace with enrollment and price increases. Only a major shift in tax and spending policies will alter the proportion of state and federal funding going to higher education. In fact, the state percentage of general fund resources is predicted to decline in every state.

The Role of Need-Based Grant Aid

As the State struggles to direct funding to areas that can have real impact on outcomes, it is important for policy makers to realize that an investment in need-based aid is more effective than previous studies may suggest. All public higher education is heavily subsidized (through direct funding to institutions and student grants), and even private education is subsidized to some degree (through student grants).

The Commission, in adopting its principles for the development of an affordability policy, encourages all efforts to increase the level of need-based state funding for student financial assistance. In the most comprehensive examination of this issue, the California Student Aid Commission (CSAC) and EdFund examined the impact of Cal Grant funding on persistence in higher education in its 2004 report *Determined to Succeed: Realizing the College Dream in California*. The report, which looked at 100,000 applicants for financial aid in 1998, concluded that "…the receipt of a Cal Grant significantly increased a student's likelihood of persisting in school for four years."

Among the findings were:

- Looking at one cohort of Cal Grant recipients who originally entered four-year institutions, 73% were enrolled continuously at those institutions over a four-year period and 85% were still enrolled at some institution;

- More than 96% of Cal Grant A recipients re-enrolled after their first year of study -- the highest rate of any group in the cohort; and

- The most clear-cut finding from the study is that persistence -- the act of re-enrolling in college each year -- is high for Cal Grant recipients. These numbers are significantly greater than persistence for California students generally, regardless of other factors such as family background or prior academic achievement that may influence a student's progress toward educational goals.

Receiving a Cal Grant was found to be significant in determining whether students enrolled immediately in the first year or stayed at the same institution all four years. Investing in need-based grant aid appears to be a cost effective method for increasing access and, just as importantly, for encouraging persistence and completion in California higher education. But the availability of grant aid has been constrained both at the federal and state levels and, coupled with persistently escalating costs, has led to substantial increases in borrowing for both low and middle income families.

The Dynamics of Debt

Who borrows?

In a 2003 study, *Borrowing Trouble: Examining the Indebtedness of College Students in California,* Ed-Fund determined that borrowing to finance higher education in California, with some notable exceptions such as proprietary school borrowing, tends to mirror patterns throughout the nation. Display 1 indicates that the percentage of students who borrow at California's public four-year universities is less than the national average, but the percentage who borrow to attend for-profit institutions is considerably higher.

DISPLAY 1 Distribution of Students and Borrowers in the Nation and California

Segment	Enrollment United States	Borrowers United States	Borrowers California	Sample
Public 4-year	38.3%	46.8%	38.8%	50.0%
Private 4-year	20.7%	30.7%	28.4%	16.6%
Public 2-year	34.2%	9.3%	4.8%	10.9%
Private 2-year	1.6%	0.9%	3.8%	7.5%
Proprietary	5.2%	12.3%	24.2%	15.0%
Total	100.0%	100.0%	100.0%	**100.0%**

Source: National Center for Education Statistics and Office of Postsecondary Education, U.S. Department of Education and EdFund.

The data indicates that the perceived claim that California remains a "bargain" in higher education is true only to a limited degree. Community college fees are still the lowest in the country, but even at that segment, close to 5% of students borrow money, about half the national average for public two-year colleges. At California's four year institutions, borrowing is beginning to approach the national average.

How much education debt is too much?

As Display 2 indicates, average indebtedness for California graduates has jumped substantially in the period 1995-96 to 2003-04. Moreover, these figures represent only federally guaranteed loans and do not include other forms of debt such as alternative credit-based education loans -- the fastest growing area of student lending.

DISPLAY 2 Average Debt level of California Undergraduates Entering Repayment

	University of CA	California State Univ.	Private Four Year	Voc/Prop	All
1995-96	$10,763	$9,503	$14,578	$22,602	$11,352
1996-97	$11,475	$10,325	$16,191	$24,068	$12,340
1997-98	$13,911	$11,355	$17,552	$25,139	$13,709
1998-99	$15,167	$12,462	$18,139	$26,081	$14,761
1999-00	$15,613	$12,992	$19,328	$29,168	$15,495
2000-01	$15,652	$13,498	$20,408	$29,918	$16,045
2001-02	$16,516	$13,933	$20,977	$22,960	$16,766
2002-03	$16,363	$13,861	$21,070	$22,715	$16,866
2003-04	$17,075	$14,386	$21,982	$29,003	$17,884

Source: EdFund.

Comparable 2003-04 figures for graduate students shown in Display 3 indicate that average debt levels are now at a point that they are having real impact on academic and professional decision making. Debt levels, particularly at the graduate level, are forcing students to make career choices that can effectively preclude lower paying, public service careers.

DISPLAY 3 Average Debt Level of California Graduates Entering Repayment

	University of CA	California State Univ.	Private Four Year	Voc/Prop	All
1995-96	$19,803	$13,073	$25,917	$25,581	$22,090
1996-97	$19,317	$13,568	$28,287	$32,946	$23,173
1997-98	$22,699	$14,934	$30,282	$38,221	$25,667
1998-99	$24,815	$17,231	$31,967	$46,311	$28,369
1999-00	$28,514	$18,424	$34,535	$46,321	$31,145
2000-01	$30,740	$19,532	$36,700	$45,575	$33,393
2001-02	$32,859	$21,200	$38,109	$44,217	$34,732
2002-03	$32,520	$20,963	$37,139	$37,790	$33,971
2003-04	$34,284	$21,634	$36,670	$38,227	$33,886

Source: EdFund.

Although education debt has grown substantially, there is no indication that borrowers are unable to manage current levels. Due to intensive counseling efforts by schools, lenders, and guaranty agencies, overall default rates are, in fact, down.

However, debt levels that are generally based only on subsidized and unsubsidized federally guaranteed loans do not include credit card debt, the use of home equity to finance education, and alternative or credit-based private lending, currently the area of greatest growth.

- The parent loan, or PLUS program, had enormous growth over the period from 1994-95 through 2003-04, posting a 260% increase. The greatest growth was for students attending the CSU, but increasingly, families with students attending other segments are turning to the parent loan program as well.
- Credit card debt was lower for the groups in the more recent year, while guaranteed student loan debts remained high, and other types of debt, mostly installment debt, were significantly higher. This indicates that students are not turning to credit cards but are using other types of debt on top of student loans to fund their college expenses.
- Students who attend half time are in a more precarious financial position with higher debt, higher credit card utilization, and lower incomes than either full-time students or students who were repaying their loans.

What are the Major Risk Factors in Education Debt?

In a 2002 study of student loan default patterns in California, *Clearing Accounts: Causes of Student Loan Default,* EdFund identified some of the major risk factors in borrowing and suggested avenues for mitigating the impact of each.

- **Backgound factors count --** Students from low-income families, particularly those with no financial safety net, are more vulnerable. Offering low income students more grant aid to help minimize the need to borrow would help, as would managing the growth of college tuition.

- **Students who drop out of school have heightened risks –** It is not enough to give students access; for a college investment to be sound, students must complete their degrees. Certificate or degree completion rates for higher education are an important statistic to consider. However, without coordination among the systems, completion rates are difficult to track since students move from school to school.
- **Job market success is crucial for loan repayment --** Unlike grants and other aid, successful borrowing hinges directly upon a satisfactory connection between school and work. The problem isn't how much a student owes, but rather the level of income he or she has when the loan must be repayed. This economic factor means that student financial aid must incorporate the labor market implications of schools and their programs. The key for a student debtor is to obtain a reasonably well-paying job that has prospects for future growth. Some academic programs, particularly those that do not lead to jobs with high enough or steady enough wages, may not be worth borrowing money to attend. Further, since unemployment and low wages strongly predict default, any downturn in the economic cycle might signal an increase in default rates.
- **Loan servicing has a major bearing on default –** Students with many loans and servicers have higher default rates, signaling that there may be advantages in simplifying the repayment process as much as possible. Also, borrower-initiated steps to ease repayment appear to pay off.

The Affordability Panel

In order to assist the Commission in the development of a statewide affordability policy, CPEC staff has assembled three panels for its June 27, 2006, meeting to provide information from a number of perspectives including:

- A summary and analysis of trends in financing higher education, including availability of grant aid, an analysis of who borrows and for what purpose, and forecasts of future trends in financing higher education;
- Perspectives on the impact of borrowing on student choice and opportunity;
- The view of the segments regarding affordability at public and private four-year and two-year California colleges and universities; and
- The view of students and the impact of the total cost of attendance on the experience of undergraduates.

Panelists have been asked to consider the following questions in their presentations to the Commission:

1. What are the principal drivers of the rapid increases in college costs in California?
2. Has higher education at California's four-year public and private institutions become unaffordable for low- and middle-income families?
3. Should there be a freeze on systemwide fee increases at public colleges and universities if sufficient state funding is provided to cover enrollment growth and inflation in California?
4. What steps, including new programs and funding options, can state policy makers take to reduce the financial burden posed by college costs on California students and families?

APPENDIX A

Development of a New Commission Policy on Higher Education Affordability: A Set of Principles

The Commission recognizes that the State has entered a new era of funding for higher education. Student fees have escalated dramatically and the overall cost of attendance, increased levels of debt, and a decline in the buying power of grant aid might be putting higher education beyond the reach of many California families. Therefore, the Commission will develop a financing model for students and families that is based on the concept of overall affordability, rather than on the level of systemwide student charges. In so doing, the Commission has developed a set of principles to guide an "affordability" policy that includes the following elements:

- The State should renew its commitment as articulated in the Master Plan and move toward restoring a higher level of State General Fund support. It should be recognized that large fee increases have generally been a function of diminishing General Fund support.
- Fees should be "frozen" at current-year levels for the next five years, with the State providing the funds that would have been generated by increases in student fees. Such funding is critical to maintaining educational access and quality at the segments
- The Commission has reexamined its policy of "gradual, moderate, and predictable." It retains the concept that students and families should be able to plan and manage the costs of a higher education, and defines "moderate" as an increase tied to an affordability index that includes indices such as growth in personal income, increases in the consumer price index, or a percentage of the cost of attendance.
- There has been a rapid rise in the level of debt incurred by undergraduate students and their families because of fee increases and the rising costs of going to college, including California's expensive housing. Financial aid has not kept pace with the rising cost of a higher education. The Commission supports efforts at increasing grant aid through vehicles such as AB 2813.
- The Commission's affordability policy must recognize the significant "opportunity costs" resulting from rising college expenses. These include, but are not limited to, increases in time to degree, forgone earnings, and the impact on access and college aspirations.
- The Commission reaffirms its prior position that Cal Grants be administered at the campus level. Students would be better served and debt load could be better managed if the State's Cal Grant programs were decentralized.

Ultimately, the higher cost of education and the lack of sufficient financial aid might present an obstacle for some students who wish to enroll in higher education, an issue that the State must address.

APPENDIX B

CSU	Bakersfield	Channel Islands	Chico	Dominguez Hills	East Bay	Fresno	Fullerton	Humboldt	Long Beach	Los Angeles	Maritime Academy	Monterey Bay
2005 GROSS RENT USING CPI ADJUSTMENT (FOR 9 MONTHS)	$ 5,571	$ 8,547	$ 5,530	$ 6,705	$ 8,680	$ 4,966	$ 8,809	$ 5,181	$ 6,941	$ 6,368	$ 7,798	$ 7,654
TUITION AND FEES	$ 3,318	$ 2,980	$ 3,370	$ 2,991	$ 2,916	$ 2,986	$ 2,990	$ 3,167	$ 2,864	$ 3,035	$ 3,446	$ 2,999
BOOKS AND SUPPLIES (AS ESTIMATED BY UNIVERSITY)	$ 1,242	$ 1,240	$ 1,242	$ 900	$ 1,242	$ 1,240	$ 1,200	$ 1,080	$ 1,242	$ 1,242	$ 1,242	$ 1,242
TRANSPORTATION (AS ESTIMATED BY UNIVERSITY)	$ 1,116	$ 990	$ 750	$ 1,008	$ 1,020	$ 960	$ 1,116	$ 1,062	$ 1,116	$ 1,041	$ 1,116	$ 1,116
FOOD ($203 per month x 9)	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827
HEALTH EXPENSES ($39 per month x 9)	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351
MISCELLANEOUS ($188.82 per month x 9)	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699
TOTAL 9 MONTH CPEC ESTIMATE OF COST OF ATTENDANCE	$ 15,125	$ 17,634	$ 14,770	$ 15,481	$ 17,735	$ 14,029	$ 17,992	$ 14,368	$ 16,041	$ 15,563	$ 17,479	$ 16,888

CSU	Northridge	Pomona	Sacramento	San Bernardino	San Diego	San Francisco	San Jose	San Luis Obispo	San Marcos	Sonoma	Stanislaus
2005 GROSS RENT USING CPI ADJUSTMENT (FOR 9 MONTHS)	$ 7,605	$ 10,496	$ 5,489	$ 6,908	$ 6,682	$ 10,219	$ 8,875	$ 6,679	$ 8,444	$ 8,495	$ 5,479
TUITION AND FEES	$ 3,036	$ 3,006	$ 3,072	$ 3,092	$ 3,122	$ 3,128	$ 3,292	$ 4,245	$ 3,062	$ 3,616	$ 3,030
BOOKS AND SUPPLIES (AS ESTIMATED BY UNIVERSITY)	$ 1,242	$ 1,242	$ 1,242	$ 1,242	$ 1,242	$ 1,260	$ 1,242	$ 1,260	$ 1,260	$ 1,242	$ 1,242
TRANSPORTATION (AS ESTIMATED BY UNIVERSITY)	$ 1,134	$ 1,003	$ 1,116	$ 1,008	$ 1,010	$ 1,134	$ 1,116	$ 900	$ 990	$ 1,116	$ 1,008
FOOD ($203 per month x 9)	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827
HEALTH EXPENSES ($39 per month x 9)	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351	$ 351
MISCELLANEOUS ($188.82 per month x 9)	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699
TOTAL 9 MONTH CPEC ESTIMATE OF COST OF ATTENDANCE	$ 16,894	$ 19,625	$ 14,796	$ 16,127	$ 15,933	$ 19,618	$ 18,402	$ 16,962	$ 17,634	$ 18,347	$ 14,636

UC	Berkeley	Davis	Irvine	Los Angeles	Merced	Riverside	San Diego	Santa Barbara	Santa Cruz
2005 GROSS RENT USING CPI ADJUSTMENT (FOR 9 MONTHS)	$ 7,069	$ 6,936	$ 10,755	$ 11,543	$ 4,976	$ 5,546	$ 12,303	$ 8,075	$ 8,177
TUITION AND FEES	$ 6,512	$ 7,457	$ 6,770	$ 6,504	$ 6,653	$ 6,590	$ 6,685	$ 6,997	$ 6,949
BOOKS AND SUPPLIES (AS ESTIMATED BY UNIVERSITY)	$ 1,266	$ 1,446	$ 1,468	$ 1,554	$ 1,444	$ 1,700	$ 1,504	$ 1,437	$ 1,395
TRANSPORTATION (AS ESTIMATED BY UNIVERSITY)	$ 1,108	$ 1,407	$ 1,607	$ 1,530	$ 1,922	$ 2,000	$ 1,925	$ 1,404	$ 1,563
FOOD ($203 per month x 9)	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827	$ 1,827
HEALTH EXPENSES ($26 per month x 9)	$ 234	$ 234	$ 234	$ 234	$ 234	$ 234	$ 234	$ 234	$ 234
MISCELLANEOUS ($188.82 per month x 9)	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699	$ 1,699
TOTAL 9 MONTH CPEC ESTIMATE OF COST OF ATTENDANCE	$ 19,716	$ 21,006	$ 24,360	$ 24,891	$ 18,755	$ 19,597	$ 26,178	$ 21,673	$ 21,845

The estimates used are based on off-campus living expenses for a 9-month school year period.

Boxes shadowed on the matrix indicate the following:

- For California Maritime Academy and UC Merced, the median gross rent is for the entire city where the campus is located, not just within the 3-mile radius of the campus.
- UC Irvine does not post estimates for books, supplies, and transportation. Therefore, a UC average cost for these expenses is used.

EXPLANATION OF CAMPUS-SPECIFIC COST EVALUATION

MEDIAN GROSS RENT	Calculated using 2000 Census data. Median prices include the areas within a 3-mile radius of each campus. The Census defines gross rent as "the contract rent plus the estimated average monthly cost of utilities (electricity, gas, water and sewer) and fuels (oil, coal, kerosene, wood, etc.) if these are paid by the renter (or paid for the renter by someone else). Gross rent is intended to eliminate differentials that result from varying practices with respect to the inclusion of utilities and fuels as part of the rental payment. The estimated costs of utilities and fuels are reported on an annual basis but are converted to monthly figures for the tabulations."
TUITION AND FEES	As specified by each campus.
BOOKS AND SUPPLIES	As estimated by each campus.
TRANSPORTATION	As estimated by each campus.
FOOD	The estimate for food consumed at home is based upon the March 2005 US Department of Agriculture (USDA) Low Cost Food Plan for single adults. Estimated costs of food consumed away from home were calculated using the 2002 Consumer Expenditure Survey (CES) and adjusted for inflation prices using the Consumer Price Index for Food Away from Home. (Obtained from California Budget Project report http://www.cbp.org/2005/0509_mem.pdf.)
HEALTH SERVICES	Based on survey data by the SEARS Data System. Figures differ by system but are not campus specific.
MISCELLANEOUS	The "miscellaneous" category includes expenditures on clothing and services, education, reading, personal care, housekeeping supplies, and basic telephone service; the estimates for telephone service do not include long distance calls. NOTE: The "education and reading" component includes items such as books and newspapers. This is the California Budget Project estimate for single adults (not necessarily students).

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California Postsecondary Education Commission

Resident Undergraduate Student Fees – Issues and Options

March 2006

The Legislature is currently considering the Commission's recommendations for a long-term student fee policy. Assemblywoman Liu has incorporated the Commission's recommendations in her proposal, Assembly Bill 1072. This paper presents major policy issues on student fees and reexamines the Commission's student fee policy.

Contents

Commission Report 06-04

One of the primary functions of the California Postsecondary Education Commission is the assessment of the impact of various types and levels of student charges on students and on postsecondary education programs and institutions (66903) (b) (4). The Commission has fulfilled this role through the development of student fee policies in response to specific legislative mandates and through its analysis of the impact of state funding on student fees.

Recent decisions by the Governor, the Legislature, and the segments of higher education highlight the continuing need for a statewide student fee policy. These include:

- The Governor's "compact" with the University of California and the California State University and the proposed student fee "buyout" in the 2006-07 Governor's budget;
- A renewed focus on Community College fees – driven by legislative and community college constituent initiatives including a proposed ballot initiative that seeks to provide stability and predictability to setting and adjusting fees at community colleges.

AB 1072 and the Commission's Policy on Student Fees

Assemblywoman Liu recently introduced AB 1072, a legislative proposal containing the Commission's recommendation as set forth in its 2002 report, *Recommendations for a Long-term Resident Student Fee Policy Framework for Students Enrolled at California's Public Universities*. That report was done in response to supplemental Budget Report Language directing the Commission to convene various parties to develop long-term student fee policy recommendations for students enrolled at the University of California and the California State University.

The policy for setting student fees articulated in AB 1072 is driven by the following principles:

- Student fee levels should be fiscally responsible and affordable, ensuring access while maintaining educational quality.
- The State bears the primary responsibility for funding higher education but it is a shared responsibility with students and their families and, in the case of California's Community Colleges, local funding sources (i.e. property tax revenue).
- Changes should be gradual, moderate and predictable. Students and families should be able to reasonably plan for the costs of completing a degree or certificate program.
- Adequate financial aid should be provided to mitigate the impact of fee increases on the state's neediest students. This should include additional institutional aid as well as adequate Cal Grant funding. Financial aid should be in the form of grants, rather than loan aid if possible.
- Revenues from student fees should remain within the budgets of the respective segments and should not be used to offset general fund shortfalls in other areas of the budget.
- The total cost to the student of attending a particular public institution should be considered. Other costs for higher education such as housing, transportation, and books often affect the total cost of attendance as much or more than systemwide fees.
- The total cost to the state of educating a student should be considered.
- Fees should not increase more rapidly than the ability of Californians to pay based on an objective index of personal income growth.
- Timely and adequate information regarding financial aid should be readily available. The ability to apply for and receive financial aid is dependent on a knowledge of eligibility requirements and application deadlines.

As of this writing, neither the University of California nor the California State University support AB 1072 in its current form. Both segments share similar concerns that AB 1072 sets student fees as a percentage of the cost of education as determined by the Legislative Analyst's Office and caps the upward adjustment of the fees at 8% per year. They argue that, absent the requirement that the state meet its obligation to fund the total cost of instruction, fee revenue generated within the statutory limits would be inadequate to prevent a decline in educational quality and/or meet enrollment growth projections (see Appendix A).

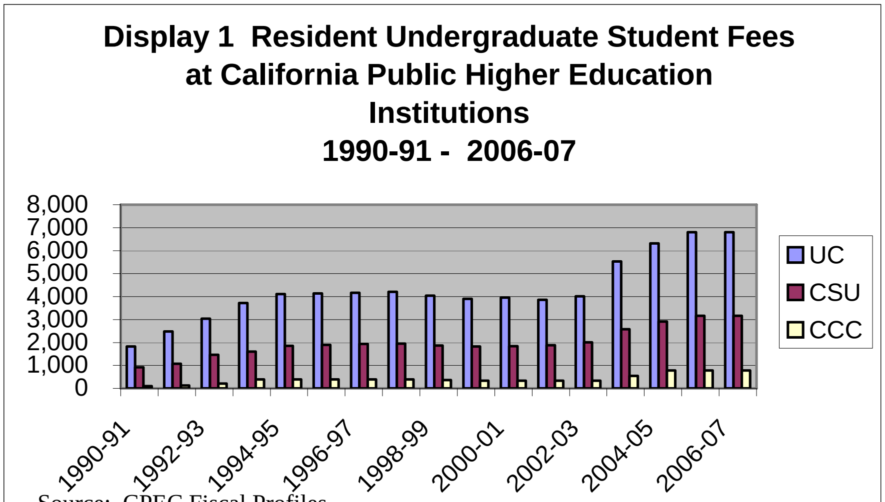
Student Fees in Perspective

Trends in Student Fees

The promise of access, quality, and choice articulated in California's Master Plan for Higher Education is premised on affordable options for all Californians. Affordability, in its turn, has been defined as the need to keep resident undergraduate student fees as low as possible at California's public systems of higher education while providing adequate student financial aid for students with demonstrated need. In the 1960s, resident student charges at the university and state university systems were considerably lower that those charged in comparable states. The community colleges had no student charges until 1984-85, when the state imposed a $100 charge. However, student charges, particularly as a percentage of total revenues, remained relatively modest throughout the 1970s and 1980s.

The severity of the economic downturn in the early 1990s caused student fee policy to be driven primarily by budget considerations resulting in a "boom or bust" cycle. Since 1990, student fees have been characterized by steep increases, periods of relative stability, a decrease in 1998-99, and extremely steep increases as the state's economy deteriorated in 2002 (see Display 1).

Since 1990, the University of California and the California State University have experienced increases of approximately 350% in tuition and fees. In the same period, the nation's consumer price index has shown only a 44% increase while personal income for Californians has risen by some 70%.

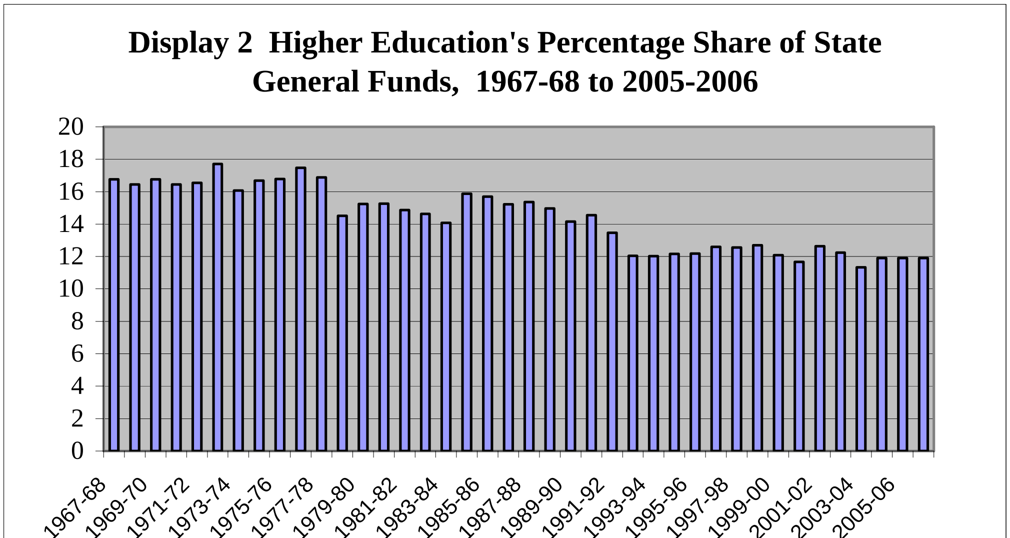


Source: CPEC Fiscal Profiles.

Fees at California Community Colleges have also increased sharply in the past 15 years, jumping from $100 for a full time student to the current level of $780. Recent years have seen the sharpest increases, with fees doubling from $330 in 2002-03 to their current level.

Budget Support for Higher Education

While fee levels at all three public segments have grown exponentially in the past 15 years, higher education has seen its share of State General Funds erode while enrollments continue to increase and the costs of delivering higher education continue to escalate. As Display 2 indicates, higher education's share of State General Funds as a percentage of total state operations has declined from a high of 17.7% in 1973-74 to the current level of 11.9%. Because higher education is discretionary rather than mandatory (as compared to K-12 education or health and human services programs), its share of State General Funds has eroded over time as state and federal mandates and politically sensitive issues have claimed a greater share of the state's general fund dollar (see Appendix B).



Source: CPEC Fiscal Profiles.

Nevertheless, California higher education continues to be viewed as a “bargain’ for Californians when compared to similar charges in other states.

- For the 2005-06 academic year, the California State University charged full-time resident undergraduate students an average of $3,164 in mandatory fees. This total is lower than all of the 15 public universities with which the California State University compares itself for faculty salary purposes and $2,968 lower than the group’s average.
- At the University of California, the $6,802 in mandatory fees for resident undergraduate students in 2005-06 is lower than three of the four public universities with which the University of California compares itself for faculty salaries and is $1,019 lower than the average of that group.
- For the 2005-06 academic year, the California Community Colleges charged resident students $26 per credit unit – the same level that was charged in 2004-05. This amount is lower than the fees charged by any other state in the nation.

Additional information about resident undergraduate and graduate fees at California’s public universities can be found in the Commission’s Fact Sheets FS 06-01 and FS 06-02.

Student Fee Legislation

In 1985, the Legislature passed SB 195 (Maddy), which placed in statute a set of basic principles for setting and adjusting student fees, many of which are reflected in the Commission’s long-term fee policy as well as in AB 1072. These include:

- The state has the primary responsibility for the cost of higher education with students being responsible for a portion of the costs.
- Fee increases should be gradual, moderate and predictable and should not exceed 10% in any one year period except in unforeseen circumstances where states revenues and expenditures are substantially out of balance.
- Fee increases should be indexed to a three-year moving average of changes in support per full-time FTE.
- Consistent with the state’s “tuition-free’ principle, no resident student fee should be used for instructional purposes.

The provisions of SB 195 were extended through 1996 with the passage of Senate Bill 1645 (Dills) in 1990. Since that bill “sunset” in 1996, the State has had no statutory policy regarding the setting and adjusting of student fees. However, as the state’s fiscal situation began deteriorating in 2002-03, the legislature, recognizing the impact on students and families, adopted supplemental language that resulted in the provisions contained in AB 1072.

Current Policies and Proposals

Student fees are set differently for each segment of public higher education in California. The University of California sets resident and nonresident student fees, usually in consultation with the Legislature and the Governor. The Legislature sets student fees at the California State University and the California Community College system.

Higher Education Compact

In 2004, Governor Schwarzeneggar established higher education "compacts" with the University of California and the California State University that called for increased state funding coupled with limited increases in student fees. The agreement sought to stabilize budget allocations, enrollments, and student fees for five years, from 2005-06 to 2010-11. The university and state university agreed to "long-term accountability goals for enrollment, student fees, financial aid, and program quality." They also agreed to provide outcome data that reported progress and demonstrated improvements in program efficiency, use of resources, and student-level data.

The compact was a response to a number of years of budget constraints that threatened both access and educational quality at the four-year public segments. It was intended to prevent further erosion by providing a 3% increase to the segments' base budgets in 2005-06 and 2006-07 and 4% increases in subsequent years through 2010-11. It sought to accommodate 2.5% annual enrollment growth through the life of the compact. The compact also called for any student fee increases to be based on increases in per capita income but permitted the university and state university to charge up to an average of 10% more in student fee increases provided that no less than 20% and no more than 33% of the additional revenue generated from student fees be set aside for need-based financial aid.

Although the compact represents a departure from the annual budget-driven decision-making on student fees, fee and funding agreements between the segments and the executive branch are not a new phenomenon. The substantial erosion in higher education funding in the first half of the 1990s led in 1995 to a compact with then Governor Wilson to reinvest in higher education. That compact ran through 1999-2000 and called for greater investment by the state to fund enrollment growth and other costs coupled with fee increases of up to 10% per year. While the compact did not restore the funding cuts of the early nineties, it did provide fiscal stability for UC and CSU. In fact, as the State became the beneficiary of the booming economy of the late 1990s, student fees were actually lowered in the 1999-2000 budget year. When Governor Davis assumed office in 1999, he entered into his own higher education "Partnership Agreement." Like its predecessor, this agreement called for a commitment of state funding coupled with an acknowledgement of the need to increase fees and provide adequate financial aid. It also featured a number of "accountability" measures that required the four-year segments to achieve goals ranging from maintaining educational quality to increasing the number of community college transfer students.

Because California's economy began to improve following the of 2001-2004 downturn, and additional revenue became available, the Governor made the decision to "buy out" student fee increases for the 2006-2007 budget year by appropriating an additional $75.0 million to the university and $54.4 million to the state university. The Governor's budget indicates that the student fee buy-out is a one-time decision based on an improved revenue picture and does not alter the basic terms of the compact with the University and State University.

Community College Fees

For the 2004-05 academic year, fees for students attending community college increased from $18 to $26 per unit. This 40% increase was substantial and has had, according to the Community College Chancellor's Office, a widespread negative impact on student access. But even with this increase, California's community colleges remain the least expensive in the nation. It is also estimated that up to 40% of students attending community colleges have mandatory fees waived under the Board of Governors' fee waiver program.

The community colleges have been chronically under funded and have had to contend with the funding fallout of Proposition 98 – which provides funding floors for K-12 education but which includes funding for community colleges. The community college share of Proposition 98 funds has averaged slightly more than 10%, although the statutorily required share is closer to 11%. The current year share is 10.79%.

Responding to the need for stable funding, the Community College League has proposed a two-pronged ballot initiative that seeks to provide adequate funding for enrollment growth while simultaneously providing a mechanism for setting and adjusting student fees at California's Community Colleges. The initiative proposes to create a Proposition 98 funding stream separate from K-12 education that would grow based on inflation and projected enrollment growth. The initiative would also reduce the current $26 per unit to $20 and tie future increases to a personal income growth index. Supporters have indicated that the initial fee reduction would create a funding shortfall of approximately $80 million but would be recovered from increases in Proposition 98 funds in the initial year. Thereafter, the combination of modest fee increases tied to growth in personal income and projected increases in Proposition 98 funding would provide stable and adequate funding and a student fee policy that would provide moderate and predictable increases over time.

The Role of Financial Aid

One of the basic tenets of the state's student fee policy is that fee increases should be accompanied by the provision of adequate financial aid in order to mitigate the impact on access resulting from the "sticker shock" effect of fee increases. The four-year public universities have dedicated a portion of fee revenues to providing financial assistance and fee increases have generally been accompanied by increases in the state's Cal Grant funding. Total state funding for financial aid, including the Cal Grant programs, now exceeds $1.2 billion with an additional $540 million from student fee revenue at the university and state university systems.

Of note is that the greatest source of student financial aid is not state funded, but instead comes from the federal government. More importantly, there has been a substantial shift from grant aid to loan aid at the federal level. The dollar level of the federal Pell Grant, the basic building block of financial aid packages for students with demonstrated need, has eroded over time and has not kept up with increases in college costs.

The net impact of the failure of federal financial aid programs to provide adequate grant assistance has led to more aid in the form of loans for even the neediest students. Thus, the promise of adequate financial aid to offset the impact of fee increases has been only partially successful in helping families meet the total cost of attendance.

Issues for Consideration

In the past two decades, California has entered a new era in the manner by which the State funds the costs of higher education. The basic tenets of the Master Plan regarding affordability have been eclipsed by the need to maintain access and educational quality in the face of declining state support. This has resulted not only in substantial fee increases in the past decade and a half but has also led to an average indebtedness of over $18,000 for graduates of California's public universities.

In this new era, the Commission will assess whether its current fee policy, as articulated in AB 1072, meets the needs of students and their families, the segments of higher education, and the State as a whole. It may also assess to what degree the initiative for community college fees proposed by the Community College League is consistent with the policies of the Commission.

To assist in the Commission's analysis of the issues, staff has identified the following points and questions that might assist in its discussions.

1. **Shared responsibility** -- Is this policy sound and, if so, should student fees be tied to a capped percentage of the cost of education? Are the current maximum percentages, 40% for UC and 30% for CSU, reasonable?

2. **Greater responsibility for those that can afford to pay** -- Given the sharp increases in fees and the benefits to individuals from accessing higher education, it has been suggested that families that can afford to pay more of the cost should be obligated to pay higher fees. The rationale behind this approach is similar to that of the differential charges currently in place for graduate education and for non-resident undergraduates. Sometimes referred to as the "high fee/high aid" model, it is premised on the idea that increased student charges would provide badly needed resources for the public systems while providing financial aid resources for those families unable to afford the posted price. Unfortunately, this model often results in a high fee/high indebtedness model wherein state funding shortfalls result in inadequate resources to fund financial aid and the only alternative for needy students is to borrow. Should resident charges at the segments of higher education be more clearly tied to the ability to pay?

3. **Impact of fee increases on access –** Many studies, including CPEC's enrollment demand projections, have attempted to quantify the impact of fee increases on enrollment. The Chancellor's Office of the California Community Colleges has estimated that, over a two-year period, some 300,000 fewer students enrolled after community college fees increased in 2004-05 to $26 per unit.

4. **Impact of budget cuts on access –** Budgetary cuts, when coupled with fee increases, impact the number of courses offered, affecting time to degree.

5. **Gradual, moderate, and predictable student fees** -- While most would argue that moderation and predictability in student fees would aid families and students in planning for college, there is a view that institutionalizing student fee increases would not only run counter to the Master Plan but would, in fact, cause fee increases to be inevitable as they would be built into each year's budget revenues.

6. **Nexus between adequate resources and fee increases --** The segments of higher education have expressed concern that the fee policy articulated in AB 1072 places them in the position of determining fee levels without being guaranteed adequate fiscal resources.

7. **The role of Proposition 98 in community college funding** -- Community colleges have long contended that the funding uncertainties resulting from their inclusion in the Proposition 98 entitlement make it difficult, if not impossible, to plan for and predict the level of student fee revenue sufficient to fund enrollment demands. They also note that fee revenue is not retained by the system or local districts but is considered part of the total base funding under Proposition 98.

Staff Recommendation

Commission staff believes that the basic principles for setting and adjusting fees in AB 1072 represent sound policy that benefits Californians by providing a stable, long term basis for determining the cost of higher education that should be borne by students and families. It represents a reasonable middle ground between the unrealistic prospect of substantially reducing or eliminating student fees and the unproven and potentially destabilizing effect that a "high fee – high aid" model would have on California higher education.

However, Commission staff believes that the benchmark for establishing the percentage of the cost of education that is the responsibility of students and families and the cap on annual fee increases should be revisited for the following reasons:

- The 40% share of the cost of education at the University of California and the 30% share for the state university are intended to establish upper limits to fee increases during periods of substantial state general fund shortfalls. Instead they are often viewed as defining an equitable share of the responsibility for financing higher education.
- Similarly, the 8% annual cap on undergraduate fee increases should not be viewed as equitable and cannot be viewed as "moderate" given the current base level of fees. AB 1072 states that the annual increase in student fees should be adjusted by the annual change in statewide per capita personal income except in the case of "fiscal emergencies".
- The total cost of attendance at California's public universities has increased to the point that even those students with demonstrated need are now forced to borrow to finance their education. The impact of indebtedness is particularly acute for middle-income families without access to need-based grant aid and is affecting both access and choice in California higher education.

Based on these factors, the Commission might wish to reexamine its policy of gradual, moderate, and predictable fee adjustments by redefining the term "moderate" so that it more closely reflects affordability while at the same time reinforcing the imperative of greater State support for higher education.

APPENDIX A

THE CALIFORNIA STATE UNIVERSITY

BAKERSFIELD • CHANNEL ISLANDS • CHICO • DOMINGUEZ HILLS • EAST BAY • FRESNO • FULLERTON • HUMBOLDT
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Karen Y. Zamarripa
Assistant Vice Chancellor, Advocacy & Institutional Relations
Office of the Chancellor

January 10, 2006

The Honorable Carol Liu
Chair, Assembly Higher Education Committee
State Capitol, Room 4112
Sacramento, California 95814

RE: ***Assembly Bill 1072 (Liu)*** Public Postsecondary Education: Mandatory Systemwide Resident Student Fee Policy (as proposed to be amended) • Set for hearing in the Assembly Higher Education Committee on January 12, 2006

Dear Assembly Member Liu:

The California State University (CSU) appreciates your continued interest in ensuring that higher education remains accessible and affordable for students attending our public and private institutions. We, like you, believe that the state's economic future and individual students' opportunities are in fact dependent on ensuring that the highest quality postsecondary education is available to students today and in years to come. Regretfully, we do not believe that *Assembly Bill 1072*, as proposed to be amended, would achieve our mutual goals and as such cannot support this measure at this time.

The Higher Education Committee consultants have informed us of your intent to amend *AB 1072* to reflect the provisions of your measure **AB 2710 (2004)** which proposed a statutory student fee policy for the CSU and the University of California (UC). We agree that, given the state's budgetary and long-term fiscal picture, a student fee policy – coupled with the funding commitment from the state – is absolutely essential to ensure that the CSU is able to meet the needs of its students and the state. There was much in **AB 2710** that we supported, and which is consistent with our own Board of Trustees policy. What was missing then, and we hope we can work with you to address in *AB 1072*, is the need to *directly link the relationship between annual student fee caps and the level of General fund support from the state to the institutions.*

A statutory fee policy in isolation fails to recognize that in fact student fee increases, adopted as part of the state's annual budgets by the legislature, are the *direct* result of reductions in General Fund support to CSU and UC. We believe that to put a statutory fee policy in place without holding the state accountable to its end of the bargain is a false promise to our students, and a threat to maintaining access and quality in our colleges and universities. We strongly believe that the bill should be amended to reflect this direct relationship and commit the state to its end of the bargain; i.e. if students are being asked to pay 25% of the cost of their education, the state should be held to funding the other 75%. As we understand the bill today, *AB 1072* does not make this commitment and as such we cannot support this measure.

The CSU had several other concerns with your prior measure on this subject but we will reserve further comment until we are able to review the actual language of the new bill. In the meantime we felt it was important to be on the record that any statutory fee policy must address the obligation of the state to our institutions to stay true to its commitment to students and their families.

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Fax: (916) 322-4719 • kyzamarripa@calstate.edu

Thank you in advance for your consideration of our initial concerns regarding *AB 1072*. We look forward to reviewing the bill language when in print and provide further comments and suggestions at that time.

Sincerely,

Karen Y. Zamarripa
Assistant Vice Chancellor

cc: Members, Assembly Higher Education Committee
Bruce Hamlett, Chief Consultant, Assembly Higher Education Committee
Ted Blanchard, Assembly Republican Caucus

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OFFICE OF THE PRESIDENT

BRUCE B. DARLING
Senior Vice President – University Affairs

Office of State Governmental Relations
1130 K Street, Suite 340
Sacramento, California 95814
(916) 445-9924
Stephen A. Arditti, Assistant Vice President and Director

January 11, 2006

The Honorable Carol Liu
Member of the Assembly
State Capitol, Room 4112
Sacramento, CA 95814

Re: AB 1072 (Liu), As Amended on January 9, 2006
To be heard by the Assembly Higher Education Committee on January 12, 2006
Position: Unlikely to Adopt

Dear Assembly Member Liu:

I regret to inform you that the University of California (UC) is unlikely to adopt the policy contained in AB 1072, your legislation that would establish a student fee policy at UC and the California State University.

State support is crucial if we are to honor the Master Plan and provide a high-quality education for the top 12.5 percent of California high school students and eligible transfer students. However, AB 1072 would limit future fee increases to eight percent annually without a commitment of adequate State support for the University or financial aid for low-income students. This limits our options for maintaining access, quality, and affordability in the face of the type of significant budget cuts we have sustained in recent years.

In addition, AB 1072 would prevent fees from exceeding 40 percent of the cost of education as determined by the Legislative Analyst's Office (LAO), potentially creating a perfect storm in which budget cuts by the State could trigger fee reductions. For example, if fees are 40 percent of the cost of education and the State reduces our budget, our cost of education would decline, requiring fees to be reduced to maintain the 40 percent ratio. Finally, we strongly oppose granting LAO the authority to determine our cost of education because while we have agreed with CPEC on a methodology we have no such agreement with the LAO, and there are many ways to make this calculation.

We share your desire for a moderate and predictable student fee policy and would support tying a policy to adequate State support. This assurance of stable, predictable funding in future years is critical for UC to recover from years of budget cuts and inadequate funding for salary and other cost increases.

The University has a proud history of moderate fees, accompanied by a strong financial aid program designed to promote access and ensure that all eligible students who want to attend UC are able to do so. In fact, UC enrolls the highest percentage of low-income students of any major public or private research university in the nation. State funding is critical in this effort, and we thank you for the support you have provided. It will take several years for the University's budget to recover, and we hope to work with you and your colleagues to ensure the University has the funds necessary to provide the world-class education, research, and public service our State deserves.

Thank you for your consideration of our views and your support of higher education.

Sincerely,

Sandra L Fried

Sandra Fried
Legislative Director
State Governmental Relations

Cc: Members, Assembly Higher Education Committee
President Robert C. Dynes
Vice President Bruce B. Darling
Vice President Larry C. Hershman
Assistant Vice President and Director Stephen A. Arditti

[I://05-06/AB 1072/SLF.blt.011106]

APPENDIX B

Mandatory Undergraduate Student Fee and Tuition in California's Public Higher Education Systems, Fiscal Years 1965-66 to 2006-07

Year	UC: Syst'wide	UC: Total Fees	UC: Nonresident	CSU: Syst'wide	CSU: Total Fees	CSU: Nonresident	CCC: St. Enrlmt Fee	CCC: Nonresident
1965-66	$220	$245	$800	$76	$105	$600	--	--
1966-67	219	246	981	76	105	600	--	--
1967-68	219	248	981	86	110	720	--	--
1968-69	300	331	1,200	108	133	780	--	--
1969-70	300	334	1,200	108	149	890	--	--
1970-71	450	487	1,200	118	161	1,100	--	--
1971-72	600	640	1,500	118	161	1,100	--	--
1972-73	600	644	1,500	118	161	1,100	--	--
1973-74	600	644	1,500	118	161	1,300	--	--
1974-75	600	646	1,500	144	194	1,300	--	$1,071
1975-76	600	647	1,500	144	194	1,300	--	1,146
1976-77	600	648	1,905	144	195	1,440	--	1,352
1977-78	657	706	1,905	144	195	1,575	--	1,492
1978-79	671	720	1,905	146	212	1,710	--	1,640
1979-80	685	736	2,400	144	210	1,800	--	1,767
1980-81	719	776	2,400	160	226	2,160	--	1,851
1981-82	938	997	2,880	252	319	2,835	--	2,159
1982-83	1,235	1,300	3,150	430	505	3,150	--	2,240
1983-84	1,315	1,387	3,360	612	692	3,240	--	2,159
1984-85	1,245	1,324	3,564	573	658	3,510	$100	2,193
1985-86	1,245	1,326	3,816	573	666	3,780	100	2,359
1986-87	1,245	1,345	4,086	573	680	4,230	100	2,561
1987-88	1,374	1,492	4,290	630	754	4,410	100	2,634
1988-89	1,434	1,554	4,806	684	815	4,680	100	2,739
1989-90	1,476	1,634	5,799	708	839	5,670	100	2,820
1990-91	1,624	1,820	6,416	780	920	6,170	100	2,940
1991-92	2,274	2,486	7,699	936	1,080	7,380	120	3,060
1992-93	2,824	3,044	7,699	1,308	1,460	7,380	210	3,120
1993-94	3,454	3,727	7,699	1,440	1,604	7,380	390	3,060
1994-95	3,799	4,111	7,699	1,584	1,853	7,380	390	3,210
1995-96	3,799	4,139	7,699	1,584	1,891	7,380	390	3,420
1996-97	3,799	4,166	8,394	1,584	1,935	7,380	390	3,420
1997-98	3,799	4,212	8,984	1,584	1,946	7,380	390	3,540
1998-99	3,609	4,037	9,384	1,506	1,871	7,380	360	3,630
1999-00	3,429	3,903	9,804	1,428	1,830	7,380	330	3,750
2000-01	3,429	3,964	10,244	1,428	1,839	7,380	330	3,900
2001-02	3,429	3,859	10,704	1,428	1,876	7,380	330	4,020
2002-03	3,567	4,017	12,009	1,507	2,005	8,460	330	4,020
2003-04	4,984	5,530	13,730	2,046	2,572	8,460	540	4,470
2004-05	5,684	6,312	16,476	2,334	2,916	10,170	780	4,470
2005-06	6,141	6,802	17,304	2,520	3,164	10,170	780	4,530
2006-07[1]	6,141	6,802	18,176	2,520	3,164	10,170	780	4,530

1. Tuition and fee levels shown for 2006-07 are budgeted projections.

Sources: Governor's Budgets and analysis, 1967-68 through 2006-07; UC, CSU, CCC systemwide offices; supplemental sources.