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Texas Compact Proposed Tuition Assistance Program

It is in both the short-term and the long-term interest of the State of Texas to ensure that a relatively large number of young people receive a college education, and that they receive it during their young adult years. A well-educated citizenry is important for the state's economy and for the well-being and health of families. For this reason, the state has made an important investment of tax money in higher education. The state's subsidy to higher education means that Texas students in public institutions pay tuition and required fees that are relatively lower than their counterparts in private institutions or in the public institutions of many other states.

Despite this large subsidy, which is enjoyed by all public college students, whether affluent or poor, there are nevertheless costs that are borne by the individual students and their families. A college education involves three kinds of expenses: the cost of tuition and fees, the cost of living expenses while pursuing a college education, and the opportunity costs of lost earnings while a student. Of these costs, only tuition and required fees are within the control of either the state legislature or the Board of Regents.

Students may try to limit the costs of tuition and fees by working part-time and then attending college through part-time or part-year enrollment. This tactic inevitably increases the other two types of costs and it also lengthens the time to earn a degree. The University of Texas System seeks a partnership with the state, with families, and with funding agencies to keep college affordable, to make the costs of college known to the public, and to shorten the time necessary to earn a degree.

Therefore, in return for legislative delegation of authority to set tuition to the Board of Regents, the UT System will guarantee a package of grants and scholarships equal to tuition and required fees for all qualified undergraduate students who come from a family earning equal to or less than the median household income of Texas.¹ The median household income figure will be adjusted annually in accordance with data published by the U.S. Census Bureau. This program will be called the UT Compact.

For the most recent date available, which is 2001, the U.S. Census Bureau reported a median household income of \$40,860 for Texas.²

Because the median is the point that divides an income distribution into two halves, those earning below the median are by definition one-half of the households in the state. Setting the median income as the criterion also ensures that, by definition, middle-income families receive much of the benefit of this initiative.

We believe that we can achieve this tuition Compact by carefully deploying the resources we have available from federal, state, and private sources, and we believe that advertising this Compact will give hope to many families and encourage more of them to apply to and attend college.

A recent study by the Texas Higher Education Coordinating Board suggests that apprehensions about affordability constitute the major barrier to college attendance among Texas residents. Most parents think that it is important for their children to attend college, but they are not confident that they will have the resources to pay for college.³ Texas parents are similar to other

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Americans in this belief. A 2002 national survey conducted by the American Council on Education showed that although the respondents valued college and considered it important, they overestimated its cost by a factor of three.⁴ A tuition Compact, widely communicated to the public, may help remove this barrier, thereby helping the state to achieve the first goal of the “Closing the Gaps” program, which is to enroll more Texans in college.

How This Plan Differs from Existing Programs

The UT Compact differs from other programs in four basic ways. First, the Compact places more emphasis on full-time status and on degree seeking than the existing programs, because its objective is to produce more college graduates. For that reason, it is more stringent than the existing grant programs in terms of time and workload. Second, the Compact is based on income, not need. The need-based programs are important, but it is nearly impossible for a student or parents to know in advance how much need-based aid for which they will qualify. The advantage of an income-based system is that families can determine eligibility for themselves. Thus, this plan considerably reduces the uncertainty families feel about college affordability. Moreover, some families who have significant assets but low income (e.g., family farmers) will qualify for assistance under this program although they might not qualify under a program based solely on FAFSA (Free Application for Federal Student Aid). Third, this plan ensures full payment of tuition and required fees. Pell grants frequently provide only part of the tuition bill, and TEXAS grants pay a set amount even if tuition is higher. At the moment, the institutions are already required to make up the difference between their tuition and the TEXAS grant without charging the student. Fourth, the Compact guarantee will be honored irrespective of future changes in the other financial aid programs.

Qualifications

Unless otherwise noted, required qualifications are consistent with the TEXAS Grant program.

To qualify for the tuition and mandatory fees Compact a student must:

- Be a Texas resident, as defined by statute
- Be admitted as a student to a University of Texas institution, using the regular application and admission procedures. Applications must be complete and on time. Applicants must apply no later than sixteen months after high school graduation, or no later than twelve months after completion of an associate or arts degree.
- Be seeking a first bachelor’s degree in any field. Graduate and professional degree seekers are not eligible. Seeking a degree is not currently a requirement of other programs.
- Come from a family earning an income equal to or less than the state median income. Using median income is unique to this program, simplifies determination of qualification, facilitates the marketing of the program, and potentially offers assistance to more students than programs that use need alone.
- Graduated from a public or accredited private high school in Texas, or earned a GED, and completed the recommended high school curriculum or the equivalent.
- Apply for federal, state, and institutional financial assistance and complete the FAFSA on time. The FAFSA is used by both national and state grant programs to estimate need. FAFSA allows financial aid administrators to take account of income (as measured by federal income tax returns), assets, family size, and other factors.

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- Be enrolled as an undergraduate on a full-time basis (minimum of 12 semester credit hours). This is a difference from the TEXAS grant program, which allows three-quarters time registration, and it is also different from the Pell grant.
- Not have been convicted of a felony or crime involving a controlled substance.

Continued Eligibility Requirements

Once enrolled, to continue to be eligible a student must meet the following criteria. Unless otherwise noted, these requirements are consistent with the TEXAS Grant program.

- Maintain full-time enrollment (minimum 12 semester credit hours). The TEXAS Grant program allows three-quarter time enrollment.
- Complete at least 12 semester credit hours in the prior long semester (with some institutional discretion for dropped courses with appropriate justification). This is different from the Pell grants and the TEXAS grant, which allow students to drop to part-time status after the semester begins. It has also been a criticism of Georgia's HOPE scholarships that students take relatively light loads, thus lengthening the time to the degree.
- Maintain an overall college Grade Point Average of 2.5 or higher on a 4.0 scale.
- Make normal progress toward a degree. This provision ensures that students take required courses in a timely fashion and complete the prerequisite courses for their majors on time. The TEXAS Grant program does not have this requirement.
- Maintain good academic standing. Good academic standing includes not only grades, but also disciplinary status.
- Reapply annually to determine continued financial eligibility.

Financial assistance will be provided to eligible students for ten long semesters, six calendar years, or until the student receives a Bachelor's degree, whichever comes first.

Assembling the Tuition and Fees Package

A variety of funds are currently available to undergraduate students, but students are not always aware of the available funds and some students do not seek the advice of the financial aid officers located on each campus. Because students subject to the tuition Compact must apply for financial aid, they will necessarily come into contact with a financial aid officer who can help them assemble a financial aid package.

Available federal and state funds will be accessed first to build a financial aid package. Several federal programs are available that help low-income students attend college. The best-known program is the Pell grant, but other assistance may be available to students through Social Security Survivors benefits, Veterans benefits, or other federal programs.

It should be noted, however, that neither the UT System nor the state has control over the level of funding nor the qualification requirements of federal programs. Changes to federal programs could require adjustments to the mix of funding available to cover the proposed tuition program.

Next, available state funds will be accessed in building the financial aid package. The most important of these funds is the TEXAS Grant, which provides a lump sum payment to each grantee with the local institution required to supply additional funds if necessary for tuition. The

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University of Texas at Austin already supplies some \$10.5 million annually to TEXAS grant recipients. Another example of a state program is the Texas Public Education Grant program (TPEG); a fund into which, by state law, 15% of tuition payments are paid to provide financial aid.

Any private scholarships would also be counted against the Compact.

The UT System staff is currently examining the relationship between the Texas Compact and the Texas Tomorrow Fund. While it is not anticipated that the Compact will have an impact on beneficiaries of Texas Tomorrow Fund contracts, efforts are being made to insure seamless compatibility between the two programs.

Finally, the institution's own resources would be brought to bear to complete the Compact, including locally endowed or funded scholarships and other financial aid. The expectation is that the system and components would seek to increase fundraising for scholarships, maintain the TEXAS Grant program, and rarely rely on tuition revenue.

What Happens to Students with Higher Family Incomes?

Many students from families with higher incomes, such as those between \$40,000 and \$60,000, would nevertheless qualify, using FAFSA, for need-based aid. Nothing in this plan would prohibit the continuation of such aid to those students and their families. Moreover, attractive federal tax credits are available for these families, and these tax credits will also reduce the effective expense of the college degree.

Local Control of Tuition

While tuition increases will be the last resort to fund student financial aid, the Board of Regents needs to have tuition flexibility to anticipate the likelihood that greater tuition revenue might be required in some localities rather than others. Universities are complex operations in themselves, and within the System the component institutions vary from one another considerably in size, mission, and focus. The legislature sets undergraduate tuition once every two years for all institutions in the state, with no ability to adjust to local conditions nor to take advantage of local opportunities.

Because the Board of Regents meets several times a year and is familiar with the conditions at each of the institution's fifteen components, the Board is better equipped than the legislature to respond to local needs. Moreover, the control of tuition, and especially the differentiation of tuition, would allow the UT System to pursue strategic goals such as improved graduation rates, better facilities usage, and the improvement of nationally ranked programs.

It is sometimes argued that the Regents, because they are not elected officials, are therefore not accountable and should not be allowed to set tuition. In most of the United States, however, appointed governing boards routinely set tuition. Board members, who are appointed by the Governor and confirmed by the Senate, are hardly immune to public opinion. Indeed, the Regents may be more accountable because many constituencies – including the state legislature itself – can target their concerns about tuition directly to the Board. Moreover, because of the competitive nature of higher education, the Regents would have no interest in pricing their schools out of the academic marketplace.

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For all of the reasons, a binge of unrestrained tuition increases is unlikely. The proposed Compact provides an example of a way in which the Regents could voluntarily restrain their own ability to set tuition. Because of the nature of the Compact, any increase in tuition is simultaneously an increase in the funding that must be provided. There is thus an incentive for the Regents to consider carefully the timing and the size of any increase.

Several recent experiments in local control have indicated the ability of the Regents to assess circumstances and respond to local needs. The Regents already have the authority to set designated tuition up to a specified financial cap. The Board of Regents has raised designated tuition to the cap only at two institutions, The University of Texas at Austin and The University of Texas at Dallas, and then only following public hearings. There is no reason to believe that the Regents would act differently if they had control over all tuition.

In a second experiment, the recent success of the flat-rate tuition plan at two colleges at U. T. Austin shows that the Regents could successfully deploy financial incentives and that students respond to such incentives. Under this plan, full-time students pay a single full-time tuition rate, but then may take as many semester credit hours of coursework as they can handle at no additional charge.

Other types of flexibility would also be possible with Board control of tuition. The Board of Regents would be able to offer discounted tuition at unpopular times (e.g., the late afternoon) and to charge lower tuition for summer courses. Deregulated tuition would also allow the Regents to innovate with courses that are not taught on the regular semester system, such as intersession courses and asynchronous online courses. The current levels of tuition regulation make such innovations difficult. Nor are the Regents able to make decisions at the local level that might produce efficiencies.

Leaders from other industries recognize that pricing mechanisms produce efficiency. The leaders of the higher education industry in Texas have never been able to use this tool. The flat-rate tuition experiment has shown that pricing can alter the behavior of students. If colleges or schools could retain some tuition – an innovation that now requires statutory authority – then there would be an incentive to faculty and administrators to change the mix of programs and courses to better respond to student and employer demand.

Given the current financial situation in Texas, it seems likely that the Regents would need to carefully consider some increases in tuition, at least for some fields of study and at some component institutions. The proportion of UT component institutions' funding that comes from the state is declining, and yet the Regents are unable to raise funding from other sources because of limitations on those sources (e.g., return of indirect costs, limits on the number of non-resident students and the tuition level they are charged). The combination of low state funding and low tuition will jeopardize the ability of the UT System to provide a high-quality education.

In the long run, the greatest gain from regental control over tuition will be the maintenance and enhancement of educational quality. This is a benefit that will accrue to all of the students enrolled in our institutions, regardless of their current income status. If the current system of tuition regulation remains in place, it is foreseeable that the quality of Texas higher education will gradually erode, diminishing the value of the diplomas that students earn today.

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The Cost of Maintaining and Balancing Access

The state has already decided as a matter of public policy that an investment in higher education is warranted, and taxpayer dollars have been used to create and maintain the system of public higher education. Current students benefit from this subsidy, regardless of their family's income. In addition, federal and state elected officials have decided, through grants and tax credits, that supporting higher education is important. Legislators in Texas have already decided that 15% of the current resident tuition payments will be redistributed as financial aid.

By making use of these existing resources, the liability represented by the tuition Compact is limited. There will be additional expenditures for financial aid. Nevertheless, the additional investment in student financial aid that is represented by the Compact is reasonable and consistent with stated public policy.

Financial Impact on UT Components

It is anticipated, assuming the current median household income of approximately \$41,000, that during the first full year of implementation of the Compact an additional \$10.3 million in financial assistance will be required to fulfill the new obligation. If the median income figure were adjusted upward to \$42,000, the first year costs would increase to approximately \$11.3 million. These funds will come from institutional sources. UT System component institutions have made a commitment to raise scholarship money rather than increase tuition to cover the cost of additional financial assistance to students.

While it is difficult to estimate the number of additional students who will choose to attend a UT component institution as a result of the Compact, the commitment to full financial support for tuition and fees to qualified students should result in increased participation from students who might not have otherwise decided that they could afford to go to college. Of course, most of these students will qualify for financial assistance under existing federal and state programs. Nonetheless, these additional students coupled with anticipated success in retaining current financial aid recipients, will put the second and subsequent-year costs of the Compact in the estimated range of \$15 to \$25 million per year.

Estimated Costs Associated with Texas Compact – Year One (Assuming Median Income of \$41,000 or less)

UT Arlington	\$626,006
UT Austin	\$3,650,000
UT Brownsville	\$200,000
UT Dallas	\$3,136,000
UT El Paso	\$832,022
UT Pan American	\$618,482
UT Permian Basin	\$255,000
UT San Antonio	\$147,926
UT Tyler	\$0
UT Health Components	\$1,000,000
Total	\$10,265,436

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¹ Median income is taken from the Current Population Survey, which is conducted by the U.S. Census Bureau and the U.S. Bureau of Labor Statistics. Because of its detailed questionnaire and its experienced interviewing staff trained to explain concepts and answer questions, the Current Population Survey is a high quality survey and is the source of official national estimates of the levels of income and poverty. The Current Population Survey asks questions on the amount of money income received in the preceding calendar year for each person 15 years old and over. Money income is the sum of money received from each of the following sources: Earnings, unemployment compensation, workers' compensation, Social Security, supplemental security income, public assistance, veterans' payments, survivor benefits, disability benefits, pension or retirement income, interest, dividends, rents, royalties, and estates and trusts, educational assistance, alimony, child support, financial assistance from outside of the household, and other income. This measure reflects money income before taxes and does not include the value of noncash benefits such as employer-provided health insurance, food stamps, or medicaid.

² From <http://www.census.gov/hhes/income/income01/statemhi.html>

³ Texas Higher Education Coordinating Board, Student Services Division. 2002. "Publicizing Student Financial Aid Opportunities." Austin: THECB, October, p.2.

⁴ American Council on Education. 2002. "Americans Give High Marks to Colleges and Universities, but Continue to Overestimate Price, ACE Survey Reveals," Press release, February 6. Available at http://www.acenet.edu/new/press_release/2002/02february/national.release.html