A Report from

Policy Matters Ohio

Below the Curve:
Higher Education Opportunity in Ohio

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AUTHOR

Wendy Patton is Policy Liaison for Policy Matters Ohio. She has a Masters of City Planning from the University of California at Berkeley and a B.A. from Kent State University. The author has long pondered why kids in San Pedro, Nicaragua (where she served as a volunteer for Amigos de las Americas in 1976) aspired to be doctors and engineers, but teens in the East Linden neighborhood of Columbus in 1991 hoped to be truck drivers and secretaries. This research provided some insight. High aspirations for kids of low income families are accompanied by daunting challenges. Young people understand this at an early age.

ACKNOWLEDGEMENTS

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All errors and omissions are the sole responsibility of the author.

POLICY MATTERS OHIO, the publisher of this study, is a nonprofit, nonpartisan statewide research institute dedicated to bridging the gap between research and policy in Ohio. Policy Matters seeks to broaden the debate about economic policy in Ohio, by providing quantitative and qualitative analysis of important issues facing working people in the state. Other areas of inquiry for Policy Matters have included unemployment compensation, workforce policy, wages, education, housing, energy, tax and budget policy, and economic development.

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Executive Summary

Higher education is more essential than ever before, but is expensive to access in Ohio. State investment in higher education, measured per pupil or as a percent of state income, has not kept pace with other states or with demand in Ohio. Having always lagged the nation in higher education completion, we can ill afford to fall further behind.

Other findings of *"Below the Curve"* include:

- It would take an additional 287,865 residents with an associate's degree or higher today to have a population with education levels comparable to the nation's.
- Funding for higher education has waxed and waned over time, but the level of support today is about the same as in 1975: It was .64 percent of the economy as measured by Ohio personal income in 1975 and .66 percent in 2005.
- State appropriations for higher education fell from 15.3 percent of the General Revenue Fund in 1985 to 11.6 percent in 2005, a decline of almost 25 percent.
- In 2005, state appropriations were $4,365 per college student, 75 percent of the national average of $5,833, ranking 45th among the fifty states.

Ohio's higher education system is large and diverse, with 13 public four-year universities, 52 public two-year colleges, and more than 200 other credentialing entities. Enrollment has grown dramatically, but completion has not kept pace. While state support ebbs and tuition soars, an increasing share of too-limited state financial aid grant dollars are moving from public to private higher education. Corrective plans have been developed, but not yet backed by actual dollars.

- Enrollment grew 15 percent between 1998 and 2004 at public campuses. It grew eight percent at public four-years, 24 percent at university branches, and 31 percent at other two-year public campuses.
- Inflation-adjusted state appropriations declined by four percent between 1998 and 2004.
- According to the College Board, Ohio's tuition on two-year public campuses was 166.6 percent of the national average in academic year 2005-06; four-year public university tuition was 128.2 percent of the national average
- Ohio's four-year public campuses are the second least affordable among the states; two-year campuses are the seventh least affordable.

Despite high and rising tuitions, families at all levels have gotten the message that young people should pursue higher education. However, completing a BA remains a stretch, nationally and here, for students from modest backgrounds:

- Nationally, among those in the top quartile of family income, three quarters have a BA by age 24; from the upper middle quartile just a little over one quarter have a BA by age 24; and a paltry 13.2 of lower middle income and 8.6 percent of lowest quartile 24 year olds have their BA.

Today's students are less likely to be able to cover their tuition through grants, and more likely to need loans to pay for tuition.

- Inflation has eroded the value of need-based grants in aid to college students. By 2003-04, the average federal Pell Grant covered 23 percent of total charges at the average four-year public institution, down from 35 percent in 1980-81.
- By 2005, Ohio's Instructional Grant (OIG) had dropped to just 34 percent of tuition, down from 60 percent in the late 1980s.
- Ohio four-year public universities served half the first-time, full-time freshmen in 2004, but received only 25 percent of total state grant funds to this group.
- As tuition hikes have outpaced wage gains, aid to the middle class has become important: in 2003, over 78 percent of Ohio's first-time, full-time students at four-year public campuses received grants or took out federal loans.
- Ohio's private universities cost 63 percent more than public universities on the average. A $50+ million annual grant program provides a subsidy (based on neither need or merit) to Ohio attendees.
- Under the new Ohio College Opportunity Grant, which replaces two existing grants, the maximum award to students will be $4,992 at a private non-profit university, $3,996 at a proprietary and just $2,496 at a four-year public university.
- Fifty two percent more students at Ohio's four-year public universities take out loans than is typical for the nation and the loan they take out, at $4066, is 15 percent larger than the national average.
- A student at a public, two-year campus in Ohio is twice as likely to have a loan as is typical in the nation.

"*Below the Curve*" looks at trends in state funding, tuition and financial aid in higher education and emerges with the following key recommendations:

- *The state should invest higher education funds at a per-student level equal to the national average; in 2005, this would have taken an additional $559 million in state appropriations. Investment should be directed to fully funding enrollment and completing implementation of the new Ohio College Opportunity Grant.*

- *Tuition must be held to the growth in family income, although flexible controls must accommodate enrollment at those institutions with double digit growth. Increased state funding for higher education must be directed to affordability.*

- *Adequate funding for higher education opportunity should be provided by reversing the cut in tax rates on the top one percent of Ohio earners and reprogramming of subsidy to private colleges.*

Below the Curve:
Higher Education Opportunity in Ohio

Higher education is more essential than in the past, but it has become less affordable. The problem exists nationwide, but is worse in Ohio because lagging state investment here contributes to higher tuition. Today, our education levels are lower than the national average, and our incomes are not growing.

In "*Below the Curve*,' Policy Matters Ohio looks at trends within Ohio's changing system of higher education finance. We find a strong and diverse public infrastructure and increasing enrollment. More students are going to college, but we started behind the nation and have not closed the gap. Many solutions have been proposed, but budgetary muscle has not yet been flexed. For those of modest means, it is harder to pay for college, since the value of federal and state need-based financial aid has been eroded by inflation. Even higher-income families are seeking help: Aid to the middle- and upper-income students, in the form of tax-advantaged plans and deductions, loans, and non-need based grants has eclipsed need-based aid.

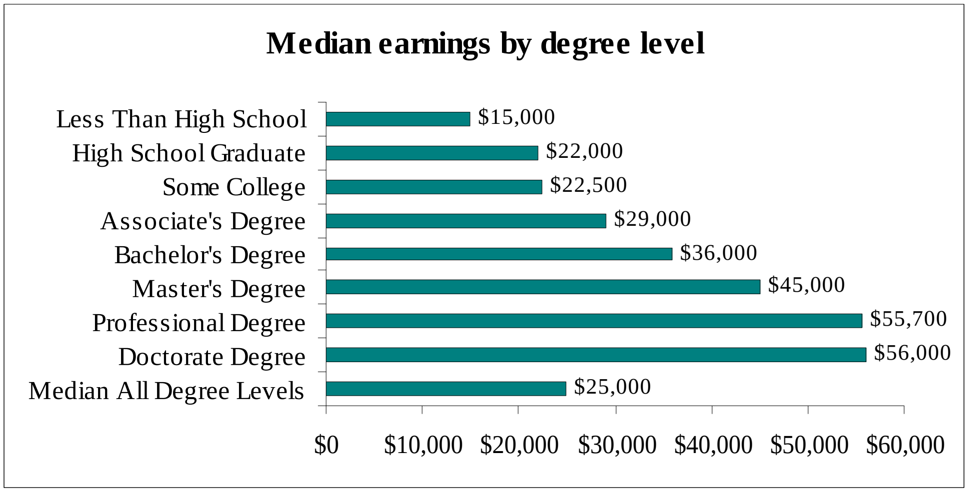
Lower- and middle-income students head to the low-cost options: two-year colleges, adult career and technical centers and proprietary schools, and find tuition rising and state financial aid declining. It is worse in the four-year public sector, where tuition increased by an inflation-adjusted 37.45 percent between 2000 and 2004 and share of total state grant dollars dropped by 25 percent. In Ohio, as in the nation, access to four-year colleges and universities is increasingly related to merit or higher family income.

It is essential that we gain control of our college costs and invest the necessary state resources that are so crucial, and that other states have managed to find. Plans are in place to address lagging financial aid and a small increase in the state share of instruction (the higher education instructional budget) is under consideration, but even small steps are endangered by the new tax and expenditure limit passed in late May by the Ohio General Assembly. There has been much discussion about the importance of higher education to the Ohio economy; the question is, will leadership provide the resources as well as studies and plans to make the state competitive in the new Human Capital economy?

Higher Education Levels in the Ohio Population

We know that higher education leads to higher wages: Among all Ohioans 18 to 64 years old, those with an associate's degree earned almost twice as much as high school dropouts (93 percent more) and about a third more than those who stopped with high school graduation (32 percent more); individuals with a bachelor's degree earned about two and a half times as much as high school dropouts and 64 percent more, on an annual basis, than those with only a high school diploma (Figure 1).

Figure 1.



Source: National Center for Higher Education Management Systems Information Center, Special Analysis, "State Median Earnings by Education and Age, 1999 (revised, June 2005)"

What is good for individuals is good for the state economy. Higher education is widely recognized as playing a critical role in economic vitality.[1] Increasing educational outcomes is critical to improving our economy.

Although our rate of high school completion is higher than that of the nation,[2] Ohio adults have less post-secondary education than average. In 2004, 23.3 percent of Ohioans 25 and older had a bachelor's degree or higher compared to a national average of 27 percent (86 percent of average) and 6.9 percent of Ohioans had an associate's degree compared to 7.1 percent nationally (97.2 percent of average). As seen in Table 1, the lag is in the adult population.

Table 1.

Percent of population 25 and older with a bachelor's degree or higher, Ohio and the nation, 1990 - 2004			
	1990	2004	Change
Ohio	17.0%	23.3%	+6.3%
Nation	20.3%	27.0%	+6.7%

Source: American Community Survey, 2004; Ohio Board of Regents, "Adult Educational Attainment by Age Group, 1990 and 2000 Census Results," 8/2003

[1] Governor's Commission on Higher Education and the Economy, 2003 at http://www.chee.ohio.gov/index.asp?p=0&text=0

[2] Pell Institute, "*State of College Opportunity in Ohio, 2005*," (p. 8) At 71 percent, the rate is higher than in the nation, but it has fallen from a high of 81 percent 25 years ago.

A Profile of the Ohio System

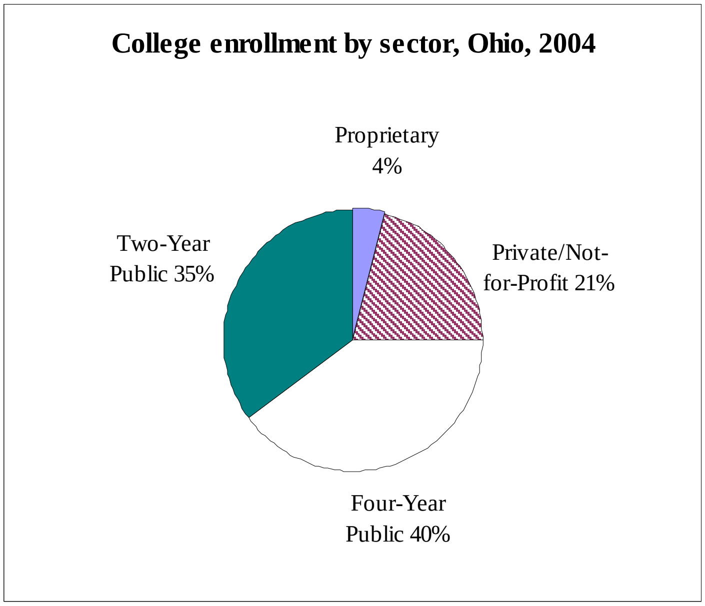
Although this state has a slightly smaller share of students across all population groups enrolled in public post-secondary education than is typical in the nation,[3] we have a large and diverse public and private higher education infrastructure. Ohio had 380,944 full-time equivalent students enrolled in public colleges and universities in 2005, more than all but four other states;[4] another 105,473 students were in independent, not-for-profit colleges and universities and an additional 22,341 were in proprietary schools in the state.[5]

Ohio's system of higher education is comprised of 270 public and private credentialing entities.[6] One hundred twenty are public institutions. The public system is under the jurisdiction of two state departments: the Ohio Board of Regents oversees 13 four-year universities and 52 two-year campuses (including community colleges, state community colleges, technical colleges and university branch campuses). The Ohio Department of Education oversees the Adult Career, Technical and Adult Education Centers, [7] comprised of 92 planning districts and 55 schools. In addition, there are 159 private and proprietary institutions that compose four percent of higher education in Ohio. Enrollment percentages in the different types of institutions are shown in Figure 2 on the next page.

In the public sector, the greatest share of degrees is granted by the public university main campuses: 78.08 percent of all degrees in Ohio, from associate to doctoral degrees, are awarded on the 13 campuses of the public, four-year institutions.[8]

[3] National Center for Higher Education Information Management Center (NCHEMS), Participation data at http://www.higheredinfo.org/dbrowser/index.php?year=2004&level=nation&mode=graph&state=0&submeasure=64; 2004; Ohio's share of population 18 to 64 enrolled in higher education is 8.6 percent whereas the national average is 9.4 percent.
[4] State Higher Education Executive Officers, at NCHEMS website, State and Local Support for Higher Education at http://www.higheredinfo.org/analyses/State_and_Local_Support_Per_Full-Time_Student.xls
[5] Ohio Board of Regents, Performance report for 2005, January 2006. Diversity at Private Colleges and Universities spreadsheet, Fall 2003 enrollments at Ohio's private Institutions at http://www.regents.state.oh.us/perfrpt/PerfRpt2005/perfrptxl/05%20diversity_private.xls
[6] This count is taken from Postsecondary Education OPPORTUNITY Low Income Equity Index (1992-2003) which lists all intuitions eligible to receive federal Title IV funds in the state.
[7]Ohio Department of Education, Adult Workforce Education Providers, at ; http://www.ode.state.oh.us/ctae/adult/adult_workforce_education/adult_full_service_ctr_ links.asp
[8] Oho Board of Regents, 2005 Performance Report.

Figure 2



Source: Policy Matters Ohio, based on data from the Ohio Board of Regents, 2005 Performance Report (Institutional Outcome Measures), p.11

According to The College Board, average tuition at two-year, public colleges in Ohio is just over half (51.8 percent) as much as average at the four-year public universities, which cost much less than half (37.2 percent) of the average private university in the state.[9]

State Support for Higher Education

Although adult career and technical centers, private, not-for-profit institutions and proprietary schools receive public support through the financial aid packages of their students, most state appropriations for higher education go through the Ohio Board of Regents for the public two-year and four-year campuses, which serve 75 percent of students enrolled in higher education (Figure 2).

Public investment in higher education has not reflected public concern. Inflation-adjusted state appropriations as a share of the state economy (as measured by state personal income) rose in the 1980s but fell again in the 1990s (Figure 3), and enrollment increased by 9.1 percent [10] As education becomes more important to well-being, we should be funding at a greater level than in the past. Instead, we are not even keeping pace with past spending.[11]

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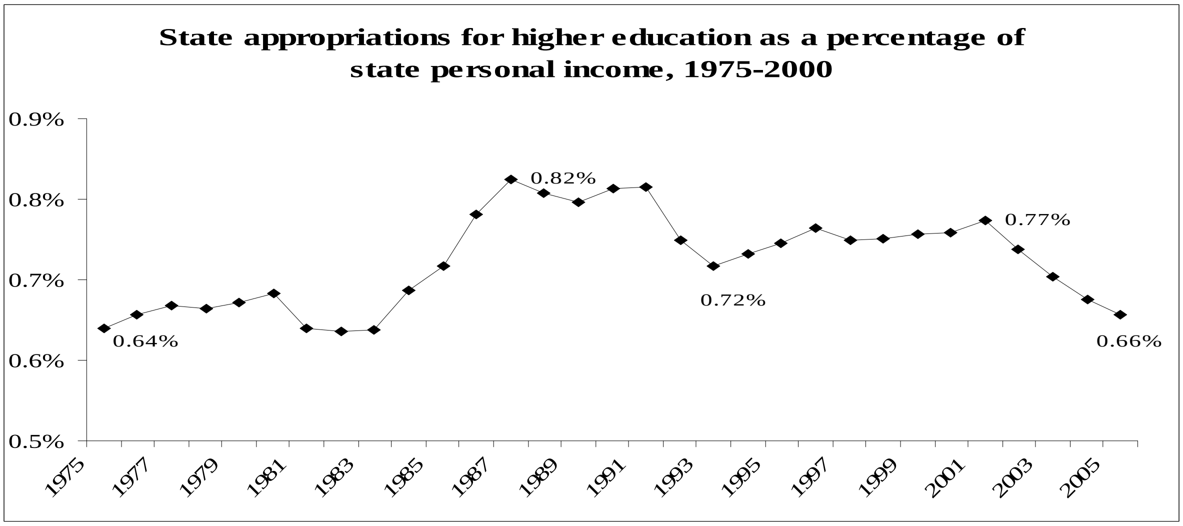
[9] The College Board, *Trends in College Pricing, 2005*.

[10] In the last fifteen years (between 1990 and 2005), funding actually declined by nearly 20 percent on an inflation-adjusted basis, falling from .81 percent to .66 percent in 2005. In 1990, the National Center for Education Statistics gave the total count of enrollment in Ohio's higher education system as 563,057; in 2004, this count was 614,234, an increase of 9.1 percent.

[11] Ohio has lagged national trends in state and local investment in higher education since 1991. In 1991

Figure 3



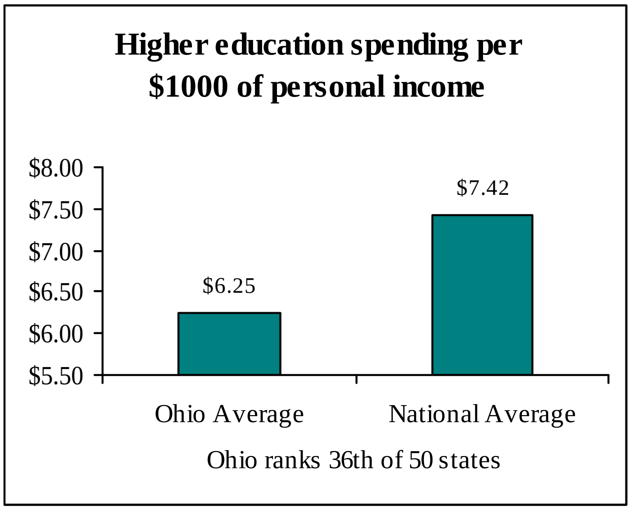
Source: Policy Matters Ohio, based on data from Ohio Legislative Services Commission and the, Bureau of Economic. Analysis, adjusted using CPI-U (Cleveland)

Ohio's state and local support for higher education ($6.25 per $1,000 of Ohio personal income) is lower than the national average ($7.42 per average state personal income), as seen in Figure 4. We ranked 45th in state expenditures on public higher education per student, spending $4,365 in 2005, as compared to the national average of $5,833. In both absolute (inflation-adjusted) and relative terms, we've fallen behind the nation since 1991, when we spent $5,370 per student.[12]

Ohio ranked 15th in state and local funding for higher education per $1,000 of state personal income but in 2005, the ranking had dropped to 36th, 84% of the national average.[11]

[12] Data in this paragraph are taken from Special Analyses of State Higher Education Officers, at the NCHEMS Information Center website at http://www.higheredinfo.org/analyses/; state and local tax support per full-time student and total educational revenues per full-time student.

Figure 4.



Source: National Center for Higher Education Management Systems Information Center, Special Analysis, at NCHEMS website at http://www.higheredinfo.org/analyses/

Consequences of Funding Shortfalls

States invest in higher education for economic reasons: to promote increased productivity in the private sector, to create a flexible workforce with higher earning potential, and as a way to increase standards of living for citizens. Public investment also supports equity in educational, and therefore economic, opportunity. President Truman's Commission on Higher Education noted:

> *"By allowing the opportunity for higher education to depend so largely on the individual's economic status, we are...denying to millions of young people the chance in life to which they are entitled…"*[13]

Enrollment has climbed in Ohio as in the nation; as public funding falls, failing to support growth in enrollment, tuition climbs. National studies identify the counter-intuitive trend of increasing enrollments in the face of increasing tuition: some find that financial aid has blunted the impact of tuition; some have found tuition hikes have different impacts based on family income and race.[14] In 2001, the Advisory Committee on Student Financial Assistance reported:

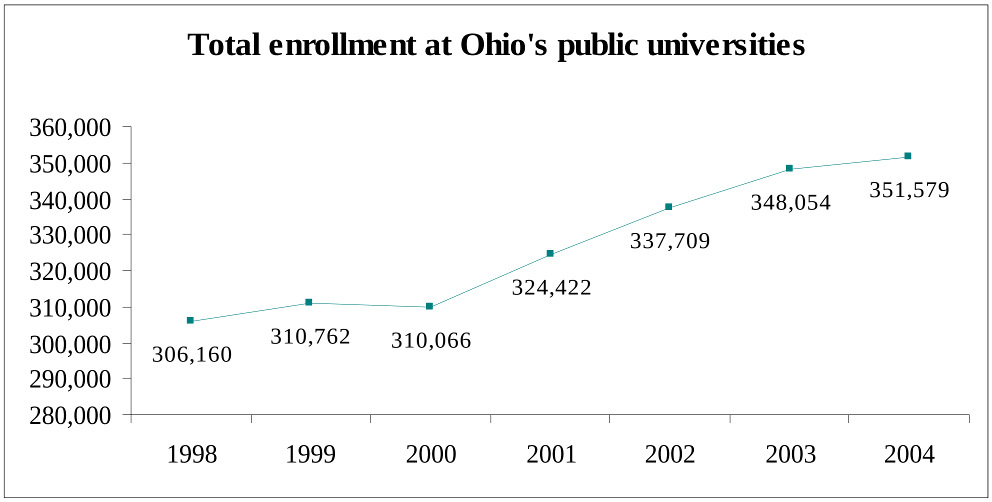
> *"To attend a public or private four-year institution full-time and live on campus, low income students must work part time or borrow heavily to meet unmet needs. This burden more often than not rules out*

[13] Cited in Donald E. Heller, "Rising Public Tuition Prices and Enrollment in Community Colleges and Four-year Institutions," p.1.
[14] Heller, op. cit., p.6.

> *consideration of attending a four-year school. Far more often than their peers do, out of financial necessity, low income students attend two-year public or proprietary institutions. In increasing numbers, they attend part time while both working and borrowing, or worse yet, working long hours to avoid borrowing. In light of prevailing barriers of unmet need, this behavior is rational, indeed required, but very counterproductive to the completion of any degree*[15].

In Ohio, the trends that have led to high tuition are easy to trace. Higher education enrollment in Ohio has been strong and growing, though it varies by type of institution. Enrollment on public campuses grew by 15 percent overall between 1998 and 2004 as Figure 4 shows: growth was eight percent during this time frame on university main (four-year) campuses; 24 percent at two-year branch campuses of the 13 public universities, and 31 percent at technical and community colleges.[16]

Figure 5



Source: Policy Matters Ohio, from Ohio Board of Regents 2005 Performance Report at http://www.regents.state.oh.us/perfrpt/PerfRpt2005/perfrptxl/03%20fte%20enrolls.xls

State appropriations for higher education did not keep pace with enrollment; in fact, state funding declined by four percent over this period as Figure 6 shows. Although enrollment increases are impressive, the education gap with the nation has remained, widening ever so slightly from 3.3 percent of adults over 25 in 1990 to 3.7 percent in 2004 as Table 1 on page 4 showed. The rate at which we are completing our degrees is not on par with the nation. In 2004, Ohio ranked 33rd in the nation with 46.9 percent completions of the BA per 100 undergraduates and 34th in associate degree

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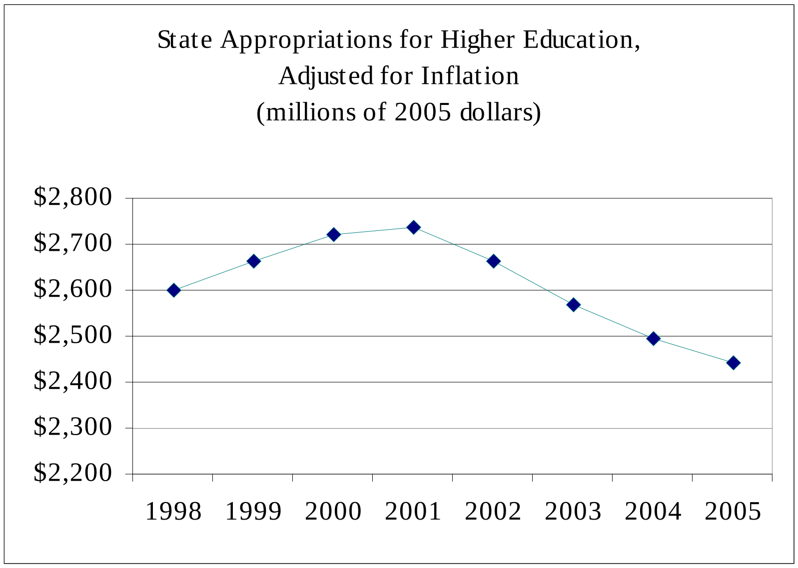
[15] Advisory Committee on Student Financial Assistance, Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity, February 2001, p.18.
[16] Oho Board of Regents, 2005 Performance Report, FTE enrollment spreadsheets

completions.[17] Tuition increases are likely a substantial contributor to difficulties with completion, although there are undoubtedly other issues as well.

Figure 6.



Source: Policy Matters Ohio, based on Ohio Legislative Services Commission Historical Expenditures tables.

As enrollment has grown and state support declined, tuition increased, quite steeply in some years and at some institutions. At four-year public universities, inflation-adjusted tuition increased by an average of 37.5 percent between 2000 and 2004; at two-year public campuses, the increase was an average 26.2 percent (Figure 7).

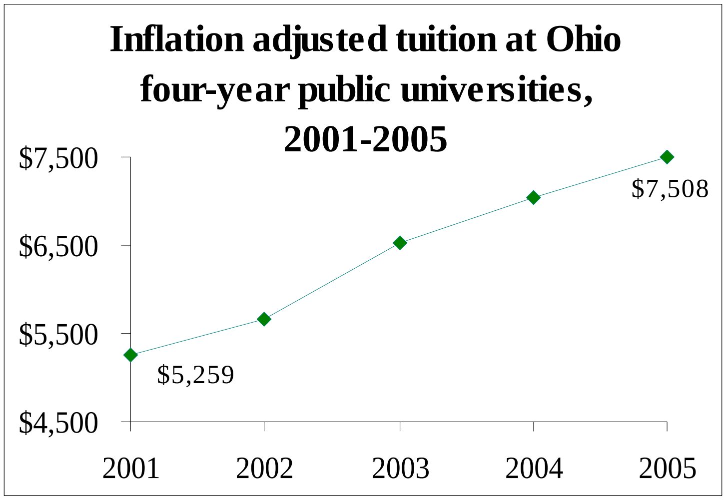
As tuition has increased on an inflation-adjusted basis, affordability has decreased. Ohio is ranked 49th out of 50 states and the District of Columbia in the percentage of family income required to pay for the lowest cost four-year public university, (including room and board but net of all financial aid,) for the lowest family income quartile.[18] The 2005 Performance Report of the Ohio Board of Regents describes the cost of higher education in the state as high compared to the nation:

- *Public higher education in Ohio has about average costs, but due to relatively low state support, average tuition price per student is 44 percent higher in Ohio than in the rest of the United States.*

[17] National Center for Higher Education Information Management Systems Information Center, Completion Data for bachelors and associates degrees, at: http://www.higheredinfo.org/dbrowser/index.php?submeasure=86&year=2004&level=nation&mode=graph&state=0

[18] NCHEMS at www.HigherEdInfo.org, affordability data at http://www.higheredinfo.org/dbrowser/index.php?level=nation&mode=graph&state=0&submeasure=77

Figure 7.



Source: Policy Matters Ohio, based on Ohio Board of Regents performance report data.

- *Among the 50 states, Ohio ranks 40th in appropriations per student, 15th highest in tuition per student, and 23rd in overall funding per student.*

- *Student and family share of higher education funding was 49 percent of total cost in Ohio and 36 percent in the United States as a whole.*[19]

According to The College Board, tuition at Ohio's two-year public campuses was 66.6 percent higher than the national average in academic year 2006; at public four-year campuses Ohio tuition is 28.2 percent higher than the nation, but at private four-year schools it is 10.9 percent lower than the national average.[20] It is important, however, to keep in mind that two-year colleges in Ohio cost just over half as much as four-year public universities and that public four-year institutions cost less than 40 percent of what private four-years cost.

This highlights two key features of Ohio's public and private system. One is that Ohio's private schools, with an average tuition of $18,910, are much more expensive than Ohio's public options. The other is that even while Ohio's private institutions are costly, they are on the average not as expensive as typical in the nation, in part because of public subsidy to students in this sector.

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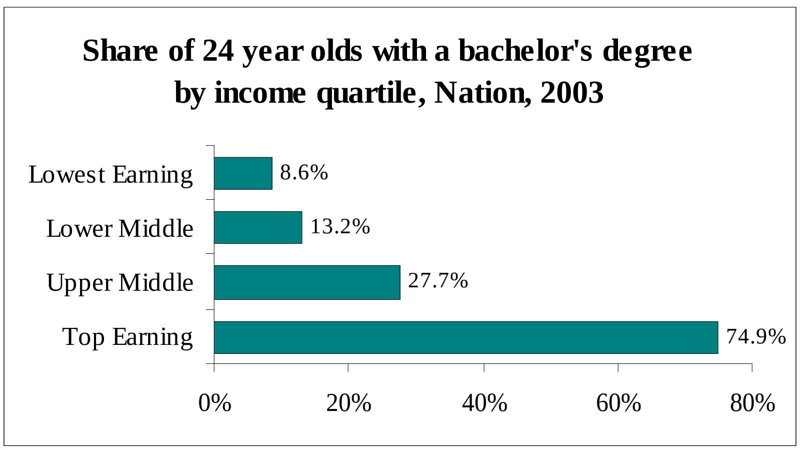
[19] Ohio Board of Regents, Performance Report for Ohio's Colleges and Universities, 2005, p.44 (http://www.regents.state.oh.us/perfrpt/PerfRpt2005/PerformanceReport-2005_final.PDF)
[20] College Board, "*Trends in College Pricing 2005*," Table 6: Average Published Tuition and Fee Charges by State, 2005-06 (enrollment weighted) at http://www.collegeboard.com/prod_downloads/press/cost05/trends_college_pricing_05.pdf

EDUCATIONAL OPPORTUNITY

Ohio is a state in which high tuition is cushioned by above average levels of state financial aid: Ohio ranked 22 among the 50 states in level of state need-based grant aid appropriated in 2003.[21] A critical question is whether this particular configuration helps or hurts educational opportunity for students of moderate means.

Nationally, we see that low-income students who are at least minimally qualified or better attend four-year institutions at half the rate of their comparably qualified high-income peers.[22] Nationally, by age 24, three quarters (74.4 percent) of young adults from the top quartile of family income obtained their bachelor's degree; less than 10 percent (8.6 percent) of young adults from the lowest-income families were successful in completing their BA. The middle didn't fare so well either: just over one quarter of upper middle class youth obtained their BA and only 13.2 percent of the lower middle, the second quartile. This reflects a long-term national trend (Figure 8).

Figure 8.

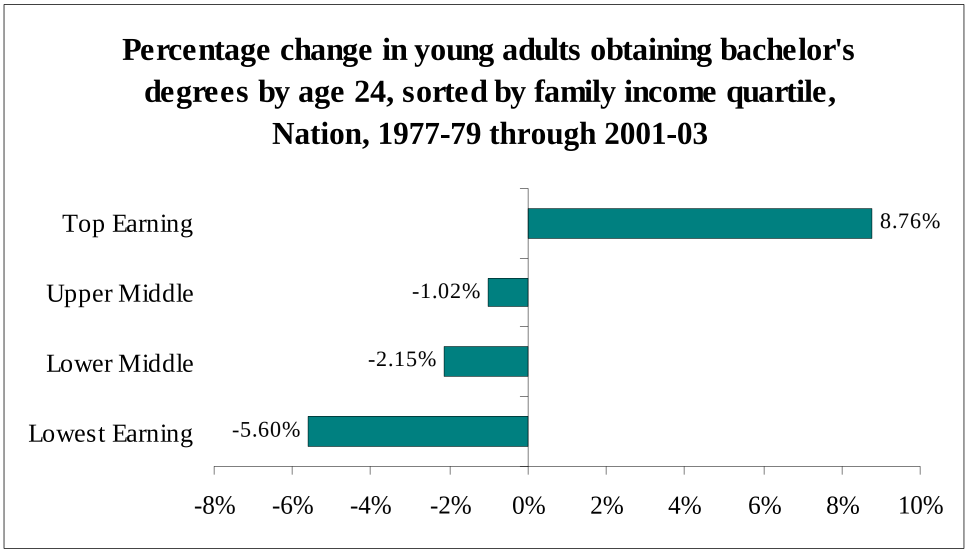


Source: Postsecondary Education OPPORTUNITY, Number 156, June 2005, p.1

Over the past 20 years, between the late 1970s and the early 2000's, the share of young adults who earned a bachelor's degree by age 24 increased by 8.8 percent in the top income quartile, but declined for others, particularly the lower middle and lowest earning quartiles (Figure 9).

[21] NCHEMS at www.HigherEdInfowelcome.org
[22] Advisory Committee on Student Financial Assistance, "Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity," February 2001, p.v.

Figure 9.



Source: Postsecondary Education Opportunity, Number 156, June 2005,.

National studies tell the story behind these percentage changes. For example, by 2001, 50 percent of low-income college students lived at home with their parents to reduce living expenses and 65 percent worked an average of 24 hours per week. For community college students, 70 percent lived with their parents and 80 percent worked an average of 27 hours per week.[23] Overall, it has been found that college outcomes (degree completion) decline with income levels: low-income students who face high unmet financial needs and associated work and loan burden compared with high-income peers are less likely to complete college, to plan for college, test for entrance, enroll, or persist to degree completion.[24]

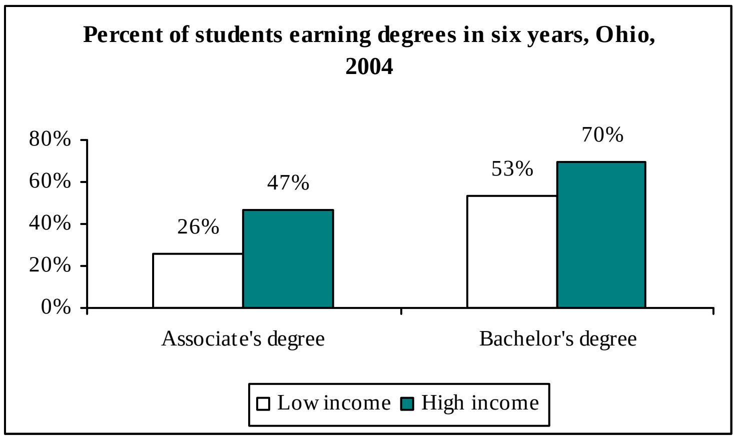
In Ohio, students from "high socioeconomic" school districts (as defined by the Ohio Board of Regents Transition Reports)[25] were more likely to go directly from high school to higher education in Ohio (57 percent in 2004, up from 53 percent four-years earlier) than students from middle- (46 percent) or low (36 percent) districts.[26] Of course, it's likely that within any given district the higher-income students were more likely to go to

[23]Advisory Committee on Student Financial Assistance, "*Empty Promises*," June 2002, p.5.
[24] Ibid, p.23.
[25] The Ohio Board of Regents annual Transition Reports, 2002-2005 *("Making the Transition from High School to College in Ohio 2005: A Statewide Perspective")* divide graduates of Ohio's public high schools into three socioeconomic categories. High socioeconomic districts are suburban/urban high income and suburban, very high income; middle socioeconomic districts are small town, moderate income, rural, and urban, moderate income; low socioeconomic districts are small town, very high poverty, rural, high poverty, and major cities, extremely high poverty rates. These definitions are taken from the 2005 Transition report (p.14) at http://www.regents.state.oh.us/perfrpt/hsreports2005/HS_Transition_2005_statewide%20v2.pdf
[26] Ohio Board of Regents Transition Reports, 2002-2004.

college and the low-income less likely, so this understates the differential. Further, this doesn't capture the many elite students who attend out-of-state schools.

Lower-income students in Ohio, as in the nation, do not have the same degree of success in attainment as higher income peers (Figure 10). They are 75 percent as likely to get a bachelor's degree in six years and 55 percent as likely to get an associate's degree in the same time frame, as their higher income peers.

Figure 10.



Source: The Pell Institute, "*State of College Opportunity in Ohio, 2005*" p.16

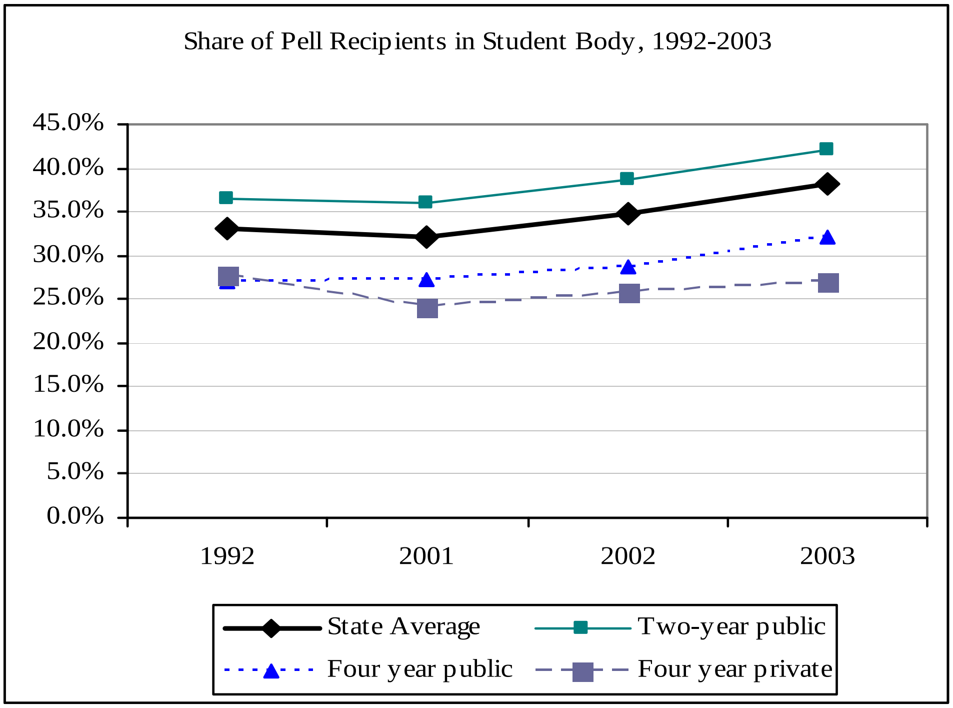
The share of Pell Grant recipients enrolled in college in a state is a strong measure of educational opportunity. The National Postsecondary Student Financial Aid Study requires all Title IV institutions to provide this data on an annual basis.

In Ohio in 2003, the share of Pell Grant recipients among all college students was 38 percent. The two-year campuses have been successful in reaching the low-income population in Ohio: In 2003, 41.7 percent of enrollment at Ohio's two-year colleges was comprised of Pell Grant recipients, a share that has increased over time. Ohio's four-year public universities served, on average, a share of 35.5 percent Pell Grant recipients in the student base in 2003; the state's private universities served 27 percent, a 20 percent decline since 1992 (Figure 11).[27]

Although entering college remains more likely for those of higher-income, students from modest backgrounds are getting the message that higher education is essential and enrolling in post-secondary education of all kinds at higher rates than in the past.

[27] Tom Mortenson, Postsecondary Education OPPORTUNITY, Low Income Equity Index, 1993- 2003.

Figure 11.



Source: Policy Matters Ohio, based on data from Postsecondary Education OPPORTUNITY: Low Income Equity Index, 1993-2003.

In Ohio, half of all families made less than $50,000 annually in 2004.[28] The proportionate share of students from these families is represented in the student base of two-year public schools but to a lesser extent in the enrollment of the public and private four-year universities (Table 2).

Table 2:

Share of students from families of income less than $50,000 annually, Ohio	
Community Colleges	55%
State Community Colleges	51%
Technical Colleges	59%
University Branches	52%
University Main Campuses	39%
Independent, Not-for-profit Colleges	41%

Source: Ohio Board of Regents 2005 Performance Report

[28] American Community Survey, American Factfinder File, by state, economic data for 2004. Median family income for the Ohio was $51,966 in 2004.

In some cases, public universities have encouraged growth at branch campuses, in part to cope with facilities shortages on the main campus. The impact may be that students of rural areas, where both incomes and cost of living are lower, are attending college closer to home. What is financially useful for individual major institutions, however, may drive a shift in outcomes that is less than optimum from a state perspective mindful of educational opportunity. Such outcomes demand broad attention, especially if they are the result of disparate and incremental policy changes taking place across diverse higher education sectors.

The Role of Financial aid

According to the National Center for Public Policy in Education, the decline in higher education funding across the nation has resulted in reduced college opportunity, steep tuition increases, and increased debt. The highest priority now should be to increase access and affordability.[29] Federal financial aid, in the form of grants, loans and tax incentives, is the greatest form of assistance for college students and their families. State financial aid complements the federal programs and may have a major impact on whether a higher education system is accessible and affordable, or not. This is particularly true in states where tuition is high.

Financial aid was originally designed to provide educational access to low-income families. As tuition hikes have outpaced wage gains, aid to the middle class has become more important: in 2003, over 75 percent of first-time, full-time freshmen across the nation received federal grant money or borrowed under federal student loan programs, while many others benefited from deferred tax programs such as the 529 plan.[30] Since 1990, on a national basis, the greatest gain in financial aid has accrued to the wealthiest: in 1990, the top quartile of family income received an average $1,704 in financial aid, which increased to $6,259 by 2004; among the lowest-income quartile, aid increased from $6,051 to $9,379 – the boost in aid to wealthier families was much higher in percentage (267 percent vs. 55 percent) and absolute ($4,555 vs. $3,328) terms.[31]

Of a $60 billion mix of loans, tax credits and grants (on the federal level), it is grants that have been found to affect the initial decision to enroll in college, although on the federal level they comprise less than 20 percent of all student aid.[32] The Pell Grant program is considered the cornerstone of aid for low-income students. Federal appropriations for the program increased on an inflation-adjusted basis, but enrollments and tuition have increased faster than inflation, so the purchasing power of individual grants has declined over the long-term. For example, in 1986, the maximum Pell Grant award covered 97

[29] National Center for Public Policy in Higher Education: Responding to the Crisis in College Opportunity, 2003, at http://www.highereducation.org/reports/crisis/index.shtml
[30] Barry D. Burgdorf and Kent Kosta, "Eliminating Complexity and Inconsistency in Federal Financial Aid Programs for Higher Education Students: Towards a More Strategic Approach," Seventh Issue Paper released by Chairman Charles Miller to inform the work of the Secretary of Education's Commission on the Future of Higher Education, April, 2006.
[31] Chronicle of Higher Education, April 7, 2006, p.A13.
[32] Burgdorf and Kosta, op.cit..

percent of tuition at the average four-year public institution, but by the end of the 1990s, the value had fallen to 57 percent.[33]

Over time, other forms of grant aid have increased more robustly than the Pell. While appropriations for the Pell Grant Program rose, on a non-inflation adjusted basis, by 23 percent during the 1990s, institutional aid (which is often provided to middle-income students through merit-based and other "non-need" scholarships) grew by 84 percent.

Low-cost loans, the largest component of the mix, are a critical part of the tool kit that allows middle-class students to attend college. Nationally, most student financial aid stems from loans and specifically from federal loans. In 2004, more than $53 billion in loans were given to students as compared to $15 billion in grants and $1.2 billion in Federal Work Study. Student loans are essential to college finance, but the debt burden after college is noted as being increasingly troublesome. The Education Policy Institute reports that the interest rate of a loan is the key factor for students deciding whether to borrow, and that U.S. graduates "face punishing rates of interest during the repayment period."[34]

Loans are the largest source of funding available for college, but it is a pool of funds that will be reduced in size over the coming years. In February of 2006, President Bush signed into public law Senate Bill 1932, the Deficit Reduction Act, authorizing approximately $13 billion in cuts to student loan funding over five years.

As the tuition squeeze moved up the income scale across the nation, a variety of tax-subsidized saving plans were created to assist families of higher-income students. The three major programs are education savings plans, federal income tax credits, and federal income tax deductions. The most common are prepaid tuition plans, education IRAs (now known as Coverdell Education Savings Accounts), and 529 plans. While several forms of education savings plans were available prior to 1997, the bill called the Taxpayer Relief Act enhanced their financial incentives. In 2001, the Economic Growth and Tax Relief Reconciliation Act made them even more attractive. [35]

Tax credit programs have been shown to benefit the more affluent and not to influence the decision to attend college; in fact, they can have a confounding effect on financing

[33] College Board, cited in "National Center for Public Policy and Higher Education (NCPPHE) "Losing Ground: A National Status Report on the Affordability of American Higher Education, Chapter 1, at http://www.highereducation.org/reports/losing_ground/ar2.shtml

[34] Educational Policy Institute, "Global Debt Patterns," cited in *Inside Higher Education,* "Sticker Shock," March 21, 2006.

[35] NCPPHE, "Losing Ground: A National Status Report on the Affordability of American higher Education, Chapter 6, p. 15 at http://www.highereducation.org/reports/losing_ground/affordability_report_final_bw.pdf . Note: Today, 17 states have prepaid tuition plans; Ohio' guaranteed tuition savings program is not operating at this time because of financial problems. Ohio also had tax credits of up to $500 that could be taken during the first two-years of college; these credits have been eliminated as well. The state offers 529 plans through a private provider.

decisions, since savings play into the "expected family contribution" and actually lower the amount of Pell grant money for which a student may be eligible.[36]

Financial Aid in Ohio

Tuition in Ohio is high, but financial aid defrays the impact for many. As mentioned, Ohio ranks 22nd among the states in need-based financial aid appropriations. Financial aid in Ohio is characterized by a larger share of loans and a smaller share of state grant aid. It differs from the norm in the large amount of state grant aid provided for students of private four-year colleges and universities, under a subsidy program, the Ohio Student Grant program, which is based on neither need nor merit.

Overall, a greater share of post-secondary students in Ohio receive financial aid than in the nation as a whole. However, in public institutions, students rely more often on loans. Ohio's need-based grant programs have been eroded by inflation, while institutional grants, 80 percent of which are, in Ohio, based primarily on factors other than need, now comprise a slightly larger share of grant aid in Ohio. The largest grants in aid are provided at Ohio's private, not-for-profit universities. A trend of concern is that although the General Assembly has provided for some increases in need-based aid in the current biennial budget, a much lower share of students at four-year public institutions is receiving state grants than just a few years ago. Grant size per student has grown significantly at four-year public institutions, but in 2004, fewer recipients of state aid were served by the public universities than in 2000.

Four-Year Public Universities

The Ohio Board of Regents 2005 Performance Report indicates that of first-time, full-time undergraduates at Ohio's four-year public universities, 78 percent received financial aid in academic year 2004, comparable to the 75 percent in the nation as a whole. However, the mix of aid in Ohio differs from the norm. Here, the largest source of aid to students at public universities is in the form of loans, which in 2004 were on the average 12 percent larger in Ohio than in the nation, and used 15 percent more often. The other source of aid higher than the national average is institutional grants,[37] which are 22 percent higher than average and received by 21 percent more Ohio students in this group than is typical for the nation (Figure 12).

By contrast, only 21 percent in this group receive state grant funds, whereas nationally, 37 percent receive state grant funds. Ohio's grant awards are smaller than the national average: with an average award of $1,505, the Ohio award is 62 percent of the national average (Table 4).

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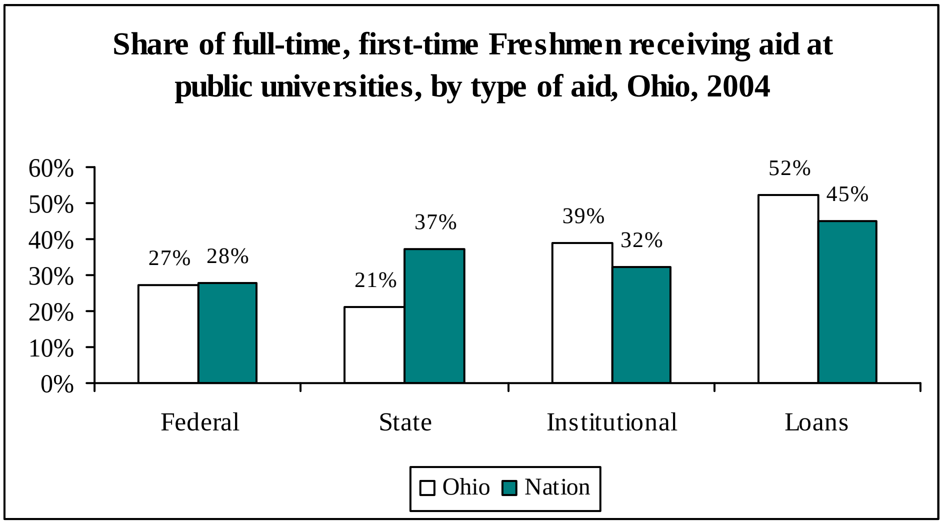
[36] Burgdorf and Kosta, op.cit.

[37] Institutional grants are grant funds provided by each institution out of its own resources and not provided nor dictated by state design.

Figure 12.

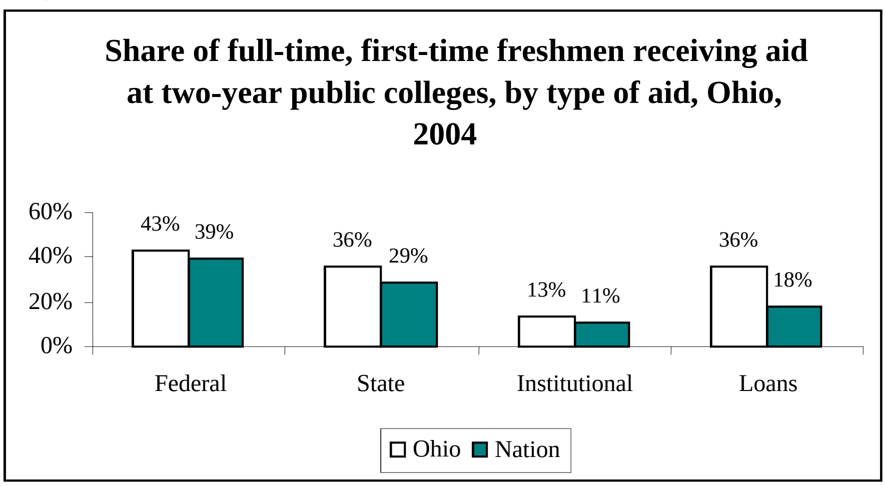


Source: Policy Matters Ohio based on Ohio Board of Regents 2005 Performance Report data

Two-Year Public Colleges

Ohio's students at two-year campuses are more likely than students nationally to receive financial aid. However, it's likely to be in federal loans: Ohio two-year students are twice as likely to take out loans than students nationally (Figure 13). More grant aid in

Figure 13.



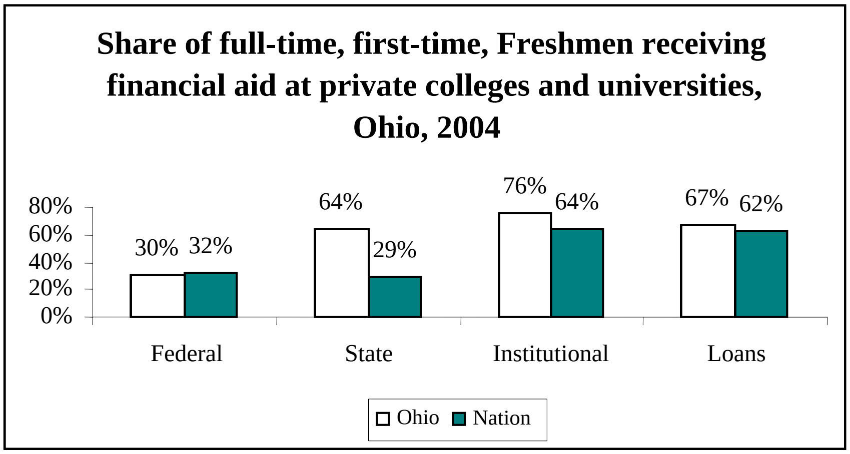
Source: Policy Matters Ohio based on Ohio Board of Regents 2005 Performance Report data

all categories is used by full-time, first-time freshmen at the two-year campuses in Ohio than is typical in the nation. Twenty-four percent more students in this group receive state grant funds than nationally, although the size of the average grant is smaller.

Private Four-year Colleges and Universities

Among first-time, full-time freshmen at Ohio's private, not-for-profit universities and colleges, 89 percent receive financial aid, compared with 84 percent nationally.

Figure 14.



Source: Policy Matters Ohio based on Ohio Board of Regents 2005 Performance Report data

Private colleges in Ohio cost, on average, 63 percent more than public universities. This cost differential is reflected in the size of the average institutional grant to students enrolled in this sector, both in Ohio, where 76 percent of student receive an institutional grant averaging $9,064, and in the nation, where 64 percent of students received institutional grants averaging $9,056 (Table 3).

Ohio differs from the national average in the share of first-time, full-time private university freshmen who receive state grant funds (64 percent in Ohio compared to 29 percent nationally), although the grants are only about half as large in size. This demonstrates the impact of the Ohio Student Choice program. The FY 2006 budget appropriation for this program was $50.8 million.

Trends in State Grant Funding

Ohio's major programs of state grant aid to students totaled $240 million in 2005. Need-based grant aid is provided through the state's Ohio Instructional Grant (OIG) and the Part Time Student Instructional Grant (PTSIG). The Ohio Instructional Grant Program was established in 1969 as a means of helping low-income students go to college. In the late 1980s this grant covered up to 60 percent of tuition, but by 2005, it covered only 34 percent. [38] It will be replaced by the Ohio College Opportunity Grant, with higher award amounts matching federal program guidelines under the Pell Grant program. Initial plans are that this new program will be phased in over up to eight years, beginning in 2007.[39]

[38] Ohio Legislative Services Commission, 2006-07 Budget for the Ohio Board of Regents fiscal analysis.
[39] Conversation with Vice Chancellor Rich Petrick of the Ohio Board of Regents, May 25, 2006.

Table 3

Percent Receiving Financial Aid and Average Award Amounts First-time, Full-time, Degree-seeking Undergraduates, 2003-2004 Academic Year						
	Percent Receiving Aid and Average Award					
	Public two-year		Public four-year		Private four-year	
	OH	*US*	*OH*	*US*	*OH*	*US*
Any Aid	67%	61%	78%	75%	89%	84%
Institution Grants	13% $ 1,297	11% $ 1,205	39% $ 3,667	32% $ 2,991	76% $ 9,064	64% $ 9,056
State Grants	36% $ 1,031	29% $ 1,184	21% $ 1,505	37% $ 2,436	64% $ 1,551	29% $ 2,925
Federal Grants	43% $ 2,587	39% $ 2,737	27% $ 2,910	28% $ 2,991	30% $ 3,096	32% $ 4,707
Federal Loans	36% $ 2,506	18% $ 2,701	52% $ 4,066	45% $ 3,629	67% $ 4,357	62% $ 5,286

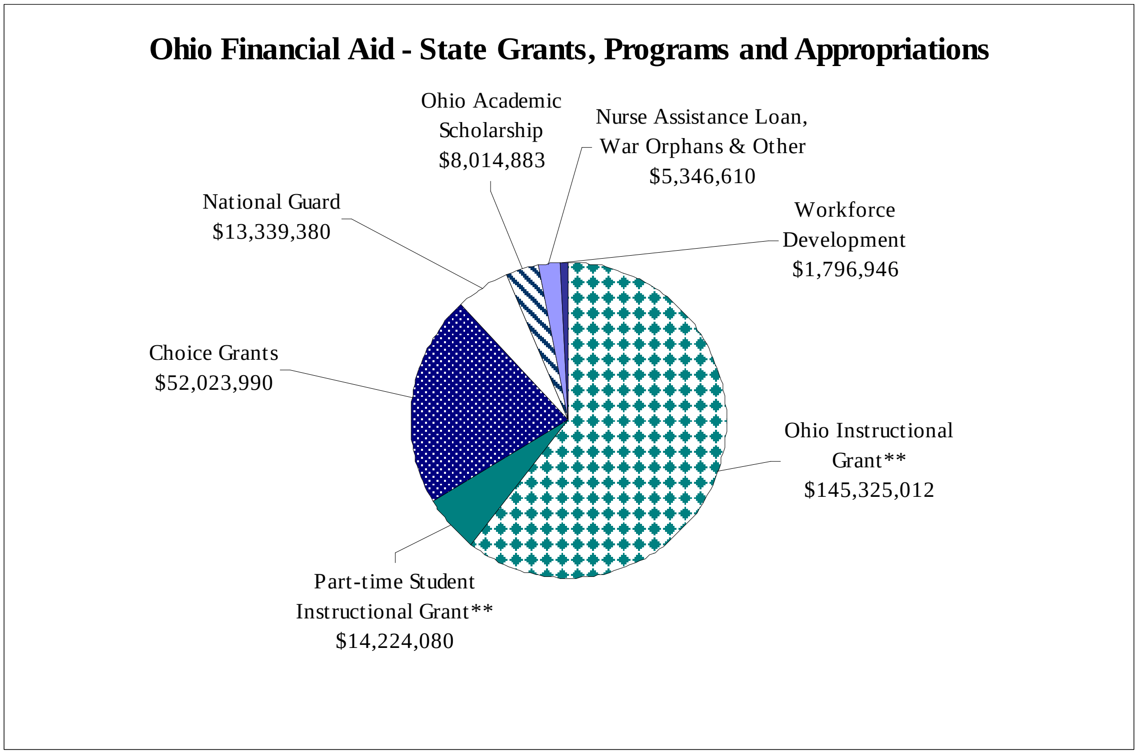
Source: Ohio Board of Regents Performance Report 2005

It is estimated by the Ohio Board of Regents that at full funding, the Ohio College Opportunity Grant program will require higher state support than the current need based programs: If funded at the desired level, which would provide 50 percent of average tuition at an Ohio public institution, the state would need to contribute much as $126 million more in FY2007 alone than is currently budgeted; over time, this program, designed to provided the needed offset to Ohio's high tuition, would double the total appropriation for the current Ohio Instructional Grant program.[40]

Initial implementation will provide maximum grant awards of $2,496 for four-year public university students, $4,992 for students attending private, not-for-profit, four-year universities, and $3,996 for students of proprietary colleges.[41]

[40] Communication with Ohio Board of Regents Public Information Officer Jamie Able, 5/24/06
[41] Ohio Board of Regents Director of Financial Aid Charles Shahid, in comments before the ACT Educational Summit, 5/6/06.

Figure 15.

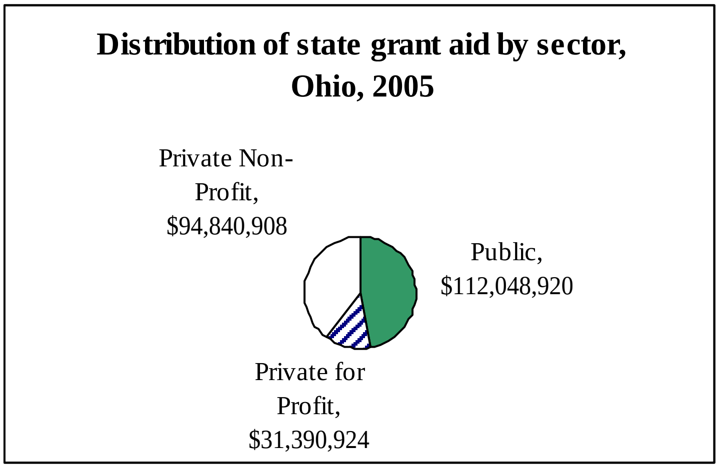


Source: Policy Matters Ohio Based on data from the Ohio Board of Regents Performance Report 2005

Current funding levels have created a situation in which share of state grant aid to public universities is declining. The decline is particularly steep at four year public universities. Figures 15 through 17 give an overview, a snapshot, of the grant aid in the system at present, before the OCOG is implemented. Figures 18 through 21 show how share of financial aid funding is dropping in the public sector but increasing in private sectors.

In Ohio, 78 percent of degrees are awarded by four-year public institutions, and 75 percent of college students attend public schools, yet slightly more than half of state grant dollars are provided to students of private institutions as Figures 16-17 show.

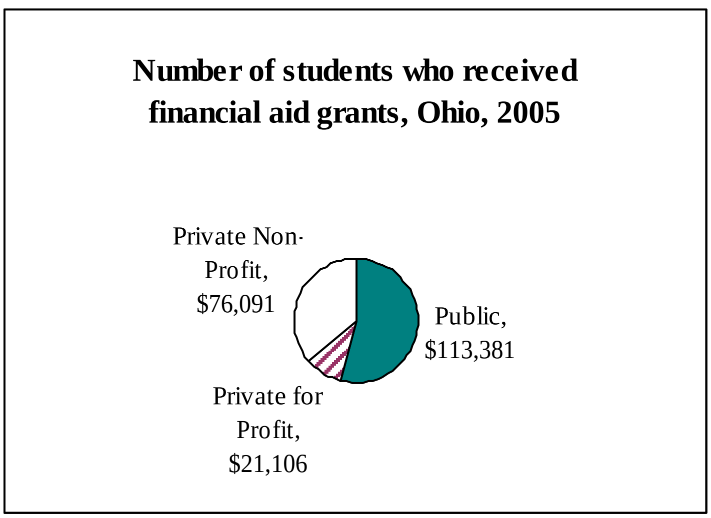
Figure 16.



Source: Policy Matters Ohio, Based on data from the Ohio Board of Regents Performance Report 2005.

Slightly more than half of state grant aid recipients attend public colleges and universities (Figure 17). The disparity between where the money goes (private sector) and where the students go (public sector) reflects the much greater enrollment and much lower costs of public sector options to students. It also represents the Ohio Student Choice program, which provides a subsidy to resident students attending private not for profit universities in the state.

Figure 17.



Source: Policy Matters Ohio, based on data from the Ohio Board of regents 2005 Performance Report

Under the new Ohio College Opportunity Grant, which is planned to take the place of the Ohio Instructional Grant, maximum awards will cover a higher share of a student's costs, based on family or individual need. According to Officials of the Ohio Board of Regents, the OCOG maximum grant award will be $2,496 for four-year public university students,

$4,992 for students attending private, not-for-profit, four-year universities, and $3,996 for students of proprietary colleges.

The Ohio Board of Regents estimates that OCOG, if implemented at the level of 50 percent of tuition, would complement the federal Pell Grant and provide meaningful relief to low income students. This would double the cost of the Ohio Instructional Grant when fully implemented. Changes in state taxes made as part of the 2006-2007 biennial budget will reduce revenues for state and local services, year after year, within the same time frame that expanded funding for the new financial aid program is to be implemented. A state spending limit also just was signed into law. A severely constrained budget will present state leaders with a choice: Fund financial aid or fund basic operations? The effects of the major tax law changes in the 2006-2007 budget as predicted last spring are presented in Table 4, below.

Table 4

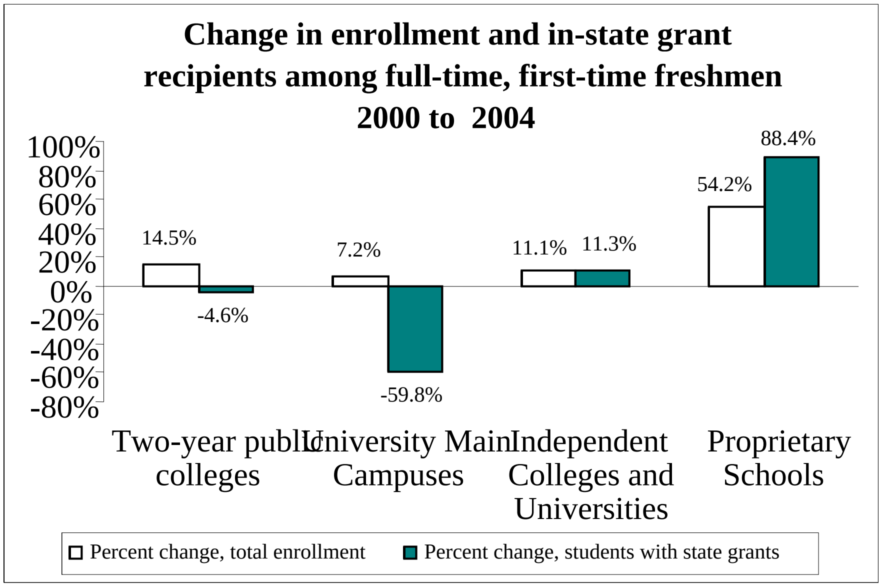
Net Impact on State and Local Revenue of Tax Changes in the 2006-2007 Budget					
Revenue (in millions) change compared to pre-budget levels, assuming a 6% state sales tax					
	FY 2006	FY 2007	FY 2008	FY 2009	FY2010
State tax impact	-$531.23	-$1,013.32	-$1,391.94	-$1,956.21	-$2,459.16
Local tax impact	$95.50	-$213.22	-$575.05	-$918.24	-$1,261.51
State and local tax impact	-$435.73	-$1,226.54	-$1,966.99	-$2,874.44	-$3,720.67

Source: Ohio Department of Taxation, October 2005

New patterns in financial aid are emerging in the statewide system, shown in Figures 18 through 21. Share of full-time, first-time freshmen students with state grant aid, and total dollars received through their financial aid packages by their school, matched or exceeded overall enrollment growth in the private schools, but dropped at public schools.

At public universities, share of first-time, full-time freshmen receiving state grant aid declined by almost 60 percent, even while enrollment grew by seven percent (Figure 18). In 2000, there were 34,918 first-time, full-time freshmen enrolled at public universities in Ohio; this number increased by seven percent to 37,435 in 2004. In 2000, 19,012 of this group had received state grant aid; by 2004, this number had dropped to 7,635 grantees, a decline of 60 percent. According to Ohio Board of regents Public Information Officer Jamie Able, this reflects in part the phasing out of the Ohio Graduation Test grant program.

Figure 18



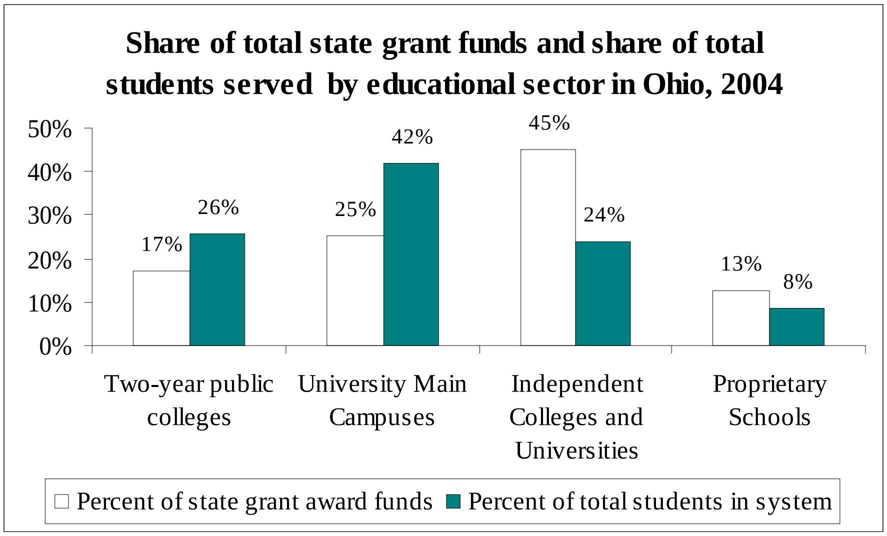
Source: Policy Matters Ohio, based on data from the Ohio Board of Regents Performance Reports.

Between 2000 and 2004 there was a drop in share of full-time, first-time freshmen with state grant aid at public two-year campuses as well. Although enrollment in this sector increased by 14.5 percent over this time frame, share of this group of students with state grant aid decreased by 4.6 percent (Figure 18).

Private colleges fared better. By 2004, growth in the share of full-time, first-time freshmen students with state grant aid in private colleges and universities equaled overall enrollment growth. In the proprietary sector, growth of students with state grants was even greater than growth in enrollment, as Figure 18 shows.

Ohio’s public universities served 42 percent of all first-time, full-time freshmen in 2004, but only 25 percent of state grant funds flowed into this sector, a disproportionately low segment of the mostly need-based state grant funding (Figure 19). Private, not-for-profit universities served about 24 percent of full-time, first-time freshmen in 2004 but received 45 percent of state grant monies. This figure illustrates the effect of the Ohio Student Choice Program, which is distributed solely to this sector, and also indicates that some students use need-based state grants to further defray tuition at private schools in state. Two-year campuses served 26 percent of this group of students but received only 17 percent of total state grant funds. And although proprietary schools served only eight percent of Ohio students in this category, they received 13 percent of state grant awards.

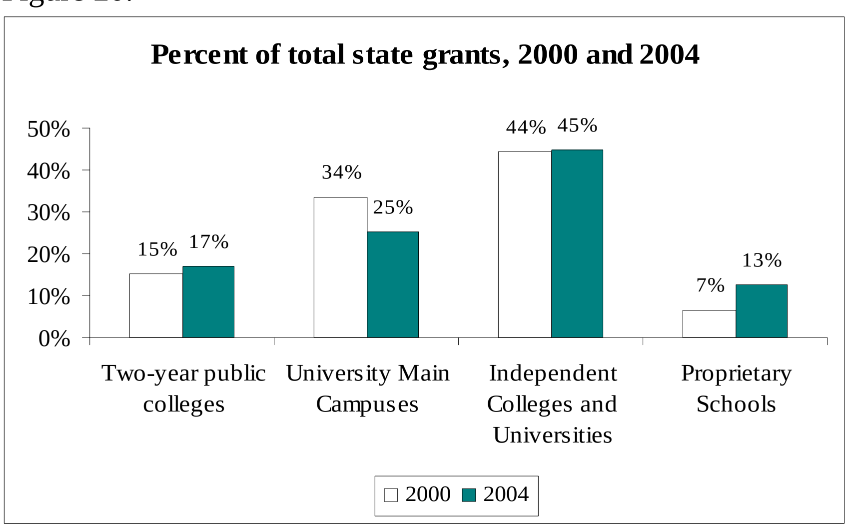
Figure 19



Source: Policy Matters Ohio based on data from the Ohio Board of Regents Performance Reports.

An examination of growth patterns in the award of total state grant funds by institutional sector also illustrates the shift away from the public sector and toward private sector institutions (Figure 20). In 2000, 15 percent of state grant funds ($6.7 million) went to first-time, full-time freshmen at public two-year campuses. Enrollment increased by 14.5 percent in this sector over this time period, while growth in total state grant monies lagged slightly, growing by 13.3 percent to 17 percent of the state total ($8.1 million). At the four-year public universities, funding of 34 percent of the state total in 2000 ($14.7 million) dropped to 25 percent of total program proceeds ($11.9 million) by 2004. Forty four percent ($19.3 million) flowed to the four-year private not-for-profits in 2000 and increased to 45 percent ($21.3 million) in 2004. Share of total state grant funding at the proprietary sector almost doubled, increasing from seven percent of the total at $2.9 million in 2000 to 13 percent, or $6.0 million, in 2004.

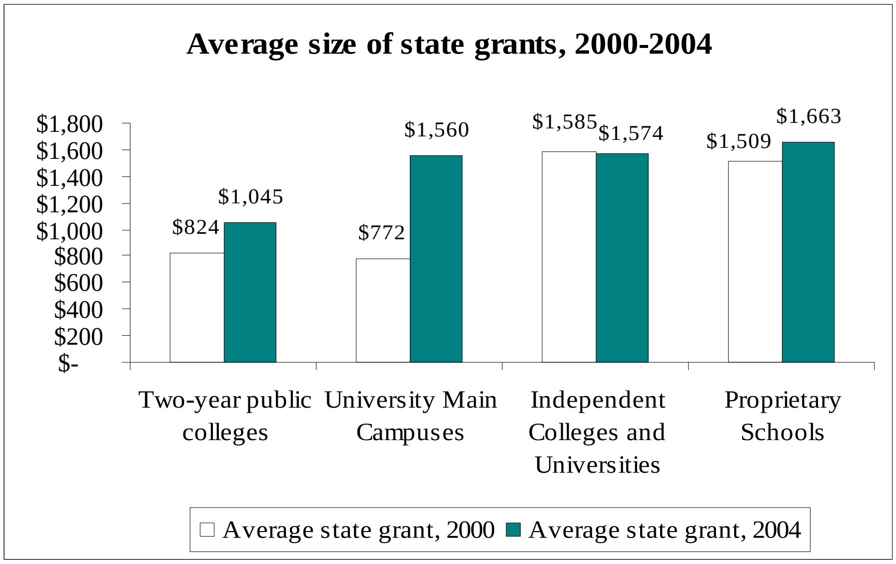
Figure 20.



Source: Policy Matters Ohio based on data from the Ohio Board of Regents Performance Reports.

The average size of grant award reflects both costs and availability of funding for a particular sector. On the average, size of the state grant awards to first-time, full-time

Figure 21



Source: Policy Matters Ohio based on data from the Ohio Board of Regents Performance Reports

freshmen at four-year public colleges and universities increased by 49 percent in the four-years examined, keeping pace with the increase in tuition in this sector. As seen in Figure 21, award size has increased dramatically even while the number of recipients has declined in this sector.

Institutional Grants in Ohio

Universities and colleges provide student aid on their own, tailored to the needs of their student body. Nationally, 19 percent of all student aid was institutional aid. This compares with 16 percent of all need based aid, comprised of federal Pell Grants (10 percent) and state grant aid (6 percent).[42] Nationally, this source of financial aid has increased over the past decade. This may have been a response to tuition distress among middle-class families. It has also been identified as one of the drivers of the increase in college costs in the 1990s. [43] This type of financial aid to students, along with the federal tax credits, kept net tuition cost below 'sticker' price through the 1990's. But the majority of the institutional aid in Ohio does not address need as its primary purpose (Table 5).

[42] The College Boards, *Trends in Student Financial Aid*, 2005.
[43] Jane V. Wellman, "Costs, Prices and Affordability: A Background Paper for the Secretary's Commission on the Future of Higher Education," Issue Paper number 13 produced for the Secretary of Education' Commission on the Future of Higher Education.

Table 5

Distribution of Major Programs of State & Institutional Grant Aid, 2004		
Ohio need based aid		
Ohio Instructional Grant		$ 112
Part Time Instructional Grant		$ 14
Institutional Grants based on need		$ 33
Total		**$ 159**
Ohio non-need based grants		
Ohio Student Choice		$ 51
Institutional Grant		$ 146
Total		**$ 197**

Source: Ohio Legislative Services Commission detailed budget data, OBOR Performance Report for 2005
**Institutional aid is shown for residential undergraduates at Ohio public postsecondary institutions.*

Within Ohio's four-year public universities, fewer students get state need-based grants but more get institutional grants than in the nation. About 82 percent of Ohio's institutional grants support students on a basis other than need: merit, athletic scholarships, or other purposes. The Board of Regents' Performance Report notes that in 2004, a share of all categories of institutional grants were awarded to students who qualify on the basis of financial need as well as merit. According to The College Board, it is difficult to draw a line between need-based and non-need-based institutional aid; sometimes both criteria are taken into account in the award process. [44] In the institutional grant categories, however, the primary basis is not need.

Loans in Ohio

Nationally and in Ohio, federal loans are the largest source of student aid to the state and are used by students of all income levels. Loans encourage college enrollment by providing a source of funds for tuition and expenses. In some cases, they may discourage college enrollment through fear of inability to pay off the debt over time; the variation can correlate with cultural, ethnic and socio-economic differences. [45]

In 2003, Ohio ranked 21st among the states in average size of student loans. The average annual loan was $3,380, close to the national average of $3,344. In 2004, the size of loans varied from $2,056 for a two-year college to $4,357 for a private college, on average.[46] The average Ohio 2005 graduate will have more than $17,000 in loans to repay.[47] The Ohio Board of Regents calculates average total loan debt for public students with an Associate, Bachelor, and Professional degree at $5,879, $14,671, and $63,500, respectively.

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[44] College Board, *Trends in Student Financial Aid, 2005*, Sec 2:3, p.3.
[45] Alicia Dowd, The Effect of Loans on College Enrollment, Presented at "*Advancing America's Competitiveness: The Role of Student Loans*," American Enterprise Institute and the Student Debt Project, November 16, 2005.
[46] NCHEMS Information Center at www.HigherEdInfowelcome.org, affordability data
[47] See Anya Kamenetz "Robbing Joe College to Pay Sallie Mae" *The New York Times* December 12, 2005.

Ohio also ranked 21st in the nation in the rate at which students default on their loans in 2003, the most recent year for which data are available. Ohio's rate of 4.8 percent was slightly higher than the national rate of 4.5 percent.[48] Again, the rate varies by sector, with students at two-year and proprietary schools struggling to pay back their loans; this corresponds to the data provided by the Ohio Board of Regents which indicates that twice as many students at two-year public campuses in Ohio rely on student loans than is typical in the nation,

National and Ohio trends are similar, with proprietary or for-profit schools having the highest default rates, followed by public, then private schools. Ohio default rates are slightly higher than the nation's in proprietary, for-profit and public schools, and slightly lower in private schools. Of schools in Ohio with a default rate higher than 10 percent, 70 percent were proprietary.

Conclusion

Ohio funds higher education at a below-average level and our higher educational attainment is below average. Ohio's leadership has voiced strong support for higher education focus and funding. Enrollment is increasing, driving an increase in costs. Tuition has risen to a level well above the national average in the two- and four-year sectors of public higher education. There has been an unacceptable shift of cost to students, a burden that weighs more heavily moving down the income scale. This must be reversed to restore the state to a competitive position.

The best way to increase our educational level is to make it easier for those of modest income to access higher education. According to Jane Wellman, writing for the Secretary of Education's Commission on the Future of Higher Education:

> "*Growth in student enrollments over the next decade will come predominantly from low-income students who are the first in their family to go to college. Historically these students have the lowest probability of degree success in college. Unless those disparities change, the country faces growing problems of workforce shortages, as well as greater income inequality.*"[49]

The market of low- and middle-income students is not the only market available to Ohio's increasingly entrepreneurial higher education community. In the context of state support that does not keep pace with inflation, attracting higher-income students from out-of-state might begin to look more appealing. Ohio ranked 42nd among the states with an 11 percent share of non-resident students in the fall freshman class at public universities and four-year colleges in 2002; this compares with a national percentage of

[48] United States Department of Education, Federal Student Aid website at http://www.ed.gov/offices/OSFAP/defaultmanagement/cdr.html
[49] Jane V. Wellman, "Costs, Prices and Affordability: A Background Paper for the Secretary's Commission on the Future of Higher Education," Issue Paper number 13 produced for the Secretary of Education' Commission on the Future of Higher Education, p.4.

16.2 percent.[50] However, this share has been increasing and strategies are developing around further increase.[51]

Ohio is moving toward a high tuition-high financial aid financing model in higher education. Enrollment remains strong, but national studies indicate that the increasing burden on low income students may prevent us from closing the gap with the nation. Completions, especially at the two-year sector, cannot be helped by tuition that is 66 percent higher than the national average within the two-year sector.

Increasing shares of state grant aid flow to the private sector. Nationally, state appropriations for higher education have fallen since the 1970s relative to growth of personal income, and Ohio is below the national average. Nationally, tuition increases have only partially offset the decline in state funding. On a national basis, educational spending per full-time equivalent student has declined at public institutions relative to private institutions, from about 70 percent in 1977 to about 58 percent in 1996.[52] Yet in Ohio, where even public sector tuition is too high, grant funding is growing for expensive private options. According to an issue paper provided for the Secretary of Education's Commission on Higher Education:

> "*Nationally, the gap in resources between public and private sectors has grown, with the well-endowed private institutions, and a handful of the leading public research universities, pulling away from the rest of the colleges and universities. Institutional wealth corresponds in turn to student admissions selectivity, which corresponds to family income. So the poorest students remain in the institutions least likely to have the funds to invest in their success*." [53]

The tuition component is in place, but the financial aid side of the equation is not yet adding up, in either direction or size. Tax changes enacted in the past year threaten to lower revenues substantially; the newly enacted tax and expenditure limit will make budgeting tighter. Typically, it is discretionary programs, like higher education, that are cut at such times. A question remains: will Ohio leadership walk the talk in making the necessary investment to regain competitiveness in the new human capital economy?

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[50] Postsecondary Education Feb 2006 op.cit.

[51] University of Akron and Ohio University have slashed out-of-state rates to attract students from neighboring states.[51] The University of Toledo will spend up to $200,000 to open recruiting centers in China[51] (joining their entrepreneurial colleagues at other Ohio universities in setting up Asian partnerships.) Miami University is the only university in the nation to adopt a pricing strategy similar to that of private schools, which look to a national market.[51]

[52] Thomas J. Kane and Peter R. Orszag, *Funding Restrictions at Public Universities: Funding and Policy Implications*, The Brookings Institution, September 10, 2003.

[53] National Association of Colleges and Universities Business Officers, "*Endowment Survey 2006*," and Gordon Winston, in NCES "*Study of College Costs and Prices, 1987-88 to 1997-98*," cited in Jane V. Wellman, "*Costs, Prices and Affordability: A Background Paper for the Secretary's Commission on the Future of Higher Education*," Issue Paper number 13 produced for the Secretary of Education' Commission on the Future of Higher Education.

Recommendations

The federal government must increase the value of the Pell Grant and reverse its decline. The cuts in the federal student loan program, the largest source of funds for students of middle income, must be restored. Public entities should administer federal student loan programs, eliminating private sector fees. Loan rates must stay low, and repayment schedules adjusted by post-graduate income level.

The state must make a substantial investment in higher education appropriations to close the education gap with the nation. Within Ohio, the share of highly-educated people in the population has increased over the past fifteen years, but the gap with the national average has not closed. If state funding were increased from the level of $4365 per enrolled public full-time equivalent student in the Ohio system, to the national average of $5833, and at an estimated cost of $559 million, that gap might close. While there are many needs within the higher education system, none is greater than reducing the financial burden of higher education on students of modest means. Funding enrollment and need-based financial aid should be priorities.

This matches recommendations of the National Center for Higher Education and Public Policy for all states, and echoes recommendation number four for Ohio made by the Pell Institute for the State of Ohio in their fall 2005 report: "Study of College Opportunity in Ohio, 2005:"

> *"The National Center for Public Policy and Higher Education gave the state of Ohio an F for affordability. With tuition and fees that far exceed national averages, the cost of higher education at Ohio's public colleges and universities is prohibitively high, especially for low-income families who are faced with exorbitant out-of-pocket costs even after financial aid. Ohio must increase state appropriations for higher education, which have decreased dramatically in recent years, in order to reduce the burden of higher education expenses on Ohio's students and families. By increasing the state share of instruction, institutions will not have to rely so heavily on tuition to cover their expenses. This pressing issue must be taken under careful consideration by the state's newly created Higher Education Funding Study Council (Ohio General Assembly,2005)."*[54]

The state must fully fund the Ohio College Opportunity Grant. It is estimated by the Ohio Board of regents that at full funding, this program will require stronger appropriations than the current need based programs: as much as $126 million more in FY2007 alone than is currently budgeted; over time, it will cost double the total appropriation for the current Ohio Instructional Grant program. The 'high tuition' component of state policy for higher education funding is in place. The other half of the contract, 'high financial aid,' must not be lost to budget battles.

[54] Pell Institute for the Study of Opportunity in Higher Education, op. cit., p.18

These recommendations could be funded in large part by restoring the cuts in personal income tax rates on the top one percent of Ohio earners, those making over $274,300, with an average income of $643,000. The new tax and expenditure limit imposed by the 126th Ohio General Assembly will make it much more difficult for future legislators to fund educational opportunity. Therefore, a source of funding that should be considered would be from the reprogramming of subsidy for the state's private colleges and universities. Educational opportunity could be broadened by focusing state resources on public institutions, which are less expensive, serve a public purpose and answer to the taxpayer.

Ohio colleges and universities must halt the increase in tuition. It is imperative for public universities to prioritize resources to address the crisis in affordability. With restoration of adequate state support for instruction and financial aid, tuition increases must also be halted to draw Ohio's cost of college back into the range of average for the nation. The National Center for Public Policy in Higher Education makes the following series of recommendations for control of tuition:

- Temporarily freeze tuition at community colleges and public four-year colleges that serve predominantly low- to middle-income college students.

- Increase tuition moderately at public research universities to the extent that the state can make a commensurate increase in need-based financial aid.

- Hold tuition increases to the rate of growth in family income in each state..

A selective set of tuition controls, as opposed to uniform caps, might allow for institutional variation while protecting access and affordability.

Policy Matters Ohio is a non-profit, non-partisan policy research institute dedicated to researching issues that matter to Ohio's working families. We seek to broaden the debate about economic policy in Ohio by providing Ohio's citizens, reporters and policy makers with essential tools to participate in public discussion. Ultimately, we believe that a broader debate will lead to a stronger and more just society. Other areas of inquiry for Policy Matters have included economic development, basic needs, taxes, job growth, privatization, and unemployment.

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