A Share-of-Cost Student Fee Policy

In the latter half of 2003, the Assembly Higher Education Committee held a series of hearings on higher education finance. During these hearings, the committee expressed interest in reexamining California's student fee policy. Specifically, the committee requested the Legislative Analyst's Office (LAO) to submit an analysis that includes recommendations regarding: (1) the appropriate share students should pay of their education costs and (2) the criteria that should be used to adjust fees on an ongoing basis.

In the *2004-05 Analysis of the Budget Bill*, we recommended setting resident fees at a fixed percentage of students' total education costs (we used 50 percent of cost for illustration purposes) and nonresident fees equal to the full cost of education. A share-of-cost fee policy not only establishes an underlying rationale for fee levels, it also would provide for moderate and gradual fee increases, create incentives for students to hold the segments accountable for keeping costs low and quality high, treat cohorts of students fairly over time, and formally recognize the private as well as public benefits of higher education.

In this subsequent analysis, we do not recommend any specific percent target for resident student fees because this ultimately is a policy call for the Legislature. Instead, we suggest the Legislature consider the implications of low fees resulting in less financial aid to needy students. Most importantly, we encourage the Legislature to consider the benefits that can be achieved by a fee policy with higher fees, less untargeted aid, and more targeted aid that could be used specifically for financially needy students.

Although we do not recommend any specific percent-of-cost fee target, once a certain target has been selected and achieved, we recommend it be sustained on an ongoing basis. For example, if the Legislature were to set fees at 50 percent of cost, then we would recommend fees continue to be linked to 50 percent of cost in future years. We recommend the same fee target be maintained in future years because one of the core goals of a share-of-cost policy is consistency over time. Until the selected fee target has been reached, we recommend the Legislature raise fees moderately, gradually, and predictably. For example, in the *Analysis*, we suggested that, if necessary, the Legislature could schedule annual 10 percent fee increases over the next several years until the targets were achieved.

Below, we:

- Discuss general share-of-cost policies and explain the relationship between fees and financial aid.
- Describe California's existing share-of-cost policies and identify the share of education costs students currently pay at the University of California (UC), California State University (CSU), and California Community Colleges (CCC).
- Identify the share of education costs students currently pay at UC and CSU's public comparison institutions.

Paying for College Costs

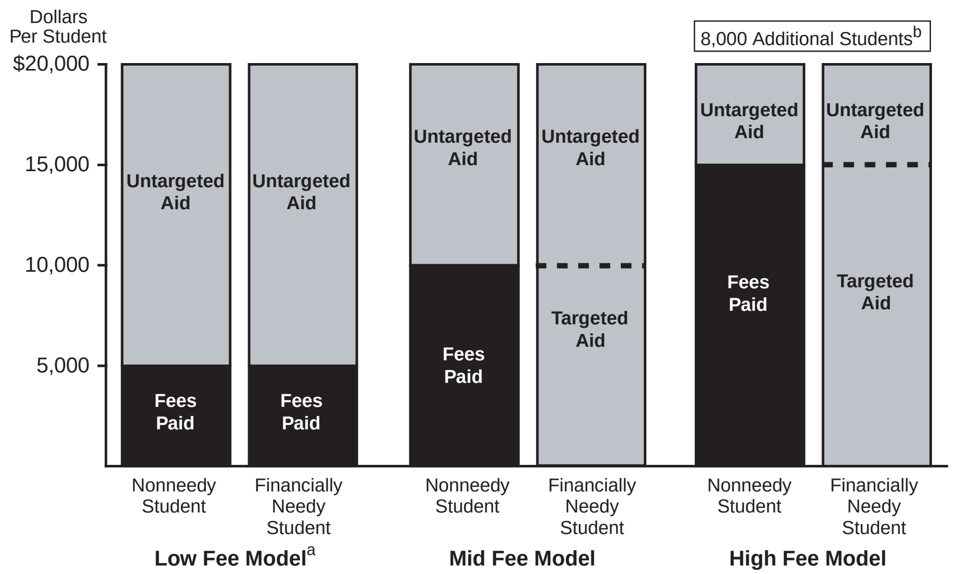
Currently, students and the state share college costs. Students pay a portion of these costs, which is reflected in the fees they pay. The remainder of the cost is covered by state taxpayers. California pays these remaining costs using two types of subsidies—untargeted and targeted. The untargeted subsidy is the base amount of funding California provides for each student—regardless of family income—who attends UC, CSU, and CCC. This subsidy is equal to the difference between the cost of education and the fees paid by the student. This untargeted aid is an indirect subsidy, and many students probably do not realize that the state actually is paying the bulk of their college costs (and they therefore actually are receiving substantial financial assistance). By comparison, the targeted subsidy is the supplemental financial aid (for example, a Cal Grant or institutional grant) that California provides only to financially needy students. It is typically used to offset fees or other costs (such as room and board). It is a direct subsidy—those students receiving the grants know exactly how much the subsidy is.

Fees, Untargeted Financial Aid, and Targeted Financial Aid All Interrelated. As suggested above, state decisions about fees and financial aid are interrelated. For example, low student fees result in a large untargeted subsidy for all students—regardless of their income. Assuming any given level of state investment, more state spending on untargeted aid means less state spending on targeted aid for financially needy students. Conversely, as student fees increase, the untargeted subsidy per student declines, resulting in more state funding available for targeted financial aid. In short, by asking nonneedy students to pay more of their college costs, the state frees up resources it can use to help financially needy students.

Illustrating Fee and Financial Aid Trade-Offs. To help illustrate these trade-offs, Figure 1 shows three hypothetical fee scenarios: (1) a low fee model in which fees are 25 percent of total education costs, (2) a mid fee model in which fees are 50 percent of total education costs, and (3) a high fee model in which fees are 75 percent of costs. Across all three models, we assume the state spends a fixed amount on higher education ($600 million in this hypothetical illustration) and the annual cost of education per student is fixed ($20,000). We also assume that half of all students are financially needy. (This is a realistic assumption—in 2001-02, approximately 45 percent of UC and CSU students were financially needy.)

Figure 1

Illustrating the Relationship Between Fees and Financial Aid



Note: Each model assumes total state spending of $600 million and half of all students are financially needy.
[a]Under this model, all $600 million in state spending is needed for untargeted aid, leaving no funds for targeted aid to financially needy students.
[b]Under this model, after paying 100% of costs for all financially needy students, funds are "left over" that could be used to increase overall enrollment by 8,000 slots.

Low Fee Model. Under this scenario, annual student fees are $5,000. This fee level requires the state to provide $15,000 in untargeted aid per student. Assuming 40,000 students, the state needs to spend the entire $600 million on untargeted aid and therefore has *no funds remaining to provide targeted aid for financially needy students*. Thus, all students—regardless of income—receive the same subsidy.

High Fee Model. By comparison, under this scenario, annual student fees are $15,000, or 75 percent of total education costs, and the state needs to provide only $5,000 in untargeted aid per student. By having wealthier students cover more of their own education costs, the state has substantial resources remaining both to provide targeted financial aid and to increase the number of enrollment slots. For the same level of investment, the state can cover 100 percent of the cost of education for all financially needy students and have funds remaining to serve 8,000 additional students.

Low Fees Do Not Maximize Access. Although low fees are thought to promote access, they actually result in more financial aid for middle income and wealthy students (who are more able to afford college with smaller or no subsidies) while simultaneously providing less financial aid to needy students (who, by definition, could not otherwise afford it). Thus, for any given amount of state support, low fees and high levels of untargeted financial aid do not efficiently use the state's limited resources and do not maximize access to higher education.

California's Existing Policies Reflect Low Fee Model

Currently, UC and CSU fee levels (resident and nonresident, undergraduate and graduate) are the lowest of all their comparison institutions. Similarly, the CCC fee level is the lowest of all community colleges in the nation. (Please see page E-200 of our *Analysis of the 2004-05 Budget Bill* for a listing of fee levels at the segments and their comparison institutions.) In addition to the segments' fee levels being very low, their fees as a share of total education costs—as shown in Figure 2—are very low. (Our estimates of total education costs vary slightly from the amounts shown in our February analysis in that we now exclude institutional financial aid and include capital costs.)

Resident Fees Represent Small Share of Costs. As Figure 2 shows, in 2003-04, resident fees at UC, CSU, and CCC represent a small share of total education costs. For undergraduates, resident fees represent 27 percent of total costs at UC, 21 percent of total costs at CSU, and 8 percent of total costs at CCC. By comparison, resident graduate fees represent 22 percent of total costs at UC and 15 percent of total costs at CSU. Resident graduate fees therefore represent an even smaller share of cost than do resident undergraduate fees. In 2004-05, the Governor's fee proposals would result in slight increases in the share of cost for all types of students. Students across all the segments, however, would continue to contribute only a small part toward their total education costs.

Figure 2

Fees as a Share of Total Education Costs At California's Public Colleges and Universities

(2003-04)

	UC	CSU	CCC
Undergraduates			
Cost of education	$20,700	$12,000	$6,500
Resident fees	5,530	2,572	540
Fee as a percent of cost[a]	27%	21%	8%
Graduate Students			
Cost of education	$31,100	$18,000	—[c]
Resident fees	6,843	2,782	—[c]
Fee as a percent of cost[b]	22%	15%	—[c]

[a] With the fee increases proposed for 2004-05, resident undergraduate fees would be 29 percent of cost at UC, 23 percent of cost at CSU, and 12 percent of cost at CCC.

[b] With the fee increases proposed for 2004-05, resident graduate fees would be 29 percent of cost at UC and 21 percent of cost at CSU.

[c] Not applicable.

Substantial Untargeted Aid, Little Targeted Aid. By keeping fees low, California also is keeping untargeted financial aid high—thereby constraining the resources it has available for targeted aid. Figure 3 shows the amount of untargeted and targeted financial aid the state provides to each of the three segments. As the figure shows, at each of the segments, the bulk of all aid (more than 80 percent) is untargeted. In contrast, targeted aid represents only 17 percent, 11 percent, and 7 percent of all financial aid at UC, CSU, and CCC, respectively.

Reallocating Resources Can Promote Access, Yield Efficiencies. As Figure 1 indicated, the state could raise fees, thereby reducing untargeted aid and freeing up resources that could be used for additional targeted aid. By redirecting financial aid from students who do not need it to students who cannot afford college without it, the state would be promoting access. Moreover, by transitioning to a means-based financial aid system, the state would ensure that students' financial aid packages were directly linked to demonstrated financial need. (A means-based system could provide significant financial aid to middle income students—given many middle income students are considered financially needy based on the federal needs-assessment methodology.) This means-based system would yield efficiencies relative to the current system in which the state provides a uniform untargeted subsidy that is entirely disconnected from demonstrated need. In contrast, a means-based system that charged 100 percent of cost to students who could afford it and then provided differential financial aid packages to all remaining students based upon their demonstrated financial need would much more efficiently target resources where most needed.

Figure 3

Little State-Funded Financial Aid Is Targeted in California

2003-04
(Dollars in Millions)

	UC		CSU		CCC	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Untargeted financial aid[a]	$2,468.9	83%	$2,571.3	89%	$2,158.2	93%
Targeted financial aid						
Needs-based institutional aid	352.8	12	208.4	7	94.6	4
Cal Grant programs	160.5	5	105.0	4	69.6	3
Subtotals	($513.3)	(17%)	($313.4)	(11%)	($164.2)	(7%)
Totals, state-funded aid	**$2,982.2**	**100%**	**$2,884.7**	**100%**	**$2,322.4**	**100%**

[a] Includes General Fund monies provided for operations (excludes capital costs).

Share-of-Cost Policies at the Segments' Comparison Institutions

For informational purposes, this section provides share-of-cost data for UC and CSU's comparison institutions. We include this information to help provide additional context for assessing California's policies. We caution, however, against using these data exclusively. Other states' policies are not necessarily any more reasonable or appropriate than California's policies. Moreover, if used exclusively, California's fee policy would have no independent foundation or principle guiding it except for the notion that California's fees should change in accordance with other states' fees.

To compare institutions in a consistent manner, we rely on the Integrated Postsecondary Education Data System (IPEDS) 2000-01 data files—files that are collected using standardized procedures. The files are developed and maintained by the National Center for Education Statistics (NCES), a division of the United States Department of Education (USDE). The files contain data on enrollment, fees and financial aid, and expenditures by major programmatic categories. Depending on the variable, the data are for the full 1999-00 academic year, federal fiscal year 2000, or the fall 2000 term. We use the data to calculate student fees as a percentage of education costs.

(We recommend the data be used for comparison or ranking purposes only. This is because the IPEDS data show some inconsistencies with available state-level data. For example, the IPEDS data show the cost of a UC and CSU education as substantially higher and slightly lower, respectively, than our state-level calculations. In all cases, the IPEDS data show fees as an even smaller percentage of cost than our state-level calculations. Despite these inconsistencies, the IPEDS data are the best comparative data available, and we think the results are useful for comparing UC and CSU's share-of-cost percentages relative to other institutions.)

At UC, Fees Smaller Share of Cost. Figure 4 focuses on UC's general campuses and its four public comparison institutions. In all cases, UC fees represent a smaller share of cost than fees at its public comparison institutions. For example, the IPEDS data show UC resident undergraduate fees as 14 percent of total undergraduate education costs compared to 24 percent at its public comparison institutions. Similarly, the data show UC resident graduate fees as 11 percent of total graduate education costs compared to 21 percent at its comparison institutions.

Figure 4

Student Fees as a Share of Cost at UC and Its Comparison Institutions

	Resident Fees As a Share of Cost		Nonresident Fees As a Share of Cost	
	Undergraduate	Graduate	Undergraduate	Graduate
Weighted average of UC campuses	**14%**	**11%**	**53%**	**37%**
Public Comparison Institutions				
University of Virginia	18%	14%	54%	35%
University of Michigan, Ann Arbor	21	21	66	47
SUNY at Buffalo	27	23	68	48
University of Illinois, Urbana	27	23	74	50
Weighted average	**24**	**21**	**66**	**46**

[a] SUNY = State University of New York.

Source: Integrated Postsecondary Education Data System 2000-01 Data Files.

At CSU, Fees Smaller Share of Costs. Figure 5 focuses on CSU and its 15 public comparison institutions. (Due to missing data, Rutgers State University is excluded.) As the figure shows, in all but one case, CSU fees represent a smaller share of total education costs than at its public comparison institutions. For example, resident undergraduate fees at CSU represent only 18 percent of cost whereas these fees represent 28 percent of cost at CSU's comparison institutions. Similarly, resident graduate fees at CSU represent only 13 percent of cost compared to 22 percent of cost at its comparison institutions.

Figure 5

Student Fees as a Share of Cost at CSU and Its Comparison Institutions

	Resident Fees As a Share of Cost		Nonresident Fees As a Share of Cost	
	Undergraduate	**Graduate**	**Undergraduate**	**Graduate**
Weighted average of CSU campuses	**18%**	**13%**	**88%**	**50%**
Public Comparison Institutions				
University of Nevada—Reno	13%	7%	50%	31%
North Carolina State University	14	10	59	40
Arizona State University	19	12	78	52
Wayne State University	19	16	40	33
Georgia State University	24	18	80	63
University of Connecticut	27	20	69	48
University of Colorado at Denver	28	24	124	90
The University of Texas at Arlington	33	22	92	53
Cleveland State University	33	32	65	63
George Mason University	33	26	111	74
University of Wisconsin—Milwaukee	34	35	121	108
SUNY at Albany[a]	35	32	71	48
Illinois State University	43	24	106	59
University of Maryland—Baltimore	43	31	81	49
Weighted average	**28**	**22**	**81**	**58**

[a] SUNY = State University of New York.

Source: Integrated Postsecondary Education Data System 2000-01 Date Files.

Conclusion

California's existing fee policies reflect a low fee model in which the state provides substantial untargeted aid and a relatively small amount of targeted aid. At any given level of state spending, the Legislature could raise fees and reallocate funds from untargeted aid to targeted aid based upon students' demonstrated financial need. Taken collectively, higher fees, less untargeted aid, and more targeted aid would have substantial benefits—including promoting college access, focusing resources where most needed, and increasing the transparency of the cost of undergraduate and graduate education. Thus, although we do not recommend any specific fee target, we do suggest the Legislature consider these benefits when selecting its fee target.