REPORT

OF

SENATE INTERIM COMMITTEE

ON

THE COST OF A COLLEGE EDUCATION

January, 2007

Prepared by:
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January, 2007

The Honorable Michael Gibbons, President Pro Tem of the Senate
State Capitol Building, Room 326
Jefferson City, MO 65101

Dear Mr. President:

The Senate Interim Committee on the Cost of a College Education, has met, taken testimony, deliberated, and concluded its study on issues confronting the cost of a college education in Missouri. The undersigned members of the Committee are pleased to submit the attached report.

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Senator Gary Nodler, Chair

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Senator Scott Rupp

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Senator Charlie Shields

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Senator Frank Barnitz

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Senator Chuck Graham

I. Charge to the Committee

Pursuant to the Missouri Constitution, Senate Pro Tem Michael Gibbons established the Senate Interim Committee on the Cost of a College Education. The committee consisting of three Republicans and two Democrats is charged with reviewing the affordability of a college education in the state of Missouri. Specifically, the duties are:

(1) To consider the role of the state in funding a college education for Missouri students;
(2) To examine how higher education is funded in this state and consider alternative funding structures;
(3) To examine the mechanism by which tuition rates are set at Missouri institutions of higher learning;
(4) To study the utilization of college savings plans by Missouri families;
(5) To examine the Gallagher and Guarantee public grant programs and study options for making the state-need-based scholarship programs more efficient and effective;
(6) To study student indebtedness resulting from funding a college education.

II. Committee Activities

The Senate Interim Committee on the Cost of a College Education first convened on Wednesday, August 30, 2006, at the Millennium Student Center on the campus of the University of Missouri-St. Louis.

Senator Timothy Green provided the committee with written testimony, furnishing an overview of the multitude of pressing issues facing higher education in Missouri: rising tuition rates and falling state support for higher education resulting in students being forced to work and/or borrow more while in school. Senator Green also noted that two previous governors had created committees with a charge similar to that of this committee, and, in his opinion, it is “time to take the results of these studies and craft legislation that helps Missourians afford the rising cost of a quality education.” The Senator did not offer any specific means to accomplish this end.

The testimony of Dr. James Kellerman, the Executive Director of the Missouri Community College Association, focused on higher education issues from the community college perspective. Dr. Kellerman stated that 85% of community college students work as well as attend school and noted that the state only contributes $2,490 per full-time-enrolled student. Dr. Kellerman maintained that the state should provide more aid in general and more need-based aid specifically. Strengthening the quality of high school education was noted as critical to discontinuing the ongoing trend of community colleges having to provide intense remeadiation in basic subject areas. Lastly, Dr. Kellerman discussed the need for more two-year and four-year higher education partnerships.

Dr. Barbara Dixon, the President of Truman State University, testified on behalf of

COPHE (the Council on Public Higher Education) and stated plainly that higher education is key to quality of life in Missouri. Dr. Dixon views the main cost-drivers for higher education to be: competition for faculty and researchers; both very old and very new physical infrastructure; and technology. Dr. Dixon cited statistics showing that students in the not-so-distant past paid approximately 25%-35% of the costs of their higher education, while today that percentage is over 50%, and increasing, with students utilizing loans at much greater rates in order to cover the aforementioned increase. Dr. Dixon stated that current scholarship programs should be combined and based more on expected family contribution.

The testimony of Dr. Michael Nietzel, President of Missouri State University, centered on accessibility and efficiency. Dr. Nietzel cited statistics demonstrating: the dramatic decrease in both the percentage of students' higher education costs paid by the state and the percentage of the state budget allocated to higher education; how Missouri's state support for higher education has lagged far behind the national average as well as the state-support found in other Midwestern states. Dr. Nietzel asserted that there is a direct link between state aid and tuition rates and discussed how Missouri's institutions are increasing innovation and efficiency.

Dr. Ken Dobbins, President of Southeast Missouri State University, also testified about the increased contributions that students are expected to make toward the costs of their education. Dr. Dobbins explained that health care, pension, and technology costs are out-pacing inflation and asked that the committee investigate restructuring the state's anemic need-based aid.

The Senate Interim Committee on the Cost of a College Education next convened on Tuesday, September 12, 2006, in the Senate Lounge in the State Capitol in Jefferson City.

State Treasurer Sarah Steelman testified about her office's efforts to expand the accessibility of the state's 529-plan (called the MOST Plan). Steelman explained that direct contributions and the availability of advisors are assets to the plan's participants. Steelman proposed establishing a trust fund in order to provided matching grants as incentives for plan participation. Also, her office is exploring linking the MOST plan to Upromise, which will allow participants to use a credit card that deposits a certain percentage of everything one purchases into a designated MOST account.

Quentin Wilson, Associate Director of the Missouri Higher Education Loan Authority (MOHELA), testified regarding MOHELA's College Access and Affordability (MCAA) fund, which will provide resources aimed at eliminating barriers for students so they can access higher education, specifically a Pell Supplement Freshman Student Loan Forgiveness Award, a prospective engineering student loan forgiveness award, and a math and science teacher early-career loan forgiveness award. Wilson asserted that needs-based financial aid has not kept pace with higher education costs and that MOHELA's mission is to eliminate barriers to higher education.

Michael Mills, Deputy Director of the Department of Economic Development, argued that the Governor's Lewis & Clark Discovery Initiative was both legal and good public policy. His testimony was followed by that of Henry Herschel, the General Council of the Office of Administration, who further argued that the Governor's plan was legal since MOHELA possesses the statutory authority to enter into agreements to better its loan business. Mr. Herschel asserted that since MOHELA could reasonably expect to obtain over $725 million of economic benefit through the use of tax-exempt bonds as expressed in the cooperative agreement, that the agreement contained sufficient consideration to render it legal.

Brian Stewart, of the Missouri Association of Private Career Colleges and Schools, also testified, urging the committee to include proprietary higher education institutions in any formula or reorganization of the scholarship program.

Dr. Lyle Rhea, a retired Engineering Professor from the University of Missouri-Rolla, asserted that the cost of administration is the most significant factor in the raising costs of higher education.

The Senate Interim Committee on the Cost of a College Education next convened on Wednesday, October 18, 2006, on the campus of Missouri Southern State University in Joplin.

Paul Wagner, of the Senate Appropriation staff, briefed the committee regarding the Coordinating Board for Higher Education's State Student Financial Aid Committee's finalized proposal for the combination of the Gallagher Grant program and the Missouri College Guarantee program into one new need-based student aid program. According to Mr. Wagner, the Coordinating Board adopted this proposal as part of their legislative and budget request for the upcoming legislative session. Mr. Wagner explained that the current state need-based financial aid programs, while serving their intended purposes, are unnecessarily complicated, especially from the perspective of students and parents trying to plan for college attendance.

The proposal is for a need-based state grant program designed to be sensitive to a student's ability to pay college costs and the type of institution the student chooses to attend. This new program would be funded by combining the appropriations currently provided for the Charles Gallagher Grant Program and the College Guarantee Program.

The proposal is built on an assumption that there would be an additional $25 million available for need-based financial aid. This figure comes from the agreement signed over the summer by executive and legislative leadership. The Program's attributes, according to Mr. Wagner, are as follows:

(1) Institutions participating in the program are grouped into three primary sectors: Public two-year, public four-year, and approved private institutions with the following corresponding award amounts:
    (a) $1,000 maximum and $300 minimum for students attending institutions classified as part of the public two-year sector,
    (b) $2,150 maximum and $1,000 minimum for students attending institutions classified as part of the public four-year sector, and
    (c) $4,600 maximum and $2,000 minimum for students attending approved private institutions.

(2) Student eligibility for an award is based on the student's federal Expected Family Contribution (EFC), as calculated using the Free Application for Federal Student Aid

(FAFSA).

(3) All students with an EFC of $12,000 or less will be eligible to receive at least the minimum award amount for the appropriate institutional sector. No awards are made for students with an EFC above $12,000. This cutoff level is estimated to provide eligibility to families with an average annual income of up to approximately $74,000.

(4) Maximum award amounts will be reduced by 35% of the midpoint of the Pell Grant program award for each $500 EFC range.

(5) Maximum award amounts to eligible students with an EFC above $7,000 will be reduced by 10% of the maximum EFC in each $500 range.

(6) Actual award amounts made to eligible students will be reduced by the amount of the student's state A+ program tuition reimbursement.

(7) If appropriated funds are insufficient to fund the program as described (whether due to reduced appropriations or higher than expected numbers of eligible students), the maximum award amount will be reduced across all sectors by the percentage of the shortfall [one minus (appropriation divided by amount required to fund program)].

(8) The committee is continuing discussions on the manner of distribution of additional appropriations over time.

Jim Gilbert and Kathy Feith, of the Financial Assistance Office at Missouri Southern State University, testified regarding the necessity of a needs-based program that is equitable. The testimony of Michelle Paul, the Financial Aid office at Crowder College, centered on the large amount of student loan debt that the average college student is accumulating.

Quentin Wilson, representing MOHELA, testified positively regarding the Coordinating Board for Higher Education's State Student Financial Aid Committee's finalized proposal, as described by Paul Wagner above. Mr. Wilson touted the plans simplicity and asserted that the goal should be providing a free first two years of higher education.

Bill Ratliff, of the Missouri Bankers Association, expounded on the virtues of saving early for the costs of higher education. Mr. Ratliff discussed the advantages of utilizing the State's 529 plan and discussed future improvements to the plan, such as offering a 529 Certificate of Deposit (CD) option.

Dr. Elson Floyd, the President of the University of Missouri system, testified regarding the unequaled opportunity confronting the higher education community. According to Dr. Floyd, the higher education community is united for the first time in a great while. Dr. Floyd contended that any higher education funding formula must reflect the unique characteristics of each institution. Performance funding, capitol funding, critical-needs funding, full time enrollment funding, and the level of the students being educated are among the various criteria that must be considered in any new funding system.

Dr. Barbara Dixon, the President of Truman State University, testified on behalf of COPHE and stated that with a 12.6% increase all higher education institutions will be able to hold tuition at the current level for next academic year.

III. Findings and Recommendations

Strengthen the powers of the Commissioner of Higher Education and the Coordinating Board for Higher Education (see SB 590 from 2006);

Elevate the higher education budget to the fiscal year 2002 high-water mark at a minimum, as there exists a direct link between state aid and tuition rates;

As a condition of the aforementioned appropriation increase, institutions shall not raise tuition above the CPI and also must control the increasing cost of administration;

Continue research regarding the establishment of a higher education funding formula that reflects the unique characteristics of each institution. Performance funding, capital funding, critical-needs funding, full time enrollment funding, and the level of the students being educated are among the various criteria that must to considered in any new funding system;

Adopt the Coordinating Board for Higher Education's State Student Financial Aid Committee's finalized proposal for the combination of the Gallagher Grant program and the Missouri College Guarantee program into one new need-based student aid program, which is designed to be sensitive to a student's ability to pay college costs and the type of institution the student chooses to attend. (See more specifics in draft report);

Strengthen the quality of high school education in order to discontinue the ongoing trend of higher education institutions having to provide intense remediation in basic subject areas;

Promote and expand the accessability of the state's 529-plan (MOST), including the establishment of a fund in order to provide matching grants as incentives for plan participation;

Encourage and perhaps mandate more partnerships between two-year and four-year higher education institutions;

Institute a prospective Engineering Student Loan Forgiveness Award; and

Institute a Math and Science Teacher Early-Career Loan Forgiveness Award.