Reclaiming the Promise for Affordable Public Higher Education in Vermont

Report by AFT Vermont

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VERMONT STATE COLLEGES FACULTY FEDERATION

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Issue Background

Vermont higher education faces the problem of chronic underfunding of its public postsecondary institutions that results in inadequate resources for instruction and academic support while creating an overreliance on tuition dollars. This problem has grown since a decision in the 1980s to pursue a "high tuition / high aid" approach for state funding, coupled with subsequent overall state disinvestment. AFT Vermont recognizes that these issues are at the core of the state's challenge in sustaining a high quality system of public higher education and this report proposes ways to turn back the clock to a time when the state did adequately support public higher education.

We believe that public higher education is a public good and that Vermont's students should pay the smallest possible share of its costs.

We support the goals of:

1. lowering student and family costs and debt so that UVM and VSC are more affordable for Vermonters, and
2. returning to the 1980 level of State funding for the student tuition support ratio for UVM and VSC.

We believe that higher education is a public good, and that public good has been eroded by decreased investment by the state and increased tuition set by schools. These conditions have shifted the burden to students and families to finance their own education, resulting in skyrocketing student debt. This crisis of affordability stratifies the population into those who can afford to obtain a college degree and those who can't, undermining the ethos of public education as a vehicle for upward mobility. The cost of education is a major barrier to completion. Further, the burden of debt not only affects families in their ability to move forward, it is systemically affecting our economy's ability to rebound from the Great Recession. With greater debt, students have put off major decisions – such as buying a home, starting a family, opening a small business or saving for retirement – that contribute to Vermont's economy.

Our recommendations to put Vermont on a pathway to achieve these goals rest on two conclusions. The first is that some allowance has to be made to see that the education received by students at Vermont State Colleges and the University of Vermont continues to be high quality. Given the current state of disinvestment, we have to do more than shift some of the responsibility for paying to the state; we also have to increase the amount of funds the institutions receive. Second, we conclude that because the problem has been so long in the making, these goals can be achieved only over an effort spanning many years.

Given that the overall goal of reinvesting in our public higher education institutions cannot be achieved in the short term, we have crafted a proposal that includes two milestones. The first is an immediate increase in support for public higher education and for students. The second is an intermediate goal of moving the cost that Vermont students and families have to pay -- as a share of family income -- to the New England average.

In drafting our plan, we tried to adhere to four principles.

1. That UVM and VSC have to bend the curve on expenditures away from administration and towards instruction and student support.
2. That new revenues must be found and committed to public higher education.
3. That the state must also prioritize higher education within the existing budget framework such that additional general fund revenues are allocated to higher education over time.
4. That we must make the Higher Education Trust Fund a vehicle that can allow for our long term success in meeting the goals of the commission.

A caveat. We have constructed this plan using the best information available to us. As a result, estimates and assumptions that we have made will have to be changed as new data becomes available. Among the assumptions we have made is to hold inflation constant, to assume that revenue would naturally grow with inflation, and to hold our enrollment projections constant. The net result is a plan that offers a vision of the path the state can take. But we expect to make changes and adjustments to it as new data becomes available. Similarly, although our projections are made out to 2035, we know that many things can change in the interim.

Immediate Goal. We propose implementing a series of reforms designed to provide an immediate infusion of funds into the system such that tuition and fees are frozen and state support increases by $40 million, with $19 million replacing the tuition dollars that would come from a 5.8 percent increase. The rest of the funds would come as a real increase in state support that is equal to 3.5 percent of overall expenditures and 34 percent of current state appropriations for UVM and VSC[1]. All told, this would mean the ratio of appropriations to tuition would rise to 24%.

Intermediate Goal. In 2012, the amount that Vermont students paid in tuition and fees for a four year institution was equal to 22.3% of the median family income in the state. Part of our intermediate goal is to bring this cost down to the New England Average of 18% of median family income over 16 years[2]. That would require shifting 19.3% of the money currently spent on tuition and fees to state appropriations. We estimate that this would cost approximately $62.5 million dollars[3].

At the same time, we are recommending an additional funding increase of $8 million to be put towards remedying the impacts of the austerity and state disinvestment of the past decades and improving quality. Combined with the $21 million immediate increase in support this creates a net increase of $29 million. All told, this would mean the ratio of appropriations to tuition would rise to 33%.

Long Term Goal. Given the very low share of spending currently supported by state appropriations, it would require approximately $260 million in additional funds from the state to turn the balance of appropriations and tuition back to 50-50. We believe that our plan puts the state on a pathway towards meeting this goal while providing further investments for instruction and student support of $60 million.

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[1] NB 5.8% is equal to the average increase in tuition over the past several years. See "Reclaiming the Promise for Affordable Higher Education: Data Presentation for the Act 148 Committee."

[2] http://www.nebhe.org/publictuition2013/

[3] Note that our projections are based on a median income level that is static. If real income begins to rise - particularly when compared to other states - it will both lead to improved tax collections and to reducing the amount of money that needs to be shifted from tuition to appropriation to meet our intermediate affordability goal. Under those circumstances, we would recommend the state still pursue the course of action described here, we just believe it would be even more effective.

At the end of 30 years, in 2045, we estimate that our plan would move the ratio back to 40% and will have established a pathway to reach 50% gradually over time.

Components for funding the plan. The following are suggestions for funding sources to implement the plan:

- Institute a tax on break open lottery tickets, the revenues from which will be used in part to fund the Vermont Higher Education Trust Fund. Using previous estimates, we use $6.7 million as the baseline amount this would provide[4].
- Adopt a tax Increase on the richest Vermonters to support the increased state commitment to higher education. A one percent tax increase on income above $309,000 would have raised $17.2 million in 2009 according to the Center on budget and Policy Priorities[5]. Income for these taxpayers grew 8% between2009-2011[6]. Given this, we expect this would raise a number closer to $20 million today.
- Extend the state's system of combined reporting for corporate income taxes to cover funds in known overseas tax shelters. The Public Interest Research Group estimates this would provide $4.8 million[7]. Delink from the federal domestic production deduction. This would generate $5 million per year, according to the Center on Budget and Policy Priorities[8].
- Dedicate the revenue generated from the regulation and taxation of marijuana to higher education. We estimate this could provide $12 million for higher education. This will be dedicated at first to building the balance of the higher education trust fund.
- Limit the use of VSAC grants for attendance at out of state and for profit tuition. We count the redirection of this funding to students attending UVM and VSC as a subsidy to tuition, and we count a portion of the revenue generated as a result of any enrollment increases at UVM and VSC as part of the increase in state support for the institutions. We estimate this as leading to $6 million in annual additional funds that can count towards our goals.
- Provide a real increase of 2% in state appropriations absent dedicated revenue. Given the state's fiscal condition we project a real increase of 1% over the next five years.
    - Cap the amount of this increase that can go towards administrative spending, directing the new money disproportionately to instruction and student support.

Four of these proposals require additional explanation. This is provided below.

Refocus need based aid on Vermont public and non-profit higher education. Vermont is a leader in allowing students to use need based aid to attend out of state and proprietary institutions. Vermonters spent $12 per capita in 2011-12 on grants to support attendance at these institutions. The state that is the next most generous in this regard was New York, which spent less than $5 per capita. Nineteen states spent none at all, and the average per capita spent on such grants was $1.26[9]. Our proposal would reform this practice while still allowing current students to complete their educations if they are already attending out of state or proprietary colleges.

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4 http://www.leg.state.vt.us/jfo/fiscal_notes/2013_Break_Open_Ticket_or_Pull_Tab_Memo.pdf

5 http://www.cbpp.org/cms/?fa=view&id=2792

6 http://www.epi.org/multimedia/unequal-states-interactive/#/Vermont

7 http://www.uspirg.org/sites/pirg/files/reports/Closing the Billion Dollar Loophole Web vUS 041414.pdf

8 http://www.cbpp.org/files/7-29-08sfp.pdf

9 Calculations based on data from the National Association of State Student Grant and Aid Programs (NASSGAP)'s 43rd annual survey. http://www.nassgap.org/viewrepository.aspx?categoryID=3

Vermont spent $5.5 million on need based grants to students attending out of state institutions in 2011-12. We propose limiting this practice to support for new students to those going to schools covered by reciprocity in the use of aid. We also propose ending the practice of using needs based aid for proprietary colleges for all new students. Vermont currently sends $2.4 million to for profits. There are 21 states that do not allow any need based grants to go to for profit institutions.

The fiscal impact of these reallocations will depend on the reactions of students, If no enrollment decisions were changed as a result of this policy change, we could count the funds that might have been assigned to these students as available for other students, lowering cost. But to the extent students would choose to attend Vermont public institutions a different set of benefits would accrue.

We know that students receiving grants who go out of state are, on average, from families with more resources than students from families receiving grants who attend school in state[10]. The value of their grant averaged less than $1200 per student in 2014, which speaks to it having a relatively small effect on the enrollment decision.

- If 60% of the 4,021 students using these grants in 2014 attended a program that has reciprocity with VSAC and this is indicative of future trends, then we can expect aid for 1600 students would subsequently be affected by a ban on money going out of state.
- If ¾ of these 1600 students choose to either attend an out of state institution regardless of state support or choose to attend a Vermont non-profit institution, that would create a net enrollment increase of 400 students in Vermont public higher education.

If the majority of higher education costs are fixed, the addition of the revenue generated by these students should afford the colleges and the university the opportunity to improve their investments in instruction and student support[11]. We suspect that under this scenario, the marginal funds available for increased investment would be worth $2.5 million. In addition, the students choosing to continue their course of study out of state would mean nearly $2 million in grant funds that could be used to offset tuition costs in Vermont.

We suspect students attending proprietary colleges may be more likely to attend the state community college than our out of state students. Even so, we suspect that the $1 million in grant funds would be available to offset tuition costs and that there would be a slight enrollment increase particularly in the state colleges that would make an additional $500,000 in marginal revenue available as a result of the ban on grants to students attending proprietary colleges[12]. That brings the total funding shift from this to $6 million.

A final note: While we don't want to make systematic judgment about the particular proprietary institutions that Vermont students are attending, the evidence about the performance of the industry is troubling enough to warrant a further call for regulation. We also support continued VSAC support for in-state proprietary institutions such as trade schools or NECI. According to VSAC data for FY '14 $2,369,000 was spent on these institutions.

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[10] VSAC "Frequent Questions"

[11] For example, the National Association of System Heads sites overhead as equal to half of the cost of Vermont State Colleges, and we know that faculty costs, while not fixed are "sticky" with enrollment increases not necessarily dictating increased hiring. http://www.nashonline.org/sites/default/files/organization/deltadata/Vermont.pdf

[12] These estimates are built on a large number of assumptions, each of which appear to us to be reasonable based on available data, but further and more systematic analysis is needed to examine whether this is indeed as viable and beneficial a path as we hope.

Turning the Higher Education Trust Fund into an engine for success. We believe the legislature, by starting to build the Vermont Higher Education Trust Fund, has created a lever to improve funding over time. The recent changes in management structure for the fund— diversifying the portfolio and investing for the long term – are also encouraging in this regard[13]. However, this fund can only be an engine for success if it is reserved solely for higher education.

Currently the payout of the trust fund is approximately $1.5 million. We propose taking steps to radically increase this payout over a period of years. Our goal is to capitalize the fund, from its current $30,000,000 corpus, to a corpus over $500,000,000. We would increase the payout structure to allow disbursements of up to 6% of earnings instead of the current five and would assume an 8.5% overall rate of return. Under these conditions, the fund could produce additional payouts of more than $36 million a year by 2035.

We propose capitalizing the fund by dedicating the revenue from the tax on pull tab lottery tickets to this purpose. In addition, we propose using the potential revenues from the regulation and taxation of marijuana to capitalize the fund. Initially the revenue from pull tabs would be used in part to fund an immediate investment in UVM and VSC. But that would phase down, so that by 2024, the state would be adding $18.2 million a year to the balance of the fund. Under our plan those dedicated revenues would begin to phase out as the corpus of the fund approached $500 million.

Bending the Curve on Expenditures. According to IPEDS (Integrated Postsecondary Education Data System) data, Vermont's four year public institutions of higher education spent 42% of their expenditures on instruction and academic support. Our goal is to ensure that as expenditures grow, so does this percentage. In particular, we propose that the state cap on the growth of spending on non-instruction and non-academic support such that these will become a smaller percentage of funds overall than they are now. The goal is to have 62% of new funds be spent on instruction and academic support. That means shifting 20% of new funds into these categories.

We apply this estimate to those portions of new revenue that are dedicated to offsetting student contributions, so it applies only to a subset of new money. That's because we assume that funds dedicated to improving the quality of the institution will be appropriately targeted. Even with this assumption, the share of the new money coming into the system that can be shifted to academic support and instruction is quite large (we have included IPEDS definitions of instructional and institutional support in Appendix A). Over ten years, we estimate that our plan will bring $60 million in new state support for UVM and VSC. As this money is spent more efficiently, we estimate that $7 million of it that would have gone away from instruction and academic support under the old system. At the end of 2045, we estimate that this would generate $21 million for instruction and academic support that would have otherwise been spent elsewhere under current conditions. That is 13% of the entire amount of revenue generated by our plan.

By applying this redirection to new money, and still allowing for some growth in costs in non - instruction/non-academic support funding, we believe we have created a reasonable path for investment in what matters. We understand, however, that this method of generating efficiencies allows us, in effect, to double count that $21 million. We recognize this can be seen as not showing

[13] http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/trustFunds/Higher_Education_Endowment_Trust_Fund_Report_2013.pdf

complete fealty to the goal of 50% state funding. But we also believe that taking steps to see that resources are used effectively has to be part of our work and our proposed solutions.

Provide continuing state support. Vermont's disinvestment in higher education occurred as a result of difficult choices about priorities. In a relatively well funded system, it would be possible to move towards a 50-50 model of state appropriation to tuition by adding the new revenues outlined in this proposal. But the hole created as a result of previous choices is too big. It will require another new round of difficult choices to appropriately rebalance the system.

Rather than force hard choices amongst existing programs, our plan is to call on the legislature to raise its real level of appropriations by 2% per year on an ongoing basis. Mindful of current fiscal constraints, we call for only a 1% increase over the first five years of the plan.

Funding Model For Vermont Higher Education					
Revenue Stream	Year				
	2016	2024	2032	2040	2045
Income Tax	$20,000,000	$20,000,000	$20,000,000	$20,000,000	$20,000,000
QPAI	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000
Lottery Tax	$4,000,000		$6,700,000	$6,700,000	$6,700,000
Overseas Combined Reporting	$4,800,000	$4,800,000	$4,800,000	$4,800,000	$4,800,000
Marijuana Regulation & Taxation				$12,000,000	$12,000,000
Administrative Efficiencies	$3,924,000	$6,735,108	$11,915,523	$19,130,692	$20,685,375
Appropriation Increase	$620,000	$8,534,119	$20,641,962	$34,828,230	$44,906,190
VSAC Reforms	$1,500,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000
Net New Trust Fund Payouts	$524,573	$9,834,111	$21,726,124	$31,647,468	$36,013,358
Total:	$40,368,573	$60,903,338	$96,783,609	$140,106,390	$156,104,923

New Expenditures	**Year**				
	2016	2024	2032	2040	2045
New Tuition Funding	$19,000,000	$35,866,648	$67,449,136	$105,736,380	$118,157,655
New quality funding	$21,368,573	$25,036,689	$29,334,472	$34,370,009	$37,947,267
Total:	$40,368,573	$60,903,338	$96,783,609	$140,106,390	$156,104,923

HIGHER EDUCATION TRUST FUND					
Year	Estimated Net Investment	Contributions to Principle	Size of Fund	Payout	Net Payout
2014	---	---	$30,462,000	$1,523,100	---
2015	$1,066,170	---	$31,528,170	$1,576,409	---
2016	$788,204	$2,700,000	$35,016,374	$2,100,982	$524,573
2017	$875,409	$15,200,000	$51,091,784	$3,065,507	$1,489,098
2018	$1,277,295	$15,700,000	$68,069,078	$4,084,145	$2,507,736
2019	$1,701,727	$16,200,000	$85,970,805	$5,158,248	$3,581,839
2020	$2,149,270	$16,700,000	$104,820,075	$6,289,205	$4,712,796
2021	$2,620,502	$17,200,000	$124,640,577	$7,478,435	$5,902,026
2022	$3,116,014	$17,700,000	$145,456,592	$8,727,395	$7,150,986
2023	$3,636,415	$18,200,000	$167,293,006	$10,037,580	$8,461,171
2024	$4,182,325	$18,700,000	$190,175,332	$11,410,520	$9,834,111
2025	$4,754,383	$18,700,000	$213,629,715	$12,817,783	$11,241,374
2026	$5,340,743	$18,700,000	$237,670,458	$14,260,227	$12,683,818
2027	$5,941,761	$18,700,000	$262,312,219	$15,738,733	$14,162,324
2028	$6,557,805	$18,700,000	$287,570,025	$17,254,201	$15,677,792
2029	$7,189,251	$18,700,000	$313,459,275	$18,807,557	$17,231,148
2030	$7,836,482	$18,700,000	$339,995,757	$20,399,745	$18,823,336
2031	$8,499,894	$18,700,000	$367,195,651	$22,031,739	$20,455,330
2032	$9,179,891	$12,000,000	$388,375,542	$23,302,533	$21,726,124
2033	$9,709,389	$12,000,000	$410,084,931	$24,605,096	$23,028,687
2034	$10,252,123	$12,000,000	$432,337,054	$25,940,223	$24,363,814
2035	$10,808,426	$12,000,000	$455,145,481	$27,308,729	$25,732,320
2036	$11,378,637	$12,000,000	$478,524,118	$28,711,447	$27,135,038
2037	$11,963,103	$12,000,000	$502,487,220	$30,149,233	$28,572,824
2038	$12,562,181	$12,000,000	$527,049,401	$31,622,964	$30,046,555
2039	$13,176,235	---	$540,225,636	$32,413,538	$30,837,129
2040	$13,505,641	---	$553,731,277	$33,223,877	$31,647,468
2041	$13,843,282	---	$567,574,559	$34,054,474	$32,478,065
2042	$14,189,364	---	$581,763,923	$34,905,835	$33,329,426
2043	$14,544,098	---	$596,308,021	$35,778,481	$34,202,072
2044	$14,907,701	---	$611,215,721	$36,672,943	$35,096,534
2045	$15,280,393	---	$626,496,114	$37,589,767	$36,013,358

Appendix A
IPEDS (Integrated Postsecondary Education Data) Definitions for Instruction and Institutional Support

Instruction: A functional expense category that includes expenses of the colleges, schools, departments, and other instructional divisions of the institution and expenses for departmental research and public service that are not separately budgeted. Includes general academic instruction, occupational and vocational instruction, community education, preparatory and adult basic education, and regular, special, and extension sessions. Also includes expenses for both credit and non-credit activities. Excludes expenses for academic administration where the primary function is administration (e.g., academic deans). Information technology expenses related to instructional activities if the institution separately budgets and expenses information technology resources are included (otherwise these expenses are included in academic support). Institutions include actual or allocated costs for operation and maintenance of plant, interest, and depreciation.

Instruction (GASB aligned form reporters): A functional expense category that includes expenses of the colleges, schools, departments, and other instructional divisions of the institution and expenses for departmental research and public service that are not separately budgeted. Includes general academic instruction, occupational and vocational instruction, community education, preparatory and adult basic education, and regular, special, and extension sessions. Also includes expenses for both credit and non-credit activities. Excludes expenses for academic administration where the primary function is administration (e.g., academic deans). Information technology expenses related to instructional activities if the institution separately budgets and expenses information technology resources are included (otherwise these expenses are included in academic support). GASB institutions include actual or allocated costs for operation and maintenance of plant and depreciation maintenance of plant, interest, and depreciation.

Institutional support: A functional expense category that includes expenses for the day-to-day operational support of the institution. Includes expenses for general administrative services, central executive-level activities concerned with management and long range planning, legal and fiscal operations, space management, employee personnel and records, logistical services such as purchasing and printing, and public relations and development. Also includes information technology expenses related to institutional support activities. If an institution does not separately budget and expense information technology resources, the IT costs associated with student services and operation and maintenance of plant will also be applied to this function.

Institutional support (GASB aligned form reporters): A functional expense category that includes expenses for the day-to-day operational support of the institution. Includes expenses for general administrative services, central executive-level activities concerned with management and long range planning, legal and fiscal operations, space management, employee personnel and records, logistical services such as purchasing and printing, and public relations and development. Also includes information technology expenses related to institutional support activities. If an institution does not separately budget and expense information technology resources, the IT costs associated with student services and operation and maintenance of plant will also be applied to this function.