PPIC

Making College Affordable

PPIC HIGHER EDUCATION CENTER

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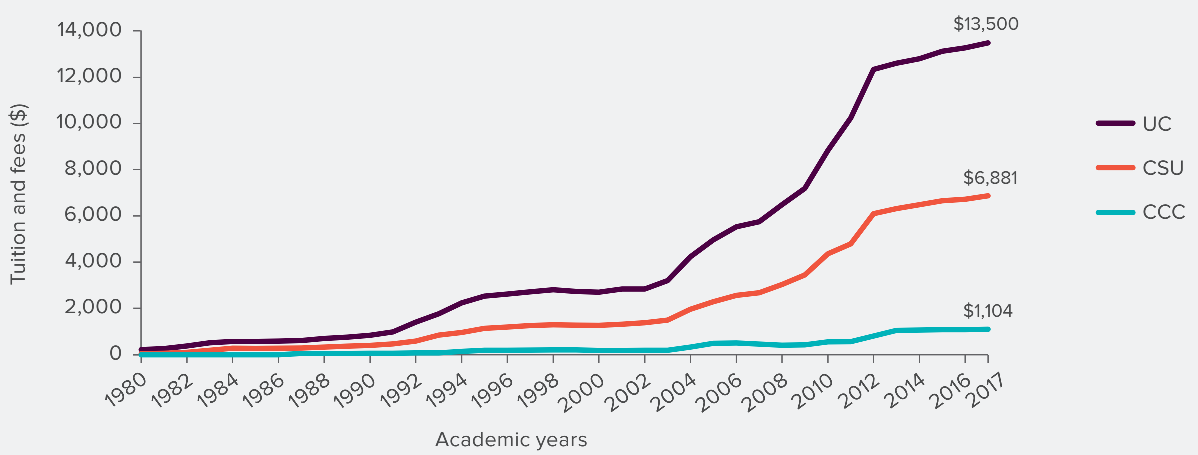
Tuition and fees are increasing

Tuition and fees are at their highest point ever at California's public universities. During the recession, both the University of California (UC) and the California State University (CSU) raised tuition to make up for state funding cuts—state General Fund support for UC and CSU dropped by about 20 percent (about $2.2 billion) between 2007 and 2013, even as the number of students continued to increase. Tuition remained flat from 2011 to 2017. However, mandatory campus-based fees went up about 34 percent at CSU and 21 percent at UC during the same period, and both systems have raised tuition for the 2017–18 academic year. Costs have also risen at the state's private nonprofit colleges, which are much more expensive than the state's public colleges—undergraduate tuition and fees at private nonprofit colleges averaged just over $37,000 in 2015–16, up from $33,200 in 2012–13.

To counter the effects of these cost increases on lower-income students, the state has increased financial aid. Still, a 2016 PPIC Statewide Survey found that 57 percent of Californians think that affordability in higher education is a big problem. When asked to name the most important issue facing the state's public colleges and universities, 46 percent mention affordability, cost, or student tuition and fees. This may be partly because many students and families rely on financial aid and loans to help pay for college—especially those who attend private institutions. Because the benefits of a college education are well documented and have major implications for economic growth, equality, and social mobility, the state and higher education officials need to expand ways to help lower-income students earn college degrees without incurring large amounts of debt.

TUITION AND FEES HAVE INCREASED DRAMATICALLY AT UC AND CSU



SOURCES: University of California, Office of the President; California State University Chancellor's Office; and California Community Colleges Chancellor's Office.

NOTES: Adjusted for inflation, in 2016 dollars. Tuition at the California Community Colleges (CCC) is for a full-time load of 12 units each semester and does not include campus fees.

Financial aid is keeping college affordable for many students

California's financial aid program is relatively generous—in combination with federal and institutional aid, it helps many low- and middle-income students attend colleges that would otherwise be out of reach. The sharp recession-era tuition and fee increases at UC and CSU were accompanied by increases in financial aid for many students.

- **Financial aid comes from a variety of sources.**
  Students in California get financial aid from grants, scholarships, work-study programs, and loans from local, state, and federal institutions. More than two-thirds of grant aid in California comes from federal and state aid,

mostly in the form of Pell Grants, Cal Grants, and California Community College Board of Governors fee waivers. Different types of institutions (private vs. public, four-year vs. two-year) provide very different amounts of aid. Grant aid depends not only on a student's financial and academic standing but also on the college that student chooses. For example, private nonprofit colleges commonly offer institutional grants to offset relatively high tuition, while students at private for-profit colleges often rely on loans.

- **California has one of the country's most generous state financial aid programs.**
  California is more generous than other states in supplementing federal grants with state grants. Moreover, its grant aid targets low-income students at public institutions. The state provided about $4.63 billion in financial aid during 2015–16 ($2 billion in the form of Cal Grants). Award amounts vary by type of college: for 2016–17, Cal Grants could be as high as $12,240 at UC, $5,472 at CSU, and $9,084 at private colleges. The Middle Class Scholarship program, enacted in 2013, extends state aid even further, providing support to students from families with annual incomes up to $156,000 equivalent to 40 percent of their tuition costs.
- **California's poorest students can attend public four-year universities without paying any tuition …**
  Students from families with the lowest incomes usually get the largest grant aid packages and therefore often pay no tuition at CSU, UC, and the community colleges (tuition is fully covered for 57% of undergraduates at UC and 61% at CSU). These students also see reduced costs at private institutions, but grants and scholarships may not cover all of their tuition.
- **… but housing and other costs remain a problem.**
  For the most part, other college costs—including room and board—are either not covered or only partially covered by grants. California's high housing costs are a particular challenge. Recent surveys show that many college students face housing instability.
- **Financial aid is linked to several positive student outcomes.**
  Students who receive grants and scholarships are more likely to stay in school and graduate. Making four-year institutions affordable is especially beneficial, because students who start at four-year colleges are more likely to earn bachelor's degrees than those who start at community colleges.

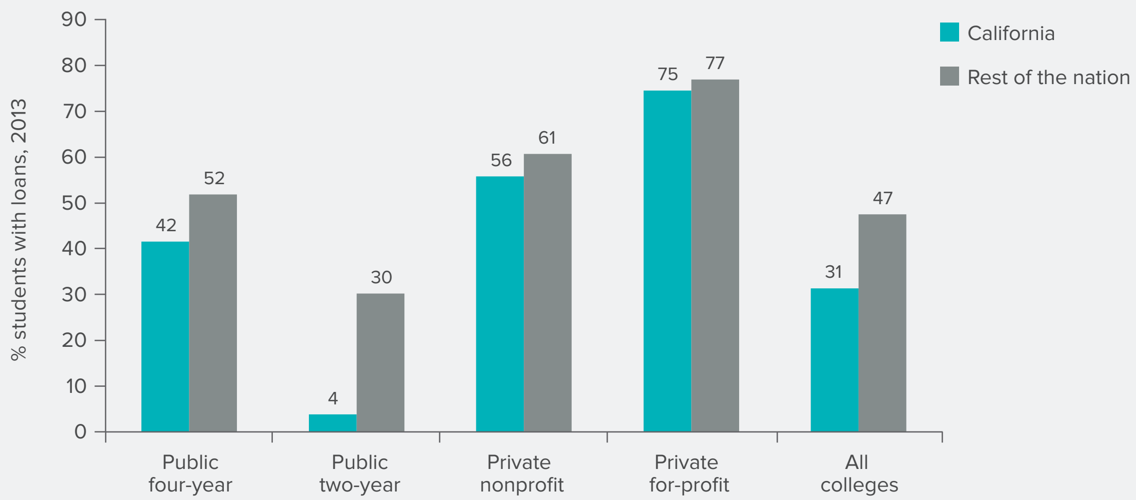
Many students rely on loans

Student debt has increased dramatically throughout the United States over the past decade. In California, overall debt is relatively low, but Californians at all income levels rely on loans to help cover the cost of college.

- **Tuition and fees are only part of the price of going to college.**
  The total amount a student pays for college can far exceed the cost of tuition. In addition to tuition and fees, students pay for room and board, books, and other educational and living expenses. In 2016–17, the estimated average price for attending a UC school was $34,200, of which 39 percent ($13,500) was tuition and fees. At CSU, the estimated average price of attendance was $24,205, of which 28 percent ($6,819) was tuition and fees.
- **More students are taking out loans, and the size of those loans has increased.**
  Between 2000 and 2012, the share of full-time freshmen who took out loans in California increased more than 7 percentage points (from 28% to 35%). During the same period, the average loan amount for the first year of college more than doubled, increasing from about $3,000 to $6,985. Since 2012, however, both the share of freshmen taking loans and the size of the loans has declined slightly.
- **California's college students are less likely than their peers in most other states to take out loans.**
  California's colleges have the third-lowest share of freshmen with loans in the nation—only 31 percent took out loans in 2013, compared to 47 percent of freshmen in the rest of the country. This difference is especially pronounced for community college students. In California—where community college fees are the lowest in the nation—only 4 percent of community college freshmen took out loans, compared to 30 percent nationally.
- **Students attending private institutions are more likely to get loans.**
  Private colleges tend to be more expensive than public colleges. Consequently, the share of students taking out loans at private institutions is much higher. In 2013, 56 percent of full-time freshmen at private nonprofit colleges in California took out loans, compared with only 42 percent of full-time freshmen at public four-year colleges. The share of full-time freshmen taking out loans is particularly high at private for-profit colleges (75%).

- **Loan amounts vary tremendously between public and private colleges.**
  In 2013, California had the fourth-lowest average loan amounts in the nation for students at public four-year institutions, which account for 42 percent of full-time freshmen. However, average loan amounts at California's private institutions were similar to those in the rest of the nation. Average loan amounts for freshmen at the state's private for-profit colleges were 61.6 percent higher than those for students at public four-year colleges ($8,822 vs. $5,460).

THE SHARE OF STUDENTS WITH LOANS IS HIGHEST AT PRIVATE FOR-PROFIT COLLEGES



SOURCE: PPIC calculations based on data from the Integrated Postsecondary Education Data System (IPEDS) of the National Center for Education Statistics.
NOTE: Restricted to full-time freshmen.

Debt problems vary among students and across institutions

Not surprisingly, high levels of debt are particularly troublesome for students who do not graduate and for graduates who enter low-paying professions. Loan default rates—which indicate the difficulty of paying off debt—are low among California's public college students. They are much higher among students at private for-profit colleges, which tend to attract high shares of low-income and underrepresented students.

- **Rates of loan default are low among students at public universities and private nonprofit colleges.**
  Three-year default rates for borrowers who entered repayment in 2013 and defaulted on their loans by 2015 are much lower at UC (3.0%), CSU (5.4%), and private nonprofits (3.7%) than the rates at private for-profits (15.4%) and at community colleges (20.3%). The share of community college students who take out loans, however, is extremely small, and average loan amounts are low. Default rates have fallen for the last three cohorts of borrowers in both public and private institutions.

- **Loan default rates are particularly high among students at private for-profit colleges.**
  Given that so many students attending private for-profit colleges take out large loans, it is perhaps unsurprising that 58 percent of students in default attended for-profit institutions, which account for only 10.5 percent of students enrolled statewide.

Looking ahead

The state and federal government can do more to make college affordable for Californians.

Motivate all students to apply for financial aid. Students must fill out the Free Application for Federal Student Aid (FAFSA) to get federal and state aid and/or federal student loans. Even though recent reforms have made the process less onerous, many eligible students do not file. State policies that induce all students to fill out the FAFSA could expand the number of students who receive federal grants and loans.

Expand grant aid to cover more costs. Some low- and middle-income families have struggled with the rising net cost of college. Expanding grant aid to help students pay costs beyond tuition, such as housing and books, can help those who might not otherwise be able to afford to enroll in and get through college. The reinstatement of the year-round Pell Grant could help students stay on track to graduate on time by taking necessary courses during the summer.

Restrict financial aid to students attending institutions that have a track record of success. California should continue to direct state grant aid only to colleges that meet minimum standards of success, as measured by graduation and loan default rates. The federal government has far fewer institutional standards, and Pell Grants often go to schools that do not serve students well. Federal student aid programs should follow California's approach, concentrating aid where it will do the most good.

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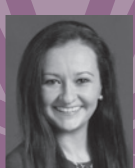

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