

PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

Minutes 2018 Interim

November 8, 2018

Call to Order and Roll Call

The Program Review and Investigations Committee met on Thursday, November 8, 2018, at 10:00 AM, in Room 131 of the Capitol Annex. Representative Lynn Bechler, Chair, called the meeting to order. Representative Chris Fugate led the audience in prayer, Representative Bechler led the audience in the Pledge of Allegiance, and the secretary called the roll.

Present were:

Members: Representative Lynn Bechler, Co-Chair; Senators Perry B. Clark, Dan "Malano" Seum, Stephen West, and Whitney Westerfield; Representatives Chris Fugate, Adam Koenig, Steve Riley, Rob Rothenburger, Arnold Simpson, and Walker Thomas.

Legislative Guest: Representative James Tipton.

Guests: Dr. Aaron Thompson, President, and Dr. Bill Payne, Vice President for Finance Administration, Council on Postsecondary Education.

LRC Staff: Greg Hager, Committee Staff Administrator; Whitney Davis; Christopher T. Hall; Van Knowles; Jean Ann Myatt; Sarah Ortkiese; Jonathan Roenker, Chief Economist; Jeremy Skinner; William Spears; Shane Stevens; Susannah Stitzer; Joel Thomas; Scott Tremoulis; Richard Schufelt, Graduate Fellow; and Kate Talley, Committee Assistant.

Minutes for October 11, 2018

Upon motion by Representative Simpson and second by Senator Westerfield, the minutes for October 11, 2018, meeting were approved by voice vote without objection.

Staff Presentation: *Tuition, Fees, And Other Costs At Kentucky Public Universities*

Mr. Tremoulis said that the objectives of the report were to examine the Council on Postsecondary Education's (CPE) tuition and mandatory fee rate setting process; tuition, fees, and associated costs; sources of financial aid; and average net price for Kentucky's eight public universities. Comparisons were made to universities in seven surrounding states and the other 15 member states of the Southern Regional Education Board (SREB). Costs are adjusted for inflation in 2015 dollars unless otherwise noted.

CPE changed its process for setting tuition and mandatory fees after academic year (AY) 2009. Universities no longer proposed their own annual tuition and fee schedules but adopted tuition and mandatory fee ceilings requested by CPE. Increases in the average annual rate of tuition and fees have been lower in the period following the change.

Mr. Spears said that a university's total cost of attendance is the sum of its tuition, fees, books, supplies, room, board, and other expenses. Total cost does not include financial aid. AY 2015 total costs for the University of Kentucky (UK) and University of Louisville were more than \$25,000. The total cost for Kentucky State was less than \$19,000. Total costs for the other universities were about \$20,000 to \$21,000. Louisville's total cost increased the least since AY 2000, about 32 percent. Kentucky State's increased the most, about 88 percent.

The average total cost for in-state students to live on campus in Kentucky increased 64 percent from AY 2000 to AY 2015. Kentucky's average cost has been similar to the average of universities in SREB states since AY 2007. Kentucky's average cost remains lower than the cost of universities in surrounding states, but the gap has been narrowing since AY 2005. Despite cost increases, the number of first-time, full-time students entering Kentucky universities paying in-state rates has increased by 26 percent since AY 2000. The number of students paying out-of-state rates increased by 72 percent, a much larger increase than in surrounding and SREB states.

Mr. Tremoulis said that the Kentucky average net price, total cost minus average financial aid, was nearly \$12,000 in AY 2015, an increase of more than 14 percent since AY 2007. Average total cost in AY 2015 was more than \$21,000, up 23 percent since AY 2007. Average net price also increased in surrounding and SREB states. In AY 2015, the average was more than \$12,000 in SREB states and more than \$13,000 in surrounding states.

As a percentage of Kentucky median household income, net price in AY 2015 ranged from 18 percent at Kentucky State to more than 35 percent at UK and Louisville. Since AY 2007, net price as a percentage of median income increased for all universities except Kentucky State.

Ms. Davis said that the percentage of Kentucky university students receiving state grant aid and the amount received have been relatively stable over time. In AY 2015, approximately 70 percent of students received such aid; the average amount was just over \$2,000. The percentage and amount for institutional grant aid—aid from the universities—has been increasing. In AY 2015, 59 percent of students received such aid; the average amount was \$6,900. In surrounding states, the percentage of students receiving state aid is lower, but the average amount is higher. For institutional aid, the percentage and amount are higher in Kentucky.

Kentucky median student loan debt was relatively stable until fiscal year (FY) 2008. Median debt increased by 54 percent to \$24,000 per college graduate in FY 2015. Median debt is similar in Kentucky and surrounding and SREB states.

The default rate for those with student loan debt, approximately 11 percent in FY 2015 in Kentucky, has declined in recent years in Kentucky and surrounding and SREB states. Repayment rates have also declined. This implies that deferments and forbearances by students have been increasing.

In response to questions by Representative Bechler about who pays in-state tuition, Mr. Tremoulis stated that universities have reciprocity agreements with other states regarding in-state tuition. Mr. Spears said that these agreements are generally between specific universities in Kentucky and other states. For example, students who reside in a specific county may be part of an agreement to get Kentucky in-state tuition. SREB has an academic common market with agreements whereby students can receive in-state tuition in out-of-state schools provided that they enroll in specified academic programs. He said that he did not know what percentage of Kentucky students who receive in-state tuition are from outside Kentucky but that he would check into it. Representative Bechler asked whether it has been broken down as to whether all students receiving in-state tuition are here legally. Mr. Spears said that staff could look into this.

In response to questions from Senator Westerfield, Mr. Tremoulis said that staff would use other data to shown trends of tuition compared to otther revenue sources for Kentucky universities and also compared to other states.

Sen. Seum said that he filed a bill about 4 years ago to freeze tuition. He did not see anything in the report about how students' tuition, and ultimately debt, are being used for contributions to the scholarship fund. Ms. Davis stated that the report used data on the amounts of student loan debt from the US Department of Education, which does not indicate how the funds were used. Sen. Seum said that 17 percent of his granddaughter's debt went to the scholarship fund to pay for someone else's education.

In response to questions by Representative Tipton, Ms. Davis said that some material in the report covers all undergraduate students and undergraduates who graduate. The presentation covers loan debt only for those who graduate. Mr. Spears confirmed that tuition and fees increased more in the period 2001 to 2007 than in the period since. He did not know whether this was related to increased enrollment.

In response to a question from Representative Rothenburger, Mr. Tremoulis said that the report did not cover whether universities offer programs allowing students to work off indebtedness. Ms. Davis stated that many students participate in work-study programs, mostly through the Kentucky Higher Education Assistance Authority, which is considered

aid. Types of student aid were not broken out for the study; most students receive multiple forms of assistance. Representative Rothenberger said that more students are taking dual-credit courses. He asked how this would affect student loan debt. Ms. Davis said that the study covered first-time, full-time students; the data did not include high school students taking college dual-credit courses. Representative Rothenberger said that his understanding is that high schools have agreements with local universities, so that the cost for dual-credit courses is less than if taken at the university. This should help to reduce student indebtedness.

Representative Koenig said that slide 13 seemed to indicate that median household income in Kentucky has increased more than the net price of Kentucky universities as a percentage of income. Slide 7 indicates that total cost for University of Louisville students increased the least since 2000. Slide 13 seems to indicate Louisville's price increased the most. He asked how this could be the case and whether the differences in time period would explain this. Mr. Tremoulis said that staff would have to investigate this further to provide an answer. Representative Becher said that the change in percentages of income since 2007 shown in slide 13 is percentage point change, which is lower than what percentage change would be. Only household income is shown as a percentage change.

Representative Riley said that mandatory meal plans and housing fees should be included as costs. He has received complaints from parents about having to complete the Free Application for Federal Student Aid form knowing that they are unlikely to qualify for aid.

In response to questions from Representative Bechler, Mr. Spears stated that tuition and fees are rising at a higher rate than inflation. Ms. Davis stated that the decrease in the payment rate for students with loans was due in part to those defaulting but also to an increase in deferrals or forbearances of loan payments.

Senator Westerfield explained that defaulting on a loan is missing scheduled payments. Deferral is a contract between the loan parties to postpone payments for an agreed-upon period of time. There are conditions for deferrals, and total deferral time is limited.

Dr. Thompson said that the report was comprehensive and fact based and its findings were as expected. It covered standard affordability indicators, included trends, and used appropriate comparison groups. He discussed several core issues related to the cost of higher education, challenges to affordability, efforts to maintain affordability, the cost of public universities in Kentucky (recent trends and comparisons to other states), areas of concern, and potential solutions. One of the challenges to affordability is that campuses have had to take on more of the costs of maintenance and operation of facilities. One of the efforts to increase affordability is to get more students graduating and more quickly. One area of concern is the growing student loan debt, which is especially a problem for students

who do not graduate. He concluded by saying that Kentucky higher education can do a lot without more state funding, but could do more with it.

Representative Bechler asked whether CPE was looking into making recommendations as to which degree programs should and should not be offered. Kentucky institutions of higher education are often offering degree programs for which graduates do not have a usable credential. Dr. Thompson agreed that there are some needs in the state that higher education should address better with graduates from particular programs. However, any credential can be made more usable once we offer more employability parts to it. More input from employers would be beneficial. The key is designing the infrastructure of all degrees so that employers, students, and universities understand that each degree is a usable credential.

Representative Bechler commented that universities seem to be doing a lot of new buildings on campus, including residence halls. He ask how this contributes to the costs for students. Dr. Thompson said that many of the residence halls are built using public-private partnerships, not state funds. The new construction often results in higher costs, but parents and students are demanding the improved facilities. Dr. Payne said that housing costs are included in the overall costs of attendance. Kentucky compares favorably to other states.

In response to a question from Representative Bechler, Dr. Payne said that the different time periods used for some slides in the presentation was because of the data sources used.

In response to a question by Senator Seum, Dr. Thompson stated that CPE has the ability to deny increases in tuition and fees and has done so. Senator Seum commented that when he asked the previous CPE president how many people at UK make at least \$250,000, the list of names was over nine pages. He was told that most worked in research and development but was not told what the return was on this. Dr. Thompson said that high salaries or expensive programs are often related to research and development. He stated that CPE could probably do a better job of providing information on the return on investment at the line-item level. Dr. Thompson said that UK has been able to increase need-based scholarships to help offset tuition increases. He said that there needs to be more transparency about net price. In response to a question from Sen. Seum, Dr. Thompson said that 7 percent of total university budgets is from general fund appropriations. Sen. Seum said that when the General Assembly reduced general fund appropriations by 6 percent, the University of Louisville claimed that its budget was cut by 6 percent. The university increased tuition by 6 percent. Mr. Payne said that tuition at Kentucky universities has increased, but not enough to offset net general fund appropriation cuts.

Representative Tipton said the increasing pension costs for comprehensive universities and community colleges is a concern, as Dr. Thompson noted in his presentation. In response to questions from Representative Tipton, Dr. Payne stated that

more need-based scholarships would be worthwhile, especially if coupled with a completion program to help recipients finish school. More appropriations would help. Dr. Thompson stated that primary and secondary education should work with CPE to ensure that incoming students are better prepared for college. In recent years, universities have moved to a corequisite model in which students are provided wraparound services as they take courses. This is an alternative to remedial courses for which students received no credit even though they were paying for the courses. Beginning next fall, no university can offer developmental courses; Kentucky Community and Technical College System campuses can offer one per student. Shortening the time required for a degree would help to decrease student costs.

In response to a question from Representative Rothenburger about why online courses cost as much as taking courses on campus, Dr. Thompson stated that costs include the expense to develop online courses. The amount of interaction required is also included. The cost of virtual courses is decreasing and should decrease further.

In response to a question from Representative Fugate, Dr. Thompson stated that not all universities have consultants who recruit students for virtual courses. He can find out which ones do and provide information on costs. Universities that have such consultants likely do so for specialized programs. He said that he did not know whether this cost was passed on to other students.

In response to a question from Representative Simpson as to why tuition does not include mandatory fees, Dr. Thompson stated that CPE takes mandatory fees into account with tuition. An information technology fee is an example of a mandatory fee; an individual course fee is an example of a discretionary fee. It is important for tuition and fees to be simple and transparent.

Representative Bechler stated that it is a disservice to other students and taxpayers when Kentucky Education Excellence Scholarships are provided to students who are not performing at grade level. He commended the new policy of not providing remedial courses.

Representative Bechler said that committee members would be contacted about whether there will be a December meeting. If the committee does not meet in December, it would likely meet during the 2019 session.

The meeting adjourned at 11:59.