September 2015

Key Objectives For the Reauthorization of the Higher Education Act

Congress will soon be turning its attention to the reauthorization of the Higher Education Act (HEA), legislation first enacted in 1965 as part of the Great Society domestic agenda and last reauthorized in 2008. The HEA governs the administration of federal student-aid programs. The reauthorization of the HEA comes at a very critical moment: During the Great Recession, states were forced to reduce spending in nearly all areas, including higher education. While state contributions are recovering, the costs of college tuition and room-and-board are skyrocketing, putting additional pressure on federal support and requiring many students to assume even greater—and often unsustainable—debt burdens through the federal student-loan program. Not surprisingly, some are now questioning the value proposition of a college education.

In light of these circumstances, the Bipartisan Policy Center's (BPC) Governors' Council has identified three key objectives for HEA reauthorization:

- Promote Effective Data-Collection and Greater Transparency
- Incentivize and Allow Innovative Learning Models
- Protect the Federal-State Balance

BIPARTISAN POLICY CENTER

Background

While serving as governors of our respective states, we all made economic development, job creation, and educational reform major priorities. However, in pursuing these goals, many of us reached the same unfortunate conclusion—that our nation's educational and workforce systems are failing to adequately prepare and train people for today's job market. These systems place an inordinate emphasis on the view that everyone should strive to attend a traditional four-year college rather than explore and pursue alternative educational pathways. In devising new educational and workforce systems for our states, many of us found ourselves starting from scratch, trying to link and leverage the resources and requirements of multiple, separate programs and literally hundreds of stakeholders. At the same time, our experience with federal workforce-training programs was less than satisfactory. While providing valuable assistance, many of these federal programs can be bewilderingly complex and inefficient.

The February 2014 Governors' Council report, **Getting Work: How Government Can Do Better Preparing Americans for Today's Jobs**, offered a number of recommendations for improving the current workforce system and ensuring that it is more responsive both to workers seeking their first, next, or better job and to employers, who require an educated and skilled workforce. One of our chief recommendations was to broaden our educational focus beyond four-year college degrees to alternative educational pathways that better prepare individuals for future careers by embedding core employability skills, stackable industry credentials, and work-based learning. We also offered a number of recommendations aimed at improving the process of and providing more coherence to the 47 often-overlapping federal workforce-training programs.

Later in 2014, Congress took several significant steps forward through passage of the Workforce Investment and Opportunity Act (WIOA). The WIOA furthered the goal of better aligning federal workforce-training programs with the needs of states, employers, and the unemployed. It also consolidated certain programs so that federal dollars can be better used to meet the needs of the unemployed, rather than being spent on administrative expenses.

More work remains. A critical piece of the school-to-work pipeline is higher education. We believe that postsecondary education is the right investment for many young people. Unfortunately, annual tuition increases have made college a less attainable option for a segment of the American population, while other prospective students have insufficient information to make well-informed decisions. More must be done to make college accessible, inform students and parents of their options, and instill transparency and competition in higher education.

The Cost of College

Since 1980, real median family income has risen roughly 12 percent while the cost of a four-year college degree has risen 150 percent (adjusted for inflation).[1] Further, according to the National Center for Education Statistics, total expenditures for all universities in the 2006/2007 academic year was $196 billion; by the 2012/2013 academic year, costs had risen to $257 billion—that's a 25 percent increase in just six years.

In fact, the Government Accountability Office found that from 1980/1981 to 1994/1995, tuition at four-year public colleges and universities increased 234 percent.[2]

We recognize that some of the tuition increases may be the result of reductions in state funding during the Great Recession. However, as the data above indicate, increasing tuition is not a new problem but it is one deserving of a thoughtful, thorough analysis which looks at all potential contributors. We are concerned that any reductions in state funding are being seen as the only reason for the increases in tuition, when, in fact, the reality is much more complicated.

State Budgets

During the Great Recession, states reduced funding to virtually all state programs due to significant drops in state tax revenues and growing demands for Medicaid services. According to the National Association of State Budget Officers, in fiscal year 2009, 43 states reduced their enacted budgets by $31.3 billion and 36 states cut their fiscal 2010 expenditures by $55.7 billion.[3] Further, in 2009, estimated tax collections of sales, personal income, and corporate income were 7.4 percent lower than actual fiscal 2008 collections.[4] The bleeding continued into 2010, when 39 states made midyear budget cuts to their fiscal 2010 budgets totaling $18.3 billion.[5] In fiscal 2010, 38 states enacted $23.9 billion in tax and fee increases, as 29 states enacted net increases.[6] Higher education is not the only program area affected by state budget shortfalls. For example, according to the National Association of State Mental Health Program Directors, from 2009 to 2011, states reduced mental-health funding by $4.35 billion.[7] Additionally, nationwide, nearly 300,000 teachers and other school personnel lost their jobs during the Great Recession.

In the midst of the recession, the federal government provided a lifeline to the states in the form of the state stabilization funds in the American Recovery and Reinvestment Act of 2009. However the $145 billion covered just 40 percent of state budget gaps.

States have begun to recover from the recession. According to the 2014 National Association of State Budget Officers' State of the States Report, states directed most spending increases in fiscal 2015 most heavily toward K-12 education and Medicaid, which received the majority of additional budget dollars. Thirty-nine states enacted general-fund spending increases for K-12 education for a net increase of $11.1 billion. Thirty-six states increased spending for Medicaid for a net increase of $8.5 billion. Forty states also increased spending for higher education for a net increase of $4.4 billion.[8] It is important to note, however, that fiscal rebuilding is slow for many states. States' annual increases in revenue and spending are below historical averages. General-fund spending is expected to increase by 3.1 percent in fiscal year 2015, a slower-than-average growth rate going all the way back to 1979.[9]

About Student Loans

Much of the discussion about reducing student-loan debt has focused on the interest rate students must pay. According to the Congressional Budget Office, the federal student-loan program currently reduces the deficit for the federal government. However, several proposed changes would result in expenditures by the federal government. Additionally, changes made in 2010 to replace privately funded, federally guaranteed loans with direct federal loans to the borrower added significantly to the public debt, because the government had to borrow the money to originate the loans.

With passage of the Bipartisan Student Loan Certainty Act of 2013, loans issued after July 1, 2013, bear a fixed interest rate based on the ten-year Treasury notes in the year of issuance plus a margin, subject to a ceiling. In addition to interest, borrowers must pay a 1 percent origination fee for each loan. Changes to the current interest rates could also negatively affect federal balance sheets.

While younger borrowers have historically held student-loan debt, the fastest growth in balances has occurred for borrowers over the age of 60. That high growth rate is indicative of the increase in the parental or PLUS loans, which are taken out by parents to help finance their children's educations. PLUS loans carry the highest interest rates over other loans, with a margin over Treasury's of 460 basis points and a maximum rate over 10 percent. Current PLUS loans have an interest rate of 7.21 percent, which is more than 100 basis points over the current cost of high-yield corporate bonds (often called "junk bonds").[10]

In the past, parents often dipped into the equity they had established in their home as an alternative means to finance a college education. Home equity was a source of wealth to tap for parental contributions to college and had an added advantage of its interest being widely tax deductible. However, in the wake of the housing collapse, the combination of falling housing values and tightening credit constraints has significantly reduced the availability of home equity. In addition, the loose underwriting standards for parental PLUS loans have made them highly attractive. That is to say that underwriting for PLUS loans is often made more on the basis of admission of the student than on the potential capacity of the parent to repay the loan.

Governors, most of whom are constitutionally bound to balance their state budgets, share concerns about the federal debt and the burdens that such a debt will place on future generations, including those now incurring personal debt for college. However, we are also alarmed by the seemingly unchecked increase in college costs that have resulted in students incurring more than $1 trillion in debt.

Much of the public discussion of the cost of college has focused on the interest rates students pay on their loans. However, that debate does nothing to address the overall amount of the loans themselves. To address that, one must look at the overall costs of higher education and find ways to mitigate continued increases.

The Governors' Council makes the following recommendations on short-term measures that could be taken to make a college education more affordable, accessible, and achievable.

Recommendations

Promote Effective Data-Collection and Greater Transparency

Effective Data-Collection

Today, several databases provide information about students, universities, tuition rates, and student indebtedness. These databases include the following:

- National Student Clearinghouse (NSC)—a not-for-profit entity whose members include the American Association of Universities. The Clearinghouse gathers data on student-completion rates but does not collect transfer data or post-graduation income data.
- Student Achievement Measures (SAM)—a private entity that collects student-achievement data, including for transfer students.
- College Navigator—a free consumer-information tool sponsored by the U.S. Department of Education's National Center for Education Statistics.
- U.S. Department of Education Dashboard—a website sponsored by the U.S. Department of Education that collects student-achievement data but not college-transfer and post-graduation income data.

Unfortunately, none of these databases provides the type of comprehensive picture that prospective college students and their parents require when making the difficult decision about which college to attend and whether to accumulate significant debt to do so.

In the 2008 HEA reauthorization, Congress enacted a ban to prevent the creation of a "student unit record." The student unit record would include not only a student's level of indebtedness but also his post-graduation wages. Such information would make clearer to the prospective borrower the true impact of the debt burden that the student would incur. However, it would also create a new federal data point on that individual by linking wage information directly with student records for the first time. When the ban was imposed, there were widespread concerns about the ability of the federal government to protect this information and keep it confidential.

We strongly believe that young people trying to make the important decision of what to do upon high school graduation need better information about costs, post-college earning potential, and alternative career paths. Students are taking on huge amounts of debt without a full understanding of all of their options. We believe a comprehensive solution should be developed that provides students with the full suite of data they need to make informed decisions while also protecting student privacy.

Better-Informed Student Borrowers

Student-loan debt is nearing $1.2 trillion, with loans held or backed by the federal government exceeding $1 trillion.[11] Nearly seven in ten seniors (69 percent) who graduated from public and nonprofit colleges in 2013 had student-loan debt, with an average debt burden of $28,400 per borrower. This represents a 2 percent increase from the average debt of those students graduating from public and nonprofit institutions in 2012.[12] With far too many young people struggling to find work, this high level of indebtedness has led some to openly question the value of a college education.

We believe our nation must place greater emphasis on alternatives to traditional four-year college degrees instead of making college the only viable option for young people. High school students should have multiple pathways available to them as well as clear information about these pathways. In turn, prospective college students must have more information about the likely impacts of their decision to attend college, including the level of student debt they will incur upon graduation and, based on their chosen field, how long it will take to pay down that debt.

Current law mandates that students receive a session of financial counseling before they receive any student-loan disbursements. However, this counseling often occurs **after** they sign their loan agreements. Counseling should be required **before** students sign their agreements, as well as annually throughout students' time in college.

The Governors' Council strongly supports strengthening counseling requirements and believes that counseling should include ample guidance for students on where to find information about likely wages for their intended professions.

Require Universities to Share Some of the Risk

The Cohort Default Rate (CDR) is the percentage of an incoming class of students (called a "cohort") that defaults on their federal student loans within three years of entering repayment. If a school's CDR exceeds 30 percent for three consecutive years or 40 percent in one year, the school can lose its eligibility to accept federal aid. In 2013, just eight colleges had CDRs that exceeded 30 percent.

However this does not mean that those are the only schools for whom defaults are an issue. The CDR for 650 four-year public universities is 8.9 percent. Furthermore, the CDR does not capture those students who are in forbearance or have deferred their loans – neither of which results in any progress toward repayment.

To ensure more universities are 'on the hook' for low levels of student loan repayment, we believe that the CDR should be replaced with a repayment rate, measuring the percentage of new graduates that are able to make at least a $1 principal reduction over a given time period. By tying accountability to loan repayment rates, institutions could be held partly accountable for the thousands of students who are unable to put a dent in their student loan balances, but have been able to avoid technical default by enrolling in an income driven plan, or by going into deferment or forbearance.

Additionally, institutions with low repayment rates should incur a financial penalty—but not be stripped of federal aid eligibility. The current system of revoking a university's eligibility for federal financial aid has the effect of denying aid to students who may have no other college options due to cost or location. A penalty will incent the university to ensure that its students are graduating with marketable skills. Some of the schools whose students have high non-payment notes, alos have strong histories of serving our most at-risk students. We therefore recommend that new penalities be phased in to give these universities the opportunity to address their high non-payment rates. Additionally, the revenues from the penalties can then be given to universities with high repayment rates or those that enroll a significant number of Pell-eligible students. The latter option ensures that universities do not resort to limiting admission just to those they believe are more likely to succeed.

Incentivize and Allow Innovative Learning Models

In 1995, governors from 19 states came together to create a new model for education that harnessed technology to help meet the needs of nontraditional students. The Western Governors University (WGU) provides a competency-based education (CBE), which translates real-world work experience into academic credit and measures success by skill completion instead of hours spent in a classroom. The WGU curriculum is entirely online, and the average age of participating students is 37 years old.

Unfortunately, innovations like those of WGU are difficult to sustain, because the HEA defines credit based on the amount of time a student spends sitting in a classroom. Importantly, Title IV, the financial-aid section of HEA, also links to the credit-hour, so that students participating in competency-based programs have difficulty qualifying for aid.

The Higher Education Reconciliation Act of 2005 established the eligibility of CBE programs for Title IV, provided CBE is consistent with the institution's accreditation and, if being accredited for the first time, approved by the secretary of education. The implementing regulations require the institution to convert the competency assessment into credit-hours for purposes of accreditation, with the conversion subject to the approval of the secretary. However, these requirements go beyond those for other types of program innovations, which must only meet the requirements set forth by the accreditor.

While innovations like online curricula and CBE are not panaceas to all that ails the higher-education system, we believe they are worthy of greater investment and promotion due to their potential to reduce costs and increase educational access for a wider swath of students.

Our higher education system must unlink financial aid from the credit hour, redefine the credit hour to include skill development, and allow accreditation rather than secretarial approval to certify CBE programs for Title IV eligibility. Further, the credit hour must be redefined to give greater weight to skill development outside a traditional classroom.

Protect the Federal-State Balance

"Maintenance of effort" provisions, or "MOEs," represent an unnecessary federal intrusion into state budgetary decisions and are inconsistent with the federalist principles that underlie the U.S. Constitution. MOEs impede the ability of state policymakers to set and advance state and local priorities. They also disproportionately impact fiscally weaker states that may not be able to meet MOE requirements, subjecting those states to the potential loss of critical federal funds. The Governors' Council strongly supports the elimination of any higher-education MOE. The appropriate path is an incentive similar to the State Student Aid Incentive Grant (SSIG), which encouraged states to create state student-aid programs or increase funding to existing programs. SSIG authorized federal matching funds that resulted in 20 states adopting programs.

Conclusion

The reauthorization of the Higher Education Act allows us to reexamine the ways that young people are preparing for higher education and whether the existing model, which places a heavy emphasis on attending a traditional four-year college, is effectively meeting the needs of students and employers alike. HEA reauthorization also has the potential to help millions of young Americans make better, more informed decisions about their future educational and career paths.

About the Governors' Council

In 2011, BPC launched the Governors' Council to bring pragmatic, state-based perspectives to issues that are national in scope. BPC believes it is critical that federal lawmakers be exposed to the views and practical experiences of those who have served on the front lines in responding to America's major public-policy challenges.

With decades of combined experience, members of the Governors' Council have done the hard work of governance—attracting jobs to their states, ensuring that citizens are adequately educated and trained for current and future employment opportunities, managing budgets, administering state health care programs, and devising state tax structures that aim to be globally competitive. The Governors' Council helps bring attention to the important "lessons learned" from these efforts to the halls of Congress. One fundamental lesson is that success in solving today's most complex problems requires a clear delineation of federal and state responsibilities consistent with the federalist principles at the core of the U.S. Constitution.

The current members of the Governors' Council are: Mike Beebe (D-AR), Jim Douglas (R-VT), Christine Gregoire (D-WA), Linda Lingle (R-HI), and Sonny Perdue (R-GA).

Disclaimer

This is the product of the Bipartisan Policy Center's Governors' Council. With participants of diverse expertise and affiliations addressing complex topics, it is inevitable that arriving at a consensus document in these circumstances entailed compromises. Ultimately, however, this group reached consensus on these recommendations as a package of priority recommendations.

The findings and recommendations expressed herein are solely those of the commission and do not necessarily represent the views or opinions of the Bipartisan Policy Center, its founders, or its Board of Directors

End Notes

[1] Available at: http://www.census.gov/hhes/www/income/data/histrocial/families/.

[2] Government Accountability Office. "Tuition Increasing Faster than Household Income and Public Colleges Costs." Page 5. 1996.

[3] National Governors Association National Association of State Budget Officers. "The Fiscal Survey of States." Page 12. December 2009. Available at: http://www.nasbo.org/sites/default/files/fsfall2009.pdf.

[4] Ibid. 13.

[5] National Governors Association National Association of State Budget Officers. "The Fiscal Survey of States." Page 10. Fall 2010. Available at: http://www.nasbo.org/sites/default/files/Fall%202010%20Fiscal%20Survey%20of%20States%20-%20Final.pdf.

[6] Ibid.

[7] Spross, Jeff. "State Mental Health Services Have Been Cut By Billions During The Great Recession." December 17, 2012. Available at: http://thinkprogress.org/economy/2012/12/17/1349371/mental-health-cuts-recession/.

[8] National Association of State Budget Officers. "Summary: Fall 2014 Fiscal Survey of States." December 9, 2014. Available at: http://www.nasbo.org/sites/default/files/Fall%202014%20Fiscal%20Survey%20of%20States%20Summary.pdf.

[9] National Association of State Budget Officers. "Fiscal Survey of States." Page VII. Fall 2014. Available at: http://www.nasbo.org/sites/default/files/NASBO%20Fall%202014%20Fiscal%20Survey%20of%20States.pdf.

[10] Federal Student Aid. "Plus Loans." Available at: https://studentaid.ed.gov/types/loans/plus#what-is-the-current. See also: CNN Money. Available at: http://money.cnn.com/data/bonds/.

[11] Chopra, Rohit. "Student Debt Swells, Federal Loans Now Top a Trillion." Consumer Financial Protection Bureau. July 17, 2013. Available at: http://www.consumerfinance.gov/newsroom/student-debt-swells-federal-loans-now-top-a-trillion/.

[12] The Institutes for College Access and Success. "Project on Student Debt: State by State Data." Available at: http://ticas.org/posd/map-state-data.

BIPARTISAN POLICY CENTER

Founded in 2007 by former Senate Majority Leaders Howard Baker, Tom Daschle, Bob Dole and George Mitchell, the Bipartisan Policy Center (BPC) is a non-profit organization that drives principled solutions through rigorous analysis, reasoned negotiation and respectful dialogue. With projects in multiple issue areas, BPC combines politically balanced policymaking with strong, proactive advocacy and outreach.

bipartisanpolicy.org | 202-204-2400
1225 Eye Street NW, Suite 1000 | Washington, DC 20005

@BPC_Bipartisan
facebook.com/BipartisanPolicyCenter
instagram.com/BPC_Bipartisan
flickr.com/BPC_Bipartisan

BPC Policy Areas

- Economy
- Energy
- Finance
- Governance
- Health
- Housing
- Immigration
- National Security

BIPARTISAN POLICY CENTER

1225 Eye Street NW, Suite 1000
Washington, DC 20005

202-204-2400
bipartisanpolicy.org