How Will Texas' Rising, Low-Income Majority Afford College?

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Though Texas is a leader in a number of important areas of higher education, two are worth highlighting from the start: It has the best postsecondary data of any state, making it one of a handful of states where in-depth research is possible at both the program and institutional level. And in 2014 it launched the first truly affordable public university baccalaureate degree in the nation.

I begin with these observations to make sure we all understand that Texas already has the information it needs to know what to do to bring down costs and it already has the resolve to experiment in making college degrees affordable. What is now needed is the political will to apply what it knows to expand its experimental program in college affordability to the whole state.

The problem in need of fixing is clear. Texas will soon be a majority minority state, and the overwhelming majority of its so-called minorities are low income. Simply put, the state must educate its low-income population if it is to continue to compete economically. Yet, without a substantial reduction in tuition and fees, the effort to close the gap in student participation and success between its different populations will remain an elusive goal.

Sound public policy formulation calls for recognizing that four groups—not just the state—directly influence college affordability: students, colleges, governments, and corporations. Each contributes to making college affordable for the rising low-income majority in at least the following ways:

Students must strive to complete their studies in the shortest time possible by taking only the credits they need and, most important of all, completing their studies. As is well known, the longer students are in college the less likely they are to finish what they started. Students must also take an active and informed part in monitoring both their personal finances and their borrowing practices to avoid unmanageable debt. Indeed, students are not really prepared for college if they lack a basic understanding of personal finances and the consequences of unbearable debt.

For their part, colleges must increase efficiencies, reduce expenses, provide effective student advising services, and provide students with accurate and timely information about costs, financial aid and academic requirements.

As for the state, it must do its best to adequately fund higher education institutions and provide the incentives necessary for colleges to be both affordable and successful. To help assure the latter, funding should be based, as is already the case in Texas, on performance rather than enrollment or historical entitlements.

Lastly, corporations need to support local colleges proactively. That means they need to be incentivized to provide colleges with advisement as to the best, most updated curriculum and training methods needed to produce workplace ready employees. As we know, if not incentivized, companies will be unlikely to help prepare students who would not be working for them.

To the extent that any of these stakeholders fails to do its part, students end up unprepared for the workforce and in debt. Further, Texas will have a hard time competing if it lacks an adequately trained labor force with its accompanying high under- or unemployment, and will suffer from a declining tax base and increased social services costs.

All this is fairly well known. What is less understood is how grossly unequal funding of colleges results in poor public policy that is unable to make headway in reducing the cost of higher education. Last year, with my colleague Mark Schneider, we published a widely commented report, *Rich Schools, Poor Students: Tapping Large University Endowments to Improve Student* (www.nexusresearch.org), that highlighted the negative consequences of large university endowments and explored how the adverse impact on public policy of imbalanced subsidies to higher education could be reduced.

Using this study as a resource, I will briefly discuss ways by which to help address how these four stakeholders can be incentivized and financed to do the right thing.

First: It is important to understand that not all private universities are private. As noted in Table 1, many of the richest universities in Texas, sitting on hundreds of millions if not billions of dollars in tax exempt endowments, receive through the tax laws government subsidies that dwarf the appropriations received by the public universities and colleges that educate the great majority of Texans. For example, Rice University's tax exempt status generates over $24,000 per student each year in taxpayer subsidies and Baylor College of Medicine a whopping $55,000, compared to the $3,200 per student at the regional Sam Houston State University or the $2,100 per student at Central Texas College, a two-year institution serving the education needs of the military personnel of Fort Hood.

Table 1. Total Federal, State and Local Appropriations and Tax Subsidies Per FTE Student, Endowment Size, and Institution

All Private - High Endowment	All Public - High Endowment	Public Regional University	Public Community College
Baylor College of Medicine	Texas A&M University - College Station	Texas A&M University - Commerce	Wharton County Junior College
$55,500	$11,300	$4,700	$3,200
Rice University	Texas Tech University	Texas State University	Southwest Texas Junior College
$24,500	$7,200	$4,400	$3,000
Trinity University	University of Texas - Austin	Tarleton State University	Cisco College
$16,800	$6,800	$4,300	$2,700
Southern Methodist University	University of Houston	University of Texas - Arlington	Ranger College
$5,200	$5,600	$4,100	$2,400
Texas Christian University	University of Texas - El Paso	University of North Texas	North Central Texas College
$4,900	$5,500	$3,900	$2,200
Baylor University	University of Texas -San Antonio	Sam Houston State University	Central Texas College
$1,700	$4,800	$3,200	$2,100
Average	Average	Average	Average
$18,100	$6,867	$4,100	$2,600

Second, not all your public institutions were created equal. Taking into consideration the legacy endowments of the University of Texas and Texas A&M, UT-Austin receives a total per student annual subsidy of $6,800 while the per student subsidy at TAMU-College Station is approximately $11,300. Meanwhile, UT-Arlington must make do with $4,000 per student and TAMU-Commerce with $4,600. And some former normal colleges that have become comprehensive universities, such as the University of North Texas, receive less than $4,000 per student.

This subsidy to the wealthy results from either an unfair legacy of endowments or a tax code that hides the flow of money to the rich while local two- and four-year public colleges have to fight in state legislatures for needed appropriations, leaving them to compete against the state's other legitimate public policy concerns.

Third, the rich schools, both public flagships and private institutions, receive large legacy-endowed or tax-generated subsidies while enrolling a disproportionately small share of low-income students, leading to a perverse pattern wherein the richer the school, the lower the percentage of low-income students served. For example, only 13 percent of students at private elite institutions in Texas have Pell Grants, while 44 percent of students at public regional universities and 57 percent at community colleges are Pell eligible.

Fourth, providing free community college tuition by taxing rich individuals is neither politically feasible nor the best use of limited resources. On its own, such a program will simply result in yet more subsidies to affluent students and will drive more students into schools that are already having difficulty leading learners to successful academic and workplace results.

Consequently, based on our study, we propose a more politically viable approach that would better prepare students, better equip colleges to serve them, lessen the financial burden on states, increase the incentive for corporations to work closely with their local higher education institutions, and that best leverages Texas' higher education innovations in both data gathering and the piloting of affordable degrees.

Briefly, we propose an equitable funding strategy that includes a low "Texas Education for All" fee on all university endowments of over $500 million. The proposed fee is modest, 0.5 to 2 percent—aligning as it does with the range of national tax rates to which private foundations are already subject—and it is aimed at investing the resulting revenue, first, in evidence-based student support services proven to get more students successfully through regional universities and community colleges and, second, in the development and deployment of scalable, rigorous, and affordable associate's and bachelor's degrees.

Given the unequal distribution of endowments, the proposed fee would affect few institutions. In 2014 the 6 private colleges with such endowments educated approximately 3.6 percent of all higher education students in Texas. In the meantime, about 26 percent of the nearly $234 million in revenues expected to be generated by the fee would come from only 6 public universities, which last year educated fewer than 15 percent of the state's college students.

Further, to help maximize the impact on affordability, the proposed fee should be offset annually by the amount the affected school appropriates for financial aid to low-income, Pell eligible students.

Through a charitable tax credit process the revenue raised from private universities could be assessed as an excise tax, which would be used to benefit students attending regional comprehensive universities and community colleges—institutions that are seriously under resourced yet responsible for training much of the state's workforce. We believe that this can be done in a revenue neutral manner that incentivizes corporations to strengthen their support of local regional and community colleges. The proposed taxing arrangement is revenue neutral because the monies derived from the excise tax would match the amount offset by the tax credit gained by participating corporations. In effect, if a company gave, for example, $1 million to a community college the company would gain a percentage of credit against taxes owed. Consequently, the total amount of extra tax credit allowed by the program would offset the amount of revenue raised by the excise tax on the large endowments.

In turn, the value of the tax credits would match the annual flow of money available to needy colleges for qualified purposes. A competitive grant process could be used to ensure that selected colleges applied the funds to support practices proven effective in promoting student success. These charitable tax credits can provide an attractive opportunity for corporations or others seeking to reduce their tax burden in a socially responsible manner.

Of course, the tax credit would not be available to all. A panel of experts would need to be established by, say, the Texas Higher Education Coordinating Board (THECB), with responsibility for judging the applications and making awards based on the conformance of the application to the established criteria associated with student success—measured by indicators such as increased student progression, retention, completion, or job placement. In turn, interested colleges would help identify taxpayers desiring the tax credits. This effort would help promote links between colleges and corporations that are critical to resolving the gaps between what is taught and the workplace skills and competencies that industries need.

Likewise, the fees raised from large public university endowments would also go to support the competitive improvement grants, along with the development of affordable degrees. For example, the Texas Affordable Baccalaureate Project developed a competency-based bachelor's degree that can improve access and completion rates by reducing costs and time to degree. For a student commencing with no transfer credits this degree should be attainable in three years for less than $15,000. There is nothing comparable in the nation's public higher education.

With the Coordinating Board's excellent database available to researchers and with adequate funding through an initiative such as the one we propose, additional affordable degrees could be developed and integrated into the offerings of colleges and universities across all of Texas.

In sum, access without success is not opportunity. And welfare to the wealthy through hidden or legacy subsidies is not good policy. Our proposed policy recommendation shines light on the latter and provides a revenue neutral way to bring about real opportunities for success to the low-income majority of Texas.