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Testimony on College Affordability in Kentucky

Budget Review Subcommittee on Postsecondary Education

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Thank you for the opportunity to speak today on this important topic.

Research shows that there are numerous factors associated with success in postsecondary education—including: college readiness; the accessibility of educational opportunities (due to time constraints and geographic location); availability of academic, personal and career support services; and students' aptitude and capacity to persevere. Another critical factor is the affordability of higher education. Kentucky has been making good progress in a number of areas—for instance, in the college readiness of high school graduates for which, according to the Council on Postsecondary Education (CPE)'s most recent accountability report, the state is on track to reach its 2014 goal. However, on the issue of college affordability the state has clearly been losing ground.

As you all know—and was highlighted in the previous presentation on the Legislative Research Commission report "Cost and Funding of Higher Education in Kentucky"—during the difficult budget situation of recent years, state cuts to higher education have led Kentucky's public universities and community colleges to raise tuition in order to make up for some of the lost revenue from the state. As in other states, we've seen tuition at Kentucky's public postsecondary institutions increase as a result—in our state by more than 200 percent since 1998. As described in the LRC report, the state's appropriation to these universities and community colleges declined by 22 percent between 2000 and 2013 (in inflation-adjusted terms), with tuition and fees surpassing state funding as the largest source of revenue for these institutions in 2010. And as you know, funding was cut an additional 1.5 percent in 2015.

Most states have begun to reinvest in higher education after the years of budget cuts since the recession hit, but Kentucky has not; a recent national report shows that Kentucky ranked in the bottom 10 states in funding progress in 2014—and the additional cuts in 2015 will put Kentucky even further behind.
We all want to see our state reach its higher education goals—and in doing so improve Kentucky's economy as well as the lives of individual Kentuckians—but these budget cuts make it hard for many students, and prospective students, to earn postsecondary degrees and credentials. I want to highlight how those with the greatest economic need, many of whom are adult students, are being hit especially hard.

These days more adults and low-income students are attending college. Around 42 percent of U.S. college students in 2011 were age 25 or older. However, a significant share is not successfully earning postsecondary degrees and credentials, which are associated with higher wages. 23 percent of Kentuckians ages 25-54 have some postsecondary education but no degree (2012 ACS).

The Center for Postsecondary and Economic Success estimates that nearly 644,000 adult Kentuckians (ages 25-64) are in need of better skills and wages. Of those, more than 58,000 are seeking work but have not worked in the last year; more than half worked at least some of the last year but earned poverty-level wages; and just over 254,000 worked at least some of the last year and earned above poverty-level wages but below the state median wage of $14.60 an hour. Half of this group has a high school diploma or equivalency; 17 percent has no high school diploma; and nearly 33 percent has some college but no degree.

Meanwhile there is expected growth in some middle-skills jobs in Kentucky—for instance, in healthcare—which require education beyond high school but not a four-year degree.

While more low-income, adult students are enrolling in college classes, one of our state's biggest gaps and shortcomings in education is the low rates of low-income students earning degrees and credentials. Low-income students in Kentucky have lower postsecondary degree attainment rates than other Kentucky students. According to the CPE's latest accountability report, compared to the 2012-2013 bachelor's degree graduation rate of 48.9 percent for all Kentucky students at four-year institutions, the bachelor's degree graduation rate for low-income Kentuckians was just 36.6 percent; this is far from the 49.7 percent target for 2013-2014. For associate's degrees, the 2012-2013 graduation rate for all Kentucky students at the state's two-year-degree-granting colleges—where many of the students are low-income community college students—was just 12.8 percent; the associate graduation rate for low-income students was 10.4 percent, which is below the baseline year's graduation rate.

Adult students—many of whom are low-income—face more barriers to graduating from college than more "traditional" students, in part because they typically have greater financial need. These adult students often support families and work while going to school, so their cost of attending college may include expenses like childcare and the costs associated with cutting back hours at work in order to take and be successful in college courses. Meanwhile, many scholarship opportunities—like the merit-based Kentucky Educational Excellence Scholarship (KEES)—are not available to most adult students; a person must be no more than five years out of high school to be eligible for KEES. And some adults received a GED instead of a high school diploma and therefore for the most part don't qualify for KEES (other than possibly a very small supplemental KEES scholarship depending upon ACT or SAT scores).

Taking a look at the state's most affordable option for postsecondary education, the Kentucky Community and Technical College System (KCTCS), shows that even at community colleges—where a lot of adult students enroll—tuition is not affordable for many low-income Kentuckians. According to a 2012 national Community College Survey of Student Engagement, KCTCS students consider lack of finances to be the issue most likely to cause them to withdraw from college. Transfer to a 4-year college was the next most likely reason, followed by working full-time, then caring for dependents and lastly being academically unprepared. Despite being affordable relative to other state institutions, tuition at Kentucky's community colleges had the highest median annual tuition and fees of Southern Regional Board states in 2011-2012 and the 11th most expensive community college tuition and fees in the nation in the 2012-2013 school year. And starting this year, KCTCS is charging additional fees to students—currently $4 per credit hour but scheduled to rise to $8 per credit hour next year—to finance construction projects. The $4 fee is on top of a 2.08 percent tuition increase; when calculating in the fee, this means a 4.9 percent increase in the cost per credit hour this year. Kentucky's poorest pay close to a quarter (23 percent) of their incomes to cover tuition and fees at a community college. It is also important to note that the federal Pell Grant, for which most low-income students qualify, does not have the purchasing power it once did. In the 1970s, Pell covered nearly 80 percent of tuition, fees, and room and board at four-year public postsecondary institutions. Today it covers maybe a third of these costs.

More and more students end up going into debt to pay for college—in 2012-2013, 59 percent of graduates of four-year postsecondary institutions in Kentucky. And the average amount of debt is also increasing—up from $14,250 in Kentucky in 2003-2004 to $24,693 in 2012-2013. Low-income students who receive Pell are more than twice as likely to be in debt as those who do not qualify for Pell—and have greater debt.

While as you know Kentucky does have financial aid opportunities through its three main scholarship programs—the merit-based KEES; the need-based College Access Program (CAP) that requires a student to be eligible for Pell to qualify; and the Kentucky Tuition Grant (KTG), which is for students attending private schools who have a gap between their Expected Family Contribution and the cost of attending an in-state private college—after factoring in other scholarships. But the state's financial aid system does not give a high priority to need-based scholarships, which target those with the greatest financial need, and budget cuts have further limited investments in need-based aid. Kentucky also has a Postsecondary Education Tuition Tax Credit, which I will come back to later in the presentation.

A large share of KEES and also KTG go to students with relatively high family incomes. Based on available data, in 2013, 46 percent of merit-based KEES funds were disbursed to those with family incomes of more than $75,000 a year, and more than 29 percent of KTG funds went to those with family incomes in that category. In contrast, the majority of CAP funding goes to those with relatively low incomes.

However, as you all know, unlike KEES, CAP, which provides scholarships to those with the greatest financial need—and also KTG—are not fully funded; or in other words, not everyone who qualifies receives CAP and KTG although they do with KEES. With CAP and KTG, scholarships are awarded on a first-come, first-served basis—with funds being exhausted at an earlier date each year. In 2012-2013, over 76,000 eligible applicants (67 percent of eligible applicants) were denied CAP due to lack of funds. It was good to see that the final budget for 2014-2016 included a small bump in funding for CAP and KTG ($750,000 per program in 2015); however, it was not enough to make much of a dent in the level of underfunding experienced by the two programs.

And unfortunately, as has been discussed in this committee before, the underfunding of need-based financial aid in Kentucky is being furthered by state lottery revenues being utilized to help balance the overall state budget. According to statute, all but $3 million (for literacy efforts) of lottery revenues are to go to the state's financial aid programs. However, since 2009 the budget has used some of this lottery money to assist with the bottom line. All of the moved monies are coming from CAP and KTG. The amount moved was 11 million in 2009, and it climbs to $32.3 million in 2015 and $41.3 million in 2016. While statute dictates that 55 percent of the lottery financial aid money (minus the $3 million) is supposed to go to CAP and KTG and 45 percent to merit-based KEES, KEES has been fully funded at a level that's actually slightly above its statutory requirement (47 percent in 2015), and CAP and KTG funding levels have been cut (they receive just 39 percent in 2015).

Need-based financial aid is an especially important tool for increasing college degree and credential attainment among low-income Kentuckians, many of whom are adults. In contrast to many other forms of financial aid, need-based aid is effective at influencing whether or not students go to college and complete postsecondary degrees or credentials. Higher income students are not as price sensitive as low-income students and typically will attend college whether or not they receive scholarships. Also the delay in benefiting from education tax credits, which are applied for and received long after students enroll in college, can make it difficult for this form of financial aid to influence the educational decisions of the lower-income adults who qualify for these credits (and most do not qualify as many of these credits are nonrefundable, so those who do not owe taxes cannot benefit). Research has shown, however, that need-based scholarships both increase college enrollment among low- and moderate-income students and increase college persistence and the number of credits earned.

Meanwhile, although the state's need-based scholarship programs are underfunded, Kentucky expends quite a bit of money for education-related tax expenditures—which primarily benefit middle-to-upper-income families. Kentucky's most recent biennial tax expenditure report shows a growing amount of money going to the state's nonrefundable Postsecondary Education Tuition Tax Credit—which can be claimed for undergraduate tuition and related expenses at Kentucky colleges and universities. It is expected to cost the state an estimated $20.8 million in 2016, compared to $14.8 million in 2012, an increase of 41 percent over that time period.

For state individual income taxes in 2014, this credit will be set at 25 percent of the amount recorded on the federal return for the Lifetime Learning Credit (LLC), which provides up to a $2,000 nonrefundable credit for qualified expenses paid for each eligible student, and the American Opportunity Tax Credit (AOTC), which offers up to $2,500 per student for qualified expenses and is partially refundable. Because the state credit isn't refundable—even though the AOTC is partially refundable at the federal level—Kentuckians below the federal poverty level can't benefit from the state tax credit because they do not have a federal tax liability while those with incomes well over $100,000 can. To qualify for the LLC, an individual's income can be up to $63,000 and up to $127,000 for a married couple filing jointly and to qualify for the AOTC, an individual's income can be up to $90,000 (income phase-outs occur between

$80,000 and $90,000) or a married couple filing jointly's income can be up to $180,000 (with income phase-outs occurring between $160,000 and $180,000).

One small strategy for supporting low-income Kentucky students in the context of rising tuition rates and prioritizing need-based financial aid would be to eliminate the state's Postsecondary Education Tuition Tax Credit and redirect these funds to need-based financial aid programs like CAP. This is a recommendation that has been made by Kentucky's Higher Education Work Group.

Of course we know the resource challenges in this state, but as more become available, making need-based financial aid—and postsecondary education in general—higher priorities would benefit Kentucky's low-income adults and the state's economy. Increased funding for higher education in the budget would enable the state's public postsecondary institutions to keep tuition rates down, and full statutory funding for CAP would enable more funds for scholarships for low-income students—as would allocating KENO lottery funds and any growth dollars in lottery funds to CAP. Other possible ways to address the college affordability challenges of the state's low-income students include moving forward the award date for CAP and KTG, which could help adults who may not make college plans as far in advance as more traditional students, and/or taking extent of financial need into account when awarding CAP and KTG. It could also be important to study specifically what level of funding is needed to incentivize low-income students to enroll and persist in college given the increased cost of attending.

While finances are a huge barrier for many students, this is not the only element of student success in college. Low-income adult students, for instance, may require additional student and family supports in order to be successful—such as intensive academic advising, supports that help students balance school with work and family responsibilities (for example, childcare and transportation assistance), and/or emergency financial aid. Career pathways is another way to help low-income adult students earn degrees and credentials and attain good jobs—by providing a clear path from very low levels of education (developmental education or even adult education) to increasingly skilled, marketable credentials in high-demand fields.