Stating the Case and Proposing the Plan for Moderate Tuition/High Aid at the University of Georgia

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October 25, 2005
Abstract

State support of the University of Georgia has declined dramatically, while its quality and reputation have been on the rise. Further funding cuts threaten the University’s continued ascent, forcing the consideration of other means to generate stable, reliable income.

This paper examines how UGA (and other public institutions of higher learning) reached this point. It proposes incremental tuition increases, considered in terms of efficiency, equity, adequacy and administrative feasibility. The discussion is tempered by an analysis of potential external reactions and externalities. The paper concludes with a compromise to enable a moderate tuition/high aid model to be realized.
The Big Picture: Public Good v. Private Benefit

Thomas Jefferson wrote that “diffusion of knowledge among the people” was the surest foundation for “the preservation of freedom and happiness” (Chandler, 1998, p. 5). The first public institution of higher learning was established in America’s thirteenth colony when the University of Georgia was chartered in Athens, Georgia in 1785. The University of North Carolina followed in 1795, and the University of Virginia in 1819. Jefferson, Virginia’s primary supporter, was a staunch believer in the adage that whoever pays the piper calls the tune: “[I]nstitutions established for the use of the nation” should be publicly accountable “to make them answer for their end” (Chandler, 1998, p. 7).

National policy was supportive of the expansion of higher education, particularly as the country moved westward. In 1862, Congress passed the Morrill Land-Grant College Act, which “fostered the creation and development of what are now some of the nation’s great public . . . universities” (Gladieux, Hauptman and Knapp, 1997, p. 103). In 1890, a second Morrill Act provided teaching and operational funds for the fledgling institutions. Incumbent upon the land-grant institutions was a duty to public service and outreach to the state citizenry.

In an environment of increasing industrialism and urbanization, higher education expanded across the country, although enrollment remained low until the end of World War II, when the critical role of scientific research and medical advancements impressed upon the people and their political leaders the linkage of cutting-edge training and discovery to national security, economic prosperity and a higher standard of living. President Harry Truman garnered widespread support for the GI Bill of 1944, which encouraged 2.25 million returning soldiers to pursue higher education (Chandler, 1998, p. 12). Other scholarship programs followed in the coming decades and, at the height of the Great Society, President Lyndon Johnson leveraged the groundswell of public support for civil rights and the war on poverty to convince Congress to pass the Higher Education Act of 1965, which greatly expanded educational access to all Americans, regardless of race, sex, creed or social status.
Basking in the glow of such strong intergovernmental support, public universities thrived: federal dollars supported research and provided student aid; state dollars funded institutional operating costs and construction costs, keeping tuition affordable; and student dollars, in the form of tuition and fees, complemented state funding (Chandler, 1998, p. 14). Clark Kerr, president-emeritus of the University of California System recalls: “The mood on campus was one of barely restrained euphoria” (Kerr and Gade, 1986, p. 82).

Then the bottom fell out in the early 1970s. A glut of unemployed graduates, declining applications, budget deficits, a perceived lack of quality, campus unrest, and the creeping politicization of the academic enterprise signaled the “new depression in higher education” (Finn, 1978, pp. 24-25). “Never before in American history had higher education gone from a location so high on the mountain to a place so low in the valley, and so quickly. . . . The best of times became the worst of times in almost no time at all” (Kerr and Gade, 1986, p. 82).

Years of recession followed and took their toll on higher education. Psychologically, the nation (particularly its youth) questioned the integrity of institutionalized authority in the wake of Vietnam and Watergate. The pedestal which once undergirded the ivory tower began to crumble. As Hossler notes, higher education found itself at the bottom of the “fiscal food chain” (Hossler, Lund, Ramin, Westfall and Irish, 1997, p. 165).

Even when inflation subsided in the 1980s and 1990s, support for higher education was severely damaged. The election of President Ronald Reagan in 1980 ushered in an era of taxpayer revolt and cries for deregulation. Funding for public higher education declined at both the state and federal levels.

As a result, public colleges turned to other sources of support for survival. In the 1970s, they began setting up private foundations and privatizing parts of their operations, like hospitals, law and business schools to avoid costly state regulations (Selingo, 2003, p. A22). Private fund raising became nearly as big a concern for public college presidents as it did for their private counterparts, and the influence of alumni and major donors assumed a greater importance in campus decision-making than ever before.
The concept of higher education also changed. From the time of its establishment, higher education had been regarded as a public good – pursued not merely for personal advancement of the individual student, but for the benefit of society as a whole. In the Reagan era, a more privatized view of higher education as a purely personal investment took hold. "Because students gain economically from their college degrees, it has been argued, they should pay a large fraction of the costs, either through their own current resources or through student loans if family incomes are inadequate" (Chandler, 1998, p. 15).

In 1992 – a presidential election year – the Higher Education Act was particularly vulnerable. Public confidence was low, due to a host of factors: public questions about rising tuition, extensive media coverage of scandals in college athletics, lurid reports of growing campus crime, embarrassing revelations of research fraud and misuse of indirect cost revenues, media exploitation of "political correctness" on campus, sensational reports of the weak cognitive abilities of graduates, and horror stories about loan abuses (Hannah, 1996, p. 93). Higher education was in a public fishbowl, and the fish was belly-up.

In this skeptical environment, the focus of the Higher Education Act turned from one of social good to consumer product, as it shifted from "an historic commitment to promote access to postsecondary education through grants based on need to a broader strategy of insured loans regardless of family income" (Hannah, 1996, p. 84). As a result, access to those in greatest need diminished. Today, fewer students with family incomes below the national median enroll in college, and students from the poorest families continue to make little if any progress in terms of enrollment and graduation rates (Chandler, 1998, p. 20).

"A heavy ball has indeed been dropped on state policymakers," concluded a team which compared the higher education funding predicament for policymakers and families to the mythical task of Sisyphus, doomed to attempt to push a stone over a hill for eternity (Hossler, Lund, Ramin, Westfall and Irish, 1997, p. 161). The convergence of a number of economic and policy trends adds weight to the burden, they wrote, noting that students and their families paid approximately 142 percent more in 1997 than the level of effort required of them in 1980 (Hossler,

Narrowing the Focus: The Case of the University of Georgia

The University of Georgia (UGA), established in 1785, is the flagship institution among the 35 colleges and universities in the University System of Georgia. As a federal land-grant/sea-grant institution, it holds public service and outreach, along with teaching and research, as key components of its tripartite mission. UGA operates on a $1.2 billion annual budget and employs more than 9,500 people (UGA Fact Book, 2004, p. 72). Enrollment reached a record number in fall 2003, with 33,878 students registered for classes (Dendy, 2003).

Historically, in keeping with its land-grant mission of access, the University of Georgia has sought to keep tuition low. Statewide, the University System of Georgia’s tuition is the lowest of the 16 member states of the Southern Regional Education Board (Moore, 2005) and higher than only nine other states in the country (NASULGC, 2004-05). As Table 1 demonstrates, the University of Georgia lags far behind most of its peers and aspirational peers as well as other flagship schools in the region. U.S News & World Report consistently ranks the University among its list of “great schools at great prices,” and in the magazine’s fall 2003 rankings, the University’s total cost was 48th lowest on the list and the lowest of all public universities (USNWR, September 2003, pp. 98-106).
Table 1: Comparison of Tuition and Fees for the University of Georgia and Selected Peer and Flagship Institutions

<table>
<thead>
<tr>
<th>Institution</th>
<th>Resident Tuition and Fees</th>
<th>Non-Resident Tuition and Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Michigan</td>
<td>8,202.00</td>
<td>26,028.00</td>
</tr>
<tr>
<td>University of Virginia</td>
<td>6,790.00</td>
<td>22,831.00</td>
</tr>
<tr>
<td>University of South Carolina</td>
<td>6,416.00</td>
<td>16,784.00</td>
</tr>
<tr>
<td>University of California - Los Angeles</td>
<td>6,028.00</td>
<td>22,984.00</td>
</tr>
<tr>
<td>University of Texas at Austin</td>
<td>5,734.00</td>
<td>14,434.00</td>
</tr>
<tr>
<td>Virginia Polytechnic Institute and State University</td>
<td>5,452.00</td>
<td>16,145.00</td>
</tr>
<tr>
<td>University of Arkansas</td>
<td>5,179.00</td>
<td>12,469.00</td>
</tr>
<tr>
<td>University of Kentucky</td>
<td>5,165.00</td>
<td>11,945.00</td>
</tr>
<tr>
<td>University of Tennessee: Knoxville</td>
<td>4,749.00</td>
<td>14,279.00</td>
</tr>
<tr>
<td>University of Alabama</td>
<td>4,630.00</td>
<td>12,664.00</td>
</tr>
<tr>
<td>University of North Carolina - Chapel Hill</td>
<td>4,450.00</td>
<td>17,548.00</td>
</tr>
<tr>
<td><strong>University of Georgia</strong></td>
<td><strong>4,272.00</strong></td>
<td><strong>15,588.00</strong></td>
</tr>
<tr>
<td>University of Mississippi</td>
<td>4,110.00</td>
<td>9,264.00</td>
</tr>
<tr>
<td>University of Florida</td>
<td>2,955.00</td>
<td>15,827.00</td>
</tr>
</tbody>
</table>


The University of Georgia prospered in the 1990s, even with low tuition, due to the robustness of the state’s economy. State budget expert Tom Lauth explains that Georgia’s economy is diversified among agriculture, manufacturing, service and tourism industries, providing a hedge against economic downturns. Also, Georgia has benefited from the conservative fiscal approach historically taken by governors, who have, since 1976, placed three to five percent of revenue collections into a “Rainy Day Fund” to guard against fiscal downturns. Thus, the state budget has been in “structural balance” for most of the past quarter-century, enabling the state to weather periods of “cyclical imbalance” (Lauth, 2003, p. 28).

As Edward Hines explains, the health of the overall state and national economy has direct bearing upon the fiscal condition of colleges and universities:

Higher education appropriations do not exist in a policy vacuum. If public colleges and universities are to receive adequate state funding in an era of scarce resources and increasing demands, they must be as concerned about the size of the total revenue pie as they are about the proportion of their individual slice. (Hines, 1988, p. 396)
Indeed, Harold Hovey could have used the situation in Georgia as the case study for his 1999 report, *State Spending for Higher Education in the Next Decade*. He noted that higher education often receives larger increases than many other programs when financial conditions are good, but functions as a “balance wheel” in economic downturns, sharing “disproportionately in the adverse consequences of the structural deficits” (Hovey, 1999, Chapter 2, p. 9). The reason is that state policymakers increasingly view higher education as a “discretionary” segment of the budget. Thus, as Layzell and Lyddon note, “The share of the state budget going to higher education has declined in the face of competing demands from other service areas, especially health (Medicaid), corrections, and K-12 education” (Layzell and Lyddon, 1990, p. 315). Former Georgia Governor Zell Miller observed at a national conference on accountability and finance of public higher education, held at the University of Georgia in 2000:

> K-12 is a requirement for all citizens. . . . By comparison higher education is viewed as a discretionary expenditure, and for virtually every state, it is the largest discretionary category in the budget. Most state budgets must be balanced, and they are often balanced on the back of higher education.” (Simpson, 2001, p. 12)

Also, as Hovey addressed, state policymakers are keenly aware that colleges and universities can be more self-sufficient than other programs in the state budget, because they have the ability to generate revenue through tuition increases or private fund-raising efforts (Hovey, 1999). Hovey warned state policymakers in the 1999 report that “the fiscal outlook for state support of higher education is not good” because “extraordinarily good times are usually followed by corrections in the private economy called recessions” (Hovey, 1999, Chapter 2, p. 5).

Georgia weathered the recession better than the rest of the nation until Fiscal Year 2002 (FY 2002), when revenue collections fell below receipts collected in the previous year for the first time in half a century (Lauth, 2003). The result, commented UGA’s chief financial officer Hank Huckaby (and former budget chief for both Governor Zell Miller and Governor Sonny Perdue), was that the politics of the state budget process became “more difficult, more fractious than I’ve ever seen in my 30 years of budget work” (Huckaby, 2003).
As Layzell and Lyddon observed, “Values and policy preferences are at the heart of all state budget processes” (Layzell and Lyddon, p. 315) – or, put another way, by Donald F. Kettl in *Deficit Politics*:

> Budgeting is perhaps the central political act. It is the process of determining who wins and who loses. It is about what programs and values receive society’s support. Budgeting is about making choices. Those choices are political, and no rational-analytical approach can ever make it otherwise. (Kettl, 2003, p. 101)

In Georgia’s case, with a burgeoning population and increasing demands for services, political preference went to corrections, public safety, welfare, K-12 education, debt service, and Medicaid – the hardest of all programs to contain. Funding for higher education was reduced (a total of nine cuts to University System appropriations since November 2001), and the funds which were provided came with additional strings attached, as the University System was challenged to be more accountable for the public support it received (Board of Regents, 2004). Georgia was not unique in this experience, and F. King Alexander summed up the national situation for higher education as follows:

> Governmental authorities are no longer as receptive to the traditional self-regulatory processes that have dominated university development for centuries. A new economic motivation is driving states to redefine relationships by pressuring institutions to become more accountable, more efficient, and more productive in the use of publicly generated resources. (Alexander, 2000, p. 1)

Yet at the flagship institution of Georgia’s higher education system, as is often the case for universities, Howard Bowen’s revenue theory of cost was firmly entrenched (Bowen, 1980). In accordance with Bowen’s “laws” of higher educational cost, the University had raised all the money it could and had spent it in the never-ending quest for excellence, prestige and influence (Bowen, p. 123). That investment during the state’s boom years yielded dividends, as the University soared in many measures.

The University of Georgia has been ranked by *U.S. News & World Report* as one of America’s top 20 public universities for six consecutive years (Cretors, 2005). Since 2001, more than 25 students have won major national scholarships, such as the Marshall, Rhodes, Truman, Goldwater, Gates-Cambridge and Mellon (UGA Fact Book, 2004, p. 52). The 2004 entering class
posted highly competitive academic credentials: a 1237 median SAT score and an average high school grade point average of 3.72 (Jackson, 2004).

However, while UGA’s academic star has been on the rise, funding woes threaten to undermine its ascent. The University has endeavored to expand its entrepreneurial efforts, and those efforts have borne fruit. Record funding levels were achieved for external research support ($160 million in contracts and grants) in 2004 and private giving ($77.8 million) in 2005 (Purdy, 2004 and Dendy, 2005). However, these segments of the University’s budget are relatively minor when compared to the state appropriations provided through the funding formula. For example, private giving comprises a mere 1.9 percent of the revenue pie (UGA FY05 Source of Funds, 2005). Also, these sources of funding are not stable, but are inextricably related to the cyclical health of the economy and the philanthropic tendencies of alumni and friends.

The “meat and potatoes” of the University’s budget has always been its state appropriations; in the late 1980s, public support accounted for more than half of the University’s funding (UGA Fact Book, 1996). However, those dollars have declined markedly over the past decade, falling precipitously in recent years, and many administrators now prefer to say that the institution is “state-assisted” rather than state-supported. In FY99, the state contributed 43 percent of the University’s total operating budget. In FY05, that amount has fallen to 32.9 percent, the lowest level in modern times (UGA FY05 Source of Funds, 2005). (See Chart 1 for state appropriations to UGA over the last decade.) When all cuts are considered through FY05, the reality is that the institution is operating with some $78 million less in base budget funding, nearly a 20 percent decrease in total state revenues (UGA FY05 Budget Reductions, 2004). This amount is further compounded by an additional $16 million reduction, required when the University was forced to shoulder its portion of the cost of the state’s payroll shift. Thus, the University has endured a grand total of $94 million in cuts to its base budget funding (Nesbit, 2005).
The funding shortfall, coupled with growth of the UGA student body by 4,000 students over the same period, takes a toll on the academic quality of the University (Adams, BOR Budget Conference, 2005). Since FY 2002, many faculty vacancies have gone unfilled; limited layoffs have occurred; course offerings have been reduced while class sizes have increased; and students, faculty and staff have adjusted to doing more with less. As Adams lamented in the 2005 State of the University Address:

The fact that UGA hovers near the top of the annual “Great Schools at Great Prices” lists, while perhaps good for students in the short run, is not good for the quality of this institution in the long run. According to a College Board study released last fall, tuition at UGA is $860 less this year than the average of four-
year colleges and universities in America. There is no such thing as cheap excellence. The people of this state – and the students they send us – deserve nothing less than excellence. (Adams’ State of University Address, 2005, p. 2)

In order to achieve its aspirations, the University must think creatively about other sources of revenue it can generate independently. One of those, and the topic explored in this paper, is a steady, significant increase in tuition.

The Case for a Steady, Significant Tuition Increase at UGA

The substantial decline in state appropriations to the University of Georgia has already been examined. As state support has decreased, the University has increased the share of revenue produced internally through the collection of tuition and fees. This category of revenue, which had remained relatively constant at approximately 12.5 percent for much of the 1990s, began to climb at the turn of the century, with substantial increases in Fiscal Years 2002, 2003 and 2004 (UGA Fact Book, 2004, p. 77). Tuition and fees now account for 18 percent of the University’s total revenue (UGA Fact Book, 2004). (It is important to note, however, that this increase in share is primarily caused by the sharp reduction in state appropriations rather than an increase in tuition and fees.)

Also, from FY99 to FY04, the amount appropriated per student by the state dropped $2,645 while tuition increased only $898. Thus, UGA has passed only about a third of the deficit in state support to its students (Adams, February 2004). The 5 percent increase in tuition authorized by the Board of Regents for the 2004-05 academic year put 70 faculty back in undergraduate classrooms. Adams pledged in his 2005 State of the University Address that half of any tuition increase for 2005-06 again would be dedicated to faculty hiring (Adams’ State of University Address, 2005, p. 2).

Adams has joined with other university presidents to lobby for a differential tuition rate for the four research universities in the University System of Georgia in order to reflect the additional costs of delivering top-quality research and outreach programs. The Board of Regents apparently heard their plea, for it approved an 8 percent tuition increase for research universities, compared
to 5 percent at the other System schools, at its April 20, 2005 meeting (BOR Press Release, 2005).

This author agrees that such choices made now to establish a firm financial footing will help ensure the institution's continued success. Therefore, this paper proposes a five-year tuition growth plan, beginning in 2006-07, to bring the University more in line with peer institutions. Although the proposal includes increased tuition rates for graduate programs, undergraduate tuition will be the sole focus of this paper, since most of the literature regarding tuition and access addresses this sector.

This plan proposes that undergraduate in-state tuition should rise by 8 percent per year for five years, which would ultimately bring in-state tuition from $1,964.22 per semester in 2006-07 to $2,672.31 per semester in 2010-11. In addition, out-of-state tuition would rise by the same level, taking it from $8,563.71 per semester in 2006-07 to $11,650.82 per semester in 2010-11. (Table 2 shows the five-year growth plan for resident and non-resident tuition rates.) The proposal assumes no student body growth, since the present campus population is already at the cap determined by the President and Board of Regents. The UGA Registrar’s Office reports that 26,613 students at UGA are undergraduates: 23,529 residents and 3,084 non-residents (UGA Registrar, 2005). These numbers are rounded to 24,000 and 3,100, respectively, for the calculations in Table 2.
<table>
<thead>
<tr>
<th>Year</th>
<th>Tuition</th>
<th>Total Tuition &amp; Fees (Per Sem.)</th>
<th>Total Tuition &amp; Fees (2 Sem.)</th>
<th>Gross Revenue (Adjusted for 3% Inflation)</th>
<th>Net Revenue (Adjusted for 3% Inflation)</th>
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<tbody>
<tr>
<td>2005-06</td>
<td>$1,818.72</td>
<td>$2,313.72</td>
<td>$4,627.44</td>
<td>$111,058,560.00</td>
<td>$107,726,803.20</td>
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<td>2006-07</td>
<td>$1,964.22</td>
<td>$2,459.22</td>
<td>$4,918.44</td>
<td>$118,042,560.00</td>
<td>$114,501,283.20</td>
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<td>2007-08</td>
<td>$2,121.36</td>
<td>$2,616.36</td>
<td>$5,232.72</td>
<td>$125,585,280.00</td>
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<td>2008-09</td>
<td>$2,291.07</td>
<td>$2,786.07</td>
<td>$5,572.14</td>
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<td>$5,938.72</td>
<td>$142,529,280.00</td>
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<td>2010-11</td>
<td>$2,672.31</td>
<td>$3,167.31</td>
<td>$6,334.62</td>
<td>$152,030,880.00</td>
<td>$147,469,953.60</td>
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<td></td>
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<td>$759,488,582.40</td>
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<table>
<thead>
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<th>Year</th>
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<th>Total Tuition &amp; Fees (Per Sem.)</th>
<th>Total Tuition &amp; Fees (2 Sem.)</th>
<th>Gross Revenue</th>
<th>Net Revenue (Adjusted for 3% Inflation)</th>
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<tr>
<td>2005-06</td>
<td>$7,929.36</td>
<td>$8,424.36</td>
<td>$16,848.72</td>
<td>$52,231,032.00</td>
<td>$50,664,101.04</td>
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<td>2006-07</td>
<td>$8,563.71</td>
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<td>$18,117.42</td>
<td>$56,164,002.00</td>
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<td>$19,487.62</td>
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<td>2010-11</td>
<td>$11,650.82</td>
<td>$12,145.82</td>
<td>$24,291.64</td>
<td>$75,304,084.00</td>
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<tr>
<td></td>
<td></td>
<td>Total</td>
<td></td>
<td>$379,063,040.00</td>
<td>$367,691,148.80</td>
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Assumptions:
1. The tuition rate for a full classload (12 or more credit hours) in 2005-06, set by the Board of Regents at its April 2005 meeting, serves as the base for all calculations.
2. The tuition of each subsequent year is increased by 8 percent.
3. Fees are estimated to be $495 per semester (the amount approved by the BOR in April 2005) in each of the years considered.
4. Student body size for in-state undergraduates is estimated at a constant 24,000.
5. The student body size is used to calculate Gross Revenue and Net Revenue.

Source for Year 2005-06: UGA Bursar’s Office

Further, this author proposes an additional $500 annual differential tuition fee, which would be borne by students and would not be eligible for coverage by the HOPE Scholarship program. Again, assuming no growth, this fee would generate an additional $13,550,000 per year.
or $67,750,000 over the five-year period. The University’s net revenue gain from the differential fee, after adjustment for a 3 percent inflation rate, is $65,717,500.

The additional revenue in tuition and fees could advance instructional excellence by increasing the number of faculty, reducing class size, expanding course offerings and otherwise enhancing the educational program.

Such revenue initiatives are typically judged by the four basic criteria of tax evaluation: 1) efficiency, 2) equity (horizontal and vertical), 3) adequacy and 4) administrative feasibility (Mikesell, 2003). In terms of cold, hard financial analysis, this clearly is a case where efficiency outweighs equity. The University must have adequate resources to meet its needs, and the revenue flow must be stable at all times, particularly in times of recession. Even with these significant increases, the University of Georgia will remain a bargain, although no longer a steal. The totals in the final year of the five-year plan do not reach the top of the current charges by peers in Table 1; assuming these schools enact similar increases (as is the present trend), UGA might climb slightly, but would remain in the lower portion. Also, the high demand for enrollment at the University (12,300 applications from very highly qualified students for 4,600 spaces in the fall 2005 class) (Hannon, 2005) demonstrates that the market for enrollment is strong enough to weather such increases and that a significant downturn in applications should not result from a change in market equilibrium.

However, administrative feasibility must consider political feasibility, and such a significant increase, albeit spread out over five years, is sure to meet with political opposition. Indeed, the Institute for Higher Education Policy noted in its report, The Tuition Puzzle: Putting the Pieces Together (1999), that “rising college prices are the biggest single threat to public and political support for higher education” (Wellman, 2001, p. 65). That same report reveals that the public does not understand why college prices continue to rise and blames much of the increase on “high priced faculty” (Wellman, p. 51). It continues: “[Members of the public] believe higher education does not spend its money wisely, and that tuition increases could be avoided if colleges realigned their spending with those areas the public most cares about, particularly
undergraduate education and job preparation” (Wellman, p. 51). Likewise, in a survey of state policymakers conducted by a group of scholars led by Don Hossler, several respondents indicated that they perceive higher education as a “fat cat,” with institutions run like “little fiefdoms” (Hossler, Lund, Ramin, Westfall and Irish, 1997, p. 179).

These perceptions will be difficult to overcome. As George Keller wrote (1983), campuses are different from businesses and other organizations in that they are republics of sorts, tied together with compromises and coalitions. “Thus, any effort to bring about change within this social context and its structure of norms must involve participation and bargaining. If change is not negotiated, it will not likely persist” (Keller in Rowley, Lujan and Dolence, 1983, p. 27). An attempt earlier in the FY05 academic year by the Chancellor of the University System of Georgia and Board of Regents to enact a controversial mid-year tuition increase met with stiff resistance from the Governor’s Office and, in the end, it was Governor Sonny Perdue who wielded more political muscle. The mid-year hike was abandoned. Already, House Appropriations Committee Chairman Ben Harbin has questioned the need for the 8 percent tuition increase recently approved by the Board of Regents, since lawmakers and Governor Perdue agreed to full formula funding for the University System. “I’m really not convinced that . . . they need to be raising their tuition that high,” the Republican from Evans told the Morris News Service (Morris News Service, 2005).

In addition, 2006 is a gubernatorial election year, and one leading Democratic candidate, Lieutenant Governor Mark Taylor, has already used the possible mid-year tuition hike to his political advantage, saying that college fees must be reined in lest they overburden the HOPE Scholarship program. Like the prospect of higher taxes, increased tuition and fees are never popular, and Taylor and other politicians will certainly rally against the issue in their campaigns.

In order to muster political support for this tuition initiative, the University must present its case in a compelling and persuasive way, demonstrating that recent cuts to higher education have eliminated fat, torn through sinew and now reached bone. One of Athens’ representatives in the General Assembly, State Senator Brian Kemp, who also chairs the Senate Appropriations
Committee on Higher Education, has realized the justification for steady, incremental tuition
increases. In an interview published by the Board of Regents in February 2005, Kemp stated that
the executive and legislative branches should not play politics with tuition, but rather base a long-
range plan on good policy:

I think another thing we need to address is tuition. There’s been a lot of talk
about it, and I think now that the regents are looking at a long-term tuition plan
instead of just winging it year by year. We need to have a set plan for where
we’re going in Georgia. I’m hoping we can come up with [a plan for tuition
increases] that’s reasonable, but steady, so that people can plan for the future.
When you have several years where tuition remains steady and then you
increase it 10 percent, that’s hard on folks. If you kind of know where you’re
going, and you have a plan, it makes it easier for people to plan ahead. (BOR
Legislative Update, 2005)

Board of Regents member Pat Pittard, who chairs the board’s finance and operations
committee, agreed that a four- to five-year plan is needed (Moore, April 2005, p. A1). Even UGA
students have now recognized the need for a tuition hike; the editorial in the independent student
newspaper on April 14, 2005 proclaimed: “It’s time to pay up: Tuition increase is a necessary evil
to keep University standards high” (Red & Black, 2005). The challenge, of course, will be
convincing policymakers, students and parents that 8 percent per year is a reasonable amount. It
would be political suicide to suggest a double-digit increase for five consecutive years, but to drop
much below that level will not supply sufficient revenue to offset the drain in state appropriations.

According to the University System, allowing the University of Georgia and its sister
institutions in the state system to take in more revenue would be a good investment. The Board of
Regents reports that “an economic impact study conducted in 2002 determined that Georgia’s
public colleges and universities generate more than 101,500 jobs throughout the state and infuse
$8 billion into its communities” (BOR, 2004, p. 1). A separate study reveals that the average
graduate of a public college or university in Georgia can expect to earn nearly $1 million more
than a high school graduate. (BOR, 2004, p. 1). Although as Kern Alexander noted, boiling down
the value of higher education to purely economic terms fails to capture all the social benefits of an
educated citizenry (Alexander, 1976, p. 105), it is increasingly a means of accountability that
resonates with policymakers, as demonstrated by the comments of Georgia Governor Roy Barnes at a higher education forum held at the University of Georgia in 2000 (Simpson, 2001).

Informing the public of the five-year plan will ensure that students and families know what to expect and can plan their personal finances accordingly. The collection of this additional revenue will be easily administered given that an effective payment system already exists.

Equity and Access

However, can a responsible college administrator afford to look at tuition increases only through one lens of her glasses – the efficiency side, but not the equity side? Perhaps in the private sector, but certainly not in a public setting. Numerous externalities could result from such a substantial tuition increase, chief among them, obstacles to access.

Such proportional increases are inelastic and inequitable, both horizontally and vertically. Some lower-income students regrettably will shoulder a heavier financial burden, especially those who hail from families with more children to support and little reserved in personal savings. However, the vast majority of students at the University of Georgia would have little problem paying such additional costs. Financial Aid Director Susan Little notes that only 9,947 UGA undergraduates chose to fill out the Free Application for Federal Student Aid (FAFSA) in the FY03-04 academic year, the required application to be considered for all federal and state need-based aid. Of those, the average adjusted gross income (AGI) of the families was $83,039. Little says the remaining 14,000 undergraduates who did not submit a form were “probably quite well off and did not feel like they needed aid or would qualify for assistance. . . We are not needy at UGA” (Little, 2005).

Indeed, the student body at the University of Georgia appears to be quite “well off,” and 98 percent of in-state freshmen enter the University on HOPE, the state scholarship program which pays for tuition, fees and books for students who maintain a B average. Among the entire student body, approximately 70 percent receive HOPE benefits (UGA Fact Book, 2004, and UGA Registrar, 2005). Under the current funding arrangement, the HOPE scholarship would cover the
proposed tuition increase, leaving only the proposed research university differential fee as an out-of-pocket expense for students. While the HOPE scholarship would appear to negate some of the inequity of the tuition increase for lower-income students, a significant risk of losing the scholarship due to failure to meet the academic requirements remains, particularly since numerous studies have equated income with academic preparation for success (Rosenbaum, 2004; McPherson, M.S. and Schapiro, M.O., 2003). Thus, those who come from less affluent homes still have the potential to be adversely affected.

Also, numerous studies have demonstrated that the mere existence of high tuition discourages enrollment by students in the lower socioeconomic strata, particularly those who are classified as minorities. Perna and Titus conducted empirical tests of two leading reports on the economic stratification of the nation’s higher education system and found that “research consistently shows that college enrollment is related to tuition and financial aid” (Perna, 2004, p. 504). They demonstrated that students’ choices regarding whether to attend college were limited by what Nobel prize-winning economist Herbert Simon coined as “bounded rationality” – in other words, the students acted within the bounds of what they knew (Simon, 1955). Thus, those from high socioeconomic status tended to understand all the benefits of higher education and would invest in it, while “high school graduates in the lowest quartile of SES (socioeconomic status) are less likely to enroll in any type of college or university than they are not to enroll” (Perna and Titus, p. 517).

These concerns are echoed by a study on the effects of tuition and state financial aid by Donald Heller. He cited a report by Leslie and Brinkman (1988) which found that for every $100 increase in tuition price, one could expect a .75 percent reduction in the rate of participation among 18 to 24-year-olds (Heller, 1999, p. 80). Jane Wellman states in The Tuition Puzzle: Putting the Pieces Together, that “the bottom line is that higher education risks becoming more economically stratified by sector now than any time in the last two decades” (Wellman, 2001, p. 59). Heller encourages policymakers to craft programs “to target those who are most affected” within legal bounds (Heller, 1999, p. 85).
Losing Ground, a study by the National Center for Public Policy and Higher Education, notes that affordability is a relative term, and that it is the lowest-income families who have lost the most ground in this regard. For example, in 1980, tuition at four-year colleges and universities represented 13 percent of income for the lowest-income families; in 2000, tuition equaled 25 percent of their income (NCPPHE, 2002, p. 5). Further, the Losing Ground report contends that the arguments made by the University (and this author) in justifying the need for higher tuition are flawed or, at the very least, incomplete. The report points out that comparisons with average tuition in other states (where average family income may be markedly different) and the need for greater revenue (without considering accountability) dominate discussions about tuition rates, rather than the consideration of family income in the home state.

Also, one premise of the five-year tuition plan is that it would forewarn families of the increasing costs and allow them to plan ahead for the additional expense. However, families in the lowest economic levels have few disposable dollars to reserve. Researchers have found that college savings plans – such as the 529 and Coverdell plans – primarily benefit the wealthy and middle class because they are most likely to be able to save and will derive the most benefit from sheltering income. Also, the college financial aid formula will reduce aid to those who have financial assets, further hurting the poor, industrious family that struggles to save for college for their children (Dynarksi, Susan, 2004; Monks, James, 2004).

In economic terms, these factors mean that the proposed tuition increase would not meet the standard of Pareto efficiency, defined in Paulsen and Smart as follows: “An economic or Pareto ‘efficient allocation of resources is one in which it is impossible, through any change in resource allocation, to make some person or persons better off without making someone else worse off’” (Browning and Browning in Paulsen, M.B. and Smart, J.C., 2001, p. 96). Clearly, lower income students are worse off, and access is not an opportunity cost that the University of Georgia can afford to sacrifice. So, how can UGA establish a steady, sufficient revenue flow and maintain its historic commitment to access for all Georgians? For this solution, we look to one of the University’s aspirational peers, the University of North Carolina at Chapel Hill (UNC).
The Carolina Covenant

In Fall 2004, UNC launched a comprehensive aid program, “Carolina Covenant,” believed to be the first of its kind among public institutions of higher learning. The Covenant is UNC’s promise that low-income students can graduate debt-free from the institution if they gain admission to the school and either have earned outside scholarships or are willing to work 10-12 hours per week in a federal work-study program during the four years of their undergraduate experience. If the students accept this commitment, the university guarantees that it will meet the rest of the need for all college expenses through a combination of federal, state, university and privately-funded grants and scholarships. The innovative program is already being replicated by universities across the country, such as the University of Virginia, which calls its program “AccessUVA” (AccessUVA, 2005).

Threshold eligibility for UNC’s first class of Covenant scholars (225 students in the 2004-05 academic year) is 150 percent of the poverty level – roughly $28,000 for a family of four – or lower. In 2005-06, eligibility has been extended to dependent students from families at 200 percent of the federal poverty standard – roughly $37,000 for a family of four (Shelton, 2004, p. 3). Students must also qualify for federal and institutional-based student aid.

UNC Provost Robert Shelton explained in a presentation to colleagues from the Big 10 that the financial transition to Carolina Covenant was not that difficult for the university because it already had a strong platform of need-based aid. UNC meets the full documented need of all undergraduates who complete their degrees on time (within eight semesters), “a practice of many years,” said Shelton (Shelton, 2004, p. 8). Prior to Carolina Covenant, the financial aid package was usually a blend of 65 percent grants/35 percent work or loans. With Covenant, the ratio has changed to 82 percent grants and 18 percent work (Shelton, 2004, p. 8). The inaugural class of Covenant Scholars is estimated to cost $1.4 million over base funding over the next four years; expansion to 200 percent of the poverty line will increase that cost to $2.2 million over four years (Shelton, 2004, p. 7).
Admission to UNC is “need-blind,” Shelton explained, and the 2004 class, representing 7 percent of the incoming freshmen, posted excellent academic credentials: average SAT of 1209 (compared with 1287 for the total freshman class) and an average high school GPA of 4.21. More than half were first-generation students, and 60 percent were students of color (UNC, 2005). According to Shelton, potential backlash from the middle-class has been mitigated by the work-study component of the program and by the fact that all Covenant Scholars have earned their way into the school through the regular admissions process and are not “institutional admits.”

UNC has a solid base of funding for Carolina Covenant. Since 1996, 35 percent of any tuition increase has been set aside for need-based scholarships. Three-quarters of all trademark-licensing income has been reserved primarily for needy students, and the bookstore regularly contributes some of its profits to the institution’s need-based scholarship program (Shelton, 2004). In addition, the goodwill generated by the Carolina Covenant program has resulted in unsolicited private donations of $3 million to further the program (Shelton, 2004).

Thus, the seed for Carolina Covenant was planted in fertile ground. The University of Georgia, although ripe for such a program, has a significantly longer row to hoe. First and foremost, the long-standing commitment to need-based scholarships is not nearly as strong as that of UNC. Financial Aid Director Susan Little reports that the Financial Aid Office offers only about $3 million in total grants and scholarships, with only a minute portion – less than $150,000 – going toward need-based programs. That $3 million is spread among 2,500 undergraduate students – slightly less money than distributed a year ago to 300 fewer recipients (Little, 2005). The bulk of the money goes toward merit-based scholarships such as the Foundation Fellowship and Charter Scholarships, designed to lure the most competitive academic students, regardless of family income, to the University of Georgia. Still, largely by virtue of the HOPE Scholarship, an average of 73 percent of student need is met through UGA’s financial aid packaging (Peterson’s Guide, 2004-2005, p. 369). However, this amount includes loans, while UNC’s plan is debt-free.

Also, the University of Georgia lacks the traditional funding base that the University of North Carolina enjoys for its need-based programming. There is no earmarked amount of tuition
set aside for need-based support, nor do bookstore or licensing revenues go to a scholarship pool. However, it is never too late to begin such an initiative.

Arch Scholars at the University of Georgia

This proposal advocates the creation of the Arch Scholarship, named for the historic Arch which represents the entry to the University of Georgia and is the widely recognized symbol of the institution. The Arch Scholarship program will provide the gateway of access for many qualified students who otherwise would never have walked underneath the pillars of the Arch. Concurrently, the Arch Scholarship will promote campus diversity, an oft-stated goal by the land-grant institution’s administrators.

The following assumptions shall be used to establish the average funding level needed for the program and the level of endowment required to sustain it:

- Arch Scholarships will be for Georgia residents only.
- The program will guarantee full coverage of need to all students who fall at or under the threshold of 150 percent of the federal poverty guidelines (per Susan Little, safely presumed at 250 students per class) for eight semesters of undergraduate enrollment.
- Financial aid packages for Arch Scholars will not include loans of any kind, in order to enable students to graduate debt-free.
- Arch Scholars will enter UGA as HOPE Scholars, since UGA’s admissions standards exceed the minimum HOPE requirements.
- Arch Scholars need only to remain academically eligible to receive all facets of the Arch Scholarship package except HOPE. If HOPE funds are lost due to the inability to maintain a 3.0 cumulative average, Arch funds will not assume the deficiency. To do so would create a disincentive for Arch students to strive to retain the HOPE Scholarship and could place a heavy financial burden on the fledgling program.
• Arch Scholars will receive Pell Grant support averaging $2,577 (based on Little’s calculation of the mean of the previous year).

• Arch Scholars will either have outside scholarships or will agree to work 10 hours as a work-study student at the rate of $7.00 per hour. (At 30 weeks of the school year, this computes to $2,100 per student.) Ten hours are required rather than 10-12 hours, in recognition of the fact that students from lower socioeconomic levels are generally less prepared for college and graduate at lower rates than students from middle and upper income levels. Thus, an overly demanding work schedule could present a hardship by depriving Arch Scholars of beneficial study time.

• Arch Scholars will receive the Federal Supplemental Educational Support Grant, a $1,500 award reserved for the neediest of Pell Grant recipients.

• The total expense to attend the University of Georgia will be based on calculations by the UGA Financial Aid Office and will consider expenses for a student living on-campus, not off-campus. For the 2004-05 academic year, those expenses were calculated at $13,100 – $9,732 above tuition and fees.

• The total amount of aid to Arch Scholars will not exceed need.

• An appeals process will be established to assist those whose financial circumstances change during the course of their four years of study.

• Academic programming will be designed to support these students as they make the transition to the college curriculum and campus life.

For simplicity’s sake, the third year of the proposed five-year tuition increase (2008-09) will be considered as the average base amount for the HOPE Scholarship (including the standard $300 for books per year). The balance of the total living expenses in 2004-05 – $9,732 – will be increased by 3 percent for 3 years to account for inflation. (Table 3 demonstrates the calculations to derive the necessary funding level.) Based on these projections, the program will require awards of $1.2 million in the initial year for the first class of 250 scholars and $4.7 million in the
fourth year to cover four classes of scholars (1,000 students). The University of Georgia’s costs are significantly higher than the University of North Carolina’s because UNC has historically provided more need-based aid than UGA; thus, the gap to transition to full coverage of total expenses requires a larger initial commitment for the Athens campus.

Table 3: Funding Level Required for Arch Scholarships

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09 Tuition and Fees</td>
<td>$5,572.14</td>
</tr>
<tr>
<td>$500 Differential for UGA</td>
<td>$500.00</td>
</tr>
<tr>
<td>2008-09 Estimated Living Expenses</td>
<td>$10,634.42</td>
</tr>
<tr>
<td><strong>TOTAL COST OF ATTENDANCE</strong></td>
<td><strong>$16,706.56</strong></td>
</tr>
<tr>
<td>Minus:</td>
<td></td>
</tr>
<tr>
<td>HOPE Scholarship</td>
<td>$5,572.14</td>
</tr>
<tr>
<td>HOPE Book Allowance</td>
<td>$300.00</td>
</tr>
<tr>
<td>Pell Grant</td>
<td>$2,577.00</td>
</tr>
<tr>
<td>Work Study Salary</td>
<td>$2,100.00</td>
</tr>
<tr>
<td>Federal Supplemental Educational Support Grant</td>
<td>$1,500.00</td>
</tr>
<tr>
<td><strong>TOTAL COVERED BY GRANTS, ETC.</strong></td>
<td><strong>$12,049.14</strong></td>
</tr>
<tr>
<td><strong>ARCH SCHOLARSHIP AMOUNT (Per Student)</strong></td>
<td><strong>$4,657.42</strong></td>
</tr>
<tr>
<td>250 Arch Scholars</td>
<td></td>
</tr>
<tr>
<td>Year 1</td>
<td>$1,164,355.00</td>
</tr>
<tr>
<td>Year 2</td>
<td>$2,328,710.00</td>
</tr>
<tr>
<td>Year 3</td>
<td>$3,493,065.00</td>
</tr>
<tr>
<td>Year 4</td>
<td>$4,657,420.00</td>
</tr>
</tbody>
</table>

Assumptions:
1. The 2008-09 living expenses are estimated by multiplying the base amount from 2004-05 by 1.03 (for a 3% inflation rate) for 3 years.
2. Due to ongoing cuts in federal education programs, it is difficult to project the level of annual increase in aid (if any). Therefore, the 2004-05 level is used in the calculations, although it is hoped that this amount will prove conservative and more federal dollars may be applied.

The Arch Scholarship is a very ambitious program and will require a sizeable sum to support it. The University of Georgia Foundation’s 10-year nominal return on investment in 2004 was 8.1 percent, as reported in NACUBO’s annual endowment study (NACUBO, 2004). Assuming a more conservative interest rate of 5 percent, a corpus of $100 million would be
required to generate reliable and sufficient income to support 1,000 Arch Scholars when the program is fully implemented in the fourth year.

The likelihood of such an endowment level being reached any time soon is not high, particularly since the Board of Regents directed in April 2005 that the status of the UGA Foundation be revoked and that a new cooperative organization be established. Official ties with the UGA Foundation were severed on July 19, 2005, and a new cooperative entity, the Arch Foundation, was incorporated on May 3, 2005 (Arch Foundation, 2005). However, the Arch Foundation’s financial resources as a start-up organization are considerably less than the more established UGA Foundation. Thus, creative funding ideas are required.

Base support for the Arch Scholarship program will be cobbled together through a combination of various sources. A considerable portion – $20 million – should be directed for need-based scholarships through the University’s $500 million capital campaign, aptly named “The Archway to Excellence,” which kicked off to the public in mid-April. The campaign objectives include $75 million for attracting and supporting the best students, as well as a category of $120 million for unrestricted support of the university to “provide flexibility” and “invigorate programs across the missions of teaching, research and service” (UGA Archway to Excellence, 2003, Summary Page). Surely within this near-$200 million total is 10 percent to address the institution’s historic commitment to access as a land-grant institution. Also, as was the case for UNC, the University of Georgia can anticipate receipt of unsolicited gifts in support of the program from the goodwill that is fostered due to its creation. UNC received $3 million in the first year of the program alone (Shelton, 2004); the University of Georgia can anticipate this amount within five years. The UGA Bookstore, which is enjoying unprecedented success as a privatized venture, shall be called upon to donate an initial $1 million toward need-based scholarships with $250,000 to follow each year thereafter.

Such funds will help to establish an endowment, but will not be available for immediate use. Therefore, until the corpus is soundly in place, 20 percent of the annual differential tuition rate will be applied to the Arch Scholarship program. This will generate $2,710,000 annually –
enough to cover funding needs for the first two years of the program (and have a remainder left over to invest), while allowing other contributions to grow in strength. Finally, the University’s senior leadership must convince state policymakers to implement UNC’s policy, by allowing the University to set aside 10 percent of any future tuition increase for need-based programs in perpetuity.

Summary

The Arch Scholarship will provide an innovative way to bridge the gap between the harsh reality of high tuition and low aid by instituting high aid to offset moderate tuition. It allows the University of Georgia to secure the adequate, stable revenue source it so desperately needs while also ameliorating the social costs of decreased accessibility. Through this plan, UGA meets the standard stated by the Carnegie Commission report of 1973: “We are opposed to any increase in tuition at public institutions except as such increases are offset by the availability of adequate student aid for lower-income students” (Carnegie Commission, 1973, p. 53).

In addition, the tuition increase will occur incrementally over a five-year period, following a well-publicized announcement that communicates the entire phase-in plan to students and their families. This permits those who have the ability to save to do so, and it allows all potential applicants to plan ahead with full knowledge of financial expectations. Thus, the proposal complies with the recommendation of the 2002 Losing Ground report, which states that tuition increases should “be moderate, gradual and predictable” (NCPPHE, 2002, p. 13). Finally, the combination of increased tuition and aid presents a formula for success that the University’s leadership can embrace. As President Michael F. Adams stated in his 2005 State of the University Address: “A poor education at a great price is worthless. We must strike a balance between maintaining quality and maintaining access, the hallmark of a ‘people’s university’” (Adams’ State of the University Address, 2005, p. 2).
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