Maine Center for Economic Policy

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Maine's Public College Affordability Crisis

It's Worst for Families Earning the Least

By Christy Daggett

Introduction

Postsecondary education is critical to a strong state economy. But Maine's rate of degree-holding young adults lags the nation, while our graduates struggle with one of the highest student debt loads in the U.S. Low-income working students take on the most debt, because grant aid targeted at Maine's low-income students is insufficient to bridge the widening gap between what families can afford and the cost of attending college.

This brief examines the recent shift to funding Maine's public colleges mostly with student tuition dollars, rather than through state appropriations, and how this phenomenon coincides with growing student loan debt in Maine. It also outlines current state initiatives working to reduce public college costs for the neediest students, and offers principles of affordability against which policymakers can evaluate whether systems are affordable for the average wage earners in a state and whether financial aid targets those who need it most. Finally it offers three recommendations to improve college affordability for Maine's low-income students and working adults.

The Maine Center for Economic Policy (MECEP) recommends:

1. Expand the State of Maine Grant program to fund all of Maine's neediest students at a rate of $5,500 per year.
2. Increase state appropriations for the University of Maine system to reduce the net cost of attending public college in Maine.
3. Improve funding to Maine Community College System to make the system more responsive to student and workforce demand.

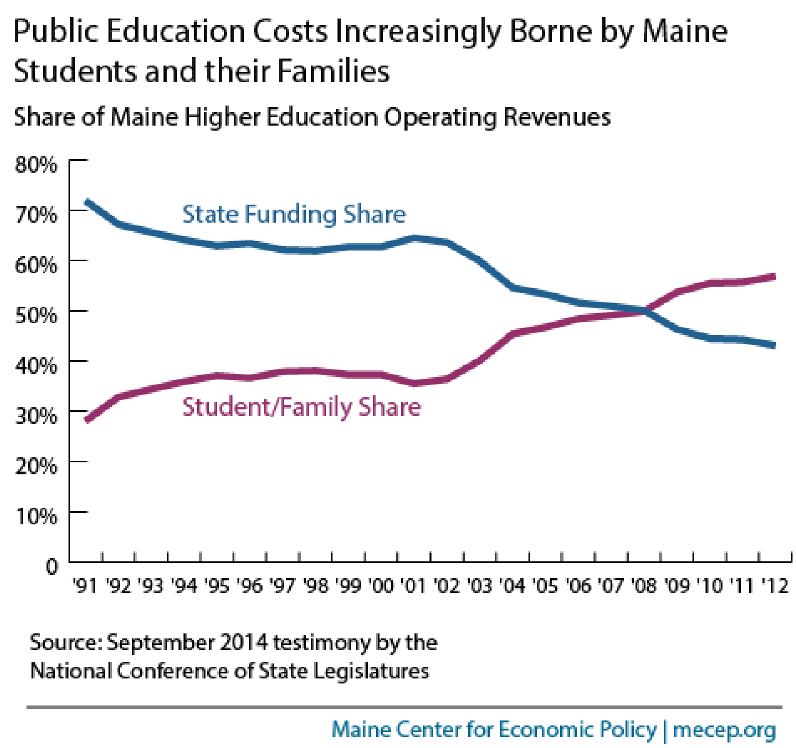
Public Higher Education Has Grown Unaffordable and Inaccessible

The cost of a higher education has skyrocketed over the past 30 years. Most startling, tuition for in-state students attending a public four-year university nationally has increased 231 percent, while two-year college tuition has increased 164 percent.[1] The annual average tuition of attending a four-year public university in Maine jumped 57 percent between 2002 and 2012.[2] Over the same period, two-year community college tuition in Maine stayed level—but at a cost: faced with stagnant revenue, the community college system limits seats in high-demand programs where aspiring students languish on waiting lists.

Fifty-seven percent of Maine's college-bound high school seniors enroll in public institutions[3]—either a campus of the University of Maine System (UMS), Maine Community College System (MCCS), or Maine Maritime Academy (MMA). Legislators have cut per student state funding for public higher education by 16 percent since 2008,[4] while costs have continued to rise. To make up the difference, Maine students pay more in tuition and fees.

As shown in Figure 1, in 1991, state appropriations covered 72 percent of the costs of higher education in Maine. Now, the state covers 43 percent. Meanwhile over the same period, the percent of higher education paid by Maine families has doubled from 28 percent to 57 percent.[5]

Figure 1



Unable to cover their rising share of the costs with savings or work, students take on more debt, drop out, or do not enroll:

- Maine's average student loan debt of $29,934 places the state 7th when ranking states by student debt load.[6]

- Nearly 206,000 or 24.8 percent of working Mainers have some college credit but no degree. The percentage of adult Mainers in the workforce with incomplete degrees is the worst in New England.[7]

- Maine has a 24-point gap between the percent of middle-class versus low-income high school graduates who enroll in college.[8]

- While Maine's adult population with a two- or four-year degree tends to mirror the national average (36.1 percent in Maine vs. 35.9 percent nationally),[9] the number of young Mainers with a two- or four-year degree (an indicator of future attainment) is lagging (37.7 percent in Maine vs. 40.0 percent in the U.S.).[10]

Unaffordable Higher Education Limits Opportunity

Working families lacking postsecondary education cannot compete for better-paying jobs. This keeps families in poverty and drags down Maine's economy.

1. **Incomes of people without degrees lag behind the median state income.** Higher education boosts incomes—that is, the higher the percentage of a state's population with a degree, the higher the median earnings of the state's residents.[11] And those earnings not only lead to more disposable income and more secure families, they also increase spending for goods and services providing a boost to the state's economy. The resulting higher incomes and increased consumer spending lead to higher state revenues available for economic investments like infrastructure and education.

2. **Mainers who have some college credit—but lack a credential—cannot compete for better-paying jobs and fall behind financially**. Because of family and work obligations, working adults more often drop out of college. They are less likely to return to school and more apt to take on student loan debt. A degree carries a significant wage premium in Maine—only four percent of bachelor's degree holders live in poverty, while almost 16 percent of those with only a high school diploma are poor.[12] Economists project that jobs requiring some kind of

postsecondary degree will grow by 15,000 by 2018, while Maine's economy will add only 2,200 jobs for workers with only a high school diploma over the same period.[13]

3. **Students who complete college—and those who don't—are burdened with debt.** High levels of debt force borrowers to delay major decisions such as buying a house, opening a new business, or starting a family. Those who have dropped out of college are less likely to return if they are weighed down with past debt. Some may be in default, preventing them from accessing further student aid or even matriculating. Heavy student debt likely drives young, educated Mainers from the state to seek higher incomes elsewhere.

As State Funding Dwindles and College Costs Outpace Grant Aid, Loans Fill the Gap

Over 70 percent of all student aid comes from federal sources in the form of grants and loans for those still attending school, and tax credits available for those repaying loans.[14]

Congressional Appropriations for Pell Grants Haven't Kept Up With College Costs

Pell Grants target students with family incomes below $50,000. Maine is a high Pell Grant receipt state: over 34,000 Maine residents received $123 million in Pell Grants in 2011-2012.[15] Thirty years ago, Pell Grants covered 70 percent of low-income students' cost of college attendance. Now Pell Grants cover only a third of college costs.[16] This increase in unmet need has led to an explosion in student debt. When Maine students and their families face public university tuition bills that dwarf their savings and claim almost a quarter of their annual gross income, they resort to the only remaining choice to pay for a degree—debt.

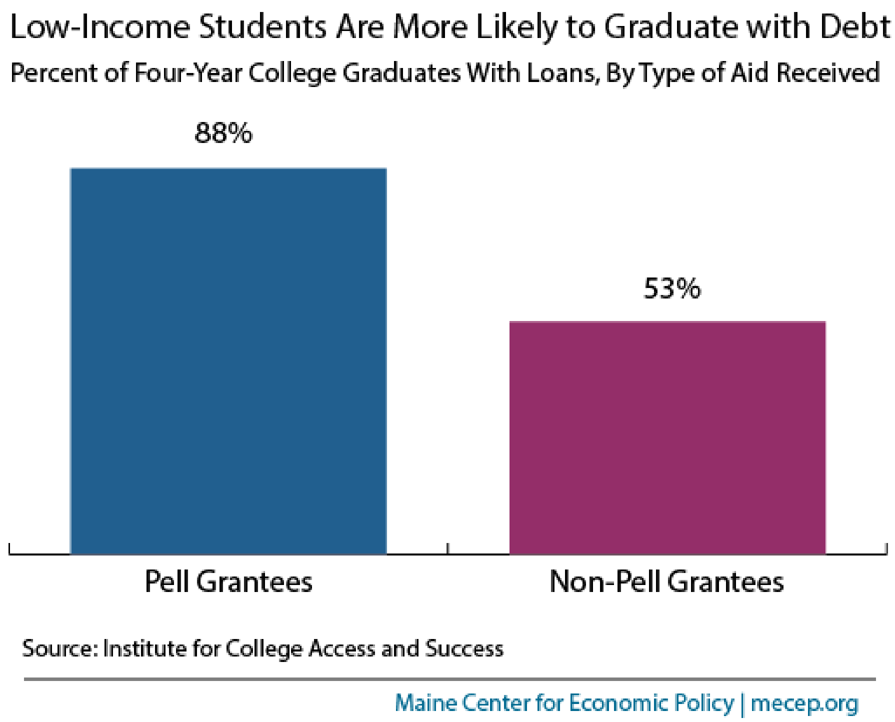
Despite efforts to set aside more federal grant aid for low-income students, the debt burden still falls hardest on students from low-income backgrounds. Nationally, students who qualify for Pell Grants are more likely to graduate with debt than are students who never qualified for a Pell Grant—as Figure 2 shows 88 percent of Pell grantees take on debt to complete their studies versus 53 percent of non-Pell grantees—and their average debt load is $4,750 higher than that of non-Pell graduates.[17] In Maine, many of the public institutions with the highest percentages of Pell grantees also graduate more students with debt, and with heavier debt loads, than do private colleges, where the percentage of Pell-eligible students is in the single digits.[18]

In 2012 the Joint Economic Committee of the U.S. Congress reported that Maine's debt-to-income ratio was the fourth-highest in the nation—meaning our young graduates are burdened more by high debt, relative to their low starting salaries, than in most other states.[19] According to the latest available data, 14.5 percent of Maine borrowers under 30 are delinquent on their loans.[20]

Tax Credits Benefit the Highest Earners Most

The federal government now holds more than $1 trillion in outstanding student debt.[21] In 1997, federal tax credits were enacted to help student loan borrowers in repayment, and since then, Congress has expanded the credits repeatedly. In 1998, 4.7 million taxpayers claimed $4.5 billion in credits; by 2011, over 7 million taxpayers claimed credits totaling $17.4 billion.[22] Research has found that education tax credits have had no impact on college costs, and are not well-targeted to low-income debtors. Nearly half of education tax credits are utilized by individuals earning above $75,000, with 30 percent of all benefits going to those earning more than $100,000 annually.[23]

Figure 2



For College Affordability, State Policies Matter

While the federal government supplies the bulk of student aid in the United States and in Maine, differences in public college costs across state lines prove that state policies do matter when it comes to college affordability, especially for working adults.

States take different approaches to keep tuition prices low and broaden access:

- ***Increased State Appropriation***

Some states, such as North Carolina, keep tuition low for students by subsidizing more of the cost of education from the state general fund. North Carolinians contribute $12.26 per $1,000 in per capita income in local and state support to state higher education. By comparison, Mainers contribute just $5.44 per $1,000 in per capita income.[24]

- ***Low Community College Costs***

Historically, California policymakers have ensured low tuition in community colleges. The $1,400 tuition at California's community colleges is the most affordable in the nation, and community colleges enroll 65% of all degree-seeking Californians.[25] Tuition at Maine's community colleges is $3,397.

- ***High Needs-based Aid***

The University of Vermont charges high tuition, but offers a high level of financial aid to its neediest students. The state appropriation to the University of Vermont directs more than half of funding to student aid. [26] The legislature has reduced state appropriations for Maine's needs-based aid, the State of Maine grant program, by 21 percent over the past ten years.[27]

- ***Incentives for Completion***

Increasingly, states are rewarding both individuals and institutions for completion. Often family and work responsibilities are such that nearly one in two students at public colleges nationally does not graduate[28] or it takes them longer to earn a degree.[29] In Maine, half of UMS bachelor's degree candidates graduate within five years, and one in four of Maine's community college students graduate within three years.[30] Ohio rewards campuses that keep cost growth under the national average with more state appropriations.[31] Similarly, Tennessee's new funding formula rewards campuses that retain and graduate students on time, with a premium paid for every Pell-eligible student.[32]

- ***Targeting Adults with Some College, but No Degree***

Targeting working adults who left college short of a degree is an economical way to raise both degree receipt rates and workers' wages. Kentucky's "Project Graduate" focuses on adults with more than 90 credits, but no degree—waiving their fees to re-apply to college, and matching them with individualized academic advisors and financial aid counselors.[33] Maine is just starting to address this population through outreach and aid.

Maine's Higher Education Affordability "Toolbox"

Maine's existing patchwork of grants, loans, and programs targeting affordability works in various ways and at various points in a student's college career and beyond. Most student aid depends on an applicant's timely completion of the Free Application for Federal Student Aid (FAFSA), as well as success navigating state and federal tax forms. Maine is one of the states that confers 100 percent of state aid based on need, and maximizes federal dollars to offer some unique programs aimed at people receiving social assistance.

Need-Based or Targeted Grants

- ***State of Maine Grant***

  The State of Maine Grant, financed by state appropriations and administered by the Finance Authority of Maine, is need-based and available to Maine income-eligible students enrolling at any institution of higher education. The State of Maine Grant is also available to part-time students. Funds are sufficient to provide a grant to all Maine students with an Expected Family Contribution of $0 on their FAFSA. The maximum grant is $1,000 per year. The State of Maine Grant has considerable reach. Over the past five years, between 18,000 and 25,000 Mainers annually have received this grant —including part-time students, and some students with family contributions as high as $3,000.[34] However, the State of Maine Grant has sustained repeated cuts in recent years and is not sufficient to meet recipients' total financial needs for tuition and fees.[35]

- ***Adult Completion Scholarship***

  The new Adult Completion Scholarship at UMS is a need-based scholarship, available to adults returning full- or part-time, and available on a rolling basis (students can apply in May, August, and December). Currently, the scholarship can be up to $4,000 per year, for a maximum of $16,000 over four years. This scholarship is a response to the fact that over 200,000 adults in Maine have some credits, but lack a credential. It is largely funded with private dollars and a small, one-time state appropriation of $500,000.[36]

- ***Competitive Skills Scholarship Program***

  This state-funded grant program targets low-income, working adults who wish to upgrade their skills and matches them with a list of high-wage, high-demand jobs. A fractional percentage of employer unemployment insurance payments funds the Competitive Skills Scholarship (CSSP).[37] CSSP covers costs beyond tuition and fees, such as child care and transportation. The maximum CSSP grant is $8,000 yearly for a full-time student and $4,000 yearly for a part-time student. Sixty-eight percent of CSSP graduates enter employment after finishing the program with an average wage of $11.75/hour.[38] This program too has sustained repeated cuts and there is a waiting list to enroll.

- ***Parents As Scholars***

Parents as Scholars (PaS) targets parents who are receiving Temporary Assistance for Needy Families (TANF) benefits. If parents are full-time students in a program leading to a two- or four-year degree, PaS maintains their TANF cash benefit and meets their TANF work requirement. PaS funds will support childcare, transportation, and insurance needs. At its height, around 700 parents a year enrolled in this program,[39] although the rolls have declined as participants meet their five-year time limit for TANF participation and lose their PaS support before completing their studies.

State Tax Credit

- ***Opportunity Maine***

Opportunity Maine is a state tax credit available to Maine graduates with student loans. The legislature enacted the program in January 1, 2008. A 2012 amendment made it refundable (meaning they get a tax refund whether or not they have a tax liability) to individuals with science, technology, engineering, or math (STEM) degrees.

The amount of the Opportunity Maine tax credit depends on what an individual is paying on a student loan, so the higher the debt, the higher the tax credit. The average claimant receives about $2,100 each year, but graduates with the highest debts can claim up to $5,900 per year—adding up to a total maximum tax credit of $59,000 over ten years.

The Opportunity Maine tax credit largely benefits middle-income wage earners and STEM graduates, who are already less likely to need the credit than lower income, non-STEM graduates because of higher earnings and more opportunities for good jobs.

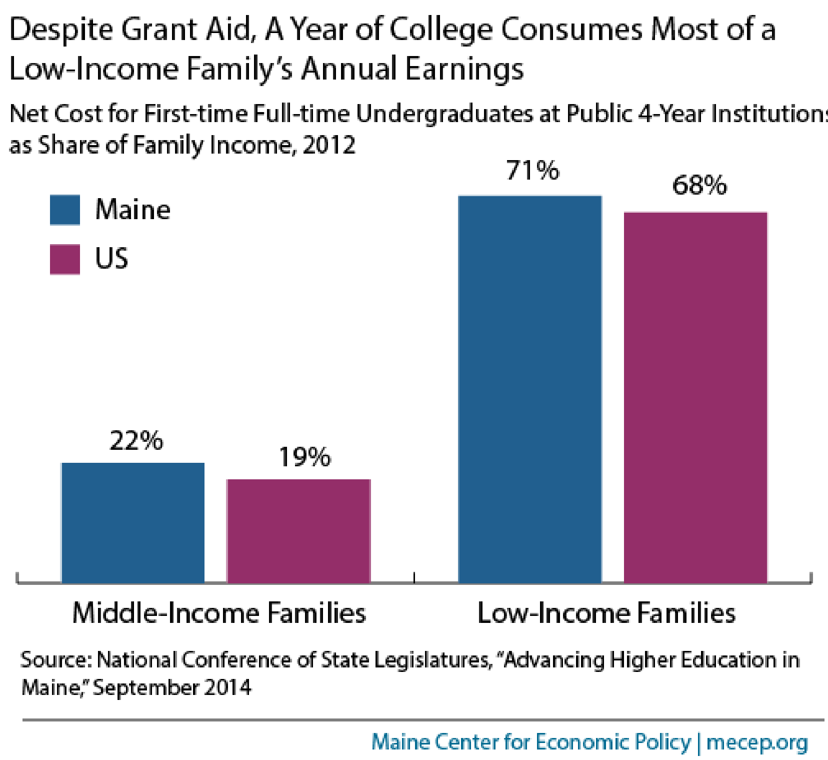
Assessing Affordability

What is affordable to a high-income family contemplating college is quite different from what a low-income family considers affordable. However, when considering public higher education, which taxpayers subsidize in order to serve citizens of a state and strengthen the economy, it is reasonable that attendance costs should be within reach of the median wage-earner in a state. Currently in Maine, it is not. The average annual attendance cost at UMS adds up to 38 percent of average annual median household income.[40]

A college's "sticker price"—that is, the published cost of attendance before grants and aid are applied—is more likely to discourage students from low-income families. When compared to students from middle-class backgrounds, low-income students are much more likely to decide not apply to a college with a high sticker price, without considering how much they might qualify for in financial aid.[41]

Even after students exhaust all grant aid, the net cost of attending UMS remains high—and particularly so for low-income students. The net cost is the amount remaining for families to pay after grant aid has been applied. In Maine, average net cost for a public four-year college represents 22 percent of the median household's annual income.[42] The percentage of annual income claimed by average annual net cost makes Maine's public four-year institutions the second least affordable state higher educational system in the nation.[43] Maine's high net cost means that *even after all grant aid is applied*, the remaining cost to attend a year of public college claims 71 percent of the lowest income Maine families' earnings (see Figure 3).[44]

Figure 3



Measures of Affordability

In 2002, at the beginning of the past decade's surge in college costs, the National Center for Public Policy and Higher Education released a report, *Losing Ground*.[45] They analyzed the most affordable public systems and found three common factors in the state systems that graduate students with the lowest debt:

1. **"Educational expenses (tuition plus room, board, books, etc., minus financial aid) at two- and four-year public colleges and universities do not exceed, generally, 20 to 25% of average family income in the state."** By this metric, the net cost of attending public college in Maine should not exceed $11,767 compared to the 2013 $17,820 average yearly cost in the UMS.[46] Higher-income families can meet this goal with savings, summer jobs, and moderate student loans; for lower-income families, the state must respond with targeted aid and increased state appropriations for higher education.

2. **"State spending for need-based financial aid matches or even exceeds the total amount that low-income families in the state receive from the federal Pell Grant program."** The legislature has cut State of Maine Grant Program by 20 percent in recent years. As the program is implemented now, $1,000 per student per year is available. This is well short of the maximum Pell Grant of $5,500 for full-time students and drives up student debt. The state should restore and expand the State of Maine Grant program to fund all Maine students whose FAFSA generates an Expected Family Contribution of $0 (the neediest students).

3. **"Low-priced colleges provide educational options for even the lowest-income residents, who may perceive they are unable to pay tuition, even after financial aid."** In Maine, the MCCS is the low-priced option. The average tuition and fees at MCCS represent 7.2% of median household income.[47] The difficulty for MCCS is that in order to keep sticker price and net price low for students under existing state funding, it limits seats in high-demand programs and increasingly uses adjunct teaching staff. The state should improve funding to MCCS to make the system more responsive to student and workforce demand.

Measures of Fairness

In addition to these affordability metrics, policymakers should consider other principles when judging whether affordability tools can do the job in the most targeted and efficient way. Legislators can use these principles to assess college affordability proposals currently pending, such as expanding Opportunity Maine, investigating Pay It Forward (a tuition deferment model)[48], modifying CSSP, and other future proposals.

Initiatives should not reduce need-based aid

The number of Maine children living in poverty remains high. Seventeen percent of Maine children under 18 live in poverty.[49] One-third of Maine families cannot support basic needs, a number that has been growing since 2010.[50] Bringing poor and low-income high school graduates and working adults into higher education is essential to increased economic opportunity for all Mainers. Legislators should protect need-based aid, which is critical to low-income and working adult students. As public universities target students from higher-earning families by increasing merit-based aid, these policy choices should not crowd out need-based aid. Policymakers should not redirect funds previously dedicated to need-based aid to new programs, as proposed in the original Washington state iteration of Pay It Forward.

Initiatives should not reduce state funding for public colleges, and be targeted and sustainable

Funding proposals should not strip operating money critical for quality instruction, or for the support services research shows ensure college completion for at-risk students. Proposals also should ensure the financial stability and integrity of the public system as a public resource. Tax credits and the Pay It Forward model are problematic for this reason. With a Pay It Forward model assuming $2,250 annual tuition and 1,500 students, the cash flow would be negative for the first 15 years of the program before students begin paying into the program—requiring more than $20 million to cover tuition and fees in just the first four years of the model and threatening overall funding for the public system.

Tax credits too are not well-targeted to those most in need. Often, high-earning law and medical graduates are the ones who use most of available tax credits.[51] The cost associated with tax credits is hard to predict, as student loan burdens grow each year—but increases over time may take resources away from other programs designed to lower the costs of college.

Initiatives should address the different needs of working adult students

Working adult students have special childcare and transportation needs; they often wish to attend classes year-round; they need flexible scheduling, not classes scheduled for an hour three days a week during the workday. However, bare-bones online coursework is also not a panacea for a group that may require extra support to navigate the application and credit transfer process, financial aid, and technology. In order to reach adult students, the state should expand financial aid for part-time students. Since Congress cut summer Pell Grants, adult completion initiatives could focus on helping adults attend classes through the summer. This is particularly important to adults in retraining, who usually hope to return to the workplace as soon as possible.

About MECEP

The Maine Center for Economic Policy provides citizens, policy-makers, advocates, and media with credible and rigorous economic analysis that advances economic justice and prosperity for all Maine people. MECEP is an independent, nonpartisan organization founded in 1994.

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Christy Daggett is a policy analyst with MECEP. She has a master's in public policy and management from the Edmund S. Muskie School of Public Service at the University of Southern Maine and a BA from the University of Maine. She previously served as project coordinator/health educator at the Maine Center for Disease Control Colorectal Cancer Control Program and as a data analyst with Maine Health's Maine Childhood Immunization Data Project.

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Conclusion

Maine's economy, rocked by the shift from manufacturing to services, is lagging behind the region and the nation. An increasing number of new jobs require an advanced degree. Maine's high school graduation rates are among the best in the nation,[52] but our college matriculation and completion rates are low. We know that we do a good job graduating students from high school, yet to boost prosperity both for individuals and the state as a whole, we need to help more Mainers across the bridge to higher education. Ensuring affordability and access will help students matriculate, graduate, and participate fully in our economy.

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[46] 2013 UMS Annual Financial Report, page 8, "Student Comprehensive Cost of Education," available at http://www.maine.edu/wp-content/uploads/2013/11/FINAL-2013-Annual-Financial-Report-merged-11-20-2013.pdf

[47] New England Board of Higher Education. Public Tuition and Fees in New England, April 2014. Available at http://www.nebhe.org/info/pdf/policy/NEBHE_Tuition_and_Fees_Report_2014_FINAL_revised_April_2014.pdf.

[48] Proposed for Washington State and being explored by other states, Pay It Forward is a program intended to reduce student loan debt by deferring tuition and fees for public college students. In exchange for attending college with no upfront tuition cost, program participants commit to paying the state as much as 4.25 percent of their income for approximately 20 years after graduation. Pay It Forward would not help students wrestling with their higher costs of attendance and simply defers the cost of paying for tuition. See MECEP's paper, Pay It Forward Is Not a Solution to Maine's College Affordability Problem. Available at: http://www.mecep.org/pay-it-forward-is-not-a-solution-to-maines-college-affordability-problem/.

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