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Fix our finances

State universities need a new way of doing things

The decades-long decline in state appropriations to the 14 universities in the Pennsylvania State System of Higher Education, coupled with the policy of keeping tuition rates low for all students – not just the neediest – is having serious, unintended consequences for the universities and for the students we serve.

What's needed are increases in tuition large enough to preserve the financial viability of the universities combined with scholarship assistance for the neediest students.

When PASSHE was created in 1983, the commonwealth provided 63 percent of the universities' educational and general budgets. By 2010, that share had fallen to 34 percent. During this time, appropriations fell 19 percent in terms of constant dollars as full-time enrollments grew by 52 percent. The result has been a 39 percent decline in appropriation per full-time student, taking inflation into account.

While the reason for the decline in funding is financial, the reason for continuing to hold PASSHE tuitions low for all students is more a matter of politics. Elected commonwealth officials are rightly concerned about the effect of rising tuitions on the neediest Pennsylvania students, especially since the bulk of PASSHE students traditionally have come from low-income families.

But over the years, a rapid increase in tuition rates at private and state-related universities in Pennsylvania, coupled with the increasing attractiveness of PASSHE schools in terms of real and perceived quality, has encouraged families to seek out PASSHE universities and their much lower tuitions – which, I would argue, are below market rate.

The increase in full-time enrollments – from 71,000 in 1983 to 108,000 this year – is just one measure of the increasing attractiveness of PASSHE schools. Another measure is the shifting demographics of the students who apply. Let's use my institution, California University of Pennsylvania, as an example.

The most rapidly growing segment of students at Cal U over the last 10 years has been those with families earning $100,000 or more per year! The second most rapidly growing has been those with family incomes of from $70,000 to $99,999.

The shift toward students from more affluent families means some well-to-do Pennsylvanians may be getting an unnecessary subsidy from the commonwealth under PASSHE's policy of low tuition for all. For these families, our tuition is too low.

Meanwhile, Cal U students graduate with an average debt of $23,000, with some borrowing as much as $60,000. For these, our neediest students, our tuition is too high. Taken together, it is clear that the policy is failing at both ends of the financial-need spectrum.

A two-tiered policy, practiced by virtually all private universities, can solve this problem by combining market tuition rates with scholarships for the neediest students, which would reduce the effective tuition to levels they can manage.

While the political calculus works in favor of low tuition rates for all families – including affluent ones – it works against the financial calculus of the universities, which have only two major sources of revenue: appropriations and tuition. State appropriations are declining rapidly in real terms and tuition revenue can be increased only if enrollments grow fast enough to make up for the money lost because of below-market tuition rates. Market rates are the norm in every successful enterprise and should be adopted if public higher education is to serve the citizens of the commonwealth.

If rates are too low, at some point an institution must either shortchange its stakeholders or fail for lack of money. If rates are too high, clients go to other providers with similar quality but lower costs – assuming they exist. Ultimately, institutions with rates that are too high suffer the same unhappy fate as those with rates that are too low.

For many years, PASSHE tuition rates have been kept artificially low with two obvious results: 1) rapidly increasing enrollments – a market signal that our tuition is lower than optimal, and 2) wealthier student families – a sign that our quality warrants higher tuition rates.

The most effective organizations set rates to optimize revenues. PASSHE's failure to do this has produced tragic consequences for our finances and our students, especially the neediest students who could get more financial help if more affluent students were charged market rates.

PASSHE's low-tuition-for-all policy needs to be replaced with market-rate tuitions and scholarship assistance for the neediest students. Aside from making a first-rate education available to more Pennsylvanians, the additional revenue would help preserve the quality and viability of PASSHE universities by offsetting continued reductions in state appropriations.

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