



# Sustaining Alberta's Economic Advantage Through Smart Investments in Post-Secondary Education

## Student recommendations for the 2011 Government of Alberta Budget

The past two years have seen Albertans working through the worst recession since the Great Depression, a downturn that has presented many challenges to the province. By no means have our universities and their students been immune to the effects of the recession. Enrolments have increased, student financial aid has been cut and our institutions have faced financial challenges that threaten the quality in the classroom. Through it all, in partnership with the Government of Alberta our institutions and students have worked to protect the quality of our system and to develop the skills, knowledge and graduates necessary to make Alberta competitive and successful coming out of the recession.

Alberta is beginning to see the end of the economic downturn and we need to take the necessary steps to maintain the strength of our post-secondary system. The 2011 provincial budget is the ideal time to invest in our students and institutions - Alberta still has tremendous room to grow in university participation rates and by encouraging more students to enter our institutions we will provide the necessary fuel for the Alberta economy of tomorrow.

Our society is facing many complex issues, such as health care, the environment, an aging society and the sustainable development our economy and resources. Post-secondary education represents the long-term solution to these and other problems facing our province.

The Council of Alberta University Students (CAUS), representing undergraduates at the University of Alberta, the University of Calgary and the University of Lethbridge, is calling on the Government of Alberta to take the necessary steps in Budget 2011 to ensure that our universities and our students are up to the daunting tasks in front of them in the coming years.

We are calling on two major investments to improve the accessibility, affordability and quality of the post-secondary system - increasing operating grants of our research universities by \$56 million and increasing grants and bursaries by \$110 million. We recognize that in these difficult economic times there are more demands on government than there is available funding, so we are recommending that the \$110 million in financial aid be found by ending the provincial tuition and education tax credits.

5% increase to Campus Alberta Grant	\$56 million
Increase to student financial aid	\$110 million
Eliminating education tax credits	+\$110 million
<b>TOTAL COST</b>	<b>\$56 million</b>

These recommendations taken together would improve our system and represent a better investment for Alberta taxpayers. A better financial aid system would reduce student debt and increase the affordability of the system. Institutional operating funds will improve the quality found in our classrooms. On the other hand, tax credits have been found to be an inefficient method of encouraging access.

**Increasing the Campus Alberta Grant to Comprehensive Academic and Research Institutions by \$56 million.**

**Increasing non-repayable assistance by \$110 million in Alberta's student financial aid system.**

**Eliminating the provincial tuition and education tax credits.**

## Increasing the Campus Alberta Grant

Supporting post-secondary education is a basic expectation of government for Albertans. That support is reflected by the high priority attached to basic funds given to Alberta's universities and colleges in the past decade. Along with other, more targeted investments Alberta has made progress in developing its higher education sector, investments that are reflected in the additional 5,673 full-load equivalents created since 2004 and improvements in the affordability and quality of our system following a decade of austerity in the 1990s.<sup>1</sup>

Within that period of re-investment came important increases to the base operating grants of institutions as well as targeted funding envelopes such as the Enrolment Planning Envelope. Fueled by Alberta's significant provincial surpluses as well as the pressing needs on campuses, these increases reduced pressures on students as a source of institutional funding, increased our enrolment, and supporting new hiring within the academic faculty and staff at our institutions. The increases as well were used to cope with high inflation within Alberta, inflation that is exacerbated by the fact that the basket of goods purchased by higher education institutions is typically subject to a price index that grows at a much faster rate than the consumer price index. Such growth in operating grants was vital to the system but as many would point out it was also unsustainable.

The Government of Alberta is unable to support year after year large increases to base operating funding in the present economic climate. The period of catch-up was important but as the entire system was warned, it was temporary.

The 2010 provincial budget made two changes to operating grants from the province to institutions. The first is that several different envelopes were consolidated to a single operating grant, the Campus Alberta Grant. This consolidation is a part of the ongoing implementation of the Roles and Mandates Framework for public post-secondary institutions and one that CAUS supports. The second was ending increases to the base operating grants and decreasing the amount of operating support given to Alberta's

universities overall. The decision to cut operating funding was not one that CAUS supported and needs to be addressed in the 2011 provincial budget.

These changes and cuts were done in the midst of an economic downturn on a level not seen since the 1930s. The changes are in response to the resulting drastic decline in provincial revenues, especially from natural gas royalties and income taxes. However, we can already see signs of hope that both the general economic climate of Alberta and our provincial revenues are improving. It is important that we prioritize our post-secondary institutions and the job they do as we look to where we need to protect moving forward.

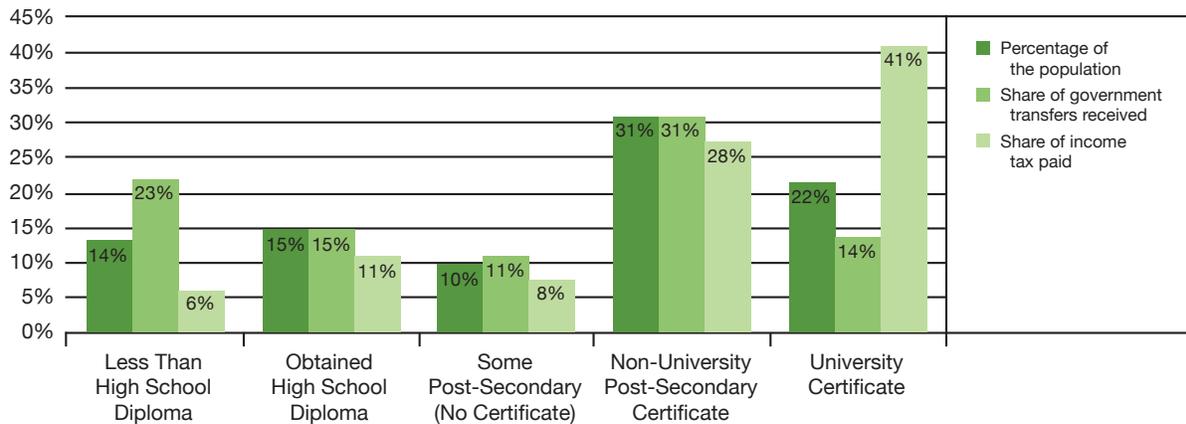
## WHY INVESTMENT IS IMPORTANT RIGHT NOW

There is a large return on investment in post-secondary education, not just for the student, but for society as well. As we look towards an economy that is more diversified and less reliant upon the energy sector to drive economic growth and government revenues, a well-educated and highly skilled workforce is inevitably at the centre of such a strategy. Indeed, possessing a unique combination of a stable democracy, rich natural resources and a literate and highly skilled population is the economic leverage Alberta will be trading upon as the global economy recovers and global competition accelerates. How Alberta will remain competitive in the new economy is a question the Government of Alberta has put to Albertans and students believe this unique mix, with a growing group of university graduates at the forefront, needs to be the answer.

Increasing our university participation and completion rates will not just make Alberta more competitive and attractive for business, it will improve the revenue flow of the Government of Alberta as well. University graduates represent only 22% of the general population but in turn contribute more than 40% of the income taxes and only use 14% of the income supports from government.

Increasing the level of education of Albertans is a great investment in the long term, increasing the return through the tax system from graduates while

Percentage of the Population and Share of Income Tax Paid and of Government Transfers Received by Level of Education among Canadians Aged 25 to 64 in 2006



Source: Canadian Millennium Scholarship Foundation

at the same time decreases the expenses on income supports, as well such individuals receive the private benefit of increased salaries and job satisfaction.

Imagine a province where we are able to encourage more to go on to university - where we provide the space and eliminate the financial barriers to attending, how far along we could be in ending government's reliance on non-renewable resource revenue as well as decreasing government expenditures on income supports not to mention health and justice costs, as university graduates are far less likely to be involved in criminal activity and are also more likely to lead a healthier life.

Now represents the ideal time to invest, in part because of the economic decline and its impact on unemployment rates. Low unemployment in Alberta remains a source of pride for the province and is improving with more jobs being created every month. Our youth unemployment rate, however, remains much higher than the general population and only just now is showing signs of improvement after being measured at the highest levels ever in the summer of 2009. Alberta's unemployment rate was 6.7% in June, just above the ideal place for a normal economy but the 11.7% unemployment rate among youth represents the ideal period of growth for our post-secondary institutions, provided we make the spaces and ensure the accessibility and quality of those spaces.<sup>2</sup>

CAUS believes that the Government of Alberta needs to make a substantial push to improving our post-secondary participation rate and specifically our university participation rate. Importing highly educated people while continuing to have the atrocious participation rate we do is expensive and sentences thousands of Albertans to being below the average attainment rate in the province. Such a strategy would have increased enrolment and increased post-secondary operating grants at the heart, but would need to be done in concert with other initiatives.

Other necessary components of a strategy to increase enrolment at our universities would need to include:

- Improving our high school graduation rates;
- Increasing university participation among rural Albertans, aboriginal Albertans and other under-represented groups; and
- Improving our student financial aid system to decrease debt and improve access to needs-based grants by Alberta students.

The key is ensuring that the student goes to a campus that is sufficiently supported to offer a high quality academic environment, a product that will be in part a result of increased support via the Campus Alberta Grant.

## **WHERE THE CAMPUS ALBERTA GRANT GOES**

As stated earlier, the decision to consolidate various funding envelopes into a single Campus Alberta Grant is one that CAUS supports. We endorse the goals of ensuring that funding matches the mandate of an institution and ensuring that each institution has the resources necessary to meet its mandate and for its identified population. We also believe it addresses a problem that existed before, where institutions were uncertain where their role in the system lay and were concerned that the resources needed to meet their mandate were divorced from the mandate itself.

The Comprehensive Academic and Research Institutions in Alberta, specifically the University of Alberta, the University of Calgary, the University of Lethbridge along with Athabasca University, should be able to more clearly establish themselves as leaders in Canada and the world under such a funding structure - as long as the money is there.

The 2010 provincial budget took a step backwards in that regard, cutting operating dollars to these institutions. Those operating cuts have already had a direct impact on our campuses, with each being forced to take steps to ensure the basic operation of their campuses. These steps include increasing fees, cutting salaries through furlough days, layoffs, cutting course selections and cutting enrolment targets.

Those changes are at the heart of why CAUS believes in increasing the Campus Alberta Grant, but it is that consolidation that leads us to make the recommendation to increase it.

What does the Campus Alberta Grant do at our universities? The easy answer is everything.

The Campus Alberta Grant drives enrolment, especially with the removal of the Enrolment Planning Envelope. The size of the Campus Alberta Grant along with the instruction from Alberta Advanced Education and Technology and the Alberta Access Planning Framework guides the institution to set its targets for the year. Offering a spot to a student without the available funding is a dangerous situation for institutions to find themselves in, and CAUS believes

passionately in increasing access to Alberta's six universities and the whole post-secondary system. An increase to the Campus Alberta Grant is a necessary pre-condition to meeting this goal.

New spaces are not merely a product of new buildings and classrooms, but are more a result of new faculty and new staff. Recruiting and retaining great staff has proven a challenge for Alberta's institutions. Students expect highly qualified and skilled professors and staff, and that expectation coupled with hundreds of retirements expected over the next few years means we need to make sure our institutions are able to offer competitive contracts as well as take the necessary steps to retain the quality staff and faculty that already work in our institutions. Alberta's place as the economic engine is a mixed blessing when it comes to retaining staff on an academic campus, as salaries and benefits must not only keep pace with a global environment for recruiting academics but also must compete with a rising cost of living in cities like Lethbridge, Calgary and Edmonton as well as compete with salaries that can be offered in the private sector. The Campus Alberta Grant is the main source of operating revenue for institutions that spend more on people than anything else, people who make our system possible.

Operating funds also decrease reliance on tuition and mandatory fees on our campuses, which are already the third highest in the country when it comes to tuition and the highest when we look at fees. Any environment where public universities are able to increase student fees with only the market limiting those increases would have only public support to mitigate those fees. Fortunately for students in Alberta the government does limit tuition increases and there is support to either send other fee increases to student referendum or otherwise limit increases to non-instructional fees. In this environment, deficiencies in operating revenue result in institutions looking at every possible way of increasing revenue from student fees - this is not innovation, in many cases it is just gouging. The Government of Alberta expects institutions to provide a publicly supported education, one whose costs fall in line with the Tuition Fees Policy and is guided by a general principle of offering an

affordable education to every qualified Albertan. In concert with student recommendations to close fee loopholes as well as reject further tuition increases above the consumer price index comes the recommendation that increased public support be provided. To be clear, tuition and other fees in Alberta do go up - tuition in Alberta rises each year according to the consumer price index and the financial contribution made by students and their families continues to rise. Increasing the Campus Alberta Grant is unlikely to change the situation in regards to tuition, but it will provide a compliment to the stability that the Tuition Fee Policy provides, ensuring institutions a balanced source of regular revenue increases.

### **MAKING A PREDICTABLE COMMITMENT**

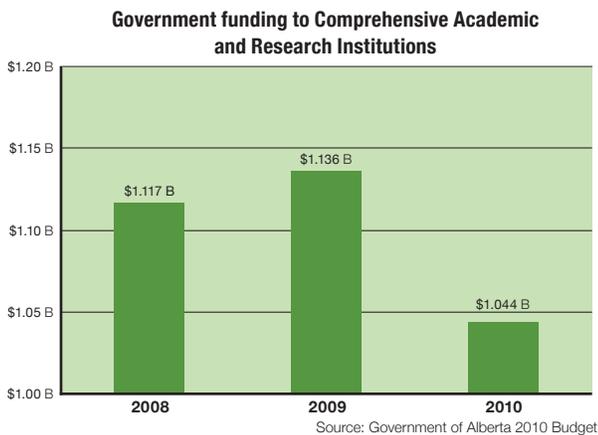
The key for students and for institutions is to make both the student and government commitment predictable. Taken as a single year of necessary pain, cuts make sense at one level, but campuses (like any other complex organization) do not function well on a year-by-year basis without any long term planning. Indeed, even holding the line on funding while expecting a similar level of performance from an institution facing increasing enrolment is asking the system to make do with the same and perform more. Such an attitude mixed with keeping the system in the dark from year-to-year leads to poor choices and last-minute decisions on how to make the books balance while maintaining a commitment to an institution's mandate.

CAUS believes the turmoil that is present on our campuses is a direct result of the Government of Alberta's decision to decrease operating funds to our three universities, and would be best mitigated by a predictable commitment to the system for the next three years. Much discussion has occurred in Alberta's post-secondary community about the initial commitment of three years of 6% increases, which the government met, and the unreasonable level of expectations that created for the 2010/11 fiscal year. Students believe that the 6% increases of the years prior to 2010 were vital investments and should not be disparaged or seen in a light of anything other than a

good move by our government. At the same time, suddenly stopping it not because education costs dropped or a measurable inefficiency in the system but rather a result of declining government revenues is a dangerous precedent. The system needs predictable and reliable increases in government funding.

Looking in the long term we see that government investment per full-time equivalent since 1980 has actually been on the decline when adjusted for real dollars, a circumstance only stopped at the end of the last decade. This funding situation was a result of several decisions taken in the mid-1980s and accelerated in the 1990s to simultaneously decrease government grants, increase enrolment and increase tuition revenue. Since that time we have hit the limit of what we can charge students in terms of tuition without compromising access - access that is essential to justifying the public support in the first place. After all, why would government invest in our institutions if not all citizens could take advantage of them? With that input of funds at their limit, a limit now imposed by the Tuition Fee Policy, and if enrolment continues to increase but funding remains static we will see fewer dollars spent per student on post-secondary education. This trend cannot be allowed to take root again without serious compromises in quality and competitiveness on campus.

As mentioned, this trend was briefly halted with the infusion of government funding in the last half of the 2000s but last year's budget brought an end to that. Students and institutions once again faced the prospect of declining government support on a per student basis. This is particularly concerning at the Comprehensive Academic and Research Institutions. Our universities are the only institutions with a mandate that is province-wide and beyond, serving a community that is far greater than the cities where our campuses are located. As well, our contributions - those of the institution, of the faculty and of the students - go beyond education but involve the creation of new knowledge and sharing that expertise with industry and the community. Meeting that mandate requires financial resources, but the 2010 provincial budget withdrew some of that support.



Wildly going from one budget year with large increases to another with no increases, or even cuts, makes campus-wide planning difficult. While we believe that all increases to the Campus Alberta Grant would be welcome and a wise investment, a stronger investment and a wiser policy would be a predictable and sustainable increase to the grant. We are advocating for a predictable increase through to 2014 to the Campus Alberta Grant that provides leadership and expectations on how that funding is to be spent.

**INCREASING THE CAMPUS ALBERTA GRANT**

Alberta's universities need reliable and predictable government funding to provide a high quality education to our members, university students. Such a commitment should rise annually with an eye to increasing capacity, keeping pace with rising costs within higher education and the need to meet policy objectives.

Students believe that funding to Alberta's universities should not be increased without expectations set on institutions for the coming academic year. Some expectations that CAUS would suggest on the funds include:

- Increasing undergraduate enrolment, and where appropriate, graduate enrolment;
- Limiting tuition fee increases to the consumer price index;
- Limiting non-instructional mandatory fee increases to the consumer price index except with a successful student referendum;

- Taking steps to protect the quality of education; and
- Maintaining or improving the present student-to-faculty ratio.

As suggested earlier, any increase is preferable to a cut and any increase above inflation is likely to be welcome, but more preferable would be setting clear and confident targets for funding over three years, similar to what was done in 2005. Cutting or even holding the line makes expanding the system and increasing enrolment impossible, and keeping institutions in the dark as to what funding will be beyond another 12-month period makes institutional planning difficult. Institutions, through the Access Planning Framework and the development of institutional access plans have laid the proper strategic framework for long-term and well-thought out expansion and enrolment increases, and supporting that planning with increases in the Campus Alberta Grant is a timely investment.

CAUS is recommending an increase of \$56 million a year, for next three years to the Campus Alberta Grant for Comprehensive Academic and Research Institutions. That represents an increase of 5% a year, and would lay the foundation for a stronger post-secondary system and more university graduates in our society.

Students recommend:

**Increasing the Campus Alberta Grant to Comprehensive Academic and Research Institutions by \$56 million each year for the next three years.**

## Increasing the student financial aid

Creating the perfect student financial aid system is a difficult and complicated endeavour, in part because the client base of students are so diverse and in part because there are so many variables and policy ends to achieve. The basic concept is fairly straight forward - ensure that no qualified student is denied the opportunity to go to post-secondary education due to financial circumstances, and that concept is one that CAUS supports.

Beyond that universally agreed upon concept lies several additional principles and variables, all of which need to be balanced and met in order to guarantee access to our system. A key example of this balance within a largely repayment-based financial aid system involves ensuring that every student has the financial resources needed to make ends meet and pay their educational costs while ensuring the debt when finished their studies is manageable and not so large as to discourage participation in the first place.

Improving the system with that balance in mind has been a constant goal of the Government of Alberta and encouraged by students, and much of our progress on improving the system in that time has reflected that balance. For example, in 2008 living allowances were increased and interest rates on provincial loans were reduced. Rural incentives were introduced by the Government of Alberta and the Canada Millennium Scholarship Foundation was brought in as a grant, rather than as a loan. The Alexander Rutherford program was expanded to offer scholarships to even more post-secondary students following high school, rather than offering that money as additional debt. The policies and limits on Alberta's debt remission program was largely kept intact while financial aid awards were increased.

This balance was abandoned in the 2010 provincial budget as the Government of Alberta looked to cut more than \$50 million from the student financial aid system while trying to providing a similar level of resources in award - moving an increasing amount of the cost away from non-repayable assistance towards student debt.

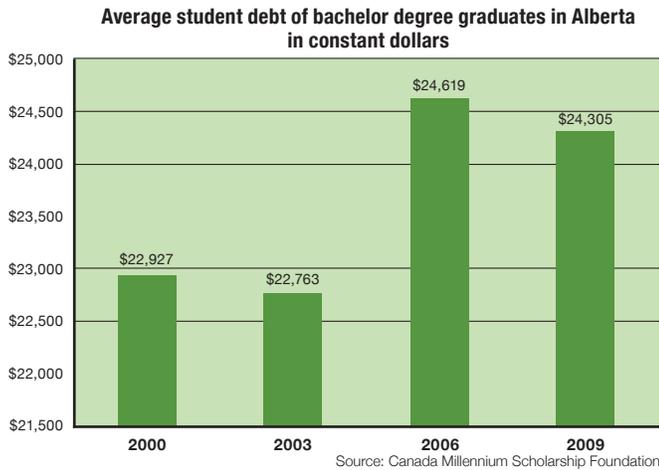
The decision is, admittedly, understandable given the confines of the situation and the impact in the short-term of going the other way and cutting the award in order to reduce the costs of providing student financial aid. However, as provincial revenues rebound, but more importantly as student financial aid becomes more important to the goals set by the province for our post-secondary system, it has become clear that the 2011 provincial budget represents an opportunity to invest in the non-repayable assistance side of the equation through additional grants, bursaries, debt relief and scholarships.

## STUDENT DEBT IS TOO HIGH

Not every Alberta post-secondary student gets a student loan. Not every potential student decides that it is worth the cost of going into debt in order to get a university degree. Not every student who gets a loan borrows a high amount. Not every student gets a loan for as much as they need. Students and their counterparts that never end up going are a diverse group and that diversity helps explain the need for a system that cannot be simple and elegant. It also helps explain why the system successfully supports some students through their degree while it lets down others, or why some never go in the first place.

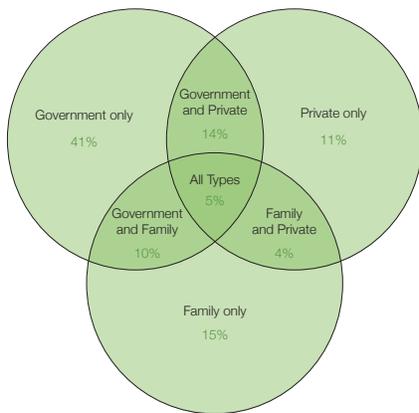
Too often when determining how much student debt is a problem among students or within society itself we are tempted to simply take a look at averages, look at a figure and measure it against the value of the credentials gained and make a call. Sadly that process fails to capture the breadth of what the system looks like and where we need to make improvements.

Looking solely at the amount of student debt undergraduates finish their studies with from public sources - meaning the Alberta Student Loan Program and the Canada Student Loan Program - is \$19,182 after remission.<sup>3</sup> Students do not just gather debt from that single source of course. Many take out loans from banks, many borrow from their family and many do combinations of those. The average debt reported by Alberta graduates with a bachelor's degree is \$24,305 when looking at all sources, and sadly that figure is on the rise.<sup>4</sup>



Where else do students borrow from? Below is a Venn diagram showing the different places students are borrowing from - the results from a survey CAUS, along with other national partners, did of undergraduate students from across Canada including the University of Alberta, University of Calgary and the University of Lethbridge in 2009.

Sources of debt of Canadian university students

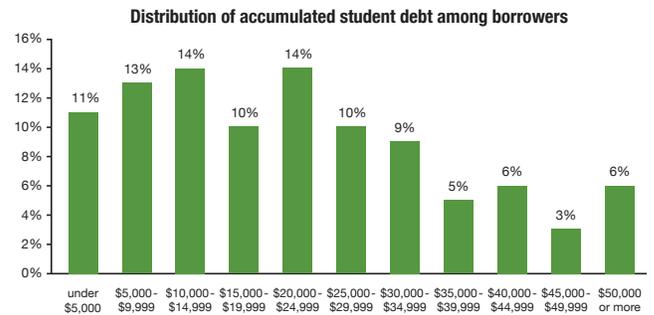


Source: Canadian Student Survey, 2010

As we can see, the federal and provincial governments remain the largest and most important source of student loans, but 30% of students who took on debt during their studies did so from outside the student financial aid system. Equally important when looking at the total problem of student debt is that 41% of government student loan recipients also accumulated debt from either a bank or a family member. Student debt is limited to government debt alone only among a minority of borrowers. CAUS is not suggesting that public policy needs to limit the debt students accumulate from family or private lenders, but when looking at the impact of student debt on the choices

a graduate makes after their degree we need to make sure we have a complete picture.

It is also important that we not discount that not all borrowers borrow the same amount - in fact the distribution of accumulated debt does not follow a classic bell curve focused on the average, but rather is made up by many borrowers taking out a loan for under \$25,000 with some high needs students forced to take out loans in excess of \$50,000. Looking again at the survey CAUS did in 2009 shows 62% borrowed less than \$25,000 but sees that 20% of students had to borrow more than \$35,000. When determining when we reach the tipping point of having too much student debt, we have to look beyond just the average of \$24,305 but consider the one in five who will finish with more than \$35,000 of debt.



Source: Canadian Student Survey, 2010

The direct impacts of student debt can be found in two places: those who are debt averse and choose to not pursue a degree, and in those who have accumulated debt during their studies.

For those who have borrowed we see there is an increased concern about many issues (finding a job for example) compared to those who do not incur debt. 72% of students that have debt are concerned with finding a job that will pay a salary they desire, compared to 67% of students without debt.<sup>5</sup> Similarly, those with debt are more likely to be concerned with finding a job in the place they want to live or with finding a job in their field of study. The additional anxiety students with debt feel is not limited to employment, with borrowers also concerned with buying a house or delaying starting a family.

Indeed, paying back the debt itself following graduation is a major concern for borrowers, with 56% of borrowers saying they are concerned with paying back their debt overall and 63% concerned with the amount of time it will take to pay back the debt. As expected, those with the highest debt are the students who are most concerned about their ability to pay it back.<sup>6</sup> That concern seems well-founded, as only 25% of borrowers have paid back their student debt two years following graduation.<sup>7</sup>

Sadly student debt, in particular high student debt, also has a impact on completion rates within post-secondary education. Put simply, there is a point of indebtedness where a student will choose to leave their program rather than incur further debt - which is perhaps the worst possible outcome. An individual leaves without a credential, but still having to pay back a large student debt without the income that comes with the credential they borrowed for in the first place.<sup>8</sup>

CAUS is hopeful that tools like the new Repayment Assistance Plan will help mitigate the impact that high debt has on some graduates. Nevertheless, there continues to be too many graduates with debt levels that are too high. There is no magic number that can be set for the tipping point, after all graduates remain just as diverse a demographic as they were when they were within the system as students. But the cost of education for those who need to get a student loan, particularly those who have large needs either because they have to support their family, had to move in order to go to university or college, or because of their program. As interest accumulates over the principal and students are forced to stretch

their repayment period, we can see the cost of getting an education and taking out a loan grows.

Just as worrying for CAUS, high student debt has as much impact on those who choose not to go as on those who do borrow to get into post-secondary education. Alberta needs more post-secondary graduates - our economic growth depends on it. Despite that, Alberta's participation rates in post-secondary education - especially our university participation rate - is the lowest in the country and should be recognized as a major challenge. Why do some choose not to attend post-secondary education and what role does student debt play in their calculations?

Family income plays a large role in determining whether someone goes on to post-secondary education. The average family income of those attending university between the ages of 18 and 21 is just over \$120,000 while the average among those who are not enrolled in any post-secondary education program is just under \$70,000. It should be noted that the gap in average income between these two groups is actually growing in Canada, with the average family income of those who are not attending having grown by 24% in real terms since 1994 while the income of those who are attending has grown by 42%.<sup>9</sup>

Looking at a cohort of 19 year olds in 2008 looked even more in depth at the question of who attends based on family income. 31% of Canadian youth from the lowest income quartile were enrolled in university compared to 50% of those from the highest income quartile.<sup>10</sup> Naturally, income is not the sole determinant of whether someone goes to post-secondary education or not, after all ability, inspiration and ambition all come into play. But those qualities are also not distributed equally among different income backgrounds. Canadians from lower income families are more likely to have parents who did not attend post-secondary education, come from a single parent family, have lower post-secondary expectations, score lower on reading tests and have friends who have low post-secondary expectations.<sup>11</sup>

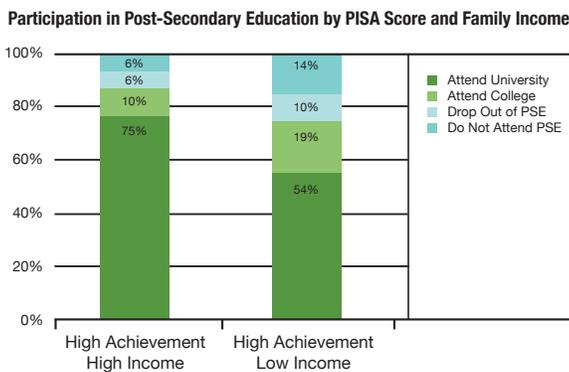
**TOTAL COSTS OF STUDENT DEBT**

Loan	Per month	Interest	Total cost
\$50,000	\$567.57	\$14,703	\$64,703
\$40,000	\$454.06	\$11,763	\$51,763
\$30,000	\$340.54	\$8,882	\$38,822
\$25,000	\$283.79	\$7,352	\$32,352
\$20,000	\$227.03	\$5,881	\$25,881
\$15,000	\$170.27	\$4,411	\$19,411

\* assumes a 3% prime rate and the maximum repayment period using HRSDC loan calculator

The same study looked further at the question of ability and income, and divides Canadian youth into income quartiles and quartiles based on reading ability and then tries to look at the question of whether money matters more than ability in determining the post-secondary pathways.

The study used scores from the Programme for International Student Assessment (PISA) in reading to establish a baseline for achievement, and then looked at the results based on income and the post-secondary pathway the individual ultimately pursued. Of those who scored well and came from high income 85% were enrolled in university or college - of those who scored well but came from the lowest income quartile that number drops to 73%. The gap is even more pronounced when looking at those who enrolled in university, 75% compared to 54%.<sup>12</sup>



Source: Canadian Millennium Scholarship Foundation

The good news is that most who are high achievers in lower income situations still find their way into post-secondary education - but they are also more likely to drop out or to choose a shorter program in college rather than pursuing a university degree.

What is the role of student financial aid in this? The intended purpose of the programs is to ensure that no qualified individual is denied an opportunity to pursue an education, regardless of financial circumstances. We need to find a better aid package that encourages participation and persistence. How?

**NEEDS-BASED GRANTS**

CAUS knows that student loans alone will not meet the policy goals the Government of Alberta has set

for the student financial aid system and robust needs-based grants need to be a part of the equation when looking at our system. Debt aversion, in particular among the highest needs students, is a powerful deterrent to either entering post-secondary education or completing it. Debt aversion is highest among those with the highest needs, in particular those from low-income backgrounds and from rural areas. Sadly, those are the demographics that have the most potential for enrolment growth as well as offering the greatest returns on the investment made - from both the perspective of the student and society as a whole.

Upfront non-repayable assistance, whether in the form of a bursary, grant or scholarship is an important motivator to encourage entry into the system - that's why schools offer entrance scholarships. That's why the Alexander Rutherford scholarships are not just popular, but make solid policy sense. But the fears of going deeply into debt are not sufficiently allayed with existing programs and have taken an additional hit with the cancellation of the Alberta Opportunities Bursary, the Northern Student Supplement and the Loan Relief Benefit as well as four other scholarships.

When it comes to completion, Andrew Parkin and Noel Baldwin from the Canadian Millennium Scholarship Foundation said it best when they commented:

*This suggests, that within a financial aid package, the non-repayable grant component, which can limit the accumulation of debt by substituting for loans or alternatively provide extra funds not provided through loans, is the key component in encouraging persistence. As Hossler et al. put it, "loans are not as effective as grants in enhancing persistence."<sup>13</sup>*

The Government of Alberta, when attempting to justify this departure from past policy, stressed to CAUS as well as the media and Albertans that the cuts were a result of a decline in provincial revenues and were based on two principles:

- More students, by a ratio of three-to-one, can be helped through dollars put into the student loan program rather than non-repayable assistance.

Average student aid per recipient in 2007/08 by type of aid and province

Province	Net Loans	Remission	Grants	Total Non-Repayable Aid	Total Needs-Based Aid	% of Aid that is Non-Repayable
British Columbia	\$7,437	\$1,444	\$677	\$2,122	\$9,559	22%
<b>Alberta</b>	<b>\$7,976</b>	<b>\$822</b>	<b>\$2,594</b>	<b>\$3,417</b>	<b>\$11,393</b>	<b>30%</b>
Saskatchewan	\$5,737	\$3,484	\$897	\$4,382	\$10,120	43%
Manitoba	\$4,759	\$3,312	\$1,668	\$4,980	\$9,739	51%
Ontario	\$6,314	\$1,429	\$1,300	\$2,730	\$9,044	30%
Qu bec	\$3,542	\$12	\$3,569	\$3,581	\$7,124	50%
New Brunswick	\$8,996	\$440	\$1,089	\$1,530	\$10,527	15%
Nova Scotia	\$8,098	\$1,064	\$693	\$1,758	\$9,856	18%
PEI	\$8,714	\$918	\$1,238	\$2,157	\$10,872	20%
Newfoundland	\$6,042	\$1,126	\$2,549	\$3,676	\$9,718	38%
Canadian average	\$6,930	\$1,273	\$2,289	\$3,563	\$10,494	34%

Source: Price of Knowledge (4th Ed.), Canada Millennium Scholarship Foundation

- Those programs that were cut were either under-accessed or not effective at having the desired impact.

CAUS believes it is short-sighted to see the loan and financial aid system as a whole as a sausage factory of student funding, intended to merely get the most aid into any student's hands with the lowest cost to government - such an approach ignores the underlying principles behind the program of ensuring there are no financial barriers to getting an education. The financial pressures faced by the government are to some extent a result of a resource-based economy and investing in education makes the most sense in ending that cycle, as many economists have pointed out. CAUS would suggest making up for the cuts in the 2010 provincial budget to non-repayable assistance would be a good start.

Alberta's financial aid mix has become skewed towards the debt side, with only \$14 million being provided in bursaries and grants compared to \$206 million in student loan disbursements. That pitiful ratio is 14-to-1 in favour of debt, and needs to improve in order to provide the proper financial incentives for entry and completion into the system.

### POST-SECONDARY COSTS CONTINUE TO RISE

The need for improving non-repayable assistance and student financial aid in general is exacerbated by the continuing rise in costs associated with getting a post-secondary education in Alberta. Our province remains one of the most expensive to pursue a university education, with high tuition, high living costs and a low provincial minimum wage. These factors are often said to be balanced by higher weekly earnings by Alberta families but it would be fair to say that cannot be true of everyone and in the midst of an economic downturn it is clear some are being left behind due to cost.

Justification prior to last year's provincial budget was that our student financial aid system helped address some of the inequities compared to other provinces, but with the drastic cuts to non-repayable assistance our aid system can no longer be touted as the solution to rising costs.

How much are costs rising?

Alberta has the the third highest tuition in the country, \$600 above the national average, with only undergraduates in Nova Scotia and Ontario facing higher tuition levels.<sup>14</sup> Most students are protected against the impact of that cost rising above the Alberta Consumer Price Index by the Public Post-Secondary

Institutions Tuition Fees Regulation but next September that protection will end for students in six programs at the University of Alberta and University of Calgary.

AVERAGE UNDERGRADUATE TUITION IN CANADA

Province	Tuition
Qu bec	\$2,272
Newfoundland and Labrador	\$2,619
Manitoba	\$3,377
Prince Edward Island	\$4,710
British Columbia	\$4,840
Canadian average	\$4,917
Saskatchewan	\$5,238
New Brunswick	\$5,479
<b>Alberta</b>	<b>\$5,520</b>
Nova Scotia	\$5,696
Ontario	\$5,951

Source: Statistics Canada, October 2009

Alberta's policy of capping tuition increases for most programs at CPI is one that CAUS supports, as it provides predictability for students and sustainability for the system as a whole, but it still means that costs go up every year and the supports many students need will have to keep pace, as well those who were priced out of the system remain so without a policy change or a decrease of costs.

Tuition is not the only cost of getting a degree, nor is it the only cost on the rise. Non-instructional mandatory fees have been hiked dramatically at the University of Alberta and the University of Calgary and represent a significant increase to the total cost owed to an institution by students. The \$290 a year Common Student Space, Sustainability and Services Fee at the University of Alberta and \$450 a year Student Services Fee came after a year of financial wrangling at each institution and came without student approval.

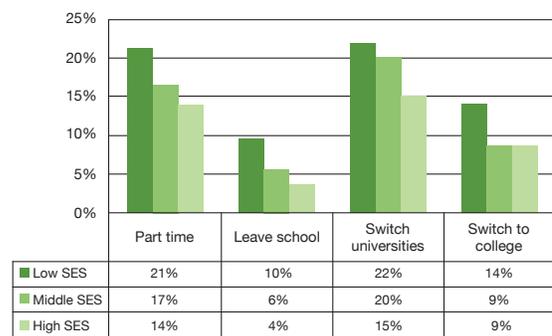
These costs exist within a legal vacuum and are expressly intended to fill a gap left by government funding and operational expenses. Presently, these fees go through no approval mechanism other than an

institution's Board of Governors as long as they adhere to the principle of not being related to instruction. As a result, institutions are increasingly looking at it as a source of revenue unchecked by government policy around affordability and students are concerned that these rising costs will put education out of the reach of many, especially if other institutions follow suit.

On top of the tuition and fees owing to an institution, Alberta has one of the highest costs of living in Canada, in particular in communities which have the largest concentration of post-secondary institutions. While outside of the direct control of the Government of Alberta, these costs still make up a significant portion of the cost and in particular for students who have to move for their program such as rural Albertans, these costs are sometimes an insurmountable barrier.

These rising costs, regardless of their source, have an enormous impact on the choices students make as well as those who stay outside of the system. The 2009 Canadian Student Survey commissioned by CAUS asked current university students what they would do if their costs went up by \$1,000 next year.

Likelihood of certain behaviours due to increased costs by family income



Source: Canadian Student Survey, 2010

Among students from the lowest income quartile we see that one-in-ten would leave their program entirely, one-in-five would drop to part-time study and extend their completion time, and one-in-four would go to a different institution. These behaviours are not only likely to detriment of the student, but ultimately increases the cost to the institution and in turn to taxpayers. Encouraging timely completion by limiting increases to cost and providing sufficient financial

supports for students will save money for both the student and the government in the long run, making a strong case for investment into the financial aid system.

### MAINTAINING EXISTING STRENGTHS

All of the commentary offered by students needs to take into account what our student financial aid system is already good at, and make sure that improvements and investments are made without removing the good things the Government of Alberta has done in the past six years.

CAUS believes that the Affordability Framework for Post-Secondary Education set as policy in November 2006 provides a solid policy base for improving our system, as well as providing a good roadmap of the improvements that were made that should be protected. Those improvements include:

- Eliminating vehicles from being considered a resource in award calculations;
- Extending lifetime loan limits for those who repay their debt;
- Improving the student financial aid application system;
- Increasing monthly living allowances;
- Increasing undergraduate and graduate scholarships;
- Making part-time and spousal earning exemptions less restrictive;
- Reducing interest rates on student debt; and
- Tying tuition increases to the consumer price index.

All of these improvements spoke to five policy outcomes, all of which CAUS supports:

- Higher levels of participation, transitions and educational attainment;
- More resources to support students in meeting education and living expenses;
- Eliminating unmet financial need to support learning success;

- An expanded use of targeted scholarships to enhance participation and success of under-represented learners; and
- An enhanced ability to repay student debt.

We were disappointed that the 2010 provincial budget took a step backwards from some of these goals, but believe that the commitment remains to these initiatives and making progress on these outcomes. Keeping those in mind, we hope additional investment does not come at the cost of additional cuts and that policy changes seek to reassure students that no one student's award will be cut to pay for improvements elsewhere or to find savings for the entire department. We also hope to see measures taken to reduce student debt incurred upon completion rather than pass on the cost of education onto borrowers without relief.

In order to maintain some of the existing strengths of the system, CAUS believes it is vital that the calculations for determining a student's award be increased as costs correspondingly increase. This means a CPI increase for the monthly living allowance as well as increases to the annual and lifetime loan limits that match the real increase of educational costs.

The economic situation in our province is improving, and with that will come additional demands for a skilled workforce. The problems that existed prior to the economic downturn have only been made more difficult by withdrawing some of the support from the student financial aid system and endangered the progress that was made between 2005 and 2009.

The transfer of some funds from non-repayable assistance was done not just for reasons of austerity but because not all programs were meeting their policy goals. With that in mind, our call for a return of funds to non-repayable assistance is not a demand for reinstatement for all programs cut in the 2010 provincial budget, rather a return to the level of funding provided and having new funding guided by the shared and agreed upon principles of the Affordability Framework: higher participation and attainment; more resources for education costs; reduce unmet need; more participation by under-represented populations and lowering student debt.

The 2010 provincial budget cut funding from the Loan Relief Benefit, the Alberta Opportunities Bursary, the Northern Student Supplement and five scholarship programs, for a total of \$55.6 million and affecting 24,275 students.

**Eliminated Grant and Scholarship Programs**

<b>Program</b>	<b>Number of students</b>	<b>Average award</b>	<b>Program cost</b>
Loan Relief Benefit	7,900	\$4,300	\$34.5M
Alberta Opportunities Bursary	15,500	\$1,300	\$19.4M
Northern Student Supplement	500	\$1,300	\$0.7M
Premier's Centennial Scholarships	275	\$2,005	\$0.6M
Ralph Steinauer Awards of Distinction	15	\$17,666	\$0.3M
Arts Career Development Awards	10	\$2,500	\$25,000
Alberta Motion Picture Industry Awards	25	\$3,000	\$75,000
Michael Luchkovich Scholarships	25	\$2,000	\$50,000

Source: Alberta Advanced Education and Technology

In concert with eliminating provincial tuition and education tax credits CAUS is calling for an increase of non-repayable assistance by \$110 million but would be cost neutral from the revenue from eliminating tax credits.

The programs either created or expanded by this investment should be done through consultation with students and along with others. The key feature of this new investment is that it would come in the form of non-repayable assistance and would seek to compliment the existing student financial aid system rather than displace any funds already received by students.

Students recommend:

**Increasing non-repayable assistance by \$110 million in Alberta's student financial aid system.**

## Eliminating Tax Credits

Perhaps the most common question given to CAUS when we make recommendations on how to improve Alberta's post-secondary system is "How would you suggest we pay for it?" It would be fair to say that the Government of Alberta and the vast majority of Albertans support CAUS' call for an improved post-secondary system that is more affordable, more accessible and higher quality. But government revenues are not limitless and government policy on post-secondary cannot be made in isolation from other ministries and without an eye to the cost.

CAUS and our students are not experts on other government programs and represent a demographic that has varying opinions on government taxation and services. We rarely try and wade in on questions outside of our area of expertise and typically focus on looking at the value of the investment society makes in post-secondary rather than ranking the services provided by Alberta Advanced Education and Technology against those in other areas of government. But students also want to see tax dollars spent wisely, particularly those in post-secondary education.

We have been challenged by both our minister, Deputy Premier Doug Horner as well as by the President of the Treasury Board Lloyd Snelgrove to find any place where money could be saved or efficiencies could be found. CAUS has in the past resisted that challenge, as our students and our system continues to provide a fantastic return on provincial investment. However, we continue to have areas that have dire needs that should be addressed in the next budget. We were asked again this summer if there were any areas of government funding that could be better spent elsewhere, and we believe there is: post-secondary education tax credits.

Make no mistake, every Alberta student takes advantage of the tax credits offered in Alberta and that translates into real dollars for our students, eventually. The problem is that for most students, eventually is many years into the future. This in turn means that the program is failing miserably at its main goal: to encourage participation in post-secondary education.

It makes intuitive sense - it is difficult to imagine what student chose to enter post-secondary education based upon the tax credit they would receive, a tax credit they are unlikely to take advantage of until long after they are done their degree and earning a reasonable income.

## WHAT PROVINCIAL TAX CREDITS EXIST AND WHAT THEY DO

There are presently two tax credits offered by the Government of Alberta that mirror the federal tax credits - the tuition tax credit and the education tax credit. These two credits exempt the income used to pay for tuition as well as education costs during the study period from provincial taxes.

Two important features make these non-refundable tax credits different from other credits - you can defer them into the future when your income will be higher, and you can transfer them to your spouse or your parents. As a result of these differences from other tax credits few if any Albertans are unable to take advantage of the tax credits, making it in essence a universal program. However, the majority of students are unable to take advantage of the tax credit during the period of study - their income is simply too low to need the credit and they do not transfer the credit to a family member, likely because they have either taken on the responsibility of paying for their education personally or their family does not require or request the tax credit.

In this typical scenario, the student will defer the tax credit to the next year, continually doing so until they graduate and earn an income sufficient to pay income tax and therefore use the tax credit. In this scenario the student is not putting a single dime of the tax credit towards their education. Indeed, their education was long ago paid for and completed and the tax credit is received as a larger tax refund after graduation.

Since 1998 the Government of Canada has dramatically increased the amount of tuition and education tax credits, with almost all provinces other than Quebec following in lockstep. In 1998 the Government of Canada was foregoing approximately

\$900 million in tax revenue from tuition and education tax credits, an amount that rose to just over \$2.0 billion by 2008, nearly doubling the cost. Alberta has followed suit and mirrored these tax credits and altogether in 2007 it represented an average total tax relief of \$2,297 per year of university, almost evenly distributed between the federal and provincial governments.

This year students and their families will take advantage of \$110 million in provincial education-related tax credits, an amount that is over eight times as much as will be spent on bursaries and grants. The nature of tax credits as foregone revenue rather than direct expenditure often leaves them out of sight and out of mind, but the real truth is that this foregone revenue is a clear expression of the tools the Government of Alberta is using to encourage access, and it is not working.

**STUDENT FINANCIAL AID IN ALBERTA**

Aid	Amount
Student loans	\$206.7M
Tax credits	\$110.0M
Scholarships	\$70.8M
Grants and bursaries	\$13.5M

Source: Alberta Finance/Alberta Advanced Education and Technology

**WHAT TAX CREDITS DO NOT DO**

None of this is to suggest that tax credits do not have any meaningful role - they do provide tax relief to graduates following their degree and provide parents and spouses tax relief if they put some of their income towards a student's education. At a higher level, it makes an expression on the value of individual contribution towards education - that such a contribution and the income earned to make that contribution should be tax free.

They do not however encourage access to university or college. As Dr. Christine Neill says in *Canada's Tuition and Education Tax Credits*:

*There is no evidence that tax credits increase enrolments in post-secondary education. Their only other possible justification is on the grounds of*

*equity. Yet the argument here is also weak: ultimately graduates of post-secondary programs earn more income over their lifetime than high school graduates, and in many cases the benefits of the tax credits become available only after a student has graduated and begun earning money. Furthermore university students are disproportionately likely to come from well-off families and to have relatively high incomes themselves after graduation, spending on tax credits goes disproportionately to relatively wealthy families and individuals.*<sup>15</sup>

Perhaps the greatest barrier to tax credits having any measurable impact on enrolment and participation is that few know anything about them, and they are almost never advertised as a tool to make post-secondary education affordable and accessible, despite that being their stated aim.

No institution in Alberta advertises the tax credit when explaining the cost of post-secondary education for example. Nor does the Alberta Learning Information Service (ALIS) - the government's primary vehicle for informing students about the financial options available for paying for their post-secondary education. Indeed, both Neill as well as Alex Usher point out that this lack of knowledge and understanding about education tax credits is a serious barrier to the claim that they encourage any behaviour whatsoever.<sup>16</sup>

Tax credits are not merely a victim of under-advertising when it comes to access, they simply do not work. No amount of communication whether it is a poster or a website can turn tax credits into something a student can use to reduce a financial barrier to education. Those parents or spouses who claim tuition and education tax credits come disproportionately from higher socio-economic groups who in all likelihood would have contributed towards the student's education regardless of the tax credit.<sup>17</sup>

Further academic research on the topic of tax credits in the United States by Bridget Long in *The Impact of Federal Tax Credits for Higher Education* strongly suggests that there was no impact on enrolment or the socio-economic makeup of universities in the United States following the introduction of tuition and

education tax credits federally - but she did find that jurisdictions that reduced tuition costs or increased financial aid did see improvement in both enrolment figures and in the diversity of financial backgrounds of students.<sup>18</sup> The reasons she ultimately cited for the lack of success for tax credits was the lack of transparency on the credit as many did not know the value or eligibility for the credit until after they graduated and that most did not receive any benefit until after they finished their studies. Those conclusions could equally apply in Canada and in Alberta in respect to our tuition and education tax credits.

Ultimately Neill sums it up best as she says any other use of funds in the post-secondary education system would be preferable, both in terms of enrolments in post-secondary institutions and in terms of the distributional effects.<sup>19</sup> CAUS agrees, and believes there is a better use of funds to encourage greater participation in Alberta's universities and colleges.

### **A BETTER WAY TO ENCOURAGE ACCESS**

CAUS believes that the key to reducing financial barriers to post-secondary education lies in non-repayable front-end assistance over other forms, and that any system has to look to inspire and encourage participation.

Over the the past two decades CAUS has worked with the Government of Alberta to implement new financial programs and expand existing ones, but the recent economic downturn has forced all public services to not only deliver on their policy goal, but provide the best value for taxpayers and users. By that measure, tax credits are simply not as good as non-repayable assistance. Every dollar spent on reducing financial barriers and encouraging participation needs to be spent wisely and efficiently and that is why CAUS is recommending the Government of Alberta shift resources from tax credits into non-repayable assistance.

### **ENDING PROVINCIAL POST-SECONDARY TAX CREDITS**

Moving away from tuition and education tax credits is a smart move in an era of limited public resources

where every dollar spent needs to meet its objective. In the ideal world, CAUS believes the Government of Alberta would do this in concert with the Government of Canada making the same move with federal tax credits, ensuring clarity and understanding among students, their families and taxpayers as to why the change was necessary and the benefits of moving towards non-repayable assistance over tax credits.

Regardless of where the Government of Canada goes on the issue of federal tax credits, CAUS is recommending the Government of Alberta end tuition and education tax credits in favour of non-repayable assistance.

**Crucial to this recommendation is that every dollar saved from eliminating the tuition and education tax credit go towards student financial aid.** Alberta is below the national average in terms of non-repayable assistance prior to the 2010 provincial budget, which cut \$55.6 million from grants, bursaries, debt relief and scholarships. Student assistance in Alberta is already underfunded and by eliminating the tax credit without a corresponding and direct increase in student financial aid will only make it more difficult for Albertans and their families to afford post-secondary education.

Students recommend:

**Eliminating the provincial tuition and education tax credits and investing the additional revenue into non-repayable assistance in Alberta's student financial aid system.**

## Endnotes

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The Council of Alberta University Students (CAUS) represents over 70,000 university students across Alberta. We represent undergraduate students from the University of Alberta, the University of Calgary and the University of Lethbridge to the public, government and other post-secondary education stakeholders.

Based in Edmonton, CAUS is a non-partisan and active advocacy group looking to ensure an accessible and quality post-secondary education system in Alberta. CAUS is committed to:

- Representing, promoting and defending common interests of Alberta university students;
- Seeking a fully accessible, high quality system of education in Alberta;
- Promoting and supporting the provision of effective student services;
- Providing a forum for the exchange of information among Alberta post-secondary students;
- Representing Alberta university students to all levels of government with a united voice; and
- Promoting the importance of an accessible education system.

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