The American Agora

Financial aid to rise 1.1 percent over two fiscal years

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Last semester, I published this article on the two four-percent tuition rate increases implemented by the Kerwin Administration in academic year 2017-2018 and 2018-2019. The first budget under Sylvia Burwell's presidency, presented to the Board of Trustees on Thursday, March 1, in the presence of a student protest outside Bender Library, consists of two 3 percent increases over the course of the next two fiscal years, 2020 and 2021.

The total cost of attendance, calculated by the Board of Trustees, is 2.3 percent in 2020 and 2.4 percent in 2021. There's no way to validate this, or to put it in context of new requirements for the upcoming academic years; the budgets and their specifics have not been released. Instead, I'll just do some quick analysis based on my findings in the first article I published on the university's rising tuition rate.

There are three key people to know, and none of them are Sylvia Burwell. The first is Dan Myers, the new AU provost who began his term in January. Myers heads the mechanical aspect of the funding, specifically on the strategic plan for AU's campus which includes faculty relations, university research, mandatory programs like AUx, air conditioning, and other general conditions around campus. (On a related note, I wrote an open letter to Myers after he was announced to replace interim provost Mary Clark. Read it here.) The second is CFO Doug Kudravetz, who holds considerable influence on how the university's money is allocated. The third is Jack Cassel, the current chair of the Board whose term ends in the spring. He leads the Trustees in deliberation and in approving financial proposals submitted the administration every two years.

To clarify, no tuition dollars go "into" the endowment. The endowment is made of two major components: a) donations, and b) research grants from mostly public institutions like the National Science Foundation (universities with larger endowments receive more private grants that usually contain way more goodies). The money that Myers and Kudravetz get to play with for campus projects and financial aid come from the "operating budget," around 87 percent of which comes from tuition dollars, according to an S&P financial profile. In comparison, 60 percent of George Washington University's operating budget comes from tuition dollars, according to its own annual report from the same year. (GWU's endowment is almost double that of AU's.) For Harvard, an institution that wipes its controversies with bills, only 20 percent of its operating budget comes from tuition, with the vast majority coming from donations and research grants.

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From these numbers, we get three things. First, we see how fluidly AU's dollars intersect with one another categorically. Endowment funds can go into operating, and operating funds can go into investment (conventionally what donations are used for). Second, we see why AU's tuition HAS to increase. They can't expand their endowment (and their research profile) is they don't have the money to fund more campus projects or the financial aid to give money to its own researchers to build a larger research profile. One of Myers' goals, according to the memorandum he sent out once he took office, was to further the research profile of the university and to subsequently grow the endowment—but he can't do that in a relentlessly expansionary economy without more money to start with. Third, this provides an interesting view into exactly how dependent AU is on its students' pockets, and the long path it has to travel to reach the research profile and financial brevity of many of its peer institutions —which includes GWU.

I want to talk about financial aid for a moment, because, to put it lightly, it's what people care about the most. If you turn to the mechanism that the university uses to measure the financial aid as a proportion of the total tuition revenue in a fiscal year, called the "tuition discount rate", you'd find some interesting figures that provide context to the university's financial operations. Depending on where you look, you'd get different numbers for the tuition discount rate, and here's the reason why.

AU's current divvying of financial aid is 80 percent need-based and 20 percent merit-based, according to the last annual report. Before fiscal year '18, there were several merit awards including the Frederick Douglass Distinguished Scholarship, grants-in-aid, and enrichment grants coming in from the administration that were left out of the discount rate, which is why ratings agencies reported a low 25 percent discount rate on AU's bond ratings in the last couple years. The university's self-reported tuition discount rate, which includes all those merit awards in fiscal year 2016 (set to remain consistent through fiscal year '18) is 31.7 percent.

According to an article by Ayelet Sheffey from The Eagle, "Half of the 3 percent tuition increase goes directly back to financial aid, which will be about $10 million in 2020 and $6.7 million in 2021." Mathematically, 31.7 percent of the total tuition & fees in FY '18, $555,851,000, is $176,204,000 worth of financial aid in '18 (the base year I'm using). In addition to the reported $10 million and $6.7 million, the amount of financial aid going back to students by the end of FY '21 should reach $186,204,000 in FY '20 and $192,904,000 in FY '21.

As a proportion, this total aid by 2021 is 34.7 percent of the tuition revenue in the base year. Assuming the number of students at AU and the financial requirements for freshmen stay constant, we can factor in the increase in tuition dollars (which are three percent each year) for FY '20 and FY '21. We would get estimated tuition revenues of $571,726,530 in FY '20 and $588,878,326 in FY '21, which means that the real increase in the tuition discount rate in FY '20 will be up to 32.6 percent and 32.8 percent in FY '21. So based on this very roughly adjusted estimation, the amount of financial aid will go up by a total of 1.1 percent over fiscal years '20 and '21, not 3.0 percent as implied by Doug Kudravetz.

Because I'm not working with any real data besides that of past budgets, there's no precise way to evaluate the quality of this increase other than to compare it to AU's peer institutions using the same standards. I'm going to use Syracuse University as a baseline, George Washington University for its campus profile similarity, and Marquette University for its endowment similarity but you can find the entire list here.

AU's FY '18 tuition discount rate was 31.7 percent. Syracuse University's tuition discount rate for FY '18, according to its annual report, netted $324.7 million in financial aid over a total tuition revenue of $602,356,000, or 53.9 percent. George Washington University's tuition discount rate for FY '18 (also from its annual report) was a net of $317,030,000 over $1,067,678,000 in total tuition revenue, or 29.7 percent. Marquette University's tuition discount rate in FY '18 (you'll never guess what I'm about to cite) netted $154,509,000 over $402,171,000 in revenue from tuition and fees, or 38.4 percent. Given that all three tuition discount rates are likely to continue rising, AU's 1.1 percent increase in financial aid will have little to no effect in comparison to relative discount rates of these three peer institutions. Marquette and Syracuse both give more back to students per tuition dollar than AU does, despite having vastly different endowments. George Washington University's tuition discount appears low by virtue of its confounding by a much larger volume of tuition revenue, and gives more in dollar value than the three other schools.

I cannot say this enough: this calculation is a rough estimate using two data points sampled off of four different annual reports for the same fiscal year. But taking the words of Kudravetz, Myers, and Cassel into account, it shows some surface inconsistencies between what is advertised and what will actually happen with the budget. I don't believe the 3.0 percent increase per fiscal year is necessarily bad—it is certainly a very low figure put forth under sustained pressure from student activists. It's a compromise on behalf of the administration, a compromise that will delay the university's strategic plan for the sake of affordability. It's certainly a refreshing change from the Kerwin Administration, and in a way shows that the Burwell Administration can hear students when they organize. However, regardless of where AU's top peer universities decide to go in their budgets for the upcoming fiscal years, one thing is clear: we're not catching up anytime soon, in percent or in dollar value.

Image courtesy of Jeff Watts, American University

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