HEARING ON
NEXT STEPS IN
IMPROVING COLLEGE
ACCESS AND PERSISTENCE

SEPTEMBER 19, 2006

ADVISORY COMMITTEE
ON STUDENT FINANCIAL
ASSISTANCE

SUMMARY OF THE ADVISORY COMMITTEE'S HEARING
WASHINGTON COURT HOTEL, THE ATRIUM BALLROOM
WASHINGTON DC
SEPTEMBER 19, 2006

BACKGROUND

The Advisory Committee on Student Financial Assistance (Advisory Committee) serves as an independent source of advice and counsel to Congress and the Secretary of Education on student financial aid policy. It was established by Congress through the Higher Education Amendments of 1986 and began operation in 1988. The congressional mandate requires that the Advisory Committee conduct objective, nonpartisan, and independent analyses on important aspects of the student assistance programs under Title IV of the Higher Education Act.

According to its authorizing statute, the purpose of the Advisory Committee is to provide extensive knowledge and understanding of the federal, state, and institutional programs of postsecondary student assistance and to provide technical expertise with regard to systems of need analysis and application forms. In addition, the Advisory Committee is required to make recommendations that will result in the maintenance of access to postsecondary education for low- and moderate-income students. Throughout its existence, the Advisory Committee has examined the barriers to access confronting such students and translated research on access and persistence into policy solutions for enhancing student assistance programs at the federal, state, and institutional levels.

The Advisory Committee on Student Financial Assistance (Advisory Committee) is a Federal advisory committee chartered by Congress, operating under the Federal Advisory Committee Act (FACA); 5 U.S.C., App. 2). The Advisory Committee provides advice to the Secretary of the U.S. Department of Education on student financial aid policy. The findings and recommendations of the Advisory Committee do not represent the views of the Agency, and this document does not represent information approved or disseminated by the Department of Education.

PURPOSE OF THE HEARING

To officially launch three major projects, the Advisory Committee held a one-day hearing to gather information relative to each task: the new report on financial barriers to college enrollment, *Mortgaging Our Future*; a congressionally requested college textbook study; and a feasibility study for radical simplification of the federal expected family contribution (EFC). The hearing brought together the higher education policy, research, aid administration, and publishing communities in order to obtain feedback from experts in each field, and, finally, to obtain public comment on the projects overall. Accordingly, the hearing was divided into four sessions, the first three of which examined each project in detail, and a fourth that was devoted to public comment:

- Session I: *Mortgaging Our Future*
- Session II: Study of College Textbook Pricing

- Session III: Simplification of Expected Family Contribution Determination
- Session IV: Public Comment and Discussion

The September 19th hearing marked the public launch of the Advisory Committee's new report, *Mortgaging Our Future: How Financial Barriers to College Undercut America's Global Competitiveness*. The report describes how financial barriers created by rising college prices and insufficient need-based aid lower bachelor's degree attainment. *Mortgaging Our Future* follows up the Advisory Committee's two previous reports on access barriers, *Access Denied* (2001), and *Empty Promises* (2002).

The Study of College Textbook Costs was requested by Congressman David Wu (D-OR) and House Committee on Education and the Workforce Chairman Howard P. "Buck" McKeon (R-CA) in a letter dated May 26, 2006 citing concerns about the rising cost of college textbooks compounding overall financial barriers that hinder access to a college degree. A primary objective of the cost study will be articulating recommendations on ways to make textbooks more affordable. The final report will be issued to Congress in May 2007, making recommendations to Congress, the Secretary of Education, and other stakeholders.

The Feasibility of Federal EFC Simplification Study will explore the challenging and unresolved questions of radically simplifying the EFC in terms of both analytical concerns regarding the use of fewer data elements and practical issues involving benefits and costs. This study is part of the ongoing three-year Innovative Pathways to Baccalaureate Degree Attainment Study, which was publicly launched at the Advisory Committee's April 4, 2006 hearing.

HEARING PARTICIPANTS

Keynote Speaker

The Honorable David Wu, U.S. House of Representatives, Member, 21st Century Competitiveness Subcommittee, House Committee on Education and the Workforce

Panelists

Session I: ***Mortgaging Our Future***

Presenters: *Dr. Arnold Mitchem, President, Council for Opportunity in Education*

Ms. Sarita Brown, President, Excelencia *in Education, Inc.*

Dr. William E. "Brit" Kirwan, Chancellor, University System of Maryland

Dr. David Warren, President, National Association of Independent Colleges and Universities

Mr. David S. Baime, Vice President for Government Relations, American Association of Community Colleges

Dr. A. Dallas Martin, Jr., President, National Association of Student Financial Aid Administrators

Session II: **Study of College Textbook Pricing**

Presenter: *Dr. James V. Koch, Professor of Economics and President Emeritus, Department of Economics, Old Dominion University*

Respondents: *Ms. Debra Prescott, Senior Analyst, U.S. Government Accountability Office*

Ms. Valerie F. Lewis, Commissioner of Higher Education, Connecticut Department of Higher Education

Ms. Patricia Scott Schroeder, President and Chief Executive Officer, Association of American Publishers

Mr. Richard Hershman, Director of Government Relations, National Association of College Stores

Mr. David Rosenfeld, Campus Program Director, Student Public Interest Research Group Campus Program

Session III: **Simplification of Expected Family Contribution Determination**

Presenter: *Dr. Sandy Baum, Professor of Economics, Skidmore College and Senior Policy Analyst, The College Board*

Respondents: *Ms. Laurie Wolf, Executive Dean, Student Services, Des Moines Area Community College*

Mr. Joe Paul Case, Director of Financial Aid, Amherst College

Mr. George Chin, Director of Student Financial Assistance, City University of New York

Dr. Steven E. Brooks, Executive Director, North Carolina State Education Assistance Authority

Session IV: **Public Comment and Discussion**

Respondents: *Ms. Melanie Amrhein, President, National Association of State Student Grant and Aid Programs*

Mr. Stephen Hochheiser, Director, Academic Reseller Management, Thomson Learning

Ms. Lauren J. Asher, Associate Director, The Institute for College Access and Success

Mr. Mark Kantrowitz, Publisher, FinAid

Mr. Travis Reese, State Chair, Minnesota State University Student Association

SUMMARY OF HEARING

Session I: ***Mortgaging Our Future***

Session one panelists provided response and commentary on the Advisory Committee's just-issued report, *Mortgaging Our Future: How Financial Barriers to College Undercut America's Global Competitiveness*, which estimates the number of bachelor's degrees lost during the 1990s and the current decade due to financial barriers. The report concludes that barriers in the form of record high work and loan burden caused by rising college prices and insufficient need-based grant aid undermine access and degree completion. Six policy implications are determined, as follows: one, reinvigorate the access and persistence partnership to increase need-based aid from all sources; two, restrain increases in the price of college; three, moderate the trend toward merit-based aid and reliance on loans; four, reduce financial barriers to transfer; five, strengthen early intervention programs; and, six, invest in efficient and productive college remediation.

Dr. Arnold Mitchem, President of the Council for Opportunity in Education (COE) spoke first, commenting on the report's likely impact on the federally funded TRIO programs and other early intervention programs. Dr. Mitchem began by noting that *Mortgaging Our Future* reinforces the mission of COE in defending the interests of low-income students, including first generation college students, minorities, and the disabled by quantifying the problem of low-income student baccalaureate degree attainment. The two key problems addressed in the report, inadequate need-based grant aid and other financial barriers, can trump the good work of early intervention programs such as TRIO, that play a vital role in the receipt of student aid by low-income students. For example, students in Talent Search (a component of TRIO) apply for financial aid at higher rates than their peers: in Florida, 52 percent of Talent Search students apply, as opposed to 33 percent of their peers; in Indiana, 59 percent apply, as opposed to 45 percent of their peers; and in Texas, 62 percent apply, as opposed to 35 percent of their peers. In conclusion, Dr. Mitchem stressed the need for a multi-party access and persistence partnership with the federal government leading the charge, as recommended by the Advisory Committee's report.

Ms. Sarita Brown, President of *Excelencia* in Education, Inc. (*Excelencia*), then provided comments on the problems Latino students, in particular, face in overcoming financial barriers to college. The concerns raised in *Mortgaging Our Future* overlap with and reinforce the concerns of *Excelencia* regarding Latino students. *Excelencia* recently partnered with the Institute for Higher Education Policy (IHEP) to produce the report, *How Latino Students Pay for College*, using data from the National Postsecondary Aid Survey (NPSAS), which determines how financial aid is distributed among various racial and ethnic groups. This joint report found that the majority of Latino students who access financial aid are first-generation college students; most live with their parents, enroll part-time, and/or enroll at a two-year institution; and one-quarter come from homes with incomes below \$40,000. For these reasons, Latino students, while applying in equal measure as their peers, are actually receiving less financial aid. Unequal distribution of financial aid among race and ethnic groups is not limited to undergraduates; minority students are still underrepresented in graduate programs and are more dependent on federal aid in order to enroll. The recommendations in *Mortgaging Our Future* are particularly praise-worthy because they are actionable. Of particular importance to minority students are the recommendations to increase need-based grant aid; to reduce barriers to transfer, which affect Latinos disproportionately as 60 percent begin at a two-year institution; and to strengthen early intervention programs.

Dr. William Kirwan, Chancellor of the University System of Maryland, then discussed the report's findings in the context of his decades of experience working with low-income students at the state level. *Mortgaging Our Future* presents graphic evidence of the risk of creating a permanent underclass, which would provoke a national calamity in terms of America's global competitiveness. The report's methodology is impressive, and provides a perfect companion to the international picture painted in recent data from the Organisation for Economic Co-operation and Development (OECD). If nothing is done about educational attainment among low-income students, the U.S. risks replacing retiring baby boomers with less-qualified workers. To avoid such a situation, the U.S. must improve K-12 education, invest in higher education, and invest in more need-based student aid. Over the last decade, need-based aid has increased by 56 percent, the rate of inflation, while merit-based aid has increased by 240 percent. The University System of Maryland recently conducted a study on financial aid, which determined that the lowest-income students were graduating with 25 percent more debt than the average student; as a result, the University's new goal is to shift institutional resources so that low-income students graduate with 25 percent less debt. In service to that goal, Maryland Governor Robert Ehrlich has doubled need-based aid for state institutions, and the Pathways program at the University of Maryland, College Park campus has guaranteed that participants will graduate with zero debt, similar to programs at the University of Virginia, University of North Carolina System, and Harvard University. In closing, Dr. Kirwan stated that he supported all of the report's policy recommendations.

Following Dr. Kirwan's presentation, Dr. David Warren, President of the National Association of Independent Colleges and Universities (NAICU), spoke on student financial barriers at the national level. *Mortgaging Our Future* reflects the concerns of a season of reports on issues of global competitiveness, including those by the National Academies, the American Association of University Professors, and The College Board. The Advisory Committee's report, however, can be regarded as a prism through which to view all of these because it connects financial barriers to specific groups of students with challenges to competitiveness. If we cannot remove financial barriers to college for academically qualified but needy students, then the foundations of this republic will crumble, global competitiveness efforts will decline, and the benefits of an educated citizenry will be denied to millions of students. The partnership of government, institutions, and community interests that emerged from the establishment of the Higher Education Act of 1965 (HEA) is now unraveling. Within the last five years, the maximum Pell Grant has not increased, the philanthropic center has been flat, and states have experienced a 21 percent reduction in funding for students. There has been a 61 percent increase in borrowing, and 25 percent of students now use a credit card to pay for college. Not enough grant aid is available, and tuition is too high. *Mortgaging Our Future* makes clear that students are failing to attain a baccalaureate degree due primarily to a lack of capitalization, not a lack of preparation or information. The HEA partnership needs to be remade in order to solve these problems.

Providing the perspective of community colleges was Mr. David Baime, Vice President for Government Relations at the American Association of Community Colleges (AACC). Community colleges take seriously their role of preparing students for eventual baccalaureate degree completion because the latter degree is more economically viable than an associate's degree. The intention to complete a baccalaureate degree can change over time, and stated intentions captured by data are not always accurate. In addition, students who seem to be college-qualified on paper do not always perform when it comes to handling actual college coursework, a problem routinely dealt with at community colleges. For example, 53 percent of community college students receive remediation, and math is the area of greatest need. Students also benefit more from remediation if they are working with the core program simultaneously. Merit aid is a dangerous path, but certain merit programs that provide incentives to increase completion of credits for transfer can work well. The AACC is disappointed with the American Competitiveness Grants (ACG), which are limited to full-time students—62 percent of students at community colleges enroll part-time—and, in addition, the Department of Education (ED) is denying grants to certificate students, which the AACC regards as against statute. As *Mortgaging Our Future* states, among low-income high school graduates who complete Trigonometry and aspire to a baccalaureate degree, only 19 percent who start at a community college actually attain the degree, while 69 percent of those who begin at a four-year college do so. This problem needs financial redressing, along with solutions to articulation issues. Too often, transfer students do not receive the same amount of institutional aid as their peers enrolled at a four-year institution from the beginning.

The final panelist was Dr. A. Dallas Martin, Jr., President of the National Association of Student Financial Aid Administrators (NASFAA), who provided an overall perspective on the importance of student financial assistance to degree attainment. Dr. Martin began by commenting that President Bush, in his State of the Union address, noted that the preservation of global competitiveness is essential to American interests. The November 2005 Policy Alert issued by the National Commission on Public Policy and Higher Education raised similar concerns. If the educational attainment of the workforce declines, that will negatively affect American competitiveness by decreasing income, which decreases the nation's tax base. NASFAA concurs with the Advisory Committee on its central recommendation, that stakeholders must work together to solve the problem. That partnership must resolve the inequalities and leakages in the pipeline by addressing the factors contributing to the large percentage of students not college-qualified. Additionally, as the net price of college continues to increase, collective resources must be reprioritized in order to reduce net price by expanding need-based aid. Over the last decade, academic preparation and aspirations have increased, yet financial aid has not. In addition to the problems identified in the report regarding college-qualified students, there are the problems of those college students who do not succeed being saddled with significant debt, but no degree; a growing dependence on credit is problematic. Restoring the student aid partnership is essential.

The presentations were followed by a discussion among panelists and Advisory Committee members. Issues discussed included mechanisms to address problems with the student aid partnership, the role of the Leveraging Educational Assistance Partnership (LEAP) program, the dissemination of the findings of *Mortgaging Our Future*, the capitalization of higher education, the relationship of the business community to the partnership, and alignment of standards issues.

SESSION II: Study of College Textbook Pricing

The second hearing session focused on the development of a study plan for the Advisory Committee's congressionally requested Study of College Textbook Costs. The session was divided into three parts. First, Congressman Wu addressed Advisory Committee members, explaining the need for the textbook study and congressional intent with regard to it. Second, Dr. James Koch, consultant to the Advisory Committee, presented his proposed study plan. Third, respondents representing various stakeholders in the higher education community and textbook publishing industry commented on Dr. Koch's plan, additional problems, and possible solutions.

Keynote speaker Congressman David Wu addressed the Advisory Committee first. Representative Wu began his remarks by recognizing the significant work accomplished by Chairman McKeon on the U.S. House Committee on Education and the Workforce. The problem of textbook costs was brought to Representative Wu's attention when a *New York Times* article on the subject described complaints similar to those Wu has received from his constituents, the issue on which his office has received the most constituent input of any education issue.

The problem presented by rising textbook costs is a classic example of the "broken market" theory in economics: textbooks are chosen by professors, the campus bookstore orders them, and students must pay for them. Publishers have some role in pricing the books; however, students have no choice in terms of prices beyond the slight differentials provided through Internet vendors. Given the problem, there are several possible solutions: one, live with the problem as it is; two, encourage stakeholders to make voluntary changes; or, three, enact new government regulations. The last is the most severe; however, if the market doesn't heal itself, public pressure to do something will be tremendous. All must work on positive solutions to the problem of textbook costs.

Congressman Wu then articulated some of the most pressing issues for various stakeholders. The GAO study, *College Textbooks: Enhanced Offerings Appear to Drive Recent Price Increases*, provides some critical data. Since 1986, textbook prices have increased 180 percent, tuition has increased 240 percent, but the general rate of inflation has only increased by 72 percent. For community college students, the cost of textbooks and supplies represents 72 percent of tuition and fees—for some of these students, the cost of textbooks is equal to tuition and fees. For students at four-year colleges, the cost of textbooks and supplies represents 26 percent of tuition and fees. To cope with this mounting problem, students would like course syllabi earlier in the year in order to research prices. In addition, students are advocating for better resale value. In terms of the issues publishers face, the product ages quickly and is distributed to a narrow market; therefore, many publishers consider the production of textbooks a public service.

In conclusion, Congressman Wu urged all stakeholders to avoid intrusive legislative and regulatory actions by finding ways to work better together. Some initial areas of inquiry might include: faculty offering syllabi earlier, publishers sending price lists to professors, and bookstores and publishers examining issues relative to fixing a broken market. The price of college textbooks should not be a barrier to access.

Dr. James V. Koch, Professor of Economics and President Emeritus, Department of Economics, Old Dominion University, presented his findings on possible strategies for conducting the Study of College Textbook Costs. First, he defined the unique characteristics of the American textbook market: one, those who choose textbooks (faculty) are not the individuals who pay for them (students), which is similar to the prescription drug market, and both create "price inelastic" systems; two, most postsecondary institutions have a financial stake in the profits from textbooks as one-half own campus bookstores and approximately 35 percent contract with a bookstore chain; and, three, some rational market strategies by publishers and bookstores—bundling, international price differentials, and frequent new editions—will persist unless institutional and student behavior changes. Dr. Koch then provided a series of policy options, including the provision of incentives to institutions to publish lists on the Internet with ISBN numbers and direct links to other sellers; requiring textbook package unbundling to enable purchase of needed items only; and the adoption of textbook rental systems. In addition, institutions might require faculty to understand textbook prices and use the same edition of a textbook for longer periods of time. Students might also benefit from nonprofit bookstores, such as those at Montana, Oregon, Texas, UCLA, and Wisconsin, Madison. Institutions might also be encouraged to negotiate lower prices directly with publishers, and consider supplying textbooks as part of tuition and fees. Finally, Congress could reverse bans on the re-importation of textbooks.

Dr. Koch outlined four possible next steps for the Advisory Committee. First, the Committee should sponsor a series of regional hearings to corroborate findings, gather input, and distribute information. Second, a set of pilot projects could be sponsored that would provide financial incentives to participating institutions. Data from these controlled tests could provide solid information about the benefits and costs of these approaches. Third, the Advisory Committee might suggest that Congress request the Justice Department and the Federal Trade Commission (FTC) to investigate the legal and economic issues of re-importation bans. Fourth, the Committee could explore the cost/benefit issues of tying institutional eligibility for federal aid to the adoption of market innovations discussed in the report. Many problems will disappear without legislative or regulatory intervention if institutions and students have improved knowledge about their options, the best solution.

Ms. Debra Prescott, Senior Analyst for the GAO, then discussed Dr. Koch's findings relative to the GAO report, *College Textbooks: Enhanced Offerings Appear to Drive Recent Price Increases*. Ms. Prescott noted that the most important strategy is to promote general student awareness of issues relative to textbook pricing. But before undertaking regional hearings, the Advisory Committee should undertake a more systematic study. It is unclear whether wide-spread savings on textbook prices can be achieved.

For instance, the GAO found that the supply of used books was limited; thus, supply and demand forces would be mitigated relative to resale value. In terms of offering items à la carte, since different economic rationales are developed for providing different sorts of bundles, including the provision of free or bonus materials, à la carte items might cost more if purchased separately. In addition, rental systems can be costly. The economics of the textbook market are complicated, and altering them can produce unintended price consequences. The Advisory Committee needs to know more about intended winners or losers before moving forward, and undertake a more systematic study prior to taking action.

Ms. Valerie Lewis, Commissioner of Higher Education for the Connecticut Department of Higher Education, provided information on the State of Connecticut's 2005 study of textbook costs and the solutions implemented by the state. Prompted by students, Connecticut examined what could be done to reduce costs by each of the major stakeholders: states, institutions, bookstores, and publishers. States can increase aid for unmet need, create course materials need-based grants, and ensure that aid is awarded earlier to give students time to comparison shop. States might also include textbook costs in total educational costs, allow costs to be included in pre-tax savings plans, and eliminate sales taxes on textbooks. Institutions can investigate textbook pricing on campus, ensure that faculty are aware of textbook prices, make course book lists available in advance, encourage use of the same textbook for multiple years and multiple courses, and discourage the automatic ordering of bundled material. In addition, institutions can implement bookstore buy-back programs, ensure that libraries maintain reserve copies, allow students to receive financial aid credits at bookstores, and urge bookstores to be more responsive to student concerns. Bookstores can work with faculty and publishers on course adoption timelines, economically sound bundles, and timely retail price disclosure. In addition, bookstores can disclose ISBNs, provide used textbooks, and price textbooks by credit hour. Publishers can work more closely with faculty to provide retail prices, describe changes between editions, provide realistic publication dates and lead time for edition changes, and provide information on lower cost textbooks. Publishers can also offer bundled components individually and disclose price differences, as well as end the practice of default or automatic bundling. More customization is also possible, including digital and other custom texts. The result in Connecticut has been that postsecondary institutions are very engaged in examining these issues, financial aid credit for book purchase is available, and the state has continued elimination of sales tax on textbooks, and has implemented a disclosure law that requires publishers to provide faculty with textbook prices and revision histories.

Ms. Patricia Scott Schroeder, President and Chief Executive Officer of the Association of American Publishers (AAP), responded to Dr. Koch's report on behalf of textbook publishers. Ms. Schroeder stated that Dr. Koch's report contains some valuable points and includes stakeholders that have been overlooked in past discussions. The decline in state subsidies for institutions, combined with increasing numbers of entering students unprepared for college work have created a number of strains on the educational system, some of which publishers have been instrumental in addressing. While institutions attempt to hold down costs, publishers have been making a greater investment in learning tools, class management systems, and faculty services to ensure quality education. The AAP has four specific concerns regarding Dr. Koch's report. One, the average cost figure used, $900 to $1,000, is faulty and should be removed. The average cost of textbooks to students is $650, which excludes supplies and computers and takes resale value into account. Two, studies show that technology-based learning tools provided by publishers substantially increase course passing rates. Three, the Advisory Committee should not encourage the Justice Department and FTC to examine re-importation policies as that would call into question international pricing agreements in other industries. Four, the Advisory Committee should hold regional hearings only after developing its recommendations, as to do so earlier would provoke finger-pointing instead of positive solutions. Potential solutions to lowering textbook costs include eliminating sales tax, using custom textbooks, and developing electronic books (e-books). E-books reduce acquisition, warehousing, inventory, and redistribution costs, as well as costs associated with updating and customizing textbooks.

Mr. Richard Hershman, Director of Government Relations for the National Association of College Stores (NACS), spoke regarding the role of college stores in providing and pricing college textbooks. Mr. Hershman began by describing the various ways in which college bookstores work with students and faculty to reduce costs, including stocking used books, encouraging faculty to factor cost into ordering decisions, facilitating communication between stakeholders, and providing budgeting materials to students. While Dr. Koch's report presents valid issues, NACS believes that it represents an incomplete and inaccurate picture of the economics of the textbook industry, a lack of understanding of the mission and structure of bookstores, and a faulty understanding of the various factors that impact materials costs. Faculty were not included in the GAO study; therefore, the Advisory Committee should analyze their role in textbook pricing. Mr. Hershman discouraged the Advisory Committee from holding regional hearings while the study is underway for reasons similar to those of Ms. Schroeder. NACS would like the Advisory Committee to conduct research in the following three areas: one, the understanding of average student course material costs and the collection and reporting of that data; two, the costs associated with supplemental materials, which were cited by the GAO as the primary reason for overall price increases; and, three, the methods by which students pay for course materials and to what extent those represent access barriers. Regarding the last point, the use of credit cards to purchase supplies increases overall prices because credit card companies charge a 1.9 percent interchange fee.

Luke Swarthout, Higher Education Advocate for U.S. Public Interest Research Group (PIRG) delivered the testimony of Mr. David Rosenfeld, Campus Program Director for the Student PIRG Campus Program, who was unable to attend the meeting. The Student PIRGs generally agree with the solution-based, market-based orientation of Dr. Koch's report, with two notable exceptions: one, publishers have a long-standing practice of not revealing price or lower cost options to faculty unless asked; and, two, faculty, not bookstores, exercise control over textbook purchasing, including the ability to order materials bundled or unbundled. The Student PIRGs support developing pilot programs, such as rental programs, both limited- and full-scale; the broader dissemination of Creative Commons textbooks; the promotion of other used book forums, such as links to alternative vendors and online book exchanges; the development of purchasing guidelines for faculty; and the adoption of policies similar to the disclosure law recently enacted in Connecticut. In terms of state and federal actions, legislation should not be taken completely off the table; for example, Connecticut's disclosure law is an appropriate one. In addition, the Advisory Committee should consider whether the FTC and the Justice Department should investigate the ban on the re-importation of foreign textbooks. In conclusion, the Student PIRGs support regional hearings as an important way to bring students and faculty to the table.

Congressional staff present then provided their response to the Study of College Textbook Costs plan.

Mr. Brad Thomas, Professional Staff Member of the House Committee on Education and the Workforce, present on behalf of U.S. House of Representatives Committee on Education and the Workforce Chairman Howard P. "Buck" McKeon, stated that the proper role of Congress at this juncture is to listen to feedback from students and the Advisory Committee. Chairman McKeon is concerned about the increasing costs of college, including textbooks.

Mr. Brian Branton, Legislative Director for Representative David Wu, said that the impetus for the examination of textbook costs was reaction to a hearing from constituents on the issue and a newspaper article, and this prompted Representative Wu to seek greater awareness regarding the complexity of this issue and the number of stakeholders it affects. Because of the issue's complexity, it is important that the Advisory Committee explore the topic.

Ms. Beth Osborne, Legislative Assistant to Representative Jay Inslee, commented that Representative Inslee appreciates the diligence of the students who brought this to his attention. Because his sons are in college, this issue is particularly compelling. Microsoft is located in his district (Washington's 1st district) and contributes a great deal to educational innovation.

The session concluded with a question and answer period for Advisory Committee members and panelists. Issues discussed included the viability of proposed solutions, the need for additional analysis and information, and the economic problems involved.

SESSION III: Simplification of Expected Family Contribution (EFC) Determination

Session three panelists provided response and commentary on the design of the Feasibility of Federal EFC Simplification, a study to determine the extent to which the EFC formula can be radically simplified with minimal adverse effects on program integrity, delivery, and costs. The session was divided into two parts. First, Dr. Sandy Baum, Professor of Economics at Skidmore College and Senior Analyst for The College Board, presented her draft study design. Second, panelists representing postsecondary financial aid offices and programs provided commentary and suggestions on the design.

Dr. Baum began her presentation by noting that the focus of the study would be on the student receiving aid and not on the complexity of the issue itself. Under that lens, the Advisory Committee will examine the number of data elements on the FAFSA and each element's contribution to the determination of EFC, as well as the effect on student access to financial aid, the feasibility of delivering timely information, and the costs and benefits of alternative approaches. EFC simplification matters because current complexity makes early information unavailable; for example, with a less complex formula, a table might be created that gives a rough idea of potential aid available. Complexity discourages students from applying for financial aid and does not necessarily yield more accurate data.

The primary risks of simplification are an increase in the number of additional forms required by states and institutions, as well as potentially unfair redistribution of aid; therefore, the questions that frame the study are carefully considered. Concerns include the potential redistribution curve of federal aid; whether EFC must be used for all federal aid programs or just Pell; the number and types of family structures and financial circumstances; the number of data elements necessary, including any alternative elements; and whether data must be more recent than currently in use.

The EFC study approach will be to review previous analyses, identify and evaluate alternative models, and report to Congress and the Secretary of Education. The data to be examined are actual FAFSA data from the Department of Education, including a stratified random sample of 500,000 2003-04 FAFSA filers with detailed information on financial status, dependency, age, type of institution, enrollment status, EFC, and Pell award. The study methodology will examine the available characteristics of students in order to analyze potential redistribution, examine eligibility variations under the current methodology, and compare eligibility determined with fewer data elements. The study will also consider the feasibility of using IRS data.

Measurement of benefits will take the following into account: ease of use for students, nature of potential beneficiaries, validity and reliability of data, access issues, and comparison of the potential system not just to the paper form, but to the online system replacing it. Costs would be assessed by examining who might lose aid eligibility, the validity and reliability of the resulting data, potential increase in program costs, and acceptability of outcomes to the financial aid community. Additional issues to consider include implications for states and institutions, the impact on the number of aid applicants, the possibility of revenue neutrality, vertical and horizontal equity, and the possibility of constructing a look-up table. The final report will identify feasible and desirable alternatives to the current EFC formula, implementation issues, and an outline of the legislative and regulatory issues.

Ms. Laurie Wolf, Executive Dean for Student Services at Des Moines Area Community College, provided the perspective of a two-year institution on the proposed study design. The EFC formula is due to be re-examined as eight-track tapes were the current technology when it was designed. At that time, most students were traditional students, now 75 percent of students are nontraditional. The 1992 HEA amendments introduced the idea of data exchanges between ED and other agencies, but that has not yet occurred. If a data match with the IRS were implemented, 34 questions or two pages could be eliminated from the FAFSA; verification requires the revelation of sensitive personal data and slows down the EFC process. In addition, any simplification study must take into account the needs of students who file no tax forms because they owe no taxes, but there are at least 11 other data bases that could be matched against the process, including the Department of Homeland Security, the Food Stamp program, the Immigration and Naturalization Service, the Social Security Administration, and the Selective Service. Ms. Wolf noted that 37 percent of entering fall students at Des Moines do not apply for financial aid until August 1 or after, only two to three weeks before the start of classes. It takes six to eight weeks to process financial aid applications, but the majority of students expect electronic filing to result in 24-to-48-hour notification. In conclusion, Ms. Wolf recommended revising the EFC formula, putting more funds into financial aid programs, and streamlining aid administration through the use of partners.

Mr. George Chin, Director of Student Financial Assistance at the City University of New York (CUNY), responded from the point of view of a public four-year institution. The study is a timely one, and the main question should be to determine who would benefit most from simplification, which has had little impact on the poor. EFC simplification should, therefore, reach for equity, not equality. In that regard, IRS data may or may not be useful as the tax code is now skewed toward sheltering income; thus, the actual income of families is not always clear. The Advisory Committee should also consider whether it is simplifying the form or the formula; in the current formula, aid administrators now leave out home equity and retirement assets. The Committee may want to consider the impact of funding a negative EFC for the poorest Pell Grant recipients, because, if there’s going to be error, there should be error on the side of the poor.

Mr. Joe Paul Case, Director of Financial Aid at Amherst College, commented from the perspective of independent institutions. Mr. Case stated that the Feasibility of Federal EFC Simplification Study should be pursued and based his response on his own 1991 proposal to simplify EFC. The target of federal financial aid should be those students with the greatest need, such as those who qualify for Pell Grants. Radical simplification of EFC could focus on the informational needs of the federal government in determining eligibility for a Pell Grant. Other stakeholders, such as institutions, state agencies, and private organizations, could use this stripped-down form as their sole method of determining aid eligibility, or could require additional data and forms for distributing their own funds, with the provision that combined resources not exceed the cost of attendance. While this would decouple federal need analysis from what states and institutions do, the current need analysis formula often does not provide data especially tailored to individual institutions. In the case of institutions like Amherst with substantial resources delivered across a broader range of incomes, administrators need to make more accurate assessments of ability to pay. The FAFSA has developed its length and number of questions as middle- and high-income families have attempted to lower their taxable income in order to appear poorer; if the formula is refocused on low-income students, there may not be a need for the federal government to ask as many additional questions. Any proposed simplification would need to have adequate definitions, such as the difference between an independent and a dependent student, or the determination of parental status. In addition, simplification of EFC must take into account any possibility of redistribution effects.

Dr. Steven E. Brooks, Executive Director of the North Carolina State Education Assistance Authority, was unable to attend the hearing.

A discussion period for panelists and Advisory Committee members followed the panelist presentations. Issues considered included continued use of a single form, the need to further analyze student data, concerns about possible redistribution effects, and the effect of the tax code on EFC calculations.

SESSION IV: Public Comment and Discussion

Session four panelists presented the views of various members of the higher education community on issues discussed during the hearing. The purpose of this final session is to gather additional comments and feedback from interested parties. An open call for comments is issued by Advisory Committee staff prior to the hearing; those who sign up in advance are allotted five minutes to present their remarks.

Ms. Melanie Amrhein, President of the National Association of State Student Grant and Aid Programs (NASSGAP), commented on *Mortgaging Our Future* and the EFC feasibility study. States are willing partners in obtaining grant aid for needy students, and the establishment of partnerships is part of NASSGAP's platform. NASSGAP supports additional funding for LEAP, as the Advisory Committee recommends, and also supports its Grants for Access and Persistence (GAP) proposal. In terms of EFC simplification, any changes have the potential to redistribute aid away from the neediest students, and if the FAFSA is streamlined to the extent that too many state-specific questions are eliminated, states might require additional forms.

Mr. Mark Kantrowitz, Publisher of FinAid, provided a response on the EFC feasibility study. A perfect assessment of ability to pay is not possible because such figures are based on prior year income. However, the quick EFC calculator on FinAid's website can be used to calculate likely EFC with more timely data. The Gates Millennium Foundation uses the calculator to determine family income. Mr. Kantrowitz agreed that the EFC formula and the FAFSA could be simplified and noted possible areas, including elimination of data with minimal impact, elimination of asset figures, elimination of worksheets, and consideration of prior year tax data.

Ms. Lauren J. Asher, Associate Director of The Institute for College Access and Success (TICAS), offered feedback on the EFC feasibility study. Of special importance is considering which groups of students are being helped or hurt by potential redistribution. The use of IRS data in EFC calculation brings up the issue of shifting the system to the IRS form from the FAFSA. IRS data is said to be difficult to obtain, but loan programs and state agencies have been accessing it through IRS form 4506T. In terms of form simplification, the online FAFSA is actually longer than the paper FAFSA because of the worksheet.

Mr. Travis Reese, State Chair of the Minnesota State University Student Association (MSUSA), commented on the textbook study. He asked the Advisory Committee to consider the role students would play in the study and regional hearings. Some primary student concerns are bundling practices and subsequent unused materials, and the role faculty play in ordering supplemental material from publishers.

Mr. Stephen Hochheiser, Director, Academic Reseller Management, of Thomson Learning, provided a response on the textbook study. Publishers have been meeting the need for remedial support for some time by producing supplemental materials. Custom textbooks have become a solution to students' primary complaint that some materials go unused; custom products are now one of the largest growth areas in academic publishing.