

Building Pathways to Prosperity

Recommendations to the Standing Committee on Finance and Economic Affairs

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INTRODUCTION: INVESTMENTS IN POST-SECONDARY EDUCATION ARE NEEDED TO INCREASE ONTARIO'S FUTURE PROSPERITY

As the provincial government develops Ontario's 2007 budget, important choices must be made around how to strategically invest the province's resources to bring about the greatest benefit to Ontarians both now and in the years to come. As representatives of over 125,000 undergraduate and professional students at seven universities, the Ontario Undergraduate Student Alliance (OUSA) will outline why post-secondary education should be one of the government's priorities in the 2007 budget, and propose educated solutions on how to utilize public funding to maximum benefit for Ontario's students and universities.

There is a broad consensus among economists and policy-makers: investments in post-secondary education are vital to future economic growth. As the provincial government's own Task Force on Competitiveness, Productivity and Economic Progress has continually argued, Ontario must increase its investments in post-secondary education in order to increase the province's productivity, and with it, our collective wealth and competitiveness. Since the Task Force's establishment by the Ontario government in 2001 to measure and monitor the province's economic performance, it has recommended *in every annual report* that the provincial government must provide greater investments to post-secondary education in order to increase the province's productivity and prosperity.¹

The equation is simple: individuals with higher levels of educational attainment earn more throughout their lifetimes, and thereby contribute more to the overall wealth of the province. TD Economics reports that a university-educated worker's weekly earnings are on average 61 per cent higher than their counterparts with just a high school education.² The provincial government must work to ensure that all willing and qualified students are able to access these benefits. Moreover, with post-secondary education becoming an economic necessity, the provincial government will be failing its young citizens if there is insufficient space at Ontario universities or if the education is of poor quality. While investments in other areas may garner more political recognition, funding that increases the quality, accessibility and capacity of Ontario's universities will bring long-term dividends of higher wages and better jobs for graduates, with numerous economic and social results for the province as a whole:

Figure One: The Economic and Social Benefits of Post-Secondary Education³

Public Benefits of Higher Education	
Economic	Increased tax revenues
	Greater productivity
	Increased consumption
	Increased workforce flexibility
	Decreased dependence on government financial support
Social	Reduced crime rates
	Increased civic engagement
	Stronger social cohesion and appreciation for diversity
	Improved ability to adapt to new and emerging technologies
	Less reliance on health care system

However, as the Task Force has noted, Ontario's long-term under-investment in post-secondary education has led to the province lagging behind its former peers in vital economic measures such as per capita GDP. As a case study, the task force compares Ontario and Massachusetts, which were peers in their levels of prosperity in 1977. However, the two jurisdictions diverged in their growth strategies in intervening years, with Massachusetts out-investing Ontario in post-secondary education at rate of three times per capita. In 2004, Massachusetts' GDP per capita had moved

¹ See the Task Force on Competitiveness, Productivity and Economic Progress' annual reports at [Hhttp://competeprosper.ca/task/task_report.html](http://competeprosper.ca/task/task_report.html)H.

² TD Economics, "Investing in a post-secondary education delivers a stellar rate of return", *TD Economic Topic Paper*, January 22, 2004, p.1-2; accessed online at [Hhttp://www.td.com/economics/special/ca0104_education.pdf](http://www.td.com/economics/special/ca0104_education.pdf)H.

³ Adapted from Institute for Higher Education Policy, cited by Junor and Usher 2004, p.321

ahead of Ontario's by \$19,100 (or 46 per cent). By strategically investing in post-secondary education, the state has become, as the Task Force describes, "the richest jurisdiction of meaningful size on the planet." In order to shift the province's current economic path and invest in future generations, the Task Force recommends first and foremost that investments in post-secondary education should be raised. They argue this is essential to increase Ontario's productivity and prosperity.⁴

With this in mind, OUSA hopes that the provincial government makes strategic investments in the capacity, accessibility and quality of post-secondary education for the long term, rather than prioritizing short-term, consumption-based measures that may produce greater political capital.

SETTING THE CONTEXT I: THE GOVERNMENT CAN'T CHECK POST-SECONDARY OFF THE 'TO DO' LIST

It is undisputed that the increased post-secondary investments in the 2005 budget were a major step forward for Ontario's colleges and universities. However, the provincial government cannot relegate the issue to the 'done' pile. There are two important reasons why. Firstly, the effects of fifteen years of under-investment in post-secondary education by successive Ontario governments cannot be undone overnight. Despite increased funding, Ontario universities still trail behind counterparts in peer jurisdictions, as well as Ontario benchmarks from past years.

The Council of Ontario Universities notes that **when inflation and projected enrolment growth are taken into account, Ontario will remain near last place among provinces in per-student funding for universities**, in spite of the significant new provincial funding.⁵ This is illustrated in the following chart by the Council of Ontario Universities, which demonstrates that despite the increased funding through the *Reaching Higher* plan, Ontario still lags behind:

Figure One: Funding per Student in Ontario vs. Nine Other Provinces⁶



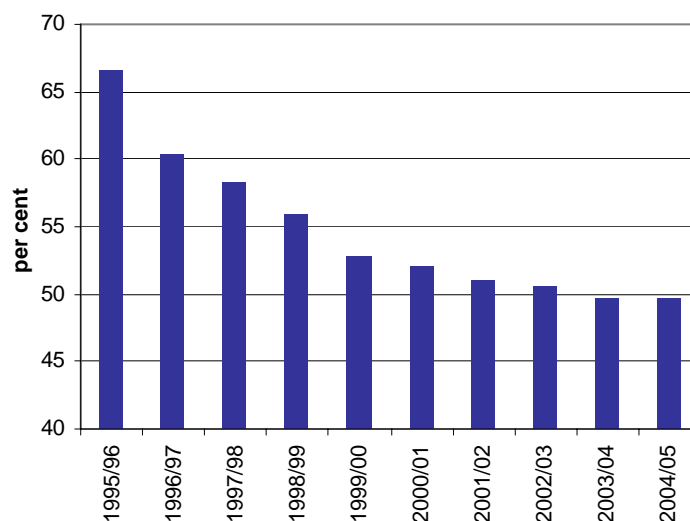
Examining government funding in Ontario more closely, the following chart shows how the proportion of university operating revenue funded by government operating grants has begun to stabilize from the free-fall of the past decade. However a great deal of work is still required to reverse the effects of past cuts.

⁴ Task Force on Competitiveness, Productivity and Economic Progress, p.14, 18, 21, 40.

⁵ Council of Ontario Universities, "Fact Sheet: Financial Implications of the Reaching Higher Plan" (Toronto: COU, 2006); accessed online at [Hhttp://cou.on.ca/content/objects/Fact%20Sheet%20Reaching%20Higher.pdf](http://cou.on.ca/content/objects/Fact%20Sheet%20Reaching%20Higher.pdf)

⁶ Council of Ontario Universities, *Briefing Notes 2006-2007* (Toronto: COU, December 2006), p.35; accessed online at [Hhttp://www.cou.on.ca/content/objects/Briefing%20Notes%202006-07.pdf](http://www.cou.on.ca/content/objects/Briefing%20Notes%202006-07.pdf).

Figure Two: Ontario Government Operating Grants as a Percentage of Operating Revenue, 1995/96 to 2004/05⁷



As University of Toronto president David Naylor notes, **Canadian universities receive an average of \$2,800 less operating support from the government, per student, than the beginning of the 1990s, and the United States invests \$5,000 more per student at public universities than Canadian governments.**⁸ With intense competition among our peer jurisdictions to emerge as a leader in the so-called 'knowledge economy', the provincial government must continue to keep post-secondary education at the top of the priority list.

SETTING THE CONTEXT II: POST-SECONDARY ENROLMENT GROWTH HAS EXCEEDED ALL EXPECTATIONS

Another important reason why the provincial government must make post-secondary education a 2007 budget priority is the major enrolment growth at Ontario institutions. The provincial government's efforts to make up for long-term under-investments in post-secondary are further limited by increased enrolment at Ontario universities well beyond anticipated levels.

The Ministry of Training, Colleges and Universities has indicated that as of September 2006, there has been an **enrolment increase of 86,000 students over 2002/03 levels**, a 22 per cent growth in four years.⁹ This is in **significant excess of the increased capacity of 50,000 more spaces set out by the provincial government in the *Reaching Higher* plan.** This enrolment growth is attributed to factors including the simultaneous passage of the 'echo boom' and the double cohort through the post-secondary system, as well as the increased availability of student financial aid to draw students to post-secondary.¹⁰ The increased number of students is partly positive news

⁷ Council of Finance Officers – Universities of Ontario, *Compendium of Statistical and Financial Information, Ontario Universities 2004-05* (Toronto: Council of Ontario Universities, October 2006), p.36; accessed online at [Hhttp://www.cou.on.ca/content/objects/Compendium%202004-05.pdf](http://www.cou.on.ca/content/objects/Compendium%202004-05.pdf)H.

⁸ Dr. David Naylor, "Unfinished Business: An Address to the Canadian Club of Toronto", November 20, 2006; accessed online at [Hhttp://www.canadianclub.org/static/speeches/2990.pdf](http://www.canadianclub.org/static/speeches/2990.pdf)H.

⁹ Ministry of Training, Colleges and Universities, "Record-breaking enrolments expected at Ontario colleges and universities", September 6, 2006; accessed at [Hhttp://ogov.newswire.ca/ontario/GPOE/2006/09/06/c3301.html?lmatch=&lang=e.html](http://ogov.newswire.ca/ontario/GPOE/2006/09/06/c3301.html?lmatch=&lang=e.html)H.

¹⁰ Colin Perkel, "Universities face baby bust", *Toronto Star*, January 21, 2007; accessed online at [Hhttp://www.thestar.com/News/article/173357H](http://www.thestar.com/News/article/173357H); "Rational growth at universities", *Ottawa Citizen*, January 18, 2007; accessed online at [Hhttp://www.canada.com/ottawacitizen/news/editorials/story.html?id=6c4f9243-25c9-4aec-a39a-a574b36337e5H](http://www.canada.com/ottawacitizen/news/editorials/story.html?id=6c4f9243-25c9-4aec-a39a-a574b36337e5H).

for Ontario, as it indicates that more students are able to access the post-secondary system than ever before, however the above-anticipated growth will create challenges in accomplishing all of the government's goals. As the Ministry of Finance notes in the 2006 Economic Outlook and Fiscal Review, a one per cent enrolment change at Ontario universities results in \$26 million in increased costs to the Ontario government.¹¹ The Council of Ontario Universities reports that the **unanticipated enrolment growth has left universities a shortage of about \$100 million for this year alone, and a total shortfall of over \$800 million over the remaining four years of the *Reaching Higher* plan**, which will adversely affect the quality of education and facilities for the bulging student body.¹² The rapid enrolment growth could easily divert money away from other important post-secondary priorities, which may be neglected in lieu of keeping pace with growth.

With these contexts in mind, OUSA believes that the provincial government must continue making higher education a priority. The following sections outline key issues related to post-secondary funding, provide OUSA's recommendations on how funding should be allocated, and estimate costs of proposed initiatives.

PRIORITY ONE: ENSURE THAT UNIVERSITIES HAVE ENOUGH FUNDING TO MEET THE COSTS OF ENROLMENT GROWTH

Recommendation One: Provide universities with additional funding to meet the costs of increased enrolment above government projections.

OUSA recommends that Ontario's 2007 Budget should provide universities with the additional funding needed to meet the costs of increased enrolment above government projections, in order to ensure that all the students in the post-secondary system are able to obtain a high-quality education. As noted above, enrolment growth at Ontario universities is exceeding expectations, and surpassing the projected numbers that were the basis of funding allocations. **There are currently 14,000 more students at Ontario universities than projected by the provincial government.** This unexpected surplus of students both attending post-secondary and receiving OSAP has required the government to access contingency funds. If not addressed by the provincial government, this will undoubtedly have an impact on the allocation of *Reaching Higher* monies. Rather than addressing rising faculty-student ratios, and improving student engagement, it is likely that much of the *Reaching Higher* money will be used simply to address the increased number of students on campuses.

High levels of enrolment cannot simply be addressed by squeezing more students into a classroom. A survey found that Ontario students have 25 per cent less contact with their professors than peer American universities, and 15 per cent less hands-on and collaborative work.¹³ Clearly, crowding classrooms with even more students will not help address this quality gap. In order to ensure the provincial government's goals for improving the post-secondary sector are not undermined by increasing enrolment, the 2007 Budget should allocate funds to address this issue.

High levels of enrolment also cannot be addressed by raising tuition or other student fees. While some universities may be encouraging the provincial government to allow them to increase tuition rates in order to address increased enrolment, this would contradict the guidelines and goals of the government's new tuition framework. When the new framework was announced in March 2006, institutions were permitted to increase tuition fees if they met certain conditions, but these increases were guaranteed to be "capped, predictable and linked to improvements

¹¹ Greg Sorbara, "Annex VII: Details of Ontario's Finances", *2006 Economic Outlook and Fiscal Review* (Toronto: Queen's Printer, October 2006), p.118; online at [Hhttp://www.fin.gov.on.ca/english/economy/ecoutlook/statement06/06fs-paperg.pdf](http://www.fin.gov.on.ca/english/economy/ecoutlook/statement06/06fs-paperg.pdf)H.

¹² Council of Ontario Universities, *Progress Report: University Access, Accountability and Quality in the Reaching Higher Plan* (Toronto: COU, November 2006), p.1-2; accessed online at [Hhttp://www.cou.on.ca/content/objects/ProgressReport-Final-%20Dec406.pdf](http://www.cou.on.ca/content/objects/ProgressReport-Final-%20Dec406.pdf)H.

¹³ Louise Brown, "Student wave leaves universities cash-shy", *Toronto Star*, January 16, 2007; accessed online at [Hhttp://www.thestar.com/News/article/171469H](http://www.thestar.com/News/article/171469H).

in quality and access".¹⁴ Ontario students have already paid tuition increases of 4 to 8 per cent this year through the new tuition framework, however they have yet to see clear quality improvements.

The Council of Ontario Universities has expressed concern about institutions' ability to demonstrably improve quality due to costs incurred through increased enrolment, and have indicated that more funding is necessary.¹⁵ OUSA supports their request for funding top-ups to address enrolment increases; however this should not come from students' pockets. Students will be paying more for the next several years due to the new tuition framework. They have also been paying for an increasing proportion of university operating costs for many years, with students' share rising from 30 per cent in 1995/96 to 44 per cent in 2004/05.¹⁶ It would be unjust for universities to ask students to pay unexpectedly more at the first major budget crunch after the introduction of the new tuition framework.

On a broader policy level, the major discrepancy between the number of projected and actual enrolments at Ontario universities indicates that there may be a systemic problem with the allocation of funding to universities. On this regard, OUSA recommends that the provincial government should develop a guarantee that universities will be able to access a certain amount of funding to provide sufficient resources for their entire student body, in a way that will meet fluctuations in acceptance and enrolment rates.

ALLOCATION OF FUNDING

OUSA recommends that the provincial government meet the Council of Ontario Universities' recommendations on additional funding required to meet enrolment growth, which is \$100 million for 2006/07.

Figure Two: Council of Ontario Universities recommendations on additional funding¹⁷

Year	Expected Growth Above the Projections of the RH plan	Additional Funding Required
2006-07	14,000	\$100 million
2007-08	27,000	\$176 million
2008-09	37,000	\$240 million
2009-10	46,000	\$300 million

PRIORITY TWO: MAKE ATTENDING POST-SECONDARY MORE MANAGEABLE THROUGH IMPROVEMENTS TO THE FINANCIAL AID SYSTEM

OUSA believes that a second priority for the government is to make the post-secondary system accessible and financially manageable for current and future students. While the growing number of university enrolments indicates that more students are successfully obtaining a post-secondary education, the government must work to ensure that this continues to be the case in the future.

¹⁴ Ministry of Training, Colleges and Universities, "McGuinty government plan to improve quality and access in postsecondary education" (Toronto: MTCU, 2006); accessed online at <http://ogov.newswire.ca/ontario/GPOE/2006/03/08/c0202.html?lmatch=&lang=e.html>.

¹⁵ Council of Ontario Universities, "Fact Sheet: Financial Implications of the Reaching Higher Plan" (Toronto: COU, March 2006); accessed online at <http://cou.on.ca/content/objects/Fact%20Sheet%20Reaching%20Higher.pdf>.

¹⁶ Council of Ontario Universities, *Ontario Universities – 2004 Resource Document* (Toronto: COU, 2004), p.16; accessed online at <http://www.cou.on.ca/content/objects/Section+2+-+Grants+and+Revenue+Jurisdictional+Comparisons%20v2.pdf>; Council of Finance Officers – Universities of Ontario, *Compendium of Statistical and Financial Information* (Toronto: COU, 2006), p.35; accessed online at <http://www.cou.on.ca/content/objects/Compendium%202004-05.pdf>.

¹⁷ Council of Ontario Universities, *Progress Report: University Access, Accountability and Quality in the Reaching Higher Plan* (Toronto: COU, 2006), p.4; accessed online at <http://www.cou.on.ca/content/objects/ProgressReport-Final-%20Dec406.pdf>.

As Minister of Training, Colleges and Universities Chris Bentley has pointed out, **70 per cent of all new jobs require some post-secondary education or training, however only 40 per cent of 18-to-24 year-olds currently attend post-secondary institutions.**¹⁸ It is critical for the province's future capacity and competitiveness that this enrolment gap be addressed. For young people today, attending college or university or learning a skilled trade is a *de facto* necessity. The provincial government must seek to make a post-secondary education accessible, particularly among groups that are currently not accessing colleges and universities in large numbers.

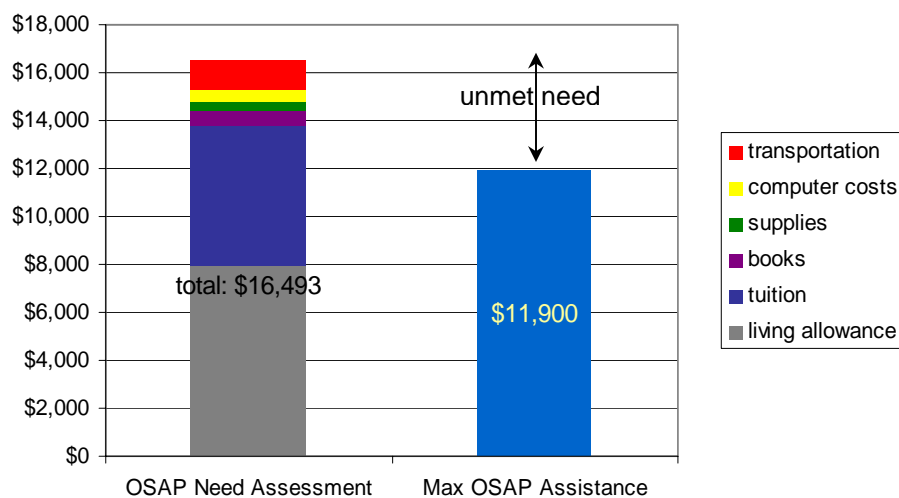
OUSA's recommendations for this priority area are to provide assistance to current students and graduates in repayment, as well as reach out to young people who are not even considering attending college or university. It is our belief that all of these groups are in need of attention, to ensure that under-represented groups are brought into the post-secondary system, that current students can meet their costs, and that student debt does not mortgage graduates' futures for years to come.

Recommendation Two: Increase the amount that students can earn before their OSAP allocations are clawed back.

One simple but effective measure that can be taken help current post-secondary students is to increase the amount that they can earn during the academic year without financial penalty from OSAP. At present, **students with part-time jobs during the academic year have any income above \$50 per week clawed back on their OSAP need assessment.** The overpayment is deducted from future loans, and if the overpayment is not recovered, students could become ineligible for future assistance.

These students face a double blow: they often do not receive sufficient assistance to fund their costs through the academic year (due to the maximum assistance level of \$11,900 for a two-term academic year, despite financial need often well above this cut-off), and yet they cannot earn enough income to make up for the shortfall due to this \$50 cap on employment income.

Figure Three: OSAP Need Assessment vs. OSAP Maximum Assistance¹⁹



¹⁸ Louise Brown, "What will bring students to university?" *Toronto Star*, February 8, 2006.

¹⁹ Maximum allowable educational costs from Ministry of Training, Colleges and Universities, *OSAP 2006-2007 Student Eligibility and Financial Need Assessment Manual* (Toronto: MTCU, 2006), p.17-22. It should be noted that these are maximum amounts. Tuition figures are the average paid by Ontario students, as reported by Statistics Canada, "University Tuition Fees" *The Daily*, September 1, 2006. Maximum OSAP assistance is for a single student in a standard 34-week academic year.

OUSA therefore recommends that students should be able to earn at least the amount of their unmet need (the difference between their financial need assessed by OSAP and their actual amount of assistance), without financial penalty. This would assist students in meeting their financial needs, and remove the disincentive to work embedded in current policies. Students with good part-time jobs would receive the employment experience that will allow them to move more easily into, or up in the labour market after graduation.

ALLOCATION OF FUNDING

The cost of this initiative would be equivalent to the amount that students would work, up to a maximum of their unmet need. The provincial government would be responsible for 40 per cent of the costs through the division with the federal government. OUSA does not have access to data needed to accurately estimate the costs of this initiative, but it would be less than the anticipated savings that would be generated by redirecting resources from education tax credits as we outline in Recommendation Six, on page 10 of this document.

Recommendation Three: Advocate for the renewal of the Canada Millennium Scholarship Foundation.

A crucial priority in the area of student financial assistance is the imminent expiration of the Canada Millennium Scholarship Foundation, which is a major component of the federal government's provision of student financial aid across the country. **The Foundation is set to expire at the end of 2009, and there are no indications from the federal government whether the foundation or its funding will be renewed.** This money is not directly part of the fiscal imbalance discussions around post-secondary investments, but is an important intergovernmental issue around student financial aid.

The Foundation plays a substantial role in providing student financial assistance, providing about a third of all grants distributed across the country. Since its creation in 1998, Ontario students have received:

- About 250,000 need-based bursaries totaling about \$750 million;
- About 5,400 merit scholarships totaling about \$22 million;
- About 21,000 access grants through the Millennium-Ontario Access Grants totaling \$38.6 million.²⁰

The end of the Foundation is only three years away, and it will leave a major hole in Ontario's financial aid system. The provincial government does not have a plan to compensate for this loss of funds. OUSA has partnered with seven other provincial and national student organizations, collectively representing over 600,000 students, to express support for the Foundation's work, and advocating for its renewal with some improvements. The cost of a one-time investment for the federal government to endow a new foundation for ten years would be \$3.5 billion, while a one-year extension of the Canada Millennium Scholarship Foundation's mandate to 2010/11 would be \$350 million.

OUSA believes that the Ontario government can help to bring pressure on the federal government to renew the Millennium Scholarship Foundation, and it is clearly in the provincial government's interest to do so. The provincial government can work through bodies like the Council of Ministers of Education Canada (CMEC) to push for the renewal of these financial aid funds, as well as try to raise MPs' awareness of the Foundation's impending expiration.

ALLOCATION OF FUNDING

This initiative is estimated to have no costs.

²⁰ Canada Millennium Scholarship Foundation website, accessed online at <http://www.millenniumscholarships.ca/en/map.asp?province=ONH>.

Recommendation Four: The provincial government should support early outreach programs in Ontario, through the creation and endowment of a funding foundation focused on early outreach modeled after the Trillium Foundation.

OUSA's next recommendation around increasing accessibility to post-secondary education is to reach out to groups who have traditionally been excluded from the post-secondary system, and youth who may not be even considering college or university as a possibility. Recent research suggests that **financial aid programs, though important, are insufficient on their own to ensure that everyone can gain access to post-secondary education**, as demonstrated by the persistent under-representation of certain economically and socially disadvantaged groups in the higher education system. This is due to the range of factors that influence post-secondary participation, including an individual's level of academic preparation, student and parental aspirations, access to information about post-secondary and financial aid, interests, and so on. These factors can affect disadvantaged students long before they make decisions regarding post-secondary.²¹

OUSA recommends that the provincial government **support the development of early outreach programs, which work to reduce informational, motivational, academic and other barriers among youth in middle and high school**. Early outreach programs are being established in growing numbers in Canada (such as the Pathways to Education program in Toronto's Regent Park neighbourhood), and have a long history in the United States. They are organized by groups including government agencies, non-profits and community-based organizations, and target low-income youth and other groups that have low post-secondary participation rates. The programs often include support services such as tutoring, counseling, and mentoring, to improve students' academic preparation and career planning, and also provide information about post-secondary education, financial aid programs, how to complete applications, and so on. **They are designed to complement rather than supplant financial aid programs**. By promoting more information about the different post-secondary pathways, early outreach programs also aim to assist students to choose the best program to suit their interests, including through the skilled trades, college or university.²²

The provincial government has made small first steps in supporting early outreach, but needs to develop a long-term strategy to increase participation rates in under-represented groups. The government has dedicated \$5 million in funding to programs that inform, advise and encourage more young people to obtain a post-secondary education in 2006/07, with increasing amounts to be delivered in the next three years. Some of this funding has gone to early outreach programs. Pathways to Education has received \$500,000 from this fund to support its operations in Regent Park and to expand its operations to other communities.²³ The Seneca Centre for Outreach Education, a new program aimed at assisting economically and educationally disadvantaged students, received \$750,000 this year.²⁴

In order to build early outreach projects across the province, OUSA recommends that the provincial government establish a foundation modeled after the Trillium Foundation to evaluate proposals for early outreach programs across the province. This would provide **a flexible funding model, and the foundation would be able to develop broad granting principles, while allowing communities to innovate and support their own programs**. It would also provide stable and predictable funding that would allow programs to make longer-term plans and evaluate outcomes.

²¹ Alisa Cunningham, Christina Redmond and Jamie Merisotis, *Investing early: intervention programs in selected U.S. states* (Montreal: Canada Millennium Scholarship Foundation, February 2003), p.1, 5; accessed online at http://www.millenniumscholarships.ca/images/Publications/investingeng_web2.pdf.

²² Cunningham, Redmond and Merisotis, p.2-3.

²³ Ministry of Training, Colleges and Universities, "Increased support for the Pathways to Education Program to help students become the first in their families to obtain a postsecondary education" (Toronto: MTCU, September 2006); accessed online at <http://ogov.newswire.ca/ontario/GPOE/2006/09/08/c4108.html?lmatch=&lang=e.html>.

²⁴ Office of the Premier, "McGuinty Government helping students succeed" (Toronto: Office of the Premier, August 2006); accessed online at <http://www.premier.gov.on.ca/news/Product.asp?ProductID=736>; Tanya Marissen, "Starting over with SCOrE", *The Senecan* 9(1), p.1; accessed online at <http://www.senecac.on.ca/marketing/SeptemberSenecan.pdf>.

ALLOCATION OF FUNDING

The Pathways to Education program has an annual budget of \$2.9 million to provide services to about 800 young people, and relies in large part on donations and volunteer time.²⁵ For any new programs in Ontario following the same type of model, start-up grants of about \$500,000 could be provided to establish programs in various communities in need across the province, alongside \$200,000 in additional funding to establish a foundation to review applications and distribute money. OUSA recommends that a foundation be created and endowed with sufficient funds to provide resources for early outreach programs over a number of years, in order to ensure that programs are able to offer services and supports to a cohort of young people for several years.

The estimated cost of this initiative is \$5 million for 2007. This funding would allow for the establishment of a foundation to review applications and distribute funding to prospective early outreach programs, and provide start-up funding for programs in nine communities across the province.

Recommendation Five: The provincial government should reduce the interest rates on Ontario student loans to prime minus one.

OUSA's next recommendation around improving student financial aid seeks to make loan repayment more manageable for graduates, to reduce the amount of financial hardship and loan default that will impact students for years to come. One way the provincial government can achieve this is by lowering student loan interest rates. OUSA recognizes that interest charges are a necessity in financial borrowing; however the current rates are out of line with peer jurisdictions, as illustrated in Figure Four:

Figure Four: Student Loan and Line of Credit Interest Rates²⁶

Loan Program/Provider	Interest Rate	Current Interest Rates (based on 6 per cent prime rate)
United Kingdom	Inflation rate	2.4 per cent
Australia	Inflation rate	2.8 per cent
Netherlands	Government rate of borrowing	3.05 per cent
CIBC	Prime rate	6 per cent
Quebec Student Loans	Prime + 0.5 per cent	6.5 per cent
United States (Stafford Loans)	Fixed rate of 6.8 per cent	6.8 per cent (Legislation passed in Jan 07 to lower to 3.4 per cent over five years)
Royal Bank	Prime + 1 per cent	7 per cent
Bank of Montreal	Prime + 1 per cent	7 per cent
Scotiabank	Prime + 1 per cent	7 per cent
Ontario Student Loans	Prime + 1 per cent	7 per cent
TD Canada Trust	Prime + 1.5 per cent	7.5 per cent
Canada Student Loans	Prime + 2.5 per cent (floating) Prime + 5 per cent (fixed)	8.5 per cent 11 per cent

²⁵ "The Pathways Chance", *Globe and Mail*, September 28, 2005, A24.

²⁶ It should be noted that there are some significant differences in the structure of different countries' financial aid systems. Canadian student loan interest rates: Canadian Association of Student Financial Aid Administrators, accessed online at <http://www.casfaa.ca/en/contentEn/reportsAndBriefs/PolicyPositions-Sept2006.pdf>; Commercial bank interest rates: bank websites or telephone information lines, January 10, 2007; US data: Stephen Burd, "Democrats Focus on Student Aid, but Questions Remain About Details and Costs", *Chronicle of Higher Education* 53(13), 17 November 2006, A27; UK data: Student Loans Company website, accessed online at <http://www.slc.co.uk/noframe/lr/sss/repaydet.html>; Australia data: Australian Department of Education, Science and Training website, accessed online at <http://www.goingtouni.gov.au/main/feesloansandscholarships/loanrepayments/interest-indexation.htm>; Netherlands data: Alex Usher, *Global Debt Patterns* (Toronto: Educational Policy Institute, September 2005), p.3; accessed online at http://www.educationalpolicy.org/pdf/Global_Dept_Patterns.pdf.

The high interest rates on OSAP loans impact the most upon students with heavy debt loads and/or lower post-graduation income levels, who take longer to repay their loans. High interest rates also have the effect of increasing overall debt loads, and with them, the amount of time needed for repayment. As the government financial aid system and part of the social safety net that promotes equality of opportunity for citizens to obtain an education, OUSA believes that the financial aid system should not be administered for a profit. OUSA therefore recommends that the provincial government subsidize the interest rate to ensure no graduate pays higher than the government cost of borrowing, minus 1 per cent, on their entire loan.

While this would increase interest subsidization costs for the government, it would also reduce loan default rates, which cost the financial aid system substantially more. In 2002/03, the provincial government had \$96 million in claims for defaulted loans. By contrast, the cost of subsidizing all interest for students in study cost the provincial government \$28.8 million.²⁷ In the United States, Congress recently voted to halve student loan interest rates over five years, and will be funding this initiative through increasing the fees that student-loan providers pay to the government, and reducing the guaranteed profits to the 30 largest lenders.²⁸

ALLOCATION OF FUNDING

The cost of this initiative will depend on the number of borrowers in repayment, the size of their debt loads, and the amount of time required for total repayment, which may be reduced through lower interest charges. Based on an average total debt load of \$24,047 in 2006,²⁹ where the provincial government funds 40 per cent, each student would save about \$75 in interest charges per year if interest was lowered to one percentage below the government rate of borrowing. OUSA estimates that this initiative would cost the provincial government about \$20 million per year.

Recommendation Six: Fund improvements to up-front student financial assistance through eliminating provincial tuition tax credits.

OUSA, alongside many education policy researchers, believes that tuition tax credits are not the most effective use of Ontario's financial aid dollars. OUSA recommends that the Ontario tuition tax credits be discontinued, and **the resulting annual savings of \$221 million³⁰ be allocated to other forms of student financial aid, such as the initiatives and recommendations outlined earlier in this document.** This would be a refocusing of spending where universal benefits distributed to all students, with or without financial need, would be replaced with more targeted financial aid to students in need.

Ontario students currently receive over \$1,900 in total tax savings from the provincial and federal governments, **regardless of financial need or income level.**³¹ These tax credits disproportionately benefit higher income families who have larger tax obligations, while lower income families either lack the tax obligations required to take full advantage of the benefits, or at best, receive no more assistance than their wealthier counterparts. Research

²⁷ Provincial Auditor of Ontario, *2003 Annual Report of the Office of the Provincial Auditor of Ontario to the Legislative Assembly* (Toronto: Queen's Printer, 2003), p.246; accessed online at [Hhttp://www.auditor.on.ca/en/reports_en/en03/310en03.pdf](http://www.auditor.on.ca/en/reports_en/en03/310en03.pdf)H.

²⁸ Diana Jean Schemo, "House cuts interest rates for some college loans", *New York Times*, January 18, 2007; accessed online at [Hhttp://www.nytimes.com/2007/01/18/us/18loans.html](http://www.nytimes.com/2007/01/18/us/18loans.html)H.

²⁹ Joseph Berger, Anne Motte and Andrew Parkin, "The Price of Knowledge 2006, Student Debt: Trends and Consequences" (Montreal: Canada Millennium Scholarship Foundation, 2006), p.3.

³⁰ Sean Junor and Alex Usher, *The Price of Knowledge 2004* (Montreal: Canada Millennium Scholarship Foundation, November 2004), p.257; accessed online at [Hhttp://www.millenniumscholarships.ca/uploadfiles/documents/research/Price_of_Knowledge-2004.pdf](http://www.millenniumscholarships.ca/uploadfiles/documents/research/Price_of_Knowledge-2004.pdf)H; data files accessed at [Hhttp://www.millenniumscholarships.ca/uploadfiles/documents/pok/excel.zip](http://www.millenniumscholarships.ca/uploadfiles/documents/pok/excel.zip)H.

³¹ Christine Neill, "Tuition and Education Tax Credits" (presentation to the Canada Millennium Scholarship Foundation/Canadian Association of Student Financial Aid Administrators conference on Enhancing Access to Post-Secondary Education, Ottawa, September 16, 2006).

conducted by Human Resources and Social Development Canada on the average value of federal tuition and education tax credits claimed found that students from families in the highest income quartile (earning above \$100,300) claimed about twice the amount of education tax credits as their counterparts in the lowest income quartile (with family incomes under \$37,400).³² Other significant concerns about the education and tuition tax credits are that as back-end forms of financial assistance, they do not help to boost enrolment, and do not help to reduce the 'sticker shock' around tuition rates by addressing up-front costs.

OUSA emphasizes smart and targeted use of financial aid funds to the students who need it the most, and therefore recommends the reallocation of money from tuition tax credits to need-based forms of financial aid.

ALLOCATION OF FUNDING

There are no costs estimated for this initiative, and around \$221 million in available funding to be generated for other forms of student financial aid.

³² Ibid.

SUMMARY OF RECOMMENDATIONS

Recommendation One: Provide universities with additional funding to meet the costs of increased enrolment above government projections.

Estimated cost for 2006/07: \$100 million

Recommendation Two: Increase the amount that students can earn before their OSAP allocations are clawed back.

Estimated cost for 2006/07: OUSA does not have access to information needed for accurate estimate.

Recommendation Three: Advocate for the renewal of the Canada Millennium Scholarship Foundation.

Estimated cost for 2006/07: No estimated cost

Recommendation Four: The provincial government should support early outreach programs in Ontario, through the creation and endowment of a funding foundation focused on early outreach modeled after the Trillium Foundation.

Estimated cost for 2006/07: \$5 million

Recommendation Five: The provincial government should reduce the interest rates on Ontario student loans to prime minus one.

Estimated cost for 2006/07: \$20 million

Recommendation Six: Fund improvements to up-front student financial assistance through eliminating provincial tuition tax credits.

Estimated cost for 2006/07: No estimated cost, and \$221 million in available funding to be generated