



JANUARY 2005

BUILDING A BRIGHT FUTURE
SUBMISSION TO THE STANDING COMMITTEE ON FINANCE & ECONOMIC AFFAIRS

ONTARIO UNDERGRADUATE STUDENT ALLIANCE

BUILDING A BRIGHT FUTURE: EXECUTIVE SUMMARY

The Ontario Undergraduate Student Alliance (OUSA) recommends investments in the four following areas for the upcoming provincial budget:

A. ENSURING ACCESS & AFFORDABILITY

The provincial government can work to ensure access and affordability by:

- making improvements to the Ontario Student Assistance Program including:
 - a. ensuring the financial aid package meets true costs and improving the Ontario Student Opportunity Grant (OSOG) for \$71.4 million
 - b. effective grants including improved interest relief and increased debt reduction for \$2.3 million
 - c. online infrastructure improvements for \$2 million
- introducing entry merit scholarships for students with an 85 per cent average or greater for \$22.3 million;
- introducing a low-income tuition waiver for 15 per cent of Ontario's neediest students for \$18.9 million; *and*
- developing early intervention programs in five major Ontario communities in need for \$2.5 million.

B. PROVIDING INSTITUTIONS WITH THE RESOURCES THEY NEED

The provincial government can provide institutions with the resources they need by:

- increasing operating grants to surpass the national average by 2011 for \$60 to 65 million above the projected commitment for tuition freeze compensation (This would be year one of a seven year schedule of increases costing an additional \$165 million per year eventually providing \$1.16 billion more funding for universities annually).

C. PROVIDING HIGH QUALITY OPPORTUNITIES

The provincial government can provide high quality educational opportunities by:

- fostering innovation amongst undergraduates by investing in pilot student innovation centres at five Ontario universities for \$0.5 million;
- introducing a province-wide grant program helping 1,000 Ontario students engage in international exchange for \$3 million;
- allowing international students to work off-campus for no cost; *and*
- initiating the development of an Open University of Ontario for \$1 million.

D. CHARTING A CLEAR & ACCOUNTABLE DIRECTION

The provincial government can ensure that it is charting a clear and accountable direction for higher education in the province by:

- creating a higher education coordinating agency for \$3 million.

introduction

Higher education is a wise public investment. It is one of the key building blocks in the socio-economic development of individual Ontarians and the entire province. This submission from the Ontario Undergraduate Student Alliance (OUSA) will outline the importance of higher education, suggest educated solutions in four major areas for improvement, outline how these recommendations will be funded and provide an estimate of the investment required for the 2005/06 budget year.

a bright future depends on higher education

It is widely known that education is directly linked to the future success of individuals and entire societies. It is integral to our future economic and social potential. It is also directly linked to how successful we are in relation to other provinces, states and nations.

A. HIGHER EDUCATION IS KEY TO OUR FUTURE ECONOMIC PRODUCTIVITY

The value of higher education as a mechanism for economic development is clear. The ability to advance into and complete a university education has a significant economic advantage for individual Ontarians. The greater the educational attainment of an individual, the more they are able to earn. In 2001, the median household income in families in which the primary earner had a university degree was 51 per cent greater than households where the primary earner had a high school diploma.¹ These earnings also generate additional tax revenues for government. In 2002, university graduates in Canada contributed 33 per cent of all income tax revenues, but only made up 16.1 per cent of the total population.² It should also be noted that university graduates only received 9.1 per cent of government transfers.³ The broader impact on the overall economy will be discussed later in this submission.

B. HIGHER EDUCATION IS KEY TO OUR FUTURE SOCIAL DEVELOPMENT

Higher education is also a powerful mechanism for the social development of citizens and their geographic region. Higher education can produce critical thinkers and innovators, as well as a healthy, informed and engaged citizenry. According to a study performed in the United Kingdom, post-secondary graduates are, "...less depressed, healthier, more likely to vote in elections and help with their children's education..."⁴ Graduates from higher education were also found to be tolerant of other races and were almost twice as likely to read to their children when compared to individuals who had not graduated from secondary school.⁵

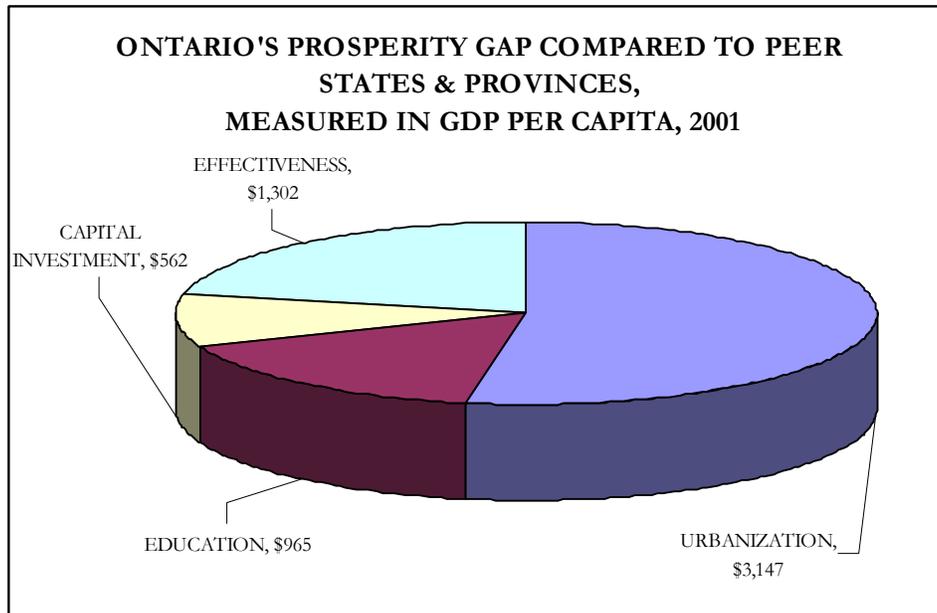
The discoveries and ideas developed at higher education institutions like universities can also have tremendous overall benefits for the health, economy and political vitality of any jurisdiction. Universities have driven research that has battled previously incurable diseases, and provided the facilities for innovative business ideas and political theories that have shaped the fortunes of cities, regions and even nations.

C. ONTARIO IS AT RISK OF FALLING BEHIND OTHER PROVINCES, STATES & NATIONS

As higher education is integral to our future economic and social potential, we are at risk of falling behind other provinces, states and nations because of underfunding and issues related to the quality, accessibility and affordability of our institutions.

Our province continues to fall behind its Canadian and U.S. counterparts. In 2001, Ontario ranked thirteenth of sixteen in its peer group when compared to peer states and provinces.⁶ The total productivity gap when compared to the peer group was \$4,118 per capita, and it is estimated that the ongoing underfunding of education, particularly post-secondary education, accounts for roughly 16 per cent of the province's productivity gap when compared to other peer jurisdictions.⁷ This productivity gap be clearly seen in *graph one*.

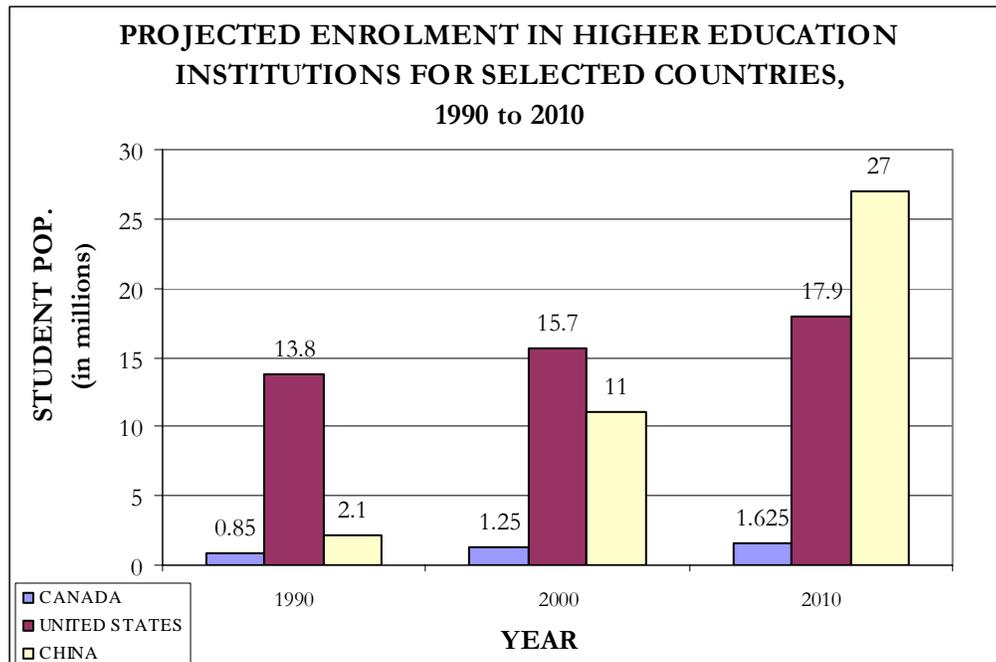
Graph One: Ontario's Prosperity Gap Compared to Peer States & Provinces, Measured in GDP Per Capita, 2001⁸



Ontario is also at risk of falling behind other countries that are making higher education a national priority. China seems to be leading the way. It now has the largest and fastest growing university populations in the world. According to government sources, total enrolment in post-secondary institutions was 11 million in 2000, and grew to over 16 million in 2002.⁹ By 2010, China expects 27 million students enrolled in higher education across the country.¹⁰ This growth would vault the nation into the position of higher education leader across the globe, which could in turn influence the development of systems elsewhere. The growth of their university system compared to Canada and the United States can be seen in *graph two*.

China is poised not only to be a leader in system size, but also institutional significance and quality. Project 211, one of the Chinese government's national priorities, is an initiative aimed at creating 100 world-class institutions and building key disciplinary areas in the 21st century.¹¹ It will be important to monitor these developments, in order to ensure the education provided at Ontario's universities is globally competitive. Close examination of their system will also be important for Ontario's future economic prospects given China's interest in utilizing higher education as a pillar of economic and social development. China's GDP has grown by almost 10 per cent per year for the past 25 years, and it expects to quadruple its GDP by 2020 through investment and focus on areas including higher education.¹²

Graph Two: Projected Enrolment in Higher Education Institutions for Selected Countries, 1990 to 2010^{13,14,15}



making higher education a provincial priority

Given the opportunities and challenges described above, our province must set a clear direction. Merely recognizing higher education as key to our future is not enough. Ontario must act to make higher education a provincial priority.

This section will outline four broad areas that need government investment. Each of the four subsections will outline the need for change, suggest solutions, provide a description of how funding can be allocated and then estimate a cost of the recommended initiatives.

CREATING A BRIGHT FUTURE FOR ALL ONTARIANS: ENSURING ACCESS & AFFORDABILITY

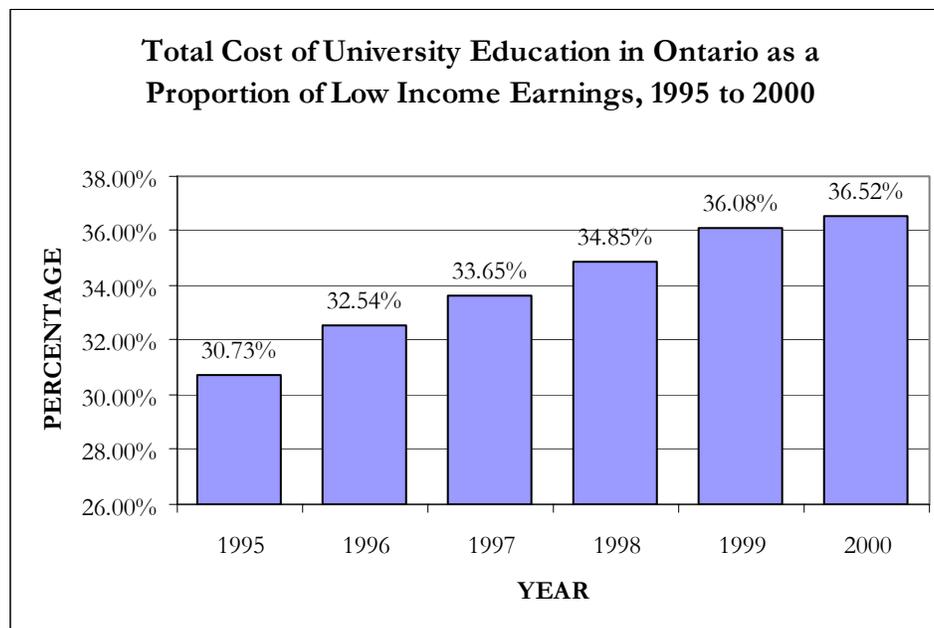
In order to ensure a bright future for all Ontarians, they must be given the opportunity to pursue university, college, the trades or the educational pathway of their choice. Unfortunately, there are many problems with the accessibility and affordability of higher education in our province.

Although there have been gains in enrolment and access for some groups, participation rates for low-income individuals are perennially lower than higher income groups. In 1997, the last year of known reported data, the participation rate for 18 to 24 year olds from families with incomes of \$100,000 or more was double that of individuals from families with incomes of \$25,000 or less.¹⁶ It should be noted that participation rates for low-income groups increased from the late seventies to the late nineties, but the percentage difference in participation between the highest income and lowest income quartiles has remained roughly the same at 20 per cent.¹⁷ Moreover, Statistics Canada estimates that every ten per cent increase in parental income was associated with a 2.5

per cent increase in the probability of university attendance in 2000.¹⁸ However, issues of financial accessibility are not only limited to low-income groups. For example, in 2001, only 12.5 per cent of women who were lone parents in Ontario had a university certificate, degree or more, compared to the Ontario average of 19.6 per cent.^{19,20}

Moreover, over the past decade, higher education has become less affordable for many Ontarians. This is particularly true for low-income families. Between 1995 and 2000, the total cost of university education in Ontario as a proportion of low-income earnings increased by approximately six per cent, to 36.5 per cent of the average earnings for a four-person family. This trend can be seen in *graph three*.

Graph Three: Total Cost of University Education in Ontario as a Proportion of Low Income Earnings, 1995 to 2000^{21,22}



1. STUDENT FINANCIAL ASSISTANCE

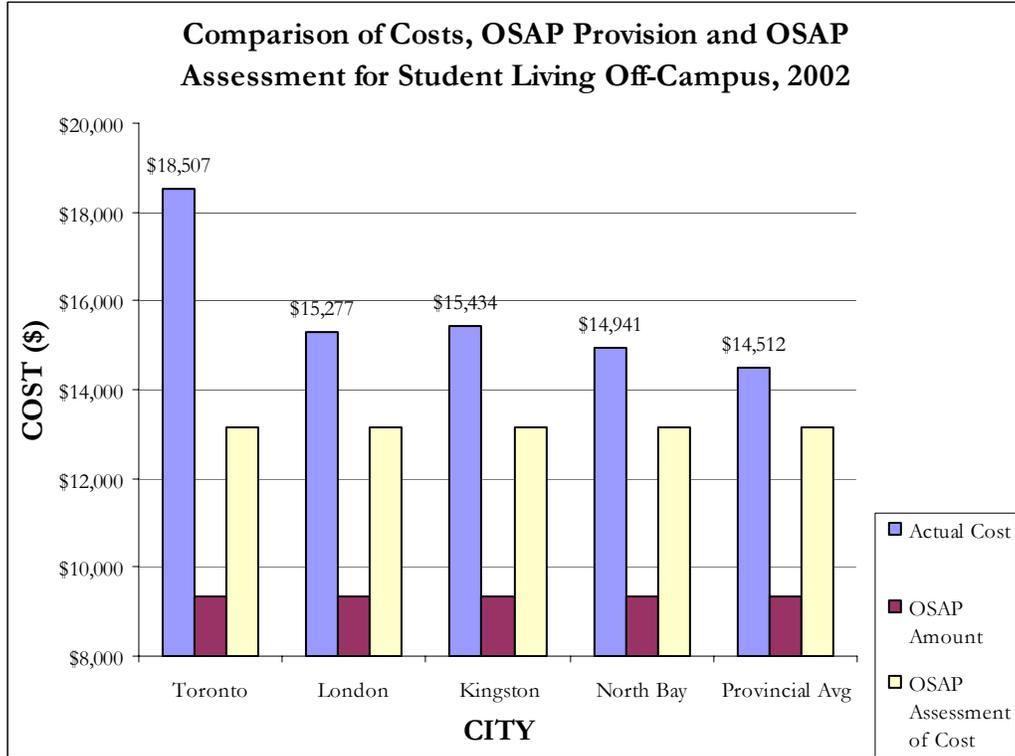
A. ENSURE THE FINANCIAL AID PACKAGE MEETS TRUE COSTS

The Ontario Student Assistance Program (OSAP) is failing to meet the needs of Ontario students.

The maximum OSAP award for a standard two-term school year is \$9,350. This amount has not increased since 1994, despite a 139 per cent increase in tuition over the same period.²³ Moreover, student cost-of-living has risen across the province. As a result, the Canada Millennium Scholarship Foundation estimates that the average student living away from home will need at least \$14,512 to cover the cost of their schooling, while students living at home require \$9,088.²⁴ The International Comparative Higher Education Finance and Accessibility Project estimates student cost in Canada at an even higher level, with students paying between \$9,239 and \$20,590 to attend university.²⁵ OSAP assesses the costs of students between \$8,800 and \$13,162. This data shows that, depending on the estimate, OSAP assessment of student cost is off by as much as 56 per cent. More alarming, the actual assistance package falls between \$5,650 and \$10,650 short of

actual student need. For a student struggling with university finances, this gap could well prove insurmountable.

Graph Four: Comparison of Costs, OSAP Provision and OSAP Assessment for Student Living Off-Campus, 2002²⁶



Several conclusions can be drawn from this data. First, OSAP’s assessment of costs are too low and do not accurately reflect the financial reality for Ontario’s students. There is a \$1,500 to \$7,398 deficit between OSAP’s calculations and the current costs for a student on the high end of the expense spectrum. This underestimation by the financial aid system is the chief reason why the current OSAP aid package has stayed so low for so long.

Second, the OSAP system is just not providing enough funding to students. The provincial government should aim to design a package of grants, loans and allowable income which comes close to meeting at least the low end estimate of student cost—\$15,000.

Recommendation One: The provincial government must increase the size of the current financial aid package so that it accounts for actual tuition and cost-of-living expenses.

Recommendation Two: The Ontario Student Opportunity Grant should remit 25 per cent of the new maximum financial aid package to a student’s total debt upon graduation.

By remitting debt on a yearly basis, OSOG ignores some students who have accumulated substantial debt. Consider the following examples:

Student A borrows \$6,500 per year for all four years of his undergraduate degree.

Student B borrows \$3,650 in her first two years of study, and \$9,350 in her final two years.

Both students have accumulated \$26,000 in debt by the end of their undergraduate education. However, since Student A stayed below the \$7,000 OSOG threshold every year, he is now ineligible for debt remission. On the other hand, Student B qualified for the maximum award in her last two years of study and is eligible for OSOG. As a result, Student A still owes \$26,000 while Student B's debt has fallen to \$21,300.

To avoid this unfair disparity, OSOG must be applied to the total accumulated debt at the end of a student's period of study. If the program remits a pro-rated maximum of 25 per cent of total debt, then both students will receive equal debt remission.

It should be noted that the provincial government must also stop its practice of using the Canada Millennium Scholarship to displace its debt remission responsibilities under the OSOG program. Eliminating the Millennium Bursary displacement would generate huge benefits for graduates of Ontario's universities, particularly the neediest individuals who are forced to borrow more and who the Millennium Bursary is ostensibly designed to help. An additional reduction in yearly debt would reduce monthly payments, hasten re-payment and could prevent defaults for many graduates.

ALLOCATION OF FUNDING (INCREASED PACKAGE)

The federal government recently announced that they would increase the amount of maximum assistance available through the Canada Student Loans (CSL) program, from \$165 per week to \$210 per week for the loan maximum.²⁷ If Ontario, through the Ontario Student Loans (OSL) portion, wishes to maintain the 60/40 split between the programs, the OSL maximum will need to increase by approximately 27.3 per cent to \$140 per week.²⁸ This would be an excellent step towards a public financial aid system that met actual tuition and cost-of-living expenses. The provincial government should, however, continue to monitor costs of education in order to ensure that the assistance provided covers actual student need.

It is clear that although these increases recognize that government assistance has not kept pace with increases in the cost of attending university, *any increases to the financial aid package must be accompanied by measures to ensure that student debt does not increase.* These measures, including improvements to OSOG, low-income student tuition waivers and effective grants, are described in this submission.

Table One: Student Loan Activity from August 1, 2002 to March 31, 2003²⁹

	LOANS ISSUED	TOTAL LOAN VALUE (\$ million)	AVG. LOAN VALUE
OSL	130,824	\$444.5	\$3,400
CSL	148,294	\$622.8	\$4,200
TOTAL		\$1,067.3	\$7,600

Table Two: Projected Loan Activity for 2005/06

	LOANS ISSUED	TOTAL LOAN VALUE (\$ million)	AVG. LOAN VALUE
OSL	130,824	\$566.1	\$4 327
CSL	148,294	\$792.6	\$5 345
TOTAL		\$1,067.3	\$9 672

Given projected loan activity for 2005/06, this would cost the provincial government \$38.5 million per year.³⁰

ALLOCATION OF FUNDING (OSOG)

It is safe to assume that if the package goes up by roughly 27.3 per cent, then additional cost for OSOG would need to increase at approximately the same amount. Given a two-year program expenditure of \$240 million, this would require an increase of roughly \$32.9 million per year.³¹

The cost to increase the financial aid package would be approximately \$38.5 million. The cost to increase the OSOG amount to ensure that overall debt does not increase would be \$32.9 million. **The total estimated cost for this initiative would be \$71.4 million.**

B. TARGETED NON-REPAYABLE ASSISTANCE

One of the most powerful aspects of a grant is its ability to be *targeted*. This “targeting, or selective subsidization, may be towards certain classes of students (e.g. low-income or ethnic minority of high achieving), or towards the pursuit of other public purposes (e.g. encouraging more students to study education or medicine, or to practice in certain venues such as inner cities or remote villages).”³² For the purposes of ensuring equitable university access for all Ontarians, the ability of grants to be targeted at lower-income individuals is of central importance. Indeed, strong measures are needed to address the disparities in access currently plaguing Ontario’s university system.

This assistance should not only be targeted before or at entry. Graduates with the greatest need must also be protected from undue financial burden through effective non-repayable assistance.

1. LOW-INCOME STUDENT TUITION WAIVER

To overcome the financial barriers to higher education and reduce overall indebtedness for students from lower-income backgrounds, specialized, non-repayable forms of assistance must be targeted towards these demographic groups.

Recommendation Three: The provincial government should implement partial tuition waivers for students from low-income backgrounds.

OUSA believes the best vehicle for targeted up-front grants is the provision of tuition waivers for students with relatively low incomes. The government would pay for a proportion of the institutional tuition fee, reducing dependence on the tuition loan program and reducing overall debt. These waivers would be generally available to students from the lowest two income quartiles, with the size of the award increasing as family income decreases. In other words, the tuition waiver would be income-dependent. This program would go a long way to overcoming the,

“fundamentally greater *ambivalence*, the greater *perceived opportunity costs* and the arguably greater *debt aversion* of those from low-income, rural, or ethnic/linguistic minority backgrounds.”³³

ALLOCATION OF FUNDING

Calculating the cost of the program under a parental income threshold is difficult due to a lack of relevant data. However, it is possible to construct a model based on an approximate proportion of low-income students.

For example, if the program is to be extended to the lowest 15 per cent of the first-year class, it would cost as follows:³⁴

Table Three: Projected Model of Low-Income Tuition Waivers

	NO. OF STUDENTS	PROPORTION OF WAIVER	SIZE OF DISCOUNT ³⁵	COST OF WAIVER (\$ millions)
Lowest 5%	4,480	50%	\$2,480	11.1
2 nd Lowest 5%	4,480	25%	\$1,240	5.6
3 rd Lowest 5%	4,480	10%	\$496	2.2
TOTAL	13,440			18.9

The estimated cost for this initiative would be approximately \$18.9 million.

2. ENTRANCE MERIT SCHOLARSHIP

Students decide their future educational pathways at an early age. In Ontario, approximately three-quarters of all students make the decision to attend university before age 15.³⁶ Pre-entry financial assistance such as this could make the choice to attend university or college in Ontario much easier. Moreover, providing an up-front merit award would increase overall financial resources for qualified students and reduce overall indebtedness.

Recommendation Four: The provincial government should implement an up-front, merit-based scholarship program.

Pre-entry merit awards have been successful in several other jurisdictions. The best example is the Alexander Rutherford Scholarship offered in Alberta. This program was created to, “recognize and reward exceptional academic achievement at the senior high school level and to encourage students to continue their studies.”³⁷ It provides an award of up to \$2,500 for students who achieve an academic average of 80 per cent in five designated subjects over their high school career.

The Rutherford Scholarship is both an excellent debt reduction mechanism and a form of pre-entry assistance. The award is first marketed to students in Grade 10, providing a financial incentive for continued academic achievement. Moreover, it promises students a substantial amount of financial support at a critical time. Ideally, this award would be modeled after the Rutherford Scholarship.

ALLOCATION OF FUNDING

In 2003, out of a confirmed first year class of 69,851 students: 35,240 (50.5 per cent) had an average between 80 and 89 per cent, while 10,377 (14.9 per cent) had an average greater than 90 per cent.³⁸ If we assume two thirds of the 80 to 89 per cent group have averages between 80 to 85 per cent and one third are at 85 per cent and above, then 32 per cent, or approximately 22,350 students, would be eligible for the merit scholarship. If the award was set at a minimum level of \$1,000, then the program would cost \$22.3 million per year.

The estimated cost of this initiative would be approximately \$22.3 million.

3. EFFECTIVE GRANTS

Insofar as a student aid system results in graduate debt, it must also make every effort to protect graduates from the negative impacts of indebtedness and assist them in repaying their assistance. A high debt burden may lead many individuals to default on their loans, resulting in damaged credit, garnished salaries and even the seizure of personal property. No matter how progressive the repayment structure, there will always be individuals who, for a variety of reasons, are unable to meet their financial obligations. Since the financial aid system is an investment in social and individual development, the program must make every effort to assist graduates who are unable to pay off their loan assistance. For this reason, the provincial government must move to expand and strengthen mechanisms for protecting graduates while they are in repayment: interest relief and debt reduction.

Recommendation Five: The provincial government should increase the income thresholds used for determining eligibility for interest relief.

Recommendation Six: The provincial government should improve its current system of income-based remission through its Debt Reduction in Repayment Program.

Both of these recommendations would follow the lead of the federal government, which has indicated moves to implement similar changes in the 2005/06 budget year. Income thresholds used for determining interest relief are being increased by five per cent, according to the 2004 federal budget.³⁹ A similar increase would be recommended for Ontario in order to protect those who are unable to afford their loan repayments.

The provincial government's Debt Reduction in Repayment Program, which was scheduled to be implemented in November 2004, should keep pace with federal government initiatives to increase the maximum amount of debt reduction, also protecting those who are in the greatest level of need.

ALLOCATION OF FUNDING

Given the amount loaned by OSL(\$444.5 million in 2002) is approximately 40 per cent of the CSL total (\$1.562 billion in 2001), the total would be approximately \$2.3 million.⁴⁰

The estimated cost of this initiative would be approximately \$2.3 million.

C. QUALIFICATION CHANGES

Small steps were taken in the previous provincial budget to begin to remove unfair eligibility requirements for financial assistance. However, long-standing unfair qualifications remain within the system. Despite significant increases in enrolment, only 130,687 students received Ontario Student Loan assistance in 2002, compared to 212,189 in 1995.⁴¹ Moreover, part-time students still remain ineligible for assistance and parental contribution requirements are, in many cases, unfair.

Recommendation Seven: The provincial government should continue to remove unfair ineligibilities and qualifications from the financial aid system, such as unrealistic parental contribution requirements and the exclusion of part-time students.

Moreover, in order to assist those who do not receive support from their parents, the provincial government should develop an effective and easily accessible appeals mechanism.

ALLOCATION OF FUNDING

There is no available mechanism by our organization to determine how funding for this program might be allocated.

There is insufficient data to develop an estimate for the cost of this initiative. Given the recent commitments from government on student financial aid reform, it could be assumed that it would cost less than \$5 million.

D. ONLINE INFRASTRUCTURE IMPROVEMENTS FOR OSAP

It is a daunting task just to apply for university, and for most it is even more difficult to apply for financial assistance. The internet is one of the most powerful communication resources available to the financial aid system. Unfortunately, OSAP does not make adequate use of this medium, either in student outreach or program administration. Although the static content is quite thorough and generally up-to-date, the website is difficult to navigate, lacks client-interactivity tools and is not effectively integrated with on-campus and external financial aid resources.

Recommendation Eight: The provincial government should invest in an effective online presence which allows students to access all the information they need on the financial aid system, provides powerful tools to help students plan their finances and allows for online applications.

The OSAP website should be re-developed for maximum student ease-of-use. This would involve at least three major areas of development. First, the new online presence would maximize individual client-interactivity. For example, this would include features such as query boxes or real-time online support, effective search engines, personalized pages, regular site updates (new programs, upcoming deadlines, award announcements, account balances, etc.), and a personal online estimation tool. Second, the site should be integrated with on and off-campus resources for financial assistance. This characteristic could be developed alongside items such as personalized pages, which could include links to on-campus resources and off-campus resources at each institution. Third, the site should focus on content development that ensures students are able to easily complete the application process and manage their relationship with OSAP online until their loans have been completely paid off. For example, students may wish to see a sample timeline of

how the OSAP application process works from entry to after graduation. All of these improvements would need to be undertaken in the context of ensuring clean site navigation.

It should also be noted that students should be intimately involved in any re-development process for beta testing and focus groups. It is also recommended that any changes are done in collaboration with the federal government and canlearn.ca.

ALLOCATION OF FUNDING

Funding would need to be allocated for development, testing and maintenance of a re-designed online presence. Given the number of students who would access the site, and the complexity of the system, it is estimated that it would cost just over \$2 million to complete over a one to two year period.

The estimated cost of this initiative would be approximately \$2 million.

E. EARLY INTERVENTION PROGRAMS

Students decide their future educational pathways at an early age. In Ontario, approximately three-quarters of all students make the decision to attend university before age 15.⁴² Given the barriers that students face, it is clear that the province must be able to assist students at an earlier stage in preparing them for future educational opportunities.

Recommendation Nine: The provincial government should implement early intervention programs to encourage future participation in all levels of higher education.

Early intervention programs also target students as they are making decisions about their future educational pathways. Furthermore, these types of programs, "...encourage educationally and economically disadvantaged students to gain the information and perform the steps necessary to enter the post-secondary education pipeline."⁴³ These programs can have a number of deliverables depending on the target population and the needs of the jurisdiction, including counseling, academic and personal enrichment, social integration, mentoring and scholarships.⁴⁴

The Pathways to Education Program in Toronto's Regent Park neighbourhood is an excellent example of a successful early intervention program in Ontario.

ALLOCATION OF FUNDING

The Pathways to Education Program currently costs \$1.7 million a year to operate.⁴⁵ Although new programs in Ontario would be modeled after that initiative, they would only require start-up funds in their first year. It is estimated that grants of \$500,000 could be offered to establish programs in communities in need across the province (Hamilton, London, Scarborough, etc.). This funding would support salaries, programs, overhead and infrastructure.

The estimated cost for this initiative would be approximately \$2.5 million. This funding would allow for the creation of start-up programs in five large communities in need modeled after the Pathways to Education initiative in Regent Park, Toronto.

B. TUITION

There are many reasons why tuition fees are an issue for Ontario's students:

1. TUITION FEE INCREASES HAVE OUTPACED INFLATION & THE REST OF CANADA

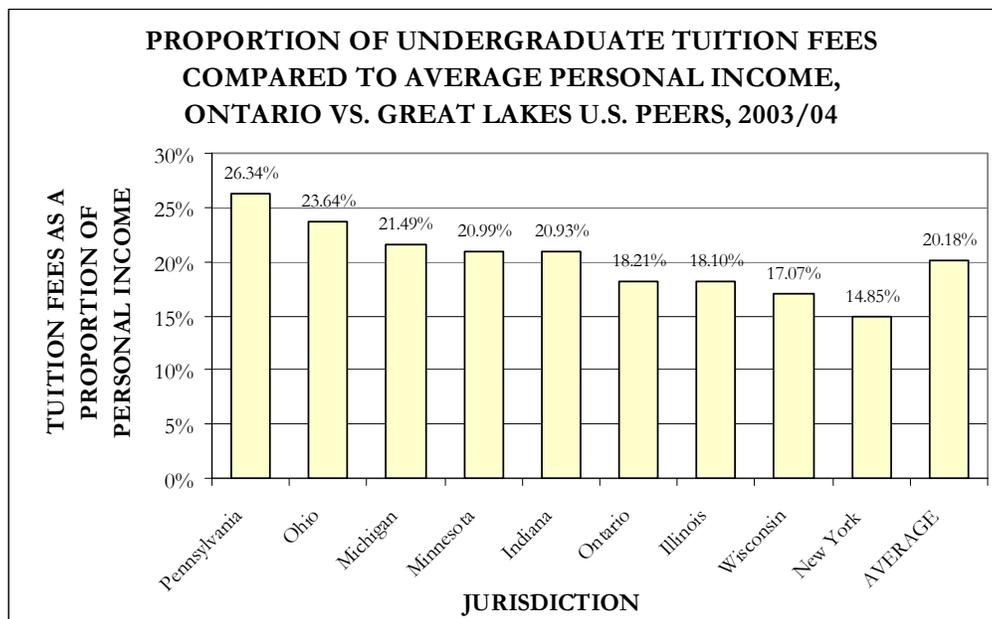
Average tuition fees for both regulated and deregulated programs are too high. Fees in Ontario have skyrocketed, even in comparison with large overall increases in Canadian tuition. The average tuition today in Ontario is \$4,960, which represents an increase of 195 per cent since 1990/91.⁴⁶ These increases have far outpaced inflationary and cost-of-living increases.

Deregulated tuition fees in Ontario have also increased dramatically, and are now at entirely unreasonable levels. With the deregulation of tuition fees for all professional and graduate programs and non-arts and sciences undergraduate programs, the cost of tuition has risen dramatically. For example, the average tuition in Ontario for law is now \$10,483, \$17,087 for dentistry and \$14,355 per year for medicine.⁴⁷ At the University of Western Ontario, tuition for an undergraduate business degree is approximately \$18,000 per year.⁴⁸ International student fees are also extremely high, with fees reaching up to \$17,707 a year at the University of Waterloo.

2. TUITION FEES IN ONTARIO ARE COMPARABLE TO U.S. COUNTERPARTS

Many advocates of 'locally set,' or deregulated, fees will point south to claim that tuition in Ontario is a relative 'bargain' compared to the U.S. However, it is clear that our current fees are roughly equal in proportion to U.S. public peers, as seen in *graph five*.

Graph Five: Proportion of Undergraduate Tuition Fees Compared to Average Personal Income, Ontario vs. Great Lakes Peers, 2003/04⁴⁹

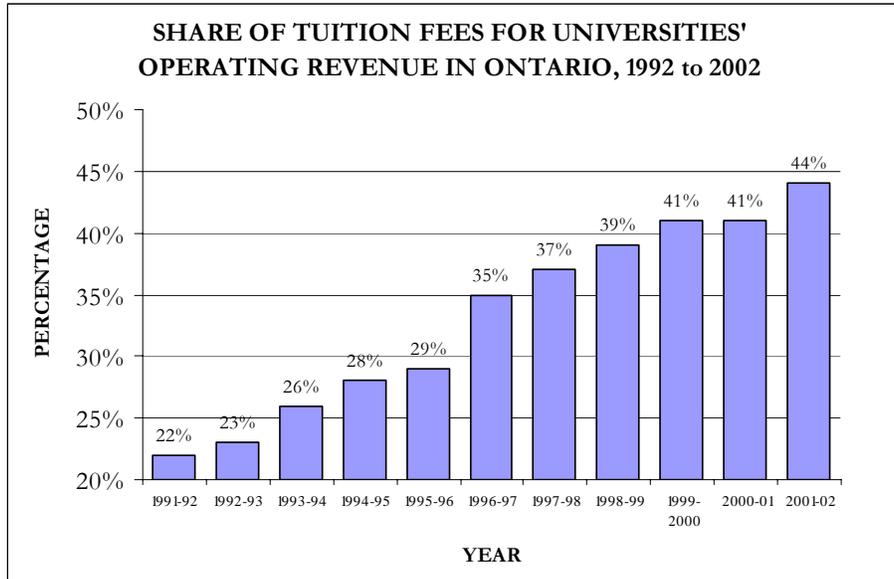


3. TUITION FEES ARE DISPROPORTIONATELY HIGH

Students are being asked to pay more than their fair share. The share of cost that students have shouldered has doubled in the past decade, moving from 22 per cent in 1992 to over 44 per cent of

university operating revenue in 2002. This can be seen in *graph six*. This share of operating costs is also the highest in Canada, almost 15 per cent greater than the national average of approximately 30 per cent.⁵⁰

Graph Six: Share of Tuition Fees for Universities' Operating Revenue in Ontario, 1992 to 2002⁵¹



Recommendation Ten: The provincial government should regulate and restructure tuition in Ontario so that it is predictable, reflects cost of program delivery and there are no significant price differentials between programs.

Recommendation Eleven: Students in Ontario should never pay more than 30 per cent of the operating cost of university education by 2011.

Ontario cannot establish tuition fees within a short-sighted prism of a one or two year plan. It must develop a long-term approach to the cost of education where all fees are regulated to ensure predictability of cost, prevent distortions in fee levels and ensure the stability and efficacy of the financial aid program.

It is fair to assume that students should pay for some share of their education, although it should be a fair proportion of the cost of their education. Currently, university students contribute over 44 per cent of the total operating cost of universities in Ontario, compared to the national average of approximately 30 per cent.⁵² A long-term plan for tuition fees should be developed in coordination with the funding plan in order to shift the burden of cost away from students over a reasonable time frame.

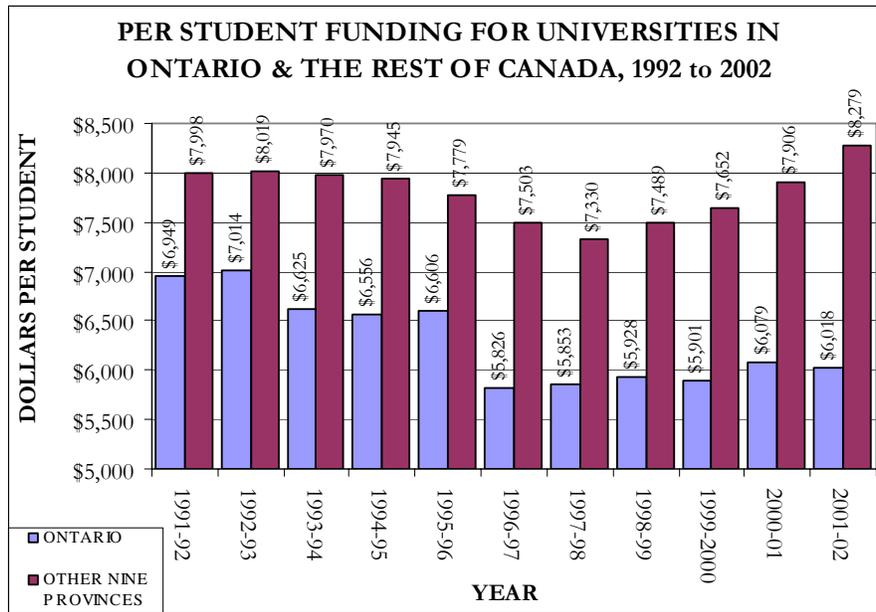
ALLOCATION OF FUNDING

The estimated cost of this initiative is directly linked to the funding proposal that is also included in this submission. For more details on our plan for tuition, please read our discussion paper on *Funding, Tuition and Student Financial Assistance*.

**FUNDING THE FUTURE:
PROVIDING INSTITUTIONS WITH THE RESOURCES THEY NEED**

Ontario has underinvested in its university system over the past decade. This has caused tuition to more than double, student debt to explode and educational quality to severely decline. Underinvestment in university also puts the province at a competitive disadvantage with its neighbours. Ontario is outperformed by nearly every peer jurisdiction in terms of the actual amount of operating grants provided to universities. This disparity is immediately obvious in a comparison with other provinces, as seen in *graph seven*.

Graph Seven: Per Student Funding for Universities in Ontario and the Rest of Canada, 1992 to 2002⁵³

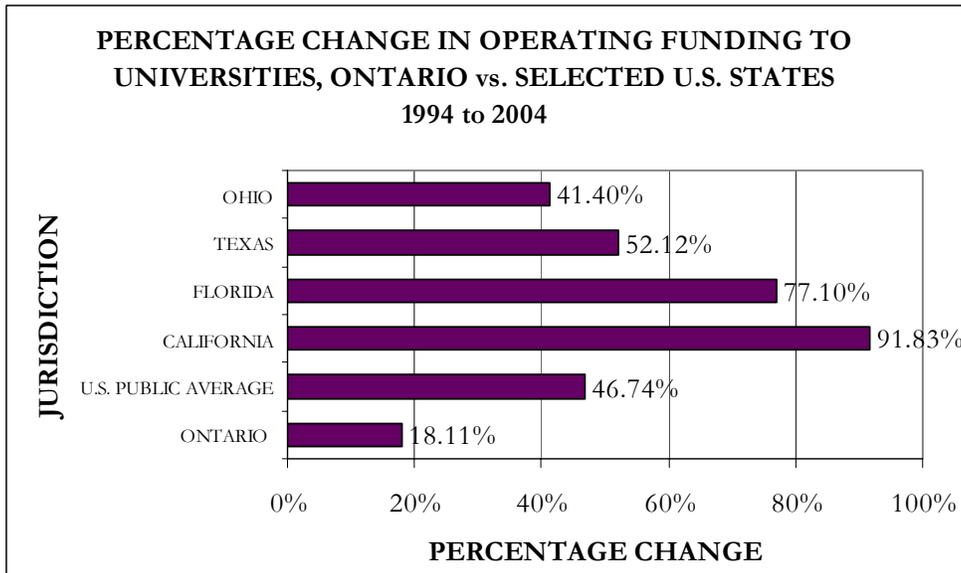


In fact, Ontario is dead last in terms of per-student university funding, \$2,261 under the national average and \$3,351 under the national leader, Newfoundland.⁵⁴ The province has been at the bottom of the pack for the past twelve years.

This disparity is not unique to Canadian comparisons. Ontario also finds itself well behind many U.S. states in terms of operating funding to universities, as seen in *graph eight*. Ontario would rank forty-seventh of fifty one jurisdictions in terms of percentage change in operating funding to universities when compared to all 50 U.S. states.

Clearly, the time has come for a renewed investment in higher education for the good of all Ontarians and the viability of the provincial economy. If Ontario is genuinely interested in improving the quality and accessibility of universities, and increasing its overall economic competitiveness, it must get serious about its funding levels. The investment may be a significant short-term funding commitment, but it is absolutely essential to the future of the system. The impact on the province will also be tremendous.

Graph Eight: Percentage Change in Operating Funding to Universities, Ontario vs. Selected U.S. States, 1994 to 2004⁵⁵



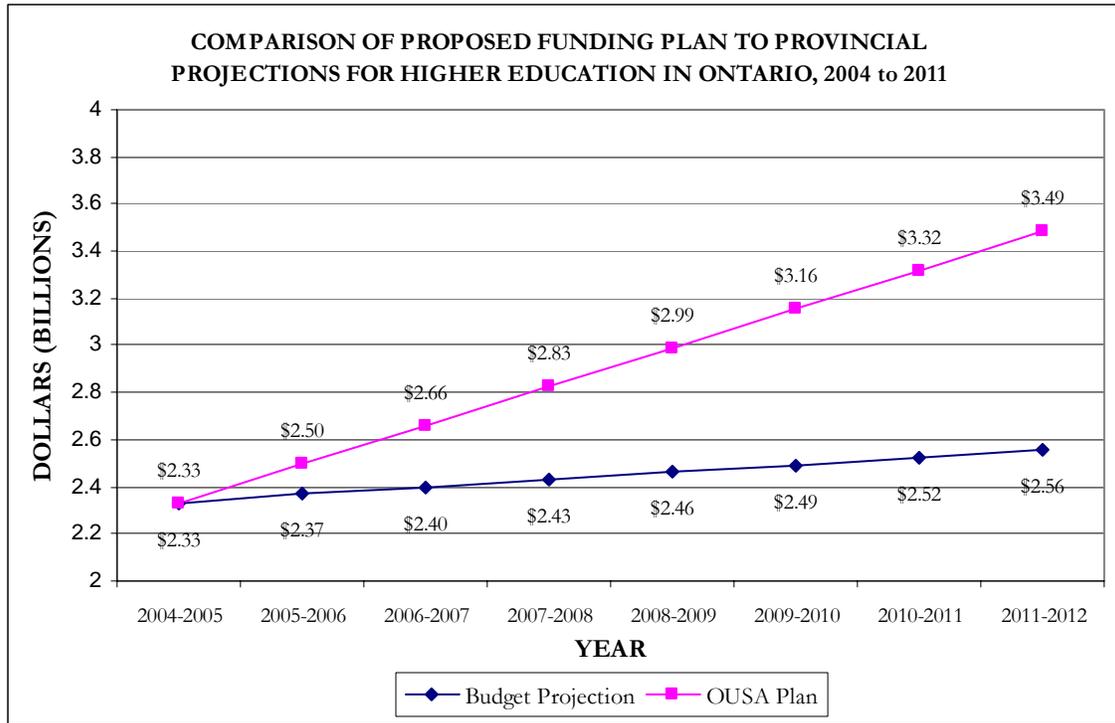
Recommendation Twelve: The provincial government should implement a 50 per cent increase in university operating funding by 2011.

In order to remain competitive and to ensure quality and accessibility in the university system, Ontario must raise its per-student funding levels to match those of its peer jurisdictions. OUSA recommends a 50 per cent increase to base operating funding, phased in over a seven year period. This funding increase would generate a variety of positive results. First, it would redress the current imbalance between public and private funding, reducing the proportional student contribution to the desired 30 per cent maximum. Second, increased funding would help to close the gap between Ontario and more competitive jurisdictions in Canada and the United States. A 50 per cent increase would make Ontario third in Canada, and comfortably above the national average in terms of operating funds. The province would still be well under the average American public school contribution, but this additional investment would at least provide some parity in the competition for the best and brightest undergraduate and graduate students, allowing Ontario to retain and develop more of its intellectual capacity. Finally, and perhaps most importantly, a 50 per cent increase would help students by controlling their costs and ensuring a high-quality education.

ALLOCATION OF FUNDING

A 50 per cent increase would translate into a \$9,024 per student operating grant, up from the 2002 level of \$6,018.⁵⁶ Based on 2003/04 funding levels, this funding would require the provincial government to invest an additional \$1.16 billion by 2011, or approximately \$165 million in additional operating grants per year. Between the 2004/05 and 2011/12 school years, the base operating grant to Ontario universities would rise from \$2.33 billion to \$3.49 billion. Based on the current average rate of increase in government funding, a 50 per cent increase would place funding 36 per cent above the projected provincial investment in 2011/12. This funding plan can be seen in *graph nine*.

Graph Nine: Comparison of Proposed Operating Funding Plan to Provincial Projections for Higher Education in Ontario, 2004 to 2011



It should be noted that this plan does not account for enrolment fluctuations or funding increases due to a potentially larger proportion of graduate students. Any increases in enrolment or proportion of graduate students must be met with related increases in funding. This projection also assumes that provincial government funding will continue to expand between 2008 and 2012 at the same rate as projected between 2005 and 2007.

In 2004, the Ministry of Training, Colleges and Universities announced a two-year tuition freeze with \$48.1 million dollars in additional funding to account for lost tuition revenue in the first year.⁵⁷ Since the amount of compensatory funding will compound in the second year of the freeze, the provincial government will be expected to provide approximately \$100 to 105 million in 2005-2006. OUSA includes this money in its request for \$165 million in additional funding as part of its 50 per cent operating funding increase plan.

The estimated cost for this initiative would be approximately \$165 million for 2005/06. Given the standing commitment from the provincial government regarding compensation for the tuition freeze, this would require an additional \$60 to 65 million in operating funding.

**FACILITATING FUTURE POTENTIAL:
PROVIDING HIGH QUALITY OPPORTUNITIES**

High quality opportunities that foster discovery and allow for skill development are crucial to facilitating the future potential of Ontario’s students. Unfortunately, there are a number of barriers that prevent the provision of these opportunities. Insufficient operating funding is the

biggest obstacle to improving quality. In 1996/97, the provincial government cut university operating grants by \$280 million.⁵⁸ This has represented a cumulative deficit of well over \$1 billion in the university system. The resulting underfunding in comparison to other states and provinces is described above. Without adequate funding, institutions cannot provide the necessary conditions for discovery or skill development.

Moreover, the ability for students to engage in co-discovery with faculty is also decreasing. Our student to faculty ratio is now the highest in the country, moving from 17:1 in 1988/89 to 22:1 in 1999/2000.⁵⁹ It has been estimated that Ontario requires an additional 13,500 new faculty to meet increased enrolment capacity and retirements in this decade alone.⁶⁰ These human resource constraints create an environment of increased class sizes and limited teacher-learner interaction that cannot effectively support discovery, and limits faculty's ability to develop skills among their students.

There are many ways the provincial government can work to build high quality opportunities in 2005/06:

A. UNDERGRADUATE CAMPUS INCUBATORS & IDEA ACCELERATORS

There is a great deal of synergy with campus incubators, entrepreneurial challenges and idea accelerators and the need to provide meaningful opportunities for university students that develop skills, enhance learning or provide experiences that allow them to move on to higher levels of education or the workforce. These kinds of programs provide students with an opportunity to explore and develop a new idea or business concept with the help of faculty and local advisors.

Recommendation Thirteen: The provincial government should provide financial incentives for universities to develop campus business incubators, entrepreneurial challenges and idea accelerators for undergraduates.

A campus business incubator provides operational expertise including the strategic mechanisms necessary to facilitate the establishment and growth of new business ideas developed by students. This concept is in line with the provincial government's election platform to, "Build a more innovative economy, one that encourages the growth of new ideas and businesses."⁶¹ The expertise provided includes strategic advice when writing business plans and raising capital, as well as access to a network of professional advisors (ie. accounting, legal and personnel). The concept of an incubator draws on the U.S. experience where ideas generated by student entrepreneurs have lead to successful multi-billion dollar businesses such as Yahoo! The trend has reached the U.K., where a number of firms have supported students setting up start-up businesses. The development of campus incubators in Canada and Ontario has been quite limited.

It should be noted that campus incubators focusing on the development of students' ideas are quite different from incubators focusing on the commercialization of research. These incubators have become quite popular recently, particularly in the biotech sector. At McMaster, the new Centre for Learning and Discovery has lab space for a biotech incubator.⁶² There is a similar incubation centre in London, through the University of Western Ontario. These models do not

share the same goals and outcomes as student-focused incubators, entrepreneurial challenges and idea accelerators.

Idea accelerators provide a concourse for discovery. These kinds of programs or facilities allow students to develop a concept that may have a positive social impact on a particular group or region. This may involve the development of community art, sustainable engineering projects or the establishment of a framework for a human rights advocacy organization in developing countries.

ALLOCATION OF FUNDING

Campus incubators, entrepreneurial challenges and idea accelerators could be facilitated centrally through on-campus student innovation centres, and coordinated jointly by representatives from the Ministry of Economic Development and Trade and the Ministry of Training, Colleges and Universities. Funding requirements for these innovation centres would include infrastructure, human resource costs and overhead. It is estimated that each centre would require \$100,000 per year in the first year of operations. Funding could be allocated on a competitive basis to individual institutions through the completion of funding proposals.

The estimated cost of this initiative would be approximately \$0.5 million. This would allow for a grant of \$100,000 to five institutions for the purposes of establishing or funding incubators, entrepreneurial challenges or idea accelerators focused on undergraduates.

B. GRANT PROGRAM FOR INTERNATIONAL EXCHANGE

The opportunity to study in another country is one that involves simultaneous discovery and development. There are a number of programs offered at individual institutions for international exchange, however, the number of students involved in these initiatives is relatively small.

Recommendation Fourteen: The provincial government should create a grant program for university students to engage in international exchange.

There are clear benefits to a system-wide program of financial assistance for international exchange. First, the province could significantly increase the number of students who are able to attend universities abroad. This would provide additional educational opportunities for students. If this initiative were implemented alongside more collaborative efforts by individual universities around international exchange, this might also increase the diversity of opportunities for students. Second, increased involvement in international exchange programs would also allow the province to obtain knowledge from other jurisdictions to bring back to Ontario. This would result in greater 'brain circulation' for Ontario, as well as increase the intellectual, social and economic potential of our province.

ALLOCATION OF FUNDING

There are a number of options available for a new grant program for international exchange. The following table outlines three models and three different grant values:

Table Four: Options for a New Grant Program for International Exchange in Ontario

<i>GRANT VALUE</i>	MODEL A: 500 AWARDS (\$ millions)	MODEL B: 1,000 AWARDS (\$ millions)	MODEL C: 3,000 AWARDS (\$ millions)
\$1,500	0.75	1.5	4.5
\$3,000	1.5	3.0	9.0
\$5,000	2.5	5.0	15.0

Given the options matrix, the ideal grant allocation for maximum value would be MODEL B with a grant value of \$3,000. This would help 1,000 students engage in some form of international exchange.

The estimated cost for this initiative would be \$3 million.

C. ALLOWING INTERNATIONAL STUDENTS TO WORK OFF-CAMPUS

There are many reasons why there is a vital need for international students to work off-campus:

A. INTERNATIONAL STUDENTS ARE VITAL TO ONTARIO

International students are vital to our province, and indeed, to our nation as a whole. In 1996, the federal Department of Foreign Affairs estimated that international students generated \$2.7 billion for the Canadian economy.⁶³ They also represent a significant proportion of the undergraduate population, contributing to the diverse learning communities at Ontario’s universities. In 2003, international students comprised 5.4 per cent of the undergraduate population at Canadian universities.⁶⁴ In Ontario, these students comprised up to 13 per cent of the undergraduate population on individual campuses.⁶⁵ International students represent an opportunity for the province to retain knowledge and skill potential and improve our ‘brain circulation.’ It would be more likely that their potential could be retained if they were welcomed to integrate into the broader community through employment opportunities.

B. OTHER COUNTRIES & PROVINCES HAVE ALLOWED INTERNATIONAL STUDENTS TO WORK OFF-CAMPUS

Many progressive jurisdictions have adapted their policies to allow international students to work off-campus. According to the Association of Universities and Colleges of Canada (AUCC), *Canada is the only Commonwealth country that prohibits international students from working off-campus part-time.*⁶⁶ However, this ban is not in force nationwide. Some provinces, including Manitoba, New Brunswick and parts of Quebec, have recently changed their policies to eliminate this prohibition.⁶⁷ According to institutions within these provinces, there has been a “phenomenal” response to the change.⁶⁸

C. COSTS FOR INTERNATIONAL STUDENTS ARE HIGH AND CONTINUE TO RISE DRAMATICALLY

International students in Ontario have to bear tremendous costs for studying at universities in the province. In 2004/05, average undergraduate tuition fees for international students in Canada were \$11,903 per year.⁶⁹ In Ontario, undergraduate tuition fees for international students ranged as high as \$17,692 per year for certain programs.⁷⁰ But these are not their only costs. Along with tuition fees, they must also cover burgeoning travel costs, ancillary fees, housing and other cost-

of-living expenses. If the Ontario government were to allow international students to work off-campus, it would broaden the range of opportunities available to help them afford their education.

D. INCREASED TUITION FEES HAVE IMPACTED ACCESSIBILITY FOR INTERNATIONAL STUDENTS

According to the Canadian Bureau for International Education, decreasing affordability has already impacted accessibility for potential students from lower income families and nations. The proportion of foreign students coming from wealthier families increased from 27 per cent in 1999 to 33 per cent in 2004.⁷¹ Allowing international students to work off-campus could be one among a range of means to ensure that Ontario is able to accept international students from a range of socio-economic backgrounds.

Recommendation Fifteen: The provincial government should allow international students to obtain off-campus employment while their student visa is valid for up to 20 hours per week.

This initiative could take a similar shape to the pilot projects of Manitoba and New Brunswick, which allow international students to work up to 20 hours per week off-campus.

ALLOCATION OF FUNDING

No funding would need to be allocated to allow international students to work part-time off-campus.

The estimated cost of this initiative would be \$0.

D. OPEN UNIVERSITY OF ONTARIO

An open university offers a great deal of flexibility and opportunity for those who may find it difficult to enter into a traditional campus environment because of financial, geographic, cultural or other barriers. Generally, the courses and programs that are provided at these institutions allow students to study in their homes or workplaces without a specified completion timeline.

Recommendation Sixteen: The provincial government should create an Open University of Ontario (OOU) by 2008.

It should be clear that if this institution were developed in Ontario, it should have certain characteristics. First, it must be a public, non-profit institution that is regulated and provincially chartered according to similar governance structures at the other universities in Ontario. This would ensure that the institution can remain affordable for those who wish to attend, which would be quite unlike the many for-profit open institutions in the United States that charge significantly more than public universities. For example, fees for undergraduate programs at the University of Phoenix, a private open institution in the U.S., are 261 per cent greater than the fees at the University of New Mexico, a public institution.⁷² Second, learning centres should be available in communities or regions that are underserved by existing universities. This could allow the province to provide educational opportunities that reach out to underrepresented populations such as rural or Aboriginal Ontarians. Third, the teachers, tutors or facilitators associated with this institution should meet high academic and teaching standards. For example, teachers may be required to hold a Master's level degree or greater in their teaching subject. Finally, this institution would need to be accredited and evaluated according to the guidelines that govern other

universities in Ontario. This may include assessment by the Postsecondary Education Quality Assessment Board, undergraduate program reviews and other similar requirements.

Ideally, the opportunities provided would also take pressure off traditional campuses in terms of space and course provision. This is not to say, however, that these kinds of institutions should replace our existing system, or that all new, mature or part-time students should pursue this type of study. An open university could, however, supplement existing educational opportunities across the province.

ALLOCATION OF FUNDING

The creation of an open university would need to be a long-term project, which could potentially require over \$20 million annually if the OUO was to become as large as the British Columbia Open Learning Agency (BCOLA).⁷³ It is estimated that \$1 million would be required in start-up funding in order to establish the overarching structure for the new institution. This would, of course, need to increase over time. A cost-sharing partnership could be formed with TVO for the provision of course materials on that network, which would provide a mutual benefit to both entities. A similar partnership exists between ACCESS, Alberta's education station, and Athabasca University.⁷⁴

The estimated cost for this initiative would be approximately \$1 million in start-up funding. An increased allocation would be required on an annual basis for the institution to develop.

TRACKING OUR FUTURE PROGRESS:

CHARTING A CLEAR & ACCOUNTABLE DIRECTION

If higher education is a means for progress and a recipient of significant public funds, Ontario must ensure that it is charting a clear and accountable direction for the future. Ideally, the mechanisms of governance, accountability and assessment for Ontario's universities should be designed for effective management of the system. Their end goal should be to ensure that the system is producing desired and demonstrable results for the public and students. Moreover, these mechanisms should foster a system committed to the improvement and maintenance of the quality of education that is provided at each institution. They should not be used as tools merely for the collection of facts and statistics.

A. HIGHER EDUCATION COORDINATING AGENCY

Ontario is in the dark when it comes to its own colleges and universities. There are clear gaps in the information and data that supports our province's governance and accountability framework for higher education. First, it is clear that there are problems with the availability and currency of data on higher education institutions. Although a great deal of data is reported by institutions and government, there are gaps in areas of needed measurement at the system and institutional levels. Even some data and information that is supposed to be available is not public, difficult to obtain, or is significantly out of date. Second, it is evident that there are problems of consistency with the information and data that is available, and the methods that are applied to collect or report information. Unfortunately, this is an issue at universities across the country, as demonstrated by research performed by Morton, Fisher and Banks (1997).⁷⁵ Moreover, even mandated reporting requirements are presented and available in different formats and locations. Third, there are

problems with the major source of data and information that is available. The major source of information and data on institutions is the Council of Ontario Universities, which is an advocacy organization for the universities in the province. This represents a clear conflict of interest in the provision of information, particularly if any data or information might contradict priorities of the organization or its members. Finally, there are clear concerns with the analysis and utilization of information and data collected. There are no clear mechanisms in place for either institutional or system-wide data to be analyzed or utilized in order to ensure and improve the quality of higher education in the province.

Beyond issues with information and data collection, presentation and analysis, there are other gaps in the governance and accountability framework for higher education in Ontario. It is clear that there is no mechanism or incentive for collaboration among institutions. Although many institutions have developed joint programming initiatives, particularly between colleges and universities, these initiatives have met either institutional or local student demand – perceived and actual. Unfortunately, these initiatives do not address systemic demand and are driven by the fiscal restraints and desires of individual institutions.

Recommendation Seventeen: The provincial government should create a Higher Education Coordinating Agency that is responsible for ensuring accountability, gathering data, providing advice to government and institutions, and fostering collaboration within the system.

The body should have the following characteristics:

- a. *Responsive.* This new body must ensure that the government is able to respond to the rapidly changing public policy environment of higher education.
- b. *Independent.* An intermediary body must be independent from government in order to ensure that its data and reports are as unbiased as possible. Moreover, because it is independent from government, executive authority over funding would rightly remain with the province.
- c. *Decentralized.* This body would allow institutions to implement their own accountability frameworks, within the requirements of government and reporting.
- d. *A facilitator.* The new coordinating board would focus on facilitating the improvement of institutions, as well as the sharing of information and best practices.
- e. *An information source.* It is clear that there is a substantial gap in system and institutional level data on higher education in Ontario. This body could fill that gap.

A full description of our plan for this new agency can be found in our associated paper on *Governance, Accountability and Assessment in Higher Education*.

ALLOCATION OF FUNDING

The new agency would require funding for a small staff of ten to fifteen, as well as associated overhead. Specific funds would be required for data collection tools, data acquisition and special projects such as conferences or best practice manuals. In total, it is estimated that this would cost roughly \$3 million.

The estimated cost for this initiative would be approximately \$3 million.

how will these investments be funded?

We believe there are numerous ways to provide increased funding to the post-secondary sector. Moreover, if implemented, many of the recommendations above will generate revenue or savings. These revenue sources include:

A. CURRENT ECONOMIC GROWTH

As Ontario's economy continues to grow, more revenue will be available for investment in the university sector. The Royal Bank of Canada predicts the Ontario economy will grow by 3.6 per cent in 2005, translating into greater government revenues.⁷⁶ Based on this growth, \$84 million will be generated by economic growth, leaving only \$102.9 to 107.9 million to be raised from other sources. Current government projections state that operating funding for Ontario's universities will only increase at an average of 1.7 per cent per year.⁷⁷ This increase would not even keep pace with inflationary growth.

B. DECENTRALIZATION & MODERNIZATION OF THE FINANCIAL AID SYSTEM

The entire OSAP system is currently administered from the Student Support Branch facility in Thunder Bay, Ontario. Already geographically remote from the vast majority of the province's university students, this centralized operation may also not be the most financially efficient means of administering the financial aid system. There are numerous international examples of the financial benefits of de-centralized financial aid systems. The most powerful of these can be found in South Africa, where cost-neutral public programs are sheer necessities. South Africa cannot pour resources into the administration of its financial aid program as it struggles to come to grips with poverty, crime and an HIV/AIDS crisis.⁷⁸ To that end, the National Student Financial Aid Scheme (NSFAS) has been successful in controlling administrative costs at two per cent per year, through an efficient technological infrastructure and cost-sharing with individual institutions.⁷⁹ Currently, administration of the OSAP program accounts for 4 per cent of total expenditures.⁸⁰ **Reducing administration to 2 per cent of total cost would save the provincial government approximately \$8 million per year.⁸¹**

OUSA proposes adopting the South African administration model in the Ontario financial aid system. While all funding and policy direction would come from the provincial and federal government, individual institutions would be responsible for the up-front administration of the program. Students would apply directly to the student awards offices at their home institutions, and the university would be responsible for assessing and disbursing support. To achieve this, the provincial government would need to provide additional financial resources to universities to expand their financial aid operations. However, the cost-sharing nature of this arrangement would still keep overall expenses below the current level. An initial up-front investment in technological infrastructure could also help to off-set the expansion of human resource capacity in individual student awards offices. A modernization of computer systems, networks and on-line resources would generate substantial savings over time.

C. REDUCTION OF LOAN DEFAULTS

In 2002/03, nearly 14 per cent of loans went into default, costing the OSAP system \$96 million.^{82,83} By introducing greater graduate protection into the financial aid system, the default

rate could be greatly reduced. Such protections would undeniably require additional investment in the system. However, the money saved from payments on defaulted loans could well make these provisions self-financing, and could eventually result in additional revenue being available within the financial aid system for expanded non-repayable assistance programs. **The Provincial Auditor of Ontario noted in a 2003 report that a one per cent decrease in default rates would translate into a savings of \$3.5 million annually.**⁸⁴

Such measures have worked before. In the United States, default rates were reduced from 22 per cent to 5.9 per cent between 1992 and 2002 through, “changes in loan management and the implementation of various default management strategies.”⁸⁵ Clearly, it is to the advantage of both the province and students to provide more mechanisms for graduate protection within the financial aid system.

D. ELIMINATION OF THE TUITION TAX CREDIT

In Canada, all individuals paying tuition and associated education fees are eligible for a tax credit of \$400 a month while a student is in-study. These credits can be used in one of three ways:⁸⁶

1. Employ them to reduce a student’s own income-tax liability;
2. A student may transfer credits to a parent, guardian, spouse or grandparent to reduce current tax liability; or
3. A student may carry forward the value of any unused tax credits to reduce their tax liability in subsequent years.

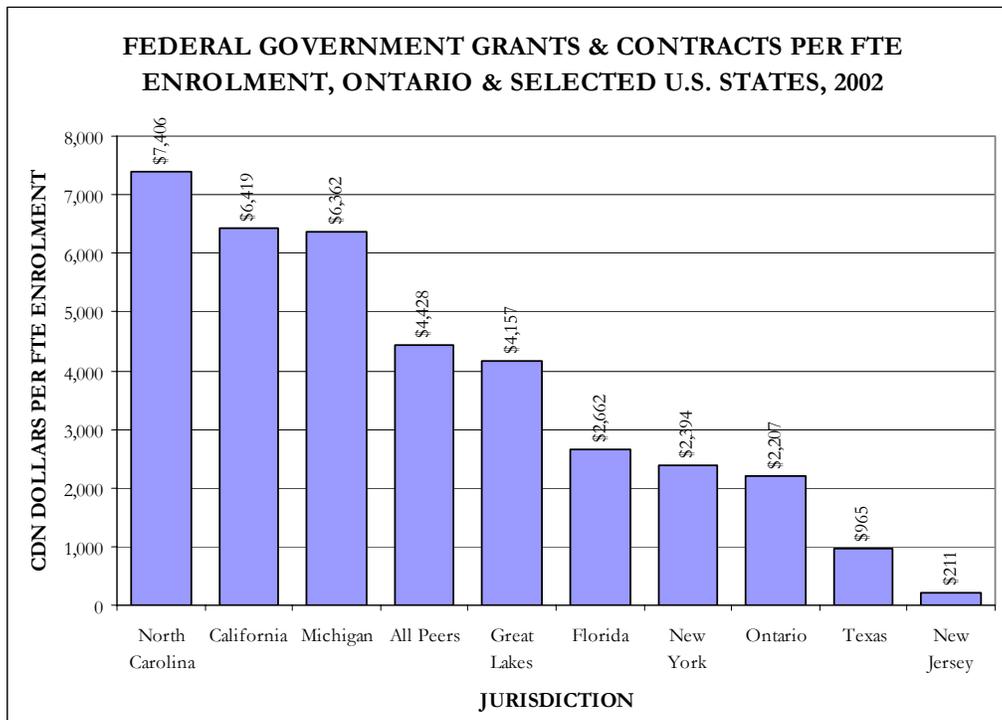
While they generate a definite financial benefit for students and their families, this program is not a particularly effective way to distribute student aid. First, tax credits are expensive. Canadian governments collectively, “spend almost 40 per cent of all their student financial aid dollars in the form of education-related tax credits.”⁸⁷ Moreover, tax credits are not distributed on the basis of need, and, “much of the money goes to students from higher income families...lower income families are unable to benefit because they do not have the tax obligations required to take advantage of the benefits or, at best, receive no more assistance than higher income families.”⁸⁸ In fact, 60 per cent of all education and tuition tax credits go to families with incomes above the national median. This is an unfortunate reality which is pulling valuable and scarce funding away from assistance for lower-income and otherwise disadvantaged groups. **OUSA estimates the elimination of the tuition tax credit would generate an additional \$300 million in revenue for Ontario.**

E. DEDICATED FEDERAL TRANSFER FOR POST-SECONDARY EDUCATION

As a beneficiary of the economic and social development generated by the Ontario university system, the federal government likewise has a role to play in financing the system. From increased tax revenue to the economic benefits of university level research and development to increased overall prosperity, the citizens of Canada have much to gain from well-funded, broadly accessible provincial university systems. As such, the federal government must contribute towards the overall funding package provided to institutions.

Currently, the federal government of Canada does provide dedicated money to Ontario universities in the form of research funding and grants—\$750 million in 2002/03.⁸⁹ Article 91 and 92 of the Canadian Constitution limits the ability of the national government to directly fund institutions. In theory, the Canada Social Transfer (CST) provides money that could be used to supplement university operating grants. However, there was no requirement under the CHST to spend any of the funding on higher education, nor do any such regulations exist under the new Canada Social Transfer and Canada Health Transfer.⁹⁰ Provincial governments saddled with competing, and often more politically saleable, spending priorities consistently spend the lion’s share of CHST funds on healthcare and K-12 education. As a result, “very little federal re-investment occurred for Canadian post-secondary education through the CHST.”⁹¹ Consequently, the federal funding of Ontario lags well behind peer jurisdictions, as seen in *graph ten*.

Graph Ten: Federal Government Grants and Contracts Per FTE Enrolment, Ontario and Selected U.S. States, 2002⁹²



It should be noted the funding level shown above reflects federal research grants. Very little of the \$2,207 actually goes towards base operating funding. Even with direct research funding, average federal per-student investment is over twice as high in the United States as it is in Canada.

In its September 2004 pre-budget submission, the Canadian Alliance of Student Associations (CASA) advocates for the creation of a dedicated Canadian Education Transfer (CET) from the federal government to the provinces.⁹³ The new CET would have the following characteristics:⁹⁴

1. A requirement that all money in the CET be applied to post-secondary education;

2. An initial funding level of \$3.99 billion in annual cash transfers, increase annually according to annual inflation and demographic growth, of **which approximately \$1 billion would go to Ontario** based on populations; *and*
3. An agreement with the provinces and territories stipulating they will not decrease their own post-secondary education spending when additional federal funding is provided.

OUSA strongly supports the CASA proposal for a dedicated post-secondary transfer, and believes such a program must be immediately implemented by the federal government. It is our recommendation the provincial government join with students, faculty and institutions to aggressively lobby for greater federal investment in university education.

F. SMALL PROFIT TAX ON BUSINESSES WHICH DEPEND ON UNIVERSITY GRADUATES

As direct beneficiaries of the university system, businesses in the province also have a role to play in the financing of higher education in Ontario. Moreover, the relative success of these enterprises depends on the quality of the graduates produced by the post-secondary sector. Therefore, mandatory private-sector investment in the university system should be facilitated by the establishment of an additional levy on the profits of businesses in sectors which typically benefit from the university system. Such enterprises would include, but not necessarily be limited to, finance, law, information technology and engineering.

This is not a novel idea. Such a tax was also proposed in the 1985 Wran Commission Report, which led to the formation of the HECS system in Australia.⁹⁵ The tax would not be large—OUSA proposes a rate of one to two per cent. It would also only be applied to a business' actual profits, not total revenue. The implementation of such a levy affirms the principle of shared responsibility for the university system, and help the provincial government meet its funding requirements.

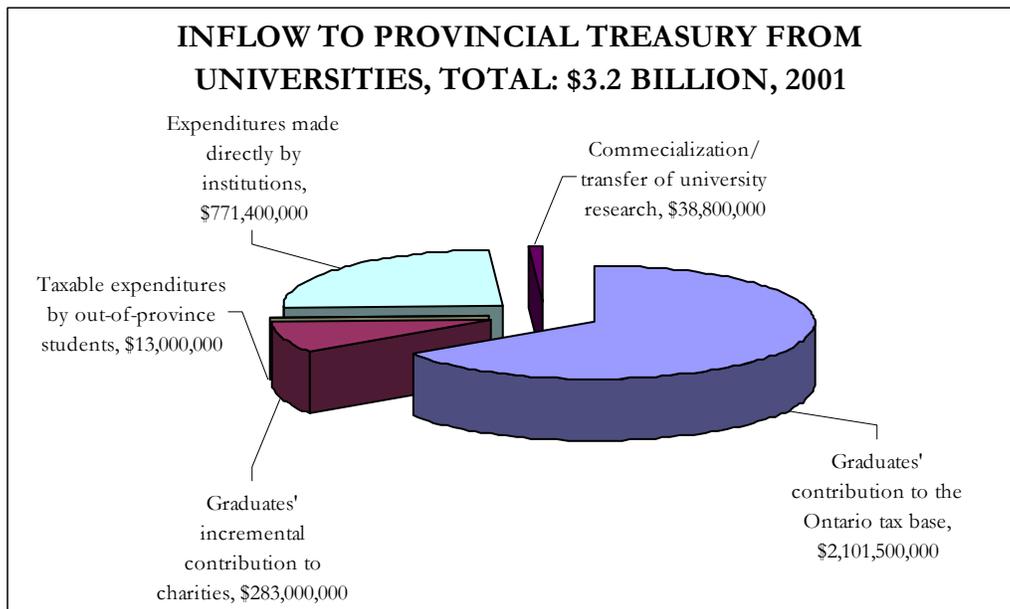
G. ECONOMIC & SOCIAL GROWTH DRIVEN BY HIGHER EDUCATION

Finally, it is important to realize that government spending in the university sector is first and foremost an *investment*. Like all investments, university funding delivers a tangible return to the provincial treasury. In 1998, Ontario's provincial government provided \$2.1 billion dollars to the university system. However, it received nearly \$3.2 billion in revenue linked to universities—a 52 per cent return on investment *annually*.⁹⁶ The full description of this inflow of revenue can be seen in *graph eleven*. If that rate of return is constant, an additional investment of \$1 billion in the university sector could return \$1.52 billion to Ontario's coffers every year.

An earlier study by A. A. Kubursi found that **for every dollar spent on universities, four dollars are generated in the local economy**.⁹⁷ Given these two indicators and the prosperity gap mentioned earlier, Ontario could benefit tremendously from additional investment in higher education.

The discoveries and ideas developed at universities also have significant benefits for the social vitality and economic competitiveness of a jurisdiction. In order to remain competitive, Ontario must have a world-class system of higher education.

Graph Eleven: Inflow to Provincial Treasury from Universities, 2001⁹⁸



Although harder to gauge, university education also generates considerable social benefits. Indeed, according to Bruce Johnstone of SUNY Buffalo, “higher education, *publicly funded*, is still essential to most forms of basic research, to the preservation and transmission of culture and to the strengthening of civic society.”⁹⁹ A TD Economics topic paper published in 2004 notes that graduates have better health, longer life, better communication skills, greater self-confidence and are less likely to participate in crime.¹⁰⁰ They are also more tolerant of other races and more likely to vote in elections.¹⁰¹ In other words, investment in higher education is an investment in a healthy, dynamic and politically engaged citizenry. As noted by Nicholas Barr, architect of the new university system in England, “higher education creates benefits beyond those to the individual—benefits in terms of growth, the transmission of values and the development of knowledge for its own sake...thus, taxpayer subsidies should remain a permanent part of the landscape.”¹⁰² Through effective investment in the university system, the costs of democratic renewal, law enforcement and corrections, and the health care system can all be substantially reduced.

Given the massive return on investment generated by the university sector, increased government spending on the system is a prudent and sustainable means to generate additional public revenue while simultaneously building economic and social potential within the province. In a meeting with OUSA in early December, Finance Minister Hon. Gregory Sorbara noted the provincial government sought to address Ontario’s budget challenges by, “being excellent managers of the economy.” It is OUSA’s opinion that renewed investment in the university system is one of the single best ways to ensure the province’s economy remains strong for decades to come.

summary of budgetary investment

The total budgetary investment in 2005/06 for these recommendations is as follows:

<i>ITEM</i>	<i>AMOUNT</i>
ENSURING ACCESS & AFFORDABILITY	
ensuring the financial aid package meets true costs (including OSOG)	\$71.4 million
low-income tuition waiver	\$18.9 million
entry merit scholarship	\$22.3 million
effective grants (improved interest relief and debt reduction)	\$2.3 million
online infrastructure improvements for OSAP	\$2 million
early intervention programs (start-up programs in five communities)	\$2.5 million
PROVIDING INSTITUTIONS WITH THE RESOURCES THEY NEED	
increasing operating grants to move towards national average (does not include tuition freeze compensation) ¹⁰³	\$60 - 65 million
PROVIDING HIGH QUALITY OPPORTUNITIES	
undergraduate incubators and idea accelerators (start-up facilities at five institutions)	\$0.5 million
grant program for international exchange	\$3 million
allowing international students to work off-campus	\$0
open university of Ontario	\$1 million
CHARTING A CLEAR & ACCOUNTABLE DIRECTION	
higher education coordinating agency	\$3 million
TOTAL	\$187.2 – 192.2 million

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