The Impact of Student Debt on Colorado's Economy

April 4, 2019

Arapahoe/Douglas
WORKFORCE BOARD

What is a 'good business climate?'

- Education and training based on global standards
- Modern infrastructure - roads, rail, ports, airports, telecommunications, broadband access, sewer, reliable water and energy
- Stable, fair taxation
- Prepared development sites
- Expedited permitting
- Development and job creation incentives
- Capital availability - venture, equity and debt
- Tech. R&D commercialization
- Affordable, quality housing
- Accessible and affordable, quality healthcare, childcare and elder care
- Safe communities, schools, parks, streets
- Vibrant and diverse arts, cultural, sports and recreational activities
- High quality protected natural environment
- Embracing of diverse cultures, races and lifestyles
- Collaborative leaders committed to continuous improvement and highest quality of all community assets
- Leadership that constantly challenges the status-quo, searching for a "better way"

From Mike Fitzgerald, Former CEO, Denver South Economic Development Partnership

Our Vision and Mission

The Arapahoe/Douglas Workforce Development Board is dedicated to identifying and promoting workforce development strategies that positively impact the economic wellbeing of Arapahoe and Douglas Counties.

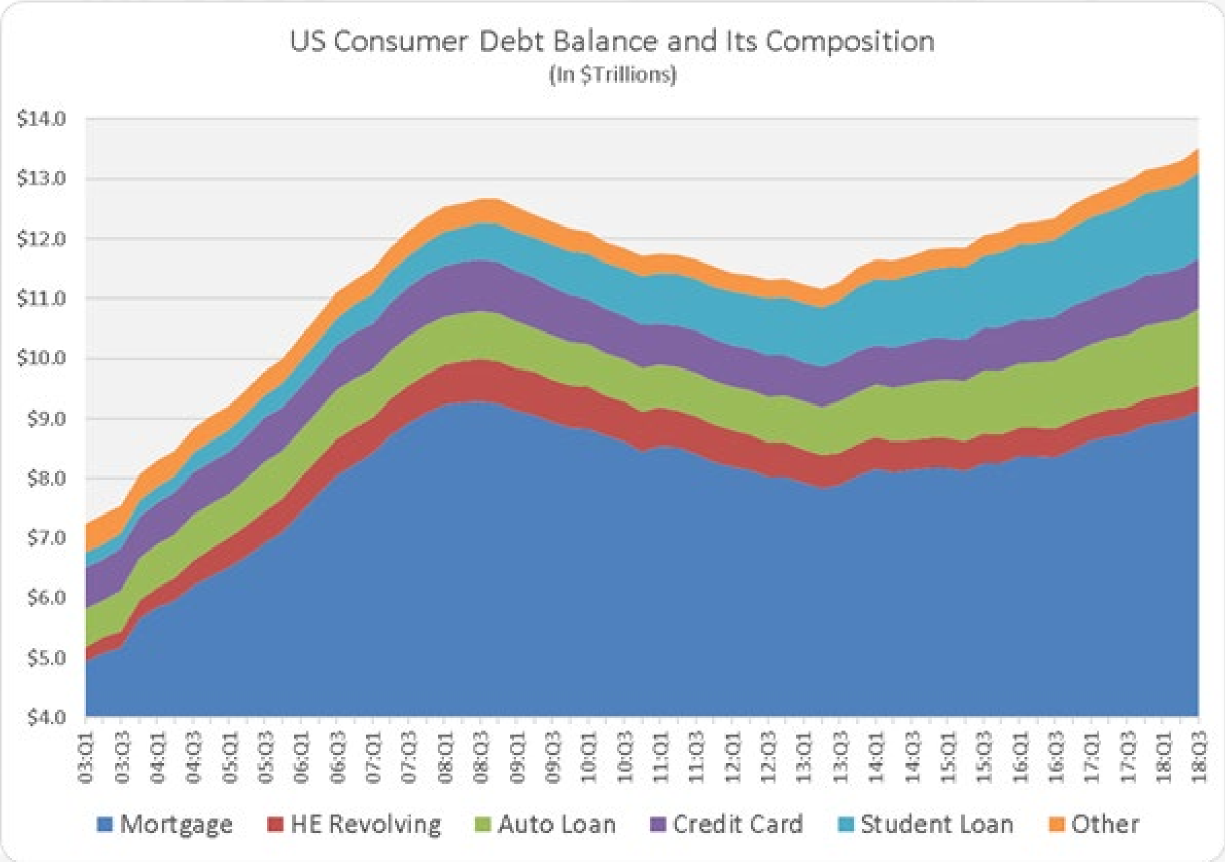
OUR VISION is sustainable employment through strategic human capital investments that produce positive economic returns for our business/ industry and our communities.

OUR MISSION is to create a best in class regional system that is responsive to business/industry that results in a skilled workforce equipped with a work ethic, academic proficiency, and occupational specific talent that rivals our competition.

Essentially, we're trying to help create and maintain greater metro Denver as an opportunity city – a place where someone can work hard and get ahead.

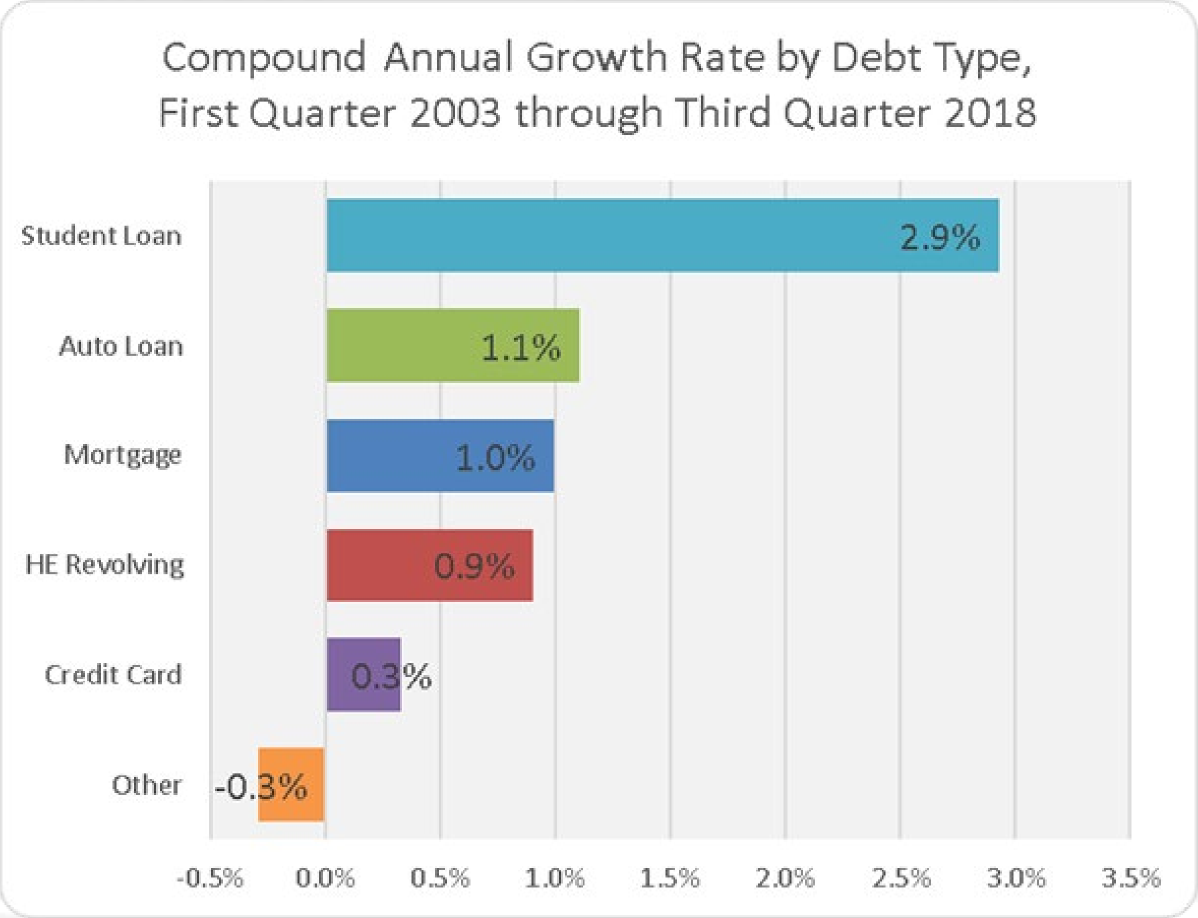
Understanding the adverse impact of high student debt in Colorado is vital to that endeavor.

The National Picture



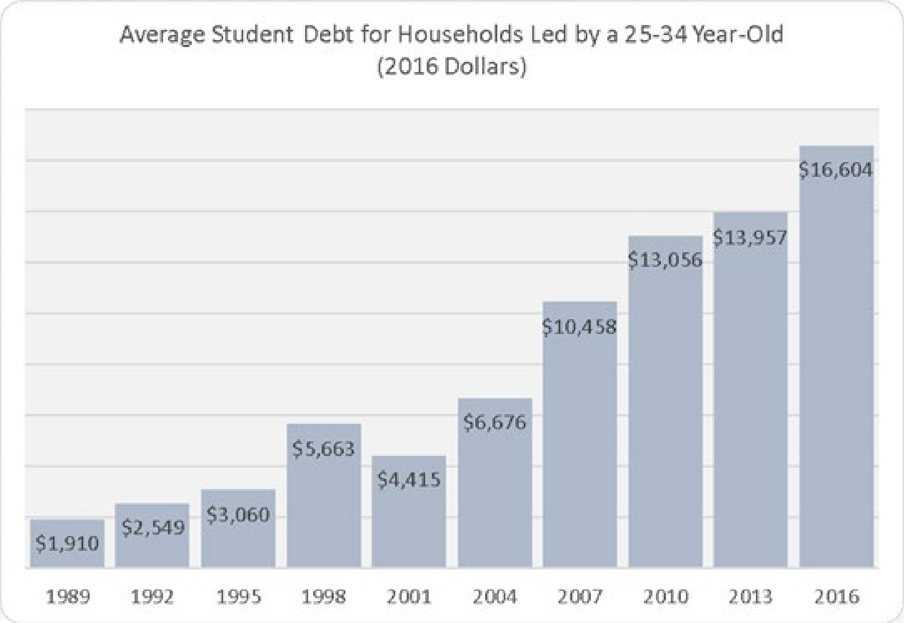
According to the most recent data, through the fourth quarter of 2018, released by the Federal Reserve Bank of New York, national student debt now stands at $1.457 trillion, and makes up just over 10.7% of total U.S. consumer debt.

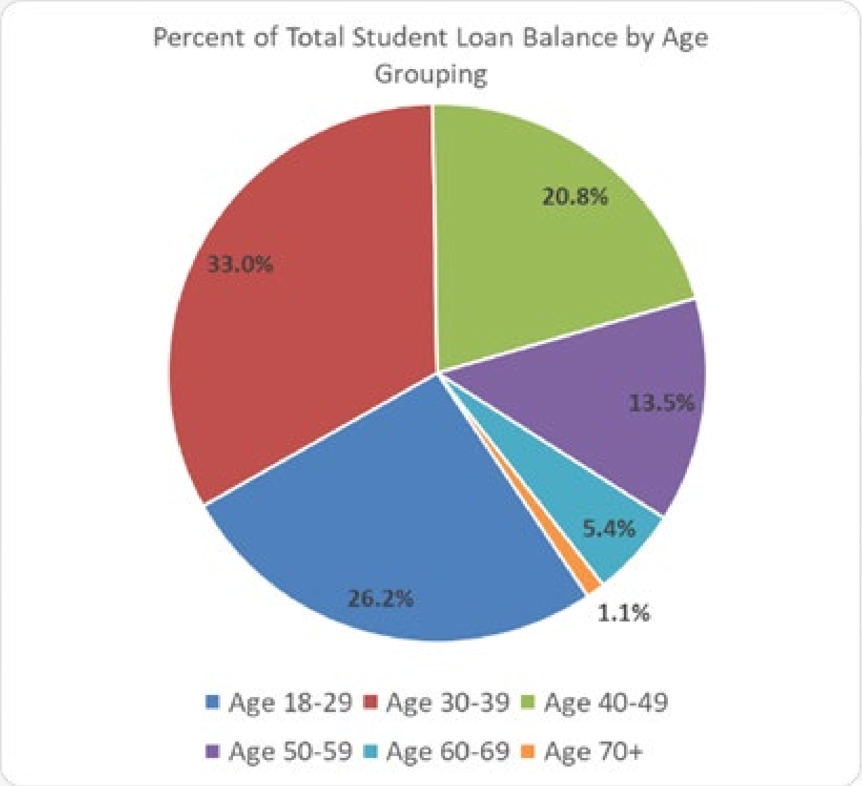
Fastest Growing Type of Debt



This bar chart, (also from the New York Federal Reserve Bank), shows that national student debt has grown much more rapidly between 2003 and 2018 than other types of consumer debt.

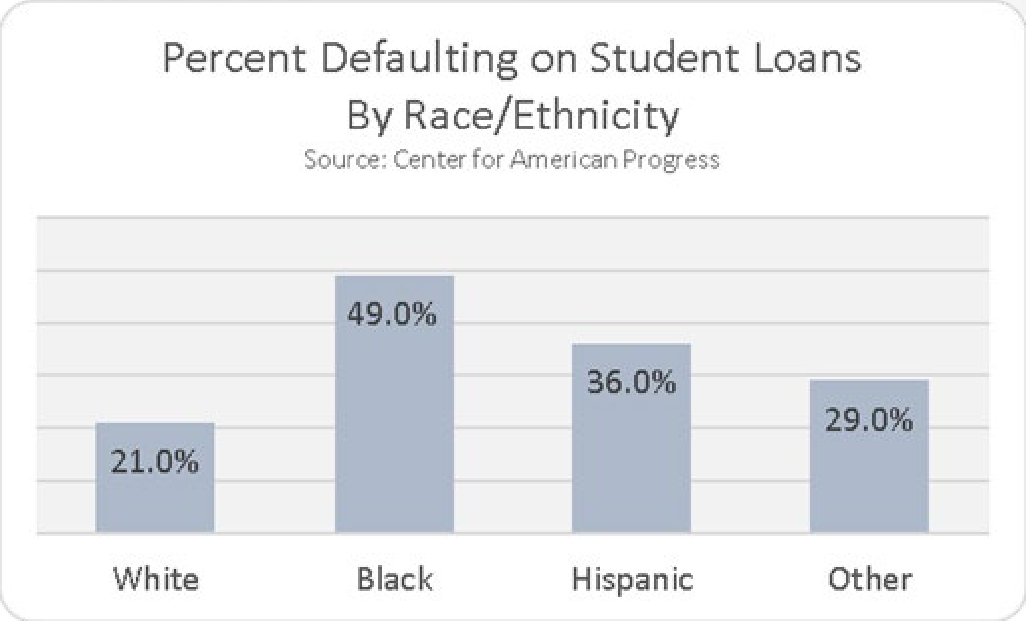
A Multi-Generational Challenge





The challenge is multi-generational, but because of rapidly escalating costs, student loan debt is rising over twice as fast as any other type of debt. Over time, this will disproportionately affect younger Coloradans.

What it Means to Default



Percent Who Dropped Out Defaulting Within 12 Years of Entry By Type of Institution

Race/Ethnicity	Public 4-Year	Private Non-Profit 4-Year	Public Two-Year	Private For-Profit
White	39.0%	33.0%	32.0%	50.0%
Black or African-American	64.0%	65.0%	54.0%	75.0%
Hispanic or Latino	50.0%	Unknown	29.0%	63.0%
All Students	44.0%	40.0%	36.0%	62.0%

Source: Center for American Progress

A review of literature on student loan default shows disparities for racial and ethnic minorities.

Because half of the labor force in Colorado will be made up of racial and ethnic minorities by 2050 according to the State Demographer, this problem affects us.

The far right column shows significantly higher default rates across the board for all races and ethnicities. Several factors might contribute to this, including higher costs, looser standards around student acceptance, and/or lack of business-relevant outcomes in many private for-profit schools.

Remediation and Completion

This is compounded by the fact that 40-60% of incoming freshmen must take remedial mathematics, English or both prior to embarking on their college-level coursework.

These students are much less likely to complete, with fewer than 25% finishing their intended degree program (Miller, 2017).

Statistically, students who must take remedial courses borrow at the same rate as students who do not, but have much lower graduation rates, they are also likely to have higher loan default rates.

These students are disproportionately persons of color, African-American (56%), Hispanic/Latino (45%), versus 35% of white students (Jimenez, 2016).

Forever Loans

This table shows the median percentage of the original student loan still outstanding 12 years after the borrower entered college. This table includes those who have paid off their student loans in their entirety.

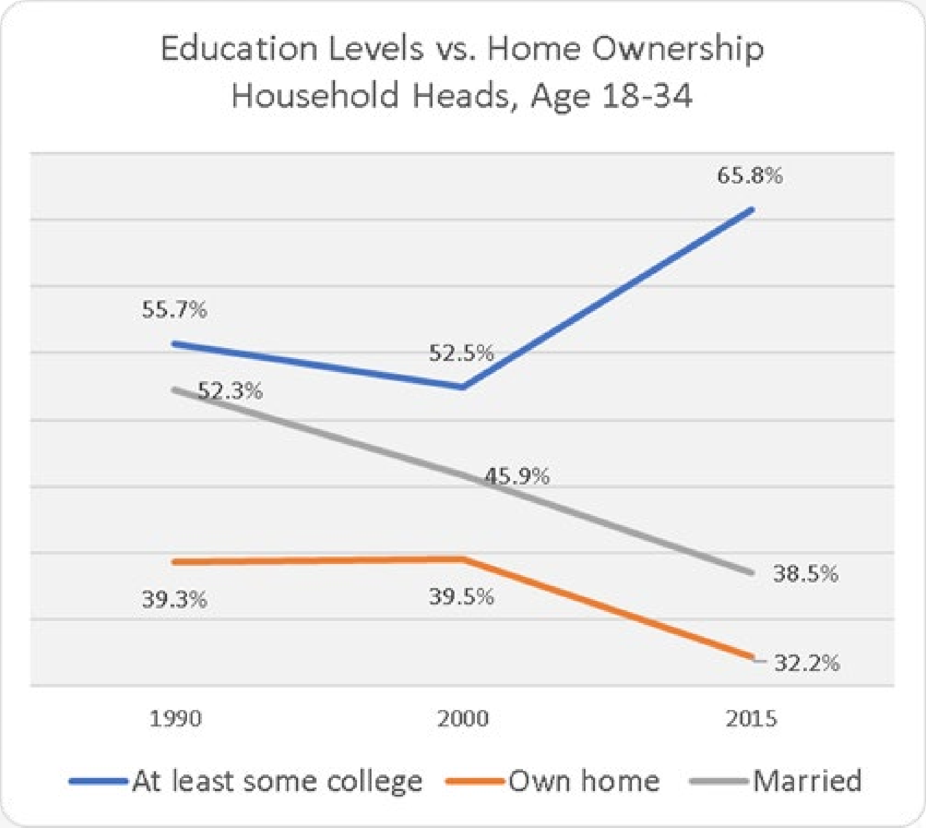
Median Percentage of Original Student Loan Balance Still Owed 12 Years After College Entry		
Race/Ethnicity	2003-04 Entry	1995-96 Entry
White	65.0%	60.0%
Black or African-American	113.0%	101.0%
Hispanic or Latino	83.0%	72.0%
All Students	80.0%	68.0%

Source: Center for American Progress

Median Percentage of Original Student Loan Balance Still Owed 12 Years After Entry (2003-04 Academic Year)				
Educational Attainment	Overall	White	Black/African American	Hispanic or Latino
Attained Bachelor's Degree	60.0%	47.0%	114.0%	79.0%
Attained Associate Degree	92.0%	76.0%	124.0%	100.0%
Attained Certificate	76.0%	70.0%	108.0%	Unknown
Still Enrolled	101.0%	97.0%	115.0%	100.0%
Dropped Out	83.0%	68.0%	106.0%	79.0%

Source: Center for American Progress

On the Ground



Generational Decline in Earnings, Age 25-34		
Median Income	1989	2013
Individual Worker	$50,910	$40,581

Source: Young Invincibles, 2017

Median Assets, Age 25-34		
Median Income	1989	2013
Degree Without Debt	$244,872	$133,800
Degree With Debt	$150,751	$43,510
No Degree	$34,470	$16,000

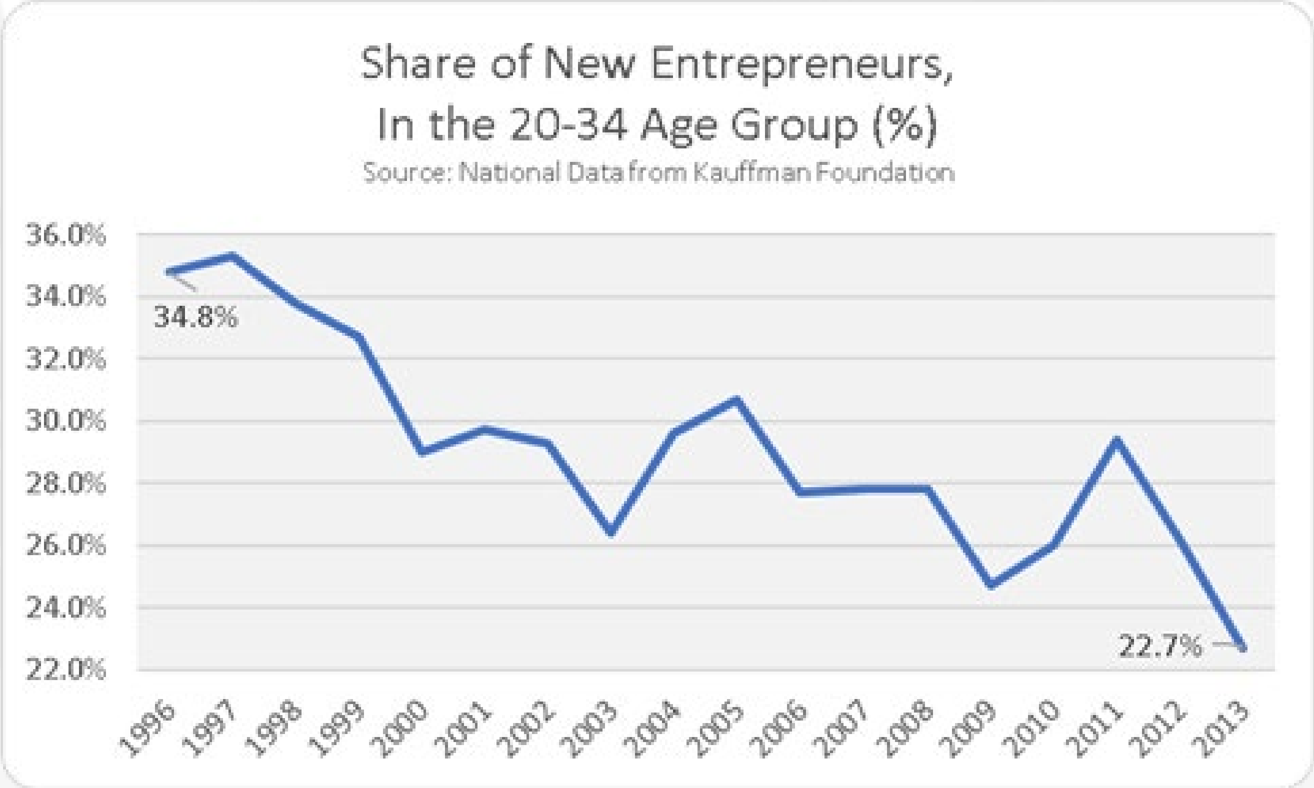
Source: Young Invincibles, 2017

Net Wealth, Age 25-34		
Median Income	1989	2013
Degree Without Debt	$125,572	$75,000
Degree With Debt	$86,547	$6,600
No Degree	$16,322	$7,750

Source: Young Invincibles, 2017

We saw how student loan debt is disproportionately affecting younger Americans; these figures show delays in marriage, buying homes, fewer assets and less wealth accumulation.

Fewer Young Entrepreneurs



"Because of the corrosive impact of student debt on start-ups, millennials seem to be the new lost generation of entrepreneurs. Although it is difficult to pin down a direct relationship between college loans and entrepreneurial activity, the weight of student debt appears to be deterring some would-be business owners." (Wasick, 2017)

The Effect in Colorado

Opportunity Cost of Student Loan Repayment in Colorado				
Level	Average Interest	Estimated Number	Avg. Payment	Aggregate Annual Cash Outflow
Undergraduate	4.81%	385,548	$304.68	$1,409,626,195
Graduate	6.38%	230,764	$331.55	$918,117,894
PLUS	7.44%	16,137	$350.43	$67,857,237
Totals	5.45%	632,449	$315.65	$2,395,601,326

Sources: 2019 Analysis by Student Borrower Protection Center (SBPC) and New Era Colorado, US Census, US Bureau Labor Statistics, US Dept. of Education

On January 22, 2019, the Student Borrower Protection Center (SBPC) and New Era Colorado released an analysis of Colorado student debt using data obtained from the U.S. Department of Education and the Federal Reserve Bank of Philadelphia. This analysis revealed that presently there are 733,700 people in Colorado who owe student debt of $26.4 billion. This is an average of $36,032 per student debtor. Of these, 632,449 are currently paying, and 101,251 are in default.

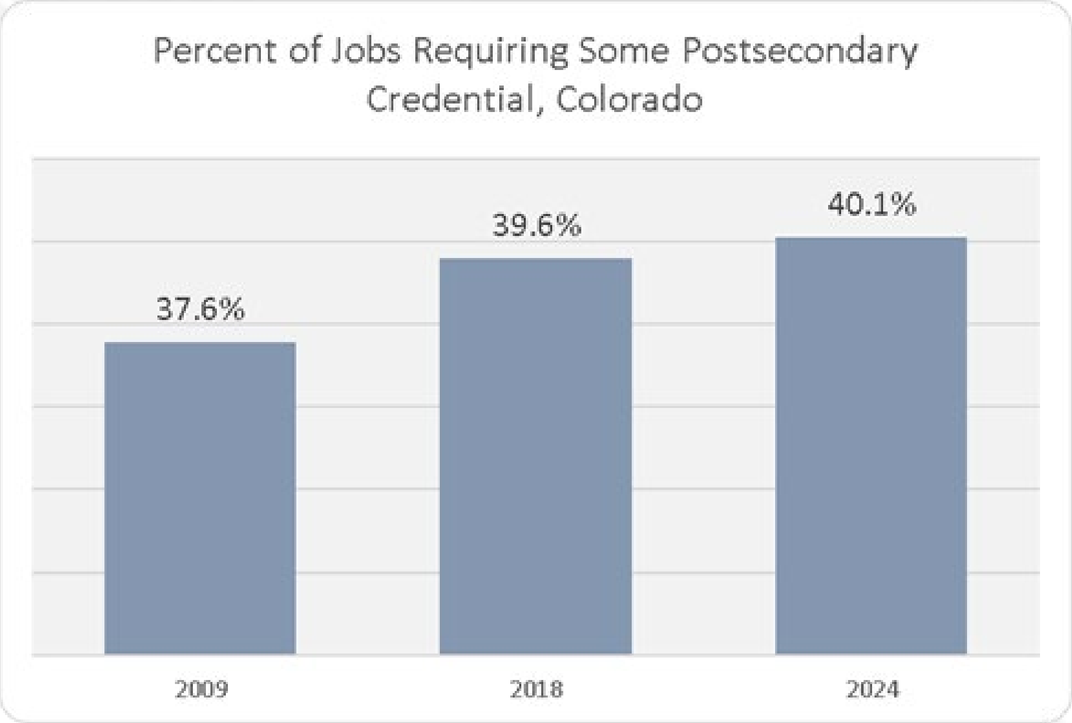
Lower Demand for Goods & Services

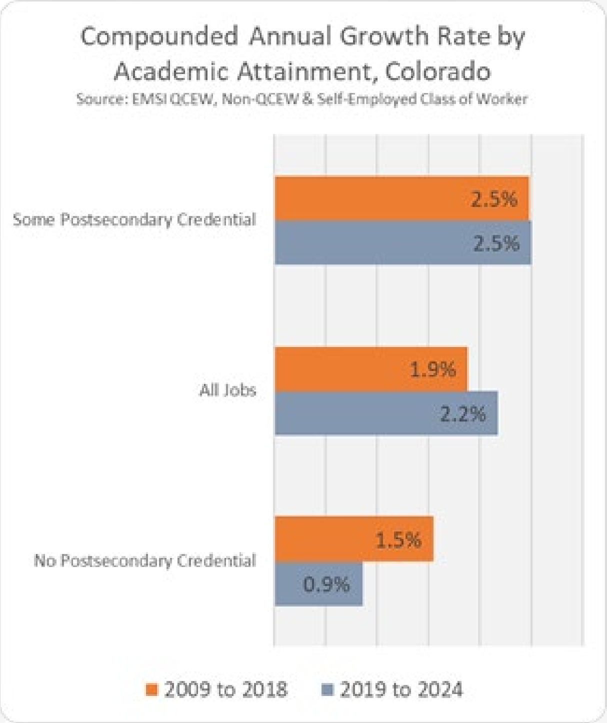
Value Taken Out of Colorado Economy by Aggregate Student Loan Remittance Combining Data Aggregated from 2019 Student Borrower Protection Center/New Era Colorado Analysis With Estimates from the Latest Bureau of Labor Statistics Consumer Expenditure Survey (CEX)			
Expenditure Category	Category Spending Rate	Aggregate Annual Loss to Colorado Economy	*"The average Coloradan with student debt has this much less to spend annually."*
Housing	33.80%	($809,713,248)	($1,280)
Healthcare	8.20%	($196,439,309)	($311)
Transportation	16.00%	($383,296,212)	($606)
Food	12.00%	($287,472,159)	($455)
Apparel & Services	3.10%	($74,263,641)	($117)
Insurance & Retirement Investments	11.00%	($263,516,146)	($417)
Entertainment	5.30%	($126,966,870)	($201)
Personal Care	1.30%	($31,142,817)	($49)

Source: U.S. Bureau Labor Statistics, Consumer Expenditure Survey

Nearly one in four working age Coloradans (23.5%) are paying an average monthly remittance of $315.65 to service their student loans. This adds up to an aggregate amount of nearly $2.4 billion leaving the state each year, remitted to either the federal government or private lenders, and not being used to purchase local goods and services.

Higher Demand for Degrees





Note: Some sources say that the percentage of jobs requiring some training past high school is double this. Much of this training, such as for skilled construction, utilities and broadband trades, is not listed in the Integrated Postsecondary Education Data System (IPEDS), and so does not show here. The actual percentage, then, is significantly higher than this bar chart implies.

Over the Next 5 Years

Projected Employer Demand for New Degrees, All Levels, Colorado, 2019 through 2024							
SOC	Occupation Family	New Jobs Added	Postsecondary Non-Degree Certificate	Associates	Bachelors	Masters	Doctoral or Professional
11-0000	Management Occupations	14,678		12	13,901	671	
13-0000	Business and Financial Operations Occupations	18,383	23		17,862		
15-0000	Computer and Mathematical Occupations	13,192		842	10,403	233	
17-0000	Architecture and Engineering Occupations	5,631		1,175	4,230		
19-0000	Life, Physical, and Social Science Occupations	2,883		532	1,443	240	667
21-0000	Community and Social Service Occupations	5,807			3,241	1,727	
23-0000	Legal Occupations	2,259	21	748	15		1,392
25-0000	Education, Training, and Library Occupations	16,948	253	1,016	8,702	603	2,836
27-0000	Arts, Design, Entertainment, Sports, and Media Occupations	5,051	205	13	3,727		
29-0000	Healthcare Practitioners and Technical Occupations	20,884	3,122	3,219	7,334	2,642	3,674
31-0000	Healthcare Support Occupations	12,509	7,956	462			
33-0000	Protective Service Occupations	5,281	671		10		
35-0000	Food Preparation and Serving Related Occupations	25,673	5				
37-0000	Building and Grounds Cleaning and Maintenance Occupations	9,289					
39-0000	Personal Care and Service Occupations	16,170	1,944	21			
41-0000	Sales and Related Occupations	20,513			1,803		
43-0000	Office and Administrative Support Occupations	27,519		155	13		
45-0000	Farming, Fishing, and Forestry Occupations	1,947			27		
47-0000	Construction and Extraction Occupations	17,321					
49-0000	Installation, Maintenance, and Repair Occupations	10,252	2,736	191			
51-0000	Production Occupations	6,091	19				
53-0000	Transportation and Material Moving Occupations	16,400	2,901	72	270		
	Totals	274,681	19,856	8,458	72,981	6,116	8,569

Source: EMSI QCEW, Non-QCEW & Self-Employed Class of Worker

Using IPEDS data aggregated by EMSI, we see this is the actual demand for newly degreed/credentialed people in Colorado over the next five years based on projections of occupational job growth by typical entry level educational attainment.

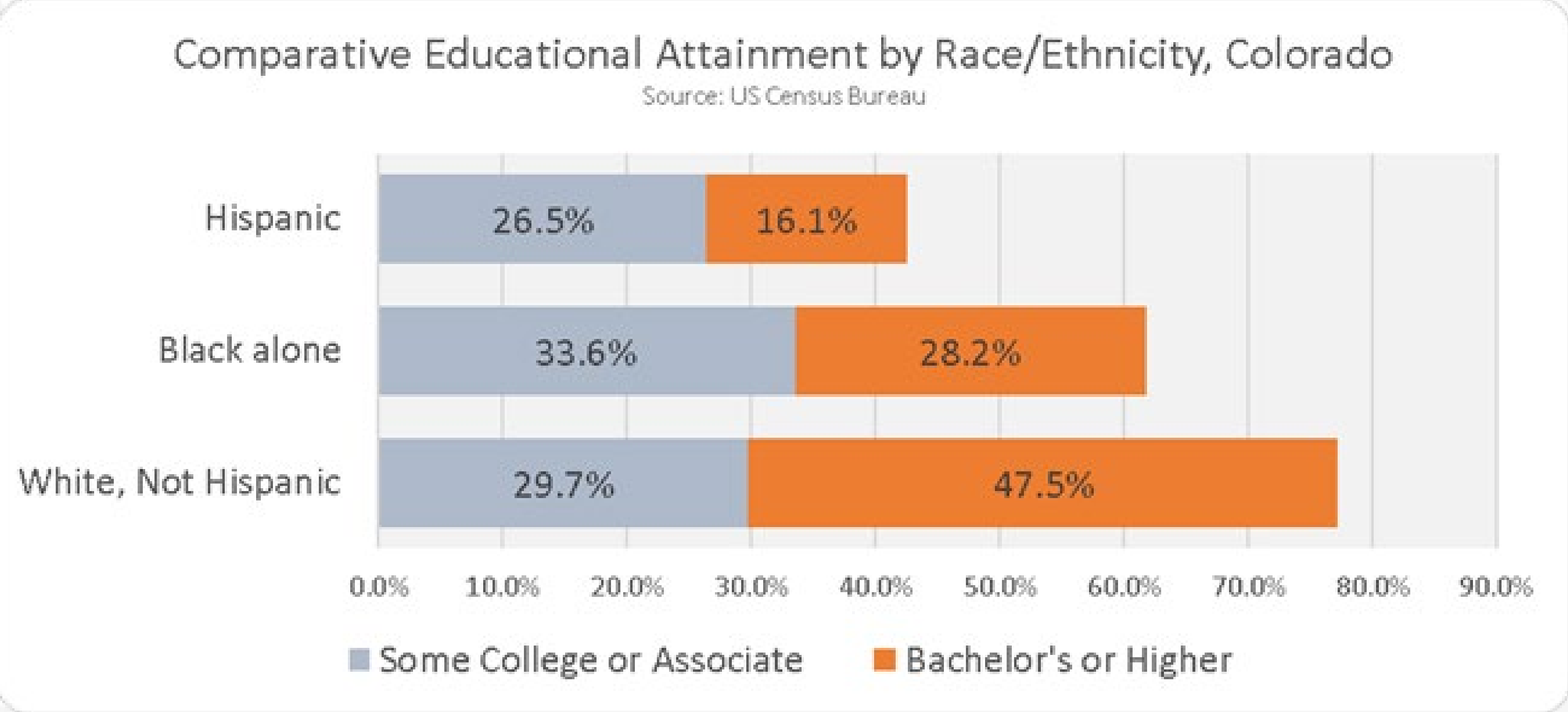
The Urban Front Range

Comparative Need for Newly Degreed Individuals, 2019-2024			
Level/Period	Colorado	Central Planning Region	Percent
All Jobs	274,680	220,887	80.4%
Postsecondary Non-Degree Award	19,856	15,976	80.5%
Associates Degree	8,458	7,000	82.8%
Bachelors Degree	72,997	60,316	82.6%
Masters Degree	6,116	5,001	81.8%
Doctoral/Professional Degree	8,569	6,975	81.4%

Source: EMSI QCEW, Non-QCEW & Self-Employed Class of Worker

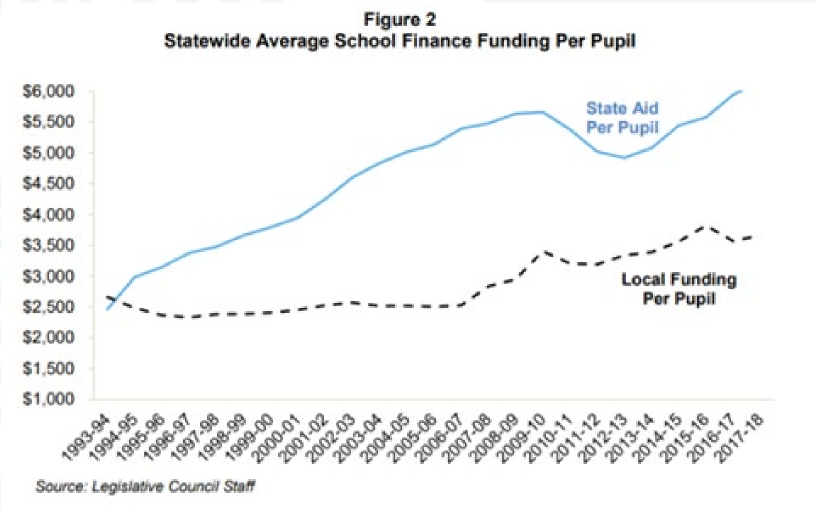
- Businesses along Colorado's urban front range, excluding Greeley, are currently losing $1.97 billion per year in potential demand for local goods and services due to the opportunity cost of student loan remittance.
- By 2024, businesses will be losing an estimated $3.22 billion annually in foregone demand for goods and services due to reduced demand caused by student loan remittance.

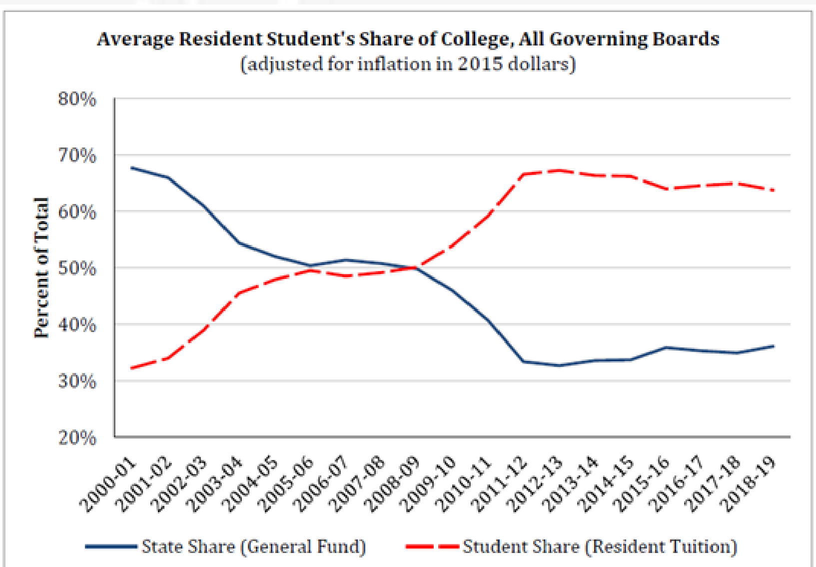
Minority Disparity



According to the Colorado Demographer, around 48% of Colorado's labor force will be made up of racial and ethnic minorities by 2050. Since employers in Colorado currently require 33.7% of workers to have a bachelor's degree or higher, this means that Colorado must find a way to increase the educational attainment of its minorities.

Unsustainable Budget Structure





- Colorado has some mandatory expenditures that are growing. K-12 is pictured in the top line graph.
- Colorado's inmate population has grown at a pace 5% above the national average.
- Medicaid was expanded in Colorado under the Affordable Care Act, adding 554,000 more people to the rolls at an average annual cost of $4,898 each.
- As a result of these competing priorities, and funding constraints inherent in TABOR and the Gallagher Amendment, higher education is one of the few areas that can be cut resulting in the students bearing more of the cost.

What Can We Do?
What Should We Do?

Young people in Colorado have never faced a greater need for getting higher education while at the same time, the cost of higher education is greater than it has ever been, and due to Colorado's state funding structure the public colleges and universities have been forced to pass the biggest part of the cost onto students in tuition and fee increases.

The fundamental question here seems to be whether we look at our students, whatever age they might be, as an investment in Colorado's future, or whether we do not.

If we do not, are we willing to watch young Coloradans run up debt, and Colorado businesses suffer from artificially low demand for goods and services?