Options for Financing Study Abroad

Planning and Budget Committee
February 13, 2008

The depreciation of the US dollar and increases in study abroad participation by K students have created a problem for financing Kalamazoo College’s international programs. The financial shortfall for the coming year could be between $300,000 and $600,000. If trends continue, this problem is likely to be worse in coming years. This creates a problem in Kalamazoo, as well, since money spent on foreign programs is not available to support on-campus programs.

President Wilson-Oyelaran asked Planning and Budget to analyze various options for financing study abroad, including 1) having students cover travel costs, 2) not applying merit aid to study abroad and 3) charging fees that reflect the actual costs of the programs. We were encouraged to develop other options, as well. We were asked to adhere to the following principles in our analysis: 1) study abroad is an expectation of all students; 2) financial obstacles should not be a determining factor for lower income students; 3) there should be a rich array of Study Abroad options and 4) the distinctive nature of Kalamazoo’s Study Abroad program should be maintained (number of students, length of time, participation across all disciplines.)

I. Air travel costs

One option would be to have students pay travel costs to and from study abroad sites. Airfares range from $600 to $2100 depending on the program. It is uncommon for other colleges to pay airfare for study abroad. There are students who could not afford this cost and the College should make provisions to cover travel cost for needy students. This change could reduce CIP costs by approximately $300,000 per year.

Because airfare costs differ substantially, some students are likely to choose programs with lower travel costs, increasing participation for some sites and decreasing it for others. In some instances, this could create unintended consequences that would actually increase the cost of Study Abroad. For instance, if travel costs cause students to switch from Botswana to England, the overall costs to the College increase due to the higher program costs in England. The College will need to be sensitive to the overall costs of the program when determining fees.

An alternative would be to ask all students to pay for airfare (with assistance for students with demonstrated financial need) and then subsidize certain programs according to College-wide needs. For example, the College could subsidize the airfare to lower cost programs, like Botswana, in order to provide incentives for students to choose lower-cost sites. This approach will allow us to adhere to a reasonable principle, “all students pay for airfare,” while encouraging, in a positive way, students to choose less expensive study abroad options. Planning and Budget favors implementing some system that would include student payments for travel costs.
II. Financial Aid

Another option would be to limit the use of financial aid for study abroad. This practice has some precedent at Kalamazoo College. There are currently 5 programs where students are not allowed to use Kalamazoo College financial aid (Lancaster, LSE, Ireland, Goldsmiths, Denmark). If this policy of no financial aid was applied to all study abroad programs, CIP could save over $1.7 million dollars but a substantial number of students could not afford to participate in foreign study. This would mean a drastic change in the character of study abroad.

A less dramatic change would be to move some expensive study abroad sites into the no-financial-aid category. We could switch selected non-K programs into this category. Savings from this change could be in the hundreds of thousands of dollars, depending on how many programs were re-categorized. Student participation in these programs is likely to drop substantially, if these changes were made.

Eliminating merit aid but applying need-based aid could save money and allow significant participation rates. The budget impact of only reducing merit aid is difficult to determine. Because of the way financial aid is awarded to incoming students, it is unclear how much financial need is covered by merit aid. This means we can not say how much money would be saved or how many students would drop foreign study, if this approach were implemented. Calculating the merit/need split for each student would be an ongoing administrative task. An additional drawback to this approach is that it doesn't consider cost differences across programs and doesn't give students an incentive to select less expensive programs. The Planning and Budget Committee has serious reservations about this approach.

III. Participation fees or surcharges for study abroad

Other colleges and universities typically add surcharges for study abroad programs and the fees can be substantial. NYU charges about $28,000 for a semester in Ghana [NY Times Nov 4, 2007]. Brown University asks students to pay their own living costs for foreign study, estimated at a $10,200 in Paris and $5,400 in India, compared to on-campus costs of $4,800 for a semester [NY Times Nov 4, 2007]. Surcharges of this magnitude could easily balance the CIP budget, but they would also substantially reduce the number of K students who study abroad. More modest fees could contribute revenue while maintaining high levels of participation in foreign study.

An attractive feature of surcharges is that they could be adjusted to reflect the actual costs of studying at each site. Currently, students who go to low-cost countries are subsidizing students who go to expensive programs. Since there is no difference in cost to the students, they have no incentive to avoid the most costly programs. In addition to the fairness issue, this practice increases the College's total costs. While we recognize the value of students choosing their study abroad sites primarily on the basis of their academic and personal interests, we also recognize that completely shielding students from differential costs leads to higher overall costs. By charging a variable fee,
we can lower the total cost of international study making it more affordable to more students. This would, of course, increase the cost of certain sites.

This option also gives the College flexibility to respond to changing international costs. When the dollar depreciates against a particular currency, the surcharge should reflect that extra cost. If the dollar appreciates, these fees could be reduced to reflect the lower cost to the College.

This option preserves many of the special characteristics of Kalamazoo College's study abroad program, while bringing financial stability to the CIP budget. Students could choose from a large number of programs. Low cost options would continue to exist, so financial need would not prevent students from experiencing foreign study. The length of study abroad and overall participation rates should not decrease. There would be a change in participation rates in specific programs and wealthy students would, in practice, be able to afford a broader array of programs.

This kind of fee would be a substantial change from the College's past practices. Perhaps it would be most palatable to present this in new manner. Instead of quoting a comprehensive fee for study abroad, we could provide two figures: the first would be tuition (normal K tuition rate) and the second would be travel and living costs. This second figure would vary across programs. For low-cost programs, this figure could be equal to on-campus room and board. For high-cost programs, this would reflect the total cost of sending a student on that program.

An underlying assumption of the committee has been that the study abroad itself is very important but that the specific site is less critical. Even when programs suddenly change— for instance, when K students were shifted from Oaxaca to Costa Rica— the students still have a valuable experience. We understand each program has unique elements, but believe those are secondary to the overall experience. Because of this, we don’t believe it would be inappropriate to let price play a role in decision-making.

Alternatively, the College could implement a standard participation fee, where all students pay the same dollar amount per quarter of study abroad. This would be simpler to administer and easier to explain. The disadvantage is it doesn’t give students an incentive to select lower cost programs, so overall program costs would be higher than with a variable charge.

**IV. Higher participation rates in lower cost programs**

One way to address this financial problem is to shift students from expensive programs to less expensive programs. To some extent, the program specific surcharges, discussed above, do that while also increasing revenue. If those fees are not adopted, it would be important to find other ways to reduce the costs of foreign study. An obvious way to do this would be to move students to cheaper sites and/or to reduce the number of quarters spent abroad. There are a number of ways to achieve this.

1. The College could choose to close programs that are particularly costly.
2. The number of students accepted into costly programs could be reduced.
3. Extended term programs (3 quarters) could be eliminated or severely restricted.
4. More short term (1 quarter) programs could be developed.
5. The study abroad application procedure could be modified so that students apply for three programs; CIP staff could then use cost as one of the determinants in deciding which program a student would be accepted into.
6. Students could be charged the full cost of foreign study programs.

Any of these options would create savings, but they differ in important ways. Eliminating programs reduces student choice more severely than charging additional fees, since even students who are able to pay would be denied access. Eliminating extended term programs would bring all Juniors back to Kalamazoo for their Spring quarter, which could create educational benefits, but it would mean losing certain pedagogic opportunities that are tied to full-year study abroad. Offering additional short-term programs, on the other hand, would allow more student choice, while saving money. Modifying the application procedure would create an administrative burden for CIP staff and could lead to student complaints. Charging full cost would provide unequal access to programs based on family income. None of these would be painless.

**Related budget issues**

**1. Currency Hedging**

The College’s annual expenditure on foreign programs is over $3 million. As recent events show, this gives the College significant exposure to currency fluctuations. Because our tuition revenues are in dollars and our expenses often are in other currencies, we essentially place a large bet on the value of the U.S. dollar every year. Some years, we win because the dollar appreciates. Some years we break even because currency values are stable. Some years we lose because the dollar depreciates. Unintentionally, but as a matter of fact, the College currently speculates in foreign exchange. Since the College does not have expertise in currency speculation, it needs to consider methods to protect itself against volatility in foreign exchange markets.

If hedging techniques are used then the Center for International Programs will be able to make informed decisions regarding the actual cost of each study abroad site. If hedging is combined with a modified selection process, then CIP would be able to more accurately line up program expenditures with existing revenue sources.

One method of reducing exposure to swings in the value of the dollar would be to contract with our overseas partners to pay program costs in dollars, rather than in the local currency. This would make our costs more predictable, but it does push the risk of dollar depreciation onto our foreign partners. Some of them may be unable or unwilling to accept that risk. This strategy is worth exploring, but we do need to be cognizant of the potential problems it could cause our partners. (An equivalent strategy would be to ask students to pay tuition in foreign currency. This would protect the college from currency movements but put the students at risk.)
Various financial instruments exist to provide protection against currency volatility. The College could buy currency futures so we would know our future costs with certainty. The idea would be to determine the year’s costs in, say, Euros and then buy sufficient futures contracts to cover those costs. (This would be similar to converting dollars to Euros at the current exchange rate and holding them until we needed to spend them.) This would insure against an unexpected increase in costs due to the depreciation of the dollar. Essentially we could lock in these costs, so there would be no surprises. One disadvantage of this strategy would be that the College would not see any savings if the dollar appreciated.

Currency options are another financial instrument that can be used to protect against currency depreciation. Options act more as an insurance policy and would only be exercised if the value of the dollar fell. If the dollar appreciated, the options would not be exercised. This would lead to some savings if the dollar gained value. Protecting against volatility using options would be more expensive than using futures.

Almost all organizations that are significantly exposed to currency movements purchase these types of financial derivatives. The reason is that they, just like Kalamazoo College, are not in the business of speculating on the future value of the US dollar, but rather they wish to supply their services (like study abroad experiences) with lower financial risk.

2. Endowment

One reason the College’s international study program finds itself in financial straits is the ratio of endowment revenue to operating expenses. Twenty years ago, the endowment provided about 15% of the revenues needed to operate international programs. Today the endowment provides about half that amount, 7%. This is because, despite generous gifts, expenses for study abroad have grown faster than resources endowed to support study abroad. While this shouldn’t be seen as a shortcoming of the international study program (quite the opposite, it reflects its success in providing more opportunities to more students) it does explain why the budget for study abroad is under stress. In the long-run it will be important for the College to find significant endowment growth for study abroad.

3. Reserve

A related financial difficulty is shown by the study abroad reserve fund as a percentage of total expenditures. Again, because of growth in the study abroad program, this percentage has fallen dramatically. Twenty years ago, the study abroad reserve was over 100% of expenses. Today it is only 18% of expenses. This is a very small margin for the kinds of contingencies faced in an international operation. Currency depreciation can be, and has been, larger than that percent. As a matter of financial prudence, in the long-term this reserve needs to be increased substantially.
4. Participation rates

Kalamazoo College is rightfully proud of our long tradition of study abroad. As the College develops more distinctive marketing, we are likely to emphasize international programs. Given current financial resources, the College can not afford to have a significant increase in study abroad participation rates. This is likely to be a source of tension in the future.

5. Carbon offsets

Another long term issue is the potential impact of the College's climate commitment on study abroad expenditures. The fact that air travel generates massive amounts of greenhouse gases, suggests that climate neutrality for K College, given our commitment to Study Abroad, could significantly increase our costs.

Conclusions

There are no easy solutions to this financial problem. The cost increases the College faces are real and to large extent unavoidable. Given that reality, costs need to be paid by foreign study participants in some manner. This inevitably means some students will have fewer options than they have had in the past. All of the available options will make some students worse off. The difficulty is finding a path that balances financial constraints, academic priorities, student desires, and equity.

Whatever solution is selected should increase revenue for international programs and create incentives for students to select less expensive sites. A combination of airfare and participation fees, paid by the student, combined with financial aid for the neediest students, would give the most opportunities to the largest number of students in the long run. Under this plan, students would pay different amounts for different programs which would be a change from our practice of charging students identical fees for programs of different costs. This could be combined with eliminating some nine-month study abroad options. This solution does not make everyone better off, but it may be the best of our available options.

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