GETTING WHAT YOU PAY FOR

Tuition Policy and Practice

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Introduction

Tuition policy is receiving considerable public attention, as student and family budgets are strained by the rising price of higher education, which can have negative effects on student postsecondary access and success. How tuition is established and governed, as well as the causes of tuition increases, is critically important for policymakers to consider as postsecondary education becomes more of a requirement for people to be financially successful and for states and the nation to remain globally competitive in the 21st century. This brief examines state tuition policy and practice, the difference between the cost and price of higher education, some factors leading to rising student postsecondary costs, and key strategies state policymakers can use to address rising tuition, all in the context of an integrated approach to policymaking.

Tuition is part of a higher education finance system that links several key policies together, rather than part of a stand alone policy, represented by the sticker price of each public institution. Tuition can be thought of as one leg of the three-legged higher education finance stool, with the other two legs being state appropriations and financial aid. As the size, shape, and length of all three legs of a stool need to be considered in concert to ensure stability and functionality, integrating the three higher education finance policies is necessary to be effective in meeting postsecondary public policy goals. While this brief focuses primarily on tuition, it is important that the interconnectedness between the three policies does not get lost in the shuffle.

Tuition-Setting Philosophy

About half of the states use one of three authorities – the state constitution, state statute, or higher education board policy – to formalize their tuition philosophy. While not all states have a formal method, there are generally three categories of state-level tuition-setting philosophies for public institutions: high tuition, high aid; moderate tuition, moderate aid; and low tuition, low aid. States that follow a high-tuition, high-aid philosophy – examples include Minnesota, Pennsylvania, and Ohio – set tuition levels relatively high but utilize comparatively large appropriations for need-based financial aid to balance the price. Proponents of this method generally argue that providing large state subsidies for higher education to offset low tuition price tags is inefficient for fostering increased student access, as it indirectly subsidizes high- and middle-income students who would enroll in college anyway but who end up paying less for higher education than they could afford. This, in turn, impacts low-income students, as less state money is available to support their college participation and success. Setting tuition high, combined with high financial aid levels, could increase access, as those individuals who can afford all or most of the price are not subsidized by state government, which frees additional state funds to provide assistance to students who would not be able to enroll otherwise.

Low-tuition, low-aid states, on the other hand, provide large subsidies for higher education to help keep tuitions lower than the national

average but also have modest financial aid programs. States that have adopted this philosophy include Arizona, Tennessee, and Maine. Supporters generally believe that high tuition, even coupled with high financial aid, causes a large pool of potential students that feel that college is simply unaffordable. Keeping tuition levels as low as possible contributes to student access and success by keeping tuition affordable to most students, which encourages broad participation. For those for whom the price is still out of reach, there are some financial aid options, though limited ones.

Finally, moderate tuition, moderate aid states – such as Connecticut, Iowa, and Oregon – set tuition and financial aid levels close to the national average. States that use this model modify their tuition policies to be competitive with other states. This approach commonly follows a model where the tuition policy promotes a balance between the state's and the student's share of educational costs. Tuition levels should be high enough to support quality but at a level that still supports student access and success.

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Integral to all three of these philosophies is a closely coordinated approach to designing finance policy as the careful interaction of appropriations, tuition, and financial aid – along with federal higher education policy. The financial balance between the partners must be carefully maintained to reduce extra strain on one or more of the partners. The state must decide how much the student should be reasonably expected to contribute through tuition, how much the state should reasonably supplement that amount through appropriations and financial aid, and also how all three of these expenditures interact with substantial federal aid through Pell Grants and tuition tax credits. An uncoordinated approach can lead to some students being unnecessarily burdened with student loan debt or the state paying more than is necessary in the form of institutional subsidies or student financial assistance or both parties not taking full advantage of federal tax credits, which leaves federal benefit monies on the table.

Who Sets Tuition?

The players and their roles in the decision-making process of establishing state tuition policies are widely varied. In general, there are six entities that have tuition-setting authority:

- Legislatures.
- Governors.
- Statewide coordinating agencies.
- Individual system governing boards.
- Local district governing boards.
- Individual institutions.

In most states, one of these entities has the primary legal authority to set tuition, with at least one other taking an informal role in the process. Approximately half of the states have a decentralized tuition-setting system, with individual university system governing boards as the primary authority in a plurality of states.

In states where the tuition-setting authority is very decentralized, meaning individual institutions have the primary authority, institutions are provided with firm, moderate, or no external guidelines from a local or state agency. Most states that have a more decentralized tuition-setting authority fall in the moderate external guidelines category; examples include Colorado, North Dakota, and Virginia.

Four-Year vs. Two-Year Tuition

Affordability is a major goal of two-year institutions, or community colleges, as their primary missions relate to specialized workforce education and accessibility. Costs of instruction are also generally lower at community colleges. As such, tuition at two-year institutions is almost always lower than the four-years, and about 17 states have official guidelines that students should pay less to attend two-year institutions. California is notable, as the state has an official policy to keep the price of community college as low as possible by not charging tuition to in-state students; rather, students are charged a relatively modest credit fee of approximately $20 per credit hour.

Resident and Nonresident Tuition

The majority of states set resident tuition on a per-credit basis without regard to the number of credits a student takes. Other state resident tuition-setting policies include: a flat rate for full-time students taking a designated number of credits; a surcharge for every credit taken over a certain number; or no official state-level resident tuition policy. All states set nonresident tuition at a higher rate than in-state tuition. Commonly, nonresident tuition rates reflect a percentage of the cost of instruction or are indexed to the state's resident tuition, with these rates varying widely. In addition, some states have reciprocity policies with neighboring states, whereby students who live in one state are offered in-state tuition at an institution in another state under an agreement.

Fees and Other Student Expenditures

Fees are a key piece of the student price of higher education that is not reflected in tuition. There are typically two types of fees charged to students: mandatory and designated fees. Mandatory fees are charged to most students in addition to tuition and are used to help pay for campuswide programs or services, such as technology, athletics, career planning services, and administrative/capital construction. Designated fees refer to specific charges for certain courses or student activities and are charged to only those students who enroll in those courses or engage in those activities.

As with tuition, the entities with fee-setting authority vary widely by state. Fees are usually very decentralized and are determined by individual system boards or single institutions (for four-year colleges) in most states. Fees are regularly determined by local district governing boards for two-year institutions, with several states, such as South Carolina and California, officially designating smaller fees for two-year institutions to keep the overall price lower.

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Fees are variable and may not be fully included in the sticker price of higher education; but they are one part of a slate of student costs that are not always considered when looking at price. Also included in this category are other student costs not represented by sticker price: room and board, texts, transportation, and other expenses. These expenses, on average, almost triple the amount of student expenditures for public higher education over tuition, according to an annual analysis by the College Board.[1] While most financial aid packages can be used to pay for these expenses along with tuition, the additional student costs need to be considered when examining tuition policy, as these costs significantly impact student access and success.

Innovative Tuition Policies

The dual challenges of fostering student access and success in higher education while maintaining or improving postsecondary education quality have led states and institutions to examine some innovative tuition policies.

Incentives. Some states or institutions offer tuition incentives in the form of credits or discounts if students commit to meeting certain goals, such as graduating on time or early, or not taking a course more than twice. Institutions in Texas make use of some of these tuition incentives, and Indiana recently adopted an on-time graduation rate incentive in the 2007-09 biennial budget.

Differential tuition. As opposed to a single tuition rate for all students, certain students are charged varying tuition prices through differential tuition policies. Some of the most common approaches to this practice are charging variable rates for upper- and lower-division courses, credit or noncredit courses, courses taken off-site, or for courses based on a student's major or study program.

Waivers. A large majority of states have been adopting tuition waivers for students who meet specific criteria. Most tuition waivers are for students who are military war veterans, family members of first responders who have died in the line of duty, foster children, and senior citizens.

A cautionary note when considering waivers: While they may increase access to higher education for

certain groups, waivers are difficult to sustain, especially during tight financial times when appropriations decrease. More importantly, providing waivers may prevent individuals from receiving $1,500 in federal Hope Tuition Tax Credits to help pay for tuition, which in effect uses scarce state dollars to replace federal dollars. This was an important lesson learned by Hawaii, where the state realized that its extensive use of waivers was an inefficient means of increasing access for underserved or specific groups

Tiered tuition. There are two main types of tiered tuition policies: different tuition levels for different types of institutions within a state, and different tuition levels within an institution for students who enter in different years. Utah, for example, has a two-tiered tuition model where the legislature sets the first tier for all institution categories while individual school regents can add a second tier to that base to leverage more funds for specific campus needs. Other states or individual institutions charge different tiers for students depending on their time in the institution, with incoming students paying more for tuition – and often seeing greater percentage rate increases – then incumbent students.

Freezes. A final innovative tuition policy is a freeze on, or guaranteed, tuition for the two or four years a student is enrolled in an institution. Under this model, the rate charged to incoming students is locked in for two or four years. Subsequent classes pay a new and likely higher rate. This model helps ensure that students know exactly how much higher education will cost them and can plan accordingly. A downside of this as a state policy is that individual institutions have less flexibility to adjust tuition rates in response to appropriation levels. Illinois was the first state to establish this policy for all public institutions, scaling up the program in 2003 in place at Western Illinois University.

Cost vs. Price

What a student pays in tuition and fees to attend a college or university is commonly referred to as the "cost" of college, which can imply that tuition and fees account for the cost of instruction. Using cost to describe tuition and fees, however, does not provide a complete picture of what it actually costs to provide instruction and services at a higher education institution (how much an institution spends per student) and the share of that cost covered by the student and the state. In fact, in no state do tuition and fees cover 100 percent of the cost of instruction; rather, students pay a share of that cost – the percentage of which varies considerably state by state – and the remainder is largely covered through state appropriations.

A more appropriate term for tuition and fees is "price," as in the price the student pays to cover the designated share of the cost of instruction and services. It is this student's share of the total cost that is increasingly becoming more important to examine as opposed to actual sticker price, as tuition rate increases have been recently outpacing institutional spending increases. Revenues from tuition have traditionally covered a relatively small portion of the total amount spent to educate students. The balance of responsibility of paying for higher education has shifted recently, however. A higher portion is increasingly being paid by students, relative to the share being paid by state and local appropriations.

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Why is Tuition Rising?

Rising tuition rates and the affordability of higher education are the subject of scrutiny from policymakers, university presidents, policy and advocacy organizations, the press, parents, and students. It is not uncommon to see annual tuition increases that are well above the rate of inflation; in fact, between 1988 and 2008, tuition and fees at public universities increased by 317 percent, while overall inflation rose by only 84 percent.[2] Rapidly increasing tuition is putting a strain on student budgets and is making higher education – especially at four-year institutions – seem out of reach for more and more students.

There are many institutional spending factors that contribute to tuition increases including: capital construction costs, technological and

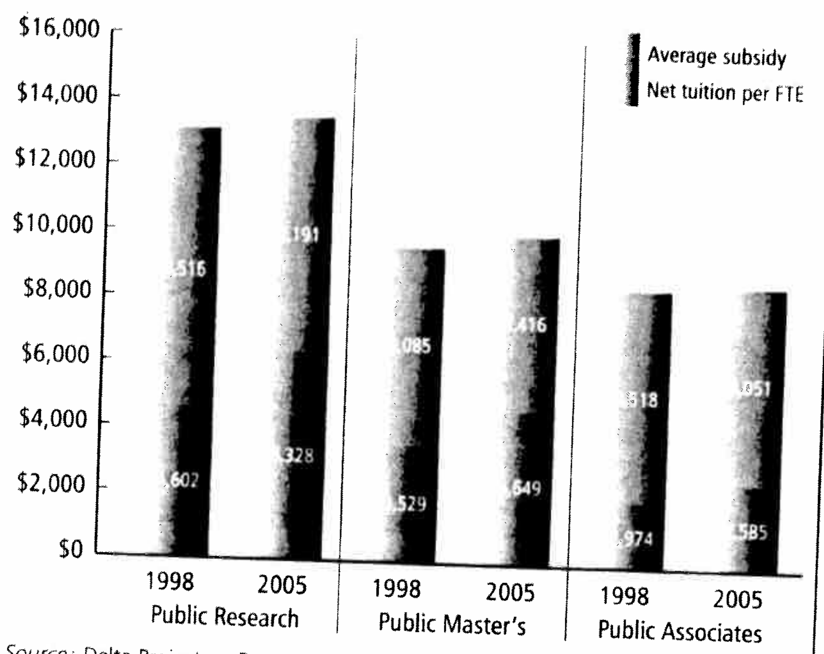
service improvements, competition for faculty and students, the growing cost of healthcare and employee benefits, mission creep, and lack of spending transparency. While these and other factors increase operational costs that require more revenue, a recent analysis by the Delta Cost Project in Washington, D.C. shows that spending growth at public institutions has remained relatively flat.[3] Therefore, a large increase in institutional spending (the cost of educating a student plus general spending) is not the primary reason for tuition (price) increases.

This brings the discussion back to the balance of responsibility for paying for higher education. Along with presenting data that institutional spending has remained flat, the Delta Cost Project's analysis of trends in postsecondary education finance also demonstrates a close relationship between the increase in tuition and a decrease in state appropriations for higher education. Figure 1 displays the average change nationally in costs (spending), price (tuition), and subsidy (appropriation) for various public institutions between 1998 and 2005.

Using public research institutions as an example, costs rose a modest 3 percent during this time, but the student share of that cost rose 12 percentage points – from 35 percent ($4,602) to 47 percent ($6,328). This student share increase coincides closely with the average decrease in the state share through appropriations, from 65 percent ($8,516) in 1998 to 53 percent ($7,191) in 2005, or 12 percentage points. The shift in the student share of costs also occurs in the other public institutions. In master's institutions, the student share rose 9 percent; it rose 7 percent in public associate's institutions.

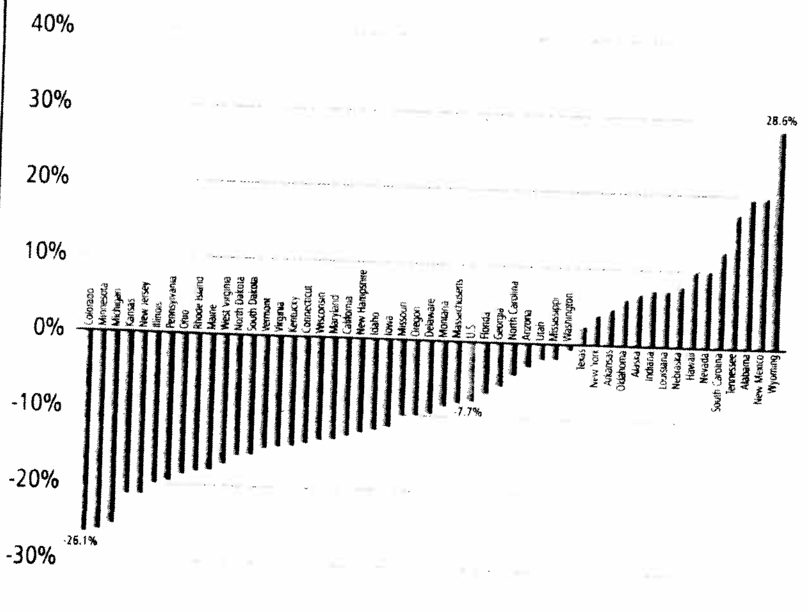
This national average decline in state appropriations is also demonstrated in the annual State Higher Education Finance (SHEF) report from the State Higher Education Executive Officers. Figure 2 is taken from the FY 07 SHEF report and presents the percent change by state in higher education appropriations per public FTE student – rather than by institution – between 2002 and 2007. On average, states decreased per student appropriations by 7.7 percent, and only 15 states actually increased support during this timeframe. The decrease in state support then shifts the higher

Figure 1. National Average Full Educational Cost per FTE at Public Institutions, 1998 and 2005



Source: Delta Project on Postsecondary Costs, Washington, D.C. 2008.

Figure 2. Educational Appropriations per FTE – Percent Change by State, 2002-2007



Source: State Higher Education Executive Officers. *State Higher Education Finance FY 2007.*

education cost burden to students and families, which is reflected in significantly higher tuition bills.

How Can Legislators Address Rising Tuition?

Examining tuition policy and practice is an important exercise as the rising price of higher education is a significant public policy issue for state legislators. As legislators are well aware, however, reigning in college prices while maintaining quality and increasing access is a difficult task. Many factors affect the price of higher education, making it impossible to implement a silver bullet solution to keeping costs down. Legislators can employ several strategies, however, to make decisions about tuition and other higher education financing policy that can help address rising tuitions.

Many factors affect the price of higher education at varied degrees, making it impossible to implement a silver bullet solution to keeping costs down.

Align appropriations, tuition, and financial aid policy. The major elements of higher education financing policy – appropriations, tuition, and financial aid – need to be considered in concert in order to address college affordability and student access and success. All three of these policies are intimately linked; decisions about one directly affect the other two. Typically, however, decisions regarding these policies are made independently. This is usually due to the fact that different committees within the legislature or a variety of entities outside of the legislature have the authority to make these decisions. This is particularly true for tuition policy as many states have a decentralized tuition-setting system where Boards of Regents or even individual institutions set tuition rates. As a result, decisions in the legislature regarding appropriations and/or financial aid can lead to undesirable or unintended changes in tuition or, even worse, higher education finance policies that work against each other.

Linking these three elements is essential for making strategic policy decisions that can contribute to student access and success while maintaining quality. There are several ways to encourage this link. First, bring the various stakeholders together to enhance cooperation, build trust, and make sure everyone is on the same page to avoid surprises. Second, ask some hard questions, such as: How will changes in appropriations affect price? Are some innovative or unconventional tuition programs financially viable options and should they be implemented? Does the state have a combination of financial aid packages and tuition rates that maximizes student access? Are fees being used to supplement tuition in a way that lowers affordability? Finally, keep the three-legged stool of higher education financial policy metaphor in mind when making decisions; all legs need to be adjusted together to maintain stability and functionality.

Establish tuition policy in concert with state goals. Many states have established goals for higher education, sometimes through a "public agenda" or "master plan" document, that defines a common interest, establishes a set of long-term goals and priorities for the state, and sets an accountability framework to meet those goals. Tuition policy should be determined to help the state meet those goals.

Examine instability in state funding. The issue of rising tuition and postsecondary affordability is the result of a confluence of various factors. While institutional spending and the rising cost of providing an education does impact price, tuitions have been rising higher and faster than costs and spending. Unstable state funding plays a more significant role in the constant increase in tuition.

As discussed in the appropriations brief, funding for higher education typically follows a cyclical pattern: it is higher when budgets are stable and reduced during lean budget times. This funding process, however, does not support a long-term strategy to increase student access and success. Reaching some level of funding stability and creating incentives for higher education funding are two ways legislators can help reduce the rate of tuition increases. This

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will require a shift in funding focus from revenues and inputs to costs and quality outcomes, which can make operations more efficient and contain – or even reduce – spending. Combining a focus on funding for outcomes with a relatively high level of both stability and predictability in state appropriations can help address the direct cost to students.

Consider federal policy when making tuition decisions. Finally, federal policy needs to be considered when making tuition decisions so that important and much-needed dollars are not left on the table. Two federal tax benefits are particularly significant: the HOPE Scholarship and Lifetime Learning tax credits (refer to the federal-state relationship brief in this packet for more information on these programs). As mentioned earlier, Hawaii discovered that its extensive use of tuition waivers was, in effect, supplementing federal dollars through the HOPE tuition tax credits with scarce state dollars, as not paying tuition made individuals ineligible for the federal credit. This puts unnecessary strain on the state's coffers and makes it impossible to sustain the waiver programs. Considering how state tuition policy intersects with federal policy is an important and worthy analysis in order to maximize benefits to the state and its citizens.

About the Author

Vincent Badolato is an Education Policy Specialist at the National Conference of State Legislatures with a focus on policy issues related to postsecondary and adult education. Prior to NCSL, Vincent served as the Program Associate at the Alliance for Quality Teaching, a non-profit organization with the mission to ensure teacher quality in all Colorado classrooms. Before moving to Colorado in 2003, Vincent was the Research Director at The Performance Institute, a private, nonpartisan organization in Arlington, VA, focused on improving government results through the principles of performance, competition, transparency and accountability. Vincent earned a B.A. in History from The George Washington University in Washington, DC, and an M.A. in Education Foundations, Policy and Practice from the University of Colorado - Boulder.

Endnotes

[1] Sandy Baum and Jennifer Ma, *Trends in College Pricing 2008* (Washington, D.C.: College Board, 2008), 7.

[2] Calculation of tuition increase in current dollars was determined from numbers taken from Baum and Ma, *Trends in College Pricing 2008*, 10. Data from the Bureau of Labor Statistics, Department of Labor used to determine percentage increase in overall price inflation.

[3] Jane V. Wellman, Donna M. Desrochers, and Colleen M. Lenihan, *The Growing Imbalance: Recent Trends in U.S. Postsecondary Education Finance* (Washington, D.C.: Delta Cost Project, 2008), 28-29.

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