SHEEO

STATE HIGHER EDUCATION EXECUTIVE OFFICERS ASSOCIATION

State Tuition, Fees, and Financial Assistance Policies: Initial Findings

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INTRODUCTION

The State Higher Education Executive Officers Association (SHEEO) has produced periodic reports on state tuition and fee policies since 1979. In fall 2016, SHEEO administered a survey to its membership for an update to this study. In this ninth iteration of the project, the survey was revised significantly in order to allow for more qualitative analysis of responses and to reflect the increased focus on college affordability. Tuition is a major component of the cost to attend college for students and their families and increases in tuition rates have contributed to the recent concern and scrutiny around the cost and affordability of postsecondary education. Most analyses of college affordability focus on net price (of which tuition is a component). More often than not, the reasoning behind what tuition rate to charge is not considered in these analyses. Given the recent interest in the cost and affordability of postsecondary education, it is crucial to understand how tuition and fees, two of the main postsecondary education price drivers, are set in each state. Further, understanding the policy behind tuition rate setting decisions is critical as organizations and states begin to develop forward-looking policies and programs to address the cost of postsecondary education.

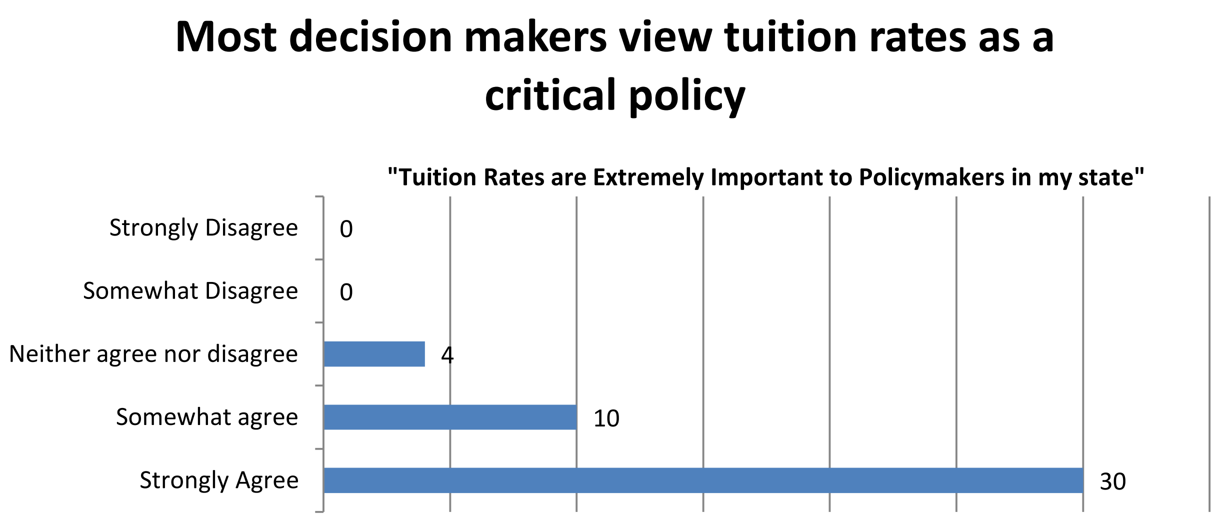
As of February 2017, 44 of 61 (72%) SHEEO agencies from 44 states have completed the survey. This preliminary policy brief highlights the broad results to date from the survey, attempts to answer the question of how tuition and fee policies are related, if at all, to broader efforts to address college affordability, and provides recommendations states and governing boards may consider to address college affordability through tuition and fee policy. It is our hope that this preliminary report will serve as a resource for states to see national trends in this area and highlight best practices for states that are actively addressing college affordability during the tuition setting process for academic year 2017-18. A more comprehensive final report will be released in summer 2017. This final report will include a summary of the survey responses, case studies of selected states, discussion on how state tuition philosophy is implemented at the governing board level, and more in-depth discussion on the alignment between state tuition rate setting policy and practice with other policies and programs addressing affordability challenges.

BACKGROUND AND CONTEXT

Every year, governing boards set tuition and fee rates for their institutions. These decisions are typically made in late spring, often following the legislative session once state funding decisions have been made for the upcoming year and appropriations have been established. The combination of state funding and tuition provides the lion's share of revenue to cover general operations and educational delivery at public higher education institutions, and the timing of tuition rate setting—after state budget deliberations—indicates a clear association between state support and tuition charges. Determining what tuition rate to charge is critical for institutional financial viability. The policies and players in this process vary across the country. In some states, governing boards have full and independent authority over the setting of tuition rates as well as control over the revenue from this funding source. In other states, tuition rate setting is a part of the state budget process and largely controlled by the state legislature and governor before the governing board officially "sets" the rate. In some states, tuition revenues are considered state funds even though they are paid by students and families. Regardless of how tuition rates are set in a state, some balance must be struck between the cost to students and families and the revenue needs of institutions of higher education.

Many policymakers, scholars and citizens are increasingly concerned with the rising cost of attending a public college. Respondents to this survey were asked to agree or disagree with the following statement: "Tuition rates are extremely important to policymakers in my state." All but four respondents agreed with this statement, and no respondents disagreed with it.

Figure One: Importance of Tuition Policy to Policymakers



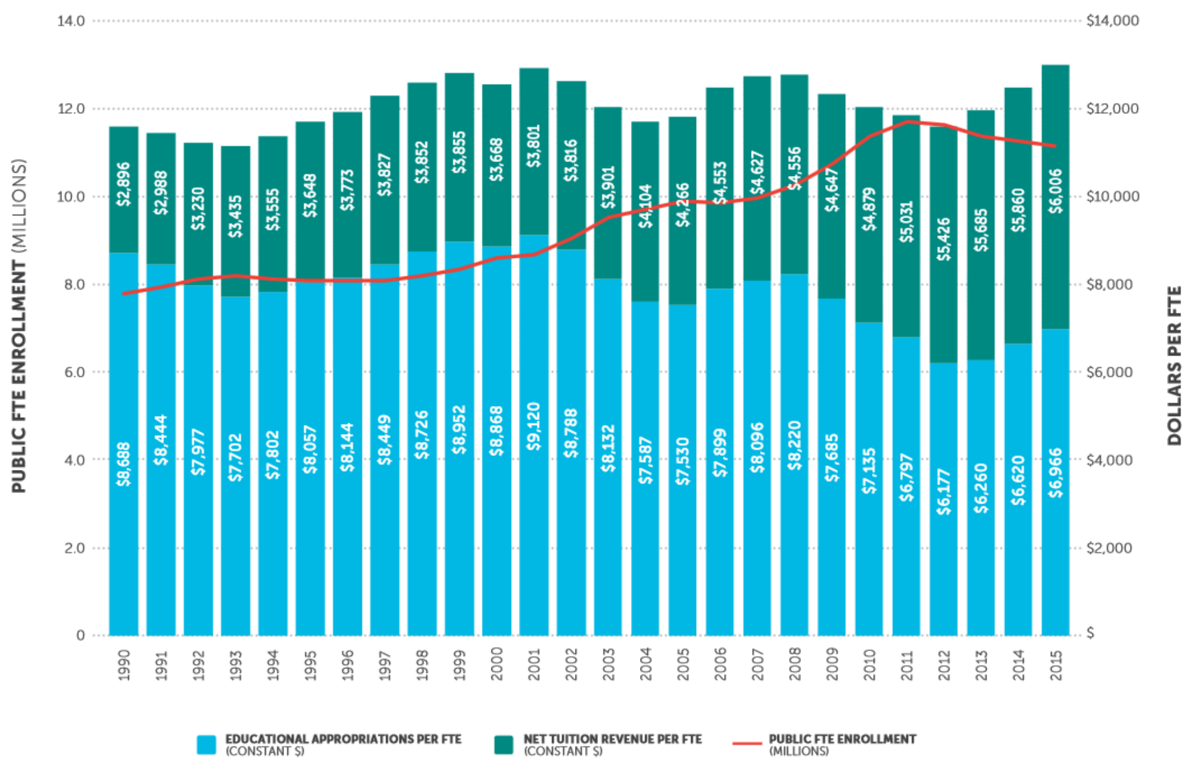
According to the College Board, tuition and fees at public four-year institutions have increased at an average annual rate of 3.5% above inflation over the last ten years. Tuition and fees at public two-year institutions have risen at an average annual rate of 2.8% above inflation over the same period [1]. This growth in tuition prices has slowed since the peak of the Great Recession, but continues to outpace inflation[2]. The need for institutions to raise tuition stems from many factors, including covering inflation costs, salary increases for faculty, rising health insurance expenses, expanded institutional financial aid and, in some cases, pension obligations[3].

However, the biggest factor in what tuition rate is charged is often the level of state funding support. SHEEO's *State Higher Education Finance (SHEF)* report clearly shows the relationship between educational appropriations from state and local sources (the blue bars in Figure Two) and net tuition revenue (the green bars). In 2015, net tuition revenue in 2015 accounted for 46.5% of total revenues in higher education, up from 36.7% ten years ago, but down from a high of 47.8% in 2013. While public higher education has become increasingly dependent on tuition revenue over the past ten years, recent trends indicate that, on average, states are increasing their investments in public institutions and tuition growth is slowing. Figure Two, taken from the SHEF report, shows that per student educational appropriations have risen by $706 from 2013 to 2015, and subsequently, reliance on tuition revenue has declined slightly.

Figure Two: SHEF Wave Chart

[1] https://trends.collegeboard.org/sites/default/files/2016-trends-college-pricing-web_1.pdf
[2] Ibid.
[3] See Figure 8 in *State Higher Education Finance 2015*. http://sheeo.org/sites/default/files/project-files/SHEEO_FY15_Report_051816.pdf

PUBLIC FTE ENROLLMENT AND EDUCATIONAL APPROPRIATIONS PER FTE, U.S., FY 1990-2015



While tuition growth has slowed, concern over tuition rates increasing year over year continues with policymakers and the general public. For many Americans, college has become unaffordable even as the value of earning a degree remains high. According to Sandy Baum, senior fellow at the Urban Institute and professor emerita at Skidmore College, people with a four-year college degree earn 98% more over their lifetime than those without a college degree[4]. Many states have also enacted state attainment goals to increase the percentage of their populations with postsecondary credentials, recognizing that more citizens with postsecondary credentials of value are necessary to fill current and projected workforce needs. States also realize benefits from an educated populace, including higher tax revenues, better civic engagement, and a higher quality of life.[5] The combination of decreasing college affordability, driven in part by tuition rate increases, and an increased focus on increasing college attainment means that some states have enacted new policies designed to increase access to public institutions and remove financial barriers to completing college.

These policies include structuring financial aid policies and tuition to make community college free or debt-free. Some of these proposals limit the benefits of “free” college to low-income students by structuring tuition, state and institutional aid so that tuition can be covered by the federal Pell Grant, state grants, and institutional scholarships for lower-income students. Others combine loans into a student’s financial aid package. In many cases, college affordability is addressed “at the margins,”

[4] https://www.forbes.com/sites/nickclements/2016/08/08/the-real-student-loan-crisis-debt-fueled-tuition-inflation/#62d62e368248
[5] http://www.rand.org/pubs/research_briefs/RB9461/index1.html

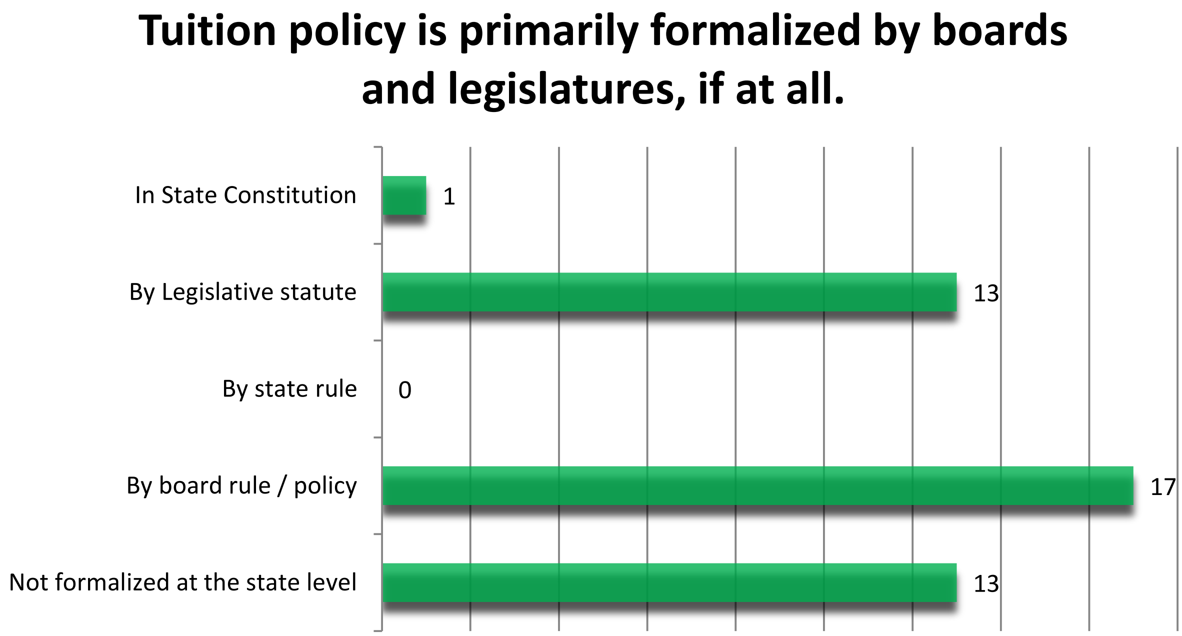
meaning that very specific categories of students who are likely to benefit from increased aid are targeted by these proposals and policies. This means that while policies can be ambitious in terms of reducing costs, often the number of students affected by the new policy can be relatively small. Even states with robust need-based aid programs often are not able to fund all eligible students.

PRELIMINARY FINDINGS

Common themes among respondents when describing their state's overall philosophy about tuition rate setting were: ensuring affordability, covering institutional revenue needs, maintaining quality, and a desire to keep tuition as low as possible. However, many respondents acknowledged the impact of state funding levels on achieving these philosophical aims. As one respondent explained, "Tuition should be as low as possible, but increases are permitted when necessary to meet state funding shortfalls and cover increased costs."

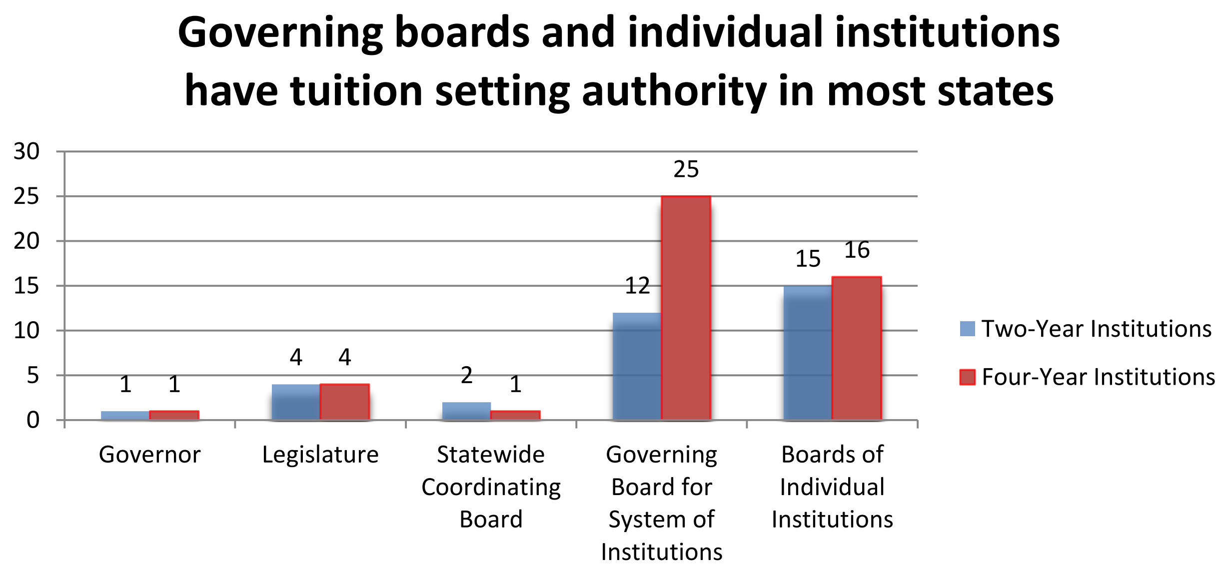
When the tuition policy process is formalized in a state, it is primarily done through legislative statute or governing board rules or policies. However, for respondents of this initial findings report, 13 of the 44 states indicated there was no formal process for developing tuition policy.

Figure Three: Tuition Formalization



Most respondents indicated that tuition was set by either the governing board for a system of institutions or boards of individual institutions. Fewer states indicated that the legislature or the governor was primarily responsible for setting tuition (see Figure Four).

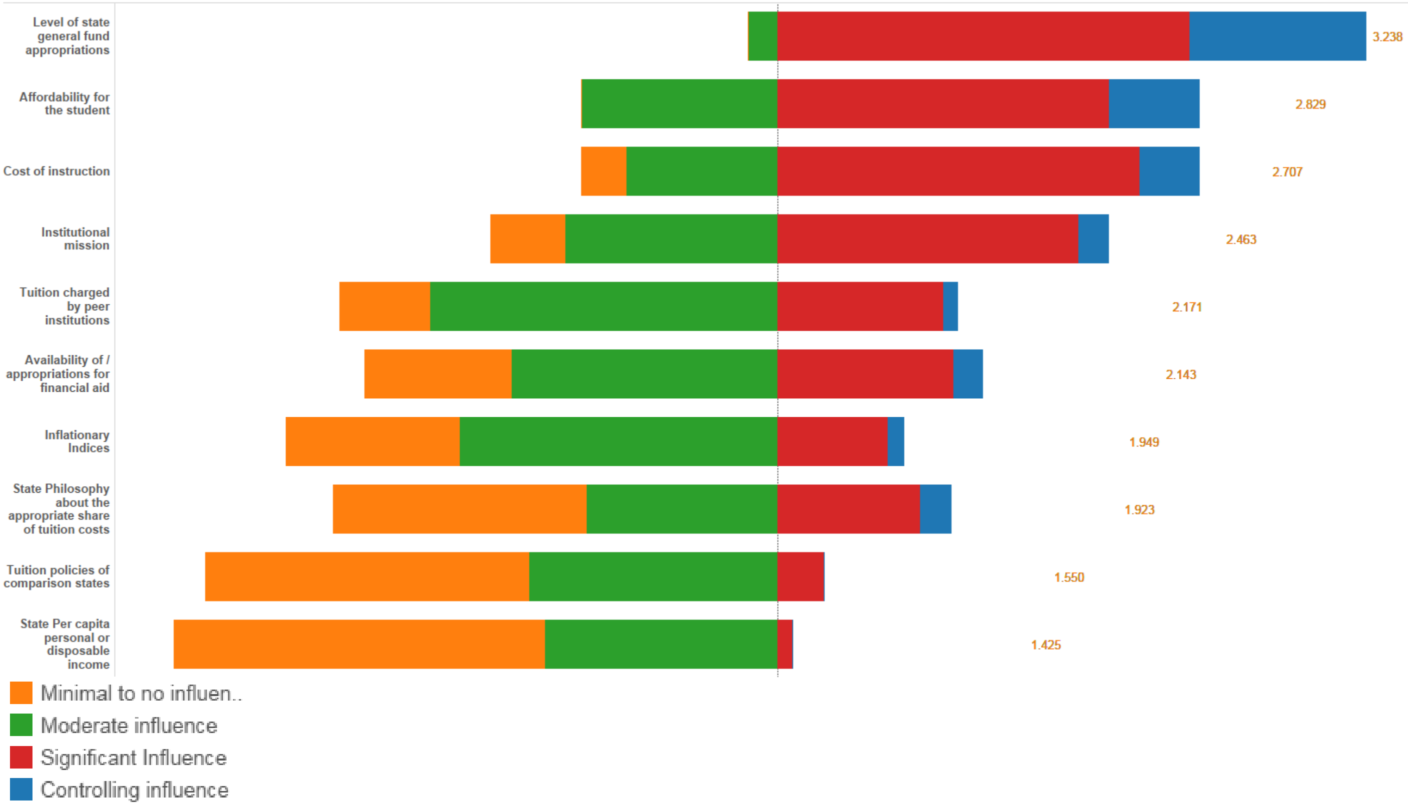
Figure Four: Tuition Setting Authority



However, in some cases, one can argue that the authority to set tuition is not so clear cut. Eight respondents indicated that the process was more complicated and that multiple actors in their state could argue that they had tuition setting authority. A common example given for the multiple actors was that a governing board sets tuition rates, but the legislature and governor have the ability to adjust appropriations to the board or call for freezes or limits, affecting the ability to set rates.

Another question in the survey asked respondents to rate the level of influence that various factors had on setting tuition rates. In Figure Five, items at the top of the chart were more significant in influencing tuition rates than items at the bottom of the chart. The size of the colored bars indicates the number of respondents who said a factor had “minimal to no influence” (orange bars) to “controlling influence” (blue bars). Answers were coded so that “minimal to no influence” was a 1 and “controlling influence” was a 4. The numbers on the right side of the chart indicate the average of all responses of the levels of influence.

Figure Five: Level of influence of various factors on tuition setting

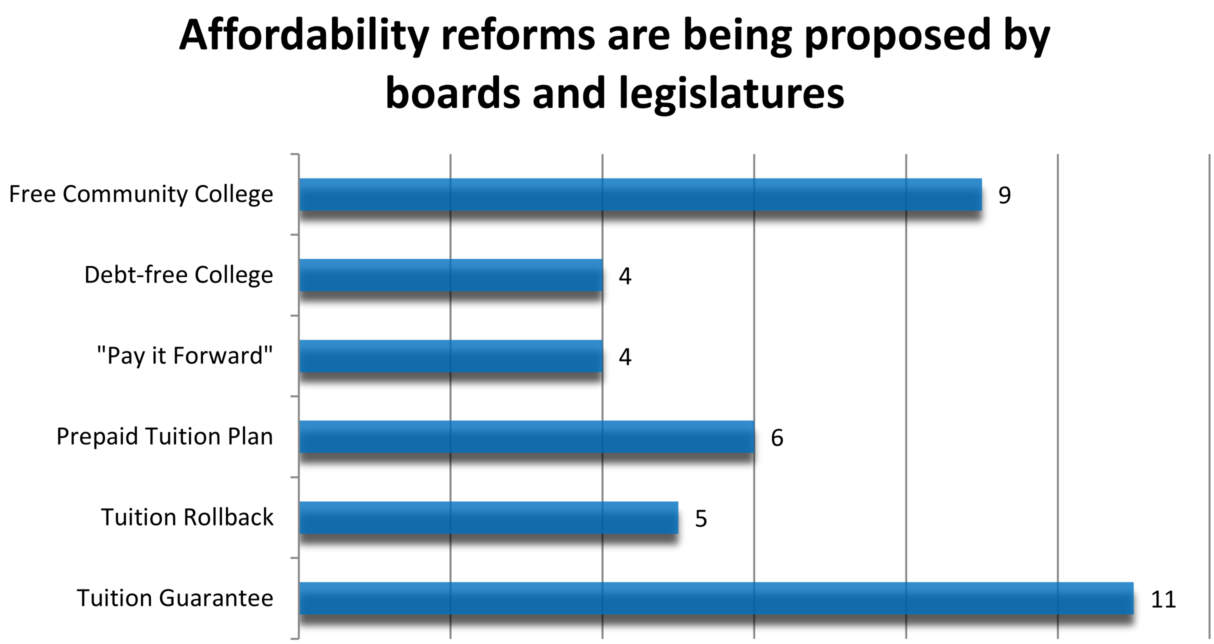


"Level of state general fund appropriations" was the most significant factor, with the vast majority of respondents indicating that it had significant or controlling influence on the tuition setting process. "Affordability for the student" was close behind, followed by "cost of instruction" with more respondents indicating it had a moderate level of influence.

This suggests that while affordability concerns are a significant driver of tuition and fee policies in the state, ultimately, the amount of money in the state budget for higher education may be even more important in determining tuition rates.

One avenue to address affordability for students is through broad new policy initiatives. Free community college and debt-free college were centerpieces of the 2016 political campaign season. In 2012, Oregon was directed to study the cost of implementing a "Pay it Forward" proposal, where a student's tuition would be paid for directly by the state and the graduate's future earnings would pay back the state's investment. Other states have considered prepaid tuition plans where students' families pay in advance of their education; tuition rollbacks where the state reimburses institutions in exchange for freezing tuition; and tuition guarantee programs where tuition rates are set upon a new student's enrollment and guaranteed not to rise for the specified length of time (typically, the expected on-time graduation period).

Figure Five: Number of states considering affordability proposals



Tuition guarantee programs are the most common initiatives that have been seriously considered by governing boards and state legislatures and many states have passed them. Of the 11 respondents who marked that policymakers were considering these guaranteed tuition programs, 10 indicated that the program had been successfully adopted at all or some of their public institutions. In many cases, these programs guarantee resident undergraduate tuition, but not fees or other differentials. For example, in **Arizona,** the program guarantees a fixed tuition rate for 8 semesters. The fixed rate applies only to tuition and not program fees, class fees or mandatory fees. Free community college is a more recent policy proposal and while nine agencies reported serious consideration of the policy for their public institutions, only **Oregon** and **Tennessee** reported widespread adoption of the policy, while **Kansas** has free community college for secondary students enrolled in courses leading to specific technical credentials. **Ohio** has adopted a debt-free college initiative through a combination of encouraging the accrual of college credits for high school students (dual credit), low-cost public community colleges, and significant limitations on tuition and fee increases.

These new policy proposals promise to increase student affordability and may be best implemented as part of a comprehensive statewide strategy to address the rising costs of college. However, states need to consider how tuition policy may impact these efforts. For example, a promise program covering tuition and fees for students at community colleges would quickly escalate in cost if institutions rapidly increased tuition rates. States like **Washington** are in the process of creating a unified strategy which would incorporate cost of attendance, state, federal and institutional aid, non-tuition costs (such as textbooks) and tuition reductions. **South Dakota's** governing board targets a 50% tuition and 50% state investment split for all of its campuses. **New York** state law requires its public institutions to provide a need based grant from campus resources to cover the tuition charges in excess of the New York state tuition assistance program (TAP) awards for eligible students.

However, most states lack this kind of strategic vision when attempting to address college affordability. When asked if a state has a unified strategy to address affordability that takes into account state appropriations to support institutions, tuition, and state and institutional financial aid, 30 respondents indicated there was no such strategy and 14 indicated that there was.

We see this as an opportunity to encourage states to unify their efforts in making college more affordable by aligning tuition policy with financial aid, completion initiatives and workforce goals to improve outcomes for students attending public institutions.

Policymakers concerned with college affordability and tuition costs often turn to tuition freezes or limits in an effort to curtail rising costs. Twenty-seven of the 44 respondents for this initial findings report indicated that a tuition freeze or limit was in place for their state. Of these, 22 were tuition freezes and 5 were limits ranging from between a 2.5% and 10% increase. Some of the respondents who indicated a freeze indicated that the freeze has been in place for a period of 3 years or more and, in one case, the freeze has been in place since 2010. Sometimes, these freezes are enacted in exchange for the legislature appropriating additional state funding for higher education. For example, **California's** governor and legislature passed a four-year plan to keep tuition flat in exchange for annual, small increases in state funding, and continued consultation with state lawmakers focuses on accessibility, affordability and quality.

Despite roughly half of the states indicating that tuition had been frozen or limited, affordability is not guaranteed for students attending those institutions. Many institutions are still able to raise fees in the presence of tuition freezes, which are still costs incurred by the student. Fee information is less readily accessible than tuition costs for prospective students. And other costs (e.g., housing, food, transportation, books) also either may not or cannot be limited by governing boards.

RECOMMENDATIONS

Tuition policy and how tuition and fee rates are set each year have the potential to support statewide efforts to address college affordability and improve postsecondary credential attainment. As we have highlighted in this preliminary report, many states are beginning to tackle affordability through various programs, such as guaranteed tuition plans or even by promising free community college tuition for certain students. However, tuition policy may unintentionally undermine these state efforts and programs. For example, in states where the need-based grant is set to cover the cost of tuition and fees, continued tuition rate increases may reduce the number of recipients who end up receiving the grant each year. We recommend that state policymakers, SHEEOs, governing boards, and institutional presidents work to develop rational strategies that are aligned with state goals to guide how tuition and fee rates are set.

An intentional rational tuition policy might include the following components:

- State policymakers and SHEEOs should consider tuition policy within the broader context of affordability and attainment strategies to ensure how tuition is set at the governing board and institutional level does not undermine these comprehensive strategies. We learned in prior research that Hawaiʻi's "Fifteen to Finish" campaign was more effective at four-year institutions that offered a tuition window where the amount paid did not change between 12 and 15 credits in a term[6]. This tuition policy therefore supported efforts by the University of Hawai'i's System to encourage full-time enrollment and reduce the time to completion.

- State policymakers, SHEEOS and boards of higher education institutions should coordinate institutional revenues, which includes state appropriations, financial aid and tuition, towards meeting broader state college attainment goals.

- State policymakers and SHEEOs need to understand how tuition policy impacts state financial aid programs. In some states, state need-based grants cover the full cost of tuition and fees. When tuition rates increase in these states, unless there is a subsequent increase in the total amount of aid the state provides, the number of students who receive the grant is reduced. In other words, the tuition increase has lessened the broad impact of the state's aid program. Care should be taken to understand how tuition policy and aid programs interact and make sure state needs are addressed along with institutional revenue needs

- State policymakers should not implement tuition rate freezes without consideration of institutional revenue needs. A tuition freeze without additional state resources may undermine the state's efforts to maintain affordability if the institutions affected by the freeze lack sufficient revenue to provide the necessary support services to low-income and underserved students.

- Governing boards should be more transparent with state policymakers about the expenditures tuition revenue is covering and how enrollment mix between resident and non-resident students impacts the amount of revenue generated from tuition. In many cases, these expenditures may have changed over the last decade or since the Great Recession. It is generally accepted that a primary reason tuition goes up is due to per student state funding reductions. However, tuition may now also be covering capital and deferred maintenance needs that were once covered by the state. Further, institutions may heavily discount tuition in order to attract desirable students, reducing the amount of tuition revenue a specific tuition charge actually generates.

- States should allow for longer-term, multi-year strategies around tuition rate setting. In many states, limitations on how much tuition can increase vary year to year. One year the legislature may limit tuition increases to an inflationary adjustment, followed the next year by a freeze on the allowable rate increase. In this environment there is little incentive for governing boards to raise tuition to an amount below the allowed limit in a single year as there is no way to anticipate what the future will allow. As mentioned earlier, tuition policy must balance cost to students and families with institutional revenue needs. A more rational approach would provide allowable increases for 3 to 5 years and be based on state revenue projections and policy direction from the state with respect to expected higher education funding for institutions and state financial aid. This would allow for better planning by institutions and also create a more transparent environment for the students and families who ultimately must pay the tuition costs.

[6] Carlson, A. & Zaback, K. (2013). *Moving the Needle: How Financial Aid Policies Can Help States Meet Student Completion Goals.* [*http://sheeo.org/sites/default/files/publications/Moving_the_Needle_041414.pdf*](http://sheeo.org/sites/default/files/publications/Moving_the_Needle_041414.pdf) State Higher Education Executive Officers Association. Boulder, CO.

CONCLUSION

This preliminary report provides the initial results from our periodic tuition, fee, and financial aid policy survey. The timing of this report coincides with final budget deliberations in most states and FY17-18 appropriation decisions. Once those are finalized, governing boards will make tuition rate decisions for the upcoming academic year. It is our intent that this preliminary report helps to inform these processes. A more robust final report on the survey will be released in July 2017 and will include an overview of the results of the full survey, case studies of selected states, and additional recommendations for how states can align tuition policy with overall strategies to address college affordability and increase attainment. We are grateful to Lumina Foundation for their support of this project.

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