DOCUMENT RESUME

ED 299 875 HE 021 760

TITLE	Report on the Cost of College to Students. SHEEO Committee on College Costs.
INSTITUTION	State Higher Education Executive Officers Association.
PUB DATE	26 Jul 88
NOTE	15p.; For related documents, see HE 021 765-768.
PUB TYPE	Reports - Evaluative/Feasibility (142)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Change Strategies; Educational Economics; Educational Quality; *Government Role; Higher Education; Policy Formation; *Public Policy; State Federal Aid; *State Government; *Student Costs; *Student Financial Aid

ABSTRACT

State policymakers should confront increasing public concern about the rising costs of postsecondary education, to preserve institutions' credibility and avoid damage by excessive political reaction. Attention to this issue has focused on extremes, obscuring the fact that only a small proportion of students attend extremely costly colleges. National policymakers and those who influence public perceptions have not focused on the significant difference in pricing between the public and private sectors, nor on the fact that the states decide what portion of the cost of operating their institutions will be funded by general tax revenues and what portion by user taxes (tuition and fees). The debate has also not differentiated between the published price and the amount students and their families actually pay, taking into consideration student financial aid and tuition waivers. State higher education agencies should recognize that increases in the net price are a legitimate concern. The adequacy of financial aid is also a major issue. The federal government is a major student aid provider and states should analyze the effect of both state and federal policy changes on their citizens. State higher education agencies should assess cost increases in state-supported systems continuously, identifying, monitoring, and controlling increases where possible. (MSE)

REPORT ON THE COST OF COLLEGE TO STUDENTS

SHEEO Committee on College Costs

July 26, 1988

State Higher Education Executive Officers
1860 Lincoln Street, Suite 310
Denver, Colorado 80295
(303) 830-3685

SHEEO COMMITTEE ON COLLEGE COSTS

Gordon K. Davies (Chair)
Director
State Council of Higher Education
for Virginia

W. Ray Cleere
Commissioner
Mississippi State Institutions
of Higher Learning

Clyde Ingle
Commissioner for Higher Education
Indiana Commission for Higher Education

Franklyn G. Jenifer
Chancellor
Massachusetts Board of Regents

Stanley Z. Koplik
Executive Director
Kansas Board of Regents

Kenneth B. O'Brien
Interim Director
California Postsecondary
Education Commission

John Richardson
Commissioner
North Dakota Board of Higher
Education

Fred Sheheen
Commissioner
South Carolina Commission on
Higher Education

Kenneth A. Shaw
President
University of Wisconsin System

Albert J. Simone
President
University of Hawaii

Joseph Sutton
Executive Director
Alabama Commission on Higher Education

Claire Van Ummersen
Chancellor
University System of New Hampshire

REPORT ON THE COST OF COLLEGE TO STUDENTS

Overview

State policymakers should confront forthrightly the increasing public concern about the rising costs of postsecondary education to students and their families. If they do not, the credibility of our nation's colleges and universities may be damaged and they may be weakened by excessive political reaction.

Current attention to this issue has been focused on the extremes. At one end, the Secretary of Education has aggressively attacked tuition increases as unreasonable gouging of the public by greedy institutions of higher education, both public and private. At the opposite extreme, institutional spokespersons have responded to these attacks by claiming that they are innocent and entitled to the revenues raised from tuition. They have tended to regard the issue as a public relations problem.

Unfortunately, the debate has obscured the fact that only a very small proportion of college students attend institutions with extremely high tuition and fees. (Only four percent of all students attend the high cost private institutions cited in some of the recent articles.) The great majority of students, more than 75 percent, attend moderate to low-cost institutions.

National policymakers (and those who influence public perceptions) have not focused on the significant difference between pricing in the public and private sectors of higher education. The notion that states decide what portion of the cost of operating their institutions will be funded by general tax revenues and what portion by "user taxes" (tuition and fees) has not been communicated effectively. SHEEO should help to make the states' role more clearly understood.

The on-going debate also has failed to differentiate between the published price and the amount actually paid (the net price) in establishing the cost of higher education to students and their families. Most of the discussion has focused on the published price and has not considered the extensive discounts provided as financial aid or tuition waivers.

State higher education agencies should recognize that increases in the net price students and their families must pay for higher education is a legitimate concern. This is not just a public relations problem, but a problem that frightens many citizens as they perceive themselves and their children being denied access to the promise of better lives through higher education.

The adequacy of student financial aid is a major issue. Loans do not reduce costs, they only postpone payment of them. The interest actually increases costs. The federal government is the major provider of student financial aid and states should analyze the effect of changes in federal policy upon their citizens. But state financial aid programs also play a role and each state should monitor the balance between rising costs and financial grant aid.

State higher education agencies should provide continuing assessment of cost increases to students in the state-supported systems of higher education. They should identify why the increases are occurring. They should insist that state-supported colleges and universities use the funds appropriated to them as efficiently and effectively as possible. The productivity of administrative and academic functions should be increased where possible by judicious allocation of faculty, staff, equipment, and other resources. The range of auxiliary services should be controlled to limit cost increases to students and their families.

Introduction

The SHEEO Committee on College Costs organized itself to deal with the following questions.

1. What is the State Higher Education Executive's role in monitoring and controlling cost to students?
2. What factors affect the cost of college?
3. What are the relationships between educational costs and student financial assistance and how do they come together to determine net price?

To assist the committee in its examination of the issue, a series of topical papers was commissioned:

SHEEO Survey on Tuition Policy, Costs and Student Aid
by James R. Mingle

Tuition and Student Aid Policies: What Role for SHEEOs?
by Denis J. Curry

The Cost of Providing Higher Education: A Conceptual Overview
by Paul Brinkman

Focus on Price: Trends in Public Higher Education: Tuition and State Support by John R. Wittstruck and Stephen Bragg

These papers provide an overview of the cost of college, current state policies and the relationship between costs and student financial assistance. The papers were discussed at a SHEEO meeting in April and led to better understanding of the role of states in determining the cost of higher education.

Effects of State Policies

States influence the tuition and fee rates of their public colleges and universities but the nature and amount of that influence vary greatly among the states.

Some of the differences among states may be explained by state policies on user fees. Tuition is just one of the many user fees that may be charged in lieu of paying for state services with general tax revenues. It is the policy in some states, mostly in the west and south, that general tax revenues should be used to keep the costs of participating in higher education as low as possible. These states tend to have minimal state-funded aid programs. Conversely, some states charge higher tuition but offset this for needy students by supporting relatively large financial aid programs. All states, however, do not behave this way, even in the south, and certainly not in other regions of the nation.

Another major difference is the policies of the states concerning control of non-tax revenues. States that require the deposit of tuition and fees into the general fund and control their expenditure tend to have very specific policies that are tied to the cost of instruction or some other measure. There are three general models.

1. No explicit policy exists at the state level. Decisions about tuition and fee rates and revenues are made by the boards of individual institutions or state governing boards. In many states, tuition rates are established to raise the money between perceived operating budget needs and appropriated state funds. When tax support decreases, tuition tends to increase. Even without an explicit policy, a state influences what the institution will have to raise on its own to finance its operations, by the amount of general tax revenue it provides.

2. The state has an explicit policy determining the amount of tuition and fee revenues to be raised that is related to the total educational appropriation. The policy tends to be expressed as a percentage of the appropriation. For example, 25 percent of educational and general appropriation must come from tuition and fees. Increasing tuition may be part of an overall strategy to improve quality or expand services, rather than an attempt to offset decreasing state support, as it might be under the first model.

3. The state has an explicit policy that determines the size of tuition and fee increases. Such policies limit tuition increase to increases in general tax revenues, peer group increases, per capita income, or some other indicator. This is another form of indexing not based on the direct relationship of tuition and fees to state funds as is the second model. Increases tend to follow general economic trends and may not be useful as a measure of the general fund support for higher education.

States also affect the cost to students by their policies and practices regarding the domiciliary status of students and the extent to which exemptions or tuition waivers are provided for out-of-state students. When costs are not borne by one group of students, they tend to be included in the costs paid by others. Large differentials between in-state and out-of-state tuition rates may reflect state policies but the charges to in-state students are influenced by the number of students actually paying the larger out-of-state tuition and fees and the number paying reduced rates or receiving total waivers.

States affect cost to students by decisions on expenditures such as salaries, requirements for purchasing, "self-supporting" activities, and capital outlay. In many states, clerical staff salaries are established for all sectors of state government by the legislature and institutions are expected to absorb the increased cost of operations. Complicated procurement laws and centralized purchasing operations may increase the cost of capital consumable goods because of increased administrative costs or because they reduce an institution's ability to take advantage of educational discounts.

The cost of auxiliary services and required fees represents two-thirds of the total cost of attending a typical residential, public four-year college or university. Despite this, few states pay much attention to the cost of services that are not supported by general tax funds. If an institution indicates it can collect the necessary revenues, the activities are approved. Many such "self-supporting" activities are supported by general student fees and increase significantly the cost of participating in higher education.

Factors That Affect the Cost of College

In the surveys conducted for the committee, most respondents identified equipment, computer services, graduate programs, program expansion, professional (primarily medical) schools, and plant construction or renovations as being the major reasons for cost increases. Implicit in the responses was the cost of faculty and support staff. At a typical college or university, personal service costs represent 60-80 percent of the operating budget.

Non-instructional costs. The effects of funding activities not directly related to the instructional mission were identified as an area of concern. Many institutions are increasing required fees to pay for services such as intercollegiate athletics or athletic facilities. Some auxiliary services are considered necessary to make institutions more attractive and to provide activities desired by students. To the extent that charges for such services and facilities are included in published tuition and fees by some but not all institutions, comparisons among institutions and states become meaningless and misleading.

The general public and their elected representatives tend to look at the total cost of going to college, and not at the source of increases in tuition and fees. States have not given sufficient attention to the cost implications of increased competition among institutions for students and of the additional services used to gain advantage in that competition.

Potential Effects of Enrollment Declines. Although all states did not experience the enrollment declines forecast for the last decade, states need to be sensitive to the current enrollment levels and the potential for declines in college-going students as the number of high school graduates varies over the next ten to fifteen years. Unless institutions and states are willing to reduce costs as enrollments go down, the cost per student in some states may increase dramatically. Continuing to spend as much to educate fewer students has been justified as a means of improving quality but it has a negative effect on charges to individual students.

Quality and Price. There is general confusion about the relationship between the quality of education and its cost. This confusion is found in the general public and within the higher education community. Because the capacity to document quality differences has not been developed, prestige seems to accrue to colleges and universities that charge more.

In most states, enrollments have grown as record increases in tuition charges were imposed. While the research is not definitive, higher education does not seem to be a price-sensitive industry. Still, different segments of the population probably respond differently and states need to become more explicit in balancing their desires to maintain access and improve the quality of undergraduate and graduate programs. There are indications that participation by minorities and low-income students may be adversely influenced by the perceived cost of going to college even if the net price is substantially lower because of financial aid. On the other hand, the decline in minority enrollment seems to track the shift in federal aid from grants to loans, indicating that net price is very much an issue.

Relationship of Cost and Financial Aid

Some of the early concerns about increasing costs of attending higher education were related to the implications for federal and state financial aid programs. At one point, institutions were accused of increasing costs to qualify for additional financial aid. More recently states that are trying to establish policies to maintain or improve access by low-income and minority populations are examining need-based financial aid as one element in their programs.

Most of the states surveyed indicated that the relationship between the cost of attending college and student financial aid was very important. But few states indicated that their states had adequately dealt with the relationship. Almost all states identified as having high tuition rates have large and comprehensive student financial aid programs. This appears to be an area needing further study and discussion.

A few states have rejected a simple model of matching increases in required tuition and fees with additional financial aid. They have attempted to recognize the difference between the published price (tuition and fees) and the actual cost to the student after considering financial aid and waivers (net price). The cost to students and their families is the net price rather than the published rates and fees. While easy to describe, in general, the effects of net price are very difficult to convey to the public.

Analysis of net price has been done at aggregate levels using state or federal financial aid data. Few studies have considered the effects of waivers for out-of-state or resident students or have attempted to determine the adequacy of the budget or cost estimates established by the federal government or individual institutions.

There is no consensus on the effects of high tuition on the participation of minority and low-income populations. Some analysts believe that high prices eliminate many potential students because they are discouraged immediately and do not seek information about financial aid and what the net cost would be. Low tuition is viewed as necessary to achievement of access goals.

Others believe that such groups are very sensitive to changes in net price. They point to the decline in minority participation as loans began to replace grants in aid packages as evidence of this sensitivity.

State efforts to increase participation and retention of these groups might include linking need-based aid and cost of attending to maintain or decrease the "net price" of attending. It may be more important to inform these groups of the difference between the published price and the net price. The public perception of increasing costs may be as influential as factual information and the lack of information about changes in net price, especially for minority and low-income groups, may be a serious roadblock to changing participation and retention patterns.

What States Should Do About the Cost of College to Students

SHEEO cannot propose a simple response to the current concern with the cost of going to college because the tuition and fee charges in each state reflect the state's policy on the use of general tax revenues or users fees to support higher education. A state's decision to improve the quality of its colleges and universities may increase or decrease tuition levels depending upon the funding model adopted.

Differences among states in their ability to influence costs can be highlighted by a comparison of two adjacent states: Virginia and West Virginia.

In Virginia, tuition is linked to the operating budget for instruction. A formula reflects a cost-sharing policy, with students being responsible for about one-third of the cost. Virginia can influence costs to students by changing the index rate, increasing productivity, altering faculty salary goals, restraining unrelated charges, and other operating measures.

But West Virginia uses a major share of its tuition revenues for capital projects and debt service. Decisions on construction and debt issues will influence tuition costs for up to 20 years. What will help control tuition costs in Virginia will not work in West Virginia, and vice versa.

Although state policies require each state to examine its situation separately, a series of issues should be considered in developing responses to the current concern with cost and in planning for the next decade.

1. States can help to clarify the current perception of the increasing cost of attending higher education institutions. The perceptions of the public and their elected officials may not entirely agree with data available to analysts, but the perceptions will help to shape public policy.

2. Some actions at the state level have been aimed at easing public concern about the price of college. The most notable of these are the proposed programs to allow "pre-payment" of tuition, thus protecting the public from projected unmanageable costs in the future. The plans have resulted in discussion about how to provide incentives for saving for college and whether states can guarantee future tuition levels. But the concern in the minds of the public is the cost of attending and not the actions they should take to solve the problem themselves.

3. States affect the cost of higher education to students and their parents by decisions (or non-decisions) about a number of policies. Because more than three-fourths of all students are enrolled in state-supported colleges and universities, these policy decisions are extremely important.

    a. **Tuition and Fees.** Who pays for higher education? To what extent are the societal and the personal benefits reflected in the prices charged? This discussion translates into a decision about the extent to which higher education will be supported by general taxes (sales, income, etc.) or by special user taxes (tuition and fees).

    b. **Access and Financial Aid.** How will the state guarantee access: by generally low charges to all citizens or by financial aid for those who cannot pay a significant special user tax? There is some history of experience with both approaches and different segments of the population appear to respond differently to them. Clarifying the relationship between price and financial aid and linking price and access goals were identified as important issues by most states in the SHEEO survey.

c. **Eligibility**. Who is eligible for in-state tuition and fees? States have different standards of eligibility based on definitions of in-state domiciliary residence. States also make various exceptions to the general standards to extend eligibility to residents of border states, urban areas on their borders, members of the military and their dependents, industries located in the state to which non-residents commute to work, graduate teaching and research assistants, and others.

d. **Cost of Non-Educational Services**. While many states have taken an aggressive role in determining required educational tuition and fees, they have not taken an equally strong position in reviewing and controlling fees for auxiliary services and facilities and ancillary activities. In most states, such fees are established by the boards of the individual colleges and universities or by statewide governing boards. In some states fees for other than educational services are increasing faster than tuition. A few states are attempting to control the amount of and increases in required fees, especially those supporting intercollegiate athletics and athletic facilities. One state has established a policy of limiting required fees to 30 percent of tuition charges.

e. **Other Factors.** By setting staffing ratios, faculty salary increases, clerical staff salaries, faculty workload (the definition of a full-time equivalent faculty member), the overhead imposed upon non-personnel expenditures by state bureaucracy, the kinds of auxiliary and ancillary enterprise costs institutions can incur and pass on to students, and the kinds of institutions that will enroll students, the cost of higher education will be determined in some states. It will be determined in others by controlling capital construction and debt service.

4. The discussion so far has focused on how much college costs, not how much it should cost. State higher education agencies should analyze cost increases in the state-supported colleges and universities, and insist that operating costs be carefully controlled. They should use system-level budget review as a means to focus attention on the need to increase educational effectiveness as well as to improve efficiency.

5. The State Higher Education Executive Officers will continue to examine these inter-related issues, paying particular attention in 1988-89 to the relationship between increased educational effectiveness and the efficient use of resources.

The prices charged in most of higher education to most of the students are not determined by any simple economic model or the desire to charge as much as possible. They are the product, or can be the product, of a wide variety of state policy decisions. State governments are active participants in determining what college costs are. They have a major contribution to make in the discussion of this issue.