

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** September 17, 2008

Agenda Item: Tuition and Fees Study Including the Cost of Attendance

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda: The tuition and fees study was undertaken during the spring and summer of 2008 by the Finance Division at the request of the Board of Trustees. A summary of the study as well as conclusions and next steps are being presented at the September meeting.

Scheduled Presenter(s): Laura M. King, Vice Chancellor – Chief Financial Officer

Outline of Key Points/Policy Issues: The tuition study addressed the following:

- current tuition and fees policy,
- gross/net tuition and fee comparisons at a regional and nationwide level and by type of learner, program of study and institution,
- dependency on tuition revenue,
- the role of financial aid in the cost of attendance, and
- total spending per student with comparisons at a regional and nationwide level.

Background: The Board of Trustees had identified four priority efforts for action in FY2008-2009. One of the priority efforts is titled “Economic Model” and is focused on the price of attendance and the cost to educate students. This special project was incorporated into the tuition and fees study concerning tuition policies.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

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| INFORMATION ITEM |
| Tuition and Fees Study Including the Cost of Attendance |

BACKGROUND

The Board of Trustees has identified four priority efforts for action in FY2008-2009. One of the priority efforts is titled “Economic Model” and is focused on the cost of attendance and the cost to educate students. This special project was incorporated into a larger study concerning tuition and fees policies. The tuition and fees study was to address, at a minimum:

- the current tuition and fees policy,
- gross/net tuition and fee comparisons at a regional and national level and by type of learner, program of study and institution,
- dependency on tuition revenue,
- the role of financial aid in the cost of attendance, and
- total spending per student with comparisons at a regional and national level.

The tuition and fees study was undertaken during the spring and summer of 2008 by the Finance Division. A summary of the study as well as conclusions and next steps are being presented to the Board. The complete tuition and fees study is included in the Board materials following this report.

SUMMARY OF TUITION STUDY

The Association of Governing Boards of Universities and Colleges released a report titled *Setting Tuition* in 2001. The report states that:

“deciding how much to charge for the institution’s “product” ultimately is the responsibility of the board. Few other board decisions affect so many, are watched so closely, and are so vulnerable to comment and criticism.”

Tuition setting is a business decision – as much art as science and dependent on many variables. Some of the variables include the level of state resources, dependency on tuition revenue, academic program mix, labor contract settlements, other inflationary pressure, level of services provided to students, enrollment outlook, and availability of financial aid/subsidy.

The Board and Chancellor made a commitment to the principle of “decentralization with accountability. This principle is laced throughout Board policies and practices. In the matter of tuition, the Board allowed institutions the flexibility to determine their tuition pricing structure tailored to their mission, geographic location, individual market and competitive circumstances and submit annual rate change recommendations to the Chancellor and Board for approval. This historical tuition strategy supported the strategic plan goals of greater institutional autonomy, flexibility within an overall framework, and a focus on outcomes and results with presidential accountability. Although the Board continues to operate within this tuition strategy, a greater emphasis is being placed on affordability and accessibility.

Board Approaches to Tuition-Setting. The Board has used two tuition setting approaches: (1) the colleges and universities submitting proposals to the Chancellor and the Board responding and approving the final rates, or (2) the Board setting broad parameters, the colleges and universities responding with specific increases within the parameters, and the Board approving the final rates. Numerous factors impact tuition decisions such as inflation, level of government appropriations, and labor contract settlements. The current tuition policy provides flexibility to colleges and universities by allowing for numerous methods of tuition assessment that include per credit, banding, program/course differential, and market-driven.

State Appropriation-Tuition Reliance. The System’s colleges and universities have two primary sources of revenue within the general operating fund: state appropriation and tuition. The System’s reliance on appropriation has decreased over the past decade from 69.7 percent in the late 1990’s to the current 50.5 percent. At the same time, tuition reliance has increased from 30.3 percent to 49.5 percent. On a per full-year equivalent (FYE) student basis, appropriation increased overall just 3.7 percent during the past decade, while tuition increased 105 percent. The System’s purchasing power is declining; in actual dollars total appropriation and tuition per FYE student over the past 10 years increased overall 37 percent; adjusted for inflation the increase was 6 percent.

The reliance on appropriation and tuition varies greatly by college and university from 42 percent to 67 percent. Institutions with a greater reliance on appropriation are technical and comprehensive colleges located in greater Minnesota. Institutions with a greater reliance on tuition are predominately large stand-alone community and comprehensive colleges (with a predominance of non-technical programs) and the state universities. The Board’s desire to limit tuition rate increases has collided with the reallocation of state appropriation occurring by policy through the allocation framework. Some institutions that are more heavily reliant on appropriation support are seeing that decline at the same time tuition increases are also being held down.

Comparisons of State-Local Appropriation Support to Similar Public Two- and Four-Year Institutions. Comparisons of appropriation support, tuition and fees, average grant award, and spending were made to similar two- and four-year institutions, regionally and nationwide throughout this study. The Integrated Postsecondary Education

Data System (IPEDS) was used to compile the data set used in the comparisons. The data set contained two- and four-year public institutions within the same Basic Carnegie Classification Code as the System's colleges and universities. The regional comparison includes two- and four-year public institutions located in Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

The fiscal year 2006 average state appropriation per FYE student of \$4,278 at the System's colleges was below both the regional and nationwide averages for similar public two-year institutions; 27 percent and 15 percent respectively. The state appropriation per FYE student of \$4,357 at the System's universities was comparable to the regional average and 28 percent below the nationwide average for similar public four-year institutions.

Student Enrollment and Demographics. The System has seen enrollment grow 7.6 percent between fiscal years 2002 and 2007 from 126,215 FYE students to 135,839, with colleges growing 10 percent and universities 4 percent. Approximately 59 percent of the students were full-time compared to 41 percent part-time. Ninety-eight percent of students originated from either Minnesota or its Border States.

Minnesota's student participation rate in higher education among the 18-24 year old population is 41.4 percent (rank 17th in the nation), slightly above the national average of 39.7 percent. Among the 25-34 year old population, Minnesota's 10.5 percent is below the national average of 11.4 percent (rank 34th in nation). Minnesota has 44.1 percent of its adults aged 25-64 with at least an associate in arts degree, tied for 5th in the nation. Minnesota ranked 4th in terms of the percentage of median family income (among the poorest adults aged 25-44) needed to pay tuition and fees within the public community college sector; it ranked 16th within the public four-year undergraduate institutions.

Tuition and Fees. The Board's past commitment to delegated decisions was designed to allow for flexibility in the tuition pricing structure tailored to individual mission, geographic location, individual market and competitive circumstances. Based on fiscal year 2008 undergraduate resident annual tuition, there is a dispersion of \$869 (25 percent) among the colleges and \$920 (18 percent) among the universities. Tuition dispersion among the System's colleges is not increased due to geographic location or type of college. There is variation among tuition rates for non-resident/non-reciprocity, graduate level, online instruction, and program/course differentials. Tuition rate dispersion has occurred incrementally since merger. Tuition dispersion is not unique to the Minnesota State Colleges and Universities. It exists within other higher education state systems with public two- and/or four-year institutions.

Comparisons of Tuition and Fees to Similar Public Two- and Four-Year Institutions. Fiscal year 2006 average resident gross and net tuition and fees at the System's colleges and universities were above the regional and nationwide averages.

System colleges. The average resident gross tuition and fees of \$4,021 was 11 percent (\$412) higher than the regional and 63 percent (\$1,550) higher than nationwide averages. The gross tuition and fees at the System's colleges was reduced by an average grant award (federal, state, and institution grants) of \$1,622, resulting in net tuition and fees of \$2,399. Net tuition and fees was 15 percent (\$310) higher than the regional and 125 percent (\$1,333) higher than nationwide averages.

System universities. The average resident undergraduate gross tuition and fees of \$5,252 was 2 percent (\$99) higher than the regional and 11 percent (\$507) higher than nationwide averages. The gross tuition and fees at the System's universities was reduced by an average grant award of \$2,095, resulting in average net tuition and fees of \$3,157. Net tuition and fees was 5 percent (\$150) higher than the regional and 56 percent (\$1,138) higher than the nationwide averages.

When compared nationally, the System's colleges have among the highest gross and net tuition and fees (ranked 3rd for both) among states with similar public two-year institutions. The System's universities ranked 17th for gross and 12th for net tuition and fees among states with similar public four-year institutions. The IPEDS data set was used to determine the national ranking of the System's colleges and universities undergraduate tuition and fees compared to the other states. The System's accountability measures are built on the IPEDS data set and will be used for comparison purposes. It is worth noting that national data sets have different characteristics (i.e., size of sample and mix of institutions) and produce different conclusions.

Net Costs to Students after Financial Aid. Most financial aid is money provided to help students pay college costs that exceed the amount the federal government has determined they and their families can pay. Families are expected to bear the primary responsibility of paying for college. When they cannot pay all of the costs, financial aid programs help with the difference between what it costs and what the family can be expected to pay. In fiscal year 2007 students enrolled in the Minnesota State Colleges and Universities received \$733.4 million of financial aid. A majority of the financial aid was in the form of grants (\$231.7 million) and loans (\$449.0 million) with the balance in scholarships and employment/work study. In fiscal year 2007, 51 percent of students enrolled at the colleges received at least one type of financial aid award (including loans) with an average award of \$4,614. Within the universities, 58 percent (45,466) of students received at least one type of financial aid award with an average award of \$7,583.

The student's total cost of attending a college or university includes tuition, fees, room and board, books, supplies, transportation and miscellaneous expenses. The net cost of attendance can vary depending on a student's full-time or part-time status, institution of attendance, academic program choice, income, assets and financial aid coupled with the family's determination of what it wants to invest in the student's education. For students enrolled at least half-time, the lowest income, half-time students within the System paid a higher share of their costs – 67 percent. A full-time student (taking 12+ credits a term) enrolled at the System's colleges in the lowest income quartile paid 54 percent of the

total cost of attendance compared to 72 percent for a student in the highest income quartile. A full-time student enrolled at the System's universities in the lowest income quartile paid 35 percent of the total cost of attendance compared to 58 percent for students in the highest income quartile. Generally, the percentage of the cost of attendance paid by a student increased as income increased and/or credit load decreased.

Cost of a Student's Educational Experience. Costs have been an issue in higher education for a very long time, and the focus on costs has increased considerably over the past few years due to the large increases in tuition. The System's colleges and universities are expected to provide a quality education at an affordable price with access to an increasing number of students. Costs differ by institution. Colleges and universities are complex entities with many cost drivers such as personnel (labor-intensive); faculty mix, number of courses taught, and average number of students taught; type of academic programs; support services offered to students; and age and expansion of facilities.

Higher education expenditures fall into broad functional spending categories of instruction, research, public service, academic support, student services, institutional support, and operation and maintenance of plant. Between fiscal years 2003 and 2006, the System's colleges and universities increased spending; 14.7 percent and 16.4 percent respectively. On a per FYE student basis, instruction had the largest increase in spending at the System's colleges and universities. However, as a proportion of total spending, a greater share of the increased spending occurred in non-instructional areas. The greater share of increased spending at the System's colleges occurred in academic support and student services. At the System's universities, the greater share of the increased spending was in academic support and physical plant. Although spending on instruction did not grow as a proportion of total spending, the System's colleges and universities continued to spend in excess of 61 percent of their operating budget in instruction and academic support; 3 percent higher for the colleges and 4 percent higher for the universities than both the regional and nationwide averages.

The total average spending per FYE student during fiscal year 2006 at the System's colleges was \$9,150 and at the System's universities was \$9,636. There are mission differences among the System's colleges and universities. Generally, spending per FYE student at a technical college would be higher in instruction due to the high-cost, equipment intensive technical programs with lower faculty-student ratios. Spending per FYE student at a community college would generally be lower in instruction due to the low-cost, predominately lecture-delivered liberal arts/sciences with higher faculty-student ratios. Spending per FYE student in physical plant would be higher at a technical college due to the instructional space needed to deliver technical programs compared to liberal arts/sciences, lecture-delivered courses.

Technical and comprehensive colleges on average spend more in instruction/academic support compared to community colleges. The mission (academic program mix and instructional space needs) of institutions has an impact on spending per FYE student.

Comparisons of Spending to Similar Public Two- and Four-Year Institutions. The \$9,150 spending per FYE student at the System's colleges during fiscal year 2006 was higher than both the regional and nationwide averages; 11 percent and 18 percent respectively. When compared to the nationwide average, the higher spending at the System's colleges was concentrated in three areas: instruction, academic support, and student services. The System's universities on average spent \$9,636 per FYE student which was approximately 15 percent less than both the regional and nationwide averages. When compared to the nationwide average, the functional areas with the greatest difference in spending at the System's universities were instruction, institutional support, and public service.

Student Share of Educational Costs. A recent report of the Delta Cost Project, *The Growing Imbalance – Recent Trends in U.S. Postsecondary Education Finance*, states that “the sticker tuition price is increasingly meaningless as a measure of institutional revenues or prices charged to students. The more accurate measure is the student share of educational costs.” The revenue from students (tuition/fees net of financial aid) covers just a portion of what colleges and universities spend to educate a student; the balance is subsidized by the institution. With the System's colleges and universities being public institutions, the balance (institution subsidy) predominately comes from state appropriation. The student share of total expenses was 26 percent at the System's colleges which was comparable to the regional average (25 percent) and higher than the nationwide average (14 percent). The 33 percent at the System's universities was higher than both the regional and nationwide averages; 27 percent and 18 percent respectively.

CONCLUSION AND NEXT STEPS

With limited new state resources and the Board's interest in controlling tuition rate growth, colleges and universities are managing costs by cutting operations, increasing class size, reallocating resources from lower to higher priorities, downsizing, or finding new sources of revenue. Many costs are difficult to control as institutions need to make technology investments, meet deferred maintenance needs, increase salaries to remain competitive, and offer a broad array of services to a diverse student population.

Moody's Investors Service noted that the core, long-term driver of financial health for most higher education institutions is “enrollment trends and tuition flexibility.” The System has become more reliant on tuition as state appropriation support has declined from 69.7 percent to the current 50.5 percent over the past decade. The System's colleges and universities on average have less appropriation per FYE student than the regional and nationwide averages. The System's colleges have among the highest tuition and fees nationally, ranked 3rd, and on average spent 18 percent more per FYE student than the nationwide average. The System's universities ranked 17th nationally for tuition and fees and on average spent 17 percent less than the nationwide average.

Students in the lowest income quartile and enrolled at least half-time (6 credits or greater per term) paid a higher share of their total cost of attendance – 67 percent. Generally, the

percentage of the cost of attendance paid by a student increased as income increased and/or the credit load decreased.

Mission differences among the System's colleges and universities impact the cost structure – average spending per FYE student. Technical colleges that have predominately high-cost, equipment intensive technical programs with low faculty-student ratios spend more per student than community colleges that have predominately lower-cost, liberal arts/sciences offerings, with higher faculty-student ratios. Physical plant needs are impacted by the academic program mix. Instructional space needs for technical programs would be very different from instructional space needs for liberal arts/sciences.

The Board will need to balance the conflict between controlling tuition rate growth, potential eroding of state appropriation, investments in quality and innovation, interest in cost containment, impact of academic program mix on cost structure (technical programs compared to liberal arts/sciences), the desire for competitive faculty salaries, the 60/120 degree credit cap (impact on enrollment, revenue, expenses, and cost savings to students), the current structure of 32 colleges and universities (53 campuses) serving the higher education needs of Minnesota, and high gross and net tuition and fees at the System's colleges compared to nationwide averages.

The chancellor has identified the following areas as the right policy approach for a tuition program for the System. The Chancellor is seeking the Board's concurrence regarding the following:

1. Overarching principles concerning the role of tuition and its relationship to mission/vision and strategic plan:
 - Commitment to “decentralization with accountability”
 - Keep central the goal of increasing access and success – seek to balance educational quality, access and ability to pay
 - Seek the state's commitment to its partnership of financial support
 - Respect and support the diverse needs of each college and university – academic program mix and type and level of support services offered
 - Strive for moderate and predictable tuition increase
 - Ensure colleges and universities have the ability to generate sufficient revenue to provide a quality and competitive educational experience
 - Tuition program that is transparent and understandable to students and parents

The Board's tuition setting guidelines should consider factors that impact budgets of the colleges and universities including:

- Revenue composition (appropriation/tuition mix)
- State appropriation support, including outlook
- Distribution/redistribution of appropriation through the allocation framework

- Collective bargaining strategies/settlements
- Enrollment outlook
- Academic program mix
- Mission expansion
- Student demographics that drive the need for services not historically offered

Next steps: The overarching principles and tuition setting guidelines would be incorporated into the operating budget process beginning fiscal year 2010 (March-June 2009).

2. Tuition program that is transparent.

- Early Board direction on tuition setting parameters
- Communication that is clear and complete, includes policies, procedures, and guidelines

3. Tuition rate dispersion.

The Board's commitment to the principle of "decentralization with accountability" allows colleges and universities the flexibility to determine pricing structures tailored to their mission, geographic location, individual market, academic program mix, student demographics, competitive circumstances, and mix and level of services offered to students. Currently, undergraduate resident annual tuition dispersion among the colleges is 25 percent (\$869) and 18 percent (\$920) among the universities. Generally, students do not make a decision on which institution to attend solely on cost but more on academic program or geographic location. However, it is worth noting that students may choose to attend a two-year college as a means to save dollars before transferring to a four-year institution.

The dispersion that exists among the System's colleges and universities is similar to what exists in other higher education state systems. A majority of two-year institutions within other state systems had tuition and fee dispersion in the 40 percent range. Among four-year institutions, dispersion was under 30 percent for a majority of the state systems.

The System's colleges and universities have been provided institutional autonomy and broad discretion for determining academic program mix and type and level of support services provided to students. These decisions impact the level of resources needed to maintain their standards of quality. Tuition revenue supports a portion of the total educational costs. It is a balance between the cost of academic programs and services provided to students, available state appropriation, and level of tuition support. Colleges and universities are aware of the point at which tuition rates negatively affect enrollment.

There are mission differences among the System's colleges and universities. The technical colleges have predominately high-cost, equipment intensive technical programs with low faculty-student ratios. The community colleges have predominately lower-cost, liberal arts/sciences offerings, with higher faculty-student ratios. The universities offer lower and upper division as well as graduate level instruction. Enrollment among the colleges ranges from 300 to more than 6,500 FYE students and from 3,670 to more than 14,400 at the universities. On a per student basis, expenses in instruction would be greater at an institution with predominately technical programs compared to liberal arts/sciences. Expenses in non-instructional areas (institutional support, physical plant, etc.) that tend to have more fixed costs generally would be greater at an institution with lower enrollment.

Institutional autonomy and flexibility in determining pricing structures are strengths of this System. Students can choose from a broad range of educational experiences – small enrollment versus large enrollment institution; academic programs focused on technical fields versus liberal arts/sciences; commuter institution versus residential experience; state-of-the-art science labs and instructional technology; and a breadth of student support services – which require sufficient financial resources. The choices available to students differ at each college and university resulting in a different cost to offer those choices. The differing choices at each college and university result in tuition rates that vary.

The tuition setting method that sets a maximum percentage increase results in a differing level of tuition support on a per student basis. This shift has increased the dispersion of rates across colleges and universities and locked in some of the revenue disparities present at the time of the merger. An option of recommending a maximum dollar amount per FYE student increase should be considered for colleges and universities that charge relatively low tuition compared to similar institutions within the System. This method would provide specific colleges and universities with the ability to “catch up.”

Next steps: The Chancellor will continue to monitor the tuition dispersion among the System's colleges and universities. The Board will be advised of the impact of tuition increases on dispersion as part of the annual tuition setting process beginning with fiscal year 2010.

The option of recommending a maximum dollar amount per FYE student increase for colleges and universities that charge relatively low tuition compared to similar institutions within the System will be considered in the tuition setting process for fiscal year 2010.

4. Tuition structure

- Maintain the current tuition structure that provides numerous tuition pricing options for colleges and universities, cost-based and market-based. The current tuition structure recognizes the diverse academic universe within the System and provides flexibility for a college or university to consider other pricing options such as cohort, student status or income-based. The current tuition structure recognizes that different academic courses and programs have different cost profiles and different market niches, and they need not be priced identically.
- Recommend that graduate level tuition (master's and doctoral) be market-driven. The universities would have discretion in setting tuition for graduate level instruction considering such factors as student demand, cost of program, or competitor pricing.
- Guidelines should be developed for program and course differential tuition.

Next steps: The tuition structure will be incorporated into the tuition setting process for fiscal year 2010. A workgroup will be formed to develop the program and course differential tuition guidelines for implementation in the fiscal year 2010 tuition setting process.

5. Strategies for conflict between financial access and the student's net cost of attendance.

- Consider a tuition assistance grant program for financially needy students enrolled part-time. In fiscal year 2006, the lowest income, half-time students paid a higher share of their educational costs – 67 percent.
- Seek the state's commitment to fund the System at the 67/33 relationship to reduce the burden placed on students.
- The Board should develop a System position on financial aid.
- The System should lobby for changes in the state grant program for part-time students and for various loan forgiveness programs.

Next steps: A part-time student tuition assistance program would be incorporated into the 2010-2011 biennial operating budget request.