

## ***Tuition Committee***

# **Report to the Regents**

## ***Overview of the Tuition Setting Process***

In July of 2002 the Board of Regents established a committee to study the issues surrounding student tuition and recommend to the Board a policy that would provide guidance for campuses in recommending tuition changes, establish a framework for future tuition discussions, and be easily understood by students, parents, legislators and the general public.

The committee was created in response to a public perception that tuition is established at the end of the budget process, and is used to close the gap after expenses are projected and revenue is anticipated. The Board believed that tuition and its relationship to the cost of education, to the student, taxpayer and institution is more fundamental than this perception. As chairman Richard Roehm stated in his charge to the committee *"setting tuition is central to nearly every aspect of institutions in the Montana University System, including our mission, the size and quality of the student body and faculty, perceived quality, affordability, and accessibility. In the end, tuition pricing is a judgment call, but the impact on each institution's fiscal health and vitality is enormous."*

Funding for the Montana University System comes from several sources that include student tuition and fees, the state general fund, statewide Six-Mill Levy, government and private grants and contracts, endowments, service fees, and auxiliary operations.

The legislature determines the level of state support for post-secondary education and typically considers the Governor's budget recommendation, Board of Regent requests, legislative priorities, projected State revenue, projected enrollment, and base year actual expenditures and funding. Since FY1996, the Legislature has combined the State appropriation for the six four-year campuses, five colleges of technology, the Regents and most of the Office of the Commissioner of Higher Education into a biennial lump-sum appropriation. The various Experiment Stations, Cooperative Extension Service, Bureau of Mines and Geology, Fire Service Training School and Community Colleges are funded through line items in the general appropriations act.

The Board of Regents is subject to the legislature's appropriation power and public policy formulation, including the same audit and accountability standards as other state agencies. While the legislature may attach conditions to University System appropriations that would, if accepted, bind the Board; it cannot impose, through line item appropriations and conditions, what it has not been given permission to do directly. This separation between legislative and Board authority was delineated in a 1975 Montana Supreme Court ruling. While the legislative appropriation power extends beyond the general fund to include all public operating funds of state government, it does not extend to private funds received by state government that are restricted by law, trust agreement, or contract, such as student tuition and fees and foundation donations.

The Board of Regents determines tuition rates within the University System. The Board, through its strategic plan, asks campuses to keep quality high, ensure access, and control costs. The Board monitors success in achieving these objectives, in part, through its budget and tuition and fee setting processes. The Montana University System has realized significant management efficiencies and has implemented quality improvements through this coordinated system-level approach.

The policy statement approved by the Regents at the March 20-21, 2003, meeting considers both the cost and value of education. It increases campus flexibility, encourages innovation, and establishes a process for campuses to follow in bringing tuition recommendations to the Board. The policy reflects the public nature of the Montana University System and recognizes the unique missions, characteristics and demographics of each campus and their commitment to providing access and opportunity for Montana students. Academic quality and student access remain paramount as the Board considers the varied and sometimes competing factors that are the basis for campus tuition recommendations.

## *Tuition and Quality Education*

*“The Mission of the Montana University System is to serve students through the delivery of high quality, accessible postsecondary educational opportunities, while actively participating in the preservation and advancement of Montana’s economy and society.”*

- Regents mission statement

What constitutes quality in the Montana University System? In the eyes of prospective and current students, quality is reflected in the experience and reputation of the faculty; in students’ access to faculty members; in the academic preparation and accomplishments of fellow students and alumni; in an appealing learning and social environment; and in accessible learning materials, including libraries, laboratories, and experiential activities.

In the eyes of public policymakers, quality is often measured in terms of institutional productivity, research and development, community outreach, program mix, and student degree completion, retention and graduation rates. Expenditures per student, peer salary comparisons, institutional reserves, institutional and program accreditation, professional certifications, educational outcomes assessments and student satisfaction are quality indicators that are increasingly used as standards for evaluation.

The Board and University System administrators consider these and other internal measurements in monitoring institutional quality. Graduate placement and student satisfaction surveys indicate a high degree of success. Student pass rates on licensure and certification tests are high compared to national averages. Faculty accomplishments in teaching and research are recognized locally, regionally, nationally and internationally.

As campuses face declines in state support, however, they are often asked to choose between quality and access. They are increasingly caught between new market and workforce demands and inadequate financial resources. They are faced with serving a growing number of students and offering new or expanded programs or supporting a higher quality education for a smaller number of students

The quality and access compromise is most evident on campuses when course offerings and class sections are reduced, when programs are cut and class sizes are increased, and when campuses rely more on part-time faculty and teaching assistants rather than tenured faculty and full professors.

Reduced state support increases campus dependence on tuition and encourages a trend to stop investing in anything unprofitable – be it a discipline, program, or student. Campuses may find it difficult to look beyond economic development and workforce training to include the responsibilities of citizenship and community service in their curriculum. Researchers may be asked to choose between academic independence and corporate sponsorship. On smaller, less affluent campuses applied research and public service may disappear.

The combination of diminishing State support and the need to remain competitive in attracting the kinds of enrollments that are vital to institutional survival challenge Montana University System campuses to develop greater efficiencies while maintaining quality education. In this new environment , the following issues demand the Board’s attention:

- The ability to better predict and manage resident enrollments and attract non-resident students is critical to the sustainability of all campuses and programs.
- The combination of low per capita income and the state’s inability to generate adequate public funds require careful price setting in combination with financial aid to ensure that all academically qualified Montanans have access to higher education.
- Access is an empty promise if poor educational programs and teaching quality result in low student retention and inadequately prepared graduates. Student access to higher education is inextricably tied to quality indicators.
- A campus’s cost of education and its ability to generate revenue should be factors in both setting tuition and allocating state resources. As the relationship between tuition and state supports continues

to shift, it is important that the Board preserves an appropriate campus 'mix' in terms of missions, niches and programs that will promote student success and ultimately benefit the people of Montana.

## *Determining the Cost of Education*

It is important to remember that, by definition, *public* colleges and universities are not-for-profit institutions. The sole driver of their need for revenue is to offset their costs in providing education and supporting research and public service.

It is not surprising that higher education costs, as measured by the Higher Education Price Index, have generally risen faster than the Consumer Price Index. Education is labor intensive. Highly educated, skilled and experienced labor is expensive.

While our campuses spend more on instruction, in terms of educational and general fund dollars, than do their peers in the region,<sup>1</sup> Montana faculty salaries for public two-year and four-year colleges and universities range from 17% to 42% below national averages. Given the current level of state support, Montana's research universities are in the bottom tier of doctoral level institutions at a time when state leaders acknowledge these institutions play a vital role in Montana's ability to embrace the new 'knowledge economy'.<sup>2</sup>

While investments in technology can enhance the teaching and learning environment and extend services to otherwise un-served or under-served populations, the investment we make in people, as a pricing characteristic, is not likely to change. Other major cost drivers such as insurance, employee benefits and utility, facility, and technology costs are difficult for campuses to control and have risen faster than normal inflation rates.

Montana increasingly relies on market forces and market pricing to fund public higher education. From a market perspective, tuition rate setting – like any pricing decision – is a process of balancing the need for revenue with the ability and willingness of the consumer to pay. Our colleges and universities operate in a more competitive marketplace than they did 20 years ago, but as public institutions they have an obligation to the citizens of Montana that goes beyond this market-driven approach.

Historically, State funding for higher education has been based on enrollment. In the early years, tuition rates on Montana campuses were low enough to be characterized as an 'incidental' fee. Both in-state and out-of-state students were funded by the state, although the level of support was lower for out-of-state students.

A more recent philosophy that Montana taxpayer dollars should only be used to educate Montana students created a greater differentiation between in-state and out-of-state tuition. Non-resident students were asked to pay the 'full-cost' of their education and eventually, through a series of market sensitive tuition increases, began subsidizing the cost of Montana students' education.

Over the past decade there has been a radical shift in the percentage of support provided by the State for resident student education compared with the percentage supplied by student tuition and fees, reflecting a similar national trend. In 1990, students contributed, through tuition and fees, 25% of instructional costs and the state provided approximately 75%.

Today, State support has fallen to approximately 43%. This represents a shift in state priorities and the allocation of state resources as well as a seldom-acknowledged shift in higher education policy for Montana. During the coming biennium, State appropriations will account for an estimated 40% of the campus instruction and general operating budgets and is estimated at less than 16% of the total campuses budgets. The decrease in state support and corresponding increase in tuition has been attributed to a number of factors:

- A lagging state economy and lower than projected tax revenues;
- State mandated budget cuts and legislated changes in the tax structure that decrease the state's overall revenue collection (including University System 6-Mill Levy revenue);

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<sup>1</sup> *Policy Indicators for Higher Education: WICHE States*, March 2002

<sup>2</sup> *Invest in Education* table page 18.

- Increases in the State Pay Plan (which the University System must fund with a dollar for dollar match in tuition revenue);
- Increases in fixed costs, such as utilities;
- Declining interest earnings and;
- A higher than projected enrollment of resident students that the state doesn't fund.

As Commission chairman Jack Mudd stated in a *Follow-up Report of the Education Commission for the 90's and Beyond* "While competing arguments can be made about the wisdom of a public university system becoming more and more reliant on tuition, what is striking about the shift in Montana is that it has occurred so significantly, over such a short period of time, and with virtually no public debate about its wisdom."

## *Allocating the State Appropriation*

It is difficult, if not impossible, to discuss tuition without a corresponding discussion of the State appropriation for postsecondary education. The Montana Legislature allocates general fund revenue to the University System in what is called a 'lump sum' appropriation. That appropriation, as well as mill-levy revenue, is dispersed to the campuses through a mechanism called the allocation model.

The allocation model sets the portion of the cost of education paid by the state for in-state students, and establishes the institutional 'cost of education' as the base tuition for out-of-state students. It is periodically reviewed and refined to reflect the goals of the Regents and University System. Major components of the model are:

- Annual enrollment forecasts projecting the number of in-state students;
- The institutional cost of education as determined through a marketplace approach that compares the Montana institution with 'peer' institutions offering a similar array of programs and services; and
- Inflationary factors for fixed costs in utilities and other elements of the campus infrastructure.

The enrollment forecasts and the comparative costs of education determine the distribution of state dollars to the campuses. Although all in-state students receive the same cost share or percentage of state support, the actual amount varies depending on the cost of education at the institution they attend. To fully cover the cost of education for each campus, students pay, through tuition and fees, the difference between the state support per student and the cost of education per student or, in the case of graduate and out-of-state students, the full cost of education plus a market adjustment.

The Regents tuition policy allows campus administrators to use similar modeling as the basis for tuition recommendations, considering marketplace factors, program costs, and competitive positions to either increase or decrease tuition rates. The policy also provides for tuition differential by sectors: between research universities, comprehensive campuses, and two-year education offered in the colleges of technology and on four-year campuses in Dillon and Havre; and by level of student progression: undergraduate lower-division, upper-division, and graduate.

**Differential tuition by sector** is supported by the following arguments:

- Differentiation can help hold down the cost of two-year education, assuring access for minority, non-traditional and low-income students and supporting economic development by providing lower cost workforce training opportunities;
- The cost of education in terms of institutional investment -- particularly in the area of salaries, facilities, academic and student services -- is generally higher at the two research campuses; relatively lower at the comprehensive campuses and lower still at the colleges of technology;
- The differing nature of their student bodies -- the degree to which the majority of the student body is traditional college-age, residential and full-time versus the proportion of students who are non-traditional, part-time, minority or low-income -- would indicate the larger campuses can better retain

and matriculate students with a lesser investment in remediation and student support than smaller campuses;

- Enrollment growth despite double digit tuition increases may indicate the flagship campuses have more robust and perhaps slightly more affluent applicant pools and could raise their tuition and maintain enrollments better than smaller campuses;
- The name recognition of the larger campuses and their research focus provides more opportunities to develop partnerships and leverage state, federal and private grants and gifts.
- Differentiation is practiced in many other systems and states.

**Differential tuition by progression** is supported by the following arguments:

- Two-year education and lower division undergraduate course work is the 'gateway' to postsecondary education and should be priced to provide the broadest access to the greatest number of academically prepared students;
- Upper-division coursework is generally more costly to deliver because it is more concentrated in the programmatic core and generally demands a smaller faculty to student ratio, more experiential learning opportunities and greater faculty interaction.
- Differentiation at the graduate level is appropriate because costs, sources of funds, and the educational purposes of graduate and professional education are different from undergraduate education. Due to the lack of state support, tuition rates at this level are generally established at or higher than the cost of education to generate the necessary resources to support those programs.

### *Who Benefits, Who Pays*

Postsecondary education benefits the individual. There is a striking and undeniable link between education and personal income. Higher education can lead to a comfortable lifestyle and challenging, rewarding work. Education can expand the individual's worldview, enhance learning skills and the use of technology, improve job performance, and advance careers.

Postsecondary education benefits society. A well-educated populace contributes to the health and stability of communities, states and the nation. Montana's progress in reinventing our natural resource based industries, adapting to the knowledge economy and global marketplace, improving productivity, increasing tax revenue, reducing crime rates and reliance on government services, and increasing civic participation and community diversity depends on an educated workforce and society.

Data in the Regents accountability report show Montana ranks low in state support for postsecondary education as a percent of personal income (34 of 50) and in even lower as a percent of per capita income (44 of 50). From 1991 to 2001, State appropriations to the Montana University System increased by 7% while tuition increased by more than 117%. In the past decade higher education lost 6.8% of its share of general fund appropriation.<sup>3</sup> A Montana legislative study reported State support for higher education is 44% below the peer state average.

Growing resident enrollment without increases in the state appropriation adds to the funding crisis. In FY 2002 the Montana University System was budgeted to educate 25,004 resident full-time students. Actual resident enrollment was 25,567, causing the System to absorb \$1,077,582 in un-funded student costs.

In one sense, higher education in Montana is a victim of its own success. Because of our ability to operate in a competitive marketplace and generate revenue through tuition, fees, and related activities, the Montana University System is sometimes viewed as more successful and less needy than other state agencies. Because of our diversity and our independence from many state and federal regulations that constrain, for example K-12 education, corrections, or health and human services, the Montana University System can adapt to cost fluctuations and budget rescissions in ways that have the least impact on the most students and are often less visible to the general public.

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<sup>3</sup> . WICHE Policy Indicators, March 2002

While postsecondary education has the ability to pay for itself by raising tuition, decisions to raise tuition can be counterproductive to the vision and goals of the State. As we have experienced, budget rollbacks discourage maintenance and delay further investments in quality improvements and new programs. Higher tuition discourages enrollments, especially among low-income and minority students, a significant portion of Montana's potential new resident-student population.

## ***Affordability and Cost***

Affordability, in the context of tuition discussions, refers to whether or not the amount of money a student and his or her family pays for an education is within reach, with planning and a reasonable amount of sacrifice and commitment. Affordability is relative and the concept of affordability is complex. For students from higher-income families, affordability may not be an issue. For others, a college education is affordable only with significant sacrifice and planning. For still others, paying for a postsecondary education with personal resources alone is impossible.

Many partners help make postsecondary education affordable. Parents and students contribute to the state's economy and pay taxes to support higher education. As consumers of education, they are expected to pay as much as possible, considering their financial circumstances, toward their educational expenses.

Businesses, service and philanthropic organizations, and private donors also help make education affordable. Businesses support the tax base. They contract with institutions for employee education and training opportunities, underwrite the cost of their employees continuing and professional education, and offer scholarships for employees and their children. They sponsor scholarships, provide direct gifts to institutions, and contribute to campus foundations, endowments and capital campaigns.

Colleges and universities provide financial assistance to students through tuition and fee waivers, through work opportunities on campus, and through scholarships and financial aid generated by endowed or campus affiliated foundation funds. Many institutional aid programs are increasingly focused on merit-based aid to attract more academically competitive and better-prepared students, who characteristically come from middle and upper income families.

The Federal Government provides the bulk of financial aid available to students in the form of student loans and Pell Grants, and through tax-based aid in the form of credits and deductions that, again, favor higher income families.

State support, through mill levies and general fund revenue is an indirect form of aid to resident students who qualify for admission regardless of financial need, demonstrating the long-held belief that widespread access to public education is in the public interest.

Postsecondary education is increasingly the access point to good jobs for Montanans, and college degrees are still worth anywhere from eight to ten times their cost. The MGSLP and SAF publication *Looking Ahead to the Future A glimpse into Postsecondary Planning in Montana*, reports 88% of the Montana high school students surveyed indicated they were going on to some type of postsecondary education -- college, university or technical school. Reports from the US Department of Education show about 71% of Montana's high school graduates actually enroll in postsecondary education at some time. Yet only about 36% of first-time, full-time undergraduate students on Montana's four-year campuses complete a baccalaureate degree within six years. Data indicate cost is increasingly a factor in students' inability to achieve their goals.

In 2001-02 Montana's resident undergraduate tuition was above the regional average but still below the national average. Montana non-resident undergraduate tuition was still slightly below the regional average. In part, Montana's percentage increases over the past decade have been among the highest in the region (119.5% resident and 152.4% nonresident) because the base was so low.<sup>4</sup> We've caught up, and now run the risk of pricing ourselves and our students out of the market. The problem is even more striking when tuition is broken down by sector.

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<sup>4</sup> WICHE Policy Indicators, March 2002

Tuition and fees at Montana's two-year colleges increased almost 98% between 1991 and 2001, compared to 78% regionally and 60% nationwide. Nonresidents paid nearly 152% more in 2001, compared to a 60% average increase in the region.<sup>5</sup> While these rapid tuition increases are only beginning to have an impact on our competitive market position regionally and nationally, they have for years had a significant impact on Montana.

The decrease in state support has driven up the cost of tuition for Montana students, putting stress on families that must pick up the additional costs. Montanans pay a higher share of their incomes to attend our colleges and universities than do students in peer states. Most Montana students are bearing this cost through increased debt loads. Low-income, minority, and nontraditional students depend heavily on student assistance, but need-based aid has not kept pace with costs.

The federal government funds about 98% of the total student financial aid available in Montana. The Pell Grant makes up 20% of the available student aid, student loans make up 75% and other federal grants and work-study make up 3%. Grants are more helpful to low-income students, while loans favor middle-income families.<sup>6</sup> Thirty three percent of Montana students receive Pell Grants while 55% receive student loans. Pell Grants account for the majority of aid at public two-year colleges and provide 62 percent of the aid at baccalaureate institutions and 48 percent of the aid at public research universities. About 75% of Montana's degree-seeking first-time freshmen received aid (federal, state, institutional grant, or loan) in 1999; 48% had loans, compared to 29% in the region.<sup>7</sup>

Montana provides direct financial assistance to students through various programs including state work-study, the Montana Higher Education Grant, Baker or MTAP Grant, high school honor scholarships, and a variety of tuition and fee waivers. Only 3.1% of full-time undergraduate students in Montana receive state grant assistance, compared with 12% in North Dakota and 33.8% in New Mexico. Two thirds of the nearly \$3 million in state aid Montana provided to undergraduates in 1999-2000 was need-based. The estimated need-based grant aid per FTE in Montana was \$60 while the regional average was \$275 per FTE and the national average was \$354<sup>8</sup>.

A recent Montana Guaranteed Student Loan Program bulletin reported 39% of Montana's financial aid recipients come from families whose income is less than \$24,000 per year. The newsletter went on to say "with the average cost of education exceeding \$13,000 per year, the combination of Pell Grants, loans and work-study awards leaves the dependent freshman student from a needy family owing more than \$5,000."

Loans are the dominant form of federal financial aid, currently amounting to five times the value of grants. Montana students rely heavily on loans to finance their education and borrow more, on average, than students in peer states to attend an in-state public four-year institution. The average Montana student who borrows needs loans in excess of \$17,000 to finance a college education.

Spiraling college tuition and debt often means students who borrow responsibly will have part-time or full-time jobs, take smaller class loads to better manage their work, study and family commitments, and take longer to complete their degree. According to *Access & Persistence*, working over 15 hours per week decreases the likelihood that a student will complete college. Students who graduate with large student loans are more inclined to pursue careers out-of-state, where higher prevailing wages make it easier to service their debt. All of these factors contribute exponentially to the cost of education both for students and the State.

In an October 2002 Montana State University Town Meeting address, former Commissioner of Higher Education Dick Crofts stated, "If we can shorten a student's time to degree by only one semester the student will save about \$7,500 – far more important than minor changes in tuition rates. And indeed, if we can graduate students earlier, they can be out contributing to the Montana economy and paying down their student loans instead of accumulating more debt."

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<sup>5</sup> *WICHE Policy Indicators*, March 2002

<sup>6</sup> *Invest in Education*, a publication of the Alliance for Montana's Future.

<sup>7</sup> *WICHE Policy Indicators*, March 2002

<sup>8</sup> *WICHE Policy Indicators*, March 2002

As Montanans look to two-year campuses as a low-cost, accessible portal to higher education, selecting a campus that matches a student's needs and interests becomes increasingly important. Research shows transferring is a risk factor that makes it more difficult to complete college. It is imperative that campuses make student transitions as seamless and cost effective as possible.

## *Conclusion*

"Historically, increases in education have driven about 25 percent of the growth in the gross domestic product. Economic projections show that among the 20 million new jobs to be created by 2008, 14 million will require at least some college education.<sup>9</sup> When higher education is healthy, the economy grows. When students are successful the community, society and the state are the beneficiaries. "The driving force behind the 21<sup>st</sup> century economy is knowledge, and developing human capital is the best way to fuel it. ...Our ability to produce college-level knowledge will determine individual economic opportunity and our overall economic competitiveness."<sup>10</sup>

Montana's economic growth and development depends on developing our human capital. We can do that by assuring affordable access to postsecondary education and training for all academically prepared Montana residents. Access can be improved:

- by focusing on student progress toward program or degree completion and student satisfaction;
- through additional financial assistance for low-income, minority and non-traditional students;
- through consistent and accessible information and outreach that helps students and parents prepare conceptually, academically and financially for postsecondary opportunities;
- by developing new ways of serving rural residents; and
- by a greater and more predictable state investment.

The best faculty, the best content and relevant programs are the keys to student satisfaction. Student satisfaction is the Montana University System's key to success. Successfully attracting and retaining full-pay traditional college-age students, both in-state and out-of-state, will provide stability for 'bricks-and-mortar' campuses. It will also press administrators to increase investments in facilities, infrastructure, programs, services and the academic quality indicators these students expect.

Non-traditional, minority and low-income students have additional expectations. They want quality, convenience, service and low cost. Their success will depend on the ability of the State and University System to provide sufficient information to get them in school, and sufficient support to get them through school.

Place-bound or place-committed Montanans who can't easily access traditional campuses are looking for adult-oriented, on-line education. Success in serving them will depend on our ability to package high quality programs and services that are affordable and accessible, and on our ability to build partnerships with other providers to help us contain the overall cost of education for students.

Public education and training opportunities represent an investment by the State in its residents and its future. That is why the quality, affordability and accessibility of postsecondary education matters to Montana.

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<sup>9</sup> *Help Wanted: Solid Skills Required. A Prospective Look at the U.S. Labor Market* Anthony Carnevale and Donna Desrochers, Educational Testing Service

<sup>10</sup> *Economics, Demography and the Future of Higher Education*, Anthony P. Carnevale and Richard A. Fry, Educational Testing Service



To further Board deliberations, the committee recommends the following:

1. Campus retention and remediation should be studied to make sure campuses are admitting students who are academically ready and who can be successful on the respective campus.
2. Campuses should promote timely progression to degree by:
  - continuing to monitor program credit requirements;
  - reviewing admission, financial aid and other policies and rules to identify how the System can best serve learners participating in new delivery systems (e.g. education consortiums, cooperative degree and bridge programs, and distance education);
  - working with K-12 educators and administrators to enhance and increase the use of advance placement, 'running start', and 2+2 programs that allow students to earn college credit while they are still in high school;
  - using technology to enhance program quality and deliver programs in an accessible and cost-effective manner, identifying strategies to meet the particular challenges of rural Montanans.
  - partnering to strengthen public communication about education costs and financial aid for all Montana students, with particular attention to non-traditional, low-income, and minority prospects.