

Tuition and Fees in the West 2004-05

Increases in resident undergraduate tuition and fees for the academic year 2004-05 at public four-year institutions in the WICHE states outpaced inflation for the fourth consecutive year. At 9.8 percent, the increase in average tuition and fees within one year was slightly less than the national average of 10.5 percent.¹ Tuition and fees for resident in-district students at two-year institutions grew 8.7 percent in the WICHE states, equivalent to the increase in the national average. With the WICHE states gradually emerging from the recent economic recession, the news has improved for public institutions, but it remains to be seen whether more state funding will find its way to higher education—funding which could be important in helping to limit rapid increases in tuition in the next year.

This issue of Policy Insights reviews the results from WICHE's annual survey of tuition and fees at public colleges and universities in the region. Complete data are available in *Tuition and Fees in Public Higher Education in the West, 2004-05: Detailed Tuition and Fees Tables*, published by WICHE in December 2004 and available at www.wiche.edu/policy.

Public Four-Year Institutions

Average tuition and fees for resident undergraduates in 2004-05 at public four-year institutions in the region were \$3,810, an increase over the previous year of \$341. By comparison, the national average was \$5,132, which was up \$487. After adjusting for inflation, average resident undergraduate tuition in the region climbed 4.9 percent since the 2003-04 academic year and 23.1 percent since the 1999-2000 academic year.²

Within the region there was considerable variation in tuition prices, ranging from \$1,886 at Dixie State College

in Utah to \$7,082 at the Colorado School of Mines. The largest percentage increase in tuition was 21 percent at Dickinson State University in North Dakota, while the smallest was 0.6 percent at Western Oregon University. Statewide, the highest prices were found in Oregon at \$4,671 and the lowest in Nevada at \$2,535 (Figure 1). The largest one-year increase occurred in North Dakota, where tuition and fees climbed an average of 16.3 percent; the smallest increase was in Hawaii at 3.6 percent.

California charged the highest average tuition for non-resident undergraduates in 2004-05 at \$15,917. Wyoming charged the lowest at \$7,545. Since 2003-04, nonresident undergraduate tuition rose fastest in California at 18.2 percent, while in Oregon rates declined by 1 percent. The ratio of resident to non-resident undergraduate tuition ranged from .24 in California to .48 in South Dakota, with the WICHE average equal to .33 (Figure 2).

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Figure 1. 2004-05 Resident Undergraduate Tuition and Fees at Public Four-Year Institutions, State Averages

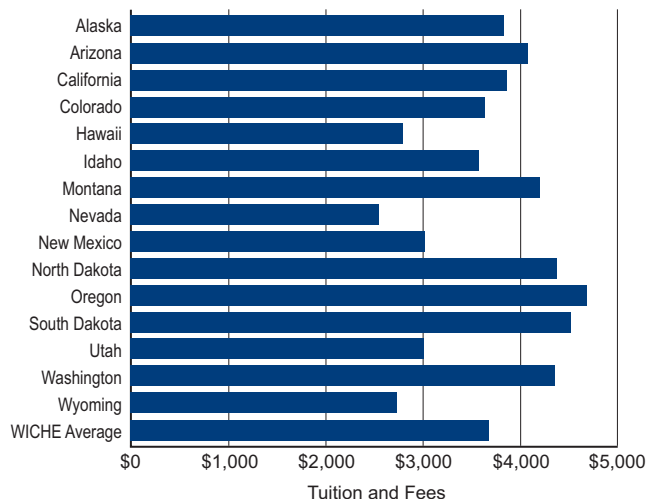
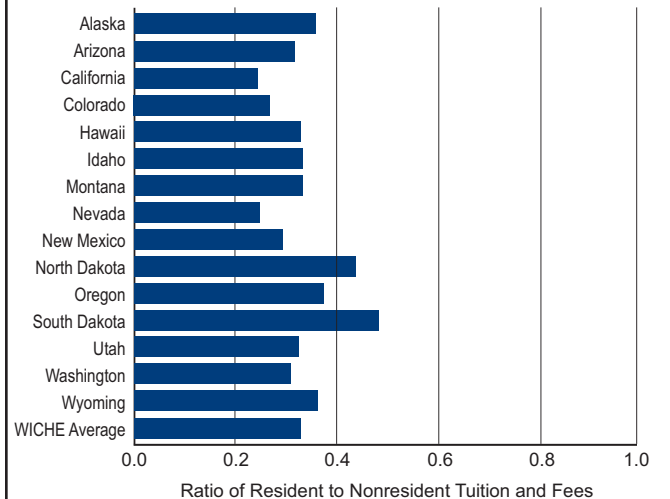


Figure 2. 2004-05 Resident to Nonresident Undergraduate Tuition and Fees at Public Four-Year Institutions, State Averages

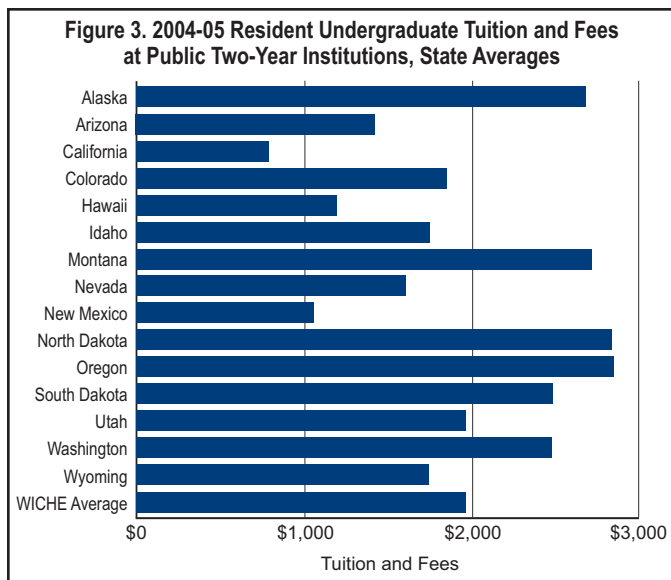


Looking at institution types, resident undergraduate tuition at public research institutions (research-extensive and research-intensive) averaged \$4,522, while all other public four-year institutions averaged \$3,257 across the region in 2004-05.

Two-Year Institutions

Average resident in-district tuition and fees of \$1,945 for public two-year institutions in the WICHE region reflect an increase of \$145 (8.7 percent) over the previous year and a \$534 increase (41.4 percent) compared to five years ago. This amounts to growth in inflation-adjusted terms of 3.9 percent and 20.3 percent, respectively. Nationally, two-year institutions charged tuition and fees of \$2,706 on average, also an 8.7 percent increase over the previous year and a 25.9 percent growth over five years.³

Within the WICHE states, the community colleges of California continued to have the lowest prices, charging fees of \$780 in 2004-05, up \$240 from the previous year. Outside California, New Mexico charged the lowest average tuition and fees at \$1,050, while the highest could be found in Oregon, where \$2,834 was the average price (Figure 3). The least growth in one year occurred in South Dakota, where average tuition and fees increased by \$34 (1.4 percent). North Dakota's grew by \$313, the largest dollar increase among the WICHE states. Twelve of the 15 WICHE states raised community college prices by more than 5 percent in one year.



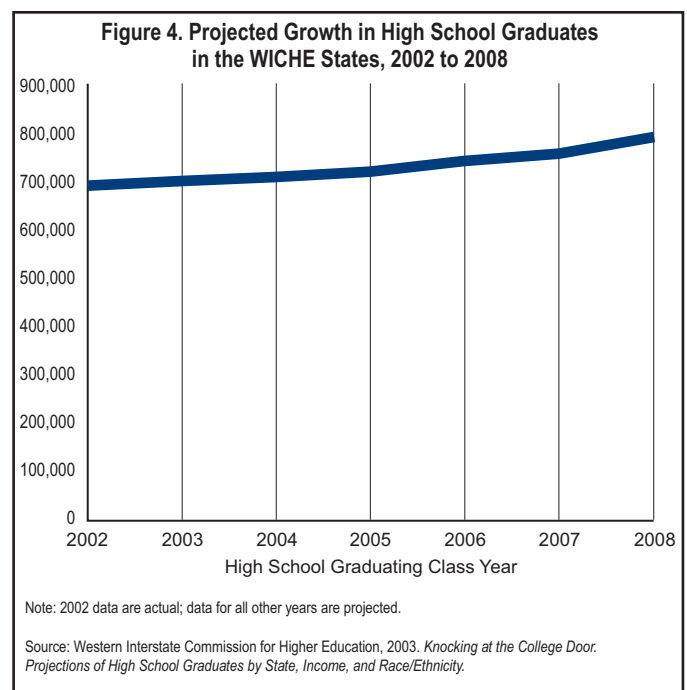
Policy Implications

The West's historic emphasis on low tuition and fees has helped contribute to the region's unusually heavy reliance on public institutions. In keeping with that tradition, average tuition and fees in the West climbed at a slightly slower rate than they did nationwide. However, the recent recession resulted in cuts in state appropriations to many of the public institutions in the region and helped accelerate tuition increases. Unless offset by increases in financial aid, these higher prices

threaten to restrict access to higher education, especially for disadvantaged and traditionally underrepresented groups, even as many states are facing projected increases in enrollment demand in the years ahead.

Demographics and Pricing

Numerous states in the West, as well as throughout the nation, are anticipating a sizeable increase in the number of students who will be seeking a postsecondary education in the years ahead. In WICHE states, the number of high school graduates is expected to grow almost 14 percent on average by 2008 (Figure 4).⁴ By then, increases in the number of high school graduates are projected to range from 10 percent to 35 percent in five Western states (Alaska, Arizona, California, Colorado, and Nevada). Only in Montana, North Dakota, South Dakota, and Wyoming are numbers of high school graduates expected to decline – a situation which presents an altogether different set of policy problems and solutions.



In addition to this traditional pipeline source of college entrants are millions of adult learners. Already more than one-third of undergraduates attending non-profit colleges and universities in the WICHE states are age 25 and older, and even more non-traditionally aged students will be seeking to further their educations in the future in order to update or acquire new skills for the demands of a more fluid, knowledge-based economy. These adult learners will add to the pressure on states and their higher education institutions to accommodate the postsecondary education needs of the population.

As states consider how much to appropriate for public higher education institutions and for financial aid and how to set tuition policy in an environment of changing enrollment demand, it is helpful to keep in mind a salient if underappreciated feature of higher education finance: all students in non-profit higher education institutions are subsidized, whether through financial aid provided directly to students, state appropriations to public

institutions, private philanthropy, or institutional funds. This reality turns traditional, business-oriented notions of costs and prices upside-down. Instead of prices that exceed costs and which generate profits – the basic model by which our businesses operate – non-profit higher education institutions, whether public or private, generally charge students a price that is less than its cost of educating them with the help of subsidies.⁵

As an institution enrolls more students at its prevailing tuition rate, it needs to generate more revenues to cover the cost of educating them, especially if state appropriations account for a declining share of educational costs. But the revenue produced by the tuition payments from those students often falls short of what is needed.

Thus, a key challenge for policymakers in states facing rapidly rising enrollment demand is to ensure that a college education remains accessible and affordable in spite of pressure caused by this relationship between educational costs, price, and subsidy in non-profit higher education. Increasing numbers of high school graduates, augmented by more adult learners, will increase demands on institutions to increase their enrollment numbers. But institutions that take on larger enrollments without increased revenues from non-tuition-based sources face inexorable pressure to adjust tuition prices upward to meet the burden of unmet educational costs.

The same principles may not spell relief in the pace of tuition increases in no- or low-growth states. Fewer high school graduates may not lead to a decline in the demand for higher education, especially as a college education is viewed as increasingly necessary by both traditional-age students and adults. Moreover, though important, an institution's enrollment is not the only factor driving its costs of operation. Other factors, such as advancing technology, aging facilities, and the expanding nature of knowledge, also contribute directly to growth in educational costs, which in turn help determine tuition prices. Even if a state experiences declines in enrollment demands at its public colleges and universities, these pressures pushing costs and prices upward remain.

■ *The Recovering Economy*

Indications are that the nation is gradually emerging from the recent economic recession, in which many states were compelled to cut funding to higher education as well as to other public services. According to the National Conference of State Legislatures (NCSL), almost all states will see revenues that match or exceed targeted projections, including all the WICHE states.⁶

Although the prospect of so many states no longer facing sizeable budget gaps is welcome, it would be premature to expect that most public higher education institutions will see significant funding increases in the near term. Only in two of the WICHE states, Utah and Washington, did respondents to NCSL's most recent survey identify higher education issues as a top fiscal priority in the current fiscal year. Competing fiscal pressures – notably K-12 education, Medicaid, corrections, and other state programs, as well as deferred spending pressures – likely will consume much of the additional revenue states are collecting.

There is little enthusiasm for enhancing revenue, although policymakers may consider structural reform in state tax codes, which holds the potential of putting states on surer footing for future efforts at funding public services, including higher education. At least in the near term, it is probable that higher education institutions will not receive sizeable funding increases from state sources. Therefore, it appears likely that the pace of tuition and fees increases at public institutions will remain largely unaffected by the economic recovery in most states.

■ *Access and Tuition*

The two-year sector relies heavily on state and local appropriations to remain affordable, since the capacity of community colleges to generate revenues from philanthropic donations is more limited than that of many public four-year institutions. Yet due in large part to states' recent budgetary setbacks, tuition and fees rates at public two-year institutions in the WICHE region grew the fastest among public institutions over the past five years.

This rapid escalation of prices is troublesome given the evidence that two-year colleges disproportionately serve low-income and traditionally underrepresented students. Poorer students are generally more sensitive to price changes than their wealthier counterparts. Accordingly, tuition increases at two-year campuses usually have a more significant negative impact on access to postsecondary education than increases at four-year institutions, and the students who are most severely affected are those whose college chances are the most tenuous. With limited alternative revenue sources combined with generally open enrollment policies that leave community colleges with little control over the number of students they serve, tuition prices in the public two-year sector are particularly susceptible to changing levels of state support.

Another perennial access-related issue is who gets to attend the state flagship university. Because flagship universities typically fulfill an array of public roles in addition to undergraduate education, especially advanced research and graduate and professional education, they are expensive to operate. Reflecting those costs, a flagship university's tuition is often the highest among public institutions in the state. Generally, the flagship university is the most visible and the most selective public institution in the state. Often it is able to compete successfully for the best students with the most elite institutions in the nation. These characteristics make it essential that they remain accessible to talented students from all backgrounds, particularly because the composition of a flagship university's enrollment can be a measuring stick for equity in larger policy debates concerning higher education.

Selectivity affords state flagship universities considerable flexibility in setting tuition prices without significantly impacting their enrollment numbers. That is because the students whose admissions applications are turned down represent untapped market potential. In other words, some applicants may be willing to pay considerably more than the prevailing tuition rate to obtain the mix of academic and other experiences offered at a state

flagship institution. A higher price may lead to fewer applications and a reduced level of selectivity. But with more students applying than can be accommodated in each entering class, a market-savvy selective institution is not likely to have trouble filling its available enrollment spaces from a slightly smaller pool of applicants. Turning some of the additional revenues generated by the higher price back into institutional aid to financially needy or disadvantaged students may even mean that the mix of students' characteristics is not much affected by the price change. "Trading in" some selectivity for enhanced revenues is a bargain many selective institutions may be tempted to make.

Thus, leveraging their market positions to generate tuition revenue is one strategy with the potential to provide additional dollars, especially during periods of stagnant or declining levels of state support. However, as a matter of public policy there are plenty of access- and affordability-related reasons to be wary of overtly market-oriented pricing strategies on the part of selective public institutions. Without an infusion of state or institutional need-based financial aid dollars, such a tuition policy threatens the ability of talented students from low-income backgrounds to attend top-flight public institutions. It may also have an adverse effect on persistence across the board, but especially for poor students.

Since tuition prices at public institutions are closely linked to the appropriations those institutions receive from the state, a state's policies relating to appropriations are important factors in determining who is able to attend its most selective institutions, as well as whether its poorest students can obtain a postsecondary education at a public institution at all. It bears repeating that need-based financial aid dollars can help alleviate declines in accessibility caused by rapidly rising tuition prices, although research suggests that individuals are more sensitive to price increases than they are to grants.

■ *Colorado's New Higher Education Financing Scheme and Tuition Levels*

Legislation passed in Colorado during the 2004 session, which will be effective for the first time during the 2005-06 academic year, established the College Opportunity Fund. It mostly replaces the state's direct appropriations to its public institutions with vouchers worth \$2,400 (to full-time students) that state residents may use to attend public or approved private institutions in Colorado.⁷ Along with the vouchers, as part of the new law certain public institutions were able to obtain an exemption from Colorado's strict revenue collection and spending limitations known as the Taxpayer's Bill of Rights (TABOR). The exemption grants them authority to increase tuition more rapidly. This new higher education funding scheme will have a significant effect on tuition levels in the state.

The College Opportunity Fund is a groundbreaking approach to state postsecondary finance. Research in that arena demonstrates that the design of subsidies to higher education matters in the decision-making of both students and institutions. It will be interesting to see how the policy influences tuition policies at the public and the private institutions within the state. Many states may be tempted to look to Colorado's experience as a model for restructuring their own higher education finance schemes. But when evaluating the impact of the College Opportunity Fund, it should be kept in mind that the policy was a response to specific conditions under which the Colorado state government and its higher education institutions work. In particular, Colorado ranks 49th among the 50 states on educational appropriations per FTE for public institutions and tax limitations preclude improvement in state funding to higher education.

Endnotes

¹ College Board, "Trends in College Pricing" (Washington, D.C.: College Board, 2004), Table 4a. The national average figure is enrollment weighted.

² Inflation adjustments used the Higher Education Price Index (HEPI), published by Research Associates of Washington.

³ "Trends in College Pricing."

⁴ Western Interstate Commission for Higher Education, *Knocking at the College Door: Projections of High School Graduates by State, Income, and Race/Ethnicity* (Boulder, CO: WICHE, 2003). It is also worthwhile to note that the students who will be seeking entrance into colleges and universities in the coming years will be more racially and ethnically diverse than they are today.

⁵ This discussion is adapted from Gordon C. Winston, "College Costs: Subsidies, Intuition, and Policy" from *Straight Talk About College Costs and Prices: Report of the National Commission on the Cost of Higher Education* (Phoenix, AZ: Oryx Press, 1998).

⁶ National Conference of State Legislatures, *State Budget Update: November 2004* (Denver, CO: NCSL, 2004).

⁷ The voucher, which Colorado calls a stipend, is need-based at the private institutions.

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