

## COMMISSION FOR HIGHER EDUCATION

Friday, January 16, 2009

### **DISCUSSION ITEM D:                    Tuition Rates for Non-Resident Students**

#### **Staff Recommendation**

For discussion only.

#### **Background**

The enrollment of non-resident students at public universities is an issue around which there has been longstanding public policy debate. One of the most controversial aspects of this debate has been about the “price” charged to these out-of-state students.

Renewed interest in this topic was recently generated by inquiries from State Representative Jeff Espich, Chairman of the Indiana State Budget Committee. In a letter to each university president covering a range of college affordability topics, he made clear his interest/concerns regarding amount of financial aid granted to non-resident students by the universities, and thus, by extension his interest in the net tuition rates charged.

In response to Representative Espich’s inquiry, the Commission staff began analyzing the “pricing” for non-resident students at our public university campuses. This analysis was drawn directly from financial and enrollment data provided by the institutions in their official budget submissions.

The results of this analysis illuminate the differing degrees of pricing power, with regard to attracting out-of-state students, each campus possesses. The analysis also exposes interesting policy questions about the pricing structure in place for non-resident students at the campuses which have a notable presence of out-of-state students.

#### **Supporting Document**

*Tuition Rates for Non-Resident Students: Do Out-of-State Students Attending Indiana’s Public Universities Pay Their “Fair Share”, January 16, 2009*

# Tuition Rates for Non-Resident Students



**DO OUT-OF-STATE  
STUDENTS ATTENDING  
INDIANA'S PUBLIC  
UNIVERSITIES PAY THEIR  
"FAIR SHARE"?**

ICHE Business Meeting, January 16, 2009

## Background

2

- Indiana law does not speak to non-resident students, either with regard to enrollment or tuition
  - At least 6 states restrict enrollment of non-resident students
  - Focus of higher ed funding policy on resident students tends to drive decisions regarding enrollment and tuition rates for non-resident students
- Enrollment of non-residents students is a longstanding public policy debate...the "price" they are charged is an important aspect of that debate
- Both political and economic dimensions
  - Should Indiana taxpayers and/or students subsidize college costs for out-of-state students matriculating at Indiana public universities?
- Issue raised recently, though indirectly, by State Representative Jeff Espich in a letter to university presidents

## Full Price for Non-Resident Students

3

- **Full Price vs. Full Cost Recovery**
  - Initially this analysis sought to assess cost recovery from non-resident students, but encountered significant information barriers
- **Best readily available proxy for “full price” is revenues generated for a campus by an Indiana resident student**
  - Net Tuition + State Appropriation → per Resident Student
  - State-funded Debt Service + R&R Costs → per Student (All)
- **How should R&R cost be measured?**
  - Based on costs funded or investment “needs”?
  - Full R&R formula amount per FTE captures capital depreciation costs

## Full Price for Non-Resident Students (con't)

4

$$\begin{aligned}
 &\mathbf{Full\ Price =} \\
 &\text{Resident Net Tuition} \\
 &+ \text{State Appropriation per FTE (resident)} \\
 &\quad + \text{Debt Service per FTE (all)} \\
 &\quad + \text{Full R\&R Funding per FTE (all)}
 \end{aligned}$$

## Marginal Cost Recovery vs. Full Price

5

- **Marginal Cost Recovery → Key economic threshold**
  - The university (and theoretically their Indiana resident students) benefit as long as the net revenue generated from each non-resident student exceeds the marginal costs incurred to educate that student
  - Nonetheless, an indirect taxpayer subsidy is realized by any out-of-state student who attends college in Indiana at a net tuition price below the full price level
  - Economic benefits of attracting the student to Indiana may offset this indirect taxpayer subsidy...either partially or fully
- **Full Price → Key political threshold**
  - At full price, there is no taxpayer subsidy to an out-of-state student
  - However, if full price cannot be commanded, then the attendant enrollment management and economic benefits of attracting out-of-state students will also be forfeited

## Why Aren't All Non-Resident Students Paying at Full Price Rates?

6

- **Some institutions simply cannot command it**
  - All certainly have both a political and economic incentive to seek full price recovery from out-of-state students
- **Real benefits realized even at marginal cost recovery rates**
  - Additional revenues (if non-resident net tuition exceeds revenues from enrolling another Indiana resident)
  - Enrollment management (i.e. managing student body composition – size, academic, and diversity considerations)

### Campuses with Notable Presence of Out-of-State Undergraduate Students (in 2006-07)

7

Campus	% Non-Resident	% Reciprocity	Total % Out-of-State
IU-Bloomington	35.2%	0%	<b>35.2%</b>
PU-W. Lafayette	33.4%	0%	<b>33.4%</b>
IU-Southeast	0.9%	22.6%	<b>23.5%</b>
IU-East	0.9%	13.1%	<b>14.0%</b>
Indiana State	11.6%	0%	<b>11.6%</b>
PU-Calumet	11.6%	0%	<b>11.6%</b>
Vincennes Univ.	9.3%	0%	<b>9.3%</b>
Univ. of So. Indiana	5.7%	3.5%	<b>9.2%</b>
Ball State	7.0%	1.8%	<b>8.8%</b>
IU-South Bend	5.5%	0%	<b>5.5%</b>

### Parsing the Data to Reveal Information

8

- Initial effort to assess non-resident student pricing aggregated undergraduate and graduate student data
  - These results were provided to Rep. Espich in reply to his queries about fees charged to non-resident students
  - IU and PU expressed concern that including graduate student data distorted the results
- Aid packages for graduate students are significantly different from aid packages for undergraduate students
  - Large aid packages for graduate students include “compensation” for research and teaching work
  - This drove down net revenues from non-resident students markedly (since graduate students are a larger share of the total non-resident student enrollment at main campuses)

## Parsing the Data to Reveal Information

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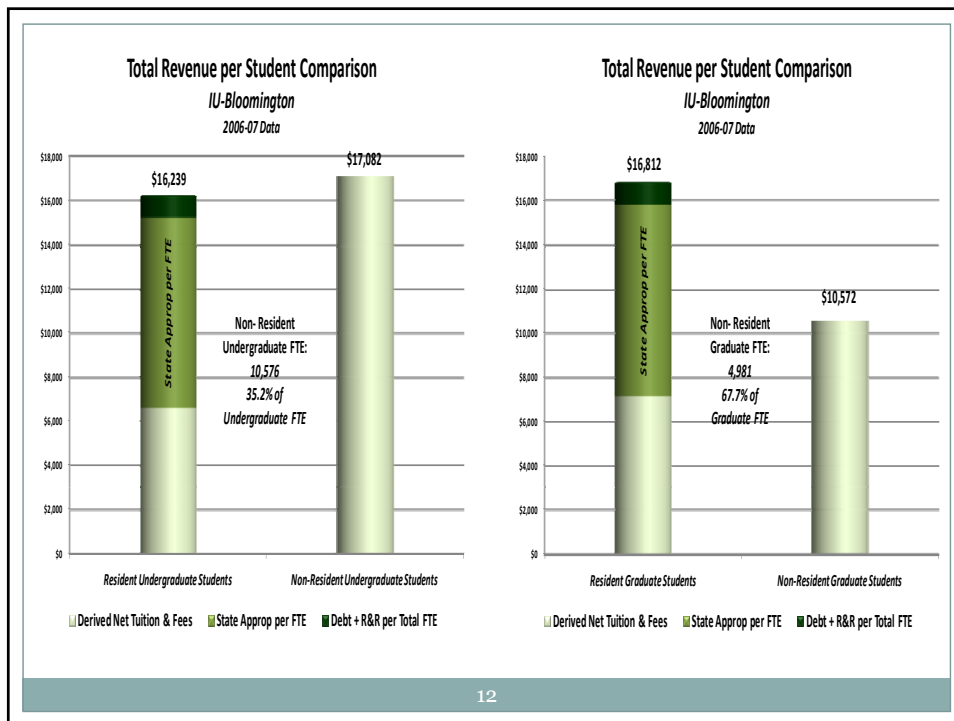
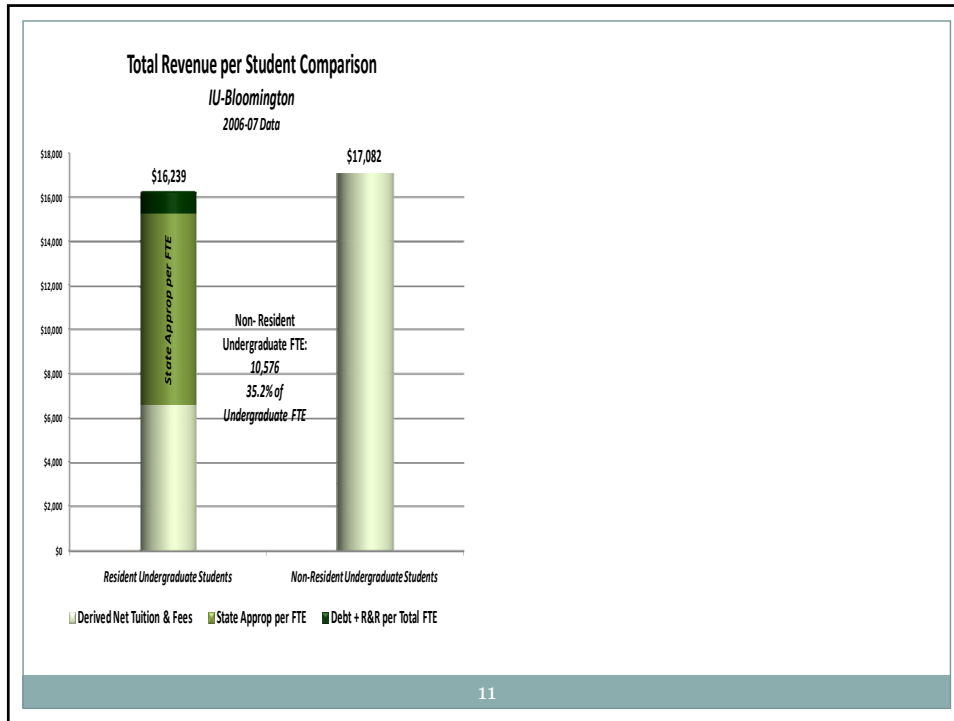
- Understanding net tuition pricing for graduate students is a much more complex matter
  - Problem is assessing how much of the aid to graduate students is legitimately “compensation for work”
  - University officials contend that graduate students subsidize undergraduate students → by lowering the cost of instruction substantially
- Recasting this tuition rate analysis with undergraduate student data only
  - Reveals the “true” nature of each institution’s tuition pricing and student aid policies for non-resident vs. resident students

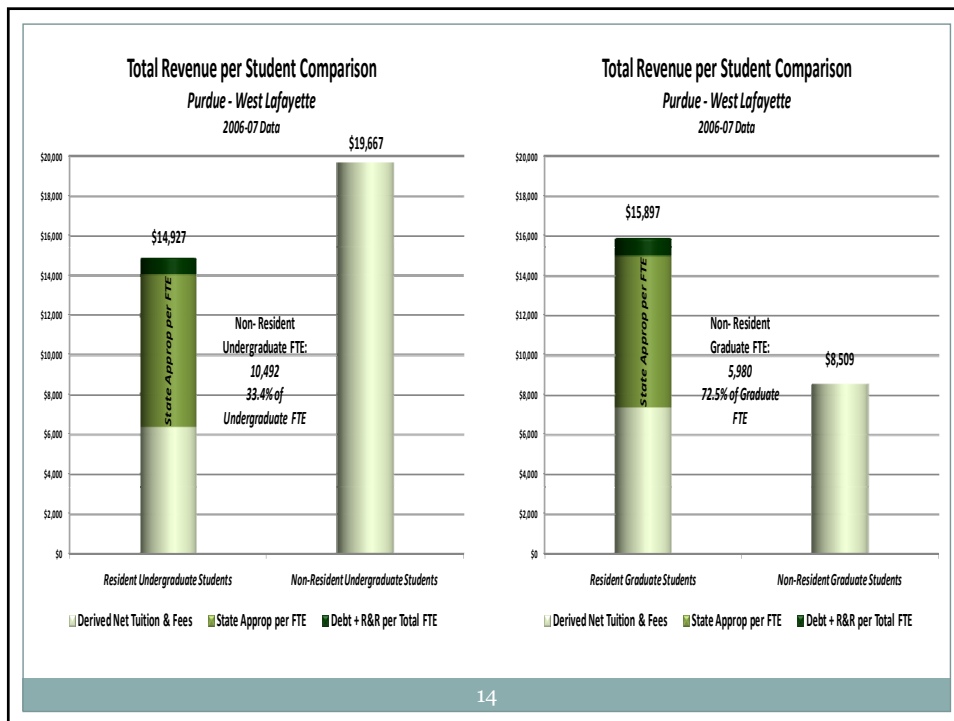
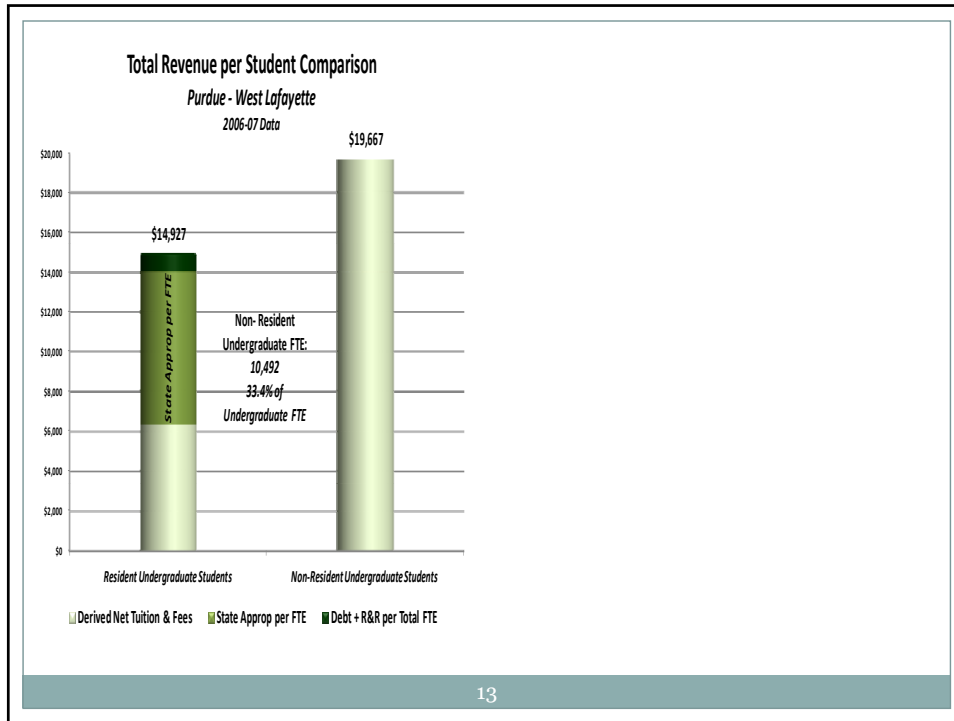
## Net Tuition Revenues from Undergraduate Students

### *Resident vs. Non-Resident*

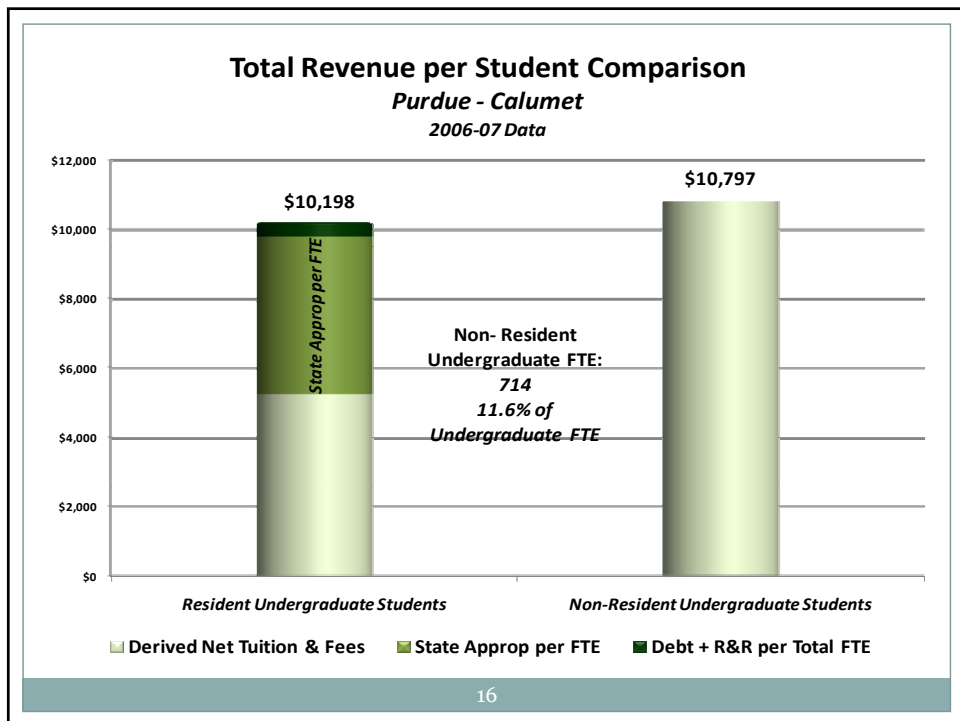
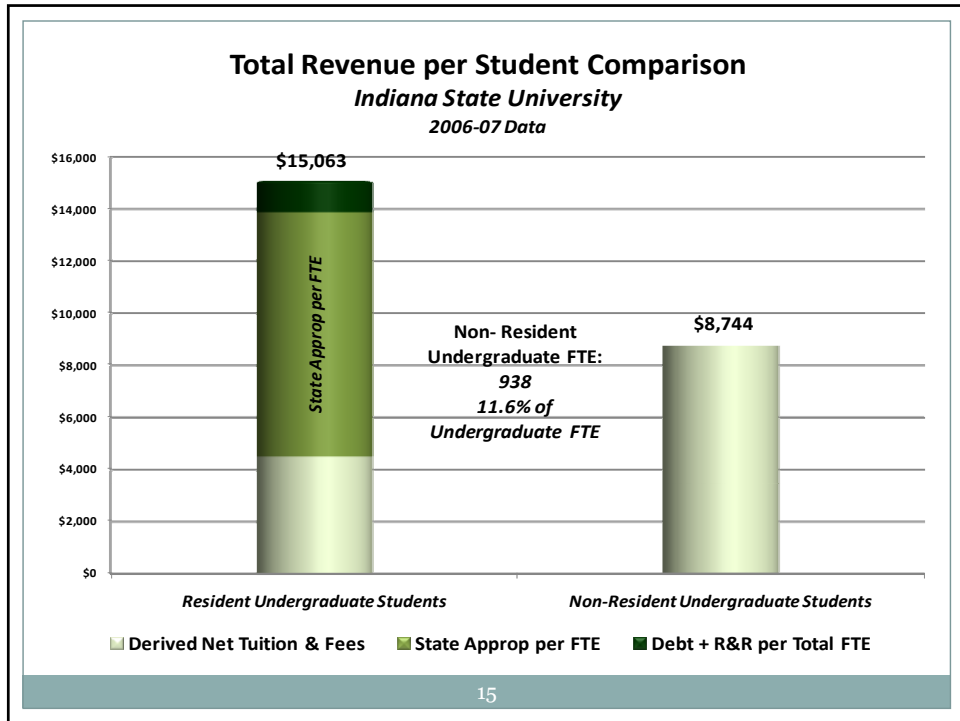
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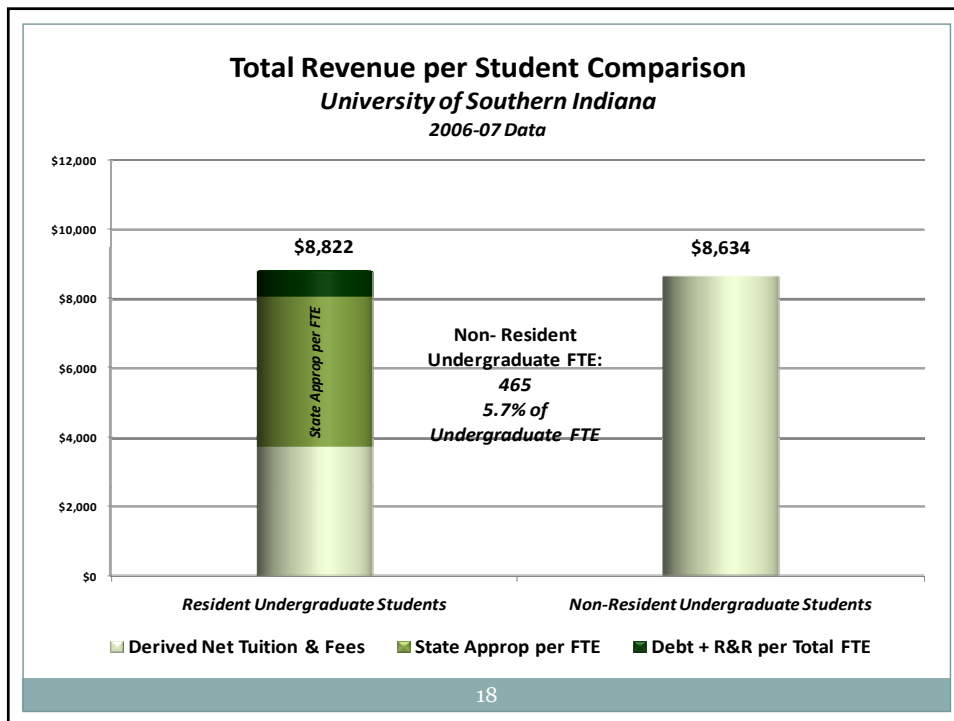
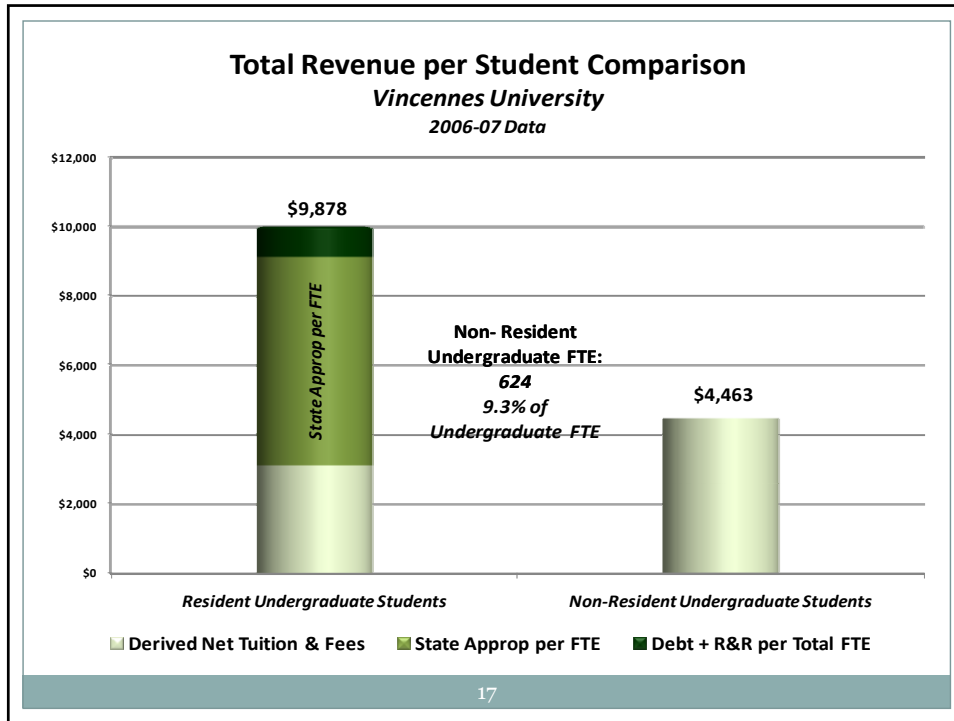
FOLLOWING GRAPHS REVEAL TUITION PRICING POLICIES FOR RESIDENT AND NON-RESIDENT STUDENTS AT INDIANA’S PUBLIC UNIVERSITIES

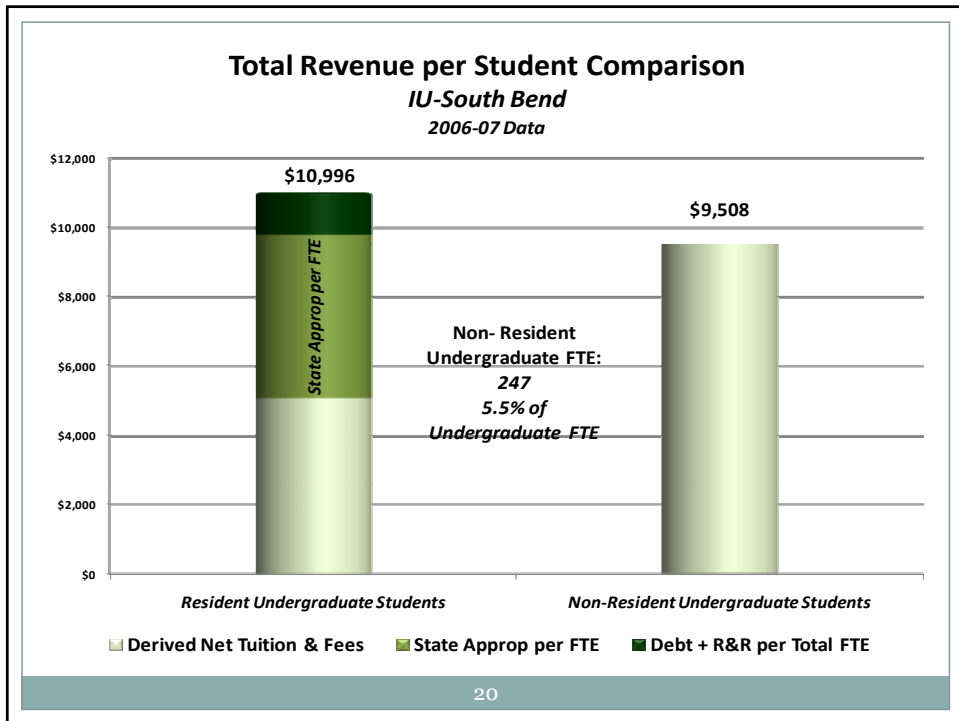
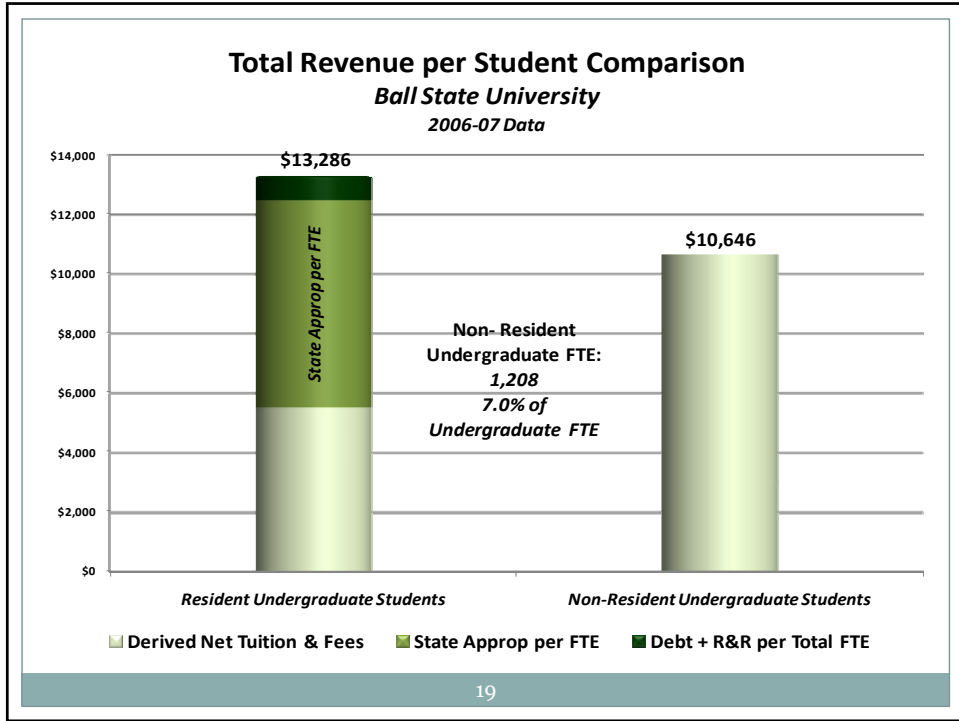


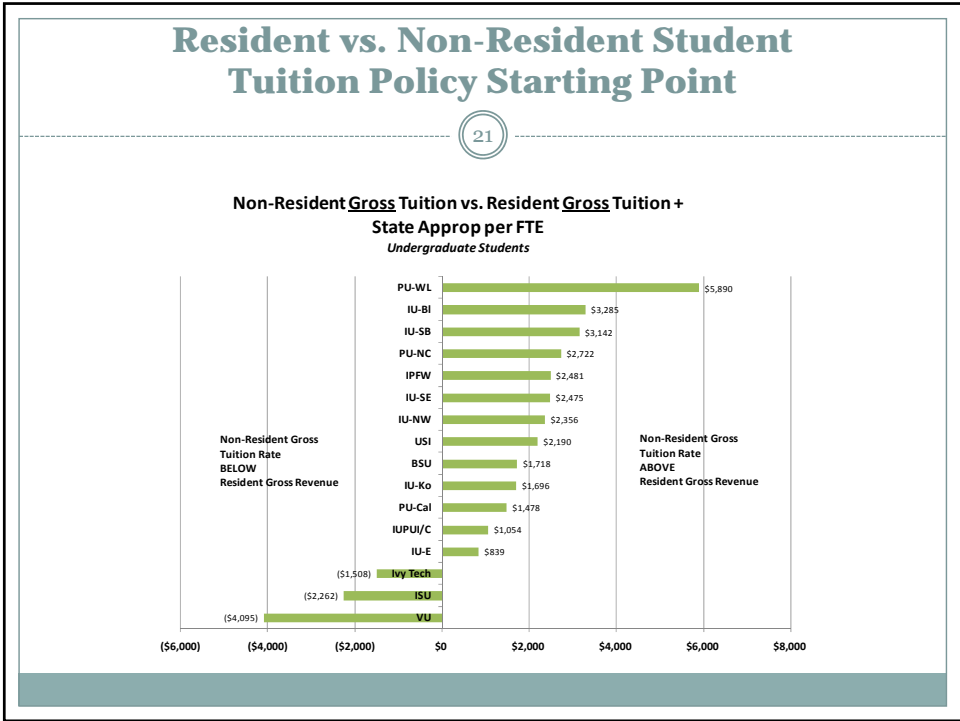












- ### Insights
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- Indiana’s major research universities (IU-BI and PU-WL) can command full price tuition (or more) from non-resident students and still meet all enrollment goals
  - Analyzing tuition pricing for graduate students is a complicated matter
  - USI is close to full price recovery from non-resident students...because their full price is so low!

## Insights (con't)

23

- Other campuses with significant out-of-state student presence have decided that enrollment management factors trump full pricing for non-residents
- Three (3) campuses have gross tuition rates for non-residents students set below “full price” (i.e. before applying student aid).