How Does Tuition Factor Into Higher Education Funding and Affordability?

#2 IN THE SERIES • APRIL 2024

Tuition[1] is the amount institutions of higher education (IHEs) charge students for courses and instruction.[2] IHEs charge tuition based on the amount of instruction students access. Some IHEs charge tuition by the credit hour,[3] while others charge a flat amount based on the range of credit hours full-time students are likely to take.[4]

While often equated with the cost of college, tuition is not an accurate representation of total college costs for either the IHE or the student. For the IHE, tuition alone does not cover the full cost of providing a college education.[5] For the student, published tuition amounts can be misleading in two ways. First, tuition does not represent the full student cost of attendance (COA), which includes tuition along with books and materials, housing, food, fees, and transportation, among other costs.[6] Second, most students pay less than the published amount of tuition or COA, as financial aid from institutional, state, and federal sources defray part of their costs.[7]

Why Do Public IHEs Charge Tuition?

Tuition is one of the main revenue sources for public IHEs. Other major sources of public institutional funding include federal and state appropriations, local appropriations (which primarily support two-year institutions), and revenue from institutional services (which are primarily generated by and used to support four-year institutions). IHEs also collect revenue from a variety of other more limited sources, including endowments, investment income, and gifts.[8]

Tuition represents a substantial portion of institutional revenue, but the exact percentage varies significantly based on the way tuition and institutional revenue are calculated and defined.[9] When calculated based on publicly available 2022 data from the National Center for Education Statistics (NCES), student-paid tuition[10] represents, on average, 11% of institutional revenue at two-year public IHEs and 18% of institutional revenue at four-year public IHEs.[11]

Tuition dollars, along with other revenue sources, support the costs of operating an IHE. While specific costs vary by IHE, most institutional budgets include allocations for staff and faculty compensation to support instruction, research, and student services, as well as allocations for infrastructure costs such as utilities, equipment, technology, and building maintenance.[12]

How Do Public IHEs Set Tuition Rates?

State, system, and institutional leaders all play a role in establishing tuition-setting policies, although the process and the amounts vary widely from state to state.[13] In most states, legislators establish which body is responsible for tuition-setting. In a smaller subset of states, legislators determine if and by how much tuition can be raised each year. The legislature establishes itself as the tuition-setting authority in only four states — Florida, Louisiana, North Carolina, and Washington. In all other states, the legislature gives that authority to system- and/or institutional-level governing boards.[14] Although the boards have final say on tuition levels, state governors have the authority to appoint members to most higher education system and institutional boards, creating another avenue for state influence.[15]

In-State Versus Out-of-State Tuition

Beyond overall tuition rates, states and IHEs use residency status to differentiate tuition amounts charged to resident students (in-state tuition) from those charged to nonresident students (out-of-state tuition).[16] States charge residents a lower tuition rate largely because residents pay state taxes, which subsidize operating costs for public IHEs.[17]

Public IHEs charge significantly higher tuition rates for nonresident students.[18] The percentage of out-of-state students enrolled at public IHEs varies greatly by institution type: Community colleges enroll the smallest share (6%), while prestigious four-year research institutions (i.e., "flagship" institutions) enroll the largest share (24%).[19] Public IHEs that enroll large numbers of out-of-state students may seek to use higher nonresident tuition rates to balance their budgets in response to reductions in state appropriations.[20] However, these IHEs may also feel public pressure and/or face state legislative mandates[21] to limit out-of-state enrollments to ensure that they continue to have adequate capacity to serve state residents.[22]

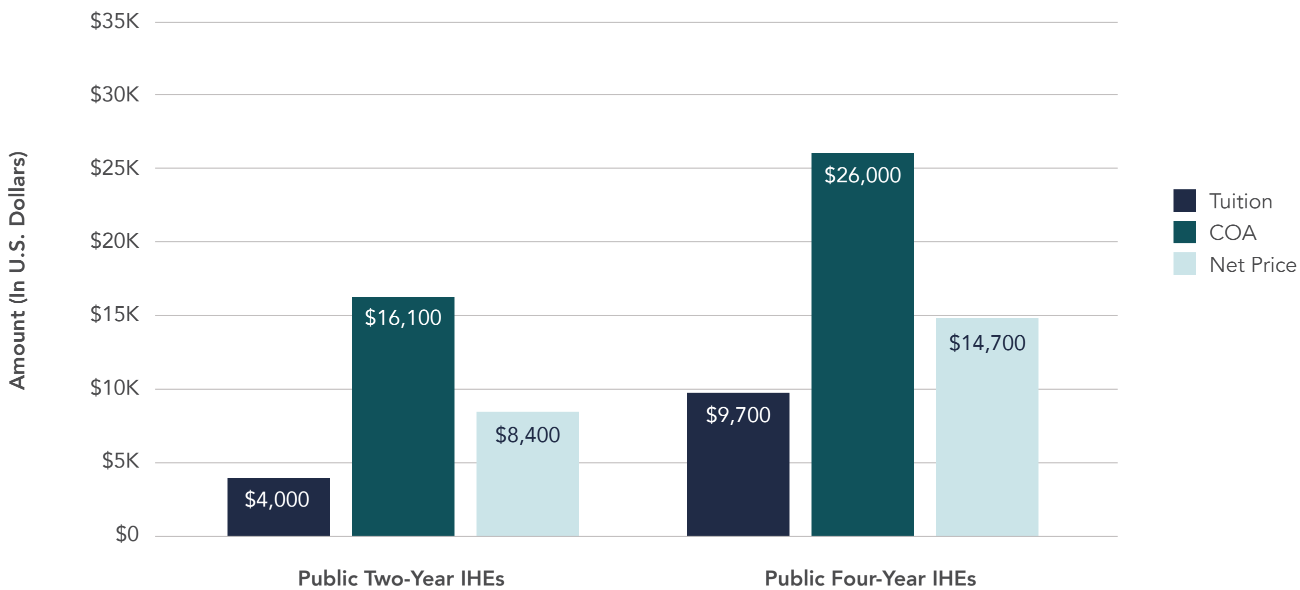
Many states have entered into tuition reciprocity agreements, which provide lower tuition rates for nonresident students from a subset of states.[23] For example, the Western Undergraduate Exchange allows students in 16 collaborating states to access over 160 institutions across state lines for no more than 150% of the published in-state tuition amount.[24] These agreements seek to increase access and reduce cost barriers for nonresident students, which can be especially helpful for students pursuing programs that are not available to them in-state. Reciprocity programs counter IHE incentives to raise out-of-state tuition rates; however, in times of decreasing college enrollments, they may also incentivize states to compete for a shrinking number of available students.[25]

Sticker Price Versus Net Price

IHEs use tuition rates to calculate COA. Federal law requires IHEs that participate in federal aid programs to publish COA amounts on their public websites.[26] However, most students do not pay this COA "sticker price." Instead, they pay an amount known as the "net price," which IHEs calculate by subtracting financial aid, scholarships, grants, and other forms of assistance from the COA.[27] Institutional aid that is applied specifically to tuition, sometimes referred to as the "tuition discount," is just one part of an IHE's net price calculation.[28]

Net price is a more accurate representation of a student's true cost of attending college. The Higher Education Act requires each IHE that participates in federal aid programs to post a net price calculator on its website.[29] The U.S. Department of Education provides access to institutional net price calculators through its College Affordability and Transparency Center website.[30] Many other organizations, including College Board and U.S. News & World Report, also offer centralized access to net price calculators.[31]

AVERAGE TUITION, COA, AND NET PRICE AT PUBLIC TWO-YEAR AND FOUR-YEAR UNDERGRADUATE IHEs, 2020-2021



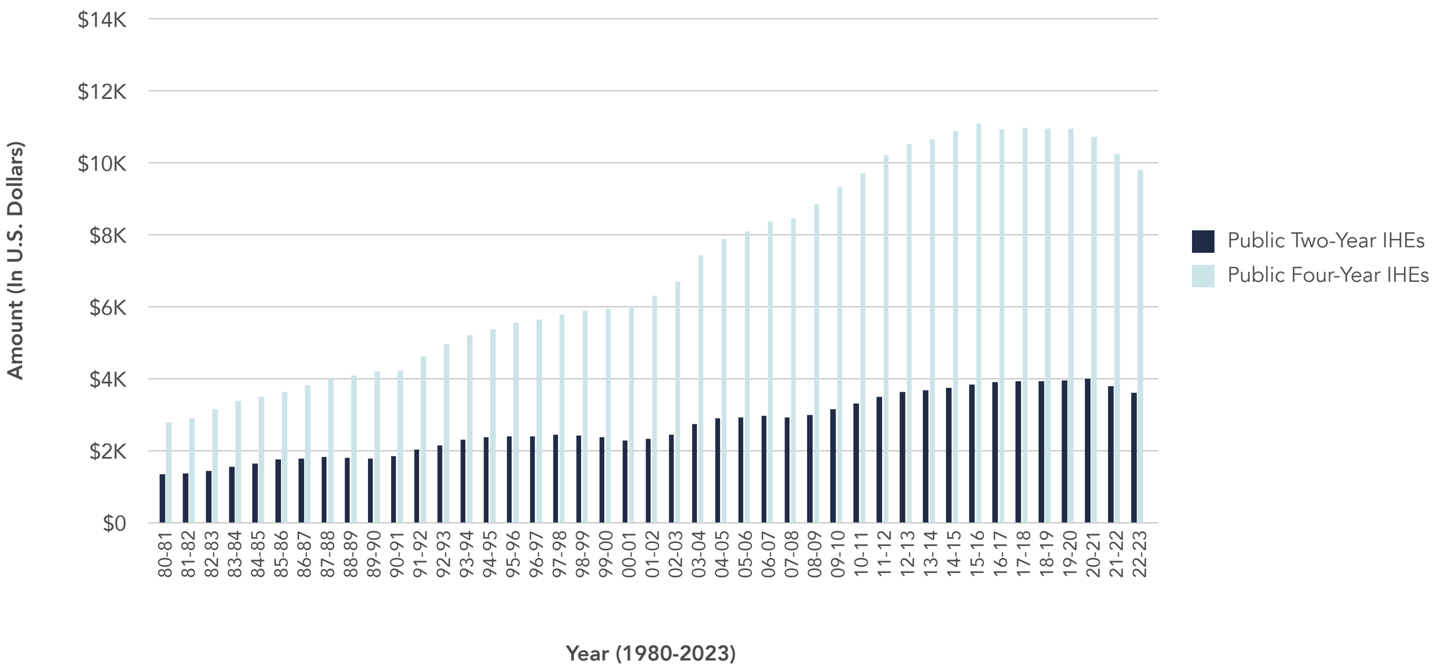
***Source**: NCES, "Price of Attending an Undergraduate Institution," 2023.*

How Have Tuition Rates Trended Over the Past Four Decades?

Most Americans agree that higher education delivers personal and economic benefits, but they see cost as a significant barrier to accessing that education.[32] The average published tuition for public IHEs has increased every year for the past century,[33] and while the rate of increase has declined with each decade since 1980,[34] it has also outpaced inflation in every one of those decades[35] (though this trend has reversed since 2020, due in part to state funding responses to the COVID-19 pandemic).

Several factors have contributed to rising tuition levels at public IHEs. Institutions have raised tuition to make up for reductions in state allocations, including significant cuts following the Great Recession that persisted into the following decade.[36] IHEs have also increased investments in a variety of areas, including faculty salaries to match inflation and retain talent,[37] campus amenities to attract more students,[38] and technology, student services, and administrative functions to support student success.[39] Each of these investments has driven up institutional costs, some of which are reflected in higher tuition rates.[40]

AVERAGE TUITION AT PUBLIC TWO-YEAR AND FOUR-YEAR UNDERGRADUATE IHEs IN CONSTANT 2023 DOLLARS, 1980-2023



***Source**: NCES, "Average undergraduate tuition, fees, room, and board rates charged for full-time students in degree-granting postsecondary institutions, by level and control of institution: Selected academic years, 1963-64 through 2022-23," 2023.*

How Do Federal, State, and Local Government Appropriations Affect Tuition Levels?

IHEs need a certain amount of funding to adequately cover their cost of operations.[41] When income from some sources is reduced, IHEs can either generate more income from other sources, draw from any available reserves, or decrease costs, including limiting program offerings and/or enrollment. Tuition policy, unlike government appropriations, is an area where higher education systems and institutions often have some control. As a result, IHEs that have tuition-setting flexibility frequently adjust tuition to balance their budgets in response to changes in federal, state, and local higher education appropriations.

Federal Appropriations

The federal government allocates most of its higher education funding through grants and loans to students, which are intended to defray students' college costs.[42] More than 90% of federal grant aid to students is disbursed through the Pell Grant program, which is designed to increase college access for students from low-income households.[43] Multiple research studies have examined the effects of federal grant aid on enrollment, tuition levels, and institutional grant aid.[44] The research findings are mixed, with different results for public versus private institutions.[45] For public IHEs, evidence indicates that increases in federal grant aid increase enrollment of students from low-income households, with little to no effect on tuition levels or the amount of institutional aid offered to Pell Grant recipients.[46]

State Appropriations

State governments allocate the majority of their appropriations directly to public IHEs for instruction and programs.[47] These funds provide substantial support to public institutions but are sensitive to state budget fluctuations and may dip during economic downturns.[48] In states where IHEs have significant tuition-setting flexibility, institutional leaders may increase tuition to make up for reductions in state funding, making college less affordable.[49] Conversely, in states where IHEs are more restricted in setting tuition, reduced state funding may require institutions to cut costs to balance budgets. This may force IHEs to cut programs, reduce staff, freeze compensation, or reduce enrollment — all of which can negatively impact instructional or program quality.[50]

Local Appropriations

A subset of states use local appropriations (often local property taxes) as another discrete revenue source for higher education, especially two-year community colleges.[51] Local dollars represent 21% of community college funds nationally, though that figure varies widely by state.[52] Local funds can provide critical operating support to community colleges, which are limited in the amount of tuition they can charge. However, when local funding is reliant on property taxes, it can exacerbate regional inequities. Because the majority of community college enrollment is local,[53] institutions in low-wealth communities are more likely to serve a greater proportion of students from low-income households yet are also more likely to be under-resourced due to lower local tax revenues.[54]

How Does Tuition Policy Affect Equitable Access To Higher Education?

Rapid tuition growth, along with overall increases to costs of living, can limit equitable student access to higher education, especially when these expenses rise faster than investments in financial aid.[55] Students without access to higher education cannot attain college degrees and credentials, which is especially concerning given the demonstrated positive relationship between educational attainment and employment outcomes.[56] Tuition policy can play a role in supporting equitable college access.

Tuition and Aid Models

Although state governments appropriate the majority of their higher education funds to public IHEs, they also disburse financial aid directly to students.[57] While state policies on tuition and state aid vary considerably,[58] states seeking to support equitable access to public IHEs usually select one of two models to balance these investments.[59]

- **Model 1 — Low Tuition, Low Aid**: Under this model, states direct most of their funding to IHEs, require institutions to keep tuitions low for in-state students, and limit their investment in student financial aid.[60] Nebraska is an example of a low-tuition, low-aid state. In 2020-21, Nebraska charged an average of $8,761 for in-state tuition at public four-year IHEs and $3,179 at public two-year IHEs,[61] and provided an average of $311 in state aid.[62] States that adopt a "low-tuition, low-aid" model seek to make college appear more affordable for all students. However, if other COA elements — including room and board, books and supplies, and transportation — are relatively high, college in "low-tuition" states can still be unaffordable for students from low-income households.[63] Low- or no-tuition ("free college") policies also limit IHE revenues.[64] Limited revenues can constrain public IHEs, particularly those that are already under-resourced, from investing in innovative programs and robust student supports that could increase student attainment.[65]

- **Model 2 — High Tuition, High Aid**: Under this model, states allow public IHEs to charge a higher tuition rate and concurrently invest a larger proportion of state funds in student financial aid.[66] South Carolina is an example of a high-tuition, high-aid state. In 2020-21, South Carolina charged an average of $12,543 for in-state tuition at public four-year IHEs and $4,964 at public two-year IHEs,[67] and provided an average of $3,161 in state aid.[68] States that adopt the "high-tuition, high-aid" model seek to equalize access through direct investments in students from low-income households. However, these aid policies may not be enough to promote equitable access for all students. Students from low-income households are more sensitive to high published tuition rates and less likely to have access to information about available financial aid sources.[69] This combination of factors can deter these students from applying to college or lead them to limit their applications to less selective, low-tuition community colleges.[70]

Tuition, Net Price, and Unmet Need

Although tuition is not the same as COA, it does represent a significant portion of the total cost of college. As a result, tuition policies directly affect net price.[71]

Research demonstrates that student groups experience net price inequitably.[72] Students from low-income households generally pay a lower net price than more affluent students; however, their net price represents a much greater share of their household income.[73] Similarly, Black and Hispanic students face higher net prices as a share of their household income compared to white students in every state.[74]

When net price represents a higher percentage of household income, students are more likely to have unmet need — college costs that are not covered by grants or family contributions. These costs must be covered through loans and employment. On average, students from low-income households and underrepresented minority groups (e.g., Black, Hispanic, and Native American) have significantly greater amounts of unmet need than their affluent and white peers.[75] Students with higher levels of unmet need are less likely to graduate and more likely to leave college with greater amounts of debt.[76]

AVERAGE UNMET NEED BY RACE/ETHNICITY AND SOCIOECONOMIC STATUS, 2019-2020

***Source**: Institute For Higher Education Policy, "College Affordability Still Out of Reach for Students with Lowest Incomes, Students of Color," 2023.*

Questions for the Field

- *Who has primary responsibility for setting tuition rates in your state? Are those individuals elected or appointed? How do those individuals ensure diverse and representative stakeholder perspectives are reflected in tuition-setting decisions?*
- *What is the average tuition amount at public two-year and four-year IHEs in your state? How much do tuition amounts vary across institutions? How might this variation impact equitable access to higher education for students?*
- *Does your state provide clear, accessible information on tuition, COA, and net price to help all students select an IHE appropriate to their needs? Are students from all demographic groups equitably represented in your state's public IHEs?*

Endnotes

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About Bellwether

Bellwether is a national nonprofit that exists to transform education to ensure systemically marginalized young people achieve outcomes that lead to fulfilling lives and flourishing communities. Founded in 2010, we work hand in hand with education leaders and organizations to accelerate their impact, inform and influence policy and program design, and share what we learn along the way. For more, visit **bellwether.org**.

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