HIGHER EDUCATION TUITION AND FEES

Statement to the Senate Education Committee
Sacramento, California

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

You have asked that we comment on three specific topics having to do with tuition or fees at UC and CSU:

• the need for a long-term policy toward tuition/fees,
• the criteria that could be used in setting tuition/fees, and
• the process that should be followed in adjusting tuition and/or fees

The material which follows discusses each of these topics separately. For simplicity, as well as for reasons explained later, we will use the term "fee" throughout this statement when discussing student charges.

NEED FOR A LONG-TERM FEE POLICY

In the past five years, there has been a dramatic increase in resident student fees at the University of California (UC) and the California State University (CSU). Table 1 shows that in 1979-80, UC resident undergraduate fees were $731 per academic year, while comparable CSU fees were $204. For the 1983-84 academic year, these fees are $1,344 at UC and $671 at CSU. Thus, since 1979-80 fees at UC and CSU have increased 84 percent and 229 percent, respectively.
UC and CSU Resident Undergraduate
Student Charges Per Academic Year
1979-80 to 1983-84

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<td>UC</td>
<td>$731</td>
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<td>CSU</td>
<td>204</td>
<td>222</td>
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While the absolute levels of these fees do not appear excessive when compared to fees charged by public universities in other states, the manner in which recent increases have been implemented and the lack of certainty regarding future fee levels put the two segments and the students they serve in a difficult position.

The state's experience during the last several years highlights the need for a sound long-term policy for establishing student fees in higher education. A clear policy would have the following benefits. First, it would aid students and their parents in planning to meet the costs of higher education by adding stability and predictability to the fee-setting process. Second, it would make the Legislature's job easier by eliminating the need for a protracted debate on fees each year.

In partial recognition of the need for a long-term policy toward fees, the Legislature enacted and the Governor signed AB 1251 in September, 1983. AB 1251, which is based on recommendations made by the California Postsecondary Education Commission (CPEC), puts in place a long-term fee policy for the CSU system. As we will discuss later in this statement, we
have some concerns with the process established for CSU by AB 1251. In addition, we believe that a comprehensive fee policy covering higher education is needed.

CRITERIA FOR FEES

There are numerous criteria that could be utilized in establishing student fees. These include a student's level (for example, undergraduate or graduate), the student's academic program, the number of units taken, family income, the cost of instruction, the extent to which a student derives personal benefit from higher education, the cost of student support services, and fees at comparison institutions.

Having given considerable thought to the matter of student fees, we conclude that whatever comprehensive long-term fee policy is adopted by the Legislature, it should be based on three principles:

- student fee levels should reflect the private (as opposed to societal) benefits from higher education,
- the system of calculating the fee level should be predictable and easy to understand, and
- adequate financial aid should be made available to needy students so as to preserve access to higher education.

Private Benefits. We believe the state's policy should recognize that higher education results in both private benefits and public benefits to society as a whole. Private benefits are those benefits that are retained by the individual student and include increased income, personal enrichment, and broader options regarding lifestyle and employment. Public
benefits include increased tax payments, increased economic development (due to the supply of an educated workforce), and an informed citizenry.

These benefits accrue in differing amounts, depending on student level and program. Thus, the private benefits of professional school programs in law and medicine are usually greater than the benefits of a general undergraduate program.

**Simplicity.** We believe a second major criterion that a fee policy should satisfy is operational simplicity and predictability. A system that is predictable and simple to understand and administer is beneficial to the student and parents, as well as to the institutions themselves because (1) it clearly defines the required contribution of the student and (2) it provides more certainty in the budget planning process.

**APPLICATION OF THE CRITERIA**

Using these principles as a framework, we believe that fee charges in California higher education should:

- be based on a percentage of the state's General Fund appropriation and student fee revenues which support the particular segment, i.e., UC, and CSU, and
- vary according to student level and/or program.

While student fees ideally should be related to the real or perceived private benefits from instruction, policy planners to date have not developed a model capable of calculating such benefits, and perhaps they never will. The Carnegie Commission, for example, has addressed this question. In a study entitled *Higher Education: Who Pays? Who Benefits? Who Should Pay?*, the commission concluded that:
"Public colleges and universities should carefully study their educational costs per student and consider restructuring their tuition charges at upper-division and graduate levels to more nearly reflect the real differences in the cost of education per student, eventually reaching a general level equal to about one-third of educational costs."

The commission acknowledged, however, that the one-third of costs level was "a rough rule of thumb."

Closer to home, the California Postsecondary Education Commission (CPEC) has conducted a study of student fees and financial support for the state's system of postsecondary education. It did so in response to Resolution Ch 23/82 (ACR 81), which was enacted by the Legislature in March, 1982. In its report to the Legislature, the commission concluded that:

"If increased fees are necessary to avoid arbitrary cuts in enrollment and diminished quality, then student charges should be raised and financial aid must be provided to offset those increases for students with demonstrated financial need."

In addition, CPEC recommended that:

- The state bear the principal responsibility for supporting public postsecondary education.
- Student charges be kept as low as possible.
- The level of full-time undergraduate charges in each segment be set so as to yield an amount of revenue equal to a specified percentage of the average state General Fund appropriations and property tax revenues for higher education during the three
preceding years. CPEC further recommended that UC fee levels be set so as to yield between 40 percent and 50 percent of the appropriations base, and that CSU fee levels be between 10 percent and 20 percent of the base.

- Financial aid be made available to needy students so that choice among the state's postsecondary education segments is not driven by price alone.
- Graduate and professional students be required to pay a moderately higher charge than undergraduates are required to pay.

We believe that the CPEC report provides a good starting point for improving the fee-setting process in California. In our judgment, however, certain modifications to the CPEC approach are warranted. Specifically, we believe that:

- Student charges should be set equal to a percent of the average state General Fund appropriation and student fee revenues used to operate the institutions during the three prior years.
- The average should be calculated separately for each segment, rather than for the two segments combined. That is, UC fees should be based on UC appropriations and related fees during prior years, and should not reflect CSU appropriations and fees.
- Student charges should represent the same percentage of appropriations and fees at each segment for students in comparable degree programs. These charges should vary, however, according to student level or degree program.
The percentage of support that students have to pay should be set at a specified level, rather than within a range of levels.

**Student Fee Revenue.** In our judgment, programs supported by student fee revenue should be included as a cost of higher education in setting student fees. Under the CPEC methodology, student fees will remain almost the same or decrease between 1983-84 and 1984-85, even though the actual costs of educating UC and CSU students will increase. For example, under this methodology, the CSU Board of Trustees is projecting a student fee decrease of $90 for full-time students between 1983-84 and 1984-85, however, they are projecting a 12 percent increase in expenditures for the same period. This is because fee revenue is excluded from the current fee methodology calculations.

**Segmental Support Average.** We also believe that calculating the average cost of education for each segment separately, rather than for all segments combined measures more accurately the cost of the education provided to students attending each segment. To the extent that fees are set equal to a common percentage of segmental costs, students at the more expensive segment will have to pay more. This recognizes that the private benefits are likely to be greater in the more expensive segment.

**Fee Based on Student Level.** Because the benefits from higher education vary by student level or degree program, we believe that student fees should vary in the same way. Generally, the private benefits of graduate education exceed the private benefits of undergraduate education. Likewise, the private benefits of a professional degree program in medicine
generally exceed the private benefits of a graduate degree program in the liberal arts. Recognizing these differences, the percentage of support to be paid for by the student could vary according to the level of instruction as follows: (1) undergraduate, (2) graduate, and (3) graduate professional. This is partially recognized in CPEC's report which recommends that graduate students pay 5 percent to 10 percent more than undergraduates, and professional students pay 15 percent to 20 percent more than other graduate students.

Specific Fee Levels. We believe that fee levels should be set at a fixed percentage of the total cost of education for each segment. Total cost of education is defined as the state General Fund appropriation to the segment and the segment's student fee revenue used for institutional support. Thus, all undergraduates might be required to contribute, say, 15 percent of the individual segment's total cost of education, all graduates 20 percent, and all graduate professionals 25 percent. Both CSU and UC undergraduates would be required to contribute 15 percent of the segment's "total cost" but the UC undergraduate would pay more in fees because the cost of education at UC is higher than at CSU.

THE PROCESS FOR ADJUSTING CHARGES

If the Legislature were to set student fees equal to specific percentages of total education costs for students at different levels, it might still wish to provide for greater stability in the fee-setting process to avoid disrupting the financial plans of students and their families on short notice. Greater stability could be obtained by limiting
the growth in student charges to the percentage change in total educational costs in the segment during the prior year. The percentage change in total state appropriations and student fees are known shortly after the Budget Act is signed in July. This percentage would be the upper limit on the percentage change in student charges for the following fiscal year. The segments could set the specific increase in student charges for the following academic year during September or October. If this were done, revenue from student charges could not be used as a substitute for state General Fund allocations.

TUITION VERSUS FEES

As a final note to today's discussion of student charges, we would like to point out the futility of trying to maintain a distinction between the terms "tuition" and "fees."

For years, the debate over charges at the postsecondary education level in California has centered on the question of whether "tuition" should be imposed at the three segments. California has long adhered to a "no-tuition" policy for state residents. Students attending the two four-year segments, however, pay fees. The difference in terminology reflects the permissible uses of funds collected from students. "Tuition" refers to charges designed to contribute toward the cost of instruction. "Fees" can be used to fund everything except the costs of instruction.

Under the state's "no-tuition" policy, revenues from the fees charged students at UC and CSU cannot be used to fund instructional costs. The implications of this policy, in terms of UC and CSU, are twofold.
First, the level and use of student fees depends heavily on how "instructional costs" are defined. Second, because fee revenues tend to be allocated to specific programs, the current policy results in a de facto split between "state-supported" and "student-supported" programs.

"Instructional costs" can be defined narrowly or broadly. On the one hand, instructional costs are defined to cover only faculty salaries. Because faculty salaries consume about 35 percent of the UC support budget and 43 percent of the CSU support budget, use of this definition under the current policy would allow student fee revenue to support the remaining programs in the segments' budgets without violating the "no-tuition" policy. On the other hand, a broad definition of "instructional costs" would include faculty salaries, clerical and support costs associated with faculty, library costs, research, all equipment and facilities used for the instructional program, along with the maintenance of such equipment and facilities, and the administrative costs associated with these expenses. Under this definition, the use of student fee revenue would have to be confined to a relatively small fraction of the segments' costs if "tuition" were to be avoided.

Under the state's "no-tuition" policy, revenue from student fees must be segregated from all other revenues going to the segments, so that the expenditure of these funds can be accounted for separately. As a result, individual programs become clearly identified as "student-supported" or "state-supported." Over time, this division of responsibility takes on a life of its own, and makes it more difficult for the segments to respond to changes in funding needs and availability.
Problems With a "No-Tuition" Policy. The current policy of allowing fees while avoiding tuition has major drawbacks. First, it tends to put emphasis on what students pay for, rather than on how much they pay. Second, it tends to foster inconsistencies between how students are treated at different segments in terms of what they must pay for. Third, by creating a set of protected categorical programs, the current policy reduces the flexibility of the Legislature and the segments to the point where it can produce unintended and undesirable results.

Misplaced Emphasis. The original intent of the state's "no-tuition" policy was to provide quality education at the postsecondary level to all eligible Californians at a cost the students and their families could afford. By focusing attention on what students pay for, however, the current policy diverts attention away from how much they are paying and their ability to make these payments. As long as it can be demonstrated that all student fee revenue is being used for "noninstructional" purposes, the trend in the level of fees tends to be of secondary importance.

Over time, the state's "no-tuition" policy is no guarantee that the cost to students of obtaining a higher education will continue to be affordable. In theory, merely changing the definition of "instructional costs" could permit an increase in the fees charged at UC from $1,300 to $7,000 per year without resulting in "tuition." Although the Legislature and the segments currently adhere to a very broad definition of "instructional costs," the line between instructional and noninstructional costs has been redrawn on several occasions during the past two years so
that fees can be increased without becoming "tuition" and as CPEC points out in its ACR 81 study, the "no-tuition" policy has failed to keep fees from rising rapidly. In fact, CPEC reports that during the last five years, the rate of increase in student charges at UC and CSU has exceeded the rate of increase at all but one of the segments' comparison institutions in other states.

In sum, California's "no-tuition" policy has led to excessive concern with terminology and budget accounting. Meanwhile, many students and their parents believe that they are paying tuition. At the time they must make out their check to UC or CSU, the distinction between "fees" and "tuition" is lost.

Inconsistencies Between Segments. A second problem with California's "no-tuition" policy stems from the fact that under such a policy, student fee revenues must be clearly identified as supporting specific programs. This leads to discussions of what are the appropriate financial responsibilities of students and the state.

Adherence to a "no-tuition" policy fosters segmental funding inconsistencies because of the difference in fee levels between UC and CSU. In the current year, student fees at UC are over two times student fees at CSU. The Legislature, by endorsing the CPEC ACR 81 report, has endorsed the policy of maintaining higher fees at UC than at CSU. But under the current "no-tuition" policy, as long as there is more fee revenue being collected by UC than by CSU, UC students will be paying for some programs that the state is supporting at CSU campuses. These funding

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inconsistencies could be avoided by combining fee revenues with state funds and setting fees as a set percentage of the cost of the student's education.

Categorical Protection for Student Services Programs. Under the state's current "no-tuition" policy, student fee revenue can be used only for specified student services. As a result, these student services have become the equivalent of categorical programs with a dedicated revenue source, allowing the level of funding for each service to be determined outside of the regular budgeting and priority-setting process. This has two implications of importance to the Legislature. First, it causes programs funded from student fees to be more insulated from budget reductions during periods of fiscal constraints. Since reducing expenditures in fee-funded programs does not permit General Fund budget reductions, these programs have fared better than instructional programs during the past two years when significant budget reductions were made at each segment. Second, because fee revenue cannot be used to maintain the instructional program, any cutbacks in state funding necessitated by fiscal restraints take their toll in this area.

The combined effect is that instructional programs—which constitute the UC's and CSU's raison d'être—tend to be cut while ancillary programs like counseling and health services are maintained. As noted earlier, this puts the cart before the horse. It is by no means clear, moreover, that this reflects the preferences of those who the "no-tuition" policy is designed to protect: students and their families. It may be that students
would prefer to maintain the instructional programs when expenditures must be reduced, even if it requires a cut in student service programs. The "no-tuition" policy, however, prevents such a trade-off from being made.