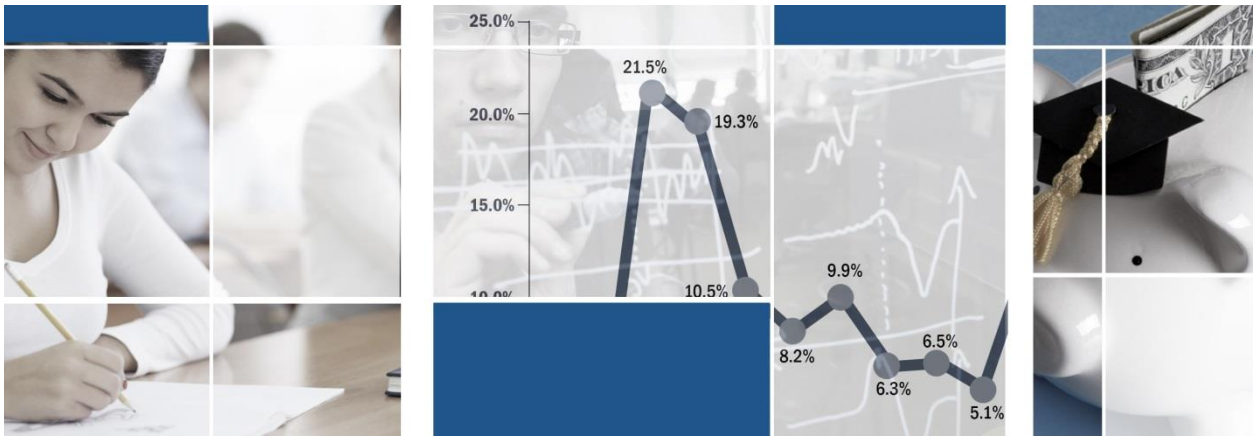


November 2016



## Alternative Tuition or Fee Structures

Recommendations Regarding Financial Incentives and Benefits That Might Be Offered to Public Institutions of Higher Education That Offer Alternative Tuition or Fee Structures in Response to House Bill 961

## TABLE OF CONTENTS

Background .....	2
Purview and Definitions of Alternative Tuition and Fee Structures .....	2
Applications .....	3
Recommended Financial Incentives and Benefits Options .....	5
Conclusions .....	7
References .....	8
<b>Appendices</b>	
Appendix A: Senate Bill No. 961 .....	9
Appendix B: Department of Planning and Budget 2016 Fiscal Impact Statement for HB 961 .....	10
Appendix C: SCHEV Study of “Fixed-rate Tuition Plans, A Survey in Response to Senate Bill 806” .....	12

## Background

The 2016 General Assembly enacted House Bill 961 (HB961) and amended the Code of Virginia to enable institutions to offer “alternative tuition or fee structures to students that result in lower costs of attendance...” HB961 has two main components. One is to encourage Virginia public institutions to lower the cost of attendance through features such as flat-rate tuition, discounted student fees or student fee and student services flexibility. The second is to task SCHEV with recommending financial incentives and benefits to public institutions that offer such tuition plans.

## Purview and Definitions of Alternative Tuition and Fee Structures

Students must pay various kinds of costs when attending a college. They must pay the institution for the cost of instruction and the cost of student life such as intercollegiate athletics, student activities and, if they live on campus, room and board. In addition, students incur personal expenses for books, supplies, transportation and other necessities.

The Chart of Accounts developed jointly by the Department of Accounts and SCHEV standardizes the financial accounting and reporting of the institutional operations by program based on sources of revenue and usage. The Educational and General (E&G) program is a term used to describe the operations related to an institution’s instructional activities. Tuition revenue is used strictly in E&G. In addition, by statute the Commonwealth seeks to cover at least 67% of the E&G cost for in-state students with state general-fund revenue.

The Auxiliary Enterprise program is an entity that provides service to students, faculty or staff, and charges a fee directly related to, but not necessarily equal to, the cost of the service. Auxiliary operations include food service, residential operations, student health service, student unions, parking and intercollegiate athletics. Revenues are to be expended within the program in which they were generated. Therefore, auxiliary operations should be self-supporting. Revenues from mandatory non-E&G fees for auxiliary services and user fees such as ticket sales are used strictly in the auxiliary program.

As revenues between E&G and auxiliary programs are not interchangeable, financial incentives and benefits to institutions also must be kept separate. For example, for purposes of this study SCHEV would not recommend that the state provide additional state general fund to lower auxiliary enterprise fees. Should the state wish to provide incentives or benefits for institutions to discount auxiliary fees, they would need to be in a form other than state funding.

HB961 sets several parameters for participation eligibility. To be eligible for incentives or benefits, institutions would be required to make alternative tuition and fee structures available to any first-time incoming freshman student who has established domicile as defined in Section 23-7.4 in the Code of Virginia and who is enrolled full time with the intent to earn a degree that

leads to employment in a high-demand field in the region. The tuition and fee rates may be renewed each year if the recipient maintains eligibility for the alternative tuition or fee structure. Therefore, for the purposes of this legislation SCHEV defines that alternative tuition or fee structures shall be designed for and offered to in-state first-time full-time incoming freshmen; that the tuition must be designed for a specific academic program; and that the tuition or fee plan shall be offered for multiple years and renewable annually with eligibility requirements. Tuition or fee plans for other types of students and for shorter terms are excluded from the discussion.

Finally, while some Virginia public institutions use the term *tuition* to cover all charges to students within the E&G program, others choose to charge students both tuition and mandatory E&G fees. SCHEV considers the difference between tuition and mandatory E&G fees to be semantic and uses the term tuition only in this discussion.

In summary, this proposal discusses the financial incentives and benefits that might be offered to public institutions of higher education for providing innovative tuition or fee strategies to in-state first-time full-time incoming freshmen in specific programs for multiple years that will lower costs of attendance.

## Applications of Alternative Tuition Structures

Rapid tuition increases have put strains on college access and affordability and have received much attention from students and parents, policymakers, institutional leaders and the media nationally. Various kinds of innovative tuition plans and strategies have been proposed and implemented in an attempt to improve higher education accessibility and affordability centrally and at the institution level.

One strategy that has been used is the guaranteed tuition plan that charges a fixed or flat-rate tuition for first-time full-time freshmen for four consecutive years as long as the student maintains full-time status during fall and spring semesters. This type of tuition plan varies in name and details. The benefits of the guaranteed tuition are (1) it makes tuition predictable for students and parents and helps families plan for college and manage costs and debt; and (2) it encourages students to graduate in four years. The guaranteed tuition plan has become popular among institutions. Legislatures in Illinois, Oklahoma and Texas mandated the implementation of guaranteed tuition plans at their public institutions. Colorado, Minnesota and Ohio also passed legislation to encourage their public institutions to offer such a plan. The College of William and Mary implemented its version of a guaranteed tuition plan for in-state freshmen in fall 2013. The University of Virginia followed with an optional version in 2015. In response to a legislative request, SCHEV produced in 2015 a report on fixed-rate tuition options.

<http://schev.edu/docs/default-source/Reports-and-Studies/2015-reports/sb806report.pdf>

A common approach to lowering the cost of a degree in Virginia and elsewhere is for students to begin at a community college and transfer to a four-year university. Students can save, on average, about \$15,000 by taking this route. Through the Virginia Transfer Grant, Virginia

provides incentives to students to complete an associate's degree and then transfer. Two-year and four-year institutions may propose other innovative partnerships that include alternative tuition or fee strategies and would lower the cost of a degree.

Another strategy to lower the cost of education to students and their families is the use of accelerated programs. These programs pack study materials into a compressed timetable and require intensive study so as to shorten the length of time-to-degree. The accelerated programs can serve only small groups of students who are usually high academic achievers that can take heavier course loads than the average student.

Similarly, institutions could permit students to earn as many credits as possible within a single semester or yearly rate. Most Virginia institutions currently charge the same tuition for students taking from 12 to (usually) 18 credit hours. Four institutions — Longwood, Old Dominion, Virginia Commonwealth and the Virginia Community College System — charge by the credit hour. For qualifying students, particularly those in high-demand programs, having the ability to accumulate as many credits as possible in as little amount of time at a set price might be an attractive option.

Institutions also might consider charging differently based on academic program. Some programs such as engineering, science and business are more expensive because their faculty salaries are higher and these programs require expensive laboratories and equipment. Tuition differentials would align tuition charges more directly with cost of delivery. As a result, some students would pay less and some students would pay more. It is doubtful that this approach would meet the intent of the legislation, but it is an alternative nonetheless.

Yet another strategy may be to limit a student's access to services or amenities – health care, libraries, internet, exercise facilities, athletic programs, sporting events, etc. Institutions could allow students to opt out of certain services and pay a lower net price as a result. Such an option might require the institution to charge other students higher tuition or fees. It also would require more administrative work to determine which students have access to which services or amenities. Still, an institution might be able to propose service-reduction strategies that would save students money, provided the incentives or benefits to the institution were sufficient to offset lost revenues.

Institutions also might consider offering tuition rebates to students who complete in two or four years, depending on institution, or less. If a student can graduate on time, he or she will save not only on college expenses but also on opportunity costs for attending college. Therefore, reducing time to degree is a strategy to make a college degree more affordable. Nationally, some institutions are offering tuition rebates to students upon their graduation within four years. Texas and Massachusetts at the state level provide tuition rebates for students attending public institutions.

To determine whether a particular alternative meets the spirit and letter of the legislation, the state may wish to consider a process by which an institution's proposal can be evaluated and

approved for an incentive or benefit. One option would authorize the State Council of Higher Education to make the determinations. Another option would be to include review and approval as part of the six-year plan process required by §23.1-306 of the Code of Virginia. Also, because state policy generally keeps Educational and General Programs and Auxiliary Enterprise Program funding separate, the incentives and benefits would need to be appropriate to the alternative.

## Recommended Financial Incentives and Benefits Options

“Affordable access for all” is Goal 1 of the Virginia Plan for Higher Education, the statewide strategic plan for postsecondary education. Sustainable state funding, efficient and effective institutional operations, along with appropriate levels of tuition and fees and student financial aid, will contribute the most to achievement of the Commonwealth’s affordability goals.

At public institutions, a successful tuition policy is strongly linked to state appropriations, as state appropriations and tuition are the primary sources of revenue for institutional operations. A decline in state appropriations means institutions must increase tuition or reduce costs and services. While institutions should always look for cost savings in their operations, maintaining stable state appropriations will allow institutions to make long-term financial plans and identify cost savings. Students and families also will be able to better plan for future tuition payments if tuition increases are moderate and predictable. In addition, state funding for student financial aid affects the success of an institution’s tuition policy too as sufficient financial aid can help offset the impact of tuition increases for price-sensitive students. In order for alternative tuition structures to be implemented successfully, it is important that state appropriations, tuition policy and state financial aid work in concert. SCHEV recommends that the following financial incentives be considered in order to help institutions overcome the operational problems in constructing innovative tuition plans, to make higher education more affordable, and provide benefits to students, institutions and the state.

We recommend that institutions include their proposals of any alternative tuition plan in the six-year plan and as part of the biennial budget request. The state central agencies that conduct the institutions’ six-year plan review — the secretaries of education and finance and directors of the House Appropriation Committee, the Senate Finance Committee, the Department of Planning and Budget, and the State Council of Higher Education — also could evaluate the merits of an institution’s proposal. The General Assembly would then deal with the proposal as part of the legislative budget process, based on recommendations from SCHEV. Subsequent years of appropriations would be contingent upon the assessment of the actual student enrollment in the alternative tuition plan.

As noted above, if the state chooses to provide incentives or benefits to institutions that provide alternative tuition or fee structures, below are some options.

## **Institutional Cost Share**

The Commonwealth has a funding policy based on sharing the cost of education for in-state students in the E&G program in which the General Assembly seeks to cover at least 67% of these costs. In FY2016, the average state contribution was estimated to be 47% of the cost for in-state undergraduate students at the system level with institutional amount ranging from 34% to 62%. The majority of our Virginia public institutions have reached full funding as calculated by the base adequacy guidelines mainly through tuition increases over the last several years. Increasing the state's share of the cost will mitigate the need for future tuition increases and as a result mitigate the financial burden on students.

The state funding shortfall for our system varies among institutions due to differences in the share of in-state students to total enrollment and historical state funding. To incentivize institutions to offer alternative tuition structures, the state could provide a fixed percentage of additional state funding to any institution that offers an approved alternative tuition plan. For instance, a fixed percentage of 1% could be provided if the alternative tuition plan is offered to the incoming cohort of in-state freshmen or, if the alternative tuition plan is implemented for an academic program or to a smaller group of in-state undergraduate students, it could be adjusted based on the ratio of student participation in a plan to the total in-state undergraduate enrollment.

The benefit of this incentive is that with additional state support, institutions will be able to better control tuition increases to in-state undergraduate students and offer a reduced tuition rate to eligible students. In-state undergraduate students will face more moderate tuition increases and less financial burden while the state will get closer to its goal of providing at least 67% of the cost of education for in-state students.

## **Direct State Appropriation**

One final incentive or benefit an institution could seek as part of an alternative tuition or fee strategy that results in lower costs to students would be for the Commonwealth to provide a direct state appropriation. The amount would be negotiated and, ideally, would be instituted such that it could be sustained over multiple budget cycles.

## **Student Financial Aid**

Instead of providing a direct appropriation to the institution as an incentive to offer some students lower E&G tuition, the state could consider providing additional student financial aid to the institution. Because state need-based financial aid can be used for the total of E&G and all required fees (including fees for auxiliary enterprises), this approach could be used to provide an incentive to an institution that offers lower student costs by lowering auxiliary fees.

## **Enrollment Flexibility**

Rather than provide additional support from the state general fund, the Commonwealth could authorize institutions to enroll out-of-state students above the numbers that currently are controlled by appropriation act language. Because this incentive would not involve state appropriations, it could be used for alternative tuition or fee strategies that involve reduced auxiliary fees. Currently only four institutions — the College of William & Mary, James Madison University, the University of Virginia and Virginia Tech — potentially could benefit from this incentive.

## **Additional Administrative and Operational Authority**

Another incentive option that would not involve the use of state general fund would be to give institutions greater administrative and operational autonomy. Should an institution propose an alternative tuition or fee strategy that results in lower cost for students, then the institution also might seek greater autonomy that will result in institutional cost savings. Because this incentive would not involve state appropriations, it could be used for alternative tuition or fee strategies that involve reduced auxiliary fees.

## **Conclusion**

In order to lower costs of attendance, HB961 calls for Virginia public institutions of higher education to consider offering alternative tuition or fee structures to in-state first-time, full-time incoming freshmen. Based on the tuition or fee strategies implemented nationally and pros and cons of these strategies, the potential cost savings for students under such strategies may be realized more efficiently and effectively through overall lower costs or by shortening the time to degree.

In order to meet the provisions of HB961, SCHEV has recommended several financial incentive options that will assist institutions in constructing alternative tuition plans by providing additional state funding so that institutions can lower the price charged to students. Sustainable funding is critical to ensuring the success of any alternative tuition plan. Once agreement between the state and an institution is reached, the future of the program will depend on the viability of this commitment.

To address access, affordability and student success, the trio of state appropriations, tuition and financial aid must be considered in concert. Decisions regarding any one of these elements can greatly affect the other two. With Virginia's decentralized system of higher education in which each public-institution board sets tuition, any legislative decision to reduce operating and/or financial-aid appropriations can lead to undesirable tuition increases, which in turn can negatively impact access and affordability. Sustainable state funding, along with efficient and effective institutional operations, will contribute the most to achievement of the Commonwealth's affordability goals.



## References

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Stange, Kevin. (2013) "Differential Pricing in Undergraduate Education: Effects on Degree Production by Field," *National Bureau of Economic Research Working Paper No.19183*.

Weeden, Dustin. (2015) Tuition Policy, *National Conference of State Legislatures*, <http://www.ncsl.org/research/education/tuition-policy.aspx>

## Appendix A

### House Bill No. 961

#### CHAPTER 523

*An Act to amend the Code of Virginia by adding a section numbered 23-7.4:8, relating to alternative tuition or fee structures.*

[H 961]

Approved March 29, 2016

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding a section numbered **23-7.4:8** as follows:

*§ 23-7.4:8. Alternative tuition or fee structures.*

*Any public institution of higher education may offer alternative tuition or fee structures to students that result in lower costs of attendance, including discounted tuition, flat tuition rates, discounted student fees, or student fee and student services flexibility, to any first-time, incoming freshman undergraduate student who (i) has established domicile, as that term is defined in § 23-7.4, in the Commonwealth and (ii) enrolls full time with the intent to earn a degree in a program that leads to employment in a high-demand field in the region. Such an alternative tuition or fee structure may be renewed each year if the recipient maintains eligibility for the alternative tuition and fee structure. The State Council of Higher Education for Virginia shall offer guidance, upon request, to any public institution of higher education in establishing an alternative tuition or fee structure pursuant to this section.*

2. That the State Council of Higher Education for Virginia (the Council) shall develop recommendations regarding financial incentives and benefits that might be offered to public institutions of higher education that offer alternative tuition or fee structures pursuant to this act. Such incentives and benefits may be related to targeted economic and innovation incentives pursuant to subdivision A 3 of § 23-38.87:16 of the Code of Virginia, base adequacy funding, or biennial assessments of institutional performance as set forth in Part 4 of the general appropriation act and § 23-9.6:1.01 of the Code of Virginia. The Council shall report its recommendations to the Joint Subcommittee on the Future Competitiveness of Virginia Higher Education no later than November 1, 2016.

## Appendix B

### Department of Planning and Budget 2016 Fiscal Impact Statement

**1. Bill Number:** HB 961

**House of Origin**     Introduced     Substitute     Engrossed  
**Second House**     In Committee     Substitute     Enrolled

**2. Patron:** Delegate Rush

**3. Committee:** Passed Both Houses

**4. Title:** Offer alternative tuition or fee structures for public institutions of higher education

**5. Summary:** This bill permits any public institution of higher education in the Commonwealth to offer alternative tuition or fee structures - including discounted tuition, four-year flat tuition rates, discounted student fees, or student fee and student services flexibility – to its students that result in lower costs of attendance. These options may be offered to any legally Virginia-domiciled, first-time, incoming freshman undergraduate student, who enrolls full-time with the intent to earn a degree in a program that leads to employment in a high-demand field in the region. Alternative tuition or fee structures may be renewed annually as long as a recipient maintains eligibility for the alternative tuition and fee structure.

The State Council of Higher Education for Virginia (SCHEV) will provide guidance to any public institution of higher education interested in establishing an alternative tuition or fee structure. It will also develop recommendations regarding financial incentives and benefits related to targeted economic and innovation incentives, base adequacy funding, or biennial assessments of institutional performance, as provided in the Code of Virginia or the Appropriation Act. Finally, SCHEV will report its recommendations to the Joint Subcommittee on the Future Competitiveness of Virginia Higher Education by November 1, 2016.

**6. Budget Amendment Necessary:** No.

**7. Fiscal Impact Estimates:** Final (see Section 8)

**8. Fiscal Implications:** The Code of Virginia provides and the Restructuring Act of 2005 reaffirms the Board of Visitors' authority to set and collect tuition and fees for each of the Commonwealth's public institutions of higher education. Currently, all of the public institutions of higher education charge full-time undergraduate students using either a full-time rate or per-credit-hour rate. Some of them cap the full-time rates between 15 and 18 credits. Students who exceed the cap pay a per-credit-hour rate for each credit over the limit. For those public institutions that employ a per-credit-hour rate, a student's tuition is determined based on the number of credit hours taken, regardless of the course load.

Two of the Commonwealth's public institutions – the College of William and Mary in Virginia (CWM) and the University of Virginia (UVA) – already offer alternative tuition structures. Under the William and Mary Promise, CWM guarantees in-state undergraduate tuition rates for an incoming class for four years. All other amounts - fees, room and board, books, incidentals, etc. - reflect an average of the current year. The UVA Guaranteed Tuition Plan is an optional tuition structure for first-time, full-time Virginia students. Those students who elect to be included in the Guaranteed Tuition Plan have their base tuition rate set for four years. As with the William and Mary Promise, UVA's set tuition plan does not cover fees, school-specific additional tuition amounts, room and board, study abroad program fees, or other components of the overall cost of attendance.

Any other public institutions of higher education, that decide to implement this proposed legislation, would need to establish administrative guidelines and data requirements to identify students who are eligible to receive the benefits of the alternative tuition or fee structures. They would also need to establish a methodology to monitor continuous eligibility.

Those institutions that elect to lower or freeze tuition and fee rates could experience decreased revenues. Furthermore, the administrative costs would vary by institution. Therefore, the fiscal impact resulting from this bill is indeterminate. However, the institutions and SCHEV should be able to absorb any costs associated with implementing this bill using existing resources.

Finally, changes in public higher education tuition models that result in tuition increases above the Virginia College Savings Plan's projections could have a negative effect on Virginia529's outstanding long-term prepaid obligations.

1. **Specific Agency or Political Subdivisions Affected:** Virginia's public institutions of higher education, the State Council of Higher Education for Virginia, and the Virginia College Savings Plan
2. **Technical Amendment Necessary:** No.
3. **Other Comments:** None.

**Date:** 03/09/16 sas  
c: Secretary of Education

## Appendix C



Peter Blake  
Director

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August 13, 2015

The Honorable Stephen H. Martin  
Chair, Senate Committee on Education and Health  
P.O. Box 700  
Chesterfield, Virginia 23832

The Honorable William M. Stanley, Jr.  
13508 Booker T. Washington Highway  
Moneta, Virginia 24121

Dear Senators Martin and Stanley:

The staff of the State Council of Higher Education for Virginia (SCHEV) is pleased to submit the enclosed study of the subject matter contained in Senate Bill 806 (2015) as requested by the Clerk of the Senate pursuant to Rule 20 (o) of the Rules of the Senate of Virginia.

This review of fixed- or flat-rate "guaranteed" tuition provides overviews of such plans' benefits, examples and related strategies, as well as additional considerations such as issues of affordability, access, institutional planning and outcomes, and state and financial-aid funding. Conclusions are offered regarding fixed-rate tuition plans generally and in a Virginia context.

On behalf of the Council and its staff, thank you for this opportunity to inform the Senate about these tuition strategies. Please contact me if you have questions about the report or any other matters related to higher education. We look forward to working with you in the future.

Sincerely,

Peter Blake

c: The Honorable Jeffrey L. McWaters, Senate of Virginia  
Susan Clarke Schaar, Clerk of the Senate of Virginia  
Thomas Stevens, Division of Legislative Services  
G. Gilmer Minor III, Chair, SCHEV

Enclosure

*Advancing Virginia Through Higher Education*

SCHEV Report Web Link <http://www.schev.edu/Reportstats/SB806report.pdf?from=>