

*August 12, 2015*

*Fixed-rate Tuition Plans:  
A Survey in Response to Senate Bill 806*



State Council of Higher Education for Virginia

*Advancing Virginia through Higher Education*

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## Introduction and Background

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Legislation introduced in 2015, including Senate Bill 806, sought to amend the *Code of Virginia* regarding fixed four-year tuition and other costs. Eventually, Senate Bill 1183 was incorporated into Senate Bill 806; the substitute amendment directed the board of visitors of each four-year public institution with an in-state undergraduate population that accounts for less than 80 percent of the total undergraduate population to prospectively “fix” (lock) the cost of in-state tuition for incoming freshman students for four consecutive years, under certain conditions (see Appendix A for the bill text). Further, the legislation allowed the board of each institution to offer a variable in-state rate to incoming in-state freshman students as an alternative to the fixed tuition rate. The Education and Health Committee passed by indefinitely SB 806; subsequently, the Clerk of the Senate requested the State Council of Higher Education for Virginia (SCHEV) to provide a report on the subject matter. SCHEV staff submits this report in fulfillment of that request.

## Survey of Fixed-rate Tuition Plans

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### Context

Nationally, tuition has increased at nearly four times the increase in disposable personal income (income that is available for spending and saving) per capita in the past twenty years. Adjusting for inflation, average tuition and fees at public four-year institutions increased by 110% between 1995 and 2015. By comparison, disposable personal income increased by only 30% over the same period. In Virginia, tuition and mandatory fees at public four-year institutions increased by 85% over this twenty-year period while disposable income increased by only 32%. Rapidly rising tuition has put a strain on college access and affordability and has received much attention from students and parents, policymakers, institutional leaders, and the media at the state and national levels. Various tuition policies and strategies have been proposed and implemented in attempts to improve accessibility to and affordability of higher education.

### Introduction

One such tuition strategy is a “guaranteed” tuition plan, which charges a fixed or flat rate to first-time, full-time freshmen for four or more consecutive years, if the student maintains full-time status. In implementation, this type of tuition plan varies in name and detail.

### Benefits

Proponents of the guaranteed, fixed- or flat-rate tuition strategy contend that these plans can:

- increase predictability for students and families in budgeting for college and in managing costs;
- increase motivation and incentive for students to make satisfactory progress toward on-time (four year) graduation; and
- reduce loan-debt burdens for students and families by improving their ability to plan for college and potentially shorten the duration of enrollment.

Because flat-rate plans are basically 21<sup>st</sup>-century phenomena, their effectiveness in achieving the benefits described above has not yet been proven. Nonetheless, such plans have attracted attention at the state and national levels, and some universities, systems and states have pursued such strategies.

## Examples

According to the National Center for Education Statistics, 128 four-year colleges and universities offered guaranteed tuition plans in fall 2013. Thirty-four were public four-year institutions, of which 30 were from three states – Illinois, Oklahoma and Texas – that offer state-level, legislature-enacted guaranteed tuition plans. In a fourth state, Georgia, the board of a 35-institution state system initiated and then discontinued a guaranteed tuition plan in the mid-2000s.

- The Illinois legislature enacted a guaranteed tuition plan, the “Truth-in-Tuition Law”, in 2003. The program *requires* the institutions of the University of Illinois system to provide first-time full-time in-state incoming freshman students with a flat-rate tuition for six years (prior to 2010, the rate was fixed for only four years).
- The Oklahoma legislature endorsed the “Tuition Lock Program” at the state’s public four-year institutions in fall 2008. The program provides first-time full-time incoming freshmen (in-state and out-of-state students) with an *option* to choose the guaranteed tuition rate locked for four years. Each institution’s guaranteed tuition rate is restricted to no more than 115% of the non-guaranteed rate.
- The Texas legislature authorized the use of an *optional* four-year tuition plan at the state’s public four-year institutions in 2013. The University of Texas system implemented the four-year guaranteed plan as an option for first-time full-time incoming freshmen (in-state and out-of-state students) at its nine four-year institutions in fall 2014; some institutions had already adopted such plans individually. The Texas state plan includes tuition and all mandatory fees.
- The Board of Regents of the University System of Georgia, seeking to provide greater tuition stability and to encourage more on-time graduation, approved in fall 2006 the “Fixed-for-Four” initiative, a guaranteed tuition plan for new freshman students enrolling in its 35 institutions. However, the board discontinued the plan after three years due to a state funding reduction in 2009.

## Related Strategies

In the Commonwealth, as elsewhere in the nation, policymakers and institutional leaders have been engaged in the creation of plans to ensure access and affordability for in-state students.

- The Virginia529 prePAID program was established by the 1995 General Assembly and became effective on July 1, 1996. Named for Section 529 of the *Internal Revenue Code*, a 529 plan is a tax-advantaged investment vehicle designed to encourage saving for future higher education expenses of each designated beneficiary. All 50 states offer 529 plans. The Virginia529 prePAID program allows families to prepay future tuition and mandatory fees at Virginia public colleges or universities for newborns through ninth graders during a limited annual enrollment period.
- The Board of Visitors of the College of William and Mary (CWM) introduced a tuition model entitled the “William and Mary Promise” in 2014. The program provides a four-year tuition guarantee for incoming in-state freshman students. CWM leadership believed the new model would not only enhance tuition predictability, affordability, and access for Virginia residents but also would allow the university administration to use additional tuition revenue generated by the model to provide additional financial aid to students from low- and middle-income families. CWM asserts that such generation and provision of need-based aid will lower the average student-loan debt for its Virginia students.

## Additional Considerations

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While guaranteed-rate tuition plans may offer benefits to some students and families, these strategies also raise broader concerns about affordability, access, institutional planning and outcomes, and state and financial-aid funding. The most frequently articulated issues raised by researchers, the media, institutions and state governments are summarized below.

### Affordability

Flat-rate tuition plans can impact the affordability of higher education because these plans frontload projected educational costs and inflation-rate increases over four years. As a result, students enrolling in such plans are charged amounts above each year's cost to educate them (traditional annual tuition) as insurance against higher tuition increases in the future. In this scenario, total cost to students can be higher compared to the traditional, annual tuition plan, which in turn can affect students' and families' ability to afford and maintain required, continuous full-time enrollment.

A recent analysis of guaranteed-tuition laws and policies (the only study of its kind to date) included a finding that, between 2000 and 2011, public institutions in Illinois (where fixed plans are mandatory) increased guaranteed tuition rates on average by about \$1,500 more than the average tuition nationally, all else equal (Delaney and Kearney, 2015; see also Appendix F). The researchers concluded that “[a]lthough these laws offer predictability in tuition levels for students, the inherent financial risk built into these programs appear (sic) to encourage tuition increases, which is not clearly beneficial to students and families” (p. 29). In a subsequent interview, one researcher said: “... if the primary intent is to promote affordability ..., our results suggest that state-level guaranteed-tuition laws may not be entirely effective” (Delaney, as quoted by Forrest, 2015).

Similarly, an analysis by SCHEV staff of the total cost of guaranteed and non-guaranteed tuition charges over four years (FY2012-2015) at Oklahoma's two major public universities indicated that the total cost of the guaranteed-tuition option was about \$2,000 higher than the total cost of the non-guaranteed tuition option (see Appendix F).

### Access

Fixed-rate tuition plans can impact access to higher education because these strategies require full-time enrollment and, as noted above, comparatively higher upfront tuition rates. A potential student may decide not to enroll in a fixed-tuition institution, system, state – or in higher education at all – if she or he cannot afford the upfront costs or only can enroll part-time for economic or family reasons.

Access also can be impacted more broadly when low- and middle-income students who are qualified academically for admission to selective institutions choose to enroll in less-selective ones because these institutions' upfront tuition charges are lower. As a result, students who wish to attend less-selective institutions may find fewer seats available to them.

### Institutional Planning and Outcomes

Flat-rate tuition plans can impact administrative decision-making and institutional planning and outcomes, particularly when these plans are optional for students or when imposed on less-selective institutions. When fixed plans are optional for students, institutional planners' ability to predict with adequate confidence the number of students who will enroll in the plan can be affected. As a result, whether an institution's projected tuition revenues for operations will be attained – and whether it will be able to address unforeseen revenue shortfalls – can become less certain, especially for small or less-selective institutions that are limited in their price elasticity and private financial reserves.

For example, the cost-frontloading described above can impact students' decisions to participate in optional fixed-rate plans. When upfront costs are perceived by low- and middle-income families to be high relative to their incomes, these frontloaded costs can discourage student participation in the plan, thereby complicating institutional planning and budgeting. In Oklahoma, the student participation rate in the optional Tuition Lock Program decreased from 7.3% in 2008 to 3.5% in 2009 to 2.0% in 2011 (Delaney and Kearney, 2015). In addition, a case study of the price sensitivity of Chicago State University's (mandatory) guaranteed-rate tuition plan revealed that minority students were sensitive to price, and that new students displayed more price sensitivity than continuing students (Robertson, 2007; as cited in Delaney and Kearney, 2015).

### State and Financial-aid Funding

The success of fixed-rate plans can be impacted by the stability of state support. While the funding of public higher education is a shared responsibility between the state and students, the economy is cyclical, and state budget support is unpredictable. As a result, under fixed plans, the ability to manage budget cuts can be reduced for some institutions, namely those with limited sources of private funds. Further, each class of incoming students pays a higher tuition that must cover not only rising costs and inflation but also act as a hedge against budget reductions.

The University System of Georgia chose to discontinue its guaranteed-tuition plan after only three years because, immediately following implementation, the state reduced system funding by \$274 million. The reduction rendered the plan's resultant tuition too costly to students and families who were experiencing hardships during the economic recession (Corwin, 2009). Central Michigan University also dropped its guaranteed-tuition plan because it became "a financial risk to the university" when the institution could no longer count on the level of state appropriations around which the plan's assumptions were built (Supiano, 2009; see Appendix E).

The success of fixed-rate plans also can be impacted by the sufficiency of funding for student financial aid. Those institutions that lack additional (beyond federal and state) resources for financial aid or the ability to raise private funds for student aid in amounts sufficient to cover or assist adequately with the fixed-plan's frontload costs can find themselves at a competitive disadvantage to elite institutions. Such can further deter financially strained students and families from enrolling in the plans. Moreover, in order to enroll in guaranteed-tuition plans, economically disadvantaged students require even more financial aid than under traditional annual plans. The net effect can be that these students subsidize the cost of educating the students who do not need financial aid (Morphew, 2007).

## Conclusions

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The provisions of Senate Bill 806 would apply, based on fall 2014 enrollments, to six four-year public institutions: College of William and Mary, James Madison University, University of Virginia, Virginia Military Institute, Virginia State University and Virginia Tech. Administrators at each have expressed concerns similar to those above about legislation that would require action on fixed-tuition plans by their institutions' boards of visitors.

At face value, fixed tuition plans appeal to many parents and students, especially those who are able to attend full-time and can afford the higher upfront costs, because the plans guarantee that they know from day one the tuition sum to be incurred over a four-year enrollment. This peace of mind is of significant value in the face of ever-increasing tuition (see Appendix E). Fortunately, in Virginia, parents and students who plan ahead possess this opportunity already through the Va529 prePAID program.

Fixed plans might appeal to policymakers and institutional leaders because the guaranteed rates allow them to demonstrate that rapid tuition increases have been constrained and to claim that families will save money and that more students will graduate on time. In reality, fixed-rate tuition plans can produce additional unintended and problematic consequences, as described above.

Most importantly, even if institutional experts project accurately the future costs of inflation, utilities, health care and new initiatives, they are not likely to be able to predict future levels of state funding. Tuition increases are linked directly, but not entirely, to state appropriations. A flat-rate tuition plan may be successful at highly selective institutions that have sufficient price elasticity, strong enrollment demand (from both in-state and out-of-state students), and demonstrated ability to raise private funds to offset unforeseen revenue shortfalls. But most public institutions are not highly selective and therefore cannot afford such plans given the constraints placed upon them by the compounding convergences of competitive pricing, enrollment demands, private-funding limitations, and significant student populations in need of substantial amounts of financial aid to complete college.

In the college-cost puzzle, tuition is but one piece, accounting for only about one-third of the total cost of attendance. Institutions charge tuition for instructional-related spending such as faculty salaries and facility maintenance. Students also must pay various mandatory student-life fees such as those for athletic programs, student health, student organization activities, and room and board if living on campus. Additional personal expenses are incurred for textbooks, supplies and transportation (and room and board if living off campus).

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. Particularly in a decentralized system of higher education where 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.

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

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## Appendix A

### SENATE BILL NO. 806

#### AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Senate Committee on Education and Health on February 5, 2015)

(Patrons Prior to Substitute--Senators Stanley and McWaters [SB 1183])

*A BILL to amend and reenact § 23-38.87:18 of the Code of Virginia, relating to four-year public institutions of higher education; fixed four-year tuition and other costs.*

Be it enacted by the General Assembly of Virginia:

1. That § 23-38.87:18 of the Code of Virginia is amended and reenacted as follows:

§ 23-38.87:18. Tuition and fees.

A. The board of visitors of each of the Commonwealth's public institutions of higher education, or in the case of the Virginia Community College System the State Board for Community Colleges, shall continue to fix, revise from time to time, charge and collect tuition, fees, rates, rentals, and other charges for the services, goods, or facilities furnished by or on behalf of such institution and may adopt policies regarding any such service rendered or the use, occupancy, or operation of any such facility.

B. Except to the extent included in the institution's six-year plan as provided in subsection C, if the total of an institution's tuition and educational and general fees for a fiscal year for Virginia students exceeds the difference for that fiscal year between (i) the institution's cost of education for all students, as calculated pursuant to clause (i) of subsection B of § 23-38.87:13, and (ii) the sum of the tuition and educational and general fees for non-Virginia students, the state general funds appropriated for its basic operations and instruction pursuant to subsection A of § 23-38.87:13, and its per student funding provided pursuant to § 23-38.87:14, the institution shall forego new state funding at a level above the general funds received by the institution during the 2011-2012 fiscal year, at the discretion of the General Assembly, and shall be obligated to provide increased financial aid to maintain affordability for students from low-income and middle-income families. This limitation shall not apply to any portion of tuition and educational and general fees for Virginia students allocated to student financial aid, to an institution's share of state-mandated salary or fringe benefit increases, to increases with funds other than state general funds for the improvement of faculty salary competitiveness above the level included in the calculation in clause (i) of subsection B of § 23-38.87:13, to the institution's share of any of the targeted financial incentives described in § 23-38.87:16, to unavoidable cost increases such as operation and maintenance for new facilities and utility rate increases, or to other items directly attributable to an institution's unique mission and contributions.

C. Nothing in subsection B shall prohibit an institution from including in its six-year plan required by § 23-38.87:17(i) new programs or initiatives including quality improvements or (ii) institution-specific funding based on particular state policies or institution-specific programs, or both, that will cause the

total of the institution's tuition and educational and general fees for a fiscal year for Virginia students to exceed the difference for that fiscal year between (a) the institution's cost of education for all students, as calculated pursuant to clause (i) of subsection B of § 23-38.87:13, and (b) the sum of the tuition and educational and general fees for the institution's non-Virginia students, the state general funds appropriated for its basic operations and instruction pursuant to subsection A of §23-38.87:13, and its per student funding provided pursuant to § 23-38.87:14.

*D. Notwithstanding subsection A or any other provision of law, the board of visitors of each four-year public institution of higher education shall, beginning with the 2017-2018 academic year, prospectively fix the cost of in-state tuition for incoming freshman undergraduate students for four consecutive years under the following conditions: (i) the student shall be enrolled full time and remain continuously enrolled as a full-time student for the period of eligibility; (ii) an in-state class rate for tuition is established in accordance with any requirements set forth in the appropriation act; (iii) rules are clearly established to address eligibility of in-state freshman undergraduate students and any unforeseen circumstances that may require eligible students to take a leave of absence from the institution; and (iv) information is disseminated to all in-state students applying to the relevant institution that clearly and concisely explains the costs and terms. However, the board of visitors of each four-year public institution of higher education, in addition to offering a fixed in-state tuition rate, may offer a variable in-state tuition rate. For any four-year public institution that offers both a fixed and a variable in-state tuition rate, an incoming in-state freshman undergraduate student enrolled at an institution that offers a variable in-state tuition rate shall have the option of paying either the fixed or the variable in-state tuition rate.*

*E. The provisions of subsection D shall not apply to any four-year public institution of higher education that maintains an in-state undergraduate student population that composes at least 80 percent of the total undergraduate student population.*

## Appendix B

### COMMONWEALTH OF VIRGINIA

SUSAN CLARKE SCHAAR  
CLERK OF THE SENATE  
P.O. BOX 396  
RICHMOND, VIRGINIA 23218



SENATE

March 10, 2015

Peter A. Blake  
Director, State Council of Higher Education for Virginia  
101 N. 14th St., 10th Floor  
James Monroe Building  
Richmond, Virginia 23219

Dear Mr. Blake:

This is to inform you that, pursuant to Rule 20 (o) of the Rules of the Senate of Virginia, the Senate Committee on Education and Health has referred the subject matter contained in Senate Bill 806 to the State Council of Higher Education for Virginia for study. It is requested that the appropriate committee chair and bill patron receive a written report, with a copy to this office, by November 1, 2015.

With kind regards, I am

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Susan Clarke Schaar".

Susan Clarke Schaar

SCS:mpt

cc: Sen. Stephen H. Martin, Chair, Senate Committee on Education and Health  
Sen. William M. Stanley, Jr., Patron of SB 806  
Sen. Jeffrey L. McWaters  
Thomas Stevens, Division of Legislative Services

## Appendix C

### Department of Planning and Budget 2015 Fiscal Impact Statement

1. **Bill Number:** SB 806  
House of Origin  Introduced  Substitute  Engrossed  
Second House  In Committee  Substitute  Enrolled
2. **Patron:** Senator Stanley
3. **Committee:** Education and Health
4. **Title:** Establish a fixed four-year tuition and fees rate at higher education institutions
5. **Summary:** This bill requires the boards of visitors of Virginia's public four-year higher education institutions to prospectively freeze the cost of tuition, room and board, and other mandatory fees for incoming in-state freshman undergraduate students for four consecutive years under the following conditions:
  - eligible students shall be enrolled full-time and remain continuously enrolled as full-time students for the period of eligibility;
  - a class rate is annually established, in accordance with any requirements set forth in the appropriation act;
  - rules are clearly established to address the eligibility of freshman undergraduate students, the eligibility of transfer students, and any unforeseen circumstances that may require eligible students to take a leave of absence from the institution; and
  - information is disseminated to all students applying to the relevant institution that clearly and concisely explains program eligibility and costs.
6. **Budget Amendment Necessary:** No.
7. **Fiscal Impact Estimates:** Indeterminate (see Section 8)
8. **Fiscal Implications:** Due to the uniqueness and diversity among the Commonwealth's public higher education institutions and the ever changing variables used to calculate adjustments to tuition and fees, a measurable fiscal impact for this proposed legislation would be difficult to determine.

With the exception of the College of William and Mary, which introduced a guaranteed tuition model in FY 2014 to have a fixed tuition for its in-state undergraduate students for four years, all of Virginia's other public institutions are charging full-time undergraduate students with either a full-time rate or a per-credit-hour rate. The full-time rate permits students to take 12 or more credits per semester for a flat tuition. In some instances, institutions cap the flat tuition between 15 and 18 credit hours. Students who exceed the cap are expected to pay a per-credit-rate for each credit above that cap. On the other hand, the per-credit hour rate approach sets a tuition rate per credit hour, regardless of a student's course load. Currently, Old Dominion University, Norfolk State University, and Longwood

University employ the per-credit-hour rate. Virginia Commonwealth University implemented a modified per-credit-hour model in fiscal year 2014 that charges students on a sliding per-credit-hour basis with a 50 percent discount for 15 or more credits per semester.

Setting tuition and fees for a four-year period has both advantages and disadvantages. Advantages of this bill include: (1) providing predictable tuition and fees revenue, (2) offering stability and improved budgeting for families planning for college, (3) providing an incentive for students to graduate on time, and (4) permitting institutions the opportunity to adjust tuition and fees so that the net effect resulting from the fixed price approach is the same revenue amount that would be generated over the same four-year period under one of the current methodologies. Disadvantages include: (1) penalizing students who do not graduate on time, (2) discouraging students from transferring among institutions, (3) increasing the risk of detrimental financial consequences during economic downturns or unexpected reductions in state support, and (4) initial unknown administrative costs for institutions associated with the implementation of the fixed price methodology.

This bill would also require students to pay more during the early part of the four-year period than they would otherwise under an annual tuition and fees increase scenario.

**9. Specific Agency or Political Subdivisions Affected:** Virginia's four-year public institutions of higher education

**10. Technical Amendment Necessary:** No.

**11. Other Comments:** Any significant changes to the current tuition and fee pricing model used by Virginia's public four-year higher education institutions should be discussed with the Virginia529 College Savings Plan to ensure that sufficient adjustments are in place for an orderly transition.

SB 1183 is similar in that it establishes a fix in-state tuition rate for four consecutive years. However, it does not freeze fees or room and board charges.

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c: Secretary of Education

## Appendix D

### Department of Planning and Budget 2015 Fiscal Impact Statement

1. **Bill Number:** SB 1183  

|                 |                                     |              |                          |            |                          |           |
|-----------------|-------------------------------------|--------------|--------------------------|------------|--------------------------|-----------|
| House of Origin | <input checked="" type="checkbox"/> | Introduced   | <input type="checkbox"/> | Substitute | <input type="checkbox"/> | Engrossed |
| Second House    | <input type="checkbox"/>            | In Committee | <input type="checkbox"/> | Substitute | <input type="checkbox"/> | Enrolled  |
2. **Patron:** Senator McWaters
3. **Committee:** Education and Health
4. **Title:** Establish fixed four-year tuition rate at higher education institutions
5. **Summary:** This bill requires the board of visitors of Virginia's public four-year higher education institutions to prospectively freeze the cost of tuition for incoming in-state freshman undergraduate students for four consecutive years under the following conditions:
  - eligible students shall be enrolled full time and remain continuously enrolled as full-time students for the period of eligibility;
  - an in-state class rate is annually established, in accordance with any requirements set forth in the appropriation act;
  - rules are clearly established to address the eligibility of in-state freshman undergraduate students and any unforeseen circumstances that may require eligible students to take a leave of absence from the institution; and
  - information is disseminated to all in-state students applying to the relevant institution that clearly and concisely explains program eligibility and costs.
6. **Budget Amendment Necessary:** No.
7. **Fiscal Impact Estimates:** Indeterminate (see Section 8)
8. **Fiscal Implications:** Due to the uniqueness and diversity among the Commonwealth's public higher education institutions and ever changing variables used to calculate adjustments to tuition, a measurable fiscal impact for this proposed legislation would be difficult to determine.

With the exception of the College of William and Mary, which introduced a guaranteed tuition model in FY 2014 to have a fixed tuition for its in-state undergraduate students for four years, all of Virginia's other public institutions are charging full-time undergraduate students with either a full-time rate or a per-credit-hour rate. The full-time rate permits students to take 12 or more credits per semester for a flat tuition. In some instances, institutions cap the flat tuition between 15 and 18 credit hours. Students who exceed the cap are expected to pay a per-credit-rate for each credit above that cap. On the other hand, the per-credit hour rate approach sets a tuition rate per credit hour, regardless of a student's course load. Currently, Old Dominion University, Norfolk State University, and Longwood University employ the per-credit-hour rate. Virginia Commonwealth University

implemented a modified per-credit-hour model in fiscal year 2014 that charges students on a sliding per-credit-hour basis with a 50 percent discount for 15 or more credits per semester.

Setting tuition for a four-year period has both advantages and disadvantages. Advantages of this bill include: (1) providing predictable tuition revenue, (2) offering stability and improved budgeting for families planning for college, (3) providing an incentive for students to graduate on time, and (4) permitting institutions the opportunity to adjust tuition so that the net effect resulting from the fixed price approach is the same revenue amount that would be generated over the same four-year period under one of the current methodologies.

Disadvantages include: (1) penalizing students who do not graduate on time, (2) discouraging students from transferring among institutions, (3) increasing the risk of detrimental financial consequences during economic downturns or unexpected reductions in state support, and (4) initial unknown administrative costs for institutions associated with the implementation of the fixed price methodology.

This bill would also require students to pay more during the early part of the four-year period than they would otherwise under an annual tuition increase scenario.

**9. Specific Agency or Political Subdivisions Affected:** Virginia's four-year public institutions of higher education

**10. Technical Amendment Necessary:** No.

**11. Other Comments:** Any significant changes to the current tuition pricing model used by Virginia's public four-year higher education institutions should be discussed with the Virginia529 College Savings Plan to ensure that sufficient adjustments are in place for an orderly transition.

SB 806 is similar in that it freezes the cost of tuition, room and board, and other mandatory fees for incoming in-state freshman undergraduate students for four consecutive years.

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c: Secretary of Education

## Appendix E

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THE CHRONICLE OF HIGHER EDUCATION

Tuesday, April 14, 2009

### **Locked-In Tuition Is a Win for Families but a Tough Sell for Colleges**

By BECKIE SUPIANO

Tuition just about always moves in the same direction: up. So wouldn't it be great if students could lock in tuition at their college and know they will pay the same amount for four years?

It seems like a no-brainer, especially now. But some colleges have tried the strategy only to find it hard to convince families that it's a good idea.

That hasn't stopped colleges from trying. The University of Texas at Dallas began its Guaranteed Tuition Rate Plan in the fall of 2007, as a way to "provide simplicity, predictability, and clarity for our students," says Curt Eley, the university's vice president for enrollment management.

Under the plan, incoming students are promised that their tuition and mandatory fees will remain the same for four years from the time they begin their studies. "It takes what I call the inflation risk out of tuition and fees for each individual student," Mr. Eley says. The university even offers the guarantee to students enrolling in Texas community colleges who plan to transfer. Those students sign a document that binds the university to charge them the university's current tuition rate but doesn't obligate them to attend.

The Dallas campus's program began before the economy tanked, but it could be even better for families now. Many households don't expect their incomes to go up in the next year, and it would be especially helpful if their college expenses remained flat.

#### **Strategy Reliant on Growth**

Under the plan, the college gets fewer tuition dollars from each continuing student. But Mr. Eley says the university has been able to finance it by substantially increasing its student body through both recruitment and retention. That growth is providing a cushion while the university adjusts to the new tuition model. It would be much harder to start such a program at a college that had already reached full capacity, he says.

Letting students lock in their tuition isn't a new idea, but as the recession pressures families and colleges alike, pricing strategies are particularly important, and many colleges will be trying to think creatively. As colleges contemplate pricing, they must keep in mind not only the actual cost to families but also the perceived cost.



On its face, Texas at Dallas's guarantee is an obvious boon for students and their families. Not only does the program take the guesswork out of what next year's tuition will be, but it also provides savings for students who stay long enough to complete their degree.

Letting students lock in tuition is a great idea in theory, says Kathy Kurz, vice president of the higher-education consulting company Scannell & Kurz. But in reality, it is not so simple for colleges to market.

For the last few years, tuition has increased by an average of 4.5 to 6.5 percent a year, depending on the type of institution. But if a college has a tuition guarantee, it won't have those year-to-year increases. To compensate, colleges must raise tuition significantly from one year's freshman class to the next. An incoming freshman at a college with fixed tuition may find herself paying 12 percent more than freshmen did the year before.

That, Ms. Kurz says, creates a marketing problem. Though families may be set up to save money over the long run with guaranteed tuition, they often don't look past the first-year price tag—which is likely to be higher than that of similar institutions. "The biggest concern is, at least initially, families pay more," Ms. Kurz says. Paying more that first year—even if it means future savings—strikes many families as too risky, she says.

That is especially true this year, as college after college has announced its lowest tuition increase in years. "Colleges, by and large, are having a much smaller rate of tuition increase than any time in the last five or six years," says Robert A. Sevier, senior vice president for strategy at Stamats, a higher-education-marketing company. "It's not the time for a nine-, 10-, 11- or 12-percent increase, which a lot of four-year fixed rates need."

### **A Retention Tool**

For that reason, Texas at Dallas educates families about its program throughout the admissions process, helping them think through the cost of a whole college education rather than focusing on that first year, Mr. Eley says. "I would make the argument to a family, it's great that college X is increasing tuition by 2.5 percent and not 5 percent, but we're raising it 0 percent" for continuing students. "College X isn't making a contractual promise. There's no reason they can't turn around and raise tuition 10 percent next year."

And, Mr. Eley says, the program is primarily designed to encourage retention, making it easier for students to plan for all four years and encouraging them to graduate on time.

Even when families understand the potential benefits, they may be wary of locking in tuition. What if the student transfers or drops out? Officials at Oklahoma City University have noticed that reluctance.

The university also began a tuition guarantee recently, though it operates differently from Dallas's. At Oklahoma City, the program is optional, and those students who enroll in it are charged several hundred dollars a semester more in tuition their first year. Officials there say

only 14 percent of students opt in to the program, even though it works out to be a good deal for any student who stays four years.

Other colleges have abandoned tuition-guarantee programs in recent years. Central Michigan University used to offer guaranteed tuition for up to five years, but stopped doing so in the summer of 2008. The program, though popular, had become "a financial risk to the university," says Steven F. Smith, director of media relations. It was premised on a level of state appropriations that the university no longer can count on, he says.

The guaranteed-tuition program at Pace University also ran into trouble. Offering students a flat tuition rate "requires a degree of stability in everything else," says Stephen J. Friedman, the university's president, who was hired after Pace abandoned its program in 2007. Sustaining the guaranteed-tuition program required large year-to-year increases, hitting 19 percent by the end. While he describes the model as "creative," Mr. Friedman says it also was difficult to sell to families.

Mr. Eley admits the marketing isn't easy, but says that for his institution, it is worth it. "It's more work than a typical pricing strategy," he says, "but morally better for families."

## Appendix F

### Illinois Tuition Comparison to National Average

Excerpts from “Impact of Guaranteed Tuition Policies on Postsecondary Tuition Levels: A Difference-in-Difference Approach” by Jennifer Delaney and Tyler Kearney, 2015

- (A) “There is anecdotal evidence that Illinois’ program had some impact on tuition levels. In 2002, Illinois ranked 13<sup>th</sup> among states in average tuition at four-year public institutions. In 2007 following the implementation of the Truth-in-Tuition Law, this ranking had risen to 6<sup>th</sup> (COGFA, 2008). In addition, the average tuition growth rate at Illinois four-year public institutions was 12.0% between 2003 and 2007, compared to a national average of 8.8% (COGFA, 2008)” (p. 3).

**Note:** COGFA is the acronym for Illinois’s Commission on Government Forecasting and Accountability. Authors’ source was COGFA’s “Higher education: Funding and tuition rates”, <http://cgfa.ilga.gov/Upload/2008-DEC%20Higher%20Education%20Funding%20Tuition%20Rates.pdf>

- (B) “On average, institutions subject to this law increased annual tuition by approximately 26-30% and aggregate four-year tuition by approximately 6-7% in excess of the amount predicted by the trend for institutions not subject to the law. These findings ... support the idea that state-level guaranteed tuition programs encourage large institutional tuition increases” (p. 1).

### Oklahoma Universities Tuition Comparison

| University of Oklahoma |            |            |            |            |             |            |
|------------------------|------------|------------|------------|------------|-------------|------------|
|                        | FY12       | FY13       | FY14       | FY15       | Total       | Difference |
| Guaranteed Tuition     | \$4,425.00 | \$4,425.00 | \$4,425.00 | \$4,425.00 | \$17,700.00 | \$1,809.00 |
| Non-guaranteed Tuition | \$3,849.00 | \$3,957.00 | \$3,957.00 | \$4,128.00 | \$15,891.00 |            |

| Oklahoma State University |            |            |            |            |             |            |
|---------------------------|------------|------------|------------|------------|-------------|------------|
|                           | FY12       | FY13       | FY14       | FY15       | Total       | Difference |
| Guaranteed Tuition        | \$4,948.80 | \$4,948.80 | \$4,948.80 | \$4,948.80 | \$19,795.20 | \$2,216.70 |
| Non-guaranteed Tuition    | \$4,303.50 | \$4,425.00 | \$4,425.00 | \$4,425.00 | \$17,578.50 |            |

Source: Annual Tuition and Fee Rate by Oklahoma State Regents for Higher Education.