

SUBJECT: Allowing higher education institutions to increase tuition rates

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 5 ayes — Morrison, F. Brown, Goolsby, Mercer, Nixon

1 nay — Chavez

3 absent — Giddings, J. Jones, Smithee

WITNESSES: For — Mark Zafereo

Against — Joyce L. Banks, Graduate Student Assembly; Jordan Buckley, Brian Haley, and Slyman Majid, UT-Austin Student Government; Kyle Carlton, Texas A&M student body; Donald S. Dildy and Christopher Goodman, Texas Tech University student body; Mark Hodgkin, Austin Kinghorn, Nayeem Mohammed, Matt Stolhandske, and Erin Sellick, Young Conservatives of Texas; Nicholas Schwellenbach and Austin Van Zant, UT Watch; Andrew W. Dobbs, Legislative Relations Agency; 25 individuals

On — Don Brown, Texas Higher Education Coordinating Board; Edward T. Hugetz; Ruth Andrew, Comptroller's Office

BACKGROUND: Except for junior and community colleges, whose tuition and fee authority is vested in local governing boards, the Legislature sets in statute the tuition and fees charged by public higher education institutions. The 77th Legislature in 2001 raised the resident tuition limit and increased the cap on aggregate student fees at most universities from \$150 to \$250 per semester. The statutory tuition rate for the 2002-03 academic year is \$44 per semester credit hour for Texas residents, with two-dollar increases scheduled each year until tuition reaches \$50 per credit hour in 2005-06. Nonresident tuition is based on the average of nonresident tuition rates in the five most populous states other than Texas.

In addition to the statutory rate, higher education institutions charge designated tuition (formerly called the building use fee). Designated tuition is

set by each institution's governing board and may vary even within individual systems but may not exceed the statutory rate.

DIGEST:

CSHB 3015 would allow the governing board of a higher education institution to increase tuition for resident undergraduate students by \$23 per credit hour for the 2003-04 academic year and by \$46 per credit hour for 2004-05. This tuition could be charged in addition to the statutory tuition of \$44 per credit hour and the institution's designated tuition.

For 2005-06 and thereafter, the governing board could set whatever designated tuition amount it deemed necessary for effective operation of the institution and no longer could charge statutory tuition. Governing boards would not be subject to tuition caps in setting tuition for nonresident or graduate and professional programs.

Governing boards could set different tuition rates for each program and course level. Boards could set different tuition rates as they considered appropriate to increase graduation rates, encourage efficient use of facilities, or enhance employee performance.

Governing boards would have to set aside at least 15 percent of any designated tuition charged to resident undergraduate students in excess of \$46 per credit hour. The institutions would have to use these funds to provide financial assistance for their resident undergraduate students. Set-aside funds equal to at least 3 percent of nonresident undergraduate tuition in excess of \$46 per credit hour would have to be used to pay for scholarships for nonresident students. Any remaining funds could be used for awards to qualified resident undergraduate students.

To qualify for this assistance, a student would have to establish financial need in accordance with rules and procedures established by the Texas Higher Education Coordinating Board (THECB). Priority would be given to qualified students whose tuition and fees were not met through other nonloan financial assistance programs. The financial assistance provided could include grants, scholarships, and work-study programs.

By November 30, 2004, the chief executive officer of each higher education institution, including public junior colleges, would have to provide to the

governing board of the institution a report for the preceding fall, spring, and summer semesters that examined the institution's affordability and access. The report would have to include statistical information on the percentage of gross family income required for a resident student to pay tuition and fees; admissions criteria; an analysis of admissions and financial aid criteria considering the institution's mission and the purposes of higher education in Texas; and comparisons to peer institutions in Texas and other states. Students who applied for admission or enrolled in the institution could be required to provide documentation needed to complete the report. The report would have to be in a form prescribed by THECB and developed in consultation with the institution.

CSHB 3015 would give the board of the Texas Guaranteed Tuition Plan sole discretion in making prepaid tuition contracts available and the authority to suspend new enrollment in the program as necessary to ensure the actuarial soundness of the fund. When the beneficiary of a prepaid tuition contract enrolled in a public senior college or university, the university would have to accept as payment in full either the amount of tuition and required fees or the equivalent weighted average tuition and fees of all public senior colleges and universities, whichever was less. Each public senior college or university would have to provide requested information to help the board determine the weighted average amount of tuition and fees.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003.

**SUPPORTERS
SAY:**

CSHB 3015 would give higher education institutions the flexibility they need to respond to cuts in state funding while continuing to work toward the state's goals for increasing access to higher education.

THECB has focused on steps the state could take to improve the preparation of its workforce by "closing the gaps" in higher education participation, achievement, graduation rates, and funded research. Two specific goals are to enroll an additional 500,000 students in higher education by 2015 and to increase by 50 percent the number of degrees and certificates awarded by high-quality programs.

Under CSHB 3015, higher education institutions would remain subject to tuition caps until the 2005-06 academic year. Before then, the Legislature will meet again and may decide to extend or reduce the caps. Any increase in tuition would be accompanied by more aid for middle-income families to ensure that students are not priced out of higher education.

Increasing tuition would enable institutions to respond immediately to state budget cuts. Cost-cutting efforts, such as reducing salaries, take longer to implement and would not meet the immediate need to balance next year's budgets.

Without the ability to increase tuition, institutions would have to offer larger and fewer classes, extending the time it takes for students to complete their degrees. Over time, the quality of Texas' higher education would decline as a result of budget reductions.

CSHB 3015 would continue a trend that began several years ago to give institutions more flexibility and control in setting tuition and fees. Colleges and universities have been judicious in using this authority, as only 10 of the state's 35 public universities have reached their caps. Decisions about tuition are based on a variety of market concerns, such as the average family income of students. These factors will continue to be important in determining the appropriate tuition at various campuses. Annual reports to the governing body about the affordability and access of each institution would provide additional information needed to establish appropriate tuition levels.

CSHB 3015 would enable institutions to use tuition decisions to improve the efficiency of operations and to motivate students to finish their education sooner. Schools could charge lower tuition for summer, weekend, and early morning classes to encourage students to sign up for those classes, making better use of facilities that often go empty during these periods. Institutions could offer flat-fee programs to encourage students to take more classes and graduate sooner. This could help reverse the trend of taking longer to finish an undergraduate education, which increases costs for taxpayers and families and delays the entry of students into the workforce.

Higher education in Texas is a bargain by national standards. Statewide,

resident undergraduate tuition is 14 percent below the U.S. average, and graduate tuition is 40 percent below the U.S. average. Resident undergraduate tuition and fees at the University of Texas-Austin for 2002-03 were \$3,950

per year, compared to \$4,336 at the University of California-Berkeley and \$7,980 at the University of Michigan-Ann Arbor.

Higher education is both a private and a public good, and taxpayers and families should share responsibility for financing this education. Even at universities that are likely to increase undergraduate tuition the most, such as UT-Austin, the maximum increase in tuition would amount to about \$690 in 2003-04. Most institutions would be unlikely to raise tuition nearly that much. In the face of declining state revenues, families with higher incomes should be asked to pay a greater share of college costs.

CSHB 3015 would help ensure that Texas taxpayers are not inappropriately subsidizing the educations of out-of-state students by allowing governing boards to set different tuition rates for out-of-state students. Graduate schools that train students from other states and countries for lucrative careers in law, medicine, engineering, and computer science should be able to charge tuition that reflects the value of this education in the marketplace.

The bill would allow the state to keep its promise to families who already have bought contracts with the Texas Guaranteed Tuition Plan (formerly the Texas Tomorrow Fund), while establishing controls to protect the program's solvency. Plan managers still could make decisions about the cost and viability of the program based on the actions of institutions.

University systems use tuition and fee revenue to service bond debt. According to a THECB report, constraints on the authority of institutions to increase tuition and/or fees could affect bond ratings negatively, which, in turn, would increase the cost of borrowing. The report also notes that higher charges to students would make them eligible for larger grants. According to the report, because federal loan allocations to states are based on need in a previous year, increasing charges to students would have the long-term effect of increasing Texas' allocation of these funds.

CSHB 3015 would simplify billing by allowing institutions to charge a single

comprehensive fee instead of separate charges for statutory tuition, designated tuition, required fees, and so forth. This hodgepodge of tuition and fees makes it difficult for families to plan college tuition costs.

**OPPONENTS
SAY:**

CSHB 3015 would allow higher education institutions to balance their budgets on the backs of Texas families instead of following the state's lead by reducing expenses in the face of a budget shortfall. Before being allowed to reach into the pockets of Texas families, institutions first should have to come up with other ways to balance their budgets, such as reducing salaries or increasing teaching loads.

Over the past decade, colleges and universities have allowed salaries and other expenses to increase dramatically. Many of these expenses have been covered by increases in tuition and fees, which have risen 18 per cent since 2001. The economic downturn has left many Texas families struggling to keep up with higher education costs.

In the current economy, higher education institutions may not be able to meet the ambitious goals for "closing the gaps" that were envisioned during more prosperous times. These goals may need to be modified or delayed to reflect current economic conditions.

The state should not take additional steps toward authorizing governing boards to set tuition and other fees. These boards, appointed by the governor, are not directly accountable to students or voters. Without this accountability, the boards are likely to continue to finance high salaries, new buildings, and other expenses by raising tuition rather than cutting expenses.

Higher education institutions already have the authority to increase tuition gradually over the next several years, and many have not reached the existing caps. Institutions that cannot balance their budgets within current statutory tuition caps should seek resources elsewhere.

Widespread tuition increases could close the door to higher education for many low-income students by reducing the availability of TEXAS Grants. At current project appropriation levels, THECB expects the demand for TEXAS Grants to exceed the availability of funds. Increases in tuition would limit this availability further.

Although CSHB 3015 would require institutions to set aside 15 per cent of tuition increases to help middle-income students, the institutions are unsure of how many students would qualify for this assistance. Many middle-income families already are struggling to pay for higher education, and students are carrying larger debt loads than ever. According to a recent study, 39 percent of students are graduating with unmanageable levels of student debt. These students represent more than half of those graduating with student debt. Even a relatively small tuition increase would create a greater financial burden on many Texas families.

While tuition and fees at Texas colleges and universities are relatively low, other expenses are higher. Room, board, and transportation account for 54 percent of the total cost of a four-year public education in Texas, compared to 49 percent nationwide.

CSHB 3015 would allow the Texas Guaranteed Tuition Plan to suspend new enrollment, closing off to Texas families a popular option for planning for and financing higher education.

The bill would give institutions unlimited authority to raise tuition for nonresident students. Students from other states and countries add diversity to Texas' institutions, and many stay in Texas to contribute to the state's economic growth. They should not be discouraged from coming to Texas by relatively high tuition and fees.

Allowing institutions to charge different rates for the same courses depending on when the course was taught could limit students' options unfairly. The best professors tend to teach courses at popular times. The bill could relegate students with limited incomes to less desirable teachers and class times.

Increasing federal loan allocations to Texas students should not be a reason to increase tuition. Student debt is already too high, and universities should not be encouraged to make it higher.

**OTHER
OPPONENTS
SAY:**

The entire system of financing higher education in Texas is too complex and confusing. Before granting any new authority to increase tuition, lawmakers should conduct a comprehensive review of the funding system and should adopt changes that have been considered carefully and designed to meet the

state's goal of closing the gaps in education as well as the institutions' need for greater flexibility.

NOTES:

As filed, HB 3015 would have allowed institutions to charge up to 5 percent of a family's gross income until September 1, 2008.

A related bill, CSSB 1542 by Shapiro, as reported by the Senate Education Committee on April 22, would allow institutions to increase designated tuition to \$52 per credit hour after the fall 2003 semester and to \$54 per credit hour after fall 2004. This authority would expire January 1, 2006. Institutions would have to submit accountability reports to the Legislature, and the Senate Education Committee would have to conduct an interim study on alternative methods for setting tuition and fees.