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POLICY BRIEF

# *Tuition Control Policies: A Challenging Approach to College Affordability*

*Robert Kelchen*

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The rising price of attending college has made college affordability an increasingly important policy issue in recent years. In order to make college more affordable for students and their families, states can pursue three possible options. The first option is to provide additional state appropriations to colleges, which allows institutions to charge lower tuition rates and/or to offset listed tuition prices through the use of institutional grant aid. While state appropriations as a lump sum have kept up with inflation over the past several decades, they have not kept up with increases in enrollment.[1] This is particularly true in recessions when enrollment rises and states reduce higher education appropriations in an effort to balance budgets while limiting cuts to areas such as K-12 education that do not have alternative revenue sources.[2]

The second option is to increase state grant aid awards to reduce the price tag paid by students. Even if listed tuition prices increase, the actual prices students pay can be lower if state grants offset the increase. States have taken a range of strategies regarding tuition and financial aid, with some states choosing to allow their colleges to have high tuition prices that are offset by financial aid and other states preferring relatively low tuition prices with less financial aid available. As a general rule, states in the Midwest tend to have modest grant aid programs relative to states in the Southeast with large merit aid programs and states such as New York and New Jersey with large need-based aid programs.[3]

The drawback to both of these options is that they require additional state resources which are often difficult to obtain. A more politically feasible option in a number of states is to enact price controls by implementing limits on how much (if any)

## KEY INSIGHTS

- As college affordability has become a growing concern, more states are taking actions to limit how much public colleges and universities can increase tuition and fees. These efforts fall into three main areas: appointing governing board members who oppose tuition increases, campaigns to pressure colleges to slow increases without taking formal legislative action, and explicit limits on tuition and/or fee increases.
- Research has shown that tuition and fee caps and curbs have limited effectiveness in improving college affordability. This is because colleges subject to tuition caps tend to raise fees at higher rates than other colleges, and colleges subject to fee caps raise tuition at higher rates.
- It is important to take a step back and review whether tuition caps or curbs are an appropriate policy for the state to consider. Limiting tuition increases may not be in the best interest of students if the additional resources a college receives from additional tuition can be used to substantially improve student outcomes.
- If a state wants to implement a limit on tuition and fee increases, it should consider two key design principles. First, it may want to allow limits to vary across colleges to account for historical and current differences in state funding levels. Second, limits should be predictable and fair to colleges. An example of this would be tying limits to a combination of inflation and state funding changes.

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[1] State Higher Education Executive Officers (2016). *State higher education finance FY15.* Boulder, CO: Author.
[2] Delaney, J. A., & Doyle, W. R. (2011). State spending on higher education: Testing the balance wheel over time. *Journal of Education Finance, 36*(4), 343-368.
[3] Baum, S. (2017). *State higher education financing models.* Minneapolis, MN: Midwestern Higher Education Compact.

tuition and fees can be increased in a given year. These tuition and fee controls take three main forms, each of which is discussed in this brief. The next section details how often they are used and the body of research on whether they are effective in achieving their ultimate goal. This brief concludes with three Midwestern states' tuition and fee policies presented as case studies before offering recommendations for policymakers to consider when adopting tuition controls.

## TUITION AND FEES IN THE MIDWEST

Colleges typically use tuition dollars to support the institution's core academic functions, while fees (which are sometimes approved by a vote of the student body) are usually used to support student services or activities. Regardless of whether charges are listed under tuition or fees, the listed prices faced by students have significantly increased over time. As shown in Table 1, between the 2004-05 and 2016-17 academic years, the average state saw tuition and fees increase at 36% above the rate of inflation at public two-year colleges and 48% faster than inflation at public four-year colleges.[4] In the Midwest, price increases were somewhat smaller, averaging 29% above inflation at two-year colleges and 33% above inflation at four-year colleges. Among two-year colleges, Ohio and Minnesota had the smallest increases (12%), while Illinois had a 54% increase, and South Dakota had a 64% increase. Ohio, which had by far the highest tuition in 2004-05, saw a 2% decrease in tuition and fees after accounting for inflation. On the other hand, Illinois had a 61% increase, and Kansas had a 65% increase.

A number of factors are contributing to the rise in listed tuition and fee prices. The most-discussed reason for rising prices is the decline in real per-student state appropriations. A recent study found that a $1,000 decline in per-student funding was associated with a $318 increase in tuition and fees at four-year colleges, which explains about 41% of price increases since the Great Recession.[5] Another factor is rapidly rising costs for employee compensation, particularly regarding health care and retirement benefits.[6] Similar to other service industries with highly-educated workers, colleges are unable to substantially reduce costs without affecting quality by relying more heavily on technology.[7] Finally, students themselves are contributing to rising fee levels to at least some extent. Students can often vote to implement fees to support student activities, athletics, or new facilities. At some colleges, fees for athletics alone can reach $1,500 per year.[8]

**TABLE 1.** Tuition and fee charges by state, 2004-05 and 2016-17 academic years

| | Public two-year colleges | | | Public four-year colleges | | |
|---|---|---|---|---|---|---|
| State | 2004-05 | 2016-17 | Pct change | 2004-05 | 2016-17 | Pct change |
| Illinois | $2,528 | $3,890 | 54% | $8,251 | $13,278 | 61% |
| Indiana | $3,283 | $4,407 | 34% | $7,429 | $9,201 | 24% |
| Iowa | $3,710 | $4,916 | 33% | $6,870 | $8,271 | 20% |
| Kansas | $2,245 | $2,885 | 29% | $5,390 | $8,917 | 65% |
| Michigan | $2,535 | $3,596 | 42% | $7,997 | $12,464 | 56% |
| Minnesota | $4,822 | $5,377 | 12% | $8,212 | $10,952 | 33% |
| Missouri | $2,734 | $3,246 | 19% | $7,540 | $8,632 | 14% |
| Nebraska | $2,240 | $2,979 | 33% | $5,997 | $7,883 | 31% |
| North Dakota | $3,812 | $4,399 | 15% | $5,852 | $7,884 | 35% |
| Ohio | $4,067 | $4,535 | 12% | $10,465 | $10,266 | -2% |
| South Dakota | $3,856 | $6,318 | 64% | $5,524 | $8,138 | 47% |
| Wisconsin | $3,692 | $4,294 | 16% | $6,630 | $8,928 | 35% |
| Midwest Average | $3,294 | $4,237 | 29% | $7,180 | $9,568 | 33% |
| National Average | $2,988 | $4,069 | 36% | $6,463 | $9,581 | 48% |

Source: *Trends in College Pricing.*
Note: All values are inflation-adjusted into 2016 dollars using the Consumer Price Index.

## METHODS TO REDUCE TUITION INCREASES

States have taken a variety of steps to try to keep tuition at public colleges and universities in line, three of which are

[4] Ma, J., Baum, S., Pender, M., & Welch, M. (2016). *Trends in college pricing.* Washington, DC: College Board.
[5] Webber, D. A. (2017). State divestment and tuition and public institutions. *Economics of Education Review.* doi: 10.1016/j.econedurev.2017.07.007.
[6] Commonfund Institute (2016). *2015 Higher Education Price Index.* Wilton, CT: Author.
[7] Archibald, R. B., & Feldman, D. H. (2008). Explaining increases in higher education costs. *Journal of Higher Education, 79*(3), 268-295.
[8] Wolverton, B., Hallman, B., Shifflett, S., & Kambhampati, S. (2015, November 15). The $10-billion sports tab: How colleges are funding the athletics arms race. *The Chronicle of Higher Education*. http://www.chronicle.com/interactives/ncaa-subsidies-main#id=table_2014.

commonly used across states. Whereas informal approaches involve appointing trustees who oppose tuition increases and exercising political pressure, formal methods use explicit caps on how much tuition and fees can increase.

## *Method 1: Appointing Trustees Who Oppose Tuition Increases*

Trustees at four-year public colleges are generally appointed by state governors, with the state senate often having to approve these appointments.[9] In the Midwest, Michigan and Nebraska are notable exceptions in which trustees are elected—a more common practice at the two-year level. Governors and legislators are able to select trustees based on a wide range of criteria. Although some states require balance in partisan political affiliation or geographic location, they are free to choose individuals with certain policy preferences that meet those criteria. This creates the possibility that policymakers can appoint trustees who are particularly opposed to tuition increases, although this is difficult to fully track or examine empirically.

## *Method 2: Implicit Caps on Tuition and Fees That Are Not Explicitly in State Statutes*

State policymakers can pressure colleges to reduce tuition and fee increases by threatening to withhold appropriations to institutions that raise prices by more than the desired amount. Nearly half of the 34 states participating in the most recent survey of state higher education executive officers reported that politicians had an informal role in the tuition-setting process, and this informal role can take the form of subtle—or not-so-subtle—pressures.[10] Because these informal roles are not always clearly written into state statutes, it is difficult to determine in many cases exactly when legislators or governors can informally influence tuition and fees.

An example of an implicit cap on tuition that could actually be documented recently occurred in Pennsylvania. In 2015, the state's new governor was willing to increase appropriations to the Pennsylvania State System of Higher Education by 11% for the 2015-16 academic year—but only if the system's board froze in-state tuition. This demand bitterly divided the board, but they ended up passing the resolution on a 9-8 vote.[11] However, the tuition freeze for that year was eventually replaced by a 3.5% tuition increase after the state was unable to pass a budget by the start of the academic year.[12]

## *Method 3: Explicit Caps on How Much Tuition and Fees Can Increase*

The most straightforward way to limit tuition and fee prices is to pass legislation prohibiting colleges from raising their prices more than a specified amount. Twenty-seven of 44 state higher education agencies that responded to a recent survey indicated that they were subject to tuition caps or curbs in the 2016-17 academic year. Approximately half of the states that were represented in the survey had implemented a tuition freeze or limit—with freezes being more common than limits.[13] Limits on student fees are far less common, as many states prefer to leave that matter to individual colleges, particularly in the case of fees that are voted on with student approval.

Table 2 shows that although more Midwestern states had frozen tuition in previous years (such as South Dakota and Ohio), the only state to freeze tuition in the 2017-18 academic year was Wisconsin (for the University of Wisconsin System only). Five other states (Michigan, Minnesota, Missouri, North Dakota, and Ohio) had mandated caps on tuition increases of between one and six percent for various sectors. The other six states did not have tuition caps or curbs in place, even as some institutions voluntarily froze tuition in these states.

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[9] Schwartz, M. P. (2010). *Policies, practices, and composition of governing boards of public colleges, universities, and systems.* Washington, DC: Association of Governing Boards of Universities and Colleges.
[10] Carlson, A. (2013). *State tuition, fees, and financial assistance policies for public colleges and universities.* Boulder, CO: State Higher Education Executive Officers Association.
[11] Esack, S. (2015, April 9). Pennsylvania higher education board reluctantly approves Gov. Tom Wolf's tuition freeze 'ultimatum.' *The Morning Call*. Accessed from http://www.mcall.com/news/nationworld/pennsylvania/mc-pa-wolf-budget-higher-education-20150409-story.html.
[12] Palochko, J. (2015, July 10). Despite Wolf's plea for freeze, tuition going up at Pennsylvania's state-owned universities. *The Morning Call*. Accessed from http://www.mcall.com/news/local/pa--state-universities-tuition-20150709-story.html.
[13] Armstrong, J., & Carlson, A. (2017). *State tuition, fees, and financial assistance policies: Initial findings.* Boulder, CO: State Higher Education Executive Officers. This reflects preliminary results that do not include all respondents; a complete version of the report is scheduled to be released later in 2017.

**TABLE 2.** Tuition caps and curbs in Midwest states, 2017-18

| State | Mandatory tuition cap or curb for in-state students |
|---|---|
| Illinois | None, but University of Illinois froze tuition |
| Indiana | None, but Purdue University froze tuition |
| Iowa | None |
| Kansas | None |
| Michigan | Cap at greater of 3.8% or $475 for four-year colleges |
| Minnesota | Cap at 1% for two-year colleges |
| Missouri | Cap at 2.1% (linked to Consumer Price Index) for four-year colleges and the State Technical College of Missouri |
| Nebraska | None |
| North Dakota | Cap at 3% for all colleges (4% allowed under certain circumstances) |
| Ohio | Cap at 6% for four-year colleges |
| South Dakota | None |
| Wisconsin | Tuition freeze at University of Wisconsin System institutions |

Source: Author's review of state websites and news articles.

## STATE EXAMPLES

Many states use one or more of the three above methods of controlling tuition in an effort to improve college affordability. Unfortunately, these efforts have been unsuccessful to at least a certain extent in making college more affordable for students and their families. For example, one nationwide study found that imposing a cap on tuition was associated with a 12% increase in total tuition and fee charges after controlling for other factors.[14] Another national study concluded that although fee caps were associated with lower fee levels, tuition rates increased by about $59 as colleges substituted fee dollars for tuition dollars.[15] Efforts to impose tuition controls in Illinois, Michigan, and Missouri also appear to have had little to no success in improving college affordability.

### *Illinois*

Illinois is one of a growing number of states that requires public colleges to offer guaranteed tuition programs, in which incoming students at four-year colleges will have their tuition rate frozen for four years. Guaranteed tuition policies have the goal of both providing tuition certainty for students and families and also trying to make college more affordable. At least ten states now have adopted these policies for at least some colleges as of 2017, but Illinois was one of the first states to enact such legislation in 2003 and thus the state's policy has been subject to empirical research.[16]

One concern with guaranteed tuition plans is that colleges have to project future revenue (including appropriations) against future expenses, both of which tend to be quite volatile. Illinois has been an extreme example of volatility, having recently gone more than two years without a budget and an underfunded state pension plan claiming a larger percentage of state funds. In an effort to stabilize projected revenue, research has shown that Illinois public colleges charged students 6% to 7% more than colleges in other states that were not subject to guaranteed tuition programs.[17] Illinois colleges also increased fees up to 40% more than did colleges in other states, as they were not subject to the cap and were thus used as a supplemental revenue source that could be adjusted from year to year as necessary.[18] Additionally, the state reduced its appropriations by about 20% relative to other states as legislators saw that colleges had a stable funding source from tuition.[19]

### *Michigan*

In order for Michigan public universities to receive performance-based funding dollars, they must keep tuition increases below a state-specified cap that varies each year based on state funding levels. This effectively serves as a weak tuition cap, which could help restrain colleges thinking of increasing tuition just above the cap. For example, since the cap in the 2015-16 academic year was 3.2%, nearly all public universities (13 of 15) had only modest tuition increases, ranging from 2.6% to

[14] Kim, M. M., & Ko, J. (2015). The impacts of state control policies on college tuition increase. *Educational Policy, 29*(5), 815-838.
[15] Kelchen, R. (2016). An analysis of student fees: The roles of states and institutions. *The Review of Higher Education, 39*(4), 597-619.
[16] Armstrong, J., & Carlson, A. (2017). *State tuition, fees, and financial assistance policies: Initial findings.* Boulder, CO: State Higher Education Executive Officers.
[17] Delaney, J. A., & Kearney, T. D. (2015). The impact of guaranteed tuition policies on postsecondary tuition levels: A difference-in-difference approach. *Economics of Education Review, 47*, 80-99.
[18] Delaney, J. A., & Kearney, T. D. (2016). Alternative student-based revenue streams for higher education institutions: A difference-in-difference analysis using guaranteed tuition policies. *The Journal of Higher Education, 87*(5), 731-769.
[19] Delaney, J. A., & Kearney, T. D. (2015). Guaranteed tuition policies and state general appropriations for higher education: A difference-in-difference analysis. *Journal of Education Finance, 40*(4), 359-390.

3.19%. But Eastern Michigan University and Oakland University decided to increase tuition by far larger amounts (7.9% and 8.5%, respectively) and forgo the state performance funding allocation. These institutions had to forfeit $2.3 million in state funds in 2015-16 and the legislature docked their 2016-17 appropriations by $400,000 each as an additional penalty. However, since the universities were able to keep an additional $22 million in tuition above the tuition cap, the decision made financial sense.[20]

### *Missouri*

Missouri enacted one of the nation's most stringent caps on tuition in 2009 by limiting in-state tuition and required fee increases to the Consumer Price Index and fining a college five percent of its appropriations if it exceeded that cap.[21] This is a far larger penalty than that of Michigan, which effectively fines a college about one percent of its total appropriations. Although colleges can petition for larger increases if circumstances warrant, Missouri has still seen some of the smallest tuition increases in the country. However, a recent investigation from the state's auditor questioned the effectiveness of the tuition cap as supplemental fee levels increased by 112% per FTE student between 2009 and 2015.[22]

## CONCLUSION

States have used tools such as the appointment of governing board members, pressure campaigns to keep tuition and fees low, and explicit limits on tuition and fee increases in an effort to make college more affordable for students and their families. Although it is difficult to evaluate the effectiveness of the first two methods due to data limitations, the challenges the three featured states have faced in trying to lower the price of a college education through tuition and/or fee caps or controls are typical of most states that have pursued these policies. Accordingly, it is important to take a step back and review whether tuition caps or curbs are an appropriate policy for the state to consider. Limiting tuition increases may not be in the best interest of students if the additional resources a college receives from additional tuition can be used to substantially improve student outcomes. Research suggests a link between expenditures and graduation rates at public colleges, so a modest increase in tuition and fees may be better than no increase at all if the money is used wisely.[23] However, if a state wishes to adopt limits on tuition and fee increases, it should consider the following guidelines:

- States should consider whether all colleges should be subject to the same limits in increasing tuition. Most states allow colleges to increase tuition and/or fees by a uniform percentage, which results in colleges with higher initial prices to generate more additional revenue each year than colleges that started out with lower prices. This can reinforce resource inequities across colleges while providing less of an incentive for higher-priced colleges to become more efficient. States may want to allow for differential caps based on initial tuition and fee rates, or alternatively use dollar caps instead of percentage caps.
- States should determine which sources of revenue (if any) colleges can increase in the presence of tuition controls. If the cap only covers tuition, then institutions are permitted to increase fees, and vice versa. In another example, colleges in many states have turned to out-of-state or international students in an effort to raise money, but that has been shown to displace underrepresented state residents from selective public colleges.[24]
- Any tuition and fee limits should be based on predictable formulas that are easy for colleges and members of the general public to understand. Tying changes in prices to changes in state appropriations and the Consumer Price Index would meet these goals and serve as a way to keep colleges' revenue reasonably predictable. Unpredictable formulas may encourage colleges to seek the maximum possible increase allowed each year in case future limits do not match increases in unavoidable expenses.
- States should also consider whether they want to effectively block colleges from going over the cap in a

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[20] Bowerman, B. (2015). *Tuition restraint: FY 2011-12 through 2015-16.* Lansing, MI: Michigan Senate Fiscal Agency. Bowerman, B., & Peterson, M. (2016, October). Fiscal Year 2016-17 higher education appropriations report. Lansing, MI: Michigan Senate Fiscal Agency.
[21] Cook, M. (2007, August 11). MU tuition, funding increases both exceed tuition rate. *Columbia Business Times*. Accessed from http://columbiabusinesstimes.com/2007/08/11/mu-tuition-funding-increases-both-exceed-inflation-rate/.
[22] Office of Missouri State Auditor (2016). *Public higher education funding and affordability*. Jefferson City, MO: Author.
[23] Crisp, G., Doran, E., & Salis Reyes, N. A. (2017). Predicting graduation rates at 4-year broad access institutions using a Bayesian modeling approach. *Research in Higher Education*. doi: 10.1007/s11162-017-9459-x.
[24] Jaquette, O., Curs, B. R., & Posselt, J. R. (2016). Tuition rich, mission poor: Nonresident enrollment growth and the socioeconomic and racial composition of public research universities. *Journal of Higher Education, 56*(6), 635-673.

given year by using a reasonable penalty for violating the cap. A penalty that is very small may do little to restrain prices, but a penalty that is too large may leave colleges with little recourse for compensating with insufficient state appropriations. Missouri provides a model for colleges to put forth a proposal to justify larger tuition increases to meet strategic needs. Colleges that receive permission to raise tuition at higher rates should then be prepared to show that the additional funds have been used to improve student outcomes.

MIDWESTERN HIGHER EDUCATION COMPACT

105 Fifth Avenue South, Suite 450
Minneapolis, MN 55401
612-677-2777 or 855-767-MHEC
www.MHEC.org | mhec@mhec.org

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**AUTHOR**

**Robert Kelchen,**
Assistant Professor, Department of Education Leadership, Management and Policy, Seton Hall University.

**EDITORS**

**Aaron S. Horn,**
Director for Policy Research, Midwestern Higher Education Compact
aaronh@mhec.org

**Noe Ortega,**
Managing Director, National Forum on Higher Education for the Public Good

**RESEARCH SUPPORT**

**Jeremiah Thompson,**
National Forum on Higher Education for the Public Good

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