Date: **October 27, 2021**

Subject: **Differential Tuition - Update**

Overview

For purposes of this brief, differential tuition is defined as variation in tuition rates, based on student or instructional characteristics such as residency (in-state or out-of-state), level of study (undergraduate, graduate or professional), type of instruction (in class or online), class standing (under- or upper- classmen), or major or program of study (e.g. history or business). Some types of differential tuition, such as those by residency and level of study, have become a widespread, accepted practice among public institutions of higher education in the US, while others have remained more controversial and are enacted on a limited basis. Similarly, many institutions charge the same tuition but greater fees for classes or programs that have greater costs, such as lab requirements.

As state funding has declined, universities have increased tuition rates to help offset the loss of state funds, to help address inflationary increases in costs, and to help meet workforce demand for relatively more expensive programs, like engineering. Some programs cost more than others due to differences in faculty salaries, costs related to labs or other experiential learning techniques, specialized supplies, and student to faculty ratios. In conjunction with a responsibility-centered management (RCM) or activity based budgeting (ABB) model, differential tuition can help align resources and activities with the varying costs housed by colleges and departments. Most universities already partially do this by charging students higher course fees or lab fees for more expensive programs; differential tuition simply takes this a step further.

Like many institutions, the UW currently charges different tuition rates for our graduate, fee-based and certificate programs, and has higher tuition charges for non-resident students. This brief will therefore examine differing tuition charges for *undergraduate* students by class standing, major or program, or type of instruction, focusing on differential tuition for major or program.

Washington State Tuition Laws and Policies

The UW's ability to enact differential tuition for undergraduates is constrained by the fact that our undergraduate resident tuition rate is legislatively mandated. According to RCW 28B.15.067, the UW Board of Regents may reduce or increase full-time tuition and fees for all students other than resident undergraduates (including nonresident students, summer school students, and students in other self-supporting degree programs). As a result of legislation approved in 2015 (SB 5954), resident undergraduate tuition increases were reduced significantly then frozen for two years. Beginning with the 2017-18 academic year, institutions are authorized to increase tuition operating fees for resident undergraduates by no more than the average annual percentage growth rate in the median hourly wage for Washington for the previous fourteen years, which has been between 2.2 percent (FY18) and 2.8 percent (FY22) per year.

With laws as they currently are, the UW *is not prohibited* from changing or increasing the tuition and fees for non-resident undergraduates to allow for differential tuition. **The only option for resident undergraduate tuition differential would be to implement the maximum increase allowed by the legislature (2.8 percent as of FY22) for our most expensive programs and lower increases for other programs.** This would result in very little tuition differentiation and would not be an economically viable option, as it would result in less total revenue than increasing tuition for all resident undergraduate students by the full allowable amount.

The UW faces another challenge to implementing differential tuition due to the unit pricing model used by Washington's Guaranteed Education Tuition 529 plan. GET unit payouts are tied to the highest tuition charged by a public institution in the state (currently pegged to UW tuition). If the UW were to adopt differential tuition by program, it would trigger a new, relatively higher rate that exceeds current actuarial assumptions. GET payouts would consequently increase to the new, higher level and the funded status of the program as a whole could be compromised. This was more of a concern, however, during the economic downturn, when GET ran into solvency issues due to the combined forces of double-digit tuition growth and the falling value of its investments.

Differential Tuition at Peer Institutions

An analysis of differential tuition authority and policies, state funding and tuition revenue per FTE, and other information is available here, which was sourced from data from the Association of American Universities (AAU) and institution websites. Important trends and findings are as follows:

According to the undergraduate tuition charges reported to the AAU, **more than half (57 percent) of our peer institutions have differential tuition rates**. If institutions with multiple campuses are counted as one group (there are seven schools in the University of California System and two schools in the State University of New York system that are part of our AAU peers, all of which do not have differential tuition), then 71 percent have differential tuition. For those institutions with undergraduate differential tuition rates, most were by major or program area (engineering, nursing, and business being the most common), with a few by level of study or both.

Important trends appear when examining the UW's core instructional funding (from state appropriations and tuition revenue) per full-time (FTE) student.[1] **Of the 36 institutions included in our AAU peer list, the UW is among the lowest third for state appropriations per FTE and highest third for tuition revenue per FTE.** This distribution leaves a greater percentage of instructional cost to be covered by students and families. As many public institutions experienced significant state budget cuts during the Great Recession, necessitating higher tuition rates, this shift to relying more on tuition than state funding is not a unique problem for the UW. However, the UW does appear to face the greatest constraints compared to our peers. **Of our AAU peers in the lowest third for state appropriations per FTE, the majority (10 of 12 institutions, or 83 percent) have differential tuition and do not have any regulations requiring tuition caps or freezes. Importantly, the institutions in this same group that *are* subject to tuition regulations are able to raise tuition by a higher percentage, ranging from 4.4 to 5 percent, compared to the 2.8 percent allowed for the UW in FY22.** Conversely, of our AAU peers in the highest third for state appropriations per FTE, the majority (8 of 12 institutions, or 75 percent) do not charge differential tuition.

The Education Commissions of States released a 50-State Comparisons report that examines tuition setting authority at public, four-year institutions of higher education. Of our AAU peers, only one state, Georgia, reported that the highest level of policy where tuition setting authority is granted is by board rule/policy. All other states reported the highest level was by legislative statute, in the state constitution, or by state rule. Florida is the only state where the tuition rate is directly set by the state legislature.

Many of the UW's peer institutions have debated or considered differential tuition over the last few years. Reasons for considering or adopting differential tuition include:

- The decline in state funding and increased reliance on tuition revenue;
- The costs associated with certain majors (e.g. computer science and engineering) are becoming more expensive;[2] and
- The balancing act between providing high quality education and keeping education affordable and accessible, especially for low-income students in low-diversity, high-demand fields, as considerations in the debate.[3]

[1] Adjusting for inflation and considering tuition revenue from all tuition-based students, not just resident undergraduates.
[2] https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2017/06/01/why-universities-charge-extra-for-engineering-business-and-nursing-degrees
[3] http://senate.universityofcalifornia.edu/_files/underreview/rev_diff_fee_proposal.pdf

Other Considerations

While differential tuition for undergraduates is becoming more common, it is not always popular among the student body or their families. This can be especially concerning for lower income students who may have a harder time paying increased tuition, even if their major is likely to have a higher salary after graduation. Low-income students typically take on a greater debt-load to finance their tuition, fees, and living expenses.[4] Without strategic investment in financial aid and student support services, increased cost of a program with differential tuition could dissuade these students from more expensive areas of study, acting as another barrier to high-demand degrees and higher paying jobs in growing fields. Many high-demand, high-pay fields already lack diversity, and differential tuition could make this problem worse without thoughtful aid and support services strategies.

While many institutions rely on differential tuition, these data seem to suggest that those who do are less likely to be receiving significant state support. Implementing differential tuition at the UW would be challenging from a logistical, political, and student access perspective. Overall, there is no substitute for adequate state support for higher education institutions, which benefits students, families, and institutions far more than differential tuition policies.

[4] http://www.demos.org/sites/default/files/publications/Mark-Debt%20divide%20Final%20(SF).pdf