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The Impact of Cost-Containment Proposals Associated with the Reauthorization of the Higher Education Act

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Key Findings

Potential Results of Proposed Bill

1. Public institutions would be disproportionately subject to sanctions despite having lower tution and fees, on average, than private institutions.

2. Higher tuition institutions would not be sanctioned more frequently than lower tuition institutions.

Identifying Sanctioned Institutions

A list of all four-year public and private, non-religious controlled institutions, their tuition increases, and whether they would be subject to sanctions under proposed cost-containment provisions is posted at:

http://apa.wisc.edu/HEA.

About the Authors

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Summary

Various legislative bills associated with the reauthorization of the federal Higher Education Act have included provisions that target colleges and universities that persistently increase tuition at rates beyond a set threshold. Under these bills, such institutions would be publicly identified and subject to sanctions, although the details of these sanctions have varied from bill to bill. For example, versions of the College Cost Reduction Act of 2007 would assign *affordability alert status* to institutions that increase tuition at more than twice the rate of inflation over a three-year period and do not meet exemption conditions.[1]

This analysis uses publicly available tuition and fees information to answer three questions: (a) which universities have had tuition increases greater than twice the rate of inflation in recent years; (b) how does the rate of change in tuition divided by the rate of inflation relate to tuition; and (c) are the institutions charging the highest tuition most frequently those that would be subject to sanctions?

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This analysis demonstrates that public institutions would be disproportionately subject to sanctions even though they have lower tuition and fees on average than private institutions. Overall, 47% of public institutions (median tuition and fees of $5,142) would be subject to sanctions under proposed legislation as compared to 28% of private institutions (median tuition and fees of $19,762). The highest tuition institutions—mostly private colleges and universities—are protected from sanctions because they can make substantial dollar increases in tuition without reaching the threshold percentage increase. The sanctions would impact hundreds of colleges and universities; they would be required to shift spending from serving students to complying with sanctions.

Cost-Containment Provisions: A Recurring Theme

Cost-containment provisions are included in the College Cost Reduction Act of 2007 and have been present in previous legislation related to the Higher Education Act[1]. Generally, these provisions call for colleges and universities that raise tuition at rates above a specific threshold to be publicly labeled as unaffordable and subject to sanctions. These provisions have appeared repeatedly in legislation, which suggests they have achieved a level of credibility.

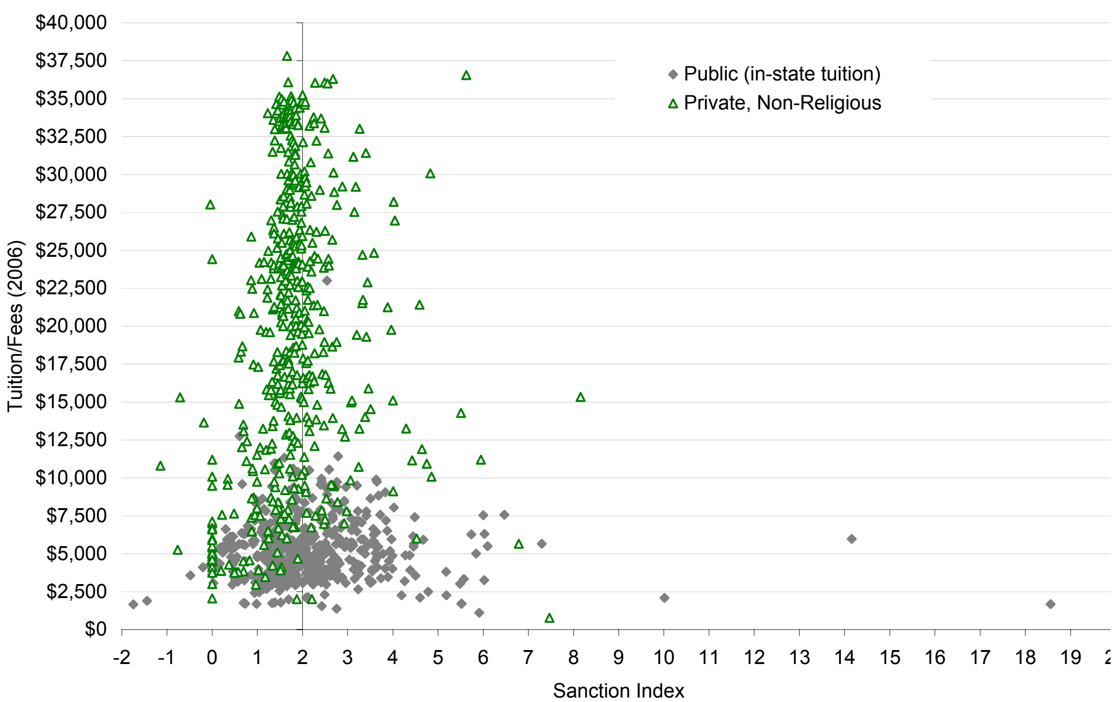
Implicit in these provisions are three assumptions: (a) the rate of tuition increase is a valid and sufficient measure of affordability; (b) identifying such institutions and applying sanctions would have the desired impact on cost containment; and (c) this information would be useful to prospective students and their families as they make college attendance decisions. Although this analysis does not test these assumptions, it may be useful to others who plan to examine them more closely.

This analysis applies one version of the cost containment provisions to answer three questions: (a) which colleges and universities have had tuition increases sufficiently high to be placed on the list of sanctioned institutions; (b) how does the metric—the rate of tuition change divided by the rate of inflation—relate to tuition and alleged affordability; and (c) are the highest tuition institutions most frequently those that would be subject to sanctions?

Sanctioned Institutions

Tuition and fees information is collected from every college and university and made publicly available by the Department of Education[2], and the Consumer Price Index (CPI) is publicly available through the Bureau of Labor Statistics[3]. These two pieces of information can be used to create a list of institutions that would be sanctioned, as defined in recent legislation[1], and to evaluate the relationship of tuition increases and inflation to the dollar amount of tuition. The reference metric—the rate of tuition change divided by the rate of inflation over a three-year period—is termed the *sanction index* in this analysis. Based on recent legislation, if an institution's rate of increase for tuition and fees is more than twice the rate of inflation (sanction index > 2), then it is subject to sanctions. Exemptions from additional sanctions would be allowed for institutions with tuition below a certain threshold and tuition increases below a certain dollar amount. Figure 1 shows the

Figure 1
Sanction Index as a Function of Tuition and Fees for Public and Private Colleges and Universities



(Sanction Index = Rate of Tuition and Fees Change[2]/Rate of Inflation[3])

Each point represents a single institution. Institutions that increased tuition and fees more than twice the rate of inflation (sanction index > 2) would be subject to sanctions.

Higher tuition institutions are not necessarily the ones that would be sanctioned.

relationship between the sanction index and tuition and fees, compares public institutions to private non-religious institutions, and illustrates the extent to which institutions would be subject to sanctions.

Table 1 illustrates how the cost-containment provisions apply to three large public research universities[4]. The University of Wisconsin–Madison charged $6,726 for undergraduate resident tuition and fees in 2006-07 and increased tuition $864 from 2004 to 2006. Consequently, it has a sanction index of 2.2 and would therefore be subject to sanctions. Thirty-five public institutions had increases of in-state tuition and fees that were greater in dollar amount than UW–Madison's increase, but they would not be subject to sanctions because they did not increase tuition and fees at more than twice the rate of inflation. Because these institutions had higher in-state tuition and fees at the beginning of the three-year period, higher dollar increases translated into lower percentage increases.

Public Institutions Take the Brunt of Sanctions

Among public four-year colleges and universities, 278 of 587 institutions (47%) increased tuition and fees at more than twice the rate of inflation over a three-year period, based on in-state tuition (see Table 2, p. 4). In-state tuition and fees (2006-07) at these 278 institutions ranged from $1,104 to $22,997; their average tuition and fees were $5,383. Exemptions from additional sanctions due to low tuition would apply to 69 of the 278 institutions.

Among private, non-religious controlled universities, 145 of 526 institutions (28%) increased tuition and fees at more than twice the rate of inflation. Tuition and fees (2006-07) at these 145 institutions ranged from $775 to $36,550; their average was $20,257. Exemptions due to low tuition would apply to 23 of the 145 institutions.

Of public institutions with tuition in the top one-third of the group (median tuition of $7,182), nearly half (48%) would be subject to sanctions. By contrast, only 28% of private institutions with tuition in the top one-third of that group (median tuition of $30,060), would be subject to sanctions. Higher tuition institutions are not necessarily the ones that would be sanctioned. This is illustrated graphically by plotting the ratio of rates in tuition increase to the rate of inflation (sanction index) against tuition and fees (see Figure 1, p. 2). The sanction index does not increase as tuition and fees increase.

Many colleges and universities have been making tuition increases that exceed these proposed thresholds for affordability and cost containment (47% of public institutions and 28% of private institutions). Public institutions would disproportionately take the brunt of a legislated requirement even though private institutions have higher tuition and fees and more autonomy in setting them.

Table 1
Cost-Containment Provisions Applied to Three Large Public Universities

	In-State Tuition		2004 to 2006 Increase			Subject to Sanctions
	2004	2006	$	%	Sanction Index	
Penn State University	$10,856	$12,164	$1,308	12.0	1.78	No
University of Minnesota–Twin Cities	$8,230	$9,173	$943	11.4	1.70	No
University of Wisconsin–Madison	$5,862	$6,726	$864	14.7	2.20	Yes

(Sanction Index = Rate of Tuition and Fees Change[2]/Rate of Inflation[3])

Table 2
Summary of Public and Private Institutions Subject to Sanctions

	Public Institutions		Private Non-Religious Institutions
	Resident (In–State)	**Non-Resident**	
All Institutions			
Number of Institutions	587	587	526
Number Over 2.0 Sanction Index Threshold	278	195	145
Percent Sanctioned	47%	33%	28%
Number that are Exempt from Additional Sanctions	69	47	23
Number with Additional Sanctions	209	148	122
Percent with Additional Sanctions	36%	25%	23%
Highest One-Third Tuition and Fees Institutions			
Number of Institutions	196	196	175
Maximum Tuition	$22,997	$29,132	$37,820
Median Tuition	$7,175	$16,506	$30,060
Number Over 2.0 Sanction Index Threshold	94	78	49
Percent Sanctioned	48%	40%	28%
Number that are Exempt	0	0	0
Percent with Additional Sanctions	48%	40%	28%
Middle One-Third Tuition and Fees Institutions			
Number of Institutions	196	195	176
Maximum Tuition	$5,860	$14,307	$24,342
Median Tuition	$5,142	$12,914	$19,762
Number Over 2.0 Sanction Index Threshold	91	58	57
Percent Sanctioned	46%	30%	32%
Number that are Exempt	0	0	0
Percent with Additional Sanctions	46%	30%	32%
Lowest One-Third Tuition and Fees Institutions			
Number of Institutions	195	195	175
Maximum Tuition	$4,302	$11,069	$14,010
Median Tuition	$3,423	$8,930	$7,825
Number Over 2.0 Sanction Index Threshold	93	59	39
Percent Sanctioned	48%	30%	22%
Number that are Exempt	69	47	23
Percent with Additional Sanctions	12%	6%	9%

Table 3
Maximum Tuition Increases Allowable at Selected Institutions without Incurring Sanctions

Institution	Public/Private	2004 Tuition	Actual Tuition Increase, 2004 to 2006	Subject to Sanctions*	Maximum Tuition Increase Allowable Without Incurring Sanctions
George Washington University	Private	$34,030	$3,790	No	$4,574
Carnegie Mellon University	Private	$31,036	$3,542	No	$4,172
Harvard University	Private	$30,620	$3,440	No	$4,116
Miami University–Oxford	Public	$19,642	$3,089	Yes	$2,640
Penn State University	Public	$10,856	$1,308	No	$1,458
University of Wisconsin–Madison	Public	$5,862	$834	Yes	$786
Berea College	Private	$516	$259	No	$69

*The maximum allowable tuition without incurring sanctions is a rate that is not more than twice the rate of inflation for the three-year period from 2004 to 2006. Berea College would be exempt because it is a very low tuition institution.

Conclusions

The idea of publicly identifying and penalizing institutions that raise tuition "too much" has shown up repeatedly in federal legislation associated with the Higher Education Act in response to national concerns about the rising cost of higher education for families. But proposed sanctions would not be a rare embarrassment for just a few universities. Instead, they would be a common label attached to hundreds of colleges and universities comprising nearly half of public institutions and more than a quarter of private, non-religious controlled institutions.

Sanctions would increase costs across the higher education sector.

If the threat of sanctions fails to keep tuition increases below a threshold rate, then the administrative burden associated with sanctions would persist. Sanctions would increase costs across the higher education sector and add bureaucracy within individual institutions as well as the Department of Education. In addition, the sanctions and their associated costs would disproportionately fall on public institutions. That nearly half of public institutions in this analysis had tuition increases exceeding twice the rate of inflation is a signal that pressures for these increases go beyond individual universities and have their roots in the broader landscape of the economics of higher education.

The highest tuition institutions—mostly private colleges and universities—are protected from sanctions and enjoy the flexibility to make substantial tuition increases without the stigma of sanctions. Even if the rate of tuition increase is held to just under the threshold (here twice the rate of inflation), it will increase the tuition gap among universities (see Table 3). Tying sanctions to the rate of inflation may encourage institutions to exploit and feed high inflationary pressures by increasing tuition at times when inflation rates are high. It may also have the unintended impact of prompting universities to always increase tuition at the highest rate possible without incurring sanctions.

This analysis leaves for other researchers and policymakers several relevant questions that may be evaluated in light of these findings. Some of these questions include: (a) is the rate of tuition increase a valid measure of college affordability; (b) would sanctions have any impact on cost containment; (c) would this information be useful to prospective students and their families; (d) what are the most effective approaches to keep college affordable for students; and (e) how might legislation be most effective in achieving that goal?

Notes

[1] Based on the June 12, 2007 version of the College Cost Reduction Act of 2007 (HR2669). Three levels of sanctions are prescribed in HR2669 for institutions with tuition increases more than twice the rate of inflation. The first level is a requirement for the institution and any other agency that controls the tuition to report on the factors contributing to the increase. The second level of sanctions applies to institutions that don't meet specific exemption conditions for low tuition and low dollar increases in tuition: they are placed on *affordability alert status*. The third level of sanctions applies to institutions with the highest rates of tuition increase. Such institutions must establish a "Quality Efficiency Task Force" comprised of a broad range of constituencies to review the operations of the institution.

[2] The Department of Education collects information on tuition and fees from all colleges and universities and makes that information available to the pubic through the National Center for Education Statistics. The IPEDS Peer Analysis System is intended for use by researchers (http://nces.ed.gov/ipeds/). Information on tuition and fees is available to consumers through the College Online Opportunities Locator (COOL) (http://nces.ed.gov/ipeds/cool/). Institutions that have not reported tuition and fees as required are not included in this analysis.

[3] The Consumer Price Index (CPI) used in the calculation of the sanction index was the non-seasonally adjusted, all items, current series index for All Urban Consumers (http://www.bls.gov/cpi/). This was the CPI specified in HR2669. The "annual" CPI was used for the calculation of inflation.

[4] The methodology could be applied to all colleges and universities. Herein the analysis is limited to four-year public institutions and four-year private, non-religious controlled institutions. A full list of four-year public institutions and four-year private, non-religious controlled institutions by name, tuition and fees, rate of tuition increase, and if the institution would be subject to sanctions is posted at: http://apa.wisc.edu/HEA.

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The Wisconsin Center for the Advancement of Postsecondary Education (WISCAPE) was established in 2001 to study the challenges confronting postsecondary education and to bring national and local university leaders, researchers, and policymakers together to discuss issues and solutions. The center promotes interaction among stakeholders through its research, programs, and publications.

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