
RESPONSE TO QUESTION ON NOTICE
Higher Education and Research Reform Amendment Bill 2014
9 October 2014
Group of Eight

Senator LINES: Sorry, Professor Young, is this an outcome of your research?

Prof. Young: It is, indeed. It is how we get to the final number. First of all, there is a factor of three across those institutions. This indicates a real market exists. The second thing we notice is that, although students could be charged their full international fee, almost none do that. In fact, on average, they charge about 70 per cent. The reason? Again, this is what the market will bear.

I used those two numbers when I gave a speech at the National Press Club about two months ago to speculate on the order of magnitude of fees that you might see. Let me follow through that argument as I did there. Let us take an international fee for an undergraduate student at the present time—about \$30,000. From that, I subtract the Commonwealth **component**—about \$10,000. That leaves me with \$20,000 as what you would have to charge the student to get the same as you do for an international student. Nobody does that at the master's level; they charge 70 per cent. Let us take 70 per cent of that figure—\$14,000. That was my back-of-the-envelope calculation, and this all has to be back-of-the-envelope because this is going to be a system where people will respond as the market dictates. I estimated \$14,000. People scoffed at me when I did that, but about a month later the University of Western Australia came out with a figure of \$16,000. Indeed, the difference between my figure and theirs is that they actually factored in, I believe, a 20 per cent cut to the CGS. You can simply use these order-of-magnitude estimates to come up with figures of \$14,000 or \$16,000—something of that order. Three times that gives you \$48,000, which is a lot less than \$100,000 for a degree. I think we are already starting to see institutions start to position themselves in the market. These are the sorts of levels I think we will see.

Senator LINES: Are you able to provide copies of that analysis or modelling to the committee?

Prof. Young: I am happy to do that. It is very simplistic and rudimentary, but I am happy to do that.

Senator LINES: Getting back to some evidence that Mr Gallagher just gave us, I think you said—please correct me if I am wrong—there is evidence that the fees for for-profits in the US are lower than not-for-profits. Is that what you said?

Mr Gallagher: Yes.

Senator LINES: Could you provide examples of that on notice?

Prof. Young: Yes, certainly.

Modelling of likely fees in a deregulated system

An indicative estimate of domestic fees in a deregulated environment can be obtained using international fees as a guide to what fees universities might charge, but recognising that a university receives direct Commonwealth funding for each Commonwealth-supported place, which will exert downward pressure on fees. Examination of fees data in currently unregulated coursework postgraduate places shows that domestic fees are on average set at roughly 70% of the international fee.

Hence an indicative estimate of domestic fees in a deregulated environment can be obtained by subtracting the Commonwealth contribution from the international fee, and multiplying the result by 0.7.

Applying this method using international fees at ANU gives domestic fees ranging from around \$12,000 a year (\$36,000 for a degree) in Visual and Performing Arts, up to \$20,000 a year (\$60,000 for a degree) in Psychology and Business (Table 1).

Table 1. Projected indicative domestic fees for undergraduate courses

Field	Indicative course fee	Length of course (years)	Indicative annual fee
Business	\$59,548	3	\$19,849
Humanities	\$42,275	3	\$14,092
Social studies	\$42,275	3	\$14,092
Psychology	\$59,724	3	\$19,908
IT	\$44,793	3	\$14,931
Visual/performing arts	\$36,126	3	\$12,042
Mathematics	\$38,644	3	\$12,881
Foreign languages	\$29,978	3	\$9,993
Science	\$38,644	3	\$12,881

Source: ANU international fees data (<http://students.anu.edu.au/fees/international/isf.php>); proposed new CGS funding rates (deflated to 2014 dollars)

Of course, these fees are indicative only, and are derived using the method described above, without regard to any other factors. ANU has not, as yet, considered what actual fees it might charge in a deregulated system. Table 1 assumes fee deregulation and the cuts to CGS (by field) announced in the Budget.

The indicative fees listed in Table 1 are broadly similar to fees announced by the University of Western Australia (\$16,000 per year for all undergraduate courses, or \$48,000 for a three year degree).

Both ANU and the University of Western Australia are Group of Eight universities, so their fees are likely to include a premium. It is likely that fees for some courses at other universities will be lower.

Undergraduate tuition fees at US public postsecondary institutions: additional information

Key points

- State funding of US public higher education has decreased by around one-quarter per student FTE since 2008, which has placed pressure on university budgets.
- Average published tuition and fees at public four-year colleges and universities increased by a corresponding 27% over the five years between 2008-09 and 2013-14.
- Published undergraduate tuition fees across 50 Flagship public universities for 2013/14 range from \$US 4,404 (Uni of Wyoming) to \$US 17,926 (Pennsylvania State Uni), with a median published fee of \$US 9,847.
- There are diverse arrangements for tuition-setting and university funding across US states with an emphasis on negotiated outcomes rather than outright legislative control. These arrangements shift quickly in response to changing economic or political circumstances.

Background

Previous analysis of fees in the US published by the Group of Eight focussed on average tuition prices across the sector. In this update, additional information is provided for tuition data at 50 flagship public institutions, and includes discussion of state government involvement in the regulation of tuition fees.

Context – US higher education system

While characterized by great diversity, American institutions of higher education are classified in general as follows:

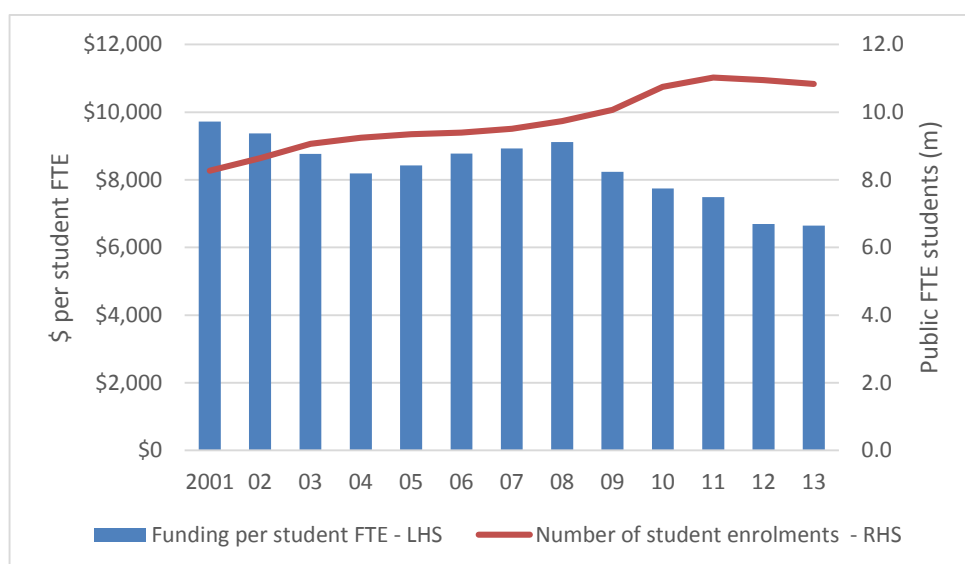
Undergraduate: Undergraduate study includes Associate Degrees and Bachelor Degrees. Associate Degrees are offered through Community and Junior Colleges and provide a two-year course beyond high school or secondary school. Courses can lead to employment, or transfer to a four-year college or university. 4 year Bachelor Degrees provide a generalist Bachelor of Arts (B.A.) or Bachelor of Science (B.S.) qualification, and qualify the graduate to apply for admission to a graduate school. *(Note the information shown in this report relates to 4 year Bachelor degree enrolments).*

Postgraduate: Graduate and Professional Schools provide post-university study leading to a Master's or doctoral degree. Training for many professions may only be taken as postgraduate study. Thus a law degree takes three years after completion of a four-year Bachelor's degree; medicine takes four years after a Bachelor's degree, and social work two. In other professional fields such as dentistry, veterinary medicine and architecture, four years of general college work is usually required before admission to the four-year professional program.

Resourcing of public institutions

In considering tuition fees at US higher education public institutions it is important to consider the overall resourcing environment of the sector, particularly the long term trend of shifting financing from state to private support. Since 1980, the proportion of revenues for public institutions provided by state funding has been in decline, and student tuition prices have increasingly taken the place of the taxpayer-funded state support¹ although within this longer time period state funding has oscillated according to economic conditions. The GFC compounded this trend as state governments grappled with budget challenges that has resulted in significant reductions for public funding of higher education from 2008. Total state appropriations for higher education fell 19% in real terms between 2007-8 and 2012-13. Additionally, enrolment numbers at public institutions increased by 1.1 million or 11% over the same period, resulting in a subsequent drop in public revenue per student of almost \$2,500 per student FTE, or 27%. This trend data is shown in Figure 1.

Figure 1: State and Federal appropriations per FTE student (at 2012 prices), and number of students at public institutions, 2001 - 2013.



Source: The College Board, Annual Survey of Colleges 2013 Figs 14AB

These declines in per student state appropriations have, overall, been matched by corresponding proportional increases in public four-year college tuition and fees. Average published tuition and fees at public four-year colleges and universities rose by a corresponding 27% over the five years between 2008-09 and 2013-14². Academic staff salaries have also been affected with the average salary of full-time faculty at 4 year institutions decreasing by 3% in real terms between 2009 and 2013³.

¹ Geiger, R and Heller, D (2011) Financial Trends in Higher Education: The United States, in Peking University Education Review.

² Collegeboard Trends in College Pricing 2013 <http://trends.collegeboard.org/sites/default/files/college-pricing-2013-full-report-140108.pdf> p.15

³ National Centre for Educational Statistics, Digest of Education Statistics Table 316.10

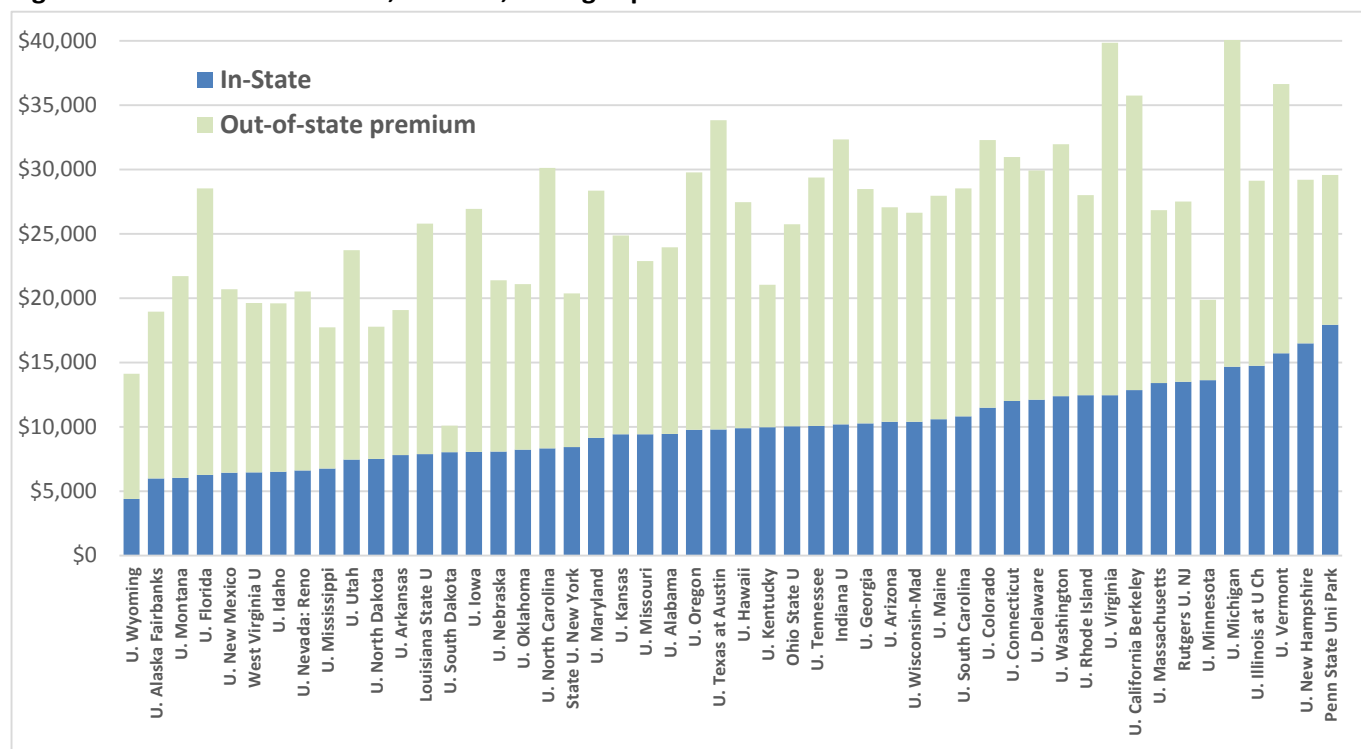
Student tuition rates at public Flagship universities.

Figure 2 ranks 50 institutions according to their in-state tuition fee for 2013/14, and also includes the out-of-state price premium. Table 1 lists all of these institutions in more detail including the real change in price over the last 5 years and the proportion of students who enrol as in-state students. The median in-state tuition fee for these 50 institutions in 2013/14 was \$9,847 with a median increase over 5 years of 22.7%.

Out-of-state tuition fees can be used by institutions to supplement in-state tuition fee income, and in a few states there is actually a majority of students that are liable for the out-of state premium - for example in Vermont three-quarters of students reside outside the state.

Note that the fees shown here are the average 'sticker price' tuition fees that do not take into account student grant aid, which averaged \$5,770 per undergraduate student at a 4 year institution in 2013.

Figure 2: Published tuition fees, 2013-14, at Flagship universities



Source for figure 2 and Table 1: The College Board, Annual Survey of Colleges 2013 Table 6

Table 1: Published tuition fees, 2013-14 (in \$US 2013) and change over 5 years at Flagship universities.

University	In-State Fees	Real change over 5 years*	Out-of-State Fees	% students in-state	Student FTE
University of Wyoming	\$4,404	14.5%	\$14,124	50%	8,309
University of Alaska Fairbanks	\$5,988	16.8%	\$18,948	89%	3,609
University of Montana	\$6,045	10.5%	\$21,719	74%	9,855
University of Florida	\$6,263	55.6%	\$28,540	88%	29,984
University of New Mexico	\$6,447	25.6%	\$20,688	88%	16,130
West Virginia University	\$6,456	19.2%	\$19,632	42%	21,118
University of Idaho	\$6,524	32.6%	\$19,600	70%	8,097
University of Nevada: Reno	\$6,603	36.3%	\$20,513	75%	12,399
University of Mississippi	\$6,760	24.6%	\$17,728	48%	14,691
University of Utah	\$7,457	32.9%	\$23,736	70%	17,297
University of North Dakota	\$7,508	8.5%	\$17,793	32%	9,655
University of Arkansas	\$7,818	15.0%	\$19,075	53%	17,687
Louisiana State University and Agric College	\$7,880	45.9%	\$25,798	79%	22,567
University of South Dakota	\$8,022	29.6%	\$10,104	61%	4,597
University of Iowa	\$8,061	16.0%	\$26,931	47%	19,449
University of Nebraska - Lincoln	\$8,075	15.5%	\$21,403	77%	17,766
University of Oklahoma	\$8,233	4.4%	\$21,104	60%	18,780
University of North Carolina at Chapel Hill	\$8,340	45.5%	\$30,122	83%	17,506
State University of New York at Buffalo	\$8,426	26.2%	\$20,366	82%	17,604
University of Maryland: College Park	\$9,161	7.8%	\$28,347	69%	24,364
University of Kansas	\$9,422	22.0%	\$24,873	68%	16,562
University of Missouri: Columbia	\$9,430	4.7%	\$22,882	63%	25,046
University of Alabama	\$9,450	39.0%	\$23,950	45%	25,109
University of Oregon	\$9,763	42.9%	\$29,788	48%	18,820
University of Texas at Austin	\$9,790	8.0%	\$33,824	89%	36,724
University of Hawaii at Manoa	\$9,904	49.0%	\$27,472	68%	11,721
University of Kentucky	\$9,966	21.3%	\$21,052	67%	19,109
Ohio State University: Columbus Campus	\$10,037	8.9%	\$25,757	75%	38,708
University of Tennessee: Knoxville	\$10,062	51.6%	\$29,384	84%	19,480
Indiana University Bloomington	\$10,209	16.8%	\$32,350	61%	30,845
University of Georgia	\$10,262	74.7%	\$28,472	88%	24,416
University of Arizona	\$10,391	76.9%	\$27,073	60%	28,063
University of Wisconsin-Madison	\$10,403	29.4%	\$26,653	56%	27,883
University of Maine	\$10,600	9.7%	\$27,970	73%	7,477
University of South Carolina	\$10,816	15.2%	\$28,528	54%	21,527
University of Colorado at Boulder	\$11,481	48.5%	\$32,297	57%	23,474
University of Connecticut	\$12,022	21.2%	\$30,970	71%	16,587
University of Delaware	\$12,112	31.9%	\$29,932	40%	15,896
University of Washington	\$12,397	69.0%	\$31,971	67%	25,995
University of Rhode Island	\$12,450	35.1%	\$28,016	48%	11,863
University of Virginia	\$12,458	23.4%	\$39,844	65%	14,137
University of California: Berkeley	\$12,864	58.2%	\$35,742	71%	25,026
University of Massachusetts Amherst	\$13,415	21.3%	\$26,830	73%	20,177
Rutgers State Uni of New Jersey: New Brunswick	\$13,499	10.1%	\$27,523	87%	29,928
University of Minnesota: Twin Cities	\$13,618	20.6%	\$19,868	63%	28,063
University of Michigan	\$14,677	25.2%	\$40,392	58%	26,954
University of Illinois at Urbana-Champaign	\$14,750	13.5%	\$29,132	75%	30,730
University of Vermont	\$15,718	15.2%	\$36,646	23%	9,803
University of New Hampshire	\$16,496	32.1%	\$29,216	45%	12,282
Penn State University Park	\$17,926	15.9%	\$29,566	57%	37,619

*Percentage change using 2013 dollars

State government tuition fee controls

Tuition-setting authority for public colleges and universities—and hence, the level of legislators' control over tuition and fees at these institutions—is not uniform across states. Indeed the 'system' is as diverse in fee governance as the number of states. One common element though is that all tuition fee-setting strategy, however influenced by state legislation, is directly related to the level of state funding for higher education. This relationship results in fee setting requiring a negotiated outcome between institutions and state authorities to deliver the state's required outcomes within the institution's funding appropriations, rather than simply enshrining hard tuition fee caps into state legislation.

This negotiated outcome can result in trade-offs, especially in the current environment of constrained state budgets; for example options for a state may be to:

- guarantee funding levels to institutions in exchange for zero or moderated fee increases,
- provide incentives for capping fee increases between years, or
- de-regulate fee-setting entirely to compensate for reduced state funding.

Fee setting can also cover a number of different dimensions additional to the more obviously observed in-state fees, such as:

- altering out-of state arrangements (including residency requirements, establishing compacts or agreements with neighbouring states, providing additional out-of state fee setting flexibility to institutions),
- differentiating between 2 year and 4 year institution funding arrangements to balance state obligations with income flexibility,
- adjusting state aid provisions to offset student tuition costs.

The following state examples highlight some of the funding agreements that have recently been implemented. These highlight the diversity of state policies and their dynamic nature in responding to economic (and political) influences, in particular the current budget constraints; and also the close relationship between state allocations and tuition fee management.

- University of **California** raised tuition by 9.6 percent in 2012 as response to state budget cuts but will freeze tuition from 2013 to 2017 at the 2011-2012 level, subject to state annual funding increases of 4 to 5 percent.
- In **Maine**, the University System has proposed a tuition freeze in 2014 and 2015 if state support is held flat or increases. **Montana** and **Oklahoma** also reported tuition rate freezes.
- Major tuition flexibility legislation was implemented in Colorado, Florida, and Washington. In **Colorado**, the flexibility is for five years and allows governing boards to raise tuition as necessary to offset state funding reductions in exchange for increased accountability. **Florida** institutions can raise tuition up to 15% as long as the base tuition, set by the legislature, and the university increase do not exceed 15% in total. **Washington's** policy was originally for eight years and institutions could take advantage of increased tuition flexibility in exchange for putting more funding into institutional aid.
- **Nevada** abandoned the practice of basing tuition rate recommendations on achieving regional peer parity.
- **Wisconsin** eliminated state tuition-setting limitations during the 2011-13 biennium, but included a non-statutory tuition cap.
- **New York** adopted Rational Tuition legislation in FY 2012 that allows for moderate tuition increases and provides sufficient spending authority.

- **Pennsylvania** approved a new flexible tuition policy in 2014 to allow institutions to reduce their out-of-state tuition fees.
- In **Iowa** the Board of Regents froze tuition for the three public four-year institutions for the past two years. For the 2014-15 fiscal year, the freeze was offered in exchange for a 4 percent increase in state appropriations.
- In 2008, **Virginia** introduced an allocation incentive for institutions that limited the in-state undergraduate tuition fee increases to no more than 4%, however this was discontinued in 2010 due to state budget shortfall. For 2012-14 institutions could set resident tuition and fee charges at levels at competitive market rates, subject to meeting their funding appropriation.
- **Minnesota's** public colleges and universities agreed to freeze tuition through 2013-2015 as part of an agreement with the state to increase their funding.