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Missouri State Auditor

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HIGHER EDUCATION

Nonresident Tuition



Most Missouri Institutions Charge Nonresident Tuition Rates Lower Than Similar Institutions in Surrounding States

Missouri's 4-year public institutions charged nonresident students tuition rates lower than institutions in most Big 12 Conference and contiguous states while, as noted in a previous report, charging in-state students tuition rates that ranked high. In fiscal year 2006, Missouri's annualized average nonresident tuition price for 4-year public institutions of \$11,709 ranked among the lowest in our comparison group (8 of 11), while average in-state tuition price of \$5,829 was the highest among Big 12 Conference states and second only to Illinois among contiguous states.

Inconsistencies between regional and doctoral/research institutions exist

Nonresident tuition charged by Missouri's regional institutions was lower and the doctoral/research institution higher than the comparison group of states. While fiscal year 2006 average nonresident tuition charged by the University of Missouri, \$17,360, was 17 percent higher than the \$14,871 average for doctoral/research institutions, the average charged by Missouri regional institutions, \$9,198, was 15 percent lower than the average nonresident tuition rate, \$10,829, charged by regional institutions in the comparison group of states. (See page 8)

Compliance with existing DHE policy not monitored

DHE had not monitored compliance with an existing policy regarding nonresident tuition. In June 1983, the coordinating board reaffirmed its existing policy that nonresident tuition should be twice the cost of in-state fees. However, according to a DHE official, the policy had not been enforced because DHE lacks statutory authority. (See page 9)

Policies to set nonresident tuition varied by state

According to a study by the State Higher Education Executive Officers Association, 7 states set nonresident tuition based on 100 percent of the cost of undergraduate instruction. In 10 states, nonresident tuition is indexed to the undergraduate resident tuition rates. The study indicated alternative methods were used in 12 states, no formal policy existed for 17 states, and no information was provided for 6 states. Missouri's policy of charging 200 percent of in-state tuition was the lowest of the 10 states that indexed nonresident tuition to in-state tuition. The indexed percentages ranged from 250 to 400 percent in the other 9 states. Other Big 12 Conference and contiguous states charged between 203 and 338 percent of average in-state tuition to nonresident students, while Missouri's average was 201 percent for fiscal year 2006. (See page 10)

State institutions lack written nonresident tuition policies – methods vary

We contacted officials at 5 regional institutions and the University of Missouri system. Officials at all of these institutions told us the institutions had no written policy documenting how nonresident tuition rates were set. Officials from two institutions told us nonresident tuition was increased by the same percentage as the resident tuition increase, two stated the instructional portion of resident tuition was doubled for nonresident students, one stated the resident tuition was doubled for nonresident students, and one told us the amount of the resident tuition increase was doubled for nonresident students. Officials from all six institutions told us

fees charged are the same for both resident and nonresident students. Finally, officials from three institutions stated students from bordering states living near the institutions are allowed to attend at resident tuition prices. (See page 10)

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Abbreviations

DHE	Department of Higher Education
FAMOUS	Financial Assistance for Missouri Undergraduate Students
ITSD	Information Technology Services Division
FTE	Full-time Equivalent
SAO	State Auditor's Office



SUSAN MONTEE, CPA
Missouri State Auditor

Honorable Matt Blunt, Governor
and
Members of the General Assembly
and
Dr. Robert Stein, Commissioner
Department of Higher Education
Jefferson City, MO 65109

The Department of Higher Education (DHE) administered approximately \$699 million in appropriated state funded revenue to 4-year public institutions in fiscal year 2006. Institutions collected additional revenues totaling approximately \$822 million from tuition and fees. We focused our audit objectives on determining (1) how Missouri's 4-year public institutions' nonresident undergraduate tuition rates compared to Big 12 Conference and contiguous states, (2) whether nonresident tuition rates adequately considered state taxes paid by Missouri residents, and (3) whether DHE provided guidance to the institutions on setting nonresident tuition rates.

We found Missouri 4-year public institutions charged nonresident undergraduate students tuition rates lower than most contiguous states and other Big 12 Conference states while charging in-state students tuition rates that ranked high. Nonresident tuition rates charged by Missouri's regional institutions were lower while rates charged students attending the state's doctoral/research institution were higher than the comparison group of states. DHE did not monitor compliance with an existing policy regarding nonresident tuition nor stipulate criteria 4-year public higher education institutions should consider when setting nonresident tuition rates. However, at least two of Missouri's contiguous states have policies that include criteria designed to keep nonresident tuition rates in line with those of surrounding states or to ensure state taxpayer subsidies are properly considered.

We conducted our audit in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. This report was prepared under the direction of John Blattel. Key contributors to this report were John Luetkemeyer, Ben Douglas, and Michael Price.

A handwritten signature in cursive script that reads "Susan Montee".

Susan Montee, CPA
State Auditor

Introduction

The Department of Higher Education (DHE), headed by a coordinating board, evaluates institution performance and carries out other goals and administrative duties. Authority to set tuition levels at Missouri's 4-year public institutions rests with the governing board of each institution. According to DHE statistics, in the fall of 2005, Missouri's student enrollment included 16,663 nonresident students (about 15.5 percent) of its total enrollment of 107,859 students at 4-year public institutions.

Tuition and fees are the most significant and variable component of the price of higher education. These amounts are set by each institutions' governing board and represent the "sticker price." Many students apply for and receive financial aid (either from the federal or state government or the institution itself). While nonresident students would not receive financial aid from the state, the amount of institutional aid varies by institution. State institutions participate in reciprocal agreements with like institutions in other states allowing nonresident students to attend participant institutions at resident tuition rates. For example, officials at three of six Missouri institutions we contacted stated their institution has programs that allow nonresident students, living in close proximity to the institution but in bordering states, to attend at resident tuition prices. In addition, all of Missouri's 4-year public institutions participate in the Midwest Student Exchange Program¹ which allows nonresident students to attend participating institutions at 150 percent of resident tuition costs. As a result of these and other factors, it is difficult to compare the actual cost of higher education services for nonresident students. The "Guide to State Residency" prepared by the College Board² explains the origin of the nonresident tuition rate as follows:

The creation and maintenance of public institutions of higher education and university systems in the fifty states are financed first and foremost by each state's citizens through the payment of taxes. States seek to provide educational opportunity to their residents at an appropriate cost, recognizing that a well-educated electorate helps the state economy to grow and supports improved social and cultural amenities. Relatively few state colleges and universities get any significant amount of operating expenses from fundraising or outside development or endowments, as do the private institutions. Obviously, state legislatures and boards do not want their residents

¹ The multi-state reciprocity program allows for nonresident student exchange among participating institutions of the 11 member states.

² A not-for-profit examination board with a membership of over 4,700 institutions of higher learning.

to assume the financial burden of educating persons whose presence in the state is not intended to be permanent, except in very specific situations (merit scholarships, for example). Thus, the nonresident tuition rate is born.

According to the College Board, the average surcharge for nonresident students at 4-year public institutions for academic year 2007 was \$9,947.

Previous SAO Audit Information

The SAO has recently issued three reports relating to tuition and higher education. In May 2006, we reported³ DHE and the Office of Administration, Information Technology Services Division (ITSD) had not taken all the necessary measures to fully protect confidentiality of student records maintained in the Financial Assistance for Missouri Undergraduate Students (FAMOUS) system. We recommended DHE and ITSD officials (1) perform a risk assessment of the FAMOUS system to ensure appropriate security controls are in place to mitigate risks, (2) implement or develop security software for FAMOUS that will allow officials to customize and enhance security configurations, (3) discontinue maintaining a centralized list of passwords, and (4) document policies and procedures for several security controls. DHE and ITSD officials agreed with our recommendations and indicated they would take corrective action.

In August 2006, we reported⁴ Missouri's public institutions had some of the highest tuition levels in the Midwest. We also reported that while tuition levels continued to increase at rates above inflation and personal income levels, state funded student financial assistance decreased. We also found although institutions had taken a variety of actions to reduce costs, some institutions still may not have been operating as efficiently as possible because comprehensive on-going efficiency evaluations had not been performed and DHE had no formal centralized clearinghouse to identify, explore, and implement best practices. In addition, we reported that DHE lacked authority to arbitrate disputes related to consortia and collaborative agreements between public institutions.

We recommended DHE continue requesting necessary funding for the department to conduct mission reviews required by state law and if funding was not provided, DHE should require state funded institutions to conduct periodic efficiency evaluations using pre-defined evaluation criteria and DHE oversight. In addition, we recommended DHE coordinate with institutional officials to develop a clearinghouse to identify cost-effective

³ *FAMOUS System Data Confidentiality and Security* (SAO Report No. 2006-30, May 2006)

⁴ *Tuition Levels Follow-up* (SAO Report No. 2006-52, August 2006)

best practices. DHE officials agreed with our recommendations but noted additional staffing would be needed to reinstitute mission reviews. We also recommended the General Assembly provide DHE statutory authority to arbitrate disputes between public institutions arising from consortia and collaborative agreements among institutions. Recent legislation⁵ has implemented this recommendation.

In April 2007, we reported⁶ (1) state provided student financial assistance ranked low when compared to six surrounding states, (2) most students meeting eligibility requirements for the state's largest need-based student financial assistance programs did not receive assistance due to funding shortfalls, (3) the maximum amount of individual student awards for the state's two largest student financial assistance programs had not increased in 20 years, (4) Missouri's methodology to distribute assistance from the state's largest need-based program favored students attending private institutions, (5) DHE continued to rely on institutions to determine recipient eligibility without verifying supporting documentation, (6) DHE has not established adequate policies to ensure student financial assistance funding disbursed to institutions for ineligible students was promptly refunded to DHE for redistribution, and (7) While DHE has improved management of the state funded grant student financial assistance programs through implementation of its automated database, the FAMOUS system; improvements planned by DHE, if implemented, should further improve management of student assistance programs.

We recommended DHE seek legislation to revise the current methodology to determine need for the state's largest need-based program so students attending either private or public institutions are treated equitably. We also recommended DHE implement procedures to verify student eligibility determinations, review and improve policies and procedures governing cut-off dates for determining eligibility, estimating available funding and need-based limits, and returning funding for ineligible recipients. We further recommended DHE ensure planned improvements to the FAMOUS system are implemented as scheduled. DHE officials agreed with our recommendations.

Scope and Methodology

To determine how Missouri's 4-year public institutions' nonresident tuition compared to Big 12 Conference and contiguous states, we analyzed tuition data of Big 12 Conference states—Colorado, Iowa, Kansas, Nebraska, Oklahoma and Texas—and Missouri's other contiguous states—Arkansas,

⁵ Senate Bill 389 (2007 session)

⁶ *State Student Financial Assistance* (SAO Report No. 2007-16, April 2007)

Illinois, Kentucky and Tennessee. We obtained this data from the Chronicle of Higher Education.⁷ To determine how Missouri's nonresident tuition policies for 4-year public institutions compared to policies of other states, we contacted six surrounding states--Arkansas, Illinois, Kansas, Kentucky, Nebraska, and Oklahoma.

To determine whether nonresident tuition rates charged by Missouri 4-year public institutions adequately considered state taxes paid by Missouri residents, we obtained state public institution officials' responses on how nonresident tuition costs were established by contacting officials at five public regional⁸ institutions (University of Central Missouri in Warrensburg, Lincoln University in Jefferson City, Missouri State University in Springfield, Northwest Missouri State University in Maryville, and Southeast Missouri State University in Cape Girardeau) and the University of Missouri system. We also obtained financial data related to institution costs to determine whether nonresident tuition charged to a student covered full-time equivalent student costs.

To determine whether DHE provided guidance to institutions on setting nonresident tuition rates, we contacted appropriate DHE officials.

We performed data reliability tests on nonresident tuition data obtained from DHE, the contiguous states, and other sources contacted. We determined this information was sufficiently reliable for the purposes of this report.

We requested comments on a draft of our report from the Commissioner of the Department of Higher Education. We conducted our work between September 2005 and March 2007.

⁷ A publication that is a source of news, information, and jobs for college and university faculty and administration.

⁸ For the purpose of this report, the term "regional institutions" is defined as all public 4-year institutions, except those with Carnegie classifications of doctoral/research or special focus institution (medical schools and medical centers). The special focus institutions are classified with the doctoral/research institutions for analysis in the report. The University of Missouri system is the state's only public 4-year doctoral/research institution.

Nonresident Tuition Rates Rank Low

Missouri's 4-year public institutions charged nonresident students tuition⁹ rates lower than most Big 12 Conference and contiguous states while, as noted in a previous report, charging in-state students tuition rates that ranked high. In fiscal year 2006, Missouri's annualized average nonresident tuition price for 4-year public institutions of \$11,709 ranked among the lowest in our comparison group (8 of 11), while average in-state tuition price of \$5,829 was the highest among Big 12 Conference states and second only to Illinois among contiguous states. States in Table 2.1 are shown in descending order of average nonresident tuition for fiscal year 2006.

Table 2.1: Average Institution Nonresident and In-State Tuition - Fiscal Years 2005 and 2006

State	2005		2006	
	Nonresident	In-State	Nonresident	In-State
Iowa*	\$14,627	\$5,403	\$15,312	\$5,616
Colorado*	13,846**	3,869	15,073	4,463
Tennessee	12,794	4,254***	14,119	4,669***
Illinois	12,925	5,877	14,015	6,472
Texas*	12,371	4,327	13,017	4,680
Kentucky	10,805	4,292	12,170	4,881
Kansas*	11,229	3,980	11,968	4,386
Missouri*	11,253	5,573	11,709	5,829
Nebraska*	9,479	4,215	9,929	4,404
Arkansas	9,002	4,530	9,925	4,886
Oklahoma*	7,965	3,198	8,412	3,445
Averages	\$11,481	\$4,501	\$12,332	\$4,865

*Big 12 Conference states

**For fiscal year 2005, two of Colorado's institutions did not provide nonresident tuition data.

***For fiscal years 2005 and 2006, one of Tennessee's institutions did not provide in-state tuition data.

Source: Prepared by the SAO using tuition data obtained from the Chronicle of Higher Education and DHE.

As previously mentioned, the above comparison is based on the institutions' tuition price and does not reflect the actual costs students pay after financial aid, reciprocal agreements and exchange programs are considered. However, a comparison based on actual costs students pay is not possible as this information is not readily available.

⁹ The term "tuition," when used in this report, is defined as the charges to first-time, full-time undergraduates based on a 9-month academic year of 30 semester hours or 45 quarter hours. Amounts presented include mandatory fees charged students for non-academic services such as student health care, student unions, and recreation facilities.

Inconsistencies between regional and doctoral/research institutions exist

Nonresident tuition charged by Missouri's regional institutions was lower and the doctoral/research institution higher than the comparison group of states. Nonresident tuition for fiscal year 2006 varied from a low of \$7,666 to a high of \$10,680 at the state's regional institutions, while nonresident tuition averaged \$17,360 at the University of Missouri's four campuses. Table 2.2 shows nonresident and in-state tuition for fiscal years 2005 and 2006 at 4-year public state institutions.

Table 2.2: Nonresident and In-State Tuition for Missouri Public 4-Year Institutions - Fiscal Years 2005 and 2006

Institution	2005		2006	
	Nonresident	In-State	Nonresident	In-State
University of Central Missouri	\$10,260	\$5,340	\$10,680	\$5,550
Harris-Stowe State University	8,230	4,270	8,869	4,650
Lincoln University	8,014	4,474	8,249	4,602
Missouri Southern State University	7,786	3,810	7,666	3,916
Missouri State University	9,272	5,132	10,374	5,454
Missouri Western State University	8,408	4,778	8,408	4,778
Northwest Missouri State University	9,180	5,325	9,540	5,535
Southeast Missouri State University	8,810	4,875	9,000	5,145
Truman State University	9,566	5,482	9,992	5,812
University of Missouri, Columbia	16,547	7,100	17,522	7,745
University of Missouri, Kansas City	16,639	7,192	17,202	7,425
University of Missouri, Rolla	16,746	7,299	17,322	7,545
University of Missouri, St. Louis	16,825	7,378	17,395	7,618
Averages	\$11,253	\$5,573	\$11,709	\$5,829

Source: Prepared by the SAO using tuition data obtained from the Chronicle of Higher Education and DHE.

While fiscal year 2006 average nonresident tuition charged by the University of Missouri was 17 percent higher than the \$14,871 average for doctoral/research institutions, the average charged by Missouri regional institutions, \$9,198, was 15 percent lower than the average nonresident tuition rate, \$10,829, charged by regional institutions in the comparison group of states.

Nonresident tuition does not cover total student costs Nonresident tuition charged by Missouri institutions exceeded the cost of instruction per full-time equivalent (FTE) student and was less than the total cost of unrestricted¹⁰ expenditures per FTE. Projected instruction and total unrestricted expenditures per FTE for fiscal year 2006 are shown in Table 2.3.

Table 2.3: Expenditures Per Full-time Equivalent Student - Fiscal Year 2006 (projected)

Institution	Instruction Expenditures	Total Unrestricted Expenditures
University of Central Missouri*	\$6,863	\$13,279
Harris-Stowe State University	4,307	13,111
Lincoln University*	4,414	12,540
Missouri Southern State University	5,428	10,607
Missouri State University*	5,416	12,088
Missouri Western State University	5,069	10,276
Northwest Missouri State University*	6,343	11,841
Southeast Missouri State University*	5,669	11,945
Truman State University*	6,659	14,290
University of Missouri System*	9,196	21,680

* Amounts for these institutions also include expenditures for graduate students.

Source: Prepared by SAO based on DHE expenditure data.

Compliance with existing DHE policy for setting nonresident tuition rates not monitored

DHE had not monitored compliance with an existing policy regarding nonresident tuition. In June 1983, the coordinating board reaffirmed its existing policy that nonresident tuition should be twice the cost of in-state fees. However, according to a DHE official, the policy had not been enforced because DHE lacks statutory authority. As a result, DHE has no control over tuition rates and methods used to set tuition rates varied by institution. As shown in Table 2.2, in fiscal year 2006, all of Missouri's regional institutions charged less than 200 percent of their in-state rate, while the four campuses of the state's only doctoral/research institution charged more.

¹⁰ Unrestricted expenditures are not restricted by the terms of outside donor or supporting agency and include instruction, research, public service, academic support, student services, institutional support, operation and maintenance, scholarships, and mandatory/non-mandatory transfer.

Policies to set nonresident tuition varied by state

According to a study by the State Higher Education Executive Officers Association,¹¹ 7 states set nonresident tuition based on 100 percent of the cost of undergraduate instruction. In 10 states, nonresident tuition is indexed to the undergraduate resident tuition rates. The study indicated alternative methods were used in 12 states, no formal policy existed for 17 states, and no information was provided for 6 states.¹² Missouri's policy of charging 200 percent of in-state tuition was the lowest¹³ of the 10 states that indexed nonresident tuition to in-state tuition. The indexed percentages ranged from 250 to 400 percent in the other 9 states. For the comparison group of states noted in Table 2.1, states charged between 203 and 338 percent of average in-state tuition to nonresident students, while Missouri's average was 201 percent for fiscal year 2006.

Representatives from Kentucky and Oklahoma told us their states had policies that specifically addressed setting nonresident tuition rates. The Kentucky nonresident student policy is based on the state's goal of recruiting and retaining intellectual capital from outside the state. As a result, its policy is geared to recruiting and retaining nonresident students and includes the following objectives (1) increased intellectual capital, (2) education and social diversity, (3) equity and market sensitivity in pricing (maintain tuition charges for nonresident students such that market recruitment efforts are not diminished while minimizing the state subsidy by requiring nonresidents to pay a greater share of educational costs than resident students). The Oklahoma nonresident policy for research universities requires the combined average undergraduate nonresident tuition and mandatory fees remain less than 105 percent of the combined average of nonresident undergraduate tuition and fees at state-supported institutions in the Big 12 Conference. For regional institutions the policy is the same except costs are compared to like-type state-supported institutions in states that include, but are not limited to, those adjacent to Oklahoma.

State institutions lack written nonresident tuition policies – methods vary

Officials at the 5 regional institutions contacted and the University of Missouri system told us the institutions had no written policy documenting how nonresident tuition rates were set. Officials from two institutions told us nonresident tuition was increased by the same percentage as the resident tuition increase, two stated the instructional portion of resident tuition was

¹¹ An association of higher education executive officers from the United States and Puerto Rico whose mission is to assist its members and the states in developing and sustaining excellent systems of higher education.

¹² Total of 52 accounted for because 2 states had reported results in 2 categories.

¹³ One state required the index to be 250 percent. However, 150 percent could be charged if an approved institutional plan showing increased enrollment beyond a breakeven point would result, and the institution had excess capacity.

doubled for nonresident students, one stated the resident tuition was doubled for nonresident students, and one told us the amount of the resident tuition increase was doubled for nonresident students. Officials from all six institutions told us fees charged are the same for both resident and nonresident students. Finally, officials from three institutions stated students from bordering states living near the institutions are allowed to attend at resident tuition prices.

Conclusions

Comparisons of average tuition costs of Missouri's 4-year public institutions to institutions in contiguous and other Big 12 Conference states showed Missouri institutions charged average nonresident students tuition rates lower than most of those states. Tuition charged nonresident students has not covered the students' total costs.

Missouri institutions have not complied with, and DHE did not monitor for compliance with, an existing policy for setting nonresident tuition rates. The existing policy was not enforced because DHE believed it lacked the necessary statutory authority.

Recommendation

We recommend the Commissioner of the Department of Higher Education establish and monitor compliance with a new policy outlining criteria for the state's public 4-year institutions to consider when setting nonresident tuition rates. The policy should include various criteria, including giving consideration to state taxpayer subsidies and rates charged by surrounding states when determining nonresident tuition rates.

Agency Comments

The DHE agrees that a new policy for the state's public four-year institutions to consider when setting nonresident tuition rates could have a positive impact. Developing new policy guidelines for nonresident tuition decisions requires consideration of several factors beyond taxpayer contributions and rates charged by surrounding states. Other factors that should be considered include but are not limited to:

- *Overall enrollment management*
- *Maximization of fixed expenditures*
- *Economic benefits of importing skilled and talented students to Missouri*
- *Institutional capacity within different course offerings*
- *Differences between "sticker price" and actual cost*

Furthermore, to be effective, a new policy should acknowledge the diversity of Missouri's system of higher education in terms of size, location, and mission.

Establishing and monitoring effective nonresident tuition policy guidelines will require significant expenditures of DHE staff time. Based on our current statutory responsibilities and the new responsibilities we will have to undertake to comply with Senate Bill 389, the DHE is unable to make the recommendation to establish and monitor a new policy a priority at this time.