

Student Fee Task Force 2000 Preliminary Recommendations

Observation Regarding Pricing in Higher Education

Pricing of higher education services is a complex and multi-faceted topic with numerous interrelated issues that are often at tension with each other. The setting of prices in higher education, like other industries, reflects the interaction between the demand and the supply sides of a market for goods and services. It is impossible to consider issues of price fully without dealing with the perspective of both the consumers who pay the prices and the organizations that set the prices. For example, prices that an organization sets for its goods and services inform consumers how much of their resources they must part with in order to obtain the benefits they seek from the goods or services they desire. Thus, prices affect consumers' decisions to purchase and their choices of suppliers. For organizations, price influences revenue growth by affecting the demand of their goods or services and by determining the flow of resources from each unit of a good or service delivered. Thus, price is the key link between the parties in the market -- suppliers and consumers.

Several characteristics of higher education complicate the pricing issues that colleges and universities face. Higher education is a nonprofit organization. As such, its pricing objectives differ significantly from organizations in the for-profit sector. Higher education is essentially engaged in service activities. As such, the consumer (student) is directly involved in the production process that results in the services obtained. This service is produced and received through the interaction between and efforts by both the supplier (faculty) and the consumer (student). Student learning simply does not occur unless there is active involvement on the part of the student in the learning process, including frequent interaction with faculty. This means the consumer must bear substantial non-financial costs to participate in educational activities.

Not only do students participate in the production process, they help create the education environment of an institution; they are the "raw material" in the production of benefits for other students. At many institutions, some types of students -- for example, extremely bright and highly talented students as well as those from diverse cultural backgrounds -- are believed to contribute to the quality of the educational experience for other students. In some instances, these students can in turn receive a negotiated price reduction from the institutions if they enroll. Most frequently, this price reduction comes in the form of financial aid or other price incentives.

Higher education involves a complex set of functions. Undergraduate education is only one part of the enterprise. Joint production functions across several areas -- instruction, research, graduate and undergraduate education -- and joint costs across production areas greatly complicate cost analysis and pricing strategies.

Undergraduate education alone involves a complex array of benefits and ways to achieve those benefits. A college education is an investment in an intangible service whose benefits to the consumer are generally realized over time. The price of a college education thus involves a number of long-term and short-term benefits from the consumer's perspective. Payment of the

major part of the non-financial price extends for four to five years for a typical undergraduate degree, while the payment of the financial price often extends well beyond graduation. This extended purchase period means that forgone income is a large component of the total price paid by students for their education, particularly if the student's education is financed through borrowing.

The complexity of pricing services in higher education is compounded by the multiplicity of price payers. The most immediate beneficiary of the educational purchase, the student, generally pays only a small portion of the financial price for the educational services acquired, but the largest portion of the non-financial price, and all of the forgone income. Beyond the student, there is an elaborate system of second- and third - party payers who directly or indirectly subsidize the student's education. These subsidies come directly from government support, philanthropy, and other income sources. Employers of graduates pay indirectly through general taxes and higher wages to degree recipients.

The very character of the higher education industry, as previously noted, makes the topic of pricing an enormously complicated and difficult issue to address. A major problematic aspect of pricing in higher education is that the industry and its markets do not exhibit traditional economic relationships and behavior, and when they do, they do so in ways unfamiliar to the typical consumer and the general public.

It is within this industry and economic context that the pricing policies of the University of Missouri were to be re-examined and recommendations for policy changes were to be made.

Task Force Charge

The Student Fee Task Force 2000, under the chairmanship of Vice President James E. Cofer, was charged by President Manuel T. Pacheco to develop policy recommendations regarding:

1. The University's pricing structure and rates, taking into consideration the types of students served and competitive market factors of each campus.
2. Differential fee rates between undergraduate, graduate, and professional students, with attention given to the cost of education at each student level.
3. Differential fee rates for resident and nonresident students, considering the need to have a diversified student population.
4. The components and structure of educational and required fees, including an examination of the necessity of course and user fees as part of the institution's basic educational price.
5. Institutional discounting of student fees, taking into account the demographic and economic characteristics of students served and the need to make each campus

financially accessible and affordable, while maintaining an acceptable level of net student fee revenue.

6. Annual adjustments in educational and required fees that take into consideration inflation, competitive market conditions, level of state support, and the need to continually improve the quality of the learning environment for students.

The Task Force was divided into four subcommittees, and each subcommittee was assigned one or more of the above charges. Each subcommittee was asked to prepare a “position paper” analyzing the issue in question and make specific recommendations for action. The accompanying draft “position papers” represent the preliminary work and recommendations of the subcommittees. A summary of these recommendations are presented below:

Summary Recommendations Concerning Pricing Structure and Rates

The subcommittee addressing pricing structure and rates has formulated two recommendations.

1. Allow each campus to set its price (unit rate per hour) at a level appropriate to the student market it serves and in light of competitive conditions it faces.
2. Allow each campus to adopt the pricing model (i.e., plateau, linear, term) that is most appropriate to the student market it serves and consistent with the enrollment status and residential nature of its students.

There is mixed support among subcommittee members for recommendation 1, but complete support for recommendation 2.

Summary Recommendations Concerning Differential Fee Rates

1. Implement a pricing policy requiring all campuses to charge undergraduate students one-third the cost of education. Resulting prices would be different for each campus and dependent upon the various cost structures at each campus.
2. Establish a metropolitan fee rate for urban campuses so that nonresidents living in selected counties bordering Missouri could attend the University at in-state rates.
3. Allow campuses to establish separate prices for lower division and upper division students thus permitting urban campuses to compete more effectively with community colleges.
4. Eliminate the current instructional fee and adopt a pricing policy for off-campus, Internet, and other forms of distance education consistent with market conditions and sufficient to cover the cost of delivery.

Subcommittee members fully support recommendations 2 and 4, but there is mixed support for recommendations 1 and 3.

Summary Recommendations Concerning Supplemental Course and User Fees

The subcommittee addressing the issue of supplemental course and users fees has developed six decision options, but has yet to make a formal recommendation. The six options under consideration are the following:

1. Option 1 would continue to allow additional supplemental fees to come forward to the President for Board approval. Implementation of this option could potentially increase the number of discipline-specific fees for the University as a whole, and would make the fee structure increasingly complex.
2. Option 2 would eliminate all supplemental fees and combine these fees with the current educational fee. Existing supplemental fees would be pro-rated and rolled into the educational fee in such a manner as to ensure the total revenues generated from the combined fees would be the same as the total generated from the sum of the individual fees. This action would result in each campus having different course related enrollment fees.
3. Option 3 calls for combining all supplemental, activity, facility, and health service fees with the educational fee. The same pro-rating logic in Option 2 would apply to Option 3, thus ensuring a revenue neutral consequence. This option would provide for an extremely simple fee schedule; one which all students and parents could easily understand.
4. Option 4 establishes a moratorium on the approval of new supplemental fees.
5. Option 5 provides for an additional level of review and recommendation for the establishment of new supplemental fees. This option calls for a committee with multi-college representation, including faculty and students, to review and make recommendations to the Chancellor of the respective campus regarding the need for and benefits to be derived from establishing a supplemental course fee.
6. Option 6 acknowledges that the primary reason for establishing supplemental fees is to increase revenues for a particular program. Instead of instituting additional supplemental fees and further exacerbating the complexity of the fee structure, Option 6 calls for increasing educational fees above the rate of increase proposed in the system's strategic plan.

Summary Recommendations Concerning Discounting of Fees

This subcommittee has proposed five recommendations related to discounting of fees and additional financial support for students. The recommendations from this subcommittee are as follows:

1. On an annual basis, report the undergraduate educational fee discount rates, including the general operating discount rate, the general operating and endowment discount rate, and the all-financial aid discount rate.
2. Each campus should carefully consider the opportunity for prospective undergraduate students from low-income groups to enroll and graduate from the campus. In cases where opportunities to enroll and graduate are hindered because of limited need-based aid, the campus should be encouraged to provide scholarships and grants in this critical area. The amount of need-based aid from institutional sources should be reported on an annual basis for each campus.
3. Each campus should be encouraged to enhance the number and amount of undergraduate scholarships and grants that come from endowed sources. Depending on campus circumstances, financial aid from endowed sources could be used to 1) supplement the overall level of institutional financial aid provided to undergraduate students, or 2) replace the financial aid that comes from general operating sources so that these institutional funds can be directed toward other priorities.
4. State sources of need-based financial aid are less than adequate for economically disadvantaged students attending four-year public colleges in Missouri. It is recommended that the University administration influence the State of Missouri to put more funds into the Missouri College Guarantee Program, a newly created need-based aid program. While the State of Missouri is scheduled to spend \$10.3 million on this program for academic year 2001-2002, that amount should be greatly expanded to assist a greater number of economically disadvantaged students to attend Missouri's four-year colleges.
5. The University of Missouri System should play a leadership role in supporting efforts to increase federal need-based aid for students. The University should work directly through its lobbying efforts as well as participating in efforts undertaken by appropriate national educational associations to help insure access for qualified students.

Summary Recommendations Concerning the Annual Adjustment in Educational Fees

This subcommittee is not recommending a single criterion for annually adjusting educational and required fees. To do so limits the financial flexibility of the University and opens up unnecessary risks to its operations. The subcommittee believes that wiser pricing decisions can be made if a multiple criterion approach is applied. The subcommittee recommends the following:

1. Annual adjustments to educational and course related fees take into consideration the ability to pay as reflected by appropriate economic measures of individual and family income growth as well as the actual out-of-pocket charges students pay after financial aid is applied to their course enrollment bill.

2. Annual adjustments to educational and course related enrollment fees take into consideration the need to maintain and enhance program quality and in selected areas attain national recognition.
3. Annual adjustments to educational and course related enrollment fees take into consideration an annual comparison of UM fees to competitor and comparator groups of institutions, both within and outside the State of Missouri.
4. Annual adjustments to educational and course related enrollment fees take into consideration the proportion of the cost of education to be covered by educational fees.