

PRINCIPLES OF THE AUSTIN COMMUNITY COLLEGE TUITION POLICY

ACC revenue sources

In addition to the tuition received from students or their parents, Texas community colleges receive substantial revenue from two tax-supported sources: the state government and the “taxing district” portion of their local service area, which communities can voluntarily vote to join in order for their students to pay lower tuition. These state and local tax funds are used to subsidize student tuition, which would otherwise, on the average, have to match the average cost of instruction (currently about \$171/credit-hour at ACC). One of the main questions that a tuition policy should answer is how these tax-derived subsidies should be distributed.

Some recent figures relevant to ACC finances:

Revenues (\$100 million/year): *tuition/fees 35%, local taxes 23%, state funds 39%, other 3%*

Enrollment: *district resident 70.5%, out-of-district Texan 20.2%, non-Texan 4.4%, waived 4.9%*

Tuition/fees per credit-hour: *tax-district Texan \$44, out-of-district Texan \$93, non-Texan \$180*

Impact of tax-based sources of revenue on tuition/fee levels, under ACC policy

ACC policy directs that the impact of tax-generated funds on student tuition is to be based on the *source of the tax funds* and on the *relation of that source to the student’s residence status*:

[a] By ACC policy, neither state nor local tax-generated funds are to be used to subsidize students who do not qualify as Texas residents under state law. Such out-of-state students are thus to be charged a tuition/fee level that at least matches the full average cost.

[b] State funds (the “reimbursement” payments based on enrollment levels that currently cover about 40% of ACC’s average cost) are used by ACC to subsidize the tuition of all students who qualify as Texas residents, whether they reside in the college’s taxing district or not. This results in a target for tuition/fee charges to out-of-district students that is about 61% of average cost. (Because the policy provides for a phase-out period that is still in progress for the use of local funds for these students, the current out-of-district tuition/fee level is 54% of average cost.)

[c] Local property-tax funds are directed by ACC policy to be used to subsidize the tuition only of students who qualify under state law as residents of the taxing district. The resulting tuition/fee level for in-district students, who are of course also Texas residents and thus share in the state-funds subsidy as well, is currently 26% of average cost.

<i>Summary of current and planned distribution of per credit-hour subsidies, as provided by ACC policy</i> [“target” values marked * are those which would result if local taxes were used only for in-district students]					
<i>Residence status under Texas law</i>	<i>State-funds subsidy</i>	<i>Local-taxes subsidy</i>	<i>Total Subsidies</i>	<i>Tuition/fee total</i>	<i>% of total cost paid</i>
Non-residents of Texas	- none -	- none -	- none -	\$180/hr	100%
Texans outside ACC tax district	\$72/hr	now: \$11/hr target: none	now: \$83/hr target: \$72/hr	\$93/hr \$104/hr*	54% 61%*
Residents of ACC tax district	\$72/hr	now: \$57/hr target: \$60/hr	now: \$129/hr target: \$132/hr	\$44/hr \$41/hr*	26% 23%*

**assuming FY02 expenses and tax funding levels with 19% out-of-district enrollment; actual future values may differ*

Current ACC policy wording, implementing the principles explained above:

A-4. TUITION RATES *(The Austin Community College Board of Trustees adopted this policy on April 23, 1996 and amended it on 9/9/96, 10/6/97, 4/6/98, 9/14/98, 5/1/00, and 10/2/00, and 8/5/02.)*

[1] The tuition rates for in-district college-credit students shall be set by the Board. Except when the Board explicitly directs otherwise, tuition rates for other students shall be set by the President in accordance with this policy. To the extent feasible, general charges shall be assessed as tuition.

[2] In order to maintain a tuition differential that is fair both to ACC taxpayers and to Texas-resident ACC students who live outside the taxing district, the credit-hour differential for such students shall reflect the local tax effort in support of in-district students. It shall thus be the ratio of annual property-tax revenues to annual in-district credit hours, except that any year-to-year increase in the differential shall be no more than \$3 per credit-hour. The President is authorized and encouraged to use any available method to lessen the impact of this tuition differential on economically-disadvantaged students.

[3] The further per-credit-hour differential in tuition rates for students who do not qualify as Texas residents shall be no less than the ratio of all revenues from state government to total credit hours by in-state students.

[4] The President may adopt rules waiving all or part of the tuition and/or other charges for senior citizens or students enrolled under a joint-credit agreement with a school district, with an annual report to the Board on the nature and extent of such waivers.

[5] The President shall set charges for non-credit and continuing-education classes that at least cover operational, indirect, and overhead costs, except where specific below-cost sectors have been approved by Board vote.

Marginal and average costs:

All organizations must over the long term receive revenue sufficient to fully cover their costs of operation. This implies that ACC's average revenue per student must meet or exceed its average cost per student, which a recent study found to be about \$171 per credit-hour. If revenue is lower than the average cost for some people, it must be higher for others.

The cost of serving additional students (i.e., the "marginal" cost, recently estimated by the same consultants to be about \$112 per credit hour at ACC) is somewhat less than the average cost. For example, a college with annual fixed costs of \$15 million and marginal costs of \$3,000/student would have total costs of \$21 million/year at 2,000 students, an average of \$10,500/year/student. However, for 10,000 students the average drops to \$4,500/year per student, since the fixed-cost overheads are spread over five times as many students. At ACC, such "economy of scale" benefits are passed on to all students on an equal basis, regardless of residence status, and thus do not enter directly into the terms of the tuition policy.

But notice that if the revenue per student at the 10,000-student college is set at the breakeven \$4,500/year value, the profit per additional student is only \$1,500, since 2/3 of the additional revenue is absorbed by additional costs. This is typical, and explains why growth does not confer as much economic benefit as might be supposed at first glance.

Motivations for the ACC tuition policy:

The reasons for the adoption of ACC's approach to out-of-district tuition were both financial and political. Of course the Board feels a special obligation to the residents of communities that are willing to provide tax support for college operations. However, the intent of the policy is to treat everyone involved fairly – for example, the policy provides that out-of-district tuition goes no higher than can be justified by principles of fairness, even if the college could make more money by charging an even higher price to nonresidents of the taxing district (as is in fact the case – see the price-vs-demand analysis attached as an appendix).

As important as the principle of tax accountability is felt to be, it is not the only issue of concern. ACC policy makes some exceptions for economically-disadvantaged students and high-school students in areas outside the taxing district. To preserve fairness, the policy will also need a minor adjustment to lower the out-of-district tuition-differential target for credit courses if a differential is charged for non-credit ones. (It is also possible that if a substantial increase in the ACC tax rate were approved by voters, the policy might be amended so that out-of-district tuition/fee totals do not exceed those for Texas residents at SWTSU or UT-Austin.)

The following pages examine a variety of particular issues that have been brought up in discussions on this topic. They of course mainly present the viewpoint that led to the adoption of the ACC policy, but they may serve to clarify for people newly considering this topic what issues need to be addressed in some fashion for any proposed changes to be seen as being adequately supported. On this page, the main arguments against use of local tax funds to subsidize out-of-district tuition are given. Starting on the next page, the other side of the argument is examined.

Anti-subsidy reason 1 – Any subsidies ultimately increase in-district tuition/fee totals

Since ACC's tax rates can only be raised with voter approval, student tuition is the only significant source of income that the college can change at its own discretion. All subsidies and expenses that do not produce a compensating economic benefit to the college thus have to be covered by correspondingly higher general tuition/fee levels.

Anti-subsidy reason 2 – Ensure voters that their local taxes are supporting local students

In addition to elementary fairness, such reassurance is particularly important when the college is planning to ask local taxpayers to increase their level of support.

Anti-subsidy reason 3 – Encourage adjoining communities to join the taxing district

Communities have little reason to join the taxing district if their students are already being subsidized by other communities' taxes. This is especially true for those immediate neighbors who, because it was cheaper for ACC to build on the edge of the district, already have ACC campuses as close to them as a campus is to most of the district's inhabitants. ACC's high out-of-district tuition played an important part in convincing Manor ISD to join the taxing district a few years ago.

In addition to ensuring that communities pay their fair share of the college's costs, membership in the taxing district ensures that students and their families get economic help when they need it most. In the long run, it is no favor to out-of-district students to encourage their communities to remain without local tax support for higher education.

Anti-subsidy Reason 4 – ACC out-of-district costs are still lower than those of state colleges

One way to assess ACC costs for out-of-district students is to compare them to the costs at state colleges and universities, which are not supported by local taxing districts. Here is a table showing Spring 2002 total costs (tuition plus required fees) for undergraduate Texas residents.

	3 hours	6 hours	9 hours	12 hours	15 hours
ACC out-of-district (<i>current</i>)	282	561	840	1,122	1,398
ACC out-of-district (<i>target</i>)	306	609	912	1,215	1,518
SWTSU	516	852	1,188	1,495	1,789
UT-Austin	510	862	1,214	1,565	1,883

As the table shows, even the target values for ACC's out-of-district tuition/fee totals (the values at which all subsidy from local taxes will have been phased out) are hundreds of dollars lower than corresponding totals for SWTSU and UT-Austin.

On the other hand: potential arguments FOR some subsidization of out-of-district tuition

Although ACC's policy has a clear rationale and seems a natural response to the interests of local taxpayers, it is very unusual among Texas community colleges, most of which provide a much lower additional discount for in-district students (compared to out-of-district ones) than their tax receipts would imply under the principle of reserving local taxes for the benefit of local students. While it may sometimes be that the interests of taxpayers are being ignored, in many cases the differences in approach between colleges just reflect differences in circumstances. Several cases are examined below (roughly in declining order of perceived merit), with accompanying explanations of why the argument was found to be not applicable to ACC, or was felt to be better addressed in some other way.

Pro-subsidy reason 1 – Lessen impact on economically-disadvantaged out-of-district students

Even if an adjoining community is not interested in providing public tax support for its community-college students, there are humanitarian reasons for a college to be concerned about the impact of higher tuition on that community's low-income families, who particularly need education and who generally lack the political power to get the community to join the taxing district.

Response: This area is a good candidate for some well-focused subsidy from local taxes, which at modest levels can be justified to local taxpayers as helping to lower burdens on other local institutions (such as Brackenridge hospital). ACC policy authorizes and encourages the college president to lower tuition or provide scholarships for such students, as well as to offer no-tuition dual-credit courses in out-of-district high schools anywhere in the service area. However, a general subsidy is not appropriate, because most out-of-district suburbanites are at least as prosperous as the taxpayers of the ACC district.

Pro-subsidy reason 2 – Without subsidy from local taxes, out-of-district enrollment will fall

Raising out-of-district tuition has decreased demand (relative to in-district students), as is shown by the relative movement of the out-of-district tuition differential and enrollment proportion over the last ten years.

Response: The fact asserted in this reason, that ACC's tuition policy has resulted in some shift in enrollment toward a higher proportion of in-district students, is quite likely correct, even after allowances are made for Manor ISD joining the taxing district and possible other effects such as lax enforcement of residence rules, the greatly-expanded use of tuition exemptions, and the addition of central-city campuses such as Eastview.

However, **the implication that this decrease in out-of-district enrollment has been a financial burden to the college is wrong.** Even if the possibility of coaxing other communities to join the taxing district is ignored and a generous estimate is made for the sensitivity of out-of-district enrollment to tuition level, it is clear that the enrollment decreases so far have been more than balanced by the increased revenue per student and the decreased expenses required to serve the fewer out-of-district students. A secondary effect has been to free some space in crowded programs for in-district students. The appendix shows a mathematical computation of the tuition differential's point of diminishing economic return, which is well above the current tuition level.

In any case, ***the data for the years since Manor joined the taxing district show little sensitivity to price.*** For the 1999-2000 school year (with an average differential of \$40/credit-hour), 20.3% of paid credit-hours were at out-of-district rates. But the percentages for the two following years (each with an average differential of \$49/credit-hour) were 20.8% and 21.3%, an out-of-district proportion averaging 0.8% *higher* despite the larger tuition differential.

Pro-subsidy reason 3 – Student residence an artificial concept, shouldn't be used to set tuition

It can be argued that in a mobile society the legal residence of students for educational purposes isn't an appropriate basis for college tuition charges, since there is no way of telling which communities will benefit from the education provided.

Response: This is an excellent argument for why it would be good public policy for the Legislature (and Congress) to provide a larger fraction of the support for community colleges, with much less reliance on local taxes. Several states either require all communities to be part of a community-college taxing district or provide almost all their governmental funding for community colleges from statewide funds. Through their professional associations, ACC and its trustees regularly work for such policy changes at the state and national levels.

But at any given time, ACC must accept whatever amounts of general funding and mechanisms for extending them that the higher levels of government see fit to grant. In Texas, these mechanisms are based on the state's legal definitions of residency for higher-educational purposes and on the use of property taxes from communities that volunteer to be taxed in exchange for lower tuition and the right to elect the Board of Trustees.

This public-school model of financing has many imperfections, but it is not without a rough justice in many cases. A substantial proportion of ACC courses are taken by students who are living at home with their parents (and thus are not so mobile after all). These families either *have* (if in-district) or *have not* (if out-of-district) been paying ACC taxes for many years. It will not improve the justice of the situation to make the taxpayers also shoulder the costs for the members of the tax-avoiding communities.

Pro-subsidy reason 4 – Attract enough students to make greater variety of programs possible

In addition to financial economies of scale, larger enrollment can make it feasible to offer more educational programs. Such effects are very important for small colleges, which could thus reasonably decide that additional students from the surrounding area are conferring a benefit on local students, and therefore merit some tuition subsidy from local taxes if this is necessary to promote their enrollment.

Response: ACC, one of the largest community colleges in the country, does not need additional students. Also, history has shown that less than 10% of ACC enrollment is sensitive to the higher out-of-district tuition; this is generally not enough to affect program feasibility.

Pro-subsidy reason 5 – Attract enough regional business to the locality to produce a net gain

For small towns, the presence of a community college may make a substantial economic impact via both the direct local expenditures of the students it attracts from outside the taxing district and from the indirect effects of the portion of the college's local expenditures that is supported by out-of-district students. An out-of-district tuition subsidy from local tax funds may be a net benefit to the community's finances if such development causes sufficient additional sales and property taxes (to the community as a whole, not just directly to the college).

Response: Austin is far too large (and its out-of-taxing-district suburbs have far too much independent development) for this reason to be relevant here.

Pro-subsidy reason 6 – Facilitate exchanges with adjoining community-college districts

Most of the larger Texas community colleges are grouped in the metropolitan areas of Dallas / Fort Worth and Houston. In such cases, where most of the nearby population is within (and paying taxes to) other college districts, there may be good reasons (such as specialized programs or campus locations) to promote cross-enrollment. A low out-of-district tuition differential is one mechanism for doing so.

Response: ACC is relatively isolated from other community-college districts, eliminating the need for such a mechanism, which would be better handled by inter-district agreements in any case.

Pro-subsidy reason 7 – Keep communities from transferring to another college’s service area

Areas in Texas that are not within a community-college taxing district are divided into non-overlapping “service areas” assigned to colleges, which typically offer some services such as core-course evening classes in high-school facilities, when there is sufficient demand. When a community in one college’s service area borders the service area of another college that has substantially lower out-of-district tuition, it will have a natural temptation to request that it be transferred to that service area if it feels that it would get equivalent services at lower cost.

Response: There is no reason (except perhaps a misplaced possessiveness) for ACC to object if such a community wishes to work with a different college, which may well have legitimate reasons (such as those listed above) for being willing to subsidize out-of-district students. But ACC has already reached the size at which expansion of the region it serves provides little if any benefit to the people within its district. While ACC should be willing to provide services to neighboring communities so that they can avoid the high costs of starting their own colleges, there is no reason to strive to retain communities whose residents are unwilling to pay, one way or another, their fair share of the costs.

Pro-subsidy reason 8 – Out-of-district classes are cheaper to offer, so should be discounted

Most of the classes offered at outlying sites are basic, lecture-only classes taught by adjuncts, who are paid less than full-time faculty, and the level of on-site support services supplied is not as extensive as that on the main campuses.

Response: The fundamental flaw in this argument is that **the great majority of classes taken by out-of district students (more than 80%) are taken on regular ACC campuses, at which the out-of-district students are treated just like everyone else**, and have access to exactly the same services. Thus off-campus costs are irrelevant to the question of the appropriate tuition for such students.

But the off-campus sites are not particularly cheap to operate in any case. ACC must pay operating expenses to the school district and to an on-site administrative staff. Average class sizes are significantly smaller than those of similar on-campus classes, so the overhead and instruction expenses are averaged over fewer people. Many support services, including curriculum development and instructional supervision, are supplied from afar, often requiring more communications labor and travel than for campus-based students and faculty.

So by any reasonable measure, off-campus courses are less efficient than the comparable on-campus evening courses (almost all also taught by adjuncts, but in fuller classes). Offering courses at remote locations is a useful public service, but such courses do not have a valid economic argument for lower tuition as well.

Pro-subsidy reason 9 – Make neighboring non-taxpaying areas feel positive about the college

Administrators who favor lowering ACC out-of-district tuition emphasize that the leaders of neighboring communities are unhappy that the students from their community are being charged substantially more than in-district students. It is also asserted that making such leaders pleased with the college’s tuition policy is essential to getting their communities to vote to join the taxing district.

Response: There are two kinds of problem here. The first is the desire for a free ride – it has become distressingly common for people to feel that they are entitled to whatever anyone

else has, whether they have paid for it or not. But the larger problem is that the ACC administration has failed to explain to these communities why the college is unwilling to use tax funds from within the district to lower out-of-district tuition, or to point out that a Texas-resident subsidy of about 40% of cost is already being supplied from state-provided funds. Most service-area community members could understand quite well that it is appropriate for local tax funds to be restricted to local uses.

As far as annexation is concerned, it is unlikely that any community will take the painful step of imposing another tax on itself unless it is even more unhappy with the higher out-of-district tuition that joining the college district will avoid. So there is going to be some discontent in any case – but the ACC Board was unwilling to try to win the approval of other communities at the expense of the taxpayers who have already joined its district.

Pro-subsidy reason 10 – The tax-equivalent discount for in-district students is unstable

An objection has been made that when the phase-out of the local-tax portion of the subsidy for out-of-district students is complete, the discount amount will be subject to erratic variations based on tax receipts and enrollment patterns, which can vary from year to year.

Response: The target tuition differential is computed annually, as specified in the policy, and is kept predictable (and reasonably stable) by the policy provision that limits changes in the differential to \$3 per year. While any sudden large drop in enrollment or tax support would of course cause financial problems for the college that would have to be addressed by tuition increases or expense reductions, these will not be particularly related to the out-of-district tuition differential. In any case, any legitimate remaining concerns in this area could be handled by minor changes of policy wording that leave the principles of the policy intact.

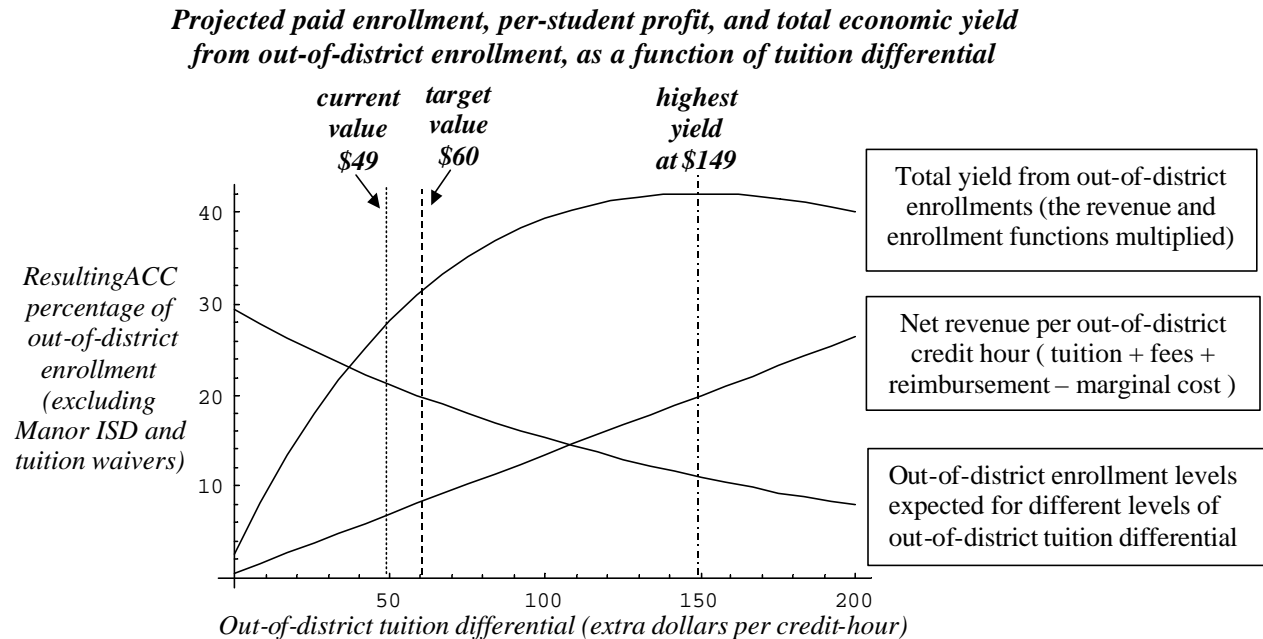
Appendix: Economic analysis of out-of-district demand as a function of tuition differential

Increases in price do not always produce additional profits, since at some point the decrease in the number of customers will overcome the increase in per-customer profit. Although the college-tuition situation is somewhat different from a normal business because of the possibility of voluntary annexation (which might make a high price desirable to motivate communities to join) and because a public institution should not charge high prices just because the market will bear them (which should often cause a public college to stop short of the profit-maximizing level), it is still interesting to figure out at what out-of-district tuition level the net return from out-of-district students (enrollment times revenues minus marginal costs) would begin to decline.

If the diminishing-return level for out-of-district tuition is lower than would match the tax-equivalence principle, a college might well decide to use the lower level, since they could defend it to local taxpayers as a prudent business decision. Because ACC may eventually get its voters to approve a higher tax rate, this computation is relevant for ACC even though the current diminishing-return level is well above the target level implied by the tuition policy.

This maximum-yield computation depends on knowing both the marginal cost of serving students (which a recent consultants' report computes for ACC at about \$112/credit-hour, 66% of average cost) and the "elasticity of demand" (the amount that out-of-district enrollment will decline as the tuition level is increased). In the computations below, the elasticity value used was chosen to give historically-plausible values for the no-surcharge case and to correctly predict the current enrollment. This is more pessimistic than the history of the last few years, where a \$9/hour increase in tuition differential was accompanied by a slight *increase* in the percentage of out-of-district enrollment (based on paid credit-hours). The elasticity implied by the administration budget estimate, which predicts that a \$3/semester tuition-differential increase (an average of \$5.40/credit-hour for the year) will result in out-of-district enrollment of 98% of what it would be with no change in out-of-district tuition, is in between these other predictors, and is a reasonable basis for immediate planning.

The graph below gives the results of an economic-yield computation based on these values, with the arched curve showing the projected total yield for different out-of-district differential levels. ***These graphs should be taken as approximations*** based on current conditions rather than proven long-term predictions, but any reasonable set of values for the controlling parameters will give the same basic conclusion: the maximum-yield level for out-of-district tuition is higher than either the current or target value set by ACC's tuition policy.



The graph indicates that ACC would continue to benefit economically until the tuition differential level reached \$149 (compared to a current value of \$49, and a target of \$60 for tax-support equivalence). Thus under current conditions the tuition policy would limit out-of-district tuition/fees (at the \$104/credit-hour level) to a value that is about \$89/credit-hour lower than the maximum-yield value. At the target \$60 value, out-of-district enrollment should stabilize at about 20% of total paid enrollment (unless reduced in a welcome manner by the voluntary annexation of some surrounding communities).

But note that 75% of the maximum possible direct economic benefit would already be realized at the \$60/hr target level, because the curve flattens out as it nears its maximum. This implies the college might decide to stop short of the highest point in any case (e.g., at levels that match SWTSU or UT), since the diminishing benefit to the college might be seen as no longer worth the increasing burden on the students. (However, there is an issue of displacement of crowded-out in-district students that might be appropriate to consider separately, perhaps by giving in-district students first chance at registration.)

Short-term considerations:

The analysis above is based on taking into account all effects of growth, including both the increased \$112/credit-hour expenses that will be needed to sustain it (even if not spent the first year) and the revenue from state-reimbursement funds (that will generally not be provided until subsequent years). This is the appropriate type of analysis on which to base a strategic policy. However, the short-term impact of enrollment growth or decline is also of some interest because it may be needed for annual-budget calculation.

In this case, in the short term the state funds (about \$72/credit-hour) will not be changed. The short-term effect on expenses is strongly dependent on the plans that were made, since teachers and facilities will have been assigned based on such plans, and will be difficult to change substantially at the last moment. In general, the short-term increase or decrease of expenses will be somewhat less than the actual marginal cost (which the consultant estimated at \$112/credit-hour). Thus the short-term revenue and expense effects roughly cancel each other, especially if appropriate planning is used to adjust the course-schedule offerings appropriately.