EXECUTIVE SUMMARY
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In Spring 2002, the Austin Community College Board of Trustees authorized a study of out-of-district tuition. ACC contracted with MGT of America, Inc. to complete a study that had four main objectives or activities:

- Analysis of the impact of current Board policies on out-of-district enrollment
- Determination of the actual cost of instruction for out-of-district students
- Creation of a model for setting out-of-district tuition, and
- Analysis of the results of surveys of out-of-district students on reasons why they no longer attend ACC.

Austin Community College currently has the following Board Policy regarding tuition rates:

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[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 term-to-term 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.
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.

A survey asking students about their experiences at Austin Community College was administered to a stratified random sample of the student body to determine if increases in tuition had contributed to declining out-of-district enrollments. In addition, the tuition policies and tuition of the eight other large, urban Texas community college districts were compared to that of ACC. The literature on cost of education, cost studies, and economies of scale was reviewed to develop recommendations on the setting of tuition. The “cost of education” was defined and measured under several alternative definitions. Major findings include the following observations.

- Tuition and fees at ACC are higher than that charged at the peer colleges in Texas, on average. In 2001-02 Austin Community College charged an average of $44.58 per semester credit hour compared to an average $35.05 at other large, urban Texas community colleges.

- In 1997-98, ACC charged out-of-district tuition and fees of $65 per semester credit hour, compared to an average of $44.65 at the other large, urban Texas community colleges and an average of $40.08 at all Texas community colleges. In 2001-2002 ACC charges $97.58 per credit hour for out-of-district students, while the other large, Texas peers are charging an average of $56.06 per credit hour.

- Austin Community College is large enough that it already has realized economies of scale.

- Marginal (or variable) and average “cost of education” (COE) vary depending on the definition of the cost of education and the method used to calculate marginal costs. Average cost of education per credit hour varied from $114 to $190 depending on the definition of COE, while marginal or variable costs varied from a low of -$35 per credit hour to $114 per credit hour.

- ACC’s procedures call for the adjustment of separate tuition rates for each semester. None of the other large, urban Texas community colleges adjust their tuition rates each semester, unless fiscal situations are so constrained that additional revenues are required to maintain the quality of services. In fact, very few colleges or universities adjust tuition rates oftener than once per year.

- ACC’s policy is the only out-of-district tuition policy (among the large, urban Texas community college districts) that is based on revenues;
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and calculates tuition using the yardstick of local tax collections. The policy has contributed in part to declining out-of-district student enrollment (as demonstrated by the results of the survey), and consequently, to less state appropriations.

- The calculation method used by ACC based on local tax revenues per student or per student credit hour is extremely volatile. The cost to an out-of-district student is perfectly correlated with changes in the number of student credit hours taken by in-district students, not to any change in local tax effort.

- The current calculation method for out-of-district students is based on average local tax revenues per credit hour or per student, not on marginal (variable) revenues. As the discussion on marginal or variable cost demonstrates, the “cost” of a student or a credit hour on the margin is substantially different from the average cost. The literature on costs in higher education supports the contention that costs used in setting funding or prices should be based on marginal or variable costs rather than average costs.

- Local tax revenues are used for expenditures for items other than the educational services that students receive. Expenditures are made for items classified as “Public Service” and by definition, do not relate to the students at the institution. In addition, some expenditures included in “Educational and General Expenditures” in the Instruction category are made for adult basic education and continuing education that is self-supporting and not attributable to the educational services of the average student.

These observations led to the following recommendations or “model” for setting tuition:

**RECOMMENDATION ONE:**

*Change Board policy to set tuition once for each fiscal year. Do not adjust tuition prices for any group of students (in-district, out-of-district, or out-of-state) oftener than once per year so that students may plan their budgets.*

**RECOMMENDATION TWO:**

*Modify Board policy so that out-of-district tuition is not based on revenues. Rather, base out-of-district and out-of-state tuition on the cost of education.*

**RECOMMENDATION THREE:**

*If tuition for out-of-district students is to be based on some measure of the cost of instruction, then marginal or variable costs as opposed to average costs should be considered for use in the methodology.*
RECOMMENDATION FOUR:

Exclude from the calculation of the cost of education or cost of instruction all expenditures classified in the “Public Service” category of expenditure, and all expenditures for continuing education and adult basic education.

RECOMMENDATION FIVE:

Modify Board policy so that out-of-district tuition is based on The Cost of Education, as defined by one of the following alternatives:

ALTERNATIVE ONE: Calculate out-of-district tuition as a percentage of the average cost of education, where the cost of education is defined as Total Unrestricted Educational and General Expenditures less expenditures for Public Service, Continuing Education, and Adult Basic Education.

ALTERNATIVE TWO: Calculate out-of-district tuition as a percentage of the average cost of education, where the cost of education is defined as the marginal or variable cost for Total Unrestricted Educational and General Expenditures less expenditures for Public Service.