

Nonresident Student Enrollments and Their Growing Role in Paying for Public Higher Education

As states and postsecondary institutions confront ongoing concerns about their fiscal health after a brief post-recession respite, colleges and universities across the nation are once again making their recruitment pitches to prospective students. Increasingly, public institutions are aiming these appeals well beyond their home states' borders, in part because nonresidents (including international students) typically pay significantly more tuition than resident students. Although this has always been true, two converging pressures are giving colleges far stronger incentives to attempt to attract those students: changing demographics that have produced a stagnant or shrinking pool of traditional-age student populations, and the rising importance and predictability of tuition revenue relative to recent patterns of declining per-student state appropriations. As recruitment of nonresident students intensifies, policymakers have devoted considerable attention to the relative proportion of nonresidents in universities' entering classes, especially the most selective flagships where concerns over the possible crowding-out of residents are paramount. But in spite of a growing awareness of how important nonresident tuition payments are to institutional bottom-line funding, there is little attention given to out-of-state tuition in finance policy. So it is unsurprising that there is not much information available to policymakers to help them better understand just how important residency is in the funds that institutions derive from tuition. This *Policy Insights* reports on the results of a brief survey of Western Interstate Commission for Higher Education (WICHE) states that attempted to gather data on tuition revenue broken out by students' residency. The survey revealed that few state higher education executive offices in the West have the data necessary for this analysis. Among states that were able to respond, it is evident that nonresidents are an increasingly vital source of unrestricted revenue for some institutions' operations. This suggests that better information about the sources of tuition revenue can lead to a more complete understanding of institutional funding. That more complete picture can ultimately better inform dialogue that fits with the principle of recognizing all three primary sources of financial support for higher education – appropriations, tuition, and financial aid (ATFA) – as a single set of interrelated tools, rather than as a disconnected set of policy levers. Residency, in the context of ATFA, is an important element to consider as policymakers attempt to find ways to preserve or improve college affordability.

Introduction

The affordability of a college education is a perennial issue, but it is receiving fresh attention as the nation's cumulative student loan debt has risen to well above a trillion dollars. Building on the growing public angst, policy attention has shifted to a host of new attempts to hold down prices in public higher education, including "free" community college, pay-it-forward schemes, modifications to student financial aid programs, income-share agreements, and the expansion of income-based loan repayment programs. The issue became one of the central topics of the presidential campaign and remains

a major theme in the debates over reauthorization of the Higher Education Act. Yet affordability is a difficult concept to define, especially when large price hikes seem to have so little impact on the total number of students enrolled across the country.

The price increases that have helped to fuel concerns over affordability are routinely tied to cuts in state appropriations per student to colleges and universities, at least in the public sector, but tuition has typically climbed even in years when state funding has been more generous. As the State Higher Education Executive Officers' annual State Higher Education Finance (SHEF)

report points out, public institutions now receive, on average nationwide, close to half of their discretionary revenue from tuition payments, a share that has doubled over the last 30 years.¹ As tuition revenue has become a more significant – and more predictable – source of funding than state appropriations, institutions have a powerful incentive to maximize the amount of tuition revenue they can obtain.

How to balance the tension between institutional incentives to fund their own bottom lines, created in part by state finance policies, and protect affordability for students and families will be a continuing challenge for state policymakers. Many of the policy concepts that have arisen from this growing tension are worth careful debate, but so far, most have largely overlooked a critical factor in terms of affordability: the role of residency.

Students who choose to enroll at an out-of-state institution (or a private institution) face a higher sticker price than they would have faced had they stayed closer to home. Students are certainly entitled to that choice, but it tends to mean higher out-of-pocket expenses and larger loans. For example, in 2011-12 students who enrolled as nonresidents at public institutions faced an average net price that was \$7,795 higher than the cost of attending a public institution in their own state. Together with their parents, those students also took out \$1,962 more in loans for that year.² These patterns likely have a real effect on affordability and the nation’s cumulative student loan debt.

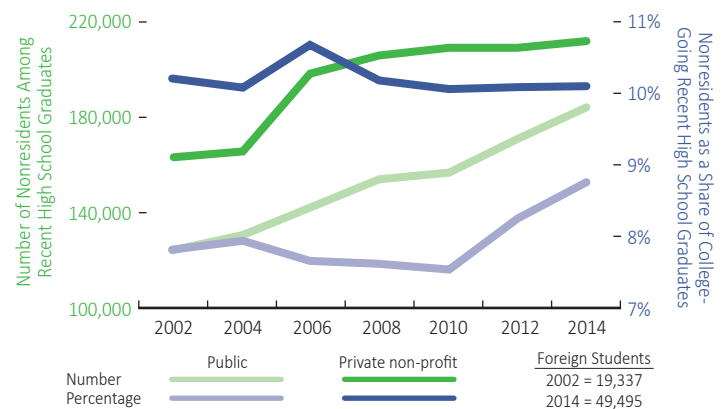
State policymakers are hardly powerless in influencing the extent to which students are likely to cross state lines in search of a postsecondary education. In fact, policymakers tend to pay careful attention to perceptions that nonresidents are crowding out residents, and occasionally establish caps on the proportion of an entering class that can be nonresidents. Through their authority to set tuition policy, they also typically ensure that the rate for nonresident students includes a premium above the institution’s actual educational costs, thereby subsidizing the education of resident students.³ And because facilitating the mobility of students across state lines can be an effective tool for accommodating excess enrollment demand or for providing access to specific academic or vocational programs, state policymakers have made it possible for students to do so through regional reciprocity programs, including three student exchange programs managed by WICHE.⁴ For some states confronting declining population forecasts,

nonresident students seem like a possible solution to a demographic problem, although scant evidence exists concerning how commonly nonresident students make their relocation permanent after graduation.

But apart from these more purposeful attempts, state policymakers’ impact on both the mix of residents and nonresidents attending public institutions in their states and the extent to which institutions derive support from each group is less intentional or widely understood. In particular, the fiscal conditions that have elevated the importance of tuition revenue have accelerated public institutions’ efforts to recruit nonresident and international students.⁵ Moreover, the changing demographics that have led to stagnation in the number of prospective traditional-age college students only serve to intensify institutional outreach beyond state borders.⁶ In response, it is apparent that colleges and universities are devoting more attention to the recruitment of students from outside their states. These patterns are especially true for flagship universities that typically can charge higher tuition overall and penetrate out-of-state markets for students willing and able to pay nonresident rates, but some observers have cautioned that the practice may also be growing at less-selective institutions.⁷

Data on student enrollments suggest that institutional efforts appear to be working. Over the past decade, students have become more mobile than in the past, especially those who are recent high school graduates. As shown in Figure 1, recent high school graduates were more likely to leave their home states for college in 2014 than in 2002. But while the number of students crossing borders to attend private institutions jumped substantially between 2004 and 2006, the number of

Figure 1. Nonresident Enrollment of Recent High School Graduates as First-Time Students in Postsecondary Education Institutions



students enrolling at out-of-state public institutions showed consistent growth throughout the time period.

In fact, virtually all of the increase in the proportion of recent high school graduates enrolling in out-of-state institutions since 2010 has been in the public sector. Also notable is that the number of foreign students grew by two-and-a-half times between 2002 and 2014. Recent media reports indicate that these patterns may have accelerated further since the last available official data, citing substantial increases at numerous public institutions, as well as efforts to lift enrollment caps on nonresidents.⁸

Within the public sector, it is evident that nonresidents are much more heavily concentrated in research universities. About a quarter of all first-time freshmen at research universities nationally are nonresidents, while only about 12.6 percent of students at baccalaureate and master's comprehensive institutions and 4.3 percent at public two-year institutions are. This is unsurprising given that research universities typically have the most far-flung name recognition and ability to attract students. Yet nonresidents can also constitute a significant presence at other types of institutions, especially if their local markets span a state border.

As one extreme example, about 64 percent of first-time students enrolling in 2014 at Treasure Valley Community College in Ontario, Oregon, hailed from another state. Most of them came from Idaho, whose border lies just a few miles from the campus, and TVCC even has a location in Idaho. More than 100 other public two-year institutions across the country had proportions of nonresidents in their entering cohorts that exceeded 15 percent in 2014. Typically this is a product of such institutions' highly localized markets, not the result of intentional recruitment strategies, but such patterns illustrate how nonresidents' impact on institutional funding patterns deserves greater state-level awareness.

While it is possible to quantify changes in the volume of students who travel out of state to attend college, far more obscure is the extent to which institutions are dependent on nonresidents to fund their budgets. That is because it is impossible with available data to calculate key indicators for individual institutions like the tuition revenue paid by residents separate from that paid by nonresidents, or the average net price faced by either group, and how these measures may have changed over time.

As the average share of public institutions' revenue covered by tuition nearly outstrips that of state appropriations, policymakers who provide public support directly to institutions or indirectly through student financial aid, and who usually exercise price-setting authority (even if they have elected to delegate it to governing boards or institutions), need to better understand both the source and the share of higher education funding. This information will shed more light on the pricing decisions and motivations facing higher education institutions. It can also lead to a more transparent dialogue about how states should pay for the higher education enterprise, especially what level of public support is adequate to meet state needs, how it is best delivered (direct appropriations or state financial aid), and which institutions get what kinds and what levels of support.

In an effort to begin gathering information about how much residency status matters in higher education funding, WICHE developed a survey that asked state higher education officials to break down the total reported tuition revenue for resident and nonresident undergraduate and graduate students. The survey instrument drew significantly upon the SHEF report produced annually by the State Higher Education Executive Officers (SHEEO).⁹ This *Policy Insights* reports the results of that survey. Given the scant attention paid to this topic, it is not surprising that responses varied considerably in their coverage and clarity, as discussed in the first section. Findings derived from the survey address total net tuition revenue, both for the most recent year available and over time, before the discussion turns to implications and conclusions.

Data

WICHE was able to obtain data on net tuition revenue generated by resident and nonresident students attending public institutions from some but not all of its 16 member states and territories. Only four states – Colorado, Nevada, North Dakota, and Utah – were able to provide mostly complete data for all academic years requested (2007-08, 2011-12, 2012-13, and 2013-14).

Even among these states, data sometimes could not be broken down for undergraduates separate from graduate students, and there were also gaps in states' ability to estimate resident FTEs separate from nonresidents. Other states had data for both two- and four-year sectors, but not for all years (Montana); or provided

data for its two-year sector but not its four-year sector (Wyoming); or for its four-year sector but not its two-year sector (Oregon). Additionally, some states were able to collect the requested information from some public institutions and not others within the same sector. For instance, Washington provided information on four of its six public four-year institutions, but since the University of Washington was not among them, and given the disproportionate number of nonresidents within the state who attend that institution, our analyses excluded Washington altogether.

Where data were complete, small differences existed between these data and the net tuition revenue figures reported in SHEEO's SHEF report. Additionally, more responding states were able to break down tuition revenue in the requested manner than to do so for mandatory fees; in such cases, attributing revenues from fees to resident and nonresidents required estimations.

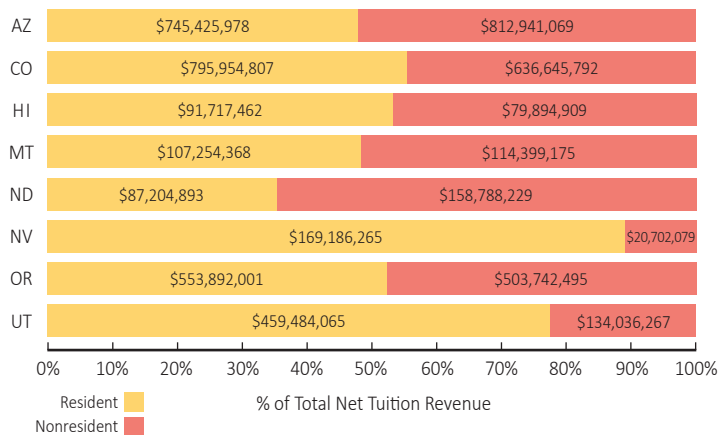
In general, the data were better for four-year institutions than for two-year institutions. As a result, and given that nonresidents are typically a more significant presence at four-year campuses (apart from the notable exception of two-year institutions situated close to state borders), this report focuses exclusively on the results for the public four-year sector. Still, differences in data availability among responding states mean the analyses that follow deal with a slightly shifting group of states drawn from Arizona, Colorado, Hawai'i, Montana, Nevada, North Dakota, Oregon, and Utah.

Survey Results

This section presents a series of exhibits documenting how the importance of funding from nonresidents varies across states and how it has changed over time. It will be apparent that, while not all reporting states are equally dependent on recruiting nonresident students, all have seen their reliance on nonresidents grow. Throughout this section, data are presented at the state level even though the influence of nonresidents on funding amounts is driven by a select group of institutions, in part because policymakers have responsibility to arrange for adequate funding support for all institutions, each of which may be facing similar pressures to raise revenues.

Figure 2 illustrates how widely states varied in their dependence on nonresidents to fund overall tuition revenue in 2013-14. That year in North Dakota, nonresidents accounted for 64.6 percent of all tuition revenue, by far the greatest share among the states that responded to the survey. At the other end of the

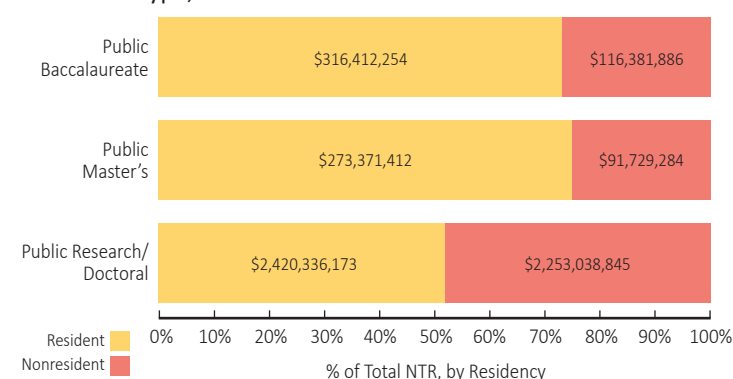
Figure 2. Total Statewide Net Tuition Revenue by Residency, 2013-14



spectrum, only 10.9 percent of tuition revenue in Nevada came from nonresidents. Across all eight states that responded with enough information to be included in these results, nonresidents accounted for \$2.46 billion, compared to the \$3.01 billion provided by residents.

As is common in the West, research universities garner a disproportionate share of tuition revenues: across these eight states they accounted for 85.4 percent of all net tuition revenue and 91.5 percent of revenue from nonresidents in 2013-14. Nonresidents provided nearly half (48.2 percent) of the tuition revenue at research universities, compared with 26.9 percent and 25.1 percent at public baccalaureate and public master's institutions, respectively (Figure 3).

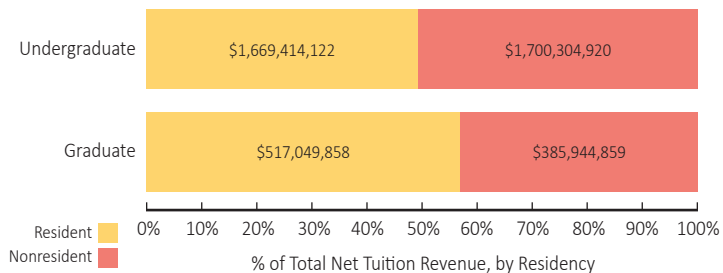
Figure 3. Total Net Tuition Revenue by Residency and Institution Type, 2013-14



Note: Includes data from Arizona, Colorado, Hawai'i, Montana, Nevada, North Dakota, Oregon, and Utah only.

Another important factor to consider is the level of the student. Specifically, for the states able to supply data, there was a notable difference between the share of revenue provided by undergraduates compared to graduate students enrolled at research universities (Figure 4). Just over half of the revenue paid by undergraduates came from nonresidents, compared to

Figure 4. Total Net Tuition Revenue by Residency and Student Level, 2013-14 (Research Universities)

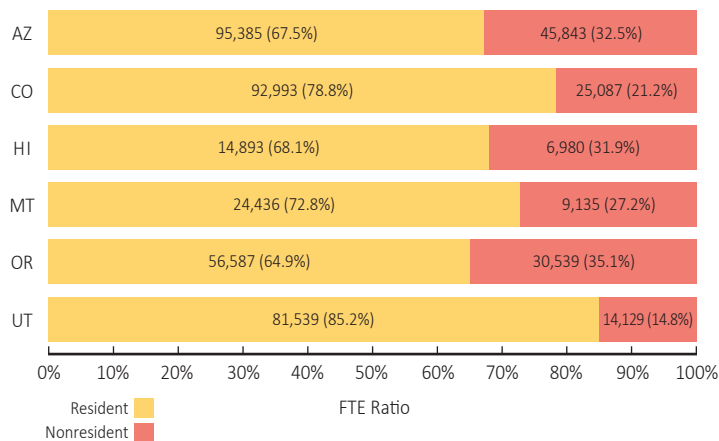


Note: Data are for research universities in Arizona, Colorado, Hawai'i, Montana, Oregon, and Utah.

42.7 percent for graduate students. This is in spite of the fact that nonresidents in reporting states accounted for 40.5 percent of graduate FTEs, as compared with only 28.2 percent of undergraduate FTEs. Perhaps reflecting the relatively generous financial aid packages that graduate students often receive from their institutions – partly in exchange for the services they perform as teaching and research assistants – their higher rates of nonresidency did not translate into an equally high proportion of revenue. Data were not available to examine how these patterns might differ for students pursuing master’s degrees versus doctoral degrees, or for different programs of study. But it would not be unreasonable to expect some differences along this dimension given how much more responsive tuition pricing and financial aid packaging can be to market forces in graduate education.

WICHE also asked states to provide the number of full-time equivalent students (FTEs) broken out by residency.¹⁰ Figure 5 shows how prevalent nonresidents are among the student bodies at institutions in several Western states. With 30,539 nonresident FTEs,

Figure 5. Total Full-Time Equivalent Students by Residency, Selected States, 2013-14



Note: Data are for Arizona, Colorado, Hawai'i, Montana, Oregon, and Utah.

Oregon’s public four-year institutions had the greatest representation (at 35.1 percent) of nonresidents in 2013-14 among states able to provide data. Two other states – Arizona and Hawai’i – also had more than 30 percent representation of nonresidents. At the other end of the spectrum, nonresidents in Utah accounted for only 14.8 percent of FTEs.

While this evidence demonstrates how different states are with respect to their dependence on nonresidents as a major funding source for public four-year institutions, it also reflects, among other things, historic flows of migration from high school to college. Demographics play an extraordinarily important role as well. Institutions in some states, such as North Dakota have found it necessary to aggressively recruit from beyond state borders in order to fill available capacity, not to mention helping to grow the state’s young adult population.

Current demographic conditions exacerbate this problem, as growth in the number of prospective students of traditional college age has largely stagnated and even diminished in many places, and student recruitment has become more of a zero-sum game. At the risk of oversimplification, a state that is able to recruit more nonresidents will see its proportion of nonresidents rise. But so will the states from which those students originated if they are not replaced by older students or by students from population groups not historically as well served (such as underrepresented minorities and first-generation students), since in this demographic climate in most states there are fewer residents on the cusp of graduation from high school. However, trend data spanning several years can help us understand how the reliance on nonresidents for their tuition dollars might be changing. In order to be able to report on as many states as possible, we are unfortunately confined to only a few years of data, and so the figures that follow track changes between 2011-12 and 2013-14.

First, Figure 6 shows how the share of nonresidents among FTEs has shifted over that three-year period. Of the five states for which data were available, four saw growth in the representation of nonresidents. Arizona, which already had the highest proportion of nonresidents among states with data, led the way with their share climbing from 11.6 percent to 13.4 percent. Oregon’s proportion rose from 8 to 8.9 percent, while Colorado’s climbed from 6.7 to 7.3 percent and Utah’s was up to 4.1 percent from 3.4 percent.

In each of these states, the number of nonresident

Figure 6. Nonresident FTEs as a Share of Total FTE Enrollment, 2011-12 to 2013-14

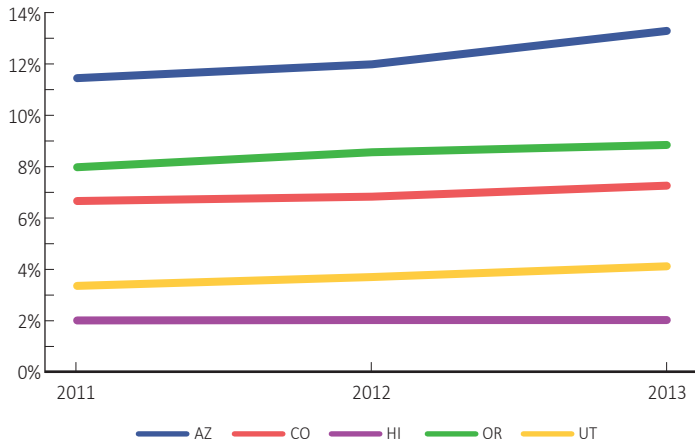


Table 1. Resident and Nonresident FTEs by State, 2011-12 to 2013-14

	Residents			Nonresidents		
	2011	2012	2013	2011	2012	2013
Arizona	94,516	95,500	95,385	39,535	41,385	45,843
Colorado	96,420	94,352	94,009	23,093	23,557	25,087
Hawai'i	14,586	14,982	14,893	6,909	6,999	6,980
Oregon	59,526	58,061	56,587	27,474	29,108	30,539
Utah	86,494	85,496	81,539	11,552	12,830	14,129

growth in nonresident FTEs was more than seven times the increase it had in resident FTEs, and in the other three states, resident FTEs actually fell over that period while nonresident FTEs climbed. These patterns translate directly into money. Figures 7 and 8 illustrate the change over time in the amount of net tuition revenue obtained from residents and nonresidents in the seven WICHE states that were able to supply adequate data. In most states, the amounts obtained from nonresidents surpassed what residents contributed, and it did not

FTEs was up, while the number of resident FTEs fell or saw only a modest increase (Table 1). Between 2011 and 2013, only Hawai'i increased enrollment of resident FTEs (by 307 students) more than it increased nonresident FTEs (which only rose by 71). Arizona's

Figure 7. Percent Change between 2011-12 and 2013-14 in Net Tuition Revenue by Residency

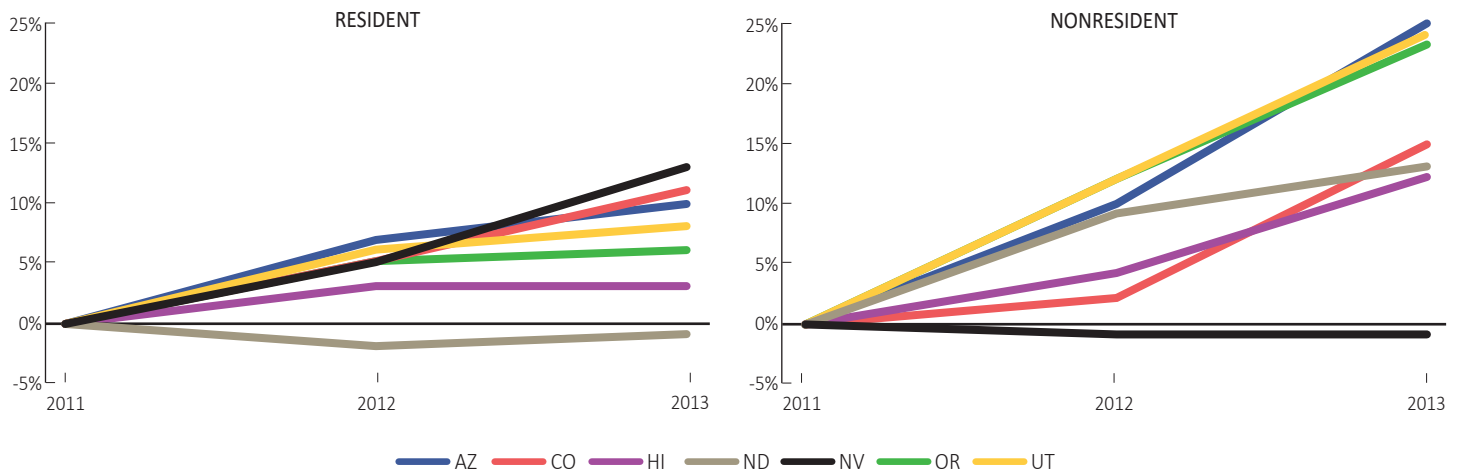
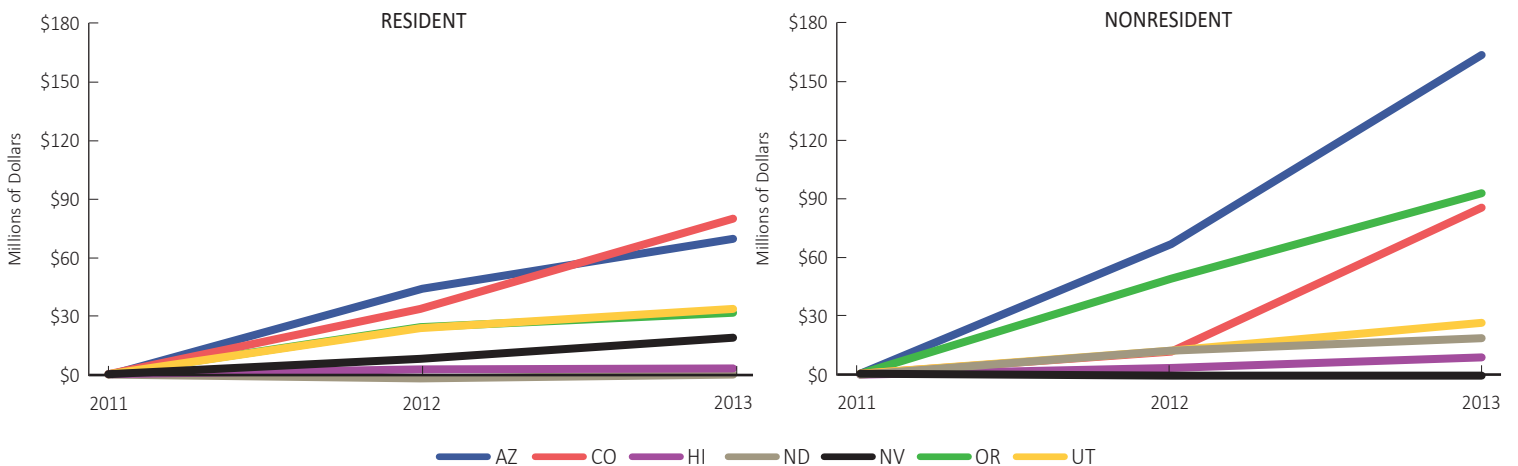


Figure 8. Dollar Change between 2011-12 and 2013-14 in Net Tuition Revenue by Residency



matter whether the analysis was based on percentage change or on dollars. By 2013-14, public institutions in Arizona brought in \$69.5 million more tuition dollars from the state's residents than just two years previously, which amounted to an increase of about 10.3 percent. Tuition payments from nonresidents over the same timeframe really took off, shooting upward by \$163.3 million, or about 25.1 percent.

A similar, if less extreme, pattern in which net tuition revenue climbed faster in both percentage terms and dollar terms existed in Oregon (where nonresidents' tuition payments climbed by 22.8 percent, or \$93.4 million, compared with 6.2 percent, or \$31.9 million, for residents), Colorado (15.5 percent and \$85 million versus 11.2 percent and \$80.1 million),¹¹ and Hawai'i (12.2 percent and \$8.7 million versus 3.4 percent and \$3.0 million). In Utah, due to its relatively modest reliance on out-of-state students, the percent increase for nonresidents greatly exceeded that for residents (24.4 percent versus 8.0 percent), but growth in actual dollar payments from residents outpaced that from nonresidents (\$34.0 million versus \$26.3 million). Given the substantial demographic challenges facing North Dakota that are associated with a declining population, it is not surprising that nonresident tuition revenue is vitally and increasingly important. Nonresident tuition payments in the state have accounted for all growth in tuition revenue and have offset declines in tuition revenue obtained from residents.

Only in Nevada were residents a more significant contributor in 2013-14 than they were in 2011-12. There, resident tuition revenue was up 12.5 percent (\$18.8 million), while tuition from nonresidents actually dropped

almost negligibly by less than a percent, about \$120,000.

The preceding discussion documents how tuition payments from nonresidents are growing (in at least these states) as a share of public institutions' operating revenue. Looking at net tuition revenue divided by FTE enrollment separately for residents and nonresidents gives an estimate of how much revenue is obtained from each individual in each group, on average. This focus on net tuition revenue per student is preferable to an examination of published prices given the rising importance of grant aid from the federal and state governments, as well as from the institutions themselves. In other words, it better reflects the funds that institutions actually realize in tuition payments from their students.

Figure 9 shows that each nonresident student generated considerably more to attend a public four-year institution in the states for which data were available, as might be expected. Nonresidents in Colorado generated the most at \$25,377, while those attending institutions in Utah paid the least at \$9,487. These figures compare to the

Figure 9. Net Tuition Revenue per FTE, 2013-14

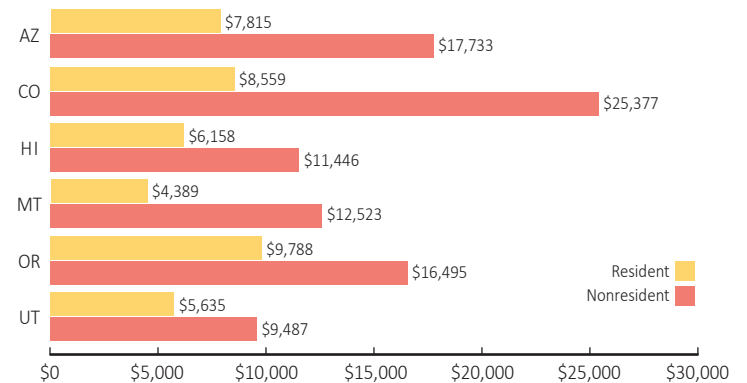
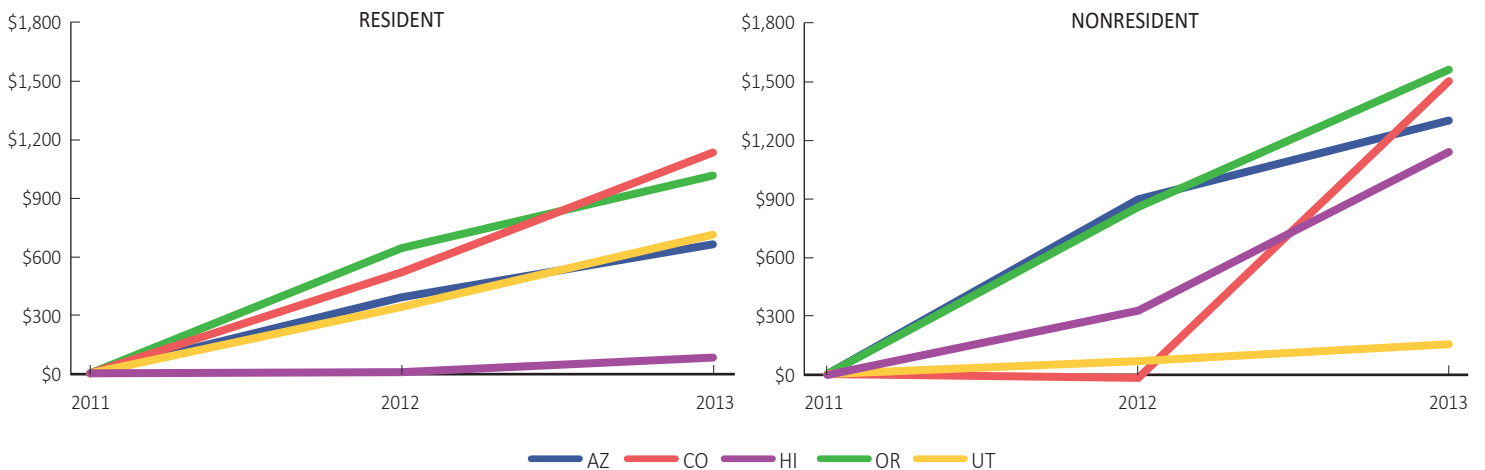


Figure 10. Change in Net Tuition Revenue per FTE by Residency, 2011-12 to 2013-14



per-student tuition revenue obtained from residents that ranged from a low of \$4,389 in Montana to a high of \$9,788 in Oregon. The relative difference in per-student funding also varied significantly. Two states – Colorado and Montana – garnered at least \$2.85 from nonresidents for every dollar a resident student paid in 2013-14. On the other end of the scale, Oregon and Utah each took in only about \$1.68 from nonresidents for every dollar provided by residents. Notwithstanding political, demographic, or other conditions that may be present to shape institutional recruitment practices, the financial incentive for state institutions to recruit nonresidents would appear to be much stronger in states with the highest ratio of nonresident to resident tuition levels.

Being able to better document and understand states' reliance on out-of-state students for revenue yields important insights, but it raises the question of how much this reliance has changed over time. Figure 10 shows how net tuition revenue per student changed between 2011-12 and 2013-14 for resident and nonresident students. Apart from the observation that net tuition revenue per student rose for both groups in all states, these data present a mixed picture. Per-student revenue climbed more slowly for nonresidents than for residents only in Utah, while the opposite was true in the other states. Relative to 2011-12, per-student tuition revenue from Utah residents in 2013-14 grew by \$560 more than the increase for nonresidents. While in Hawai'i nonresidents spent \$1,058 more than residents did over the same period, and the corresponding amounts by which tuition from nonresidents outpaced that of residents in Arizona, Oregon, and Colorado were \$638, \$541, and \$365, respectively.

Discussion and Implications

There have been a number of recent reports, including in the media, on the extent to which public institutions are seeking to enroll nonresident students – and why. Currently, however, very little information has surfaced that attempts to document empirically how important nonresident tuition payments are to institutional bottom lines and by extension to state funding policies.

This report makes an attempt to do so, and two related insights are immediately evident. First, it is telling that so few Western states could provide the requested data. Second, even the states that did supply data were not always able to provide complete responses, with data missing for some of the requested years, for some

institutions, for student level, for residency status, or a variety of combinations of all of these elements. Many respondents also had to resort to estimation strategies for some revenue components (most typically, fees). Consequently, these analyses are approximations, which should be interpreted cautiously. In particular, results may be particular to the West, where the balance of public and private institutions, as well as distance between states and resulting mobility patterns, are noticeably different from elsewhere in the country.

There is an obvious reason why these data are so hard to come by; there has been little demand for them from state policymakers. Instead, feeling pressure from constituents anxious to preserve access to their public institutions, state policymakers are more likely to be conscious of the relative proportion of resident versus nonresident students in entering classes, and to focus on enrollment caps for nonresidents as a way to protect access for residents.

If debates over such policies consider the impact on institutional finances at all, it is at best a secondary consideration. What is clear from the uneven response to this survey is how little concrete information exists about the growing importance of nonresidents to institutional solvency, at least in an empirical sense. This is a significant blind spot. State funding practices have allowed postsecondary education to become the “balance wheel” in state budgeting, resulting in disinvestment during recessionary downturns that policymakers know will be at least partially offset through increased tuition prices and revenue. Facing mounting pressure during periods of disinvestment to fund their own operations, public institutions are at the same time facing a more challenging and competitive recruitment environment that is the result of sweeping demographic changes. Many public institutions will naturally view nonresidents as one way to make ends meet.

To be fair, state policymakers may harbor complementary views: institutions that can attract large numbers of nonresidents should be encouraged to do so, given that increased revenues potentially save the state money. Clearly, such a strategy makes more sense for wealthier, selective institutions than for others. But it also makes the most sense when it is an intentional strategic choice on the part of state policymakers who are fully informed about how their decisions impact both students and institutions based on solid data and supported by high-quality research.

When it comes to the availability of data on finances, however, there is a lot of missing information to support such choices. Falling into the gap is how increasingly powerful incentives, whether encouraged by intentional policies or not, are combining with a rapidly escalating competitive environment to shape institutional efforts to attract students from elsewhere. The net result has the potential to influence the affordability of public higher education for not just the nonresidents enticed to enroll outside their home state, but for residents as well, since the energy and resources being poured into the recruitment of nonresidents comes with opportunity costs.

Research shows that effective marketing, including financial aid packaging by institutions, can sway students' choices about which college to attend.¹² This suggests that even if state policymakers are pleased to see state higher education costs held in check in part through effective nonresident recruitment, they might want to note how students' educational costs – and debt – may be affected without meaningfully changing the array of educational opportunities available. That is, students can generally look around their home state and find at least one public institution providing the academic program and “college experience” that they are seeking to pursue. For example, there are many similarities between the University of North Carolina at Chapel Hill and the University of Virginia: both are large, highly selective, research-intensive institutions, located in vibrant college towns of relatively similar size, offering a full array of experiences including athletics and student activities, and having 44 undergraduate majors in common. Indeed, they view themselves as peer institutions, and there is a large overlap among the prospective students they recruit on both sides of their shared state border. Yet a Virginian attending Chapel Hill in 2013-14 faced a published tuition rate that was \$20,210 more than what he or she would have confronted by electing to stay home and enroll at the University of Virginia. The difference in published prices for a North Carolinian choosing to enroll at the University of Virginia would have been far greater: \$34,058.

Students select institutions based on many different characteristics, including subjective factors typically described as “fit.” That level of flexibility and choice is a crucial element of our higher education ecosystem, while geographic diversity in the student body likely has educational value in its own right. Nevertheless, students'

increasingly frequent decisions to attend a public college in another state have implications for our understanding of affordability, informed as it is by the nation's indicators such as cumulative student debt level.

Additionally, as reflected by the example outlined above, it is clear that these concerns are most heavily concentrated at the most selective public institutions. The results discussed in this report are largely driven by the broader geographic reach of flagship institutions than comprehensive and regionally based institutions. Yet a statewide focus on this topic is still needed because the same trends that have helped spur out-of-state recruitment at flagships are also impacting other institutions, which may face higher costs in marketing to distant students and higher opportunity costs in enticing those students to enroll. Such a focus should include enough flexibility in statewide tuition policy to differentiate among institutional sectors in part based on how effectively and efficiently institutions can attract nonresident students and their dollars. Policymakers considering, for example, whether to impose a cap on tuition increases should be conscious of how some institutions have better access to additional funding from nonresidents that would not be subject to the cap, and be prepared to factor that into their decisionmaking.

Moreover, as a way to understand the revenue that institutions derive from tuition, it is increasingly unhelpful to focus on differences in published prices charged to residents and nonresidents. Yet lacking more nuanced data, coverage of this topic can typically go no further, even as financial aid leveraging grows and recruitment efforts reach farther afield. Institutional aid expenditures on nonresidents and residents may not be equivalent at any given institution, but nationally 38 percent of domestic nonresident students at public four-year institutions received an institutional grant in 2011-12 and, of those who did, their average award was \$8,280. The comparable figures for resident students were 30 percent and \$3,799.¹³

These patterns have the potential to influence affordability for a state's own residents as well, not to mention educational quality. Normally, a dollar spent on one thing is no longer available to be spent on another. In this example, a dollar of institutional aid used to recruit an out-of-state student is a dollar that cannot be spent to help reduce the costs of attendance for an in-state resident, nor can it be spent on support services aimed at boosting student success rates or on

the quality of academic programs. But such tradeoffs can easily be oversimplified. Institutions must consider the extent to which providing a grant to a nonresident student is sufficient to entice that student to cover the resulting difference, which may be much more than what a resident student is asked to pay. In effect, you may have to spend money to make money. Therefore, the opportunity costs of grant expenditures to nonresident students is not so straightforward.

State contexts also matter: states with rapidly declining populations of prospective students are less likely to face conditions under which increasing resources flowing to nonresidents displace resources that would otherwise reach resident students. It is also worth noting that a share of institutional aid funding is restricted by the original provider of such funds and cannot simply be reallocated, though it should also be acknowledged that a non-trivial portion of institutional aid budgets comes from recycled tuition revenue or state appropriations.

State policymakers should take care not to wade too deeply into such details, but it is evident that currently available information leaves them and others with little information about the extent to which aid distribution patterns are balanced, the extent to which they are aligned with state goals and expectations, or the extent to which institutions are responding to incentives policymakers themselves have put into place. For their part, institutions can help policymakers work their way through the strategic decisions at the heart of this problem by being transparent with relevant data on funding, as the American Association of State Colleges and Universities has suggested could be a part of a new, more productive compact with states.¹⁴

Another reason to take a statewide view of this issue is illustrated by the debate that occurred over Iowa's proposed performance-funding policy, which would have paid the three regents' institutions in Iowa for the number of Iowans enrolled. Even though it was not enacted, the proposed policy created considerable concern about potential effects that ramped-up in-state recruitment efforts by the University of Iowa might come at the expense of the other higher education sectors in a state where the pool of recent high school graduates is rapidly diminishing.¹⁵ This provides an example of how interrelated higher education policies often are, as well as how important it is to think carefully about downstream effects of policies.

Most important, current patterns of investment and the incentives facing institutions are reaching a point where it is increasingly essential to think carefully about the influence of nonresidents, not just students in the aggregate, on institutional funding in the public sector. It is not a straightforward issue; there are compelling arguments on all sides about whether it is appropriate for institutions to raise as much money as possible from out-of-state students, and how protective states should be of enrollment spaces for residents whose taxes have helped fund appropriations to institutions. But policymakers need to be equipped with information about how this source of revenue shapes institutional decisionmaking, including the extent to which resulting decisions are congruent with policymakers' efforts to steer institutions' behavior. Such information is also essential for having an honest and open dialogue about funding adequacy in states.

In an era in which institutions face increasingly powerful incentives to consider tuition revenue, rather than state appropriations, as a more stable and foundational source of operational support, residency status becomes an important variable for policymakers navigating the complex decisions at the intersection of appropriations, tuition price-setting, and financial aid. Ultimately, the result can shape how affordable a public higher education is generally, and in particular, for residents of their own states. What becomes evident is that more research and analysis on this topic is necessary – beginning with the gathering and presentation of data for all states, which face their own unique demographic challenges, have varying levels of available enrollment capacity in public institutions, employ different strategies for financing those institutions, and vary geographically in ways that affect the mix of residents and nonresident enrollment.

Endnotes

¹ To be sure, there is wide variation in the extent to which states expect students and their families to pay for the higher education enterprise, but all states have allowed tuition revenue to grow as a share of those costs over this timeframe. State Higher Education Executive Officers (2015), "State Higher Education Finance: FY 2014," accessed on 21 August 2015 at <http://www.sheeo.org/sites/default/files/project-files/SHEF%20FY%202014-20150410.pdf>.

² National Postsecondary Student Aid Study, downloaded via PowerStats at www.nces.ed.gov/npsas.

³ State Higher Education Executive Officers, "State Tuition, Fees, and Financial Assistance Policies: 2012-2013," accessed on 21 October 2015 at <http://www.sheeo.org/sites/default/files/publications/Tuition%20and%20Fees%20Policy%20Report%2020131015.pdf>.

⁴ Christopher Morphew, "Student Migration: Relief Valve for State Enrollment and Demographic Pressures," Boulder, CO: Western Interstate Commission for Higher Education, May 2005), accessed on 31 January 2017 at http://www.wiche.edu/files/info/Student_Migration_web.pdf.

⁵ Stephen Burd, *The Out-of-State Student Arms Race: How Public Universities Use Merit Aid to Recruit Nonresident Students*, (Washington, D.C.: New America, 2015), accessed on 18 August 2016 at <https://static.newamerica.org/attachments/3120-out-of-state-student-arms-race/OutOfStateArmsRace-Final.b93c2211cdfb4c3da169d668fbb67cc1.pdf>.

⁶ Brian T. Prescott and Peace Bransberger, *Knocking at the College Door* (Boulder, CO: Western Interstate Commission for Higher Education, 2012); Brian T. Prescott, *Demography as Destiny: Policy Considerations in Enrollment Management* (Boulder, CO: Western Interstate Commission for Higher Education, 2013), accessed on 31 January 2017 at <http://www.wiche.edu/info/publications/PI-knocking2013.pdf>.

⁷ Burd, 2015.

⁸ Laura McKenna, "The Lure of the Out-of-State Student," *The Atlantic* (15 October 2015) accessed on 18 August 2016 at <http://www.theatlantic.com/education/archive/2015/10/the-allure-of-the-out-of-state-student/410656/>.

⁹ SHEF's net tuition figures are calculated by the SHEEO staff, not reported to SHEEO by the SHEF survey respondents.

¹⁰ It is possible to calculate the number and proportion of nonresidents among an institution's first-time students through the Integrated Postsecondary Education Data System (IPEDS), but these data may serve as poor proxies for the overall representation in any institution's student body since students are likely to transfer to an institution back home or achieve residency status in later years. Data in the National Postsecondary Student Aid Study show that the overall undergraduate population is less likely to be nonresident than the entering class data provided by IPEDS, and especially for graduate students. They are also inappropriate for use in combination with revenue data, for which analyses generally require FTEs.

¹¹ It is notable that Colorado was only one of two Western states that mounted a systematic effort at the state level to collect these data from the institutions. Yet the quality of the data supplied by Colorado in a few cases was questionable. The research team imputed data for graduate students in two institutions in 2011-12, which resulted in a reduction in the net tuition revenue reported for Colorado in that year of \$71.4 million. Readers should exercise caution when evaluating the conclusions drawn for Colorado over the three-year period discussed in the text; however, the one-year change between 2012-13 and 2013-14 is based on more reliable data. The case of Colorado showcases how these data are often best estimates and reinforces the point about how challenging it is to evaluate states' or institutions' reliance on revenue from out-of-state students with currently available data.

¹² Michael S. McPherson and Morton O. Schapiro, *The Student Aid Game: Meeting Need and Rewarding Talent in American Higher Education*. (Princeton, NJ: Princeton University Press, 1998); Don Hossler, "The Role of Financial Aid in Enrollment Management," *New Directions in Student Services*, 89 (2000), 77-90.

¹³ National Center for Education Statistics, *National Postsecondary Student Aid Study*. Author's calculations from PowerStats, <http://nces.ed.gov/datalab/powerstats/>. Data are for students who attended one institution full-time for the full academic year.

¹⁴ American Association of State Colleges and Universities, *Creating a New Compact Between State and Public Higher Education* (Washington, D.C., American Association of State Colleges and Universities, 2013), accessed on 31 January 2017 at <http://www.aascu.org/policy/P5/newcompact/fullreport.pdf>.

¹⁵ Kellie Woodhouse, "Buying Back Iowans," *InsideHighered.com* (30 September 2015) accessed on 18 August 2016 at <https://www.insidehighered.com/news/2015/09/30/university-iowa-looks-aid-it-tries-increase-resident-enrollment>.

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