**Mitchell's Musings 10-9-14: The Menu Option**

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Getting a college educations is expensive. No startling news there. However, public universities – which rely on state subsidies for a significant portion of their "core" educational expenses – were subject to substantial budget cuts during the Great Recession. Even in the recovery, they find themselves behind in the amount of public subsidy received and so seek alternative revenue sources. One obvious source – in fact, THE obvious source - is tuition.

In my own University of California system, roughly one out of ten dollars in the UC budget now comes from the state. That state dollar is more or less matched by tuition funding from students. The other eight dollars result from research grants, patient revenues on campuses with hospitals, and other miscellaneous sources such as administering what used to be called the nuclear labs – a leftover from the World War II Manhattan Project.

Now there is room for argument about what exactly "core" educational expenses are. There is much overhead involved in running a university for such things as utility service, policing, libraries, computer services, etc. So it isn't precisely true that there is no fungibility between, say, grants for specific research projects and core expenses (e.g., running the English department). But it true enough so that universities cannot solve their problems of educational funding by getting more grants or performing more surgeries. One can argue about what is the true marginal cost of admitting an extra student. (Presumably, it varies depending on what major the student takes, among other factors.) But there is some added cost to increasing enrollment.

While it's fun to argue about such accounting matters, at the end of the day there are only so many dollars entering the system and if some are cut off, either some activity is going to be reduced or alternative funding has to be raised. It's nice to talk about eliminating waste and thus obtaining free money, but in the end, the story is not going to be about painless cutbacks. Yes, work on efficiency, but know that it isn't going to solve the problem.

Tuition is actually a complex story that goes beyond the sticker price. Different students pay different amounts depending on "need" as measured by factors such as family income. So dollars are recycled among students through a redistribution mechanism. In addition, some dollars come from outside the system such as from federal aid to students. Typically, state university systems offer lower tuition to in-state residents than to out-of-staters. Thus, when dollars are scarce, the temptation is to admit more out-of-state (and foreign) students who generally pay the non-state sticker price and receive no subsidy. (The story becomes still more complicated at the graduate student level where there may be subsidies for out-of-staters, particularly at the doctoral level).

The issue is in good measure a political one for public universities. In California, the legislature and governor ultimately determine how much subsidy the three university systems (University of California, California State University, community colleges) will receive. For UC and CSU, especially, the legislature knows that cutbacks in state funding will likely lead to tuition increases. But unlike tax increases, the legislature doesn't have to do the dirty work of raising tuition. Indeed, it can point with horror to what the universities are doing when tuition rises. It can also complain when universities raise the proportion of out-of-state students for the added sticker price revenue.

Just as with defining core educational expenses or the marginal cost of adding a student, it is possible to debate whether admitting an out-of-state student displaces some local resident. It all comes down to an argument about how many locals the university would otherwise have been admitted. Since what would have happened otherwise cannot be observed, the displacement issue remains fuzzy. Nonetheless, even if a university claims that it admitted the same number of in-state residents as before, but also increased out-of-staters, if the proportion of the latter grows, it is likely that some displacement has occurred. It may not be one-for-one, but some displacement undoubtedly happens.

Standard practice – at least for the University of California – is for the Board of Regents to propose a budget for the money it seeks from the state, typically one linked to enrollment. But the governor and the legislature may not go along. In fact, in the current era, they seldom do. However, other than vague warnings that tuition might have to be raised if the budget request isn't met, the university doesn't do much.

That approach is a mistake. What should be provided is a specific and contingent budget menu. If the budget is X, we will take Y in-state students and not raise tuition. If the budget is X-A, we will take Y-B students, and raise tuition by C. If the budget is X-D, we will take Y-E students, and raise tuition by F. Choose from the menu. Whether this menu is made public initially or delivered privately is a tactical decision. There is something to be said for a private start, simply because a change in tactics breaks a tradition and could provoke hostility.

Of course, regardless of whether the menu is private or public, there would likely be pushback from the legislature and governor. And they could retaliate in various ways. But the menu approach makes clear what the retaliation would entail. Fewer dollars, for example, would mean more out-of-staters and higher tuition. Basically, there are two variables in play here, tuition and in-state enrollment. One or both are the adjustment factors. There is no getting around that fact, so it might as well be made explicit in budget proposals.

"The hay looks good."

**You have to select from what is there on the menu.**