Out-of-State Tuition Premiums at Public Four-Year Institutions: Trends and Impacts

MIDWESTERN HIGHER EDUCATION COMPACT

POLICY REPORT
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EXECUTIVE SUMMARY

In an era in which public postsecondary institutions increasingly face budget constraints, the state residency of students has become an important factor in complex decisions on tuition-setting policies and enrollment management. This report examines the current trends and impact of out-of-state tuition premiums - defined as the additional amount of tuition and fees for non-resident students - at public four-year institutions in the U.S. Regional approaches to reducing out-of-state tuition premiums are described, and past research on the effects of tuition premiums is summarized. Key findings of the report are presented below.

Prevalence of Residency-Based Tuition Rates

About 96% of public four-year institutions in the country have residency-based tuition rates, compared to 88% in the Midwest.[1] While most public universities have an out-of-state premium, seven states had at least one public four-year institution without a tuition premium for out-of-state students. About 57% of institutions without residency-based tuition in 2020-21 were master's colleges and universities. Almost half of these institutions are in border counties. Most of these institutions are also less selective, do not enroll the vast majority of students they admit, and have low student enrollment.

Typical Size of Out-of-State Premiums

The size of out-of-state tuition premiums varies across states. While Michigan has the largest average premium in the country ($24,370), South Dakota has the smallest premium at $3,540. Premiums vary by Carnegie Classification, as doctoral institutions have the highest out-of-state premiums (national average of $17,347 and Midwest average of $16,144), followed by master's institutions (national average of $10,420 and Midwest average of $7,619) and baccalaureate institutions (national average of $9,534 and Midwest average of $6,431). The average 10-year change in premiums increases as institutions' Carnegie levels increase. Flagship public universities have higher out-of-state premiums (average of $20,898 nationally and $22,380 in the Midwest) than all other public four-year institutions.

Interstate Student Exchanges

Forty-five states participate in at least one of the four major regional interstate student exchanges that offer reduced out-of-state tuition rates: the Academic Common Market, Midwest Student Exchange Program (MSEP), Tuition Break, and Western Undergraduate Exchange (WUE). Whereas states determine membership in regional exchanges, individual institutions can opt-in or -out of participation in an exchange. The participation of public four-year institutions in MSEP ranged from 0 to 86 percent in 2020-21: Illinois (0%), Indiana (69%), Kansas (86%), Michigan (0%), Minnesota (42%), Missouri (69%), Nebraska (71%), North Dakota (67%), Ohio (17%), and Wisconsin (77%). MSEP served 985 first-year students in 2020-21.

Impacts of Residency-Based Tuition Rates

Research has shown that out-of-state tuition premiums can affect students, institutions, and states. Several studies demonstrated that high tuition rates for out-of-state students can discourage enrollment of nonresident applicants. Accordingly, researchers have found that providing nonresident students with scholarships to reduce the net price can increase out-of-state enrollment rates. However, for more-selective public institutions, higher premiums signal higher quality, leading to a positive relationship between nonresident tuition rates and nonresident student enrollment at these types of institutions.

Regarding the impact on institutions, research has shown that increasing out-of-state tuition and nonresident enrollments can be a viable revenue-maximizing strategy, though the expected revenue gains from out-of-state

[1] Consistent with the U.S. Census Bureau's regional designations, the Midwest is defined to include Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

students do not always translate into a net increase in tuition revenue. Finally, two studies suggest that tuition premiums can create inefficiencies from a state, regional, and national perspective if students who are best fit for an out-of-state institution are discouraged from enrolling due to a price differential.

POLICY OPTIONS

- **Maintaining and optimizing residency-based pricing.** Selective public universities are in the best position to maintain relatively high out-of-state tuition premiums without reducing enrollment demand. Careful simulations can be employed to optimize out-of-state tuition rates in ways that balance revenue, institutional prestige, and enrollment objectives.
- **Decreasing the size of out-of-state tuition premiums.** The institutions most likely to gain from equating out-of-state tuition with in-state tuition are those with low to moderate levels of selectivity and those in states with declining high school graduate populations.
- **Providing targeted scholarships for out-of-state students.** Targeted scholarships represent a more flexible approach to decreasing tuition premiums than equalizing all tuition and fees, while also maintaining a distinct revenue stream and preserving perceptions of institutional prestige.
- **Participating in interstate tuition exchanges.** Participation in interstate tuition exchanges may boost nonresident enrollment and become a potential means of revenue generation, especially for less selective institutions, and increase overall welfare for states with declining populations.

Out-of-State Tuition Premiums at Public Four-Year Institutions: Trends and Impact

Public colleges and universities commonly charge an out-of-state tuition premium, wherein students enrolling from out-of-state pay a higher tuition rate than state residents. National data on college prices at public four-year institutions show that the average published out-of-state tuition and fees tend to be approximately three times greater than the in-state tuition price ($27,560 vs. $10,740) before taking student grant and scholarship aid into account (Ma & Pender, 2021). Although residency-based tuition and other forms of differential tuition have been promoted and adopted for various reasons (Wolniak et al., 2019), years of declining state funding have pressured many public colleges and universities to increase out-of-state tuition premiums and expand nonresident freshman enrollment to generate additional revenue (Bound et al., 2020; Jaquette & Curs, 2015; Titus et al., 2015). Some less selective public institutions, however, have considered decreasing their tuition premium to better compete for price-sensitive out-of-state students and potentially offset declines in local pools of prospective students (Glater, 2008; Jaschik, 2014; Seltzer, 2017).

This report examines the current trends and impact of out-of-state tuition premiums at public four-year institutions in the U.S. After defining tuition and state residency, this report explores the national prevalence of residency-based tuition, including attributes of institutions that have the same tuition rate for in-state and out-of-state students. Second, the average size of tuition premiums is provided by state and institutional type. Third, tuition exchanges are briefly described as an approach to reducing out-of-state tuition premiums for participating institutions. Next, it provides a summary of research on the impact of residency-based tuition rates on in-state and out-of-state student enrollment as well as on institutional finances. The report concludes with policy considerations for setting tuition rates for out-of-state students.

DEFINING TUITION AND RESIDENCY

Tuition and fees refer to the published sticker price a typical student must pay to attend a postsecondary institution for a full academic year. The price is inclusive of instructional services and required fees, though it does not include costs associated with books, supplies, and room and board. Tuition and fees can be distinguished from the net price of attending college, which is the total cost of attendance minus any grants or scholarships a student might receive.

Institutions and states frequently differ in how state residency is defined and determined for tuition purposes (see Appendix A). Six Midwestern states have statewide residency definitions that apply to all public state four-year institutions, including Iowa, Kansas, Missouri, North Dakota, Ohio, and South Dakota. Residency definitions in other states vary across institutions or systems. According to a recent analysis of residency definitions for public flagship universities (MHEC, 2022),[2] for example, dependent persons living in the state are generally deemed residents if a parent is a resident living in the state. Similarly, in most cases independent persons who live in the state for 12 consecutive months are eligible for classification as a resident, provided they moved to the state for some reason other than attending college.[3] Residency definitions vary in their stipulations or exceptions for living in the state; relationships with current residents; employment; high school graduation; college enrollment; and specific populations. For example, at the University of Iowa and University of Nebraska, members of tribes indigenous to the state automatically qualify for resident status. Refugees are exempt from the

[2] Residency definitions derived from specific institutions do not necessarily apply to other institutions in the same state. It is also important to note that state residency requirements for tuition purposes may differ from those used for state financial aid.
[3] There is no 12-month residency establishing requirement for independent persons enrolling at the University of Michigan. Instead, a person only needs to establish that Michigan is their permanent legal residence and that they have severed all out-of-state ties that suggest they are a resident of another state.

12-month residency establishment period at the University of Wisconsin, and undocumented students can qualify for the resident tuition rate at selected institutions in six states (and in Minnesota, undocumented students are additionally eligible for state financial aid).[4]

PREVALENCE OF RESIDENCY-BASED TUITION

Nationally, 96 percent of public four-year institutions had residency-based tuition rates in 2020-21, compared to 88 percent in the Midwest.[5] Resident students are commonly charged lower tuition rates than are non-resident students because public institutions are funded by the state through taxes paid by residents of that state. Consequently, tuition rates are typically higher for out-of-state students whose parents have not paid taxes to the institution's state. Nonetheless, seven states had at least one public four-year institution that charged the same tuition rate for both in-state and out-of-state students in 2020-21: Colorado, Illinois, Michigan, Minnesota, Mississippi, Nebraska, and North Dakota. Some institutions may find that charging the same price for resident and non-resident students is necessary to attract enough out-of-state students to meet enrollment management objectives. About 71 percent of institutions without residency-based tuition had an FTE undergraduate enrollment of less than 6,000 in 2020, compared to the national average of 9,918. Geographical location may be another influential factor in some cases. Approximately 48 percent of institutions without residency-based tuition are located in counties on a state border, which may improve competitiveness for nearby out-of-state students (see Appendix B).

Four-Year Institutions

Table 1 shows how public four-year institutions in Midwestern states received general state appropriations (excluding capital appropriations and student financial aid) in Fiscal Year 2021, along with a national comparison.[5] The table also shows whether institutions receive funding directly from the state legislature instead of through a coordinating or system board. In a year affected by the COVID-19 pandemic, three Midwestern states and a total of nine states nationwide had no funding formula whatsoever for the four-year sector. Iowa, Nebraska, and South Dakota typically have no formula. Most states with no formulas tend to have a smaller number of public universities, thereby reducing the complexity of allocations.

TYPICAL SIZE OF OUT-OF-STATE PREMIUMS

The size of out-of-state tuition premiums – defined as the additional amount of tuition and fees for non-resident students – differs greatly across states. As seen in Figure 1, Michigan has the largest average premium among public four-year institutions, owing mostly to the premium charged by the University of Michigan – Ann Arbor. In contrast, South Dakota has the smallest average premium. Out-of-state students at public four-year institutions in South Dakota pay an average of $3,540 more than do in-state students.[6]

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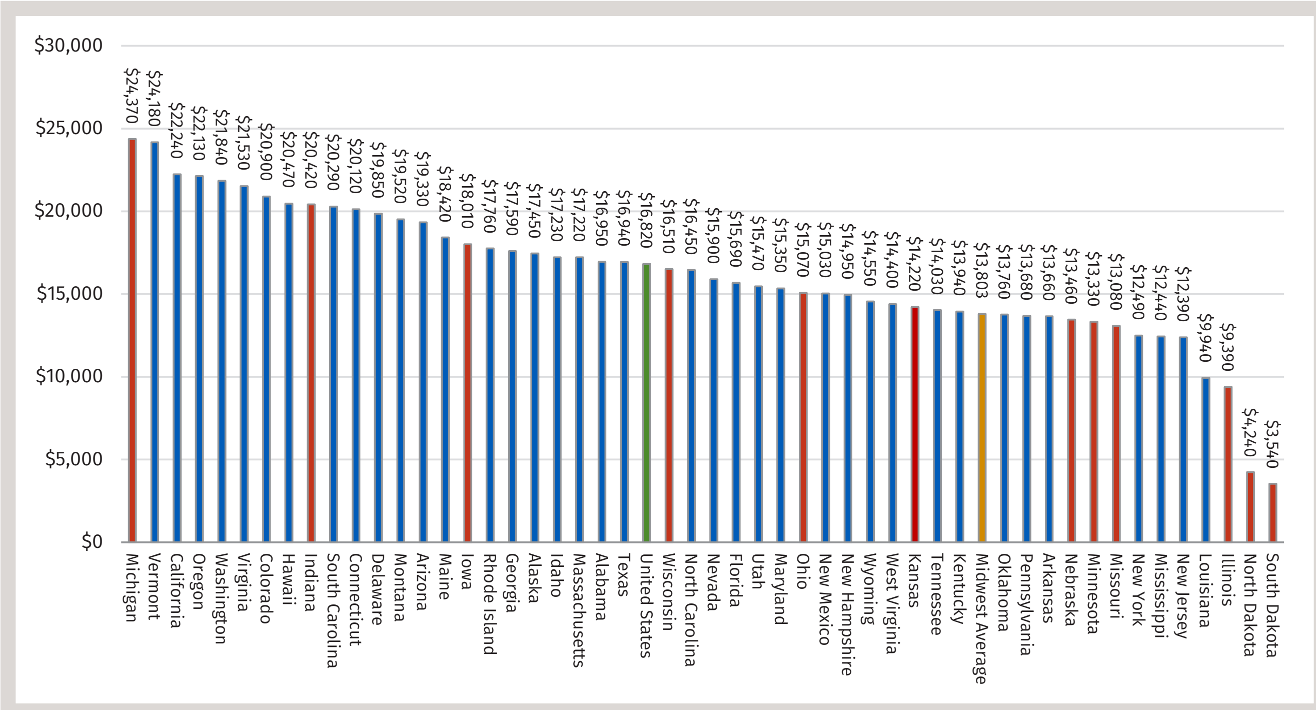
[4] Exceptions for undocumented students are codified in state law for all of these states except Michigan and Ohio (NCSL, 2021). See Appendix A.

[5] Consistent with the U.S. Census Bureau's regional designations, the Midwest is defined to include Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

[6] In addition, South Dakota's technical colleges do not have residency-based tuition rates.

FIGURE 1. Average Out-of-State Tuition and Fee Premiums by State, 2021-2022



Source: The College Board. (2021). Trends in College Pricing 2021.
Note: State and national averages are weighted by enrollment. Midwest Average is unweighted.

Tuition premiums also vary by an institution's Carnegie Classification. Table 1 shows that the average size and 10-year growth rate of out-of-state premiums tend to be highest among doctoral universities, followed by master's universities and baccalaureate colleges. Tuition premiums are also generally lower in the Midwest than they are nationally. Among doctoral universities, the average national premium was $17,347, compared to the Midwest average of $16,144. Among master's universities, the average premium nationally was $10,420, compared to $7,619 in the Midwest. Among baccalaureate institutions, the average out-of-state premium was $9,534 nationally, compared to $6,431 in the Midwest. While the 10-year growth rate for tuition premiums varied significantly across states, the national average premium increased slightly at baccalaureate colleges (1%) and master's universities (4%), relative to a 14% increase at doctoral universities. In the Midwest, however, there was a 19% decrease in the tuition premium at baccalaureate colleges.

TABLE 1. 2020-21 Tuition and Fees at Baccalaureate, Master's, and Doctoral Institutions

	Baccalaureate Colleges				Master's Colleges and Universities				Doctoral Universities			
	In-State	Out-of-State	Premium	10-Year Premium Change	In-State	Out-of-State	Premium	10-Year Premium Change	In-State	Out-of-State	Premium	10-Year Premium Change
Alabama	$7,710	$13,890	$6,180	27%	$10,284	$19,423	$9,139	25%	$10,896	$27,703	$16,806	26%
Alaska	-	-	-	-	$8,760	$25,246	$16,485	31%	$9,169	$25,838	$16,669	33%
Arizona	-	-	-	-	-	-	-	-	$11,626	$28,500	$16,874	14%
Arkansas	$6,589	$13,586	$6,997	5%	$7,966	$12,807	$4,841	2%	$9,060	$21,503	$12,443	30%
California	$7,116	$18,996	$11,880	-10%	$7,409	$19,541	$12,131	-8%	$12,898	$39,481	$26,584	7%
Colorado	$8,896	$19,552	$10,656	-29%	$8,859	$22,175	$13,317	12%	$11,995	$31,166	$19,170	-1%
Connecticut	$8,553	$11,166	$2,613	6%	$11,795	$25,199	$13,404	9%	$17,834	$40,502	$22,668	16%
Delaware	-	-	-	-	-	-	-	-	$13,601	$33,098	$19,497	18%
Florida	$6,916	$29,944	$23,028	-13%	$5,991	$22,746	$16,755	3%	$6,259	$21,312	$15,054	-14%
Georgia	$3,683	$10,589	$6,906	-11%	$6,649	$19,216	$12,568	-3%	$8,937	$23,681	$14,744	-10%
Hawaii	$7,584	$20,544	$12,960	13%	-	-	-	-	$11,469	$32,004	$20,535	35%
Idaho	$6,982	$20,238	$13,256	25%	-	-	-	-	$8,084	$25,524	$17,441	42%
Illinois	-	-	-	-	$12,023	$15,860	$3,837	-57%	$15,148	$26,533	$11,386	-12%
Indiana	$7,715	$20,574	$12,859	17%	$8,378	$20,733	$12,355	14%	$10,340	$31,122	$20,782	7%
Iowa	-	-	-	-	$8,938	$21,222	$12,284	24%	$9,445	$27,645	$18,200	11%
Kansas	-	-	-	-	$6,475	$18,085	$11,610	10%	$10,186	$24,760	$14,574	22%
Kentucky	$8,800	$12,650	$3,850	-51%	$9,521	$17,949	$8,428	-35%	$11,689	$27,860	$16,171	38%
Louisiana	$6,758	$14,024	$7,266	97%	$8,290	$17,262	$8,972	7%	$10,811	$23,854	$13,043	18%
Maine	$9,694	$19,297	$9,604	-11%	$9,528	$22,996	$13,468	-8%	$11,744	$32,534	$20,790	17%
Maryland	$15,124	$31,200	$16,076	19%	$8,532	$17,031	$8,499	-20%	$10,064	$29,697	$19,634	29%
Massachusetts	$10,695	$23,444	$12,749	-2%	$10,998	$17,223	$6,225	-14%	$15,685	$34,869	$19,184	37%
Michigan	$12,744	$12,744	$0	-100%	$12,946	$21,294	$8,349	13%	$15,049	$33,824	$18,775	6%
Minnesota	$12,823	$13,886	$1,063	*	$9,925	$16,299	$6,374	21%	$14,414	$31,729	$17,315	229%
Mississippi	-	-	-	-	$7,452	$7,452	$0	-100%	$8,838	$20,248	$11,410	18%
Missouri	$7,308	$14,149	$6,841	29%	$8,160	$14,811	$6,651	13%	$10,080	$25,755	$15,676	28%
Montana	$5,832	$17,802	$11,971	4%	$6,547	$20,610	$14,063	13%	$7,390	$27,153	$19,763	26%
Nebraska	-	-	-	-	$7,638	$12,447	$4,809	4%	$9,058	$24,934	$15,876	18%
Nevada	$6,075	$19,076	$13,001	12%	-	-	-	-	$8,561	$24,213	$15,652	-1%
New Hampshire	$14,826	$25,791	$10,965	4%	$13,273	$21,193	$7,920	-4%	$18,938	$36,278	$17,340	5%
New Jersey	-	-	-	-	$14,202	$23,105	$8,903	7%	$14,498	$28,286	$13,788	14%
New Mexico	-	-	-	-	$6,911	$13,146	$6,235	-16%	$7,784	$24,178	$16,394	12%
New York	$7,948	$16,482	$8,534	-1%	$7,912	$16,996	$9,084	10%	$9,800	$25,912	$16,112	70%

TABLE 1. 2020-21 Tuition and Fees at Baccalaureate, Master's, and Doctoral Institutions (continued)

	Baccalaureate Colleges				Master's Colleges and Universities				Doctoral Universities			
	In-State	Out-of-State	Premium	10-Year Premium Change	In-State	Out-of-State	Premium	10-Year Premium Change	In-State	Out-of-State	Premium	10-Year Premium Change
North Carolina	$5,804	$18,329	$12,524	-7%	$5,917	$16,372	$10,455	-15%	$7,818	$25,473	$17,655	17%
North Dakota	$7,875	$10,993	$3,118	-58%	$7,896	$7,896	$0	0%	$10,139	$14,427	$4,289	-62%
Ohio	$6,743	$14,052	$7,309	-39%	$9,035	$10,735	$1,699	5%	$11,787	$25,730	$13,944	13%
Oklahoma	$7,548	$14,335	$6,787	2%	$7,324	$16,492	$9,168	21%	$9,042	$24,490	$15,449	23%
Oregon	$11,269	$31,379	$20,110	29%	$10,318	$27,361	$17,043	45%	$11,748	$32,662	$20,914	15%
Pennsylvania	$13,099	$22,154	$9,055	3%	$11,019	$18,574	$7,555	-9%	$16,347	$27,015	$10,668	-14%
Rhode Island	-	-	-	-	$10,260	$24,735	$14,475	23%	$15,004	$32,578	$17,574	-11%
South Carolina	$11,312	$22,011	$10,698	5%	$12,640	$29,407	$16,767	26%	$13,932	$35,931	$21,999	19%
South Dakota	-	-	-	-	$8,983	$12,054	$3,070	-15%	$9,250	$12,725	$3,475	96%
Tennessee	-	-	-	-	$8,926	$14,684	$5,758	-61%	$10,517	$25,098	$14,581	-8%
Texas	-	-	-	-	$8,331	$17,690	$9,359	11%	$10,658	$27,311	$16,653	35%
Utah	-	-	-	-	$6,090	$17,340	$11,249	13%	$8,255	$25,113	$16,858	23%
Vermont	$13,044	$30,012	$16,968	35%	$12,804	$26,892	$14,088	20%	$19,062	$43,950	$24,888	13%
Virginia	$15,889	$40,311	$24,422	32%	$12,155	$26,846	$14,691	9%	$14,701	$37,881	$23,180	25%
Washington	-	-	-	-	$9,025	$28,336	$19,310	51%	$11,929	$33,931	$22,002	30%
West Virginia	$7,879	$15,535	$7,655	-11%	$8,008	$16,884	$8,875	16%	$8,850	$23,700	$14,850	20%
Wisconsin	$7,686	$15,714	$8,028	-11%	$8,367	$16,675	$8,307	-8%	$10,212	$32,396	$22,184	45%
Wyoming	-	-	-	-	-	-	-	-	$4,921	$15,913	$10,992	39%
U.S. Average	$8,957	$18,491	$9,534	1%	$8,770	$19,190	$10,420	4%	$11,323	$28,670	$17,347	14%
Midwest Average	$8,186	$14,616	$6,431	-19%	$9,422	$17,040	$7,619	2%	$12,083	$28,227	$16,144	13%

Source: NCES IPEDS. (2020). *Institutional Characteristics File. Fall Enrollment File.*
Note: U.S. and Midwest Averages are weighted. Estimates have been adjusted for inflation to 2020 dollars using the Consumer Price Index.
*Baccalaureate colleges in Minnesota did not report residency-based tuition rates in 2010.

Among public doctoral universities, flagship universities have the largest tuition premiums for out-of-state students. A state's flagship university is typically the most prestigious, selective, and well-funded public university. As seen in Table 2, flagship universities have an average premium of $20,898 nationally, compared to an average premium of $22,380 in the Midwest. The lower 25% of institutions had a premium of between $3,475 and $16,782; the middle 50% had a premium between $16,868 and $22,283; and upper 25% of institutions had a premium between $22,668 and $37,149. The increase in out-of-state premiums at Midwest flagship universities over the past 10 years outpaced the growth of premiums nationally (34% vs. 19%).[7]

[7] The median 10-year percent changes were 21% for the U.S. and 29% for the Midwest.

TABLE 2. Out-of-State Tuition and Fee Premiums at Public Flagship Universities 2020-21

	2020-21 In-State Tuition and Fees	2020-21 Out-of-State Tuition and Fees	2020-21 Out-of-State Tuition Premium	10-Year Change in Out-of-State Tuition Premium
The University of Alabama	$11,620	$31,090	$19,470	30%
University of Alaska Fairbanks	$9,169	$25,838	$16,669	33%
University of Arizona	$12,384	$34,667	$22,283	15%
University of Arkansas	$9,384	$25,872	$16,488	50%
University of California-Berkeley	$14,312	$44,066	$29,754	10%
University of Colorado Boulder	$12,466	$36,668	$24,202	-3%
University of Connecticut	$17,834	$40,502	$22,668	16%
University of Delaware	$14,660	$36,090	$21,430	19%
University of Florida	$6,381	$28,659	$22,278	-16%
University of Georgia	$12,080	$31,120	$19,040	-5%
University of Hawaii at Manoa	$12,186	$34,218	$22,032	38%
University of Idaho	$8,304	$27,540	$19,236	40%
University of Illinois Urbana-Champaign	$17,213	$36,720	$19,507	9%
Indiana University-Bloomington	$11,221	$37,600	$26,379	19%
University of Iowa	$9,606	$31,569	$21,963	14%
University of Kansas	$11,166	$28,034	$16,868	29%
University of Kentucky	$12,484	$31,294	$18,810	75%
Louisiana State University and Agricultural & Mechanical College	$11,962	$28,639	$16,677	30%
University of Maine	$11,744	$32,534	$20,790	17%
University of Maryland-College Park	$10,779	$36,891	$26,112	34%
University of Massachusetts-Amherst	$16,439	$36,427	$19,988	42%
University of Michigan-Ann Arbor	$16,948	$54,097	$37,149	30%
University of Minnesota-Twin Cities	$15,027	$33,325	$18,298	259%
University of Mississippi	$8,828	$25,100	$16,272	62%
University of Missouri-Columbia	$10,723	$29,005	$18,282	28%
The University of Montana	$7,430	$27,256	$19,826	18%
University of Nebraska-Lincoln	$9,562	$26,692	$17,130	23%
University of Nevada-Reno	$8,695	$24,348	$15,653	-1%
University of New Hampshire-Main Campus	$18,938	$36,278	$17,340	5%
Rutgers University-New Brunswick	$15,003	$31,785	$16,782	23%
University of New Mexico-Main Campus	$8,161	$24,499	$16,338	4%
University at Buffalo	$10,526	$28,196	$17,670	77%
University of North Carolina at Chapel Hill	$8,980	$36,159	$27,179	23%

TABLE 2. Out-of-State Tuition and Fee Premiums at Public Flagship Universities 2020-21 (continued)

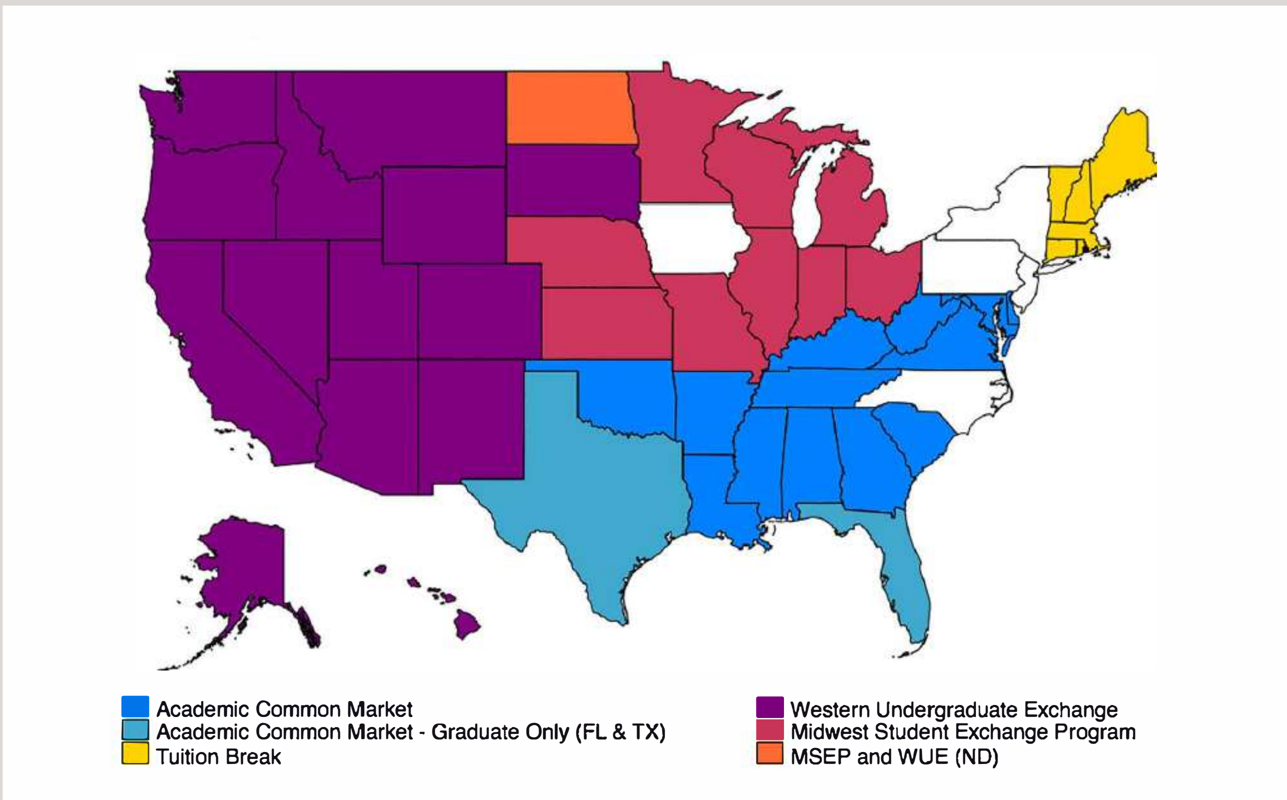
	2020-21 In-State Tuition and Fees	2020-21 Out-of-State Tuition and Fees	2020-21 Out-of-State Tuition Premium	10-Year Change in Out-of-State Tuition Premium
University of North Dakota	$10,276	$14,546	$4,270	-62%
Ohio State University-Main Campus	$11,518	$33,502	$21,984	31%
University of Oklahoma-Norman Campus	$9,063	$24,444	$15,381	24%
University of Oregon	$13,336	$38,255	$24,919	19%
Pennsylvania State University-Main Campus	$15,513	$24,901	$9,388	-33%
University of Rhode Island	$15,004	$32,578	$17,574	-11%
University of South Carolina-Columbia	$12,688	$33,928	$21,240	15%
University of South Dakota	$9,332	$12,807	$3,475	96%
The University of Tennessee-Knoxville	$13,264	$30,684	$17,420	-4%
The University of Texas at Austin	$11,448	$40,032	$28,584	10%
University of Utah	$8,615	$27,220	$18,605	16%
University of Vermont	$19,062	$43,950	$24,888	13%
University of Virginia-Main Campus	$18,895	$53,627	$34,732	28%
University of Washington-Seattle Campus	$11,745	$39,114	$27,369	39%
West Virginia University	$8,976	$25,320	$16,344	19%
University of Wisconsin-Madison	$10,742	$38,630	$27,888	54%
University of Wyoming	$4,921	$15,913	$10,992	39%
U.S. Average	$12,373	$33,271	$20,898	19%
Midwest Average	$12,560	$34,940	$22,380	34%

Source: NCES IPEDS. (2020). Institutional Characteristics File. Fall Enrollment File.
Note: U.S. and Midwest Averages are weighted. Estimates have been adjusted for inflation

INTERSTATE STUDENT EXCHANGES AND REGIONAL DISCOUNTS

Many institutions reduce their out-of-state tuition rates by joining an interstate student exchange and offering tuition discounts to students from specific counties or states, though the resulting tuition rate is frequently greater than in-state tuition. Four major regional exchanges exist and include 45 of the 50 states as participants (see Figure 3). For example, the Midwest Student Exchange Program (MSEP) includes 10 of 12 Midwestern states (Iowa and South Dakota were inactive in 2020-21). One state, North Dakota, is a member of two exchanges, the Midwest Student Exchange Program and the Western Undergraduate Exchange. Only five states- Iowa, New York, New Jersey, North Carolina, and Pennsylvania- are not part of any regional exchange. While states determine membership in regional exchanges, individual institutions can opt-in or -out of participation in an exchange. Therefore, not all institutions in an exchange-state participate. For example, the participation of public four-year institutions in MSEP ranges from 0 to 86 percent: Illinois (0%), Indiana (69%), Kansas (86%), Michigan (0%), Minnesota (42%), Missouri (69%), Nebraska (71%), North Dakota (67%), Ohio (17%), and Wisconsin (77%). Consequently, frequently only a small minority of out-of-state students benefit from regional exchanges. The percentage of first-year out-of-state students served by MSEP varied from 0.9% for students from Minnesota to 15% for students from Nebraska (see Table 3).

FIGURE 2. State Participation in Regional Tuition Exchanges



Source. Authors' analysis.

TABLE 3. MSEP Enrollment at Public Four-Year Institutions, 2020-2

State	Total First-Year Out-Migration to Public 4-Year Institutions in the Midwest	Total First-Year MSEP Students	Percentage of First-Year Out-of-State Students Served by MSEP
Illinois	11,507	366	3.2
Indiana	1,071	15	1.4
Iowa	1,196	Did not Participate	Did not Participate
Kansas	999	71	7.1
Michigan	1,496	52	3.5
Minnesota	7,039	65	0.9
Missouri	1,862	138	7.4
Nebraska	895	136	15.2
North Dakota	400	8	2
Ohio	1,282	70	5.5
South Dakota	527	Did not Participate	Did not Participate
Wisconsin	2,746	64	2.3
All MSEP states	29,297	985	3.3

Source. Midwestern Higher Education Compact. (2021). *MSEP 2020-21 Enrollment Data.*

There are also several smaller regional exchanges. For example, Minnesota, Wisconsin, the Dakotas, and Manitoba in Canada participate in a regional exchange (Minnesota Office of Higher Education, 2019). Similarly, residents of border counties in Kentucky, Illinois, Indiana, Ohio, Tennessee, and West Virginia may receive in-state or discounted out-of-state tuition rates at participating public institutions.

In addition to regional exchanges, some institutions offer tuition discounts for students from specific states. The South Dakota Advantage allows students from several states to pay in-state tuition at any of South Dakota's six public universities, including Colorado, Illinois, Iowa, Montana, Nebraska, North Dakota, Wisconsin, and Wyoming (South Dakota Board of Regents, 2022). The University of Wisconsin System recently announced an optional Nonresident Midwest Tuition Rate, which would allow institutions to offer a reduced out-of-state tuition rate to students in the Midwest (University of Wisconsin Board of Regents, 2022). Finally, residents of Monroe County, Michigan, receive in-state tuition at the bordering University of Toledo in Ohio (University of Toledo, 2022).

IMPACTS OF RESIDENCY-BASED TUITION RATES

Scholarly interest in out-of-state tuition premiums as a pricing strategy has spanned several decades. Specifically, researchers have examined the effect of tuition premiums on enrollment, the potential role of grant aid in reducing the tuition premiums, the overall effect of tuition premiums on enrollment from a national "welfare" perspective, and the impact of tuition premiums on institutional finances. This section provides a brief summary of research in each area.

Enrollment of out-of-state students

Several studies have indicated that high tuition rates for out-of-state students could discourage enrollment of nonresident applicants (Morgan, 1983; Noorbakhsh & Culp, 2002; Cooke & Boyle, 2011; Zhang, 2007). For example, in a study of tuition elasticity at public universities in four southeastern states, Millea and Orozco-Aleman (2017) found that non-resident tuition was elastic in three states, with both positive and negative elasticity signs depending on the state. Specifically, Millea and Orozco-Aleman (2017) concluded that in Tennessee increasing non-resident tuition by 1% yields a 3.1% decrease in non-resident enrollment at public four-year institutions. Kennan's (2018) migration model also showed that interstate differences in non-resident tuition at public universities affect out-of-state enrollment decisions and migration, with reductions in non-resident tuition leading to increases in both the proportion of non-resident college students and non-resident graduates who choose to stay in a state's labor force.

The relationship between non-resident tuition and non-resident enrollment may depend on a number of factors, such as institutional reputation and selectivity. Several studies, for example, concluded that tuition rates were strongly correlated with institutional selectivity, which results in a positive relationship between non-resident tuition rates and non-resident enrollment (Adkisson & Peach, 2008; Barlya & Dotterweich, 2006). For instance, Adkisson and Peach (2008) conducted an analysis of major land-grant universities and showed that increasing out-of-state tuition by $1 is associated with a 0.75 percentage point increase in out-of-state enrollment. This indicates that selective public universities are able to increase out-of-state tuition premiums without reducing enrollment demand; higher prices may in fact signal higher quality and thus boost demand (Adkisson & Peach, 2008; Rizzo & Ehrenberg, 2004).

Role of grant aid

Given research showing that the receipt of grant aid can increase a student's likelihood of college enrollment (Gross et al., 2019), the effect of out-of-state tuition premiums will partly depend on the net price of enrollment (the price of enrollment after accounting for scholarships and grant aid). Although many out-of-state students who attend selective public universities are price-insensitive (Adkisson & Peach, 2008; Zhang, 2007) and relatively affluent (Zhang, 2007), other analyses have found that some out-of-state students can be more sensitive to the net price when compared to in-state students (Curs & Singell, 2002, 2010; DesJardins, 1999), meaning that the net price is more likely to influence the enrollment behaviors of some out-of-state students than in-state students. Given this sensitivity to the net price, several studies have explored the impact of various types of institutional aid on out-of-state enrollment (Abraham & Clark, 2006; Curs & Singell, 2010; DesJardins, 2001). Researchers demonstrated that institutional scholarships were an important tool to bring down the net price for out-of- state students and increase student demand. One such scholarship is the DC Tuition Assistance Grant (DC TAG) program, which allows students in the District of Columbia to attend public institutions in any U.S. state at the in-state tuition price (up to a $10,000 premium). Researchers demonstrated that the DC TAG program was linked to increased college enrollment among DC residents and an increase in DC resident enrollment at public four-year institutions in neighboring states (Abraham & Clark, 2006; Kane, 2007). As a corollary, the DC TAG program facilitated "brain gain" for nearby states.

National welfare

More recently, economists have attempted to model the welfare gains or losses from a national perspective associated with charging different tuition rates for in-state and out-of-state students. In welfare analysis, welfare refers to a statistic that quantifies the well-being or social benefit for the people because of policy changes (Bernheim, 2008: Chetty, 2009). There is some evidence from a border discontinuity study by Knight and Schiff (2019) to suggest that there are substantial welfare losses associated with charging higher sticker prices for out-of-state students. It suggests that residency-based tuition rates result in an inefficient distribution of students to institutions. Students who might choose to attend an out-of-state institution if it charged the same tuition as an in-state institution decline to attend an institution that would otherwise be the best academic fit for them. Knight and Schiff's (2019) results indicate "substantial welfare gains from reducing the tuition gap" (p. 348). Therefore, Knight and Schiff (2019) urge policymakers in all states to work toward setting more equitable and efficient tuition policies for in-state and out-of-state students. Another model based on data from Germany concerning the same concept of welfare loss contends that residency-based tuition prices discourage students who want to leave their home states from migrating for a university education (Hübner, 2012).

Institutional finances

As evidenced by prior studies, a combination of declining state support, a slow economy, and state-level tuition caps for resident students can urge public postsecondary institutions and especially research universities to increase either nonresident enrollments or nonresident tuition to generate more tuition revenue (Delaney & Kearney, 2016; Jaquette & Curs, 2015). However, higher prices for out-of-state students do not always translate into increased tuition revenues and per-student expenditures. For instance, using panel regression models, Kelchen (2021) concluded that an increase in the percentage of out-of-state undergraduate student enrollment at selective public universities was associated with decreases in both per-student tuition revenue and per-student expenditures.

CONCLUSION

Residency-based tuition policies have long been a central part of public higher education. While a few institutions across the Midwest have eliminated residency-based tuition rates, most public four-year institutions charge higher tuition rates for out-of-state students. However, the size of out-of-state tuition premiums differs greatly across states, ranging in the Midwest from $3,540 in South Dakota to $24,370 in Michigan. Tuition premiums also vary by an institution's Carnegie Classification. The average size and 10-year growth rate of out-of-state premiums tend to be highest among doctoral universities, followed by master's universities and baccalaureate colleges. Relative to the national average premium, public four-year institutions in the Midwest tend to have lower out-of-state tuition premiums, with the exception of state flagship universities. Specifically, flagship universities have an average premium of $20,898 nationally, compared to an average premium of $22,380 in the Midwest. The increase in out-of-state premiums at Midwest flagship universities over the past 10 years also outpaced the growth of premiums nationally (34% vs. 19%).

Most states in the nation have joined small or large regional student exchange programs to help reduce the out-of-state tuition premium for students from selected states. However, since institutions ultimately determine whether to participate in most exchange programs, the majority of students may not benefit from reduced out-of-state tuition rates. For example, only 3% percent of first-year out-of-state students from member states served by the Midwest Student Exchange Program attended an institution that participated in the exchange program. In addition to regional exchanges, some institutions allow students from specific states to pay a reduced out-of-state tuition rate in the absence of an interstate reciprocity or exchange agreement.

Past scholarship has provided evidence of various impacts of nonresident tuition policies on students, institutions, and states. First, a number of studies demonstrated that high tuition rates for out-of-state students can discourage enrollment of nonresident applicants. Concomitantly, although selective public universities can attract affluent and price-insensitive out-of-state students, research has also shown that some out-of-state students may be more sensitive to the net price when compared to in-state students. Second, given this sensitivity to the net price, several studies have explored the impact of various types of institutional aid on out-of-state enrollment, demonstrating a significant positive impact of scholarships on out-of-state enrollments, especially for less affluent applicants. Third, increasing out-of-state tuition and nonresident enrollments can be a viable revenue-maximizing strategy, though expected revenue increases do not materialize at some institutions. Finally, two studies linked residency-based tuition rates to substantial welfare losses for states and recommended reducing nonresident tuition premiums to achieve welfare gains.

As states and institutions confront challenges related to college affordability, educational revenue, and student enrollment, it may be useful to reconsider the role of residency-based pricing for in-state and out-of-state students. There is no one-size-fits-all tuition policy that can be recommended as both states and institutions vary in terms of governance, tuition-setting power, admission policies, demographics, and economic prosperity. However, the current research base is suggestive of several policy options that can be weighed when evaluating differential pricing for resident and nonresident students:

- Maintaining and optimizing residency-based pricing. Selective public universities are in the best position to maintain relatively high out-of-state tuition premiums without reducing enrollment demand. Careful simulations can be employed to optimize out-of-state tuition rates in ways that balance revenue, institutional prestige, and enrollment objectives, including efforts to ensure that college access for qualified in-state students is not reduced by growth in out-of-state student enrollment.
- Decreasing the size of out-of-state tuition premiums. The institutions most likely to gain from equating out-of-state tuition with in-state tuition are those with low to moderate levels of selectivity and located in states with declining high school graduate populations. For states where the traditional college-age population is projected to decline, reducing out-of-state tuition may help attract out-of-state students to keep total enrollment stable.

- Providing targeted scholarships for out-of-state students. Rather than lowering out-of-state tuition to align with in-state tuition for all out-of-state students, states and institutions may consider providing grant aid for specific students who will enhance entering cohorts, increase the prestige of the institution, and contribute to a state's workforce. Targeted scholarships, therefore, represent a more flexible approach to decreasing tuition premiums than equalizing all tuition and fees, while also maintaining a distinct revenue stream and preserving perceptions of institutional prestige.
- Participating in interstate tuition exchanges. Since out-of-state tuition premiums can discourage students, especially those who demonstrate financial need, from migrating to other states for a postsecondary education, institutions may consider joining existing reciprocity agreements between states. Participation in interstate tuition exchanges may boost nonresident enrollment and become a potential means of revenue generation, especially for less selective institutions, and increase overall welfare for states with declining populations.

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APPENDIX A

TABLE 1A. Characteristics of Residency Definitions for Tuition Purposes at Public Flagship Universities in the Midwest[a]

	University of Illinois Urbana-Champaign	Indiana University-Bloomington	University of Iowa	University of Kansas	University of Michigan-Ann Arbor	University of Minnesota-Twin Cities	University of Missouri-Columbia	University of Nebraska-Lincoln	University of North Dakota	Ohio State University-Main Campus	University of South Dakota	University of Wisconsin-Madison
Definitional Coverage												
Common residency definitions for all institutions in state			X	X			X		X	X	X	
Living in State												
Dependent person living in state is deemed resident if parent is resident living in state	X	X	X	X	X	X	X	X	X	X	X	X
Independent persons are eligible for resident status after living in state for 12 months, provided they moved to the state for some reason other than attending college	X	X	X	X		X	X	X	X	X	X	X
Persons in the state for the primary purpose of higher education are not granted residency	X	X	X	X	X	X	X	X	X	X	X	X
Can potentially lose residency status if living outside of state for more than 12 months			X	X	X	X	X		X	X	X	
Continuously enrolled dependent loses residency if parent(s) move out of state						X					X	

APPENDIX A

TABLE 1A. Characteristics of Residency Definitions for Tuition Purposes at Public Flagship Universities in the Midwest (continued)

	University of Illinois Urbana-Champaign	Indiana University-Bloomington	University of Iowa	University of Kansas	University of Michigan-Ann Arbor	University of Minnesota-Twin Cities	University of Missouri-Columbia	University of Nebraska-Lincoln	University of North Dakota	Ohio State University-Main Campus	University of South Dakota	University of Wisconsin-Madison
Relationships with Residents												
Residency given to dependents if one divorced parent is a resident (and in some cases provides financial support for child)	X	X		X	X	X	X			X	X	
Spouses of residents automatically given residency	X	X						X	X	X	X	
Employment												
Institutional staff and immediate family classified as residents (depending in some cases on FTE status)	X			X		X†	X	X	X			
Members of military stationed in state and their immediate family given exemption from 12-month establishment rule	X			X	X	X	X	X	X	X	X	X
Workers transferred in state and their families given exemption from 12-month establishment rule	X	X	X	X			X	X		X		

APPENDIX A

TABLE 1A. Characteristics of Residency Definitions for Tuition Purposes at Public Flagship Universities in the Midwest (continued)

	University of Illinois Urbana-Champaign	Indiana University-Bloomington	University of Iowa	University of Kansas	University of Michigan-Ann Arbor	University of Minnesota-Twin Cities	University of Missouri-Columbia	University of Nebraska-Lincoln	University of North Dakota	Ohio State University-Main Campus	University of South Dakota	University of Wisconsin-Madison
High School												
In-state high school enrollment for a specified period and/or graduation qualifies student for resident status	X			X	X‡	X		X	X	X	X	X
College Enrollment												
Persons can enroll in college during first 12 months of residence without being barred from future resident classification (in some cases depending upon enrollment intensity)	X	X	X				X				X	
Specific Populations												
Undocumented students allowed to pay resident tuition rate under certain circumstances	X			X	X	X		X		X±		
Members of tribes indigenous to state classified as residents			X					X				
Refugees exempt from 12-month establishment rule												X

[a]Policy descriptions represent a statewide entity if common residency definitions were in place for all public institutions. Entities examined in this analysis included University of Illinois System; Indiana University; Iowa Board of Regents; Kansas Board of Regents; University of Michigan; University of Minnesota; Missouri Department of Higher Education and Workforce Development; University of Nebraska; North Dakota University System; Ohio Department of Higher Education; South Dakota Board of Regents; and University of Wisconsin System. See MHEC. (2022). *Definitions of residency for tuition purposes at public flagship universities.*

†The resident tuition rate is extended only to full-time faculty (and full-time faculty at any other accredited Minnesota college).

‡In addition to graduating from a Michigan high school (or receiving a Michigan GED) after at least three years of attendance at a Michigan high school, a student must have attended a Michigan middle or junior high school in the two years prior to high school.

±In 2013, the Ohio Board of Regents allowed students with Deferred Action for Childhood Arrivals (DACA) status to be eligible for in-state tuition, though DACA students constitute a small subset of the undocumented student population.

APPENDIX B

TABLE 1B. Public Four-Year Institutions Without Residency-Based Tuition Rates, 2020-21

Institution	State	Border County	Carnegie Classification	Percentage Admitted	Admissions Yield Percentage	FTE Undergraduate Enrollment, 2019-20
Colorado State University-Global Campus	Colorado	No	Master's Colleges & Universities	98	75	5,563
Chicago State University	Illinois	Yes	Master's Colleges & Universities	46	8	1,604
Northern Illinois University	Illinois	No	Doctoral Universities	59	21	10,935
Southern Illinois University-Carbondale	Illinois	Yes	Doctoral Universities	92	24	7,710
Southern Illinois University-Edwardsville	Illinois	Yes	Doctoral Universities	85	21	9,388
Western Illinois University	Illinois	No	Master's Colleges & Universities	67	21	5,545
Central Michigan University	Michigan	No	Doctoral Universities	69	16	13,535
Eastern Michigan University	Michigan	No	Doctoral Universities	75	16	12,068
Ferris State University	Michigan	No	Doctoral Universities	82	22	8,836
Lake Superior State University	Michigan	Yes	Baccalaureate Colleges	69	27	1,841
University of Michigan-Dearborn	Michigan	Yes	Master's Colleges & Universities	68	20	5,922
Bemidji State University	Minnesota	No	Master's Colleges & Universities	69	24	3,779
University of Minnesota-Crookston	Minnesota	Yes	Baccalaureate Colleges	72	17	1,760
Southwest Minnesota State University	Minnesota	No	Master's Colleges & Universities	81	23	2,986
Alcorn State University	Mississippi	Yes	Master's Colleges & Universities	38	16	3,095

APPENDIX B

TABLE 1B. Public Four-Year Institutions Without Residency-Based Tuition Rates, 2020-21 (continued)

Institution	State	Border County	Carnegie Classification	Percentage Admitted	Admissions Yield Percentage	FTE Undergraduate Enrollment, 2019-20
Delta State University	Mississippi	Yes	Master's Colleges & Universities	100	37	2,328
Mississippi University for Women	Mississippi	Yes	Master's Colleges & Universities	99	37	2,446
Mississippi Valley State University	Mississippi	No	Master's Colleges & Universities	83	9	1,497
Peru State College	Nebraska	Yes	Master's Colleges & Universities	100*	-	1,392
Dickinson State University	North Dakota	No	Baccalaureate Colleges	99	49	1,068
Minot State University	North Dakota	No	Master's Colleges & Universities	77	68	2,248

Source. NCES IPEDS. (2020). *Institutional Characteristics File. 12-Month Enrollment File.* *Peru State College has an open admissions policy.

Mission MHEC brings together midwestern states to develop and support best practices, collaborative efforts, and cost-sharing opportunities. Through these efforts it works to ensure strong, equitable postsecondary educational opportunities and outcomes for all.

Vision To improve individual career readiness and regional economic vitality through collective problem-solving and partnerships that strengthen postsecondary education.

Who MHEC Serves MHEC is comprised of member states from the midwestern United States. MHEC works with and for a variety of stakeholders within and across member states, including higher education system leaders, state policymakers, legislators, and institutional leaders, while always maintaining a focus on students and their success.

How MHEC Works MHEC's strategic approach highlights member states' strong desire for collaboration, effectiveness, and efficiency. MHEC believes that collaborative actions informed by research and best practices are the catalyst for improving quality, accessibility, relevance, and affordability of postsecondary educational opportunities. MHEC does this primarily through the following approaches: convenings, programs, research, and cost-savings contracts. Increasingly, MHEC looks to leverage these approaches in conjunction with each other to serve its strategic priorities.

Compact Leadership, 2022-23

President
Ms. Susan Heegaard

Chair
Dr. Devinder Malhotra,
Chancellor, Minnesota State