The Financial Outlook for Higher Education

A National Perspective
Seven Thoughts About Higher Education Finance

1. Higher education is moving toward a privatized funding model
2. Prices are increasing faster than costs
3. Money does not follow the students
4. Benefits are one of the biggest cost drivers
5. Higher education is competing with health care costs – and losing
6. External stakeholders are skeptical about higher education spending and performance
7. Allocations within campuses/systems matter as much as allocations overall to higher education
The dominant trend is toward a privatization funding model
Long Term Decline in State and Local Appropriations

Source: Census of State and Local Governments and Grapevine
Net tuition and subsidy shares of education and related costs
AY1999-2009

Thought #2

Prices are increasing faster than costs
College Prices Growing ...

% Change in College Sticker Price against other consumer Areas – 1999/00 – 2010/11
The unsustainable cost model

Gaps in tuition revenue v. spending, public community colleges, 2000 - 2009

Net tuition revenue increase 35%/9 years
Spending - virtually flat over 9 years
State/local appropriations decrease 5%/9 years

All figures are in 2009 constant dollars, per FTE student. Source, Delta Data base.
Gaps in tuition revenue v. spending, public masters’ institutions, 2000 – 2009

Net tuition revenue increase 45% over 9 years

Spending per student increase 9%/9 years

State/local appropriations Decrease 13%/9 years

All figures are in 2009 constant dollars, per FTE student. Source, Delta Data base.
Gaps in tuition revenue v. spending, public research universities, 2000 – 2009

Net tuition revenue **increase** 50%/9 years

Spending per student **increase** 45%/9 years

State/local appropriations **decrease** 13%/9 years

All figures are in 2009 constant dollars, per FTE student. Source, Delta Data base.
Thought #3

Money here......

.....students there
New money versus new students

Change in Enrollment vs. Change in Spending, AY1999-2009

- Private Research
- Private Bachelor's
- Private Master's
- Public Research
- Public Master's
- Community Colleges

Average education and related spending per FTE student (in 2009 dollars) vs. Total headcount enrollment

Source: Delta Cost Project IPEDS Database, 1987-2009; spending data from the 11-year matched set; enrollment data from the unmatched set.
Spending per student versus enrollment by sector, AY 2009

Source: Delta Cost Project IPEDS Database, 1987-2009; spending data from the 11-year matched set; enrollment data from the unmatched set.
Increasing benefit costs
Benefit costs are the largest area of increased spending in higher education.

<table>
<thead>
<tr>
<th></th>
<th>Salary outlay per employee</th>
<th>Benefit cost per full-time employee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public institutions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>0.9%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Master’s</td>
<td>-0.6%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Community colleges</td>
<td>0.7%</td>
<td>5.2%</td>
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<tr>
<td><strong>Private institutions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>-0.3%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Master’s</td>
<td>-0.8%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Bachelor’s</td>
<td>-0.5%</td>
<td>1.3%</td>
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</table>
Thought #5

Health Care will continue to crowd out funding for higher education for the foreseeable future
All Areas of State Government Increased in the Last Decade

Figure 4: Percentage Growth in Spending Categories Between FY 2000 & FY 2010 (General Funds)

Sources: NASBO 2001 and 2009 State Expenditure Reports
Skepticism about higher education spending and performance remains strong
A declining share of Americans agree that a college education is affordable

Do you agree or disagree with the following statement: College costs in general are such that most people are able to afford to pay for a college education. *(Asked of general public)*
How are we being asked to change?

Money and Quality

Q: Which comes closest to your own view?

- If colleges cut budgets, the quality of an education will suffer:
  - 2007: 40%
  - 2008: 42%
  - 2009: 40%

- Colleges could spend less and still maintain a high quality of education:
  - 2007: 56%
  - 2008: 53%
  - 2009: 54%
The way that money is spent within institutions makes a difference in student success
## Credit Hour Distribution and Average instructional costs

Public-four year averages, 4-state cost study (SUNY, Florida, Ohio, Illinois)

<table>
<thead>
<tr>
<th>Level</th>
<th>% of all credits taken</th>
<th>% of total spending on instruction</th>
<th>Avg weighted cost/credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Division</td>
<td>36%</td>
<td>23%</td>
<td>1.00</td>
</tr>
<tr>
<td>Upper Division</td>
<td>48%</td>
<td>44%</td>
<td>1.42</td>
</tr>
<tr>
<td>Grad 1</td>
<td>12%</td>
<td>23%</td>
<td>2.88</td>
</tr>
<tr>
<td>Grad 2</td>
<td>4%</td>
<td>9%</td>
<td>4.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td><strong>1.55</strong></td>
</tr>
</tbody>
</table>

Percentage of All Dropouts by Cumulative Months Enrolled, Beginning Postsecondary Students 2003-04

60% of attrition occurs in lower Division courses .. Where spending per student is lowest

Source: NCES, BPS, undergraduates only.
In one study, BA Degree production costs increased an average of 40% from excess credits and attrition.

“What does a college degree cost?” Nate Johnson, Delta Cost Project 2009.
Conclusions

1. The money we have is the money we’ll have
2. Cut both non-academic costs where we can AND restructure instructional spending
3. Focus on spending based on outcomes
4. Use data to make $ decisions
5. Demonstrate cost effectiveness to public and to policymakers
6. Leverage systems
To continue the conversation

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