

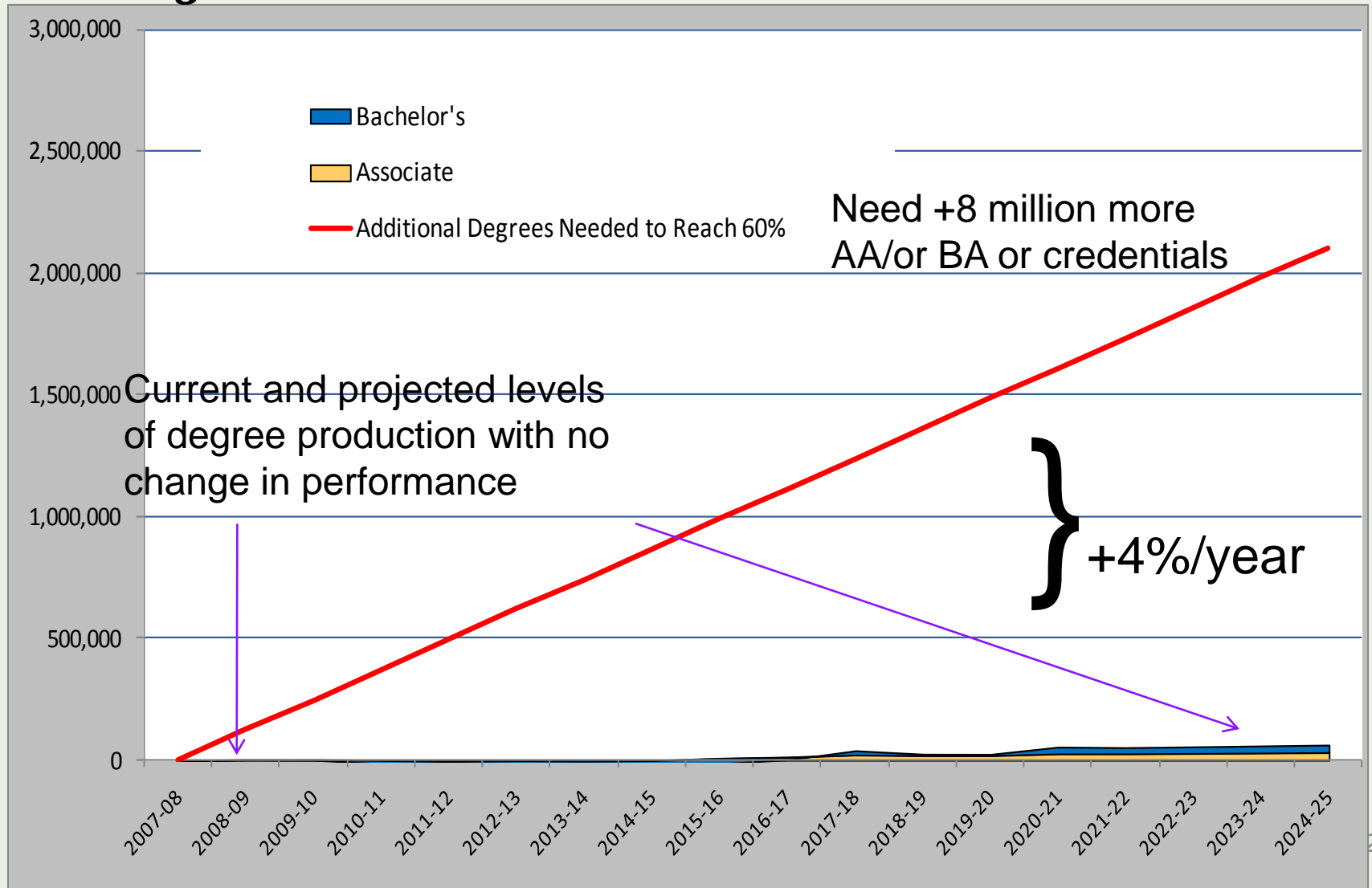
Rebooting finance in public higher education

Jane Wellman
AASCU Annual Meeting
Charleston, SC November 22, 2010

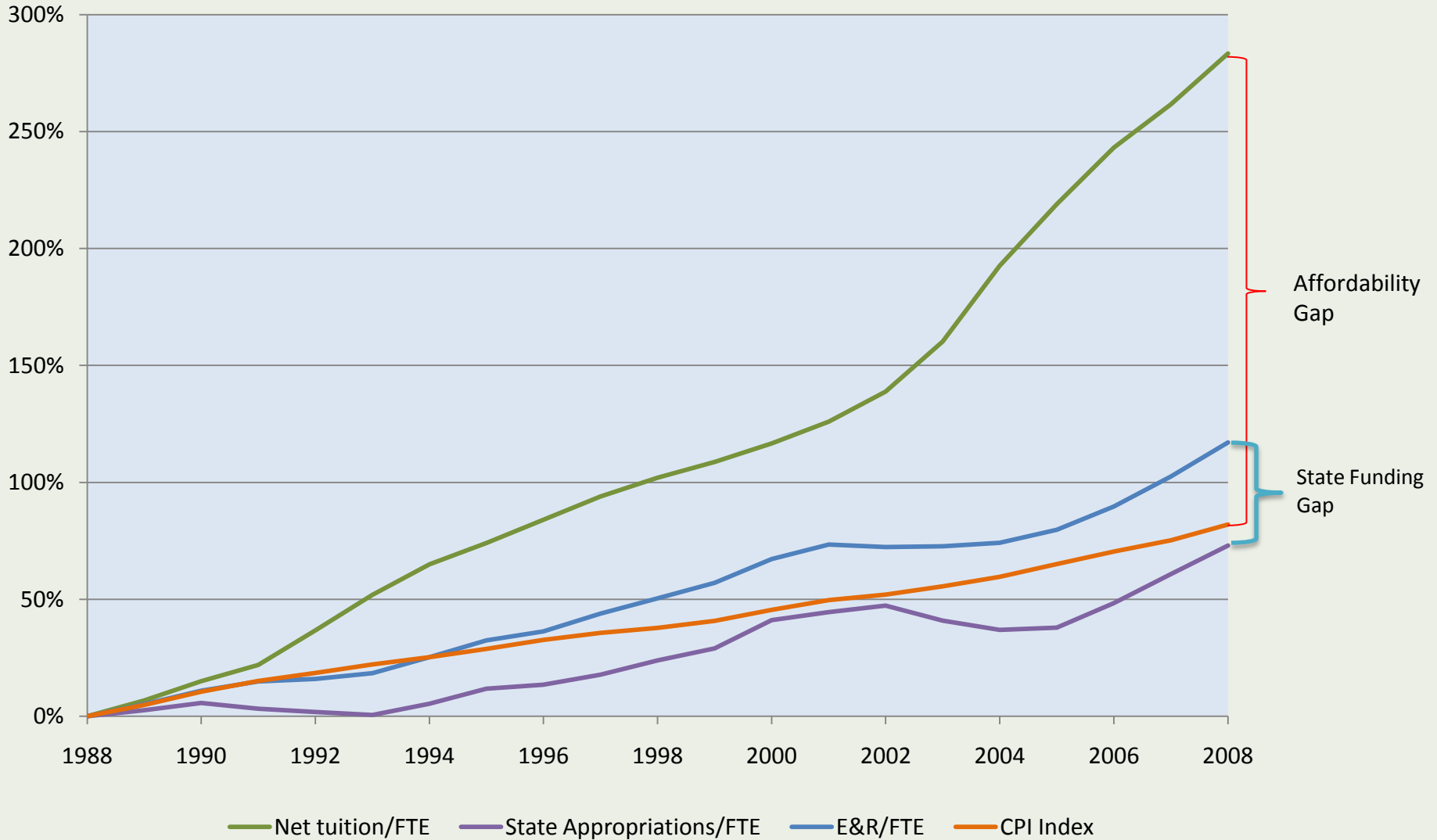


The challenge: Increasing educational attainment to be best in the world...

Current production v. increases needed to meet 60% goal

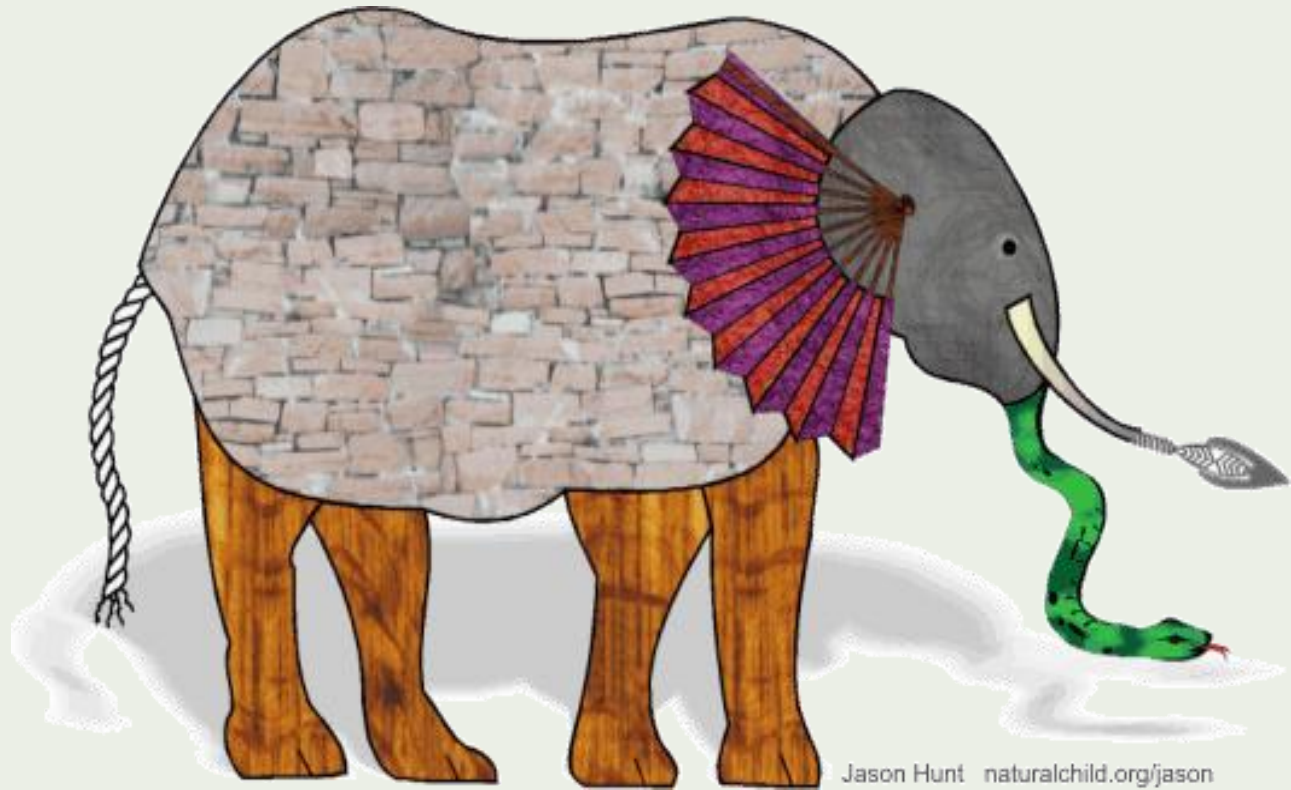


The unsustainable funding trends at public 4-year institutions, 1988-2008



Source: Delta Cost Project IPEDS database, 1987-2008, 22-year matched set.
Notes: Percent change since 1988 based on unadjusted dollar amounts.

Conventional wisdoms that get in the way of change



Outside inside: the fractured dialogue about college costs and the road ahead

Group	Definition of Problem	Solution
Public	Caught between growing importance and decreasing access	Protect access at all costs!
State Financial Officers (and legislators)	Need more college graduates	Increase productivity and retention!
Faculty	Deteriorating quality of students and declining standards	Raise standards, improve K-12, stop talking about productivity!
College Presidents	Caught in iron triangle	Reinvest in higher education!

Source: John Immewahr, Villanova University, based on research for Public Agenda.



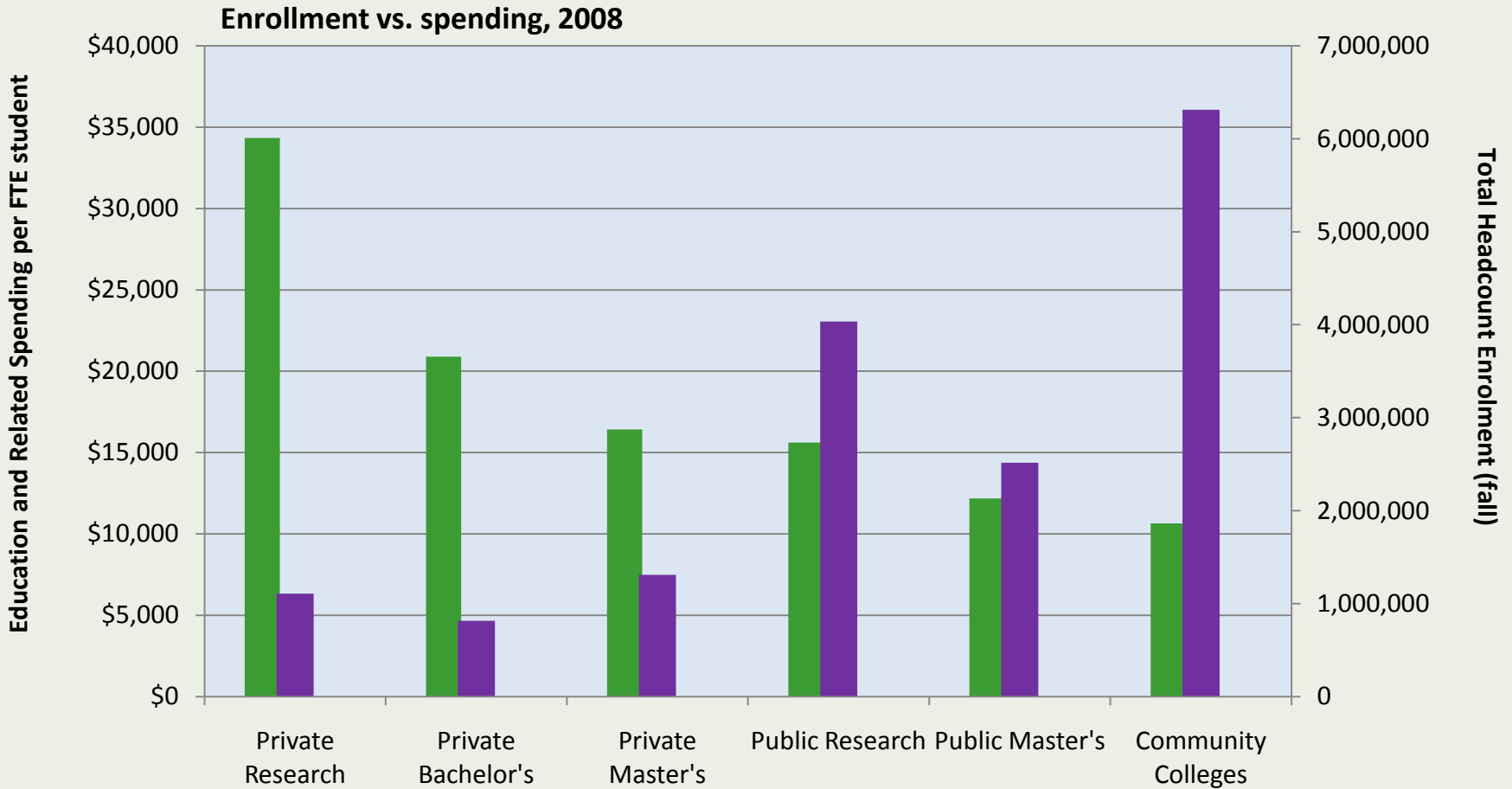
American higher education is the richest in the world = we have the money, we just need to spend it better

- **True: According to OECD, US spending per capita \$19,746/student – compared to OECD average of \$8,415**
- **False: OECD countries exclude benefits, and US figures include private colleges.**

OECD, Education at a Glance 2009, Table B.1., annual expenditure per student
For core educational services only (excludes research and organized activities).

Economic stratification in US postsecondary education

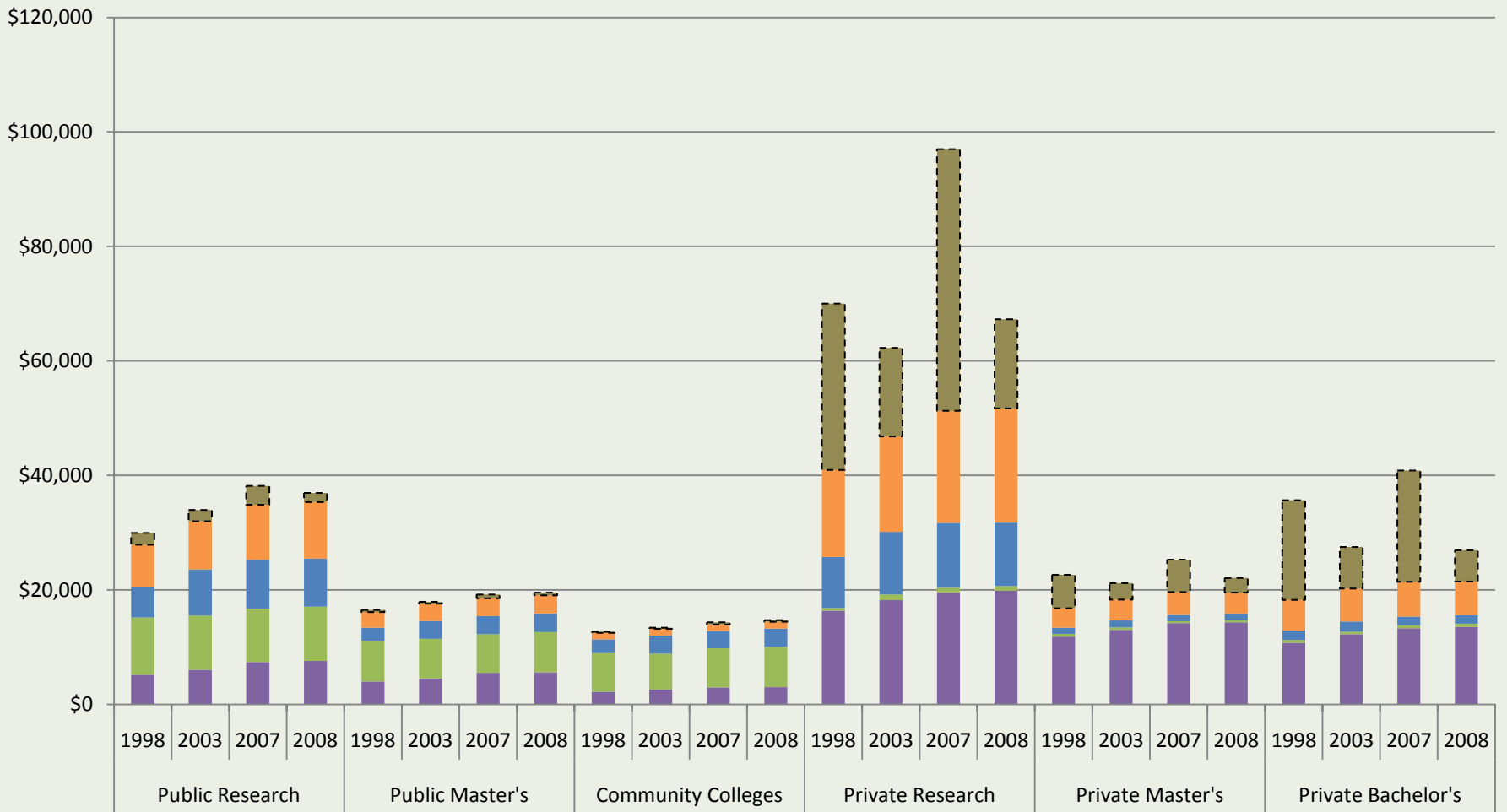
WHERE THE MONEY GOES, WHERE THE STUDENTS ARE ENROLLED



Institutions can substitute private resources for public funds

- ***True:* private funding increased hugely in institutions in the 1990's through around 2006**
 - **State revenues now a minority of funds in public institutions**
- ***Not so true:* private revenues are not going to core academic functions**

Total Revenues per FTE Student, AY 1998-2008



- Net tuition
- State and local appropriations
- Federal appropriations and federal, state, and local grants and contracts
- Auxiliary enterprises, hospitals, independent operations, and other sources
- Private and affiliated gifts, investment returns, and endowment income*

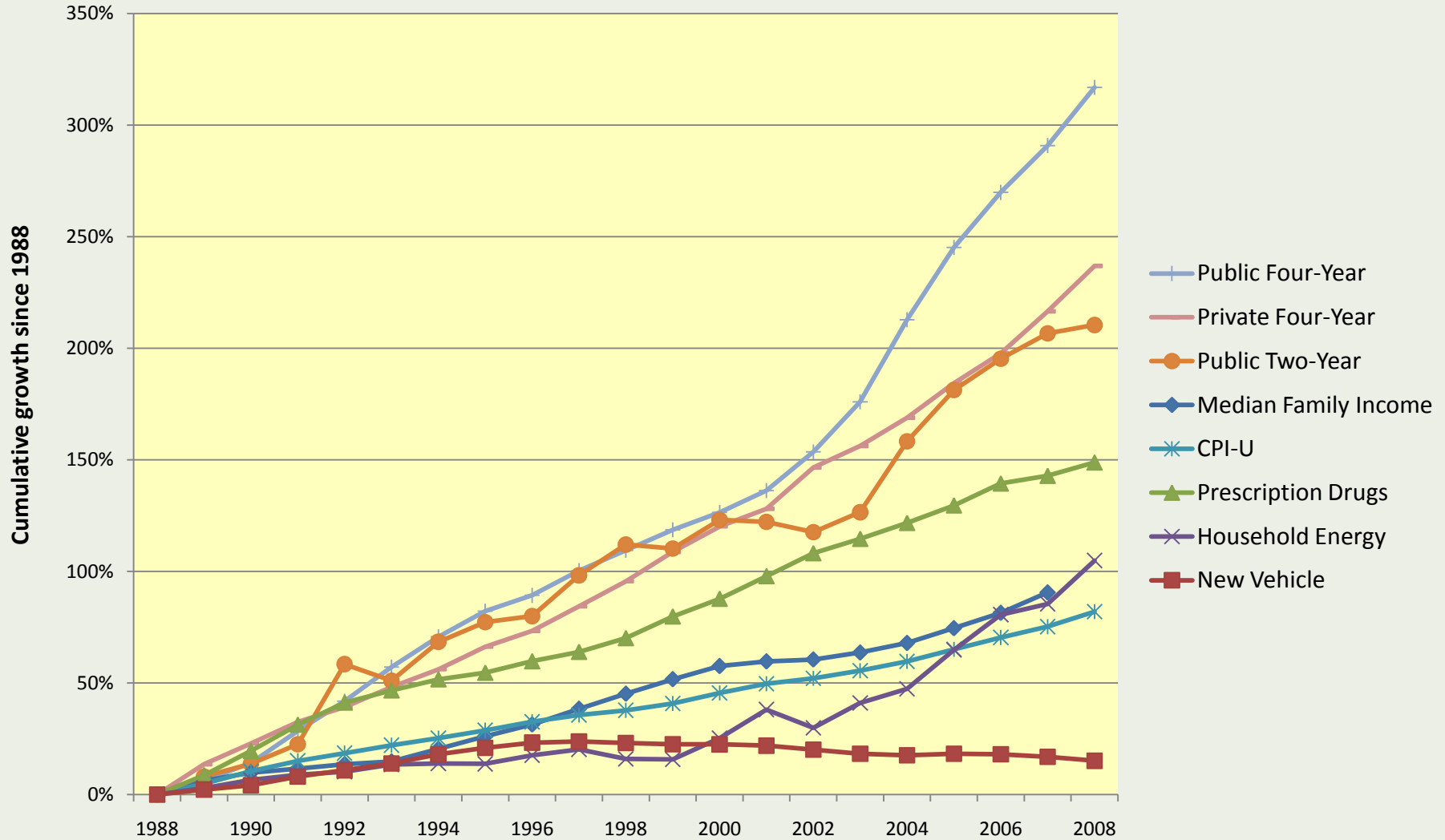
*Note: In private institutions, investment returns include unrealized gains/losses.

All data are in 2008 dollars.

Source: Delta Cost Project IPEDS Database, 1987-2008, 11-year matched set.

- **Tuitions are going up because of out of control spending**
- ***True:* tuitions are increasing faster than almost any other commodity**
- ***And* spending per student did go up 3% year over inflation/enrollment in private research universities**
- ***But* actual spending per student didn't increase much at all in public institutions – barely above 1% in research universities and flat or declining in community colleges**

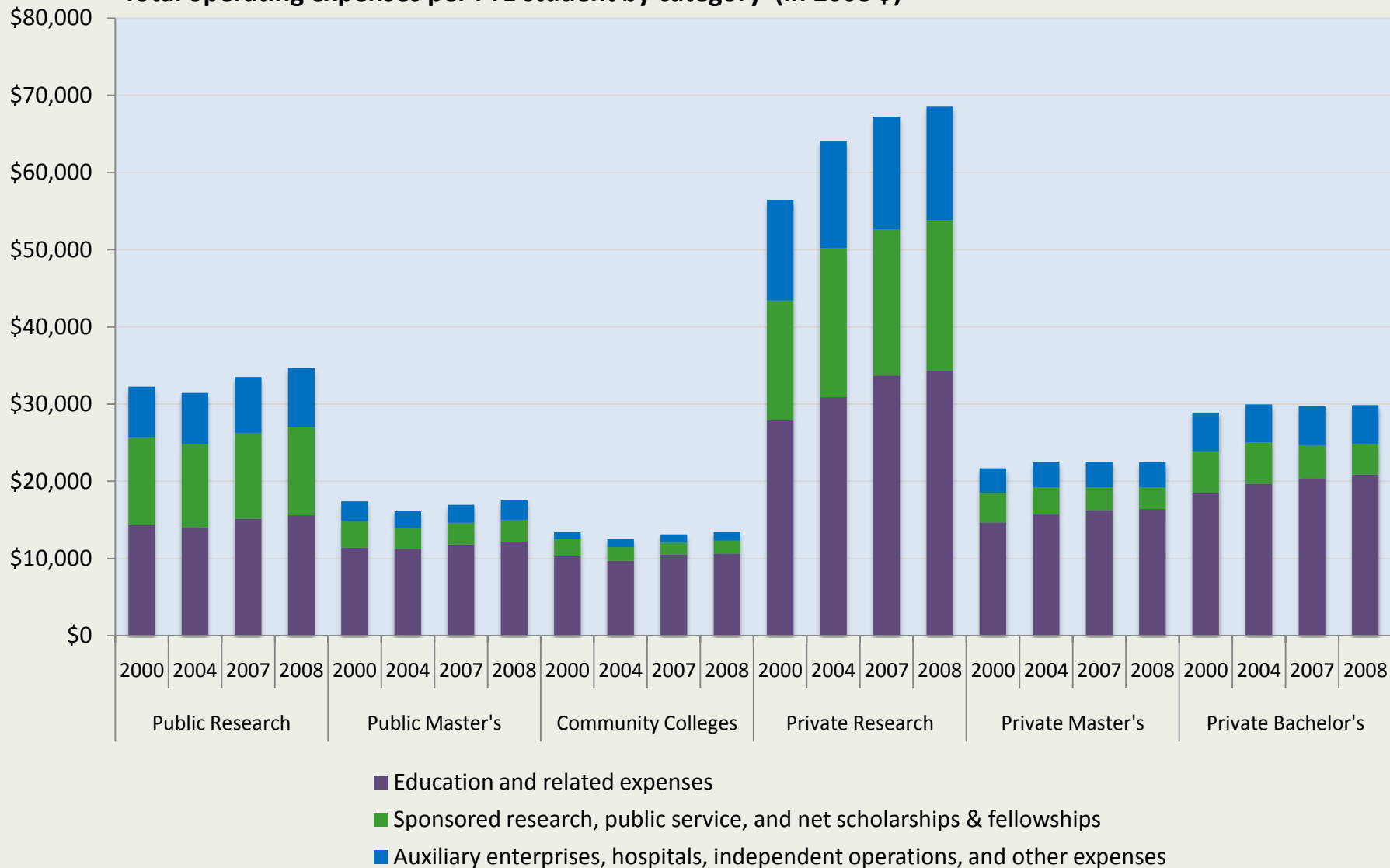
The Rising Cost of College, 1988-2008 (based on increases in current dollar amounts)



Sources: College Board, "Trends in College Pricing, 2008"; Bureau of Labor Statistics, 2009, www.bls.gov; U.S. Census, Current Population Study-ASEC, 2008.

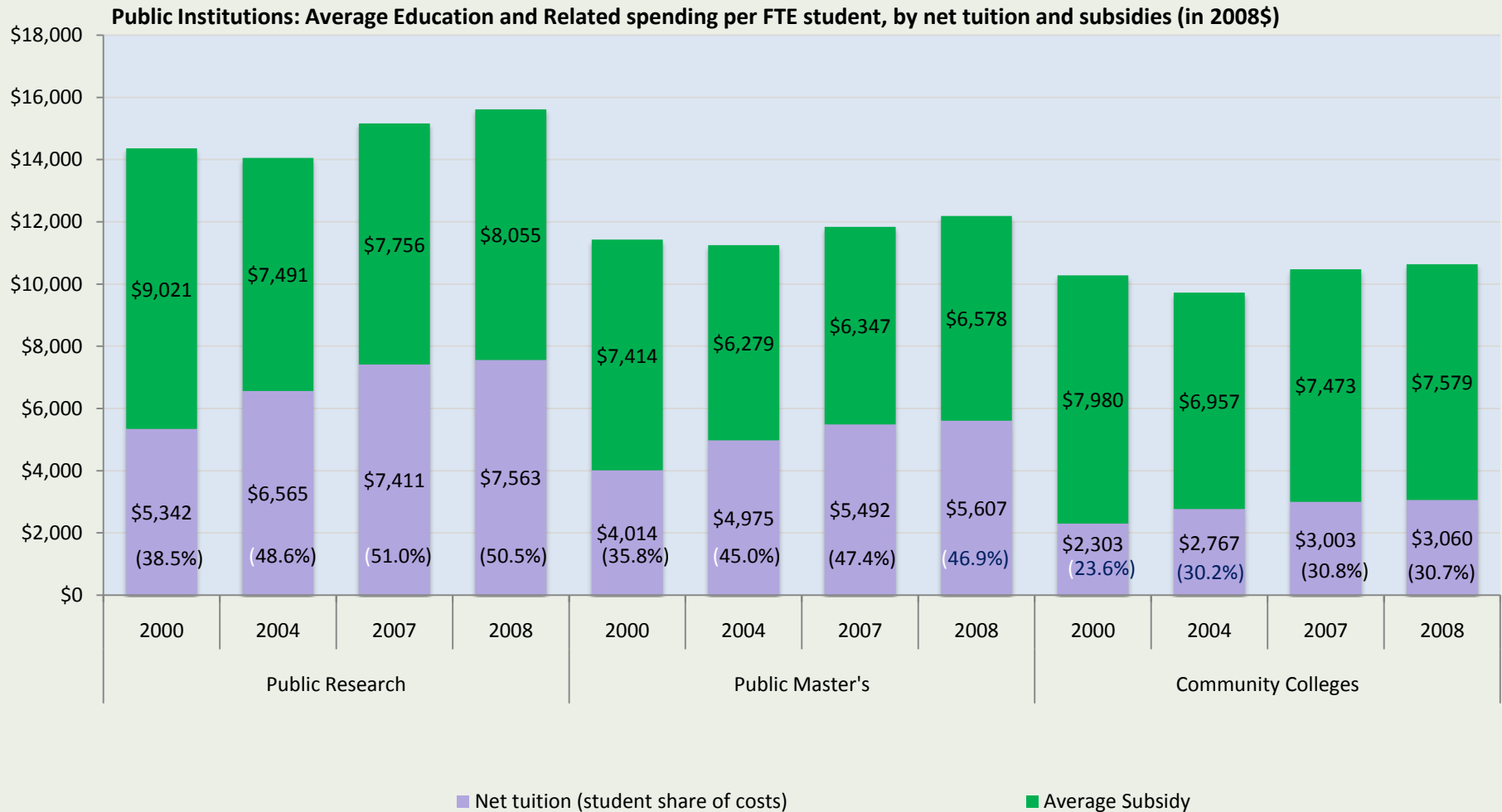
...where the money goes by major functional area

Total operating expenses per FTE student by category (in 2008 \$)



Source: Delta Cost Project IPEDS Database, 1987-2008; 10-year matched set.

Changes in subsidy share of costs



Costs inevitably increase because of the non profit 'cost disease'

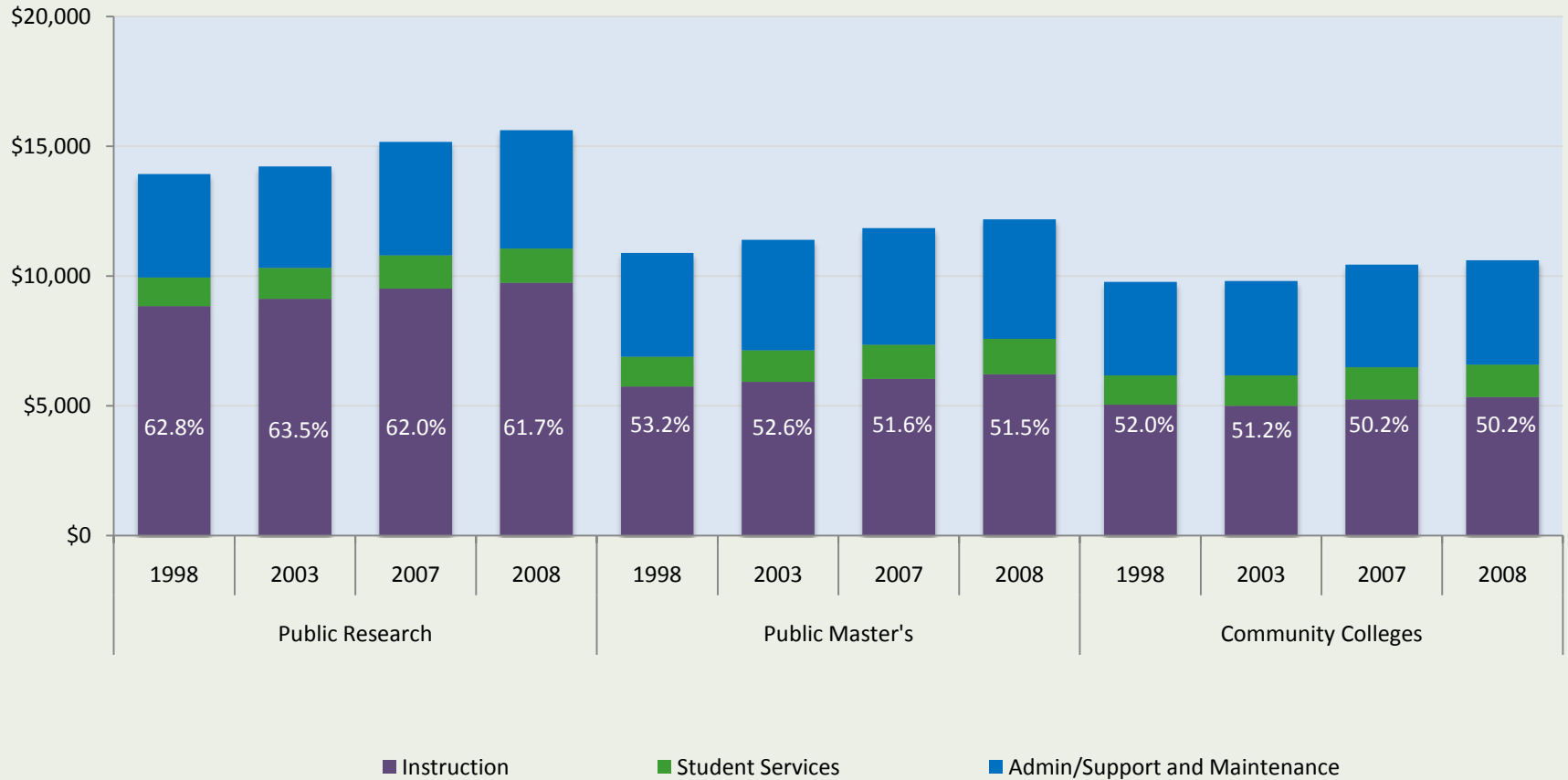


- **And because the primary driver of costs is faculty**

***True:* costs do rise to meet revenue – and competition drives spending upward**

***False:* spending on faculty has not been increasing relative to other spending areas**

Spending within E&R – instruction, student services, administration/general support and maintenance



All data are in 2008 dollars.

Source: Delta Cost Project IPEDS Database, 1987-2008, 11-year matched set.

Money = quality = performance

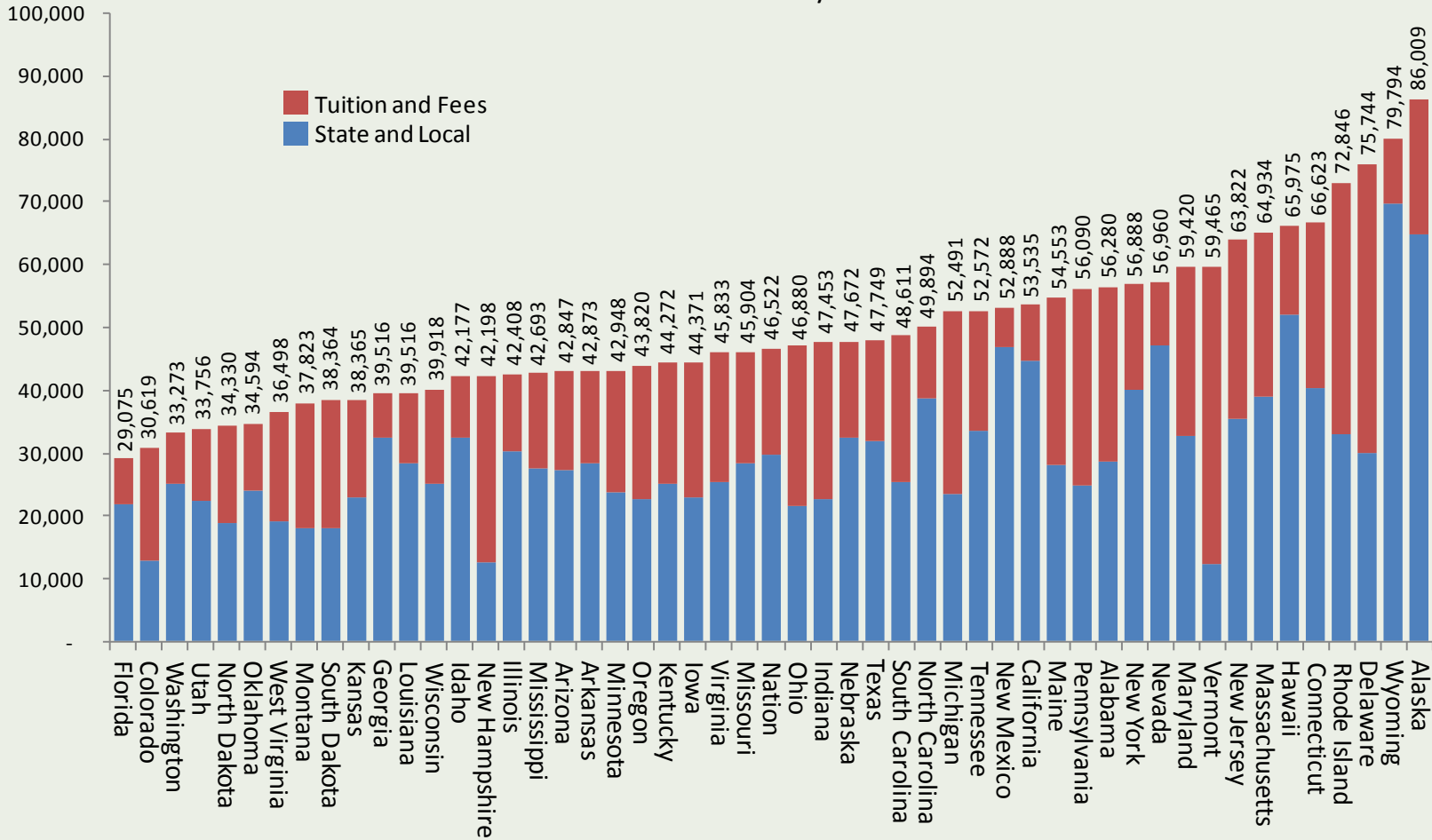
***True:* money = prestige, strong correlate
with admissions selectivity, academic
credentials, class size, research**

***False:* money ≠ performance**

Productivity: Total Funding per Degree/Certificate

(Weighted*, 2006-2007)

Public Only



Sources: SHEEO State Higher Education Finance Survey 2008; NCES, IPEDS Completions Survey; U.S. Census Bureau, American Community Survey (Public Use Microdata Samples)

*Adjusted for value of degrees in the state employment market (median earnings by degree type and level)

Spending is going up because of under-prepared students... and the costs of remediation

- ***True:* Underprepared students are less likely to succeed, and we DON'T have a good track record with success in remedial/developmental Education**

- ***BUT:* Remedial education is cheap – as is most 1d/ug education – in public institutions, likely a net revenue-producer**

The reality of cross-subsidies

Level of instruction	SCH generated as a percentage of total SCH	Instructional spending as a percentage of all instructional spending
Lower division	35%	21%
Upper Division	45%	45%
Graduate	20%	34%

Data from 2002-2007 for Ohio, Florida and Illinois public four-year institutions; and 1995 – 2004 for SUNY. Report available at http://www.sheeo.org/finance/SHEEO_Cost%20Study%20Report_2010.pdf

So, how can costs be reduced, while performance is increased?

- **Through simultaneous attention to strategic reductions in spending – to reduce costs in areas that do not directly impact academic performance – and**
- **Strategic reinvestments in areas that pay off in improved productivity – measured by learning productivity**

Strategic cost reductions	Learning productivity
Program mix	Increase in student retention and graduation
Reduce growth in benefit costs	Reduce excess credits accumulated to the degree
Reduce energy costs	Increase credit-by-exam
Consolidate administrative functions	Increase proportion of graduates who meet goals for critical learning
Reduce spending on merit-based aid	Increase proportion of students who remain – and are employed– in state

Finding cost reductions: Reducing spending...strategically

- Candidates for attention:
 - Employee benefits
 - Merit aid
 - “Mission creep” in the absence of public need
 - Redundant administrative layers
 - Energy costs
 - Under-enrolled and unproductive programs

Increasing academic performance

- Investments that don't cost a lot and that make a difference in academic performance
 - Academic program alignment (esp w/2-4 yr instit)
 - Curriculum 'cleaning'
 - Creation of common intellectual experiences and collaborative assignments for 1st and 2nd year students
 - Intensive advising
 - Attention to causes of unnecessary attrition and excess credits
 - Faculty renewal and reinvestment

Increasing academic performance

- Cost-effective investments: higher marginal costs but high payoff
 - Faculty development/course redesign
 - Learning communities
 - Writing intensive courses
 - Collaborative assignments
 - Undergraduate research
 - Service learning
 - Internships
 - Capstone courses



For more information, go to:

Delta Cost Project

<http://www.deltacostproject.org>

<http://tcson-line.org>