Mitigating Cost Drivers in Higher Education
NEBHE Legislative Advisory Committee
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NCHEMS
National Center for Higher Education Management Systems
nchems.org • higheredinfo.org
Massachusetts
New Hampshire
Vermont
Institutional Revenues

Bowen’s Law (paraphrased)

Institutions raise all the money they can and spend all the money they raise.

“Higher education institutions of similar size, situation and repute have radically different costs per student, and spend each dollar differently from one another. Their different costs are a function of their histories in raising money.”

Wikipedia
Public Bachelors & Masters Institutions: Undergraduate Credentials per 100 FTE Undergraduates and Total Funding per FTE Student, 2014-15

Undergraduate Credentials per 100 FTE Under Graduates vs. Total Funding per FTE Student

Public Research Institutions: Undergraduate Credentials per 100 FTE Undergraduates and Total Funding per FTE Student, 2014-15

Awards per $100,000 of State & Local Appropriations and Tuition & Fees Revenues, 2015-16, Public Research

Awards per $100,000 of State & Local Appropriations and Tuition & Fees Revenues, 2015-16, Public Bachelors & Masters

Florida: 5.8
Colorado: 5.4
Illinois: 5.2
Kansas: 4.9
Utah: 4.7
Wisconsin: 4.6
Pennsylvania: 4.5
Maryland: 4.3
North Carolina: 4.2
Washington: 4.1
Kentucky: 3.9
New York: 3.8
Washington: 3.7
North Dakota: 3.6
New Mexico: 3.5
Florida: 3.4
Massachusetts: 3.3
Arizona: 3.2
South Dakota: 3.1
North Dakota: 3.0
Vermont: 2.9
New Jersey: 2.8
Connecticut: 2.7
Rhode Island: 2.6
New Hampshire: 2.5
Delaware: 2.3

Typical Explanations for Increasing College Costs

• Faculty Salaries
  – A competitive market
  – Collective bargaining agreements negotiated at state level

• Costs of recruiting students
  – Student aid/tuition price discounting
  – Lifestyle amenities
  – Ubiquitous technology/bandwidth

• Benefit costs
  – Health insurance
  – Retirement – unfunded liabilities in state programs

• Government regulation/bureaucracy – both federal & state

• Maintaining aging buildings and infrastructure

• Energy costs

• Meeting the needs of the “new” students
  – Less academically prepared
  – First generation
  – Lower income

• The costs of raising money
  – Federal
  – State
  – Alumni
  – Corporations
  – Philanthropy
  – Perception that high price = better quality
  • The economics of conspicuous consumption
Question for the Presidents:

In this list of Cost Drivers, what did I miss?

What challenges do you face when trying to rein in these types of costs?
What Research Reveals About (Hidden) Cost Drivers

Variables that explain 80% of variance in total institutional expenditures:

- Total annual full-time equivalent students
- Percentage of undergraduate underrepresented minorities (Hispanic, Black, Native American)
- Research expenditures per full-time faculty
- Whether the institution grants a medical degree
- Percentage of full-time faculty
- The number of faculty as a percent of all employees
- Weighted monthly salaries for instructional staff
- Cost adjusted undergraduate degrees awarded relative to non-weighted undergraduate degrees awarded (program mix)
- Cost adjusted graduate degrees awarded relative to non-weighted graduate degrees awarded (program mix)
- Employee benefits as a percent of total expenditures
- Physical plant depreciation per full-time equivalent student
- Operation and maintenance expenditures as a percent of total expenditures

In all cases but one, the higher the value of these variables, the greater the expenditures at an institution. The exception is that the greater the number of annual full-time equivalent students the lower the overall expenditure.

Source: *Why Higher Education Costs are What they are*, NCHEMS, June 2015
An Economics-Based View

• Higher education has been a growth industry
  – Marginal revenue typically > marginal costs
  – Higher education now a mature industry

• In this environment, cost containment dependent on productivity increases, not growth

• The higher education “production” model is
  – Expensive
  – Time-honored, and therefore rigid – there is a “right “ way to do education
  – Strongly defended by powerful proponents

• We know how to bend the cost curve, but unable to implement at scale
  – National Center for Academic Transformation
  – Western Governors University
Us Public and Private High School Graduates (Actual & Projected) 1980-2025

Source: Projections of Education Statistics to 2024 Forty-third Edition
Additional Questions for Presidents

What opportunities can come of efforts to decrease costs?

What advice would you give to other institutions on the steps that were most and least effective to reduce costs?

What could legislatures do to help you contain costs?

– Remove barriers
  – Create a supportive atmosphere
Steps Legislature Can Take to Help Contain/Reduce Institutional Costs

• Require a “Policy Audit” be conducted – a systematic review of statutes/policies/procedures that serve as barriers to cost containment

• Allocate resources in ways that reward
  – Collaboration
  – Improvements in productivity

• Through setting goals and establishing accountability metrics send clear signals regarding expectations – but don’t legislate how goals are to be pursued