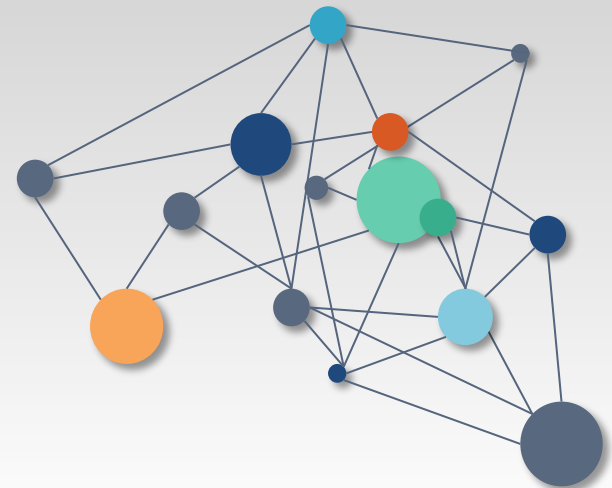


Mitigating Cost Drivers in Higher Education

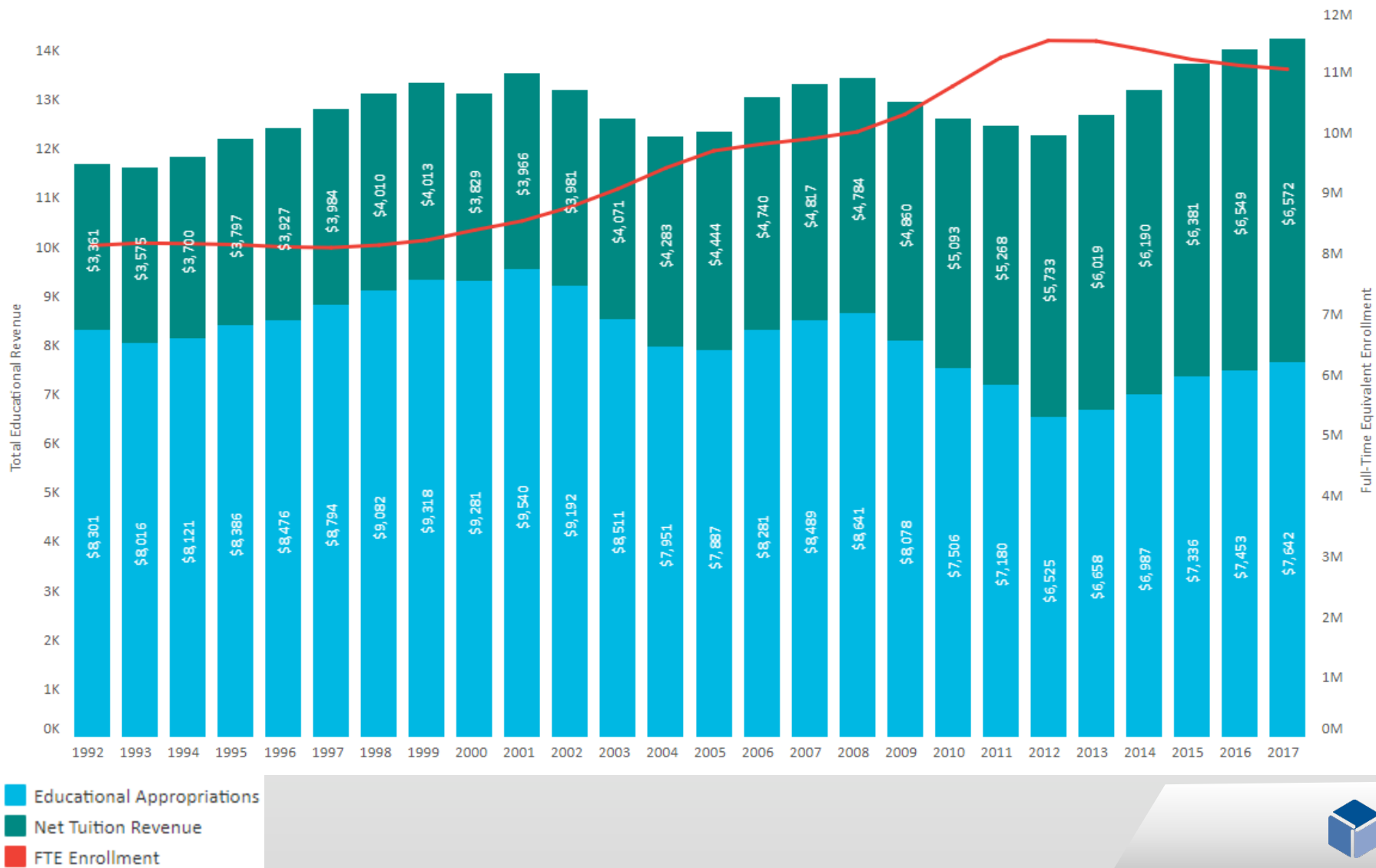
NEBHE Legislative Advisory Committee
September 27, 2018



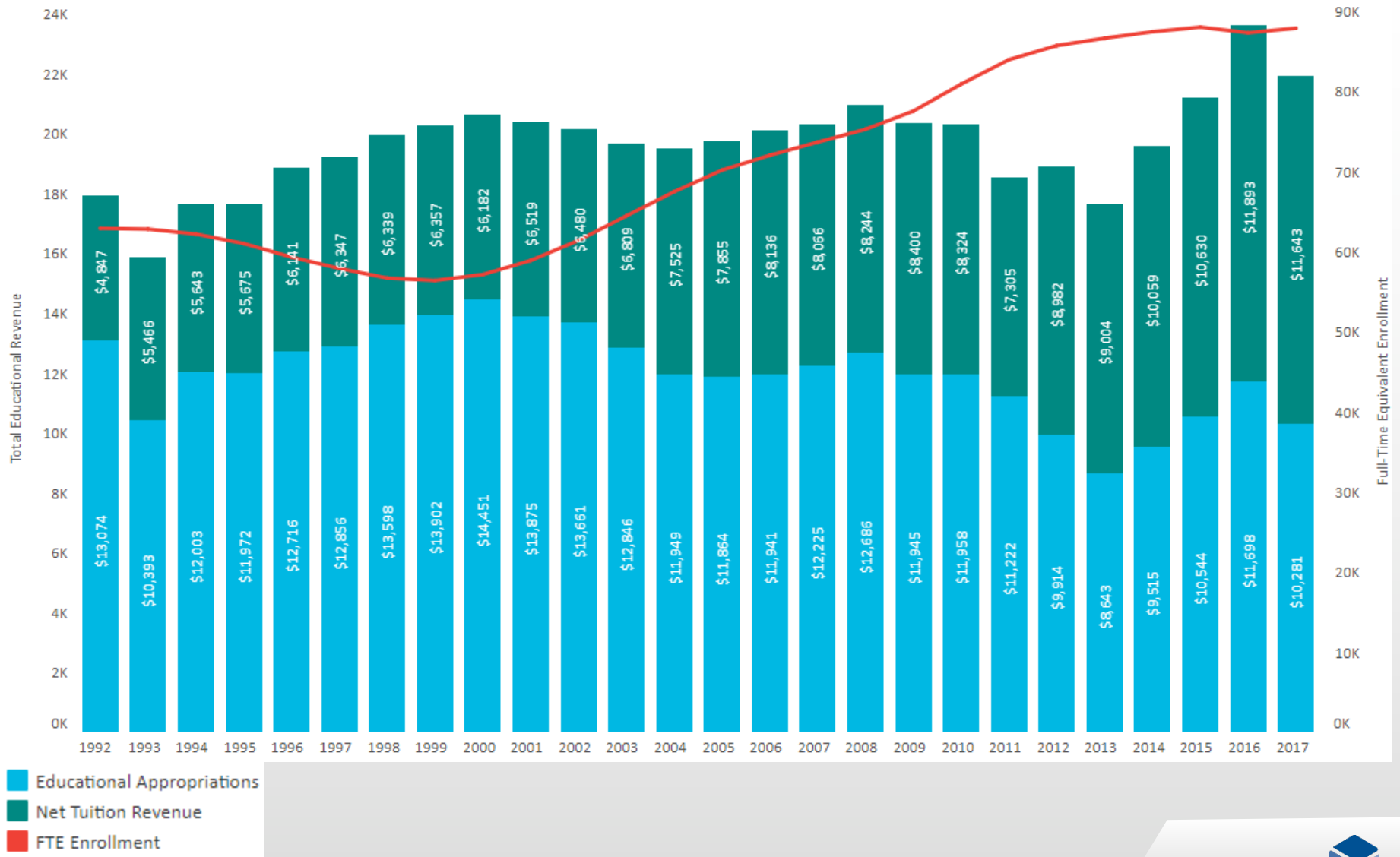
nchems.org • higheredinfo.org



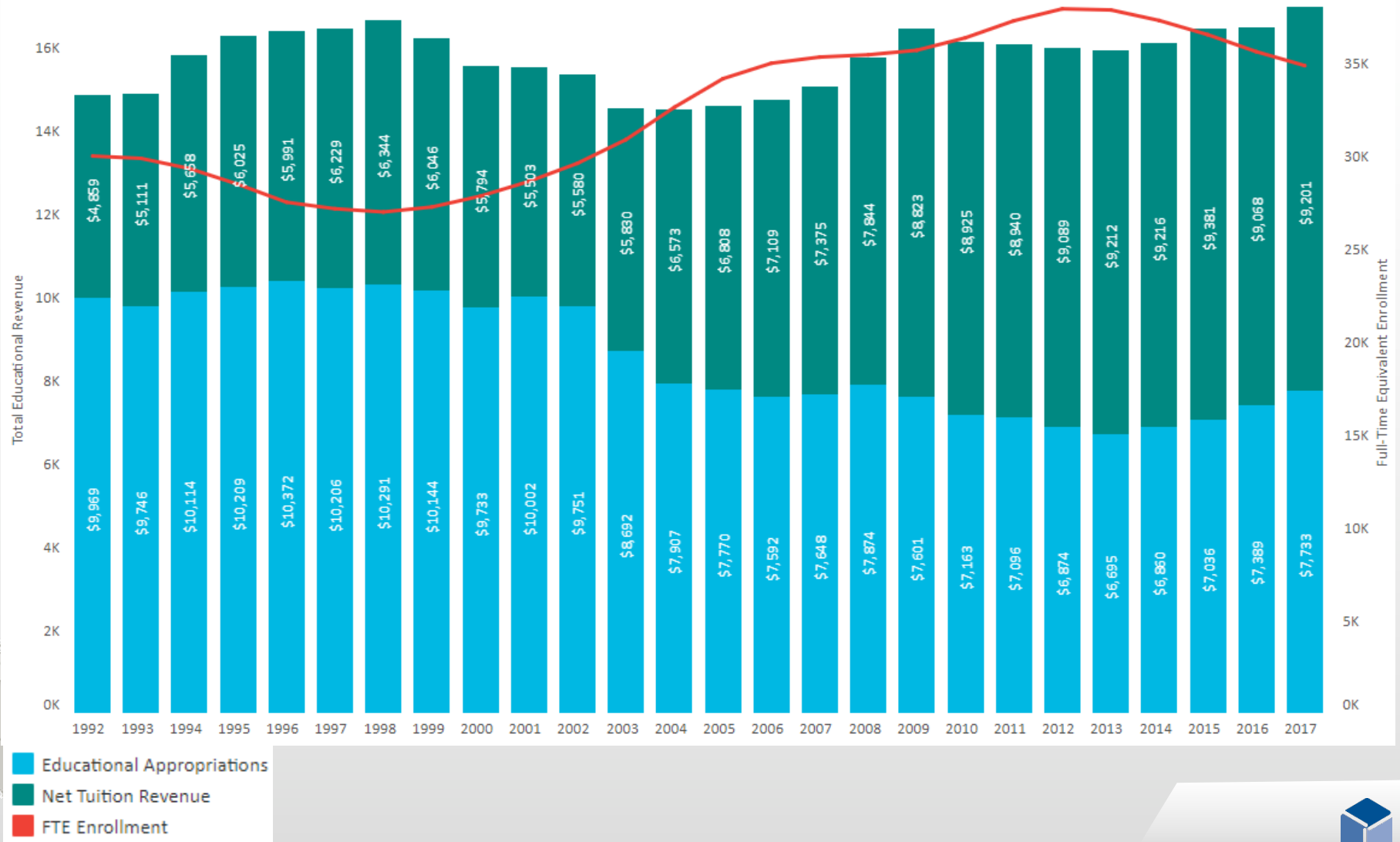
United States



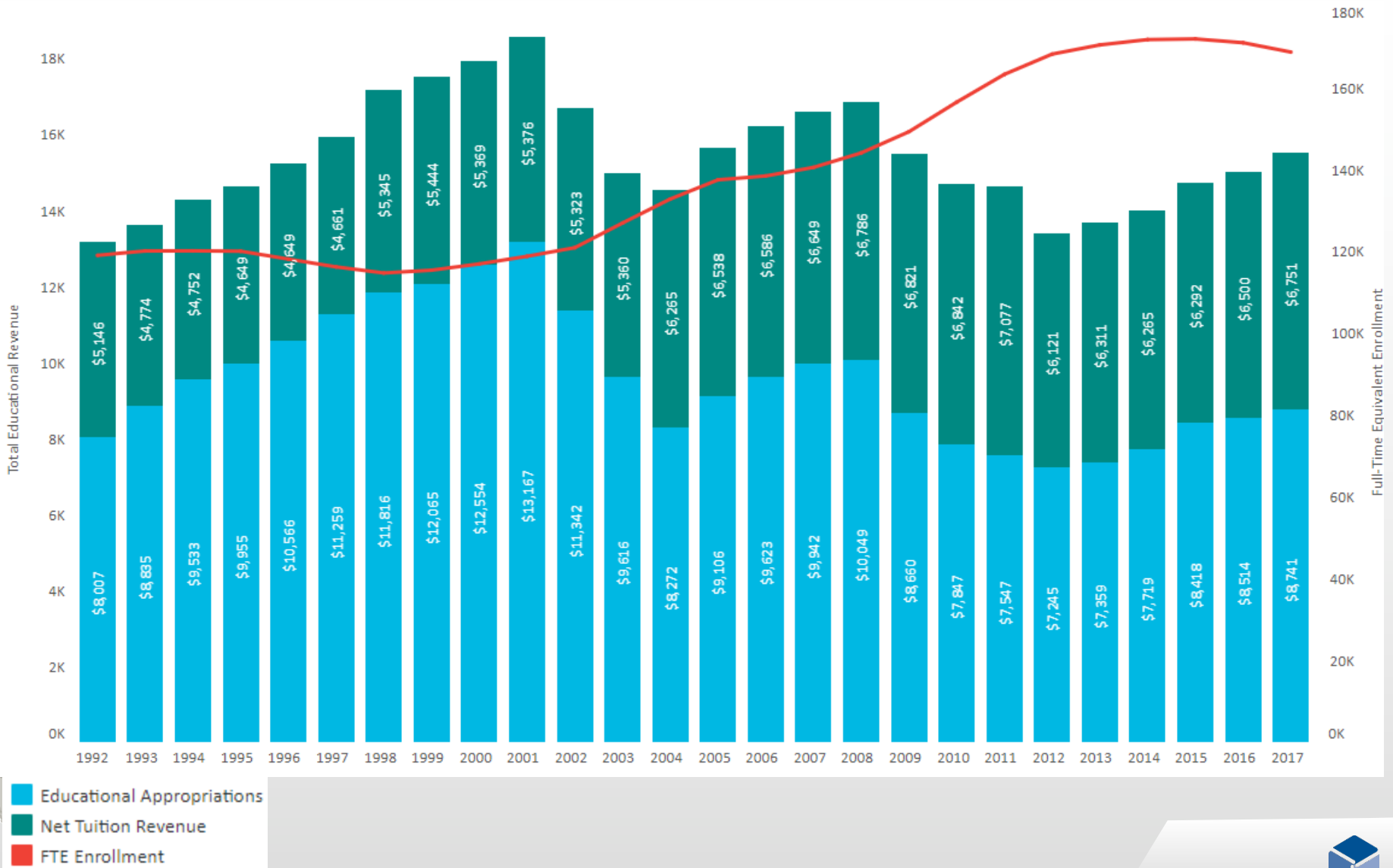
Connecticut



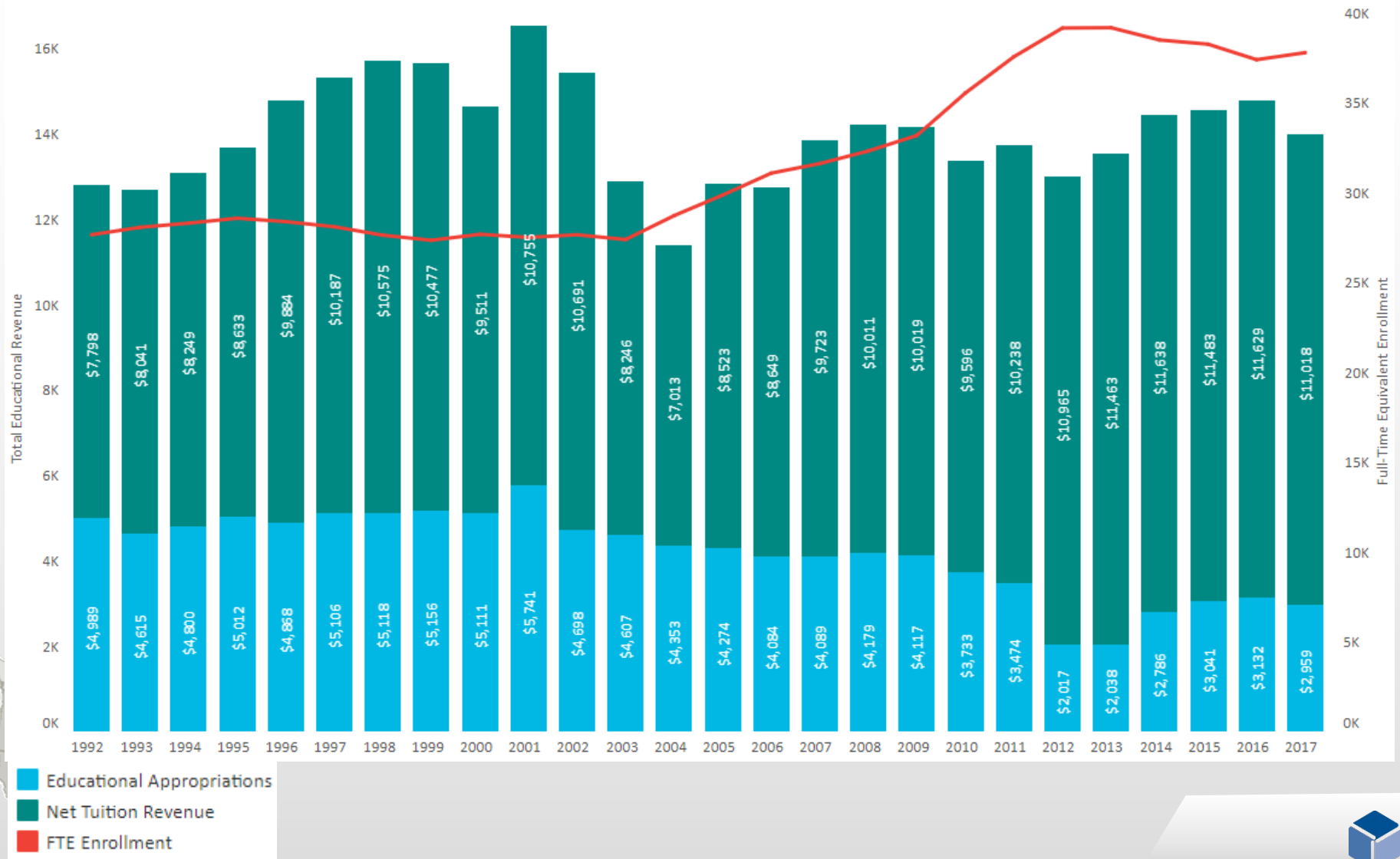
Maine



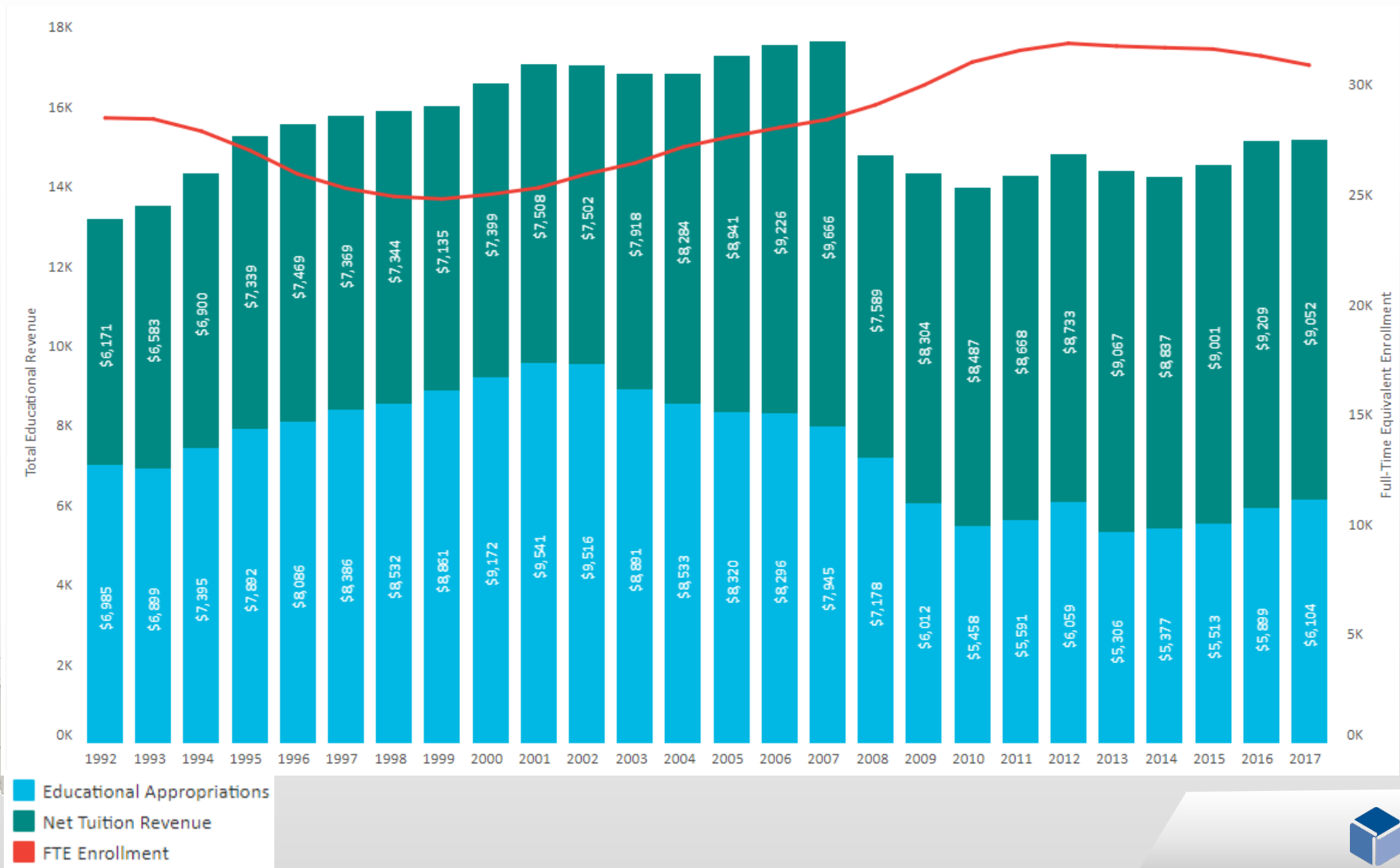
Massachusetts



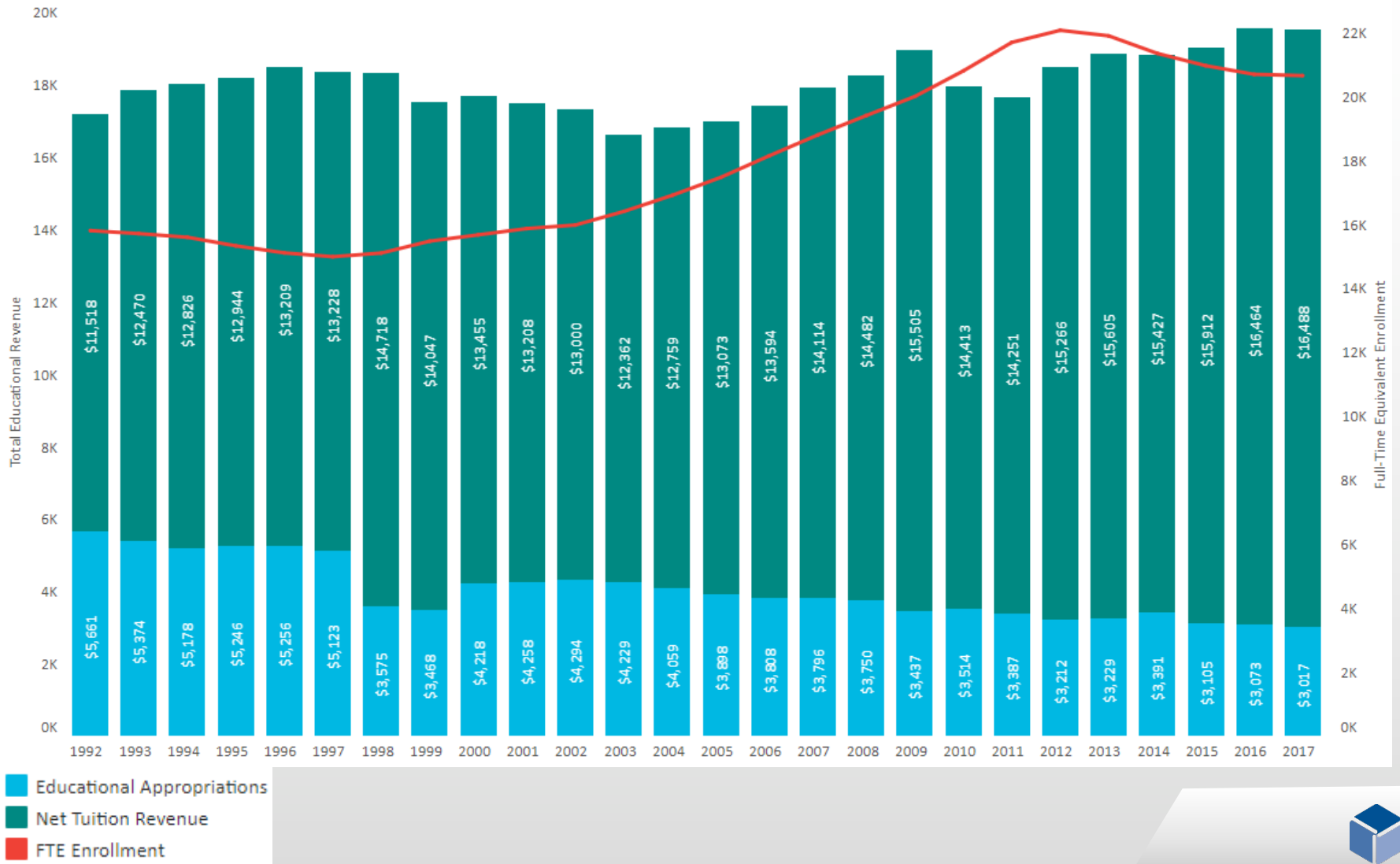
New Hampshire



Rhode Island



Vermont



Primary Driver of Institutional Costs

Institutional Revenues

Bowen's Law (paraphrased)

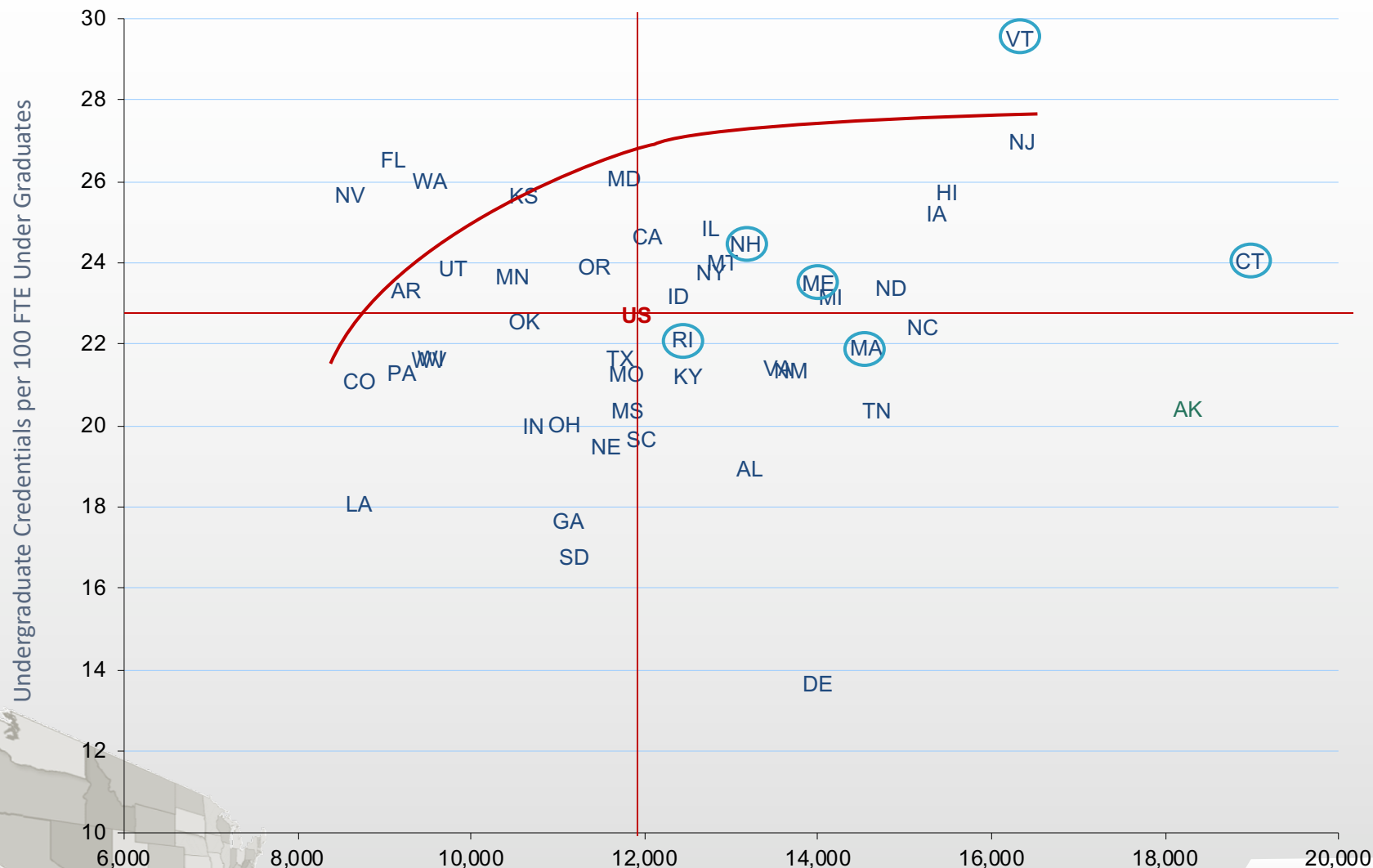
Institutions raise all the money they can and spend all the money they raise.

“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



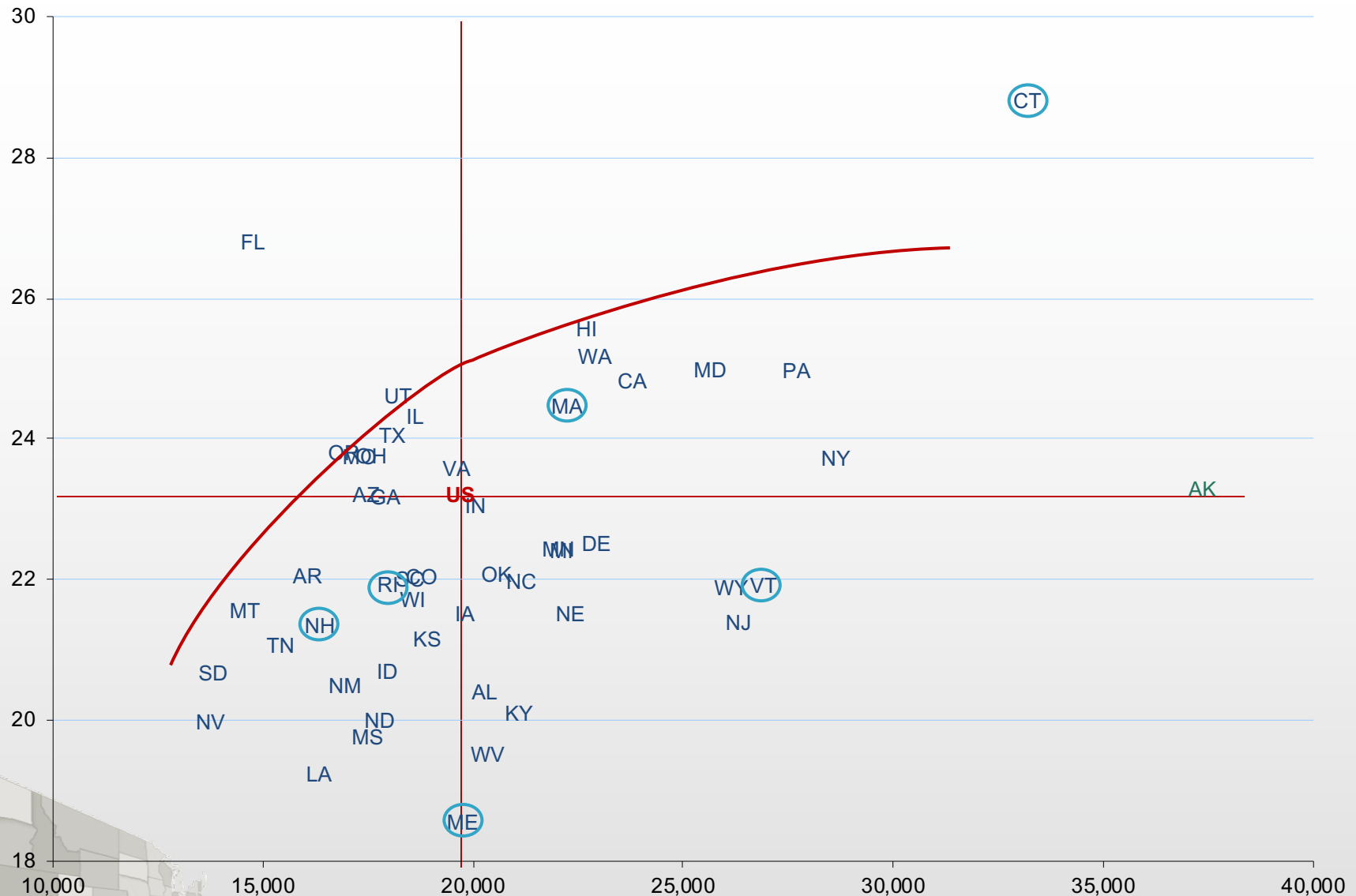
Public Bachelors & Masters Institutions: Undergraduate Credentials per 100 FTE Undergraduates and Total Funding per FTE Student, 2014-15



Sources: NCES, IPEDS 2014-15 Provisional Release Finance Files; f1415_f1a, f1415_f2, and f1415_f3 Finance Files. NCES, IPEDS 2014-15 Instructional Activity File; efia2015 Provisional Release Data File. NCES, IPEDS 2014-15 Institutional Characteristics File; hd2015 Provisional Release Data File. Source: NCES, IPEDS 2014-15 Completions File; c2015_a Provisional Release Data File. NCES, IPEDS 2014-15 Instructional Activity File; efia2015 Provisional Release Data File.



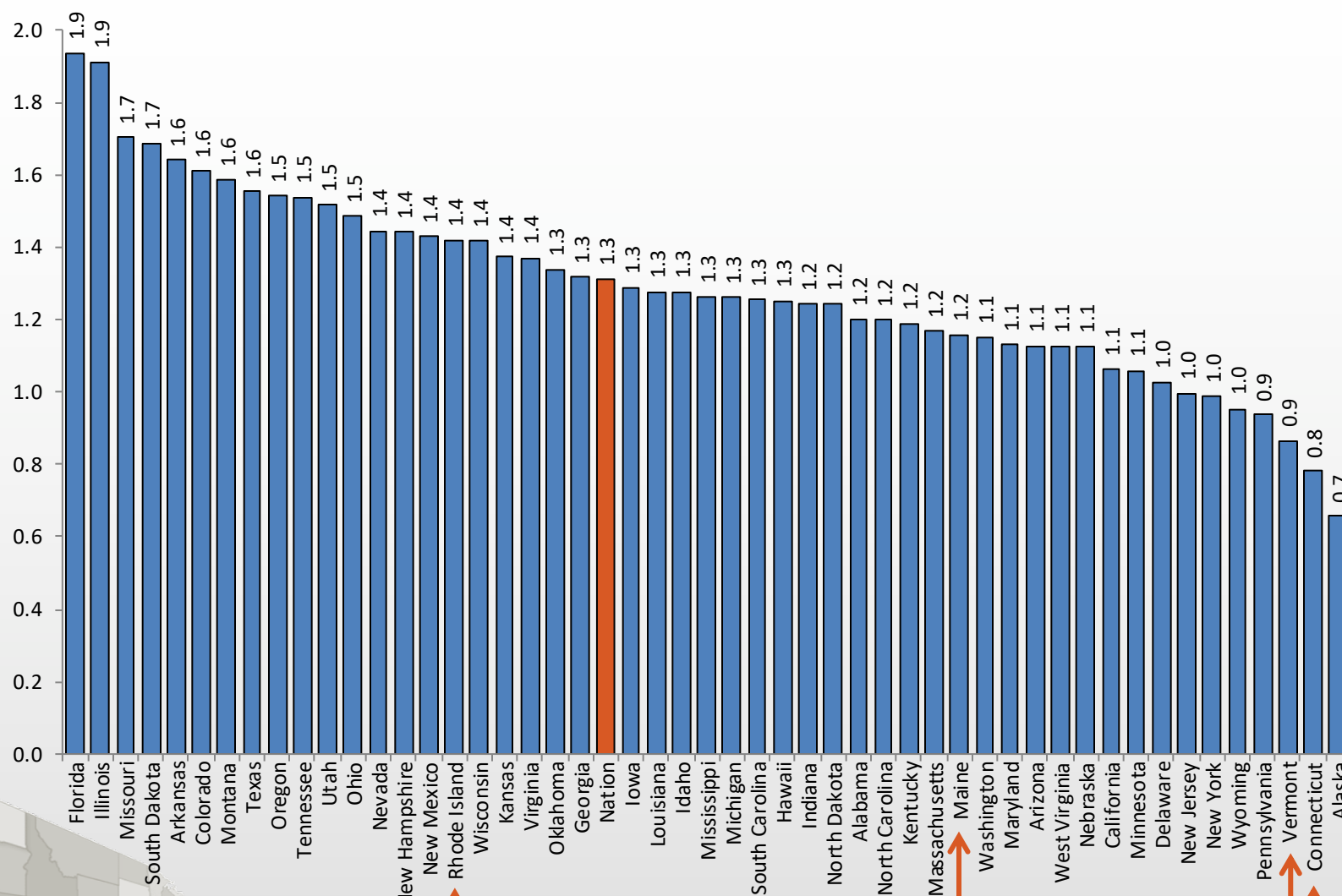
Public Research Institutions: Undergraduate Credentials per 100 FTE Undergraduates and Total Funding per FTE Student, 2014-15



Sources: NCES, IPEDS 2014-15 Provisional Release Finance Files; f1415_f1a, f1415_f2, and f1415_f3 Finance Files. NCES, IPEDS 2014-15 Instructional Activity File; efia2015 Provisional Release Data File. NCES, IPEDS 2014-15 Institutional Characteristics File; hd2015 Provisional Release Data File. Source: NCES, IPEDS 2014-15 Completions File; c2015_a Provisional Release Data File. NCES, IPEDS 2014-15 Instructional Activity File; efia2015 Provisional Release Data File.



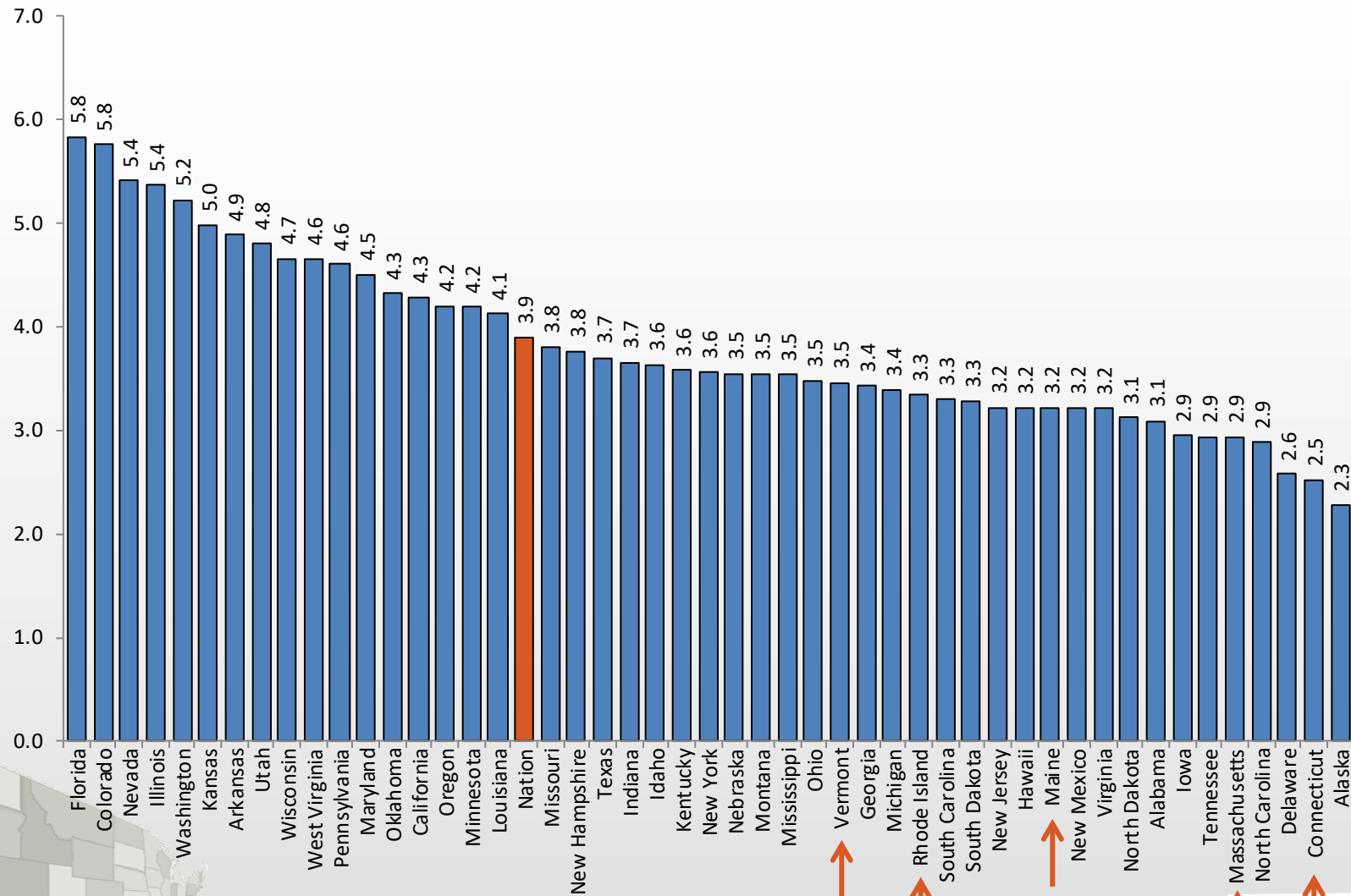
Awards per \$100,000 of State & Local Appropriations and Tuition & Fees Revenues, 2015-16, Public Research



Source: NCES, IPEDS 2015-16 Completions File; c2016_a Provisional Release Data File. 2015-16 Instructional Activity File; efia2016 Provisional Release Data File.; 2015-16 Provisional Release Finance Files; f1516_f1a, f1516_f2, and f1516_f3 Finance Files.; 2015-16 Institutional Characteristics File; hd2016 Provisional Release Data File.



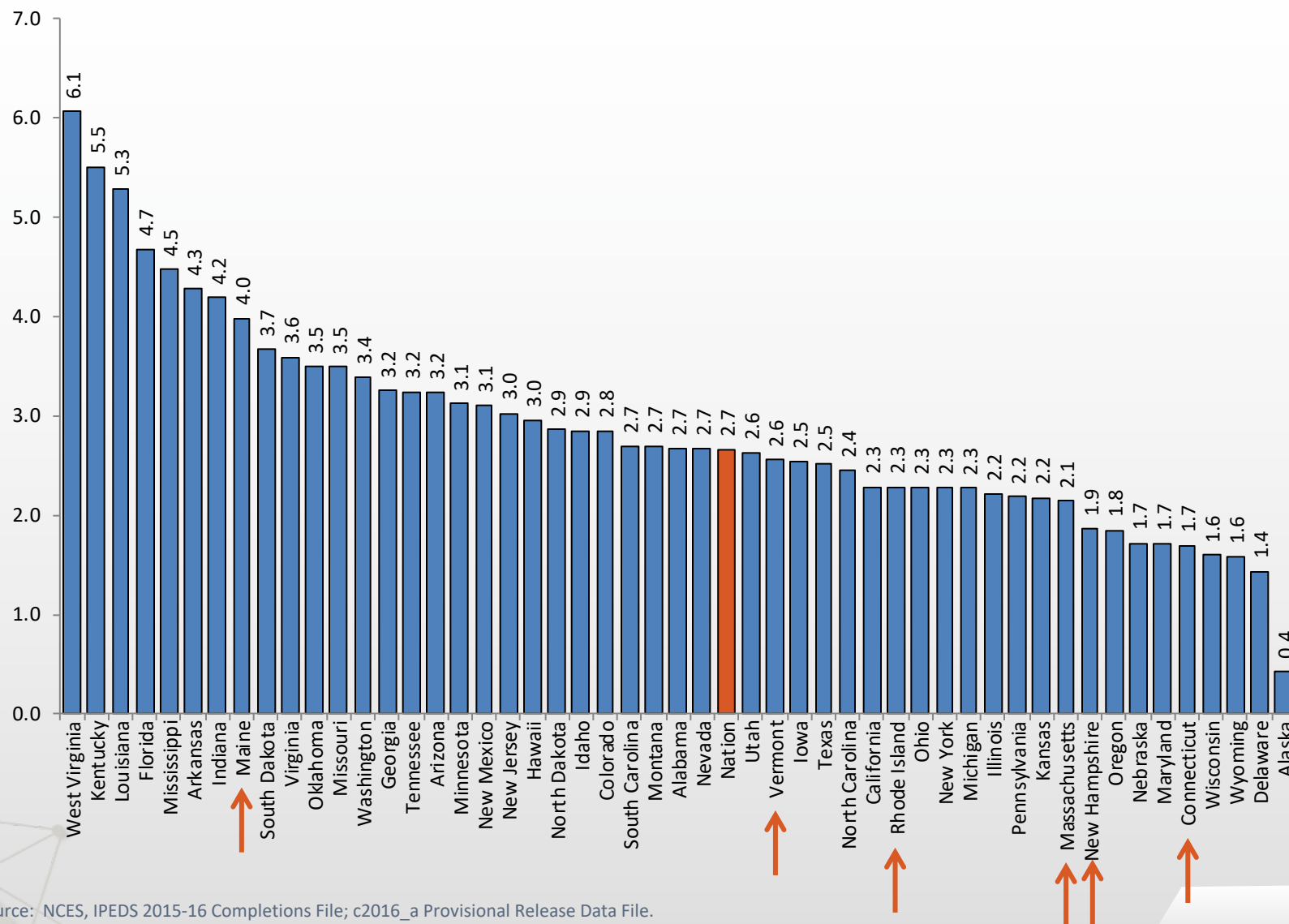
Awards per \$100,000 of State & Local Appropriations and Tuition & Fees Revenues, 2015-16, Public Bachelors & Masters



Source: NCES, IPEDS 2015-16 Completions File; c2016_a Provisional Release Data File. 2015-16 Instructional Activity File; efia2016 Provisional Release Data File.; 2015-16 Provisional Release Finance Files; f1516_f1a, f1516_f2, and f1516_f3 Finance Files.; 2015-16 Institutional Characteristics File; hd2016 Provisional Release Data File.



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



Source: NCES, IPEDS 2015-16 Completions File; c2016_a Provisional Release Data File.

2015-16 Instructional Activity File; efia2016 Provisional Release Data File.; 2015-16 Provisional Release Finance Files; f1516_f1a, f1516_f2, and f1516_f3 Finance Files.; 2015-16 Institutional Characteristics File; hd2016 Provisional Release Data File.



Typical Explanations for Increasing College Costs

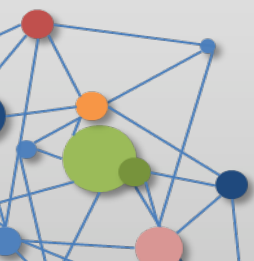
- Faculty Salaries
 - A competitive market
 - Collective bargaining agreements negotiated at state level
- Costs of recruiting students
 - Student aid/tuition price discounting
 - Lifestyle amenities
 - Ubiquitous technology/bandwidth
- Benefit costs
 - Health insurance
 - Retirement – unfunded liabilities 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.

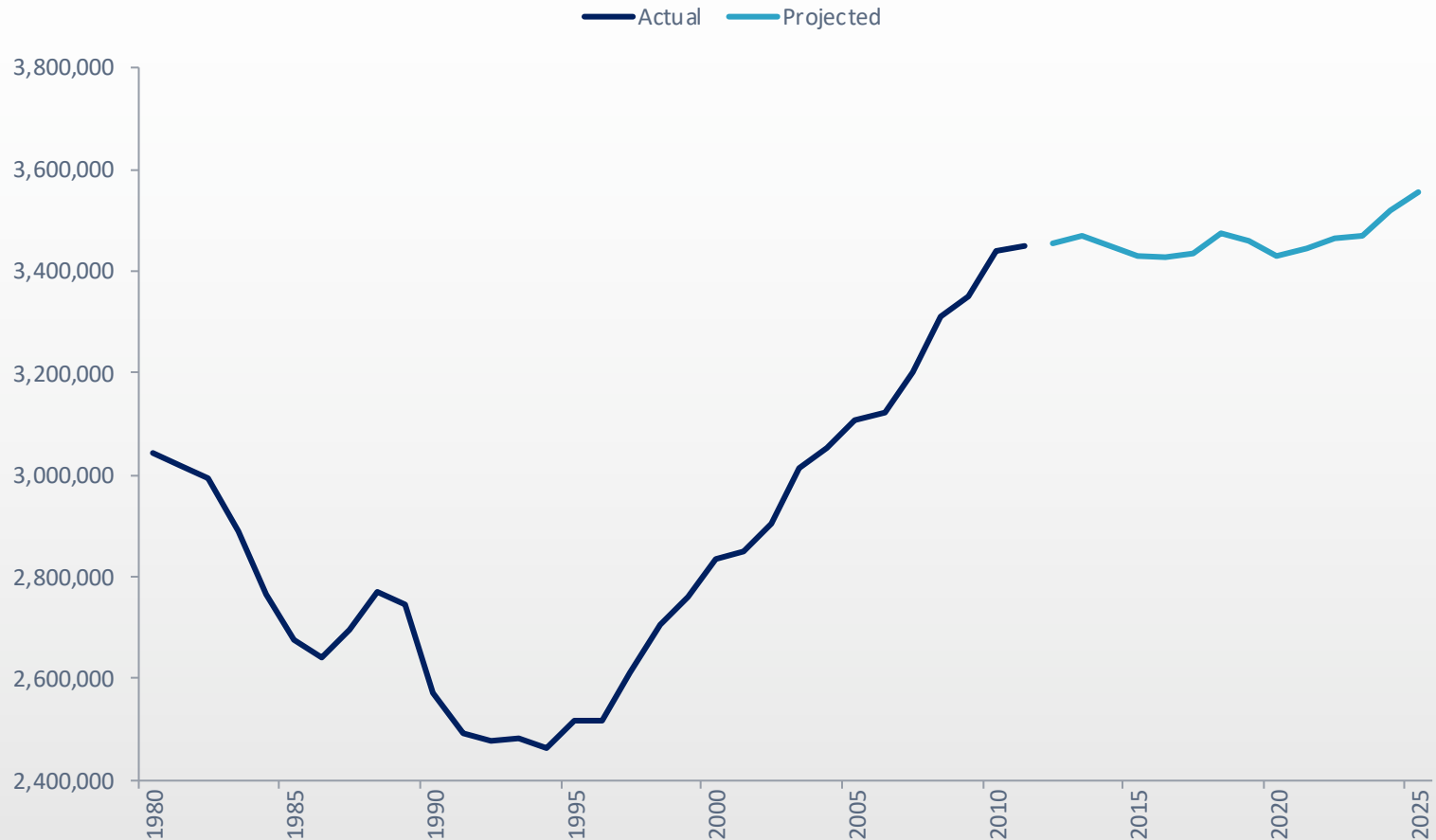


An Economics-Based View

- 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

