Why are Public College Tuitions Rising? Three Myths of Higher Education Finance

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Higher Education Finance Landscape
Overview

• Affordability, Prices, and Costs

• 3 Popular Myths About Rising College Prices
  • #1 – College spending is out of control
  • #2 – Excessive executive hiring and compensation has led to administrative bloat
  • #3 – Climbing walls and lazy rivers are driving up costs
College Affordability a National Concern

- Widespread concern about rising tuitions and the affordability of higher education
- Concerns about high levels of educational debt
- The U.S. no longer first in the world in number of college graduates
- U.S. jobs need more college graduates
Today’s College Affordability Crisis is Not New…but is Different

- Tuition has far outpaced inflation
- Tuition has increased faster than median family income
- College degree increasingly necessary
- College students coming from more diverse backgrounds
The Issue: College Prices (tuition) are Rising

Percentage change in college sticker price and median family income: 1972-73 – 2012-13
Why Do Tuition Prices Increase?

- Colleges spend more
- Other revenues decline
  - State appropriations for publics
  - Endowments for small percentage of public and privates
- Colleges don’t cut costs ➔ Cost-shifting
Myth #1: Public College Spending is Out of Control

Myth Busters:

- Colleges have become increasingly tuition-dependent
  - State appropriations per student declined sharply and were not replaced with other non-tuition revenue
- Spending declined during the recession even as tuition revenue continued to increase
- Pre-recession, spending increased 1% per year above inflation, while tuition revenue increased even faster
Tuition Revenue Increases as State Appropriations Decline

Net tuition revenues and state and local appropriations revenues per FTE student, AY 2002-2012 (in 2012 dollars)

Source: IPEDS Analytics, Delta Cost Project Database 1987-2012 (11-year matched set).
Where Does the Money Go? Making Sense of Spending

1. Total operating expenses: All spending

2. Education & general spending: All core operating expenditures

3. Education & related spending (E&R): Core academic mission expenditures
   - Spending for E&R vs. other functions
   - Spending within E&R: Instruction and student services vs. administration
Education and Related Spending Trends

E&R spending FTE student, AY 2002-2012 (in 2012 dollars)

Average Annual Percent Change

Source: IPEDS Analytics: Delta Cost Project Database 1987-2012 (11-year matched set).
Spending by Standard Expenditure Categories

Spending FTE student, AY 2002-2012 (in 2012 dollars)

- **Instruction**:
  - Public research: 5% ($487)
  - Public master's: 5% ($297)
  - Public bachelor's: 4% ($256)
  - Public community college

- **Student services**:
  - Public research: 16% ($204)
  - Public master's: 16% ($209)
  - Public bachelor's: 4% ($72)
  - Public community college

- **Academic support**:
  - Public research: 19% ($482)
  - Public master's: 5% ($67)
  - Public bachelor's: 0% ($4)
  - Public community college

- **Institutional support**:
  - Public research: 11% ($247)
  - Public master's: 2% ($34)
  - Public bachelor's: 10% ($248)
  - Public community college

- **Operation and maintenance**:
  - Public research: -10% ($220)
  - Public master's: -8% ($126)
  - Public bachelor's: -12% ($349)
  - Public community college

*Source: IPEDS Analytics: Delta Cost Project Database 1987-2012 (11-year matched set).*
Spending by Major Expenditure Categories

Spending FTE student and by share, AY 2002-2012 (in 2012 dollars)

Public institutions

Sources: IPEDS Analytics. Delta Cost Project Database 1987-2012 (11-year matched set).
Understanding Costs, Price, & Subsidies in Higher Education

- At public and private not-for-profit colleges, price is generally less than costs.
- Subsidy: difference between costs & price.
- Price + Subsidy = Cost.
Tuition Revenues Continue to Pay for a Growing Share of Costs

Net tuition and subsidy shares of E&R costs, AY 2002-2012

Sources: IPEDS Analytics: Delta Cost Project Database 1987-2012 (11-year matched set).
Myth #2: Excessive Executive Hiring and Compensation Has Led to Administrative Bloat

Myth Busters:

- Growth in administrative jobs is widespread – but new professional positions, not executive positions, are driving the increase
- Many new professional jobs are providing non-instructional student support services
- At public institutions, benefits costs are rising much faster than salary costs
Administrative “Bloat” is not a New Trend

![Number of FTE faculty and staff per FTE executive and professional staff](chart)

**Public research**
- 1990: 3.5
- 2000: 2.7
- 2012: 2.2

**Public master’s**
- 1990: 4.5
- 2000: 3.4
- 2012: 2.5

**Public bachelor’s**
- 1990: 4.3
- 2000: 3.3
- 2012: 2.5

**Public community colleges**
- 1990: 5.5
- 2000: 5.6
- 2012: 4.5

Note: *FTE* is full-time equivalent; FTE faculty includes research assistants.
Adjuncts and Professional Positions Have Fueled Staffing Growth

<table>
<thead>
<tr>
<th>Type of Job</th>
<th>Public Research</th>
<th>Public Master's</th>
<th>Public Bachelor's</th>
<th>Public Community Colleges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total headcount (%)</td>
<td>19%</td>
<td>20%</td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td>Full-time faculty (%)</td>
<td>6%</td>
<td>7%</td>
<td>19%</td>
<td>23%</td>
</tr>
<tr>
<td>Part-time faculty (%)</td>
<td>17%</td>
<td>20%</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>Part-time instructors/graduate assistants (%)</td>
<td>2%</td>
<td>4%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Executive, administrative, and managerial (%)</td>
<td>22%</td>
<td>25%</td>
<td>16%</td>
<td>19%</td>
</tr>
<tr>
<td>Professional (%)</td>
<td>32%</td>
<td>23%</td>
<td>26%</td>
<td>27%</td>
</tr>
<tr>
<td>Nonprofessional (technical, clerical, skilled craft, and service/maintenance) (%)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Benefits Costs are Rising Faster than Salaries

<table>
<thead>
<tr>
<th></th>
<th>Full-time Faculty Salaries</th>
<th>Full-time Faculty Benefits</th>
<th>Salary Outlay per FTE Employee</th>
<th>Benefit Outlay per Full-time Employee</th>
<th>Compensation per FTE Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public research</td>
<td>0.2%</td>
<td>2.0%</td>
<td>1.2%</td>
<td>4.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Public master's</td>
<td>-0.1%</td>
<td>2.1%</td>
<td>-0.1%</td>
<td>3.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Public bachelor's</td>
<td>0.0%</td>
<td>2.7%</td>
<td>0.3%</td>
<td>4.5%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Public community college</td>
<td>0.1%</td>
<td>2.7%</td>
<td>0.8%</td>
<td>4.3%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Note: All data were converted to 2010 dollars before the percent change was calculated. Salary and compensation outlays are reported per full-time equivalent (FTE) employee, but most part-time faculty/staff are not eligible for benefits, so benefit outlays are shown per full-time employee. Per FTE employee calculations exclude part-time graduate assistants/instructors.

Myth #3: Climbing Wall and Lazy Rivers are Driving Up Costs

Myth Busters:

• These amenities are an optics issue rather than a financial issue
• Most are funded from students recreation fees or capital budgets, not tuition
• Climbing walls cost $100,000 or more
  • About $8 per student at large public university
• Less than 15% of new space since 2005 was for student life facilities
Key Takeaways

- Higher education spending has not increased as fast as tuition prices
- Institutional subsidies are at a decade-long low and students are covering a larger portion of total educational costs
- Growth in administrative jobs comes from adding professional rather than executive positions
- Recreational amenities are not necessarily large cost drivers
- Many factors have contributed to rising tuition prices, including benefits costs, non-faculty hiring, declines in state subsidies, and modest spending increases/failure to significantly cut costs
Delta Cost Resources

- **Website** ([www.deltacostproject.org](http://www.deltacostproject.org))
  - Annual trends report
  - Issue briefs and other products

- **Trends in College Spending (TCS) Online** ([www.tcs-online.org](http://www.tcs-online.org))

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