FINANCING HIGHER EDUCATION: THE CONVERGENCE OF ECONOMIC AND ACADEMIC LANDSCAPES

BKD, LLC
NATIONAL INDUSTRY CONFERENCE
OCTOBER 23, 2009

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Introduction

Economic Climate for Public Institutions of Higher Education:
- Trends in Higher Education Funding Mix
- Increased Scrutiny and Calls for Accountability

Other Challenges
- Increased Competition; Emergence of the Private Sector
- Trends in Student Profiles: Rise of the Digital, Non-Traditional Student
- Globalization

Conclusion: Lessons for the New Landscape
Introduction

- This is a critical time to be focused on the financial outlook for higher education as it relates directly to whether the traditional model of post secondary education will survive as currently constructed.
- CHEMA survey: 2/3 of respondents saw financial constraints as the most significant driver of change in higher education.
- A new category?: the “privately funded public research university”
Economic Climate for Public Institutions of Higher Education

- Universities have fixed costs and they are increasing
- Universities are not diversified (i.e., hospital, athletics, personnel costs are considered “untouchable”)
- Universities are disproportionately impacted by economic downturns (“perfect storm”)
- The public and legislatures believe university budgets are not transparent
- Opportunities to eliminate “loss centers” are constrained (e.g., closing the Medical School or Engineering School)
### Undesignated General Funds for Educational and General Activities - Recurring

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Appropriations - Operating</td>
<td>$316,853,500</td>
</tr>
<tr>
<td>Tuition</td>
<td>225,075,800</td>
</tr>
<tr>
<td>Other (e.g., investment income)</td>
<td>26,605,300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$568,534,600</strong></td>
</tr>
</tbody>
</table>

### Designated Funds - Recurring

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK HealthCare</td>
<td>$764,659,100</td>
</tr>
<tr>
<td>Affiliated Corporations</td>
<td>353,533,800</td>
</tr>
<tr>
<td>Gifts, Grants, and Contracts</td>
<td>227,842,800</td>
</tr>
<tr>
<td>Fees (e.g., noncredit, mandatory, housing, dining, course, program)</td>
<td>32,681,500</td>
</tr>
<tr>
<td>Federal and County Appropriations</td>
<td>31,824,000</td>
</tr>
<tr>
<td>Other (e.g., sales and services, endowment earnings, state funds for debt service)</td>
<td>144,623,300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,555,164,500</strong></td>
</tr>
</tbody>
</table>

### Fund Balance - Nonrecurring

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$81,155,400</strong></td>
</tr>
</tbody>
</table>

### Grand Total

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$2,204,854,500</strong></td>
</tr>
</tbody>
</table>
The Funding Mix: Trends in Government Revenues

- The current economic downturn is more challenging as we have been experiencing a steady decline in government support.
- Governmental appropriations for postsecondary education increased from .66% of GDP in 1969/70 to .79% in 1975/76 and then decreased to .60% in 1999/2000.
- Between 1999/2000 and 2000/01, the index increased to .64, or back to nearly the level it was in 1969–70.
From 1969/70 to 2000/01, government appropriations per student for public institutions increased 3% (from $5,227 to $5,409 in constant dollars) (NCES, 2005).

During that same time, revenues per student from other sources increased substantially. Tuition and fees per student increased by 99% (from $1,364 to $2,716) and other sources of education and general revenues by 62% (from $2,204 to $3,571).

As a result, the share of total education and general revenue from government appropriations declined from 59 to 46%, while the share from tuition and fees increased from 16 to 23%. The share of total revenue from other education and general revenues increased from 25 to 31%.
TABLE 2. Education and general revenue per student for public degree-granting institutions (1969/70 – 2000/01)

The Funding Mix: Trends in Tuition Revenues

- The change in funding streams from state legislatures has meant an increase reliance on tuition dollars.
- Between 1997/98 and 2007/08, prices for undergraduate tuition, room, and board at public institutions rose by 30% and prices at private institutions rose by 23%, after adjustment for inflation.
- For the 2007–08 academic year, annual prices for undergraduate tuition, room, and board were estimated to be $11,578 at public institutions and $29,915 at private institutions (NCES, 2009).
### TABLE 3: UK Gross Tuition and Fee Revenue vs. Net State Appropriations (actual in millions)

<table>
<thead>
<tr>
<th></th>
<th>01-02</th>
<th>02-03</th>
<th>03-04</th>
<th>04-05</th>
<th>05-06</th>
<th>06-07</th>
<th>07-08</th>
<th>08-09*</th>
<th>09-10*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition</td>
<td>$121</td>
<td>$131</td>
<td>$164</td>
<td>$179</td>
<td>$201</td>
<td>$226</td>
<td>$239</td>
<td>$253</td>
<td>$268</td>
</tr>
<tr>
<td>State</td>
<td>$224</td>
<td>$221</td>
<td>$214</td>
<td>$211</td>
<td>$229</td>
<td>$232</td>
<td>$243</td>
<td>$237</td>
<td></td>
</tr>
</tbody>
</table>

State appropriations net of debt service and mandated programs.

*Projected*
The Funding Mix: Trends in Tuition Revenues, cont’d

- More recently undergraduate tuition increases have been seen as politically unacceptable. Some legislatures have stepped in to prevent tuition increases, and there is such talk in Congress as well.

- State policy makers have also shifted concerns about access to concerns about affordability which some read as an increased concern for middle income families (note federal tax credits and tax deferred savings which help those families)
The Funding Mix: Trends in Tuition Revenues, cont’d

- In-state versus out-of-state mix (e.g., the University of Michigan has statutory mandate to keep in-state tuition low and to provide financial aid to all Michigan students, so it compensates by placing out-of-state tuition rates equal to those of private institutions.)

- Undergraduate versus professional school tuition (e.g., the University of Virginia has driven its professional schools toward the private marketplace in setting tuition and has taken those programs off state dollars)
The Funding Mix: Trends in Grants & Loans

- Changes are also being seen in the proportion of federal grants versus loans assumed by students.

- Sixty-six percent of all undergraduates received some type of financial aid in 2007–08. For those who received any aid, the total average amount received was $9,100. Fifty-two percent received grants averaging $4,900, and 38% took out an average of $7,100 in student loans.
The Funding Mix: Trends in Philanthropy

- U.S. higher education received almost $24 billion in philanthropic support in 2003
- Nine of the top twenty recipients were public universities or university systems
- Of the 39 institutions in the U.S. with endowments in excess of $1 billion, 11 are held by public universities
- Congressional interest in having universities spend more from endowments; complication of “underwater” endowments.

Source: Johnstone, 2007
The Funding Mix: Commercialization and Public/Private Partnerships in Higher Education

- As a revenue source, “slippery slope” issues (IP ownership, conflict of interest, conflict of commitment, mission drift)
- Potential implication for research emphases due to commercial interest (e.g., will there be less money for basic science, arts & humanities?)
- Novel public/private partnership approaches to capital construction (lease-purchase, mixed-use, etc.; implications of cost to students).
Increased Scrutiny and Calls for Accountability

- The public does not understand the escalating cost of higher education.
- Cross-subsidies (e.g., professional schools vs. undergraduate education, research vs. education) are a bone of contention.
- The “arms race” for improving U.S.N&WR ranking.
- Calls for assessment of learning outcomes rather than “bench time.”
- Outcry about drop-out rates (access vs. success?)
Increased Scrutiny and Calls for Accountability (cont’d)

University of Kentucky’s Approach:

- Clear definition of mission, vision (Top 20 mandate from the State) and values.
- A Top 20 Business Plan with 9 metrics across missions based on nationally collected data, gap analysis, and a funding model.
- A Strategic Plan with goals and action plans to achieve specific progress targets.
Other Challenges

- Increased Competition: Emergence of the Private Sector
- Trends in Student Profiles: Rise of the Digital, Non-Traditional Student
- Globalization
  - Increasing Demand from the Developing World
  - Increasing Competition from Australia, Europe, and Canada
- Commercialization: Implications of Public/Private Partnerships in Higher Education
Increased Competition: Emergence of the Private Sector

- The recession has left public universities struggling with budget cuts and uncertainties over enrollment, but for-profit institutions are experiencing record increases in student numbers and revenue as the recession is prompting more adults/nontraditional students to seek career training.

- In today's economy, more students are focused on education for its return on investment, not on the traditional idea of enlightenment or "coming of age" experience.
Increased Competition: Emergence of the Private Sector, cont’d

- For-profit universities are aggressively targeting that demographic through tailored advertising and by becoming lenders (financing education costs that government grants and loans don’t cover)

- Among 10 of the largest for-profit college companies, enrollment during the quarter ending June 30 was anywhere from 12 to more than 100% higher than it was during the same period last year. Most companies saw their enrollment increase by at least 20% (Chronicle on Higher Education, 2009)
Table 5: Enrollment in For-Profit Colleges, 2008 - 2009

<table>
<thead>
<tr>
<th>College</th>
<th>Enrollment, 2009</th>
<th>Enrollment, 2008</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Public U. System</td>
<td>53,600</td>
<td>35,900</td>
<td>49%</td>
</tr>
<tr>
<td>Apollo Group</td>
<td>420,700</td>
<td>245,300</td>
<td>72%</td>
</tr>
<tr>
<td>Bridgepoint Education</td>
<td>45,504</td>
<td>22,607</td>
<td>101%</td>
</tr>
<tr>
<td>Capella Education</td>
<td>29,281</td>
<td>23,733</td>
<td>23%</td>
</tr>
<tr>
<td>Career Education Corp.</td>
<td>93,100</td>
<td>83,300</td>
<td>12%</td>
</tr>
<tr>
<td>Corinthian Colleges</td>
<td>86,088</td>
<td>69,211</td>
<td>24%</td>
</tr>
<tr>
<td>DeVry</td>
<td>90,365</td>
<td>74,765</td>
<td>21%</td>
</tr>
<tr>
<td>Education Management Corp.</td>
<td>112,700</td>
<td>91,600</td>
<td>23%</td>
</tr>
<tr>
<td>ITT Educational Services</td>
<td>69,127</td>
<td>54,793</td>
<td>26%</td>
</tr>
<tr>
<td>Kaplan Higher Education</td>
<td>103,300</td>
<td>78,700</td>
<td>31%</td>
</tr>
<tr>
<td>Strayer U.</td>
<td>46,038</td>
<td>37,733</td>
<td>22%</td>
</tr>
</tbody>
</table>

Notes. All data are for quarter ending June 30, except Apollo Group, whose quarter ends May 31. Some numbers are rounded.

Source: Chronicle reporting
Trends in Student Profiles: Rise of the Digital, Non-Traditional Student

- 3.9 million students took at least one online course during 2007, up from 2.3 million in 2004
- 58% of institutions say online education is critical to their long-term strategy
- More employers are accepting on-line degrees
  - 55% of employers prefer traditional degrees, down from 96% previously

### TABLE 6: Growth of Nontraditional, Digital Students (Jansen, 2008)

#### Traditional vs. non-traditional students, Total, 2005

<table>
<thead>
<tr>
<th>Category</th>
<th>Traditional</th>
<th>Non Traditional</th>
<th>100% =</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-year/associates</td>
<td>30</td>
<td>70</td>
<td>6.5</td>
</tr>
<tr>
<td>For Profit</td>
<td>42</td>
<td>58</td>
<td>1.0</td>
</tr>
<tr>
<td>Large public</td>
<td>64</td>
<td>36</td>
<td>4.9</td>
</tr>
<tr>
<td>Liberal arts/general</td>
<td>68</td>
<td>32</td>
<td>0.7</td>
</tr>
<tr>
<td>Private research</td>
<td>64</td>
<td>36</td>
<td>1.9</td>
</tr>
<tr>
<td>Small public</td>
<td>64</td>
<td>36</td>
<td>0.4</td>
</tr>
<tr>
<td>Specialized institution</td>
<td>63</td>
<td>37</td>
<td>0.5</td>
</tr>
<tr>
<td>Top liberal arts</td>
<td>95</td>
<td>5</td>
<td>0.1</td>
</tr>
<tr>
<td>Top private research</td>
<td>83</td>
<td>17</td>
<td>0.4</td>
</tr>
<tr>
<td>Top public research</td>
<td>83</td>
<td>17</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>48</td>
<td>18.1</td>
</tr>
</tbody>
</table>

#### Variation in non-traditional students, Total, 1987-2005

<table>
<thead>
<tr>
<th>Category</th>
<th>Traditional</th>
<th>Non Traditional</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-year/associates</td>
<td>1,239</td>
<td></td>
<td>1,086</td>
</tr>
<tr>
<td>Large public</td>
<td>497</td>
<td></td>
<td>365</td>
</tr>
<tr>
<td>Private research</td>
<td>132</td>
<td></td>
<td>55</td>
</tr>
<tr>
<td>Top liberal arts</td>
<td>100</td>
<td></td>
<td>55</td>
</tr>
<tr>
<td>Top private research</td>
<td>12</td>
<td></td>
<td>49</td>
</tr>
<tr>
<td>Total</td>
<td>2,049</td>
<td></td>
<td>1,196</td>
</tr>
</tbody>
</table>

Sources: IPEDS; team analysis, Jansen, 2008
The New Digital Generation Will Expect a Different College Experience (Jansen, 2008)

Responses

- Digital course material
- Learning simulations
- Hybrid courses
- Online networking applications
- Innovative online courses

Globalization

- Worldwide trends in the financing of higher education (Johnson, 2007)
  - Increasing financial austerity
  - Increasing enrollments and participation
  - The diversification of revenue sources
    - From heavy dependence on government to increased burden on families/students
    - Emergence of the “entrepreneurial university”
    - Increased reliance on philanthropy
  - Rise of private colleges and universities
  - Privatization of the public sector
  - Management and budget reforms
Globalization, cont'd

- International student enrollment in the U.S. peaked in 2002/03 and then declined in the following two years. Between 2004/5 and 2007/8, however, the number of international students in the U.S. began to rise again.
- Competition from other countries and the high cost of U.S. higher education.
- Increasing higher education capacity in countries that historically sent a significant number of students to the U.S. (e.g., China, India).
Globalization, cont’d

- European Union member universities have gone to three year collegiate programs (the “Bologna Process”), raising a fundamental question about the traditional model of a four-year curriculum.

- Australian Government regards providing international education as one of its major exports. The United Kingdom and Canada also have explicit Government strategies along these lines.

- U.S. losing its post-WWII status as the pre-eminent destination for higher education?
Financing Higher Education: the Convergence of Economic and Academic Landscapes

Lessons For the New Landscape

- Public universities must build more diverse revenue portfolios that include government, tuition, private, research, auxiliary, and commercialization elements.
- Public universities must alter their programs and curricula to compete for a new type of student: both international students and the non-traditional student.
- Public universities must adapt modalities to serve tomorrow’s “digital native” students, and make more effective use of technologies to decrease costs, increase productivity, and reach more students.
Acknowledgments

Thanks to

- Angie Martin, Vice President for Fiscal Affairs and Treasurer
- Carol E. Jordan, Assistant Provost for Strategic Communication and Special Initiatives
- Bill Swinford, Budget Office


Recommended Readings

