

STATEMENT OF WILLIAM E. TROUTT
PRESIDENT
RHODES COLLEGE
Before the
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
February 9, 2000

Good morning, Mr. Chairman and members of the Committee. Thank you for the opportunity to appear before you today. I value this invitation to help provide a clearer picture about rising college costs and what needs to be done to keep a college education affordable. This was the charge given to me and other members of the National Commission on the Cost of Higher Education when we convened in August 1997.

Let me quickly review today some of the findings and conclusions of our report,¹ our message of shared responsibility, and what has happened in the last two years since the Commission issued its report.

The Commission Report

Our report is titled "Straight Talk About College Costs and Prices." Right away our Commission found a lack of understanding about basic concepts of college finance. The distinction between cost, price and net price must be recognized and respected to get a clear picture of higher education finance. By "cost" we mean the expense an institution of higher education incurs to deliver education to a student. By "price" we mean the portion of those costs students and families are asked to pay. By "net price" we mean the amount students pay after financial aid is subtracted.

Against that backdrop the conclusions of our report speak for themselves. (1) The United States has a world class system of higher education and a college degree has become a key requirement for economic success in today's world. (2) The Commission is convinced that American higher education remains an extraordinary value.

¹ My statement borrows heavily from the Report of the National Commission on the Cost of Higher Education, Straight Talk About College Costs & Prices.

(3) Institutions, families, students and other patrons share responsibility for maintaining quality and reducing costs. (4) Tuition price controls will not work and will be destructive of academic quality and higher education. (5) The Commission shared its deep concern that most institutions have permitted a veil of obscurity to settle on their financial operations and that many have yet to take seriously basic strategies for reducing their costs. (6) Unless academic institutions attend to these problems policy makers at both the state and federal levels could impose unilateral solutions that are likely to be heavy handed and regulatory.

To deal with these concerns the Commission's Report presents a five-part action agenda. The Commission's recommendations, several dozen in all, emphasize shared responsibility to (1) strengthen institutional cost control, (2) improve market information and public accountability, (3) deregulate higher education, (4) rethink accreditation and (5) enhance and simplify federal student aid.

Trends in Cost and Price

Our Commission had a deep respect for public concern about rising college prices i.e., what colleges ask students and families to pay. We found that over the decade from 1987 to 1996 public four-year college and university tuition went up 132 percent. During the same period private four-year college and university tuition went up 99 percent. At the same time family income in America during this ten-year period increased 37 percent.

Our Commission also looked at what happened over the decade from 1987 to 1996 in terms of costs, i.e., what expenses colleges incur to deliver education. In public four-year colleges and universities cost per student increased 57 percent. At private four-year colleges and universities cost per student increased 69 percent. Tuition increased faster than costs at all types of colleges and universities. It might be tempting to conclude that institutions acted irresponsibly, charging more but not spending additional revenue to improve or maintain a quality education. It is important to remember, however, that tuition covers only a portion of costs. Other sources of institutional revenue may not keep up with costs.

Basic College Finance

We must remember that college finance works very differently from the world of commerce and we need to communicate effectively the difference. In the world of commerce, price equals cost plus, hopefully, some profit. In the world of colleges and universities price equals cost minus subsidy.

All college students, whether they attend a public or private college or university, receive a general subsidy. This does not include the additional subsidy many students receive in terms of financial aid. At both public and private institutions the cost of instruction is often significantly higher than the price students and families are asked to pay.

For example at Rhodes College where I serve, the price of tuition this year is approximately \$18,500, but the actual cost of instruction per student exceeds \$32,000. The difference or subsidy comes primarily from endowment income and private annual giving.

Perhaps, more importantly, for the purposes of this hearing it would also be useful to talk about net price and think about net price as what students and families pay after scholarships and grants are subtracted from the price of attendance. It is also worth noting that 64 percent of all full-time undergraduate students pay a net price that is significantly lower than the published price of tuition and fees.

To go back to Rhodes College as an example, about three out of four of our students receive some financial aid. The average net price these students pay is a little more than \$9,000, slightly less than half of full price. Rhodes provided this year almost ten million dollars for scholarships to deserving students.

One of the most encouraging trends in college affordability is the growth in student financial aid and the accompanying decline in the increase in net price. From 1987 to 1996, total student aid from all sources increased by 128 percent. The largest increase in aid came from institutional resources, which went up by 178 percent.

The Commission found that net price, the price that the majority of full-time undergraduates actually pay, is increasing at a very modest rate. From 1993 to 1996, students attending public colleges and universities saw net price increase a total of only 10 percent. During the same time period, students at four-year private colleges and universities experienced a cumulative net price increase of only 4 percent.

Even with this encouraging news about net price, the Commission expressed a deep belief that much more must be done to address public concerns about rising college prices. Academic leaders must provide the public and policymakers with information that is comprehensible, accessible, and persuasive. College and universities must continue and redouble their efforts to control costs. And while the higher education community must lead this effort, many different stakeholders have contributed to the challenge of college accessibility and all of them have an obligation to contribute to the solution. Government at all levels, the philanthropic community, and families and students all have essential and complementary roles to play.

Higher Education's Response

Today let me offer a personal perspective on how the higher education community has responded to the Commission's message of shared responsibility. It is a message that continues to be discussed by academic leaders at national and state levels. The Commission's agenda has been an important ongoing topic for annual meetings of the American Council on Education and the National Association of Independent Colleges and Universities. My fellow commission members and I continue to be asked to participate in conference panels on college price and cost at the national and state-levels.

The College Board's annual tuition and student aid report for the 1999-2000 academic year suggests that academic leaders may be doing more than just talking about costs. Tuition and fees at four-year independent colleges and universities increased 4.6 percent – the lowest rate of increase in 27 years. Information is not available on the effective

“net price” increase, but we do have a sense that institutional aid budgets continue to increase faster than the rate of tuition.

My own experience at Rhodes College and at Belmont University, where I served as president until last July, suggests that the Commission’s recommendations regarding individual institutions intensifying their efforts to control costs and increase institutional productivity can produce meaningful results.

At Belmont we found we could achieve a higher level of efficiency and effectiveness through a planned set of initiatives to (1) reduce the number of class offerings by more carefully studying student needs, (2) reduce energy consumption by installing more efficient equipment, (3) reduce supply and expense costs by mandating volume procurement over individual purchasing, and (4) reduce staff positions by redesigning jobs and departments.

Rhodes is a good example of the Commission’s call for more institutional cooperation and greater use of consortia to both cut costs and maximize access to expensive academic programs. Rhodes is one of fifteen distinguished liberal arts colleges located in the southeastern part of the United States that have banded together to add academic value and reduce costs. This consortium, The Associated Colleges of the South (ACS), allows member institutions to share resources through joint programs for students overseas, and electronic virtual library and programs for faculty and staff development. Recent ACS cost containment initiatives include (1) a virtual ACS department of classics and a related archaeology program that have developed on-line course offerings to use faculty jointly, (2) joint training of faculty in the use of technology to cut costs greatly and (3) a joint purchasing, licensing and membership effort in expensive areas such as the licensing of library materials. Consortia efforts such as ACS have great potential for further adding value to the lives of students and also reducing inefficiency, avoiding duplicating and reducing costs.

I also know from my association with both the American Council on Education (ACE) and the National Association of College and University Business Officers (NACUBO) that both groups have taken very seriously the Commission's recommendation about providing the public with better information about costs and prices. ACE's "College is Possible Campaign" is a national effort underway to make American families more aware of college tuition options and the availability of financial aid. More than 1200 colleges and universities are participating in an outreach effort to give families the information they need to plan, prepare and pay for college. NACUBO's Committee on College Costs involves a pilot project with more than forty colleges and universities. The project hopes to assist institutions in developing a simple and uniform way to help both families and policy makers understand their costs and the subsidy that flows to each student.

It also is encouraging to note that research continues regarding important policy questions that could not be thoroughly answered during the limited amount of time available to the Commission. One of the most vexing of those questions is the relationship between federal loan availability and tuition increases. Just last week, the National Center for Education Statistics released a report indicating that the relationship between tuition levels and student borrowing was not a direct one. In fact, among private four-year colleges and universities, loans increased about one-third the growth of tuition.

Summary

In summary, I believe higher education is making progress at both the national association level and on individual campuses in responding to the challenge of keeping a college education affordable. There is evidence that tuition increases are continuing to moderate and that institutions are working hard individually and collectively to contain costs and pass those savings to students and their families in the form of lower tuition increases.

Much work remains to be done. I continue to believe, though, that the Commission's message of shared responsibility offers much more promise for dealing with this challenge than do price controls or federal regulation.

Your hearing today is a reminder of how important trends in college tuition and financial aid are to American families. Powerful market forces are at work to help keep price increases to a minimum, but your Committee does a great service in reinforcing the national priority of keeping the door of higher education open by maintaining access at prices students and families can afford. Thank you again for the opportunity to be part of this important conversation.

William E. Troutt
President, Rhodes College
Memphis, TN

Bill Troutt was named Rhodes' 19th president on March 31, 1999 and began his term on July 1, 1999. Troutt came to Rhodes after a 17-year term as president of Belmont University in Nashville, Tennessee

In 1997-98, Troutt served as chairman of the National Commission on the Cost of Higher Education. Recognized for innovative administrative approaches at Belmont, Troutt was appointed by U.S. Senate Majority Leader Trent Lott (R-MS) to the commission, an 11-member panel charged with addressing public concerns about rising college prices and making recommendations for keeping American higher education affordable. The commission's findings and recommendations, which received both bipartisan congressional support and the endorsement of the higher education community, served as a guide for the Higher Education Reauthorization Act of 1998.

Troutt is Chairman-Elect of the National Association of Independent Colleges and Universities (NAICU) and is a member of the board of directors of the American Council on Education. An Exxon Foundation funded study named him one of the Nation's Most Effective College Presidents

A graduate of Union University with a bachelor's degree in philosophy and religion, Troutt earned a Ph.D. in higher education from Vanderbilt University. He also pursued additional studies in management at The University of Michigan and Harvard.

Troutt was also an assistant director at the Tennessee Higher Education Commission (THEC) and a senior associate with McManis Associates, a Washington, D.C. management consulting firm with a national higher education practice.

Troutt is a native of Bolivar, TN. He is married to the former Carole Pearson of Bells, TN. They have two children.

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