House Committee on Education and Labor, November 1, 2007

11 a.m. 2175 Rayburn House Office Building

"Barriers to Equal Educational Opportunities: Addressing the Rising Costs of a College Education"

Testimony from Jane V. Wellman, Executive Director, Delta Project on Postsecondary Costs, Productivity and Accountability

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Mr. Chairman and members, thank you for the opportunity to meet with you today. I am delighted to be able to join you today, to share my views about ways to tackle the college cost problem, based on the emerging work of the Delta Project on Postsecondary Costs, Productivity and Accountability. I want to focus my comments today on three issues: 1) the reasons for focusing on costs and productivity; 2) data trends on spending patterns in postsecondary education, including the relation between spending and tuition increases; and 3) the federal role in tackling the root causes of cost increases in higher education.

Why the focus on costs? Because higher education in the United States has a higher education productivity problem…

- Our nation spends almost twice as much per student in postsecondary education as other countries, yet we are behind in graduation rates, and falling further behind as other countries are increasing educational attainment and success. To be sure, international comparisons do not always use similar measures; still they raise the question about how the US system can use existing resources to become more productive, to improve degree attainment without sacrificing access or quality.
- Persistent gaps in enrollment access, and degree and certificate completion, among low income and minority populations threaten future economic competitiveness. Our number one performance challenge is to get more low income and minority students not just to, but through, college. Managing prices and costs has to be part of that equation, but we also need to do a

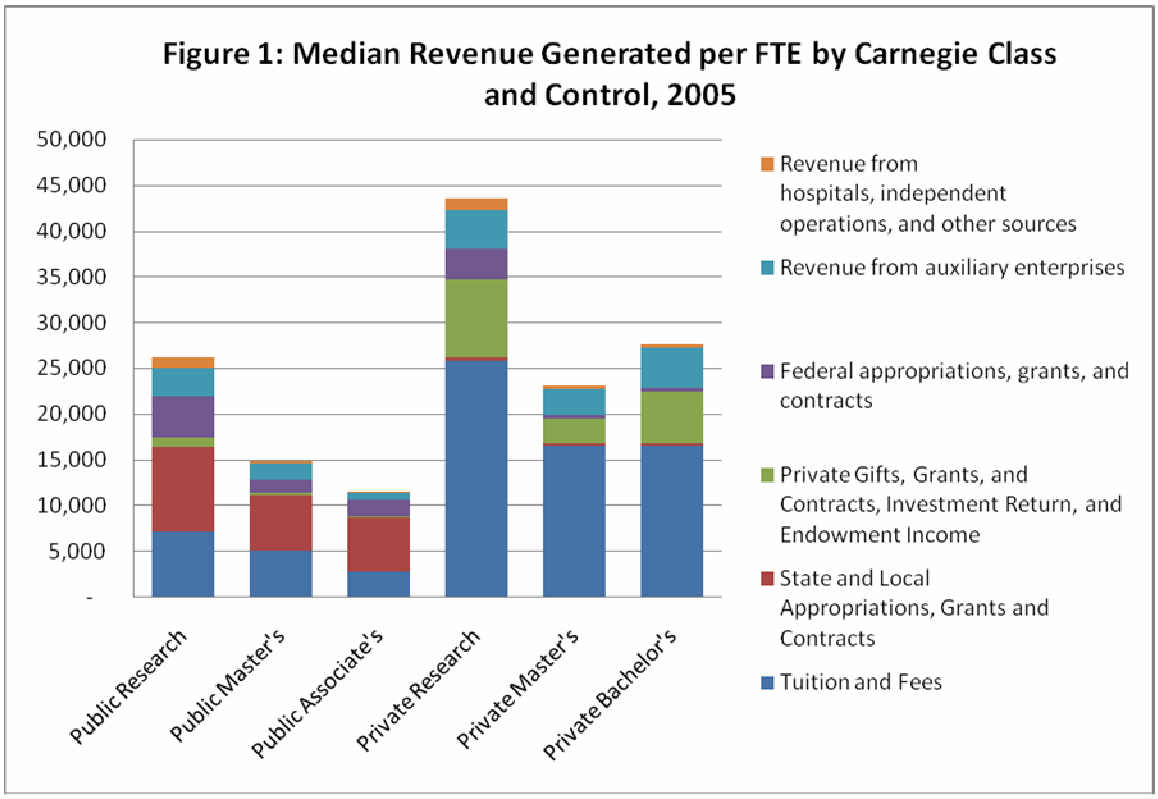
better job of targeting resources in ways that increase student success. Policymakers and higher education leaders need to develop better ways of looking at spending and performance and then using the data to put resources behind areas that will increase student attainment.

- Postsecondary education's dependence on annual increases in revenues is putting higher education out of reach for many students and making it difficult for the federal government and states to keep pace with cost increases. Student tuitions are paying an increasing share of general revenues in all institutions, and public skepticism is rising about spending within higher education. Without greater public accountability for spending, and attention to managing growth in spending, policy makers will remain hesitant to support needed increases in funding for higher education.

Trends in revenues and spending in higher education: where the money comes from, where it goes, and the relation between spending and tuition.

There is no single answer to the higher education 'cost problem' – the issues in large urban community colleges bear almost no resemblance to well-endowed selective private institutions - so generalizations are risky. But we're not going to tackle spending problems without having decent data about what those spending problems are. To do that, policy makers and institutional leaders need better data about spending and performance. The work of the Delta Cost project is designed to put spending information into the public domain, through regular reports about spending trends, and publicly accessible tools to give institutions, policy leaders, and consumers easily accessible ways to evaluate postsecondary spending patterns. We have recently a completed the first comprehensive analysis of trends in revenues and spending in this century. The work uses similar methodologies to the work done by the Congressional Commission on Costs, and a follow-up study commissioned by the National Center for Education Statistics (NCES) in 1998. Some highlights about what we have found:

- **Cost exceeds revenue from tuition**. The cost of providing students with a college education exceeds the revenue schools receive from student tuitions. Figure 1 provides a snapshot of total revenues, by source, for 2005 and shows that total revenues per FTE for public research universities averaged a little over $40,000/student/year compared to $16,700 for public masters' universities, and just over $12,000 for public community colleges. This compares to $78,407 for private non-profit research universities, $26,705 for private masters' level universities, and $36,653 for private baccalaureate institutions.



However, not all revenues are available for general purposes and as a result, the total volume of revenues mask resources spent on core educational activities. Colleges and universities get and spend money in areas that are ancillary to the educational teaching and basic functions even if they contribute to the educational experience. They are in the hotel business (residence halls), the restaurant business (food services), the building business (capital outlay, and grounds and buildings), the R&D business (organized research and community service), and the health care business (hospitals and clinics). Resources generated in these areas are fee-for service activities and the funds are not available for general purposes. The three primary sources of unrestricted revenues for both public and private institutions are tuition revenues, public appropriations from state and local government, and revenue from the combination of private gifts, earnings from endowments, and investment income. Looking only at the bottom three tiers of revenue on Figure 1 helps to show what those resources are.

- **Spending and tuition**. Switching from revenues to spending, Figure 2 shows a snapshot comparing spending clustered into three broad areas: spending that goes directly into the instructional function (faculty salaries for teaching and departmental research); other educational costs (student services, and the proportion of academic, institutional and maintenance

expenses that support instruction); and all other spending (primarily organized research, and institutional spending on scholarships).

Figure 2: Median Educational and General (E&G) spending per FTE by Carnegie Group and Control, 2005.

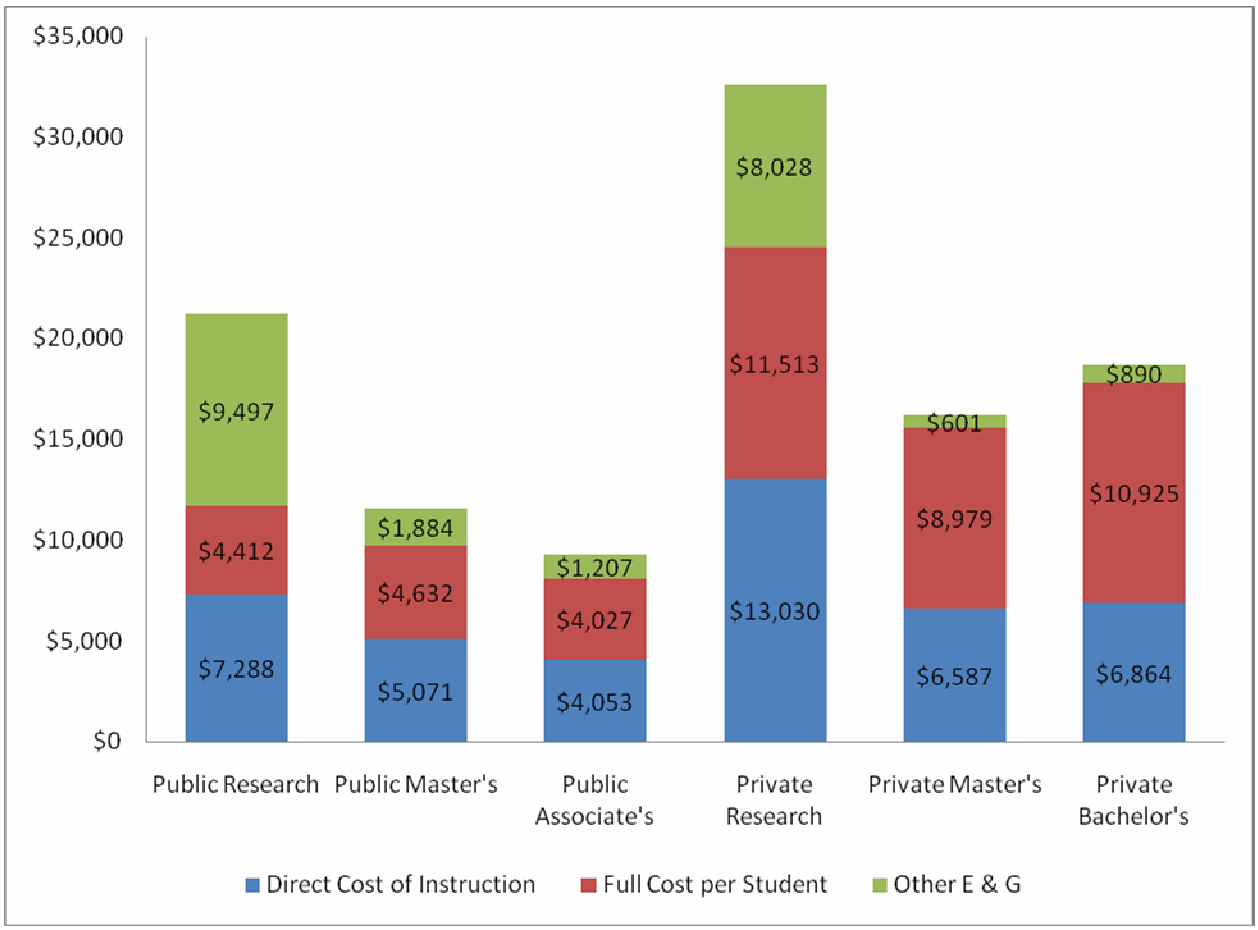


Figure 3 shows the patterns of spending in relation to tuition since 1998**.** Reading across the top line, you see the rate at which sticker prices increased, followed by net revenue from tuition, followed by spending in the three categories above (direct spending for instruction, other educational costs, and other spending). These numbers tell a good deal about the basic patterns. Total spending per student has gone down after adjusting for inflation since 1998 among public community colleges and masters' institutions, but is up slightly in public research universities, and up by roughly two times the rate of inflation among private non-profit institutions.

Figure 3: % Change, 1998-99 to 2004-05, in 2005 CPI Adjusted Median/$/FTE

Sector	In-State UG "Sticker" Price	Gross Tuition Revenue per FTE	Direct Instructional Spending/FTE	Full Educational Spending /FTE	Total E&G Spending/FTE
Public Research	+40.2% ($2282)	+31.8%	+4.2%	+3.2%	+5.2%
Public Masters'	+34.5% ($1681)	+25.2%	+2.2%	+4.9%	-3.8%
Public Community Colleges	+19.8% (+$741)	+10.0%	-0.5%	+1.6%	-4.5%
Private research	+21.4% (+$7695)	+23.3%	+17.0%	+29.1%	+22.9%
Private Masters	+ 24.2% (+$5829)	+32.2%	+16.0%	+31.5%	+15.1%
Private Bachelors	+20.6% (+$5725)	+31.3%	+20.1%	+33.8%	+13.9%

In all sectors, net revenue from tuition is going up less rapidly than sticker prices, because of the growth in tuition discounting. Among public institutions, spending for instruction has increased relative to other categories in the research universities, but has declined in public masters and community colleges. The patterns are quite different among private institutions – where spending for instruction increased significantly, but even so, less rapidly than spending for other educational costs (advising, computing, and administration).

- **State funding constraints and tuition increases**. Adjusting for enrollment increases and inflation, spending in public institutions has not increased significantly in the last decade. Nonetheless, tuitions have gone up by double digits. In public institutions, the primary cause of tuition increases has been that state funds have not kept pace with the combination of enrollment growth and inflation, even states they have increased funding. The structural budget problems that are squeezing higher education as a state funding priority are not expected to go away any time soon. This is not a temporary problem; it's a long term situation.
- **Private fund-raising not benefiting the bottom line**. Despite all the attention to fund-raising and capital campaigns, private unrestricted funds (from gifts, income from endowments and investment income) still comprise a very small proportion of revenues in most institutions. The much touted "privatization" of finance in higher education is really about increased reliance on student tuitions as a general source of revenue. As a result, students increasingly subsidize general institutional operations – including student aid (paying for other students), administration, and research.

- **Growing inequality: the rich getting richer**? Resource disparities among different types of institutions are increasing, with real cost cutting in public two- and four- year institutions, flat spending in public research universities, and rising spending in private institutions. The spending gap between public and private institutions has never been larger. Competition between institutions is intense, and competition fuels increases in spending believed to be necessary to enroll the "best" students, and to recruit the top faculty.
- **There is no evidence that explicit attention to increasing productivity and controlling costs is a policy priority within institutions or in states.** Despite repeated calls (Congressional Cost Commission; NACUBO Cost of Instruction Work; Spellings Commission) for more 'transparency' and better use of cost data within institutions, most institutions do not publicly document costs, or include information about spending and subsidies in public communications. A recent AGB/NACUBO survey shows that governing boards generally see little information about spending patterns; instead the focus is on growing revenues and meeting the market for tuition. Spending information is almost completely absent from state "report cards," and on institutional web-sites offering consumer information. The focus remains on tuition and financial aid, not on how money is spent.
- **The bottom line**? The accusation that spending in higher education is 'out of control' isn't quite fair. Not all institutions are spending more, despite the shift in revenue from state funds to students. But it is clear that spending is going up in some sectors, for the simple reason that it can. In all institutions, student tuitions are paying a higher share of revenues, but these resources aren't going into the classroom. The economic benefit from a college degree has never been higher, and students and families will do everything they can to get a college education. But there's no evidence the resources are going to pay for student success or increasing degree attainment, and low income students are most at risk. It's a funding trajectory that bodes ill for the future, and will require an unprecedented level of attention from policy makers and institutional leaders if we're going to turn it around.

Suggestions about the federal role.

The federal government clearly has an interest in increasing productivity in higher education – both to maintain the value of federal financial aid funds going to needy students, and to tackle the challenges of increasing educational attainment for all students. There are two areas where I believe interventions would make a difference: one is in information and data; the other is in incentives to states and institutions to do more to manage costs.

On the data front: We need to pay as much or more attention to spending as we now do to fund-raising, tuition and financial aid. Regular transparent reporting about cost trends can help this. Despite imperfections, these NCES/IPEDS finance data are the best source for this information. They need to be made more accessible to lay users – through regular editing, routine publication, and an annual reporting on trends. The recommendation in the Spellings Commission report on this topic is right on from my perspective:

> "The secretary of education should require the National Center for Education Statistics to prepare timely annual public reports on college revenues and expenditures, including analysis of the major changes from year to year, at the sector and state level. Unlike the data currently available, institutional comparisons should be user-friendly and not require a sophisticated understanding of higher education finance."

For incentives: history has shown that federal funding incentives make a difference in moving states and institutions in new directions. With a relatively modest investment of funds, the federal government can provide incentives to states to ramp up their oversight capacity of college spending, and to do more to tie increases in state appropriations to evidence that institutions are investing resources in improving student attainment. One model might be adopted from the recent effort through the Fund for Improvement in Postsecondary Education, working with the Association of American Colleges and Universities, in partnership with the public four-year institutions, to pilot innovations in student learning. Figuring out how that will work will take some discussion, it's sure to be an idea that will be controversial in some quarters. But it will take some serious collective action to turn around the path we are on, to ensure that we have a financing system capable of meeting our nation's needs now and in the future.

Terminology:

All revenue and expenditure data come from the Integrated Postsecondary Education Data Surveys, special analysis developed by the Delta Cost Project.

Auxiliary enterprises: revenue-generated activities, such as dormitories and bookstores.

Direct instruction: spending going directly to pay for the instruction; primarily faculty salaries and benefits, including adjunct faculty, and costs of departmental staff. All credit and non-credit bearing instruction (such as developmental education) are counted as "instruction."

Full cost per student: educational or student-related spending other than instruction; such as student services, admissions and registrars, and non-research portions of academic and institutional support (administration), and operation and maintenance of the physical plant.

Full education and general spending per student: all spending including research, public service and student scholarships, but excluding hospitals and clinics.

About the Delta Project on Postsecondary Costs, Productivity and Accountability

The Delta Project is a non-profit policy and research organization chartered in 2007 with the mission of helping to improve college affordability by controlling costs *and* improving productivity. The Delta Project is focused on the spending side of the college cost problem—how institutional spending relates to access and success, and ways that costs can be controlled without compromising quality. The work is animated by the belief that college costs can be contained without sacrificing access, or educational quality, through better use of data to inform strategic decision making. Located in Washington, D.C., project work is supported by Lumina Foundation for Education and other national philanthropies as part of Making Opportunity Affordable, a national initiative focused on increasing college opportunity and success through increased productivity. This statement is the sole responsibility of the Delta Project, and does not imply endorsement of any partner organization or funding agency.

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