The Changing Business Model in Higher Education

Louisiana Trusteeship Conference

Rick Staisloff, Principal

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8 Thoughts About Higher Education Finance

1. Public higher education is moving toward a privatized funding model
2. Federal research dollars are at risk
3. Prices are increasing faster than costs
4. Benefits are one of the biggest cost drivers
5. Higher education is competing with health care costs – and losing
6. External stakeholders are skeptical about higher education spending and performance
7. Allocations within campuses/systems matter as much as allocations overall to higher education
8. It is time to shift to an outcomes based lens

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Thought #1

The dominant trend is toward a privatized funding model

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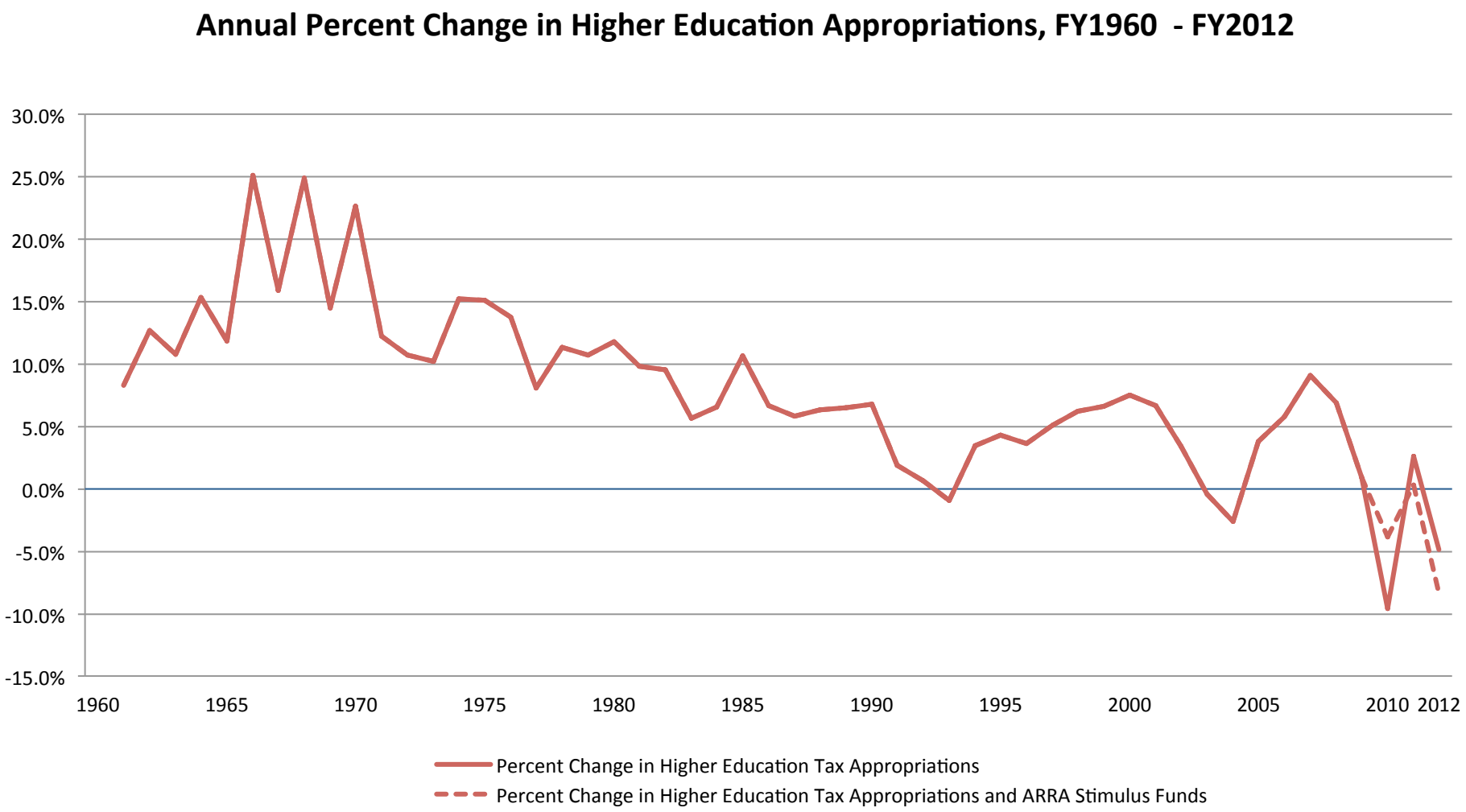
For Public Institutions, Rising Tuitions are Related to Declines in State Funding



Source: Annual Grapevine reports, FY 1960 - FY 2012 http://grapevine.illinoisstate.edu/index.shtml

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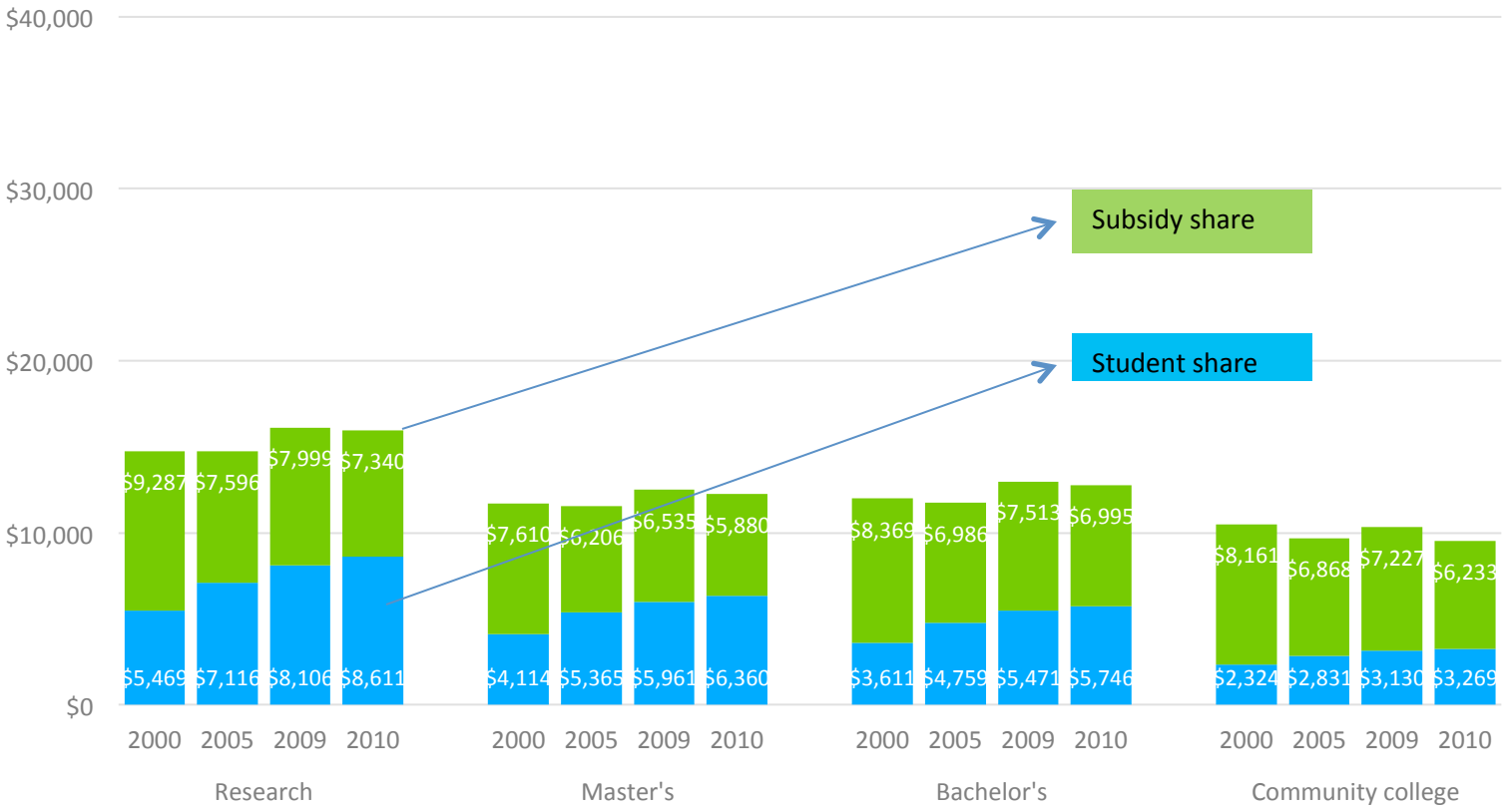
Student Share of Total E and R Cost is Increasing

Public Institutions
E&R cost per student, student share v/ subsidy share, 2000 – 2010



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Thought #2

Federal research dollars are at risk

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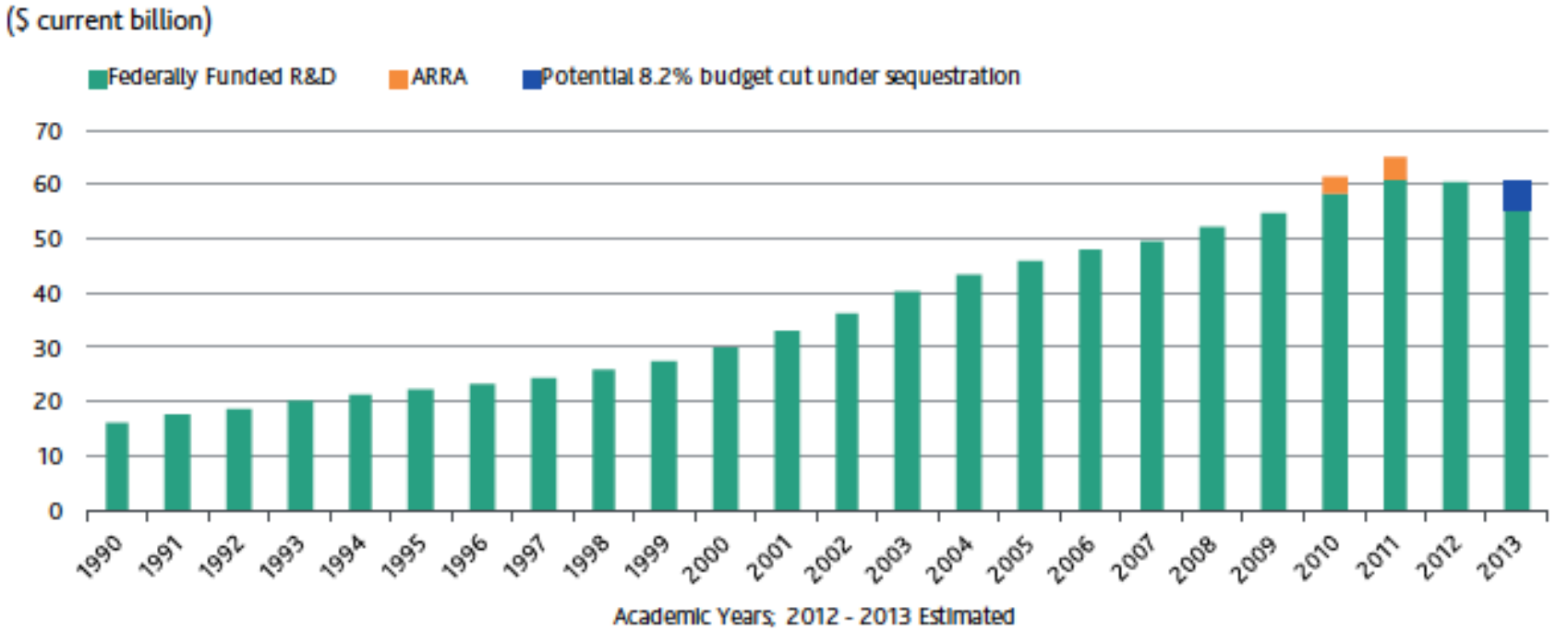
Federal Research Dollars Are Beginning to Decline



Sources: National Science Foundation/Division of Science Resources Statistics; Survey of Research and Development Expenditures at Universities and Colleges, FY 2009; National Science Foundation/National Center for Science and Engineering Statistics; Higher Education Research and Development Survey, FY 2011; Moody's Estimates

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Thought #3

Prices are increasing faster than costs

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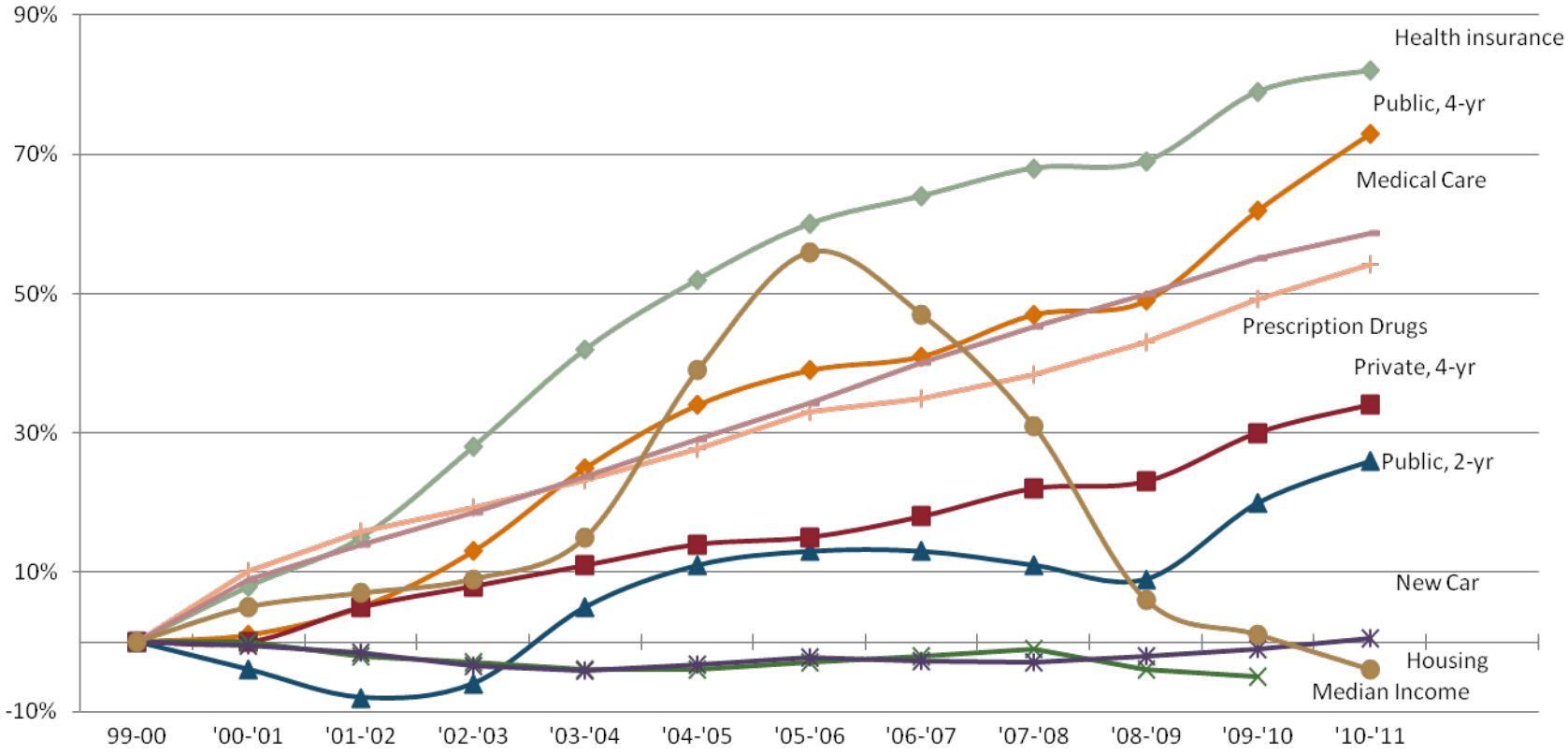
College Prices Growing …

% Change in College Sticker Price against other consumer Areas – 1999/00 – 2010/11



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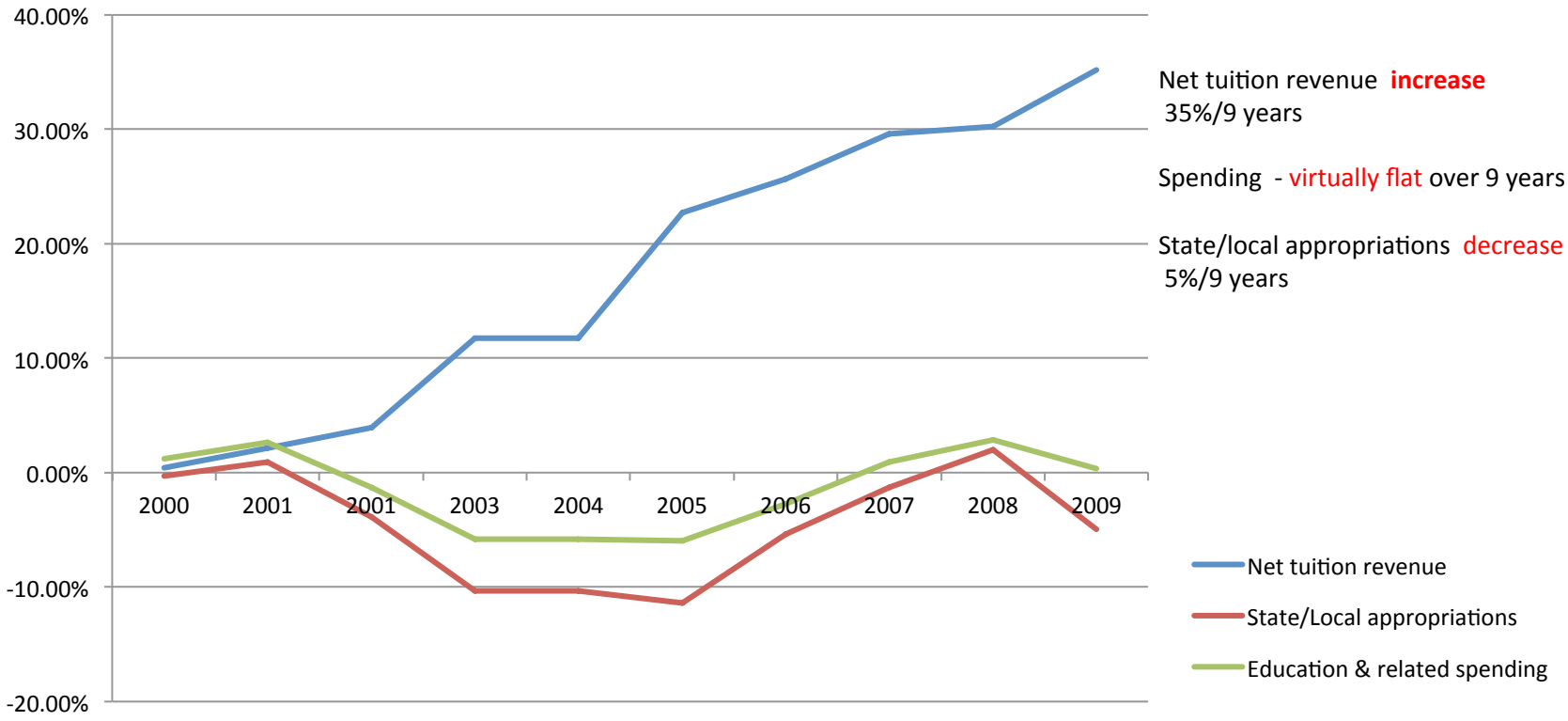
The unsustainable cost model

Gaps in tuition revenue v. spending, public community colleges, 2000 - 2009



All figures are in 2009 constant dollars, per FTE student. Source, Delta Data base.

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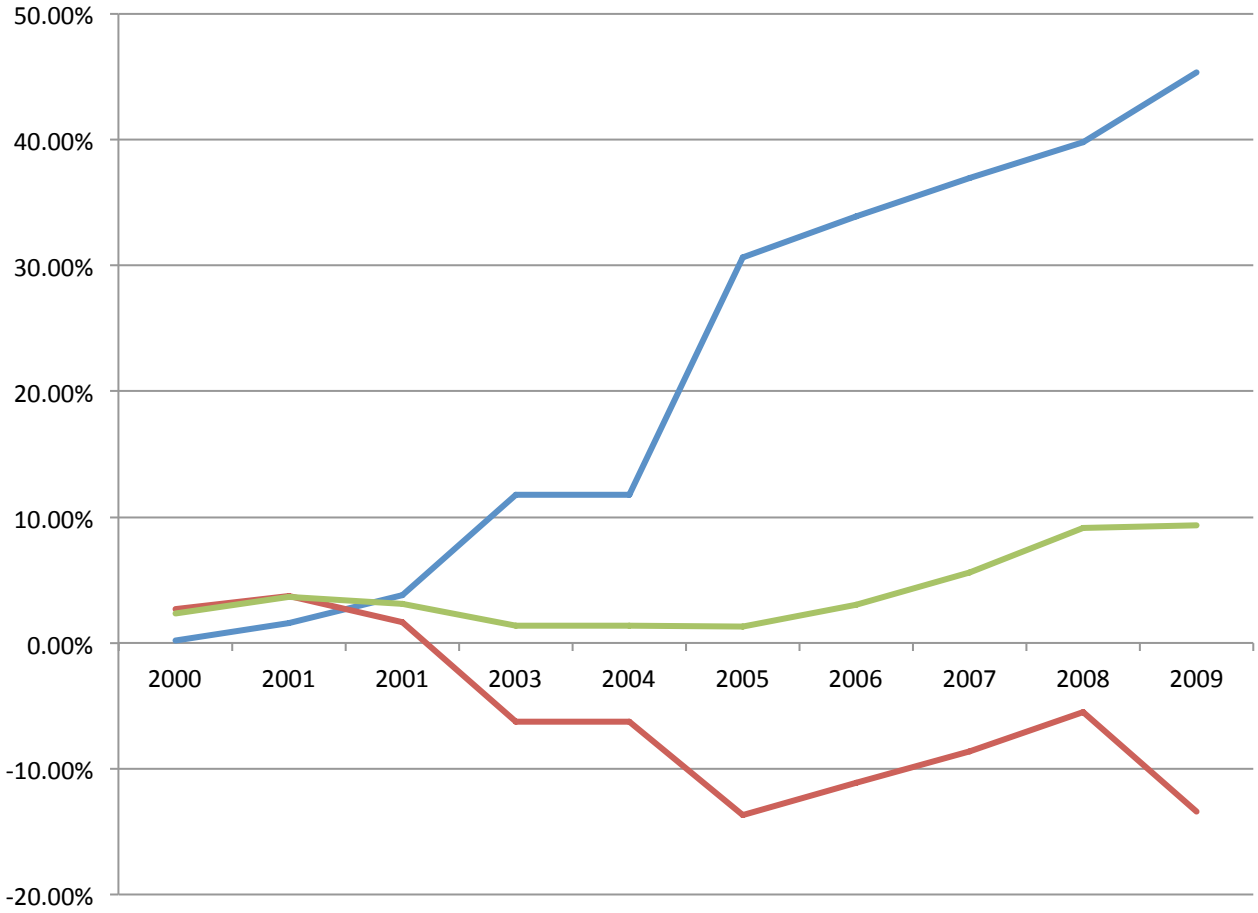
Gaps in tuition revenue v. spending, public masters' institutions, 2000 – 2009



Net tuition revenue increase 45% over 9 years

Spending per student increase 9%/9 years

State/local appropriations Decrease 13%/9 years

Net tuition revenue

State/Local appropriations

Education & related spending

All figures are in 2009 constant dollars, per FTE student. Source, Delta Data base.

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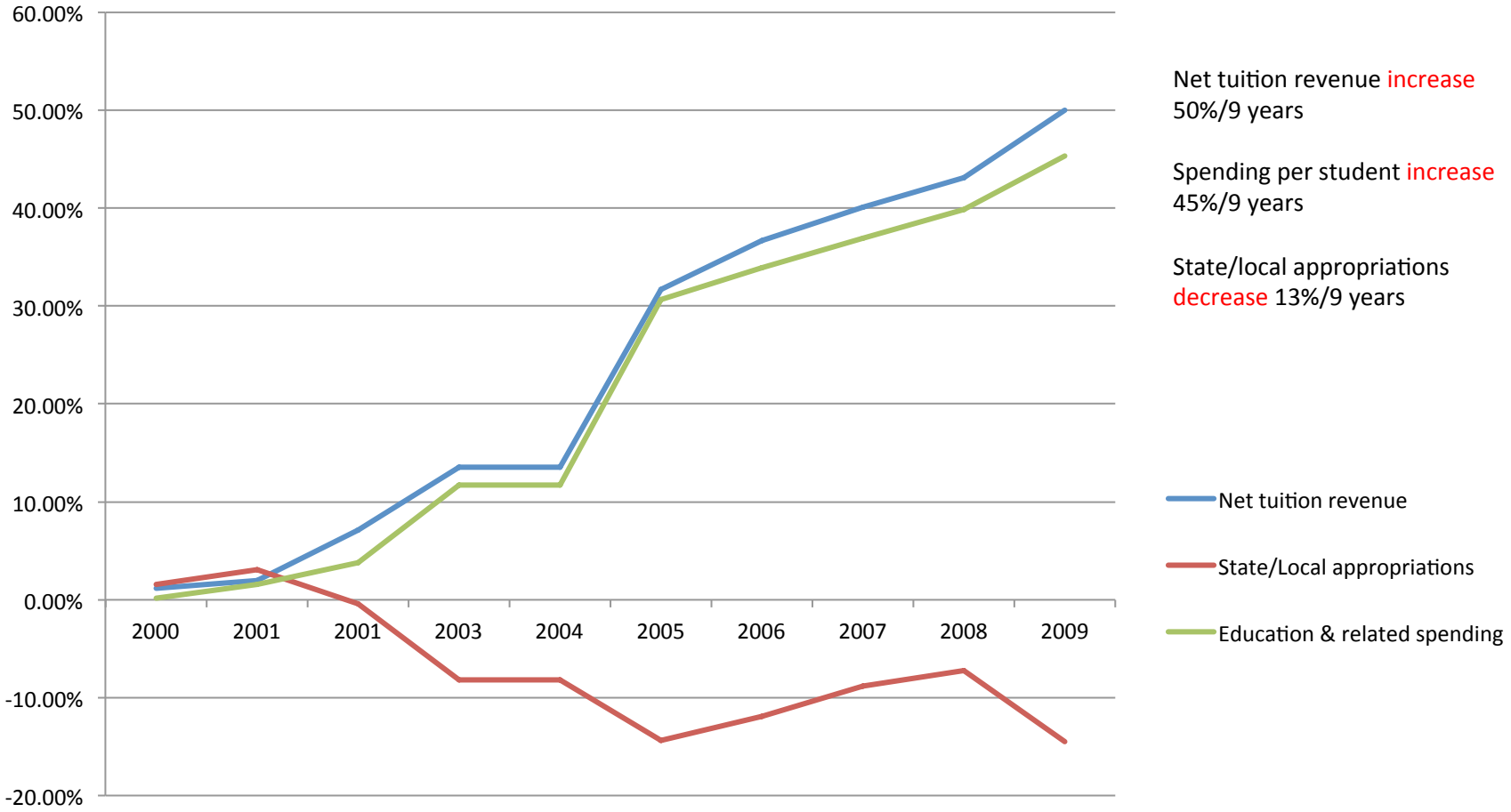
Gaps in tuition revenue v. spending, public research universities, 2000 – 2009



All figures are in 2009 constant dollars, per FTE student. Source, Delta Data base.

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Thought #4

Key cost driver - Increasing benefit costs

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Benefit Costs are the Largest Area of Increased Spending in Higher Education

Trends in Labor Costs - 2002-2008

Public institutions	Salary outlay per employee	Benefit cost per full-time employee
Research	0.9%	5.2%
Master's	-0.6%	4.6%
Community colleges	0.7%	5.2%
Private institutions		
Research	-0.3%	1.6%
Master's	-0.8%	2.4%
Bachelor's	-0.5%	1.3%

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Thought #5

Health Care will continue to crowd out funding for higher education for the foreseeable future

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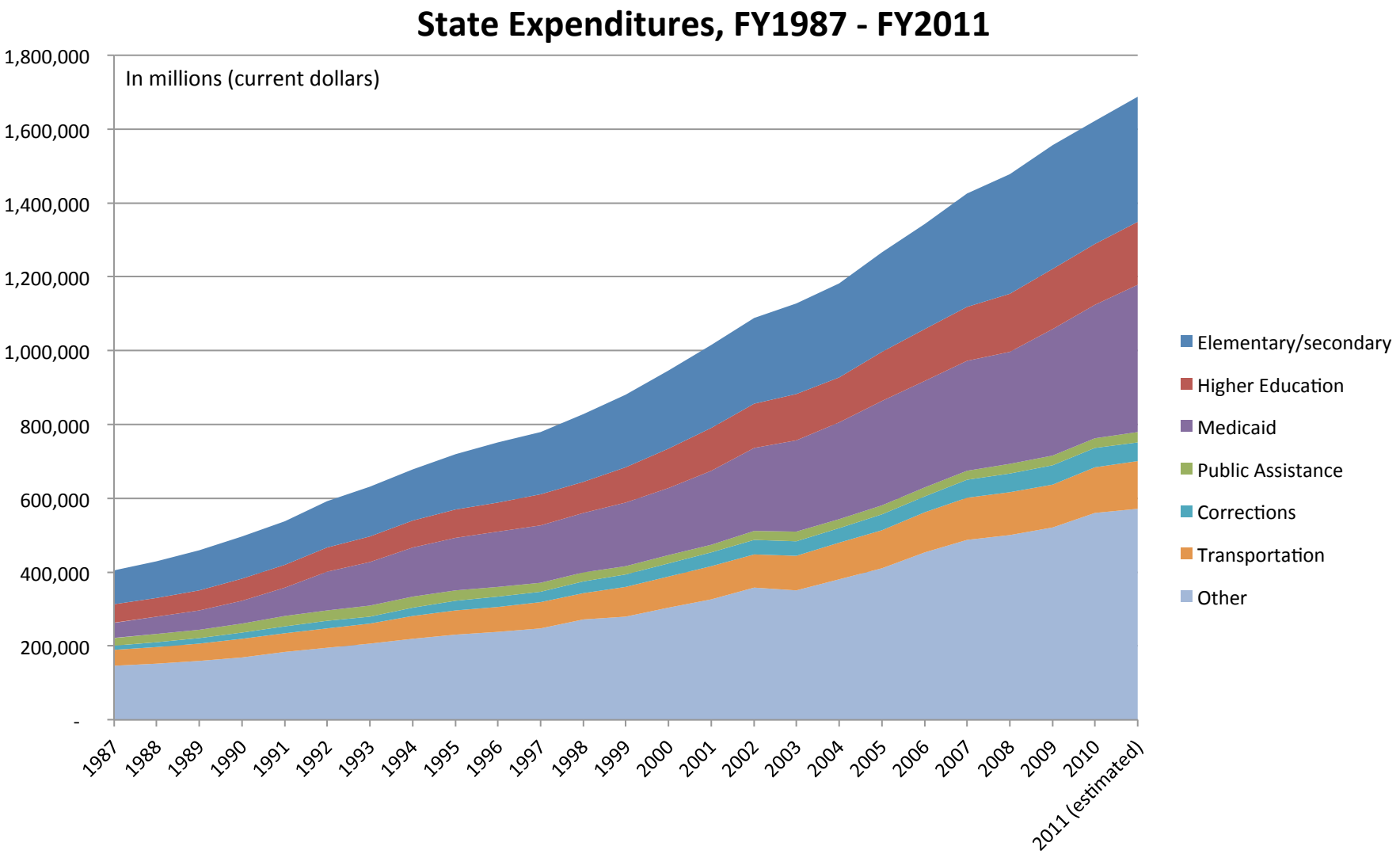
All Areas of State Government Spending Have Increased…



Source: National Association of State Budget Officers, *State Expenditure Reports*, FY1987 - FY2010.

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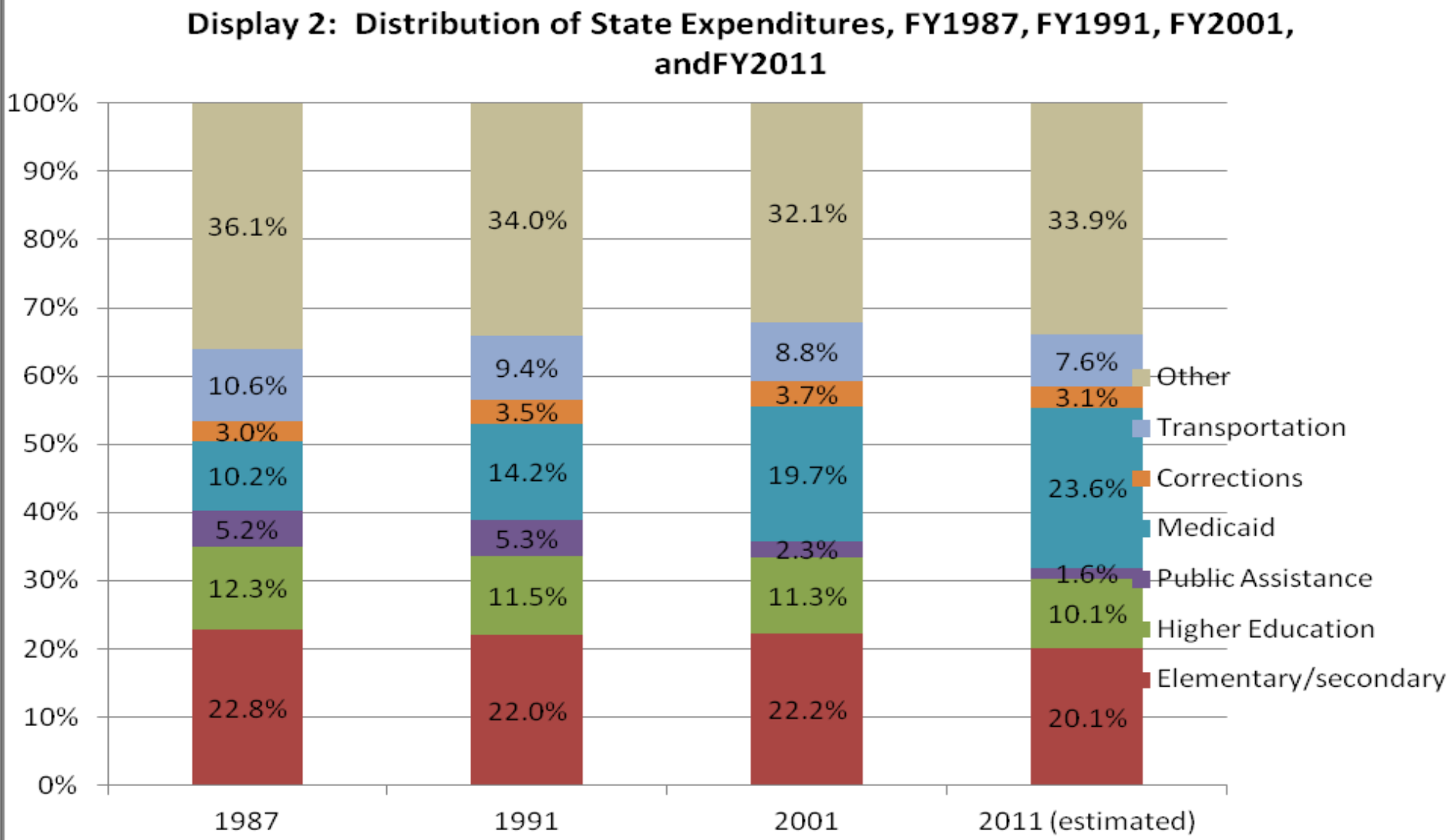
But the Share Going to Higher Education is Declining



Note: "Other" includesstate contributionsto penionsand healthinsurance, children'shealth insurance program (CHIP), institutional and community care for mental health, public health programs, economic development, state police, parks and recreations, housing, and general aid to local governments.
Source: National Association of Budget Officers, State Expenditure Reports, FY2010 and FY1996, Table 3.

Thought #6

Skepticism about higher education spending and performance remains strong

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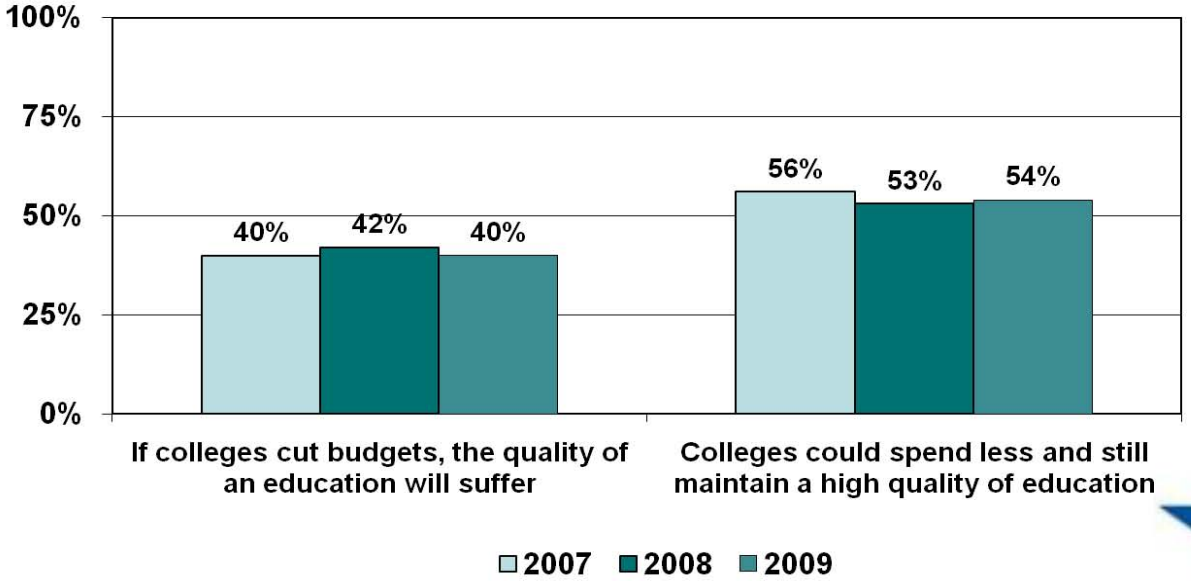
How are we being asked to change?

Money and Quality

Q: Which comes closest to your own view?



PUBLIC AGENDA

THE NATIONAL CENTER FOR PUBLIC POLICY AND HIGHER EDUCATION

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CFO Opinions About Effectiveness of the Budget Model

% reporting it to be 'Effective or Very Effective'

39.7%	Overall model is effective or very effective
49.9%	Helps us to manage during good times
36.7%	Helps us to manage during difficult times
27.6%	Helps us re-assess priorities
20.9%	Helps develop a business plan for new academic programs

Inside Higher Education , 2011 Survey of College and University Business Officers, July 2011.

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Thought #7

The way that money is spent within institutions could make a difference in student success

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Credit Hour Distribution and Average instructional costs

Public-four year averages, 4-state cost study (SUNY, Florida, Ohio, Illinois)

	% of all credits taken	% of total spending on instruction	Avg weighted cost/credit
Lower Division	36%	23%	1.00
Upper Division	48%	44%	1.42
Grad 1	12%	23%	2.88
Grad 2	4%	9%	4.00
	100%	100%	1.55

Source: SHEEO, 2010.

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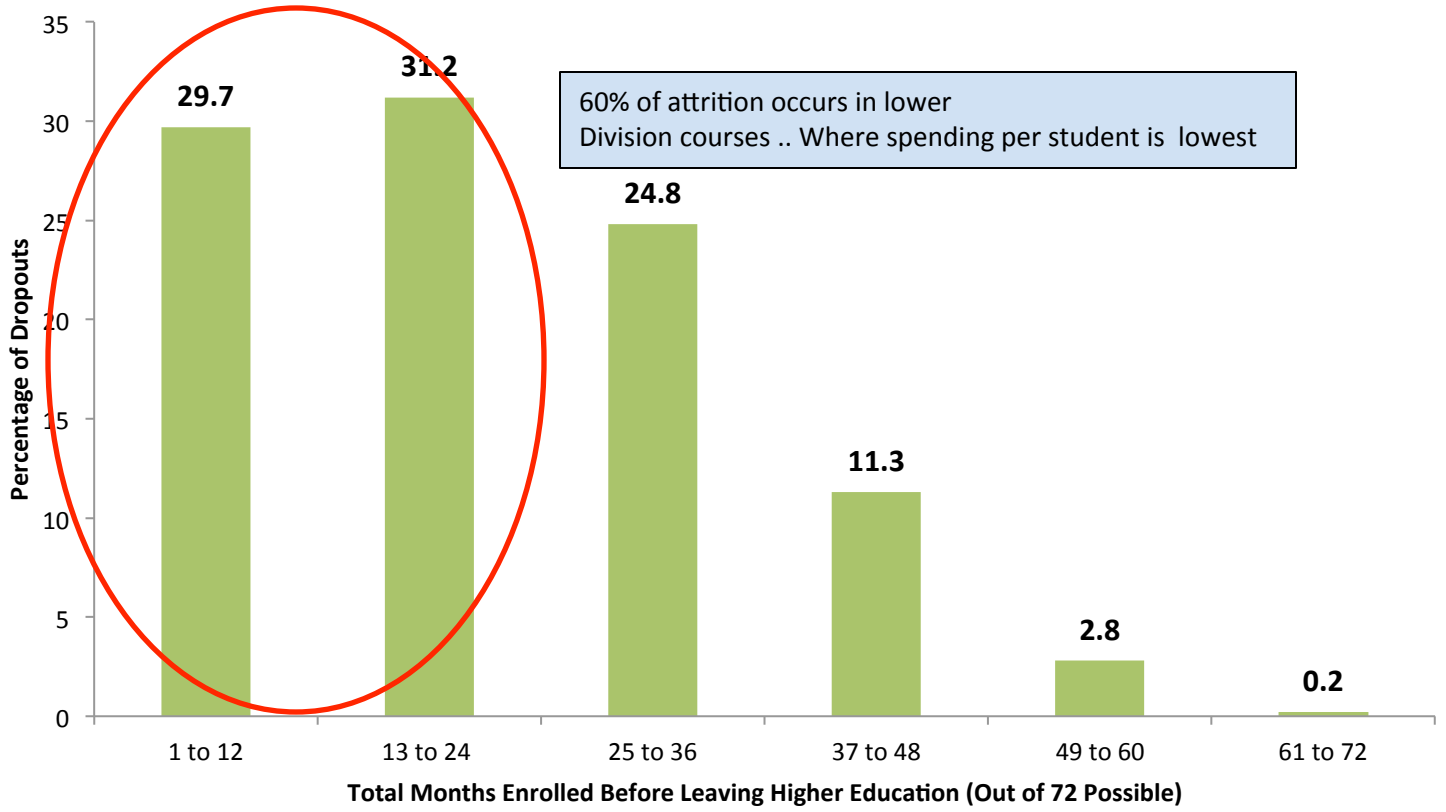
Percentage of All Dropouts by Cumulative Months Enrolled, Beginning Postsecondary Students 2003-04



Source: NCES, BPS, undergraduates only.

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Thought #8

It is time to shift to an outcomes based lens

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Cost per degree

Figure 19

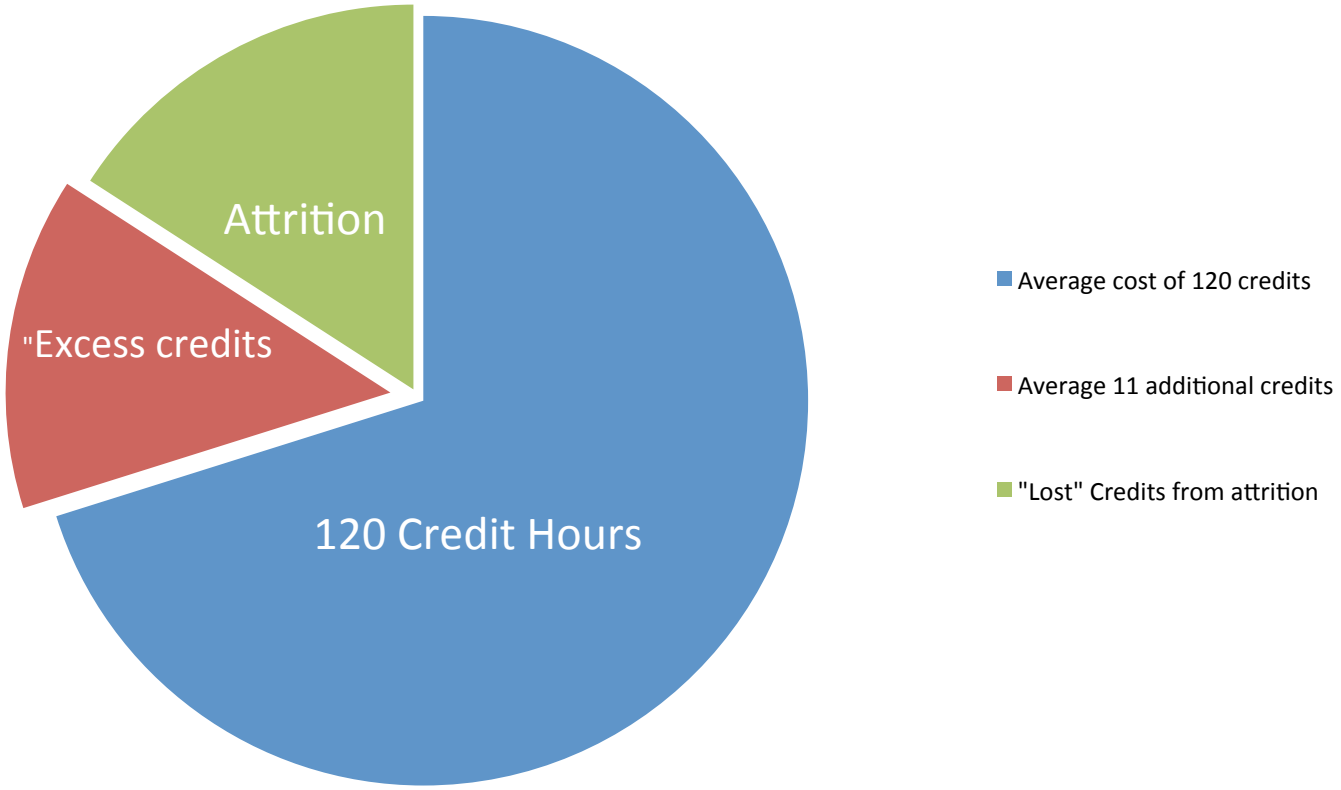
Cost per degree increased more slowly than before at public research institutions and declined at non-research institutions

Average education and related spending per degree and completion, AY1999-2009 (in 2009 dollars)

Source: Delta Cost Project IPEDS database, 1987-2009, 11-year matched set.

Problem with Excess Credits

In one study, BA Degree production costs increased an average of 40% from excess credits and attrition



"What does a college degree cost?" Nate Johnson, Delta Cost Project 2009.

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Closer to Home

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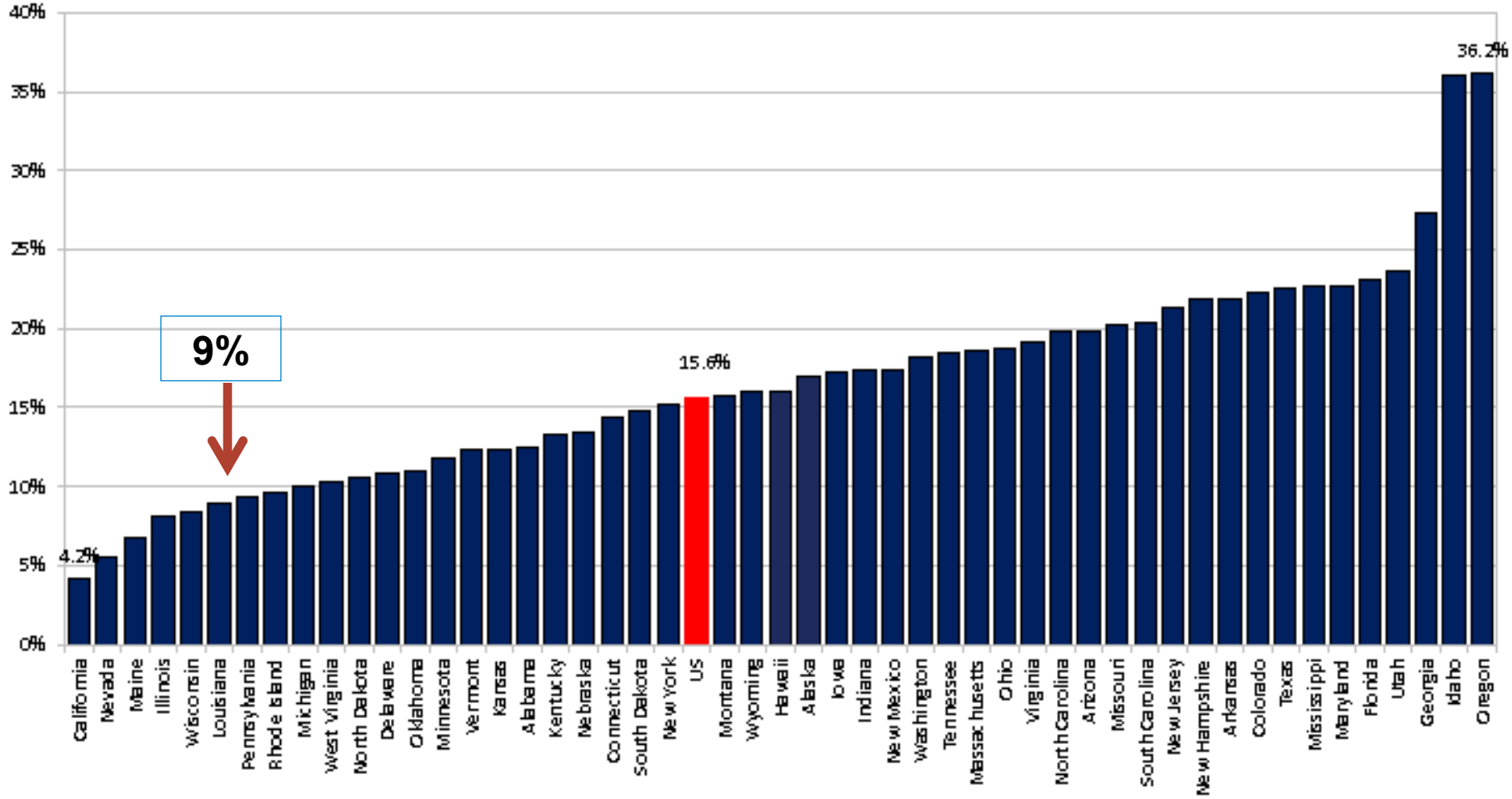
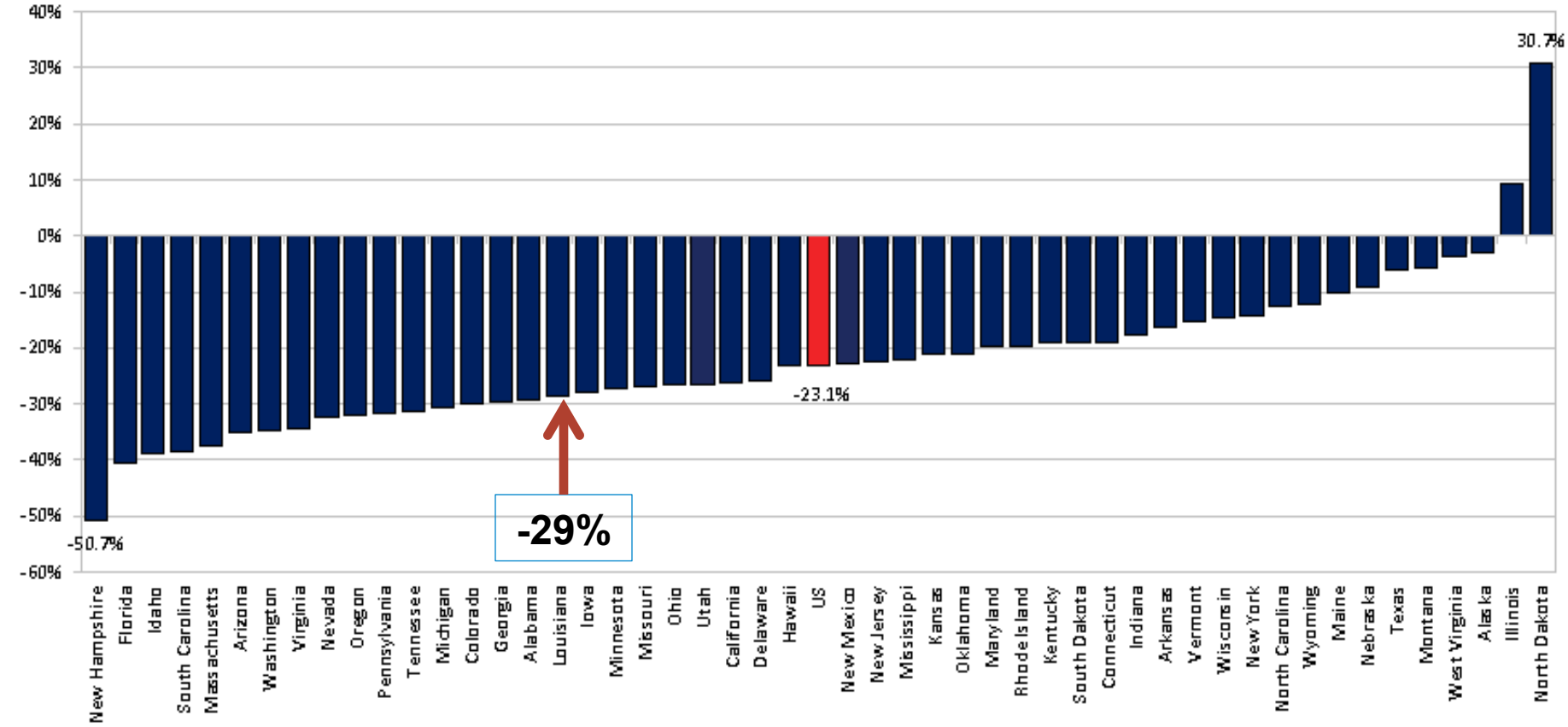
Figure 5
Full-Time-Equivalent (FTE) Enrollment in Public Higher Education
Percent Change by State, Fiscal 2007-2012



Source: State Higher Education Executive Officers

Figure 6
Educational Appropriations per FTE
Percent Change by State, Fiscal 2007-2012

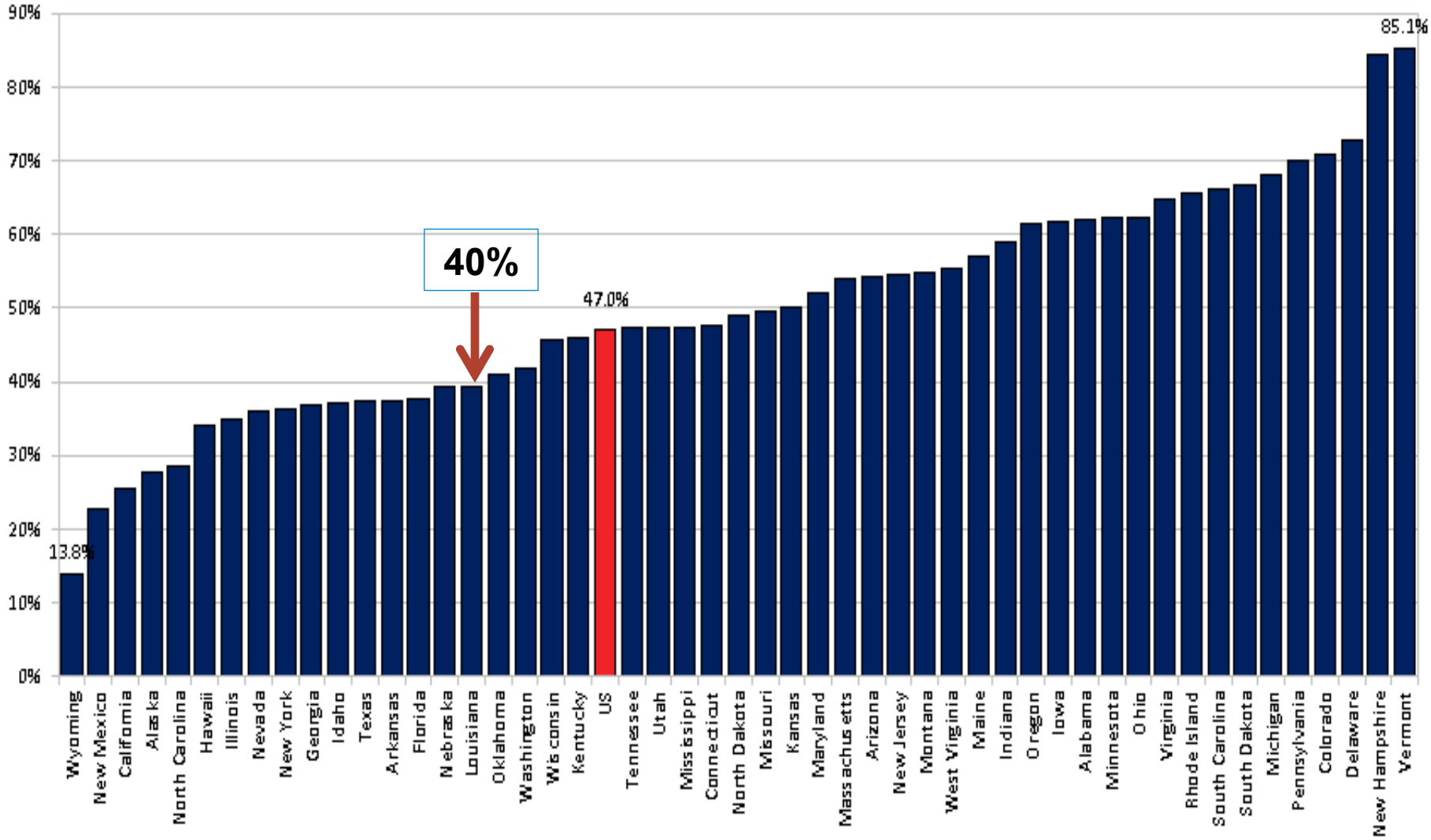


Note: Dollars adjusted by 2012 HECA, Cost of Living Adjustment, and Enrollment Mix Index.

Source: State Higher Education Executive Officers

Figure 7

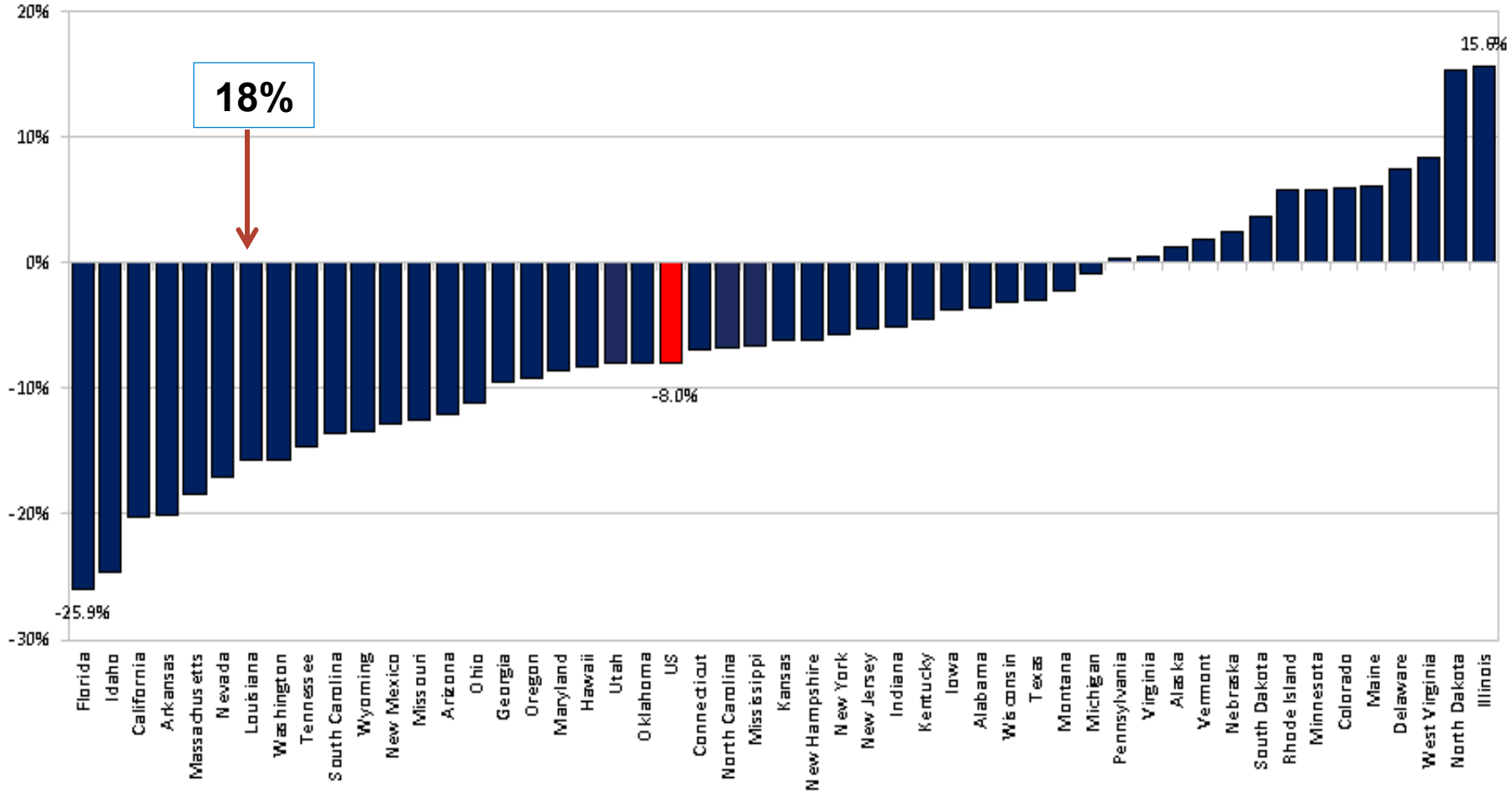
Net Tuition as a Percent of Public Higher Education Total Educational Revenue by State, Fiscal 2012



Note: Dollars adjusted by 2012 HECA, Cost of Living Adjustment, and Enrollment Mix.

Source: State Higher Education Executive Officers

Figure 8
Total Educational Revenue per FTE
Percent Change by State, Fiscal 2007-2012



Note: Dollars adjusted by 2012 HECA, Cost of Living Adjustment, and Enrollment Mix; total educational revenue exclude net tuition revenue used for capital debt service.

Source: State Higher Education Executive Officers

The Fractured Dialogue About College Costs

Group	Definition of Problem	Solution
Public	**Caught between growing importance of degree and decreasing access**	**Protect access at all costs!**
Government Officials and Legislators	**Need more college graduates**	**Increase productivity and retention!**
Faculty	**Deteriorating quality of students and declining standards**	**Raise standards, improve K-12, stop talking about productivity!**
College Presidents	**Caught in iron triangle**	**Reinvest in higher education!**

Source: John Immewahr, Villanova University, based on research for Public Agenda.

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Changing the Business Model

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Conversations To Date

- Price (Net Tuition Revenue)
- Cost Containment

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Cost Effective: Cost Reductions + Productivity

Cost reductions =

Permanent structural reductions in spending

From paying $1 for X
To paying $0.75 for X

Productivity improvements =

Increase in output (learning, research, jobs), without changing admissions or spending

From paying $1 for X
To paying $1 for X + 2

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When Considering Business Models, Need To Go Further

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Reviewing the Business Model

1. Take a holistic view – price, cost, productivity, external market, net revenue
2. Focus on outcomes
3. Determine where your economic engines are
4. Have the courage to reallocate

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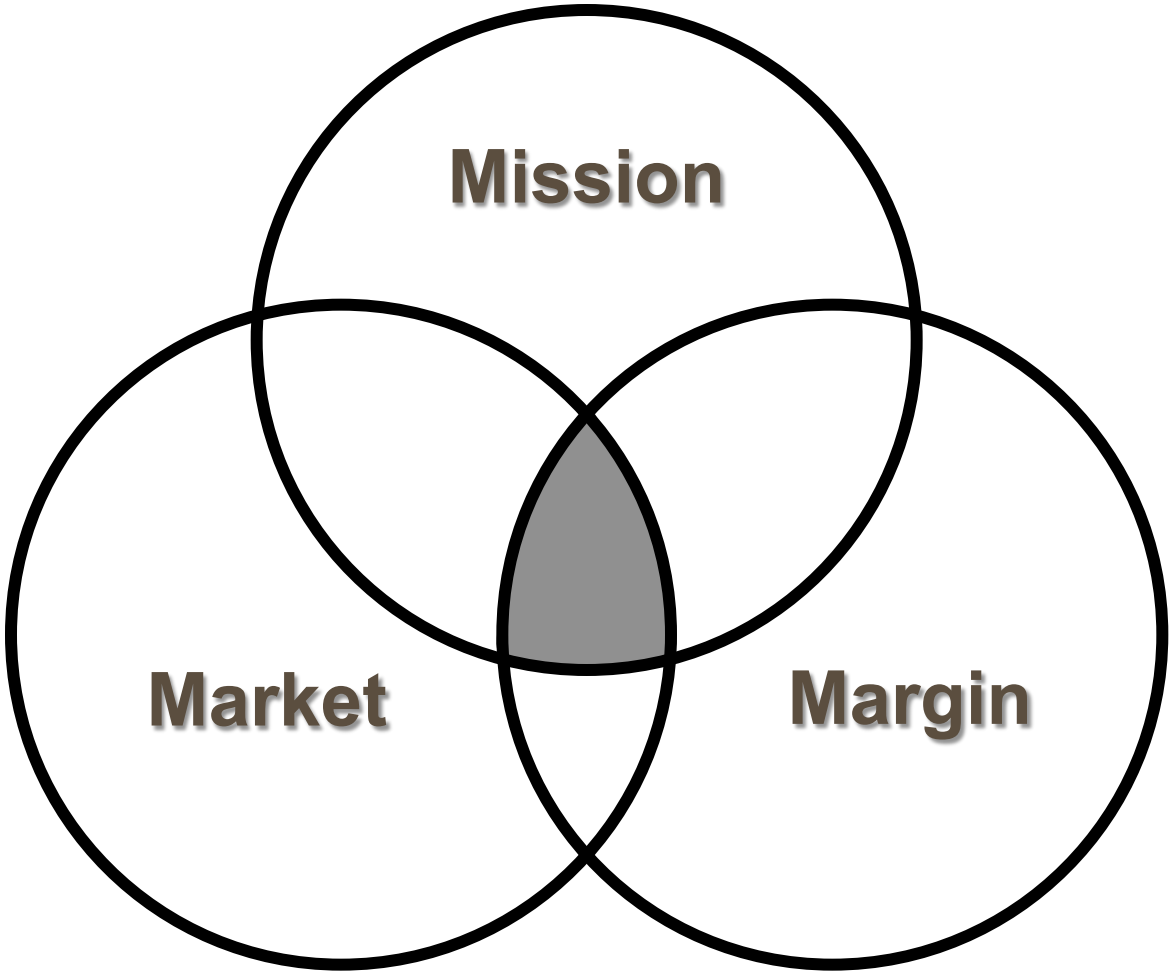
Uncovering Economic Engines



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Mission, Market and Margin

Living at the Intersection of Mission, Market and Margin:

Three Questions

What are we good at? (Mission)

What do people want? (Market)

How do we bring these together in a way that is true to our mission and generates resources? (Margin)

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Case Study – Comprehensive Public Regional University

- Key Issue: Move to performance based funding and ROI lens
- Revised Business Model
  - Simultaneously conducted academic portfolio review and administrative cost containment review
  - Aligned new benchmark grouping and Key Performance Indicators with State funding initiatives
  - Created a new innovation campus
    - Public/Private partnership
    - Industry sponsors
    - High demand programs, low/no student debt, three year degree completion
- Testing the model: political stakeholders, demonstrate ROI, calculate fully allocated net revenue

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Case Study – Public Research Institution

- Key Issue: Declining and Indeterminate State Appropriations

- Revised Business Model
  - State appropriations < 5% of revenues
  - Focus on market demand for engineering and tech
  - Increase international populations
  - Double graduate enrollment
  - Teach year round

- Testing the model: pricing, currency fluctuations, quality of overseas institutions

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Case Study – Public Community College

- Key Issue: Declining demographics – North East
- Revised Business Model
  - Non Credit – Offer only programs that generated net revenue
  - Credit – Academic Program review – Eliminated all programs not in gen ed that did not demonstrate market demand
  - Consolidated physical facilities
  - Established new peer group and key performance indicators
- Testing the model: political stakeholders, calculate fully allocated net revenue

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Key Components of Business Model Review

- Before
  - Create a Baseline of Data
  - Determine Benchmarks
  - Identify Stakeholders and How Review Fits Into the Governance Model
  - Identify Leadership Team
  - Build Out Communication Plan

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Key Components of Business Model Review

- During
  - Mission Based Strengths
  - Market Demand
  - Net Revenue Opportunities
  - Assess Cost Drivers
  - Good Pro Forma Analysis
  - Consideration of What You Will Stop Doing
- After
  - Metrics for Tracking and Accountability

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Roles and Responsibilities – For States

1. Ground policies in clear state goals for higher education (e.g. access and attainment, job creation, economic development, STEM)
2. Focus on transparency and accountability not control
3. Ensure that effective program review is occurring
4. Adopt a multi-year investment approach and attempt to create consistent funding streams for state appropriations
5. Enhance institutional financial flexibility – "All money is green"
6. Include real incentives for performance
7. Assess value and not just price

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Roles and Responsibilities – For Systems and Boards

1. Pay attention to business models and explore reallocations
2. Focus on increasing the net from earned vs. appropriated revenue sources
3. Combine cost containment with increases in productivity
4. Focus spending based on outcomes – Move to per unit cost lens
5. Use data and create good metrics to support decision making
6. Demonstrate cost effectiveness to public and to policy makers – Increase transparency and accountability
7. Leverage systems – Cost Containment, Partnering, Best Practice

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To continue the dialogue . . .

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