

A NATIONAL DIALOGUE:
The Secretary of Education's Commission
on the Future of Higher Education

ISSUE PAPER

*Sixth in a series of Issue Papers released at the request of Chairman Charles Miller
to inform the work of the Commission*

Frequently Asked Questions About College Costs

Robert C. Dickeson

Summary: A great deal is written about rising college costs and the impact this phenomenon has on accessibility. Yet the specific cost drivers – the major factors that induce institutions to spend (and charge) more are often neglected. Such factors are usually hidden from public view. This paper identifies the major cost drivers in higher education and responds to typical questions about what's being done – and can be done – about managing college costs and improving affordability.

1. Why does college cost so much?

- Colleges are labor-intensive.
 - a. On average, 75 percent of the costs to run a college are related to personnel expenses, including benefits. Thus, all the costs that any enterprise has to recruit and retain staff, pay cost-of-living increases and keep up with rising health care expenses also are paid by colleges and universities as a part of doing business.
 - b. Faculty salaries are especially expensive, particularly in high-demand subject-matter areas, like business and engineering. Colleges compete with each other (and sometimes with the private sector) for “top” faculty, and occasionally make financial commitments to faculty beyond salary: for time off from teaching to conduct research; for graduate assistants to help with research; and for laboratories or other expensive equipment to facilitate research. Decisions about who to add as a faculty member can cost significant dollars.
 - c. Colleges do not always have control over their personnel expenses. Some states require that public institutional employees be covered by the state's civil service system and its wage rates, administrative regulations and dismissal policies. In some public systems, faculty union contracts are negotiated at the state or system levels, and are not controlled by individual institutions.
 - d. The time-honored practice of tenure is costly. Tenure was originally conceived as a means to protect “academic freedom.” It has evolved into a system to protect job security. A combination of institutional practice and emerging case law has resulted in a situation where institutional flexibility is reduced in two key ways. First, if student demand for academic programs shifts, faculty capacity to deliver it cannot. Tenured faculty members are not interchangeable parts (a physics professor can't usually teach journalism, and vice versa). Second, it has become increasingly difficult for college administrators to remove a tenured faculty member

who is no longer effective. Thus, the decision to tenure has an accompanying long-term price tag that easily exceeds \$1 million per person.

- Colleges are subject to some expenses beyond their control.
 - a. As with all enterprises that maintain buildings, colleges are subject to increases in utility costs that often exceed budget plans. For campuses with expanded physical facilities and buildings that may not be energy-efficient, this factor can be fiscally crippling.
 - b. Some states require their public colleges to use state agency services, such as central purchasing, that may not be cost-effective. In other cases, contracting-out for non-mission-critical services (outsourcing) is impermissible.

- Colleges are highly regulated.
 - a. Federal regulations impose additional costs on college budgets. These unfunded mandates include significant expenses in administering federal financial aid, admission of foreign students, and conduct of research. There are also extensive reporting requirements. As many as 12 different federal agencies impose regulations on colleges, and most of the requirements are neither coordinated nor paid for.
 - b. State regulations vary by state, but may impose costs on public and – where independent colleges receive state support – private institutions. These rules range from travel policies to teacher education certification to preferred contractor mandates, and usually include extensive, and often redundant or overlapping, reporting requirements.
 - c. Many universities are like small-to-medium cities in size and scope. They may be involved with delivering health care, food service, child care, housing, police and fire protection, and other services that are subject to local regulations and licensure requirements.

- Colleges are not managed with *efficiency* as the primary value.
 - a. Colleges maintain large physical infrastructures that often include libraries, computing centers, academic and student-oriented buildings, power plants, research facilities, theatres and stadiums. This infrastructure is rarely used to capacity. Typically facilities are used only eight-to-twelve hours a day, five days a week, for less than 52 weeks per year. The necessary repairs and maintenance costs to keep the infrastructure sound is usually deferred as too costly for current-year budgets, and the resulting cumulative impact across all institutions of higher education nationally is in the multiple-billions of dollars.
 - b. To understand the management of a college one must understand the unique culture and extraordinary power of the faculty. To many faculty, they *are* the university. This tenet explains a number of practices that distinguish college management from most other forms of management. Among these practices are: the keen importance of *process* in undertaking decision-making on campus, a factor that explains the slow-moving pace of change that characterizes most institutions; the assumption that the faculty “own” all curricular decisions, and the concomitant reluctance to challenge that authority

when meaningful reform is indicated; the crucial importance of tenure to the academy, and the corresponding result that many academic departments across the country are “tenured up,” with all faculty members tenured, thus limiting institutional flexibility; three-fourths of the operational management decisions of a campus are made by academic department chairs, who are neither trained in nor committed to management, and who typically rotate in and out of these key posts from the faculty ranks; the primacy of *research* over *instruction* as the key to the internal reward systems (hiring, salary, promotion and tenure); the continuing pressures for faculty members to teach less and research more, resulting in a growing trend toward more “released time” (one is released *from* teaching) that becomes a growing college cost issue; and the common practice of making necessary budget cuts “across-the-board,” since that approach is seen as more politically feasible than identifying relative budget priorities.

- c. It is typical for colleges to add new programs – academic, administrative, and student – without corresponding cuts in existing programs. This additive approach has profound implications for institutional budgets: each program receives relatively less as the size of the overall budget pie stays essentially the same; each program seeks out additional financial resources to supplement institutional budgets; and institutions do not regularly reallocate scarce resources among programs from lower to higher priorities.
 - d. There is little relationship between the costs of offering a program and the price charged for it. Through a system of internal cross-subsidies, students pay the same amount for a high-cost as a low-cost program; and freshmen pay the same amount as seniors, although there are significant cost differences among these choices.
 - e. No program receives more internal subsidization than intercollegiate athletics. Almost all athletic programs across the country are not self-supporting, and thus add to college costs.
 - f. Internal mistakes are expensive. Across the country are hundreds of examples annually of judicial awards and countless other out-of-court settlements to compensate for administrative errors in personnel cases such as breach of contract, invidious discrimination, and sexual harassment.
- Colleges measure “quality” by purchasing expensive inputs.
 - a. Colleges compete with each other for students with high academic characteristics so as to raise the institution’s academic profile, and, by inference, its reputation. The most rapidly-growing portion of the budget of private colleges is *Scholarships and Fellowships*, as schools increasingly discount tuition at great cost so as to attract students. Ironically, this aid is paid for by cutting the *Instruction* portion of the college’s budget. Colleges spend far more to recruit a student than to retain a student.
 - b. Colleges compete with each other for faculty members with distinguished research records so as to raise the institution’s academic profile and, by inference, its reputation. Bidding wars to attract and retain high profile faculty members add to college costs.

- c. Colleges often seek specialized accreditation in select academic fields as another proxy for quality so as to improve institutional reputation. Achieving specialized accreditation is always costly.
- Colleges rely on a limited set of sources for their funding.
 - a. The primary sources of revenue for colleges are: government support; tuition and fees; gifts, grants, and contracts; auxiliary income; endowment income; and other income.
 - b. To the extent that any of the other sources shrink or contract, the difference is met by increasing tuition and fees.
- Student demand can be expensive.
 - a. Students are seeking degree programs that are costlier than ever before (engineering costs more as a major field of study than speech, for example, and incoming students are 83 times more likely to prefer engineering to speech).
 - b. Students demand more services and amenities (parking garages, computer network access, e.g.) and colleges respond by offering them.
 - c. The sheer number of students attending college has increased dramatically and therefore the costs of meeting that demand have increased. This increase affects institutional, federal and state investments in higher education. The percentage increase in full-time-equivalent enrollment in public postsecondary institutions since 2001 has already outstripped that of the previous two decades.
- Other factors affect costs.
 - a. Student and family *willingness* to pay sometimes exceeds *ability* to pay. Many institutions factor this market demand element into their price-setting practices.
 - b. Many institutions admit students who have scant promise of collegiate success. The resultant costs for remediating these students is significant and the dropout rates are high.
 - c. Some institutions use revenues generated from tuition and fees to pay for expenses that are not related to direct educational expenses.
 - d. Some four-year institutions make it difficult for students transferring in from two-year colleges to use college-level credits earned. This practice costs both students (who sometimes pay twice for the same course) and the state and federal governments (which subsidize the course work twice).

2. Why do community colleges cost so much less than traditional four-year colleges?

- Community college instructors are typically not tenured, nor are they full-time. Over 60 percent of the instruction at community colleges is conducted by part-time instructors, who cost less.

- If there are insufficient numbers of students to financially justify a class being offered, it is usually cancelled.
- Community colleges typically do not engage in research. Thus there is no expectation that faculty conduct, or get released time away from teaching to conduct, research.
- Community colleges typically prioritize their programs more readily, and are more likely to operate on a business model: conducting market research to determine consumer demand, and dropping programs that don't prove to be efficient or effective.
- Physical infrastructure at community colleges is primarily focused on delivering instruction, and is less likely to include research facilities, residence halls, and large athletic facilities.
- Community colleges are more likely to make fuller use of their teaching and physical capacities: offering courses when students need them, not when faculty want to teach them; and offering courses and services at nights and on weekends, in order to appeal to non-traditional students.
- Many community colleges generate additional contract revenue by delivering specialized courses needed by business and industry.

3. What are colleges doing about the problem of high college costs?

- Most institutions have shifted their teaching faculty resources from fewer full-time to more part-time instructors. Part-time instructors cost the institution less as salary and benefits expenses are materially reduced. There is a debate about whether this approach affects the quality of instructional delivery and student advising.
- A few institutions have reduced their reliance on tenured faculty by offering multiple-year contracts in lieu of tenure, and by instituting post-tenure review policies to weed out what some faculty call "dead wood."
- Most institutions make cuts in several budget expense lines (travel, equipment, library materials are typical categories), defer certain expenses, defer program additions, or make other adjustments to balance expense expectations with revenue realities.
- Some institutions outsource non-mission-critical functions in order to save money (food service, security, health care, etc.).
- Some institutions enter into cooperative service delivery agreements or joint purchasing contracts with other institutions in their geographic area.
- Some institutions prioritize their academic and service programs, and reallocate resources from lower to higher priorities.
- Some institutions undertake reviews of costly administrative processes and thus reduce expenses by gaining efficiencies and benefiting from more sophisticated cost-accounting systems.
- Some institutions increase class sizes, particularly at the lower-division (Freshman/Sophomore) levels so as to provide smaller class sizes for upper division (Junior/Senior) and, in some cases, graduate and professional school levels.
- Some institutions try to generate additional revenues from other sources instead of – or in addition to – tuition and fee increases. These sources include increased user fees, fund-raising, and other income-generating activities. Some institutions try to build on their endowments, but in tight fiscal times there is increasing pressure to spend gift dollars on current-year needs. Most of the money raised by colleges and universities is restricted by

the donor to specific purposes which may or may not give the institution the latitude to use the funds to reduce tuition and fees.

- Some institutions are cooperating with secondary schools to offer dual enrollment programs, accept Advanced Placement, International Baccalaureate and College Level Examination Program credits, and work with schools and community colleges to facilitate ease-of-transition to college. These programs save students significant dollars in achieving a college education.
- Some institutions permit scholarship donors to use their gifts as last-dollar, rather than first-dollar awards, thus encouraging donors to help lower college prices for students.
- Some institutions are making their pricing structures and award patterns available for public scrutiny, thus reducing the mystique associated with college price and thereby increasing public credibility.

4. What are some “hidden costs” that campuses should take a look at?

- The minimum number of faculty members that constitutes a “department.” Institutions often confuse an academic “discipline” with a “department.” A department is an administrative unit of the organization, and does not have to be populated exclusively by one academic discipline. Separate departments can be costly: administrative support, space, printed materials and other expenses can add up. One- or two-person departments can hardly be justified in times of scarce resources. Many institutions across the country combine two or more academic disciplines into one department.
- The minimum number of graduates to sustain a major. Institutions often list in their catalog offerings a wide range of academic majors for marketing purposes. There is little justification for some of these listings. A candid review of actual program graduates will reveal that the college is keeping on the books certain major offerings with few- or no participants. This practice is costly: maintaining faculty, space, equipment and library holdings to sustain a shaky program diverts precious resources away from more viable programs that are key to the institution’s future.
- The number of credit hours for a major, for general education, and for electives. In a time of scarce resources, offering departments will often inflate the number of hours required for a major, in order to attract more credit hours generated, thus “justifying” the number of faculty positions required to be sustained. Such departments often use supposedly “academic” arguments to support these ploys. With the exceptions of accountancy and engineering, there is no academic justification for extending the baccalaureate into a fifth year. A review of college catalogs nationally will reveal the politically successful programs, where “major creep” has expanded to approximately half of a four-year degree program. The baccalaureate degree program typically is constituted of one-third major, one-third general education, leaving one-third for a minor and electives.
- Abuse of released-time. In general, and for all types of institutions, faculty teaching loads have diminished over the years. When we calculate a “full-time-equivalent student” or FTE student, we count students taking 15 credits per semester (or the proportionate numbers on a quarter system). The same approach is used for calculating an FTE faculty member, i.e., one who teaches 15 credits per semester. In the past, most teaching faculty indeed taught that amount per semester, and 15 credits was considered the standard “faculty load.” Over the years, and for a variety of reasons, the concept of “released time” was

instituted: the practice of reducing the teaching load of an individual faculty member in order to be released to perform other institutional duties. Colleges and universities negotiate and then grant released time to faculty members for such things as: advising students and student organizations; planning curriculum projects, such as new courses or new programs; conducting research; and taking on administrative duties, such as chairing a department or chairing the faculty senate, or other projects and duties that can be negotiated. By so doing, faculty teaching loads are reduced to 12, or nine, or six, or, in some cases, three or even zero credit-hour responsibilities. The widespread phenomenon of released time has led to situations on many campuses that are indeed costly. In all cases, the use of released time results in: (a) larger class sizes for students; (b) increased costs to the institution; and (c) identification of teaching as a lower institutional priority, something to be “released from.” The cumulative released time on any campus would equate to a significant number of FTE faculty positions, adding up to a sizable cost.

- The ratio of full-time to part-time faculty and staff members. Not every position needs to be filled with a full-time person. Campuses should evaluate their ratios of full-time to part-time faculty and staff members, balancing the multiple factors of quality, student demand, and efficiency.
- Redundancy of courses offered in competing programs. Thorough program review across the institution may reveal several redundancies in course offerings. Typical examples include writing or mathematics courses offered in departments outside English or Mathematics. The reasoning behind these redundancies is often more historical/political than logical, and results in unnecessary costs. Institutions should review the incidence of unjustified redundancies and eliminate this practice.

5. What are some alternative models to traditional college delivery that are available?

- Proprietary, for-profit schools, sometimes called “career colleges,” are gaining in popularity, particularly among adult learners. For-profit schools use a business model to deliver higher education. Almost all faculty are part-time, thus lowering costs. Only programs for which there is demonstrated demand are offered, and they are offered at times and places convenient to the students. There is little capital outlay for high-expense items, such as libraries or football stadiums. There is no research function or public service function. The curriculum is fixed, the outcomes are measurable, and teachers are held responsible for results. The reward structure for these institutions is directly related to student success. There is a fundamental model shift in organizational expectations to “What’s it going to take to satisfy students?” from the traditional, “What’s it going to take to satisfy faculty?”
- Rio Salado College (Arizona) is a community college that offers an alternative model of promise: A college setting “without walls,” as all instruction is delivered on line; a small core faculty who do not teach students, but instead develop a fixed curriculum and teach part-time instructors to teach on line; a student-friendly scheduling system with 26 start-times per year and go-at-your-own-learning pace options; 24-hour student services available on-line and through pagers; rigorous content demands and testing for learning outcomes; and unlimited growth potential for expanding the model world-wide.
- More and more institutions are getting involved in distance-learning opportunities. Some of the best distance-learning options appear to be quite promising in terms of expanding

access and reducing price. It is also safe to say that quality issues are as yet unresolved, program development costs are quite high, and accreditation issues remain. Currently-enrolled college students are more likely to earn distance learning credits than any other group. However, as such students take a full load of credits at one institution, and enroll for additional credits on-line from other institutions, they are able to reduce the time (and cost) of completing their degree goals. [I met a student recently in North Carolina who was simultaneously enrolled, on-line, in four different institutions]

6. Why is it taking longer for students to complete a four-year degree?

- Courses that students need for degree completion are not always offered in the sequence or at the times that students can take them. Some institutions do not schedule courses on a student-demand basis, retaining instead a faculty-driven scheduling system.
- A large number of students are admitted who are not academically prepared for college. Thus the time – and costs – of remediating them can be extensive.
- Most students work part time to help pay for the high costs of college. As more and more time is spent working, less time is available to take courses, and student load averages per term are dropping.
- Some institutions have permitted some of their academic departments to add to the degree requirements beyond what can reasonably be accomplished in four years.
- Many students, due to bad advising or simply changing their minds, switch majors mid-stream and discover that some credits already achieved will not count in a different major. A few students seek dual majors, and this adds to the total number of credits required to satisfy the total requirements.
- A few majors – engineering, accountancy – and some intern programs have evolved over time into five-year degree programs.

7. What are some factors that affect the states' role in supporting higher education?

- All public budgets are subject to the impact of economic cycles. State government budgets are directly related to revenues the state can generate. To the extent that a state's economy suffers or flourishes, the state's budget for any state service (including public higher education) suffers or flourishes.
- Budgeting is about values. Higher education is but one of many allocational rivals seeking state budget support. Rivals include K-12 education, corrections, health, welfare, highway construction and maintenance, government services, and state payments to Medicaid, among others. Higher education generally has slipped in the relative priorities among allocational rivals for the past 20 years. There are several theories about why this has happened: (a) operating on the principle of who benefits/who pays, states may have passed along a greater share of cost to students on the "user-fee" assumption that it is the student who will benefit from the education and therefore the student should pay more for it; (b) state officials are increasingly frustrated about institutional performance and the perceived lack of institutional accountability ("What are we getting for our dollars?") and may have penalized institutions accordingly; (c) there may be a perception that institutions don't need the money, based on the success that some institutions have had in generating additional non-government resources and the headlines that report successful billion-dollar

- fund-raising campaigns for a handful of schools; (d) state officials may also believe that students and families are willing to pay a higher price for a desired commodity and the market rate for college should therefore float to a market level; and (e) some state officials believe government is involved in too many enterprises and – public higher education being seen as a part of government – should therefore be privatized.
- The states face “structural” revenue problems that require fixing if the state is to continue or increase its level of public services. Depending upon the state in question, these problems may include: an over-reliance on the property tax; the fundamental shift in the economy from the production of goods to the production of services (without corresponding changes in sales or income tax structures); increased longevity and aging demographics, with profound changes in income tax revenues (fewer people working; more income sheltered past age 65) and expenses (more people on Social Security, Medicare and Medicaid); a diminished sales tax base as consumption shifts from taxable goods to untaxed services; and policy decisions to cut taxes and avoid collecting sales taxes on mail order and Internet sales.
 - There are substantial differences among the states as to the role higher education plays in overall plans for state economic development and quality of life issues. Among the many factors that affect a state’s role, five key ones emerge: (a) the relative in-migration or out-migration of college-educated talent; (b) the economic base of the state and the relative perceived need for a college-educated labor force; (c) the cultural values of the state and the historic emphasis on education generally and higher education in particular; (d) the structure of higher education in the state, including the relative role of private institutions, the configuration of state-supported institutions (two-year, four-year, research), and the degree of coordination within the state; and (e) the relative wealth and tax capacity of the state.
 - When setting tuition rates, states and institutions do not systematically take into account families’ ability to pay. Most states do not provide student aid in amounts proximate to filling unmet needs.
 - States do not routinely align decisions about fiscal policy, higher education appropriations, tuition-setting and student financial aid.

8. What are some factors that affect the federal government’s role in supporting higher education?

- The federal government’s role in supporting higher education is historically tied to broad, national social purposes that were seen as important to the times. The creation and support of the military academies were designed to produce an elite corps of officers to meet Department of War needs. The Morrill and Land Grant Acts were designed to improve, through land-grant colleges, the agricultural and mechanization needs of the economy and to supplement the production of college-educated officers through the ROTC program. Federally-sponsored research at universities was designed to serve public health, military and other national purposes. Training and research in the sciences to respond to the Russian Sputnik threat were justified for national defense reasons. The Higher Education Act of 1965, designed to provide access to higher education for low-income students was justified as part of the “Great Society” of Lyndon Johnson.

- Two key shifts in federal policy have occurred since 1965: The shift from predominantly grants to predominantly loans in meeting student need; and using the tax code to benefit middle- and upper-income students through tax credits, Hope and Lifelong Learning programs and Coverdell and 529 plans.
- New demands for “accountability” by the federal government can be translated into two major areas of concern: (a) institutions need to do a better job at assessing and reporting on proof-of-performance; and (b) institutions need to do a better job of making price, cost and accreditation (or other quality validations) more transparent to the public.
- Federal support for higher education now comes primarily in three ways: direct support to institutions for research, some student aid programs, and Congressionally successful pork (especially earmarks); matching support to states as incentives for aid programs; and direct support to students, administered through institutions.
- Higher education has allocational rivals at the federal level, including current demands for increasing expenditures for defense, disaster relief and homeland security.

9. Why can't higher education costs stay within inflation?

- The Consumer Price Index (CPI) is based on the proverbial “market basket” of goods and services used by consumers. It is composed of housing, transportation, food and beverages, apparel and upkeep, medical care, entertainment and other goods and services. Colleges and universities argue that it is inappropriate to use this index to evaluate the growth of tuition and fees because institutions buy different things. The market basket does not contain faculty members or library books or chemical laboratory equipment, for example.
- To rectify this situation, the Higher Education Price Index (HEPI) was created. HEPI tries to approximate the market basket for what colleges buy. It includes an analysis of faculty salaries, based on AAUP salary data and a representation of several price indexes for other commodities that institutions purchase. The HEPI has lost favor recently, primarily because the salary portion – the AAUP survey – was self-referential.
- A new index has been introduced in 2004 by SHEEO to correct past deficiencies and to offer a more valid tool for measuring higher education inflation: the Higher Education Cost Adjustment (HECA). HECA is composed of 75 percent salary data, generated by the federal Employment Cost Index (ECI), and 25 percent from the federal Gross Domestic Price Deflator (GDP-IPD) that reflects general inflation in the U.S. economy. HECA will probably emerge as the tool-of-art in the future.
- Despite the increasing sophistication of the measures, the fact remains that tuition and fees have far exceeded all three of the indexes for the past 20 years.