DELTA PROJECT on Postsecondary Education Costs, Productivity, and Accountability

by Gary M. Stern

The Delta Cost Project's report *Trends in College Spending: Where Does the Money Come From? Where Does It Go?* could easily have been titled "The Real Deal About Rising Tuition" or "Debunking Misconceptions About College Costs." Overseen by project Executive Director Jane Wellman, the report, aimed at policymakers, legislators and educational leaders, says that colleges aren't managing their finances effectively and could do a better job of controlling rising tuition.

Effects of Ignoring the Bottom Line

As Wellman says, "The bottom line is – colleges aren't adequately looking at their bottom line." When administrators don't manage finances effectively, tuition rises and the result is qualified students are being squeezed out of attending college.

"Our country needs to get more people into college; it's not just for rich people. We need more prudent stewardship because we need to address the public perception that colleges aren't well-managed," Wellman notes.

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Jane Wellman, Executive Director, Delta Cost Project

Established in 2007, the Delta Cost Project, based in Washington, D.C., is a nonprofit organization dedicated to providing better analytical data on how colleges spend their money. Wellman's specialty is based on her experience working at the Institute for Higher Education Policy, the Ways and Means Committee of the California Legislature and the University of California Planning Department.

Funded largely by the Lumina Foundation for Education, the project publishes annual reports tracking how college spending affects students. Contributing to this report, in addition to Wellman, were the project's director of research, Donna Desrochers, and research analyst Colleen Lenihan.

The college spending report analyzed 2,000 public and private colleges from 2002-06, covering around 75 percent of higher education enrollment. It focused on these findings and metrics: 1) Revenue based on tuition, fees and grants is replacing state subsidies; 2) Total college spending declined except for research universities despite the rise in tuition; 3) Students themselves are paying an increasing amount of their college education, about 50 percent at public colleges and 75 percent at private colleges; and 4) The colleges showing the fastest growth are community colleges, which spend the least amount on students.

The report calls for greater transparency by colleges about how student tuition is spent and exactly what public financing pays for. Since student tuition is financing a larger percentage of higher education budgets as state funding declines (federal funding goes to student financial aid rather than to colleges directly), what exactly are students getting for their higher tuition fees and could tuition increases be curtailed with better cost containment?

Greater Financial Openness Would Help

But most colleges hide their spending and fail to publicize this data, according to the report. Most colleges print their balance sheets, which include data on whether their books are balanced and the amount of their debt, but they withhold how much is actually spent on each student and on classroom instruction. Every college should disclose how much it spends on each student, how much is based on classroom instruction versus ancillary services and how much tuition pays for a college's budget, urges Wellman. The more financial transparency, the more we know what colleges are spending and can determine whether rising tuition is justified.

Report Calls for Change in Financial Management

Tuition Is Rising, but Money Isn't Spent on Instruction

One major focus of *Trends in College Spending* is setting the record straight about why tuition is rising. The report notes that most media attention concentrates on elite schools with research departments that are facing rising costs, but Wellman stressed that 80 percent of colleges don't have research departments. At most typical two-year and four-year colleges, "tuition is going up because colleges are spending more money on things that are arguably peripheral," Wellman asserts.

Tuition is rising, but where is the money going?

Indeed, the report noted that "the share of educational spending dedicated to classroom instruction declined at all type of institutions. Yet spending on academic support, student services, administration and maintenance rose." The study emphasizes that colleges can do a much more effective job of scrutinizing their costs and keeping tuition down rather than spending considerable sums on items that don't affect classroom instruction. "Colleges," Wellman declares, "can do a better job of managing their resources without compromising access and quality."

Wellman says that from 2002 to 2006, "tuition wasn't going up because institutions were spending more money. At most public institutions, with the exception of research institutions, tuitions were rising even though spending was going down. Institutions are getting more from each student and spending less."

"Colleges are partially compensating for loss of state revenue with tuition revenue, but not entirely," Wellman says. For example, in 2002, the first year covered by the report, community colleges spent about $9,300 per student based on collecting $7,100 from state and local revenue and $2,200 average tuition paid by each student. By 2006, community colleges spent $9,200 on each student derived from $6,500 from state revenue and $2,700 from tuition. Hence, Wellman concludes that community colleges laid out $100 less per student (less than that, taking into account inflation) and yet kept raising tuition.

Why Specialized Programs May Have to Go

Many colleges are spending more money on administrative costs such as back office staff, recruitment and marketing rather than instruction. Hidden costs such as pension and health plans are another major area that warrants scrutiny. Moreover, too many colleges retain specialized programs that attract few students and waste precious dollars. "If three students are studying Arabic studies, it may make no sense to continue the program," Wellman states. Wellman's point: a more bottom-line approach would not detract from educational programs but could keep tuition in check.

Focusing on metrics is one way out of the bind. These metrics include the following: 1) Breaking down how much money is spent on classroom instructions versus administrative costs and research; 2) What exactly contributed to any tuition increases and how much of the increase is based on declining state subsidies versus other factors; and 3) Precisely how much is spent per student.

From 2002 to 2006, tuition played an increasing role in funding college budgets, which can lead to certain problems. "That level of tuition dependency means institutions have to sustain enrollment in tuition growth in order to survive," Wellman said. Yet Wellman notes that many states have abandoned enrollment-related budget increases so even though the demand for college is increasing, states are not supplying the money to finance college budgets.

As colleges depend more on tuition and are forced to expand enrollment, it triggers a more competitive environment to attract students. Colleges have to spend more money on recruitment and advertising and hire away high-priced research faculty to raise their prestige. More emphasis needs to be placed on cost accountability and aligning the college's mission with its resources.

At the same time that tuition is rising, Hispanic enrollment is increasing. Indeed, 75,000 more Hispanic students enrolled during those four years compared to 45,000 African-Americans and 37,000 White students. Most Hispanic students gravitate toward four-year public colleges and community colleges because they are less expensive. These institutions are "the least well-financed and have the least money to invest in student success," Wellman said. Moreover, the states with the largest budget deficits, such as California, Texas and Florida, happen to be the ones with the largest Hispanic populations.

Why did Lumina fund this report and the Delta Cost Project? Lumina recognized that "no one was looking at what was driving how institutions were spending their money. If you don't control how you're spending money and how you're allocating it, we'll have continual net price increases in higher education," notes Kevin Corcoran, a program director at the Lumina Foundation, based in Indianapolis, Ind.

Further, Corcoran notes that many colleges are influenced by their rankings in various polls, which leads them to be highly selective in recruiting and invest in buildings and new programs. "We think that the focus on rankings has driven spending in ways that aren't in the best interests of two-year and four-year public institutions," he adds. Worrying about rankings won't help educate more students, teach the skills necessary for workers to compete in a global market or lead to educating more minority students.

Already Corcoran says this report is exerting influence on its target audience: boards of trustees and legislators. Wellman has spoken to several trustees and state legislators on spending issues and what colleges can do to contain costs and limit tuition increases. "Wellman's work provides the lever needed to talk about educating more undergraduates and how to allocate resources," he asserts.

Furthermore, Corcoran suggests that Wellman's goal is to get more minority students and other worthy students educated, not just merit students. "She's democratizing higher education funding discussions, which in the past, wasn't done," he says. For example, Wellman focuses on spending at community colleges, where nearly 50 percent of all students (particularly minority students) get educated, not just selective research institutions, which garner most of the publicity.

The Delta Cost report showed that "we presumed that our industry should be immune from increases in productivity and we've been shifting the costs," explains David Longanecker, president of the Western Interstate Commission for Higher Education, an interstate collaborative of 15 states, based in Boulder, Colo. Just like the auto industry had to make adjustments in its cost structure to stay competitive, so must colleges.

In response to the report, college administrators have told Longanecker that they've made "cuts to the bone" and there's nothing left to excise. However, he says they've missed Delta Cost's point that the results of increased spending haven't been felt in the classroom.

Longanecker would like to see colleges devise innovative solutions such as using their facilities more intensively and creating evening programs as many community colleges do to raise funds. "Too many colleges are notorious for closing down on Thursday at 4 o'clock," he says. He wonders why many faculty members teach one class or average 1.5 classes a year and spend too much time on research and not enough time on teaching. Moreover, states subsidize colleges based on enrollment numbers rather than graduation rates.

The Delta Cost report "came out at the right time. In good times, we don't change. When times are tough, we have to change in big ways," says Longanecker.

Wellman would like to see two major outcomes arise from this report: 1) Colleges should pay more attention to spending and consider whether tuition really needs to be increased; and 2) State policymakers should return to playing a larger role in determining the success of students in colleges, which will likely boil down to increasing funding, rather than blaming institutions for cutting enrollment and increasing tuition. If these measures aren't taken, Wellman says that fewer Americans will graduate from college, which will adversely affect the country's competitive edge.