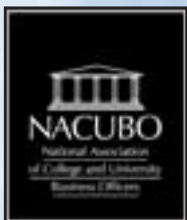


# Explaining College Costs

NACUBO's Methodology for Identifying the  
Costs of Delivering Undergraduate Education





**ANDERSEN**

NACUBO is grateful for the enormous pro bono contribution of Andersen to this project. The partner in-charge of the Higher Education practice generously donated significant staff time and financial expertise. The value of their belief in, and dedication to, the NACUBO Cost of College Project is immeasurable.

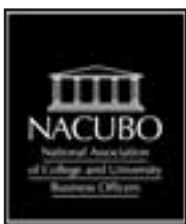


**TIAA-CREF  
INSTITUTE**

NACUBO is also grateful for grants from the TIAA-CREF Institute for the Cost of College Project. The TIAA-CREF Institute is committed to research and education in support of lifelong financial security. The Institute's goal in providing funding for his project is to help the exploration of potential barriers to higher education and the development of better information for consumers about education costs.

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February 2002



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**PREFACE****by James E. Morley Jr.**

In 1998, the National Commission on the Cost of Higher Education issued a report calling on the nation's colleges and universities to increase their public accountability and to develop better consumer information about costs and prices. In response, the staff of the National Association of College and University Business Officers began to consider how the association might help its member institutions meet the commission's charge. The result is NACUBO's Cost of College Project, which is the subject of this report.

The goal of the project was to create a uniform methodology that any college or university in the nation could use to explain and present how much it costs to provide one year of undergraduate education and related services. Most observers might think this would be a relatively simple task. However, the fact that it had never before been done was one indicator of its difficulty. The complexity and diversity of American higher education had thwarted previous efforts to devise a cost reporting system that could be acceptable to professional economists, never mind a methodology that was amenable to public use by every institution.

In undertaking this effort, NACUBO realized that it had a unique opportunity to contribute to a better public understanding of the kinds of expenditures an institution makes to deliver higher education programs, and how those costs relate to the price it charges. The challenge was to devise a uniform methodology that met several basic criteria: It should be simple to use and understand; it should be based on existing data from annual financial statements; it should be applicable to all types of colleges and universities; and it should produce reasonable results when compared with more detailed cost data derived from the institution's internal accounting methods.

The goal was accomplished chiefly through in-depth examination of and experimentation with key components of these costs, guided by the 40 members of the NACUBO Ad Hoc Committee on College Costs. The committee, whose members were selected for their diverse backgrounds and expertise, included campus business officers, college presidents, two members of the National Commission, university cost accountants, policy analysts, and nationally known higher education economists. The group conducted its deliberations from January 1999 through June 2001.

Reaching consensus on the definition and accounting treatment of key cost components was a complex task. Disparate views were common, and each question was resolved through additional research, testing of several variables and variations, vetting the issue with experts, and discussion and debates among committee members. After more than two years of steady work on the methodology, including extensive consultations with outside experts and other higher education associations, the committee members agreed unanimously that the resultant methodology meets the original goal and criteria and works well to serve its intended purpose. As a result, the NACUBO Cost

of College Project has achieved its goal. This report, its submission to the NACUBO Board of Directors, and its subsequent dissemination to colleges and universities and other interested parties will conclude the effort.

The project's ultimate success, however, will not be measured by its completion. The definitive test of the new methodology will be how well it serves colleges and universities across the country. The number of individual institutions that choose to experiment with the methodology and ultimately use it to present and explain their costs will be one indicator of whether NACUBO has accomplished its goal. In addition, as institutions share their information with students, parents, and other stakeholders, the relative gain in public understanding of the costs incurred in delivering undergraduate education will be the public test of the value of this undertaking.

## ACKNOWLEDGEMENTS

NACUBO is indebted to the significant number of volunteers who made contributions to the Cost of College Project. The project never would have been undertaken without strong support from the members of NACUBO's Boards of Directors who served between 1998 and 2001. The original discussion about the concept of a uniform methodology to help colleges and universities explain their costs began in 1998 among members of the NACUBO Public Policy Council, chaired by Ralph Beaudoin. Over the next several months, the idea was discussed among staff and association leaders; and in the fall of 1998, James E. Morley Jr called together a small group to consider whether NACUBO should take on a project of this magnitude and complexity.

At the same time, NACUBO set about contacting individuals who would be interested in and willing to work on the concept of developing a universal method for reporting college costs. Campus business officers, university presidents, members of the National Commission on the Cost of Higher Education, university cost accountants, and higher education economists were approached to determine their interest in taking on the challenge and serving as advisors to the project.

The first discussion of a framework and key components of a uniform methodology took place at Princeton University on Veterans Day 1998. Richard Spies, James Roberts, Richard Norman, Morley, Chris Larger, and Todd Harmening spent the day identifying key cost components and problem areas associated with attempting to develop a uniform approach. Roberts worked up a "straw model" and the group decided to ask a handful of institutions to test it and present their data to the first gathering of members of the NACUBO Ad Hoc Committee on College Costs.

The first committee meeting took place in January 1999 under the leadership of Richard Spies and set in motion the project that is the subject of this report. Spies, who had worked as a volunteer on several NACUBO projects, brought a unique combination of talents to the committee based on his campus responsibilities as an executive financial officer and as a member of the economics department at Princeton University. Spies' enthusiasm for the project and his energy helped to sustain interest among committee members, and his belief in the importance of the project and the evolving methodology was integral to raising awareness of and support for it around the country. In January 2002, Spies moved to Brown University, where he serves as executive vice president for planning.

Shortly after the first meeting, Gregory Fusco was retained by NACUBO to direct the project and oversee the work of the committee, the working groups, and the tests of the developing methodology. Fusco, a higher education consultant, brought a strong public affairs perspective to the project, having served in senior federal government positions on the staff of the U.S. Senate and the Department of Education, and as the senior external relations officer at Columbia University. Along with Spies, Fusco helped the committee to focus on the tough issues by forming the working groups and presenting the methodology to various higher education conferences, association boards and committees, as well as affinity groups.



NACUBO also was extremely fortunate to have James Roth of Andersen at the inaugural January 1998 Ad Hoc Committee meeting. Roth's expertise in college and university accounting methods and audits and his experience with diverse colleges and universities provided additional credibility to the project and proved invaluable. Roth also offered to have Andersen collect data from institutions that tested the methodology. This contribution was critical to the quality and financial feasibility of the project.

Over the past three years, more than 180 institutions participated in the pilot experiments and the 2001 field test of the methodology. Not only did the individual colleges and universities support the project by submitting cost data, they also shared advice, analysis, and expertise with NACUBO and the highly effective team from Andersen led by Roth and managed by Jennifer Hubert and Shandy Husmann. Their pro bono work gave us a measure of external review and an ability to sustain data confidentiality that would have been difficult for NACUBO to achieve on its own.

NACUBO also was fortunate to receive financial support from the TIAA/CREF Institute, which made an early contribution to the project. Madeleine d'Ambrosio, the executive director of the institute, provided much encouragement in this endeavor and an additional grant to NACUBO later in the project.

As the Ad Hoc Committee moved forward and gained confidence in the data resulting from the use of the simple, uniform methodology, NACUBO brought the results of its work from the pilot tests in 1999-2000 to the major associations representing college and university presidents in Washington, D.C. NACUBO greatly appreciates the collegiality of David Ward and Stanley Ikenberry, the current and former presidents of the American Council on Education, and their willingness to bring together the CEOs of five other associations-David Warren of the National Association of Independent Colleges and Universities, George Boggs and his predecessor David Pierce of the American Association of Community Colleges, Nils Hasselmo of the Association of American Universities, Constantine Curris and his predecessor James Appleberry of the American Association of State Colleges and Universities, and Peter Magrath of the National Association of State Universities and Land-Grant Colleges-to review the seminal work of the Ad Hoc Committee.

Ikenberry's leadership and early interest in the project resulted in the presidential associations helping to guide NACUBO during the 2001 field test and the final phases of the project. As a group, the six associations presented the uniform methodology to 500 college and university presidents via a request to participate in the field test. Each CEO also selected staff members to serve on the Association Working Group, which met regularly with NACUBO principals as the project evolved. Upon completion of the project, the six CEO's wrote to NACUBO and expressed their gratitude for the effort. A copy of their letter of commendation, as well as lists of committee and working group members are provided in the report's appendices.

Several members of the public policy staff led by vice president Christine Larger contributed to the project throughout its duration. Larger championed the development of the methodology at NACUBO and managed the project at the national office. Michele Madia was the key coordinator of the project, with other members of the Public Policy and Management Programs staff—Chris Campbell, Anne Gross, Diana Blessinger, and Todd Harmening—providing much effort and behind-the-scenes support. In the final stages of the project, Mark Olson joined NACUBO as senior vice president and contributed fresh insight to the report.

## EXECUTIVE SUMMARY

Concern about college costs and prices has a long history. Opinion polls taken over the past several decades show that most Americans doubt the affordability of college. At the same time, the public overestimates tuition prices and is ill informed about the governance, control, and financing of higher education. In 1997, this climate of public anxiety and contention over the perceived role of federal student aid in tuition increases led Congress to establish the National Commission on the Cost of Higher Education to investigate the college cost-price conundrum and recommend ways to address it.

In its final report, *Straight Talk About College Costs and Prices*, issued in January 1998, the commission presented a five-part “action agenda” directed to all of the stakeholders in higher education—the academic community, government at all levels, the philanthropic community, and families and students. In addition to calling for stronger internal institutional cost controls, government deregulation, changes in accreditation, and enhancement and simplification of federal student aid, the commission called upon academic institutions to develop better consumer information about costs and prices and to increase their public accountability. In response to the commission’s recommendation that colleges and universities “annually issue to their constituent families and students information on costs, prices, and subsidies,” NACUBO initiated its Cost of College Project.

While many government agencies and independent researchers have studied higher education finances, NACUBO concluded that none had succeeded in creating a transparent college cost information mechanism for undergraduate education. As the industry’s financial association, NACUBO decided to undertake such an effort. Its goal was to develop a uniform methodology that would allow any institution, regardless of type, size, or control, to take information from existing financial statements and reformat or modify the data to display, in a clear and concise manner, its average annual cost of educating undergraduate students along with the price of tuition.

NACUBO established an Ad Hoc Committee on College Costs to oversee the project. Among its more than 40 members were two former members of the National Commission, including its chair, college presidents, nationally known economists, chief business officers, institutional researchers and cost accountants, and senior officers of a major accounting firm. The committee first assembled in January 1999 and met over a period of two and a half years. NACUBO also consulted frequently with the leaders of the six major associations in Washington, D.C. that represent college and university presidents and formed a work group of senior association representatives to monitor the project and provide advice.

To overcome the complexity of college and university finances and the varied cost accounting systems institutions employ, the Ad Hoc Committee adopted four principles that guided discussions about how to achieve balance in the composition and definition of the data needed to complete the new methodology:

- Rely on basic averaging techniques.
- Concentrate on the cost of undergraduate education.
- Use existing cost allocation methods wherever possible.
- Keep it simple.

NACUBO ran three pilot tests of the methodology in 1999-2000, each time seeking to improve it based on committee advice, comments from participating institutions, and suggestions from others working on the project. The derivation of cost components, the instructions, and the reporting format for data submissions were tested thoroughly and refined; and the committee concluded that the methodology was fundamentally sound. In 2001, at the request of the presidential associations, NACUBO conducted a broader field test in which 150 institutions of all kinds submitted their data. The results gave the Ad Hoc Committee and the NACUBO leadership far greater assurance of the efficacy and usefulness of the methodology. The data were similar to those produced by the pilot round, and the large number of institutions that completed submissions suggested that the methodology is simple enough to be used widely.

Throughout the project, NACUBO guaranteed confidentiality to participating colleges and universities, though institutions were free to release their own information to peer institutions or their constituents. Most institutions gave NACUBO permission to release their names.

Several complex cost accounting issues emerged during the project, and the committee engaged in extensive discussion, testing, and analysis to determine the best approach that could be employed by the universe of U.S. institutions to account for various kinds of expenses. Modifications to data were necessary to accommodate the differences in college and university accounting standards established by multiple national standards-setting bodies. The committee gave special attention to the standards for the allocation of facilities and administrative costs required by the federal government of research universities. For the purposes of the project, it was extremely important to enable institutions to employ, as much as possible, data already classified in their accounting systems and to minimize the number of adjustments they would have to make.

A Technical Working Group (TWG) made up of several members of the Ad Hoc Committee debated and tested various modifications and scenarios for the treatment of seven key data elements: definition of price, number of full-time equivalent (FTE) students, weighting graduate students, departmental research, institutional and community costs, student financial aid, and facilities and capital costs. After reaching agreement on the derivation of the first six measures, the TWG devised

a separate and alternative reporting format for facilities and capital costs based on current replacement values. Under this format, an institution may document the economic value of educational facilities while keeping this amount distinct from the rest of the cost calculation.

The Ad Hoc Committee developed a template to be used by institutions to record their information. Following a section for general institution information, including enrollment and prices, the template requests cost data for 18 expense classifications, which are itemized and subtotaled in three major categories: instruction and student services, institutional and community costs, and undergraduate financial aid costs. A fifth section recaps the costs by category and gives the total. An optional section on facilities and capital costs appears at the bottom of the template.

The field test confirmed that the methodology works for its intended purposes and can be used by any institution to explain its undergraduate education costs. An analysis of the results showed the same high levels of correlation among the various cost components seen in the earlier pilot tests. Therefore, in June 2001, the Ad Hoc Committee unanimously approved the methodology and deemed the Cost of College Project a success. In November 2001, the NACUBO Board of Directors authorized issuance of the methodology.

It is important to emphasize certain limitations on the use of these data for comparative purposes. This methodology was created to help individual institutions calculate the annual cost of providing an undergraduate education. It was not designed to be a mechanism for collecting national data on college costs or creating industry benchmarks. Such efforts demand a far greater level of precision than the methodology provides. Nor should the cost information derived from its use be construed as a measure of the value or quality of the education provided by the institution. NACUBO never intended its Cost of College Project to address issues of value or quality, because the association believes that institutions and others close to the situation are far better suited to address them.

Although 150 colleges and universities that participated in the field test submitted their results to NACUBO, they were not a random sample of all higher education institutions. The purpose of collecting these results was to certify the validity of the methodology. The data modifications required by the methodology and the underlying assumptions used to make the model uniform prohibit any attempt to aggregate the results and extrapolate them to the universe of American colleges and universities.

The methodology provides a mechanism that any college or university can employ to present its own cost and price data in a standard format, and institutions undoubtedly will find many ways to use the data. However, the data should not stand alone but should always be accompanied by descriptive material to help stakeholders—students, families, the faculty, governing bodies, policy makers, the community—better understand the expenses the institution incurs in providing undergraduate education to its students.

The methodology also has potential as an internal management tool, allowing individual institutions to track costs across consistent categories, and then compare costs with those at other institutions having similar missions and structure. Affinity groups may learn from each other by sharing their cost information, and having an informal discussion around cost and price issues. While NACUBO does not plan to play a role in assembling affinity groups to use the new tool, institutions that find it useful may seek to participate in this kind of cooperative effort. Notwithstanding these limitations, several observations based on the information produced during the project and affirmed by the field test should be useful in any larger discussion of the cost and price of higher education.

Cost exceeds price. In essentially every instance, the cost of providing an undergraduate education exceeds the full “sticker” price charged to students and their families in the form of tuition and related fees, by anywhere from a few hundred dollars to as much as \$20,000 or more. Even those students who pay full tuition are supported by other sources of funds. The differences lie only in the amount of the additional resources (from the state, the institution, or others) and the source of the additional revenues that allow the institutions to provide it.

The majority of costs are for instruction and student services. At community colleges and public four-year institutions, instruction and student services costs comprise about 85 percent of the total. At independent colleges and universities, the comparable share is around 70 percent, largely because those institutions spend significantly more of their own resources per student on financial aid. For all the attention sometimes given to administration and other activities unrelated to undergraduate education, the methodology and field test indicate that the main drivers of cost at most colleges and universities are the direct educational expense of the faculty and the academic services that support instruction and student services.

American higher education is very diverse. Costs vary greatly, consistent with the tremendous diversity of American higher education. Some states historically have invested more in their higher education systems than have other states, and annual state appropriations affect what public institutions charge. Similarly, independent colleges and universities vary in institutional resources and in the amounts they raise from private donors. Some institutions spend as little as \$5,000 per student each year and provide an excellent education for the particular population they serve; other institutions serving different populations and with different missions (and different resources) spend as much as \$40-50,000 per student. As a whole, American higher education is wonderfully effective at providing a very wide range of options for students, based on their different needs and circumstances.

Making institutional data more transparent will not correct all of the public’s misperceptions about higher education. However, it is a step in the right direction. By increasing the understanding of their finances, colleges and universities can create a clearer context in which to explain their tuition rates

and call attention to rising costs or reductions in support. Absent such information, students, parents, the media, policy makers, and the public will remain uninformed and be more likely to believe erroneous explanations of the reasons for tuition price increases.

NACUBO encourages institutions to respond positively to the National Commission's recommendation that every college and university issue its cost and price data each year to students and their families. Campuses may find this new methodology a worthwhile tool by which they can do so.

## INTRODUCTION

Concern about college costs and prices has a long history. Over the past several decades, public alarm about rising tuition prices has been driven by two major factors: widespread recognition of the link between educational attainment and individual economic advancement and the attendant rapid increase in rates of participation in higher education. Public opinion polls show that most Americans understand that education beyond the high school level is fundamental to getting, and keeping, a good job. As a result, the vast majority of parents are intent on sending their children to college, and most children intend to go. Fully two-thirds of high school graduates now enroll immediately in college, and numerous others attend within the next 10 years.

Even though participation has grown, doubts about the affordability of college have not declined. In a 1989 Gallup Poll, 89 percent of those surveyed said that most students would be priced out of higher education by the year 2000. Nine years later, public opinion was unchanged. A 1998 survey by the American Council on Education (ACE) found that only 11 percent of respondents agreed strongly that “a four-year college education is affordable for most Americans,” while 71 percent disagreed.

Why such pessimism in the face of much evidence to the contrary? Some observers blame it on media coverage of the issue; when the press talks about college prices, it focuses almost exclusively on tuition charges at the very small number of elite independent universities. In addition, The College Board’s annual survey of college prices, which documents increases in charges for tuition and fees and room and board, always receives major coverage. Yet “sticker shock” is a reality for millions of families facing the bills for sending one or more children (or parents) to college, and the “tuition spiral”—a phrase invented in the 1980s when tuition increases averaged in the double digits—is a relative term. For the past 10 years, The College Board survey has shown that tuition and fees in all sectors of higher education continue to rise above the rate of inflation.

Thus, it should come as no surprise that the public substantially overestimates the price of college, usually by thousands of dollars. For example, respondents in the ACE survey estimated that annual tuition at public community colleges in 1997-98 was \$4,206, compared with the actual average of \$1,501. For public four-year institutions, they estimated tuition at \$9,694 (actual average: \$3,111) and for independent four-year institutions, \$17,897 (actual average: \$13,664).

This inflated notion of college prices is complemented by major gaps in the public’s knowledge about the governance, control, and financing of higher education. Opinion polls reveal that most people know little about the availability or extent of federal, state, or institutional student aid; don’t understand the difference between public and independent institutions; and don’t understand that state governments spend significant amounts of tax dollars to support public colleges and universities. And finally, the vast majority—up to four out of five of those surveyed—believe that most higher education institutions are profit-making enterprises.



In 1997, Congress responded to this climate of public concern and policy contention by establishing a National Commission on the Cost of Higher Education to investigate the cost-price conundrum and recommend ways to address it. The commission conducted hearings in a number of cities, commissioned several papers, and reviewed numerous reports and abundant data on college costs, prices, and student financial aid. It issued its final report, ***Straight Talk about College Costs and Prices***, in January 1998. The report presented a serious and compelling case for addressing what it termed “the college cost and price crisis.”

Much of the report focused on the need for “fiscal transparency” and for clear and unambiguous terms and data measurements on the issue of cost and price. The commissioners presented a five-part “action agenda” directed to all of the stakeholders in higher education—the academic community, government at all levels, the philanthropic community, and families and students. In addition to stronger institutional cost controls, government deregulation, changes in accreditation, and enhancement and simplification of federal student aid, the commission called upon academic institutions to develop better consumer information about costs and prices and to increase their public accountability.

Along with its sister associations, NACUBO understood that the concerns of the commission were well founded and that its recommendations required a response from the higher education community. Congressional leaders also articulated their interest in how the community would react. Against this background, NACUBO decided in 1998 to undertake the Cost of College Project, with the goal of providing colleges and universities with an effective mechanism by which to generate information about costs and prices that would be useful to students, families, policy makers, and other constituents.

## CHAPTER I – WHY NACUBO UNDERTOOK THE PROJECT

In terms of the commission's call for better market information and greater public accountability, it was clear that college and university business officers, as the collectors and organizers as well as the keepers and reporters of institutional financial data, would have an important role to play. NACUBO members traditionally have played this role, but the commission's report made it evident that a new tool was needed to accomplish this goal.

From the public perspective, it would seem to be a simple task for the nation's colleges and universities to describe and explain their costs and prices. Yet many higher education insiders and most outsiders are relatively uneducated about the components of college costs and their relative importance. It is even less likely that they understand the relationship of cost to price and the financial resources available to the institution to offset the difference.

NACUBO and its membership had long recognized their stewardship responsibilities as the financial experts in their institutions. Indeed, chief financial officers often have addressed public questions about their institution's costs and price. However, in many cases, the material they provided did little to ease public concern because it was presented within the intricacies of audit and accounting procedures and complex financial statements. Some NACUBO members expressed the need for a better set of tools to explain higher education's complexities to an audience unfamiliar with cost accounting. Presidents and other campus leaders voiced similar sentiments when their statements on cost and price did not appear to improve public understanding. In this context, NACUBO's decision to respond to the commission's challenge was based on three main considerations:

**FIRST**, NACUBO was the logical organization to address the task of helping institutions meet the transparency goal of the commission. The association has a highly active membership of campus business officers who are directly responsible for institutional accounting and financial records. NACUBO maintains extensive contacts with both government and independent financial standards-setting boards. NACUBO's involvement also made sense given that it was and remains the only national association representing all of the institution's administrative functions and that the chief business officer is generally the senior administrative executive.

**SECOND**, NACUBO is often relied upon by the Washington-based national higher education associations to provide leadership in addressing higher education's accounting, financial, and business management issues at the federal level. Business and financial officers are required to ensure the accuracy of the institution's data, as well as to explain and interpret it. While the commission's call for transparency required a response from many campus officials, including presidents and academic leaders, campus business officers are in a unique position to both provide financial information and help present it to various parties.

**THIRD**, NACUBO's mission is to create new knowledge in accounting and financial and

business management. Another calls for NACUBO to work in full partnership with other higher education associations. Achieving greater transparency would require the development of new methods and reporting systems; that could be accomplished only through close consultation and information sharing with the leaders and senior officials of the major national higher education associations.

## CHAPTER II – HOW THE PROJECT WAS CONDUCTED

Prior to undertaking the Cost of College Project, NACUBO reviewed previous and ongoing efforts by the federal government and independent researchers to analyze college costs. NACUBO representatives regularly serve as advisors to the federal government, including the Department of Education's National Center for Education Statistics, on cost accounting matters. As a result of this direct involvement, the association leadership was familiar with the limitations of existing federal surveys and databases on the finances of higher education. NACUBO representatives and staff knew well the specific problems and pitfalls of using the department's Integrated Postsecondary Education Data Survey (IPEDS) to provide meaningful information about the financial status of the nation's colleges and universities.

Numerous independent research groups and individuals have collected institutional financial data for the purpose of performing comparative analyses. However, it was clear that no individual or group inside or outside of government had succeeded in creating a "transparent" college cost information system.

NACUBO's experience addressing industry wide cost accounting and financial reporting problems, combined with the lessons learned from examining others' efforts to create cost information systems for the whole of higher education, helped shape the association's thinking about the approach it would take to the college cost transparency issue. As a result, NACUBO decided to focus its efforts on developing a uniform methodology grounded in economic and financial conventions but transformed to meet the additional objectives of simplicity and ease of understanding.

### **The Vision of a Simple Methodology to Explain College Costs**

After reviewing the activities of the federal government and independent researchers—none of which have had transparency as their goal—and after considering the likely challenges posed by such an endeavor, NACUBO decided to commit the association's resources to developing a simple, uniform methodology to explain college costs that would be sensitive to the enormous diversity of American higher education. The goal of the project was to successfully build and test a cost methodology that was applicable to all colleges and universities and that was simple, uniform, and broadly acceptable to the higher education community and its many stakeholders.

The conceptual framework envisioned by NACUBO involved creating a new approach to measuring college costs beyond the conventions of cost accounting. The new approach would allow any institution, regardless of type, size, or control, to take information from existing financial statements and reformat the data, or in some cases modify it, to display its average annual cost of educating undergraduate students in a clear and concise manner.

### Accomplishing the Task

In late 1998, NACUBO engaged a number of volunteer experts in higher education accounting and economics in discussion of how to create a single, uniform methodology. Based on their ideas, NACUBO concluded that it was possible to do so. Those ideas then were transformed into a “straw model” that became the theoretical basis for the final methodology.

In January 1999, NACUBO established the Ad Hoc Committee on College Costs to guide the effort. Among its more than 40 members were two former members of the National Commission on the Cost of Higher Education, including its chair, several college presidents, nationally known economists, chief business officers, institutional researchers and cost accountants, and senior officers of Andersen, a major accounting firm.<sup>1</sup>

The Committee members brought to the project an unusual combination of individual expertise, institutional resources, and personal commitment. Together, they helped to focus the project and, based on their extensive experience with college finances, contributed important insights during the discussion, analysis, and resolution of complex accounting and microeconomic issues that emerged as the methodology took shape.

Over the next two and a half years, the committee members participated in the development of the new methodology and played an integral role as constructive critics and consultants at each stage of the project. Under their guidance, the original model evolved into a solid and reliable tool for colleges and universities to use to describe their annual cost of educating undergraduate students and providing related services.

### Partnering with Higher Education Associations

NACUBO consulted frequently with the chief executives of the six major presidentially based higher education associations in the nation’s capital: the American Council on Education, American Association of Community Colleges, American Association of State Colleges and Universities, Association of American Universities, National Association of Independent Colleges and Universities, and National Association of State Universities and Land-Grant Colleges. Collectively, these associations represent the leaders of all types of public and independent colleges and universities. NACUBO President Jay Morley and Project Director Gregory Fusco met with the association CEOs every other month. In addition, NACUBO formed a work group of senior association representatives of public affairs, policy analysis, and government relations to monitor the project and provide advice.

<sup>1</sup>A roster of committee members and their affiliations appears in Appendix A, as well as a list of the three working groups.

## Guiding Principles

American higher education encompasses a wide range of institutions, from small, special-purpose colleges to expansive research universities. This diversity of institutions and missions often is identified as one of its major strengths. However, the very breadth of this diversity posed technical, and sometimes philosophical, challenges to the design of a simple and uniform cost methodology.

NACUBO acknowledged that there is no single correct way to measure college costs across all kinds of institutions, regardless of type, size, or control. But NACUBO also believed it was possible to develop a methodology that would be accurate enough to meet rigorous standards and simple enough to be calculated and understood easily, thus yielding a reasonable and fair display of an institution's costs related to providing an undergraduate education.

The project adopted four principles that guided discussions about how to achieve balance in the composition and definition of the cost data used by the institution to complete the new methodology. NACUBO acknowledged that outside observers and commentators might judge the principles to be inaccurate, simplistic, or objectionable, and foresaw such critiques as positive and inevitable. In fact, many such debates had occurred among the committee members and were integral to the development of the methodology.

The guiding principles of the project were:

- Rely on basic averaging techniques.
- Concentrate on the cost of undergraduate education.
- Use existing accepted allocation methods wherever possible.
- Keep it simple.

*Principle One-Rely on basic averaging techniques.* The committee did not try to distinguish between freshmen and seniors, between classics majors and engineering students, between students who live on campus and take advantage of every extracurricular and cultural resource offered by the institution and those who live at home and come to campus for just a few hours of classes. Instead, the committee examined the average cost of an undergraduate education calculated across all undergraduates (or, in some cases, essentially all undergraduates) at an institution. It was not an objective of the project to develop estimates of the cost of undergraduate education by institution or category.

*Principle Two-Concentrate on the cost of undergraduate education.* Because the main concerns of the public and policy makers revolved around undergraduate education, the project decided, to the extent possible, to exclude all expenses related to separate graduate and professional schools,

research institutes, continuing education programs, and other important activities that involve few, if any, undergraduate students. To be sure, some information is lost when this is done, but that is part of the process of developing “reasonable approximations.”

*Principle Three-Use existing accepted allocation methods wherever possible.* NACUBO did not attempt to reinvent the cost allocation wheel. Research universities that are required to use the federal government’s methodology for allocating indirect costs to sponsored research projects, as specified in OMB Circular A-21, were asked to use that same methodology for the NACUBO project in allocating costs to undergraduate education and related activities. Similarly, institutions were asked to use generally accepted accounting principles as represented by the Government Accounting Standards Board (GASB) and the Financial Accounting Standard Board (FASB) rules and guidelines if they do not follow A-21 or have costs that are not directed to one place or another by specific A-21 requirements.

Given the two different cost allocation methods, and the desire to maintain a simple, uniform, and broadly acceptable system, NACUBO decided to issue guidelines and instructions in two versions—one for research institutions using A-21 and another for everyone else. However, all institutions were given the same reporting format and definitions of cost components. The differences in the two sets of instructions recognize the basic dichotomy between A-21-based cost reporting and the other practices.

The version for research universities maintains the cost data-for education, research, and other activities-that they use in reporting to the federal government. Even though the NACUBO Cost of College Project focuses only on educational costs, it was necessary to capture data from research universities using their existing A-21 cost studies. Otherwise, the largest institutions would have had to convert their data to another system to participate.

All other institutions are not bound by the A-21 rules and do not utilize them. An alternate set of instructions was prepared for these institutions.

*Principle Four-Keep it simple.* Whenever faced with a choice or decision, the committee opted for the simplest approach, even if doing so sacrificed some accuracy at the margin. The committee’s task was to strike the proper balance between exactitude and the time and cost required to gather and prepare data. While this may not produce calculations that are either theoretically elegant or extremely precise, it helps to avoid the opposite outcome—a system so complicated that no more than a handful of institutions would be able to use it.

### **Confidentiality of Institutional Information**

NACUBO realized that confidentiality was essential for colleges to participate in the project and experiment with the new methodology without fear that their data might be misused or misconstrued. Thus, all institutional financial information was sent directly to Andersen, and not disclosed in any identifiable manner to the committee. No data were released by NACUBO without the written permission of the institution. However, institutions were free to release their own information to peer institutions or their constituents. Virtually all of the institutions that took part in the pilot or larger field test gave NACUBO permission to release their names and acknowledge their participation in the project. Only those institutions that granted such permission were identified.<sup>2</sup>

### **Testing the Methodology — Pilot Tests**

NACUBO ran three pilot tests of the methodology in 1999-2000, involving more than 40 institutions. With each iteration, it sought to improve the methodology based on committee advice, comments from participating institutions, and suggestions from others working on the project. As a result, the derivation of cost components, the instructions, and the reporting format for data submissions were thoroughly tested and refined.

Institutional participation in all phases of the project was voluntary. The accounting practitioners from Andersen played a critical role by collecting the data, advising institutions on their submissions, and drafting analyses of them. They also reported problems experienced by institutions with early versions of the methodology to NACUBO, which led to improvements in both data definition and the instructions to participants. The firm provided valuable advice to the committee and NACUBO and continued its role as data collector throughout the remainder of the project.

### **Testing the Methodology and Advancing Its Use — The Field Test (2001)**

Based on the information provided by the initial pilot tests, NACUBO leaders and members of the Ad Hoc Committee concluded that the methodology was fundamentally sound. Knowledgeable institutional representatives compared the data for groups of institutions with common characteristics and determined that the results were reasonable.

The six presidential associations then asked NACUBO to broaden its testing of the methodology to ascertain its acceptability and usefulness to a greater number of institutions and to all sectors of higher education. Each association recommended some of its members as potential participants in the field test, resulting in a list of 500 institutional invitees.

On February 1, 2001, a letter of invitation co-signed by the presidents of the associations, along with accompanying materials, was mailed by NACUBO to the presidents and CFOs of the targeted institutions. The letter informed recipients of the project and urged the institution to participate in the

<sup>2</sup> A list of both the pilot and study group institutions is provided in Appendix B.



field test.<sup>3</sup> NACUBO also invited institutions to learn more about the project and offered to address any technical questions on using the methodology. The letter and all supporting materials were posted on NACUBO's World Wide Web site. More than 180 institutions responded affirmatively to the invitation and indicated that they were willing to try the methodology. Over the next several months, 150 institutions submitted their financial information; approximately 30 did not, largely due to the press of other business.

The results of the field test gave the Ad Hoc Committee and the NACUBO leadership far greater assurance of the efficacy and usefulness of the methodology. The data were similar to those produced by the pilot round, and the large number of institutions that were able to complete submissions suggested that the methodology is simple enough to be used widely.

In the fall of 2000, NACUBO President Jay Morley, Project Director Gregory Fusco, and Ad Hoc Committee Chair Richard Spies met with the boards of directors and standing committees of the major presidential associations to introduce the new methodology and its uses. In addition to the informal consultations outlined above, NACUBO representatives made numerous presentations to higher education groups over the course of the project, and they continue to demonstrate the methodology to various affinity groups of college and university business officers and presidents.

### **Limitations of Data for Comparative Purposes**

It is important to reemphasize that this methodology was created to help individual institutions calculate the annual cost of providing an undergraduate education. It was not designed to be a mechanism for collecting national data on college costs or creating industry benchmarks. Such efforts demand a far greater level of precision than the methodology provides. Nor should the cost information derived from its use be construed as a measure of the value or quality of the education provided by the institution. NACUBO never intended its Cost of College Project to address issues of value or quality, because the association believes that institutions and others close to the situation are far better suited to address them.

Although 150 colleges and universities that participated in the field test submitted their results to NACUBO, they were not a random sample of all higher education institutions. The purpose of collecting these results was to certify the validity of the approach. The data modifications required by the methodology and the underlying assumptions used to make the model uniform prohibit any attempt to aggregate the results and extrapolate them to the universe of American colleges and universities.

The methodology provides a mechanism that any college or university can employ to present its own cost and price data in a standard format, and institutions undoubtedly will find many ways to use it. However, the data should not stand alone. Rather, it always should be accompanied by descriptive

<sup>3</sup> A copy of the letter appears in Appendix C.

material that will help stakeholders-students, families, the faculty, governing bodies, policy makers, the community-better understand the expenses the institution incurs in providing undergraduate education to its students.

The methodology also has potential as an internal management tool, allowing individual institutions to track costs across consistent categories, and then compare costs with those at other institutions having similar missions and structure. Affinity groups may learn from each other by sharing their cost information and having an informal discussion around cost and price issues. While NACUBO does not plan to play a role in assembling affinity groups to use the new tool, institutions that find it useful may seek to participate in this kind of cooperative effort.

It is important to note, also, that the idea of creating a method to compare the universe of college and university costs based on institutional data derived from the use of this tool and/or to aggregate the data on a nationwide basis by the federal government was addressed by members of the NACUBO Ad Hoc Committee several times, but never contemplated as an objective. And, as the project moved along, it became clear that the methodology was not suited for these purposes for the reasons stated above and others.

The use of the new method relies on a fair amount of institutional interpretation and judgment made by the business office and others engaged in providing the cost data on campus. It is unrealistic to believe that all institutions would settle on the same values for determining allocations of certain data or the selection of detailed cost figures. For example, flexibility is provided for each institution to determine its full-time equivalent (FTE) enrollment, weighting of graduate students, and measurement of institutional and community costs. The variations in the data, however, when applied across all colleges and universities, would not lead to meaningful comparisons or aggregate statistics for higher education at the national level. These reasons serve as critical factors against use of the methodology by the Department of Education, state governments, and others seeking ways to benchmark or aggregate meaningful cost data for institutions of higher education. The only types of comparisons that would be meaningful (assuming an institution keeps its own assumptions intact) would be its own annual comparisons over time.

## CHAPTER III – THE METHODOLOGY: COMPLEXITIES AND COMPONENTS

Under the methodology developed by this project, colleges and universities are asked to provide general information about the institution, including enrollment and price, that is, the gross amount of tuition and mandatory fees an undergraduate student must pay to attend. It then itemizes the average cost data per undergraduate student for 18 expense classifications. These data are aggregated or “rolled up” into three major categories. Added together, these three aggregates equal total costs. NACUBO concluded that this format could be understood easily by individuals who have little experience with detailed accounting records or financial statements and would give colleges and universities a way to provide meaningful and understandable information about the kinds of expenses they incur throughout the year.

Prior to undertaking the project, NACUBO anticipated that one of the thorniest problems would be achieving uniformity in the definitions of the cost elements used to present an institution’s expenditures. Indeed, several complex cost accounting issues did emerge. The Ad Hoc Committee engaged in extensive discussion, testing, and analysis to determine the best approach that could be employed by the universe of U.S. institutions to account for selected expenses.

Modifications to data were necessary to accommodate the differences in college and university accounting standards established by multiple official standards-setting bodies. The standard used depends on the institution’s control (public or independent) and/or the value of its federal research awards. The committee gave special attention to the standard employed by research universities to meet the accounting and reporting requirements for federal grants and contracts. For the purposes of the project, it was extremely important to enable institutions to employ actual data as much as possible and to minimize the number of adjustments they would have to make. By minimizing adjustments, the methodology would achieve simplicity and uniformity without compromising the reliability or consistency of the data among similar types of institutions.

Each data element requested of the institution was examined in great detail by a Technical Working Group (TWG) made up of several members of the Ad Hoc Committee. The TWG debated and tested various modifications and scenarios for the treatment of seven key measures before reaching consensus on the most appropriate accounting approach for an institution to use if its data required changes to conform to the requirements set out in the methodology. Following the TWG deliberations, each issue was presented to the full Ad Hoc Committee and debated extensively before final determination. Those issues had to do with:

- Definition of price
- Number of FTE students
- Weighting graduate students
- Departmental research
- Institutional and community costs
- Student financial aid
- Facilities and capital costs

In the end, agreement was reached on the derivation of the first six measures for inclusion in the final methodology. The seventh variable—an alternative method of measuring the replacement costs of facilities—was moved outside the uniform methodology. Institutions have the option of adding this data if it makes sense for them as part of their explanation of yearly expenditures.

### **Unique Characteristics of the Methodology**

Unlike most analytical tools, the new methodology for explaining the key cost elements of undergraduate education is relatively simple to use. The design requires the institution to use its reported cost data, the same data found in its annual financial statements. Straightforward guidelines were designed to help campus personnel identify the data needed and to lead them through a series of simple calculations that, when completed, provide a reasonable approximation of the average cost of a single year of undergraduate education at the institution.

### **Complexities of Designing a Common Methodology**

#### *Accounting Practices*

Traditional higher education accounting practices suggest that linking specific costs to specific objectives (e.g., undergraduate education) can be difficult for several reasons. Any attempt to develop a uniform methodology for calculating average costs is hindered by what economists call the “joint products” problem. The costs most institutions incur simultaneously support several different institutional goals and products. In many cases, institutions serve multiple goals and missions with exactly the same resources at the same time, because the activities are complementary and interrelated. A classic example of a cost that cannot really be divided up into different project objectives is the library, where any given book may be used for an undergraduate course assignment, a graduate student dissertation, and faculty research.

#### *Activities and Governance Structures*

The project faced an additional complexity in that the varied institutional activities and governance structures of American colleges and universities require them to use different accounting and financial reporting methods. Some institutions report to government agencies under mandated statewide rules, while others do not. Some universities must account for their costs in specified ways to receive federal support for research, while many others do not engage in research of this kind. Public and independent institutions must report their finances using specific and disparate accounting standards designed for their sectors. With the gap between the two standards-setting bodies—the Government Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB)—continually widening, it was challenging to provide a crosswalk between financial statements prepared under their different rules. Nevertheless, the NACUBO model tries to define the four major categories of the methodology broadly enough that most institutions will be able to classify information consistently.

### Challenges to the Concept of a Uniform Model

NACUBO and the committee members were not naïve about how a simple methodology was likely to be received. Economists would criticize a “one size fits all” model and question the quality of the data after it had been filtered and modified to reach the goals of consistency and simplicity. Similar skepticism could be expected from college cost accountants, who are immersed in the intricacies, variations, and minutia of institutional accounting practices and who might be unwilling to sacrifice accuracy to achieve uniformity.

The committee considered these and other likely responses. In the end, however, it maintained its focus on the essential features of the methodology: that it be simple to use and not overly time-consuming to complete; that the data come from the institution’s financial statements; and that every institution, regardless of type, size, or control, be able to use it. NACUBO previously had concluded that if the task were easy, it already would have been accomplished. Likewise, the association realized that convincing Congress and higher education institutions of the usefulness of the methodology would require a clear explanation of the value of the end product.

### Components of the Methodology

The Ad Hoc Committee developed a single-page form or template to be used by institutions to record their information. A copy of the actual reporting template used in the project appears at the end of this chapter. Following a section for general institution information, the template identifies three categories of expenditures: instruction and student services, institutional and community costs, and undergraduate financial aid costs. Under each category, the cost per undergraduate is recorded for the various expense items and then subtotaled. Section five is a recap of costs by category and the total. An optional section on facilities capital costs appears at the bottom of the template.

#### *I-General Institution Information*

The methodology requests that institutions employ data from their most recent fiscal year when completing the template. Institutions that conduct indirect cost studies based on Circular A-21 use the most recently completed study. Institutions not using A-21 can gather appropriate financial information largely from their annual financial statements. Records of costs paid from both restricted and unrestricted funds also are needed to complete the template; institutions may have to identify those expenses funded by sources not reflected in their financial records, for example, fringe benefits paid by the state for public institutions.

**Price.** The first of seven technical issues debated by the TWG was the definition of price. For this methodology, the group determined to adopt the definition of price used by the commission—the full annual tuition and mandatory fees for an undergraduate student, without considering financial aid. Room and board charges are excluded because students would incur many of these same costs even if not enrolled, and not all students live and eat in campus housing.

At some institutions, tuition and fees vary by college and school. If this is the case, a weighted average is calculated, consistent with the academic programs selected and the method for allocating costs to undergraduate programs. If the institution has different prices for resident and nonresident students, as is common in public institutions, the in-state or in-district resident tuition is used. If the institution has different prices for various courses of study, regardless of residence, a weighted average of all undergraduate prices is calculated based on enrollments in the respective programs.

Price for part-time students follows the FTE rules outlined separately and also is adjusted on a weighted average basis. Nondegree, for-credit students are included in the price calculation, but noncredit students are excluded.

**Full-Time Equivalent.** The second issue researched by the TWG was how to define a full-time equivalent (FTE) student. It is difficult to define FTE uniformly because of the wide variations in institutional practices, state-mandated rules, and student bodies. The TWG reviewed many options and concluded that the methodology would define a preferred approach. Briefly, the preferred method of calculating FTE begins by counting full-time students using the institution's own standard, then adds the number of credit hours taken in one academic year by all part-time students divided by 24.

Institutions that do not use a credit hour system, or that have a state mandate to utilize another system for counting part-time students, will encounter obstacles to using the preferred method. Such institutions may use a different method as long as they disclose it.

Other options of defining FTE were examined, but they proved to be more complicated and had fewer advantages. The preferred method conforms to existing institutional practices and ensures compatibility with other institutional reporting systems. Stating a preferred method gives guidance to institutions without mandating the answer. It also allows for unusual FTE counting methods by providing an opportunity for institutional disclosure. In addition, the preferred method follows IPEDS rules for counting undergraduate FTEs. However, it does not follow IPEDS rules for graduate students because the TWG believed that doing so would add complexity without sufficient additional benefits.

Two other related issues also were considered. Nondegree students were counted on the same basis as degree-seeking students because the cost of providing education is similar for both groups. Conversely, noncredit students are excluded from the FTE count because costs associated with their education often are considerably lower. Where the costs of these noncredit students are identifiable separately (such as in a distinct unit or off-campus program), these costs also are excluded.

**Weighting of Graduate Students.** The last item under the general institution information section of the template asks institutions to indicate whether or not they use a weighting factor for graduate students in their FTE count. The treatment of graduate students was one of the issues most debated

among the TWG and the full committee. Even though the methodology focuses on the cost components of providing an undergraduate education, it was necessary to measure the additional costs of educating graduate students within the same academic units as undergraduates. Research findings suggest a correlation between high concentrations of graduate students and higher costs per student. The most important factor leading to higher cost per graduate student is the amount of technology required in selected disciplines, such as the sciences and engineering. The option of weighting costs by discipline was rejected because it was too complex and irregular for purposes of the methodology.

Instead, it was decided to weight graduate students only if they meet a certain threshold of the institution's population. Institutions with more than 15 percent of their students at the graduate level weight each graduate student by an additional 25 percent in their FTE count. Institutions that don't reach the 15 percent threshold may use the same weighting formula if they believe that certain cost-adding factors are present.

The graduate student threshold includes all doctoral and master's degree students in the same academic units as undergraduates. This applies most often to programs in business, education, engineering, and arts and sciences. Costs from professional and graduate programs that have no undergraduates, such as medicine and law, are excluded from the calculations.

If an institution falls below the 15 percent threshold, it still may choose to weight graduate students if special circumstances require the adjustment to avoid overstatement of undergraduate costs. Special circumstances include: a large number of doctoral students; a large number of advanced graduate students focused primarily on research with little or no course load; a large number of science or engineering graduate students with unusually high unit costs at the graduate level; and any other anomalous situation that makes weighting students useful as a more accurate picture of total costs.

### *II-Instruction and Student Services*

Instruction and student services costs include the core educational expenses related to faculty effort, student services such as advising, and administrative effort directly related to academic programs. In addition to the direct costs of each of these components, this category includes the allocated costs for general administration, facilities operations, and depreciation of plant and equipment.

**Departmental Research.** Several alternative proposals were considered, but NACUBO concluded that all departmental research costs should remain within instruction and student services. Departmental research is vital and has a direct impact on the value and quality of instruction provided to students. Any arbitrary attempt to distinguish between departmental research and instruction

ignores the fact that the integration of research and education is a major strength of the nation's colleges and universities and directly benefits undergraduates. Including departmental research costs within the instruction category is beneficial and appropriate for all institutions. Liberal arts colleges without major graduate student populations argue strongly that departmental research contributes direct educational benefits to undergraduates. Accounting rules used by research universities to account for federal grants under OMB Circular A-21 do not separate departmental research from instruction, and efforts to do so would be extremely burdensome for institutions.

Including departmental research within the instruction category provides for simplicity and uniformity. No simple and uniform method for disaggregating such research is available, and it is unlikely that large research universities could reach consensus on a uniform percentage that does not contribute to undergraduate education. Finally, the adjustment for weighting graduate students addresses a similar problem in the class of institutions most affected by this issue. After extensive deliberations and consultations on this point, NACUBO eventually decided that weighting graduate students is a cleaner modification that will offset any potential overstatement of undergraduate costs resulting from the inclusion of departmental research.

### *III- Institutional and Community Costs*

A significant amount of time was spent defining institutional and community costs. Beyond instruction and student support, institutions incur substantial expenses that contribute in tangible, and intangible, ways to "education" in the broadest sense. Providing cultural opportunities and fostering the campus community are important components of the undergraduate experience in American colleges and universities. The institutional and community costs category captures outlays that are relevant to each institution's broad educational mission. Because a greater degree of judgment is involved in determining which expenditures should be included under this rubric, they are deliberately isolated from direct instructional costs.

Recognizing that this category never can be defined precisely, and that complete comparability cannot be ensured, NACUBO determined that residual ambiguity is preferable to ignoring the costs altogether or grouping them with instruction. The category includes the costs of extracurricular cultural activities and facilities (e.g., museums, theaters, and performing arts centers), religious programs and facilities, and athletic and recreational programs, as well as gardens, arboretums, and similar entities that contribute directly and indirectly to the educational experience of an undergraduate. While sometimes these are not considered to be as essential as direct educational expenditures, they are important educational investments.

The criteria in this category include costs that otherwise would not be counted in the student services category, expenditures that serve the broad educational mission of the institution, and investments in other services available to undergraduate students.



In addition to the examples listed above, the methodology also accounts for the net cost of auxiliary enterprises. The treatment of a surplus or deficit in auxiliary services is important in determining institutional and community costs. In this methodology, such costs can be considered part of providing an undergraduate education. Auxiliary operations such as campus bookstores, housing, and dining services provide goods to students and the broader public on a cost-recovery basis. If they operate at a deficit and receive university funds as a subsidy, the methodology treats the subsidy as an educational expense.

At a substantial number of institutions, the most prominent auxiliary enterprise is intercollegiate athletics. Proper calculation of the net subsidy to athletics is a subject of frequent debate; in only a few institutions do revenues from intercollegiate athletics exceed their costs. As a result, the group decided to include the net costs of athletics in this category. Thus, the cost of athletic scholarships is included here and not in the financial aid section. In cases where revenues from athletics do exceed costs, the net income is treated as excess revenue, as in any other auxiliary operation.

#### *IV- Undergraduate Financial Aid Costs*

Expenditures for student financial aid are an important issue in the economic and public policy debates about college costs, and the TWG spent many hours discussing how to treat them in the methodology. Depending on the circumstances at individual colleges and universities, institutional financial aid may be viewed as either an investment in educational quality or a price discount to fill otherwise empty seats. Institutional practices associated with financial aid also differ widely. For this reason, the template provides for these expenditures to be recorded in a separate category from other direct educational expenses.

Treating undergraduate financial aid as a distinct category is intended to facilitate alternate calculations of the cost data utilizing different conceptual approaches to the role of student aid. One alternative could be to add government-funded aid. Another approach might be to eliminate the category entirely. While NACUBO's objective was to provide a uniform methodology, an institution might choose to present an alternative analysis that would contribute to a better understanding of its own unique cost and price information.

The financial aid costs included in the methodology consist of all institutional grants, whether from unrestricted or restricted sources, but not federal and state grants administered through the institution. Student loans are excluded, regardless of source.

In addition to simplifying the calculation, this approach accepts the argument that federal and state grant programs, as well as the federal portion of work-study awards, are not properly considered an institutional expense. The institutional share of work-study programs should be counted as a cost in the department or unit where the work is provided, just as other wages of the unit are included.

### *Facilities and Capital Costs*

The method of capturing facilities costs was the final challenging issue considered by the TWG. Higher education professionals and economists have long recognized that traditional accounting methods do a poor job of recording the full capital expense of providing institutional facilities, largely because it takes into account only original acquisition costs. A college facility may remain in service for half a century or more, but institutional accounting practices recognize only the dollars spent to build the structure, not its replacement cost. Because of the complexities and debate surrounding the facilities accounting issue, NACUBO devised a separate and alternative reporting format for this category based on current replacement values. Under this format, an institution may document the economic value of educational facilities while keeping this amount distinct from the rest of the cost calculation.

Depreciation spreads initial capital expenditures over a long period of time and does not reflect the current economic or replacement value of facilities. Moreover, it fails to show the opportunity cost of having capital tied up in noninterest-earning assets—the so-called “time value of money.” Consequently, the contribution of capital expenditures to the cost of an undergraduate education tends to be dramatically understated. NACUBO believed that the concept of an optional method of calculating the economic value of facilities represented a critical aspect of reporting college costs. The method it adopted applies the economic principle of replacement value. It may be augmented to include the opportunity cost of capital investment. Presumably, an institution could estimate the potential expected return on capital and impute this amount to the cost of facilities. However, NACUBO decided that such a complicated calculation, based on economic theory and not on accounting practice, was inconsistent with the uniform approach used in the methodology and created a greater likelihood of error. It also failed the project’s criteria of simplicity and ease of explanation and defense.

To avoid confusion, NACUBO repositioned the facilities capital costs component so that it is an addendum “below the line” — that is, after total costs — on the template. It also rewrote the instructions to make the construct more theoretical. The instructions specify that the methodology seeks additional information, as opposed to requesting a separate calculation for facilities costs.

The addendum calls for the institution to estimate the replacement value of all its facilities and to calculate the portion applicable to educational functions. It then computes the share applicable to undergraduate education, divides this amount by the number of undergraduate students, and arrives at a dollar figure for dedicated facilities costs per undergraduate. Because this figure is not as accurate as the other cost components listed on the template, it remains separate and does not get added into the cost information above. This allows the institution to make a statement such as: “Considering the replacement value of the facilities dedicated to education, each undergraduate is supported by a facilities investment with a value of \$X,XXX.” The institution then can proceed as it wishes to examine this area further.

# NACUBO COST OF COLLEGE PROJECT

## Annual Undergraduate Educational Costs Per Student Reporting Template

### 1. General Institution Information

Institution Name and Carnegie Class: \_\_\_\_\_  
 Contact Name: \_\_\_\_\_  
 Contact Title: \_\_\_\_\_  
 Contact Phone: \_\_\_\_\_  
 Contact e-mail: \_\_\_\_\_

Institution Type:  Public  Private

Fiscal Year Reported: \_\_\_\_\_

Price Per Student: \_\_\_\_\_

#### FTE used in this report:

Basis of FTE count:  preferred method  other method (describe): \_\_\_\_\_

Number of FTE undergraduate students: \_\_\_\_\_

Number of FTE graduate students (not weighted): \_\_\_\_\_

Did you weight graduate students in this FTE count?  no  yes

If yes, indicate weighting factor used  25%  other (indicate weighting): \_\_\_\_\_

### Category

### Cost per Undergraduate

#### 2. Instruction and Student Services

a. Instruction	
b. Departmental Administration	
c. Student Services	
d. Library	
e. Allocated O. and M. Expenses	
f. Allocated Depreciation: Facilities	
g. Allocated Depreciation: Equipment	
h. Allocated Administration (G&A)	
i. Subtotal: <i>Instruction and Student Services Costs</i>	\$

#### 3. Institutional and Community Costs

a. Cultural, Religious Life and Recreation	
b. Museums, Gardens, etc.	
c. Net Cost of Intercollegiate Athletics	
d. Net Cost of Other Auxiliary Operations	
e. Other (Specify)	
f. Allocated Facilities O&M Expenses	
g. Allocated Depreciation: Facilities	
h. Allocated Depreciation: Equipment	
i. Allocated Administration (G&A)	
j. Subtotal: <i>Institutional and Community Costs</i>	\$

#### 4. Undergraduate Financial Aid Costs

Institutional Resources	\$
-------------------------	----

#### 5. Total and Recap of Costs by Component

a. Instruction and Student Services Costs	\$
b. Institutional and Community Costs	\$
c. Financial Aid Costs	\$
d. Total Costs	\$

#### Addendum: Facilities Capital Costs:

A. Book value of all facilities	\$	_____
B. Estimated replacement value of all facilities	\$	_____
C. Portion of line B applicable to education	_____ %	
D. Portion of line C applicable to undergraduates	_____ %	
E. Divide line D result by number of undergraduates reported above		

## CHAPTER IV – CONCLUSIONS AND OBSERVATIONS

### Conclusions

The Ad Hoc Committee on College Costs unanimously approved the methodology and deemed the Cost of College Project a success in June 2001. After completion of the field test requested by the leaders of the major presidential associations, and following thorough analysis of the data it generated, the members found the same high levels of correlation among the various cost components they had seen in the earlier pilot tests. The field test confirmed the soundness of the methodology as something any institution might use to explain its undergraduate education costs.

The most important conclusion reached after analyzing the submissions from the group of institutions that participated in the field test was that the methodology does in fact work for its intended purposes. The goal of the project from the very beginning was to develop a common methodology simple enough to be applied consistently and understood (and explained) easily, but also robust and precise enough to give answers truly reflective of the real structure of college costs and prices. As indicated earlier, the committee knew from the start that such an effort had clear limitations and any results obtained would have to be qualified. They were seeking to help individual institutions arrive at a “reasonable approximation” of their costs for providing undergraduate education and recognized that it is impossible to create a uniform method to calculate those costs precisely for all types of institutions.

The methodology more closely approximates the true cost for some colleges and universities than for others. And because institutions undoubtedly would categorize their costs differently, the NACUBO concluded that in scrutinizing the results, it probably would be more useful to focus on total costs than to try to differentiate among the various categories. Finally, committee members and the project leadership were adamant that no value judgments could or should be made about what is a “good” or “bad” result for any institution. Considered alone, a high cost or a low cost is neither good nor bad, but rather just a description of the institution’s cost structure. To make judgments about either the quality of education provided or the efficiency with which that work is done, much more information than collected in this project would have to be gathered and analyzed.

When the results of the field test were examined, it was found that the similarities and differences among types of institutions—community colleges, public four-year colleges and universities, and independent four-year colleges and universities—were consistent with what was known about those sectors and their distinct cost structures and resources. Moreover, as Andersen and committee members looked at the individual institutions and where they fit in this pattern, essentially every result could be explained, both for those institutions that fell in the mainstream and for the outliers. This gave both the committee and the NACUBO leadership a very high level of confidence in the reliability of the methodology.

### Observations

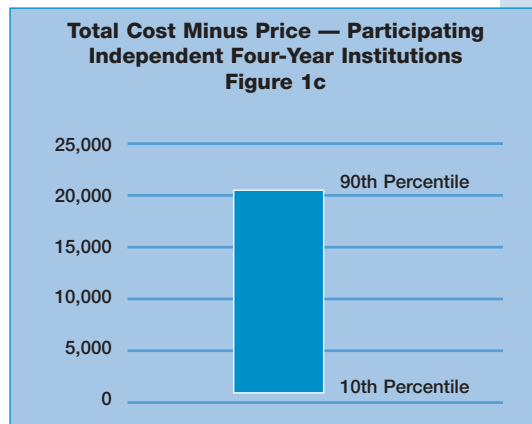
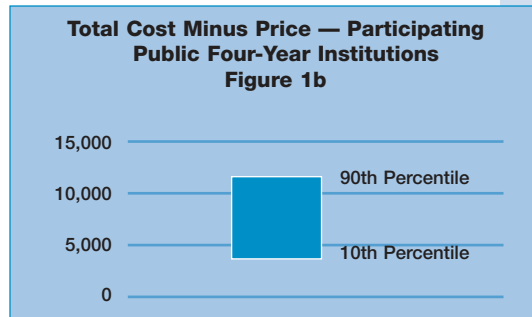
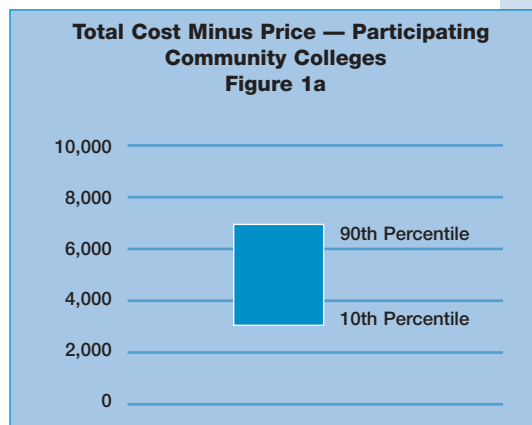
The review of the information produced by the field test revealed a number of outcomes worth reporting. The plausibility of the results reinforces the validity of the methodology, and these observations should be useful in any larger discussion of the cost structure of colleges and universities.

**Cost Exceeds Price.** While the field test did not constitute a formal study of the relationship between costs and prices, NACUBO found that at almost every participating institution, the cost of providing the programs and services that were part of undergraduate education exceeded the price charged to students and their families in the form of tuition and related fees. Of the 150 institutions for which full information was received in the field test, at only two small independent colleges did cost not exceed price, and both of those exceptions were associated with special circumstances that were likely to be temporary. Moreover, because “price” means “sticker price,” most students receiving financial aid at those two institutions actually paid a net “price” lower than the institution’s costs. At every other institution, however, cost exceeded price by anywhere from a few hundred dollars to as much as \$20,000 or more.

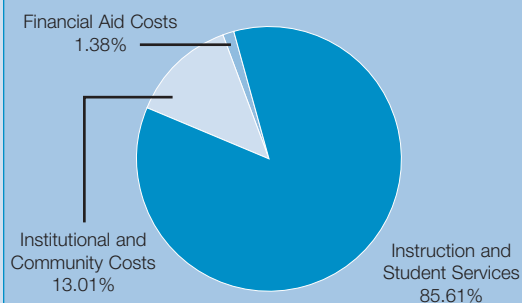
This result was no surprise to anyone who has studied the finances of higher education. It means that in almost every case at all three types of institutions, all students, even those who pay full tuition, are subsidized. The differences lie only in the amount of the subsidy and in the source of the additional revenues that allow the institutions to provide it.

For most community colleges and public four-year institutions, state and local governments constitute the largest source of such additional revenues. For independent institutions, the primary sources of support are endowments and private fund raising as well as public funds and surpluses earned through other non-undergraduate activities.

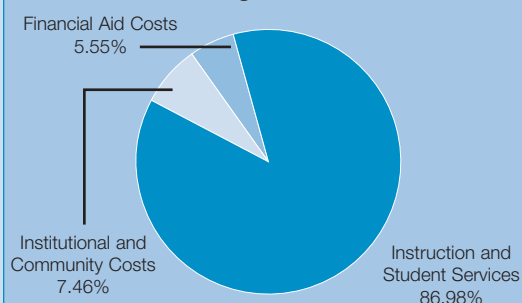
Figures 1a, 1b, and 1c provide some sense of the amounts by which cost exceeds price and how it varies both across and within institutional categories. The figures show that subsidies for students at participating community colleges range from roughly



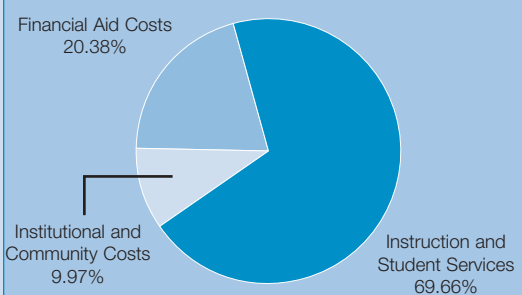
**Participating Community Colleges  
Average Distribution of Total Costs  
Figure 2a**



**Participating Public Four-Year Institutions  
Average Distribution of Total Costs  
Figure 2b**



**Participating Independent Four-Year Institutions  
Average Distribution of Total Costs  
Figure 2c**



\$3,000 to about \$7,000 per year; at public four-year institutions, from roughly \$4,000 to around \$11,000; and at independent institutions, from almost nothing at those that are largely tuition dependent up to \$20,000 and higher at well-endowed institutions with substantial fund-raising efforts or other sources of support.

Again, however, the most important observation here is that—with only the two exceptions noted—students at the participating institutions receive some form of support from a combination of sources. For the large number of students who receive financial aid, the difference between cost and price is even greater.

***The Greatest Costs Are for Instruction and Student Services.*** At all participating colleges and universities, the majority of costs are incurred in the category of instruction and student services. Although the breakdown of expenses by category in the field test was less consistent than the calculation of total costs, the results were similar enough that members of the committee believe them to be fundamentally correct. As shown in Figures 2a and 2b, for example, instruction and student services costs comprise 85 to 87 percent of the total for the average community college and public four-year institution.

For participating independent colleges and universities (Figure 2c), the comparable share is around 70 percent, largely because those institutions spend significantly more—on average about 20 percent of total costs—on financial aid.

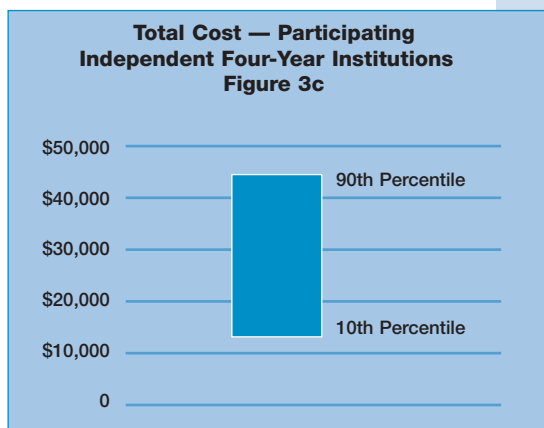
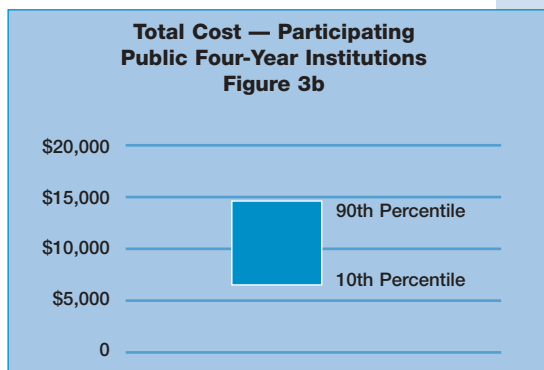
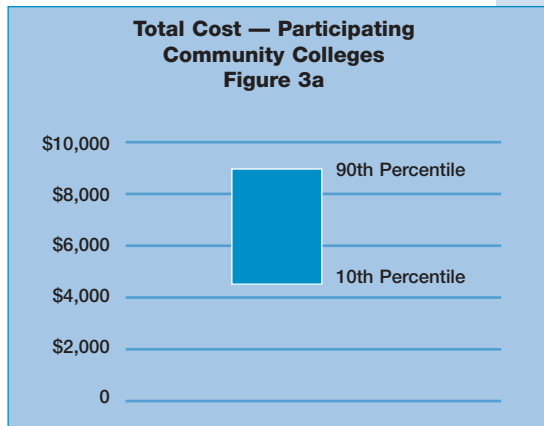
Even within the category of instruction and student services, the largest single expenditure in most cases is for direct instructional expenses, which for many institutions is just the cost of faculty salaries and related benefits. For all the attention sometimes given to spending on administration and other activities unrelated to undergraduate education, the methodology and field test indicate that the main drivers of cost at most colleges and universities are the direct educational expense of the faculty and the academic services that support instruction.

**American Higher Education is Very Diverse.** The institutional data produced by field test varied greatly, consistent with the tremendous diversity of American higher education. Some institutions in this country spend \$5,000 per student each year and provide an excellent education for their particular population; other institutions serving different populations and with different missions (and different resources) spend \$40-50,000 per student. The point of this observation is not that one approach is better or worse or to identify some optimal cost structure that all colleges and universities should seek to realize. Rather, it is that higher education as a whole is wonderfully effective at providing a very wide range of options for students based on their different needs and circumstances.

Figures 3a, 3b, and 3c give some sense of this diversity. The graphs show that total expenditures per student at community colleges range from just under \$5,000 to as high as \$9,000; at public four-year institutions, from about \$7,000 to around \$15,000; and at independent institutions from \$12,000 to more than \$40,000.\*

Again, no one would argue that any single outcome is better than any other. To make those kinds of judgments, one would have to examine exactly what is offered at different institutions and how well those offerings suit the particular populations of students they serve. For purposes of the Cost of College Project, it is enough to reiterate that the nation's network of higher education as a whole is extremely diverse. Individual students and their families have an enormous variety of choices, both within and between the sectors as we have defined them.

Making institutional data more transparent will not correct all of the public's misperceptions about higher education. However, it is a step in the right direction. By increasing the understanding of their finances, colleges and universities can create a clearer context in which to explain their tuition rates



\*Because the institutions that submitted data to the project were not a representative sample of all U.S. colleges and universities, it is likely that a higher percentage of independent institutions are in the \$8-12,000 range than among those who participated in the field test. This is further testimony to the diversity of American higher education.

and call attention to rising costs or reductions in support. Absent such information, students, parents, the media, policy makers, and the public will remain uninformed and be more likely to believe erroneous explanations of the reasons for tuition price increases.

NACUBO encourages institutions to respond positively to the National Commission's recommendation that every college and university issue its cost and price data each year to students and their families. Campuses may find this new methodology a worthwhile tool by which they can do so.

Instructions for completing the NACUBO methodology, and a copy of the Excel template, are available for download on the NACUBO web site.

[www.nacubo.org/public\\_policy/cost\\_of\\_college](http://www.nacubo.org/public_policy/cost_of_college)



**National Association of College and University Business Officers**  
**Ad Hoc Committee on College Costs**

Kenneth Babe  
 Corporate Controller  
 Pennsylvania State University

Lauren Brisky  
 Vice Chancellor  
 Vanderbilt University

Jonathan Brown  
 President  
 Association of Independent Colleges &  
 Universities, California

John Burness  
 Senior Vice President Public Affairs  
 Duke University

Carol Campbell  
 Vice Chancellor for Finance and Business  
 Texas Christian University

Patrick Cavanaugh  
 Vice President for Finance  
 University of the Pacific

Bruce Darling  
 Vice President of University Relations &  
 External Relations  
 University of California

Lindsey Desrochers  
 Vice Chancellor for Administration  
 University of California, Merced

William Dixon  
 Dean, Financial and Administrative Services  
 Wytheville Community College

James Doti  
 President  
 Chapman University

Stephen Garcia  
 Vice President, Finance & Administrative  
 Services  
 California State University, San Marcos

Milton Goldberg  
 President (retired 2000)  
 Council on Governmental Relations

Janet Gordon  
 Vice President  
 Morgan Stanley Dean Witter Investments

Katharine Hanson  
 President  
 Consortium on Financing Higher Education

Thomas Hawk  
 Vice President for Planning and Finance  
 Community College of Philadelphia

Jennifer Hubert  
 Manager  
 Andersen, Higher Education practice

Shandy Husmann  
 Manager  
 Andersen, Higher Education practice

Barbara Johnson  
 Vice President & Treasurer  
 Carleton College

David Lieberman  
 Senior Vice President, Business & Finance  
 University of Miami

Michael McPherson  
 President  
 Macalester College

Joel Meyerson  
 Director of the Forum for the Future of Higher  
 Education  
 PricewaterhouseCoopers LLP

Michael Middaugh  
 Assistant Vice President for Institutional  
 Research & Planning  
 University of Delaware

James Monks  
 Senior Economist  
 COFHE

Joseph Mullinix  
 Senior Vice President for Business and Finance  
 University of California

Richard Norman  
 Vice President for Finance and Business  
 Services, and Treasurer  
 Miami University

Diane Oakley  
 Vice President  
 TIAA-CREF

William Reed  
Vice President for Finance and Administration  
Wellesley College

Yoke San Reynolds  
Vice President for Finance  
University of Virginia

James Roberts  
Vice Provost, Finance and Administration  
Duke University

Craig Roloff  
Assistant Vice President for Finance and  
Administration  
Montana State University

James Roth  
Partner  
Andersen, Higher Education practice

Gary Schultz  
Senior Vice President for Finance and Business  
Pennsylvania State University

Richard Spies  
Vice President, Finance and Administration  
Princeton University

Jon Strauss  
President  
Harvey Mudd College

Scott Sudduth  
Federal Government Relations  
University of California

Charles Tegen  
Comptroller  
Clemson University

William Troutt  
President  
Rhodes College

Timothy Warner  
Director, University Budgets  
Stanford University

Richard West  
Senior Vice Chancellor, Business & Finance  
California State University System Office

Gordon Winston  
Department of Economics  
Williams College

Richard Yanikoski  
President  
Saint Xavier University

#### Project Director

Gregory Fusco  
Fusco Associates

#### NACUBO Staff

James E. Morley Jr.  
President

Christine E. Larger  
Vice President for Public Policy and  
Government Relations

Michele Madia  
Policy Analyst

Mark A. Olson  
Senior Vice President

Christopher Campbell  
Policy Analyst

Diana Blessinger  
Administrative Coordinator

**National Association of College and University Business Officers**  
Working Groups – NACUBO Cost of College Project

**Technical Working Group**

Kenneth Babe  
Corporate Controller  
Pennsylvania State University

Thomas Hawk  
Vice President for Planning and Finance  
Community College of Philadelphia

Jennifer Hubert  
Manager  
Andersen, Higher Education practice

Shandy Husmann  
Manager  
Andersen, Higher Education practice

Michael Middaugh  
Assistant Vice President for Institutional  
Research & Planning  
University of Delaware

Joseph Mullinix  
Senior Vice President for Business & Finance  
University of California

Yoke San Reynolds  
Vice President for Finance  
University of Virginia

James Roberts  
Vice Provost, Finance and Administration  
Duke University

Richard Spies  
Vice President, Finance and Administration  
Princeton University

**Communications Working Group**

Jonathan Brown  
President  
Association of Independent Colleges &  
Universities, California

John Burness  
Senior Vice President Public Affairs  
Duke University

Bruce Darling  
Vice President of University Relations  
& External Relations  
University of California

James Doti  
President  
Chapman University

Stephen Garcia  
Vice President, Finance  
& Administrative Services  
California State University, San Marcos

Katharine Hanson  
President  
Consortium on Financing Higher Education

David Lieberman  
Senior Vice President, Business & Finance  
University of Miami

Diane Oakley  
Vice President  
TIAA-CREF

Richard Spies  
Vice President, Finance and Administration  
Princeton University

Scott Sudduth  
Federal Government Relations  
University of California

**Association Working Group**

David Baime  
Director of Government Relations  
American Association of Community Colleges

Frank Balz  
Vice President for Research and Policy Analysis  
National Association of Independent Colleges  
and Universities

Susan Chilcott  
Director, Communications  
American Association of State Colleges and  
Universities

Cheryl M. Fields  
Director, Office of Public Affairs  
National Association of State Universities and  
Land-Grant Colleges

Terry Hartle  
Senior Vice President and Director  
American Council on Education

Norma Kent  
Director of Communications  
American Association of Community Colleges

Jacqueline King  
Director, Federal Policy Analysis  
American Council on Education

Roland King  
Vice President for Public Affairs  
National Association of Independent Colleges  
and Universities

Tim McDonough  
Director of Public Affairs  
American Council on Education

Travis Reindl  
Director of State Policy Analysis  
American Association of State Colleges and  
Universities

Chris Simmons  
Federal Relations Officer  
Association of American Universities

Peter Smith  
Public Affairs Director  
Association of American Universities

Becky Timmons  
Director of Government Relations  
American Council on Education

**National Association of College and University Business Officers**  
Participating Pilot Institutions

- |                                   |   |
|-----------------------------------|---|
| Blue Ridge Community College      | Polk Community College                              |
| Broome Community College          | Princeton University                                |
| Carleton College                  | Purdue University                                   |
| Clemson University                | Saint Xavier University                             |
| College of New Rochelle           | St. Charles Community College                       |
| Community College of Philadelphia | Stanford University                                 |
| Cornell University                | State University of West Georgia                    |
| DePaul University                 | Susquehanna University                              |
| Dillard University                | The California State University                     |
| Duke University                   | University of Florida                               |
| Gettysburg College                | University of Idaho                                 |
| Glendale Community College        | University of Miami                                 |
| Harvey Mudd College               | University of Richmond                              |
| Macalester College                | University of Texas-Pan American                    |
| Mars Hill College                 | University of Washington                            |
| Michigan State University         | Virginia Polytechnic Institute and State University |
| Montana State University          | Washington and Lee University                       |
| Mount Holyoke College             | Wellesley College                                   |
| New Mexico State University       | Whitman College                                     |
| Northeastern University           | Wytheville Community College                        |
| Pennsylvania State University     | Yale University                                     |
| Pitzer College                    |   |
| Plymouth State College            |   |

## National Association of College and University Business Officers 2001 Field Test Institutions

Albertus Magnus College	Luther College
Arizona State University, Main Campus	Macalester College
Ashland University	Maricopa County Community College
Austin College	Massachusetts Institute of Technology
Black Hills State University	Miami University
Caldwell College	Millikin University
California Institute of Technology	Mississippi State University
California State University	Missouri Southern State College
California State University, Fresno	Montana State University
California State University, Hayward	Mount Holyoke College
California State University, Long Beach	Mount Ida College
California State University, Monterey Bay	Mount Vernon Nazarene College
California State University, San Marcos	New Jersey Institute of Technology
Carleton College	New Mexico State University, Main Campus
Charleston Southern University	North Carolina Agricultural and Technical State University
Clemson University	North Carolina State University
College of New Rochelle	Northeast State Technical Community College
College of the Holy Cross	Northeastern University
College of Mount St. Joseph	Northern Maine Technical College
Community College of Philadelphia	Oberlin College
Cornell University	Ohio State University
Culver-Stockton College	Oregon State University
Doane College	Paul D. Camp Community College
Drew University	Pennsylvania State University, Main Campus
Duke University	Pittsburg State University
Ferris State University	Plymouth State College
Fordham University	Pomona College
Franklin and Marshall College	Presbyterian College
George Mason University	Princeton University
Georgetown University	Raritan Valley Community College
Gettysburg College	Rensselaer Polytechnic Institute
Gloucester County College	Rhodes College
Harrisburg Area Community College	Rowan University
Harvard University	Rutgers, The State University of New Jersey
Harvey Mudd College	Saint Edward's University
Hastings College	Saint Mary's College of Maryland
Illinois State University	Saint Vincent College
Ithaca College	Saint Xavier University
Kansas State University	San Diego State University
Keene State College	Seattle University
Lakeland Community College	Seminole Community College
Lindsey Wilson College	

Seton Hall University	University of Puget Sound
Smith College	University of Rhode Island
South Dakota State University	University of Richmond
Southeast Missouri State University	University of San Francisco
Southern Methodist University	University of South Florida
St. Edward's University	University of St. Thomas
St. Lawrence University	University of Texas, Pan American
Stanford University	University of Texas at Dallas
State University of West Georgia	University of the Pacific
Syracuse University	University of Tulsa
Texas A&M University	University of Utah
Texas Christian University	University of Virginia
Tulane University	University of Wyoming
University of California, Berkeley	University of Wisconsin, Madison
University of Central Florida	University of Wisconsin, Platteville
University of Florida	University of Wisconsin, Whitewater
University of Hartford	Vanderbilt University
University of Idaho	Virginia Military Institute
University of Illinois at Chicago	Virginia Polytechnic Institute and State University
University of Illinois at Urbana-Champaign	Wellesley College
University of Massachusetts Amherst	Wesleyan University
University of Memphis	West Virginia University
University of Missouri-Columbia	Whitman College
University of Nebraska at Kearney	William Marsh Rice University
University of Nebraska at Lincoln	Wittenberg University
University of New Hampshire	Wytheville Community College
University of New Orleans	Yale University
University of North Carolina at Chapel Hill	

## APPENDIX C

American Council on Education



Office of the President

February 1, 2001

Dr. John Smith  
 President  
 ABC University  
 123 College Way  
 College Town, USA 01234

Dear Dr. Smith:

We write to inform you about a project on measuring college costs being undertaken by the National Association of College and University Business Officers (NACUBO). The aim is to try to develop a common methodology that will be useful to institutions and consortia of institutions in explaining their costs and prices to the various constituents. Roughly 40 colleges and universities have participated in the pilot project to date and the methodology needs to be tested on a larger group of institutions. We encourage you to consider participating.

We need not tell you that college costs and prices—and the ability of our institutions to explain them—remain issues of public concern. There is a strong feeling that it would benefit the higher education community to be more proactive and to seek ways to improve public understanding and correct misinformation. It is in this spirit that we ask that you join the project and submit data for your institution.

As background, almost two years ago NACUBO assembled an Ad Hoc Committee on College Costs—a national group of college and university leaders reflecting the diversity of American higher education. Under NACUBO's aegis, this team has been working on the Cost of College Project. Its aim is to provide a methodology that helps explain in a straightforward, simple, and uniform way what it costs to provide a year of undergraduate education at our institutions.

Our associations have conferred with NACUBO and the members of the Ad Hoc Committee about this project over the last several months. We are well aware of the controversy surrounding this subject and understand the possible technical and political pitfalls that may lie ahead. All involved acknowledge the risks and limitations inherent in an effort of this kind. Still, there is a consensus that the effort should go forward if for no other reason than to test its feasibility. In order to avoid misuse of the data, the project will not provide broad averages or baselines for institutional data. Due to the differences between institutions, such data taken out of context could mislead rather than inform the public on college costs.

So far the methodology has been field tested in a pilot phase. The next step is to expand the number of institutions to several hundred to see how the methodology works for them, and to test more generally the technical feasibility and political viability of the project. The staff time required to provide the needed data will vary from campus to campus. Most of the 40 pilot

One Dupont Circle NW, Suite 800, Washington, DC 20036-1193  
 Telephone: (202) 939-9310 • Fax: (202) 659-2212



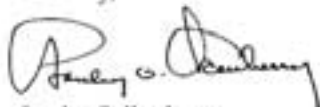
institutions invested two to five staff-days of effort in preparing and submitting data. Some large and complex institutions devoted more than two weeks of staff effort. NACUBO expects that with improved field-tested instructions the time needed will be reduced. The pledge is to maintain the confidentiality of the data in all phases of the project. Public institutions may be subject to the confidentiality laws of their own states and will need to assess this aspect on a case-by-case basis.

NACUBO will present an informational and training seminar on February 27, 2001, in Dallas/Ft. Worth for representatives from interested institutions where campuses can learn more about the project, provide feedback, and receive help on gathering and reporting data. The seminar is described further in the enclosures.

In short, we ask you to consider joining the project and providing data for your institution on a confidential basis. Undoubtedly you will discuss this invitation with your campus academic and business officers and others on campus. We believe the project can produce outcomes that will help all of higher education, including a methodology that will be useful to institutions and improved public understanding of college costs and prices. NACUBO has provided the enclosed background material on the project, along with the instructions for gathering and submitting campus data. You also can learn more about the project on the NACUBO website at [www.nacubo.org](http://www.nacubo.org) (click on Public Policy).

Please respond directly to NACUBO using the enclosed response sheet. And again, we thank you for your consideration of the request.

Sincerely,



Stanley O. Ikenberry  
President  
American Council on Education



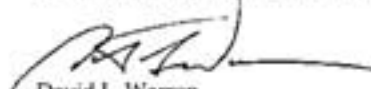
George R. Boggs  
President  
American Council of Community Colleges



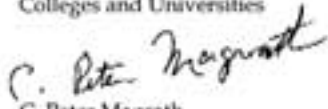
Constantine W. Curris  
President  
American Association of State Colleges  
and Universities



Nils Hasselmo  
President  
Association of American Universities



David L. Warren  
President  
National Association of Independent  
Colleges and Universities



C. Peter Magrath  
President  
National Association of State  
Universities and Land-Grant Colleges

Enclosures

cc: NACUBO Primary Representative

American Council on Education



Office of the President

January 10, 2002

James E. Morley, Jr.  
 President, NACUBO  
 2501 M Street, NW, Suite 400  
 Washington, DC 20037

Dear Jay:

We commend you and your entire staff for showing such dedication and leadership these past three years on the Cost of College Project. The entire higher education community owes you a debt of gratitude for undertaking this mammoth effort and completing it successfully.

As you have said many times, this process taught us much about the financing of American higher education – mainly how difficult it is to develop a single cost reporting method that can apply to more than 3,500 postsecondary institutions. However, the result does provide our institutions with an extremely valuable tool for tracking their own internal costs against the budgets of other like institutions. This, by itself, is a considerable achievement that will benefit campus administrators for many years.

The coming months will provide us with new insights as colleges and universities test this new reporting model. Again, many thanks to you and your team for the months of hard work developing this valuable tool.

Sincerely,

A handwritten signature in cursive script, appearing to read 'David Ward'.

David Ward  
 President, American Council on Education

A handwritten signature in cursive script, appearing to read 'Nils Hasselmo'.

Nils Hasselmo  
 President, Association of American Universities

A handwritten signature in cursive script, appearing to read 'David L. Warren'.

David L. Warren  
 President, National Association of  
 Independent Colleges and Universities

A handwritten signature in cursive script, appearing to read 'George R. Boggs'.

George R. Boggs  
 President, American Association of  
 Community Colleges

A handwritten signature in cursive script, appearing to read 'Constantine W. Curris'.

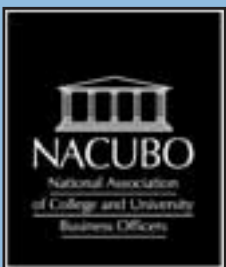
Constantine W. Curris  
 President, American Association of  
 State Colleges and Universities

A handwritten signature in cursive script, appearing to read 'C. Peter Magrath'.

C. Peter Magrath  
 President, National Association of State  
 Universities and Land-Grant Colleges

DW/cms





National Association of College and University Business Officers  
2501 M Street, NW  
Washington, DC 20037  
202-861-2500  
[www.nacubo.org](http://www.nacubo.org)