So What Now?
Practical Strategies for Shifting the Cost Conversation

Trouble on the Horizon

Trends in College Spending presents patterns in higher education enrollment, revenues, and spending that spell trouble for the nation's ability to deliver a more educated population:

- More students are attending the institutions that have the least to invest in their success. The richest institutions are getting richer, and the rest are getting squeezed.
- Revenue drives institutional activity. Most of the new money in higher education is restricted for special functions like research and public service, rather than for activities like instruction.
- At most institutions, students are paying more of the total cost, and less of that money is going into the classroom. (The exception is private research institutions, where additional money is coming from other sources.)
- Student tuition increases are only partially making up for lower state funding at public institutions and are fueling increased spending at private institutions. Costs are being cut at most public institutions, despite increases in prices.
- The relationship between how much institutions spend and how many certificates and degrees they produce has changed little in recent years.

Policy discussions about funding in higher education focus primarily on revenues needed to balance budgets from year to year, rather than on how funds need to be invested to meet strategic priorities. The data in *Trends* show that the incremental approach to fundraising and spending has resulted in a slow disinvestment in core instructional capacity at a majority of institutions.

Now more than ever, we need straightforward and strategic policy conversations about money and priorities that are guided by sound metrics. Decisions need to be based on data and not anecdote, and funding increases, whether from tuition or state appropriations, should be justified based on evidence that resources are going to pay for essential priorities.

Big Questions, Practical Strategies

There are five basic steps that higher education leaders and policymakers can take to refocus finance conversations in a way that addresses the troubling trend of spending more and getting less:

1. **Set sharp-edged goals for educational attainment.**
   The U.S. is losing ground in the global race for talent, sliding to tenth in the percentage of young adults that have a college degree. Reversing this trend should be a top priority for state and federal policymakers, and should be the starting point for discussions about where and how we spend resources. A growing number of state and system leaders have gotten this message and are taking action.

   Examples:
   Arizona—Gov. Napolitano has set a goal of doubling the number of bachelor's degrees awarded by 2020. The state's P-20 council is developing a policy agenda to meet this goal, including changes in state funding policy.

   Ohio—Gov. Strickland has challenged the state's colleges and universities to boost enrollment by 230,000 and increase the number of degrees awarded by 20 percent by 2017. In response, the Ohio Board of Regents is proposing major policy changes to meet the challenge, including an overhaul of the institutional funding formula.

   Kentucky—The Council on Postsecondary Education has set a goal of increasing the number of college graduates in the state to the national average by 2020, and has named five strategies for reaching that goal: 1) increase high school graduation rates; 2) increase the number of GED graduates and move more of them to college; 3) enroll more first-time students in community and technical colleges and transfer them successfully to four-year institutions; 4) increase the number of Kentuckians enrolling in and completing college; and 5) attract more college-educated workers to the state and create jobs for them.

   Access to Success / National Association of System Heads (NASH)—The 19 public university systems participating in this initiative have committed to cutting college participation and completion gaps for underrepresented groups in half by 2015. Cost containment is one of the initiative's key strategies.

   Making Opportunity Affordable / Lumina Foundation for Education—Eleven states are participating in this national effort, which promotes the development of state policy agendas to increase the number of college graduates for the dollars invested by students, families, and taxpayers.

2. **Look at spending patterns and align spending with strategic priorities.**
   Talk about where the money goes in higher education tends to veer in one of two directions—too technical or not at all. Neither of these directions is helpful in creating investment strategies for campuses and systems. Governing boards and policymakers need to have a clear sense of where money is going and how that relates to priorities such as increasing completion rates. The public and policymakers should have readily accessible and transparent measures of spending that show where the money is coming from, where it goes, and what it buys.

Example:
The Mississippi Institutions of Higher Learning (IHL) has changed its budget development process to include a stronger focus on spending. Rather simply vetting campus requests, the system now uses spending data organized by major function to help determine where funding is needed and where existing funds can be reallocated. IHL also conducts system-level reviews of spending on administration and support services to identify areas where these costs can be trimmed.

3. **Increase degree productivity by reducing the number of excess credits taken by students and the time it takes students to get a degree.**
There is currently a lot of “rework” and “overwork” at colleges and universities—courses taken multiple times and courses taken above and beyond what is necessary for graduation. By improving advising, streamlining transfer from community colleges to four-year institutions, and better managing curricula, campuses and systems can free up spaces for new students and reduce costs for current students.

Example:
Over a ten-year period, the University of Wisconsin System has reduced the average number of credits per bachelor’s degree graduate from 145 to 135 by controlling “credit creep” in degree program requirements. This has translated into 12,000 additional seats across the system and has reduced time-to-degree for the average student by nearly a semester—a savings of about $3,000 in tuition and fees alone.

4. **Strengthen public accountability for spending.**
Competition for higher education funding is getting tougher, and colleges and universities face increasing worry and skepticism from policymakers and the public about college costs. Making a successful case for continued investment in higher education will increasingly depend on the ability to show that resources are being used effectively and that changes in resource use are being made where needed.

Example:
The University System of Maryland (USM), through its Effectiveness and Efficiency initiative, is pursuing cost management strategies that are paying off, both in terms of savings that are being reinvested in student access and success, as well as in support from state policymakers. Since the initiative’s launch in 2004, USM has achieved nearly $100 million in cost savings through a combination of academic and administrative policy changes such as:

- Increasing teaching loads by 10 percent.
- Limiting bachelor’s degree programs to 120 credits (with limited exceptions).
- Requiring students to earn 12 credits off-campus through means such as Advanced Placement, distance learning, or study abroad.
- Focusing enrollment growth on comprehensive institutions rather than more expensive research universities.
- Combining shared campus services such as auditing, construction management, and real estate development.

5. **Improve governing board oversight of spending.**
Governing boards are responsible for setting a course for their campuses and systems, but they are largely flying blind when it comes to spending. A 2005 survey by the Association of Governing Boards (AGB) and the National Association of College and University Business Officers (NACUBO) revealed that while all institutions involve boards in budget review, discussions about spending focus on narrow areas like faculty salaries or capital outlay rather than broader indicators like educational spending in relation to performance (e.g. certificates and degrees awarded). To move from simply balancing the budget to having a long-term investment strategy, boards need information that helps them think strategically about money and performance:

    - Where is the money coming from, and how has that changed?
    - Where is the money going, and how has that changed?
    - What sort of return are we getting on our investment?

    Example:
    AGB is leading The Cost Project, a multi-year effort to improve governing boards' engagement of spending issues. The project is working with national experts (including the Delta Cost Project) and pilot institutions to develop and test metrics and strategies that boards can use to strengthen their understanding of spending and results without micromanaging institutional finances.

A New Conversation

Our nation's system of higher education—long extolled as the best in the world—is showing serious fault lines that threaten capacity to meet future needs for an educated citizenry. There are many causes for concern but chief among them is a system of finance that will be hard to sustain in the current economic environment.

It is time to get past the technical obstacles that have dominated our higher education finance conversation for too long and do something about cost accountability. Every institution should be able to tell students, boards, and policymakers basic facts about where the money comes from, where it goes, and what it buys. Every state policymaker should know how state funds are spent, what they buy, and how their institutions compare to those in other states.

The Delta Project's work is a starting place for this conversation. We recognize that national data are not a substitute for the more granular analyses that institutions and states need to perform regularly to examine their own spending patterns. More research is also needed on the critical relationship between spending and performance, to find better ways of improving efficiency without compromising quality. But even if metrics don't tell us everything, they tell a lot, and that is a good place to begin.