

# The Higher Education Funding Model: How Revenues Drive Costs



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**NCHEMS**

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# The Cost of Higher Education Has Become an Issue for Everyone

- The President and Leaders of Congress
- State Legislators
- Especially students and their parents

And because their key constituents are concerned, vocal, and acting on those concerns, institutions are being pressed to become more cost conscious.

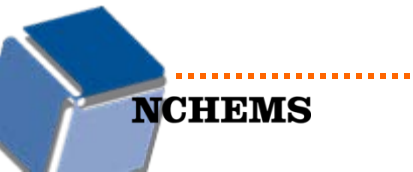


Controlling costs is usually viewed through the lens of expenditures – cut expenditures and you contain costs. But there's a revenue lens through which the topic can be viewed as well.

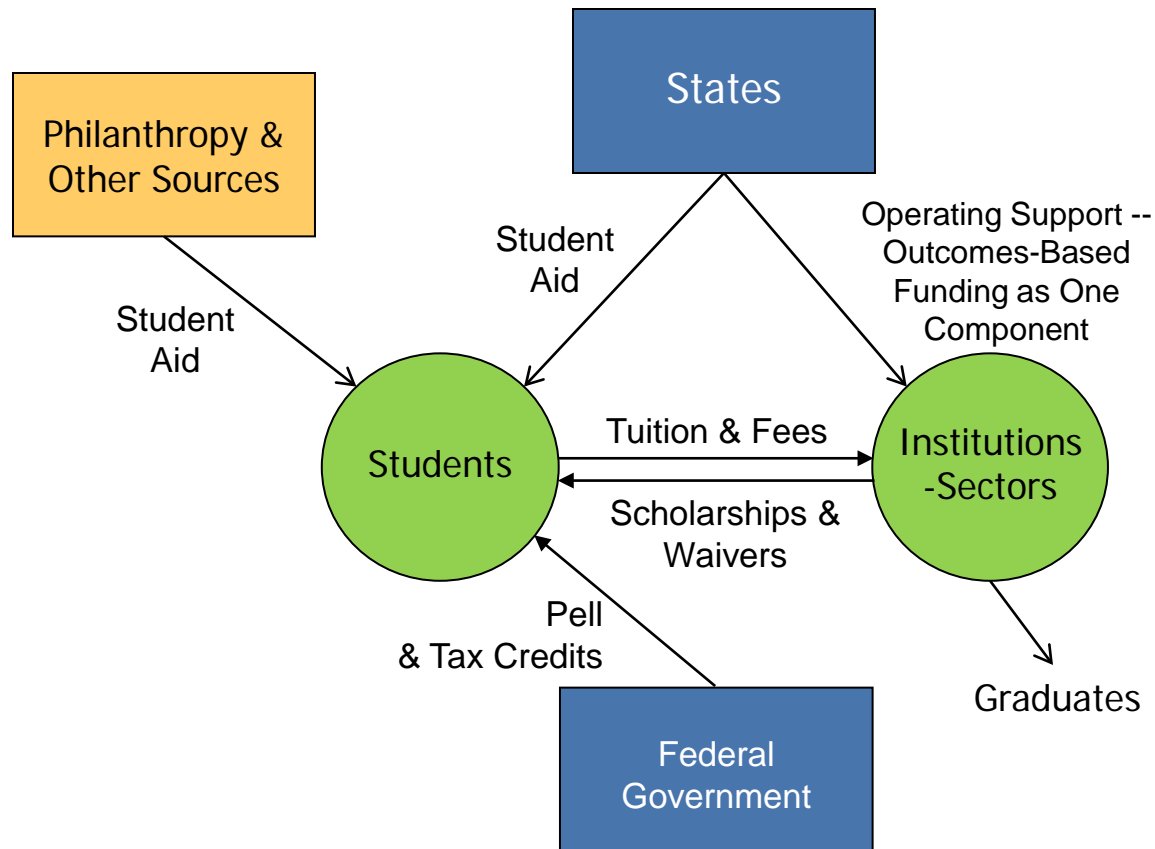
Howard Bowen's revenue theory of costs – higher education institutions raise as much money as they can and spend all they raise.

# The Cost Issue Increasingly Being Reframed as a Value Proposition

- At the national level
  - Can students afford college?
  - Can borrowers repay loans?
  - Can graduates get jobs (that pay a living wage?)
  - Will they even graduate?
- At the state level
  - Is tuition increasing far faster than family income?
  - Are costs serving as a barrier to production of graduates with needed skills?
- At the individual student level
  - The national level issues personalized

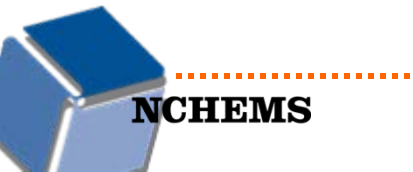


# The Elements of Finance Policy

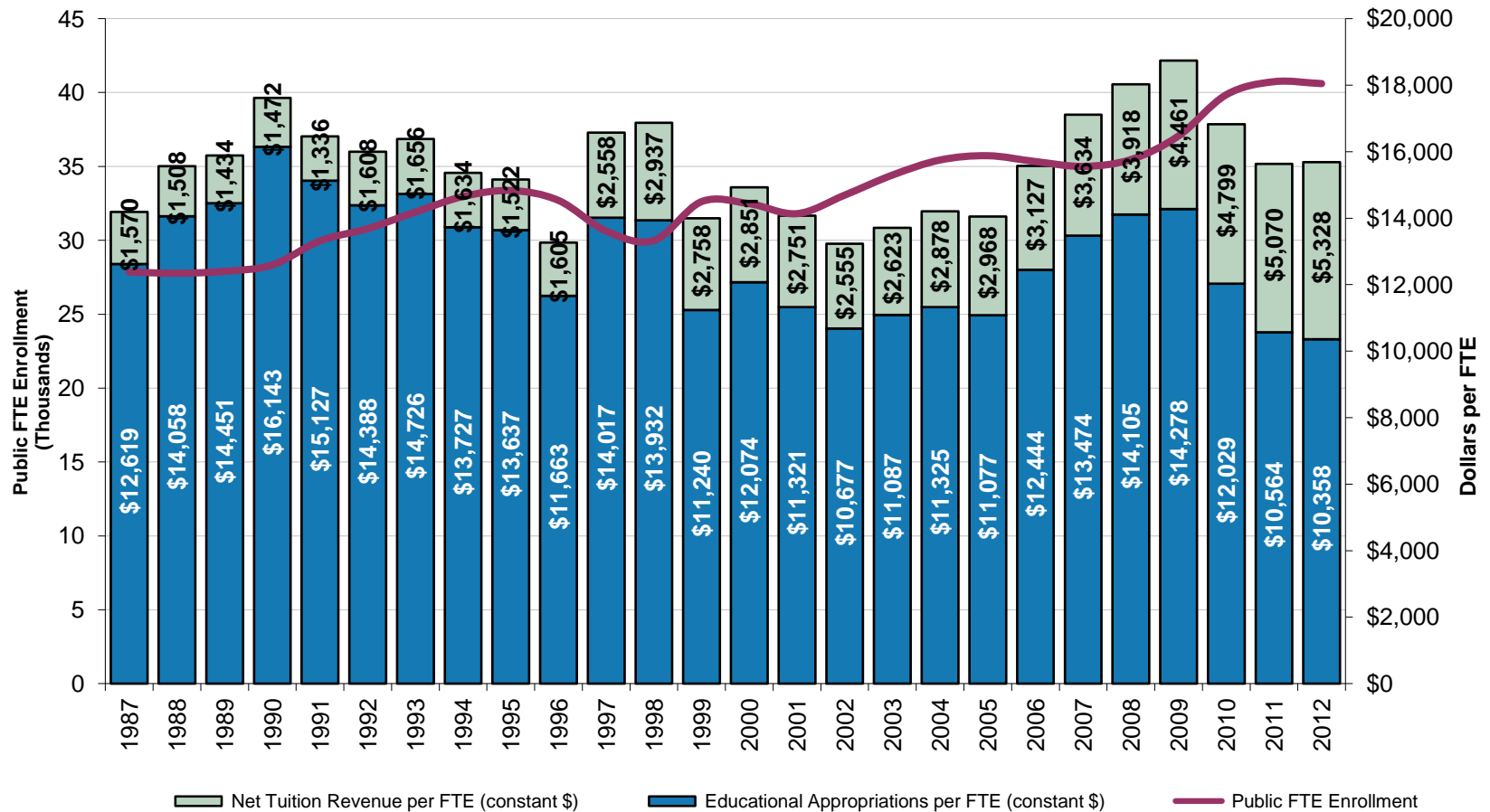


# Revenue-Related Structures and Practices Affect Costs in Multiple Ways

- Cost Shifting – Reducing costs to one provider increases costs to another
  - Increasing tuition to compensate for decreasing state appropriations is the classic example



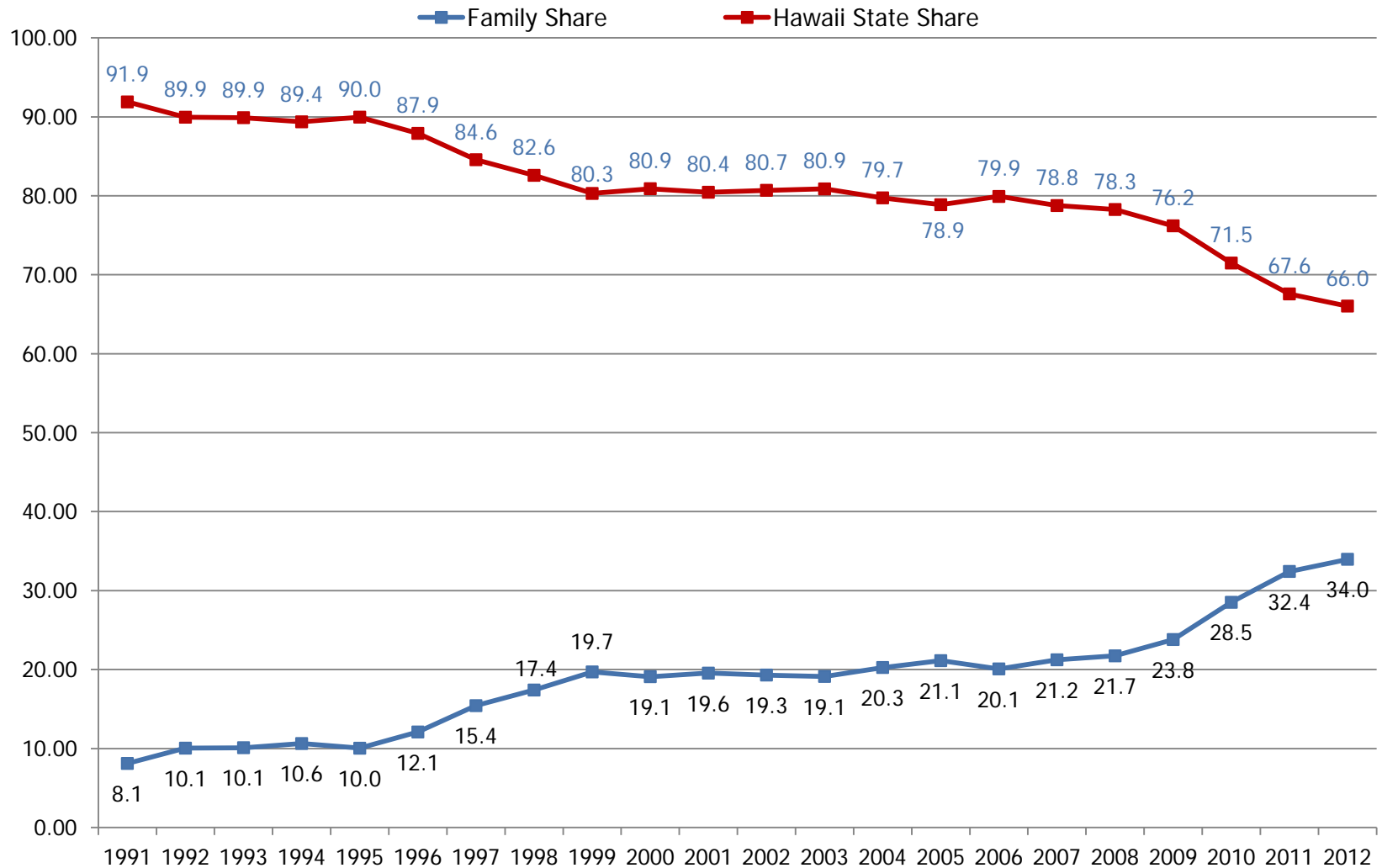
# Public FTE Enrollment, Educational Appropriations and Total Educational Revenue per FTE, Hawaii -- Fiscal 1987-2012



**Note:** Constant 2012 dollars adjusted by SHEEO Higher Education Cost Adjustment (HECA). Educational Appropriations include ARRA funds.

**Source:** SHEEO

# Family Share of Public Higher Education Operating Revenues



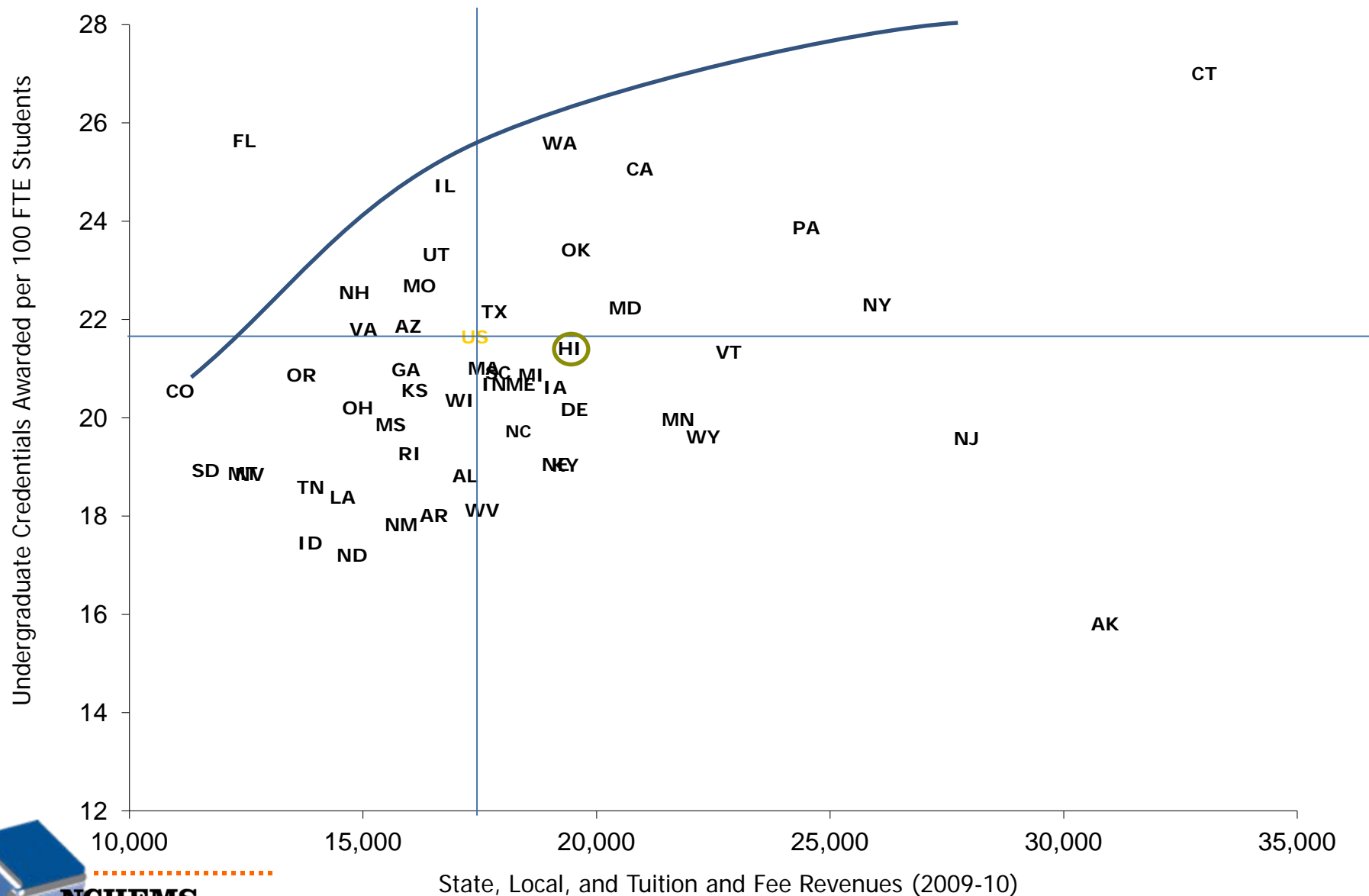


- Increasing Funding (costs) on the part of one provider allows costs to another to be increased
  - Increasing availability of student loans (and costs to the federal government) allows tuition to be increased.

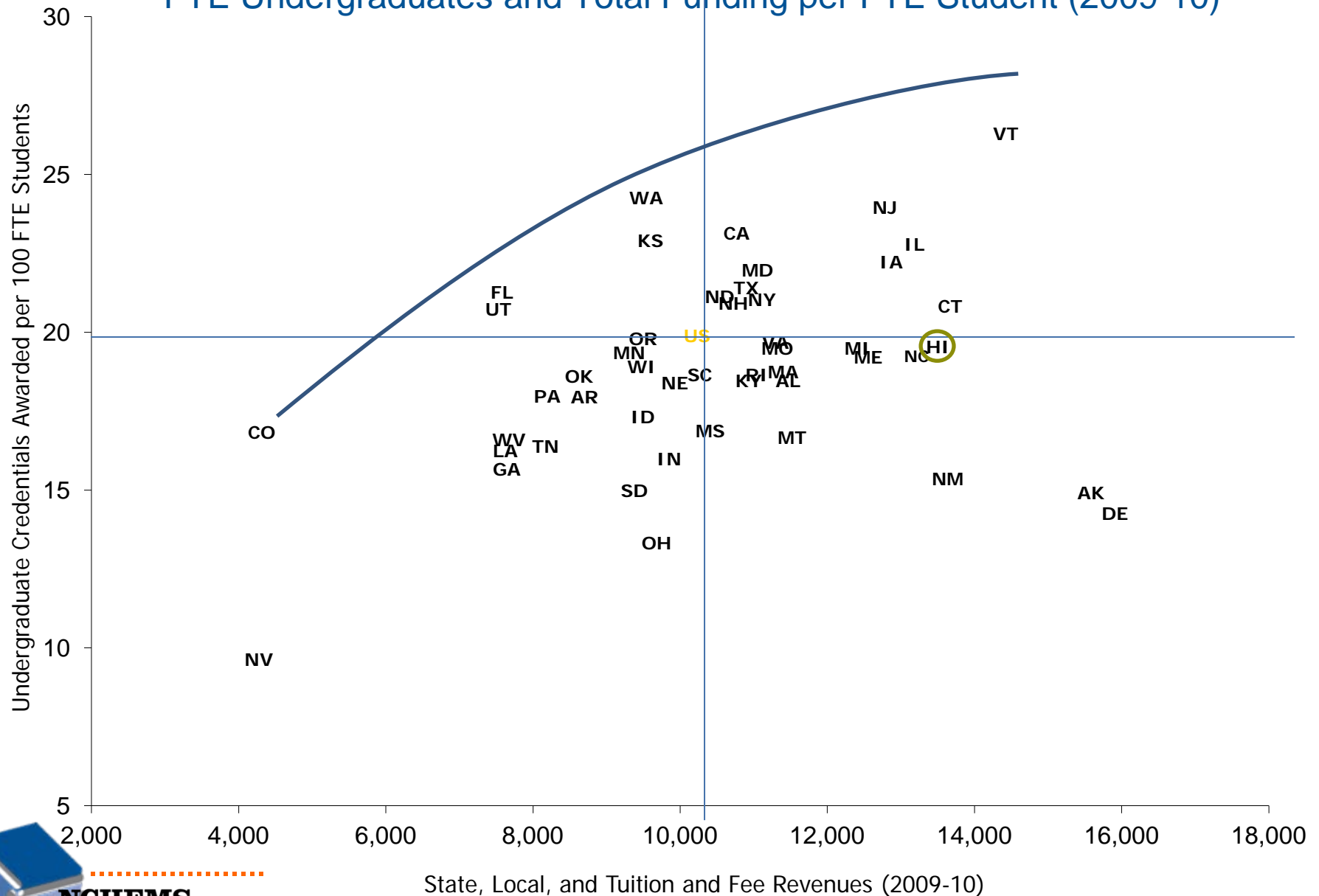
## An Obvious Point

- Just as increasing revenues can lead to increases in costs (per Bowen), decreases in revenues can force decreases in costs.
- But the objective cannot be cost reduction. It must be productivity improvement.
- Reduced costs accompanied by reduced outcomes is not success.

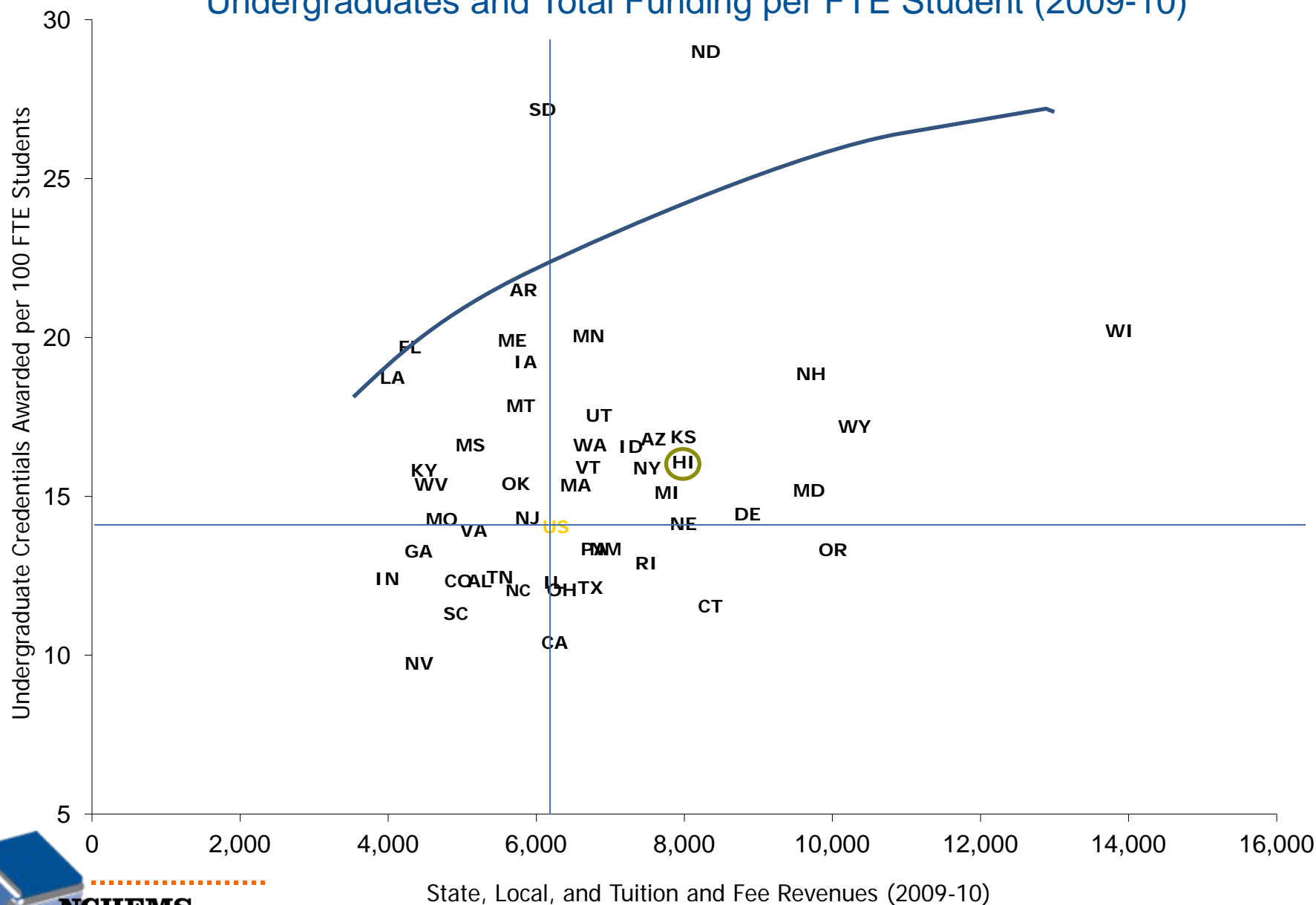
# Public Research Institutions: Undergraduate Credentials per 100 FTE Undergraduates and Total Funding per FTE Student (2009-10)



# Public Bachelors and Masters Institutions: Undergraduate Credentials per 100 FTE Undergraduates and Total Funding per FTE Student (2009-10)

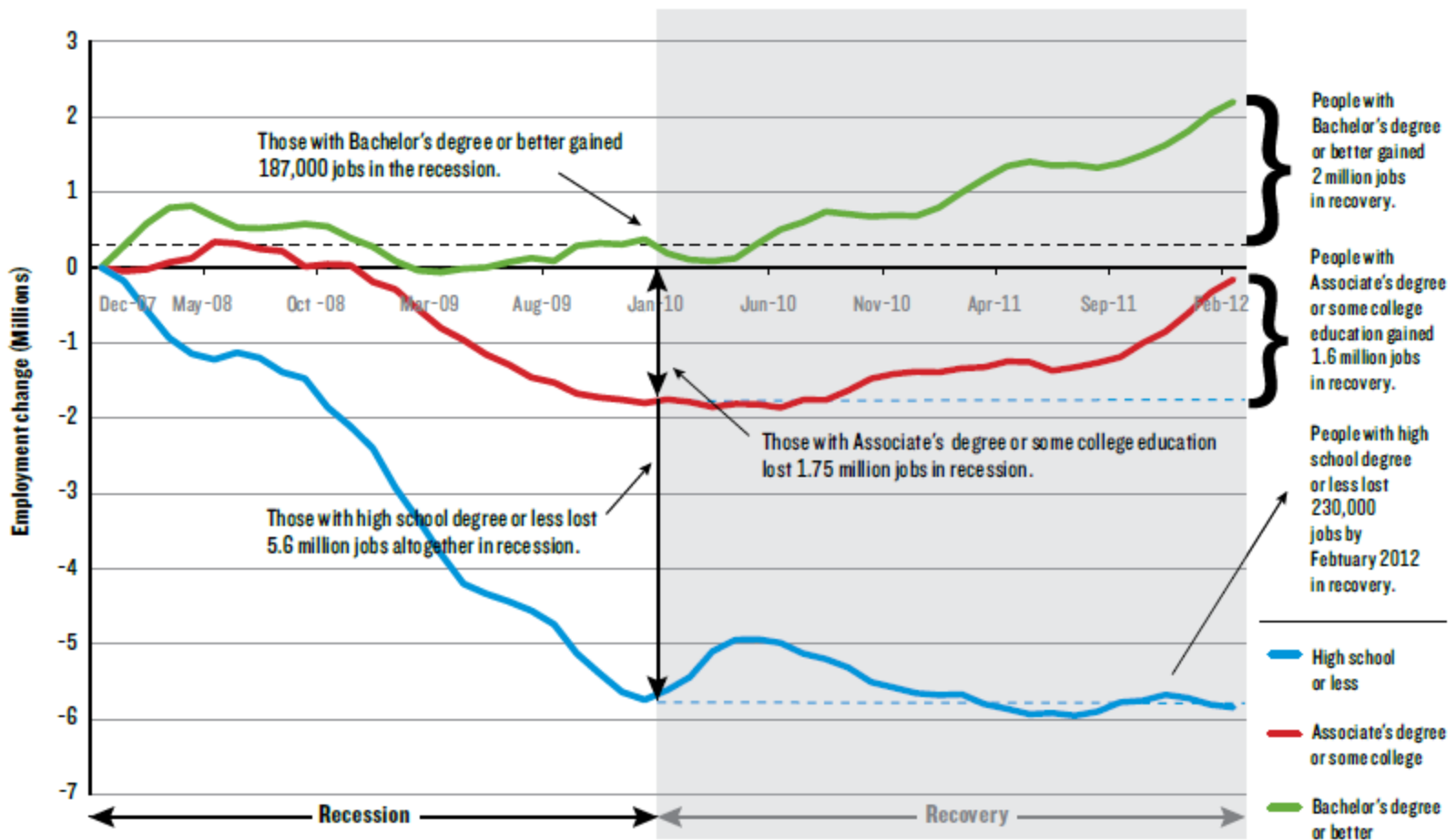


# Public Two-Year Institutions: Undergraduate Credentials per 100 FTE Students Undergraduates and Total Funding per FTE Student (2009-10)

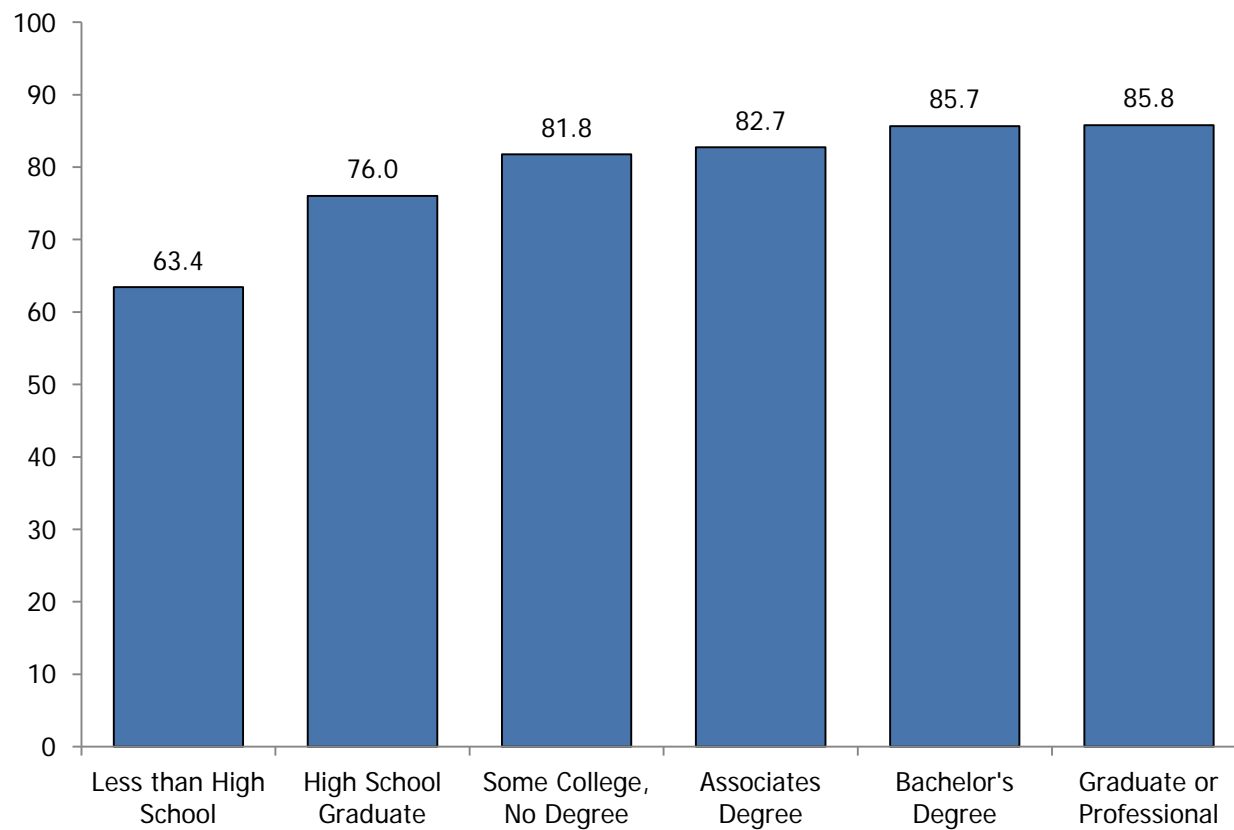


- Which brings us to the real source of inefficiency in higher education and of excess costs to:
  - The individual
  - Society

Dropping out of – or not participating in – Higher Education

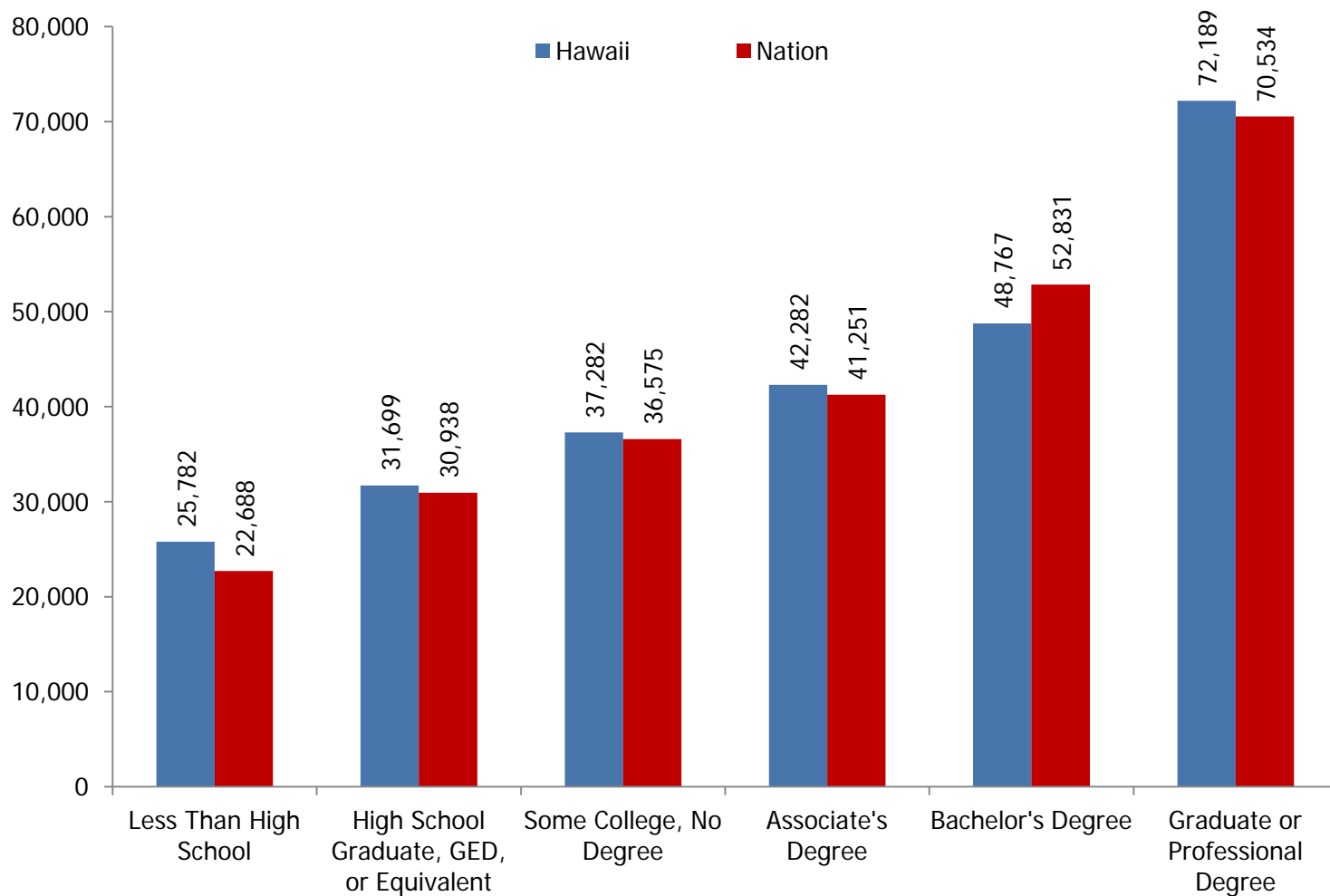


## Percentage of Working-Aged Adults (25 to 64) Participating in the Workforce – by Education Level Attained (Hawaii, 2010)

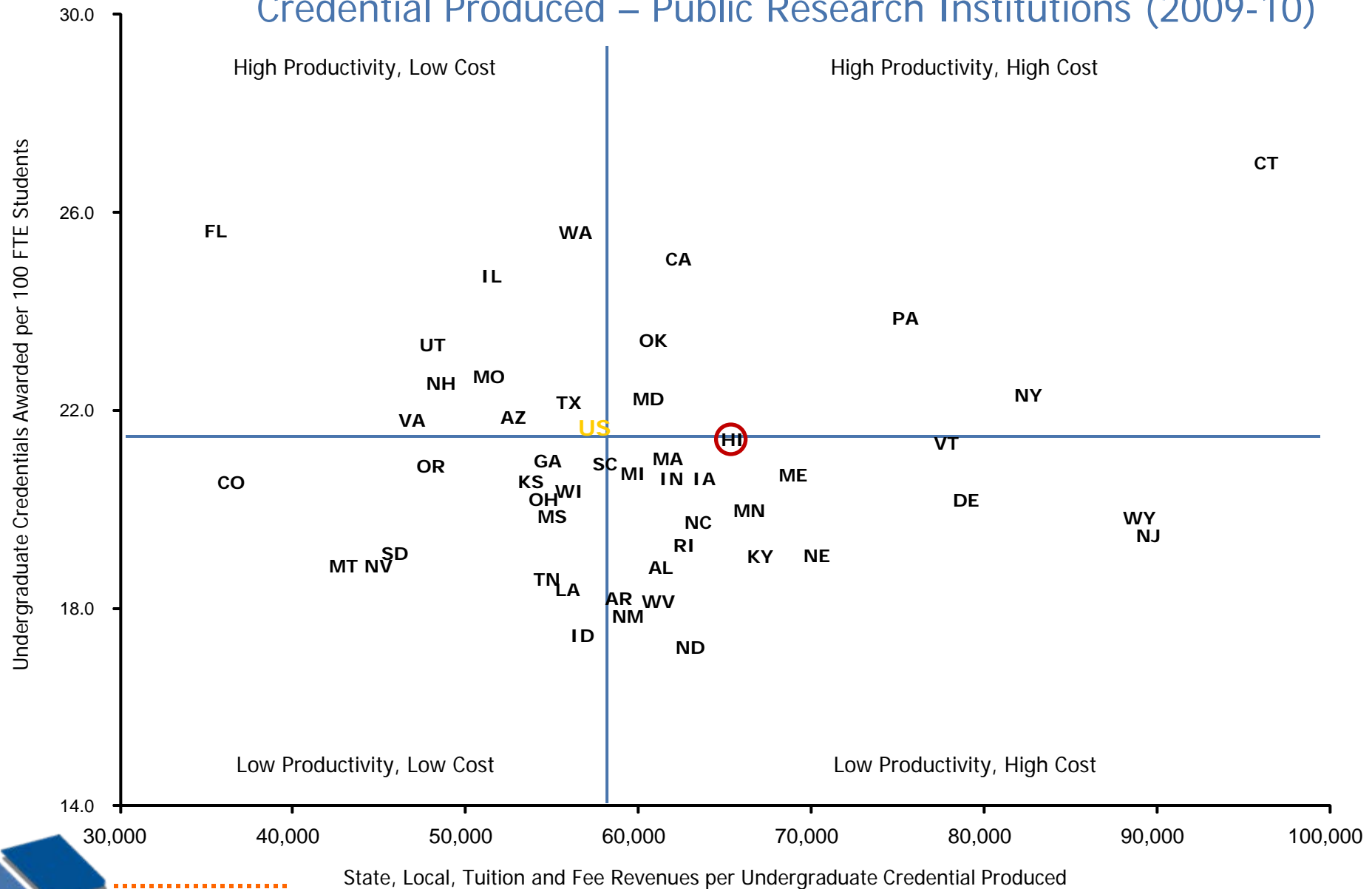




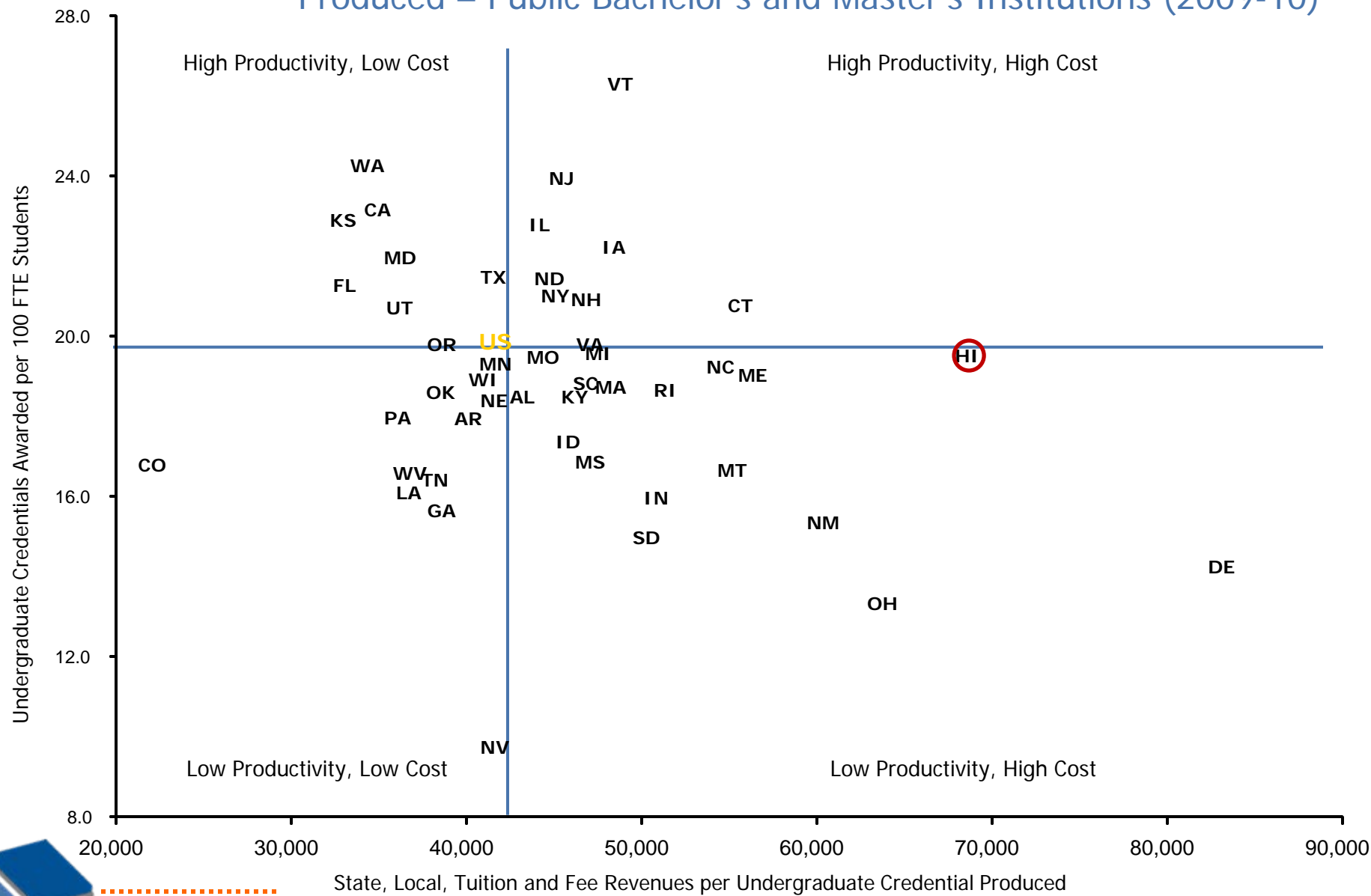
## Median Annual Wages for Employed Workers Aged 25 to 64 – by Level of Education (Hawaii, 2010)



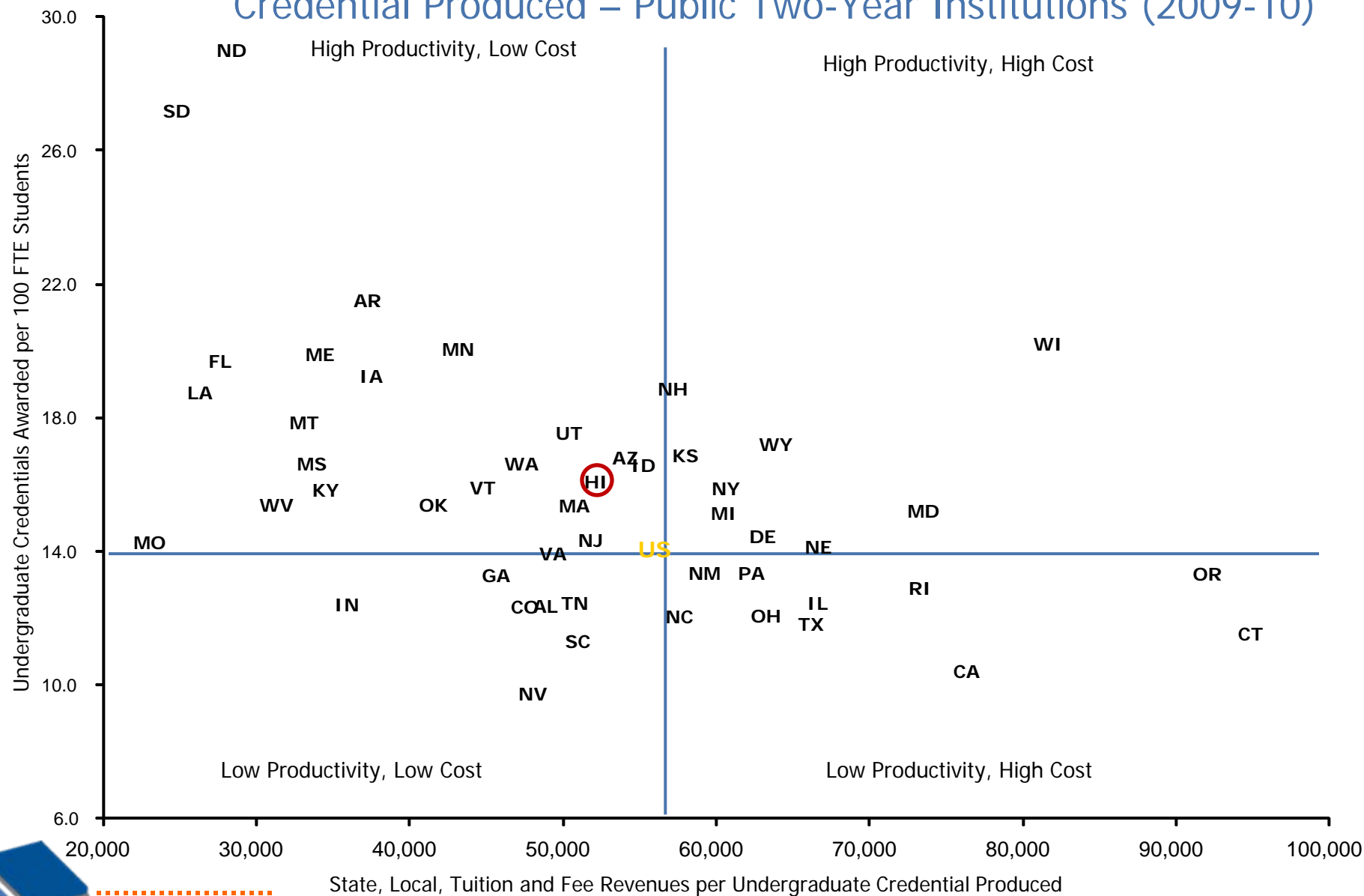
# Undergraduate Credential Productivity and Cost per Undergraduate Credential Produced – Public Research Institutions (2009-10)



# Undergraduate Credential Productivity and Cost per Undergraduate Credential Produced – Public Bachelor's and Master's Institutions (2009-10)



# Undergraduate Credential Productivity and Cost per Undergraduate Credential Produced – Public Two-Year Institutions (2009-10)



# Estimated Costs of Student Attrition: Percent of Education and Related Costs

Public 4-Year	12.9 – 26.8%*
Public 2-Year	32.7 – 56.9%*
Private 4-Year	9.1 – 16.9%*

\*Costs if students still enrolled after six years with no degree fail to finish

# The Bottom Line

- Productivity improvement is the key
  - More money would be nice
  - But smarter use of the money already available is the necessary first step
- Smarter use of funds required at both state and institutional level
- At the state level, align funding with desired outcomes
  - Ensure necessary capacity is in place
  - Reward effective utilization of that capacity
  - Ensure affordability to students
- At the institutional level
  - Be administratively efficient
  - Be academically focused

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<http://www.nchems.org/NCHEMSCLASPHawaiiModel.swf>

