Improving cost effectiveness by addressing the spending side of college costs

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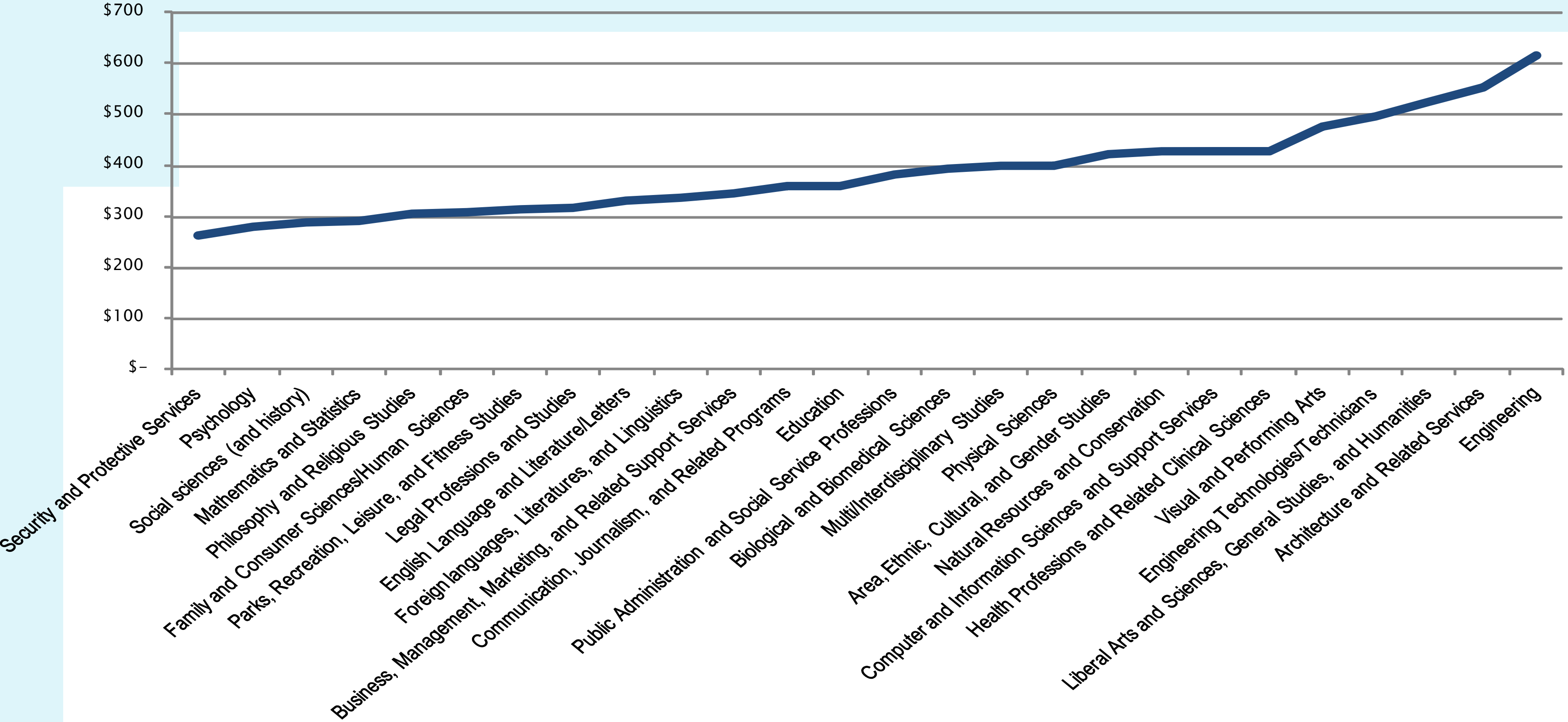
Elements of the discussion

- Cost drivers
- Reducing costs to students by increasing instructional productivity
- Building cost effective paths to student success
- Building a cost effective curriculum
- Addressing major barriers to more effective cost management

Cost drivers…themes from the national research

- Other than revenue…the major determinants of costs are:
  - Discipline mix: very similar patterns across different types of institutions (drives cost even more than institutional mission)
  - Level of instruction (LD/UD/G/Professional)
  - Faculty compensation (full-time/part-time, workload, class size) –closely tied to mission
  - Employee benefits

Average cost per credit unit by discipline

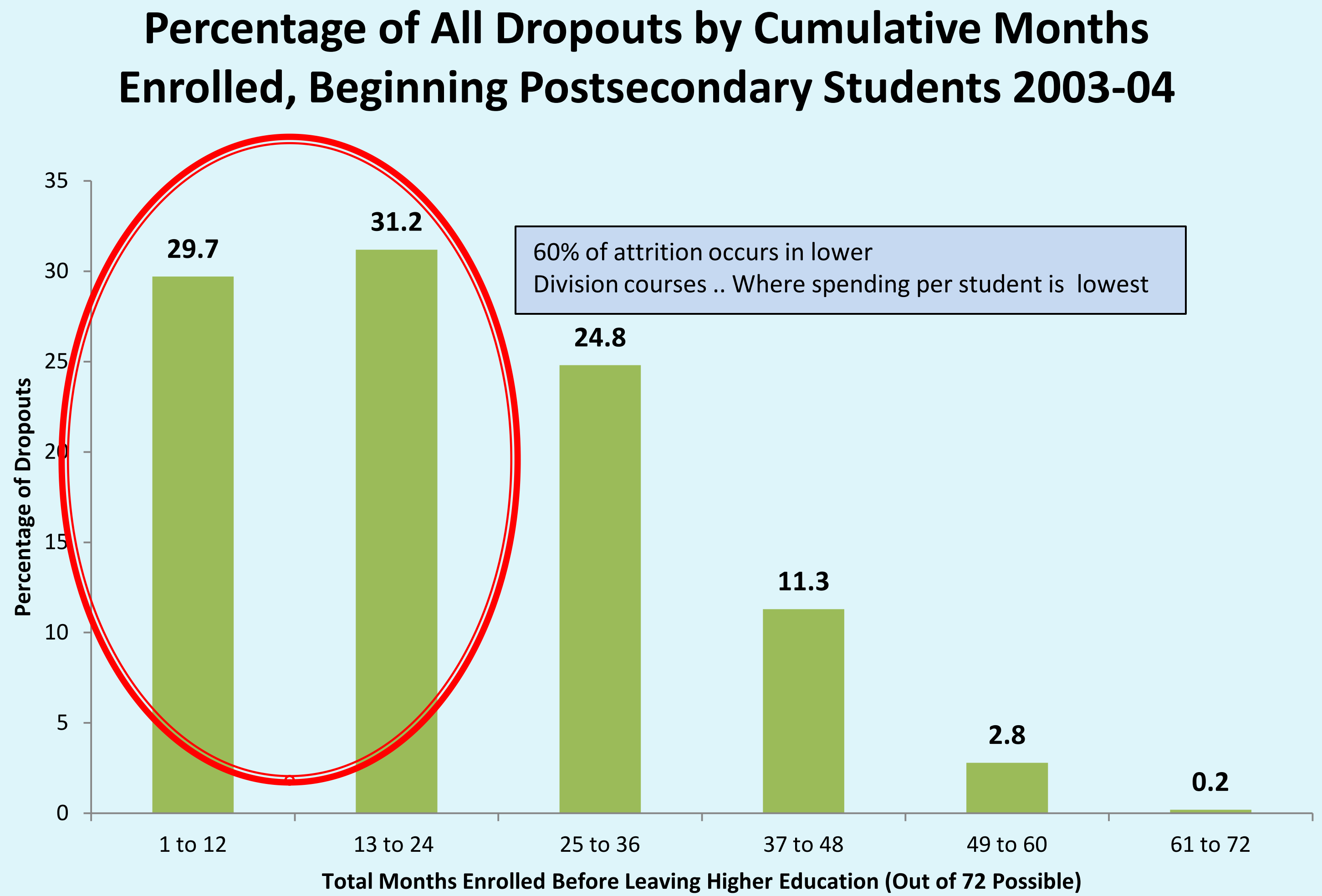


Source: Special Tabulation of Delta Cost Project, weights from SHEEO, Delaware project.

The redistribution of costs or cross-subsidy patterns –

Credit Hour Distribution and Average instructional costs 4-state cost study (SUNY, Florida, Ohio, Illinois)			
	% of all credits taken	% of total spending on instruction	Avg weighted cost/credit
Lower Division	36%	23%	1.00
Upper Division	48%	44%	1.42
Grad 1	12%	23%	2.88
Grad 2	4%	9%	4.00
	100%	100%	1.55
Source: SHEEO, 2010.			

Undergraduate attrition patterns



Source: NCES, BPS, undergraduates only.

The single biggest inflationary expenditure growth in public higher education is employee benefits – treated as a 'fixed cost' by many states and institutions

Trends in Labor Costs - 2002-2008				
Public institutions	**Salary outlay per employee**	**Benefit cost per full-time employee**	**Compensation per employee**	**Compensation per FTE student**
Research	1.5%	5.2%	2.3%	1.6%
Master's	-0.2%	4.6%	0.9%	0.6%
Community colleges	0.8%	5.2%	1.7%	1.1%
Private institutions				
Research	0.1%	1.6%	0.5%	1.7%
Master's	0.0%	2.4%	0.4%	0.6%
Bachelor's	-0.1%	1.3%	0.2%	0.7%

Reducing student costs by increasing instructional productivity

- Students accrue substantial savings from reductions in attrition and time to degree
  - Average student graduates with substantially more credits than what is required to earn degree – UH Manoa + one additional semester
- Adding ≈12% in cost to the degree along with the loss of time

Building a cost effective path to student success

- Combines academic program review and renewal with student success agenda
- Reduces academic costs through pruning of the curriculum to eliminate or consolidate low enrollment courses and majors
- Realigns curriculum and course sequencing to increase student success including learning outcomes
- Accompanied by other interventions to improve student outcomes: first year programs, cohort scheduling, enhanced counseling and peer group supports, student support

Translating cost reductions into investments in student success

- Reducing costs where possible:
  - Fixed cost approach to employee benefits
  - Academic program duplication, curriculum drift, mission drift
  - Financing of academic and administrative overhead
- Increasing investments that will pay off in increased student success including quality and outcomes
  - Lower division success – first year programs, core curriculum, learning communities, high impact practices
  - More student support
  - Reduction in attrition and excess credits

Barriers to more effective cost management

- Culture equates spending with quality
- Budget building habits – particularly around fixed costs for employee benefits
- The absence of good data about spending and performance
- A good process is built on goals, shared responsibility, creates momentum, and explicitly tackles these barriers as part of the work