VISIONS OF HIGHER EDUCATION:

Is the Current Model Sustainable?

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Two Visions of Higher Education
In fifty years, if not much sooner, half of the roughly 4,500 colleges and universities now operating in the United States will have ceased to exist. The technology driving this change is already at work, and nothing can stop it. The future looks like this: Access to college-level education will be free for everyone, residential campus will become largely obsolete, and bachelor’s degree will become increasingly irrelevant.—Nathan Harden, *The American Interest* (2013)

Costs have risen to unprecedented heights, and new competitors are emerging. A disruptive technology, online learning, is at work in higher education, allowing both for-profit and traditional not-for-profit institutions to rethink the entire traditional higher education model. Private universities without national recognition and large endowments are at great financial risk. So are public universities, even prestigious ones such as the University of California at Berkeley. Clayton M. Christensen & Henry J. Eyring, *The Innovative University* (2011)

Especially during the last decade, there has been a flood of criticism of the American college and university. They say our universities are aimless institutions that have prostituted themselves to every public whim, serving as everything from a reformatory to an amusement park. Trustees are entirely unfit for their tasks, ridiculously conservative, and fearful, controlled body and soul by Wall Street. Presidents are liars and hypocrites. Many are strutting, pompous windbags who are primarily money getters.—Walter Eeels, *Criticisms of Higher Education*
Underlying Assumptions

• Predictions of any future are hard.
• Remember these did not exist 10 years ago....
## State of the Industry

1. By 2020, total undergraduate enrollment will grow by 10% to 19.7 million, of which 75% will be at public institutions. Adult and Hispanic student cohorts will grow the fastest.

2. A third of the colleges that responded to an annual Chronicle survey didn’t meet their enrollment or revenue goals in 2015.

3. The average debt among graduates of four-year public and private nonprofit colleges who incurred debt rose in 2014 to $28,950, up 2% from 2013.

4. $1 trillion in student debt equals total credit card debt.

5. Carnegie survey reports 80% of public do not believe college education is worth the price; 40% of college presidents agree.

6. Between 2000 and 2011, institutional debt doubled to $205 billion while fund-raising dropped 40% but has since somewhat recovered but not at a level to compensate for the bad years.

7. In 30 years, net tuition in private colleges has increased 220% compared to 120% in cost of living and 150% in household income. Privates have 15% of the students and 40% of the institutions in U.S.

8. Nationally, between 2008 and 2015 average annual tuition in public institutions has increased 29%, or $2,068.

9. Over half of college bound high school seniors rule out colleges on “sticker price” alone.

10. 75% of college leaders report “perceived unaffordability” as greatest challenge.
Price and Cost

NATIONAL TRENDS IN TUITION DISCOUNTING
(Private 4-Year Colleges and Universities)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Actual Sticker Price</th>
<th>Actual Discount</th>
<th>Actual Net Tuition</th>
<th>Projected Sticker Price</th>
<th>Projected Discount</th>
<th>Projected Net Tuition</th>
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<td>FY 06-07</td>
<td>$10,000</td>
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From fiscal year 2006 through 2014, the percentage of Moody's-rated small colleges with average revenue growth below 2%, approximately the level of inflation, soared from 10% in 2006 to 50% in 2014.

Revenue softness at small colleges leads to a reduced ability to invest in academic programs, student life and facilities. These investments influence demand and prospective students are increasingly choosing larger colleges.

Smaller colleges have fewer students to support their fixed costs and tend to garner lower net tuition per student. Net tuition revenue generally covers only three-quarters of the colleges' educational costs, creating persistent disadvantages.

Moody’s 2016 Outlook

2016 Outlook - Moderate Revenue Growth Supports Sector Stability

Aggregate operating revenue will grow 3% or more next 12-18 months.

All revenue streams expected to grow modestly.

Ongoing expense discipline will contribute to steady operating performance.

Reserves will remain stable with continued strategic capital investment.

Outlook could be positive if revenue growth is more than 5% with improved net tuition.

Outlook could be negative with less inflationary revenue growth.
Revenue softness at small colleges leads to a reduced ability to invest in academic programs, student life and facilities. These investments influence demand and prospective students are increasingly choosing larger colleges.

The smallest colleges will continue to lose market share as the largest achieve growth.

Closure and merger activity will increase as the sustained impact of revenue declines intensifies for financially challenged institutions. Closures of four-year public and private not-for-profit colleges averaged five per year from 2004-14, while mergers averaged two to three. The closure rate is likely to triple in the next few years and the merger rate will more than double.

The smallest colleges have inefficient cost structures with net tuition revenue funding only three-quarters of educational expenses.

Smaller colleges have fewer students to support their fixed costs and tend to garner lower net tuition per student.

Net tuition revenue generally covers only three-quarters of the colleges' educational costs, creating persistent disadvantages.
Most at Risk

• Colleges and universities least likely to adapt and survive.....

- Rural location
- Low enrollment
- High tuition dependence
- High tuition discount
- Low endowment
- High debt
- Few unallocated dollars
- Look like competition
President Neil Theobald
Is the Current Higher Education Funding Model Sustainable?

No - And What To Do About It

Neil Theobald
President, Temple University
January 15, 2016
College Degrees: Never More Valuable

- Grads have lower unemployment, higher job satisfaction
- Non-graduates sacrifice $500,000 in lower lifetime earnings
- Higher earnings justify investment
- Difference in standing between grads and non-grads has been growing for decades
We must confront a “new pragmatism”

Making a forthright case for value sustains Temple – and can help the broad higher education system

Deflecting the value discussion risks irrelevance
An Unsustainable Choice

Excellence

Accessibility

Affordability
The Temple Answer

Accessibility

Excellence

Affordability
Accessibility Challenge

US Household Income Quartiles

Bottom 25%  Top 25%

< 10% of children graduate by 24

75% of children graduate by 24

Addressing this disparity means embracing excellence, affordability, and accessibility – all at once.
Temple Response to the Value Test

1. Faculty Excellence
2. 4-Year Graduation
3. Accessibility and Diversity
4. Cost Containment
1. Faculty Excellence

- More full-time hires, bucking higher ed trend
- 200+ new tenured or tenure-line faculty since 2012
- 70% of non-tenure-line faculty have multi-year contracts
2. Four-Year Graduation: FlyIn4

• Current trend – longer time to degree – propels student debt higher

• FlyIn4 maps path to graduation in 4 years
  – Students on track to save an aggregate $20 million
  – Savings should recur/grow with each class
3. Accessibility/Diversity: Temple Option

• Strategy to counter growing race- and income-based disparity in degree completion

• Temple Option allows applicants to submit four essays in lieu of SAT
  - 20% of the Class of 2019 used the Temple Option
  - Most diverse freshman class in Temple history
4. Aggressive Cost Containment

- Holding the line while higher ed tuition hikes outpace inflation
- Decentralized financial decision making holds spending growth below CPI—1.8% per year
- Commonwealth funding off 13.4% since 2012
- In-state tuition has risen by 2.4% per year
Dividends of Our Sustainability Strategy

• We thrive in an era of “new pragmatism”
• Scrutiny threatens some universities – but is an opportunity for Temple
  
  • Undergraduate applications up 80%
  • US News & World Report ranking rose from #132 to #115
  • Annual fundraising doubled
  • Research funding up 36%
  • Carnegie reclassified Temple as “Doctoral Universities: Highest Research Activity”
The Road to Sustainable Funding…
Is Paved with Concrete Tactical Action

We need:

- More than theory about barriers to accessibility
- To be comfortable explaining our pragmatic value propositions
- To defy the higher ed skeptics with a new storyline

When we prove relevance and value while prizing excellence, we sustain our institutions for the future.
Thank You & Discussion

*Sources referenced:*

- Pew Research Center, 2015
- Autor, 2014
- Federal Reserve of Cleveland, 2014