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EDAL655: Higher Education Finance

Professor Bordes Henry Saturne, Ph.D.

by

Madeline Brown

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Introduction

Higher education finance, as with many aspects of postsecondary education, is complex. Financial decisions have a direct impact on the short-term financial health and long-term stability of institutions of higher education. Rising operating costs, tuition inflation, low completion rates, and massive student debt totaling over $1.5 across the U.S. (Frotman, 2018) are some of the main areas of concern. Educational leaders are looking to find creative, sustainable solutions to mitigate some of these challenges; however, the majority of institutions of higher education continue to be affected by the same concerns. As such, understanding the premise from which these challenges derive will assist educational leaders in making financially sound decisions that will place the institution, and all of its constituents, in a position to succeed. These constituents include students, faculty, staff, state, and other external parties with a vested interest in the success of the institution.

Rising Cost of Tuition

One of the main issues affecting institutions of higher education is the rising cost of tuition- faster than inflation (Craig & Raisanen, 2014). This has been one of the major deterrents to student enrollment, especially with potential students and parents questioning the value of a college degree altogether. Higher education critics have also challenged revenue-driven expenditures geared toward maintaining or chasing prestige and clout at the expense of increased tuition cost (Kimball, 2014). These beliefs are further exacerbated by recent and current social and political climates that encourage a more conservative approach to spending, given our 2008 recession. The current Generation Z student population is concerned about the cost of obtaining a college degree and are more prudent in their spending habits (Loveland, 2017).

In addition, the candidate pool for graduating high school students is at a low, also increasing competition amongst institutions of higher education. Furthermore, increasing demands for variety of student services required to fulfill the needs of our diverse college campuses place a significant financial strain on the institution. These services include student development, counseling and accessibility services, career services, learning specialists, tutoring services, robust academic advisement services, military and veteran services, and international student affairs, among many others. While these are necessary to provide all students an equitable opportunity to succeed and attain their academic and career goals, they significantly contribute to the rising cost of tuition.

Coupled with decreased state funding and other low streams of revenue, these demands require that tuition cover the cost of the employee salaries and benefits necessary to keep these services running. Salaries and benefits are the single most costly area of higher education today. Similarly, costs associated with maintaining older facilities and structures on campus, as well as the construction of new buildings place a significant strain on institutions' finances. These challenges have led institutions of higher education to strategize and focus on implementing sustainable solutions to counteract financial demands.

The Value of Higher Education

The financial challenges associated with obtaining a college degree have caused many to question the value of higher education. Many consider the vast amount of student debt accrued a poor investment, and one that can have an adverse impact on the individual's financial health. While this may be true in some cases, there are several individual and societal benefits linked to a college-educated population. From an individual standpoint, higher education affords individuals an opportunity for higher income potential throughout their lifetime (U.S. Bureau of

Labor Statistics, 2019) increased opportunities for gainful employment and mobility, as well as access to health benefits.

From a societal standpoint, college educated individuals contribute to local and national economies in many ways. College graduates produce higher tax revenue for the government, as well as pose a lesser strain on governmental financial assistance than their high school graduate counterparts (Association of Public & Land- Grant Universities). Those with postsecondary degrees are less likely to rely on housing assistance, nutrition assistance, and unemployment benefits. Other benefits of a college-educated population include decreased crime rates, more health-conscious citizens, and increased involvement in political issues affecting their communities and nation as a whole- such as voting (Doyle & Skinner, 2017).

In addition, bachelor's degree holders are more likely to be civically engaged- twice as likely volunteer than their non-bachelor's degree-holding peers. In addition, bachelor's degree holders are over three times more likely to donate to charity, which contribute to the overall wellbeing of their communities (Association of Public & Land-Grant Universities). As such, the value of education should not be reduced to just a financial return, but also all of the benefits impacting society at large.

Decreased Enrollment, Attrition, and Non-Completion Rates

Another major concern is a combination of three key components directly impacting the financial stability of institutions. These include a decline in enrollment numbers, student attrition, and subpar completion rates. The number of matriculated students directly impacts tuition revenue, with student attrition threatening the reputation of the institution and probability of attracting new students. Student attrition is an indication an institution does not have the infrastructure in place to adequately support its students' long-term academic, social, and career endeavors. This provides potential students an idea of what to expect, especially with the implementation of college score cards that consider graduation rates key components of the institution's viability and proven success (Craig & Rainesan, 2014).

Furthermore, students who matriculate but fail to complete their degrees also pose an immediate threat to the institution's financial stability by loss of tuition, but also pose a long-term threat to both the institution and individual student. Non-completers have a higher chance of accruing student debt they may not be able to pay back. This can interfere with their individual financial health, as well as loss of other benefits associated with obtaining a college degree, as previously discussed.

From an institutional standpoint, non-completers also subtract from the alumni pool of potential donors that contribute to a great source of revenue for institutions- an endowment and other monetary gifts. Institutions of higher education primarily target their alumni to give back to the campus community in many ways- especially financially. Students who fail to complete their degrees and have not benefitted from their attempt at a postsecondary education will be less likely to engage in philanthropic behaviors to benefit the institution in which they were once enrolled. Some institutions have maintained endowments in the billions, while others have failed to create and maintain a funnel of consistent donations and gifts. The latter is problematic due to the many benefits endowments can have for an institution- especially as it pertains to the offering of scholarships and other resources to help students cover the high cost of tuition.

Creative, Sustainable Solutions

In addition to increasing efforts to grow their endowments, institutions of higher education are reevaluating their current financial budgets, models, and strategies. This has led to a venturing in best practices and new initiatives to help halt tuition increases. Some of these best practices include increasing opportunities for work-study programs designed to assist students with working in exchange for an education at a reduced cost or no tuition cost at all. A handful of colleges in the U.S. have managed to unlock the keys to success.

One of these successful institutions is Berea College, located in Kentucky, which admits underprivileged students and awards them a four-year scholarship to cover the cost of tuition in exchange for work. College of the Ozarks, located in Missouri, operates on a similar model- students are required to work fifteen hours a week, in addition to two 40-hour work weeks as part of their tuition free education. Similarly, Deep Springs College, located in California, requires students work in exchange for their education, but awards every student with a scholarship that covers tuition and on campus housing.

Others have more stringent requirements- such as the U.S. Airforce Academy, U.S. Coast Guard Academy, U.S. Merchant Marine Academy, U.S. Military Academic- West Point, and the U.S. Naval Academy. They require several years of service post-graduation (Dickler, 2019). Nevertheless, students are willing to engage in this type of contractual agreements if it means they can obtain a postsecondary degree without the financial burden of student debt.

Other effective innovations include partnering with external businesses to offer auxiliary services on campus that could contribute to the institutions' budgets, as well as provide additional job opportunities for students and members of the community. In addition, institutions are expanding by partnering with real estate investors to offer classes and services in hybrid facilities that include classrooms and rentable living spaces, for instance. This helps share some of the high costs associated with the upkeep of a facility, while still providing a beneficial arrangement that ensures buy-in from both university constituents and those in the immediate community.

Implications

Higher education finance issues are complex. They require an in-depth exploration of what is effective and what is not, resulting in a customized approach to budgeting and sourcing alternate revenue streams for any given institution. Through the exploration of financial-related challenges currently facing the higher education landscape, it is evident colleges and universities face a myriad of issues, none of which can be resolved with one single solution. Aspiring educational leaders can help counteract the complexities associated with finances by staying abreast of current financial trends, analyzing and exploring the outcome of financial decisions at similar institutions, and exercising great caution when engaging in any type of financial planning and financial decision-making. That caution requires having trained, qualified individuals with a proven track record to help effectively implement and execute new initiatives and ideas. While having trained, qualified individuals can be costly in the short-term, investing in this role can have even more significant payoffs in the long run.

Nevertheless, as institutions of higher education continue to seek ways to decrease expenditures, this should not translate to a compromise in the quality of education students can expect to receive (Popescu, 2017). All financial decisions should factor not only the sustainability of the institution in questions, but also the impact on students, their families, communities, nation, and global market as a whole. No longer can educational leaders take a passive stance in addressing the concerns associated with higher education finance. Part of our nation's success depends heavily on our ability to understand the issues at hand and find long-term solutions to address them.

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