

Statement of Terry W. Hartle
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Before the
Committee on Ways and Means Subcommittee on Oversight
Of the U.S. House of Representatives
On
The Rising Costs of Higher Education and Tax Policy
October 7, 2015

Chairman Roskam, Ranking Member Lewis and members of the subcommittee, thank you for inviting me to testify at this hearing on the rising cost of higher education and tax policy. I am the senior vice president of the American Council of Education, the major coordinating body for higher education, representing the presidents of more than 1,700 colleges and universities.

The issues of controlling costs, expanding access for low- and middle-income students and maintaining high academic quality are of the utmost importance to all college and university presidents. Each year, they face the daunting task of managing their institutional budgets in ways that address these challenging issues while attempting to limit the price students and their families pay.

Concerns about the cost of attendance and access to higher education have become major issues and a source of genuine anxiety for many American families. College presidents and academic leaders share these concerns and are continually looking for ways to reduce costs and enhance access.

Background on Higher Education

In discussing higher education finance, it is important to distinguish between cost and price.¹ Cost is what institutions spend to provide the education. Price is what students must pay out

¹ While we recognize that these terms are often used interchangeably, for purposes of this discussion we have attempted to draw a distinction.

of pocket to enroll. Similarly, there is a difference between the published tuition (or “sticker”) price of tuition and the net price. Only about 25 percent of students pay the published price.

For public and nonprofit colleges, the basic financial model is cost of producing the product minus subsidies equals the price families pay. Those subsidies can be state funding, financial aid, endowment earnings, gifts from alumni and friends, and auxiliary enterprises such as college bookstores. So the price paid by families is a function of the cost of providing the education and the subsidies available to the institution and the student.

- According to the Department of Education, in 2013–14 there were 17.5 million undergraduate students enrolled in postsecondary education—13.4 million of them attending a public college or university and 4.1 million attending a private institution.
- Those students were enrolled at 4,724 degree-granting, federal financial aid-eligible institutions, of which 691 are public, four-year institutions; 934 are public, two-year institutions; 1,675 are private, nonprofit institutions; and 1,424 are for-profit institutions.
- According to the College Board, in 2014-15 the average published tuition at public, four-year institutions was \$9,140. The average published tuition at community colleges was \$3,350. The average published tuition at private, nonprofit schools was \$31,230.
- But factoring in student aid changes the picture. According to the College Board, students at public, four-year schools faced a net price of \$3,030 per year on average; and students at private, nonprofit four-year schools paid a net price of \$12,360 on average.
- In the last decade, published tuition (adjusted for inflation) at public, four-year schools increased by 42 percent on average, while net price grew by 32 percent. At private, nonprofit four-year schools, while the published tuition increased by 24 percent, the average net price actually decreased by 13 percent.
- The total amount of institutionally provided student financial aid has nearly doubled over the last 10 years, growing faster than the increase in published tuition. Indeed, the investment by colleges and universities in grant aid increased from \$25.2 billion in 2003-04 to \$48.2 billion in 2013–14.
- About 40 percent of students who earned bachelor’s degrees in 2012-13 from public and private nonprofit institutions did not take out student loans. Those who did borrowed an

average of \$27,300, and 72 percent of them borrowed less than \$25,000. Only 2 percent of undergraduate students borrowed more than \$50,000.

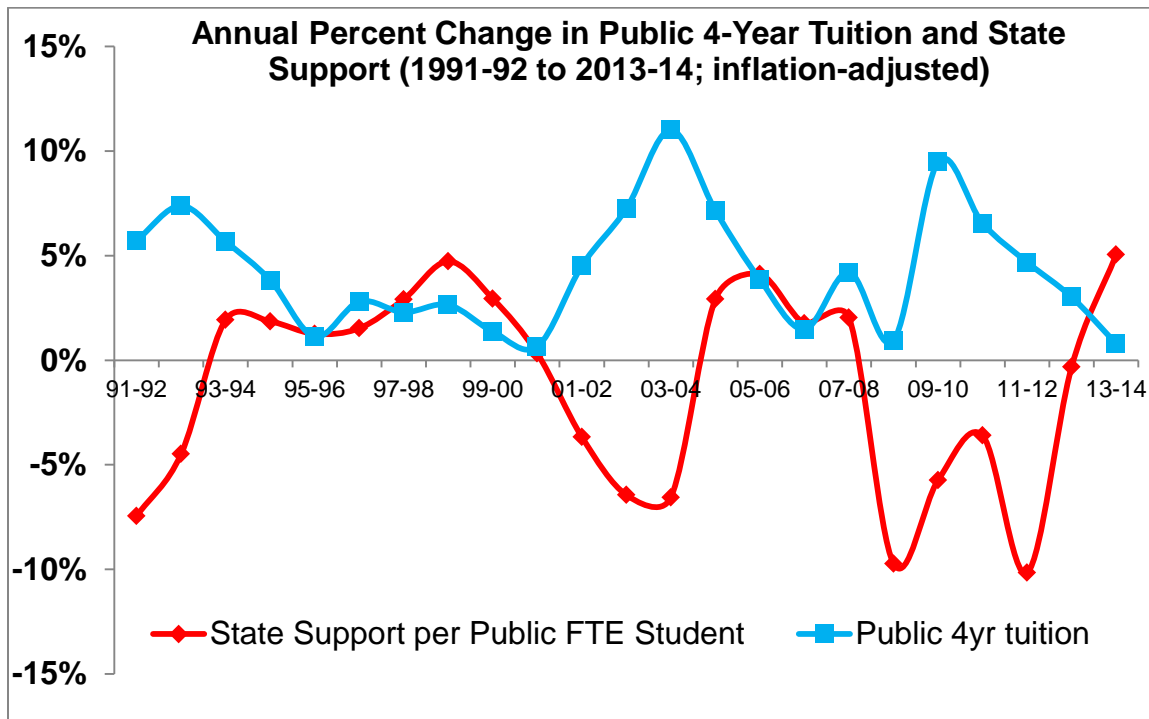
- Perhaps surprisingly, borrowers with the smallest amount of debt are the ones most likely to default on their loans. According to a recent analysis by Susan Dynarski of the University of Michigan, the majority of defaulters (51 percent) left college with less than \$10,000 in student loans.

Why College Costs and Prices Go Up

Fundamentally, higher education is a very labor-intensive, knowledge-driven enterprise that relies on a highly educated workforce. Productivity gains come very slowly. While there are a number of reasons for rising college prices, there are four particularly critical drivers:

State Appropriations

The biggest factor driving price increases for most American families is the steep cuts by states in operating support for public higher education. In the last 25 years, states have systematically reduced spending on higher education, resulting in increased tuition at public institutions to offset the reduced state revenue. According to the State Higher Education Executive Officers Association (SHEEO), since 1998, state support on a per student basis has fallen by 29 percent (after inflation). Indeed, there is a clear, direct and inverse relationship between state appropriations and tuition increases. When state support goes down, tuition almost always goes up. Because state funding is often the largest revenue source for many public colleges, a 1 percent decrease in state appropriations can result in a 3–5 percent increase in tuition. The chart below makes clear that when state support goes down, as it did in the early 1990s, the early 2000s, and during the Great Recession of 2008, tuition increases. Trend lines from community colleges, though not displayed here, are even more pronounced.



Source: College Board, 2014.

In 2010, state and local support for general higher education operations fell to a 25-year low in inflation-adjusted terms. During the same time period, full-time equivalent enrollment increased by 61 percent. From 2002–03 to 2012–13, state appropriations as a share of institutional revenues per student dropped from 68 percent to 53 percent at public institutions. As a result of declining state support, the share of the total institutional revenue from tuition rose from 32 percent to 47 percent at public institutions over the same period. Between 2007–08 and 2013–14, state appropriations for higher education per student declined by 19 percent in real terms, the largest three-year decline in 30 years.² In many cases, the decision to cut state operating support is accompanied by an explicit decision to raise tuition as a revenue offset. The upshot is that students face higher prices.

Labor

Higher education is a labor-intensive industry that depends on highly educated human capital. College graduates comprise almost 70 percent of the four million people who work for colleges. Higher education institutions typically spend 60 percent to 70 percent of their budgets on

²All figures in the above paragraph are drawn from the following report: SHEEO. 2014. State Higher Education Finance: SHEF: FY 2014.

human resource costs. Colleges and universities compete with the private sector to hire outstanding individuals—such as engineers, biologists, chemists, computer scientists, doctors and lawyers—for faculty and administrative positions and must be prepared to pay market-level wages. In recent years, institutions, like many other employers, have faced sharp increases in benefit expenses that now make up roughly 25 percent of total human resource costs.

As noted earlier, productivity gains come slowly, and technology has not yet proven to be a fully adequate substitute. Efforts to increase productivity or reduce academic personnel costs by increasing class sizes or hiring fewer full-time faculty can have a direct, detrimental impact on academic quality and are very unpopular with students and the public. Further, continually increasing demands for more non-instructional academic support services (e.g., counseling, health services and campus security) has led to the hiring of more people. According to a 2014 Delta Cost Project report, wages and salary expenditures for student services were the fastest growing salary expense across many types of institutions between 2002–12. This further drives up the prices confronting students.

Technology

Knowledge in most scientific disciplines doubles every seven to 10 years. Whole new fields of science—such as nanotechnology—have emerged from obscure specialties to essential fields of study that can be found at most institutions. The cost to update equipment and instruments vital to undergraduate teaching, such as electron microscopes and DNA sequencers, can be extraordinary. The cost of maintaining current scientific resources also can be enormous. A single example: In 1940, an annual subscription to *Chemical Abstracts*, an essential resource that monitors, abstracts and indexes the world's chemistry-related literature, cost \$12. In 1977, it cost \$3,500, and the price increased to \$17,400 in 1995. This year, a subscription to *SciFinder*, which superseded the old *Chemical Abstracts*, cost one institution that we contacted \$64,000 per year.

In addition, with the rapidly changing nature of information technology (IT), the technological expectations and requirements of students, faculty and staff are rising. Beyond initial costs for IT infrastructure, a significant investment of institutional resources goes to creating and constantly upgrading technology-enhanced instruction and research media, student services and faculty and staff training. Today's college students expect institutions to provide information and technological services that allow them to access instructional resources and campus services anywhere and anytime. This is evidenced by the increasing use of wireless classrooms, lecture

capture and podcasting, interactive whiteboards, virtual classrooms, mobile apps and e-portfolios, course management systems, content management systems, student monitoring and support systems and so on. No college or university equipped with scientific and technological resources from 2005 can meet the needs of students in 2015, let alone 2025. In addition, because schools do so many different things, their technological needs are not restricted to purely pedagogical technologies. Institutions need everything from modern laboratories to accessible transit schedules.

Government Regulation

Colleges and universities are among the most heavily regulated entities in the United States and are subject to a complicated web of regulations from both state and federal governments.

In 2012, Hartwick College, a modestly sized liberal arts college of 1,500 students in upstate New York, undertook a comprehensive study of its compliance-related activities. It concluded that the costs associated with federal regulations, mostly from the Department of Education, equated to roughly 7 percent of its operating budget.

Sometimes, colleges impose these costs on themselves. For example, the continual efforts to keep students safe on campus recently led Swarthmore College, with an enrollment of 1,500 students, to create five new staff positions as part of its comprehensive action plan to address sexual assault. Swarthmore is now widely regarded as having an exemplary policy for dealing with sexual assaults. Still, hiring five new employees, especially at a small college, increases personnel costs.

I must underscore that regulation is not bad or wrong. Accountability is critical, and regulations are essential to protecting students and ensuring proper stewardship of taxpayer funds. But regulations that are unnecessarily burdensome and duplicative also drive up compliance costs, impede the pursuit of organizational efficiencies and, ultimately lead to higher college prices, without providing meaningful benefits.

Some Misperceptions

Now that I have discussed the major drivers of college costs, I think it is important to address some misperceptions. It is commonly claimed that salaries paid to college presidents and football coaches and investing in campus amenities significantly contribute to higher overall tuition costs. This is simply not the case.

Take presidential salaries. While we often focus on the few college and university presidents who earn seven-figure salaries, the median base pay for public college presidents in 2014 was \$400,000, according to *The Chronicle of Higher Education*, which surveyed the 238 CEOs from the largest public institutions and systems. The median base pay for private college presidents in 2012, the *Chronicle* reports, was about \$313,000.³ And the American Association of Community Colleges reports that the median pay for two-year college presidents is about \$184,000. It is important to remember that these are the CEOs of institutions with thousands and sometimes tens of thousands of staff, faculty and students and responsibility for every aspect of campus life 24/7. It also is worth noting that college presidents are more likely to be paid less than \$55,000 a year than they are to make \$1 million or more.

On the topic of coaches, the salaries of some Division 1 football coaches can be eye-popping. The median salary for a D-1 football head coach is about \$1.5 million, according to a *USA Today* database.⁴ Most of their salaries typically come from sources outside the university operating budget, such as booster funds and television revenue, sports camps, endorsements and apparel and TV/radio show deals. But out of the 4,700 institutions in the U.S., just over 100 have major D-1 football programs. To put the pay of football coaches in a broader context, a *Chronicle of Higher Education* database showing the median salaries of higher education professionals for 2014–15 puts the median salary of the head football coaches among all institutions at \$105,500, which includes D-1 coaches.⁵

On the topic of campus amenities, much has been made about the costs attached to things such as climbing walls, lazy rivers and allegedly luxurious dormitories. Not very many campuses have these types of amenities, and the campuses that do often have them because the students want them. For instance, Louisiana State University at Baton Rouge embarked on an \$85 million upgrade to its student recreational facilities, including a climbing wall and a lazy river in the shape of the school's initials. The student government voted to fund the project by quadrupling student fees, meaning students voluntarily paid \$1,080 more over four years than they would have under the old fee structure.⁶

Many institutions that add amenities like this do so because it helps in student recruitment. In recent years, a number of colleges and universities have built or refurbished student recreation

³ Executive Compensation at Public and Private Colleges, *The Chronicle of Higher Education*, June 8, 2015.

⁴ NCAA Salaries, *USA Today*, 2014.

⁵ Median Salaries of Higher Education Professionals, *The Chronicle of Higher Education*, March 30, 2015.

⁶ Lazy Rivers and Student Debt, *Inside Higher Ed*, June 15, 2015.

centers and found that doing so helped attract students. According to *Business Officer* magazine, “the payback on fitness-related facilities related investments is value for students plus added vigor to recruitment and retention.”⁷

In any event, such projects are a tiny piece of overall college costs, not a significant contributor to higher tuition, as higher education economics experts such as David Feldman of William & Mary and Jane Wellman of the College Futures Foundation have noted.⁸

It is also important to note that the American higher education landscape is wide and diverse, made up of many different types of institutions with many different academic missions and campus cultures. Nobody is forced to attend a particular college. Anyone philosophically opposed to attending a school with a highly paid football coach or a lazy river can, and should, enroll somewhere else.

The Role of Endowments in the Financing Equation

Some suggest that one way for colleges and universities to manage these rising costs and resulting tuition increases is by spending more of their endowment resources. To some extent, this suggestion is based on a limited understanding of endowments.

First, the vast majority of the nation’s 4,700 colleges and universities do not have significant endowments. According to the U.S. Department of Education, in 2012–13 the median endowment for private, four-year colleges was \$26.2 million and for public, four-year colleges was \$25.3 million. According to the National Association of College and University Business Officers, in 2014, only about 600 institutions, or about 13 percent, have endowments over \$50 million. Two percent of all colleges and universities—89 institutions—hold approximately three quarters of all endowment assets.

It is important to note that the few colleges and universities with large endowments already use their endowment resources to provide substantial student financial aid to enhance access, particularly for low- and middle-income students. Moreover, relying on endowment spending and other private resources, a number of colleges and universities are replacing loans with grants as part of their student financial aid packages. These institutions have successfully managed their endowments to provide resources for the benefit of current students and society, while also protecting the needs of future students. For example, at Princeton University in 2014–15, the

⁷ Karla Hignite, *Business Officer* magazine, July/August, 2006.

⁸ Lazy Rivers and Student Debt, *Inside Higher Ed*, June 15, 2015.

average aid grant covered 100 percent of tuition for freshmen receiving financial aid. In addition, 83 percent of recent Princeton seniors graduated debt free, and for those seniors who borrowed, the average total indebtedness was \$6,600. At Vassar College, which had an endowment valued in 2014 at approximately \$970 million, more than half (56 percent) of Vassar's first-year students received some grant aid from the institution. The average institutional grant was \$40,000 per student.

Second, an endowment is not a single entity that can be used for any purpose like a checking or savings account. Rather, it is a collection of many separate funds that are invested together like a mutual fund. Harvard University's endowment, for example, is really 12,000 separate funds. In addition, the bulk of university endowments—at many institutions, 70 percent or more— are restricted funds, which means they can only be spent for legally binding purposes that have been specified by the donors. For example, donors may endow a chair in a particular academic field, give money for specific library collections, designate gifts for academic research, or endow student aid for students meeting particular criteria. Several years ago, Princeton was embroiled in lengthy and expensive litigation after an heir claimed that the university was not spending a charitable gift consistent with the donor's intent.

Finally, state laws impose important fiduciary duties on college trustees regarding the management of their endowments. Specifically, trustees have a legal responsibility to manage and spend endowment assets consistent with donor intent to ensure both the long- and short-term needs of the institution and its present and anticipated financial requirements. Moreover, they are legally obligated to invest endowment assets prudently while also making every effort to achieve as substantial a return as prudently possible.

Federal Financial Aid and Rising Tuition

A common if unproved assumption is that federal financial aid drives up tuition. Called the "Bennett Hypothesis" after former Education Secretary William Bennett, this has never been proven, even after numerous exhaustive studies. A landmark, congressionally mandated study on college costs conducted by the Department of Education found that increases in federal financial aid had absolutely no impact on tuition at any type of institution, public or nonprofit private.⁹ In testimony before the Senate Finance Committee, Harvard Professor Bridget Terry Long found

⁹ National Center for Education Statistics, U.S. Department of Education, 2001. *Study of College Costs and Prices, 1988-89 to 1997-98*, Executive Summary, p. X, pp. 99-102, 133. See also, Wellman, Jane V. 2008. *Cost, Prices, and Affordability: A Background Paper for the Secretary's Commission on the Future of Higher Education*.

“[c]oncerns about colleges raising tuition prices in response to federal aid appear to be largely unwarranted.”¹⁰ In more recent extensive analysis of the issue, economists Robert B. Archibald and David H. Feldman at William & Mary not only found no relationship between Pell Grants and increases in tuition at public universities, but instead discovered a reverse effect at private institutions: Pell Grant increases generally *reduced* private sector tuitions.¹¹ In 2014, after reviewing nine methodologically sophisticated studies that investigated the potential causal link between college prices and financial aid, the Congressional Research Service concluded “there is not a consensus, nor even a consistent set of findings, on the relationship between federal financial aid and college prices.”¹²

A recent preliminary study by the Federal Reserve Bank of New York found that colleges and universities respond to increases in federal student aid by increasing the tuition they charge their students. This study, in its current form, suffers from three shortcomings. First, it is focused solely on the published price, thus it overstates the price families actually pay because only one-quarter of full-time undergraduates pay that price. Second, the report states that institutions raise published tuition by 55 cents for each additional Pell Grant dollar received by their students. This finding can only be described as a spurious correlation given that tuition is simply not a factor in the Department of Education’s calculation of the amount of an individual student’s Pell Grant. Finally, the reported findings result from a model that only considers the effects on published tuition of three federal student aid programs: Pell Grants, and subsidized and unsubsidized Stafford loans. Other factors that influence the price that students and their families actually pay are excluded, including state support and financial aid that institutions provide from their own funds, to name just two.

Institutional Cost Cutting Efforts

Colleges and universities have taken a wide range of steps to contain and cut costs, as well as help students pay for their education. On the cost-containment side, these steps have included: layoffs, pay or hiring freezes; improving administrative efficiency; reducing course offerings,

¹⁰ *College Tuition Pricing and Federal Financial Aid: Is there a Connection?*, Before the U.S. Senate Committee on Finance 1, 2-3 (2006) (statement of Dr. Bridget Terry Long, Associate Professor of Education and Economics, Harvard University Graduate School of Education).

¹¹ Archibald, Robert B., and David H. Feldman. 2011. *Why Does College Cost So Much?* New York, NY: Oxford University Press.

¹² Cong. Research Serv., R43692, *Overview of the Relationship between Federal Student Aid and Increases in College Prices* 29 (2014).

enrollments, or full-time faculty; eliminating academic departments; and imposing budget cutbacks and reallocating resources to pay for other institutional needs. For example, at Purdue University, President Mitch Daniels has committed the institution to maintaining tuition by finding internal efficiencies—and Purdue has not increased tuition for the last four years. Other universities, including Michigan State University and the University of Maryland have undertaken similar efforts in the past. The *Portland Press Herald* reported that the University of Southern Maine last year eliminated 51 positions and closed five academic programs. Tuition at public colleges and universities in Washington state will fall 15 to 20 percent over the next two years, thanks to increased state support for higher education.

Private, nonprofit colleges and universities around the country are identifying and implementing institutional strategies designed to make college more affordable and accessible for students and families. This includes affordability initiatives that demonstrate the creative ways in which private, nonprofit colleges are working to keep out-of-pocket costs as low as possible. These initiatives are part of a growing campus affordability trend that has accelerated since the economic downturn.

Converse College in South Carolina has frozen its tuition for 2015–16, after cutting it by over 40 percent in 2014–15. In fact, Converse is one of several institutions that cut tuition for 2014–15 by more than 20 percent. The University of Dayton has a fixed-net tuition guarantee, meaning students will have no annual increases in what they pay after student aid is taken into account. Many institutions, like Huntingdon College in Alabama and Hiram College in Ohio, have fixed-tuition structures for students for all four years. In Iowa, St. Ambrose University guarantees that their students will graduate in four years.

In addition to tuition cuts, freezes and fixed-tuition guarantees, private, nonprofit institutions are implementing a range of other affordability measures, such as military scholarships; public-university price matches; loan caps; replacing loans with grants; and loan repayment assistance programs.

Conclusion

There is no question that the rising price of college is a source of great concern and anxiety among students and their families. College presidents and academic leaders share that concern. As I have discussed in some detail, multiple, complex and interrelated factors drive tuition increases. Addressing the challenge posed by the high price of higher education is serious and complicated,

and unfortunately does not lend itself to easy solutions. We appreciate the willingness of this committee to examine this issue in hopes of shedding light on the challenges facing institutions, states and the federal government.