

Sticker Shock

What is driving the cost of higher education?

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You can count on it every summer, like crabgrass and mosquitoes. The beginning of a new fiscal year brings another announcement from UNH that tuition is going up—6.9 percent last year, 6.9 percent the year before that, 7 percent the year before that. Not since 1974 has UNH had a year without a tuition increase for out-of-state students, and not since 1989 for in-state students. Just over the past five years, the cost of attending the university has increased by 38 percent for New Hampshire residents and 34 percent for out-of-state students. The consumer price index went up only 14 percent over the same period. So what's going on?



It's a good question—but the situation at UNH is not unique. You could ask the same question about any public college or university in the country. Higher education has been becoming less affordable for students and their families for years. According to a report published last year by the College Board, tuition and fees at public four-year institutions have been rising at an average annual rate of 4.2 percent after inflation over the past decade. The report confirms the widespread perception that college costs are

rising more rapidly than the prices of other goods and services. "This is not a new phenomenon, but one that has persisted over the entire 30-year period documented here," the report notes.

Prices have increased steadily at both public and private institutions, but the rate of increase has been greatest at public four-year universities like UNH, largely because states have been cutting back on their share of university operating costs. Although state appropriations for higher education have gone up, the increases have not kept pace with inflation and growth in enrollment. As a result, state support per student has actually declined. Over the last 30 years, the state's share of UNH expenses has been cut roughly in half.

"The primary cause of tuition increases in public institutions is not increased spending, but rather cost-shifting to replace losses in state appropriations and other revenues. In public research institutions, 92 percent of revenues from tuition increases since 2002 have resulted from shifts in costs," according to a new report on college spending by the Delta Project on Postsecondary Education Costs, Productivity and Accountability, an independent nonprofit in Washington, D.C.

With costs going up and states paying a shrinking share of the bills, public colleges and universities are caught in a financial vise. UNH, for example, has to pay for salaries and benefits, supplies, utilities, maintenance of more than 300 buildings (some more than a hundred years old), a share of University System of New Hampshire costs, and a host of other fairly inflexible expenses—and those bills keep going up. A few examples:

- The cost of health insurance for faculty and staff—a \$40 million expense—increased by more than 12 percent between 2007 and 2008, and has been growing at double-digit rates every year since 2000.
- Utilities are an increasing expense, growing at an annual rate of more than 12 percent since 2004, even though UNH has been recognized by both the U.S. Department of Energy and the Environmental Protection Agency as a leader in energy efficiency among colleges and universities.
- Needed maintenance and repairs on buildings have been postponed for decades. A recent report projected that the university will need more than \$600 million over the next 15 years to catch up. That's \$40 million a year. Right now, UNH is able to budget only about \$15 million for that purpose, so it is rapidly losing ground.

All of that money has to come from somewhere. Whatever isn't covered by state and federal funds or private support from alumni, corporate donors and charitable foundations has to come from the tuition and fees paid by students and their families.

In 1980, approximately one quarter of the university's operating budget was covered by state appropriations. Now the state's share is just over 14 percent. New Hampshire ranks dead last among the 50 states in per-capita support for higher education, and it would take a 45 percent increase just to move up to number 49.

"At one time it was appropriate to talk about UNH as a 'state supported' university. Later, as state aid slipped, the more accurate term was 'state assisted' university. Now, we all need to work to ensure that the University of New Hampshire doesn't become simply a 'state located' university," says UNH President Mark Huddleston.

As college costs rise, there is danger that students from families with lower incomes will be priced out. In fact, the 2008 National Report Card on Higher Education, issued by the National Center for Public Policy and Higher Education, suggests that is already happening. "In all but two states, the percentage of family income, after financial aid, needed to pay for a public four-year college has increased since 2000," the report card states. "On average, students from working and poor families must pay 40 percent of family income to enroll in public four-year colleges. Students from middle-income families and upper-income families must pay 25 percent and 13 percent of family income, respectively, to enroll in public four-year colleges."

No wonder UNH President Mark Huddleston believes, in the long run, our biggest challenge is access and affordability.

Expensive, but Still a Bargain

UNH is among the most expensive state universities—a fact mentioned in virtually every news report of a new tuition hike— but exactly what does this mean in dollars and cents?

Last year, New Hampshire students at UNH paid \$11,756 for tuition and mandatory fees. Out-of-state students paid \$25,236. The average cost of in-state tuition and fees at public research universities across the country was \$7,307, and the average charge for out-of-state students was \$18,174, according to the College Board. Pennsylvania State University was the most expensive public university for in-state students (\$13,706), while the University of Wyoming was the least expensive (\$3,621).

Tuition and fees are only part of a typical college bill. You have to add in the cost of room and board to get the total "direct cost of attendance." Room and board fees are generally calculated to cover the actual cost of providing those services, and they are fairly consistent from one institution to another. At UNH, typical room and board charges for the last academic year were \$8,596, so the direct cost of attendance was \$20,352 in-state and \$33,832 out-of-state. Those figures put UNH in fourth place on the list of the most expensive state universities for in-state students, behind Penn State (\$21,976); Rutgers, the State University of New Jersey (\$21,772); and the University of Vermont (\$21,378).

Private four-year institutions have a much wider range of prices than public universities do. Tuition and fees range from around \$6,000 at the low end to more than \$40,000 at the high end; the average last year was \$25,143, according to the College Board. Add in room and board, and some of the most expensive private colleges cost more than \$50,000 per year.

So, in spite of tuition increases, UNH is still a good value for New Hampshire students. It would be hard for them to go to a public university in another state or any good private college for what they pay at their own highly regarded state university. The question is:

can it remain a good value? David Proulx '92, '00G, UNH assistant vice president for financial planning and budget, estimates that in 10 years, assuming 5 percent annual increases, in-state students will pay \$33,000 and out-of-state will pay \$55,000 per year. "We need to work hard to curb these increases, as we are reaching a break point for our nonresident students and perhaps our resident students," he observes.



Of course, the prices published in college catalogues and directories don't tell you everything you need to know to make a realistic comparison of the true cost for any given student. Published prices are discounted substantially through financial aid programs at both public and private institutions. The College Board reports that some \$143 billion in financial aid was distributed to undergraduate and graduate students throughout the United States in the 2008-2009 academic year in the form of grants, subsidized loans, federal work-study assistance, and federal tax credits and deductions.

The availability of financial aid particularly in the form of scholarships and grants, which don't have to be repaid is often a major consideration for a high school senior who has been accepted at several colleges. At UNH, 82 percent of full-time undergraduate students received financial aid last year, including 59 percent who received institutional grants, with the average financial-aid package amounting to \$17,910.

Increasing the amount of financial aid available to students who need it has been a priority at UNH for many years. Since 2000, the university system has more than tripled financial aid for New Hampshire residents at all of its campuses. UNH now provides some \$25 million in need-based institutional grants every year, in addition to the assistance students receive from other sources. Add in institutional grants that are merit-based or talent-based, including athletic scholarships, and the university's total budget for financial aid is more than \$40 million a year. But the need is still growing faster than the university's ability to meet it. One result is that students are accumulating increasing burdens of debt. About 75 percent of this year's graduates borrowed money for college. They left with their diplomas and an average debt of more than \$27,500.

So far, student application and enrollment figures at UNH have shown steady upward growth, in spite of the rising cost of attendance and the dismal economy. Applications for the coming academic year nearly matched the record high set last year, and the number of admitted students who sent in deposits exceeded expectations at a time when many other colleges are reporting flat or declining rates of deposit. This is a strong indication that prospective students still find UNH to be a good choice and one that they can afford.

But university officials are very concerned about something Huddleston calls "the wedge." He explains it like this: "Imagine a simple graph, one that displays two rising cost curves. One is the moderately upward trend that shows what the median family income is going to look like in the next 10 to 15 years. The other line rises much more sharply, projecting the cost of higher education." The increasing gap between the two—the wedge—is alarming. "We need to provide substantially more endowed student aid to hold down the differential between those two lines on the graph," Huddleston says,

The Limits of Frugality

There are only two ways to rein in the rising cost of tuition. The first is to decrease expenses, and the second is to increase revenue from sources other than tuition. UNH has been striving mightily to do both.

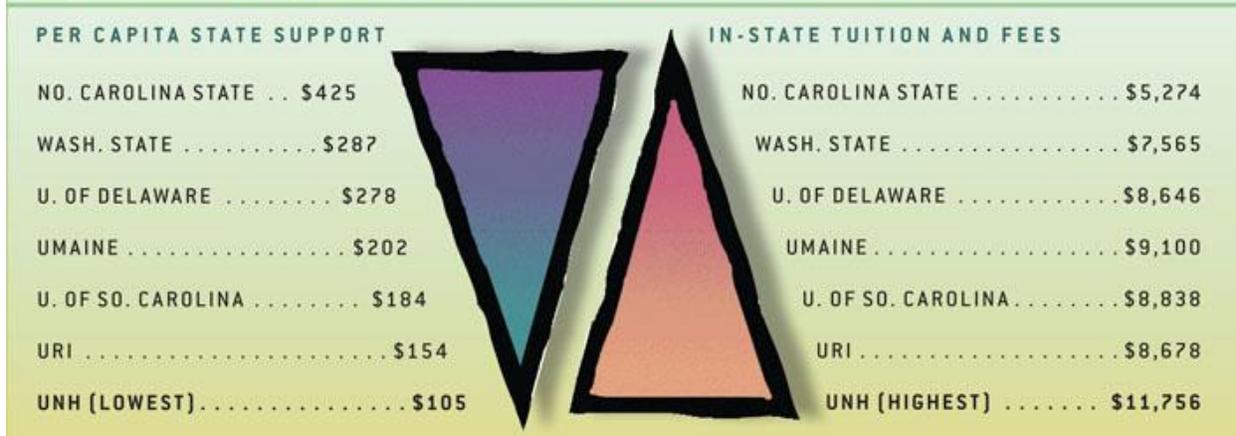
Teaching, research and public service—the three components of the university's mission—are all labor-intensive endeavors, so it is not surprising that salaries and benefits for faculty and staff account for about 63 percent of UNH's total expenses. Faculty salaries at all levels (professor, associate professor and assistant professor) fall in the middle range for comparable institutions, neither near the bottom nor the top of the scale, according to a recent American Association of University Professors survey.

By all measures, UNH is extremely efficient in its use of resources, including personnel. In testimony at a budget hearing before the New Hampshire House Finance Committee early this year, university system chancellor-elect Edward MacKay pointed out that spending per student at UNH is 16 percent below the median for comparable universities and 23 percent below the median for the other New England land-grant colleges.

The downside of having an extremely efficient operation is that it is not easy to cut the budget without reducing the range or quality of services when the economy goes into a downward spiral and revenues fall short of projections—which is exactly what happened last year.

The economic downturn cut into UNH's revenue in a number of ways. State funding budgeted for the 2008-09 academic year was cut by \$7 million. The value of the UNH endowment, which had stood at \$240 million, dropped by about 25 percent, and federal funding for research dropped dramatically. Early this year, budget projections indicated a \$9 million shortfall in the university's fiscal year 2010 budget and a \$17 million shortfall in 2011.

Impact of State Support on Tuition and Fees



[SOURCE: UNH COMPARATOR COLLEGES AND UNIVERSITIES.]

SEE UNHMAGAZINE.UNH.EDU/SP09/STATESUPPORT FOR DATA ON ALL 15 COLLEGES.]

In a series of messages to the UNH community, Huddleston announced a number of escalating budget-cutting measures. In May 2008, he instituted a hiring freeze and a broad budget review to cut \$8 million from the fiscal year 2009 budget. Subsequent measures froze salaries for nonunionized employees making more than \$40,000 and restricted expenditures on a variety of expenses, including travel, use of consultants and printing and mailing costs. Finally, in June this year, the president announced that 27 open faculty and staff positions would not be filled, 40 staff positions would be reduced from full- to part-time, and seven staff members would be laid off. "The personnel actions are particularly painful," he wrote. "We promised that the sort of layoffs and other reductions now common at other colleges and universities would be at the far end of steps we would contemplate. Unfortunately, in some of our units, that far end has been reached."

Both the positive and the negative effects of budget cutting are cumulative. A lot of small savings can add up to a substantial sum, but eventually there is not enough left for UNH to keep doing everything it used to do. The intercollegiate athletic program is a good example. "We've cut the operating budget virtually every year since I've been here," says Marty Scarano, who is now in his seventh year as director of intercollegiate athletics. The result is that there are fewer Wildcat teams competing at the varsity level. Two decades ago, the university fielded 30 varsity teams; now the number is 20. One sport after another has been sacrificed so UNH could continue to compete in the others.

"We have a lot of fixed costs and a lot that we can't control," Scarano points out. There are requirements that have to be met to comply with Title IX of the Equal Opportunity in Education Act, other requirements for membership in NCAA Division I, and still others for league memberships. Those aren't optional—if UNH isn't in compliance, it can't compete.

The intercollegiate athletic program is central to UNH's history and character. While it has to be frugal, it also has to be competitive. "There is an expectation that we are

going to be excellent in all that we do," Scarano says, and his department generally delivers. UNH teams compete at the highest level and earn national recognition. That's a tradition that the university is determined to preserve, even in a difficult economy, because once lost, it could probably never be regained.

Building maintenance is another area where cost-cutting beyond a certain point becomes self-defeating in the long run. While UNH has been receiving state money for renovating buildings like Kingsbury, DeMeritt and James, the funding has been a one-time allocation. For decades, UNH kept tuition and fees artificially low by postponing maintenance work that really should have been done. As a result, says Dick Cannon, vice president for finance and administration, "there is a tremendous backlog of deferred maintenance in our buildings that involves extra investment to catch up, even as other buildings continue to age. We have to set aside money each and every year to maintain our assets. If we don't, eventually we have to catch up or lose our buildings forever."

The Way Forward

No one at UNH thinks that continuing budget cuts are a long-term solution. The only way forward is to increase UNH revenue from sources other than tuition. That's not easy to accomplish in a slumping economy, but the university is exploring a number of possibilities.

One significant source of income that has shown substantial growth over the past decade is research funding, which contributed almost \$99 million to the fiscal-year 2008 budget and is expected to total about \$90 million in 2009. Revenue from research has been on a downward trend over the last few years because of reductions in targeted grants and because the federal government, which provides most of the funding for research, has its own budget problems. Still, as one of only 13 universities that have land-grant, sea-grant, and space-grant charters, UNH has broad opportunities to extend its research activities.

Not only does sponsored research create income for UNH, it also enhances its reputation, which helps to attract further grants and makes the university more appealing to graduate students. "Research is the leading edge of knowledge," says Janet Campbell, interim vice president for research. "The stronger our research enterprise, the more graduate students we attract, and expanding graduate programs is one of the university's goals."

The range of research activities at UNH is important to undergraduates as well. UNH prides itself on the opportunities it offers for students to work directly with scientists and scholars who are recognized leaders in their fields. A host of programs encourage undergraduates to pursue original research on campus, in the community or abroad, and UNH now has one of the largest undergraduate research conferences in the country, with hundreds of students participating in a week-long symposium.

Auxiliary operations, which account for about 26 percent of the UNH budget (about \$126 million), also offer opportunities for increased revenue through more intensive and efficient use of existing facilities. Among the initiatives that are currently being developed or explored: introduction of a three-week "January Term"; additional summer programming, both for UNH students and for outside groups; development of new or

larger graduate-degree and certificate programs for professionals; and online education to reach more nontraditional students. All of these initiatives are in different stages of development, according to Proulx, but at least one—January Term—will start this winter with a few offerings and expand in 2011. "The message is that we need to adapt to the marketplace and do so in a way that can generate additional revenue," he says.

Finally, the university is determined to build a broader base of support in the private sector. Gifts and endowment income account for about 5 percent of revenue (more than \$24 million), but most comparable public universities have been more active and consistent in their fundraising efforts and have built substantially larger endowments.

UNH Financial Aid 101	
THE NEED, THE AID & THE LOANS	WHERE DOES IT COME FROM?
Percentage of full-time undergraduates applying for need-based financial aid: 74	\$79.9 million Student loans from all sources, excluding parents
Percentage awarded need-based financial aid: 59	\$21.1 million Need-based scholarships funded by UNH
Percentage whose need was fully met: 13	\$18.95 million Loans from parents
Average percentage of need that was met: 81	\$15.8 million Need-based scholarships funded by other sources
Percentage of students who borrow to pay UNH expenses, excluding loans from parents: 75	\$14.7 million Merit scholarships funded by UNH (excluding athletic awards)
Average financial aid package: \$17,910	\$6.8 million Athletic scholarships
Average amount borrowed for UNH expenses over four years, excluding loans from parents: \$27,516	

"Our needs are so great for financial aid, and for targeted investments that can leverage the strengths of the university, that all private dollars make a difference," says Mark Rubinstein, vice president of student and academic services and interim vice president for advancement. As examples of targeted investments he cites sustainability, undergraduate research and business education, each of which represents an area of institutional strength that has been—or is in the process of being—magnified through "transformational philanthropy."

Huddleston has made it clear that increasing private support has to be one of the university's top priorities. "UNH needs to create a culture of philanthropy," he says. "Although a number of farsighted people have exhibited extraordinary generosity, we have not had a sustained history of significant private giving."

The president points out that UNH is ranked only 11th in the value of its endowment out of the 15 public universities in its standard comparator group—public institutions with which the university is thought to be competitive. "Six of those comparators institutions have endowments at least twice as large as ours, and at least two of them have endowments in excess of a billion dollars," he observes. "That's where we have to head."

UNH is trying to develop all of these potential sources of new revenue—and any others it can identify—as quickly as possible. The president's image of the diverging lines on the wedge-shaped graph is etched into everyone's mind. And the rising cost of higher

education is a problem—for students, for the state, and for the nation—that we cannot afford to ignore. ~

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University of New Hampshire

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