



Higher Education Cost Drivers

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RECOMMENDATIONS

- Base faculty merit-pay off student evaluations only, not peer reviews or research accomplishments.
- Separate research and teaching budgets.
- Transition to student-centered rather than university-centered funding.
- Increase scholarship funding instead of university funding.
- Improve higher education transparency to make universities accountable.
- Push universities to send surveys to all students who graduated five years earlier and publish the results online to increase competition between schools.

Introduction

Every session university administrators ask the legislature for more money. They argue that without an increase in funding, Texas universities will lose their competitive edge and that the quality of higher education will be diminished. The Texas Tech University System Chancellor even recently remarked that if policymakers limited university revenue sources that Texas' higher education system would "be in a third-world state."¹

However, before lawmakers pour more resources into higher education, they should first ensure that current state appropriations are being spent wisely. Evidence suggests that this is not the case. Despite claims made by university administrators, the root of their financial problems is because operational costs have increased so dramatically, not because there is a lack of funding.

The best way to drive costs down is to infuse free-market principles into Texas' higher education institutions that force universities to give more concern to their operating costs, thus allowing students to get the greatest bang for their dollars. Increasing salaries for faculty and administrators, emphasizing research over teaching, and exceedingly high operational costs are all areas that universities must improve before policymakers agree to give them more money. Additionally, higher education appropriations would be more beneficial if given to scholarship programs, not directly to universities. Any further state funding increases without first improving university spending accountability would be a fiscally irresponsible disservice to students, parents, and taxpayers.

State Appropriations

For the 2008-2009 biennium, 14.22 percent (or approximately 11.4 billion) of the state's general revenue appropriation of \$80 billion

went to fund higher education.² Not only do universities receive billions of dollars in state funding, they also have access to funds other than appropriations. Tuition, fees, the Available University Fund, gifts, and grants are just some of the additional revenue sources for higher education.³

In addition to the billions of dollars given to institutions of higher learning, there are no rigid guidelines for how the money must be spent. A recent financing primer released by the Legislative Budget Board notes that "With a few exceptions, higher education entities, unlike other state agencies, are not required to spend appropriations within a specified funding strategy."⁴

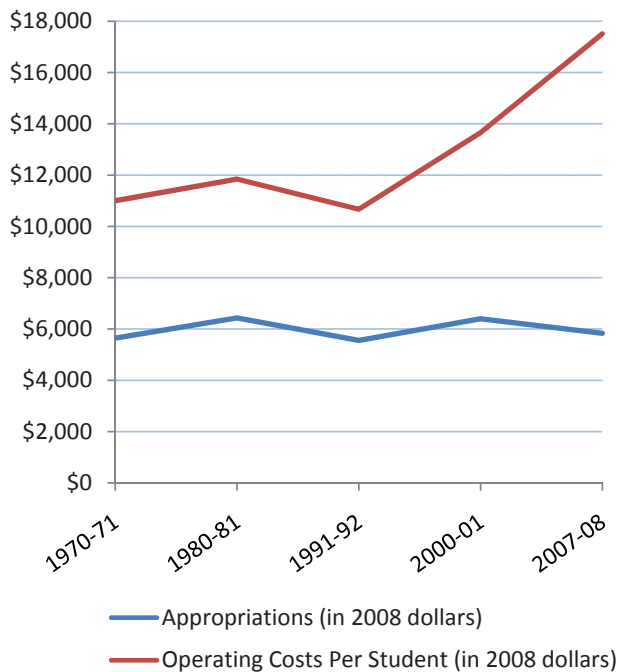
Generally speaking, when government involves itself sparingly the resulting product is better than it would have been if the government exerted absolute control over the budgeting process. Since universities are in the business of educating, they presumably know best when it comes to funding their operations.

For that reason, allowing universities discretion to spend dollars how they choose is not necessarily the big problem. The issue that needs to be addressed is the lack of free-market mechanisms in place to keep costs down and spending under control. By making higher education a more competitive marketplace, universities would have incentives to avoid spending tax dollars in an inefficient manner, keeping them accountable to students, parents, and taxpayers.

Texas' academic institutions are not lacking in resources required to provide their students with quality and affordable education. Why then, are the costs associated with educating students in Texas rising so dramatically?

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Statewide Average University Operating Costs Per Student Compared to State Appropriations (1970-2008)



Cost Drivers

The Texas Higher Education Coordinating Board* hopes to increase the number of Texans holding college degrees by 50 percent in the next six years. They identify their main obstacle to achieving this goal as the high cost of college tuition.⁵ Expanding college participation and completion is an attainable objective, but only if costs are lowered by controlling spending, not by increasing state funding.

Texas' flagship university, the University of Texas at Austin, has seen its total cost per full-time student equivalent increase from \$21,251 in 1980 to \$36,769 in 2008.^{†6} Rather than making every effort to ensure the cost of tuition remains affordable, universities instead are passing along their spending increases to students and parents. There are several reasons for these increased costs.

Research over Teaching

Strangely, professors are judged mostly according to their research "accomplishments" rather than their teaching ability. With such a heavy emphasis placed on research, professors spend a majority of their time focusing on it. Subsequently, they often leave graduate students to teach

their courses or do not spend as much time preparing for lectures as they would ordinarily. This practice is detrimental to the institution of higher education as knowledge from full-time professors is not being transmitted to students. Additionally, this practice also has major cost ramifications.

Some taxpayers may be surprised to learn that the average college professor only spends about 21 percent of their time in the classroom.⁷ The remainder of that time revolves around various research projects and administrative duties. According to a study released by the Texas Comptroller's office, the average number of classes taught by professors is 1.9, even though most universities have established their internal requirement to be a 3 class minimum.⁸

In order to compensate for this lost time in the classroom, universities just hire more staff when they should be requiring existing professors to be more productive by spending less time on research and more time with students. At UT-Austin, enrollment decreased by 186 students between 2007 and 2008. However, they hired 126 more teaching faculty of "all ranks" during that same time period.⁹ Even though UT-Austin's enrollment has been capped, they continue to hire more professors.

These new faculty hires are completely avoidable, yet universities continue this practice rather than making the more fiscally responsible decision to expand their existing professors' teaching duties. If professors increased their productivity by spending more time teaching than focusing on research, Texas taxpayers, students, and parents would save millions each year.

Increased Faculty Salaries

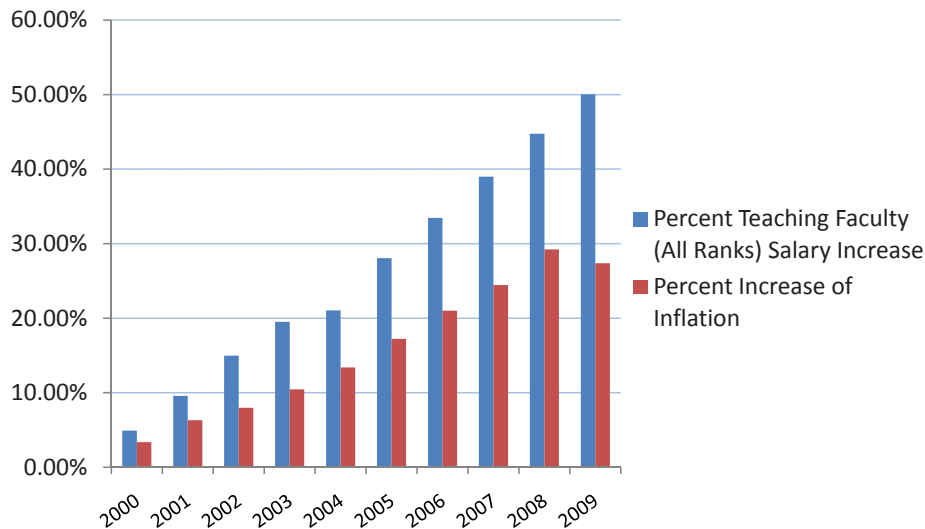
Certainly, it is necessary to pay professors top dollar if your university wants to attract the best and the brightest to teach students. However, many professors are simply hired based on their research credentials, not because they are excellent teachers. Students attend college for an education, therefore, the priority when hiring professors should be their teaching abilities and not how many research articles they have had published in obscure journals.

The fact that professors are hired based more on their research than their teaching skills becomes more disturbing when reviewing the percent increase of average professor salaries at Texas universities compared to the inflation rate. In 1999, the statewide average professor salary was

* The Texas Higher Education Coordinating Board is the state agency responsible for overseeing all public post-secondary education in Texas.

† In 2008 dollars.

Faculty salaries increased 50% from 1999-2009, but the inflation rate for that same time period was just 27.37%



\$70,864. Ten years later, that number has ballooned to \$106,311—a 50 percent increase.¹⁰ A more startling fact indicates that the highest professor salary at UT-Austin in 1999 was \$140,542 a year compared to \$382,948 in 2009.¹¹ That's a 172.5 percent increase in just 10 years.

If universities operated under a free-market system, these wages absolutely would be off limits to any criticism. However, higher education in Texas is not controlled by competitive market forces. It is simply another state agency funded by taxpayer dollars.

Increased Administrative Salaries

A recent study completed by the *Associated Press* indicates that it isn't just professor salaries that are on the rise. Wages paid to university administrators have also increased. According to the study, "The budget for administrative jobs [at UT-Austin] that paid at least \$200,000 or more at some point between 2004 and 2008 rose from \$5.9 million to \$8.2 million, or 40 percent."¹² Furthermore, this phenomenon cannot be isolated to just one university in Texas. The current Texas A&M president was paid 45 percent more in 2008 than her predecessor was in 2004, and the University of Houston's presidential salary increased by a more modest 10 percent during that same time period.¹³

Not only are university administrators getting paid more, there are also more of them. UT-Austin created at least four high-level positions paying over \$200,000 just in the

past five years.¹⁴ Sure, university administrators can provide quality service to their institutions, but they somehow managed to function adequately before these positions existed. It is unclear what benefit these administrators provide for their high cost to taxpayers, students, and parents.

Increased Operational Costs

Hiring more professors, associate-professors, and administrators impacts the budget in ways other than salary increases. With more staff comes more buildings, increased utilities, office supplies, and countless other resources. Furthermore, additional staff is not being hired just to fill new high-level administrative or teaching faculty positions. Some of these workers are operating entirely new university programs that some may argue are unnecessary and a waste of taxpayer dollars.

In 1991, the statewide average operating cost per student was \$10,665, and by 2007 this number had increased to \$17,506.¹⁵ In 16 years, the operating cost per student has increased by 64.1 percent.

Some universities, particularly non-flagship institutions, have seen their enrollment numbers grow during this time period. However, larger flagship universities have mostly reduced or capped their enrollment. For this reason, these numbers do not do justice to operational cost increases at major Texas universities.

* In 2008 dollars.

Free-Market Solutions for Higher Education

Currently, universities have no incentive to keep spending under control. The following recommendations would help higher education institutions maximize their efficiency by keeping costs down.

- Base faculty merit-pay off student evaluations only, not peer reviews or research accomplishments. The merit-pay process should be completely separate from and untainted by any peer review results or research considerations. Peer reviews are suspect to bias and research has nothing to do with teaching ability. Professors exist to educate students who pay thousands of dollars for good quality. In addition, universities should not hesitate to fire professors who consistently receive poor student reviews.
- Separate research and teaching budgets. This separation will inhibit tax dollars intended to subsidize teaching from being used on research projects that do not benefit society in any meaningful way.
- Transition to student-centered rather than university-centered funding. Placing state appropriations in the hands of students instead of universities would increase competition in the higher education marketplace while at the same time ending the subsidization of both particular institutions and non-teaching related activities.
- Increase scholarship funding instead of university funding. If policymakers decide to increase higher education funding, then the appropriations should go towards scholarship programs, not directly to universities. Giving more money to universities will only incentivize more spending and will do nothing to improve accessibility.

- Improve higher education transparency to make universities accountable. Publically posting university budgets online would give taxpayers, students, and parents much needed insight into how their money is being spent, as well as encourage universities to spend in a more fiscally responsible manner.
- Push universities to send surveys to all students who graduated five years earlier and publish the results online to increase competition between schools. These surveys should inquire into the graduates' current job, salary, and overall satisfaction with their university experience. Results of these surveys should be posted publicly on university websites so that applicants can better decide which school fits their needs.

Conclusion

State appropriations dedicated to higher education have remained relatively constant, yet universities continue raising their tuition at levels far outpacing inflation and enrollment growth. The reason for these tuition increases is too much spending, not a lack of funding. Increasing state funding will only encourage the same behavior policymakers aim to stop. The key to keeping costs manageable is to control spending, not rewarding universities with an increase of state appropriations.

There must be measures in place that provide incentives for universities to keep costs as low as possible. The only way to achieve this is to infuse free-market principles into a higher education system that severely lacks fiscal discipline. Doing so, would drive costs down and allow all Texans to have access to an affordable and valuable higher education. ★

¹ Brandi Grissom, "Texas universities have abused tuition increases, lawmakers say," *El Paso Times* (April 2009).

² "Texas Higher Education Quick Facts 2008," Texas Higher Education Coordinating Board (2008).

³ *Ibid.*

⁴ "Financing Higher Education in Texas Legislative Primer, Fourth Edition," Legislative Budget Board (January 2009).

⁵ "Closing the Gaps: The Texas Higher Education Plan," Texas Higher Education Coordinating Board (1998).

⁶ Marc Levin, "2009-2010 Legislators' Guide to the Issues: Higher Education Productivity," Texas Public Policy Foundation (January 2009).

⁷ Rick O'Donnell, "Is Academic Research a Good Investment for Texas?" Texas Public Policy Foundation (December 2008).

⁸ Texas Performance Review, "Disturbing the Peace: The Challenge of Change in Texas Government," Texas Comptroller of Public Accounts (December 1996).

⁹ Texas Higher Education Coordinating Board, <http://www.txhighereddata.org/Interactive/FacSal.cfm>.

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² Jay Root, "Higher Tuition, Higher Pay for Top UT Execs," Associated Press (February 2009).

¹³ *Ibid.*

¹⁴ *Ibid.*

¹⁵ Marc Levin, "2009-2010 Legislators' Guide to the Issues: Higher Education Productivity," Texas Public Policy Foundation (January 2009).

