

AGENDA ITEM

B-2. Discussion of Strategic Plan Working Documents – Benchmark IIScott Lampe/Jonathan Pruitt

Situation: Benchmark II of the strategic planning process requires each committee to identify the major issues facing higher education in this strategic priority area, as well as explore solutions that peers are implementing to address these issues.

Background: Through the strategic planning process, which is currently underway, the Board of Governors seeks to develop a set of goals to drive the work of General Administration and constituent institutions for years ahead. The Board of Governors aims to approve a small set of system-wide goals this fall, which will form the basis for the University of North Carolina’s strategic plan.

Assessment: The attached working documents for Benchmark II require additional Committee discussion. After completing this portion of the work plan, the Committee should have a common understanding of the major issues facing higher education in this strategic priority area, as well as some approaches peers are implementing to address these issues.

Action: This item is for discussion only.

Benchmark II: Evaluate National, State, and University Landscape

Due Date: September Board Meeting

Instructions: The committee should use Benchmark II to assess what is happening nationally and statewide in this strategic priority area. This benchmark will identify the major issues facing higher education in this strategic priority area, as well as explore solutions peers are implementing to address these issues. To complete Benchmark II, the committee should respond to the questions outlined below.

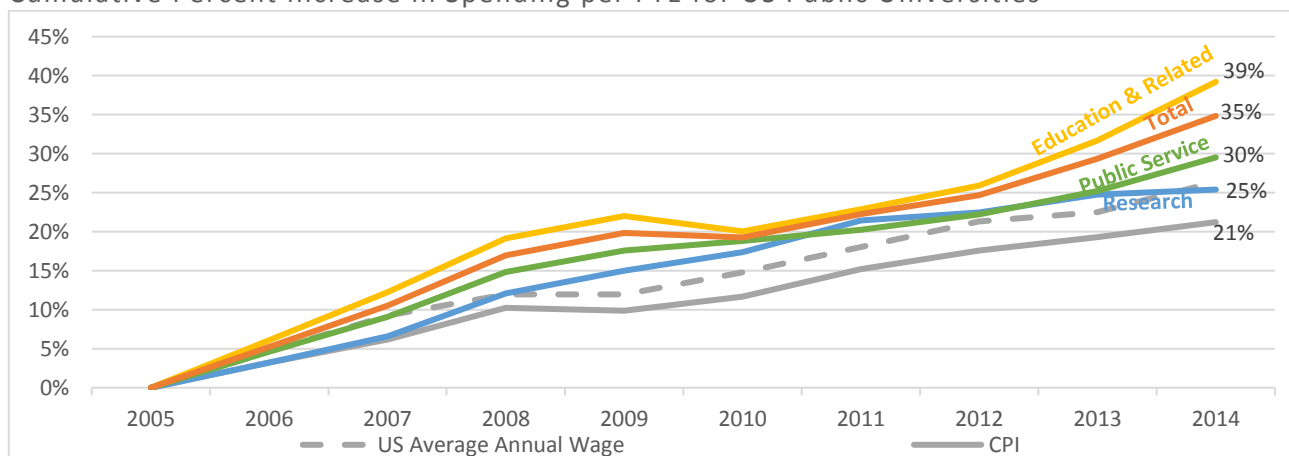
Questions:

What do research and practice show as the key issues higher education is facing across the country/state in this strategic priority area?

Cost of Higher Education

Focus on the growing sticker price of college has long been an important area of valid public concern. However, there has been less of a focus on the constituent elements of higher education costs that drive these increases. A report detailing insights from the Delta Cost Project states that “The higher education ‘industry’ has long overlooked the spending side of the college cost equation.”¹ Unsurprisingly, a big picture look at national education and related spending per student at public universities shows that spending has been outpacing inflation at an increase of 39% since 2005, as shown in the graph below.

Cumulative Percent Increase in Spending per FTE for US Public Universities²

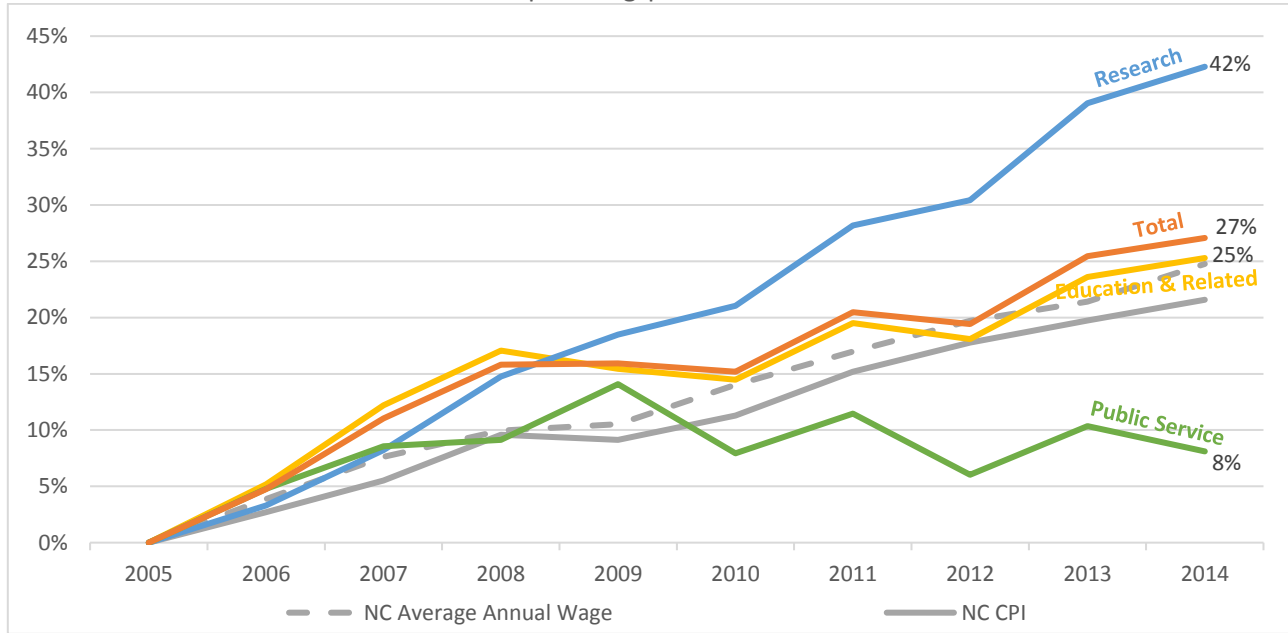


¹ Kirshstein, R., & Wellman, J. (2012). Technology and the Broken Higher Education Cost Model. 12-22.

² Only includes bachelor's level Carnegie classifications and above at institutions that report using GASB.

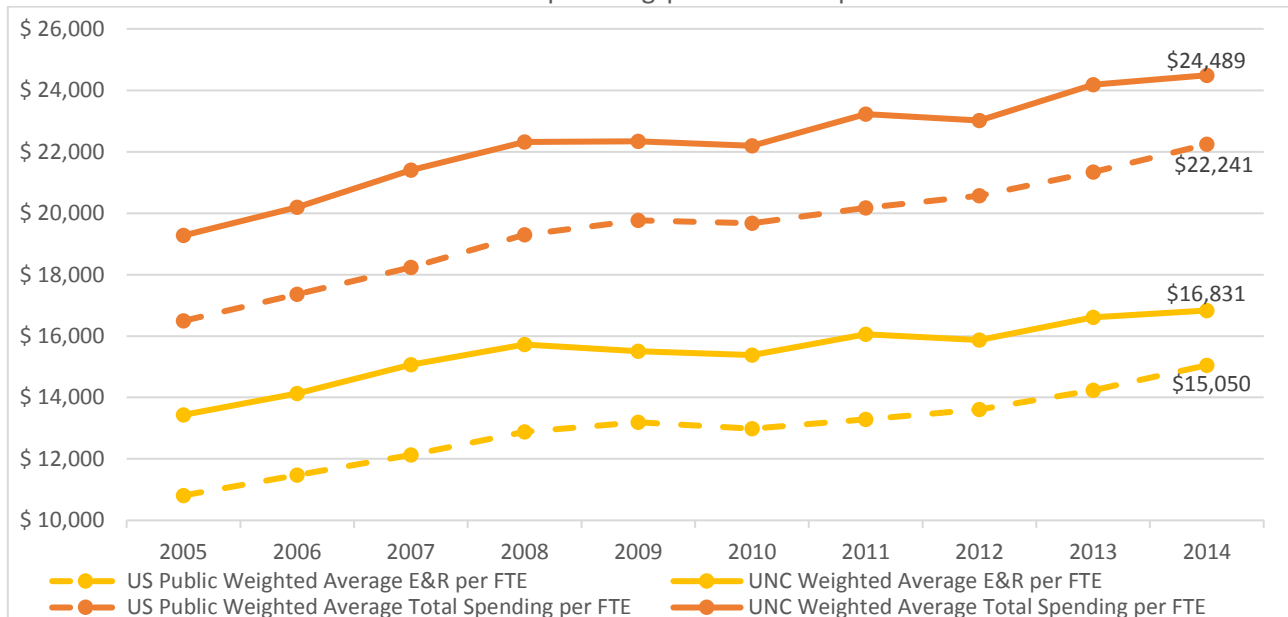
However, when we look at North Carolina, we see a slightly different picture. While UNC spent \$1,781 more per student in FY 2014 than the national average, we have been more successful at controlling increases. Since 2005, UNC education and related spending per FTE has increased only 25%.

Cumulative Percent Increase in UNC Spending per FTE³



When average spending in the US is directly compared with North Carolina, it appears that UNC may be on track to close the gap between US spending per student FTE and UNC spending per student FTE.

UNC Total and Education and Related Spending per FTE Compared to US Public³



³ Data source: IHS Global Insight and IPEDS

Notes: UNC Public Service expense was adjusted for ECU Physicians practice in FY 2005 which was moved to Auxiliary Enterprise in FY 2006
 Total Spending includes all operating expenses less scholarships, auxiliary enterprises, hospital services, and independent operations.
 Operations and Maintenance, Depreciation, and Interest Expense are allocated by dollar total.

We do see that there are some specific areas of more rapid growth in the UNC System compared to the average of US public universities.

Category	UNC Increase (%) 2005 to 2014	US Increase (%) 2005 to 2014
Research	42%	25%
Scholarships & Grants	131%	55%
Auxiliary Enterprise ⁴	50%	30%

- **Research** – as part of the core mission of many of our institutions, we expect growth in research dollars much the same as we expect our efforts in instruction to produce more degrees. Most of these costs are supported through federal funding and therefore should not drive an increased need for student or state resources.
- **Scholarships and Grants** – we are still awaiting the impact of the freeze and cap policy on these increases. This policy capped the total percentage of base tuition revenue that can be used for need-based financial aid at 15%.
- **Auxiliary Enterprise** – much of this spending is made up of auxiliary student services such as housing and dining. It also includes other services such as physician’s practices at medical schools, but for the costs that are directly linked to student cost of attendance, a ten year increase of 50% is worth noting.

⁴ Data source: IPEDS

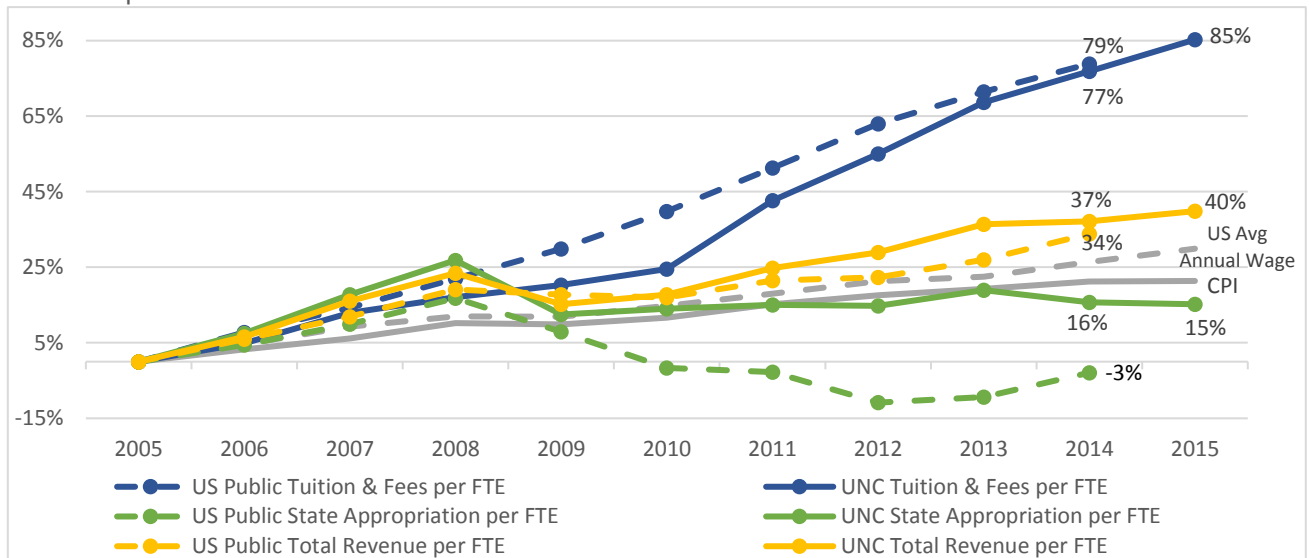
Notes: UNC Auxiliary expense was adjusted for ECU Physicians practice in FY 2005 which was moved from Public Service in FY 2006
Operations and Maintenance, Depreciation, and Interest Expense are allocated by dollar total.

Change in Funding Sources

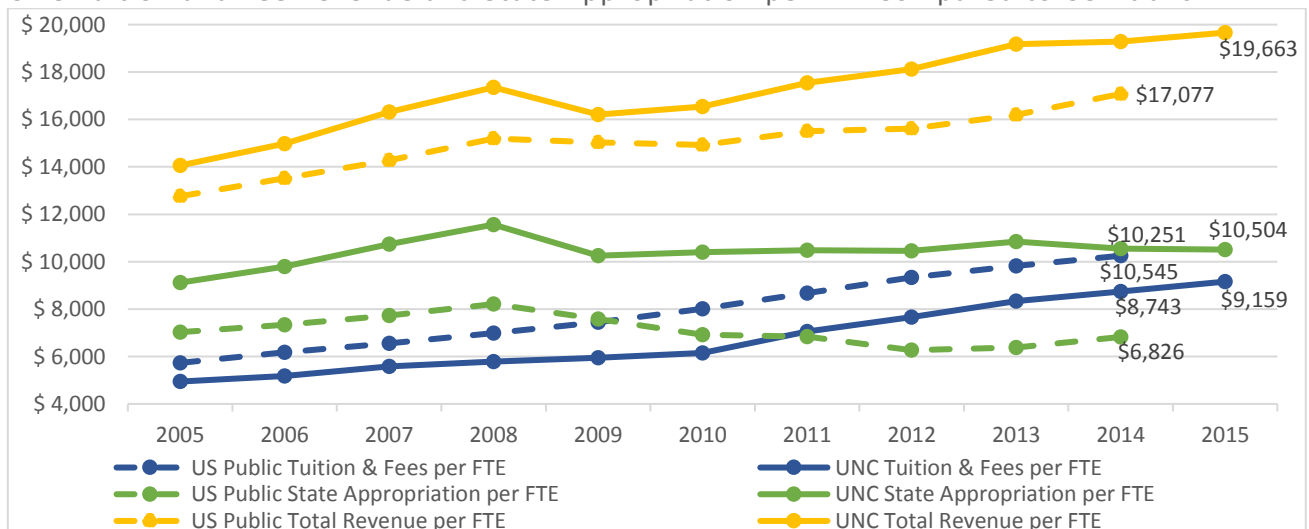
Focus on the cost side of the equation is a vastly important piece of stabilizing the dramatic increase seen nationally in tuition rates. However, shrinking state subsidies have also played an important role. Since 2008 we have seen a decline in state support per student at public universities while there has been a sizeable increase in tuition and fees.

In North Carolina, the balance of funding from state appropriation has shifted, but it has been much closer to keeping up with inflation. We have seen a 15% increase in appropriation per student over the last ten years, while nationally, appropriation per student has decreased 3% over that same time period. On average, UNC has consistently received \$3,425 more state appropriation per student than the rest of the US. This has enabled us to keep our tuition rates comparatively low.

Cumulative Percent Increase in UNC Tuition and Fee Revenue and State Appropriation per FTE Compared to US Public⁵



UNC Tuition and Fee Revenue and State Appropriation per FTE Compared to US Public⁶



⁵ Data source: IHS Global Insight and IPEDS

Notes: Only includes bachelor's level Carnegie classifications and above at institutions that report using GASB.

Understanding and Incentivizing a Good Return on Investment

In addition to the pressure that universities are facing when it comes to controlling costs, they have also been tasked with increasing completion. These pressures have led university leaders look for alternative methods to decrease costs and increase quality, which in turn, has led systems and states to develop funding models with incentives for institutions to increase performance with limited ability to increase total funding.

Traditionally appropriations have been based on enrollments but with six-year national graduation rates below 60% states need a method to increase attainment, reduce debt, and to meet workforce needs.

Category	UNC	US Public
Six-Year Graduation Rate (2008 Cohort) ⁶	63%	59%
Average Student Debt (2013 & 2012) ⁷	\$22,229	\$25,500

What are peer systems or states doing to address these issues? Examples may include institutional initiatives that may be scalable to the system level.

Cost of Higher Education

To address increasing auxiliary costs and extensive need for repair and renovation, many institutions have looked to outside entities to build and maintain infrastructure.

Public-Private Partnerships by Institution

Year	Institution	Project Name
2000	University of Washington	UW School of Medicine South Lake Union Complex
2011	University of Kentucky	Lexington Campus Student Housing
2014	University of Georgia System	UG System Public-Private Partnership Multi-Campus Student Housing
2015	Texas A&M University System	Student Accommodation Project Phase I
2016	University of California Merced	UC Merced 2020 Project

⁶ UNC-GA Graduation and Retention Report

⁷ UNC-GA Working Group on Financial Aid and Tuition Report

Change in Funding Sources

As state support has been waning across the country, states have been looking for flexibility in spending appropriated dollars to allow for more strategic decisions and maximization of funds. The state of Ohio compared several university systems with recent deregulation legislation.

State of Ohio - Analysis on Potential Impact of Deregulation on Affordability and Achievement⁸

<p>Highly Deregulated</p> <ul style="list-style-type: none">• Devolution of public authority and institutional control• Decentralization of the system• Broadest exemption from state laws – including personnel, procurement, construction, and real estate• Attempts to provide accountability through performance targets <p>States: Colorado, Virginia</p> <p>Policy Change Years: 2004, 2005</p>
<p>Coordinated</p> <ul style="list-style-type: none">• Values systematic coordination where state universities are part of an integrated whole• Can include both broad and limited exemption from state law• Establishes accountability through performance targets <p>States: Kentucky, Maryland, Minnesota</p> <p>Policy Change Years: 1995, 1997, 1999</p>
<p>Partially Regulated</p> <ul style="list-style-type: none">• Values restricted devolution, university control restricted to tuition setting and internal matters• Gives up public control over some aspects• Exemption from state statutes not emphasized <p>States: Illinois, New Jersey, Texas</p> <p>Policy Change Years: 1994, 1995, 2003</p>

⁸ Camou, M., & Patton, W. (2012). *Policy Matters Ohio*. Retrieved from http://www.policymattersohio.org/wp-content/uploads/2012/10/HigherEd_Oct2012.pdf

Understanding and Incentivizing a Good Return on Investment

Many states have moved toward pay-for-performance funding to incentivize alignment of state and institutional goals. Funding formulas are often tied to enrollment but also include additional measures such as involvement in STEM and number of at-risk or underrepresented students⁹.

State Appropriation Funding Method by State														
	North Carolina	Tennessee	Texas	Georgia	New York*	Virginia	Ohio	South Carolina	Florida	Kentucky	Michigan	Washington	Wisconsin	California
Funding Formula	Pure Formula		X	X	X	X	X	X						
	Non-Formula				X					X	X	X	X	X
	Hybrid	X							X					
Student-Derived Revenue	Do not account				X		X	X	X					X
	Account	X	X	X				X						
Enrollment Funding	Tied to enrollment	X		X	X		X	X	X	X				X
	Not tied to enrollment		X											

*Previously had used formulas or hybrid formulas for funding but due to budget cuts or lack of funds have switched to a non-formula method

Funding Formula Characteristics														
	North Carolina	Tennessee	Texas	Georgia	New York	Virginia	Ohio [†]	South Carolina	Florida [†]	Kentucky	Michigan	Washington	Wisconsin	California
Differentiation in funding method by institution type?	No	Yes	Yes	No		Yes	No	No	No		Yes			Yes
Weighting based on level or type of enrollment?	Yes	Yes	Yes	Yes		Yes	Yes	Yes	Yes					Yes (CU only)
Additional funding or weighting for at-risk/Pell/underrepresented students?	No	Yes	Yes	No		Yes	Yes	No	Yes		Yes			No
Additional funding or weighting for STEM or Health Related fields?	Yes	Yes	Yes	No		Yes	Yes	No	Yes		Yes			Yes (CU only)
Basis for faculty salary if used	Avg. Faculty Salary	SREB Average Faculty	Avg. Faculty Salary	Not Used		Avg. Faculty Salary	Avg. Faculty Salary	Regional Average by Discipline	Not Used					Faculty Salary Req. (CSU only)
Funding based on actual enrollment or enrollment prediction?	Prediction	Actual	Actual	Actual		Actual	Actual	Actual	Actual					Actual (CSU only)
Is calculated need fully funded?	Yes	No	No	No		No		No						No

[†]Funding formula does not calculate need

Funding based on specific performance measures has also been implemented in conjunction with and outside of funding formulas

Performance Funding by State														
	North Carolina	Tennessee	Texas	Georgia	New York*	Virginia	Ohio	South Carolina	Florida	Kentucky	Michigan	Washington	Wisconsin	California
Performance Funding	Currently use		X	X		X	X		X		X			
	Plan to implement				X			X					X	
	Considering	X				X				X				X

⁹ SRI International. (2012). *SRI*. Retrieved from States' Method of Funding Higher Education: https://www.sri.com/sites/default/files/brochures/revise-sri_report_states_methods_of_funding_higher_education.pdf