# How Much is Too Much?

Controlling Administrative Costs through Effective Oversight

a guide for higher education trustees



American Council of Trustees and Alumni | Institute for Effective Governance





The **American Council of Trustees and Alumni** is an independent, nonprofit organization committed to academic freedom, excellence, and accountability at America's colleges and universities. Founded in 1995, ACTA is the only national organization dedicated to working with alumni, donors, trustees, and education leaders across the United States to support liberal arts education, uphold high academic standards, safeguard the free exchange of ideas on campus, and ensure that the next generation receives an intellectually rich, high-quality education at an affordable price. Our network consists of alumni and trustees from nearly 1,300 colleges and universities, including over 22,000 current board members. Our quarterly newsletter, *Inside Academe*, reaches more than 13,000 readers.

ACTA's **Institute for Effective Governance (IEG)**, founded in 2003 by college and university trustees *for trustees*, is devoted to enhancing board effectiveness and helping trustees fulfill their fiduciary responsibilities fully and effectively. IEG offers a range of services tailored to the specific needs of individual boards and focuses on academic quality, academic freedom, and accountability. Through its publications, the Institute for Effective Governance seeks to stimulate discussion of key issues affecting America's colleges and universities.

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# Acknowledgments

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## Foreword

The price of college and how colleges use their money have, for good reason, been top public concerns. Exploding prices can stop students right at the gates to our schools, keeping them from even applying to our colleges and universities. Steep tuition bills are one of the most common obstacles in the path of timely graduation. As a former member of the University System of Maryland's Board of Regents, like you, I know the extent of the challenge we face in making our schools as cost-effective as possible.

Every member of a governing board needs to focus on cost control. Yet boards often lack the timely, relevant, and high-quality information we need. Now more than ever, trustees need financial metrics that allow them accurately and clearly to benchmark their institutions against others and determine how they can be leaner while still keeping tuition low and quality high.

To aid trustees with this complex and delicate task, the American Council of Trustees and Alumni (ACTA) developed this guide to encourage discourse between trustees and institutional leadership about their college or university's financial priorities. Using publicly available data that was self-reported to the U.S. Department of Education by over 1,200 Title IVparticipating, four-year institutions, this guide enables trustees to ask these questions: *How does our institution's spending on administration—compared to what we spend on our number-one priority, namely, teaching and learning measure up against similar institutions? Can our school, with existing resources, do more for students?* 

American higher education, the most diverse and accessible system in the world, performs an indispensable duty in the formation of future citizens, leaders, thinkers, and entrepreneurs. As our communities students, parents, and taxpayers—make crucial investments in higher education, we need resources like this one to analyze the context and impact of our spending decisions. ACTA continues to help boards hold their universities accountable to the public trust through this brief guide.

#### C. Thomas McMillen

former regent, University of Maryland System and former U.S. Representative, 4<sup>th</sup> District of Maryland

A recent report by the Institute for Higher Education Policy shows that even with the maximum level of federal financial aid, the net price of college at 70% of universities is unaffordable for working- and middleclass students.

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# **Rising College Costs**

The cost of operating an institution of higher education, with very few exceptions, is reflected in the price of attendance that students and their families face, as well as the cost to taxpayers. The purpose of this guide is to help boards of trustees understand the major role that administrative expenditure regularly plays in escalating costs and, ultimately, the price of attendance. We need to understand administrative expense in the context of the key goals of American higher education: access and academic excellence.

The financial pathway to a college degree is often far from clear for too many students. A recent report by the Institute for Higher Education Policy shows that even with the maximum level of federal financial aid, the net price of college at 70% of universities is unaffordable for working- and middle-class students. While some trends suggest that the *rate of increase* in college tuition has slowed in recent years, its growth in nominal dollars continues to outpace inflation, and, as such, the rising cost of college has a real impact on students. Many students incur high levels of student debt to pay for college or seek alternatives to college attendance. Borrowing and default rates grow, competition for tuition dollars increases, and the financial model underpinning higher education's effectiveness is imperiled.<sup>1</sup>

Trustees are essential actors in managing and controlling costs in this tumultuous environment. In a GfK survey commissioned by ACTA in

2014, 91% of respondents believed that *trustees* need to act to make college more affordable and improve the quality of higher education. It can be said without exaggeration that the crisis in college costs and affordability is undermining the democratic promise of higher education. The public looks to trustees to ask the tough questions and seek solutions.<sup>2</sup>

Not only is the relationship between administrative and instructional spending central to institutional efficiency and reflective of institutional priorities, but it also raises issues of appearance, public image, and institutional morale. A 2010 study of higher education costs at 198 leading public and

private colleges and universities found a 39% increase between 1993 and 2007 in instructional spending per student, but a *61% increase in administrative spending per student*. Furthermore, a 2014 report documents the impact on the balance of institutional resources. The study found that the ratio of faculty and staff positions per administrator had declined

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at public research universities from 3.5 in 1990 to 2.7 in 2000, and all the way down to 2.2 in 2012. Part of this can be explained by rising compliance costs; the Task Force on Federal Regulation of Higher Education reported that "the number of federal requirements placed on colleges and universities grew by 56 percent between 1997 and 2012." But higher education analysts often wonder: What is the investment in administrative staff and functions achieving? Is that investment helping to provide the best possible education at the lowest possible cost?<sup>3</sup>

Although faculty salaries have remained relatively static, administrative salaries have not. A 2017 survey found that the average salary for full professors was \$102,402, compared to an average salary of \$334,617 for

college and university presidents and \$202,048 for chief financial officers. Institutions risk signaling misplaced priorities, which can have adverse effects on their ability to grow in areas pertinent to their academic missions, such as attracting and retaining prominent faculty.<sup>4</sup>



# Get the Data, Understand the Content

An essential step in higher education governance is to establish a baseline, to understand how the college or university's resource allocation compares to those of similar, or peer, institutions. An institution does best when the governing board acquaints itself with federal data collection practices and understands the limitations of the conclusions that can be drawn from such data, but also recognizes its value towards benchmarking against similarlysituated institutions, or other comparison groups (e.g., "aspirational" peers).

That can be a challenging task, but it is well within reach. Institutional accounting reflects a complex blend of revenue sources from public and private funding, tuition, and philanthropic dollars, as well as a wide range of expenditures required for the university to accomplish its mission. The financial data that institutions report to the U.S. Department of Education's National Center for Education Statistics (NCES), through its Integrated Postsecondary Education Data System (IPEDS), facilitate important comparisons that trustees can use as starting points for dialogue with their presidents and administrators concerning fiscal choices.

Institutions that receive federal financial aid funding report their financial data annually to NCES, which makes publicly available the amounts each institution reports per "functional classification"—in other words, levels of expenditures on instruction, research, public service, and the like. Developed by NCES and the National Association of College and University Business Officers (NACUBO), these expense classifications are generally consistent year-to-year and apply to institutions uniformly. As such, while institutions may vary somewhat in their classification of specific expenditures (for example, finance officers may have different formulas for allocating the costs of a mixed-use building), the aggregate nature of the data collection provides a useful base for institutional comparison.<sup>5</sup>



### Instructional and Administrative Costs: The Right Balance

In order for institutions of higher education to fulfill their research and teaching missions, leaders must make complex choices about how to allocate scarce financial resources to address diverse needs. As instruction is so central to the educational mission of every institution, trustees should naturally want to keep a close eye on how well it is supported. To make this guide as useful as possible to trustees of institutions with widely varying missions, it uses a very limited definition of "administrative cost" (see pg. 5), excluding other expense areas (e.g., auxiliary expenses, such as residence halls) that boards may also wish to monitor. To be sure, allocation of funding to other sources also merits oversight; a report from the Delta Cost Project found that staff wages and salaries (per-FTE staff) for *student services* was the fastest growing salary expense at many institutions from 2002–2010.<sup>6</sup>

### Defining the Terms

In order to focus comprehensively on what is allocated to instruction, this guide uses an expansive definition of "instructional cost," incorporating not only what institutions report to NCES as expenses for <u>instruction</u>, but also for <u>academic support</u>, which covers expenditures for "academic administration (including academic deans but not department chairpersons)," "libraries, museums, and galleries," and anything else related to supporting the institution's primary mission. Instructional costs, as applied in this guide, also include some functions that may be considered

administrative in nature, but which still have direct bearing on the institution's academic enterprise.<sup>7</sup>

For "administrative cost," this guide includes only what institutions report as <u>institutional support</u>, defined by NCES as "the day-today operational support of the institution. Includ[ing] expenses for general administrative services, executive direction and planning, legal and fiscal operations, and public relations/development."<sup>8</sup>

In doing so, it does not include items such as student activities, career services, or financial aid staff (all of which institutions are instructed to report as <u>student services</u>), or parking facilities, housing, or food services (reported as <u>auxiliary enterprises</u>). Expenses for operating a hospital are reported as a separate category and are not included in the institutional support category, with a few exceptions.

#### Understanding the Ratio

The ratio of an institution's spending on administration relative to instruction is an important indicator of a university's budget priorities. When combined with other measures, this analysis can also serve as a warning that the institution's administrative operations risk growing disproportionately in relation to its core academic functions, placing upward pressure on the cost of tuition and required fees.

This guide illustrates how trustees can use the **administrative/ instructional cost ratio** as the baseline for interrogating and understanding how their institution compares to peer colleges and universities. Using publicly available data from the U.S. Department of Education's IPEDS survey, ACTA carefully reviewed trends in administrative spending and instructional spending at over 1,200 four-year public and private, not-forprofit colleges and universities in the United States.<sup>9</sup>

The tables on the following pages indicate the median administrative/ instructional cost ratio among institutions grouped by sector (i.e., public/ private), Carnegie classification, and undergraduate full-time enrollment size. The higher a school's ratio, the greater the proportion of the institution's spending on administration relative to its spending on instruction (i.e., a ratio of 0.53 means that an institution spends 53 cents on administration for every dollar it spends on instruction, based on the formula used for this study).<sup>10</sup>

In using this guide, it is important to observe that many factors contribute to the variation in expenditure ratios across institution types. For example, a large state flagship university may experience economies of scale in its administrative functions that do not necessarily occur with instructional functions. Moreover, the functional expense classification of institutional support (i.e., administrative cost) also includes an institution's costs for operating its development office, which may be higher at institutions that rely more on private philanthropy. As such, it is beyond the scope of this guide to attempt to compare sectors in any broader way. The categories on the following tables are intended to provide trustees with one possible framework for identifying institutions with comparable cost structures.

### ADMINISTRATIVE COSTS DASHBOARD: Compare Your School to the National Median

#### Four-Year **Public** Undergraduate Institutions Median Administrative/Instructional Cost Ratio, FY 2015

| CARNEGIE CLASSIFICATION                           | ENROLLMENT |        |       |
|---|------------|--------|-------|
|   | Small      | Medium | Large |
| Baccalaureate Colleges: Arts & Sciences           | 0.39       | 0.33   | 0.27  |
| Master's Colleges & Universities: Small Programs  | 0.34       | 0.34   | 0.29  |
| Master's Colleges & Universities: Medium Programs | 0.28       | 0.24   | 0.22  |
| Master's Colleges & Universities: Larger Programs | 0.24       | 0.23   | 0.21  |
| Doctoral Universities: Moderate Research Activity | 0.24       | 0.21   | 0.20  |
| Doctoral Universities: Higher Research Activity   | 0.23       | 0.19   | 0.20  |
| Doctoral Universities: Highest Research Activity  | 0.19       | 0.16   | 0.17  |

*Source:* U.S. Department of Education. Institute of Education Sciences, National Center for Education Statistics.

**Note:** Institutions included are Title IV-participating, primarily baccalaureate degreegranting or above. Enrollment is based on estimated FTE undergraduate enrollment. Small/ medium/large designations are determined by a tertile (equal 1/3) distribution of institutions, ordered by enrollment, within the Carnegie classification indicated. For more information, see Appendix.

### ADMINISTRATIVE COSTS DASHBOARD: (cont'd) Compare Your School to the National Median

#### Four-Year **Private, Not-for-Profit** Undergraduate Institutions Median Administrative/Instructional Cost Ratio, FY 2015

| CARNEGIE CLASSIFICATION                           | ENROLLMENT |        |       |
|---|------------|--------|-------|
|   | Small      | Medium | Large |
| Baccalaureate Colleges: Arts & Sciences           | 0.64       | 0.45   | 0.40  |
| Master's Colleges & Universities: Small Programs  | 0.63       | 0.53   | 0.41  |
| Master's Colleges & Universities: Medium Programs | 0.50       | 0.46   | 0.46  |
| Master's Colleges & Universities: Larger Programs | 0.41       | 0.41   | 0.39  |
| Doctoral Universities: Moderate Research Activity | 0.40       | 0.39   | 0.33  |
| Doctoral Universities: Higher Research Activity   | 0.28       | 0.32   | 0.24  |
| Doctoral Universities: Highest Research Activity  | 0.27       | 0.21   | 0.27  |

*Source:* U.S. Department of Education. Institute of Education Sciences, National Center for Education Statistics.

**Note:** Institutions included are Title IV-participating, primarily baccalaureate degreegranting or above. Enrollment is based on estimated FTE undergraduate enrollment. Small/ medium/large designations are determined by a tertile (equal 1/3) distribution of institutions, ordered by enrollment, within the Carnegie classification indicated. For more information, see Appendix.



## Conclusion: An Action Plan for Controlling Administrative Costs

Trustees have a unique vantage point—and responsibility—to investigate costs and compare them against similar or peer institutions. By doing this, colleges and university trustees can invest and allocate scarce resources responsibly in a highly competitive education landscape.

1. Be knowledgeable about administrative spending. Trustees should ask their chief financial officer to report to the board the institution's administrative/instructional cost ratio for the most recent fiscal year. Institutions provide NCES with their IPEDS finance survey responses on a regular annual schedule (typically December–April), so the data should be readily available. If the institution's ratio is higher than the median ratio for schools of its Carnegie classification and of similar undergraduate enrollments, the board should ask why that is the case. They should also consider asking what the IPEDS-reported cost ratios are for peer institutions.

Following correspondence with ACTA concerning the significantly higher rate of growth in administrative cost compared to instructional cost, the University of Wyoming's president and board of trustees commissioned a study of their spending patterns. Wyoming's administration and board leadership have taken promising new steps to increase financial transparency and reduce administrative overhead where possible.<sup>11</sup>

Bear in mind that not all administrative costs are problematic. Trustees should also insist on student outcomes data—for their institution and others—alongside their financial metrics. If higher costs in particular areas correlate with better outcomes, they may be considered investments in line with the school's mission. If they do not, trustees should reconsider their institution's budgetary priorities.

- 2. Create a financial dashboard—and use it. Establish a standard dashboard of cost-effectiveness indicators to evaluate each time your board is asked to sign off on major expenditures. For example, trustees can request to know their campus's hourly classroom utilization rate (differentiated by time of day and day of the week) before approving capital projects. They should know the percentage distribution of graduates from existing degree programs before green-lighting a new program. The institution's administrative/ instructional cost ratio is one of many powerful metrics that boards can use to democratize insight into the university's financial performance.
- 3. Ensure data quality and consistency. Ensure that the institution's financial reporting practices treat expenses consistently from year to year. Transparent and consistent financial reporting is crucial to ensuring the long-term health of a university, because a board's ability to provide effective oversight depends on having access to data that are comparable over multiple reporting periods. Consider setting an agenda item for the board's finance committee to review the institution's IPEDS finance survey responses, and definitions used to gather data to report those responses, over recent years, and to determine ways to ensure consistent reporting standards going forward. Moreover, boards should closely monitor how their institution categorizes specific expenses into functional categories (e.g., ensure that the institution does not report administrative expenses as academic support services).
- 4. **Consolidate and streamline.** Boards should start looking at ways to consolidate administrative functions. Examples such as the Minnesota State Colleges and Universities' Campus Service

Cooperative and the University System of Maryland's Effectiveness and Efficiency Initiative can provide useful blueprints for innovative initiatives. ACTA's publications, *Bold Leadership, Real Reform* and *Bold Leadership, Real Reform 2.0*, as well as *Cutting Costs*, can provide other ideas for governing boards. Concurrently, trustees should engage institutional leaders in periodic discussions of administrative expenditures and how they may be better contained in a responsible fashion. Institutions should have concrete guidelines to justify expansion of administrative expenditures to ensure intentionality and sober cost-benefit analysis.

# Appendix

The tables that follow describe the range of institutional sizes represented by the "small," "medium," and "large" enrollment designations used on pages 7–8 of this guide. Indicated ranges were selected to ensure equal distribution of institutions within each Carnegie classification segment. Gaps between enrollment ranges indicate that no institution within the sector and Carnegie classification for that row reported enrollment of that particular size (e.g., no four-year public institution of Carnegie classification "Baccalaureate Colleges—Arts & Sciences" reported enrollment between 1,070 and 1,423 or between 2,219 and 3,295).

### INSTITUTIONAL ENROLLMENT SIZES

#### Undergraduate FTE Enrollment, 2014–15 Four Year **Public** Institutions

|  | ENROLLMENT  |               |               |  |
|--|-------------|---------------|---------------|--|
| CARNEGIE CLASSIFICATION                              | Small       | Medium        | Large         |  |
| Baccalaureate Colleges:<br>Arts & Sciences           | 538–1,070   | 1,423–2,219   | 3,295–4,156   |  |
| Master's Colleges & Universities:<br>Small Programs  | 1,512–2,078 | 2,098–4,031   | 4,104–25,509  |  |
| Master's Colleges & Universities:<br>Medium Programs | 1,082–3,196 | 3,309–4,847   | 4,901–16,111  |  |
| Master's Colleges & Universities:<br>Larger Programs | 1,325–5,962 | 5,975–9,142   | 9,147–28,397  |  |
| Doctoral Universities:<br>Moderate Research Activity | 1,750–7,997 | 8,217–12,047  | 14,268–27,691 |  |
| Doctoral Universities:<br>Higher Research Activity   | 4,694–9,590 | 9,765–14,106  | 14,543–29,433 |  |
| Doctoral Universities:<br>Highest Research Activity  | 828–19,799  | 20,138–26,148 | 26,580–45,796 |  |

*Source:* U.S. Department of Education. Institute of Education Sciences, National Center for Education Statistics.

### INSTITUTIONAL ENROLLMENT SIZES (cont'd)

### Undergraduate FTE Enrollment, 2014-15 Four Year **Private, Not-for-Profit** Institutions

| CARNEGIE CLASSIFICATION                              | ENROLLMENT  |             |              |  |
|--|-------------|-------------|--------------|--|
|  | Small       | Medium      | Large        |  |
| Baccalaureate Colleges:<br>Arts & Sciences           | 80–1,165    | 1,177–1,878 | 1,884–3,855  |  |
| Master's Colleges & Universities:<br>Small Programs  | 205–1,024   | 1,033–1,621 | 1,624–4,750  |  |
| Master's Colleges & Universities:<br>Medium Programs | 28–1,382    | 1,402–2,151 | 2,152–8,236  |  |
| Master's Colleges & Universities:<br>Larger Programs | 314–1,978   | 1,987–3,194 | 3,202–39,720 |  |
| Doctoral Universities:<br>Moderate Research Activity | 144–2,444   | 2,536–4,755 | 5,286–41,716 |  |
| Doctoral Universities:<br>Higher Research Activity   | 2,627–4,287 | 4,656–7,428 | 8,334–28,054 |  |
| Doctoral Universities:<br>Highest Research Activity  | 962–6,809   | 6,999–8,751 | 9,221–27,004 |  |

*Source:* U.S. Department of Education. Institute of Education Sciences, National Center for Education Statistics.

# Notes

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*Center for Education Statistics*, n.d., https://surveys.nces.ed.gov/ipeds/VisFaqView.as px?mode=reg&id=7&show=all#404.

- 6. Desrochers and Kirshstein, "Labor Intensive or Labor Expensive?"
- 7. The NCES definition of instruction includes "expenses of the colleges, schools, departments, and other instructional divisions of the institution," as well as "expenses for departmental research and public service that are not separately budgeted." NCES classifies as academic support "expenses for the support services that are an integral part of the institution's primary missions of instruction, research, and public service" and includes "expenses for museums, libraries, galleries, audio/visual services, ancillary support, academic administration, personnel development, and course and curriculum development," as well as expenses for "academic administration where the primary function is administration (e.g., academic deans)." 2016-17 Survey Materials: Glossary," National Center for Education Statistics, 2016, https://surveys.nces.ed.gov/ipeds/ Downloads/Forms/IPEDSGlossary.pdf; "Archived Survey Materials," National Center for Education Statistics, 2015, https://nces.ed.gov/ipeds/InsidePages/ ArchivedSurveyMaterials; and "2016-17 Survey Materials: Instructions," National Center for Education Statistics, 2016, https://surveys.nces.ed.gov/ipeds/ VisInstructions.aspx?survey=5&id=30085&show=all.
- 8. "2016–17 Survey Materials: Instructions." To account for differences in accounting practices between public and private institutions, as well as for changes over time in how IPEDS accounted for such differences, this report excludes from instructional and administrative cost any costs reported as the subcategories of operation and maintenance of plant, depreciation, and interest, allocated in IPEDS to the categories of instruction, academic support, or institutional support.
- 9. Although a substantial percentage of students in the American higher education system are enrolled in two-year colleges, their unique governance, administration, and finance structures merit their own dedicated study.
- 10. For the purposes of this guide, the administrative/instructional cost ratio is defined as (*administrative cost*)/(*instructional cost*), where *administrative cost* = expenses reported in IPEDS as "institutional support," less the institutional support subcategories of operation and maintenance of plant, depreciation, and interest, and *instructional cost* = expenses reported in IPEDS as "instruction," less the instruction, audienterest, and interest, added to expenses reported in IPEDS as "academic support," less the academic support categories of operation and maintenance of plant, depreciation, and interest, added to expenses reported in IPEDS as "academic support," less the academic support categories of operation and maintenance of plant, depreciation, and interest. Based on the broad definition of instructional cost and narrow definition of administrative cost used in this guide, the ratios reported likely underestimate the amount institutions spend on administration.
- 11. Joel Funk, "UW administrative spending higher than peers," *Laramie Boomerang*, November 27, 2016, http://www.laramieboomerang.com/news/local\_news/uwadministrative-spending-higher-than-peers/article\_1030bda4-b46b-11e6-a351-272ef5ba9c9a.html.



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