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Challenges in Higher Education

Introduction

Institutions of higher education face a seemingly never-ending barrage of challenges, including attracting students, navigating regional variances, constructing and updating facilities, managing costs, handling the consequences of student debt, securing funding, and responding to stakeholders. This article addresses each of these challenges and offers a variety of solutions to help colleges and universities strengthen their chances of long-term success.

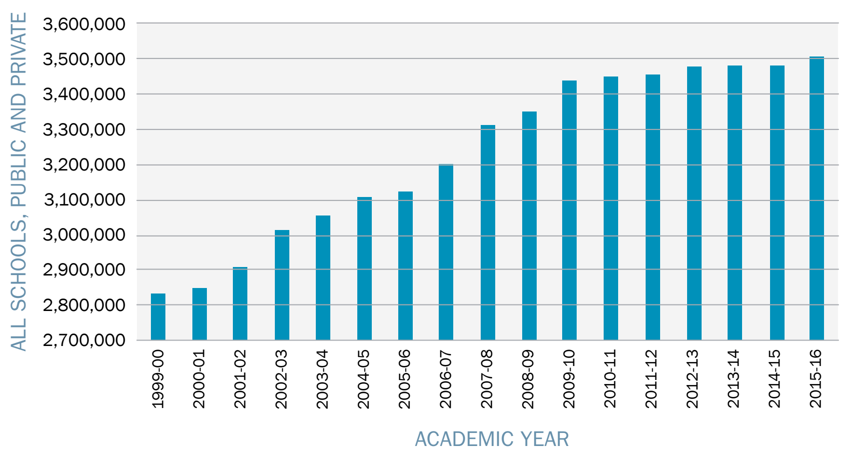
Attracting students

As **Figure 1** shows, the number of high school graduates nationally is not growing as quickly as it was 10 years ago:

The United States experienced a steep increase in the number of high school graduates between 2000 and 2010. According to the 2014 Digest of Education Statistics, released by the U.S. Department of Education's **National Center for Education Statistics** ("NCES"), the Class of 2010 included 606,000 more graduates than the Class of 2000. Over this 10-year period, the increase in high school graduates averaged 1.96%, or more than 60,000 students, per year. With the pool of prospective students growing year after year, the market saw parallel responses:

- Existing colleges and universities across the United States began to invest heavily in amenities to attract applicants.
- The development of for-profit schools increased, and more than 475 new degree-granting institutions were founded.

Figure 1 High School Graduates, 2000-16



Since 2010, the average annual increase in high school graduates has declined to 0.3%. As a result of the shrinking pool of prospective students, competition among colleges and universities has increased. And this trend seems to have staying power: The NCES projects that these figures will remain relatively flat through 2026.

Navigating regional variances

This trend is national in scope, but it doesn't affect every region equally. For example, the market does not appear to be as challenging for colleges in the South and the West. The NCES projects that these regions will experience average annual increases of 1.0% and 1.5%, respectively, in the number of public high school graduates. Colleges and universities in these regions will benefit from the increased number of graduates, especially considering that an average of only 42.9% of freshmen enroll in colleges more than 100 miles away from home, and only 16.3% of those enroll in colleges more than 500 miles away from home.

Figure 2 shows public high school graduation numbers by region. Data for 1999-00 through 2012-13 are actuals (the most recent available from the NCES) and data for 2013-14 through 2025-26 are projections.

Variations exist within these regions. For example, in Texas, which is included in the South region by the NCES, the average annual increase in public high school graduates was 5.2% between 2006 and 2010, but it slowed to 2.2% between 2011 and 2016. And the NCES estimates that the growth rate for Texas will fall to only 1.6% between 2017 and 2026 as shown in **Figure 3**.

Actual data through 2012-13; estimated through 2026.

Regional differences in growth rates are important because the market for college students can be stratified into three groups: local, regional and national. The Board of Regents of the University of California conducted a national study on the distance between students' homes and their schools. As **Figure 4** shows,

Figure 2 Public High School Graduation by Region

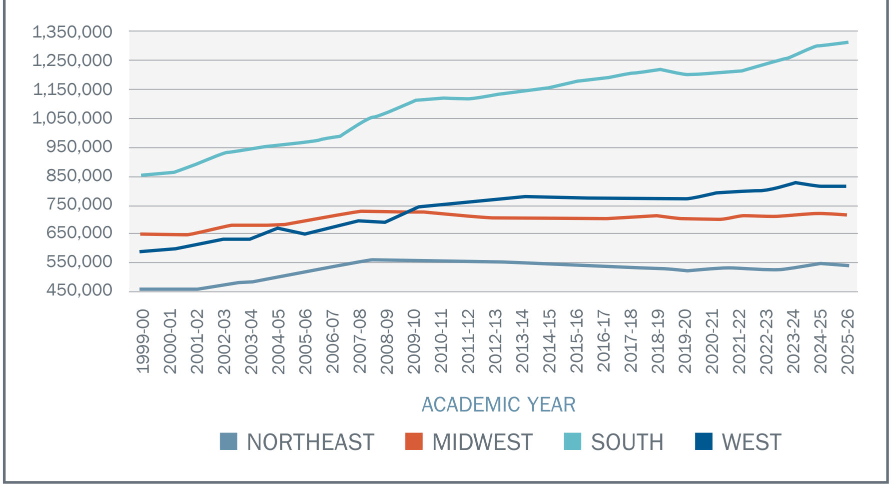


Figure 3 Texas Public High School Graduates

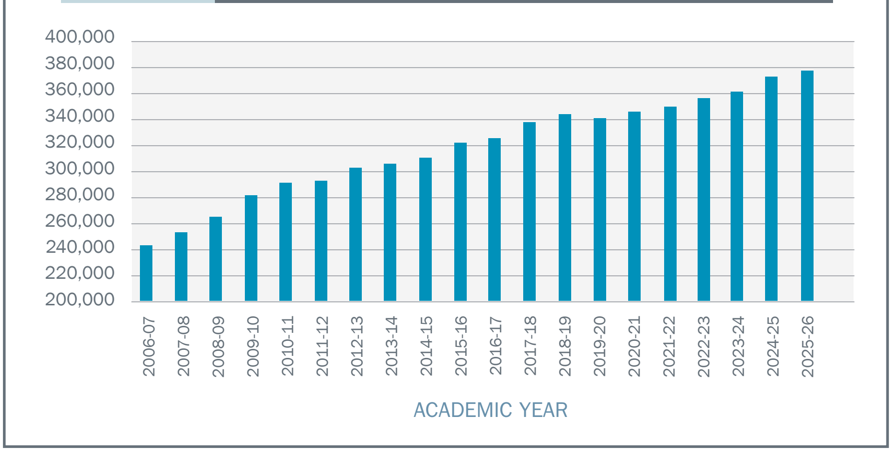


Figure 4 Miles Between Home and School

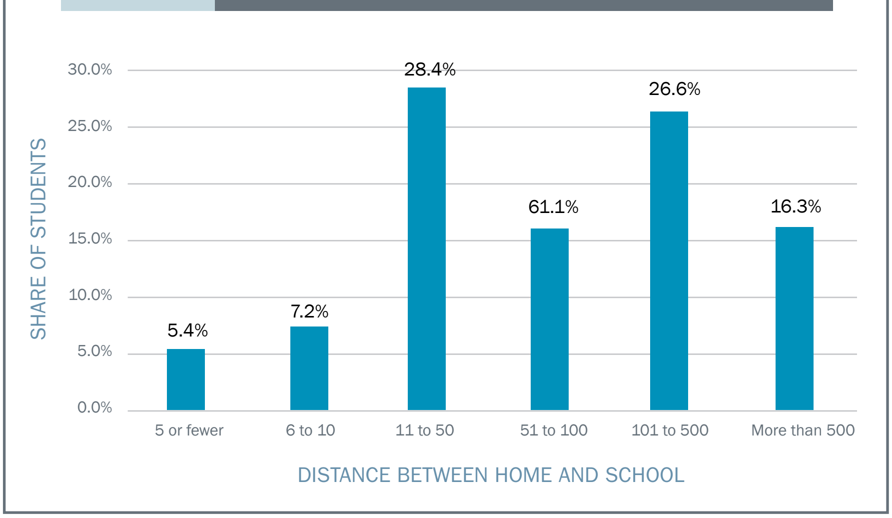
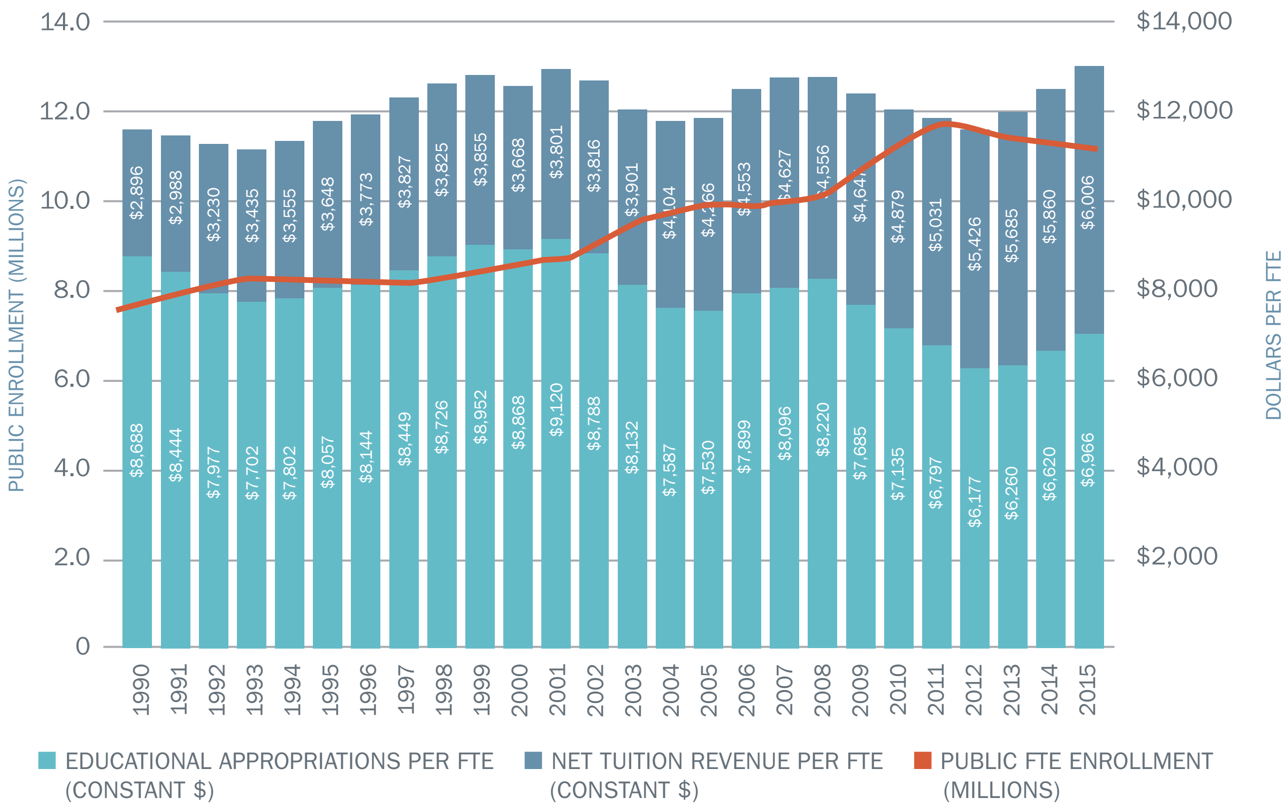


Figure 5 Public FTE Enrollment and Educational Appropriations Per FTE, U.S., FY 1990-2015



NOTE: Net tuition revenue used for capital debt service included in the above figures. Constant 2015 dollars adjusted by SHEEO Higher Education Cost Adjustment (HECA).
Source: State Higher Education Executive Officers

the study found that 41.0% of students attended a school within 50 miles of their homes (and therefore could be commuter students) and 57.1% attended a school within 100 miles of their homes. Furthermore, 42.7% attended a school within 51 to 500 miles of their homes and only 16.3% attended a school more than 500 miles from their homes.

These data confirm that proximity influences awareness, which is the first step in the selection process. But awareness must be developed into interest, desire and finally action in order for high school students to choose schools that are known to them due to proximity.

Constructing and updating facilities

Historically, colleges and universities have responded to the increase in high school graduates by investing in sometimes-expensive improvements to their infrastructure and facilities. Providing students with high-quality wireless internet access, for example, requires both a one-time investment in equipment and ongoing expenses for bandwidth, maintenance and network administration. Many schools have invested in reconfigured student centers, new meeting/study spaces and updated library spaces — in addition to the usual periodic refresh of common spaces.

Managing costs

External funding, including state appropriations, federal grants and endowment revenue, has decreased or, in some cases, flattened among colleges and universities. The 2015 State Higher Education Finance report shows that state educational appropriations to public institutions are down 2.4% and 15.3% from the 2009-10 academic year and 2007-08 academic year, respectively. Schools are increasing tuition to make up for this public disinvestment. See Figure 5.

Handling the consequences of student debt

Colleges and universities cannot expect to continue raising tuition annually to cover rising costs. U.S. students are now facing the highest financial burden in history due to college loan repayment. Inevitably, the rising debt burden will become unsupportable. Students will seek less-expensive alternatives — perhaps by selecting lower cost schools or starting their college careers at a community college before transferring to a four year university.

Students must decide whether attending an institution of higher education will be worth the return on their investment. Will their education provide them the skills necessary to find jobs that pay them enough so they can then repay their debt?

Student debt is difficult not only for the students themselves, but also for colleges and universities because their young alumni have less income to donate. According to the Council for Aid to Education, colleges and universities drew a record-setting $40.3 billion in charitable contributions in FY2015, but the percentage of alumni who made donations actually fell to 8.4%, down from 8.6% the year before and a high of 11.7% in 2007.

Securing funding

When colleges and universities consider funding sources, they should try their best to match the new assets with an appropriate liability. For example, bank financing is appropriate for small, short-term projects. Long-term capital, such as donations (the equivalent of equity investments) or mortgage-type loans, should be used to finance long-term assets.

Large-scale infrastructure development (dormitories and academic buildings) is notoriously expensive, so it often requires accessing the municipal bond market. Municipal investors typically prefer deal sizes over $50 million, and although smaller loans can be funded, they tend to be more expensive and might take longer to close.

Responding to stakeholders

College and university administrators have the difficult task of answering to an expanding and increasingly diverse array of stakeholders, including professors, students, alumni, community neighbors and religious affiliations. Academics, athletics, student life and infrastructure, among others, compete for limited resources, and administration must carefully balance all stakeholders' needs.

Conclusion

Colleges and universities face the annual challenge of increasing the value they provide their constituents without raising costs. As in any nonprofit or for-profit organization, thoughtful financial forecasts and projections are vital to proper management over the long term. Budgets, although critical fiscal management tools, do not provide long-term projections. In contrast, cash projections can reveal potential problems in advance and provide administration with time to respond before small issues become major liquidity challenges.

Lofty vision statements and grand growth plans steer schools toward exciting futures, and they provide alumni and donors plenty of reasons for why they should engage with these schools. But "build it and they will come" implementations are expensive. Prudent, careful management will develop contingency plans, thereby preventing institutions of higher education from taking one step forward and two steps back in their growth efforts.

John D. Baumgartner, CIRA, CDBV
Director
Dispute Advisory & Forensic Services
713.221.5149
jbaumgartner@srr.com

Ramiro E. Balladares
Senior Analyst
Dispute Advisory & Forensic Services
713.221.5173
rballadares@srr.com