

CHE Staff Response to *Prepared in Mind and Resources? A Report on Public Higher Education in South Carolina*¹

November 30, 2011

Introduction: CHE Staff Response

The South Carolina Policy Council (SCPC), in collaboration with the national organization, the American Council of Trustees and Alumni (ACTA), has prepared a report, "*Prepared in Mind and Resources? A Report on Public Higher Education in South Carolina.*"² The report is timely, and CHE staff felt it might be useful to provide some commentary before the next Commission meeting on December 1, 2011. The opinions expressed here are therefore those of the staff and not of the Commission as a whole.

Executive Summary of the CHE Response

The ACTA/SCPC report (*Report*) offers some thoughtful opinions on curriculum that deserve greater public attention. There is also important commentary about governance. With reference to rising tuition, the *Report* fails to mention that the primary driver of increases in recent years has been falling state appropriations, which have declined more steeply in South Carolina than any other state from FY08 to FY11³. It does not draw attention to the fact that, over the long term, the factors behind tuition increases are: 1) reduced public funding and 2) the fact that colleges and universities spend the greatest proportion of their budget on highly educated people, whose wages continue to rise vs. the average in a competitive, knowledge-based economy. Also absent in the *Report* is any consideration of the state's generous student financial aid programs, and the impact these programs have on reducing out-of-pocket costs for many of our students and families. With respect to administration, we can all improve, but the *Report* is misleading in suggesting that inefficiency is the source of higher college costs. The *Report* makes a common mistake in concluding that the federal higher education data show that increased administration is taking resources from instruction. In fact, the federal data lack comparability in this area and no such conclusion is possible with the existing information. Indeed CHE staff believes that, if a valid comparison of core operations were to be made over a 20 or 30 year period, the data would show that college and universities are substantially more efficient than in the past. A final concern is that the *Report* is limited in scope as it focuses only on a select grouping of the state's colleges and universities; a stronger study would also benefit from analyzing data in a valid comparative context including appropriate out-of-state cohort data as weighted against national indicators of success. In conclusion, CHE staff believes that increased public attention to higher education is essential to South Carolina's future and welcomes the discussion the *Report* affords.

¹ Prepared in Mind and Resources? A Report on Higher Education in South Carolina. American Council of Trustees and Alumni with the South Carolina Policy Council. October 2011

² The *Report* focuses on a selected group of South Carolina's 33 public colleges and universities including Clemson, University of South Carolina Columbia and its four-year branches Aiken, Beaufort and Upstate, Coastal Carolina, College of Charleston, and South Carolina State.

³ Grapevine: An annual compilation of data on state fiscal support for higher education, Table 1, State Fiscal Support for Higher Education by State, Fiscal Years FY06-FY11, accessed from <http://grapevine.illinoisstate.edu/datalimitations.htm>

A Note on the Sample Used for the Report

South Carolina has 33 public colleges and universities – 3 research institutions, 10 four-year comprehensive teaching institutions, 4 two-year regional campuses of the University of South Carolina, and 16 two-year technical colleges. The *Report* focuses on a selected group of South Carolina’s research and comprehensive colleges and universities including Clemson University, University of South Carolina Columbia (USC) and its four-year branches Aiken, Beaufort and Upstate, Coastal Carolina University, College of Charleston, and South Carolina State University. Based on South Carolina’s fall 2011 public college and university headcount enrollment, these universities account for 41% of the total headcount enrollment of 205,080 and 82% of university enrollment of 103,200. The *Report* fails to mention that one of the colleges included, USC Beaufort, transitioned from a two-year to a four-year branch of USC beginning in 2002 which is of significance as the data reviewed would be impacted by this change.

Given the variety in South Carolina’s colleges and universities, and the fact that taken as a whole they provide a balanced portfolio of opportunities for South Carolina residents, we believe that all 13 of South Carolina’s colleges and universities at the baccalaureate-level or higher should have been included as part of the analysis. The data for the excluded institutions are also readily available and not difficult to analyze.

Responses to Specific Sections

Cost and Effectiveness

How much are students paying for college?

The *Report* provides data on tuition but fails to mention the principal reason for increases: declining state appropriations. State funding for South Carolina’s colleges and universities has been plunging, most dramatically in the years since the Great Recession hit in 2007. Today in South Carolina funding provided to our public colleges and universities is half of what it was just four years ago. State general fund appropriations for educational and general operating costs are at the levels provided in the early 1980’s, not adjusting for enrollment growth or inflation. It has been more than a decade since the state has provided a bond issue for higher education for academic buildings. In the absence of state funding for facilities, South Carolina colleges and universities have had to bear capital costs on their own whereas elsewhere these expenses are paid by state appropriations. A key point is that, since the downturn in funding in FY08, increased tuition has not offset a dramatic decline in state support.⁴

How do tuition rates compare to family income?

The section also fails to include in its analysis of student cost the more than \$330 million that South Carolina provides to students in the form of scholarships and financial aid. For many citizens, these taxpayer funds, an estimated 83% of which assists students in public institutions, do help to offset the impact of reduced state support and knowledge-driven inflation. An analysis focused on actual out-of-pocket costs (after state and federal student financial aid), rather than raw tuition to gauge the impact of college prices on family income, would be more effective in understanding student costs.

⁴State Higher Education Executive Officers (SHEEO), State Higher Education Finance Survey. Review of data for SC public higher educational appropriations and net tuition revenues per FTE.

Are freshmen returning?

The *Report* acknowledges that South Carolina's institutions have done a good job with respect to retention as measured by the numbers of freshmen students returning their sophomore year. The latest national data show our institutions just above the national average, as well as the average for public institutions.⁵

Are students graduating and doing so on time?

South Carolina's colleges and universities are working hard to help students be more successful in terms of graduation. Clearly there remains room for improvement, however, it is disappointing that this section does not mention that South Carolina universities are well above the national average in graduation rates. Considering the latest cohort (2002) for which national comparisons are available, the average graduation rate within four years nationally is 36.4% for all institutions and 29.9% for public institutions; South Carolina averages 38.8% for all universities and 40.3% for the select group of South Carolina institutions of the *Report's* focus. After six years, national data are 57.2% for all and 54.9% for public compared to 60.7% for all South Carolina universities and 62.8% for the selected group.⁶

What are institutions spending money on?

Instructional vs. administrative spending

Echoing some recent national studies, this section purports to show that universities are spending money on "layers of administration" rather than instruction. In reality, the federal data used here, the IPEDS Finance Survey, do not provide the level of detail needed to distinguish activities by source of funds.⁷ Thus, increased spending for the administration of research, of fund-raising, and of auxiliary activities in many cases appears to be money taken from instruction even though the direct and indirect costs are in fact borne by the activities themselves and not state funds and tuition. Effectively, universities are being criticized for success in research, public service and fund-raising. For example, had the Medical University of South Carolina (MUSC) been included in the report, being ranked in the top 10 nationally in the percent growth of National Institute of Health (NIH) funding in the past decade would not have been seen as a success. Consider that Clemson, which has seen research funds grow by 42% from \$89 million to \$126 million over the last decade, would look better in this analysis if it had been less competitive.⁸ Similarly, USC data show nearly \$24 million in increased giving during the last decade, much of which would be expected to have contributed to improving the

⁵IPEDS data for the 2008 full-time freshmen cohort returning in 2009 shows 77.8% nationally, 78.5% nationally for public institutions and 78.6% for SC institutions. In considering the select group of SC institutions of focus in this Report, the average is 80.2%.

⁶Graduation rate data for national and public institutions for the 2002 starting cohort of first-time, full-time bachelor's degree-seeking students completing bachelor's degrees within 4 years and 6 years after initial enrollment as reported in the US Digest of Education and calculations from CHEMIS data for SC institutions. Data are those reported for purposes of IPEDS,

⁷See USED Integrated Postsecondary Education Data System definitions for the Finance Survey data collection. Changes in reporting due to the implementation of GASB 34/35 in the early 2000 excluded information previously collected as to unrestricted versus restricted funds.

⁸IPEDS Finance Survey, Research expenditures FY 2000-01 and FY 2008-09 where research is defined to include all expenses for activities specifically organized to produce research outcomes and commissioned by an agency either external to the institution or separately budgeted by an organizational unit within the institution.

quality of instruction and student life.⁹ But increased alumni and other donations would be a bad thing according to the analysis presented.

Are boards prioritizing academic programs?

The university actions described in this section of the *Report* are generally positive for South Carolina. While some universities nationally may need to do even more in this area in light of long-term budget trends, we do not agree with the idea that minutes of meetings reveal the level of our college and university trustees' interest in this issue.

Are buildings used efficiently?

The suggestion that buildings should be used for instruction at least 30 hours per week (75%) implies that students have no legitimate preferences in schedule. In fact, students at many universities work part-time and cannot attend class during certain hours. The peak vs. overall demand problem is not unique to higher education. The same issues apply to hospitals, hotels, etc. For example, consider that airline "load factors" (the ratio of filled seats on flights) have finally risen to the 87% range but only through the mechanism of last minute fare sales.

Does South Carolina reward performance?

South Carolina's Performance Funding legislation was implemented based on the premise of additional state support. Since FY96 when Performance Funding was introduced initially, institutional appropriations have fallen (in actual dollars) from \$595 million in base state General Fund support for educational and general operations to \$411 million as of FY12 and full-time equivalent (FTE) enrollment has grown by 52,867 (33%). Adjusting for inflation and enrollment, however, funding has fallen by over 50%.¹⁰ Given that universities have lost so much base support, the uncertainty caused by annual intra-system shifts in core funding could lead to extreme inefficiencies as institutions avoid staffing commitments, even in the face of strong demand. That's particularly the case when the relevance of some of the data is suspect and in light of the increased overhead and bureaucracy required to maintain the system. As mentioned in the *Report*, the Governor has initiated conversations with South Carolina's colleges and universities to implement a new Accountability Based Funding process. Because of these issues, CHE staff working in cooperation with the colleges and universities have facilitated the Governor's proposed Accountability Based Funding process. The proposed accountability model would initially apply only to new money and would recognize that it will take time—at least three years—for effective data sources to be developed.

General Education

What are students actually learning?

We believe the *Report* makes a number of good points in this section on general education. A reasonable person could argue, for example, that our current fiscal crisis owes much to a lack of public understanding of economics. Also, while knowledge of foreign history and culture is increasingly important in today's "flat world," a deep understanding of our own history and values would seem an essential reference point for all citizens. Faculty provide the intellectual underpinnings of curricula, and also serve as

⁹IPEDS Finance Survey, revenues from gifts – including contributions from affiliated organizations, for FY 2001-02 to FY 2008-09. Note that a definitional change in IPEDS reporting prevents a comparison to earlier years.

¹⁰CHE available data concerning state general and educational support for South Carolina's 33 colleges and FTE enrollment. Monetary value adjusted based on Consumer Price Index.

guardians of the integrity of what is taught, and that should not change. Even so, a renewed public debate on these issues is certainly appropriate.

Is South Carolina's governance structure effective?

This section of the *Report* covers a broad array of topics, including the role of CHE and the functions of the boards of trustees at individual institutions. From the CHE staff perspective, all indicators suggest that institutional boards are highly effective. At the state level, the *Report* provides relatively few specific suggestions. That being said, CHE believes that the current structure—a coordinating board at the state level with boards of trustees for the institutions—has served the state well and is the best vehicle for the foreseeable future. Reinforcing that point in practical terms, consider that there is no evidence to connect state structure with higher education success. For example, some states with governing boards (e.g. North Carolina, Georgia) have been quite successful, but others with nearly identical structures have not. The same is true for those with coordinating boards. As a result, it is difficult, if not impossible, to conclude that any particular governance system would improve the quality and performance of higher education.

Conclusion

CHE staff believes that increased public attention to higher education is essential to South Carolina's future and, assuming agreement on the need for more consistent and better-defined data, welcomes the discussion this *Report* from ACTA and the South Carolina Policy Council affords. We also find it unfortunate that the *Report* did not include all of South Carolina's colleges and universities or that appropriate cohort comparisons were not considered. For a valid analysis, any future study of this nature should appropriately include all of the state's colleges and universities and analyze data in a valid comparative context including appropriate out-of-state cohort data as weighted against national indicators of success. As more contributors join the discussion, we would be pleased to facilitate conversation and provide needed data as well as information about sources and issues warranting further consideration.