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After Rapid Cost Increases, Can Universities Make Cuts?

Governor Tom Corbett's first budget did more than ruffle a few feathers: it threw many of those on the public dole into a full throttle tizzy. Among them are the public universities that have for so long relied on Pennsylvania's taxpayers for funds. From the fourteen universities in the state system of higher education to the four state related universities, they all experienced dramatic decreases of about 50 percent in their subsidies under the Governor's budget proposal.

Some universities have encouraged students to protest the cuts. But should these students be protesting the Governor's budget or looking inward to the universities themselves for solutions to the effects of the funding reductions? Have these students bothered to question the costs at their schools? University of Ohio economics professor, and noted expert on the economics of higher education, Dr. Richard Vedder notes that colleges have little incentive to hold down costs. He argues that "most colleges are nonprofit institutions and are sheltered from the market discipline private firms face." With no one to answer to (such as stockholders), budgets have soared well above the pace of inflation. And while some of this cost increase is passed onto students through higher tuition, at state schools taxpayers are forced to pick up some the rising costs.

This analysis looks at four local public universities, the University of Pittsburgh (Pitt), Indiana University of Pennsylvania (IUP), California University of Pennsylvania (Cal), and Slippery Rock University (SRU), their budgets, enrollment and average annual tuition to get a clearer picture of the situation.

Pitt is clearly the largest public university in the Pittsburgh area. In the 2003-04 academic year its overall budget was \$1.36 billion. For the current academic year, it has grown to \$1.889 billion—an increase of 39 percent over seven years. IUP's budget has grown during that same time frame from \$220 million to just over \$257 million (17 percent), while Cal increased from \$92 million to \$156.1 million (70 percent). The largest percentage increase belongs to SRU as their budget grew from \$79.8 million to \$156.8 million (96.5 percent). During this time the consumer price index rose only 18.5 percent. Thus Pitt's budget increased by twice the rate of inflation while Cal's grew at nearly four times as much and SRU more than five times as much. Only IUP's budget grew by less than the rate of inflation.

Given the size of their budgets, how deeply will the Governor's budget cut? Pitt stands to lose \$80.2 million from its state subsidy, which amounts to only 4.2 percent of its budget. The state system of higher education, to which IUP, Cal, and SRU belong, will lose \$232.6 million. Dividing that amount by the total number of students enrolled in the fourteen state system schools (119,000) gives a reduction of just under \$2,000 per student. If we assume the cuts will be allocated based on each school's enrollment, larger schools stand to lose more than smaller schools. For example, IUP, with its more than 15,000 students could see its state subsidy reduced by \$29.5 million—the decrease would represent 11 percent of its budget. Cal and SRU's decreases would be less in total value but would also be about 11 percent of their budgets as Cal would lose about \$18.4 million while SRU would lose \$17.2 million.

While Pitt's budget was increasing by 39 percent over these seven years, its enrollment (including all campuses) increased by less than 6 percent (the main campus in Oakland grew by 7.6 percent). Enrollment at Cal increased 54 percent while at IUP and SRU it grew by 11 percent and 13 percent respectively. The budgets of these universities grew at a faster pace than their enrollment levels over the last seven years.

Looking at budget per enrollee provides a more comparable picture of costs at these universities. With a \$1.889 billion budget and 35,700 students in the current academic year, Pitt's cost per enrollee stands at \$52,900. For the 2003-04 academic year, with a \$1.36 billion budget and 33,700 students the cost per student was \$40,250. Thus, the cost per student at Pitt has grown by 31 percent, almost double the inflation rate. IUP has the next largest enrollment at just over 15,000 students. With its current budget of \$257.1 million, its cost per enrollee is \$17,000. In 2003-04 the cost per student was \$16,100, thus the current cost per student has increased by six percent. Cal had a cost per student of just over \$15,100 in 2003-04. By 2010-2011 that cost had risen by 10 percent to \$16,600, about half the inflation rate. SRU has the largest jump in this small sample with a cost per student jumping 74 percent over seven years, rising from \$10,200 in 2003-04 to \$17,700 in 2010-11, clearly far greater than the 18.5 percent inflation.

Tuition for each university does not even begin to cover these costs per student. Pitt's reported annual average tuition amount of \$14,076 is just a fraction of their budget per student. The schools in the state system of higher education, while having a lower cost per student, also charge a lower tuition than Pitt. For IUP and SRU, the average annual tuition is just over \$5,800 covering about one-third of the cost per enrollee. Cal's average annual tuition is higher at \$8,300 and also only covers a fraction of the per enrollee cost.

It's not as if tuition rates have been stagnant. It seems that every year, independent of the levels of state funding, local universities hike tuition rates. Since the 2003-04 academic year, the average annual tuition for Pitt (up 63 percent), Cal (up 81 percent) IUP and SRU (both up 26 percent) have increased dramatically—all above the 18.5 percent inflation.

So, where should students be focusing their effort to affect the impact of the funding reductions?

Considering the high cost per student at these universities, especially Pitt's, student protestors would be better served by questioning the cause of skyrocketing costs of education. The Governor's proposed cuts are important but not fatal fractions of these universities' budgets. Given the rapid rise in costs is there any doubt that large amounts of budget fat are virtually crying out to be cut? How many non-essential personnel have been hired? How many programs have been created or expanded that have precious little to do with producing and delivering a quality academic environment—or more pointedly, educating students?

As Dr. Vedder notes, “only about 21 cents of each increased dollar of funding for American universities has actually gone into instruction. Universities have actually lowered the portion of their resources devoted to teaching undergraduates, instead putting more into research, administration, graduate instruction, student services, intercollegiate athletics, and other things that don't directly translate into better classes for students.” For the first time, this explosion in costs has run into resistance thanks to the large budget deficit facing Pennsylvania. Everyone funded by the state is being forced to tighten their belts. Pennsylvania's public universities must recognize they cannot be exempt.

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