

HIGHER EDUCATION PRODUCTIVITY

THE ISSUE

The U.S. leads major industrialized nations in public spending on higher education, allocating \$9,629 per student, compared with \$8,502 in the United Kingdom and \$4,830 in Japan. Texas exceeds the national average in higher education appropriations after cost of living and enrollment mix are accounted for. Enrollment mix takes into consideration that graduate students are more costly to educate. In 2006, Texas state and local higher education appropriations with these adjustments were \$7,125 per student, compared with the national average of \$6,325, according to the State Higher Education Executive Officers.

Similarly, in 2005, combined state and local support for higher education per \$1,000 of income was \$7.92 in Texas, compared with the national average of \$7.08. Moreover, Texas ranks third among all states on the share of state taxes spent on higher education. While Texas allocates 14.3 percent of tax revenues to higher education, the national average is only 9.5 percent

State appropriations per headcount student for all institutions have remained relatively constant while operating costs per student have soared:

Years	Appropriations (in 2008 dollars)	Operating Costs (in 2008 dollars)
1970-71	\$5,640	\$10,997
1980-81	\$6,430	\$11,843
1991-92	\$5,552	\$10,665
2000-01	\$6,394	\$13,653
2007-08	\$5,828	\$17,506

This data obscures increases in appropriations for individual flagship schools such as the University of Texas at Austin. In recent decades, enrollment has dramatically increased at non-flagship institutions, some of which were created after 1970, while UT-Austin's enrollment has barely risen. Institutions such as UT-Brownsville receive significantly less appropriations per student and their costs are half to a third of UT-Austin. In real dollars, UT-Austin's appropriations have increased from \$7,225 in 1999 to \$7,627 per full-time student equivalent (FTE) in 2008.

The problem in higher education finance is not relatively insignificant changes in appropriations, but spiraling increases in operating costs. As shown above, the difference between real appropriations and real operating costs has more than doubled from about \$5,400 in 1970-71 to nearly \$11,700 in 2007-08. Not surprisingly, higher tuition has filled this bulging gap. Texas tuition rates have risen an average of 8.96 percent annually since 1997, and the increase was actually greater prior to tuition deregulation in 2003.

Why are higher education's operating costs skyrocketing? First, administrative costs have exploded. UT-Austin expenditures on administration have increased 52 percent in real dollars from 1999 to 2008, more than five times the rate of increase on instructional expenditures. Second, faculty productivity is declining as research and governance activities displace teaching. A Texas Performance Review found faculty at research universities teach only 1.9 courses per semester and, nationally, 21.7 percent of faculty do not teach a single course.

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These rising costs, and the resulting tuition increases, reduce affordability and access. A Texas 9th grader has only a 33 percent chance of going to college, less than the national average of 38 percent. The Higher Education Coordinating Board aims for an additional 630,000 Texans attending college by 2015, which would bring enrollment to 1.65 million.

THE FACTS

- ★ The total cost per FTE student at the UT-Austin in 2008 dollars increased from \$21,251 in 1980 to \$36,769 in 2008.
- ★ Non-teaching staff at universities nationwide as a percentage of total employees has increased from 44 percent in 1976 to 79 percent in 2005.
- ★ Tenure-track professors account for 64.9 percent of positions at Texas universities, but teach only 39.3 percent of courses.

RECOMMENDATIONS

- ★ Transition to student-centered funding. Texas can create a market in higher education that incentivizes universities to minimize costs and maximize instructional quality by putting state appropriations in the hands of students who can choose from competing public, non-profit, and for-profit institutions. Since Colorado implemented this policy in 2005, net tuition revenues, which takes into account the vouchers and financial aid, have gone up only 14.6 percent compared to 37.2 percent in Texas.
- ★ Expand share of state appropriations based on incentives. In 2007, the Legislature tied \$100 million of higher education appropriations to outcomes, but 99 percent of appropriations to institutions are not linked to results such as number of degrees issued, student satisfaction, employment outcomes, and student assessments.
- ★ Require universities to submit with their budget request the percentage of funds spent on instruction.

RESOURCES

- Materials from Texas Public Policy Foundation Higher Education Summit (June 2008) <http://www.texaspolicy.com/pdf/2008-05-21-HigherEdSummit2.pdf>.
- *Texas' Higher Education System: Success or Failure?* by Richard Vedder, Texas Public Policy Foundation (May 2008) <http://www.texaspolicy.com/pdf/2008-05-RR05-highered-vedder-final.pdf>.

