

Administrative Costs and Tuition Increases

May 25, 2012

Colleagues and students,

Two weeks ago, Dr. Bob Martin, emeritus Boles Professor of Economics at Centre College, shared an op-ed piece in The Lexington Herald-Leader, calling on the University of Kentucky to "reduce overhead costs, not raise tuition."

The issues he raised in his piece certainly are worthy of discussion and debate -- they are critically important to the University and to the Commonwealth.

But I also believe those discussions - and the statistics and numbers we use to frame them - need to occur in context and with a sense of fairness.

In response to that piece, I have submitted to The Herald-Leader what I hope is a fair and informative column that discusses the realities, the challenges we face, and the progress UK has made over the last decade.

I wanted to share it with you prior to its publication.

Thanks.

By Eli Capilouto

Dear Herald-Leader Editor:

No issue is more important in higher education than affordable access to a quality degree for students and their families.

But when we tout statistics to analyze current circumstances -- whether involving the salaries our students earn or the debt burden they carry after they graduate- it's important to be careful in how the numbers are used.

Recently, for example, The New York Times reported that 94 percent of bachelor's graduates leave college with educational debt. They were wrong.

A Chronicle on Higher Education post later argued that the venerable newspaper had made a "huge statistical error." Actually, a recent Department of Education survey estimated that about two-thirds of bachelor's degree recipients borrow money to attend college, either from the government or private lenders -- a number that would be even higher if borrowing from family members were included, but that nevertheless leads to different conclusions about student and family debt than the initial story.

The New York Times had simply used the wrong data as its baseline for determining percentages of student debt. That's not to say that student debt and levels of borrowing aren't a significant national issue. They are. But we need to be clear about what numbers we are using and how we are interpreting them.

I have a similar concern with the op-ed recently in The Herald-Leader by Professor Bob Martin, an emeritus professor of economics at Centre College. Dr. Martin's op-ed column rightly asserts in an economy still struggling in the aftermath of a deep recession, higher tuition costs should concern us all.

However, Dr. Martin's suggestion that increases in tuition could simply be offset by "administrative" trimming is in several critical aspects simply inaccurate.

He cites data that overhead costs at UK have accounted for 75 percent of the total cost increase at UK over the roughly 20-year period between 1987 and 2008. He also provided comparisons to 62 other public research institutions, an effort to argue that UK's cost structure undermines our focus on academic progress.

Unfortunately, he doesn't give readers the full story behind the numbers by showing where the growth has occurred and in what context. First, Dr. Martin's analysis is based on the comparison of "academic" costs (instruction, research, and public service) to total expenses for 63 public research universities including UK.

But he didn't explain or make any adjustments for the fact that 18 of the 63 institutions - including UK -- have hospitals.

The full cost of operating the hospitals is included in each institution's expenses but doesn't include the significant revenues they bring to the table. Dr. Martin also did not adjust for the fact that there have been substantive changes in accounting standards, which hinder a comparison of 1986 financial information to 2008. After adjusting for the accounting changes and inflation, UK HealthCare's expenses have increased more than 300 percent -- in part because of the acquisition of Good Samaritan Hospital and providing health care to thousands more people over the last 10 years.

By including all expenses in his calculations, he inappropriately and misleadingly attributes the growth in costs for patient care to "administrative overhead."

Second, many of his comparisons were also shown as per student costs. But many of the costs included in his definition of "academics" are not directly attributable to student enrollment.

For example, funds received from the National Institutes of Health for direct costs to study cancer cannot be spent on teaching students. Neither can medical reimbursements for care provided to Kentuckians be redirected and used instead for teaching incoming freshmen. Those revenues are spent, as they should be, on research and care that extends and enhances life. That's part of our mission, too.

Yes, UK's total budget has more than doubled over this time period even after adjusting to 2008 constant dollars. But that is a good thing - we are teaching more students, providing health care to more people, expanding the world's base of knowledge, and engaging more Kentuckians.

If we're going to talk about student and enrollment costs, let's compare apples to apples. You don't have to look far for such a detailed analysis. The Herald-Leader, itself, examined the issue just a year ago. Since 2001, the university added 124 administrative positions in several critical areas:

- * Chairs of academic departments, who spend more than 50 percent of their time on administrative matters but continue to be faculty members -- because they teach and do research -- increased by 53 positions. That increase is a function of additional personnel and a result of improved reporting that more accurately reflects the administrative and faculty roles these essential faculty play.

- * Another 47 positions were added to support growth at the Medical Center, including 10 positions at Good Samaritan Hospital, which we acquired in 2008 -- an acquisition that saved hundreds of good-paying jobs. Moreover, the Medical Center is not supported by any state dollars.

- * We've added a number of positions to support our academic priorities -- in educational partnerships and international programs that will increase the number of students we're serving and revenue we need to invest back in our priorities.

- * Finally, as the university's research expenditures grew because of the efforts of our faculty -- an increase of more than \$100 million between 2001 and 2011 -- UK added research centers and staff in areas as diverse as energy, medicine and the study of violence against women, among others, to help manage those dollars and programs.

In addition, UK is investing some \$5 million more annually on efforts to improve counseling, advising and interventions with at-risk students, among other initiatives -- the kind of "overhead" UK has added that Professor Martin seems so intent to criticize.

How do we stack up with what's happened at other universities during that same time period? The Herald-Leader reviewed national trends, citing a report from the Goldwater Institute that demonstrated our "administrative" growth lagged 7 percent behind the national average.

Affordability is a significant concern for us. The most recent evidence of that is the dialogue that occurred at our May Board of Trustees meeting as reported in The Herald-Leader.

But it is important to note that because of millions of dollars in increases in financial aid and scholarships during that period, more than 90 percent of our in-state students pay a fraction under \$1,100 out-of-pocket each semester for tuition costs. Those are direct investments in our students, not accounted for in Dr. Martin's generalized opining about overhead.

The concern about affordability is also one of the chief reasons we are undertaking a \$500 million investment in residence halls through a public-private partnership. We know that using private equity - and not institutional resources or our debt capacity -- to build thousands of new beds will, within a few short years, actually lower rate increases that students pay for quality living and learning space.

Our first priority is protecting and enhancing undergraduate education. It is the core of what we do. That's why over the next 15 months -- against the backdrop of reduced state support and a nearly \$45 million budget gap -- administrative units will be asked to cut more deeply than academic units.

We also will find ways to invest in our academic facilities and research needs.

For the first time ever, we are creating a \$15 million debt service pool that will demonstrate to policy-makers that we can make the down-payments and pay the mortgage, if you will, on construction that will expand and enhance the learning and research space on our campus -- investments, by the way, that will create hundreds of jobs and millions in payroll to our community.

None of the back-and-forth on the numbers is meant to suggest we shouldn't be sensitive to concerns about how we allocate the dollars with which we are entrusted. Nor should any point I'm making suggest that we can't do better.

During a time of deep recession and economic contraction, private enterprise and small businesses across America were forced to find ways to produce the same amount of goods and services with millions fewer workers. As we encounter for the long term a "new normal" of reduced state and federal support, those of us in higher education must have the same clear-eyed, pragmatic focus on the core of what we do -- educating Kentucky's sons and daughters to lead lives of leadership, meaning and purpose.

That focus is central to the Kentucky Promise -- the values and principles that led to our founding nearly 150 years ago and that guide us still today.

Honoring that promise will necessitate forthright and tough arguments about the work we do and our efforts to do it better. We welcome such debates. And we know that numbers and analysis will be important tools in making tough decisions going forward. But incomplete arguments that take numbers out of context or don't explain them fully don't add to the debate that should be taking place among all of us about affordable access to a high-quality education. Rather, they detract from it.

The accurate and complete look at the numbers shows we have room to improve. But they also demonstrate the steadfast commitment we bring to that challenge and to honoring the Kentucky Promise that guides us still.