



## Looking Back at Revenue and Expenditure Trends Are We Privatizing Public Higher Education?

**R**enewed demands for financial accountability are again focusing attention on how public colleges and universities acquire and spend their funds. The political shorthand asks: Is a mix of market forces and shifts in public priorities privatizing public higher education? With tuition and other sources of private revenue playing increasingly important roles in the funding of public institutions, has there been a corresponding change in their mission and behavior? By extension, has there been a corresponding shift in their expenditure patterns as well? While some observers welcome privatization, others express a fundamental concern that public higher education is being recast as a private, rather than a public, good.

This issue of *The Landscape* reports on new research that, by examining financial trends over the last 20 years, provides an important and somewhat unexpected answer to the question of privatization.

### A Public Accounting

In order to examine revenue and expenditure trends in public higher education, Patricia Gumport, executive director of the National Center for Postsecondary Improvement (NCPI), and her colleague John D. Jennings examined 20 years of financial and enrollment data for U.S. higher education institutions. The data were collected by the National Center for Education Statistics through its Higher Education General Information Survey (HEGIS), which spanned the decade between 1975 and 1985, and by the Integrated Postsecondary Education Data Systems (IPEDS) surveys, which included the fiscal years of 1986 through 1995. Using Carnegie classifications, the data were aggregated by institutional type.

The Gumport and Jennings study documented the change over time in institutional revenues from private and other revenue sources, as well as in expenditures on instruction relative to expenditures on other institutional activities. The analysis focused on three questions: Has revenue from private



sources increased for public colleges and universities? Has spending on instruction declined relative to spending on other functions in public higher education institutions? And, finally, are public institutions' revenue and expenditure patterns similar to or different from those of private institutions?

### Public Revenues: An Increasingly Private Mix

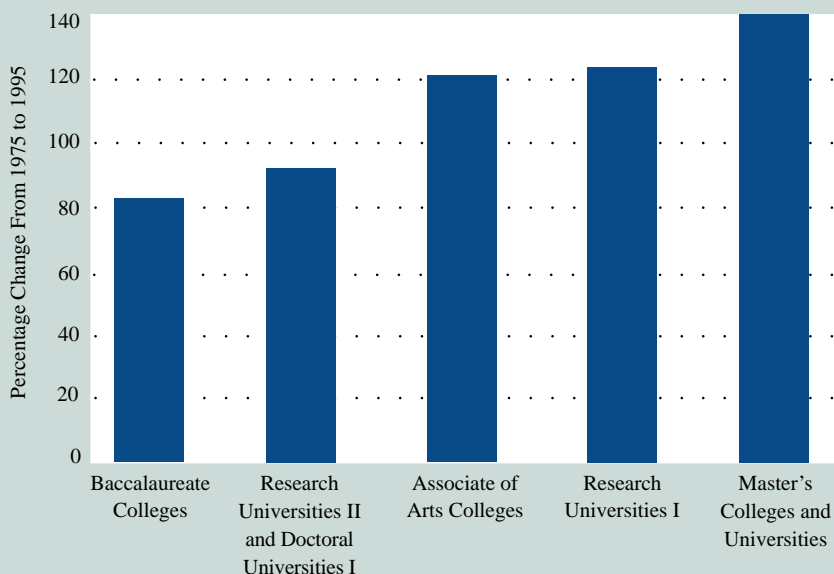
The relative mix of public and private revenue sources in public higher education institutions has changed significantly over time—including declines in state appropriations, increases in institutional revenues, and increases in revenue from other private sources, as a proportion of total revenue across all levels of public higher education.

For all types of public colleges and universities, the share of total revenue from institutional sources such as tuition, fees, and sales/service activities increased steadily between 1975 and 1995. In fact, for most public colleges and universities, institutional revenue experienced the largest gain in the share of total revenue, relative to all funding sources. By 1995, institutional revenues had grown to rep-

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**Chart 1**  
**Percentage Change in Revenue From Private Sources per FTE Enrollment From 1975 to 1995, by Type of Public Institution**



represent a low of 19 percent (for public Research Universities I) and a high of 28 percent (for public Master's Colleges and Universities) of all revenues, second only to state sources.

During the same period, the percentage of total revenue gained through other private sources—specifically gifts, grants, and contracts—also increased, although private revenue remained a small source of total revenue for public institutions. Percentage increases in revenue from private sources ranged from approximately 0.5 percent between 1975 and 1995 for Associate of Arts Colleges to 2.5 percent for Research Universities I. The share of total revenue generated by private sources during that same period ranged from only 1 percent to 7 percent of the total for the same types of institutions.

Data on revenue per full-time equivalent (FTE) enrollment depict a similar story. According to HEGIS and IPEDS data, the greatest growth in revenue per FTE enrollment from 1975 to 1995 was from private sources, which grew at a real rate of 3 to 5 percent per year. Chart 1 breaks down that aggregate by listing the percent change in private revenues for public colleges and universities by institutional type. Master's Colleges and Universities experienced the

largest growth in private revenues over this 20-year period (140 percent), and Baccalaureate Colleges experienced the lowest rate of growth—although an 82 percent change is still substantial.

On the other hand, revenues from local, state, and federal government sources declined as a percentage of total revenue over the same 20-year period. While state sources of revenue represented the largest share of total revenue for all types of institutions in 1995 (ranging from 28 to 46 percent), they also experienced the largest decline in the share of total revenue from 1975 to 1995—an average of 8 percent across all types of public institutions.

### Public Expenditures: Investing in Instruction

In facing economic and political pressures to become more competitive, are public colleges and universities increasing spending on activities other than instruction to create conditions that favor the growth of private revenue? HEGIS and IPEDS data show that, with the exception of doctorate-granting institutions, spending on instruction has declined. By contrast, spending on non-instructional activities supporting instruction has increased strongly for all types of public institutions.

Chart 2 compares the percentage change in expenditures by public institutions for instruction both as a share of total expenditures and according to FTE enrollment. For all types of public institutions, spending on instruction declined relative to other expenditures. The amount spent between 1975 and 1995 on instruction as a total share of expenditures decreased for all types of institutions, and most notably for Associate of Arts Colleges. While expenditures on instruction per FTE declined slightly for associate-, baccalaureate-, and master's-level institutions, it increased substantially for doctorate-granting institutions.

Over the same period, institutional spending patterns on non-instructional

expenditures that support instruction were markedly different. Chart 3 contains the same analysis presented in Chart 2, with data on expenditures for these non-instructional activities—such as academic support, student services, and scholarships or fellowships—that still contribute to educational quality. Overall, the change in the share of expenditures on these activities increased by only 1 to 3 percent from 1975 to 1995. However, the translation of these amounts into FTE expenditures demonstrates an increase in spending of significant magnitude. FTE expenditures on activities that support instruction increased from between 23 and 57 percent over this 20-year period.

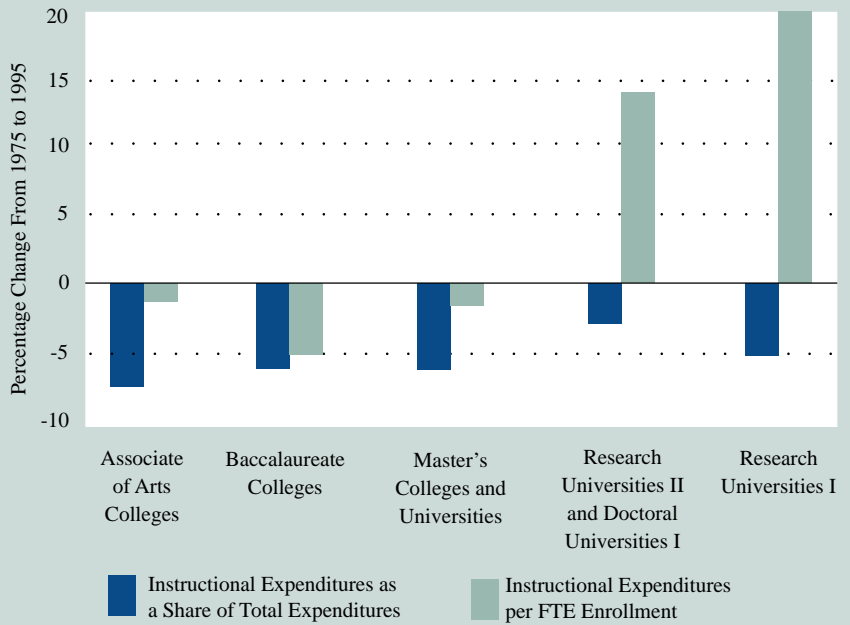
### Public vs. Private Finance: A Growing Likeness?

Given the increase in private revenue sources and in expenditures on non-instructional activities, is the concern over the “privatization” of public higher education warranted? Specifically, are public institutions’ revenue and expenditure patterns similar to or different from those of private colleges and universities?

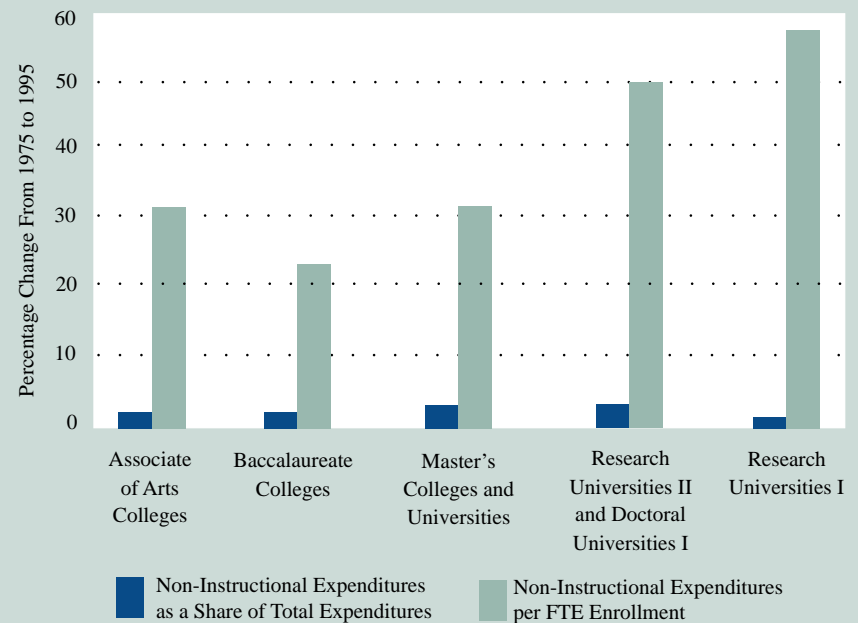
When examining revenue, it is apparent that public and private institutions are beginning to depend on a more similar mix of sources. Although private institutions continue to generate much higher levels of revenue than public colleges and universities, both are beginning to depend increasingly on private sources of revenue. Chart 4 illustrates this point by comparing the percentage change between 1975 and 1995 in private revenue per FTE enrollment for public and private institutions.

The most striking trend depicted in Chart 4 is the extent to which public institutions have increasingly relied on private sources of funds. On the other hand, many private institutions have increasingly sought public dollars, in particular from state sources, although the proportion continues to represent a relatively small share of private institutions’ total revenue stream. Overall, state sources of revenue increased at a

**Chart 2**  
Percentage Change From 1975 to 1995 in Instructional Expenditures as a Share of Total Expenditures and per FTE Enrollment, by Type of Public Institution

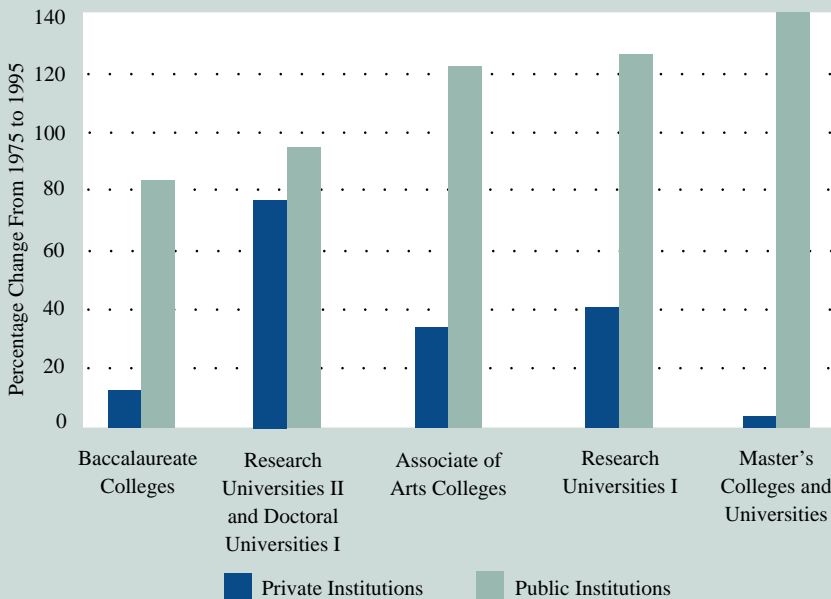


**Chart 3**  
Percentage Change From 1975 to 1995 in Expenditures That Support Instruction as a Share of Total Expenditures and per FTE Enrollment, by Type of Public Institution



rapid rate for private institutions—up to a 36.3 percent increase over a 20-year period for two-year colleges and

**Chart 4**  
**Percentage Change From 1975 to 1995 in Private Revenue Sources per FTE Enrollment for Public and Private Institutions**



a 150 percent increase for four-year colleges—while state funding declined for most public institutions.

As expected, total expenditures for private institutions were almost twice those of publics. The difference is reflected in spending on instruction: between 1975 and 1995, all types of private institutions increased spending on instruction per FTE enrollment from a low of 16 percent at Associate of Arts Colleges to a high of 66 percent at Research Universities I. As mentioned above, spending on instruction per FTE enrollment diminished slightly for all non-doctorate-granting public institutions.

Differences between public and private institutions' expenditures that support instruction are also apparent. Presumably, private institutions are spending more on instructional services and infrastructure to offset the low-cost advantage of publics—they are offering "better-quality" instruction to justify high tuition costs. While both types of institutions have increased spending on these services, like the

trends for expenditures on instruction, private colleges and universities have spent substantially more. They demonstrated up to five times the percentage change increases of public institutions for expenditures that support instruction between 1975 and 1995.

#### Public-Private Perspective

This 20-year retrospective on revenue and expenditure trends across higher education ought to hearten those who fear public institutions are starting to resemble private colleges and universities. The clear differences in expenditure patterns and the great difference in magnitude of the few revenue sources that show some convergence do not signal that public and private institutions are becoming so alike that the diversity of higher education in the United States is imminently threatened. Those concerned about the privatization of public higher education should examine other dimensions in the operation of public colleges and universities: for example, the potential similarities in how public and private institutions are managed, how they are priced in the higher education market, and how they are pursuing the development of private revenue sources.

However, these data do confirm a suspected pattern: public higher education has become state-assisted rather than state-supported. They also affirm the assumption that public colleges and universities have been obtaining a greater proportion of their revenue from non-state sources, as well as the speculation that they will continue efforts to cultivate new sources of revenue.

Of course, financial trends do not provide a complete understanding of the organizational changes in public higher education. Professor Gumpert is currently preparing the results of extensive case study research on academic restructuring in public higher education, which examines institutional planning and management of academic program change at different types of public colleges and universities. □