Tuition Reliance and Investment Neglect:
A Case Study on the University of South Alabama

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Introduction and Executive Summary

University budgets are key in understanding how universities work and operate; budgets show institutional priorities, and often if something is not in the budget it does not happen (Smith, 2019). As a result, routine reviews of budgets are important to align institutional priorities with revenue and expenses. These reviews also allow institutions to anticipate genuine problems and address them before they become a crisis (Barr & McClellan, 2017). To that end, this paper will address a few issues that have been made apparent in the budget and financial structure of the University of South Alabama.

In the "overview and context" section of this paper, general information about the University of South Alabama will be shared to familiarize the reader. Next, notable budgetary data will be introduced, and trends are identified in the "key trends" section. Utilizing literature on current national trends as well as peer-reviewed studies and published books, suggestions to solve threats to the institution's wellbeing are offered in the "analysis and recommendations" portion of this paper. Lastly, concluding remarks will provide a brief overview of the information and suggestions discussed in the body of this paper.

Overview and Context

Founded in 1963 in Mobile, Alabama, the University of South Alabama is a large and selective 4-year public research university with a focus on teaching the majority undergraduate student population on professions, as well as arts and sciences; it is Classified as an R2 institution, a doctoral university with high research activity. Their primarily residential campus offers students the ability to choose from over 100 undergraduate, graduate, and doctoral programs across 10 colleges and schools. The University of South Alabama also boasts a robust medical school and system. The College of Medicine charter class began in 1973, and the university health system is composed of two hospitals, USA University Hospital and USA Children's & Women's Hospital, as well as the USA Mitchell Cancer Institute and the USA

Physicians Group, serving countless residents across the region (Carnegie Classification of Institutions of Higher Education, 2020; University of South Alabama, n.d.).

This focus on community facing research-based education as well as improvements to the health and wellness of the community are echoed in the institution's mission statement:

> With a global reach and a unique focus on the Gulf Coast, the University of South Alabama aspires to make a difference in the lives of people it serves by promoting discovery, health, and learning. The Institution of South Alabama is a premier comprehensive public university with a global reputation for educational, research, and health-care excellence, as well as a positive intellectual, cultural, and economic influence on the communities it serves (University of South Alabama, n.d.).

Key Trends

Utilizing Integrated Postsecondary Education Data System (IPEDS) Data Feedback Reports for the University of South Alabama across the years 2017 through 2021, clear patterns emerge in areas of institutional revenue and primary expenditures.

The student population of the University of South Alabama, like many institutions in the nation, is on a decline. Full-time equivalent (FTE) enrollment from 2017 to 2021 shows a 10.14% decrease. In 2017, there were 15,775 FTE students and in 2021 there were 14,175. Nationally, the trend of enrollment decline over the past five semesters is 4.7% (Moody, 2022b) and at the University of South Alabama the past five semesters represent a 2.56% decline. Overall graduation rates have increased from 38% to 45%; transfer out rates were at their lowest in 2019 (31%) but are otherwise consistently between 33% and 35%. Retention rates, regardless of part-time or full-time status, were also at their lowest in 2019, but have since risen. Part-time retention rates dropped three percentage points from 2019 to 2020, but this follows a national trend due in part to the Coronavirus pandemic where retention rates of part-time students were disproportionally changed. The national retention rate fell 2 percentage points; however, The University of South Alabama is above the national retention averages in 2019 and 2020 of 67% and 66.2% coming in at 69% overall for both years (Lederman, 2021).

Trends in revenue indicate that the largest sources of funding, representing over half of the institution's revenue, are consistently tuition and fees, and state and public grants (33.6% and 27.4% respectively). Reported data shows an 11.23% increase in tuition from 2017 to 2021; when adjusted for inflation, this percentage is 3.26%. Tuition costs are a trending topic in current news, given the sharp increase in inflation rates this year. Of note, no increases in tuition have been made since 2019. This trend also echoes the national trend of steady tuition prices during the pandemic. Many institutions will be increasing prices this year as inflation rates in May 2022 hit 8.3% over the last 12 months, the highest rate since April 1981 (Moody, 2022a). For comparison, when the University of South Alabama increased tuition their rates of increase significantly outnumbered the inflation rate. From 2017 to 2018 and 2018 to 2019, the annual change for the rate of inflation was between -1% and 1% (Macrotrends, 2022); the University of South Alabama increased tuition by 3.5% from 2017 to 2018 and by 7.48% from 2018 to 2019. As of June 5, 2022, there is no formal announcement of tuition pricing for the next year from the University of South Alabama.

Expenses are largely restricted to instruction, 44.72% on average; however, spending on instruction has decreased since 2017, from 48.15% to 44.97%. The University of South Alabama spent the most money per FTE student in 2020, totaling $22,802. When looking at these expenses adjusted for inflation, the largest amount of money spent per FTE student was in 2019, totaling $25,327. These numbers are in sharp contrast to national averages (at public 4-year institutions); in 2020, 27% of spending per FTE student was on instruction which accounted for around $50,460 (National Center for Education Statistics, 2022). This means that by dollar amount, the University of Alabama is spending significantly less than other 4-year public institutions on instruction, but by percentage they are spending significantly more.

When exploring expenses further, there also appears to be a shift in institutional priorities. From 2020 to 2021, the University of South Alabama significantly cut institutional support funding, from 15.4% to 7.9%. According to the IPEDS glossary, institutional support funding represents spending on day-to-day operations which covers a wide range of areas (National Center for Education Statistics, n.d.). At the same time, there has been a notable increase in academic support spending, where it previously hovered around 9.5% from 2017-2020 and went up to 11.24% in 2021. By shifting the focus to academic support from institutional support, it appears that the University of South Alabama is prioritizing its students' success; in particular, this would suggest that the shift in focus to academic support could be related to declining enrollment and straggling retention rates.

Analysis and Recommendations

The University of South Alabama's ten percent or more decline in full time enrollment from 2017-2021 is in line with the national average. These somber figures for higher education are clear indicators of a 13 percent fall in enrollment over the last decade. If the current patterns of behavior—declining enrollments of low-income students, Hispanics, and men, as well as growing cynicism of college usefulness and pedagogy—continue after the COVID epidemic becomes endemic, enrollment and revenue pressures will increase far before the 2030s demographic cliff (Conley & Massa, 2022). College enrollment issues have only just begun, with the number of high school graduates expected to decline from 2027 to 2037 (Hoover, 2020).

The diminishing number of students who pay tuition, along with awareness among consumers about college affordability as well as the rise of lower-cost, significantly quicker education options, has created a perfect storm that threatens the financial viability of traditional higher education (Salerno, 2020). This is a significant problem for many institutions like the University of South Alabama who rely in large part on income generated from tuition and fees. If colleges are to survive, they will have to overcome not only the current enrollment challenge, as well as the looming competition for students and the associated financial contributions. Nonetheless, some other institutions are attempting to recruit students by taking advantage of Alabama's current tuition rates.

Columbus State University, located 45 minutes east of Auburn in Georgia, offers in-state tuition to Alabama undergraduates, with tuition "that is 25% less per semester as compared to several of Alabama's regional four-year universities," according to the university's website. Columbus State enrolled 512 Alabama undergraduate and graduate students in the fall of 2020. Alabama students attending out of state universities increased by 10.5% in 2019. This substantial number of students loss to other states can potentially affect the University of South Alabama (Sell, 2021) The University of South Alabama's success will necessitate tactics that minimize costs, increase affordability, and alleviate prospective students' concerns about their investment's return. To address this issue, there are three facets to the solution.

First, cut expenses by better utilizing the distanced learning that the current pandemic necessitates. Asynchronous delivery is already built into beginning survey courses (Salerno, 2020). Gradually transitioning these courses to a hybrid or entirely online format guarantees that instructional quality is maintained while cost savings are realized, freeing up resources for more challenging courses that benefit from in person interaction.

Second, improve costs by giving students and families additional resources to find and apply for non-loan assistance. Almost a billion dollars in scholarship money goes unclaimed every year. Even if students receive funding from a third party and receive a state grant called "last dollar," their incentive for finding and obtaining extra funds is a reduction in their state grant proportional to the third-party funding amount (Salerno, 2020). Furthermore, more students than ever are paying for their education with their own funds and no family assistance. In 2022, 45% of students in a survey of 1,100 said they are paying for their education directly from their own savings and income (Carassco, 2022). Universities can charge rates that are in line with costs while keeping tuition reasonable by using solutions that employ university student information systems to more easily locate and prequalify individuals for scholarships. Institutions would be able to take advantage of the last dollar grant if they adopted institutional measures that largely, or perhaps totally, offset any penalty.

Third, assuage students' and families' anxieties about the return on their investment (ROI) by charging prospective students an all-in cost for the degree they want to earn upfront. For low-income students who stand to profit the most from a college education, the financial aid process is inefficient, so it usually led to students not meeting deadlines or completing forms incorrectly, jeopardizing their financial assistance (Salerno, 2020). A legal maximum price simplifies budgeting for a degree by lowering the expense side of the cost/benefit ratio, and it enables students and parents to answer the question, "Is the degree or education worth it?"

This pricing method would allow universities to offer different prices for different programs or groups, which helps to balance tuition income gains against future increases in educational costs. It transforms the financial aspect of paying for school to become more recognizable and apparent to customers, like purchasing a house or a car. The pandemic has already disrupted higher education; but the problems it has brought to light are larger and more structural, with the potential to be more destructive to the country's long-term employment demands. Colleges and universities may aid in the management of both the present crisis and the economic instability that may happen in the future by lowering program delivery charges using online learning, as well as making it easier to find and obtain additional grant funding (Salerno, 2020).

Because one of the primary sources of revenue of the institution is tuition and fees that can fluctuate based on enrollments, another threat to the financial health of the University of Alabama is the lack of significant revenue from investments and private gifts, grants, and contracts. A solution to this problem lies in increasing endowments as well as other means of financial development and portfolio diversity. Most recent IPEDS data shows that the University of South Alabama generates only

4% of revenue from private gifts, which is comparable to peer institutions compared through IPEDS, but generates only 2% of revenue from investment returns, half of the average of 4% of revenue of similar institutions.

Despite differences in size and type, private and public institutions' endowment investment return successes differed only moderately between public and private schools. Private schools focus more on investing in hedge funds, private equity, etc. and more generally achieve a larger investment return; however, endowment funds overall tend to grow faster at public institutions which makes this a viable option for a public institution (Lerner, Schoar, & Wang, 2008).

More significantly, large endowments and investment returns have been shown to actively reduce payouts and major financial strain should an institution experience a negative shock (Brown, Dimmock, Kang & Weisbenner, 2014). As enrollments year over year continue to decline, increasing investments in endowments and other similar portfolios would give the University of South Alabama more financial stability. Increased stability due to endowment maintenance and success is perhaps most evident as a result of the COVID-19 pandemic. Despite endowments overall seeing the lowest returns since 2016, more institutions spent money from their endowments at slightly higher rates (Whitford, 2021). It was that very spending that allowed institutions to recover from a negative shock and continue to serve the community and students.

Related to this, institutional support spending is an assistive tool to the process of investment returns. Unfortunately, at the University of South Alabama it also represents another threat to potential success of endowments and development. As previously mentioned, the University of South Alabama has cut institutional support spending by about half from 2020 to 2021, going from 15.40% to 7.91%. Institutional support spending includes central executive-level activities concerned with management and long-range planning, and public relations and development (National Center for Education Statistics, n.d.). This suggests that the University of South Alabama has reduced development personnel and development overall as a priority; however, without knowing specifics on where the spending cuts were made within this category, it is difficult to say exactly how much development has become a reduced priority. To effectively utilize and gain the benefits of an endowment fund and increased investment returns, the University of South Alabama needs to ensure that activities and personnel tied to investments and donor relations continue to have proper funds.

Conclusion

The University of South Alabama maintains financial trends that align with national trends within the past five years; however, two clear threats to the institution are visible in the budget. First, continual reliance on tuition and fees for a sizable portion of revenue is a potential risk as enrollments are on the decline and changing student demographics will affect enrollments and tuition and fee revenue. Suggested solutions to this problem include reducing expenses by better utilizing distanced learning and remote work, improving student costs by giving students and families additional resources to find and apply for non-loan assistance, and increasing perceived ROI by charging students an all-in cost for their degree upfront. Second, lack of investment revenue and revenue from private gifts and contracts makes instability due to budgetary crisis an increased risk. Solutions to this include increasing development efforts in sustaining and soliciting donations, as well as the growth and maintenance of endowment funds. This includes addressing a recent cut to institutional support spending that would support these measures.

Addressing these areas of concern would align the University of South Alabama's mission statement and focus on community impact. The solutions proposed herein are in support of health of students, discovery and learning, and promote influence on the communities it serves. Adapting to changing times and shifting demographics will allow the University of South Alabama to continue its leading work in medical research and service, as well as its academic pursuits.

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