The Current State of Higher Education: Key Issues and Trends

By Daniel M. Campbell, Partner

While the higher education industry is large and complex, there are several trends affecting schools of all types and sizes.

Faith-based higher education institutions are not immune to these trends, which include:

- Soft net tuition growth
- Expense growth that exceeds revenue growth
- Deferred campus maintenance

Yet faith-based not-for-profit higher education institutions demonstrate a certain resiliency, and we are seeing clients defying these trends. These institutions typically have stable governing boards and long-standing relationships with successful presidents.

The strengths we see among these clients include:

- Consistent net tuition growth generated by new programs (often graduate programs)
- Expense growth rates of less than 8%
- Strategic use of debt
- Significant amount of long-term investments

Understanding what is driving the key issues and trends in the industry can help your institution plan strategically as you work to accomplish your mission.

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Enrollment Trends

The vast majority of private not-for-profit institutions are tuition-dependent and enrollment-driven. Tuition increases barely keep pace with larger unfunded discounts, putting more pressure on enrollment management to recruit and retain students.

National trends in four-year private institutions align with those in our client base:

Timeframe	Net Tuition Increase
Fall 2015	-.3%
Spring 2016	+.7%
Fall 2016	+.6%
Spring 2017	-.2%

Enrollment growth in traditional undergraduate programs has been virtually flat for three years. Many of our clients have reported increases in headcount but misses in budgeted net tuition and fees.

Revenue and Profitability

Here are some current revenue trends to consider:*

- Revenues will grow 3% among all four-year private colleges in 2018.
- Expenses will grow by more than 4%
- Investment returns continue to be strong. The S&P 500 1-year total return was 11% for May 31, 2018 fiscal year-ends and 12% for June 30, 2018 fiscal year-ends.
- Endowment values increased 9% in 2016 and 2017 for all higher education institutions. That is likely higher than we will see in 2018.
- Support levels across the industry increased 6.3% during 2017. Roughly 60% of those gifts were for operations and 40% for capital projects.

- Contributions as a percentage of total expenses averaged 10% for all higher education institutions during 2017, and we are seeing a range of 6% to 11% among our clients in 2018. Contribution percentage includes unrestricted operating support plus support released from restriction, divided by total operating expenses.

In addition, profitability is decreasing: Moody's Investors Service reported that 25% of private colleges ran a deficit during 2017. That may increase in 2018.

Business Models

A higher education business model is the process of onboarding students and matriculating them. The traditional undergraduate model continues to be the primary method of delivering secondary education, and healthy intuitions typically earn 60% to 70% of their program revenues from traditional sources.

But there are few successful institutions with only one business model. Growing institutions are adding programs at the graduate level because they are more profitable and use space during nontraditional hours. Some of the new programs we are seeing include:

- MBA
- Cybersecurity
- Nursing
- Physicians assistants
- Physical therapy
- Occupational therapy
- EdD
- Athletics

Tuition Discounting

According to the 2017 NACUBO Tuition Discounting Study:

- Approximately 89% of first-time, full-time freshman in private colleges received institutional grants during academic year 2016-2017
- The average grant during that period covered 56.7% of tuition and fees
- The average undergraduate discount rate for all four-year institutions was 44.8% in 2017-2018

ASU 2016-14

Many private not-for-profit institutions with underwater endowments likely adopted ASU 2016-14 early during the fiscal year ended 2017. Very few have early adopted during the fiscal year ended 2018. We expect that most institutions will not elect to change the method of reporting cash flows during the year of implementation.

You can learn more about ASU 2016-14 considerations for higher education institutions in this article.

Uniform Guidance Trends

Gramm-Leach-Bliley Act (GLBA) compliance is another important issue for higher education institutions to address.

While the 2018 OMB Compliance Supplement released this summer did not contain GLBA language, GLBA institutions participating in Title IV must protect students' personal identification information.

The USDE expects participating institutions to:

- Develop, implement, and maintain a written information security program;
- Designate the employee(s) responsible for coordinating the information security program;
- Identify and assess risks to customer information;
- Design and implement an information safeguards program;
- Select appropriate service providers that are capable of maintaining appropriate safeguards; and
- Periodically evaluate and update their security program

GLBA is one of two current business risks related to the financial aid office. Read Business Risks from the Student Financial Aid Office for details and some practical steps you can take to mitigate those risks.

In addition, the Perkins Loan program has ended. If your institution has not addressed this yet, consider these factors as you weigh the costs and benefits of liquidation.

44.8%

Average undergraduate discount rate for all four-year institutions in 2017-2018

Tax Reporting and Compliance Trends

Numerous tax reporting and compliance trends are affecting higher education. The CapinCrouse 2018 Higher Education Tax Reporting Trends Project examines nine key issues ranging from athletic facilities to artwork, with reporting data from institutions across the U.S. Download your free copy to see how peer institutions are handling "pouring agreements" with soft drink companies, premium seats for athletic boosters, token items for donors, and more.

Other tax compliance issue you should be aware of include the so-called parking lot tax and dual-use facilities allocation.

Maximizing Outcomes

These trends and issues can seem like a lot to navigate, but awareness is the first step, followed by careful consideration and planning.

Please contact us with any questions or if you would like to discuss how our higher education services can empower your institution. Our team of dedicated higher education specialists is experienced in industry best practices and can help you assess situations, identify opportunities, and maximize outcomes.

*Sources: Moody's Investors Service 2018 outlook changed to negative as revenue growth moderates; 2017 NACUBO Tuition Discounting Study

About the Author

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Dan has more than 30 years of public accounting experience leading audit engagements of nonprofit organizations and for-profit industries. He has served on the Board of Trustees of Davis College since 1993. Prior to joining the firm in 2006, Dan managed audits of financial institutions, construction contractors, and manufacturers.

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