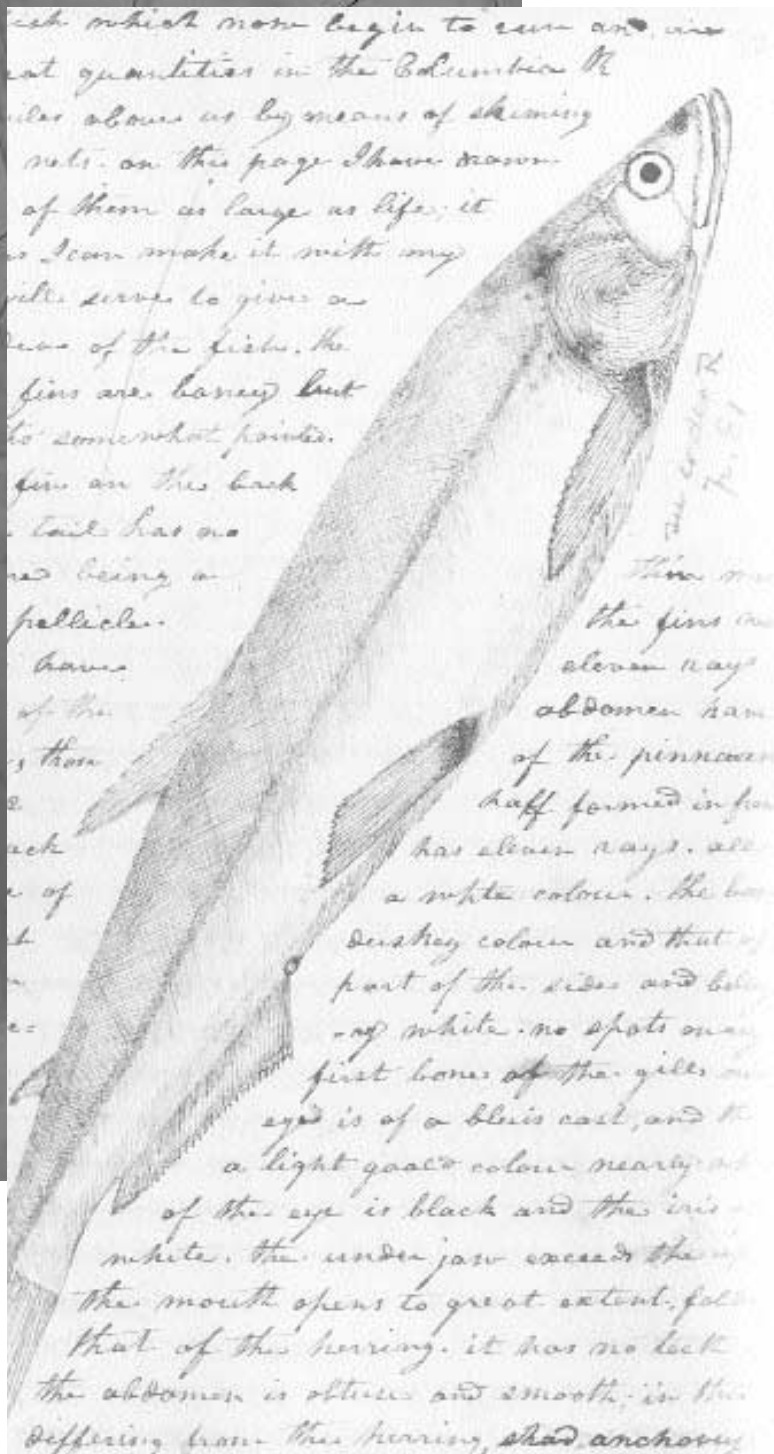


# Calculating the Cost of Undergraduate Education

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Concerns about rising tuition and the affordability of higher education have commanded national attention in recent years. In early 1998, the Congressionally-appointed National Commission on the Cost of Higher Education released its final report, urging the higher education community to provide better information about costs and prices at the nation's colleges and universities. In response, the National Association of College and University Business Officers (NACUBO), formed an Ad Hoc Committee on College Costs, chaired by Richard Spies, vice president for finance and administration at Princeton University. Spies describes the committee's efforts to standardize reporting of college costs, despite the difficulties posed by the diversity of institutions in the higher education community.



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### Goals

The committee’s primary goal is to develop a new, simple, uniform, and acceptable method of measuring and reporting college costs. Colleges and universities should be able to use the new methodology to calculate their per student cost, price, and subsidy for one year of undergraduate education.

Another goal is to clarify for public policy makers the distinctions between costs, prices, and subsidies, and how they vary across different types of institutions. If the committee is successful in developing a new methodology that is technically sound and acceptable to many audiences, it will make an important contribution to public understanding of the cost—and value—of higher education.

### Methodology

The committee is working on a simple, one-page template that will show the major functional components of the cost of educating a full-time, degree-seeking undergraduate for an academic year. It allows institutions to describe the cost of education in relation to the price charged students.

### Reporting Template

The template is comprised of six key building blocks, as follows:

- Instruction and Student Services Costs
- Institutional and Community Costs
- Financial Aid Costs

- Recap of Costs by Component and Total
- Analysis
- Facilities (measuring the true cost of capital)

Figure 1 shows the Recap and Analysis blocks of the template. These sections summarize costs and put them in the context of the prices charged to students. The difference between the cost of education and what students pay equals the subsidy provided by the institution. While useful to institutions, this information also is intended to inform students, their families, and policy makers about the full production costs of a year of higher education.

### Pilot Study

To test the operability of the template, a pilot study was initiated with approximately 50 institutions, which completed the reporting template and submitted their comments and concerns to the committee. Early results suggest a pattern of similarity in the data, signalling its validity.

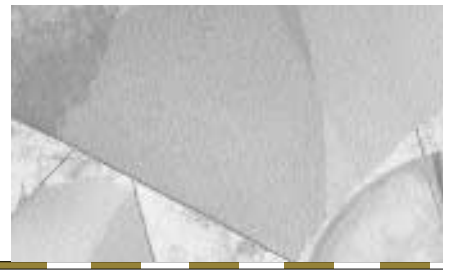
Substantive issues raised by pilot schools included, among others:

- the weighting of undergraduates and graduates in the calculations, so as to accurately break down undergraduate costs;
- what to include in the broader category of communi-

*Figure 1*

### Undergraduate Educational Costs Per Student Proposed Reporting Template Excerpt

<b>Total and Recap of Costs by Component</b>
Instruction and Student Services Costs
Institutional and Community Costs
Financial Aid Costs
<i>Total Costs:</i>
<b>Subsidy Analysis</b>
Total Cost per Student
Price per Student
<i>Total Subsidy per Student:</i>



ty costs, which attempts to capture activities beyond the scope of the classroom such as campus theatres, museums, etc.;

- how to treat departmental and institutionally funded research, which can have a significant impact if included in the cost of undergraduate education;
- what forms of financial aid to include in the analysis and how to describe those expenditures, whether as educational costs or price discounts;
- how much of the capital costs of facilities should be included—just operations and maintenance, for example, or some portion of the replacement capital cost of the facility?

Pilot study results will guide modification of the template to help make it applicable to the higher education community. While the committee's goal is to develop an acceptable method of measuring and reporting college costs, it recognizes the complexity of the task it faces, and likewise is viewing its work as an experiment to determine whether such a reporting method is possible.

## Conclusion

A number of constituencies are calling for clear and concise cost information; committee members are convinced that if their efforts are unsuccessful, a reporting method will be imposed on colleges and universities by the federal government. Thus, they feel driven to produce a workable, technically sound method that will be both widely acceptable to the higher education community and understandable to policy makers and the general public.

Toward that end, committee members are working to build the support of campus financial and business officers, and plan to include presidents, provosts, deans, and others in the project as well. External relations staff, such as communications, government relations, and development offices are particularly important in light of the ramifications of the cost data that will be generated; appropriate presentation of the information is crucial.

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Clearly, the committee faces a multi-faceted task loaded with complex technical challenges, and fraught with sensitive political ramifications. Whether it succeeds may be largely dependent upon whether colleges and universities are willing to work together to find an acceptable resolution to what has become a highly visible issue on the national landscape.

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Richard Spies is vice president for finance and administration and a lecturer in economics at Princeton University. He is the author of several studies on the effect of high cost on college choices among high-ability students, as well as budgeting and resource allocation at colleges and universities. He is chairman of the NACUBO Ad Hoc Committee on College Costs.