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from mission to market

The Financial Sustainability of Higher Education

Bright Spots & Challenges 2012 to 2022

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INTRODUCTION

Much of higher education is under financial stress. That stress shows up in more places than just a college's or university's bottom line. Declining financial health directly impacts the ability of institutions, systems, and the higher education industry in general to carry forward their academic missions and invest in the success of their students.

Opportunities exist in the short and medium term for higher education to build upon successful changes that have strengthened the financial health of some institutions.[1] However, pushing further with bolder new approaches is needed to create long-term financial sustainability.

The challenges facing higher education are well known. The media and other sources have regularly delivered reports of enrollment declines and the related erosion of public trust in higher education institutions, the COVID-19 pandemic, the long and hard-fought struggle for state funding, and increasing price sensitivity among students and their families.

But a vital part of the story remains untold. It concerns the long-term financial health of the higher education industry and the disparities that are revealed when a deeper analysis is carried out across sectors. In addition, the factors that contribute to financial sustainability require greater understanding and dissemination among higher education leaders, board members, and policy makers.

This report, based on an analysis by rpk GROUP of 2,337 public and private nonprofit higher education institutions, is an effort to begin to uncover and share those largely hidden yet important aspects of the story.

Financial sustainability depends largely on where a college's or university's revenues come from, how those revenues are spent, and the productivity and efficiency of its principal activities. This report looks at the most recent decade of U.S. higher education data available (2012-2022) and unpacks trends in financial health, enrollment, revenue, expenses, staffing, and degree production. At its core, it seeks to shed light on three key questions:

- How is the financial health of higher education as an industry and across sectors changing over time?
- What factors should the industry focus on to deepen its understanding of financial health?
- What changes and supports are needed to achieve financial sustainability over the long term?

This report looks at financial sustainability across the industry through a sector-level lens. The assumption is that if colleges and universities improve their financial sustainability, it will support their missions and benefit their students through continued, and potentially enhanced, investments that lead to student success. The report does not attempt to assess the impact of institutional health on specific student populations from an equity perspective.

1. Knox (2024).

In this report, we consider five key factors that affect financial sustainability in higher education and examine data that highlights how those factors have changed over the past decade.

1. **Enrollment** is top of mind because of its impact on core operating revenue. Enrollments at certain types of institutions began dropping long before the pandemic's arrival in 2020, but the dislocations caused by COVID-19 accelerated the trend and expanded it across higher education in the following few years. And now the industry is quickly approaching the long projected 'demographic cliff' of 2025, when the pool of students graduating from high school and potentially enrolling in college will be significantly smaller.
2. **Revenue** diversification allows institutions to draw from multiple revenue sources and reduces the adverse impact of variance over time from any one source. Diversification could become even more important in the future as institutions face the impact of continuing enrollment declines and the resulting reductions in net tuition and fees.
3. **Spending** is the factor in financial sustainability over which institutions have the most control. While we explore in this report how spending has changed over the past decade, we also examine the return on that spending by considering the completion outcomes at institutions and the cost to produce them.
4. **Instructional capacity** reflects one of the largest areas of investment that institutions make. As such, expenses for instructors and the efficiencies by which instruction is delivered have a significant impact on financial sustainability. In addition, flexibility in instructional personnel will be increasingly important as institutions seek to respond to changes in enrollment patterns.
5. **Administrative staffing** refers to the other significant portion of the 'people costs' in higher education. As with instructional capacity, changes in administrative staffing directly impact total spending and also contribute to the cost to achieve student completion.

Institutions that are financially sustainable are better positioned to focus on their core mission of educating students. Thus, this report also considers institutional outcomes as measured by two key metrics: degree productivity and efficiency. Combining spending and outcomes can measure how well an institution is allocating and reallocating resources—people, time, and money—to produce the completion of a degree. Ideally, this 'cost per completion' will diminish over time, even in the face of declining enrollments.

ABOUT THE DATA

This report draws from rpk GROUP's longitudinal IPEDS database. This database is compiled from publicly available Integrated Postsecondary Education Data Systems (IPEDS) surveys on higher education finance, enrollment, staffing, and completions from 2011-12 to 2021-22.

The rpk database incorporates adjustments to account for changes over time in accounting standards and IPEDS reporting formats, and to standardize the data as much as possible across different types of institutions.

The data in the report are further adjusted for inflation using the Consumer Price Index (CPI) and are shown in 2022 dollars. Many analyses are also standardized by 12-month full-time equivalent ('FTE') student enrollments. Financial trends are shown on a 'per FTE student' basis to normalize comparisons over time and across sectors.

All the data in this report were produced using a consistent panel of institutions. This ensures variations are not explained by differences in the number of institutions reporting data. The panel includes 2,337 public and private nonprofit higher education institutions organized by their 2021 Carnegie Classification. 'Research universities' also includes doctoral universities. Private for-profit institutions are excluded.

This report focuses only on operating budgets and excludes capital spending on buildings and other physical infrastructure.

While each of the five factors we've outlined contributes to financial sustainability, it is their combination that truly results in sustainability. For example, even when declining enrollment negatively impacts tuition and fee revenue, an institution can maintain a healthy financial position if it has diversified revenues to draw upon and is willing to reduce spending to appropriately reflect that enrollment decline.

This report includes changes over a full decade for which fiscal year (FY) data is currently available (FY12 to FY22). It focuses the most attention, however, on the latter five-year period (FY17 to FY22). In addition, we drill down on changes during the three-year period immediately preceding the COVID-19 pandemic (FY17 to FY20) and during the two years of the pandemic (FY21 and FY22). Such comparisons help isolate pandemic-related responses from trends already underway before COVID-19.

The pandemic first started to impact higher education in March 2020. Soon after, Congress authorized $14 billion in early pandemic relief funding that became available later that year. The bulk of this initial funding passed directly through institutions as aid to students, and the most significant financial support for institutional budgets came from two subsequent rounds of Higher Education Emergency Relief Fund (HEERF) allocations, totaling $61 billion. All HEERF funding was available during FY21 and remained so through FY23.[2] Parts of the analysis in this report seek to isolate HEERF funding to better understand its effect on higher education institutions and avoid masking the sustainability achieved from core operations during the pandemic.

Importantly, national data on higher education's financial situation reflects a delay of approximately 18 months. While this report covers financial trends through FY22, followers of higher education know that FY23 and FY24 proved challenging, evidenced by the growing number of individual institutions and systems that have taken significant actions to reduce expenditures and have been expressing major sustainability concerns.[3] Throughout this report, rpk GROUP also offers insight from our on-the-ground experiences with institutional and system clients in an effort to contextualize the data and offer a glimpse beyond what the federal data can provide at this point in time.[4]

2. Three rounds of HEERF allocations were provided during the pandemic: The CARES Act authorized $14 billion for higher education (HEERF I) on March 27, 2020; CRRSAA (HEERF II) authorized another $21 billion on December 27, 2020, and the ARP Act authorized $40 billion on March 11, 2021. Institutions were required to expend all institutional funds by June 30, 2023 unless they requested a one-year extension; they could also ask for a six-month extension (through December 31, 2023) for any unspent funding specifically reserved for student aid. https://www2.ed.gov/programs/heerf/index.html

3. Knox (2023); Moody (2023c); SUNY (2024).

4. Leading indicators for public institutions in FY23 suggest that revenue diversification continues, with reduced reliance on student net tuition revenue and rising dependence on state and local funding (SHEEO, 2024).

Key Findings

Financial sustainability needs to be clearly defined and measured for higher education as an industry and within sectors. This focus can signal the need for change as higher education adjusts to steeper projected enrollment declines and looks to adopt new approaches that better respond to the needs of students and employers. Based on the analysis presented below, several key findings emerge regarding financial sustainability in higher education and the factors that influence it.

- **Only 63% of nonprofit higher education institutions appeared financially healthy at the end of the pandemic by reporting positive net income.** Public institutions were more likely to operate with a financial surplus at the end of the pandemic than private institutions (74% vs. 47% in FY22). The financial position of public institutions improved during the pandemic compared to earlier in the decade. In contrast, private institutions, especially private master's and bachelor's colleges, experienced a slow deterioration in financial health over the decade studied.
- **HEERF stimulus funds helped about 8% of public and private institutions in this study achieve a net income surplus instead of a deficit.** Only 55% of institutions were estimated to have positive net income when excluding those HEERF funds that they relied upon to replace lost revenues from tuition and fees, room and board, research, auxiliaries, and other sources.
- **Enrollment has a substantial impact on financial sustainability, but demography is not destiny.** Long-term enrollment struggles are apparent at higher education's most affordable and accessible institutions: public community and bachelor's degree-granting colleges ended the decade with, respectively, 20% and 28% fewer FTE students, while their net tuition and fee revenue declined 20% and 10%. Yet core revenues continued to rise across the decade at those and other public institutions through growth in other nontuition revenue sources—especially non-pandemic-related federal grants and contracts, as well as state and local appropriations.
- **Higher education revenues in total and per student steadily increased before and during the pandemic through revenue diversification and federal stimulus funding.** Over the past decade, tuition and fee revenue declined while other revenue sources increased, resulting in a more diversified revenue mix. With more revenue and fewer students, most types of public and private institutions have increased revenue per student. However, revenues must be examined alongside changes in expenses and their overall impact on financial sustainability.
- **Higher education spending per student continued to rise, especially in the public sector.** The onset of the pandemic did prompt short-term cuts in total spending but increases in FY22 pushed spending back up to nearly pre-pandemic levels. At the same time, students did not return as quickly, so spending per student also rose, particularly across public institutions. Spending growth has occurred in areas other than instruction, as institutions increasingly allocate dollars towards student services, institutional support, and research. As noted above, changes in spending and revenue must be considered together in order to understand net revenue and long-term financial sustainability.
- **The pandemic upended faculty hiring, and nearly all types of institutions employed fewer full-time faculty than earlier in the decade.** Widespread reductions in both full- and part-time faculty members occurred during FY21. When hiring resumed in FY22, it was nearly all focused on part-time faculty. All types of institutions, except public research universities, employed fewer FTE faculty in FY22 than five years earlier. Nevertheless, enrollment still declined faster than faculty positions. Without future enrollment increases, institutions may need to continue their reductions in total FTE faculty and seek more flexibility in their faculty labor models.

- **Growth in administrative hiring and spending is often criticized amid rising higher education costs, but the variance in spending across administrative functions suggests that some of that growth is aimed at supporting student success.** The pandemic temporarily reduced the number of managerial and professional staff on campuses, but colleges and universities still employ more of these workers than they did five years earlier in FY17. One of the fastest growing areas of spending is student support, indicating that not all of this administrative staffing growth is focused on institutional business operations. Deeper analysis at an institutional level is needed to provide greater insight into the number and types of positions added in these areas.
- **Improved student outcomes are a bright spot across higher education for which institutions have received little recognition.** The increased number of degrees awarded, improved degree productivity, and greater cost efficiency in providing those degrees are all at odds with the persistent myth that higher education outcomes (and graduation rates) are not improving. While that increase in productivity has not benefited all students across all economic and racial-ethnic groups, higher education as an industry is producing more degrees more efficiently.

rpk GROUP anticipates providing additional data lenses in the future to continue supporting campus leaders in making data-informed decisions. Those lenses could include, among others, analyses of financial sustainability based on institutional size, endowment, or participation within a system structure.

Implications & Recommendations

Multiple strategies are available to higher education for meeting the challenges ahead. While institutions across the industry demonstrate distinct features—such as size, type, or students served—they generally exhibit more similarities than differences in their operations. **The following elements compose the core of best practice approaches that can support financial sustainability:**

1. **Bold Leadership.** Leadership sits at the top of the list for achieving financial sustainability. Strong leadership sets a shared future vision for a college or university that is grounded in the institution's strengths and is responsive to the external environment. This ability to point towards the future, develop an action-oriented plan, and build trust and commitment to what is needed and possible is essential if an institution is to make the bold changes necessary for a sustainable future.
2. **Data-informed Decision-making.** Shifting to a culture that values and supports making decisions informed by data allows institutions to ground strategy in key indicators—combining quantitative learnings with more qualitative or mission-focused elements when making investment and reallocation decisions.
3. **Market-focused Insights.** The market for higher education is often broader and deeper than institutions currently consider it to be. Externally focused institutions are better positioned to offset the coming decline in traditional college-age students through outreach to new groups of students, including adults, returning students, first-generation students, and racially minoritized populations. That outreach must involve a rethinking of programs and services to align with the needs of a broader range of students.
4. **Student Retention.** The business adage of it being cheaper to keep the customers you have than acquire new ones is true of higher education. As the number of first-time freshmen shrink over the coming decade, institutions must focus on retaining more students and keeping them on a path to completion.
5. **Optimized Academic Portfolios.** Today's students, families, and lawmakers are conscious consumers who pay close attention to the return on their investment in higher education. Portfolios of academic programs need to reflect student and labor market demand, which may mean changes in their mix of educational program offerings and the way institutions teach subjects that are critical to developing well-rounded graduates. For example, while offering full majors in low-demand areas may no longer be viable, institutions can still ensure exposure to core concepts through the design of general education, as well as by embedding critical skills and competencies across all disciplines.
6. **Administrative Efficiencies.** Colleges and universities must find ways to run their institutions without adding more professional staff members each year. They will need to explore ways to provide administrative services more efficiently, whether by streamlining manual processes, removing administrative barriers, adopting technologies that increase productivity, or creating shared service models and strategic partnerships that reduce duplication of efforts. Investments in administrative services must be made with an eye to their return and whether they directly contribute to improved student success.
7. **Strategic Partnerships.** Historically, higher education institutions have largely operated as if they must directly provide all their programs and services. That belief has limited what is a wide-spread practice in other fields: the exploration of strategic partnership opportunities.[5] The resistance to strategic partnerships is now being tested, however, as institutions struggle to sustain their business models.

Colleges and universities across all sectors will increasingly need to focus on financial sustainability. That focus will extend beyond just net revenue and the bottom line to include making a commitment to outcomes, demonstrating good stewardship of resources, and responding to the ever-changing needs of all students who can benefit from postsecondary education.

5. Staisloff (2024).

FINANCIAL HEALTH: STRESS ACROSS THE INDUSTRY

Long-standing challenges from enrollment declines—driven by changing demographics, competition, and value-proposition questions—along with inflationary pressures on goods and services have raised concerns about the financial health of the industry and the financial sustainability of different types of institutions. As more institutions face those financial challenges, preeminent U.S. bond rating agencies expect the number of college closures to increase in the coming years—especially among small, tuition-dependent institutions without a strong brand.[6]

College closures are already on the rise. Before 2022, no more than 13 nonprofit colleges closed in a single year, and that was already twice as high as the decade long average.[7] In the midst of the pandemic, however, 23 nonprofit colleges closed and another 15 followed in 2023.[8] Through August of 2024, an additional 18 institutions either closed or announced their closure.[9] Such closures occurred even as institutions were buoyed by federal HEERF funds. The expiration of those resources in FY23 could reveal even more institutions with unsustainable finances in the current environment.

Bright Spots

- Established metrics are available to gain insight into institutional and industry financial health.
- HEERF funding helped some institutions avoid budget deficits during the pandemic, with the greatest impact observed in the public sector.

Challenges

- Only 63% of institutions were financially healthy in FY22, as measured by both positive net income and the CFI index.
- Positive financial results for public institutions in FY22 are likely driven by federal HEERF funding, which expired in FY23.
- Private institutions showed a weakening financial position on both the CFI and net income metrics in FY22.

Colleges and universities can assess financial sustainability using a variety of metrics. Some metrics, such as net income, provide a snapshot of financial health by measuring annual resources, like an end-of-year banking statement. Other metrics, such as the Composite Financial Index (CFI), consider a more comprehensive financial picture that includes balance sheet activity, like cash, liquidity, and debt. The CFI is a measure of both financial health and risk, which reflects an accumulation of years of financial decisions, similar to a retiree's investment account. This section explores both types of metrics.

6. Moody (2023a); Moody (2023b).

7. Between 2010 and 2020, higher education averaged about five to six college closures per year through mergers or acquisitions. While small, those numbers are nearly double the number observed 20 years ago. (Bryant et al., 2023).

8. Sanchez (2024); Moody (2023f).

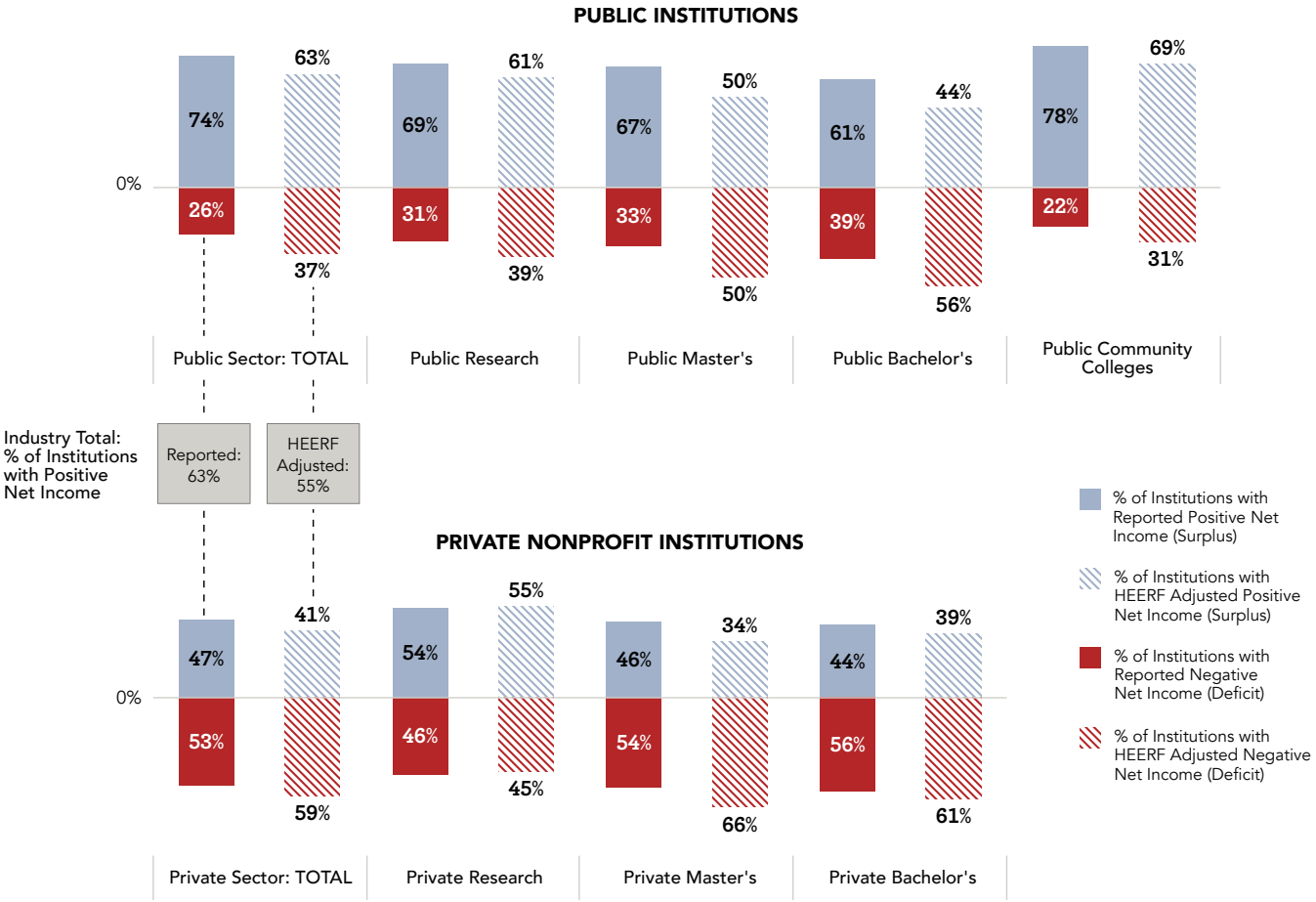
9. Higher Ed Dive (2024).

Net Income

Net income is a standard financial metric used across industries to compare revenues with expenses. In higher education, the calculation of total current year revenues (operating and nonoperating) minus expenses provides a measure of net income. Positive net income indicates an institution had a surplus, or excess income, in a single year. A negative value indicates that the institution had more expenses than revenues.

Unlike for-profit industries, nonprofits are, by design, not focused on generating net income for investors. Even so, institutions with declining or negative net income are not as well equipped to reinvest in themselves, nor are they able to respond to potential stressors. This diminished ability to continuously invest in mission and student success ultimately can result in an institution's closure or a state of affairs in which it can only struggle to survive from year to year.

Figure 1. Net Income Using Total Revenue & Expense (Operating & Nonoperating), FY22



Data includes operating and nonoperating income (loss); FASB institutions report change in unrestricted net assets.
'Reported' reflects the net income calculated with traditional financial statement metrics as reported to IPEDS.
'HEERF Adjusted' excludes the HEERF funding that institutions used to recapture lost revenue from tuition & fees, room & board, enrollment declines, research, auxiliaries, and other services.
Source: rpk GROUP analysis of IPEDS, 2012-2022 and HEERF Stabilization Fund Data, 2022.

We analyze net income in three ways. First, we determine an institution's financial position using total revenue and expenses. Second, we take that reported net income and exclude the HEERF funding that institutions reported using to recover lost revenues—from tuition and fees, room and board, research, auxiliaries, and other services—so we can assess their underlying health without those resources. Finally, we look at net income from an EBITDA perspective, a common method used in other industries to measure net income before accounting for interest payments, taxes, depreciation, and amortization expenses.[10] That perspective presents a financial picture that is more closely aligned with the 'balance the budget' approach institutions take in the day-to-day operation of their institutions.

These analyses have revealed a number of insights about the general financial health of higher education institutions, as outlined below.

Net income calculations using total reported revenue and expense show that only 63% of public and private institutions had a positive financial position in FY22. Nearly three-quarters (74%) of public institutions that we examined had positive net income while less than half (47%) of private institutions were equally healthy in FY22 (see Figure 1). Private master's and bachelor's institutions appear to have the weakest financial position.

HEERF funding provided a financial lifeline to many institutions across both the public and private sectors, preventing 8% of institutions from reporting a net income deficit in FY22. This research also showed that, absent HEERF funding, only 55% of institutions were estimated to have positive net income during the last year of the pandemic. The funding's stabilizing impact was more widespread across the public sector, where 11% fewer institutions were financially healthy without the stimulus funds (63% overall). In the private sector, HEERF only prevented 6% of institutions from reporting a deficit; only 41% were estimated to have positive net income without the stimulus funds.

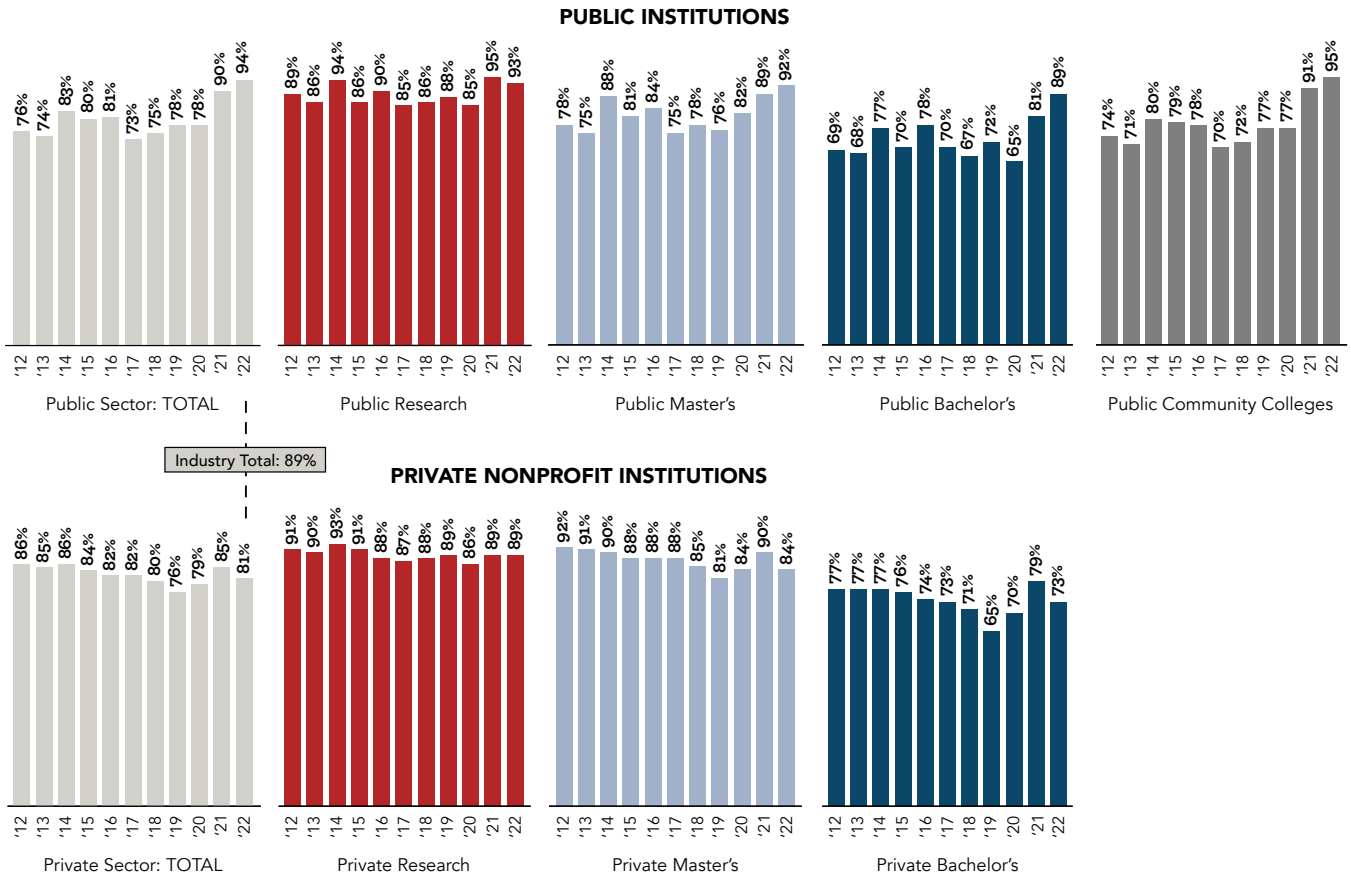
Although the percentage of institutions with negative net income could easily be attributed to the pandemic, data calculated from an EBITDA perspective that extends back to before FY20 suggests that was not always the case. **Instead, institutions were *more likely* to report positive net income during the first year of the pandemic (FY21) compared to earlier in the decade, most likely because of HEERF funding.**

10. 'EBITDA' is an acronym for 'Earnings Before Interest, Taxes, Depreciation, and Amortization.' IPEDS only started collecting the data for traditional net income calculations in FY20; however, the data used to calculate an EBITDA approach is available for all data years. No HEERF adjustments were applied to the EBITDA calculations.

The positive financial position evident in FY21 continued into FY22 for public institutions but provided only a modest single-year boost to many private institutions. From an EBITDA perspective, 94% of public sector institutions had positive net income in FY22, while the share of financially healthy private institutions dropped back to 81%—nearly equal to levels observed in FY20 (see Figure 2). The share of private institutions with positive net income steadily decreased over the decade. When investment gains and losses are included in the EBITDA calculations, private institutions appear to have been even less financially healthy in FY22 (see Appendix A).

Nevertheless, a more positive picture of financial health in higher education emerges from an EBITDA calculation than when using measures based on net income from total revenues minus expenses. Institutions typically look healthier when viewed through an EBITDA lens because depreciation and amortization are excluded and, therefore, do not reduce the bottom line.

Figure 2. Net Income, EBITDA Calculation (excluding Investment Income): Percent of Institutions with Positive Net Income

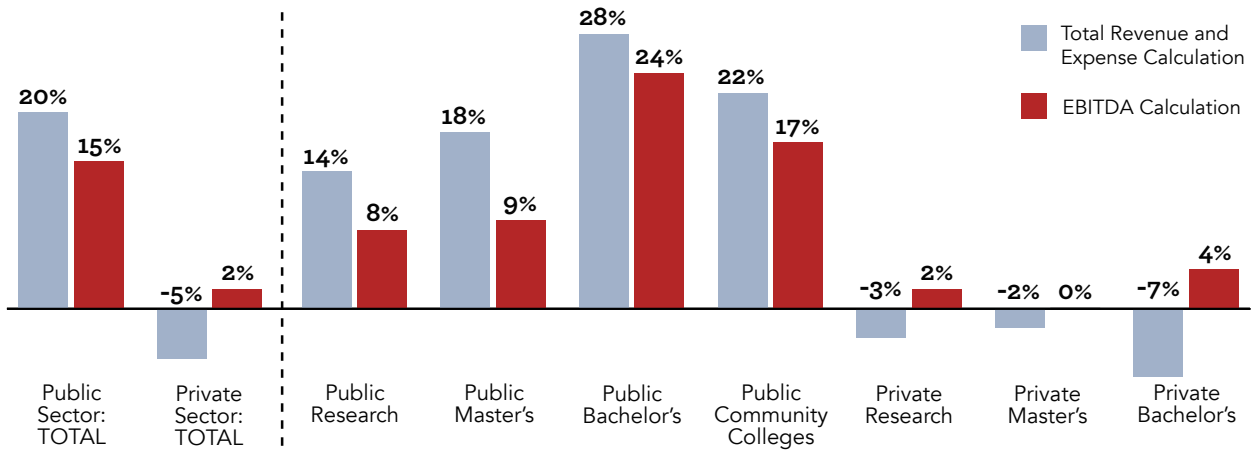


Includes operating and nonoperating income (loss); investment returns are excluded.
'EBITDA' or 'earnings before interest, taxes, depreciation, and amoritization' excludes depreciation and interest (nonprofit institutions are exempt from taxes).
Source: rpk GROUP analysis of IPEDS, 2012-2022.

With an EBITDA approach, 89% of the public and private higher education institutions demonstrated positive financial health in FY22, compared to 63% when using net income calculations with total revenue and expense. This comparative improvement in financial standing was widespread across the public sector. In the private sector, less substantial improvement was visible—especially among private bachelor's colleges, of which fewer than three-quarters continued to post positive net income using an EBITDA approach.

Comparing net income trends before and during the pandemic shows similar patterns, regardless of whether total revenue and expense or EBITDA measures of net income are applied (see Figure 3). The EBITDA approach results in a somewhat more positive assessment of private institutions, but the margins are narrow.

Figure 3. Net Income: Percentage Point Change in Share of Institutions with Positive Net Income, FY20 to FY22



'Total Revenue & Expense' reflects the net income (operating & nonoperating) calculated with financial statement metrics as reported to IPEDS. 'EBITDA' or 'earnings before interest, taxes, depreciation, and amoritization' excludes depreciation and interest (nonprofit institutions are exempt from taxes); investment returns are excluded.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

Although the EBITDA approach aligns with how campus leaders typically view budgets, institutions should account for and fund depreciation in their financial planning if they are to be truly healthy. Institutions that do not fund depreciation will not have the resources to address future needed repairs, such as replacing building roofs, refurbishing worn dormitories, or purchasing updated equipment to keep the campus running.

Composite Financial Index

The composite financial index, or CFI, is a broad index with four subcomponents (one of which is net income)[11] that, when aggregated, help guide institutions in addressing financial health and risk. **In FY22, just over 60% of public and private sector institutions had a CFI that is considered financially healthy.**[12] The findings on financial health using this CFI are in line with the 63% of total institutions that demonstrated positive net revenue in that year (see Appendix A).

The CFI and net income measures are both indicators of financial health, but comparisons between the two must be made carefully.[13] The CFI is a comprehensive measure of financial health and risk, while net income provides a snapshot of annual activity.

So, what's the overall financial health assessment for higher education?

- For public institutions, measures of net income and the CFI indicate that a large and growing proportion of institutions can generate positive net revenue for reinvestment. However, financial stress increased from FY20 to FY22 for 42% of those institutions (see Appendix A).
- Many private institutions showed a diminishing financial position on the CFI from FY20 to FY22 and sustained an even longer-term weakening from a net income perspective. These trends show that private institutions increasingly had difficulty generating the resources necessary for reinvestment in mission and student success. Financial stress increased at 59% of private institutions during the pandemic (see Appendix A).
- The public and private nonprofit sectors both benefited from HEERF, but the stimulus funds helped a larger share of public institutions than private ones to maintain a financial surplus.

Looking ahead, the higher education bond rating agencies' outlook for 2024 varies from stable to deteriorating (with bifurcated impacts depending on institutional selectivity), due to concerns over inflationary pressures on wages and enrollment challenges that could weaken the operating margins of institutions.[14] Rating agencies greatest concerns are at small, less-selective, tuition-dependent institutions. This study corroborates their concern, particularly about the financial sustainability of many private nonresearch institutions.

11. The CFI includes: 1) primary reserve ratio, which measure whether an institution has enough cash to meet its existing financial obligations, 2) net operating return ratio (which is net income divided by current year revenues), which measures how the institution's revenues compare with its expenses, 3) return on net assets ratio, which examines whether it has more assets at the end of the year compared to the beginning, and 4) viability ratio, which assesses how well the institution can cover its debts with existing resources.

12. For the CFI, a score of 3 is the threshold of institutional financial health.

13. Net income represents between 10% and 30% of the CFI calculation, while the remaining 70% to 90% reflects balance sheet activity (e.g., cash, liquidity, debt).

14. Moody (2023d); Moody (2023e).

5 KEY FACTORS IMPACTING FINANCIAL SUSTAINABILITY IN HIGHER EDUCATION: BRIGHT SPOTS & CHALLENGES

The revenue and spending of both public and private nonprofit institutions over the last decade—and especially the years just before and during the pandemic—reveal five key financial sustainability factors that shed light on the current financial state of higher education and its future trajectory. These trends not only point to potential challenges that higher education, especially specific types of institutions, will confront, but they also reveal promising bright spots for the industry and the students it serves.

1. Enrollment: A Decade of Little Growth

Bright Spots

- The private sector maintained their enrollments during the pandemic better than most of the public sector.

Challenges

- Public sector nonresearch institutions experienced sharp enrollment declines over the pandemic period, and the demographic cliff is expected to produce ongoing challenges for all sectors.

Student enrollment is the coin of the realm for colleges and universities, often used as the most visible signal of financial health. Students bring tuition dollars and are an integral part of many state funding formulas. At many institutions, students are also purchasers of critical auxiliary services in the form of dining plans and residence hall rentals.

Importantly, the strength of the relationship between enrollment and financial health depends on the extent to which an institution, given its size and mix of students, can generate net revenue and allocate total revenue in a way that leads to financial sustainability. Divergent enrollment trends among different types of institutions were apparent long before the pandemic (see Figure 4).

Enrollment has steadily declined at public bachelor's and community colleges, which ended FY22 with, respectively, 20% and 28% fewer FTE students than a decade earlier. Public master's universities ended the decade 8% smaller, while enrollment at private bachelor's institutions also declined 6%. In contrast, **public and private research universities added students over the decade**, as did private master's institutions, even after accounting for the pandemic impacts.

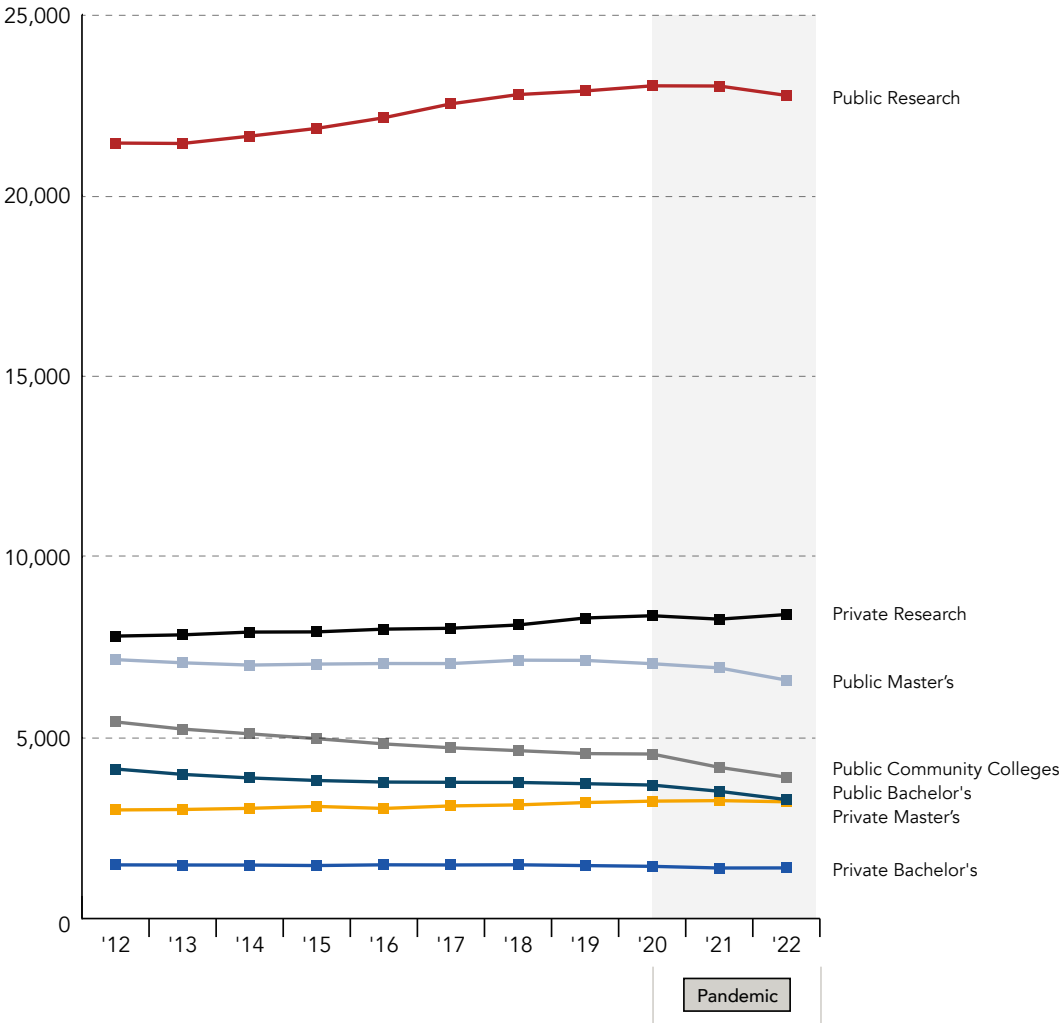
The COVID-19 pandemic disrupted life in many ways, and higher education was no exception. **Across all the institutions included in this study, FTE enrollment declined 13% between FY20 and FY22.** The largest two-year declines were observed at community colleges and public bachelor's colleges, while research universities fared far better.[15]

15. Two-year declines at community colleges and public bachelor's colleges averaged 14% and 11%, respectively. Smaller but impactful declines were also observed at public master's institutions (6%) and private bachelor's colleges (3%). Faring better during the pandemic were research universities, where enrollment held steady in the private sector and declined 1% in the public sector. Enrollment at private master's institutions also declined less than 1% between FY20 to FY22.

Initial optimism about a post-pandemic rebound in student enrollment only recently materialized in 2024 as four-year colleges and universities yielded enough enrollment to return to pre-pandemic levels.[16] Looking ahead, the long-anticipated 'demographic cliff' is expected to begin in fall 2025, a date that's quickly approaching. Beginning then, the number of prospective new traditional-age college students is projected to successively decline each year, an aftereffect of the 2008 recession and its long tail of lower birthrates.

Enrollment trends also vary by students' gender, race and ethnicity, age, and experiences as first-generation college attendees. While not a focus of this report, supporting the educational needs of different groups of students to ensure they are positioned to persist and complete their degrees should also be a financial model consideration from a resource allocation and tuition revenue perspective.

Figure 4. FTE Enrollment: 12 Month Average



'FTE' is full-time equivalent. Years are shown as fiscal years ('22 = 2021-22).
Grey bar represents pandemic impacted years.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

16. The first increase in post-pandemic enrollment occurred in fall 2023. (NSC Research Center, 2025).

2. Revenue Diversification: Lessening Dependence on Tuition

Bright Spots

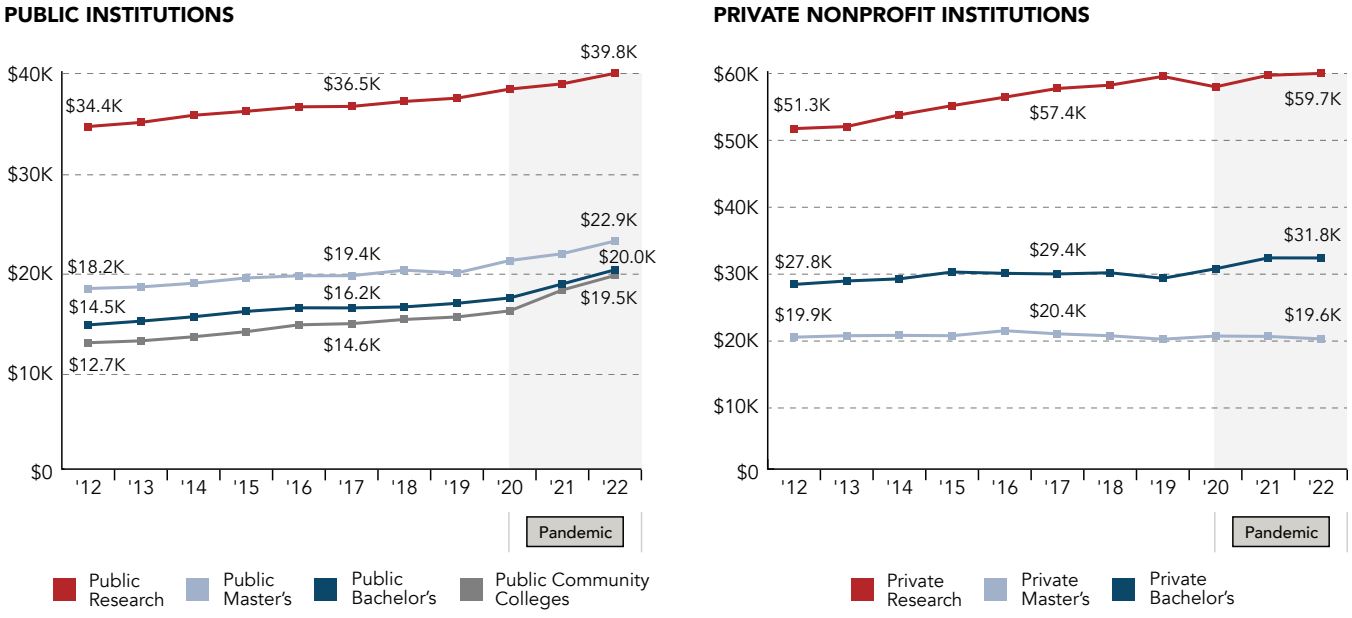
- Revenues, both in aggregate and on a per-student basis, have increased during the past decade across nearly all types of institutions.
- Federal, state, and local funds more than offset public sector net tuition revenue losses during the pandemic.
- In the private sector, private gifts together with federal funds offset net tuition losses at research universities and bachelor's colleges during the pandemic.

Challenges

- Net tuition revenues declined across both public and private sectors of higher education during the pandemic and had not yet rebounded by FY22 on a per-student basis.
- Even with HEERF funding, four-year nonresearch institutions emerged from the pandemic with less overall revenue than when it began.

Higher education is often perceived and portrayed by people both within and outside the academy as chronically underfunded. But while some colleges and universities are clearly facing financial challenges, **total higher education revenues remained steady or rose in inflation-adjusted dollars** between FY12 and FY22 in the public as well as private sectors.

Figure 5. Core Revenues per FTE Student



'FTE' is full-time equivalent. Years shown as fiscal years ('22=2021-22). Grey bar represents pandemic impacted years. Data shown in 2022 dollars. Core revenues includes net tuition and fees, federal, state, and local funds, private gifts and contributions, and educational sales and services. Revenues from auxiliaries, other operations, and investments are excluded.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

Private master's institutions are the only group of institutions where revenue *per student* did not increase, as well, over the decade; instead, it grew nearly apace with enrollment. Otherwise, rising revenues were commonplace even in those areas where enrollment was declining, leading to widespread growth in total revenues per student (see Figure 5).

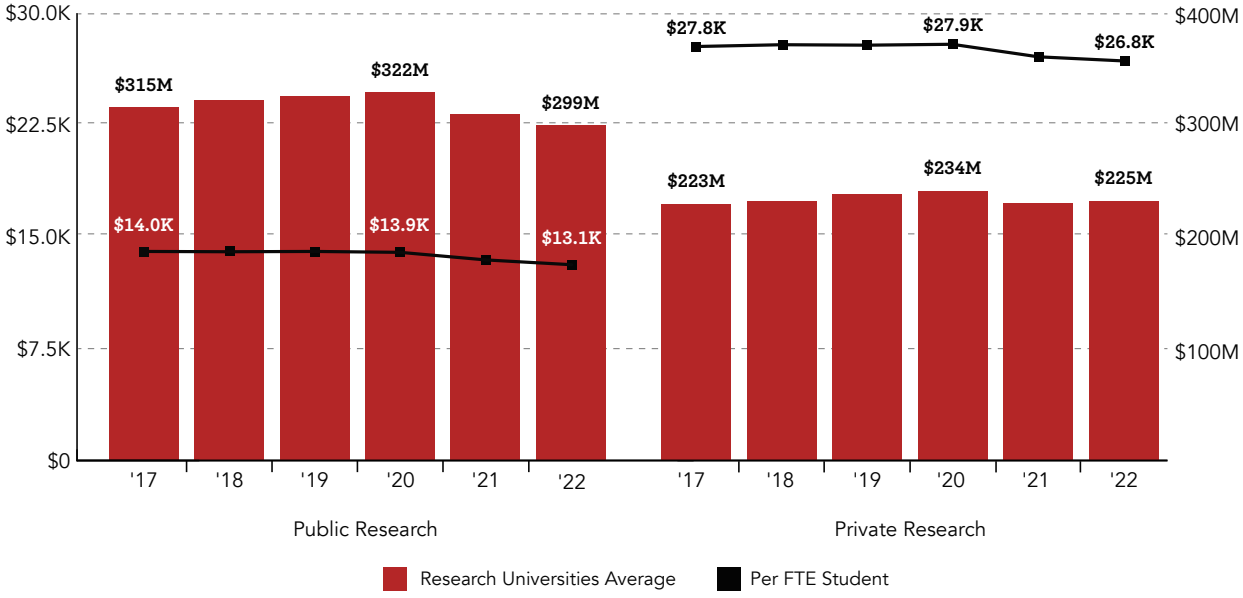
Underlying that steady rise in revenues per student was an increased diversification of revenue sources amid a decline in student tuition and fees.

Declining Net Tuition Revenue

Even before the pandemic, total net tuition revenues were declining across most types of nonresearch institutions.[17] The pandemic further fueled that trend. By FY22, total net tuition revenue was lower across all types of institutions than five years earlier, except at private research universities (see Figure 6). And by the end of the pandemic, average net tuition revenue per student was also lower across the higher education industry.

Figure 6. Net Tuition Revenue

FIGURE 6A: RESEARCH UNIVERSITIES



17. 'Net tuition revenue' includes tuition and fees (regardless of how they are paid), less institutional grant aid.

FIGURE 6B: PUBLIC NONRESEARCH INSTITUTIONS

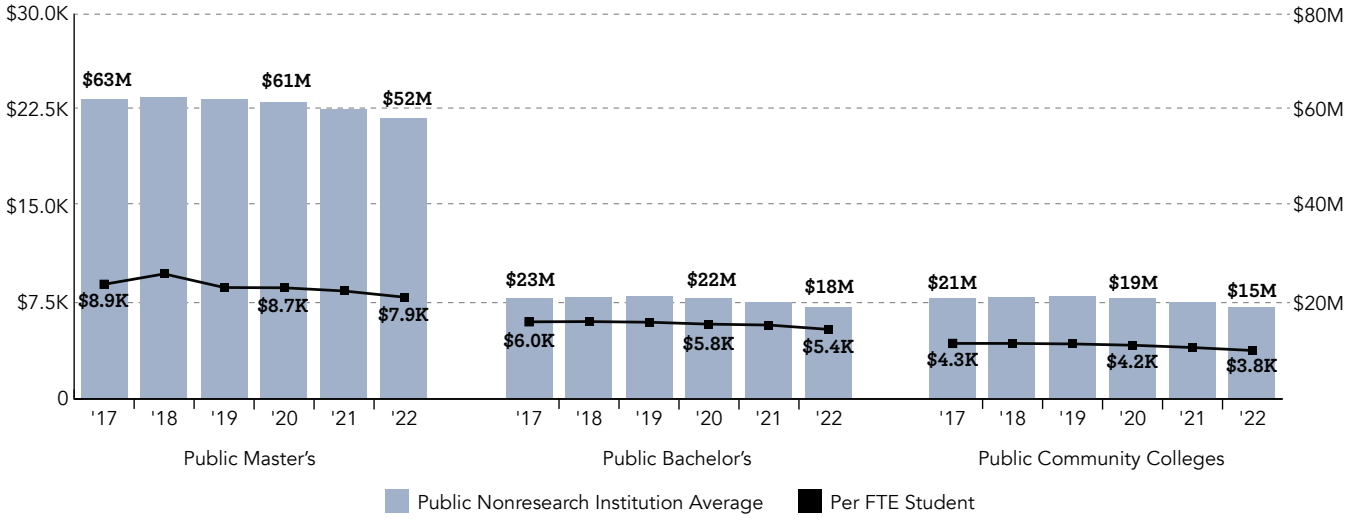
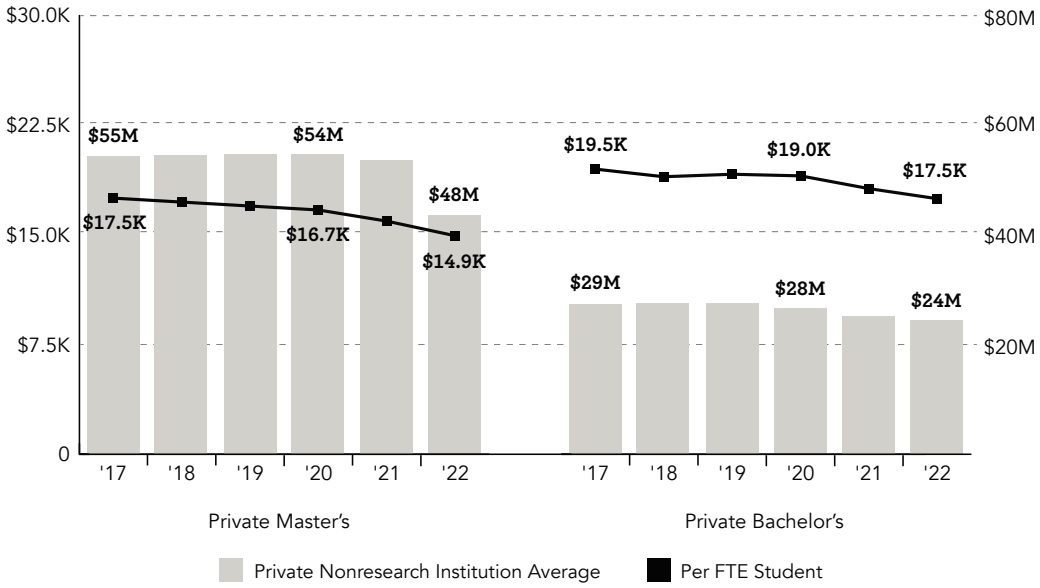


FIGURE 6C: PRIVATE NONRESEARCH INSTITUTIONS

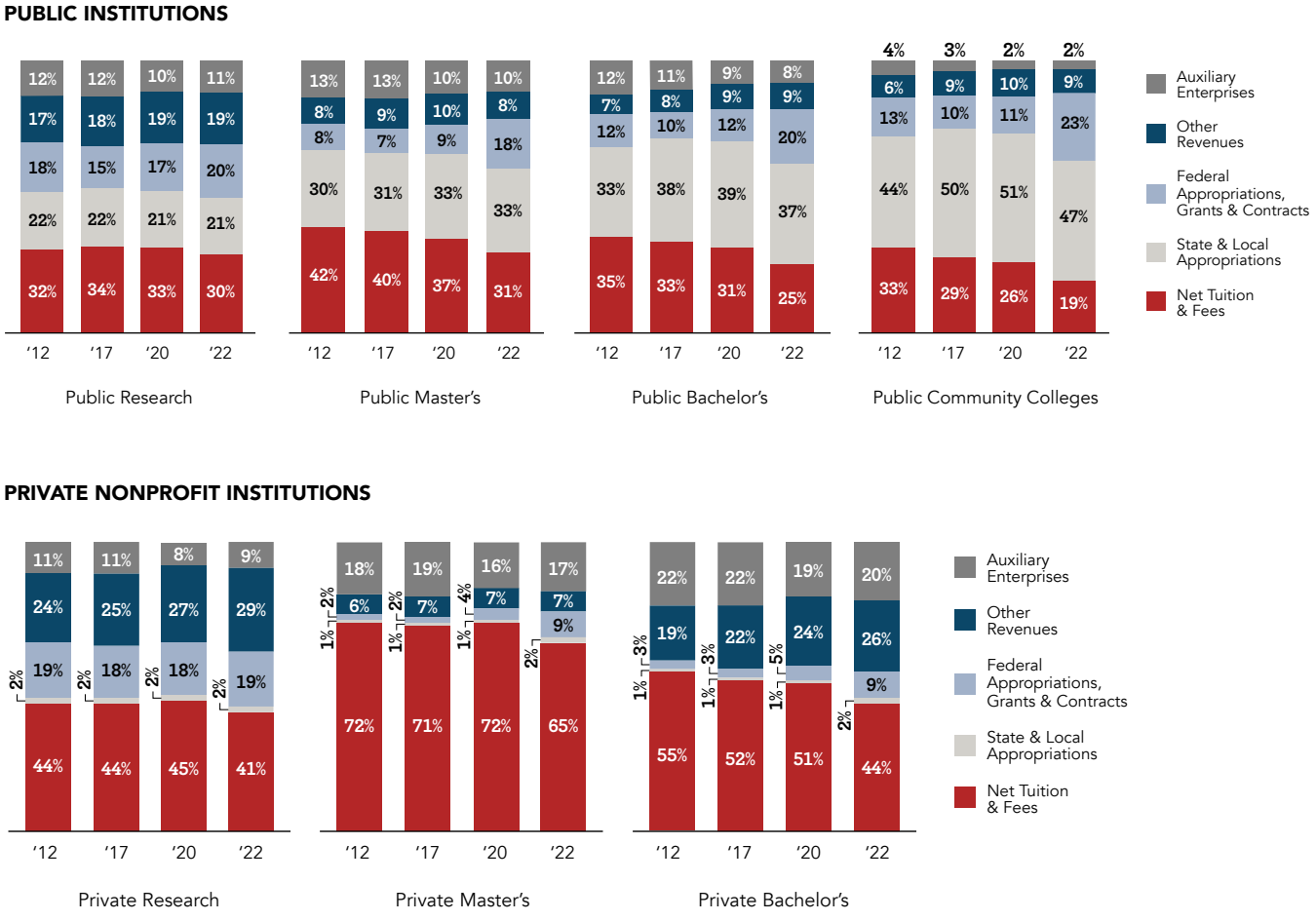


'FTE' is full-time equivalent. Years are shown as fiscal years ('22 = 2021-22). FY21 and FY22 were impacted by the pandemic.
Data are shown in 2022 dollars.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

By FY22, the proportion of net tuition and fees that contributed to total revenues declined between 6 and 10 percentage points across the different types of nonresearch institutions compared to five years earlier (see Figure 7).[18] Similar but smaller shifts were also evident throughout research universities.

In the public sector, net tuition revenue contributed approximately 20% to 30% of total revenues in FY22. Private institutions remain significantly more tuition dependent than public institutions. Even as their reliance on net tuition lessens, it still contributes an average of 40% to 65% of total revenues across the different types of private institutions.

Figure 7. Sources of Revenue per FTE Student



'FTE' is full-time equivalent. Years are shown as fiscal years ('22 = 2021-22). FY22 was impacted by the pandemic.
'Other revenues' includes private, state and local grants and contracts; private gifts and contributions from affiliated entities, and sales and service of educational activities. Revenues from investments and other independent operations are excluded.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

18. 'Total revenue' includes the core revenues sources shown in Figures 5 plus auxiliary revenues. Investment income is excluded, because it reflects realized and unrealized gains that fluctuate based on financial market conditions. Other independent operations, like hospitals and separately funded research organizations, are also excluded.

Shifting Revenue Sources

With total revenues increasing and net tuition revenue declining, where is the additional funding coming from? During the pandemic, federal pandemic relief support provided a boost to revenues across higher education and was most impactful at nonresearch institutions.

In fact, even before the pandemic, federal funds were gradually becoming a more important source of revenue at most types of institutions. Between FY17 and FY20, federal appropriations, grants, and contracts (FAGC) contributed an increasing share of revenues, though they still averaged less than 20% of total revenue across public and private institutions (see Figure 7).

After three rounds of HEERF funding beginning in FY21, federal funding averaged at least 20% of revenue across most types of public institutions. The greatest increase in dependence on FAGC funding occurred at community colleges, with their share of that funding rising by 12 percentage points in just two years. The significant increase in funding at nonresearch institutions implies that many institutions may face major challenges ahead, as they must support their operations without the benefit of additional federal pandemic funding.

Public institutions also benefited from a slow rebound in state and local appropriations after dramatic cuts a decade earlier.[19] As a result, public nonresearch institutions were increasingly reliant on those funding sources before the pandemic. Total state and local funding declined in the first year of the pandemic and then largely returned to FY20 levels. And because of drops in enrollment, average state and local appropriations per student were even higher in FY22 compared to FY20.

Private institutions, lacking access to state and local funding, also depended more and more on federal pandemic funding. Private research universities became nearly as reliant on federal funding (19%) as their public counterparts. And while the percentage of federal funds at private master's and bachelor's colleges is still only about half of that at their public counterparts, it tripled in FY22 to 9% compared to five years earlier.

Private research universities and bachelor's colleges were able to generate additional auxiliary revenue and funding from other sources, including private gifts. After the pandemic, 'other revenues' averaged more than one-quarter of the total revenues at both those types of institutions, rising by 4 percentage points in five years. Private gifts were the main source of those revenues at private bachelor's institutions, while private research universities also relied heavily on sales and services of educational activities like consulting or technical assistance services, or subscriptions from scientific or literary publications.

When emerging from the pandemic in FY22, the average public and private institution had more revenue per student than any other year before the pandemic began (private master's institutions were the only exception). HEERF funds effectively supported research universities and public institutions as they weathered the financial turbulence during this period (see Box 1 and Appendix C).

The financial model at public institutions may be better insulated against ongoing declines in enrollment and net tuition revenues if federal, state, and local support continues to offset those losses. Meanwhile, tuition-dependent private institutions are at greater risk of feeling the financial impact from enrollment declines. They will need to continue diversifying their revenues or explore changes that permit them to operate in a more streamlined and efficient manner.

19. Desrochers & Wellman (2011).

Box 1. Federal Pandemic Funding: How did HEERF Funds Impact Higher Education Revenues?

HEERF funding made available to institutions during the pandemic helped many stay afloat. But this financial support served different roles and had different outcomes at different types of higher education institutions:

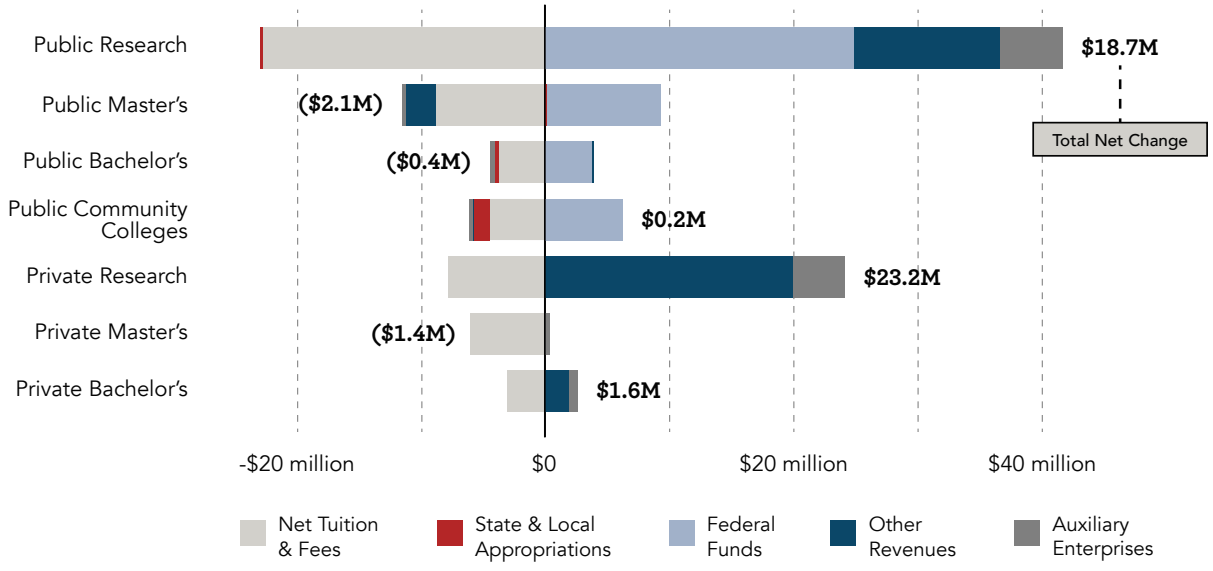
- Research institutions, on average, emerged from the pandemic in a stronger financial position than nonresearch institutions.
- Pandemic funding fully covered tuition and fee revenue losses at the average public institution, but not at the average private institution.

Public and private research universities emerged from the pandemic in FY22 with an average of $19M and $23M in additional revenue, respectively, compared to before the pandemic (see the Figure below and Appendix C). HEERF funding replaced all core revenue losses at public universities and most private university losses. The restoration of auxiliary revenues during the second year of the pandemic more than offset their initial auxiliary losses. Revenues from other sources, primarily private gifts and sales and services from educational activities, also contributed to the post-pandemic revenue gains observed at the average research university.

Nonresearch institutions were unable to leverage the same types of revenues sources as research universities and ended the pandemic with less revenue than when it began. The average net tuition and fee losses at private institutions were smaller than their public counterparts, but the average federal funding received was also smaller and so did not offset the full loss amount at most types of institutions. However, the average private bachelor's institution ended the pandemic with $1.6M in additional revenue by capitalizing on private gifts and donations.

One significant takeaway from the revenue shifts observed during the pandemic is that the additional pandemic funding fully offset average tuition and fee losses among public sector institutions but fell short at private sector institutions. At public institutions those funds were sufficient to initially replace losses in state and local appropriations and auxiliary funding. But those funding streams were fully or partially restored during the second year of the pandemic, and by FY22 their revenues returned to where they ended FY20.

Change in Average Institutional Revenue by Source, FY20-FY22



'Federal Funds' includes appropriations, grants, and contracts (including HEERF funding). Pandemic funding that was a direct pass through to students was estimated and excluded for public institutions; similar adjustments could not be made for private institutions because many students appear to have applied these funds toward their college bills. 'Other Revenues' includes private, state, local grants, and contracts; private gifts and contributions from affiliated entities; and educational sales and service.
Years are shown as fiscal years ('22 = 2021-22). Data are shown in 2022 dollars.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

3. Spending Trends: The Pandemic's Initial Dampening Impacts

Bright Spots

- The long escalation in per-student spending at private research universities finally reversed during the pandemic.
- At nonresearch institutions, the ongoing prioritization of resources for student support demonstrates alignment with their student success mission.

Challenges

- Per-student spending has risen over the past decade across all sectors.
- The rebound in per-student spending during the second year of the pandemic was especially strong in the public sector because of both rising spending and declining enrollment.
- Without new enrollments or spending cuts, per-student spending may continue to rise, placing greater stress on institutional financial models.

Higher education faces ongoing challenges with rising spending. The underlying causes are complex and reflect both the difficulties of operating in a labor-intensive industry and the growing complexities of colleges and universities. Those complexities include greater regulation and reporting requirements, the need for robust student services to support a diverse student population, and the expansion of institutional missions and strategic goals—all of which, in turn, requires more faculty and staff.

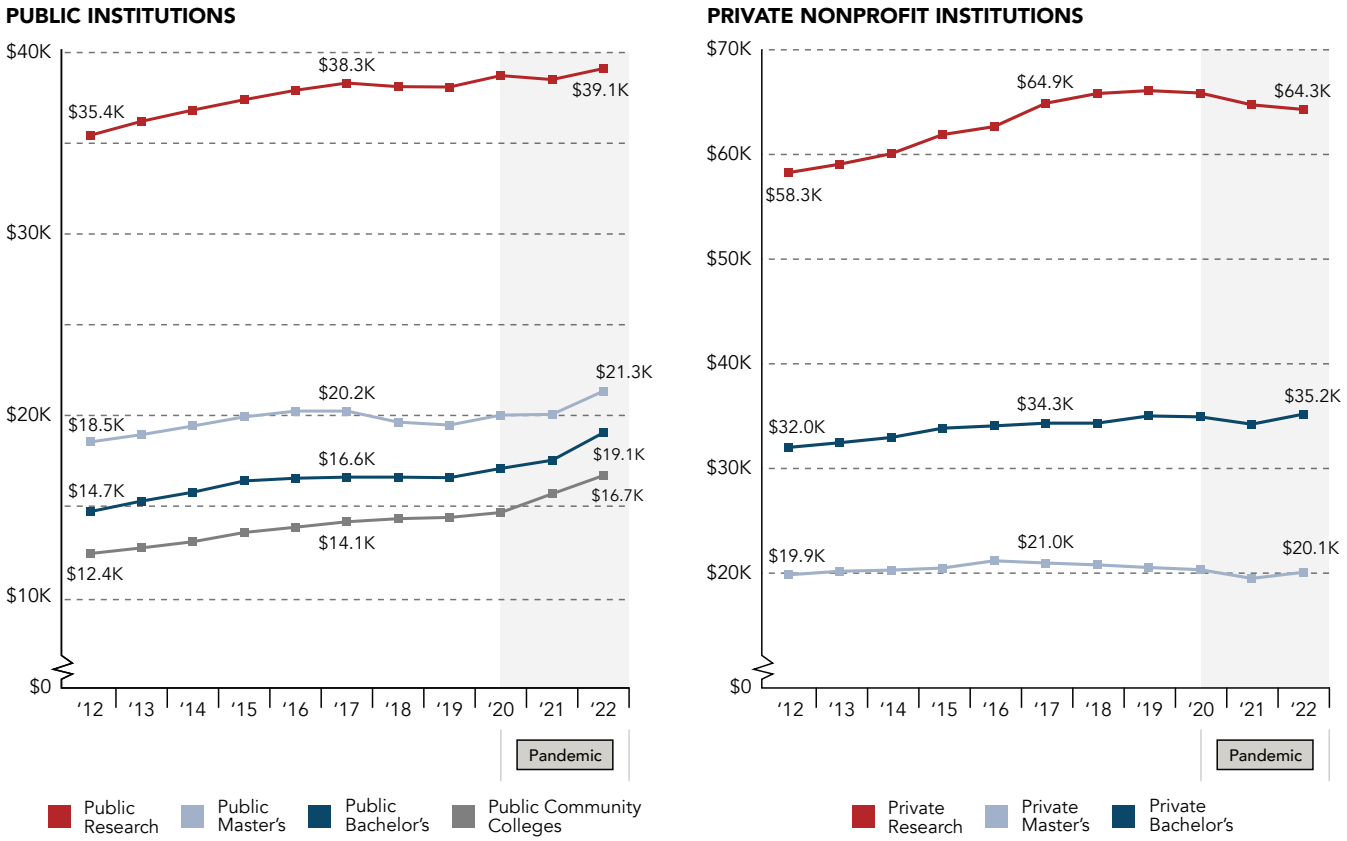
Early in the decade, average education and general spending per student steadily grew at public institutions (see Figure 8). However, **in the years immediately preceding the pandemic, spending per student slowed** and only measurably increased at research universities and public bachelor's and community colleges.

Subsequent pandemic-related challenges encountered across higher education contributed to a rise in average spending per student at public colleges and universities during that time. Public institutions initially cut total spending in the first year of the pandemic (FY21). But those reductions appear relatively minor when compared to the sharp spending increases during the second year of the pandemic (FY22) and longer-term spending trends. That increase in aggregate spending, combined with significant pandemic-related enrollment declines across the public sector, led to higher spending per student.

In the private sector, **the onset of the COVID-19 pandemic put an end to the annual rise in spending that is a hallmark of private research universities**. Spending restraint, coupled with enrollment growth, reduced per-student spending to levels last observed five years earlier. Despite those shifts, **private research institutions continued to spend significantly more than at the beginning of the decade.** It's uncertain whether this pandemic-induced reduction in per student spending is temporary, as was observed at other types of institutions, or reflects a permanent shift in those institutions' financial model.

Pandemic-related spending cuts were also widespread across private master's and bachelor's institutions. But spending rebounded sharply in FY22, and per-student spending at private bachelor's colleges and master's institutions returned to levels comparable to five years earlier. Private master's universities are the only group of institutions to have experienced very little change in per-student spending over the decade, suggesting they have carefully managed their resources alongside rising enrollments.

Figure 8. Education and General (E&G) Spending per FTE Student



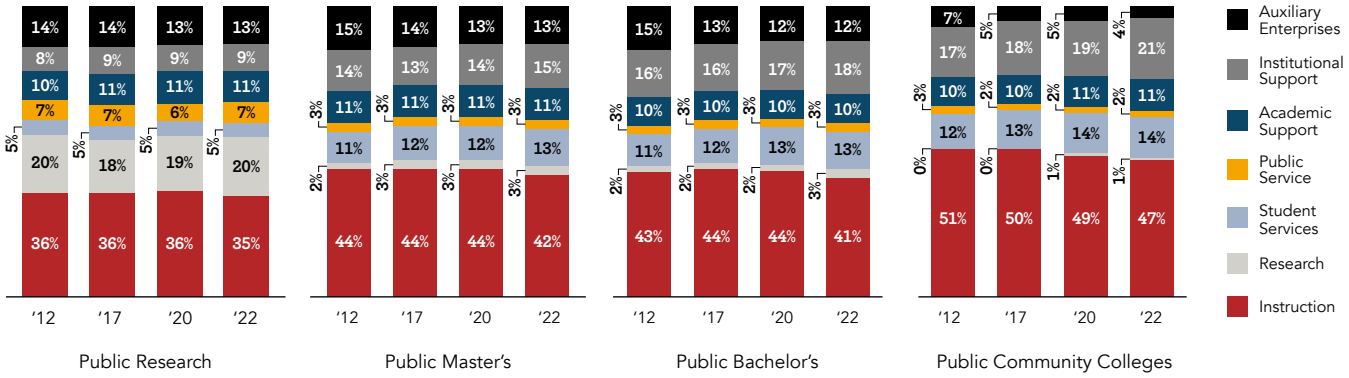
'FTE' is full-time equivalent. Years are shown as fiscal years ('22 = 2021-22). Data are shown in 2022 dollars. Grey bar represents pandemic impacted years. Source: rpk GROUP analysis of IPEDS, 2012-2022.

Priorities and Cost Drivers

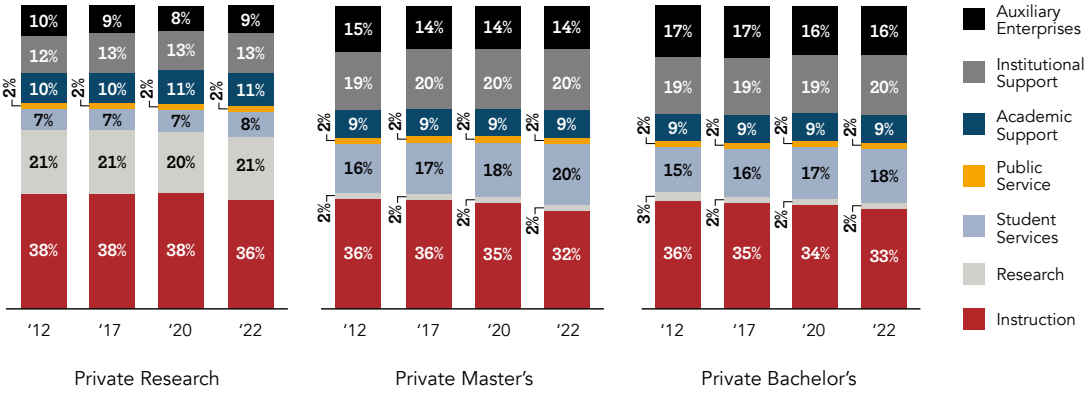
Public and private higher education institutions increasingly allocated their resources to noninstructional activities on their campuses. This trend preceded the pandemic but accelerated more quickly during it, and by FY22, the average public and private institution directed less than half of their resources to instruction (see Figure 9). Regardless of the spending category, institutions must consider the return on investment and assess if their resource allocation decisions directly support their core strategy and students' success.

Figure 9. Distribution Spending per FTE Student

PUBLIC INSTITUTIONS



PRIVATE NONPROFIT INSTITUTIONS



'FTE' is full-time equivalent. Years are shown as fiscal years ('22 = 2021-22). FY22 was impacted by the pandemic. Net scholarships & fellowships and other independent operations are excluded.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

Box 2. Untangling the Shifts in Revenues & Expenses: Who's Paying for the Academic Mission?

The connection between institutional revenues and expenses is commonly expressed through metrics like net income, as presented in the financial health section of this report. But those high-level metrics provide little insight into how shifting revenue sources and expense allocations are playing out on campuses. The impact of these shifts—on both institutions and students—can be assessed by isolating spending on institutions' academic missions and examining the extent to which net tuition revenue pays for those operations.

Education and related (E&R) spending is a metric that focuses on resources supporting the academic mission. It includes instruction and student services, as well as a portion of the administrative and academic functions (like libraries and technology) that support those activities (excluded are research, public service, and all auxiliaries).

A portion of E&R spending is financed from student tuition and fee revenue at all institutions, while the remainder is subsidized from other revenue sources. At public institutions, the primary subsidies are state and local appropriations, while at private institutions subsidies come from gifts, endowment income, or auxiliary net revenues.

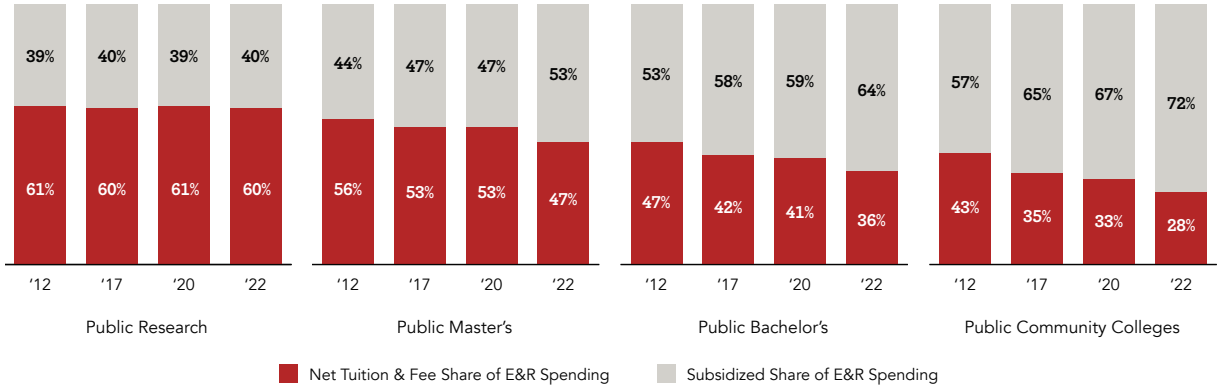
Box 2. (Continued)

For many years after the 2008 recession, colleges and universities funded their increased spending by shifting those costs onto students. A positive outcome of more recent changes reveals a reversal of that longstanding trend (see Figure below), which previously compensated for declining state and local funding and rising spending.

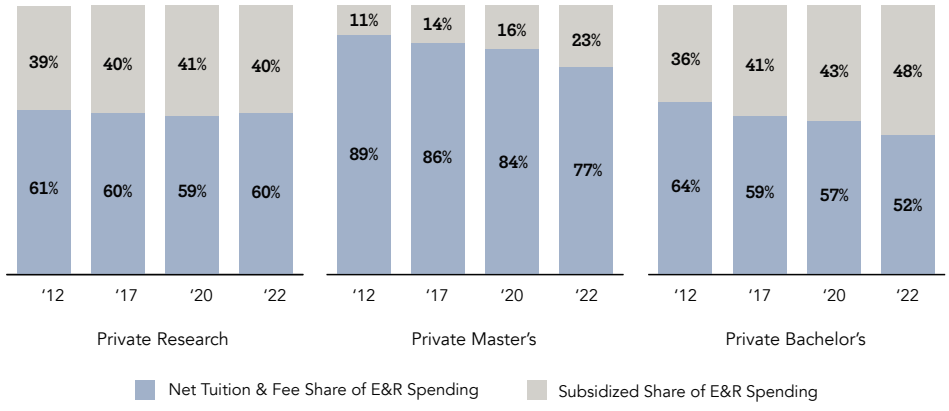
Public sector reductions occurred in the student share of spending because net tuition revenue declined faster than spending as institutions diversified revenues sources. In the private sector, reductions occurred because net tuition revenue rose slower than spending and thus represented a smaller share of E&R spending. Research and nonresearch institutions alike resisted responding to budgetary changes by asking students to fund a growing portion of their spending and instead relied upon other revenue sources. This metric is certainly one to watch in the post-pandemic years if college and university budgets worsen without HEERF funding.

Net Tuition & Fee Share of Spending

PUBLIC INSTITUTIONS



PRIVATE NONPROFIT INSTITUTIONS



Years are shown as fiscal years ('22 = 2021-22). FY21 and FY22 were impacted by the pandemic.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

4. Instructional Capacity: The Challenges of Accommodating Changing Student Demand

Bright Spots

- The types of institutions likely to experience enrollment declines already have flexible staffing models and a decade of experience making the necessary adjustments.
- Research universities have less flexibility to quickly respond to changing student demand, but student demand is typically strongest at these types of institutions.

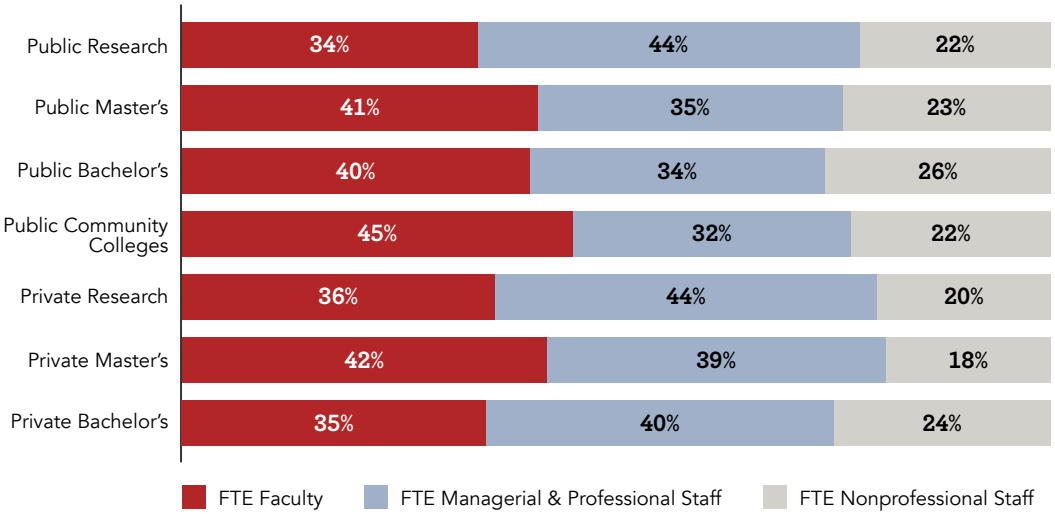
Challenges

- Adjusting faculty capacity to align with student demand will require either increasing student enrollment, encouraging existing students to enroll in more courses, or reducing faculty levels accordingly.
- Increasing instructional efficiency represents the greatest opportunity to reduce cost in higher education. Yet, these changes also face the greatest cultural challenge and push back from often rigid labor models.

Higher education is a labor-intensive industry, and compensation costs make up most of institutions' operating expenses. As such, one of the best ways for a college or university to increase financial sustainability is to effectively manage the number and type of its faculty and staff members and how they allocate their time.

On college campuses, faculty members typically make up between one-third and one-half of all campus employment (measured on a full-time equivalent basis), depending on the college sector and institution type (see Figure 10). The share of faculty is lowest at complex research universities and private bachelor's institutions (34% to 36%), where managerial and professional staff account for 40% or more of the workforce (nonprofessional staff make up the balance). Community colleges have the highest share of FTE faculty members, who make up 45% of employees; only 32% of workers are managerial and professional staff.

Figure 10. Employment Distribution, FY22



'FTE' is full-time equivalent.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

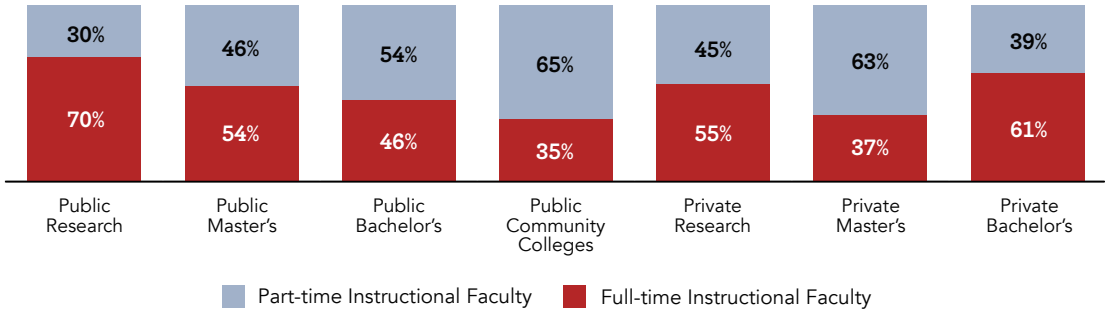
Faculty Staffing Models

As enrollments fluctuate over time and across different types of institutions, the flexibility of faculty staffing models is particularly important.

Research universities and private bachelor's colleges tend to have a higher percentage of full-time, tenure-track faculty, which makes it challenging to quickly respond to shifts in enrollment. That less flexible model has thus far not presented a significant barrier for most research universities, as their enrollment only started declining during the pandemic. Yet less flexible staffing arrangements reduce the ability of colleges and universities to trim compensation expenses, putting those institutions at risk of increased financial stress if enrollment drops further.

In FY22, 70% of instructional faculty at the average public research university were full-time (see Figure 11). Before the pandemic, those universities were actively hiring instructors, the number of which rose by 4% over the three years leading up to the pandemic. More than half of instructors are also full time at public master's, private research, and private bachelor's institutions, but pre-pandemic hiring was slower than at public research universities.

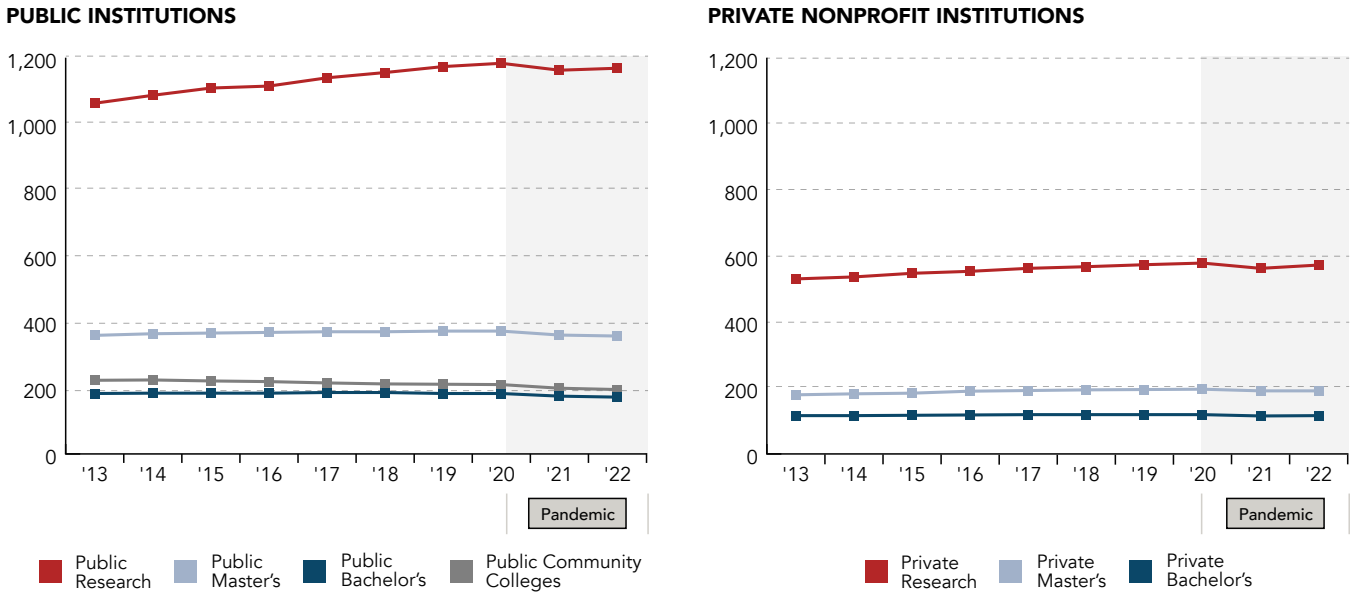
Figure 11. Faculty Staffing Model, FY22



Source: rpk GROUP analysis of IPEDS, 2012-2022.

In the first year of the pandemic, widespread faculty reductions occurred across both public and private higher education institutions, affecting full-time and part-time instructors alike. Institutions that resumed hiring in the second year of the pandemic replaced their departing full-time faculty with part-time instructors. This part-time hiring resulted in a further reduction in overall FTE instructional faculty at some types of institutions and prevented rebounds to pre-pandemic levels at others (see Figure 12).

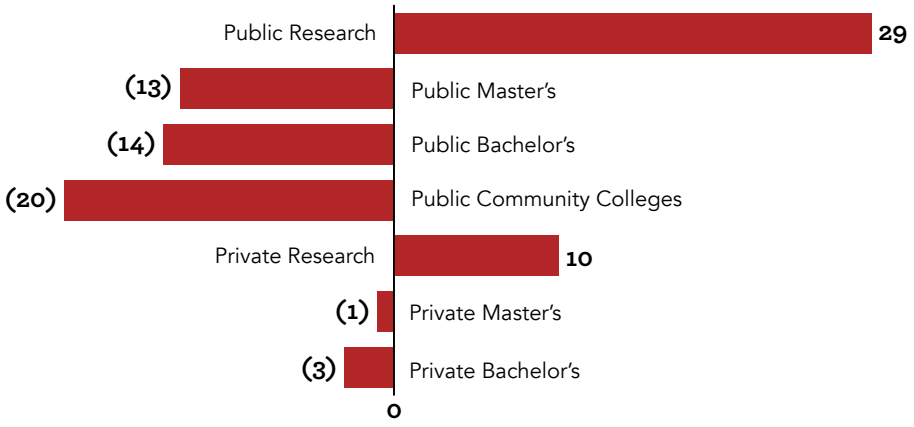
Figure 12. Average FTE Instructional Faculty



'FTE' is full-time equivalent. Years are shown as fiscal years ('22 = 2021-22). Grey bar represents pandemic impacted years.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

By FY22, the average number of FTE instructional faculty members across higher education was smaller than before the pandemic. **However, research universities still employed far more faculty in FY22 than five years earlier** (see Figure 13). Public research universities averaged 29 more positions in FY22 than FY17, and private research universities averaged 10 more positions.

Figure 13. Change in Average Number of FTE Faculty/Instructors, FY17-FY22



'FTE' is full-time equivalent. Years are shown as fiscal years ('22 = 2021-22).
Source: rpk GROUP analysis of IPEDS, 2012-2022.

Meanwhile, the number of FTE instructors at public nonresearch institutions were at decade long lows. Public bachelor's and community colleges have built more flexible staffing models in which part-time instructors make up more than half of the faculty. Pre-pandemic, those institutions used this flexible labor pool to respond to enrollment declines, and in both FY21 and FY22, they further reduced their number of instructors.

Such diverse staffing models suggest that public nonresearch institutions are better positioned to address the coming decline in the college-aged population. Although research universities eventually adjusted during the pandemic, their less flexible staffing model means that they will need to do more than simply adjust their short-term hiring to cope with sustained enrollment declines. They may need to consider changes to their instructional staffing model, which could include a shift from tenure-track to multi-year contracts. Colleges and universities will also need to carefully review faculty vacancies to determine if replacement is necessary or if salary dollars should be reallocated toward programs/departments demonstrating growth in student credit hour activity.

Likewise, less flexible staffing models and spending challenges at private bachelor's colleges suggests that, absent growing enrollment, these colleges will need to find ways to reposition their faculty to preserve core mission and better respond to student demands.

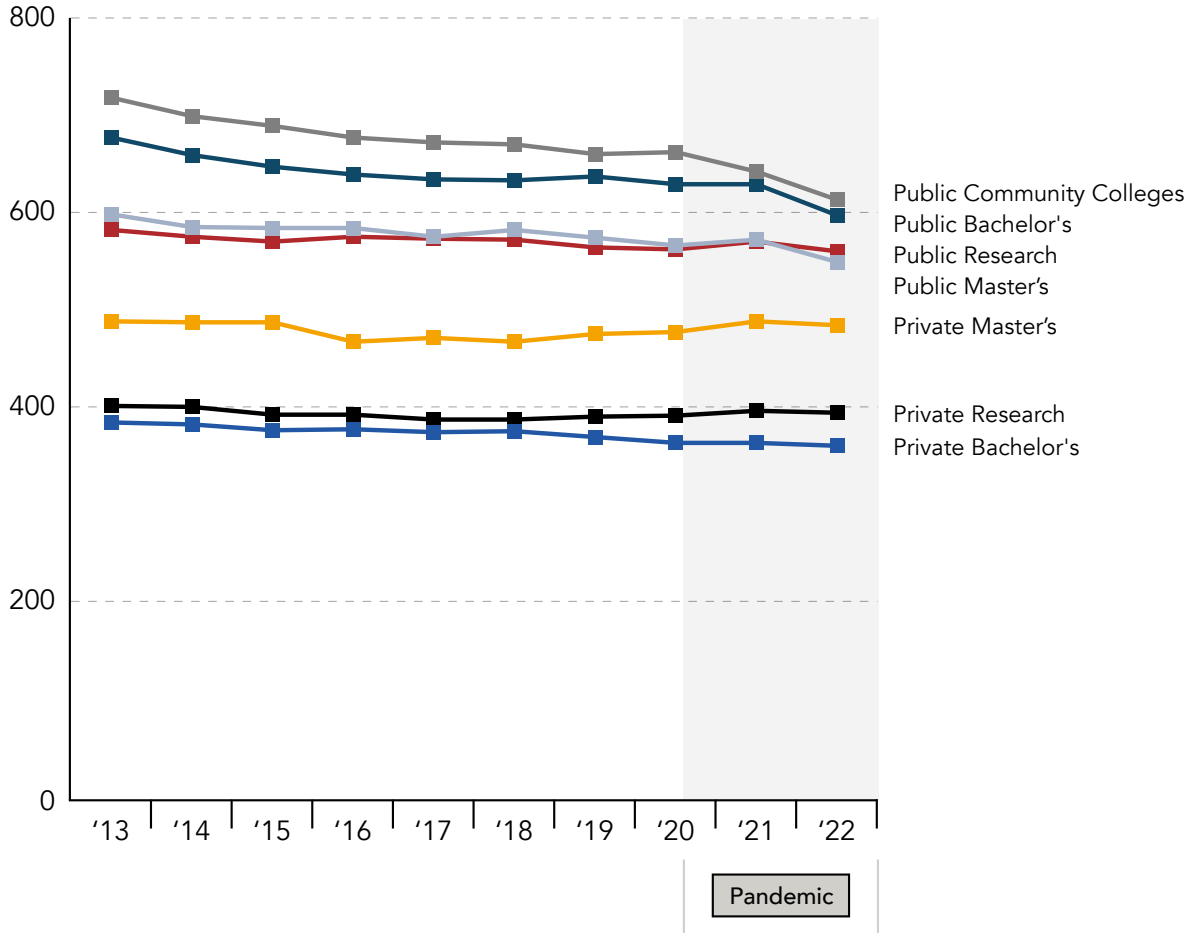
Faculty Throughput

Faculty throughput measures aggregate student credit hours attempted compared to the number of FTE faculty. This metric offers a more granular way to observe instructional capacity than just examining student-to-faculty ratios, because it considers the number of credit hours students take.

Pre-pandemic, faculty throughput was declining primarily at public colleges and universities, where throughput levels are far higher compared to those at private institutions. During the pandemic, faculty throughput declined sharply at public bachelors' and community colleges, and the entire public sector averaged decade long lows by FY22 (see Figure 14).

Declining faculty throughput suggests that public institutions have the capacity to enroll more students with their current number of faculty members and return to previous operating levels. Institutions in all sectors probably have an opportunity to appropriately increase faculty throughput, improve instructional efficiency, and lower costs, while maintaining quality of instruction. **Institutions will need to continue to assess the number of faculty needed and make proactive adjustments in advance of projected enrollment declines.**

Figure 14. Faculty Throughput: Student Credit Hours per FTE Instructional Faculty



'FTE' is full-time equivalent. Years are shown as fiscal years ('22 = 2021-22). Grey bar represents pandemic impacted years.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

5. Administrative Trends: Staffing, Spending, and…Bloat?

Bright Spots

- 'Administrative bloat' is an unlikely explanation for the entirety of administrative hiring growth observed across higher education.
- Hiring at private sector institutions is most likely to include professionals providing additional student support.

Challenges

- The addition of new managerial and professional staff ceased during the pandemic, but longstanding trends were not measurably reversed.
- All administrative staffing needs to consider return on investment and contribution toward institutional strategy and student success.

The rise in noninstructional staff on college campuses has not gone unnoticed by faculty members or policymakers. 'Administrative bloat' is the oft-named culprit when concerns are raised about rising costs. Any efforts to achieve financial sustainability in higher education also must consider administrative staffing and associated costs.

The number of noninstructional staff on campuses has been rising steadily for decades.[20] **The most recent decade was different, however, because the pandemic reduced noninstructional staff growth** and even reversed it at the average public master's and bachelor's institution.

In the eight years before the pandemic, managerial and professional positions expanded by an average of 12% to 20%, depending on the type of institution. Growth was particularly high at public research universities (23%).

During the pandemic, all types of institutions other than research universities reduced the average number of managerial and professional positions by 1% to 3%. Nevertheless, by the end of the pandemic, **the number of managerial and professional staff still ranged from 2% to 9% higher than five years earlier** across all types of institutions except public bachelor's colleges.

Hiring for such administrative positions continued to outpace faculty positions, despite the reductions that occurred during the pandemic. By FY22, all types of institutions had added at least three additional managerial and professional staff for every 100 faculty positions compared to five years earlier (see Figure 15).

Even before the pandemic, **nearly all types of institutions offset managerial and professional hiring by reducing the number of nonprofessional staff members**, like administrative assistants and building maintenance staff. By FY22, the number of nonprofessional staff members was, on average, 8% to 15% lower than in FY17 across different types of public and private institutions.

We can determine the net effect of all those employment shifts by looking at changes in the total number of FTE staff. **Total staff levels were lower at nonresearch institutions in FY22 compared to FY17, but the newly created professional positions may be costlier than the nonprofessional ones they replaced.**

20. Desrochers & Kirshstein (2014).

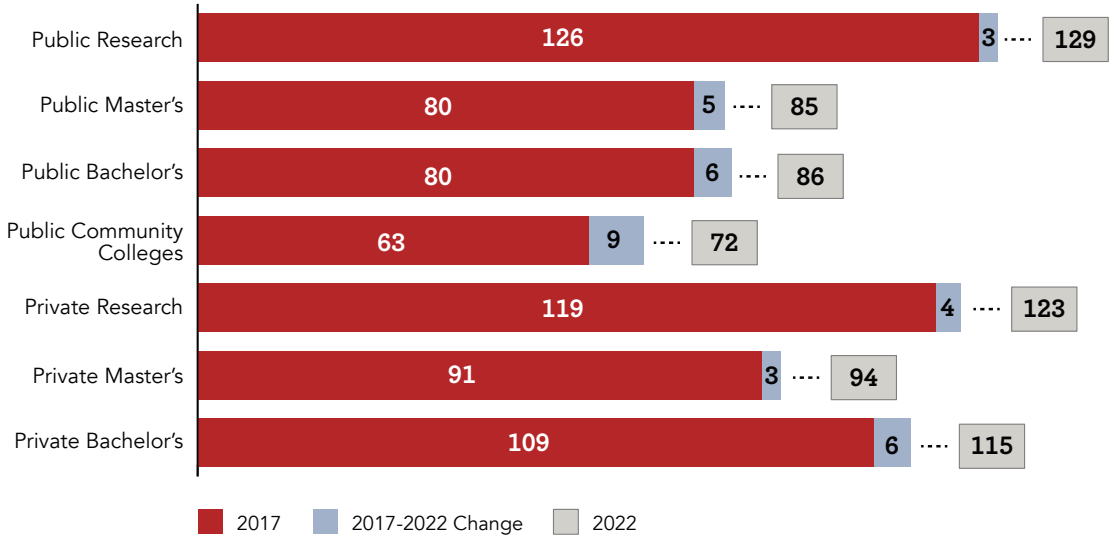
In contrast to the declines observed elsewhere, public and private research institutions increased their FTE staff by an average of 2% to 3% between FY17 and FY22, but most of that hiring was to accommodate rising enrollment. After accounting for pre-pandemic student growth and pandemic-related staff reductions, the average number of staff members per 100 FTE students remained relatively steady at research universities.

More granular staffing information is unavailable from federal data sources, so it's difficult to determine exactly the types of jobs these new staff members are filling. But evidence from spending data can provide some insight:

- **All types of public and private institutions** (except public master's institutions) increased spending on institutional support between FY17 and FY22, which suggests some professional staff hiring was to provide and manage campus activities and operations.
- **Private institutions** also made significant investments in student support, suggesting new staff could be helping to admit, advise, counsel, and otherwise improve student access and success.
- **Public and private research universities** also spent significantly more on academic support, which could include academic administration, campus computing, and curriculum development, among other activities.

Evidence supporting accusations of 'administrative bloat' in higher education is not clear-cut. Taken together, the data suggests that **some of the growth in managerial and professional staff is occurring in functional areas related to student retention and success**. Regardless of the functional spending category, institutions must always consider the return on investment in terms of support for core strategy and student success. In addition, achieving financial sustainability requires that institutions focus on efficiencies in administrative services to maintain their quality at a lower cost and with fewer positions.

Figure 15. Managerial/Professional Staff per 100 FTE Faculty



'FTE' is full-time equivalent. Years are shown as fiscal years ('22 = 2021-22).
Source: rpk GROUP analysis of IPEDS, 2012-2022.

INSTITUTIONAL OUTCOMES: THE BRIGHT SPOT OF DEGREE PRODUCTION & EFFICIENCY

The report has described five key factors that impact the sustainability of institutional financial models. But how might we look more holistically at how well institutions are demonstrating that sustainability? And where might we focus in terms of higher education's ability to achieve core outcomes? Two important metrics to consider are: 1) degree productivity and 2) degree efficiency.

Bright Spots

- Public institutions have excelled in degree production, productivity, and efficiency over the past decade.

Challenges

- Private institutions have not demonstrated strong increases in student outcomes, meaning the most expensive types of higher education institutions displayed the weakest degree productivity and efficiency.

College graduation rates have increased over the past decade, with 65% of students who are seeking a four-year degree actually earning one within six years.[21] This is admittedly slow improvement compared to 10 years earlier, when 59% of students graduated, but it is important to note that graduation rates vary widely depending on the type of institution, academic selectivity, and student demographics. That said, those rates remain unacceptably low at many institutions and for many students.

Degree and Certificate Production & Productivity

When examining degree and certificate outcomes from an institutional perspective (degree and certificate productivity) rather than an individual student perspective (graduation rates), we see some encouraging improvement. That's particularly the case at public institutions, which enroll nearly three-quarters of postsecondary students.[22]

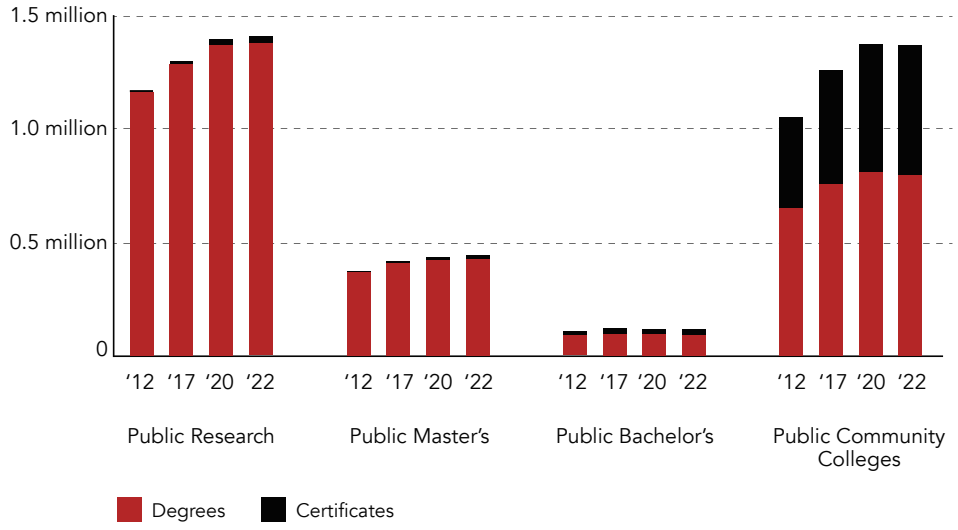
The number of degrees and certificates produced, or 'completions,' has increased by 15% or more at most types of four-year institutions over the last decade, except at bachelor's colleges. Growth was strongest at community colleges, with a 30% increase in completions from a combination of certificates and degrees (see Figure 16).

21. NCES (2021); NCES (2022, Table 326.10); NSC Research Center (2023).
22. NCES (2022, Table 308.10).

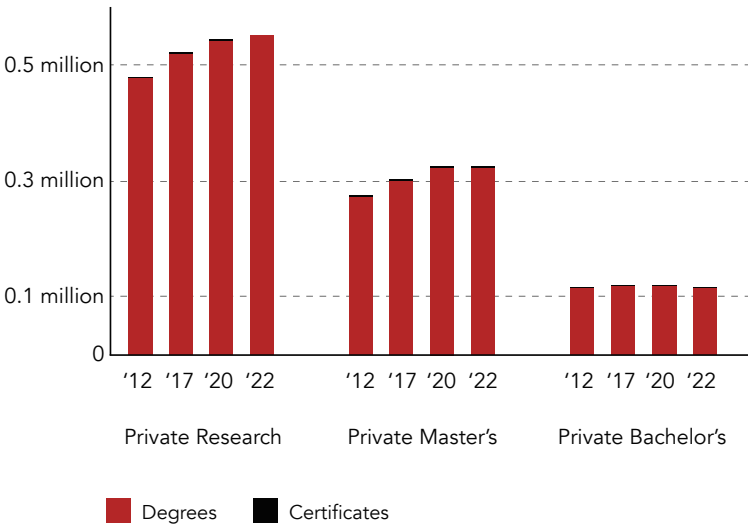
In contrast, private bachelor's institutions experienced a steady decline in degree and certificate production that began in FY17, continued through the first year of the pandemic, and showed a 3% decline in FY22. Since those institutions did not have sustained degree and certificate growth in prior years, it was the only institutional group to show an overall net decline in degree and certificate production over 10 years (for the same set of institutions over the decade).

Figure 16. Total Completions

PUBLIC INSTITUTIONS



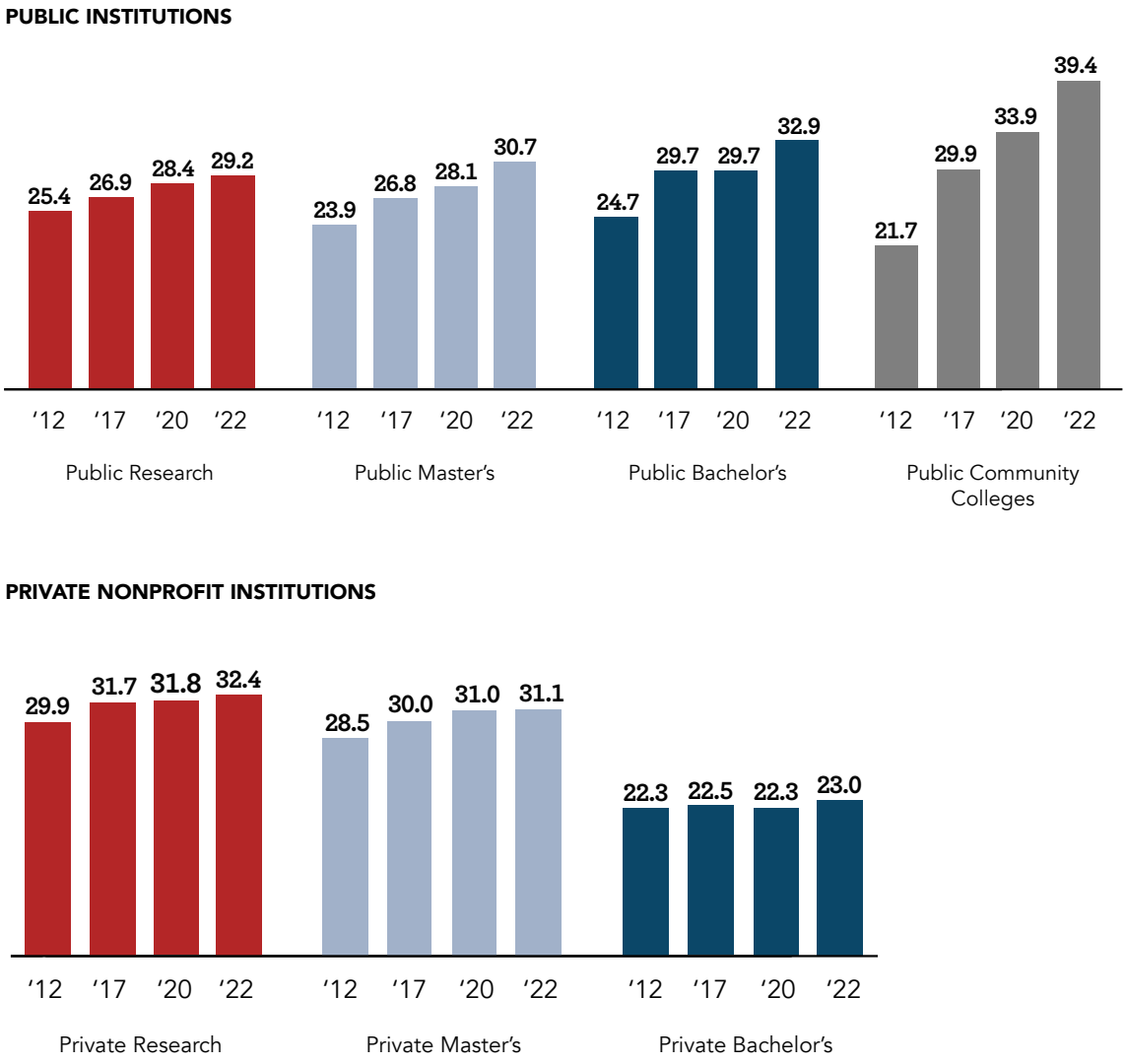
PRIVATE NONPROFIT INSTITUTIONS



Years are shown as fiscal years ('22 = 2021-22).
Source: rpk GROUP analysis of IPEDS, 2012-2022.

More encouraging are the impressive degree and certificate increases at public bachelor's and community colleges, despite declining enrollment. That has led to the highest increases in degree and certificate productivity within higher education (see Figure 17).

Figure 17. Degree Productivity: Total Completions per 100 FTE Students



'FTE' is full-time equivalent. Years are shown as fiscal years ('22 = 2021-22).
Source: rpk GROUP analysis of IPEDS, 2012-2022.

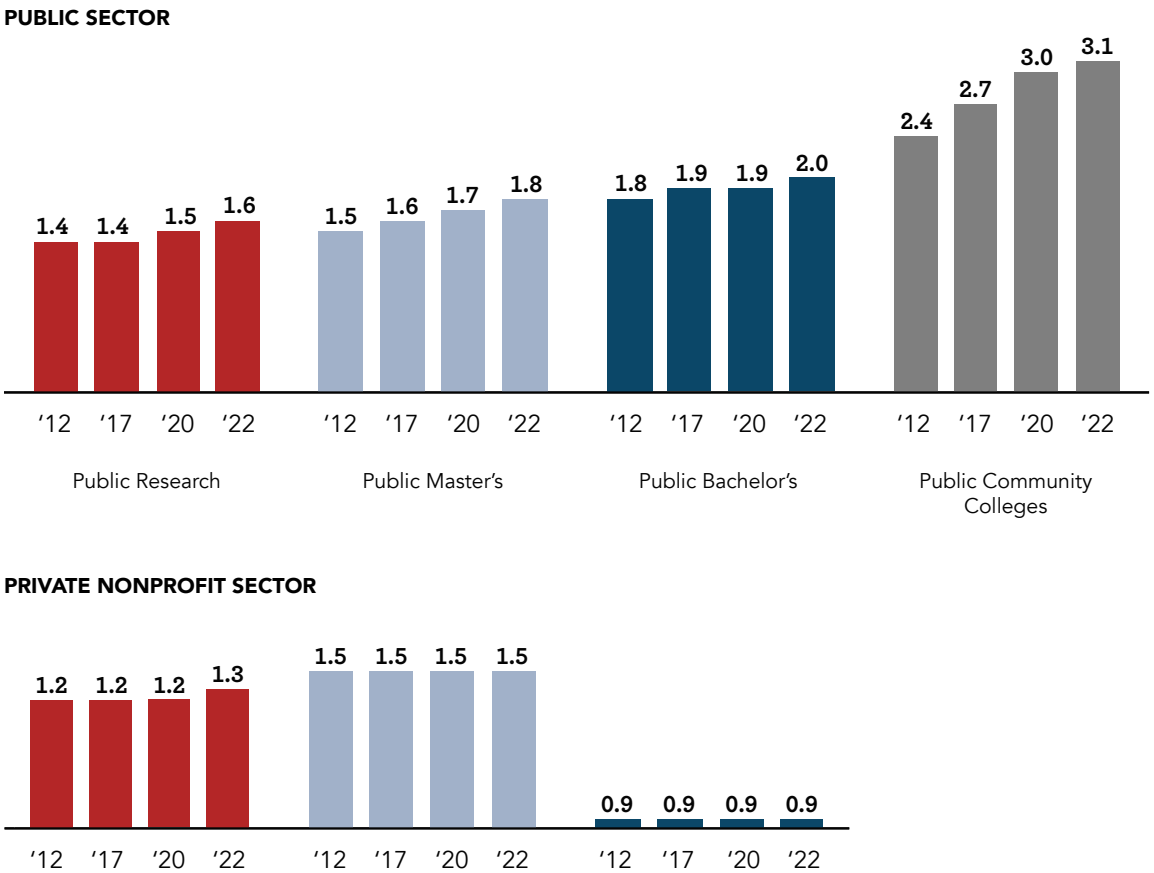
Degree and Certificate Efficiency

A fundamental question to ask when considering outcomes in higher education is: *"What are we getting for the resources we are spending?"* While degree and certificate production and productivity provide insight into how effectively institutions are meeting their educational mission, measures of degree and certificate efficiency offer a way to assess whether their approaches are cost-effective.

Ideally, colleges and universities should be producing more degrees and certificates over time at the same or lower cost. In other words, they should be striving to decrease the cost of producing a single completion—that is, to increase efficiency.

Such efficiency metrics do not account for the type of completion, academic portfolio mix, or institutional type—which all influence spending levels. However, the spending data in this metric isolate spending on the academic mission and only include education and related spending.[23]

Figure 18. Completions per $100k of E&R Spending



Years are shown as fiscal years ('22 = 2021-22).
Source: rpk GROUP analysis of IPEDS, 2012-2022.

23. Education and related (E&R) spending focuses on resources devoted to the academic mission. E&R spending includes instruction and student services, as well as a portion of the administrative and academic functions that support those activities. Research, public service, and all auxiliaries are excluded.

This narrower E&R spending metric allows for more honest and accurate comparisons between how much institutions with different research and public service missions spend. Comparing trends among similar types of colleges and universities can shed light on whether they are producing more or less for the resources they are spending.

When considering completions per $100,000 of education-related spending, **all public institutions have improved their degree and certificate efficiency** over time (see Figure 18). When viewed at a more granular spending level, the average public and private institution has reduced their spending per completion (see Table 1).

Table 1. Education-related (E&R) Spending per Completion

	'17	'20	'21	'22	Pre-Pandemic: 3 Year % Change	Pandemic: 2 Year % Change	5 Year % Change
Public Research	$86,230	$80,430	$76,230	$75,560	-7%	-6%	-12%
Public Master's	$63,540	$58,700	$55,370	$54,770	-8%	-7%	-14%
Public Bachelor's	$48,340	$48,410	$44,440	$46,140	0%	-5%	-5%
Public Community Colleges	$41,240	$37,060	$35,940	$34,240	-10%	-8%	-17%
Private Research	$146,560	$148,480	$140,350	$138,720	1%	-7%	-5%
Private Master's	$68,090	$64,050	$59,480	$62,560	-6%	-2%	-8%
Private Bachelor's	$146,170	$150,130	$146,160	$146,370	3%	-3%	0%

Years are shown as fiscal years ('22 = 2021-22). E&R spending includes instruction and student services, as well as a portion of the administrative and academic functions that support these activities; research, public service, and all auxiliaries are excluded.
Source: rpk GROUP analysis of IPEDS, 2012-2022.

From an institutional perspective, public institutions have excelled in degree and certificate production, productivity, and efficiency. They have demonstrated an ability to achieve those outcomes under various financial circumstances over the past decade, suggesting they are better positioned to meet the demographic challenges ahead.

The least affordable types of higher education institutions displayed the weakest degree and certificate productivity and efficiency.[24] Private bachelor's colleges have the lowest productivity rates for degrees and certificates among all types of institutions, and those rates are only slightly better at private research universities, indicating room for improvement across much of the private sector. As private bachelor's institutions face enrollment, spending, and completion efficiency challenges, it becomes imperative for them to consider ways to improve efficiency and productivity over the long term.

24. Ma & Pender (2023).

FINAL THOUGHTS

In this post-pandemic era, more higher education institutions are facing financial stress. Media reports regularly highlight institutional reductions in programs, faculty, and staff, as well as institutional closures. And the funding gaps that have emerged now that pandemic relief support has expired will most likely grow in the coming months and years as more institutions feel the fallout from a looming enrollment cliff.

Despite such significant challenges, institutional leaders still have opportunities to move toward financial sustainability. Those opportunities include addressing institutional costs to ensure that resources are invested to support strategy and student success—as well as acknowledging the need to make hard decisions around academic portfolios and administrative services that best address the size and needs of projected student populations.

The diversity of institutions that provide higher education in the United States reflects a commitment to an educational system that meets the interests and demands of students, workers, and our economy. It is in our collective interest as Americans to ensure the strength of that system. But it is up to institutions themselves to look out to the horizon and recognize that reverting to the pre-pandemic 'business as usual' may not produce the financial sustainability that is needed.

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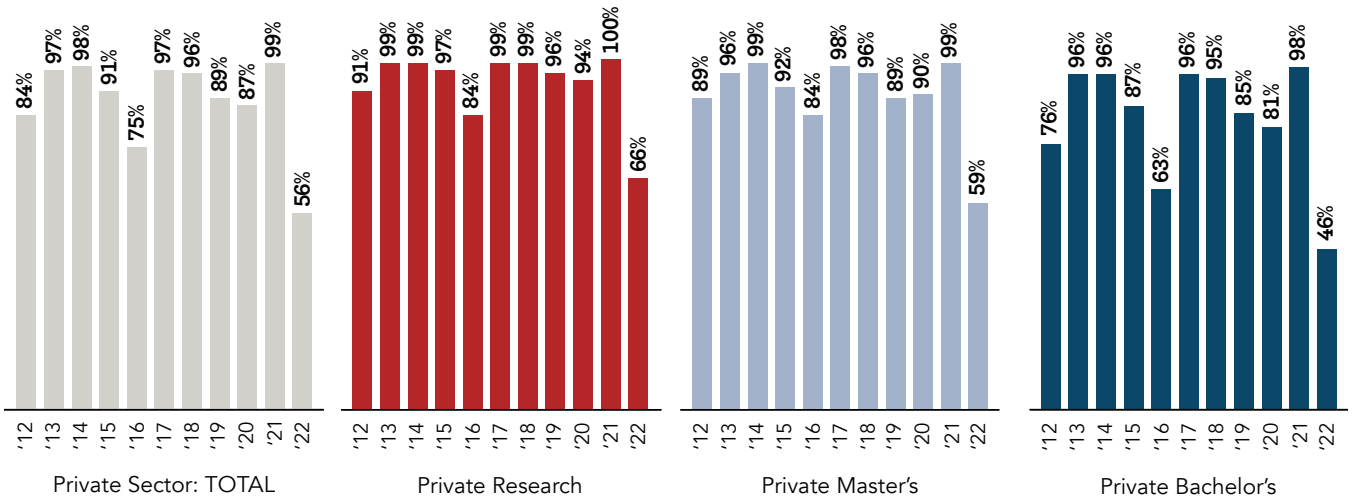
APPENDIX A – NET INCOME & COMPOSITE FINANCIAL INDEX

Net Income

Traditional calculations of net income include income gains and losses from investment returns, which often have a significant impact on the health of private nonprofit institutions. Many of these institutions have endowments that can generate sizable gains or losses, depending on financial market changes.

When investment returns/losses are included in the EBITDA net income calculation, the share of financially healthy private institutions dropped sharply to 56% in FY22 (see Figure A-1). That decline is less related to the availability of pandemic relief funding and more to the heavy investment losses those institutions experienced that year, which reduced total revenues. Nearly all private institutions had positive net income in FY21 using an EBITDA calculation, but only 56% of institutions held onto that financial position into FY22 when EBITDA includes investment returns—adding a measure of 'risk' into the metric beyond just an annual snapshot of financial 'health.'

Figure A-1. New Income, EBITDA Calculation: Percent of Institutions with Positive Net Income



Includes operating and nonoperating income (loss). 'EBITDA' or 'earnings before interest, taxes, depreciation, and amoritization' excludes depreciation and interest (nonprofit institutions are exempt from taxes).
Source: rpk GROUP analysis of IPEDS, 2012-2022.

Composite Financial Index

The Composite Financial Index (CFI) is a broader index of financial health and risk that is composed of four subcomponents.[25] When aggregated, the resulting metric helps guide institutions in addressing financial health and risk. In FY22, a little more than 60% of public and private nonprofit institutions had CFI scores that are considered financially healthy (see Table A-2). While the topline metrics are similar for public and private institutions, different types of public sector institutions have more variability compared to private institutions.

Table A-2. Composite Financial Index (CFI) Trends, FY20-FY22

	CFI Index Score <1: FY22	CFI Index Score <3 (and >=1): FY22	CFI Index Score >=3: FY22 Threshold for Financial Health	Institutions with a Decline in the CFI Index Score Between FY20 & FY22
Public Sector	**12%**	**26%**	**62%**	**42%**
Public Research	9%	35%	57%	41%
Public Master's	20%	35%	45%	42%
Public Bachelor's	21%	30%	49%	44%
Public Community Colleges	9%	20%	71%	42%
Private Sector	**13%**	**24%**	**63%**	**59%**
Private Research	10%	29%	61%	50%
Private Master's	15%	25%	60%	56%
Private Bachelor's	13%	19%	68%	68%

Years are shown as fiscal years ('22 = 2021-22).
Source: rpk GROUP analysis of IPEDS, 2012-2022; Prager, Sealy & Co. et al. (2010).

25. The CFI includes: 1) primary reserve ratio, which measure whether an institution has enough cash to meet its existing financial obligations, 2) net operating return ratio (which is net income divided by current year revenues), which measures how the institution's revenues compare with its expenses, 3) return on net assets ratio, which examines whether it has more assets at the end of the year compared to the beginning, and 4) viability ratio, which assesses how well the institution can cover its debts with existing resources.

CFI values below one (1) are defined by the index developers as indicating "very little financial health," and are generally considered concerning by regional accrediting bodies.[26] In FY22, more than 10% of public and private institutions had a CFI score below one. The CFI suggests that public master's and bachelor's institutions had the greatest financial health challenges that year. In the private sector, the proportion of institutions with poor financial health ranged from 10% to 15% across the different types of institutions. What's more, another one-quarter of public and private sector institutions have CFI scores greater than one but still below three— suggesting, according to the index developers, that a financial review is in order.

Many institutions saw their financial positions worsen during the pandemic, and the private sector was acutely affected. Nearly 60% of private institutions experienced a decline in financial health between FY20 and FY22. The challenges are particularly widespread at private bachelor's colleges, where financial health worsened at two-thirds of the institutions. More than 40% of public institutions, evenly spread across the sector, also experienced declining health, based on their score on the index.

APPENDIX B - ONLINE DATA TABLES

The data for the graphs in this report—along with enrollment, revenue, and expense data (per FTE student) for public and private nonprofit institutions from 2012 to 2022—is available for download. The online data tables may be accessed at https://rpkgroup.com/wp-content/uploads/2025/01/rpk-GROUP-Financial-Sustainability-of-HE_DataTables_Jan2025.xlsx.

26. Prager, Sealy & Co. et al. (2010).

APPENDIX C – PANDEMIC REVENUE SHIFTS

Table C-1. Pandemic Revenue Shifts: Change in Average Institutional Revenues from FY20 to FY22

	Net Tuition & Fees	State & Local Appropriations	FAGC*	Other Revenues	Auxiliaries	Net Change
Pandemic Era Two-Year Change: FY20 to FY22						
Public Research	-$22.6M	-$0.2M	$24.8M	$11.6M	$5.1M	**$18.7M**
Public Master's	-$8.7M	$0.1M	$9.1M	-$2.3M	-$0.3M	**-$2.1M**
Public Bachelor's	-$3.7M	-$0.3M	$3.7M	$0.2M	-$0.3M	**-$0.4M**
Public Community Colleges	-$4.3M	-$1.3M	$6.2M	$0.0M	-$0.4M	**$0.2M**
Private Research	-$8.5M	----	$7.6M	$19.8M	$4.2M	**$23.2M**
Private Master's	-$6.0M	----	$4.1M	$0.0M	$0.4M	**-$1.4M**
Private Bachelor's	-$3.0M	----	$2.1M	$1.9M	$0.7M	**$1.6M**
Pandemic Year 1: FY20 to FY21						
Public Research	-$11.9M	-$7.5M	$23.8M	$1.5M	-$26.0M	**-$20.1M**
Public Master's	-$2.7M	-$3.2M	$8.1M	-$1.4M	-$3.9M	**-$3.1M**
Public Bachelor's	-$1.3M	-$0.8M	$3.5M	$0.2M	-$1.0M	**$0.8M**
Public Community Colleges	-$2.3M	-$0.5M	$4.3M	$0.7M	-$0.5M	**$1.8M**
Private Research	-$9.6M	----	$6.3M	$12.3M	-$11.6M	**-$2.6M**
Private Master's	-$2.2M	----	$2.7M	-$0.4M	-$1.7M	**-$1.6M**
Private Bachelor's	-$2.1M	----	$2.3M	$0.8M	-$1.8M	**-$0.9M**
Pandemic Year 2: FY21 to FY22						
Public Research	-$10.7M	$7.2M	$1.0M	$10.1M	$31.1M	**$38.7M**
Public Master's	-$6.0M	$3.3M	$1.1M	-$1.0M	$3.6M	**$1.0M**
Public Bachelor's	-$2.4M	$0.4M	$0.2M	$0.0M	$0.6M	**-$1.2M**
Public Commnity College	-$2.0M	-$0.7M	$1.9M	-$0.7M	$0.0M	**-$1.5M**
Private Research	$1.1M	----	$1.3M	$7.5M	$15.8M	**$25.8M**
Private Master's	-$3.7M	----	$1.4M	$0.5M	$2.1M	**$0.0M**
Private Bachelor's	-$0.9M	----	-$0.2M	$1.2M	$2.5M	**$2.6M**

Data may not sum to totals due to rounding.'FAGC' is federal appropriations, grants, and contracts, and includes HEERF funding. Pandemic funding that was a direct pass through to students was estimated and excluded for public institutions; similar adjustments could not be made for private institutions since many students appear to have applied these funds toward their college bills.'Other Revenues' includes private, state, and local grants and contracts; private gifts and contributions from affiliated entities; and sales and service of educational activities.*
Source: rpk GROUP analysis of IPEDS, 2012-2022.

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