FEDERAL RESERVE BANK PHILADELPHIA

Consumer Finance Institute

Summary of the Symposium on Institutions of Higher Education: Financial Viability and COVID-19

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Conference Organizers: Dubravka Ritter (Consumer Finance Institute) and Rajeev Darolia (University of Kentucky)

The Consumer Finance Institute conducts research on how people earn, spend, save, and invest, as well as how credit markets and payment systems affect the economy. Our goal is to foster a healthy consumer sector, a stable financial system, and a resilient regional and national economy.

The Federal Reserve Bank of Philadelphia's Consumer Finance Institute (CFI) held a virtual symposium on May 12, 2021, on the topic of financial health and stability of higher education institutions. The symposium included three panel discussions as well as remarks from Philadelphia Fed President Patrick T. Harker on fiscal pressures experienced by colleges and universities, especially in light of the pandemic. Participants also discussed what is on the horizon for higher education, a sector of great importance to the U.S. economy.

Panel 1: The Higher Education Landscape and Institutional Funding

COVID-19's impact on the higher education sector has been severe and widespread. According to data compiled by CFI[1], institutions are projected to have lost some $13.6 billion to $16.3 billion in net tuition revenue in 2020 alone and about $11.6 billion in revenue from auxiliary enterprises. Overall enrollment declined by 2.5 percent between fall 2019 and fall 2020, with much larger losses among community colleges (10 percent), first-time students (13 percent), and new international students. To offset budget shortfalls, colleges and universities laid off large numbers of employees. Higher education employment fell by 13 percent between February 2020 and February 2021, wiping out more than a decade of employment increases.

The first session of the CFI symposium put these numbers into the context of existing trends in funding for higher education, especially for public institutions. All three panelists agreed that the state of higher education finances was problematic even before the COVID-19 pandemic, and public institutions in general faced decades-long reductions in state support. Aaron Thompson, president of the Kentucky Council on Postsecondary Education, said that, back in 1999, 70 percent of Kentucky's public higher education general revenues came from state funding; now, it covers only 29 percent. This means that families have been shouldering more of the cost burden, exacerbating financial challenges and accumulating student debt especially among low-income, minority, and nontraditional college students.

Daniel Greenstein, chancellor of the Pennsylvania State System of Higher Education, agreed that the revenue and cost disconnect was nothing new and said the pandemic threw higher education "into an MRI, showing all the sector's problems we knew we had in stark relief because of the pandemic." He said that while institutions across the U.S. have become more efficient and effective, "you can only ride that cost cutting so far." He said that, arguably, higher education is not sustainable in its present form.

[1] "The Lingering Fiscal Effects of the COVID-19 Pandemic on Higher Education" by Robert Kelchen, Dubravka Ritter, and Douglas Webber.

Although studies have repeatedly demonstrated the positive economic return that states get from funding higher education, it remains a challenge to make higher education a priority in state budgets, said Zakiya Smith Ellis, chief policy advisor to NJ Governor Phil Murphy. This is especially true in economic downturns when certain costs, like pension contributions and prisons, are fixed, and there is greater demand for discretionary social services.

Another takeaway from the session: The cuts have not affected all institutions or students uniformly. The panelists discussed how their states were handling issues of equitable access and outcomes. Smith Ellis said New Jersey has established a funding program that rewards institutions that serve Black, Latino, and adult students well. Thompson noted that Kentucky has had to focus on barriers beyond funding that prevent degree completion. That means money going to wraparound services that support students' full needs as they attend college, such as childcare and health care. Thompson also pointed out that the pandemic highlighted the great digital divide among student populations and geographies. Institutions must work to close these gaps, especially if colleges and universities hope to use online or hybrid classes in the future to cut the costs of education delivery.

How else will institutions manage dwindling public support and rising costs in the future? Overall, the panel — as well as all panels, in a recurring theme — agreed that higher education will have to rethink how it delivers high-quality instructions to an increasingly diverse and financially challenged student population. Structural change will not be easy, but it certainly appears inevitable. One positive of the pandemic, said Smith Ellis, is that institutions quickly learned the value of innovation and flexibility: "Things you thought were never possible, became possible," including the shift to remote work for administrators and remote instruction for most or all classes.

Panel 2: Research on Institutions of Higher Education and COVID-19

The second session of the day highlighted recent research on the pandemic's impact on higher education. A seismic shift at the outset of the pandemic was the rapid transition to virtual learning or hybrid classes (a mix of online and in-person instructions). Michael Kofoed, assistant professor of economics at the United States Military Academy at West Point, presented findings from a rigorous randomized controlled trial conducted at West Point.[2] Cadets taking principles of economics classes were randomly assigned to 12 sections of the course, with half of the sections taught virtually (with 18 students per class) and half of the sections taught face-to-face (12 students per class). The professor, day, and time of each class was also randomly assigned.

Kofoed found that online students performed worse than students in face-to-face sections, with a gap of a half grade using a +/- grading system. When surveyed for the study, online students reported less concentration, less connection to the professor, and greater isolation from their peers. Kofoed concluded that "online instruction may lower costs but appears to result in lower learning outcomes." He emphasized that the identified online student achievement

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[2] "Zooming to Class? Experimental Evidence on College Students' Online Learning during COVID-19" by Michael S. Kofoed, Lucas Gebhart, Dallas Gilmore, and Ryan Moschitto.

gap detected among West Point students is likely the lower bound for the effect of online learning as West Point students are generally well supported in terms of housing, food, and health security, relative to most students. The achievement gap is likely to be significantly larger for students at less well-resourced schools and among vulnerable student populations.

Dubravka Ritter, advisor and research fellow at CFI and one of the conference organizers, discussed her work on colleges' revenue losses resulting from COVID-19, both thus far and over the next three years (2022–2025). She focused on the three broad types of revenue that have been most affected because of the public health crisis: net tuition revenue, state and local funding, and revenue from auxiliary sources, such as residence halls and events. Ritter mentioned that revenue from private gifts and endowment returns, revenue from the federal government, and hospital revenue are likely to remain relatively stable, although pressure on these sources could emerge in the future.

Ritter and her coauthors extrapolated from trends in state funding for higher education following the Great Recession, as well as rich data on local economic conditions affecting net tuition and auxiliary revenue, to project changes in revenue streams for colleges and universities through 2025 under three different scenarios (optimistic, realistic, and worst case). They estimated that losses in state and local appropriations are likely to total about half of the losses seen in the Great Recession, or on the order of $17 billion to $30 billion over the period 2020–2025. Ritter noted that government appropriations represent a relatively small fraction of the cumulative revenue losses from the three main revenue categories, which are estimated to be $70 billion to $115 billion over the next five years, because net tuition and auxiliary revenue are projected to drop even more than appropriations.

The research also broke down which institutions may be most affected. Ritter said most public colleges, private nonprofit colleges, and rural colleges will experience moderate cumulative losses (no loss or a loss of less than 25 percent of 2019 revenue) as a result of the COVID-19 pandemic over the next five years, while cumulative revenue losses will be the most severe (greater than 50 percent of 2019 revenue) among institutions with fewer than 1,000 students, Historically Black Colleges and Universities (HBCUs), and some for-profit colleges.

Robert Zemsky, professor of education and chair of the Learning Alliance for Higher Education at the University of Pennsylvania and coauthor of *The College Stress Test: Tracking Institutional Futures across a Crowded Market*, said Ritter's finding about potential winners and losers in higher education suggests a continuation of market shifts seen over the last 12 years. He said his research on financial pressures faced by colleges and universities across the U.S. found "the big were getting bigger, the rich were getting richer, and the small and troubled were getting more distressed."

The question, Zemsky added, was how the middle tier of institutions will fare in the future, which relates to trends in consolidation among small- and midsize schools mentioned by many panelists throughout the day. Demographic trends show the number of high school graduates will decrease in the future at the same time as affordability remains an increasing obstacle to attending college. Mid-tier institutions will have to be flexible or pursue partnerships with larger universities to survive the coming restructuring of the sector, Zemsky said.

Panel 3: Campus Perspectives

The last panel represented a "boots on the ground" look at the pandemic's impact across a diverse range of colleges and universities. Presidents of four institutions shared their thoughts on the challenges their institutions faced even before COVID-19, and what comes next for the sector.

All agreed that the financial hit to their respective institutions was substantive and would have been larger without federal support. The presidents traced the revenue losses primarily to the sharp reduction in the number of students. Pam Eddinger, president of Bunker Hill Community College, shared that her institution lost about 15 percent of enrollment during the pandemic and that each 1 percent loss translated to a loss of a half-million dollars. John Fry, president of Drexel University, estimated his institution took a $90 million hit because of an 18 percent drop in the incoming first-year class. Wayne A. I. Frederick, president of Howard University, shared that Howard did not experience an enrollment drop and worked to avoid layoffs or furloughs among their staff.

The other mutual takeaway was that the impact fell unevenly on different student populations. Eddinger and Frederick mentioned that their institutions kept food pantries open during the shutdown to serve students who were food insecure. In addition, demand for mental health services increased as many students grappled with the stresses of the virus itself, unemployment in their families, isolation, and digital course work. Rutgers University President Jonathan Holloway noted that these social services were evidence that higher education is not just "a lecture delivered by a professor to a student." He said that colleges and universities sometimes become "the buffer zone, the food pantry, health-care provider, the policy machine, and an economic driver." Eddinger agreed, calling her institution a "hub" for its community.

The presidents widened the conversation about serving communities to discuss how higher-ed institutions must increase access and improve services to student groups that have traditionally been poorly served by higher education, especially students of color. Frederick shared that the current emphasis of directing students to get training certificates and go out into the workforce may serve some students well, but it risks keeping students of color from working toward advanced degrees, which in turn could widen the income and wealth disparities seen among different racial groups in the U.S. He cited a statistic that more Black males applied to medical school in 1978 than applied in 2015. Frederick himself is a cancer surgeon but fears that "a male Black physician will become a unicorn."

Eddinger continued the conversation on equity by discussing how the pandemic exposed the gap in broadband access, especially for rural and urban community colleges. She pointed out that the lack of a high-speed digital connection is not just a challenge for online learning, but it also limits access to ecommerce, remote work, job searches, and housing needs. Once again, colleges and universities — and especially community colleges — were forced to step in and fill gaps left by a safety net strained during a global pandemic.

Higher education's importance to the overall economy was another theme that permeated the entire symposium. Not only does the sector generate about $670 billion in revenue and employ about 4 million workers, but it also creates the highly skilled workforce needed for the U.S. economy to be competitive in world markets. Eddinger pointed out that, in New England, about 75 percent of jobs require some form of postsecondary education. All four panelists agreed that their institutions were hard at work planning for programs that will fuel an economy in which more Americans than ever will need postsecondary education or training to access high-paying jobs.

Closing Keynote by Philadelphia Fed President Patrick T. Harker

Philadelphia Fed President Patrick T. Harker delivered closing keynote remarks at the symposium by drawing on his extensive background in higher education as a professor, dean of the Wharton School of Business at the University of Pennsylvania, and president of the University of Delaware. He told the audience that higher education "is deeply important to the civic and economic life or our country, but that very system was in peril even before the pandemic."

The challenges facing higher education include demographic trends, ever-rising costs, and less public financial support. "Higher ed has become more expensive at a time when the customer base is less able to afford it," Harker noted. To change the financing gap, he called for a substantial, "maybe radical" overhaul of the traditional four-year college system. He said rethinking curriculums would be a good first step to make colleges learning centric, not professor directed.

At the same time, Harker argued that the U.S. cannot afford to short-change postsecondary education, calling it "an essential tool to social and economic mobility." "The country should be investing in the totality of post high school training and education," he continued. Harker said that, while many Americans do not need a four-year traditional education, they will need additional instruction to gain marketable skills. The U.S. must ensure equal opportunity for all types of training and education to keep our economy productive and competitive. In the end, he said we must change the mindset that a college degree is a private good for only the graduate and recognize it is a public good that benefits the entire economy.