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Mitch Daniels and the tuition freeze at Purdue University

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PURDUE UNIVERSITY

Former Indiana Governor Mitch Daniels took on a new job and challenge when he stepped down as governor in 2013 and became the president of Purdue University. In his two years on the job Daniels has won lots of good press for shaking up higher education, particularly for freezing tuition at Purdue for the last three years. In an editorial from last year entitled, "How Purdue is Reinventing the American University," the *Chicago Tribune* editorial board raves:

> *Ask many college presidents why tuition costs keep rising and you'll hear a litany of excuses: We have to pay superstar profs. Build comfortable facilities to attract hedonistic students. Keep up a sprawling, aging infrastructure. Offer more scholarships to low-income students. Meet federal and state mandates. Ask those presidents if it's possible to freeze tuition and you'll likely get blank stares, followed by vigorous head shakes …and more reasons why the higher education industry is a helpless victim of ever-higher expenses. Which marks Mitch Daniels, once again, as an iconoclast. In 19 months as president of Purdue University, the former Indiana governor has frozen base tuition after 36 straight years of increases.*

In a recent ***Wall Street Journal*** article, "How to Save American Colleges," Kate Bachelder writes that shortly after arriving at Purdue, Daniels decided on his first order of business: freeze tuition.

> *"I had a sense, first of all, it seemed like the right thing to do. Not to skip over that. But secondly that we probably could do it without great difficulty," he says. For decades college tuition has outpaced inflation, forcing students to increase their borrowing, but next year's Purdue seniors will have never seen a tuition increase. "I thought this whole process—it's sort of like a bubble, and people are using that term—just couldn't go on much further, and so why not get off the escalator before it broke," he says.*

As Daniels said, he believed that the freeze could be done "without great difficulty." The cost would be $25-35 million in lower revenue, based on a tuition increase of 4-5.5%, which was in line with recent increases at state schools like Purdue. The question would be how to

pay for the lost revenue, and Daniels focused his answer on cutting costs.

As he said in a Purdue press release, "Thanks go to all members of the Purdue family – faculty, staff and alumni – who have pulled together to break the cycle of annual cost increases and establish Purdue's commitment to keep its world-class education within the reach of all students." In an earlier *Wall Street Journal* piece, Daniels said, "There's lots of opportunities" to cut costs, and in a Fox interview (starting at 1:40) he said there were "lots of economies, common sense things we were able to do."

In some ways, Daniels statement about the ease of freezing tuition is true. The West Lafayette Purdue campus, where the freeze is in place, had an overall operating budget of $1.96B and a general fund budget for academic programs of $1.0B in FY 14 so lost tuition from a freeze in a single year would amount to 2.5-3.5% of the budget. Not easy, but not an insurmountable task for most organizations in tight times. (We cut over 6% from our educational operating budget in the past two years at Saint John's University.)

But the Purdue story is even more interesting for what is not being reported. Most of the following observations come from examining the *Executive Summary of the Purdue's Final System-wide Operating Budget for FY 2014* (also referenced above), the most recent information I could find.

1. **Free cash**. The first *WSJ* story reports that, "Three months into his tenure as president of Purdue University, Mitch Daniels leaned over a table covered with financial statements and pointed to items labeled 'cash'- sprinkled throughout the pages. 'That's part of the endowment, right?' Mr. Daniels asked the school's treasurer. 'Nope,' the treasurer said, 'that's cash.' Mr. Daniels suggested the rainy-day funds, which totaled 'somewhere in the mid-nine figures' and were kept by a host of academic departments for operating expenses, be moved out of low-interest-bearing accounts and put to better use." So the budgeting model at Purdue before Daniels arrived apparently allowed units to carryover cash from previous years, and there were half a billion dollars sitting unused in departmental operating budgets. While surely it was not all available for "better uses," that is a nice pool which could be used to soften any of the cost cutting that might be required from a tuition freeze.
2. **State allocations**. Few of the stories on the tuition freeze examined the most obvious question: if tuition is being frozen, what is happening to the other most significant source of revenue for Purdue—its state budget allocation? Certainly Purdue has faced the same long-run decline in state allocations that most public institutions have over past years, but maybe having a former governor as president might help that, as might the good press from a "tuition freeze." In FY14, the state allocation to the West Lafayette campus went up by $11M, a 4.7% increase.
3. **More students**. While tuition was flat, enrollment and therefore tuition revenue were not. According to the FY14 budget, tuition revenue at Purdue West Lafayette went up $8.7M, a modest increase of about 1.3%, based on increased enrollment, but every few million helps. If enrollment went up commensurately, presumably the average class size and advising load went up and the experience for the typical undergraduate was slightly less personal.
4. **Faculty and staff compensation**. One of the biggest costs for any educational institution is compensation. In fiscal year 2014 the faculty and staff at Purdue received a 1% increase in salary. In the previous decade those increases had averaged 2.5-3%. Taking the lower end of that range, Purdue saved a little over $7m in salaries in FY 14, compared to its recent history. While 1% is certainly better than no increase or a negative number and it does represent a "cut" in costs from recent trends, it is highly unlikely that this number can be sustained without affecting the

quality of faculty, staff and the student experience. Lots of great science and engineering schools would happily swoop in and steal Boilermaker faculty and staff if salaries continue to drop in real terms.

So in the end, Mitch Daniels was right: freezing tuition was done "without great difficulty." The additional revenue to cover the tuition freeze came from some combination of previous surpluses, more state money, more students and holding down salary increases. This does not suggest that a fundamental "reinventing" of the University had occurred. As a report on the FY2014 budget noted, "In approving Purdue's general fund budget, which supports educational and base operating expenditures, the trustees endorsed the following spending plans for fiscal year 2014 which at the West Lafayette campus will be a 2.1 percent increase to $1.011 billion." The Purdue budget in the first year of the tuition freeze, allegedly built on cutting costs, increased in nominal terms and was flat in real terms.

Why was this story reported in such breathless terms? Are Mitch Daniels and his staff to blame, or did the press do a bad job of looking into the details? Some combination? The tenor of this story matters because it suggests, as in the Chicago Tribune editorial, that freezing tuition should be "ho-hum routine at *many* campuses." The Purdue story suggests that other schools just don't want to make the easy changes Purdue made—that there is a simple solution to the economics of higher education.

The situation at public institutions differs from that at private ones in that state schools have the option of going to their legislators to support a tuition freeze, but, in general, the notion encouraged by Daniels and the Purdue freeze that there is lots of fat to be easily cut at colleges and universities is not consistent with my experiences. And recall the Purdue budget grew by over 2% in FY14. There have undoubtedly been increases in administrators, technology and programs at many schools, but these are providing benefits to students. I just do not know of resources that are sitting around unused for student needs. This is certainly not to say higher education does not need to be attentive to costs and what students and families can afford, but absent new sources of revenue, say from legislatures, cuts in resources will change the educational product. Some of those changes are necessary but to suggest cuts are "costless" is inaccurate.

But other states are looking at the Purdue model. In Illinois, the *Chicago Tribune* writes, "U. of I. looks to freeze tuition. Take a cue from Purdue." The Editorial Board encouraged: "There is not likely to be substantially more money for higher education. Illinois is broke….The University of Illinois has not yet set out how it will match spending to a tuition freeze."

At the University of Minnesota there has been a tuition freeze in place since 2012 and it appears possible it will continue, but at least with a bit more honest discussion. The *Pioneer Press*, under the headline, "UMN president seeks more state funding for tuition freeze," writes, "University of Minnesota President Eric Kaler faces an uphill battle at the Capitol if he's going to persuade state lawmakers to spend more taxpayer money on continuing a 2012 tuition freeze." No silver bullets, just an honest acknowledgement of the transfer from taxpayers to students and their families.

As a former governor and director of the federal Office of Management and Budget, Mitch Daniels surely knows that hard budget problems do not typically have easy solutions. He and Purdue are not helping higher education by suggesting that the challenges can be solved "without great difficulty."

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