

BENCHMARK BREAKTHROUGH

An online tool from the Looking Under the Hood project allows institutions to use benchmarks to compare and consider institutional aid policies, overcoming a significant barrier for CBOs.

By Derek Price

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How much is an institution spending on total institutional grant aid per FTE undergraduate? What percentage of institutional grant aid is awarded based on students' financial needs? What is the net tuition revenue (gross tuition minus grant aid) per FTE undergraduate? These are some of the key policy questions concerning institutional aid distribution that are addressed in the Looking Under the Hood Institutional Aid Metrics project, which was launched in 2012 to provide campus leaders with a better way of understanding the effects of their aid decisions on institutional budgets. An article, "Matching Grants," detailing the project appeared in the April 2014 issue of *Business Officer* magazine.

Earlier this year, NACUBO and the Association of Governing Boards of Universities and Colleges (AGB), both of which worked on the project, submitted their final report to the Robert W. Woodruff Foundation, the project's funder (additional support for the project was provided by The College Board). As the report notes, chief business officers can now use a set of common metrics, developed by an advisory committee of campus CBOs, presidents, and financial aid directors, for institutional aid, and access an online benchmarking tool that allows the comparison of recent aid allocation trends by institutional type and other characteristics, as well as by self-identified peer institutions.

CBOs and other institutional leaders are often called upon by university presidents

to re-examine their financial aid programs, especially in times of fiscal and enrollment stress. Their subsequent recommendations can yield the basis for minor adjustments to institutional aid programs, as well as set the path for major overhaul, if necessary.

Spreading the Word

The Looking Under the Hood research team shared the information on metrics and the online benchmarking tool with CBOs and other campus leaders through demonstrations at more than 10 conferences, meetings, and webinars across the country, including the NACUBO annual meeting; the American Association of Collegiate Registrars and Admissions Officers Strategic Enrollment Management Conference; and meetings of CACUBO, National Association of College Admission Counseling, and Student Financial Aid Research Network.

We estimate that more than 1,200 senior administrators involved in campus decision making around institutional financial aid have been introduced to the project and experienced a hands-on demonstration of the benchmarking tool. Additionally, more than 1,200 unique users representing more than 630 colleges and universities now have accessed the tool, and about one-third of these users have created peer institution groups for comparisons with the tool.

The demand by colleges and universities for access to these data, and the positive response to the online tool's comparison function, should come as no surprise. According to The College Board, higher education institutions provided more than \$48 billion in institutional grant aid to students in academic year 2013–14. This represents a 92 percent increase over the past decade, and has put additional stress on college and university finances.

The metrics developed for this project, and available via the benchmarking tool, remove a significant barrier for chief business officers by providing common definitions for various types of institutional aid expenditures, and by enabling campus leaders to assess how their

Accelerating Institutional Aid Benchmarking

In the summer of 2014, a higher education colleague asked me to write a white paper concerning the state of financial matters at historically black colleges and universities and other minority-serving institutions. Since publishing the white paper, I have become intrigued by the reality that the tenets noted were not only germane to HBCUs and MSIs. The financial challenges that seem to permeate higher education reach across all types of institutions.

We don't have to look any further than recent news headlines affecting both private and public institutions in general. This was captured most poignantly for me when in an interview I was asked a simple question: "If you can pinpoint one issue that should be the focus and is a critical must-handle-now situation, what would that be?" My response, without hesitating, was "net tuition revenue." Granted, the question was asked in the context of HBCUs and MSIs; however, conversations and presentations suggest this is a higher education challenge in general. As chief business officers, our roles are not to see this as a harbinger of things to come, but to find ways to open the dialogue both internally and externally within our campuses and among stakeholders.

The unique collaboration between AGB and NACUBO has delivered to us all a wonderful tool, appropriately labeled Looking Under the Hood. It allows us to tell our net revenue stories in very clear and lucid ways that highlight the challenges institutions face in getting net tuition revenue to stabilize—and, in many instances, to grow. Many of us have very sophisticated enrollment models that are created by very competent individuals who record, summarize, and report various sources of data. This data provide for us snapshots and longitudinal studies as to where our institutional aid dollars will be spent to have the best effect on our overall finances. But one of the challenges that we face is not being able to compare our stance on institutional aid in the context of our select peer institutions. While we focus on what our individual campuses are doing, we often do not see where the market in general is going; and more pointedly, we do not understand clearly how our particular niche is impacted by competitors and other variables. The Looking Under the Hood tool solves this problem.

Behind-the-Scenes Benefits

What I like about the Looking Under the Hood project is that it provides CBOs the ability to compare institutional aid metrics across a group minimum of eight institutions. As we all know, discount rates for entering classes each year are closely held information from campus to campus, and each institution has to do its own work to juxtapose against what the overall industry is trending toward. There is no comparative annual institutional discount rate data to benchmark budget parameters. That makes the comparison of net tuition revenue data and discounts rates almost impossible, with institutions crafting their budget plans based on the variables resident on their respective campuses.

This tool allows us to do some targeted analyses in a reflective manner, which is just as important as having strategic discussions about where we are going with



our institutional aid policies and the overall management of net tuition revenue. It does not provide strategies, but offers visual demonstrations of how peer and aspirant groups are managing their discount rate (and subsequently net tuition revenue). This information can be used to shape strategies and drive discussions on individual campuses with boards, presidents, and senior leaders.

A second benefit of this tool is that it provides CBOs a reference point around which they can engage their enrollment management teams to fine-tune assumptions and other variables that make up annual operating budgets, and long-term financial plans.

As an early user of the tool, I found that it informed me of where my college stood in relation to some of its peers, and gave me a sense of the various metrics that go into a properly crafted institutional aid program. This is especially true at a school where it seems that a majority of the students coming through the high school pipeline cannot afford a college experience without institutionally funded financial aid. It might not have changed the assumptions we made on a prospective basis, but as a CBO, I had a good sense of what exactly my peers were doing. Discussions became more pointed among the senior leaders, and helped to ground future conversations.

We are about to embark on a 10-year strategic financial planning exercise, and I will be utilizing the tool to compare the assumptions made by my enrollment management team with the experiences of similar institutions. The data will help me see trends and focus discussions to see where we will possibly reach the maximum aid that we can offer. As we maximize the net revenue, the data will then give me some leeway to speak about non-tuition revenue.

A Good Start

Recently, I had a conversation with Mary Foster, managing director in Grant Thornton's Not-for-Profit and Higher Education practices. She shared with me a statistic that I have committed to memory, and started communicating with others in several settings.

Related underlying statistical assumptions are that if an institution is growing net tuition revenue less than 3 percent, it is operating in an inflation-adjusted realm. If the growth is within the 3 to 5 percent range, the institution should be

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optimistically cautious. If the institution's net tuition revenue is growing at 5 percent or more each year, it is doing great. That seems rather simplistic, but as CBOs we have to find ways to insert ourselves into the discussion at the planning phases of strategic plans, operating budgets, and long-term financial plans armed with information about where net tuition revenue is headed in the future. It is not an easy thing to do, but the Looking Under the Hood tool gives us another set of lenses through which we can look at this issue, and the user-friendly nature of the tool will allow us to explain the challenges to our boards, presidents, senior leaders, and the campus as a whole, in a very simple manner.

This project is still in its nascent stages, but it provides a good start to gather data that are relevant to all our planning efforts. There is still work to be done in terms of more granular information. For example, I would like to understand the breakdown of institutional aid in terms of “funded” versus “unfunded.” That additional data point will allow me to have more targeted discussions with my colleagues who work in the institutional advancement office, and will also help compare how other institutions are managing their discount rate, net tuition revenue, and overall cash flow in the context of annual operations.

Every campus is different and has its own unique circumstances, but there is one constant that we all have to rely on to do our jobs effectively: data. The Looking Under the Hood project provides us an opportunity to understand our needs around net tuition revenue and its effective management.

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institutional aid expenditures compare with those of peer institutions.

Insightful Feedback

Ten colleges and universities served as early adopters of the online benchmarking tool and institutional aid metrics. These institutions brought together small teams of senior leaders in November 2014 to use the metrics and tool, with the help of expert student aid consultants assigned to each institution. The early adopters provided insightful feedback about the metrics and benchmarking tool; praised the ease of creating peer groups; and advocated for additional metrics that allow for the benchmarking of institutional aid by race and ethnic groups, income levels, state residency, and funding sources.

The adopters described the development of the online benchmarking tool as a breakthrough for higher education institutions. This ability to create peer comparisons on a common set of institutional aid metrics using previously collected data from The College Board's *Annual Survey of Colleges* (ASC) and the National Center for Education Statistics' Integrated Postsecondary Education Data System (IPEDS) was not available prior to the development and launch of this interactive, online tool. The easy access provided by the online tool creates opportunities for many more colleges and universities to use benchmarks to compare and consider institutional aid policies. (See sidebar, "Accelerating Institutional Aid Benchmarking," for a firsthand account of an early adopter.)

However, the users did note some weaknesses in the tool:

- The data currently available for the benchmarking tool do not include aid allocations across income groups or across different racial/ethnic groups. Yet demographic and income considerations are often key issues for campus leaders when setting institutional aid policy.
- Early adopters also pointed to the issue of state residency, especially among public institutions, because of policy decisions concerning the use of institutional aid to attract out-of-state residents

Action Points

Here are four steps chief business officers can take now:

1. Sign up for the benchmarking tool at www.underthehood.org.
2. Create peer groups.
3. Share the benchmarks with your leadership team.
4. Make sure your institutional research office answers the new institutional aid questions on the *Annual Survey of Colleges*.

who will pay higher tuition and fees than in-state students, even after institutional aid reduces their charges.

■ Several early adopters also highlighted the importance of knowing the proportion of institutional aid that is funded through endowment income or other dedicated sources compared with the proportion funded by tuition discounting.

The College Board will help address some of these missing pieces. The 2014–15 academic year version of the ASC will include questions on the allocation of total institutional scholarships and grant dollars by race and ethnicity, and by income levels.

Additionally, the survey will include a new question regarding the percentage of total institutional scholarships and grant dollars that are funded through institutional endowments. The data from this and other questions will be used to create new metrics, and are scheduled to be added to the benchmarking tool by spring 2016.

What CBOs Can Do

Colleges and universities face a competitive environment for students, but too often the focus on meeting enrollment numbers is divorced from the fiscal realities facing nearly all institutions. The underlying business model for most higher education institutions requires institutional aid policy to generate net tuition revenue targets needed to fund campus operations. And this fiscal reality generates tension with the goal of

allocating institutional aid primarily or exclusively based on a college's mission and values.

The institutional aid metrics available via the online benchmarking tool can help chief business officers highlight this tension, and bring new information about institutional aid trends—along with peer comparisons—to their deliberations about institutional aid policies.

The four steps chief business officers should take now:

1. **Sign up** for access to the Looking Under the Hood benchmarking tool at www.underthehood.org.
2. **Create peer groups** for your institution and explore the institutional aid metrics. Within the benchmarking tool, you can use the various aid metrics.
3. **Share the benchmarks** with your colleagues to inform institutional aid policy decisions.
4. **Answer the new institutional aid questions** on the *Annual Survey of Colleges*, so that the tool can continue to provide improved and expanded metrics. The institutional research office at most institutions is responsible for completing the ASC.

As colleges and universities face increased competition, and institutional grant aid is used as a lever to meet net tuition revenue targets, the launch of the AGB/NACUBO Looking Under the Hood institutional aid policy tool is timely. CBOs now have easy access to common institutional aid metrics that they can use to compare their college's aid allocations with self-defined peer institutions. The tool should also help campus leaders strengthen policy deliberations and yield more sustainable institutional aid policies. By making these common metrics accessible to campus leaders, institutional aid policies can better reflect the core mission and values of colleges and universities.



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