Higher Education at A Crossroads

Multiple Challenges, Leadership and Innovation

February 8, 2013
University of Wisconsin System
Board of Regents

Molly Corbett Broad, President
Agenda

- Introduction
- Financial Challenge
- Quality Challenge
- Student Demographics Challenge
- Yet Demand for PSE Increasing
- Innovation is In Order – Learning As Focus
- Leadership
"The US higher education sector has hit a critical juncture in the evolution of its business model......."

"......Even market-leading universities with diversified revenue streams are facing diminished prospects for revenue growth....."

".......most universities will have to lower their cost structures to achieve long-term financial sustainability and fund future initiatives."

Eva Bogaty, Assistant
Vice-President, Moody’s Investor Service
Why Downgrade?
Key Pressure Points on Revenue

• Economic Pressure – Slow Recovery
• Heightened Political/Public Pressure (State and Federal)
Economic Pressure Constrains Tuition Growth

• 35% of private and 21% of public colleges are unable to achieve tuition revenue growth in FY 2011. (Trend continues into 2013.)
• Nearly 50% of universities are reporting lower enrollment growth.

EXHIBIT 2
Tuition is the largest share of operating revenue for private and public universities
Median revenue contribution ratios for FY 2011

Source: Moody’s MFRA
Note: The majority of the rated portfolio does not receive meaningful revenue from patient care or from grants and contracts, therefore the median contribution ratios for those two revenue sources is zero.
Public University- Revenue Constrained

EXHIBIT 5
Tuition revenue grows at public universities in response to diminishing government support

Source: Moody’s MFRA
Growing Dependence on Pell Grants

EXHIBIT 6
Public universities and lower-rated private colleges more dependent on Pell

- % of undergrads receiving Pell Grants - public (left scale)
- Pell Grants as % of net tuition revenues - public (right scale)
- % of undergrads receiving Pell Grants - private (left scale)
- Pell Grants as % of net tuition revenues - private (right scale)

Source: Moody’s MFRA; Department of Education, integrated Post Secondary Education Data System
## The Hidden Divide – Who Will Survive?

### EXHIBIT 4
Fiscal 2011 private university medians

<table>
<thead>
<tr>
<th></th>
<th>Aaa</th>
<th>Baa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selectivity</td>
<td>13.1%</td>
<td>67.0%</td>
</tr>
<tr>
<td>Matriculation</td>
<td>50.2%</td>
<td>24.2%</td>
</tr>
<tr>
<td>Net tuition per student</td>
<td>$21,505</td>
<td>$18,216</td>
</tr>
<tr>
<td>Educational expenses per student</td>
<td>$75,435</td>
<td>$21,531</td>
</tr>
<tr>
<td>Tuition discount</td>
<td>42.8%</td>
<td>29.5%</td>
</tr>
<tr>
<td>Total financial resources per student</td>
<td><strong>$1,028,416</strong></td>
<td><strong>$23,252</strong></td>
</tr>
</tbody>
</table>
Student Loan Burden Taints Perception College Degree Value

EXHIBIT 11
Large Majority of students have less than $25,000 of student loan debt
Percentage of Student Loans Outstanding

Source: FRBNY Consumer Credit Panel/Equifax (Q3 2011). Represents all student loans reported to Equifax (including private loans)
QUALITY IN QUESTION

Study of 2,300 undergraduates

45% “demonstrated no significant gains in critical thinking, analytical reasoning, and written communications in first two years of college.”
Changing Undergraduate Demographics (2009)

- 17.6 million undergraduates
- 15 percent attend four-year colleges and live on campus
- 43 percent attend two year colleges
- 37 percent of undergrads enrolled part-time
- 38 percent of those enrolled are older than 25 and one quarter are older 30.
- Nearly a quarter of postsecondary students in the U.S. are parents.
- One-third of all undergrads are employed full-time and 44 percent work PT.
- Over half of today’s students are seeking a "sub-baccalaureate" credential
- 2008-09, 806,000 certificates & 787,000 AA versus 1.6 million BA awarded.
Driving U.S. Skills Demand Toward Creative Work

- Research
- Development
- Design
- Marketing and Sales
- Global Supply Chain Management

Race up the Value Chain

Creative Work

Routine Work
DONE BY PEOPLE

Routine Work
DONE BY MACHINES
2018 Jobs Require More Education

Wisconsin Jobs Requirements 2018

By 2018,...61% of jobs in Wisconsin will require PSE.  
(National Average in 2018 63%)

<table>
<thead>
<tr>
<th>Education level</th>
<th>2018 Jobs</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>High school dropouts</td>
<td>241,000</td>
<td>40</td>
</tr>
<tr>
<td>High school graduates</td>
<td>1,026,000</td>
<td>17</td>
</tr>
<tr>
<td>Some college, no degree</td>
<td>366,000</td>
<td>8</td>
</tr>
<tr>
<td>Associate’s degree</td>
<td>704,000</td>
<td>28</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>600,000</td>
<td>26</td>
</tr>
<tr>
<td>Graduate degree</td>
<td>255,000</td>
<td>28</td>
</tr>
</tbody>
</table>
Postsecondary Education Innovation

• The intentional discovery and application of ---

• new institutional, instructional, credentialing and finance models—

• that maintain quality and reduce costs and increase value.
MOOCs

UDACITY  Coursera  edX
Learning and Student Analytics
Learning Innovation at UW

TEACHING

LEARNING

ASSESSMENT
Leadership Challenge

• Bold and Responsible Leadership and Management

• Transformational Forces of Change
  – Financial Stress on Tuition, Government Support and Philanthropy
  – Better Quality Learning
  – College Students have Different Demographics

• Innovation is the Imperative – cognitive science, artificial intelligence, predictive analytics and more