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Testimony Before the U.S. House Committee on Education and the Workforce

Richard M. Freeland (1941-)
Northeastern University

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Speeches of Richard M. Freeland

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October 2, 2002

Chairman Boehner, Congressman Miller and members of the committee, I am pleased to have the opportunity to testify about the cost of higher education, a subject of great concern to all of us. In my opening remarks, I will focus on the private institution I lead, Northeastern University, which is a national, research university located in the heart of Boston. We enroll approximately 15,000 students from all 50 states and 125 nations. We offer a full array of majors in the traditional arts and sciences, but we place particular emphasis on preparing undergraduate and graduate students for professional careers in such fields as business, engineering, law, computer science and the health sciences. We also stress programs and curricula that help students integrate professional majors with the liberal arts and relate classroom study to professional work experience. We are widely known for our program of cooperative education, through which students alternate periods of full-time study and full-time paid employment in jobs related to their majors.

Northeastern was founded over a century ago as a place of opportunity for people in Boston who did not have the financial means to attend the other private colleges and universities in the area. Our flagship co-op program has historically helped many students earn the dollars they needed to pay their tuition bills.

Northeastern's traditions of accessibility and affordability are particularly important to me. I have spent my entire academic career at access oriented

institutions — two public universities, the University of Massachusetts in Boston and the City University of New York, and now Northeastern. I regard access to quality higher education for young people from all walks of life as a central value of American democracy.

And so I commend the committee for bringing new attention to the cost of higher education, and for your efforts in the 1990s related to the National Commission on the Cost of Higher Education. The report of that commission provided an important wake-up call for higher education about the vital importance of attending to the issue of college costs. Northeastern has responded to this charge, as I believe my testimony will show.

As I have mentioned, I will focus my remarks on the finances of my own university, but I believe our story is not unusual among private universities. Many of the headline stories about college costs focus on a relatively small number of elite and richly endowed private colleges and universities. Though such stories make interesting reading, the fact is that these institutions enroll a relative handful of all students attending college in this country. Most private institutions rely, as does Northeastern, on student payments for most of their revenues. In that respect we are quite typical of private higher education in the country.

Rising costs and strategies to restrain costs

Whenever we discuss the cost of higher education, it is of course helpful and necessary that we make a distinction between what it costs a university to educate its students and the price that those students pay to acquire that education. I will use my remaining time to review both cost and price trends at Northeastern from a 1996-97 base through 2001-02.

Over the past five years, our total expenses have risen from \$285 million to \$416 million, or 46 percent; on a per-student basis, operating expenses have increased from \$18,264 to \$22,243, or 21.8 percent. The primary expenses driving our costs

upward involve new investment in four areas: salaries, technology, financial aid and construction. The first three of these driving forces have dominated rising costs at most private universities in recent years.

About two-thirds of our net operating budget is dedicated to salaries and benefits. Over the past five years, salaries have risen from \$127.3 million to \$168.7 million, an increase of 32.5 percent, and nonwage compensation has increased from \$24.7 million to \$29.5 million, an increase of 19.4 percent. Boston's high cost-of-living — combined with the fact that we must compete with industry if we want to bring more of the nation's best Ph.D.-level scholars to Northeastern — make managing personnel costs one of our greatest challenges.

This is especially true in the fields of science, engineering and information technology, where private-sector salaries are now more than one-third higher than the average salary for these fields in four-year colleges and universities. Moreover, the size of the gap has increased in recent years. To remain even somewhat competitive, we have needed to dramatically increase starting salaries in the last five years by 30 percent in electrical engineering; 51 percent in computer science; and 49 percent in finance, to provide just a few examples.

Reflecting the dramatic growth of technology throughout the economy and society, our investment in technology has more than doubled in the past five years, from about \$10 million to over \$23 million. Were we able to do so, I would have increased these investments even more. Most of these investments support technology directly related to the education of students or the improvement of the nonacademic services we provide them.

It is, of course, vital that we expose our students to state-of-the-art technologies so that they graduate from Northeastern fully equipped to contribute to the nation's economy. I should add one additional point about our investments in technology: Such investments for educational purposes do not lead to productivity increases in higher education as similar

investments frequently do in business enterprises. The productivity gains from these investments come later in the form of graduates better equipped to add value to their places of employment.

A third significant factor driving our costs upward involves the development of our campus. Over five years, construction expenditures have added over \$360 million in new buildings to campus, this has increased our annual debt service and depreciation from \$26.2 million to \$48.3 million, or 84 percent, while also adding expenses to maintain and operate the new buildings.

Between 1999 and 2004, we will have added nine new residence halls and new facilities for our colleges of health science and computer science. In this category, we may differ from other universities that are not being as aggressive as Northeastern in expanding their physical facilities. In our case, we have no choice. If we are to succeed in our efforts to enroll more students from outside the state and region, we must provide residential facilities. In addition, we have been urged by the mayor of Boston to house more students in on-campus residence halls in order to reduce competition for housing between students and area residents.

Finally, and critically important to the subject of this hearing, over the past five years our investment in institutional financial aid has grown by 123 percent, providing additional tuition discounts to students of modest means. To a significant degree this increase has been driven by our commitment to providing increases in financial aid to all aid-receiving students to offset annual tuition increases.

So our costs are rising as a result of a combination of external conditions, such as the cost-of-living in our area, and internal forces, such as our need to invest in personnel and technology.

I have stressed that our cost structures are fairly typical of those at private universities nationally. I should acknowledge, however, a few factors that are particular to Northeastern. First, we spend between \$600 and \$700 per student, or about \$8 million a year, operating our cooperative education program.

Most universities do not have these costs. Second, we are weighted toward high-cost fields such as engineering, computer science and the health sciences. Third, much as we celebrate our location in Boston, it is one of the most expensive places to live in the United States, and this fact puts great pressure on salaries as we seek to attract talented professionals from around the country. All of these factors increase the pressures of rising costs at Northeastern.

Against this background of upward pressures on costs, we have worked strenuously to keep our costs in check.

In the early 1990s, we began implementing a restructuring plan that by the end of the 1996-97 academic year would reduce fulltime undergraduate enrollments by over 25 percent, from over 15,000 to about 11,200; reduce staff by 18 percent, from over 2,800 full-time faculty, administrators and support staff to under 2,300; and eliminate 13 majors that were weak or outdated. In 1997, we undertook a review of our graduate programs that led to the elimination of 17 Ph.D., master's and certificates of advanced graduate study programs.

Like many other colleges and universities, we are relying more on nontenure-track faculty and adjunct faculty to teach our students, a development that troubles me even as it holds down costs.

We have sought additional cost savings through strategies that range from gaining new efficiencies through e-commerce to participating in local, state and national higher education purchasing consortiums. By participating in the Massachusetts in the Massachusetts non-profit energy purchasers consortium, for example, we have saved \$2.8 million in electricity costs over the last four years. All told, through participating in purchasing consortiums, and through other measures, we have saved about \$20.5 million in energy costs over the past five years.

We have asked each of our colleges, schools and departments to find ways to restrain costs. Over the past 10 years, there have been no general budgetary

increases to address rising operating costs due to inflation.

We have also sought to insulate our students from rising costs by increasing revenues from sources other than tuition. Between July 1, 1997, and June 30, 2002, we have garnered nearly \$122 million through fundraising, and external funding for research and projects has doubled to more than \$47 million.

The price of a Northeastern education

Let me now address how all of this impacts what our students must pay to attend Northeastern.

From 1996-97 through 2001-02, the nominal tuition price — the so-called sticker price — paid by the average student at Northeastern increased from \$13,846 to \$18,032, a rise of 30.2 percent, or 5.4 percent a year. This compares with a national average for private universities of \$31,890 over the same period. The numbers for Northeastern would describe changes in our effective tuition only if everyone paid the actual sticker price. But, of course, most students do not pay that price. Indeed, at Northeastern 82 percent of our students receive some form of financial aid, which for many takes the form of a reduced actual tuition charge, a so-called tuition discount.

Over the past five years, as I noted earlier, institutional financial aid has grown 123.6 percent, from \$29.7 million to \$66.3 million.

This has allowed us to increase the average tuition discount for full-time undergraduates from 18.7 percent to 25.2 percent, and to provide institutional aid to 68 percent of our undergraduates with at an average amount of \$9,930 in 2001-02. The discount rate is budgeted to increase to 26 percent rate in FY'03.

When we take these discounts into account, the average net tuition paid by our students in nominal dollars has increased from \$11,257 per year to \$13,488 per year, a rise of 19.8 percent, or less than

4 percent a year, without taking inflation into account.

Conclusion

So this is the bottom line: Over the past five years, on a per-student basis, the actual cost of providing an education to a Northeastern student has increased from \$18,264 to \$22,243, or 21.8 percent. Over this same period, the net price we charge to our students has increased from \$11,257 to \$13,488, or 19.8 percent. The gap between our per-student costs and the net price charged to students is, of course, the subsidy received by Northeastern students from a variety of sources including endowment income, fundraising and tuition discounting, and this number has somewhat increased over the five year period.

Thus, Northeastern University has found a way to increase the quality of our academic programs, enhance the extra-curricular experience and graduate a growing percentage of those who enroll as freshmen while keeping the overall rise in net price somewhat below the growth of costs. We are especially proud of the fact that we have increased institutional financial aid by 123 percent while increasing our nominal tuition by only 30 percent and net tuition by 19.8 percent.

Let me close with two thoughts. First, despite our efforts to restrain cost increases, we worry, as do the members of this committee, about the financial burdens that attending Northeastern impose on students and their families. So we will continue our efforts to control costs and continue our commitment to financial aid. Increasing endowment support for scholarships is, in fact, a major goal of our current capital campaign.

Second, we believe that the education we offer our students, though expensive, is a solid value. Northeastern freshmen entering this fall will pay a little more than \$70,500 in average tuition during the course of their undergraduate studies with us. But they will graduate into an economy that in the late 1990s was paying workers who hold bachelor's degrees an average of \$21,800 more than was

earned by workers who have only graduated from high school.

Over the course of their lifetimes, bachelor's degree holders can expect to earn an average of \$900,000 more than their high school graduate counterparts. Against such numbers our tuition charges, while substantial, represent a very good investment.