EDUCATION FINANCE AND POLICY

EFP Takeaways

Excess Revenue & Estimated Profits in Higher Education: A Look at Private, Four-Year, Non-Profit Higher Education Institutions

Background

In 2017, private nonprofit postsecondary institutions provided educational services for approximately 20% of higher education students in the United States. Under normal economic conditions, these institutions generate annual excess revenues, yet little is understood regarding the size and factors related to such earnings. Examining how such revenues are generated is paramount to understanding the financial health of private nonprofit institutions, as well as if and when federal subsidies are needed. A new study by Robert Toutkoushian and Manu Raghav examines the size of private four-year institutions' excess revenue, as well as their associations with institutional characteristics including size, revenue structure, and selectivity. Their findings are published in vol. 16 issue 1 of *EFP*.

The Study

The authors used data from the Integrated Postsecondary Education Data System from 2004 to 2016 to examine 724 private nonprofit postsecondary institutions. Institutional characteristics included the percent of undergraduates, Carnegie classification level, incoming student standardized test scores, and geographic region. Analyses utilized cross sectional regression models to examine the relationship between excess revenues and institutional characteristics. Authors also utilized a fixed effects panel data model to examine within-institution fluctuations in excess revenue and their relationship to time-varying factors.

Findings

Descriptive analysis revealed that revenues per student exceeded expenses per student by an average of 16% for the years included in the study, though there were wide variations across institutions. Such findings raise questions regarding why private institutions are granted the same tax-free status as public counterparts, considering private 4-year colleges do not generally provide subsidies to resident students to attend their institutions.

Cross-sectional regression models showed that excess revenues were higher for private 4-year colleges that were more selective in admissions and less reliant on revenues from tuition and grants. Fixed effects regression models showed that an increased reliance on tuition revenue or tuition discounting was associated with lower levels of excess revenues. Therefore, private institutions that are heavily reliant on tuition revenues are most at risk for not being able to generate enough revenues to cover their expenses. Likewise, those that have increasingly turned to tuition discounting to compete for students will have a more difficult time staying in business.

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- Summary of:
  Toutkoushian, R. & Raghav, M. (2020). Estimated Profit: A Look at the Excess Revenues of Private Four-Year Nonprofit Postsecondary Institutions. *Education Finance and Policy, 16(1)*.