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BRIEF

Higher ed inflation rate drops to 2.5% in 2019

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Dive Brief:

- Costs rose 2.5% in the 2019 fiscal year for U.S. colleges and universities, according to the Commonfund Institute's annual Higher Education Price Index report (HEPI), which measures the sector's inflation rate.
- This marks a continued decline from a rate of 2.9% in 2018 and 3.4% in 2017. A lower inflation rate for faculty salaries, utilities, and supplies and materials compared to 2018 drove this year's drop.
- However, the inflation rate rose slightly for administrative salaries, clerical costs and service employees.

Dive Insight:

The 2019 inflation rate is "in line" with the sector's five-year average of 2.4%, according to a press release announcing the report. Out of eight cost factors the HEPI tracks, five saw increases this year that were above the five-year average: clerical costs, service employees, miscellaneous services, supplies and materials, and utilities.

However, the inflation rate for two of the three categories weighted most heavily on the index — faculty salaries and fringe benefits — came in under the five-year average.

In the wake of reduced state support, many public colleges have been trying to reduce spending on faculty pay.

As such, full-time faculty pay increases have "barely outpaced inflation" over the past three years, according to a recent report from the American Association of University Professors (AAUP). In the 2018-19 academic year, full-time professors at private colleges saw a larger average increase than did professors at public institutions, the report notes.

Out of 870 colleges that provided data to AAUP, more than one in five institutions employs at least 5% fewer full-time faculty members than they did at the height of the Great Recession. Overall, these institutions saw a 35% decline in tenure and tenure-track faculty during that time.

HEPI's analysis notes that annual cost changes for most higher ed spending categories have been "reasonably stable" over the past five years, "rising steadily but not dramatically in any single year." But two categories have seen considerable volatility: supplies and materials, and utilities.

Costs for supplies and materials rose in the 2014 fiscal year by more than 11%, before declining by an average of 3.4% for the next three years. In the 2019 fiscal year, the category rose 4.1%.

Utilities, meanwhile, had the lowest rate of change in 2019 with an increase of 0.9%. Over the past five years, this category has been "the most volatile," the report notes, ranging from a 20.2% annual decline to a 14.5% annual increase.

For help operating and maintaining their utilities, colleges have been looking to outside companies. The University of Iowa recently entered into a 50-year agreement with two French firms to manage its campus utilities infrastructure. The partners pay $1.165 billion upfront in exchange for a $35 million annual fee from the university that increases by 1.5% each year after the first five years.

A few other institutions, including Ohio State University, have struck similarly large-scale deals. Other schools, such as Dartmouth College, have tried to improve their energy infrastructure on a smaller scale with the help of outside partners. These agreements often allow the participating college to invest the funds they receive into their strategic or academic priorities while still maintaining some control over how their utilities are managed.