Exploring Community College Return on Investment Approaches & Introduction to the NCII/JFF Guided Pathways ROI Model

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Agenda

• Fiscal Considerations of Innovative Approaches – The Thinking Behind the Model
• Exploring the Approach
• Demonstrating the Excel Model
• Final Thoughts
Part 1: Fiscal Considerations of Innovative Approaches
Fiscal Approaches to Consider

1. Cost analysis
2. Cost effectiveness / ROI
3. Cost efficiency / Cost per Completer
4. Cost reductions per student
5. Wage gains per student
6. Economic impact for communities
1. Cost Analysis Approaches

- An analysis of what it costs to “do things differently” vs. the traditional model

- Can include costs such as:
  - incremental salaries
  - release time for faculty
  - stipends
  - IR support
  - tutors
  - travel
  - supplies
  - facilities*

- Note: colleges are often good at identifying incremental costs...
2. Cost Effectiveness / ROI Approaches

• An investigation of not only the incremental costs to the college but also the potential for incremental revenue that may be generated at the college to offset costs

• Also referred to as return-on-investment or ROI analyses

• Fairly uncommon in higher ed until recently

• Challenges of differential costs / returns by programs, interdependency with level of efficiency of college / departments, enrollment caps, state funding questions
3. Cost Efficiency Approaches

- An analysis of the effect of the program and its incremental costs on key outcomes such as completion, transfer or graduation
- Also called “cost per graduate”, “cost per transfer”, “cost per completer”, etc.
- Good when accountability calls for improvement in key outcomes – or determines incremental funding by them
- Challenge that incremental costs still may go up, even when cost per completer goes down
4. Cost Savings Per Student

- As colleges become more efficient at creating structures that enable students to finish their degrees more quickly, there are direct cost savings for the student, including:
  - Tuition savings
  - Books cost per semester
5. Wage Gains for Students

- As more students finish degrees, the college’s net return on wage gains for their students will increase
  - As this is starting to be emphasized / measured, colleges are very likely to have key performance indicators / accountability measures based on such outcomes
- Also, as an individual student finishes more quickly, she will experience the increased wages that a completion grants them earlier, producing a net wage gain for the student.
6. Economic Impact to Community

- With more students getting credentials / degrees / completions, the local, state, and national economies are catalyzed

- Challenge is that this often hard to estimate, but important to call out as a fiscal impact of innovative programs that produce higher completion rates
Summary

• Numerous ways to estimate the fiscal impact of innovative programs on colleges and students
• ROI analyses best for estimating net revenue impact to colleges
• NCII has developed ROI models focused on developmental education reform, student financial stability reform, accelerating opportunity and more recently guided pathways (unreleased until now)
Fiscal Approaches to Consider

1. Cost analysis
2. Cost effectiveness / ROI
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Part 2: Demonstrating a ROI Approach for Guided Pathways
Traditional CC Economic Reality

- Community Colleges and Four-Year Colleges are set up to think in terms of fiscal periods (usually fiscal years)

- Simplistically, this year’s salaries, fixed costs, & variable costs seemingly need to be offset by this year’s revenues from tuition, FTES apportionment, and other sources of revenue
A Different (?) Way of Thinking

- As has become common in industry, we could think about deviating from our “traditional” model toward a return-on-investment (ROI) approach

- Under this approach, we use our “traditional” model as the baseline for costs and revenue
Incremental Costs

- We first account for the additional costs associated with guided pathways-related reforms. Examples could include:
  - Incremental salaried personnel such as advisors, completion coaches, or career coaches
  - Incremental hourly personnel costs such as supplemental instruction or tutoring
  - Technology fees / services
  - Professional development
- Note: We are quite good at assigning incremental costs and referring to something as “too expensive”!
The Flip Side – Incremental Revenue

- Successful approaches – if they “work” - have the following outcomes:
  - Increased course retention
  - Increased course success rates
  - Increased persistence
  - Increased progression to college-level work
  - Increase in overall units attempted / earned
What is the coin of the realm?

- FTES = Tuition & Apportionment
- As an example, at a college we worked with in Illinois, an FTES generated $2,000 in apportionment revenue and $2,760 in tuition revenue
- In most states, colleges keep tuition and receive incremental apportionment revenue per FTES, but there are exceptions (e.g. CA, NC – tuition not kept, KS, KY – block grants for apportionment).
- The incremental FTES apportionment and/or tuition generated in successful guided pathways approaches can, in many cases, offset the incremental costs
Incremental FTES $$$ Not Without Costs

• Instructional costs for students who are retained and progress – may require adding additional sections
  ✓ May fill non-full classrooms especially in large GE courses

• Overhead / infrastructure costs – establishing exact figures is very complex; in discussions with CBOs and CEOs we estimate a range of 40%-70% “profit” from incremental FTES

• Model allows you to adjust the “profit margin” on incremental FTES
  ✓ We set it at 55% after discussions with those familiar with the economics of community colleges
What the Model Doesn’t Do

• This is not a sophisticated economic model

• It doesn’t take into account economics concepts such as net present value (NPV), economic rates of return (IRR), discounting, etc.

• Ultimately, it is designed to be an order of magnitude demonstration and to start conversations on your campus (not end them)!
Part 4: Exploring the Model
Part 5: Final Thoughts
Summary

• Numerous ways to estimate the fiscal impact of innovative programs on colleges and students
• ROI analyses best for estimating net revenue impact to colleges
• The ROI model developed for this project will be released shortly and available for you to use
  • Accompanying the ROI model in Excel will be a 3-page Model Overview document and a 2-page Model Instructions document
Find Out More

• The National Center for Inquiry & Improvement website
  www.ncii-improve.com

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