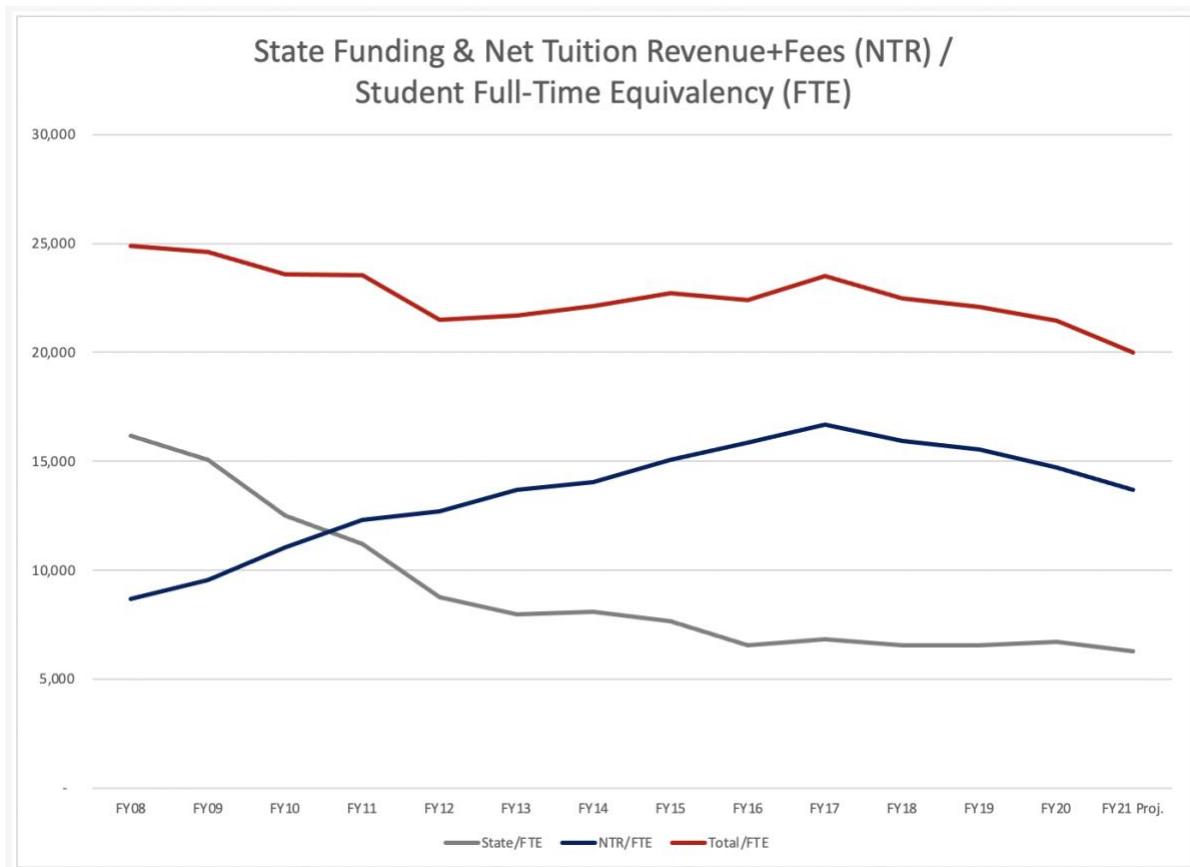


Higher education is evolving. No longer is the traditional, residential experience the only attraction. As the expected number of high school graduates decrease in the coming years, competition will increase significantly.

At the same time, the demand for high quality, affordable higher education is expanding. This is visible in the dramatic growth in demand for online education and more flexible degrees. It is apparent in the desire people have for life-long learning to help them adapt to an ever-changing environment.

These shifts would exist even if funding for public higher education were a priority. However, state funding for public institutions has decreased significantly, creating a dependency on net tuition revenue and fees. Arizona leads in terms of reduced state funding. The most immediate consequence is the shift from state funds to tuition dollars to support the basic educational enterprise. In 2008, state funding accounted for 31.3% of the University of Arizona revenues. Today, it is just 14.5%.



The graph above demonstrates the changes in net tuition + fees revenue and state funding over the years. The red line shows a decrease in state funding and net tuition revenue + fees per student. Students have changed modalities to meet their educational goals, the institution has increased financial aid to meet market demand and strategic goals, and the state has reduced funding. These trends have accelerated even though the University has continued to meet overall enrollment goals and see growth in total numbers.

The University of Arizona fall 2020 (FY21) showed a 2.2% increase in students over fall 2019 (FY20) – 46,932 students compared to 45,918 students. Although student enrollment is up, net tuition revenue is not. As the pandemic continued, students made choices about the best UArizona campus type for their needs. The UArizona campuses [charge tuition](#) and discount differently. For example, the main campus charges tuition by residency and discounts tuition based on federal financial need and/or academic preparation while Arizona Online charges a price per credit/unit regardless of residency and discounting is generally only provided based on federal financial need.

Net Tuition Revenue by Campus - FY20 Actuals compared to FY21 Projected

Campus/Student Type	FY20 Actuals	Fall HC	FY21 Projected	Fall HC	NTR/HC	\$ Change	HC Change	% \$ Change	% HC Change
Undergraduate Main Campus	362,278,720	32,009	319,549,800	31,142	10,261	-42,728,920	-867	-11.8%	-2.7%
Graduate Main Campus	63,154,415	6,783	59,730,000	6,571	9,090	-3,424,415	-212	-5.4%	-3.1%
Colleges of Medicine (MD)	26,641,180	843	27,705,700	847	32,710	1,064,520	4	4.0%	0.5%
Veterinary Medicine (DVM)			6,352,500	110	57,750	6,352,500	110		
Arizona Online	59,496,403	4,477	79,231,750	6,282	12,613	19,735,347	1,805	33.2%	40.3%
Community/Distance	9,809,656	876	10,450,000	950	11,000	640,344	74	6.5%	8.4%
Global Direct			1,020,000	204	5,000	1,020,000	204		
Total All Campuses	\$521,380,374	44,988	\$504,039,750	46,106	\$ 10,932	-\$17,340,624	1,118	-3.3%	2.5%

HC: Headcount

NOTES: Official IPEDS fall enrollment (including Spring census data as of March 2021), institutional aid applied to Main and Med students, all others listed at gross tuition, microcampuses are not reflected in the above model as they are not counted for IPEDS, Vet Med students run on a Trimester

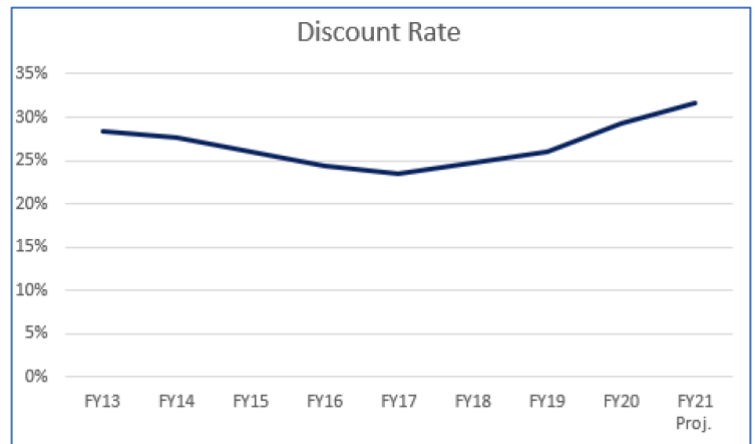
Only Undergraduate & Graduate Main Campus tuition is calculated in the current RCM Model (and how we discuss NTR).

Some NTR is distributed through RCM, others are not.

Offering institutional aid is a necessity and embedded in the goals in Pillar One of the [University's Strategic Plan](#): to enroll an academically talented and diverse class.

According to the *Trends in College Pricing and Student Aid 2020* published by the College Board, public institutions have increased institutional aid for first-year undergraduate students from 35% in 2005-06 to 54% in 2017-18.

In 2013-14, the University of Arizona embarked upon lowering the discount rate from nearly 30% to 23%, as an initiative of the former strategic plan, *Never Settle*. As a direct result, fewer first-year students selected UArizona, citing affordability as the number one reason. High school counselors and admitted student survey data overwhelmingly indicated cost was the reason UArizona was not selected – even when it was the student's first choice. Furthermore, affordability became one of the key factors in retention and completion as students could not afford to stay once enrolled.



Academic Profile - High School Graduating Class

Rank percentages are based on students with a rank listed.

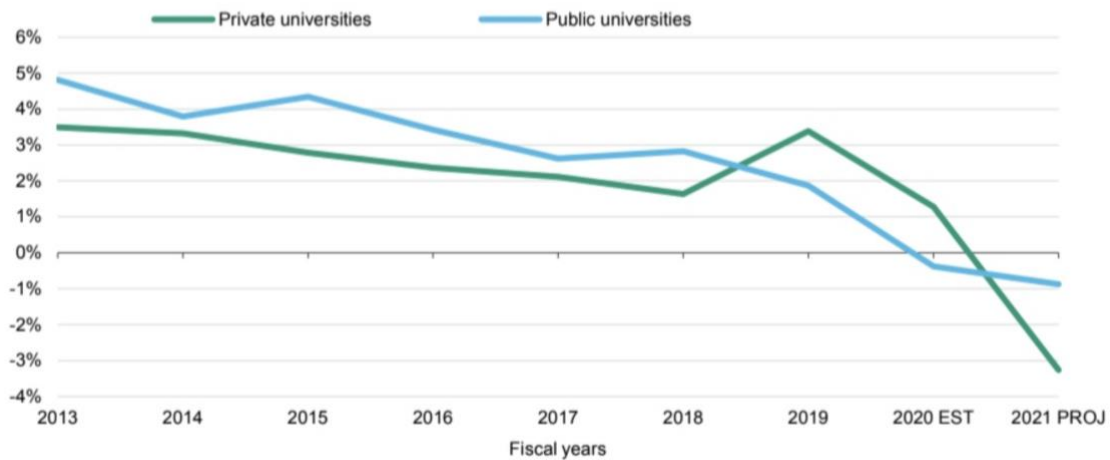
	Fall 2018	Fall 2019	Fall 2020
3.75 or higher H.S. GPA	31.8%	37.0%	43.5%
Top 10 Percent	15.9%	19.2%	22.3%
Top 10th Percentile	37.4%	41.5%	44.8%

financial need. Following consistent increases in the academic profile of incoming classes, in fall 2020, UArizona reached its highest retention rate ever, 85.5%. This accomplishment, while extremely important toward our graduation goals, is also costly as students with necessary financial support tend to persist at the highest levels.

The pressures and tradeoffs that lead us to discount are universal and are determined by market pressures, not just strategic adjustments and priorities. Discounting is utilized by both public and private institutions throughout the nation, according to the [Chronicle article](#) citing Moody's Investors Services, October 2020, and are essential to recruit and retain students in an increasingly competitive environment.

Lower enrollment, rising discounting and pricing challenges weaken net tuition revenue at public and private universities

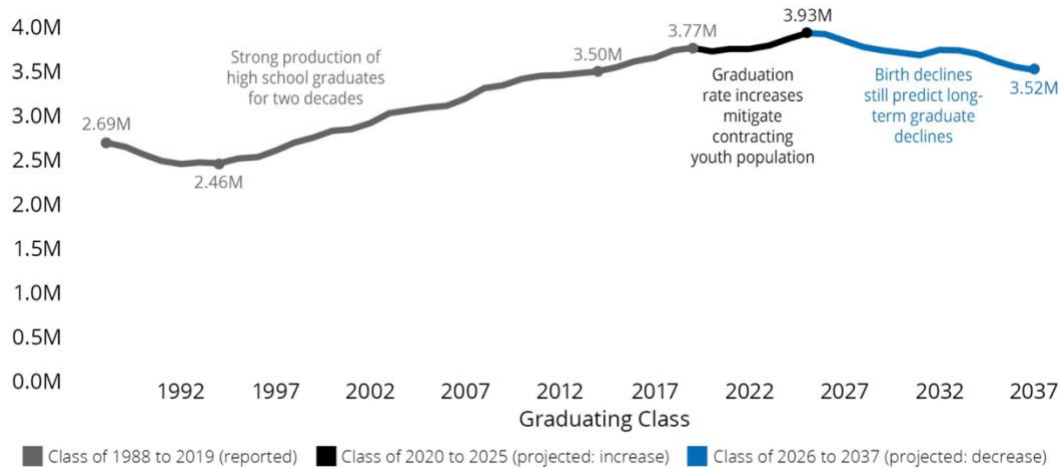
Median annual change in net tuition revenue



Source: Moody's Investors Service

When we refer to the student "cliff," we are acknowledging that competition for traditional age students will continue to increase as the number of high school graduates decreases in the coming years, according to the *Knocking at the College Door* report by the [Western Interstate Commission for Higher Education \(WICHE\)](#). With fewer students, competition will grow, and pricing will matter even more in the decision-making process.





Source: Western Interstate Commission for Higher Education, *Knocking at the College Door*, 10th edition, 2020.

Nathan D. Grawe, a professor of social science at Carleton College, suggests a bleak outlook for most institutions when it comes to attracting and enrolling students. In [Demographics and the Demand for Higher Education \(Johns Hopkins University Press\)](#), Grawe takes what he considers a more precise approach to forecasting. He starts with generally accepted figures that show the (traditional) college-age population dropping in the Northeast and Midwest by about 5 percent by the mid-2020s. But he then tracks birth rates and finds that the economic downturn that started around 2008 led many people to delay starting families. The impact, starting around 2026, could mean a loss of 15 percent of the typical college-going population. Grawe developed a formula called the Higher Education Demand Index, or HEDI. This applies demographic trends to college-going rates. Rather than assuming the same rates in the future as today, Grawe looks at the rates for different socioeconomic groups. Those groups who will make up a growing share of the population tend to have lower college-going rates, on average, than groups whose share of the population will be shrinking, overall presenting a daunting prospect for many colleges and universities.

The University of Arizona must consider ways to respond and take action. There are untapped markets and opportunities for growth. UArizona has started to explore and gain a foothold in some of those markets – domestically and globally. But much work remains to be done.

What will we do to seize opportunities?

