Drexel University is a private research university with about 24,000 students. Its main campus is located in the University City neighborhood of Philadelphia, separated from the city’s core largely by an assortment of parking lots, an active rail yard, the Schuylkill River and the 30th Street Station, which serves two dozen regional train and Amtrak lines.

For years, the school has actively been purchasing land in that largely undeveloped swath, filling in bits and pieces like a puzzle and paying for it with the school’s endowment. By 2013, the school had acquired a critical contiguous mass and started plans in earnest for what was unveiled in 2016 as Schuylkill Yards, a 14-acre community consisting of residential, retail, research, cultural and open space elements. This has ensured a reliable income stream and long-term assets that should pay dividends for years to come.

“They’re completely revitalizing a component of a major U.S. city, and they’re right at the heart of it,” says Jill Fields, a SunTrust Bank Commercial Relationship Manager focused on private schools and universities.

In an increasingly challenging environment where budgets are steadily rising and tuition hikes are met with resistance, Drexel is committed to an impressive revenue-generation strategy. And while many higher education institutions may not have the resources, opportunities or wherewithal to tackle such a massive investment project, there are many initiatives other college leaders are taking to tap revenue streams that are not only beneficial, but can also be sustained into the future.

Enrollment trends pressure tuition revenues
According to the National Center for Education Statistics (NCES), total undergraduate enrollment fell by 4 percent between 2010 and 2014. Meanwhile, revenues from tuition and fees rose 17 percent per full-time student at public institutions and 6 percent per full-time student at private schools between 2008-2014, according to NCES data. At the same time, revenues from government grants, contracts and appropriations declined 7 percent per student at public colleges and universities and decreased 8 percent at private nonprofit institutions.

In addition, total expenses of four-year public institutions climbed nearly 20 percent and jumped 22 percent at private colleges and universities over the same six-year period. At least a portion of the increased costs stems from marketplace demands, according to Rahel Rosner, the Vice President for Finance and Administration at Washington College in Chestertown, MD.

“There was a time when you offered core courses such as math, biology and chemistry, but nowadays, you also have to offer classes such as environmental studies, evolutionary biology, human development and others,” Rosner says. “The areas of study have increased as demand for specialization has grown, so schools are looking for people who have the knowledge, the ability to ask questions and the skills to deliver what we're expected to produce.”

Bridging the funding gap
The gap between increasing expenses and declining tuition prompted the Boston Consulting Group to conclude in 2014 that falling revenues are “putting many institutions at severe financial risk.” As a result, many universities have challenged themselves to be more resourceful.

“Even with revenues from tuition—which may be boosted by federal grant monies and loans—potential research grants and giving, institutions of higher education are still seeking ways to leverage assets to help offset the ever-increasing cost of education,” Fields says.
The first place most schools look is at buildings, dormitories, athletic fields and other public spaces that are typically used for only a portion of the year, but sit dormant for long stretches. Without embarking on something as ambitious as the Drexel project, Fields has seen many other schools engage in cost savings measures by allowing third parties to create student housing on university leased land or contracting with third parties to provide housing outside of university property.

In addition, some universities provide long-term ground leases on unused property to developers for flexible purposes to create new revenue streams. For example, The Catholic University of America, located in Washington, D.C., developed a mixed-use property including a Barnes and Noble (which also houses the campus store) and additional retailers with apartments above. This additional housing near the university is great for faculty, graduate students or other unrelated community members who want to be near a college campus.

Rosner says that Washington College opens up its dormitories during the summer months to outside camps and corporate entities for professional learning sessions, as well as educational outfits. “It tends to be a lot less expensive and more lucrative to rent out your facilities than to run the program,” she says.

More creatively, Rosner adds that the school’s idyllic location on the Chester River, which feeds into the Chesapeake Bay, has prompted thoughts about developing new dorm facilities that could also be used to host romantic getaways during non-school months. “You need to think of it as a dual role: What is its usage during the school year to support the educational mission of the school, and how can I monetize that asset during the summer so that I can support my need to either reduce dependence on tuition revenue or just reduce the cost of education per student?” she says.

Finding additional creative solutions

Many colleges and universities also consider leveraging their brand and educational reputation through online course offerings. Fields says it’s not as simple as posting a handful of slide decks, however, as students value the sense of community a classroom offers, as well as the likelihood for a successful outcome.

Nonetheless, a unique approach can help generate success. For example, she cites the efforts of Cornell University, which has rented space in key cities throughout the U.S. and Canada to serve as satellite classrooms for MBA courses taught via videoconferencing technology by a professor located in the school’s home of Ithaca, NY. “I think people are getting creative in finding ways to make their program successful, although the approach is really still in its infancy,” Fields says.

Research has also been affiliated with higher education institutions as a revenue source. In fact, some universities assume the grant development and administration duties in exchange for a portion of the award monies, instead of requiring a professor to essentially fund his or her research efforts through personal grant writing efforts.

Another attractive concept in academic circles is generating royalties and other licensing revenues from products and technologies developed on campus. According to Bloomberg, however, royalty revenues fail to cover the salaries and operating expenses of tech-transfer offices, an administrative necessity for navigating the legal landscape related to patents, licenses and related challenges, at more than half of the institutions with such departments. Another 21 percent only break even—at best—after cashing their part of the licensing revenues. Plus, the report says that additional legal fees on patent matters add up to an average $2 million over the years.

Finding additional creative solutions

There are no easy answers for college administrators, and every year a handful of schools either close or merge with another institution due to financial straits. Yet the consumers—the students—continue to raise the bar of expectations, and schools scramble to meet it.

“Everyone’s fighting for the same students, so what do they have to do? They need nicer dorms, nicer athletic facilities and nicer everything, or you have to provide more financial aid,” Fields says. “Those are the ways they’re competing, but it’s just getting more and more cost prohibitive.”

Most schools conduct annual fundraising efforts, and while it isn’t as much of a concern for private institutions, it’s necessary for public institutions to have established foundations separate from the institutions to handle such responsibilities. Yet all types of giving suffer during economic downturns. For example, charitable gifts dropped more than 13 percent between 2007 and 2009. Meanwhile, endowment assets tied to the financial markets also shrink during downturns. And regardless of the economy, some types of giving are more crucial to a college or university than others, such as annual fund giving, which is typically unrestricted and used to supplement operating expenses, and capital campaign giving, which represents gifts that are typically tied to a specific project or need.

Ultimately, Fields says that every school seeks to achieve the tricky balance of attracting the right number of quality students with competitive programs without compromising its education and enrollment standards. Affecting colleges and universities large and small, public and private, urban and rural, the challenge will continue to fuel a drive toward diverse revenue sources.

Interested in additional ways to diversify your revenue streams?

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