Federal Regulatory Cost Burden Study Overview Discussion

July 2015
Overview

These materials comprise the study summaries of a joint project between The Boston Consulting Group and Vanderbilt University.

The findings contained herein are based upon the best data currently available. These findings are part of a larger body of work and inquiry addressing regulatory costs for the higher education industry. As such, these findings in isolation and without the supporting commentary and study framework description may present an inaccurate picture of the whole.
Agenda

Background – what are we trying to accomplish?

Phase I: Vanderbilt-specific findings

Phase II: 12-institution findings and preliminary cross-sector extrapolation

Beliefs audit results at participating institutions
Complexity in Number of Regulations, Laws and Agencies Increasing Burden on Institutions

> 35 different regulatory areas
  (e.g., Accreditation, Campus Safety, Financial Aid, Grants & Contracts, etc.)

~200 different statutes
  (e.g., ADA, FERPA, Higher Education Act, Title IX, etc.)

~20 different agencies to report to
  (e.g., Dept. of Education, NSF, NIH, etc.)

"HEA totals nearly 1,000 pages; there are over 1,000 pages in the official Code of Federal Regulations devoted to higher education...on average every workday ED issues one new sub-regulatory guidance directive or clarification...**No one has taken the time to “weed the garden.”**

- Senator Lamar Alexander
US colleges and universities are subject to significant federal regulation

While some regulation is valuable, compliance and reporting add a material cost burden to post-secondary education

- This is especially true for Tier One research institutions
- Some university officials hypothesize this cost to be as much as 5-10 percent of total operating budgets

We are interested in uncovering the cost and primary contributions to federal regulatory compliance, focusing on the following high-level questions

- What is the total cost of federal regulatory compliance for Vanderbilt University?
- What are the most likely areas where Vanderbilt can manage down its cost of regulatory compliance without a change in regulation and without bearing undue risk?
- What is estimated cost of federal regulatory compliance for all higher education institutions in the US? How does the cost differ by segment?
Two-Phase Approach for Study: First Two Phases are Complete

**Phase I**
- Categorize the federal regulations that significantly impact Vanderbilt
- Estimate the annual cost burden borne by Vanderbilt to comply with these regulations
- Classify costs to inform recommendations

**Phase II**
- Identify participating institutions
- Collect data across all relevant regulatory areas at each institution
- Estimate federal compliance burden for each institution

**Key Activities**
- Identify participating institutions
- Collect data across all relevant regulatory areas at each institution
- Estimate federal compliance burden for each institution

**Key Deliverables**
- Summary of findings with costs by regulatory area
- Detailed results guide with back-up data and model for all areas
- Summary of findings
- Preliminary sector extrapolation
- Detailed findings for each participating institution
At Vanderbilt, Compliance Costs Estimated at ~11% of Total Expenditures\(^{(1)}\)

<table>
<thead>
<tr>
<th>Total cost of compliance estimate ($M)</th>
<th>% of 2014 VU expenses, non-clinical ($1,365M(^1))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centralized compliance costs</td>
<td>~39</td>
</tr>
<tr>
<td>Marbled compliance costs</td>
<td>~107(^2)</td>
</tr>
<tr>
<td>Total</td>
<td>~146M(^3)</td>
</tr>
</tbody>
</table>

A portion of the $146M recovered through federal sources (e.g., F&A) but large share funded through internal sources

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1. Total expenses (3,754M) less healthcare services (2,389M)
2. Mid-point for estimated range of 98 – 115M
3. Mid-point of estimated range of 137 – 155M
## Significant Variation in Burden Between Research and Non-research Areas

### Total compliance cost

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total compliance cost</td>
<td>$146M</td>
</tr>
<tr>
<td>Total FY14 VU expense (non clinical)</td>
<td>$1,365M</td>
</tr>
<tr>
<td>Total compliance cost per student (Total students: 12,710)</td>
<td>~$11K</td>
</tr>
<tr>
<td>Total compliance cost per faculty (non hospital) (Total faculty: 2,787)</td>
<td>~$52K</td>
</tr>
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</table>

### Research-related compliance cost

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research-related cost</td>
<td>$117M</td>
</tr>
<tr>
<td>FY14 research expense</td>
<td>$679M</td>
</tr>
<tr>
<td>Total compliance cost per research faculty (Faculty with active awards or applications since July 2013: 1,890)</td>
<td>~$62K</td>
</tr>
</tbody>
</table>

### Non-research-related compliance cost

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-research-related cost</td>
<td>$29M</td>
</tr>
<tr>
<td>FY14 non-research expense</td>
<td>$686M</td>
</tr>
</tbody>
</table>

### Notes:

1. Total expenses (3,754M) less healthcare services (2,389M)
2. Medical Center: 1,348 “research” faculty (defined as faculty w/ either active awards or proposals since 7/1/13); University central: 1,052 full time faculty + 387 part time faculty = 1,439 faculty
3. Total expenses less healthcare services, less research expense
Across Phases I and II, Estimated the Cost of Federal Regulatory Compliance at 13 Diverse Institutions
Overall Federal Regulatory Compliance Costs Across Institutions ~3-11%

# of institutions (N=13)

Cost of compliance as % of FY2014 operating expenses

Source: Cost of Federal Regulatory Compliance Study
Mix and Scale Driving the Magnitude of Research Compliance Burden

Research compliance burden by institution (N=8)

Estimated research compliance cost (% of research expenditures)

Source: Cost of Federal Regulatory Compliance Study
Scale Driving the Magnitude of Higher Ed and All Sector Compliance Burden

Higher ed. and all-sector compliance burden by institution (N=13)

Estimated higher ed and all-sector compliance costs (% of non-research expenditures)

Source: Cost of Federal Regulatory Compliance Study
Research Compliance: Grants and Contracts Largest Area

Estimated compliance cost (% of research expenditures)

- Grants & contracts: 8.3%
- Human subjects: 2.0%
- EH&S (research): 1.6%
- Animal research compliance: 0.6%
- Research misconduct: 0.3%
- Conflict of interest: 0.3%
- Export compliance: 0.1%
- Tech transfer: 0.1%

Source: Cost of Federal Regulatory Compliance Study
Higher Ed Compliance: Accreditation Largest Burden

Estimated compliance cost (% of non-research expenditures)

- Accreditation - programmatic: 0.8
- Accreditation - regional: 0.5
- Financial aid: 0.3
- Sexual misconduct: 0.1
- Clery act: 0.1

Source: Cost of Federal Regulatory Compliance Study
Estimated Sector-Wide Cost of Compliance per Regulatory Area Based on Extrapolation from Sample Data

<table>
<thead>
<tr>
<th>Compliance type</th>
<th>Estimated cost of sector-wide compliance ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Ed</td>
<td>$11.1B</td>
</tr>
<tr>
<td>&quot;All-sector&quot;</td>
<td>$5.6B</td>
</tr>
<tr>
<td>Research</td>
<td>$10.2B</td>
</tr>
</tbody>
</table>

Note: Estimation by regulatory area based on average (i.e., not medians) compliance burdens across participating institutions
Source: Cost of Federal Regulatory Compliance Study; NSF Herd survey data; IPEDS; BCG analysis
Institutional Leadership Attitudes Towards Research Specific Policies from Participating Institutions

Some leaders view regulations as not sensible and inefficient

% agreeing the intent of the regulation is sensible (#1)

Avg compliance cost as % of total op. expenses across participating institutions (N=8)

- Export compliance
- Sub-recipient monitoring
- Effort Reporting
- Post-award management
- Post-award accounting
- Pre-award management
- Research Misconduct
- Human subjects
- Conflict of interest
- EHS (research)
- Tech transfer
- Animal research

Some leaders view regulation as sensible and efficient

Regulations where some leaders view regulation as inefficient

Source: Leadership attitudes survey across 4 institutions; not all institutions surveyed (N=47); BCG analysis
Institutional Leadership Attitudes Towards Higher Ed
Specific Policies from Participating Institutions

% agreeing the requirements of this regulation achieve the intended results in an efficient way (#2)

Lower potential for cost improvements from policy changes

Greater potential for cost improvements from policy changes

% agreeing the intent of the regulation is sensible (#1)

Source: Leadership attitudes survey across 7 institutions, not all institutions surveyed (N=92); BCG analysis
Institutional Leadership Attitudes Towards “All-secto”
Specific Policies from Participating Institutions

Source: Leadership attitudes survey across 7 institutions; not all institutions surveyed  (N=92); BCG analysis

% agreeing the intent of the regulation is **sensible** (#1)

% agreeing the requirements of this regulation achieve the intended results in an **efficient** way (#2)

Regulations where some leaders view regulation as sensible and efficient

Some leaders view regulation as inefficient

Avg compliance cost as % of total op. expenses across participating institutions (N=13)  

\( = 0.1\% \)