MEMORANDUM

TO: The Finance Subcommittee:

John A. Griffin, Chair
Frank B. Atkinson
Kevin J. Fay
Victoria D. Harker
John G. Macfarlane III
George Keith Martin, Ex Officio

and

The Remaining Members of the Board

L.D. Britt, M.D. William H. Goodwin Jr.
Frank M. Conner III Bobbie G. Kilberg
Allison Cryor DiNardo Stephen P Long, M.D.
Helen E. Dragas Edward D. Miller, M.D.
Barbara J. Fried John L. Nau III
Frank E. Genovese Margaret N. Gould

FROM: Susan G. Harris

SUBJECT: Minutes of the Finance Subcommittee Meeting on March 24, 2015

The Finance Subcommittee of the Board of Visitors of the University of Virginia met with the full Board, in Open Session, at 3:15 p.m. on Tuesday, March 24, 2015, in the Auditorium of the Albert & Shirley Small Special Collections Library of the Harrison Institute. John A. Griffin, Chair, presided. All Board members were invited to participate.

Committee members present were Frank B. Atkinson, Kevin J. Fay, Victoria D. Harker, John G. Macfarlane III, and George Keith Martin.

Other Board members present were William H. Goodwin Jr., Frank M. Conner III, Allison Cryor DiNardo, Helen E. Dragas, Barbara J. Fried, Frank E. Genovese, Bobbie G. Kilberg, Stephen P. Long, M.D., John L.
Nau III, and Margaret N. Gould. Consulting Finance Committee member Daniel M. Meyers also attended.

Present as well were Teresa A. Sullivan, Patrick D. Hogan, Richard P. Shannon, M.D., John D. Simon, Susan G. Harris, Susan Carkeek, Donna P. Henry, W. Thomas Leback, David W. Martel, Marcus M. Martin, M.D., Phillip A. Parrish, Nancy A. Rivers, Roscoe C. Roberts, Pamela H. Sellers, Colette Sheehy, and Robert D. Sweeney.

Mr. Griffin provided an overview of the long-range financial plan developed by the Subcommittee. It is based on a number of assumptions and on the understanding that it will be subject to Board-approved annual budgeting. The plan’s fund sources and uses were discussed at the November Full Board meeting; the actions taken at the February Executive Committee meeting and at today’s Finance Committee meeting will be key components.

The plan focuses on increased affordability for Virginians, which was the Subcommittee’s charge and is in support of the TJ21 legislation, which set improved affordability for low-income and middle-income students and their families as a state priority. The charge supports the Governor’s Commission on Higher Education, which asked state institutions to address middle class families that are squeezed because of rising tuition and limited financial aid. Mr. Griffin said the state has defined middle income as $100,000 for a family of four, noting that 70% of all Virginia households make less than $100,000.

The plan’s objectives include: 1) continuing to meet 100% of demonstrated need and maintaining a need-blind admission policy; 2) reducing need-based loans and increasing grants for Virginians; 3) lowering the net price for all families with incomes of $100,000 or less; and 4) ensuring that the actual cost of education for Virginians continues to place the University as one of the nation’s best values. Mr. Griffin said the University is ranked as having one of the highest returns on investment.

The plan reduces need-based indebtedness for Virginians by minimizing the use of loans and increasing grant aid. Currently, low-income Virginians incur a maximum debt burden of $14,000. The plan reduces this amount to $4,000. For all other Virginians, the plan lowers the maximum debt from $28,000 to $18,000.

Subcommittee deliberations considered the $40,750 average starting salary for students graduating from the College of Arts & Sciences. Under the current model, the monthly loan payment for low-income Virginia students with $14,000 in debt is $146. For Virginia students with $28,000 in debt, the monthly loan payment is $316. Under the plan, the monthly loan payment for low-income Virginia students drops from $146 to $50. For all other Virginia students it is reduced from $316 to $188.
Mr. Griffin said the November meeting included a discussion about debt; how much debt is the right amount and where do you draw the line? Ms. DiNardo noted that the amount of debt influences a student's decision-making flexibility after graduation. While the University is proud of its graduates who enter the Peace Corps and Teach for America, the salaries at these organizations are low. For a graduate interested in Teach for America, a lower monthly debt payment may make this choice financially feasible.

Mr. Griffin explained that the plan is funded by two $1,000 step increases: in-state students entering in the fall of 2015 would pay the 2015-2016 base tuition plus $1,000, and in-state students entering in the fall of 2016 would pay the 2016-2017 base tuition plus $1,000. Current in-state students will be exempt from these increases.

Mr. Griffin said a reduction in the amount of debt incurred by students will enhance socio-economic diversity, which is one of the Rector's charges to the Subcommittee.

The plan assumes annual base tuition increases for the next seven years at inflation (estimated at 2.5%) plus 100 basis points, or an additional 1%. Actual increases would be impacted (positively or negatively) by factors such as changes in Board policy, philanthropic success, changes in state policy or appropriations, etc.

For Virginia students/families who want a fixed four-year tuition cost, the University will develop a four-year fixed-price option that will be available at a reasonable premium. The guarantee will not include fees and school-specific tuition differentials.

Mr. Griffin said the Subcommittee members concluded that the University should establish an objective of raising a $1 billion endowment for need-based scholarships. Such an endowment would fund the current level of tuition grants and relieve the operating budget of this obligation.

Mr. Griffin outlined the reasons for implementing the long-term financial plan at this point in time: financial aid award packages will go out to accepted students no later than Monday, March 30th; there are early decision students waiting for financial aid packages before making their decisions, and the proposal lowers need-based indebtedness of existing and incoming in-state students. The plan is a windfall for current students because their maximum indebtedness will be reduced without paying the step increases. The plan also reinforces the University's position as a best value.

To frame the discussion, Mr. Griffin posed several questions.

1. Is this something we as a University want to do?

   • Subcommittee members believe that reducing debt for Virginians is the best way to increase affordability.
2. If you agree that reducing debt is the best way to increase affordability, are these the right amounts of debt?

- The Subcommittee looked at a number of scenarios and members believe that decreasing student debt by $10,000 for middle- and low-income Virginians funded by two $1,000 tuition step increases is the most compelling scenario.

3. Is a step increase in in-state tuition the best way to pay for it?

- Before looking at tuition increases, the Subcommittee considered all revenue levers. These levers are already being used to fund growth, strategic priorities, and generational faculty turnover.

Mr. Griffin noted that if one believes reducing student debt is the right thing to do and the $10,000 reductions in the debt ceiling are the right amounts, but has reservations about the tuition increases, consider that the University is making a long-term commitment to reduce student debt. This commitment has to be supported by a revenue source that is equally long term, predictable, and sustainable. Tuition is such a source.

Mr. Griffin closed his introductory comments by reviewing the projected tuition and fee rates. For in-state students entering in 2015, the tuition and fees will be $13,468. For out-of-state students, they will be $43,674. For 2016, the expected tuition and fees for the entering class would be $13,939 for in-state students and $45,296 for out-of-state students. The Subcommittee is proposing to add $1,000 to the $13,468 in-state tuition and fees for the 2015 entering class and $2,000 to the projected $13,939 in-state tuition and fees for the 2016 entering class. He said the University has a hybrid tuition-aid model: for out-of-state students, it is high tuition – high need, and for in-state students, it is low tuition – high need.

Ms. Dragas began the discussion session by asking if projections had been prepared to show the impact of the tuition step increases on the percentage of students requiring aid. Mr. Hogan said currently one third of in-state and out-of-state students qualify for aid and the University’s financial aid methodology models the projected impact of a tuition increase on financial aid needs. When developing the plan, the administration made assumptions about the number of families that would need aid. This is difficult to predict exactly, but the University has a fair amount of experience with such predictions.

Ms. Dragas said while she is sympathetic to the concept of not having students graduate with a lot of debt, this should be a thoughtful decision with an appropriate amount of public input. She listed a number of concerns:
1) The lack of discussion about an in-state/out-of-state policy.

2) This is leading to the slow privatization of the University.

3) There should be a review of a long-range plan before voting on tuition increases.

4) The impact of the step increase on the early action offers.

5) Is a student getting a better education for the increased cost? This is a 27% increase.

6) This is a redistribution of costs and public input is needed on its fairness.

7) Will the University disclose the amount each full paying student will pay to subsidize the tuition of others? The amount is already about $4,000 per full paying student.

8) This model is not sustainable and the situation is no different than in 2004 when AccessUVA was approved.

9) The proposal is a major policy change from access and affordability to means testing.

10) While the plan addresses the price of education and the net price of education, it does not address the cost of education.

Ms. Dragas said her biggest objection was that the plan materials were not properly posted.

Mr. Goodwin asked some questions: Should the debt limit for undergraduate students from the McIntire School of Commerce or the School of Engineering and Applied Science be higher because their starting salaries are typically higher? As tuition increases over time, is the University going to increase the debt limit for each class? What is the appropriate contribution that a graduate should make towards his or her education? A certain amount of debt seems to be appropriate, but what is the right amount?

Mr. Griffin said the Subcommittee discussed the option of eliminating debt, but decided some level of debt is appropriate. The Subcommittee could explore the possibility of higher debt ceilings for certain schools, but it is complicated. For example, the University does not necessarily know if a first-year student will be enrolling at the McIntire School.

Mr. Goodwin asked if the Subcommittee looked at the debt burden at the University’s public peers. Mr. Griffin responded that it had.
Mr. Macfarlane said while there should be some debt burden, too much debt can have a negative impact on the student experience. He referenced Ms. Gould’s email where she described the different experiences that students on aid have when compared to students who are not on aid. Students on aid can’t afford to participate in the more prestigious summer internships because they can’t work for a low salary or for no salary. They can’t afford to study abroad. They can’t participate in Greek life or in clubs. Lowering the debt burden could potentially allow students on aid to take on a little more debt to have a broader experience. The plan is revenue neutral and the money from those who have the ability to pay helps those who don’t.

Ms. Gould explained that her email addressed the impact of debt on the student experience and on post graduate opportunities. She said there are ways of having “skin in the game” other than debt, and eliminating debt would be significant. Mr. Griffin asked Ms. Gould about the biggest misconception students may have about the plan. Ms. Gould stated that it only applies to Virginians and while it increases the amount students will pay, it also reduces debt.

Mr. Nau asked Mr. Roberts, Dean of Admission, about the plan’s impact on underrepresented student groups. Mr. Roberts said the net cost is critically important to student decision-making as is the structure of the aid packages in terms of how much is debt, grants, and work study. Reductions in net cost or debt burden have a positive impact on the student’s experience at the University and on a prospective applicant’s decision to apply and/or enroll. The financial aid model consists of three groups: 1) upper income students who do not qualify for financial aid; 2) middle income students eligible for aid; and 3) low income students eligible for aid. The last group is the smallest of the three. Under the proposed plan, Groups 2 and 3 would receive stronger financial aid packages and less debt, which means they should be more likely to enroll. For Group 1, which will have a higher net cost, the question is the tipping point in terms of tuition increases. What is the likelihood that these individuals would select another school because of the step increases? The in-state students in Group 1 look at out-of-state and private school options. With the step increases, the University will still be a bargain because the cost would be half or less than what a Virginia student would pay at a private school or at an out-of-state public institution.

Mr. Griffin asked Mr. Roberts about the impact of the tuition increase and step increase on the early action students. Mr. Roberts reported that as of this morning approximately 400 deposits have been received out of a 3,700 student class; however, early action students rarely make their deposits prior to mid-April even though the acceptance notifications were issued in January. The early action pool includes approximately 280 Virginians; some are low income. Because the Board typically sets tuition in April, there is always some uncertainty for early action students, but the aid packages are adjusted to reflect tuition increases. Distributing the aid packages
soon is important because many students will make their decisions between now and mid-April.

Ms. Fried said there is no perfect debt number. While the plan assesses the need for aid based on the income of a student’s family, it uses an assumption of the average student income to determine the appropriate amount of aid. Another option, which can’t be adopted, would be to base loan amounts on income. Therefore, family income must be used to determine the amount of aid. She asked for a clarification of the cutoff for aid eligibility. Mr. Griffin replied that $100,000 is not the cutoff; the University has run scenarios with family incomes up to $200,000 and determined that a family with $200,000 income, no assets, and four students in college would be eligible for aid.

Mr. Meyers said while the determination of a reasonable monthly loan payment was based on the average first-year earning expectation, the income appreciation for University students is generally faster than inflation so affordability should become easier as a graduate’s career progresses. He also noted that the proposal makes value judgements because the University has a long record of letting medical school students graduate with hundreds of thousands of dollars of debt. He supports a $1 billion endowment for financial aid and a fixed tuition plan.

Mr. Genovese expressed concern about the program’s sustainability. He noted the plan is a tax on those who can afford the full tuition. He does not agree with the idea that students already enrolled will be eligible for the lower debt limits since they are not subject to the step increases and he disagreed with the alternative tuition certainty program.

Mr. Atkinson said the suggestion that a 27% increase is unprecedented is incorrect. He noted that the tuition increase to support the William and Mary Promise was 60% over three years. The University’s proposed plan is similar to the William and Mary Promise in that both reduce the net price for lower income families. Despite the tuition increase, U.S. News and World Reports again rated William and Mary as one of the 10 ten best value institutions. In addition, its admission yields are up.

Mr. Atkinson said it is important to emphasize the difference between net price and sticker price and the proposed tuition increase is revenue neutral. Every dollar raised goes back to aid. He said it could be argued that wealthier families will be subsidizing middle income and lower income families, but this ignores the fact that wealthier families are being subsidized. The data shows that all students get a subsidy because they pay less than the actual cost of their education. The plan reallocates a portion of the subsidy from wealthier families to people in need. It would be a tax if the University was charging for the full cost of education.
Mr. Atkinson said the average debt burden in the country is approximately $25,000. With the proposed plan the University's average debt will be below $18,000. The plan meets 100% of need and all students will benefit from the loan cap. The University is not operating in a vacuum. The former rector's commission set the goal of providing relief for middle income students--it didn't say to hold the line on tuition, but to lower the net cost.

Mr. Fay said student loans are not a strategy to address higher education costs and should not become a crutch. The goal ought to be to minimize the use of student loans. Modifying AccessUVA several years ago was a mistake that could have been avoided if the University had raised funds for it. The University needs to build an endowment for the new plan.

Ms. Harker said two years ago when AccessUVA was modified, the University faced runaway costs and did not have the information that has been developed over the last two years. It also appears that the University's tuition increase will be among the lowest in the state.

Mr. Nau noted the last capital campaign had a strong focus on bricks and mortar with few schools focusing on endowments. Raising an endowment for the plan will ensure that it does not run out of money. The Board should request that this endowment be one of the University's top four or five fund-raising goals.

Ms. Dragas clarified that her reference to the "largest tuition increase" applied to this year. She acknowledged that William and Mary worked through a tuition increase similar to the one being proposed, and it did so without much public debate or discussion. After the decision was made, the College worked with legislators and developed a well packaged presentation. The University, however, is a different institution. The University is making value judgements; the plan penalizes families who saved for college. She supports low income students and voted against changing AccessUVA. Her objection is the focus on price rather than cost. As long as this focus continues, the Board will have these discussions for years to come. She made the point that redistribution is already taking place because those in the upper and middle income levels pay more taxes, so while they may be receiving the same subsidy, they are also paying more into the general fund. The plan is a redistribution system overlaying the tax redistribution system. The concept deserves more debate and should have had input from students and parents. The proposal is unvetted, unfair, and unsustainable.

Mr. Griffin said the Subcommittee had solicited significant input and there have been discussions with students and Board members. Mr. Atkinson noted that the Subcommittee held a number of public meetings with posted materials and discussed the concept, although not the particular dollar amounts, with the Board at the November meeting. Mr. Goodwin noted that no one has presented a better alternative. Ms. Kilberg said this is a good and fair proposal and the Board ought to
bring this effort to a conclusion. Rector Martin agreed. Dr. Long said he felt the process was open and transparent.

On motion, the Finance Committee approved the following resolution. Rector Martin then agreed to Mr. Griffin's proposal that the full Board also vote. There was a second on the motion and the resolution was opened for discussion by the full Board.

Mr. Genovese restated his concern about the predictability of the tuition certainty plan. Mr. Griffin noted that the Board is only voting on the intent to develop a tuition certainty plan. He said those who choose to participate in the plan, which is voluntary, will pay a premium.

In response to previous questions about the average indebtedness at other institutions, Mr. Griffin provided the following information:

- University of Virginia: $21,591
- University of North Carolina at Chapel Hill: $16,900
- Vanderbilt University: $17,000
- University of California at Berkeley: $17,900
- University of California at Los Angeles: $20,000
- Cornell University: $20,000
- Duke University: $19,000
- University of Pennsylvania: $21,000
- William and Mary: $24,000
- Virginia Tech: $25,000
- University of Michigan: $27,000

He said after the adoption of the plan, there will be a significant drop in the University's average indebtedness.

Ms. DiNardo asked to delay the vote until the next day to allow more time to process the proposal and there was some discussion about doing this. Mr. Griffin noted that Mr. Roscoe Roberts indicated the materials were posted in compliance with the state Freedom of Information Act.

On motion, the Board members present approved the following resolution with Ms. Dragas voting no and Ms. DiNardo abstaining.

**AFFORDABILITY RESOLUTION**

WHEREAS, the Finance Subcommittee was charged by the Rector of the Board of Visitors to recommend a strategy to improve affordability and predictability for low-income and middle-income Virginia students and their families; and

WHEREAS, reducing the financial burden of low-income and middle-income Virginia students and their families will advance the University's goals related to affordable access for qualified students and enrollment of a more diverse student body; and
WHEREAS, reducing the financial burden of low-income and middle-income Virginia students and their families, as the Commonwealth of Virginia has defined those terms, was made a policy priority by the Virginia General Assembly through the Higher Education Opportunity Act of 2011, also known as the "Top Jobs Act"; and

WHEREAS, all Virginia students, regardless of personal and family income, currently pay less in tuition than the cost of the education they receive at the University, and this will continue to be true after implementation of the tuition and financial aid actions provided in this resolution; and

WHEREAS, the Finance Subcommittee recommends that the University enhance affordability by lessening reliance on loans in financial-aid packages for Virginia students, including reducing by $10,000 the maximum need-based indebtedness that a Virginia student can incur over four years, while continuing to meet 100% of demonstrated financial need;

RESOLVED, the Board of Visitors approves a reduction in the maximum loan amount from $14,000 to $4,000 for low-income Virginia students, and from $28,000 to $18,000 for all other Virginia students demonstrating financial need; and

RESOLVED FURTHER, the Board of Visitors approves step increases in Virginia undergraduate base tuition of $1,000 in Fall 2015 and an additional $1,000 in Fall 2016, with current Virginia students exempt from the step increases; and

RESOLVED FURTHER, for Virginia students who enroll in Fall 2015 or later, the University will offer the option of a four-year, fixed-price base tuition at a reasonable premium. This guarantee will be exclusive of fees and school-specific tuition differentials. The implementation of this guarantee, including the determination of the pricing premium is delegated to the Executive Vice President and Chief Executive Officer, who will seek the concurrence of the Chair of the Finance Committee regarding the pricing premium.

Mr. Griffin adjourned the Finance Subcommittee meeting at 4:50 p.m.

SGH:wtl
These minutes have been posted to the University of Virginia’s Board of Visitors website:
http://www.virginia.edu/bov/financesubcommitteeminutes.html