RESTRUCTURING

Public institutions of higher education and the Commonwealth of Virginia are now in the second decade of operating under the Restructured Higher Education Financial and Administrative Operations Act (Restructuring Act), and for Level III institutions such as the University of Virginia (UVa), its associated management agreement. Restructuring has provided UVa critical flexibility to manage its operations in the changing higher education environment, in part brought about by the severe economic downturn of the last decade, which, among other challenges, has resulted in continued material disinvestment in higher education by most states including the Commonwealth of Virginia.

We are very appreciative of the opportunity to respond to this request for suggested further modifications to the operational relationship between UVa and the Commonwealth. We believe this is a conversation that is vital to all public institutions in the Commonwealth given what we perceive to be the accelerating competitive environment in higher education across the country where financial challenges and competition for talent – students, faculty, and staff – will inevitably lead to suboptimal performance and the possible failure of many institutions.

In responding to this request, we have set forth (1) major policy modifications, (2) business process improvements, and (3) organizational excellence partnerships that we propose be considered as we look to the next phase of Restructuring. In offering these suggestions, we have attempted to explain the underlying rational as the reality of our experience in many cases is not consistent with the public perception of these issues. We believe that our proposals further the competitive position of all public institutions in the Commonwealth, which we believe needs to be a higher, if not the ultimate, policy priority given the challenges facing public institutions in the state. We further believe that our proposals support economic development in the Commonwealth.

(1) Policy Modifications

There are several policies laid out in the Restructuring Act or in other legislation that, if modified, would allow institutions to operate more efficiently and to better respond to our constituents.

**Financial Stability** – Since the 2004-05 academic year, UVa's inflation adjusted unrestricted educational and general (E&G) appropriation per in-state student has declined by 20.7 percent, from $10,739 to $8,516 in 2016-2017. Additionally, as was the case this past year, shortfalls in the Commonwealth’s tax revenues have resulted in mid-year downward budget adjustments. In 2017-18, the general fund appropriation represents 8.5% of the operating budget for the Academic Division, compared to 13.4% in 2004-05. We understand the Commonwealth's financial challenges and while we believe it is in the best interest of the Commonwealth and its citizens that there be greater investment in higher education, we believe there are strong headwinds that will restrain greater investments given the other financial obligations facing the Commonwealth (particularly health care costs).
Long-term planning and organizational success depend on the ability of an institution to predict and manage all of its revenue sources. To that end, we would like to explore alternatives that will ensure the stability and predictability of annual general fund appropriations. Additionally, we would also hope that our capital budget allocations remain at no less than current levels and believe that increased appropriations can easily be justified for research-related investments given the potential economic impact on the Commonwealth.

*Enrollment Management* – The dialogue around enrollment levels would be enhanced by a better understanding of the unintended consequences of mandating higher in-state enrollment at UVa and other public institutions that attract significant numbers of out-of-state students. Instead, we propose shifting the conversation from mandated in-state/out-of-state ratios to the commitment to serve Virginia students based on the numbers of Virginia high school graduates.

We are steadfast in our commitment to serve Virginia students, but this commitment should not displace out-of-state students who have outstanding academic qualifications and provide cultural diversity that enhance the learning environment for all students and make us a global institution. We compete for students from all 50 states and from many countries around the world, and can best meet our obligation as a public institution by offering students of the Commonwealth the highest quality education and a community that challenges them beyond their comfort zones.

Our principal purposes as a university are to attract and nurture talent – both students and faculty – and to contribute to the economic welfare of the Commonwealth. The quality of our faculty is inextricably intertwined with the quality of our students because the quality of the student population is a key consideration when talented faculty members select one institution over another. Therefore, student enrollment policies ultimately influence the quality of our faculty and research efforts, which in turn influences our ability to contribute to economic development.

In response to the General Assembly’s calls for enrolling more Virginia students and consistent with the goals of the Higher Education Opportunity Act (and Grow By Degrees Campaign), the University committed in 2010 to increase in-state undergraduate enrollment by 1,171 students by the 2018-19 academic year. Due to higher than expected yield rates, we will achieve our goal one year early, in fall 2017. Further, in January 2017 we committed to enrolling an additional 400 in-state undergraduate students over the next four years, which will have an ongoing operational cost of $3.2 million annually. The additional capital expense, primarily for housing, is factored into our multi-year capital plan, which is updated annually. However, there are also qualitative costs to this growth, specifically around the increased demand for student services and student access to classes and fields of study they desire. It is not always feasible to increase class size; in some instances, overcrowded classes may have a negative impact on interactive learning experiences. Ultimately, overcrowding dilutes a student’s educational experience, as well as the standing/reputation of UVa.
An issue routinely introduced for consideration by the General Assembly is imposing a limit on the percentage of out-of-state undergraduate students in favor of increasing the percentage of in-state students. UVa and certain other public institutions have resisted these proposals because they would undermine the diversity and quality of our student body which in turn adversely impacts our ability to attract the best in-state students and in turn the best faculty. Moreover, it significantly reduces overall tuition revenue. For every out-of-state student replaced by an in-state student we lose approximately $26,300 in tuition revenue. In addition, as noted below, limiting out-of-state students would have an impact on our philanthropic efforts and potential.

The foregoing consequences of reducing the number of out-of-state students are generally understood and we believe persuasive. However, there are elements of this analysis that are not well understood. First, it is important to note the number of Virginians who gain admission to UVa, as well as the significant number of in-state students who do not matriculate. For the upcoming 2017-18 academic year, we offered admission to 4,346 in-state first-year students, 2,550 of whom accepted our admission offer, or 58.7 percent. We also admitted 716 in-state transfer students, many of whom are transferring from Virginia community colleges. We do not have precise information/data, but we know generally that while we lose some students to other Virginia schools – both public and private – the vast majority who decline our admission offer attend out-of-state schools. The reasons vary for attending an out-of-state institution – some have better-perceived brands or provide greater merit scholarships and/or financial aid packages. What is clear is that over the last decade the competition for the best in-state students has intensified greatly due to the desire to (1) increase student diversity, (2) offset declining student populations in a number of regions of the country, or (3) generate greater revenue due to higher out-of-state tuition levels.

As we are strongly encouraged to admit in-state students with lower class rankings or qualifications, the desire of the top students in that same class to attend UVa may decline thus contributing to the exodus from Virginia. Consequently, some of the very best students in the Commonwealth are leaving Virginia for their college experience. Losing some of our best talent has real implications for long-term economic development of the Commonwealth. We understand the disappointment students and their parents experience when they are not admitted to UVa (or to their first-choice institution), but 95 percent of students who apply to UVa, William & Mary, Virginia Tech, and James Madison receive an offer from at least one of the four institutions. Based on this statistic, we believe greater attention needs to be placed on retaining our best students many of whom are leaving the Commonwealth to attend college.

Another repercussion of increasing in-state enrollments at certain institutions is the impact on the other public institutions of higher education in the Commonwealth. With a static level of college-bound high school graduates in the Commonwealth for the foreseeable future, and with increased competition for the Commonwealth’s best high school graduates from other states, a policy that encourages further consolidation of graduating high school students into a few institutions serves only to cannibalize the other institutions. We know
all too well the consequences of increased enrollment by certain schools – as an example, UVa’s College at Wise loses students when Virginia Tech increases enrollment.

Demographic trends suggest that over the medium-term future, there will not be enough college-bound students in Virginia to support the enrollment needs of all Virginia public higher education institutions. Consequently, we must think carefully and critically about encouraging more growth at certain institutions, as this will likely come at the expense of other institutions. Alternatively, institutions that attract more out-of-state students should be provided the additional flexibility and authority to do so. All of Virginia’s public institutions will be strengthened by:

- enhancing the quality of education and the cultural diversity of the Commonwealth by attracting the nation’s most talented students;
- increasing the number of potential students for institutions that rely primarily on in-state students;
- attracting additional tuition revenues that can be used to subsidize in-state tuition for Virginians; and
- strengthening long-term economic development potential by retaining more of our best student talent.

UVa cannot ignore the contributions of out-of-state alumni and students to our financial model. In FY2017-18, UVa will receive approximately $125 million in E&G appropriations from the Commonwealth. In comparison, we receive two-thirds of our annual tuition revenue (approximately $210 million) from out-of-state students, and approximately $46 million annually in gifts from out-of-state alumni and parents (nearly 55 percent of total alumni and parent giving). Out-of-state students also contribute directly to the Commonwealth’s economy through their spending on goods and services, community involvement, and contribution to the University’s research efforts.

**Tuition Setting** – The authority of the Board of Visitors to establish tuition and fees is codified in the enabling legislation of the University, in the Restructuring Act, in the Management Agreement, and in the Higher Education Opportunity Act of 2011. The ability of an institution to control all of its revenue sources is critical to long-term planning and organizational success. Yet in recent years, there have been a number of formal and informal calls or mandates to minimize tuition increases. This is understandable given the public perception of the cost of higher education, but oftentimes it is premised on erroneous, if not completely inaccurate, information. Since FY1991, on a per-student basis, UVa’s cumulative undergraduate tuition increase is less than the decrease in general funds UVa receives from the Commonwealth – using inflation-adjusted dollars, general fund appropriations per student decreased nearly $8,000 over the 25-year period while tuition increased by $6,800. Over time, UVa’s Board of Visitors has demonstrated a strong commitment to minimizing tuition increases in order to provide access for all Virginians. Moreover, we have done so even when facing frequent unfunded obligations imposed by both the state and federal governments (including pension liability) and reduced support from the Commonwealth. Per-student support for higher education by the Commonwealth ranks 41st lowest in the country (source: SHEF 2016 Data by the State Higher Education Executive Officers).
While no specific policy modifications are required at present, this is a critical governance policy issue and it should be re-emphasized that the authority to establish tuition and fees rests solely with the Boards of Visitors.

**Human Resources** – We would like to explore the opportunity to renegotiate aspects of the Human Resources policy included in the Management Agreement with the goal of re-examining current policies around transferring classified employees into the University staff system and the applicability of state human resources policies (e.g. layoff, probation) to University staff.

The Restructuring Act and the subsequent Management Agreement allowed Level III institutions to create human resources systems separate from the state system. We are prohibited, however, from involuntarily transferring existing employees to our new systems. As a result, most staff employees are members of the Virginia Retirement System; all employees are subject to the state grievance procedure; and the University is governed by the state workers’ compensation policy.

Nine years after establishing the UVa human resources system for staff employees, through new hires and voluntary conversion of classified employees to University staff, there remain 1,304 state classified employees in the Academic Division, or 22 percent of our total salaried staff workforce. Managing two separate human resources systems for staff is becoming increasingly difficult as the number of state classified employees continues to decline.

The University of Virginia employs nearly 21,000 faculty, staff, and team members across its Academic Division, Health System, and College at Wise. In 2015, we began a project to transform the way we deliver HR services in order to deliver on our mission and strategic goals. An external consultant collaborating with us on this project developed an HR Maturity Model that defines service levels over 12 separate lines of HR business. The service levels range from “Basic” to “Leading”. The Ufirst project, as it is known, will allow the University to move closer to the “Leading” service level across each of the 12 competencies. In some cases, the dual system of staff employment and the limits placed on classified state employees by the state-managed system present barriers to achieving a “Leading” designation.

**Financial Incentives** – Permanently restore financial incentives provided for in the Code of Virginia’s restructuring language: procurement card rebates, interest on Educational & General balances, and eVa rebates on sole source procurements. Eliminate the practice of reverting cost savings from payments from students, federal research, and philanthropy back into the general fund.

**Long-Range Planning** – The inability to accumulate appropriate reserves, both capital and operating, in the educational and general program as we do for auxiliary enterprises hampers the ability to develop meaningful multi-year plans. A non-reverting fund subject to certain limitations would allow an institution to make investments that it could not
otherwise make within an annual appropriation of general and non-general funds in E&G (e.g., major equipment purchases, anticipation of new faculty hires).

*Academic Programs* – We propose that the Boards of Visitors at Level III institutions be delegated the authority to approve new academic programs provided they demonstrate that all new programs are within the mission of the institution; there is demand for the program; and appropriate resources are available to support the programs.

**(2) Business Process Improvements**

In addition to the policy modifications proposed above, we have identified several transactional/technical amendments to streamline operations and improve efficiency, all of which would require legislative action.

- Revisit daily transactional posting in eVa; use the site to advertise business opportunities and post solicitations. Revisit eVa transactional assessments in favor of a lump sum annual fee.
- Eliminate requirement to post RFP advertisements over $50,000 in a newspaper.
- Increase small purchasing threshold from $50,000 to $100,000 to align with current law.
- Amend current list of commodities not subject to competition.
- Allow non-VASCUPP member institutions to access cooperative contracts negotiated by the Virginia Higher Education Procurement Cooperative without prior approval from the Department of General Services.
- Move to a true sum sufficient non-general fund appropriation, where non-general fund appropriation is simply equal to non-general fund activity. Eliminate appropriation, allotment, and approval actions related to all non-general funds (including but not limited to, tuition and fees, auxiliary revenues, sponsored research activity).
- Relieve required reporting by DHRM for HR activities that are covered under the management agreement (i.e. performance management scores)

**(3) Organizational Excellence Partnerships between Higher Education Institutions and Central State Agencies**

There are also opportunities for improvement in the business and academic processes between central state agencies and institutions of higher education that would enhance efficiency and effectiveness.

- Develop consistent grant-making procedures across state agencies.
- Re-examine the Equipment Trust Fund process.
- Explore opportunities to streamline the Comprehensive Annual Financial Report (CAFR).
- Eliminate non-value added reporting requirements.
- Coordinate external reviews of higher education institutions and limit the number of hours state agencies can review institutions annually outside of the annual audit.
As we explore new opportunities for additional authorities we would like to pursue, we recognize the ongoing need to demonstrate our commitment and contributions to the Commonwealth through various accountability measures. The strategies included in our six-year plan address many of these items, as do the additional sections related to our economic development efforts, intellectual property assignments, and externally sponsored research. We welcome the opportunity to discuss these issues with the Op-6 group and members of the General Assembly, and believe the outcome of these discussions would benefit both the institutions and the Commonwealth.