MEMORANDUM

TO: The Educational Policy Committee:

Stephen P. Long, M.D., Chair
Frank B. Atkinson
A. Macdonald Caputo
Hunter E. Craig
Allison Cryor DiNardo
George Keith Martin
Linwood H. Rose
Hillary A. Hurd
Helen E. Dragas, Ex Officio
Robert S. Kemp, Consulting Member

and

The Finance Committee:

Victoria D. Harker, Chair
Frank B. Atkinson
A. Macdonald Caputo
The Honorable Alan A. Diamonstein
Vincent J. Mastracco Jr.
Edward D. Miller, M.D.
John L. Nau III
Timothy B. Robertson
Helen E. Dragas, Ex Officio
Daniel M. Meyers, Consulting Member

and

The Remaining Members and Senior Advisors of the Board:

Bobbie G. Kilberg Leonard W. Sandridge Jr.

FROM: Susan G. Harris

SUBJECT: Minutes of the Joint Meeting of the Educational Policy Committee and the Finance Committee on November 9, 2012

The Educational Policy Committee and the Finance Committee of the Board of Visitors of the University of Virginia met jointly, in open session, at 8:20 a.m., on Friday, November 9, 2012, in the

Also present were Marvin W. Gilliam Jr., Ms. Bobbie G. Kilberg, William H. Goodwin Jr., and Leonard W. Sandridge Jr.

Mr. Robert S. Kemp, the Consulting Member for the Educational Policy Committee, and Mr. Daniel Maxwell Meyers, the Consulting Member for the Finance Committee, were also present.

Present as well were Ms. Teresa A. Sullivan, John D. Simon, Patrick D. Hogan, Ms. Susan G. Harris, Paul J. Forch, Ms. Susan A. Carkeek, Simeon E. Ewing, John Sanders Huguenin, Ms. Patricia M. Lampkin, McGregor McCance, Anthony P. de Bruyn, Ms. Nancy A. Rivers, Ms. Colette Sheehy, Thomas C. Skalak, and Ms. Debra D. Rinker.

Mr. Craig Goebel and Mr. Ben Edwards, consultants from Art and Science Group, were also in attendance as presenters.

Ms. Harker welcomed everyone and turned the meeting over to Mr. Patrick D. Hogan, Executive Vice President and Chief Operating Officer. Mr. Hogan said that several factors have led the Board and the University to engage a consultant to review the Access UVa program: changing demographics of financial aid recipients due to the recession, fiscal pressures on the University with the rapid escalation of costs, and the uncertain future of federal financial aid. Costs of the program have increased from $14 million in the first year to over $40 million.

Background on Access UVa Program

Mr. Hogan introduced Mr. Stephen A. Kimata, Assistant Vice President for Finance and Director of Student Financial Services, to provide background on the Access UVa program. He began with a slide of some key concepts regarding undergraduate financial aid:

- Merit vs. Need-Based Aid: Access UVa is all need-based aid, calculated based on parents’ and students’ income and assets.
- Cost of Attendance = tuition and fees + room and board + personal expenses and travel + books.
- Expected family contribution - amount family will contribute toward expenses.
- Financial Need: Cost of Attendance minus expected family contribution equals financial need. Financial need is what drives the calculation for need-based aid.
• Gross Price is the cost of attendance, net price is the gross price less grant aid. Last year the federal government required every school to add a net price calculator to their website. This helps potential students in comparing schools.
• Net tuition revenue is the gross revenue less financial aid to students.
• Discount rate equals institutional aid divided by gross tuition revenue. UVA's was 14.5% last year; most private schools are greater than 30%.
• Need-blind and meets full need: UVA is among an elite group of colleges that admits students based on academic qualifications and fit, without considering their ability to pay, and offers a financial aid package of loans, grants, and work study that meets 100% of a family's demonstrated financial need.
• Need-blind: A school that admits students regardless of their ability to pay.
• Need-aware: A school that generally admits students based on academic qualifications and fit, and also takes into consideration their ability to afford the cost of attending.

Mr. Kimata summarized the elements of financial aid at the University through Access UVa: the program meets 100% of demonstrated need for all admitted students, replaces need-based loans with grants for students whose family income is within 200% of the Federal poverty guidelines, caps need-based loans for standard academic year costs, and provides the Financial Literacy Initiative to educate students and their families about financial literacy.

The metrics tracked for AccessUVa are the percentage of low-income students (under 200% of poverty level, or $44,700 for a family of four in 2012-13), the percentage of middle-income students (under 500% of poverty level, or $110,750 for a family of four), the percentage of Pell Grant recipients (13.3% for 2011-12, up from 7.8% in 2004-05), and the percentage of students with need (33.5% in 2011-12, up from 24.5% in 2004-05). He showed a graph with all of the sources of funds used for need-based financial aid. Institutional grants are a major component of those funds. Federal grants, loans and work study, state grants, outside grants, athletics scholarships, and endowment grants are other sources.

AccessUVa Program Review

Mr. Hogan introduced Mr. Ben Edwards and Mr. Craig Goebel, consultants from Art and Science Group, to report on their analysis of the program. Mr. Edwards outlined the three-part research design:
1. A Financial Aid Optimization Study to examine what would happen to revenues and class makeup if you made changes to how aid is
awarded. They reported the results of this study last February.

2. An in-depth survey of prospective students to understand the effects of aid on student choice relative to all factors in the application and enrollment decisions.

3. A benchmarking study of peer institutions, both public and private.

The Financial Aid Optimization Study mapped recent awarding of aid at UVA and modeled alternatives, which concluded that the University is well-optimized for in-state students.

Mr. Edwards said the survey of prospective students had as its central piece scenario testing of pricing/aid and positioning options. They tested potential changes in the total cost of attendance and determined price sensitivity. The survey was of 904 prospective students conducted in late winter through early spring: 523 were in-state, 381 were out-of-state; 619 applied to UVA, 285 did not apply. In late spring through early summer, they talked to 775 admitted applicants: 400 were in-state, 375 were out-of-state, 456 were admit-declines, and 319 matriculated to UVA.

The benchmarking study focused on need-based financial aid costs and performance of peer institutions since the economic crisis. The participants were UC-Berkeley, University of Michigan, University of North Carolina, Virginia Tech, Cornell, Duke, and Vanderbilt. In-depth interviews were conducted and materials were reviewed with the understanding that the data collected would be shared.

Mr. Edwards said they are at the "findings" stage of the process, specifically focusing on the financial findings. The net tuition revenue should be the focus. He said to think of aid as a discount, not a cost. There is both price sensitivity and aid sensitivity, which may have different psychological effects, may vary between markets, and may vary between segments of our market.

He drew several conclusions for the University:

- The design of UVA’s need-based aid program limits net tuition revenue.
- UVA’s prospects are much more aid-sensitive than price-sensitive.
- Reductions in levels of aid to students receiving aid would have negative enrollment effects.
  - Analysis necessarily excluded lowest-income applicants.
  - The effects would have been relatively modest in-state and more significant out-of-state.
• UVA could increase net tuition revenue modestly by increasing the cost of attendance, or by combining increased tuition and aid.
• In terms of market demand, UVA is underpriced, in-state and out-of-state.

Mr. Edwards said the aid program is generous for a public institution because it meets the full need of out-of-state students, has no work-study requirements for low-income students, maintains a debt cap based on the cost of attendance rather than family income, and requires no minimum student contribution in the calculation of expected family contribution. This results in lower revenues.

Mr. Goodwin asked how much of the total cost of aid is used to keep the cost down for out-of-state students compared to in-state students. Mr. Kimata said that out of the $40 million in institutional aid given, $22 million was to in-state students, and about $18 million to out-of-state students. This study will help determine the point of diminishing returns, when raising tuition necessitates raising the amount of aid yet net tuition revenue may remain the same.

Mr. Robertson asked whether a certain grade point average must be maintained and the answer was no.

Mr. Edwards continued with their findings on aid at UVA relative to its peers. A much higher percentage of aid recipients at UVA are middle income; the ratio of middle to low income recipients out-of-state is two to one. Over the past two years, UVA has experienced the highest rate of budget growth and cost per student aided. They determined there would be no negative effect on enrollment numbers if tuition was increased for in-state and at the lower increments they tested for out-of-state prospects. He said UVA could achieve marginally higher revenues by offsetting larger price increases with aid increases, but that would require aiding all students.

The study also found that prospects do not have an accurate awareness of the cost of attendance or how generous the AccessUVA program is with need-based aid compared to competitors. The majority of students overestimate the cost of UVA, and half don’t know about the debt cap.

Mr. Edwards reported that all of the peers are dealing with the same issues: changes in state and federal funding, broader range of incomes among families seeking aid, increase in expenditures on need-based aid, and larger average grants. None have changed their policies, but they are also assessing their aid programs and clarifying their objectives. Most peers have diverted other funds to aid, or have created new funding initiatives such as loan caps, housing allowances, summer school, and study abroad programs. Many
peers have purposely raised substantial funds for need-based aid driven by the leadership.

Mr. Goodwin pointed out that in today’s political climate, large tuition increases may not be allowed.

Mr. Hogan reviewed the timeline for the next steps for the assessment of AccessUVA. The benchmarking and the overview of survey research findings were given today. Recommendations and a discussion are planned for the February 21-22, 2013 Board meeting, tuition and fees will be decided at the April 2013 special meeting of the Board, and final approval of any modifications to the Access UVa program will be decided at the May 20-21 Board meeting for implementation in the 2014-2015 academic year.

Mr. Nau pointed out that communication will be important when we are between the recommendations and approval of modifications stages to be sure that the reasoning is understood. Communication is also important in increasing the awareness of the program.

There was a request for a summary of the initial objectives and costs of the program at its inception. A question was asked, what percentage of revenue comes from out-of-state tuition and fees? Ms. Dragas asked what the Board’s role versus the administration’s role in decisions regarding the program are or should be, since this has become an unbounded commitment of the university. These questions will be answered at the next meeting.

On motion, the meeting was adjourned at 9:20 a.m.

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