

Board of Visitors Retreat

July 10, 2009

Tuition Revenue

Background

The University of Virginia charges tuition to 20,370 headcount students enrolled in undergraduate, graduate, and first professional schools during the regular academic year with another 4,300 students enrolled in Summer Session¹. Self sufficiency agreements with the Darden School and the Law School allow each to propose their own tuition structure and annual increases to the Board of Visitors. Ninety percent of the revenue generated by the Law and Darden schools is returned to them with ten percent retained by the University to cover services they receive from central administrative units.

For the most part graduate tuition provides little incremental revenue for the institution because of the competitive requirements to provide financial aid to graduate teaching and research assistants. The University pays for the equivalent of in-state graduate tuition, fees, and a healthcare subsidy for all students working as graduate teaching assistants. Grants pay these same costs for graduate research assistants. For out-of-state students the institution pays for the differential between in-state and out-of-state tuition and fees for graduate teaching assistants and graduate research assistants. These funds come from tuition revenue. Additional financial assistance is provided to graduate students from school based endowments and grants.

This leaves the burden of supporting the operating costs of the institution to the tuition collected from regular session undergraduate students. Tuition supports 34% of the educational and general (E&G) operating budget in 2009-10. In comparison, tuition made up 22% of the E&G operating budget 20 years ago.

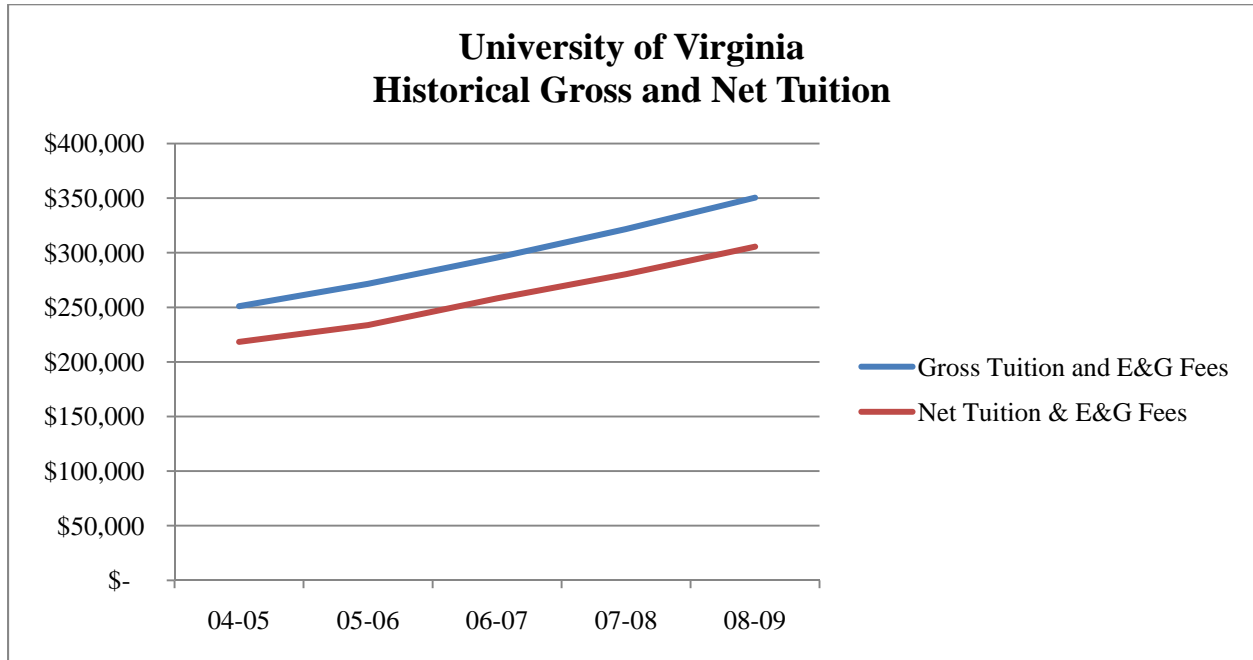
The University takes several factors into consideration when it sets tuition each year. We look at our tuition and fee rates compared to our national peers (AAU institutions and the SCHEV peer group) and compared to other public institutions in Virginia. We consider the impact on financial aid of any potential tuition increase. Finally, we look at the expected cost increases in the budget and the available funds to address those costs. We are always sensitive to the need to maintain access and affordability.

Historical Trend

The chart below reflects gross tuition revenue and educational and general fees billed to all students. Net tuition and E&G fees represent available revenue after funding for Access

¹ Fall 2008 and summer 2008 enrollment.

U.Va., and graduate financial aid. Both gross and net tuition have increased at substantially the same pace over the five year period.



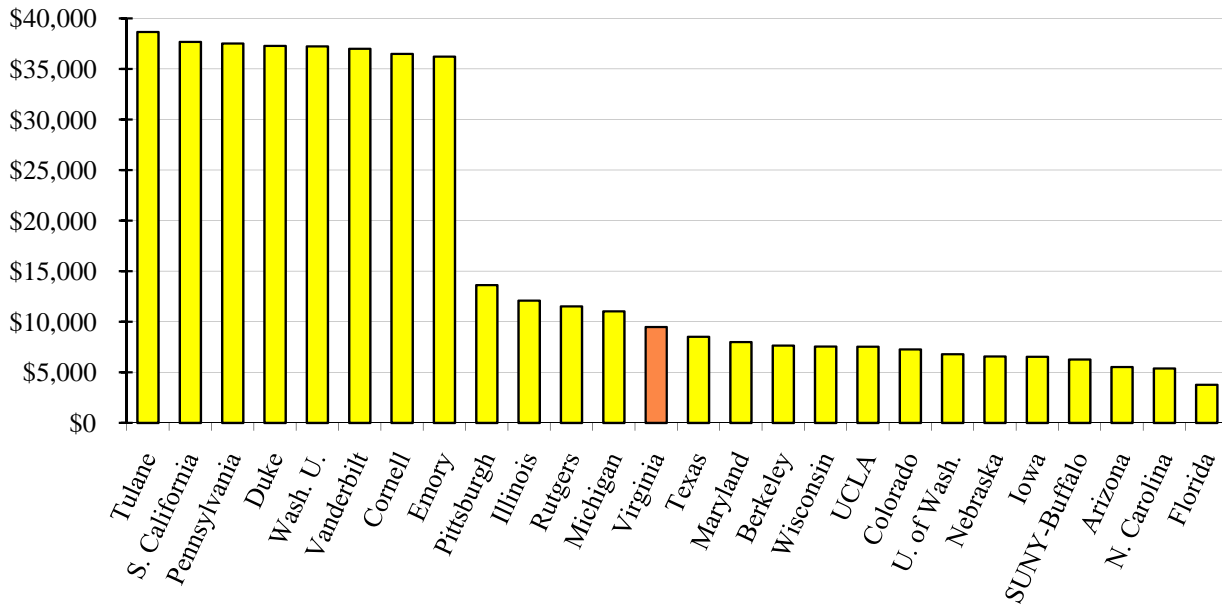
Comparison to Peer Institutions

The University regularly compares the tuition rates it charges to those at peer public and private institutions. In general we tend to be on the high end of the range for public institutions. While our out-of state rate is quite a bit less than private peer institutions it is difficult to get a true sense of the comparison without also taking into consideration the tuition discounting in which private institutions regularly engage. Tuition discounting is the strategic use of financial aid to lower the sticker price of a college education for designated applicants. In a 2002 report from the National Association of College and University Business Officers the average discount rate for private four-year colleges was 39.4 percent of the published tuition price, with more than 8 out of 10 students receiving some form of discount. At public institutions the average discount rate was 13.9 percent with roughly two of ten students receiving a discount. Tuition discounting is normally used to address financial need of students, but can and is used to shape an incoming class to meet certain institutional goals.

For public institutions there is an inverse relationship between tuition charged to in-state students and the support the institution receives from the state. For example, in the following graph the institutions (Arizona and North Carolina) that have very low tuition also benefit from very high state support relative to other institutions. U.Va., on the other hand, while in the middle of the range on tuition ranks fourth from the bottom in general fund appropriation per in-state student. For reference, University of Pennsylvania, Duke, Vanderbilt and Cornell are

private institutions included in the more refined and limited peer group that the Board of Visitors uses to benchmark performance while Michigan, UC-Berkeley, UCLA, and UNC are the private peer institutions in that group.

**2008-2009 Undergraduate In-State Tuition and Fees
SCHEV Peer Group – Public & Private**



Issues for Consideration

- **Maintaining the Board of Visitors’ authority to set tuition and fees**

The major objective behind the Restructuring Act of 2005 was to return to the Boards of Visitors of public higher education institutions in the Commonwealth the authority to set tuition and fee rates at their institutions. Despite the Boards’ statutory authority over tuition and fees, governors and legislatures in the past 15 years have regularly usurped that authority in favor of tuition caps and controls. Even since 2005 the legislature has attempted to influence tuition rates by holding incremental general fund appropriations as incentives to moderate tuition increases.

To effectively manage the University, the Board must maintain its decision making authority over the Academic Division’s largest revenue source. This will require regular communications with the administration and with legislators, as well as active opposition to any attempts to override this authority. Consideration might be given to a more organized

effort to educate legislators on the importance of the Board of Visitors' decision making authority over tuition, as well as on the in-state/out-of-state mix of enrollment.

- **Impact of full funding for AccessUVa in the absence of private support**

We are all proud of AccessUVa and fully support its premise that financial resources should not prohibit a qualified student from enrolling in the University. It is, however, not an inexpensive program. The total cost of the program has increased from \$39.2 million in 2005 to \$73.3 million projected for 2010, an 87% increase over the last five years. We employ federal financial aid resources, state general fund appropriations designated for undergraduate financial aid, and restricted private resources to the program, but the gap in funding must be covered from institutional unrestricted resources. In 2004-05 our institutional commitment was \$11.5 million. That commitment has increased to \$29.7 million in the 2009-10 budget, a 158% increase over the period. Of that amount 22% comes from unrestricted endowment income with the balance coming from tuition. Until the recent establishment of the Blackburn Scholarship Fund, with \$1.3 million raised to date, there have been virtually no donations specifically for AccessUVa. We have institutionally allocated scholarship fundraising that is either unrestricted or need-based to AccessUVa.

As future tuition options are weighed we must consider the impact of those decisions on the financial requirements of the AccessUVa program. Today, the institutional commitment of unrestricted resources to undergraduate financial aid is 11.5% of undergraduate tuition collections, up from 8.3% just five years ago. In 2009-10 we devoted 36% of new tuition revenue to meeting the requirements of AccessUVa.

- **State's base adequacy calculation and the imbalance between the state and family (tuition) contribution**

The base adequacy calculation is the state's current funding formula for higher education that in 2001 replaced the former operating budget guidelines known as Appendix M. Both the former and current sets of guidelines provide a common yardstick for measuring funding for higher education and a consistent way to evaluate funding requests. At last calculation the University was funded at 94% of the base adequacy guidelines in 2007-08 leaving a shortfall of \$30.9 million. It is important to look behind those numbers at the imbalance between the state's contribution to the funding formula compared to tuition. In fact, the general fund meets only 77% of the calculated need resulting in a \$43 million shortfall while tuition is 104% of the guideline. The budget reductions in 2008-10 will only worsen that condition. We estimate the general fund percentage will fall to 72% of the guideline.

The simple statement here is that the state does not pay for its share of the cost of education and part of that funding shortfall has been shifted to students and families. Higher education has argued that "fixing the base" is important, however, the state has not had adequate resources to address this issue so the imbalance only increases over the years.

- **Reporting requirements of the Higher Education Opportunity Act of 2008**

The Higher Education Opportunity Act of 2008 was enacted on August 14, 2008, and reauthorizes the Higher Education Act of 1995, as amended. The act includes a number of provisions aimed at rising college costs. Beginning July 1, 2011, the Department of Education will publish a list of the top five institutions in each of nine categories with 1) the highest tuition and fees; 2) the highest “net price”; 3) the largest percentage increase in tuition and fees; and 4) the largest percentage increase in net price. Institutions named to this list will be required to submit a report outlining the reasons for the increase and the steps that will be taken to reduce costs. Names of those institutions will be posted on a web site.

The Board will need to be mindful of these federal requirements as it plans for future tuition and fee increases.

- **Impact of funds received under the American Recovery and Reinvestment Act of 2009**

The American Recovery and Reinvestment Act of 2009 (ARRA) provides states with one-time money to restore funding levels at public institutions of higher education to the higher of 2008 or 2009 levels. The calculation in Virginia resulted in \$276 million available for higher education. The General Assembly chose to allocate only 50% of these funds in fiscal year 2009-10, saving the remaining 50% for fiscal year 2010-11. Its action provides \$10.7 million in operating funds in each of the next two fiscal years for the University, enough to partially offset the planned \$23.1 million general fund reduction in 2009-10.

The ARRA money is to be used to mitigate tuition increases for in-state students. In response to that provision the Board of Visitors approved an in-state undergraduate tuition and E&G fee increase of 5% for 2009-10 compared to an earlier planned increase of 9.9%. It is reasonable to assume that a similar increase will be assessed in 2010-11. To the extent that ARRA funds are used for ongoing operating expenses a hole will be created in the budget in fiscal year 2011-12 when the ARRA funds disappear. One of the primary revenue sources to fill that hole will be tuition. We have projected that it could take as much as a 3% increase in undergraduate in-state tuition in each of the next two years to generate the revenue needed to cover the \$6.9 million in on-going costs that are being covered from ARRA funds in 2009-10.

Strategies for the Future

This fall the University must update its six-year financial plan, a requirement of the Restructuring Act. Now is an opportune time to incorporate any changes in our tuition policy for the future. There are a number of options the Board can consider.

- **Continue normal tuition increases to keep pace with rising costs**

This summer the State Council of Higher Education (SCHEV) will recalculate base adequacy requirements using fall 2008 actual enrollments and fiscal year 2010 appropriations in preparation for updates of institutional six-year financial plans. In the past the financial plans have been based on achieving full funding of base adequacy over a six-year period. Each time the plans are updated the time period is extended another two years so what was originally a goal that should be achieved in 2010-11 will have a new target date of 2014-15.

One strategy is to continue on our present course of increasing tuition at a reasonable pace to keep up with short term funding requirements related to the formula, enrollment growth, and compensation increases. It is unlikely that such a strategy will produce any substantial sums of unobligated revenue to address new programs and initiatives since most of the annual incremental revenue will be needed to address salary and benefit increases, financial aid, and other unavoidable costs.

- **Consider a significant surcharge assessed to entering students**

An alternative tuition strategy is to assess a substantial surcharge to entering first year undergraduate Virginia students. This strategy protects continuing students who came to the University under one set of expectations relative to future tuition increases while providing adequate notice to those not yet enrolled who can then make a decision based on financial and other factors. For example, the chart below reflects a surcharge of \$3,000 implemented in 2011-12, after the temporary stimulus money goes away. The surcharge generates \$29 million in new revenue over the four year period it takes to fully implement it. We can easily model an alternative surcharge amount.

**In-State Undergrad Tuition
\$3,000 Surcharge**

| | 2009-10 | | 2010-11 | | 2011-12 | | 2012-13 | | 2013-14 | | 2014-15 | |
|---|---------------|-------|---------------|-------|---------------|-------|----------------|-------|----------------|-------|----------------|--|
| | Rate | % inc | Rate | % inc | Rate | % inc | Rate | % inc | Rate | % inc | Rate | |
| Entered Fall 2006 | \$ 7,873 | | | | | | | | | | | |
| Entered Fall 2007 | \$ 7,873 | 5.4% | \$ 8,300 | | | | | | | | | |
| Entered Fall 2008 | \$ 7,873 | 5.4% | \$ 8,300 | 4.8% | \$ 8,700 | | | | | | | |
| Entered Fall 2009 | \$ 7,873 | 5.4% | \$ 8,300 | 4.8% | \$ 8,700 | 4.6% | \$ 9,100 | | | | | |
| Entered Fall 2010 | | n/a | \$ 8,300 | 4.8% | \$ 8,700 | 4.6% | \$ 9,100 | 4.4% | \$ 9,500 | | | |
| Entered Fall 2011 | | | | n/a | \$ 11,700 | 3.4% | \$ 12,100 | 3.3% | \$ 12,500 | 4.0% | \$ 13,000 | |
| Entering Fall 2012 | | | | | | n/a | \$ 12,100 | 3.3% | \$ 12,500 | 4.0% | \$ 13,000 | |
| Entering Fall 2013 | | | | | | | | n/a | \$ 12,500 | 4.0% | \$ 13,000 | |
| Entering Fall 2014 | | | | | | | | | | n/a | \$ 13,000 | |
| Anticipated # of In-State Undergrads [update with final SCHEV 2009 enrollment projections] | 9,269 | | 9,357 | | 9,457 | | 9,543 | | 9,641 | | 9,737 | |
| Gross Tuition W/Out Surcharge | \$ 72,974,837 | | \$ 77,663,100 | | \$ 82,275,900 | | \$ 86,841,300 | | \$ 91,589,500 | | \$ 97,370,000 | |
| Incremental Tuition from Surcharge | \$ - | | \$ - | | \$ 7,092,750 | | \$ 14,314,500 | | \$ 21,692,250 | | \$ 29,211,000 | |
| Total | \$ 72,974,837 | | \$ 77,663,100 | | \$ 89,368,650 | | \$ 101,155,800 | | \$ 113,281,750 | | \$ 126,581,000 | |
| % Increase | | | 6.4% | | 15.1% | | 13.2% | | 12.0% | | 11.7% | |

With a tuition increase as significant as \$3,000 there would no doubt be an increase in students eligible for financial aid, not to mention the higher level of financial assistance required for those who already qualify. Additional resources would have to be provided for AccessUVa.

The major advantages to a tuition surcharge include 1) significant incremental revenue (depending on the level of the surcharge) that flows to the institution over a four-year period during implementation, 2) current students who came to the University under one set of financial expectations are not disadvantaged by a sudden jump in cost, and 3) allows the institution to reset its price in a single year. Arguments against such a strategy include 1) students sitting in the same classroom, taught by the same faculty are paying different prices, 2) potential negative political consequence, and 3) impact on applicant pool.

- **Alter the provisions of AccessUVa to reduce its cost and allow more incremental revenue to be used for educational expenditures**

In fiscal year 2008-09, incremental undergraduate tuition revenue totaled \$19 million. Of this amount \$5.2 million or 27% was needed to fully fund AccessUVa. In 2009-10 we devoted 36% of incremental tuition revenue to AccessUVa. The Board could choose to modify the terms of AccessUVa to help curtail its increasing cost. For instance,

1. The loan cap could be altered for out-of-state students to be equivalent to one year's out-of-state cost rather than the current in-state cost used.
2. The loan cap could be increased or eliminated for all students. Savings would approximate \$1.2 million if the loan cap was eliminated.
3. The University could agree to meet less than 100% of demonstrated financial need.
4. The University could lower the poverty level cap used to determine grant funding. For example, if we provided grants only to those students at 150% of the poverty level as compared to the current provision of 200% of poverty it would save approximately \$1 million annually.

- **Aggressively seek private funds to support the costs of AccessUVa in order to relieve the demand to fund this program from tuition**

We have often talked about the strategy of raising private funds for current programs in order to substitute for unrestricted resources currently used to support them. It would take an endowment of \$458 million to provide the annual income (\$22.9 million) necessary to cover the funds currently allocated to AccessUVa from unrestricted resources. If we are able to raise endowment in any amount for this purpose it will free up unrestricted resources that can be redeployed for other priorities.

Question for Discussion

1. Should the University take a bold step and reset its price for an undergraduate in-state education by assessing a significant surcharge to entering students in the fall of 2011 to more appropriately align price with quality of the education provided? If so, how large should the surcharge be?
2. What would the political ramifications be for such an action and are there ways to mitigate those consequences?
3. Will a substantial price increase negatively impact yield and quality of the student applicant pool?