A CFO’s Perspective of Higher Education Issues in Virginia

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Overview

- Restructuring Higher Education
- Higher Education Opportunity Act of 2011
- Future Economic Environment and Funding Prospects for Higher Education
Restructuring Higher Education
Virginia’s Restructuring Act

• Grew out of 2002-04 budget reductions

• Goals – BOV authority for tuition and fees and streamlined operating processes

• 2004 – Charter proposal rejected

• 2005 – Higher Education Restructured Operations Act passed

• 2006 – Management Agreements legislation enacted for Level 3 Institutions (UVA, W&M, and VT)

• 2008 – Legislation enacted for a 4th Level 3 Institution (VCU)
Restructuring Financial Benefits

- BOV authority to establish tuition and fee rates
- Retain interest earnings on nongeneral fund balances
- Rebate on purchasing card program
- Reduced charges from eVA (state’s procurement system)
## General Fund Financial Benefits of Restructuring Certification
### FY2007 through FY2009

<table>
<thead>
<tr>
<th>Description</th>
<th>FY2007</th>
<th>FY2008</th>
<th>FY2009</th>
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<tr>
<td>Interest</td>
<td>$14,967,402</td>
<td>$15,361,428</td>
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<td>Credit Card</td>
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<td>$1,225,395</td>
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<td>eVA Sole Source Fee</td>
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<td>Carry Forward</td>
<td>$42,371,251</td>
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<td><strong>Total</strong></td>
<td>$59,247,236</td>
<td>$41,679,704</td>
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Restructuring - Status and Issues

• Institutional progress towards greater autonomy
• Current status of restructuring efforts
• Challenges for the future:
  • Recentralization
  • Adequate interaction and information flow with Richmond
Higher Education Opportunity Act of 2011
Background

• Created Governor’s Commission on Higher Education Reform, Innovation, and Investment (Executive Order No. 9) in March 2010

• Comprised of representatives from the legislature, business community, and higher education institutions, including Virginia Tech

• Met across the Commonwealth throughout 2010
Governor’s Commission on Higher Education Reform, Innovation, and Investment

- Preserving and enhancing the instructional excellence of Virginia's leading universities and of the higher education system as a whole;

- Increasing significantly the percentage of college-age Virginians enrolling in institutions of higher education and attaining degrees;

- Attracting and preparing young people for the STEM (science, technology, engineering, and math) areas and other disciplines (e.g., healthcare and advanced manufacturing) where skill shortages now exist and/or unmet demand is anticipated;
Governor’s Commission on Higher Education Reform, Innovation, and Investment (continued)

- Forging effective public-private partnerships and regional strategies for business recruitment, workforce preparation, and university-based research;

- Making Virginia a national leader in providing higher education opportunities to military personnel and veterans;

- Crafting a sustainable higher education funding model that will systematically move Virginia toward higher levels of educational attainment and economic competitiveness over the next decade-and-a-half; and

- Developing innovative ways to deliver quality instruction, cost-saving reform strategies, and affordable new pathways to degree attainment for capable Virginians regardless of income or background.
Governor’s Commission on Higher Education, Reform, Innovation, and Investment (continued)


• Resulted in thorough reform of state goals for higher education, funding models and strategies, financial aid commitments, and operational frameworks
Major Elements of Legislation

• Higher Education Advisory Committee (HEAC)
• Higher Education Funding Model
• Institutional Six-Year Plans
• Tuition and Fee Development
• Institutional Performance Assessments
• Restructuring Opportunities
HEAC Overview

- Comprised of representatives from education, finance, SCHEV, legislation, higher education, and one non-voting not-for-profit organization

- Responsible for developing and reviewing:
  - Per student funding methodology
  - Criteria for determining qualifications of low-income and middle-income
  - Performance criteria for measuring financial incentives of restructuring, and consequences for not meeting incentives included in institution’s six-year plan
  - Economic opportunity metrics
  - Potential additional restructuring authorities

- Responsible for reviewing institution’s success in achieving statewide goals and the strategic impact of new general fund investment in higher education
Principles of Higher Education

Funding Model

• Retained Base Budget Adequacy
  • Cost of education
  • Faculty salaries at 60th percentile

• Expanded funding elements and codified funding concepts to include four basic elements:
  • Basic operations and instruction
  • Per-student funding for enrolled Virginia students
  • Need-based financial aid
  • Targeted financial incentives that promote goals of resident enrollment, retention and graduation, STEM degree production, research, and others
Institutional Six-Year Plans: Development

• Consolidates Six-Year Academic, Enrollment and Financial Plans

• Plans required July 1 of each odd year

• Amendments or affirmations due July 1 of each even year

• Submission required to SCHEV, Governor, Chairs of House Appropriations and Senate Finance Committees
Institutional Six-Year Plans: Components

- Anticipated state support, tuition and fee revenue, and other nongeneral fund revenue
- Tuition and fee rate projections by degree level and residence
- Financial aid expectations
- Identification of new programs and initiatives
  - Examples:
    - Degree conferral targets
    - Plans for optimal year-round facilities usage
    - Development of instructional resource sharing programs with other Virginia institutions
Tuition and Fee Development

- Authority remains with the Board of Visitors
- Limited at the aggregate cost of education, minus General Fund support
- Goal is to moderate tuition and fee rates by increasing General Fund support over time and making the cost of education a capacity constraint
- Flexibility for additional tuition revenue beyond cost of education for specific items:
  - Financial Aid
  - Mandated salary increases
  - Unavoidable cost increases
  - Institutional missions and contributions
Institutional Performance Assessment

• FY11 - Existing performance metrics used

• FY12 and FY13 - Existing performance metrics suspended; FY11 certification results carried forward

• New standards and measures will be recommended by HEAC, reviewed by SCHEV, and forwarded to the Governor

• FY14 - New standards and measures implemented
Restructuring Opportunities

- Restructuring
  - Restructuring was a key element of the Commission’s report
  - Opportunities for expanding future restructuring benefits were examined
  - Legislation retains existing autonomy; does not directly increase institutional autonomy
  - Responsibility for reviewing and advising future opportunities to increase autonomy resides with HEAC
Other Areas of Impact

• Creation of Uniform Certificate of General Studies at the community college level that will be transferrable to four-year institutions

• STEM Public-Private Partnership to advise and collaborate with institutions to develop strategies aimed at increasing STEM educational opportunities and degree production

• Potential development of a Higher Education Revenue Stabilization Fund and a Higher Education Institutional Revenue Stabilization Fund to be reviewed by HEAC
Higher Education Opportunity Act: Impact Summary

- **Six-Year Planning**: Turn-around time is expected to be very short. Process for input from higher education community is still being developed.

- **Tuition and Fees**: Though total revenue is limited by the formula, at this time, it is not expected to adversely affect many institutions initially.

- **General Fund Support**: May increase over next several years due to Virginia undergraduate enrollment gains and institutional success in obtaining institution funds from the state.
Future Economic Environment and Funding Prospects for Higher Education
State Cost Drivers

• Should the state increase support for higher education?

• Future State Budget Cost Drivers – Examples:
  • Medicaid – health care
  • Employee compensation and benefits
  • K-12 education
  • Transportation
  • Economic Development
University Facilities Cost Drivers at Virginia Tech

• Need for modern, state-of-the-art facilities
  • Technology-based instructional space
  • Research Facilities
  • Student-related facilities
    • residential and dining
    • student activities
    • health and wellness

• Need to address deferred maintenance through renovations

• Environmental Awareness

• Debt Capacity Limitations
Operating Cost Drivers/Issues at Virginia Tech

• Instructional quality
• Cost of recruiting and retaining faculty
• Technology
• On-line/distance learning
• Access and affordability – the impact of declining state resources and higher tuition
• Graduate education
• Building a diverse university community
Political and Philosophical Factors

• Tuition and fees – what should rates be?
  • Lowest possible?
  • Market based?
  • Moderated increases?
  • Nonresident student rates?

• Financial Aid
  • The middle-income issue
  • Funding need–based aid through higher tuition rates for all students

• Related Corporations
Political and Philosophical Factors (continued)

- The 2005 Restructuring Act
- The 2011 Higher Education Opportunity Act
- Public – Private Partnerships
- Individual institution vs. the state as a whole?
  - The demographics of the state
  - Maintaining the diversity and strength of the institutions
Higher Education Trends in Virginia

- Support for economic development
- Growing the research program
  - Revenues and expenses
  - ROI – the bottom line
- Applying business principles to higher education
- Business models for the future:
  - Program or incremental budgeting?
  - Every tub on its own bottom?
Likely Trends and State Support

• Uncertainty concerning future levels of General Fund support despite the state goal of increasing financial support
• How may the state allocate its constrained resources among the institutions?
• Some institutions will likely be more dependent on tuition revenue
• State will continue to exercise control despite declining support
• State may see institutions as a revenue source
• Increased emphasis on private fundraising
Questions?