Business Practices Seminar
Trends in Higher Education: Business and Financial environment

M. Dwight Shelton, Jr.  March 18, 2013
Overview

- Positive Trends for Virginia Tech
- Good News from the Commonwealth
- Federal and State Trends and Issues
- Challenges and Opportunities for Virginia Tech
Positive Trends for Virginia Tech
For 2012-13, Virginia Tech ranks 8 of 15 Virginia public four-year institutions in total cost for undergraduates.

Kiplinger’s rates Virginia Tech the 28th best-value in public higher education nationally for in-state students.

Initiatives to enhance year-round utilization include

- Summer Academy
- Winter-mester
- Discounted summer tuition

Fall 2012 welcomed the most Virginia students ever on campus, and the largest freshman class in the university’s history.
Enrollment Growth

Enrollment of In-State Undergraduate Students

- Fall 2004: 15,197
- Fall 2012: 17,579
Enrollment Growth

VCCS Transfer Students

- Fall 2005: 379
- Fall 2012: 691
High-Demand Graduates

- Virginia Tech produces 31 percent of the Commonwealth’s four-year public institution STEM degrees.
- In 2012, 41 percent of Virginia Tech’s graduates earned a STEM degree.
Research Expenditures: Trend at Virginia Tech

Research Expenditures (in millions)
In fiscal year 2011, VT’s research program:

- Ranked 41st in NSF expenditures in the nation
- Yielded 40 patents and 24 license agreements
- Generated $1.8 million in intellectual property licensing
- Ranked in the Top 10 in disclosures per research dollar
Dining Programs

- Outstanding Dining Program
- Consistently ranked among the best in the country
  - Ranked # 2 in Best Campus Food in Princeton Review 2012 College rankings
  - Grand Prize, Catering Online Menu – Personal Touch Catering
- Contributes to the overall college experience at Virginia Tech
Good News from the Commonwealth
The Executive Budget Amendments presented on December 17, 2012:

- Provided a strong response to the Governor’s pledge to support higher education objectives

- Allocated approximately $32 million in additional funds to higher education in 2013-14

- Virginia Tech was the largest recipient, in terms of dollars
2013 General Assembly Session

- Major focus by the legislators on:
  - Transportation
  - Medicaid
  - Redistricting
- Higher education benefitted from the focus on alternative issues
- GA increased incremental funding for higher education beyond the Governor’s proposal without major conflict
Higher Education Funding Highlights

- Incremental $47 million for operating budget; includes additional funding for:
  - salary increases
  - operating support
  - research and economic development
  - capital outlay
  - between $8 - $9 million for student financial aid
- $350 million over the last 3 years to mitigate tuition increases - Governor’s Letter to VA legislature
New General Fund for Virginia Tech

- Virginia Tech will receive an estimated $8.07 million in incremental General Funds from the 2013 General Assembly
  - Operating Support of $2.7 million for University division (Agency 208)
  - Operating Support of $930,000 for Cooperative Extension/Agricultural Experiment Station (Agency 229)
  - $600,000 in support for Unique Military Activities (Corp of Cadets)
  - Undergraduate Financial Aid support of $819,000
  - Research Support of $1 million
  - $2.0 million in research equipment through ETF
Funding for Capital Projects

- General Assembly arranged multi-year funding strategy to cover $800 million in construction funding.

- Funding for Virginia Tech for:
  - Construction of a new classroom building
  - Planning for the renovation and renewal of three existing academic buildings
  - Pre-planning for research facilities for Dairy Science Program
## Funding for Compensation

### Executive and Conference Budget Summary

State Compensation Program

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>2013 General Assembly</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ch. 3</td>
<td>Gov</td>
</tr>
<tr>
<td>Faculty Salaries</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Staff Salaries</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>7/10/13</td>
<td>7/10/13</td>
<td>7/25/13</td>
</tr>
</tbody>
</table>
### 2013 General Assembly

#### Incremental General Fund per Resident Student Across Virginia Institutions

<table>
<thead>
<tr>
<th>Institution</th>
<th>2012-13</th>
<th>2013-14</th>
<th>Total</th>
<th>2012-13</th>
<th>2013-14</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>UVA's College at Wise</td>
<td>$703</td>
<td>$227</td>
<td>$931</td>
<td>1</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>VMI</td>
<td>604</td>
<td>245</td>
<td>849</td>
<td>2</td>
<td>4</td>
<td>2</td>
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<tr>
<td>Old Dominion University</td>
<td>386</td>
<td>347</td>
<td>734</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>VA State University</td>
<td>430</td>
<td>122</td>
<td>553</td>
<td>3</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>James Madison University</td>
<td>318</td>
<td>219</td>
<td>536</td>
<td>6</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>University of Virginia</td>
<td>251</td>
<td>272</td>
<td>523</td>
<td>12</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Norfolk State University</td>
<td>362</td>
<td>145</td>
<td>507</td>
<td>5</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>College of William &amp; Mary</td>
<td>221</td>
<td>261</td>
<td>482</td>
<td>14</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Christopher Newport University</td>
<td>312</td>
<td>150</td>
<td>463</td>
<td>7</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>VA Commonwealth University</td>
<td>297</td>
<td>159</td>
<td>456</td>
<td>8</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Radford University</td>
<td>292</td>
<td>150</td>
<td>442</td>
<td>9</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>University of Mary Washington</td>
<td>280</td>
<td>151</td>
<td>431</td>
<td>10</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>George Mason University</td>
<td>234</td>
<td>183</td>
<td>417</td>
<td>13</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Longwood University</td>
<td>257</td>
<td>133</td>
<td>390</td>
<td>11</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td><strong>Virginia Tech</strong></td>
<td><strong>182</strong></td>
<td><strong>190</strong></td>
<td><strong>372</strong></td>
<td><strong>15</strong></td>
<td><strong>7</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>
Federal and State Trends and Issues
Anticipated reduction of $12 billion in research in 2013 and $95 billion over next 5 years

- Impact on job growth, economic development, innovation, and discovery
- Impact on indirect cost recoveries

Difficult to regain once sequestration goes ahead

Sequestration: Reduction in Research funding (contd.)

Sources: National Science Foundation/Division of Science Resources Statistics; Survey of Research and Development Expenditures at Universities and Colleges, FY 2009; National Science Foundation/National Center for Science and Engineering Statistics; Higher Education Research and Development Survey, FY 2011; Moody’s Estimates
Impact of Sequestration on Virginia

- Direct Impact
  - Reduction in federal funding
  - Employment effects
  - Student Financial Aid

- Indirect Impact
  - Defense related funding
  - Disproportionate impact on Virginia
Impact of Affordable Care Act (ACA)

- Multi-year implementation is underway
- Unclear effect on different categories of employees
  - Part time employees
  - Wage employees
  - Adjunct faculty
- Law expands coverage, funding for students
- Cost implications on university
ACA Impact on Virginia Tech

- Any employee that works more than 30 hours per week on average per month is considered to be full time (for health benefit purposes)
- Wage employees may not work more than 29 hours per week on average per month (or year)
- Actual cost impact remains unknown as of now
- Virginia Tech would absorb the entire cost of health care for the employer’s share of the employee’s health care benefit
Current Health Care Costs

- Annual health insurance cost for a full-time, salaried employee at Virginia Tech with family coverage, per year

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Employer Pays</td>
<td>$13,512</td>
</tr>
<tr>
<td>Employee Pays</td>
<td>$ 1,980</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$15,492</strong></td>
</tr>
</tbody>
</table>

Employer Pays $13,512
Employee Pays $1,980
Total $15,492
State traditionally plans to fund 50% of unmet need for Virginia undergraduates

State is significantly short of meeting this goal

Significant discussion is occurring regarding:

- The state’s role in funding student financial aid
- The degree of flexibility that state should provide to institutions regarding student financial aid, specifically using tuition revenue to fund financial aid.
Undergraduate Scholarships
Institutional Support-Unfunded Scholarships

Virginia Tech Support for Undergraduate Students
Student Financial Aid Issues
Facing the State and its Colleges and Universities

- Does student financial aid buy anything for the state?
- Should institutions be allowed to increase tuition, or use existing tuition, to fund scholarships?
- If so, should it be limited to need-based aid, or should it include merit aid as well?
Student Financial Aid Issues
Facing the State and its Colleges and Universities

- Should tuition revenue from Virginia undergraduates be used to provide aid to out-of-state students or graduate students?
- Do middle class families end up subsidizing the education for more needy students?
- Should there be a limit on the amount of tuition that can be used for financial aid?
Other Trends in Virginia Higher Education

- Increasing competition for State resources
  - Medicaid
  - Transportation
  - Mental Health
  - Discretionary funding activities
- Greater involvement in institutions’ strategic planning activities, operational environment, and programs
- Required reallocations within higher education
- Transparency in institutional governance
Challenges and Opportunities for Virginia Tech

Where Do We Go from Here?
Challenges and Opportunities

*Trends in State funding for higher education*
Declining Support from States Since Year 2000

- “Per-student spending in public institutions has been flat or declining since 2000” - Paul E. Lingenfelter, president of the state executive-officers association

- Recent tuition increases are driven primarily by the failure of public support to keep pace with enrollment growth and inflation – SHEEO, State Higher Education Finance Report FY 12
Tuition Revenue Is Increasing as a Part of the Educational Budget

- Net tuition revenue made up 47 percent of public colleges' educational costs in 2012, an increase of more than six percentage points from the previous year - SHEEO, State Higher Education Finance Report FY 12

- Per-student spending on education from state and local sources fell to less than $5,900 in the 2012 fiscal year, a 9.1-percent decrease from 2011 and a quarter-century low for the third consecutive year - SHEEO, State Higher Education Finance Report FY 12
Higher Education Trends in Virginia

- State funding for Base Budget Adequacy continues to fall well below SCHEV guidelines

Available Resources = $541,653,360
Shortfall of 6% = ($31,741,172)
Declining state support has increased the role of tuition and mandatory fees in providing resources for the educational mission.

GF and T&F per Resident FTE
Inflation Adjusted to 2000s
E&G Funding Sources, University Division 2012-13

(Source: 2012-13 University Authorized Budget Document)
Challenges and Opportunities

The Tuition Dilemma
Components of Total Cost

- Tuition
- E&G Fees
- Comprehensive Fee
- Room & Board
Total Student Costs

- Total costs include Tuition, Mandatory E&G fees, and the Comprehensive fee. Undergraduate total costs also include Room & Board fees.

<table>
<thead>
<tr>
<th></th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resident:</strong></td>
<td></td>
</tr>
<tr>
<td>Undergraduate</td>
<td>$18,177</td>
</tr>
<tr>
<td>Graduate</td>
<td>$12,413</td>
</tr>
<tr>
<td><strong>Non-resident:</strong></td>
<td></td>
</tr>
<tr>
<td>Undergraduate</td>
<td>$33,169</td>
</tr>
<tr>
<td>Graduate</td>
<td>$23,266</td>
</tr>
</tbody>
</table>
For several years, the tuition projections have assumed little or no new General Fund support and the assignment by the state of additional costs.

In this environment, the university has understood a tuition scenario that provided:

- For a modest increase in faculty and staff compensation,
- Funds to address the unavoidable increases in fixed costs, mandates, and state central assessments such that the university continues to operate in a consistent manner,
- Some funding for central infrastructure costs such as the libraries and information technology, and
- Funds for investment in a limited number of academic initiatives, in modest amounts.

Historically, such scenarios created the need for tuition increases in the range of five percent, across-the-board.
## An Illustrative Tuition & E&G Fees Scenario

### Typical Budget Development Considerations

<table>
<thead>
<tr>
<th>Costs</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>3% Salary Increase – nongeneral fund share</td>
<td>$7.0 million</td>
</tr>
<tr>
<td>O&amp;M of New Facilities</td>
<td>$1.0 million</td>
</tr>
<tr>
<td>Fixed Cost Increases (Utilities, Contracts, etc.)</td>
<td>$2.0 million</td>
</tr>
<tr>
<td>Library journal contracts/inflation</td>
<td>$0.5 million</td>
</tr>
<tr>
<td>Fringe Rate increases</td>
<td>$2.0 million</td>
</tr>
<tr>
<td>Student Financial Aid</td>
<td>$0.5 million</td>
</tr>
<tr>
<td>Technology Advancements</td>
<td>$3.0 million</td>
</tr>
<tr>
<td>(incl. high-performance computing, administrative systems)</td>
<td></td>
</tr>
<tr>
<td>Health and Safety Mandates</td>
<td>$0.5 million</td>
</tr>
<tr>
<td>Academic Priorities</td>
<td>$2.0 million</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$18.5 million</strong></td>
</tr>
</tbody>
</table>

### Revenues

| 5% across-the-board tuition increase              | $16.8 million |
## A More Recent Projection of Cost Drivers and General Fund for VT

- **Cost of Salary and fringe benefit increases**: $14.2 M
- **Other Unavoidable Costs**: $5.0 M
- **Commitments**: $7.1 M
- **Academic Initiatives**: $6.3 M

- **Total E&G Budget Cost Drivers**: $32.6 M
- **Incremental General Fund to Support these Costs**: $5.6 M
- **Remaining Funding Need**: $27.0 M
The 21st Century Tuition Trend

INCREASES IN TUITION AND COMPREHENSIVE FEE 2000-PRESENT

ASSUMING AVERAGE INCREASE IN TUITION: 10.56%

ASSUMING AVERAGE INCREASE IN COMP FEE: 6.28%

TUITION  COMPREHENSIVE FEE


$2,828  $812  $2,828  $2,828  $2,828  $2,828  $2,828  $2,828  $2,828  $2,828  $2,828  $2,828  $2,828

$1,673  $9,250
INCREASES IN TUITION AND COMPREHENSIVE FEE 2012-2023

Assuming average increase in tuition: 10.56%
Assuming average increase in comp fee: 6.28%
Moderate Tuition Projection

TUITION AND COMPREHENSIVE FEE GROWTH 2012-2023

Assuming average increase in tuition: 5%
Assuming average increase in comp fee: 5%
Mandatory Fees as a Percentage of Mandatory Costs
Virginia Public Institutions, 2012-13

<table>
<thead>
<tr>
<th>Institution</th>
<th>Tuition &amp; E&amp;G Fees</th>
<th>Non-E&amp;G Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virginia Tech</td>
<td>15%</td>
<td>85%</td>
</tr>
<tr>
<td>University of Virginia</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>George Mason University</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>University of Mary Washington</td>
<td>27%</td>
<td>73%</td>
</tr>
<tr>
<td>Radford University</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>College of William and Mary</td>
<td>33%</td>
<td>67%</td>
</tr>
<tr>
<td>Virginia State University</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>Old Dominion University</td>
<td>36%</td>
<td>64%</td>
</tr>
<tr>
<td>Christopher Newport University</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>Longwood University</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>UVA-Wise</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>James Madison University</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>Norfolk State University</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Virginia Military Institute</td>
<td>48%</td>
<td>52%</td>
</tr>
</tbody>
</table>

The percentages represent the proportion of tuition and mandatory fees compared to mandatory costs for each institution.
# Comprehensive Fee

<table>
<thead>
<tr>
<th></th>
<th>2011-12 Charge</th>
<th>2012-13 Charge</th>
<th>Change</th>
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</thead>
<tbody>
<tr>
<td>Student Activity Fee</td>
<td>$411</td>
<td>$437</td>
<td>$26</td>
</tr>
<tr>
<td>Health Service Fee</td>
<td>346</td>
<td>362</td>
<td>16</td>
</tr>
<tr>
<td>Athletic Fee</td>
<td>260</td>
<td>267</td>
<td>7</td>
</tr>
<tr>
<td>Bus Fee</td>
<td>104</td>
<td>109</td>
<td>5</td>
</tr>
<tr>
<td>Recreational Sports Fee</td>
<td>258</td>
<td>265</td>
<td>7</td>
</tr>
<tr>
<td>Student Services Fee</td>
<td>231</td>
<td>233</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total Comprehensive Fee</strong></td>
<td><strong>$1,610</strong></td>
<td><strong>$1,673</strong></td>
<td><strong>$63</strong></td>
</tr>
</tbody>
</table>
Major Cost Drivers at VT

- Federal and state mandates and compliance
- The push for enrollment growth
- Energy and other related fixed costs
- Compensation
- Cost of facilities, including social activities
- Technology – infrastructure and research support
- Deferred maintenance on a growing and aging campus
Higher Education Outlook

- Price sensitivity suppress net tuition revenue growth
- Non-tuition revenue sources also strained
- Students compare loan burden with earning potential after a college degree
- Demand for higher education remains strong but pricing power exhausted
- Increased competition from for-profit and on-line education schools
- More institutions use social programs and amenities to compete for students
Tuition and Fee Increases

- Limited to amount necessary to meet institutional needs and maintain institutional quality
- Predictable for student financial planning and support of restructuring goals
- Competitive position among peer institutions
- Include assessment of student financial need and increases in financial aid
Challenges and Opportunities

Controlling Costs in Public Higher Education
Why Focus on Cost Control?

- Response to federal and state governments’ concerns about tuition and fees
- Retaining our ability to recruit nonresidents
- Cost issues raised by undergraduates and their parents
- Realization that the annual increases in costs and thus, the pressure to increase tuition and fee rates, cannot be sustained
- The expectations of Boards of Visitors and the business world that the University will control costs and manage in a business-like manner
University Administrative Costs

- Virginia Tech maintains a cost conscious culture that is sensitive to administrative costs by:
  - Maintaining a rigorous budget process that carefully evaluates new administrative spending
  - Focusing resources into academic programs and strategic initiatives
  - Continually seeking ways to improve business processes
  - Leveraging technology to provide scalable delivery of service
  - Periodic assessments of the administrative cost structure
Administrative Costs as a Percentage of Core Expenditures

<table>
<thead>
<tr>
<th>Category</th>
<th>Fiscal Year 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virginia Institution (n=14)</td>
<td>78%</td>
</tr>
<tr>
<td>Public Research Average (n=72)</td>
<td>85%</td>
</tr>
<tr>
<td>SCHEV Peer Average (n=25)</td>
<td>85%</td>
</tr>
<tr>
<td>Virginia Tech</td>
<td>87%</td>
</tr>
</tbody>
</table>

- Remaining Core Expenditures: Instruction, Research, Public Service, etc.
- Academic & Institutional Support
Opportunities for Cost Savings and Realignment of Resources

- Emphasis on efficiency and effectiveness through:
  - Centralization and shared services
  - Consolidation
  - Improving use of assets
  - New technologies
  - New market outreach
  - Online education
  - Partnerships and collaborations
  - Programmatic reviews
  - Space utilization
Future Campus Facilities

- What does the university need?
- What can we afford?
- Can we deal with the significant level of deferred maintenance occurring on an aging campus?
Challenges and Opportunities

The Expanding Role for Related Corporations in Public Higher Education
Traditionally, related corporations support:
- Fundraising operations, e.g. the VT Athletic Fund
- Management and investment of private gifts, e.g. the Foundation
- Supporting business opportunities and business operations, e.g. the Virginia Tech Bookstore
- Activities and actions not authorized for public institutions

In the future, related corporations could expand to provide:
- Research activities and economic development initiatives, such as the recently established National Tire Research Center
- Business and cost control activities in areas such as information technology.
- Program initiative such as international programs.
Challenges and Opportunities

Emerging Trends in the Use of Technology to Expand and Change Public Higher Education
Massive Online Open Courses (MOOC)

- Opportunities for revenue growth through fees for certificates, degrees etc.
- Lower cost of course delivery
- Heightened global brand recognition
- Enhanced and protected core residential campus
- Long term potential to create new networks
- Pressure on for-profit and some not-for-profit
Questions?