JLARC
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION

October 21, 2024

Higher Education

Briefing for SCHEV

Study resolution

- Directs JLARC to review several aspects of state's 15 public four-year higher education institutions
- Resolution items addressed in two reports
  - *Spending & Efficiency in Higher Education*
  - *Higher Education Institutional Viability*
- Both study teams used quantitative & qualitative methods and shared information as needed

Commission resolution (December 11, 2023)

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Spending & Efficiency in Higher Education

Briefing for SCHEV

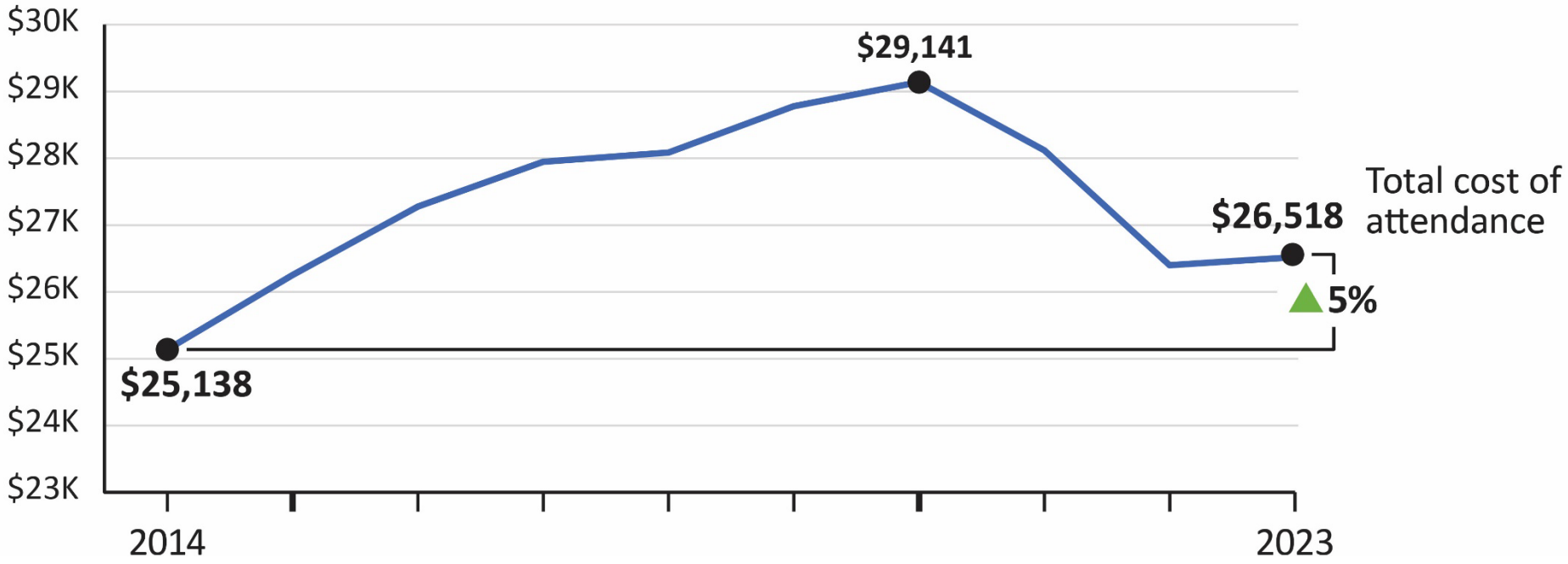
In this presentation

Student costs

Spending and staffing

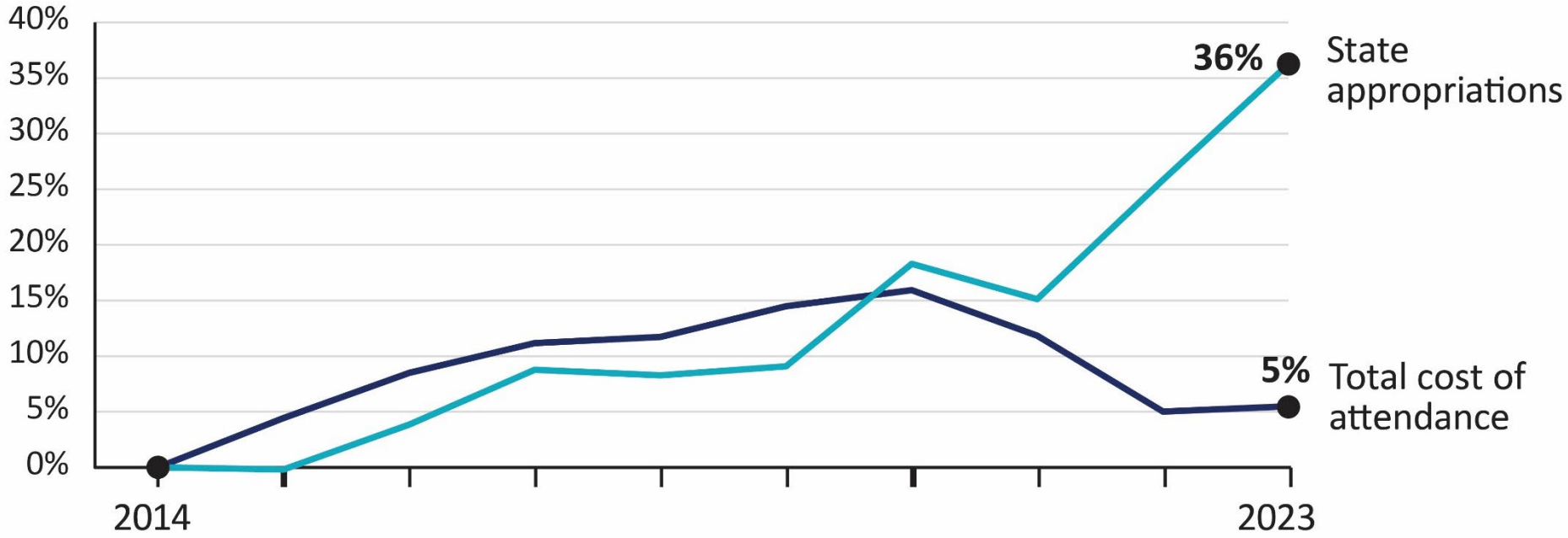
Efficiency efforts and reducing costs

Average published total cost of attendance has stabilized



Adjusted for inflation to 2023 dollars.

Cost of attendance improved as the state has appropriated more funds

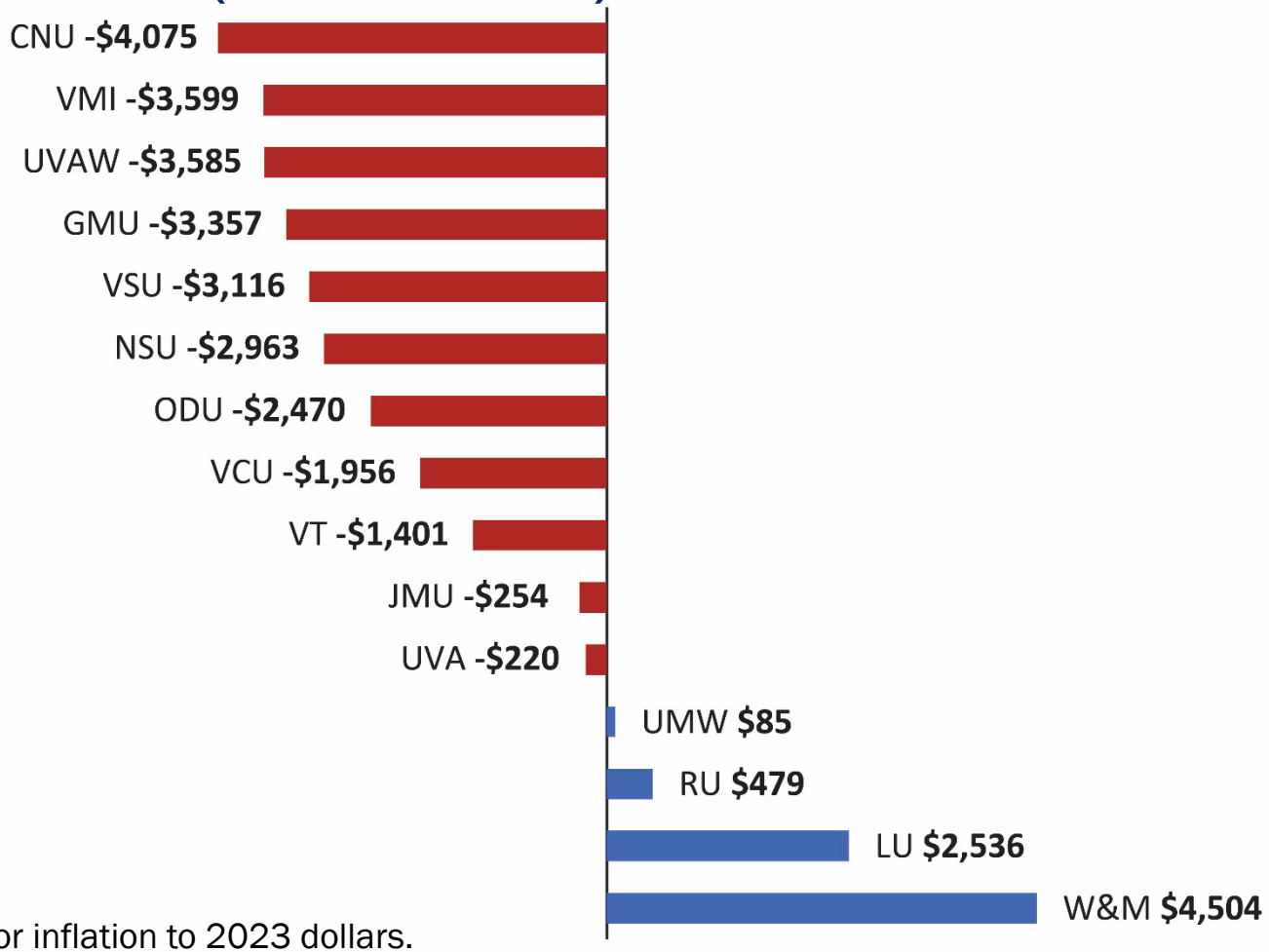


Adjusted for inflation to 2023 dollars.

Most students receive aid and pay a “net price” that is lower than the total published cost

- Nearly 90 percent of in-state, undergraduate students received financial aid, according to SCHEV (2022–23)
- Actual price paid after factoring in aid is called the “net price”
- Average net price paid by students at Virginia public institutions is abut $12,500 less than published total cost of attendance

Average net price has decreased at most institutions (FY14–FY23)



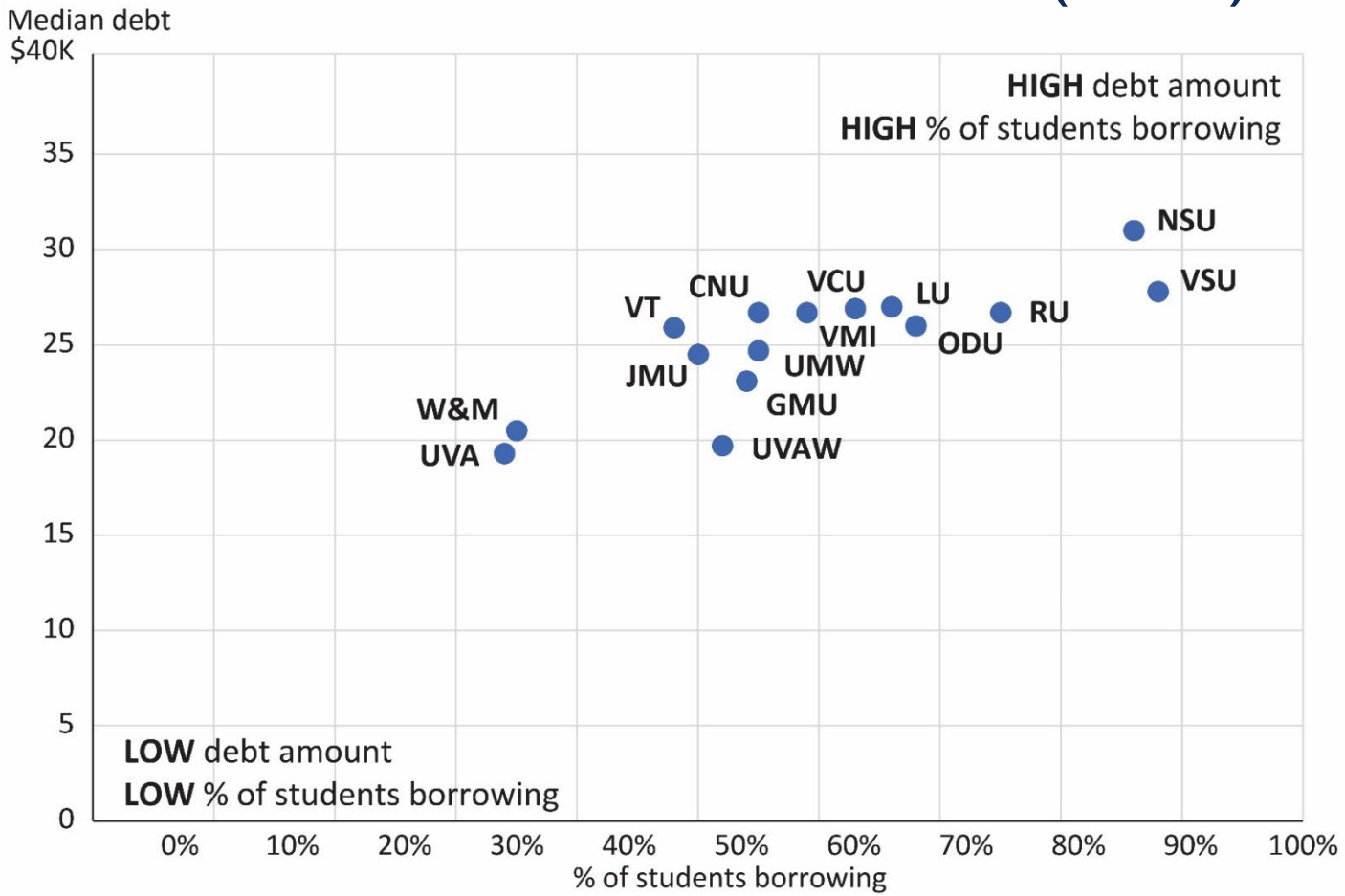
Adjusted for inflation to 2023 dollars.

Many students still borrow to afford higher education, despite recent decreases in net price

- At Virginia's public four-year institutions:
  - 54 percent of in-state students graduating with a bachelor's degree borrowed
  - Average debt of graduating students is about $30,000, which has grown by 15 percent in the last decade
- Virginia students borrow more on average than graduates from public institutions nationwide (about $27,000)

See Appendix E for more information on student debt.

Student need and institutions' ability to provide aid contribute to student debt levels (FY22)



Debt of those students who graduate, as of FY22.

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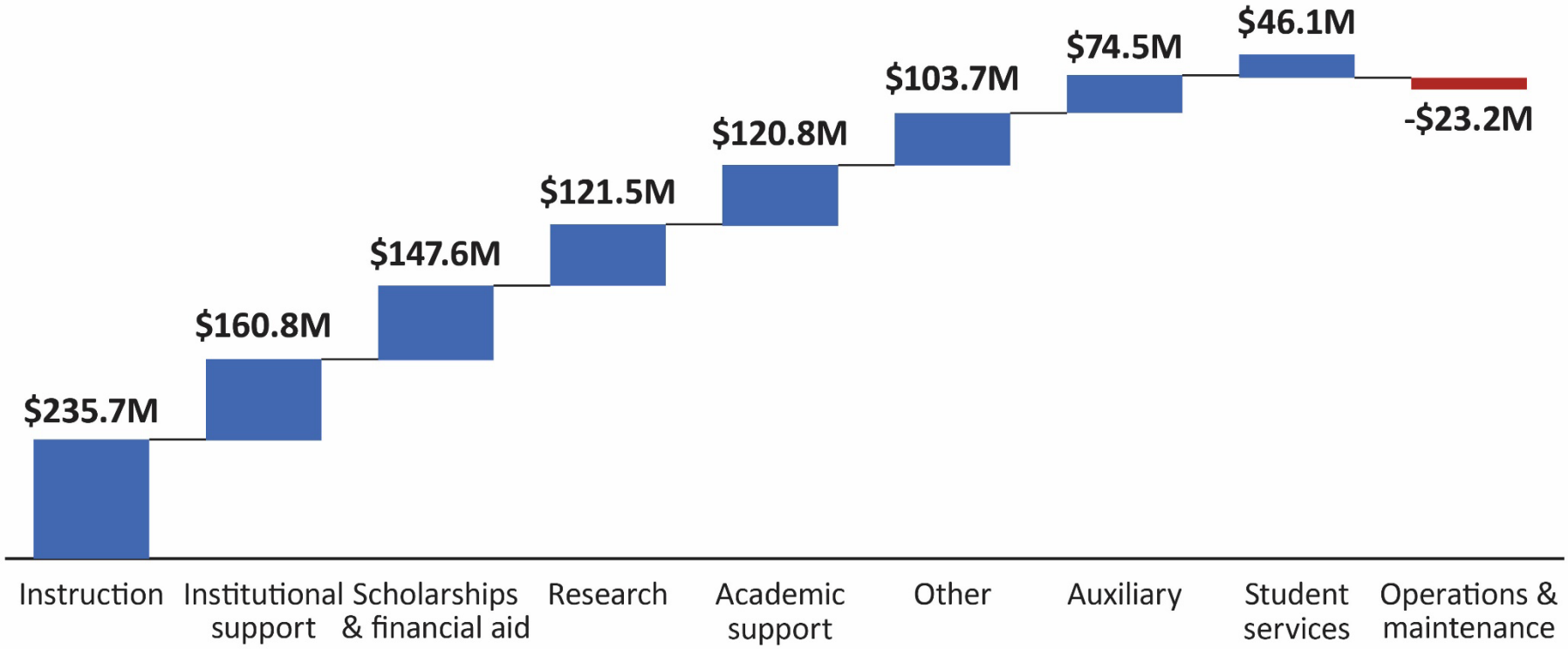
Instruction was largest driver of institutions' spending growth in the last decade (FY14–FY23)



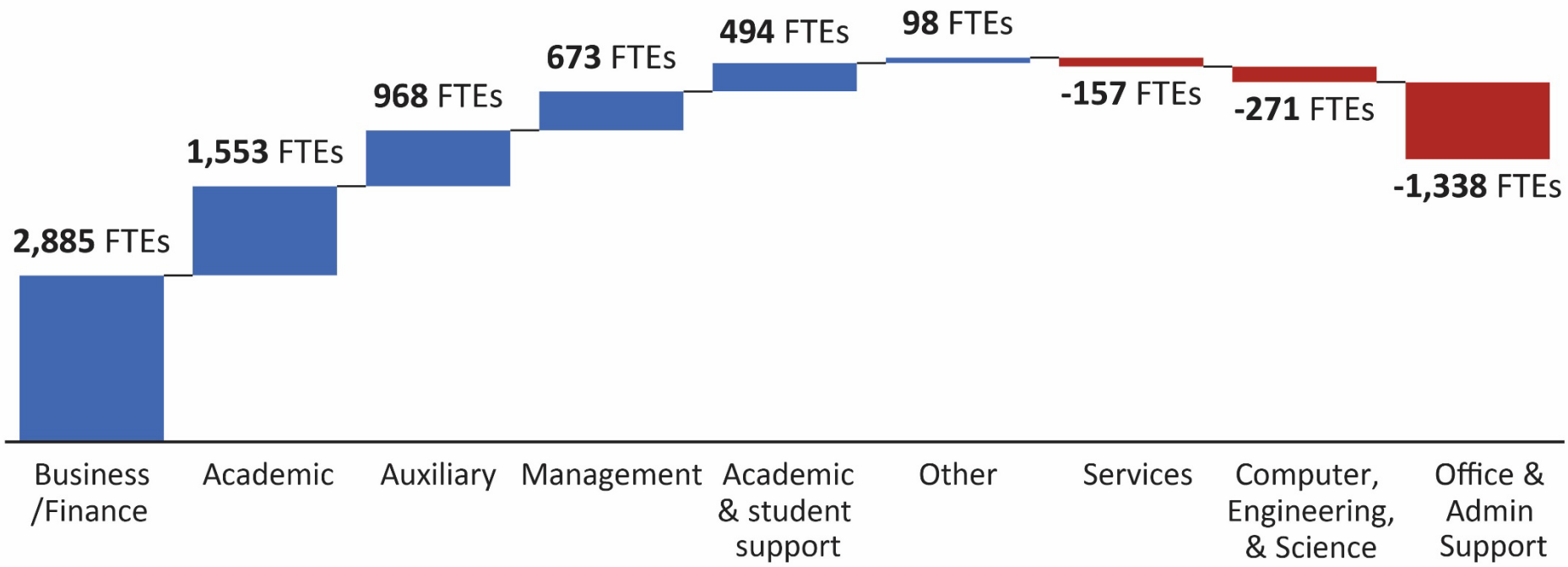
Adjusted for inflation to 2023 dollars.

Staffing is the largest expense for Virginia institutions

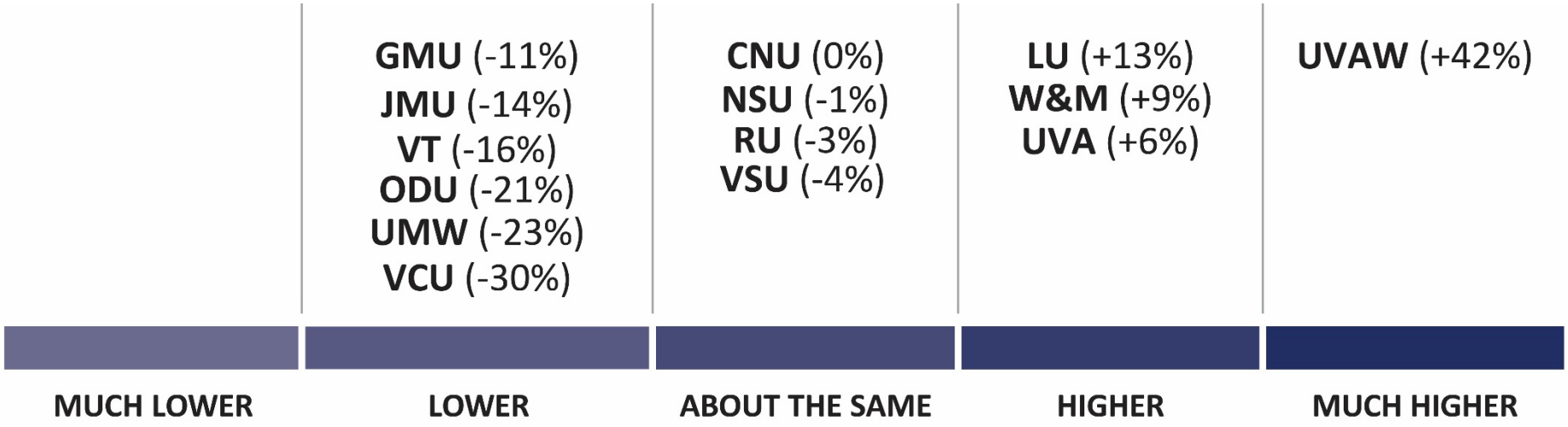
- Personnel costs:
  - make up 60 percent of total institutional spending
  - vary across spending categories, ranging from 36 percent of auxiliary spending to 85 percent of instructional spending
  - grew by $680 million from FY14 to FY23, accounting for about 57 percent of spending growth

Growth adjusted for inflation to 2023 dollars

Staffing grew by 4,900 positions (12%); largest growth was in business and finance (FY14–FY23)



10 Virginia institutions spend about the same as or less than similar institutions nationwide

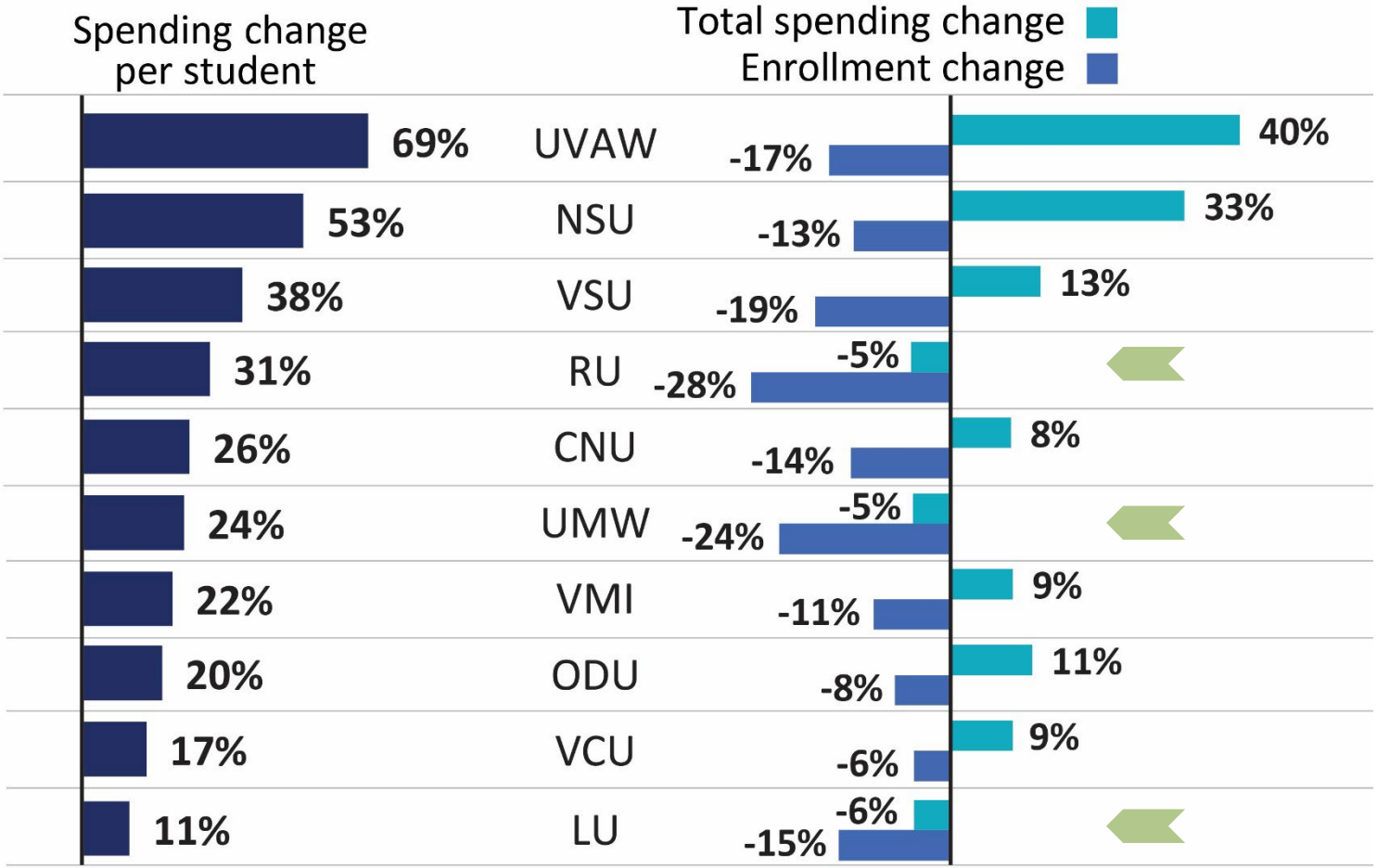


Virginia Military Institute is excluded from analysis because it has few comparable institutions nationwide. Comparisons are for FY22, the most recent year available for national spending data.

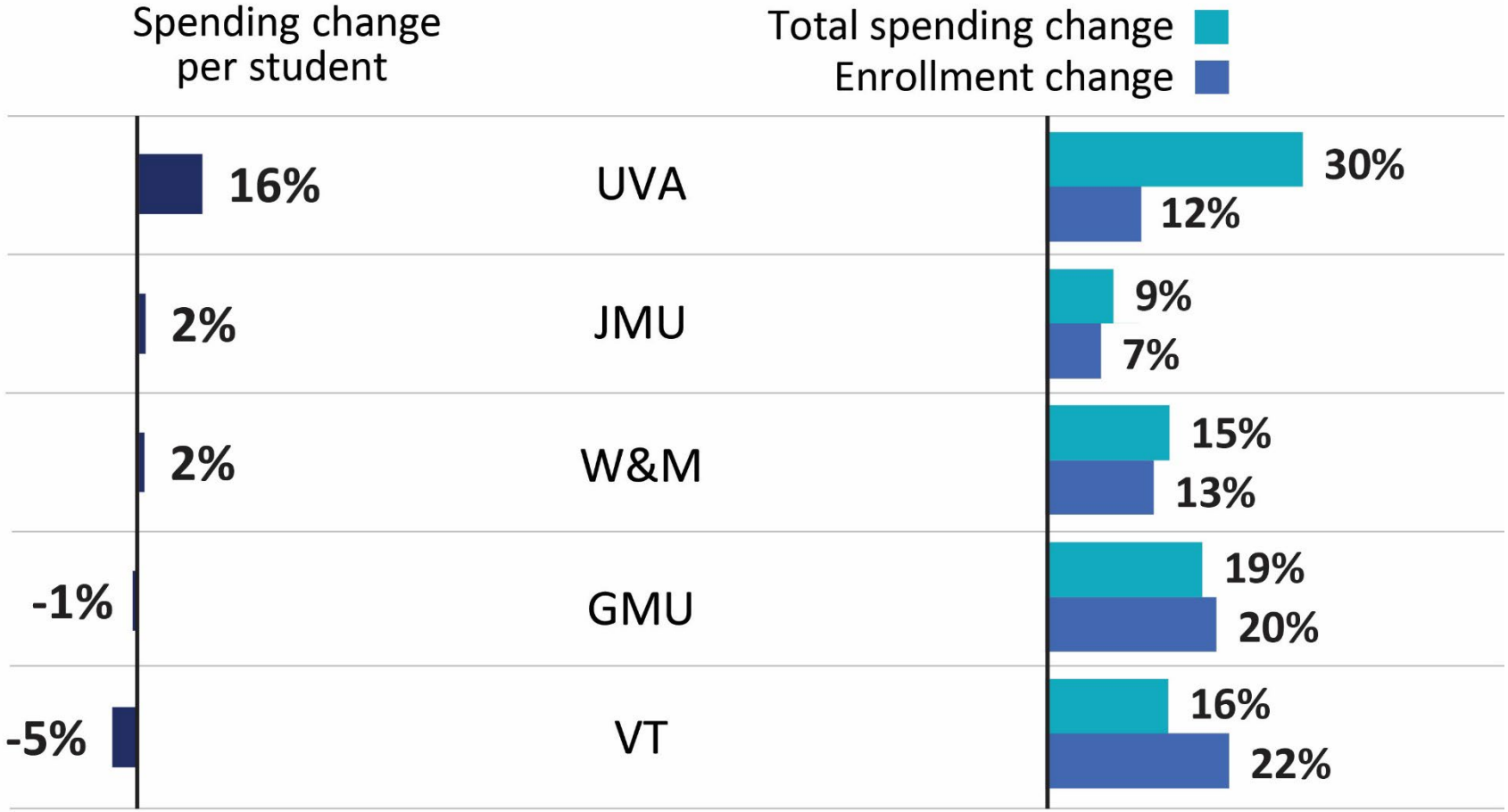
Declining enrollment contributed to reduced spending efficiency

- Institutions have fixed costs, such as facilities, that do not decrease when student enrollment drops
- Declining enrollment, rather than major spending increases, was a primary driver of higher spending per student at most institutions
- Increased spending per student can be concerning because it can result in higher student costs

Spending per student grew at all institutions with declining enrollment (FY14–23)



Spending per student tended to stay the same at institutions with growing enrollment (FY14–FY23)



Spending drivers are areas where spending increased in total and per student

- Spending was examined by major functional areas
- Increased total spending and per student spending indicate reduced spending efficiency
- Other combinations are not a spending driver
  - spending growth + equal or greater enrollment growth = lower spending per student
  - stable or decreased spending + enrollment decline = higher spending per student attributable to enrollment decline

Non-academic functions and scholarships & student aid were most common spending drivers

	Per student spending change (FY14–FY23)	Instruction	Non-instruction functions	Auxiliary enterprises	Scholarships & aid	Institution-funded research
UVAW	69%	✓	✓		✓	
NSU	53	✓	✓	✓	✓	
VSU	38		✓	✓	✓	
RU	31					
CNU	26		✓		✓	
UMW	24				✓	
VMI	22	✓		✓	✓	
ODU	20			✓	✓	
VCU	17		✓		✓	✓
UVA	16	✓	✓	✓	✓	
LU	11			✓		
W&M	2				✓	
JMU	2				✓	
GMU	-1		✓			
VT	-5	✓			✓	

In this presentation

Student costs

Spending and staff

Efficiency efforts and reducing costs

Institutions report implementing many efficiency and cost reduction strategies since 2021

- Most common strategies were process redesigns, organizational changes, and contracting and shared services
- These efforts produced a reported savings of ~$96 million annually; equal to about 1 percent of overall spending

*2021 used because SCHEV collected information from institutions for time period prior to 2021.

Higher education landscape will likely consist of fewer students and more cost-conscious students

- A majority of Virginia public institutions have already experienced a decline in enrollment
- Demographic projections show institutions will be competing for fewer students in the near future
- Changing higher education landscape will require institutions to further improve efficiency and focus on student costs

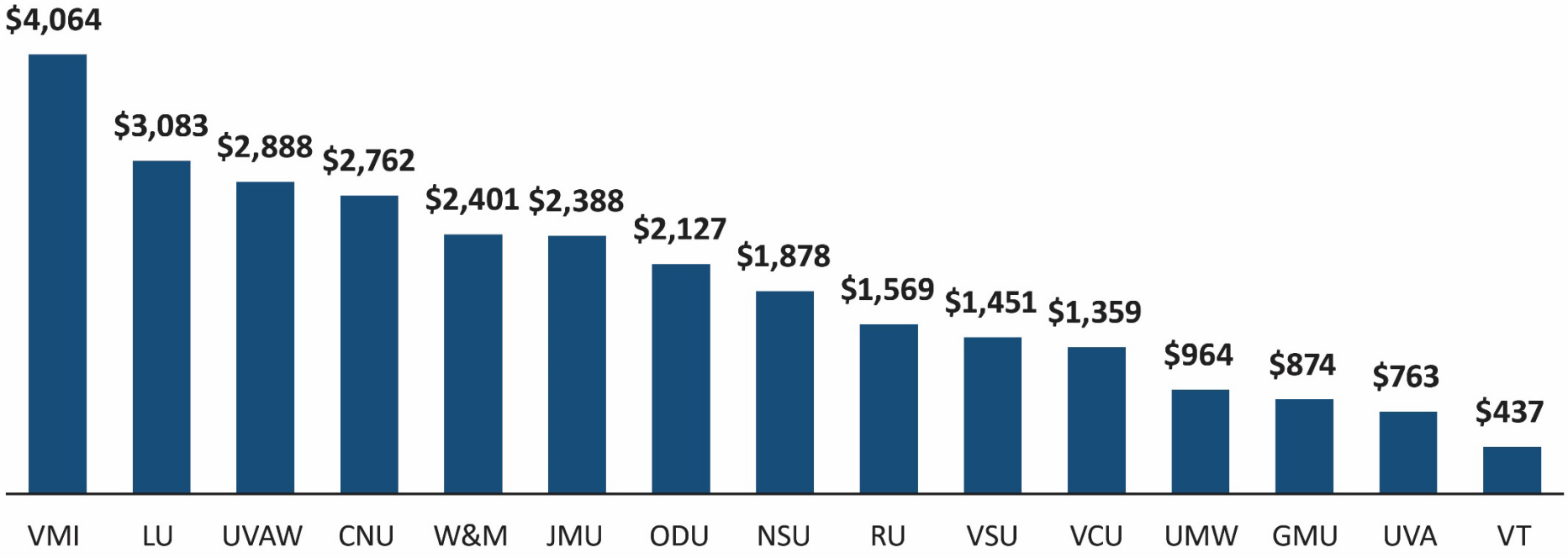
Institutions with declining enrollment will need to better align scale of operations with enrollment levels

- Strategies include:
  - reducing staffing,
  - discontinuing less utilized academic programs, and
  - reducing unused square footage
- Institutions' six-year plans broadly address topics related to academics, financing, and enrollment
- Six-year planning process could be used as a mechanism for institutions to identify ongoing or future efforts

Recommendation

The General Assembly may wish to amend Code to require as part of the six-year planning process that institutions experiencing reductions in cost efficiency because of declining enrollment report efforts to improve efficiency and/or better align operations with enrollment.

Student fees for intercollegiate athletics vary widely but are substantial at certain institutions



Annual non-E&G fees for intercollegiate athletics (2024–25)

More focus is needed on student costs related to athletics spending

- Legislation passed in 2015 limits the *proportion* of athletics revenue that can be funded by student fees and the institution, which has helped manage costs
- However, as overall athletics revenue grows, so can student fees and institutional support
- A cap could be imposed on student fees and institutional funds that can be spent on athletics; cap could be based on proportion of total cost of attendance

Recommendation

The General Assembly may wish to amend Code to constrain the amount of student fees and institutional funds that can be allocated to intercollegiate athletics by establishing a maximum proportion of the total cost of attendance that cannot be exceeded.

Boards approve institutions' budgets and set tuition but should be directed to consider student costs more broadly

- Boards inevitably consider student costs when asked to approve an increase in tuition and fees
- However, boards are not expressly obligated to consider spending efficiency and student costs more generally in their decision- and policy-making roles
- Boards should be fully considering the effects on student costs resulting from decisions to spend more in non-instructional areas such as institution-funded research, athletics, and non-instruction personnel

Recommendation

The General Assembly may wish to amend Code to expressly include in the duties of boards of visitors the responsibility to fully consider the impact that policies and decisions in non-instructional areas—such as intercollegiate athletics, institution-funded research, and staffing levels for non-instructional positions—have on student costs.

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Higher Education Institutional Viability

Briefing for SCHEV

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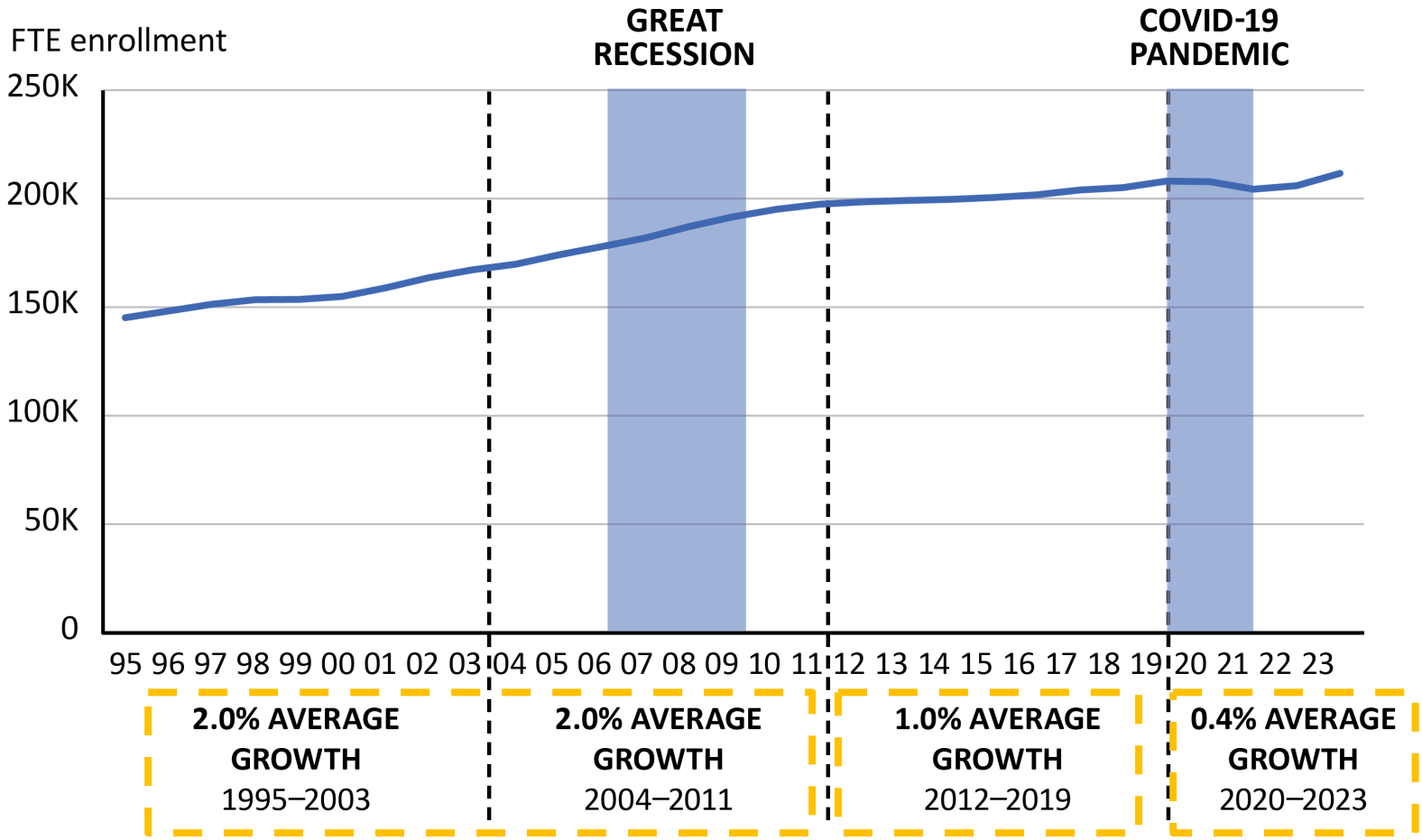
Higher education landscape related to viability

Viability assessment framework

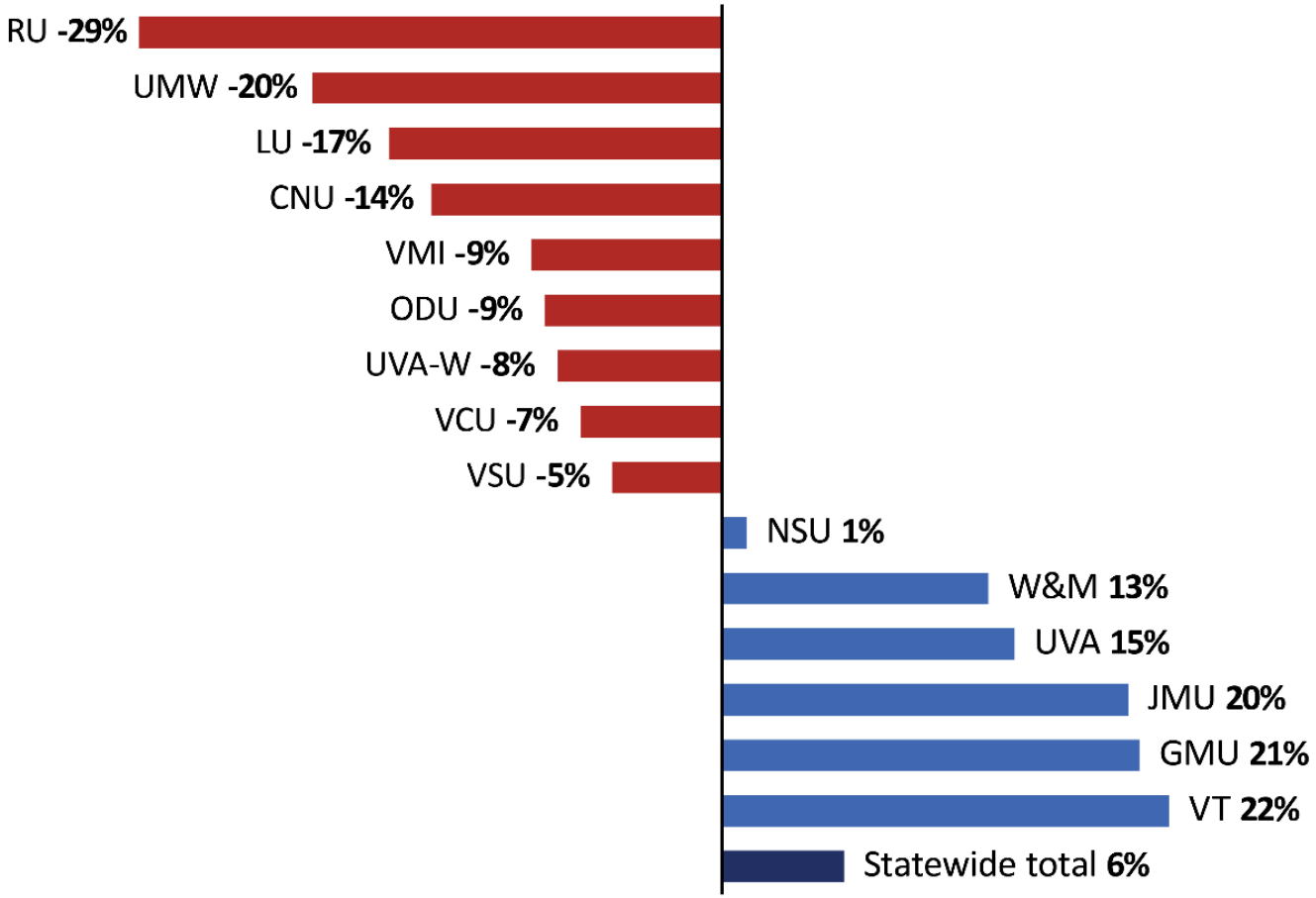
Assessment of institutional viability

After decades of steady growth, enrollment growth has slowed overall at Virginia institutions



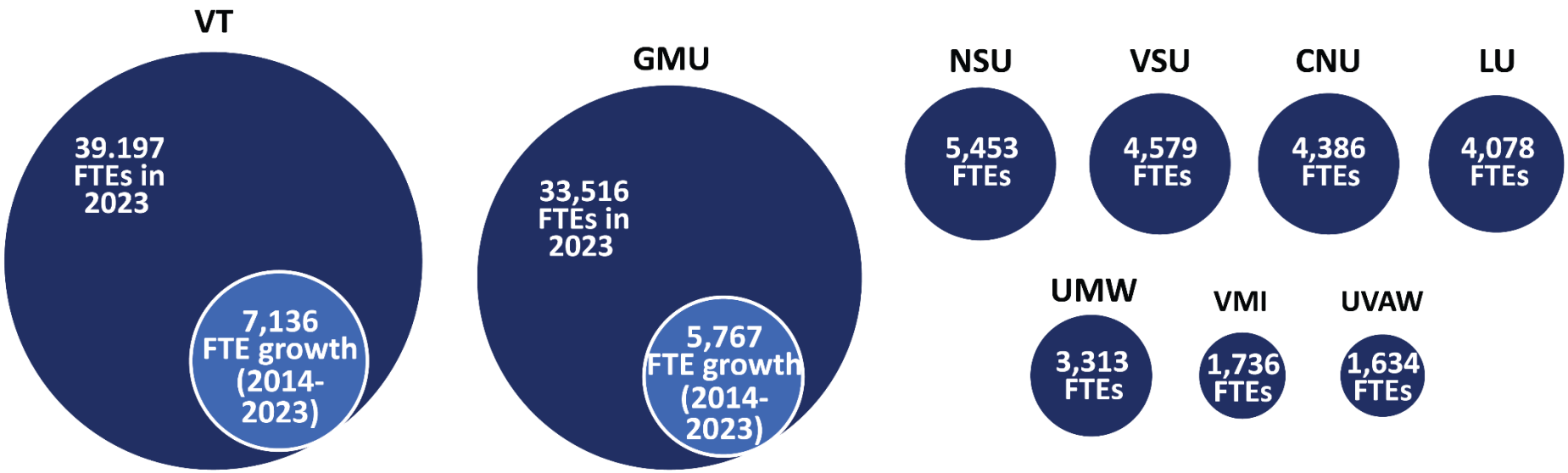
SOURCE: SCHEV FTE enrollment data for public four-year institutions, 2001–2023.

Slowing overall enrollment growth has resulted in substantial shift in “market share” among institutions



SOURCE: SCHEV FTE enrollment data, 2014–2023.

Growth at some large institutions exceeds total enrollment at several small institutions

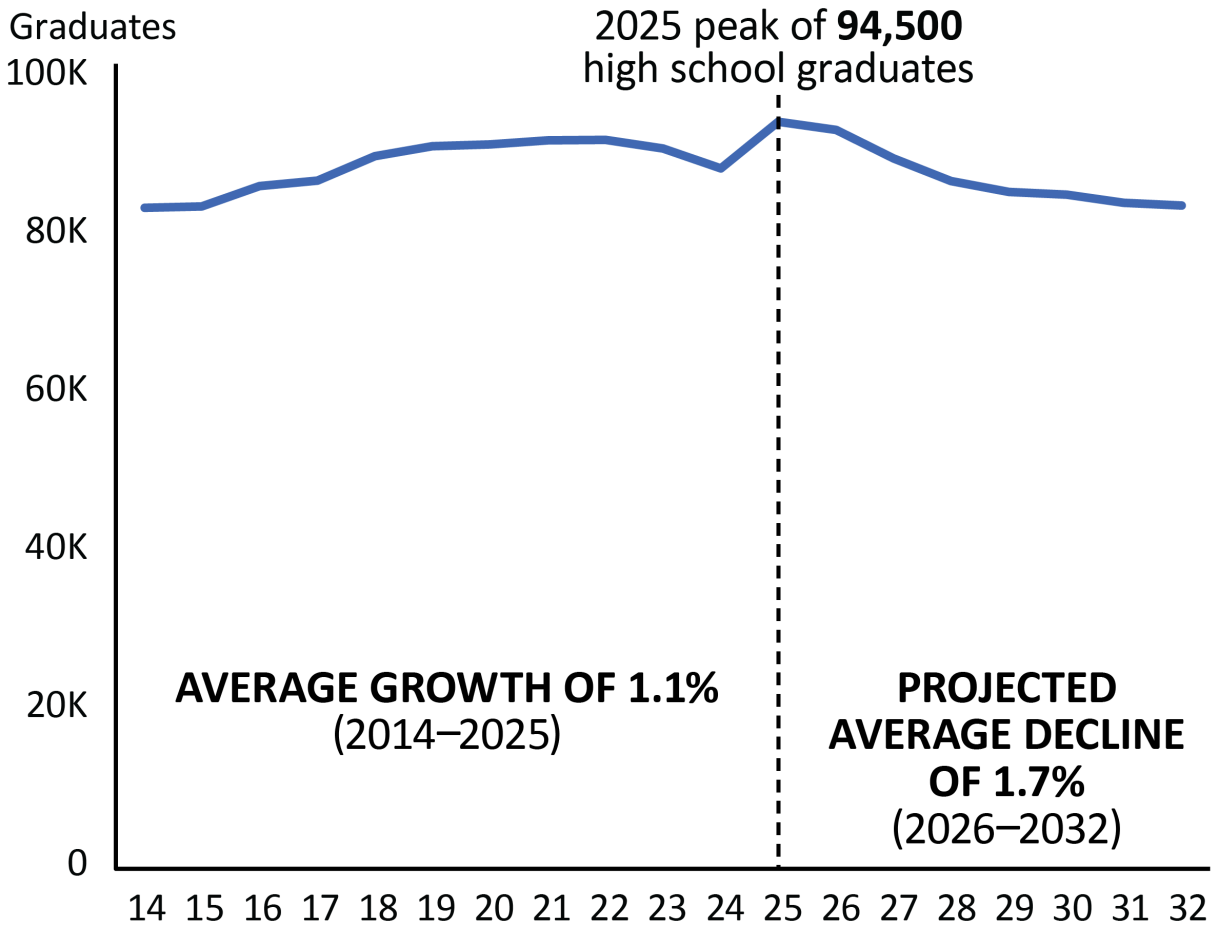


SOURCE: SCHEV FTE enrollment data, 2014–2023.

Students and families may be less willing to spend or borrow to earn a four-year degree in the future

Have a “great deal or quite a lot of confidence” in higher education (Gallup survey)	57% (2015)	36% (2024)
The cost of college is “worth it” (VCU survey)	47% (2023)	38% (2024)
“It’s <u>less important</u> to have a four-year college degree today in order to get a well-paying job than it was <u>20 years ago</u>” (Pew Research survey)		≈50% (2024)

High school graduates are expected to peak in 2025



SOURCE: 2023 state high school graduate projections, U.S. Department of Education National Center for Education Statistics.

In this presentation

Higher education enrollment trends

Viability assessment framework

Assessment of institutional viability

Researchers have used many frameworks and metrics to assess institutional viability

- Several consulting groups, academic researchers, and state governments have developed frameworks to assess higher education institutional viability
- Metrics in these frameworks typically include a combination of:
  - Student metrics (e.g., enrollment, graduation, retention, first-year student enrollment, admissions rate, yield)
  - Financial health metrics (e.g., primary reserve ratio, equity ratio, net income ratio, viability ratio)
  - Revenue metrics (e.g., discounting, state appropriations, endowment)

JLARC viability assessment uses multi-dimensional framework

- Selectivity – Is the institution highly selective compared to other public institutions nationally?
- 8 viability risk factors in three areas

Students	Graduation rates (compared to predicted)
	Enrollment (first-year students)
	Retention
Institutional appeal	Pricing power (tuition revenue per FTE student)
	Facility age/condition
Finances	Financial health ratios
	State funds (per FTE student)
	Endowment (per FTE student)

Ratings are at a recent point in time, and even very low-risk institutions need to manage operations well

- JLARC viability ratings are at a recent point in time, but near-term (or current) trends could lead to specific risk factors improving or worsening
- Viability = an institution's ability to continue operating without needing major changes to survive (e.g., significant new funding or merger with another institution)
- Even institutions with very low viability risk face a dynamic environment that could require operational changes (e.g., budget shortfalls, closing or opening new academic programs)

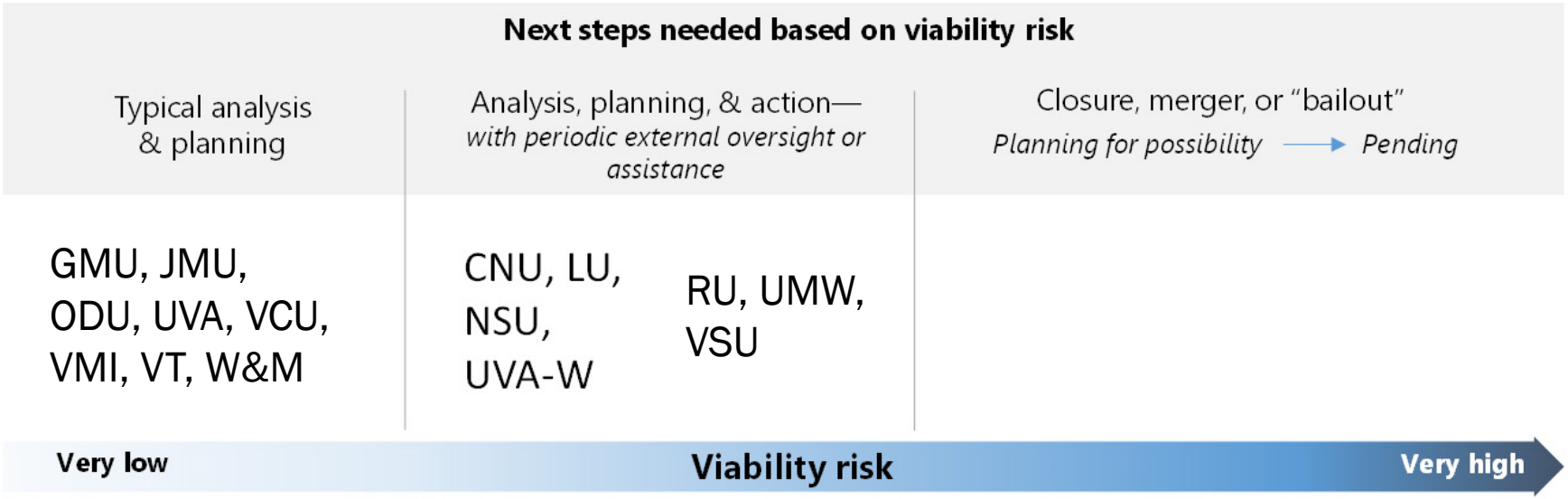
In this presentation

Higher education enrollment trends

Viability assessment framework

Assessment of institutional viability

Seven institutions rated at relatively low or some viability risk and need to monitor risk factors



SOURCE: JLARC summary of viability risk assessment framework results, 2024.

Higher education six-year planning process has elements related to viability

- Institutions are required to submit a six-year plan biennially in odd years
- Several requirements of six-year plans related to viability:
  - Financial planning reflecting anticipated revenues
  - Identification of new programs or initiatives
  - Plans for optimal use of facilities and resources
  - Plans for resource-sharing programs with other institutions
- Existing six-year planning process could be augmented to more fully assess viability

Recommendation

As part of the six-year planning process, OpSix should continue to monitor the viability risk for schools with relatively low viability risk and some viability risk using the eight risk factors related to students, institutional appeal, and financing.

Recent and ongoing developments could change viability risk assessment

- Assessment represents a historical point-in-time review of viability risk for each of the state's public four-year institutions
- Recent developments or ongoing trends could change risk ratings for individual institutions. Examples include:
  - Fall 2024 enrollment
  - Changes in tuition discounting strategies
  - Improvements to campuses and buildings