Beyond Boundaries Initiative
Discovering New Funding Models Working Group
Meeting Highlights
October 7, 2015

The Funding Models Working Group met from 100 to 300 pm on October 6, 2015. Lara Khansa, co-chair of the Working Group with Tom Dingus, led the discussion. Those present included Rajesh Bagchi, Sharon Barrett, Warren Bickel, Tom Dingus, Jim Hatch, Lara Khansa, Charlie Klauer, Brett Langstaff, Erin Lavender-Stott, Scot Ransbottom, Pamela Teaster, Jamie Edwards, Kate Keeney, Judy Ridinger, and Jerald Walz.

Discussion began with committee members sharing their ideas for the future possibilities for funding a university education. Several comments suggested a coalescence around a few ideas:

a) **Providing free or low-cost tuition**. Completely free tuition may not be possible nor desirable. Tuition dollars could be replaced through company internships (i.e. companies pay tuition for student who then works for a number or years after graduation). Another way would be for the student to commit to a number of years of public service in return for tuition. Students could also work for the university, perhaps filling some staff roles as appropriate.

b) **Establishing a Citizenship Model**. Everyone who is a part of the university community contributes to the well-being of the university. This is an ethos that pervades the culture where responsibilities are shared broadly. Beginning when members are students, giving back to the university becomes an integral part of Ut Prosim. Seniors might contribute to a graduation gift, but the expectation would be that graduates give back to the university. Giving back could be through cash, service, providing internships, in-kind gifts, promoting the university, etc.

c) **Giving to the university**. We must capitalize on the high percentage of goodwill among graduates, translating goodwill into donations. Endowment funds must be strategically emphasized. The VT endowment, and future growth without new donations, is anemic at best. Endowment funds could be targeted for students, as one source for replacing tuition dollars.

Other ideas shared through the course of the meeting included:

Learning-centered revenue strategies:

- Certification and continuing or professional education
- University developed & distributed courses for use in community colleges
- Experiential learning
- Hybrid education – residential and remote
- Bridge education & training – continuing/professional education in NCR
- Develop badges/certificates/micro-courses
- Incentivize faculty to generate revenue

Giving-emphasis revenue strategies:

- Raise endowment quickly
- Alumni giving – set expectations early, ask often
- Better relationships with alumni – develop better paths for them to help the university; similarly with corporations
- Transparency for donors, budget, financial activity
- Giving that adds value through service
- Spotlight people who give back to VT

Operations strategies:

- Increase number and types of revenue
- Operate the university like a for-profit institution, establish revenue/profit centers
- Achieve break-even before state funding
- Streamline operations (administration, etc.) as appropriate
- Opportunities for students to work as staff for tuition/replace staff with students
- Greater differentiation/specialization in categories of faculty
- Public/private partnerships
- Providing services for local/regional economy
- NSF scholar for service

Cultural strategies:

- Shun the hotel mentality – less emphasis on luxury and amenities
- Choose our model: Walmart, Ikea, Neiman Marcus (volume/cost, customizable, high-end)
- Treat students as customers
- Greater emphasis on faculty attention to students
- Encourage entrepreneurship with incentives, start-up funds
- Culture of giving back – community, connectedness
- VT day of service

Preparation for the next meeting (to be distributed to the Working Group):

- Read article on Academic Programs for Generating Additional Income
- Review current funding model for Higher Education revenue sources
- Prepare ideas for future academic programs to supplement current VT income

Beyond Boundaries Initiative
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Meeting Highlights
October 28, 2015

The Funding Models Working Group met from 100 to 300 pm on October 28, 2015. Lara Khansa, co-chair of the Working Group with Tom Dingus, led the discussion. Those present included Rajesh Bagchi, Sharon Barrett, Richard Benson, Tom Dingus, Jeff Earley, Jim Hatch, Tim Hodge, Lara Khansa, Brett Langstaff, Erin Lavender-Stott, Pamela Teaster, Jaimie Edwards, Larry Hinker, Kate Keeney, Minnis Ridenour, Judy Ridinger, and Jerald Walz.

Committee member Tim Hodge shared a presentation about the funding, trends, and future of finance at Virginia Tech. (The presentation is posted on the SharePoint website, https://university.bams.vt.edu/vtbeyond/SitePages/Home.aspx.) Funding at Virginia Tech is divided between public and private sources. The public sources include two divisions: the university division (educational program, auxiliary enterprises, sponsored research, etc.) and the cooperative extension and agriculture experiment station division. The university division educational and general program (i.e. the core instructional mission of the university) totals $638.7 million and is supported by funds from in-state (34%) and out-of-state (36%) tuition, the general fund (24%), and other income and sales and services (4% and 2%, respectively). Auxiliary programs total $308.8 million and generate revenue from the sale of services and fees, for example room (16.1%), board (16.6%), comprehensive fees (17.5%), and self-generated (49.8%). Sponsored research programs total $288.5 million with 78% funded by the Federal Government, 9% by commercial sources, 5% by the state, 4% by the VT Foundation, and 4% by others. Of the programs sponsored by the federal government, a diversity of agencies support sponsored research.

Tim also shared some trends that affect Virginia Tech's financial situation. As state revenue growth has slowed, the share of the state budget allocated to higher education has diminished. Currently, state funds cover only 24% of educational and general fund revenue. This means that over time, in constant dollars, the general fund per resident FTE student has diminished from $9,501 in 2000 to $4,331 in 2015. To maintain even a diminished amount of funding per student, tuition has increased to replace state funding. Meanwhile, the pace of tuition increases is slowing, but the demand for a Virginia Tech education (measured by admission applications) has been increasing, as has enrollment. Also, institutional support for student financial aid has been increasing since 2000. Finally, the university is undertaking initiatives to adapt its current funding modes for the future by: a) increasing financial aid, b) managing enrollment growth, c) using incentives for growth of research and instruction, d) pursuing cost containment, e) supporting creative ideas, f) ensuring VT has authority to operate efficiently, and f) pursuing private philanthropy.

Following the presentation, the members asked questions and entered a general discussion. Sponsored research was considered a critical component of the VT mission and funding model. While the availability of funding for research may not be diminishing, it may be shifting from current sponsored projects to others. Funding from alumni giving and an endowment that

provides a greater amount of unrestricted funding are increasingly important. Both "big ideas" that inspire large donations for "destination projects" and greater education about the need for alumni and private funding are important to securing Virginia Tech's future. It was stressed that a focus on the future, imagining potential new funding models, and understanding how the needs for teaching and research might change are also important factors the group should consider. Participants suggested eight areas that universities examine to maximize revenue:

- State funding,
- In-state tuition,
- Out-of-state tuition,
- Fees and differential tuition,
- Sponsored research and in-direct cost recovery,
- Foundation or endowment income,
- Cost containment, and
- Private industry.

Preparation for the next meeting (to be distributed to the Working Group):

- Review presentation on Affordable Excellence, UVA's plan to address tuition and financial aid for middle-income families
- Read white paper on university endowments
- Develop questions for Charlie Phlegar, vice president for advancement, who will attend our next meeting

Next meeting:

- November 11, 2015, 1-3 pm, Virginia Bioinformatics Institute, Room 225
- Agenda will be sent separately

Beyond Boundaries Initiative
Discovering New Funding Models Working Group
Meeting Highlights
November 11, 2015

The Funding Models Working Group met from 1:00 to 3:00 pm on November 11, 2015. Co-chairs Tom Dingus and Lara Khansa, led the discussion. Those present included Sharon Barrett, Rajesh Bagchi, Warren Bickel, Tom Dingus, Jim Hatch, Tim Hodge, Lara Khansa, Charlie Klauer, Scott Ransbottom, Pamela Teaster, Bob Broyden, Charlie Phlegar, Jaimie Edwards, Kate Keeney, and Jerald Walz.

Vice President for Advancement, Mr. Charlie Phlegar shared a presentation about giving, endowments, and the future of Virginia Tech. Phlegar reported that the university has reorganized its development operations and adopted an advancement model that combines alumni engagement, fundraising, and communications and marketing into one division. The purpose of this realignment is to shift the internal culture to one that has the potential for a greater impact on fundraising, helping the university to leapfrog its position among current fundraising peers. Presently, the Virginia Tech endowment stands at approximately $800M, which places the university last among our fundraising and academic peer group. Similarly, the university is last in alumni giving participation, which stands at only 9%, when experts consider 18-25% typical. Additionally, over the past 10 years, giving to Virginia Tech has decreased when inflation is taken into account. Meanwhile, in the broader higher education sector, giving has increased by 6% and among VT's SCHEV peers by 10%. Therefore, the university will be pursuing a ten-year growth model for philanthropy that has the potential to triple annual fundraising from $80M to $240M. The university should be careful to consider investing in capital projects, since this philanthropy may not strategically advance the university toward its long-term goals. While Phelgar emphasized the tremendous up-side potential for giving to the university, he also suggested that there are no silver bullets. He did note that donors with greater wealth will give to projects based on world-class research that addresses big problems.

After Phlegar's presentation, group members had the opportunity to ask questions. One member asked, "How do we create change?" Phlegar responded that emphasizing research that addresses big problems attracts bigger gifts and that donors invest in "winners," i.e. those with a track record of world-class accomplishments. Another member asked, "Where can we realistically expect our endowment to be in 10 years?" Phlegar replied that a realistic 10-year target would be growing the endowment to $2B through investment growth and $750M in new giving to targeted projects like interdisciplinary research destination areas or faculty recruitment and retention. He also indicated that 75-80% of giving should support academics, which drives prestige and philanthropy, while 20-25% might support athletics. The endowment can be used to invest in future programs where the university wants to grow.

The group discussed ideas concerning costs:

- Building/operating only essential physical plant; off campus housing; year away program
- Program costs are a higher percentage of the whole than administration costs; sunset programs/services/contracts; prioritize programs; develop due process for review and

decision; identify revenue/cost centers and measure performance; target growth to core academic areas

Group members had the opportunity to share other ideas:

Leverage investments to optimal advantage

- Capitalize appropriately on VT's presence in Northern Virginia
- Develop a research challenge trust fund to resource and develop world-class emerging faculty
- Decide where to make program investments
- Adopt variable tuition

Identify efficiencies to improve resource utilization

- Perform a thorough cost/efficiency study
- Reduce idle capacity during calendar year (e.g. summer)
- Maintain a strong brand, efficient operations, mix of students, flexibility, and year-round education

Improve decision-making with appropriate processes

- Make ROI based decisions
- Adopt due process mechanism to sunset programs, etc.
- Address change through an evolving process

Preparation for the next meeting (to be distributed to the Working Group):

- Review working drafts of funding vision, key identities, and possible Ideas
- Develop questions about reducing costs for the university and students

Next meeting:

- December 9, 2015, 1-3 pm, Virginia Bioinformatics Institute, Room 225
- Agenda will be sent separately

Beyond Boundaries Initiative
Discovering New Funding Models Working Group
Meeting Highlights
January 27, 2016

The Funding Models Working Group met from 1:00 to 3:00 pm on January 27, 2016. Co-chairs Tom Dingus and Lara Khansa, led the discussion. Those present included Rajesh Bagchi, Tom Dingus, Jim Hatch, Tim Hodge, Lara Khansa, Charlie Klauer, Erin Lavender-Stott, Scot Ransbottom, Larry Hinker, Kate Keeney, Judy Ridinger, and Jerald Walz.

The group reviewed and modified a draft financial vision document that includes a financial vision statement, core values, and possible funding ideas. The final draft of the financial vision statement read: *As Virginia Tech moves forward as a global land-grant university, it will develop and implement innovative and agile financial models dedicated to academic excellence, world-class research, and Ut Prosim, while advancing access and affordability.*

Next, core values essential to the funding vision for Virginia Tech were reviewed and amended. Finally, the group took time to read, review and amend the ideas for funding strategies that had been suggested throughout the academic year. The group decided that all suggestions submitted to the group should be captured and presented as an appendix to a final report, but that there are some that the group might wish to highlight as recommendations. Jerald Walz suggested that a survey could be developed that asks members to rank the ideas and the overall categories for revenue and expenses. The group accepted this process, provided that all ideas be presented and that those of a similar nature be combined to reduce redundancy.

Once a next draft of the financial vision document had been revised (with input from the co-chairs), it will be circulated along with the survey. A final meeting day and time will be selected so that the entire group may have one additional opportunity to review and approve the financial vision document.

Preparation for the next meeting (to be distributed to the Working Group):

- Review draft funding vision, values, and ideas
- Complete survey ranking ideas

*******Next meeting:**

- To be determined, Biocomplexity Institute, Room 225
- Agenda will be sent separately

Beyond Boundaries Initiative
Discovering New Funding Models Working Group
Meeting Highlights
December 9, 2015

The Funding Models Working Group met from 1:00 to 3:00 pm on November 11, 2015. Co-chairs Tom Dingus and Lara Khansa, led the discussion. Those present included Sharon Barrett, Rajesh Bagchi, Tom Dingus, Jeff Earley, Jim Hatch, Tim Hodge, Lara Khansa, Charlie Klauer, Erin Lavender-Stott, Pamela Teaster, Bob Broyden, David Crotts, Jaimie Edwards, Kate Keeney, Judy Ridinger, and Jerald Walz.

Bob Bryoden, assistant vice president for capital assets and financial management, made a presentation on university spending. The entire financial system can be understood as the combination of inputs plus actions that lead to outputs or outcomes. In FY 2014-15, Virginia Tech's total financial input and output for program equaled $1.32B, growing from almost $800m in 2004-05. Broyden focused his presentation on the actions (expenses) that produced outputs (outcomes). Of the total program budget, the university expended $654m for educational & general (E&G), $247m for sponsored research, $294.5m for auxiliary enterprises, $22.1m on other expenses, and $89.9m on cooperative extension. Of the total expenditures, 79% is for program activities, 6% for central administration, and 15% for program administration. Viewed another way, 62% of the budget funds labor costs and 38% operations.

With this overview, Broyden presented an analysis of E&G program spending. In FY15, total E&G expenditures were $654m. When examining expenditures by E&G program, $301.6m was for instruction, $105.7m for university funded research, $81.8m for academic support, $76.6m for operation and maintenance of plant, $54.8m for institutional support, $22.1m for public service, and $13.4 for student services. Comparing labor and operations expenditures for the E&G program, 74% were associated with labor costs, and 26% were for operating costs. Broyden noted that E&G spending for Virginia Tech has increased at a rate faster than inflation in both the United States and higher education (relative to 2005 dollars). In FY15, E&G labor expenditures totaled $482m, of which 42% was spent for T/R faculty, 40% for staff and A/P faculty, 9% for graduate assistants, 5% for adjunct positions, and 4% for special research faculty. Examined by program, the same $482m E&G labor expenditures were allocated for instruction (56%), institutional support (14%), academic support (11%), university funded research (10%), operation and maintenance of plant (5%), public service (3%), and student services (2%).

University expenditures have produced positive results, as Broyden reported. 83% of full-time freshmen graduate within six years, with an average time to degree of 4.12 years. Student retention has remained between 91 and 92% for the past several years. Virginia Tech has increased research spending, but done so efficiently, reducing the amount of physical space for research while increasing overall research spending. The university's athletic and comprehensive fees are the lowest among public universities in the Commonwealth. Finally, the percentage of expenditures related to academic and institutional support, relative to several peer groups is low, at 14%, compared to 86% for core programmatic expenditures (instruction, research, and service).

The challenge for Virginia Tech, as well as for other universities, is to control both alignment of resources and growth in costs so the university may continue to be competitive and achieve its strategic objectives. Some ways this may be achieved is through programmatic review, improved use of existing resources, assets, and physical space, consolidating and sharing existing services, and developing out-of-the-box ideas and approaching to accomplishing the mission of the university.

Preparation for the next meeting (to be distributed to the Working Group):

- Brainstorm ideas for cost containment/control
- Send ideas to Jerald Walz, jhwalz@vt.edu, OR Kate Keeney, kate.keeney@vt.edu, by December 16
- Review Funding Vision, Identities, and Ideas document
- Send suggestions to Jerald Walz

*******Next meeting:**

- January 27, 1-3 pm, Virginia Bioinformatics Institute, Room 225
- Agenda will be sent separately