

Working Group: Discovering New Funding Models

CO-CHAIRS

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Summary of Activities to Date

Under the leadership of co-chairs Tom Dingus and Lara Khansa, the Funding Models Working Group met four times during the fall semester. One meeting featured a presentation on funding and financial trends; another featured giving and endowment. At each meeting, members had opportunities to ask questions, share ideas, and participate in discussions about future funding models for Virginia Tech.

Current funding

Committee member Tim Hodge shared a presentation about the funding, trends, and future of finance at Virginia Tech. 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 appropriation (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.

Over time, in constant dollars, the general fund appropriation 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. 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.

Giving and endowment

Vice President for Advancement, Mr. Charlie Phlegar shared a presentation about giving, endowments, and the future of Virginia Tech. Presently, the Virginia Tech endowment stands at approximately \$800M, which is near the bottom when ranked among our fundraising and academic peer groups. Similarly, the university is last in alumni giving participation, which stands at only 9%, when experts consider 18-25% typical. 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. Emphasizing research that addresses big problems attracts larger gifts from donors who desire to invest in “winners,” i.e. those with a track record of world-class accomplishments. Additionally, a realistic 10-year target for the endowment is \$2B, growing its value through investment returns and \$750M in new giving to targeted projects like interdisciplinary research destination areas or faculty recruitment and retention.

The Discovering New Funding Models Working Group will meet two additional times to finalize their work, once in December and once in January.

Draft Tools

Funding ideas

Throughout the meetings, group members had the opportunity to share ideas concerning aspects of funding and cost models appropriate for Virginia Tech. While many were discussed, the group seemed to come together around a few ideas concerning funding:

- **Eight areas where universities 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.
- **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 of 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.
- **Establishing a Citizenship Model.** Members of the university community assume responsibility for its success. An ethos of service should pervade the culture at Virginia Tech. Beginning as freshmen, students should know that giving back to the university, whether through financial support, volunteer hours, or service to others, is an integral part of Ut Prosim. By developing this attitude of giving, the VT community are better prepared to help others in the future through mentoring, internships, and gifts that support the mission of the university.
- **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 centered on funding strategies. Here are some categories and examples:

- **Learning-centered revenue strategies.** Provide opportunities for certification and continuing or professional education. Utilize hybrid education – residential and remote. Incentivize faculty to generate revenue.

- **Giving-emphasis revenue strategies.** Increase alumni giving – set expectations early, ask often. Allow transparency for donors, budget, and financial activity.
- **Operations strategies.** Streamline operations (administration, etc.) as appropriate. Leverage public/private partnerships. Provide services for local/regional economy.
- **Cultural strategies.** Choose our financial model: Walmart, Ikea, Neiman Marcus (volume/cost, customizable, high-end). Encourage entrepreneurship with incentives, start-up funds.

Costs

The working group has also begun a discussion on university costs (although this is preliminary and will continue at its next meeting):

- **Leverage investments to optimal advantage.** Capitalize on VT's presence in Northern Virginia. Develop a research challenge trust fund to resource and develop world-class emerging faculty. Prioritize 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. winter, summer). Maintain a strong brand. Allow for flexibility. Improve operational efficiency.
- **Improve decision-making with appropriate processes.** Make ROI based decisions. Adopt due process mechanism to sunset programs, etc. Address change through an evolving process of evaluation.

Finally, the working group will be considering the following funding vision based on several identities key to Virginia Tech.

- **Funding Vision:** As Virginia Tech moves forward as a global land-grant university, it will develop and implement a dynamic financial model dedicated to academic excellence, while ensuring access and affordability. The university will prepare students for the world in which they will live and work through hands-on, minds-on learning, world-class research, and *Ut Prosim*.
- **Key Identities:**
 - Academic excellence
 - Accessibility
 - Affordability
 - Global land-grant
 - Hands-on, minds-on learning
 - Public mission/purpose
 - *Ut Prosim*
 - World-class research