Fitchburg State University
Strategic Planning White Paper
Finance and Operations Working Group
November 15, 2014

Charge

The finance and operations workgroup of the Strategic Planning Committee is responsible for addressing the challenges and opportunities related to net revenue increases, cost reductions and containment,
and debt obligation, service, and burden. The workgroup will also identify the resources necessary to maintain and enhance robust university programs consistent with Fitchburg State University's mission and the Massachusetts Department of Higher Education's "Vision Project."

Process: The Three Components of the Charge

This workgroup met on nine occasions between late May and November of 2014. The consultants provided drafts of the workgroup's charge and guiding questions. Over the summer months, the workgroup clarified its charge, added to and revised its various guiding questions, and then explored the issues surrounding the three principal elements of the charge – net revenue increases, cost reductions and containment, and debt obligation, service, and burden. In the fall term, the workgroup broadened
its representation and met with a wide variety of constituencies, including representatives from Finance
and Administration, Admissions and Enrollment Management, the Division of Graduate and Continuing Education, and the Fitchburg State Foundation. In the course of these conversations, the workgroup formulated ten recommendations treating all three parts of our charge.

Over the course of the planning period, the workgroup assembled and consumed a tremendous amount of data and relevant reading materials. The workgroup examined ten years of financial audits from the University and its Foundation, a similar number of years of financial aid statements and self-reported data in Common Dateset form, demographic data from the College Board, IPEDS national and state peer comparisons, the "phase one" data representing income and expenditures from academic departments, Department of Higher Education documents from the Task Force on Graduation Rates and the Vision Project, as well as a host of news media articles covering such topics as "Who Gets To Graduate?", "The 'Murky Middle,'" and "The Anatomy of College Tuition."

Opportunities for Net Revenue Increases:

The workgroup spent a very large proportion of its time exploring opportunities for the net revenue increases. The obvious endogenous solutions presented themselves first. Thus, we initially discussed opportunities for enrollment growth through increased retention and graduation rates.[1] This was followed by a discussion of the possibilities for the creation of new academic programs. Largely because we are constrained by the physical plant, the Day unit presents the fewest opportunities for academic program growth; our enrollments there hover just under the maximum capacity of 3,850 students.[2]

Consequently, the workgroup gravitated to the Graduate and Continuing Education unit when discussing program development. Other endogenous strategies presented the workgroup with complications. In the past five years, the University has embarked on a building and renovation campaign to lure new students; the connection between improvements in the physical plant and net revenue increases is uncertain, however, because the renovations began in earnest just as our enrollments peaked in the AY09/10. Moreover, new capital projects will be limited by state financing mechanisms and our ability to borrow additional funds. (On the latter, see below.)

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[1]The discussion here followed the guidance of two DHE documents. State and national benchmarks for graduation rates appear in the data dashboards of the Department of Higher Education's 2013 Vision Project report, "Within Our Sights," pp. 71-82. Explicit guidance for the retention and graduation rate increases came from the BHE's 2005 report by the Task Force on Graduation Rates, which called for the "improve[ment of] first-year retention of first- time, full-time students by five percentage points, one point each year for five years, resulting in 80% of state college freshmen returning to their initial institution for their sophomore year" (p. 3); the same report called for "increasing six-year graduation rates by five percentage points" (p. 12).

[2]The enrollment picture at Fitchburg State has varied by Unit. Overall enrollments (that is Day and DGCE, full- and part-time students) as measured by head reached an all-time high in the AY09/10, and they have declined only slightly since then. A more complicated view shows that, since the peak, overall undergraduate enrollments have hovered around 4,200 (again, by head), while the number of graduate students has fallen by 400 or 14%, but this has translated into only a 5% decline in overall enrollments from the peak. This fall off, moreover, may represent a statistical blip. In any event, going forward, there are numerous indications that many colleges and universities will face the prospect of declining enrollments, and this is particularly the case for institutions in New England. According to the WICHE consortium, across the nation, enrollments will remain flat until the next "boomlet" hits sometime in the 2020s; the consortium has projected "slowing production" for Massachusetts, which translates into a decline of between 5% and 15% in high school graduation rates up through the 2020s. A second trend is the increasing diversification of the student body, with a substantial potential for an increase in the Hispanic population in particular. See the report, "Knocking at the College Door: Projections of High School Graduates" (December, 2012), p. xii and passim.

Similarly, the workgroup discussed how our ability to raise fees is limited by a variety of factors, not the least of which is that short of Mass College of Art and Design our prices are the highest in the system.[3] Nevertheless, the members of the group agreed that the University should consider raising fees in a differentiated fashion.[4] The workgroup also explored exogenous solutions. We spoke about improving our lobbying of the state legislature to increase its appropriations, as the UMass system successfully did this last year, and exploring a more aggressive marketing and market share strategy that reaches into southern New Hampshire, Connecticut, and Rhode Island, if not the broader national online market. In the end, the committee felt that the University should explore the viability of increased recruitment of out-of-state students.

Opportunities for Cost Containment and Reduction:

The discussions surrounding opportunities for cost containment and reductions initially gravitated toward the establishment of frameworks for making such decisions. The committee divided the discussions between the academic and non-academic sides of the house. Thus, we discussed establishing a framework for academic staffing and program cuts that might involve a review of a given program if it were not generating sufficient revenues to cover its direct expenses in the Day and DGCE units and if its curriculum were insufficiently "stable" – as measured potentially by excessive waivers. Similarly, the committee discussed a framework for non-academic staffing cuts that relied upon national benchmarks for staffing levels and which sought to eliminate redundancies and inefficiencies. These discussions ultimately foundered, because it became apparent that there were too many exceptions to the various rules. In the end, then, the workgroup decided that it was best to have every department, whether academic or non-academic, search for opportunities for cost containment or reduction. Moreover, the group felt that it was important to prioritize spending and that, in an effort to do so, the University should establish a participatory system that includes faculty, staff, and administration to determine both how best to spend limited budgetary resources and the relevancy, currency, and cost effectiveness of academic and non-academic departments.

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[3]The workgroup members spoke extensively about the price elasticity of demand. There was concern that too great of an increase in our fees could drive prospective students away. As Steven W. Hemelte and Dave E. Marcotte argue, "at the mean, a $100 increase in tuition and fees would lead to a decline in enrollment of about 0.25%, with larger effects at Research I universities." See "The Impact of Tuition Increases on Enrollment at Public Colleges and Universities," *Educational Evaluation and Policy Analysis*, Vol. 33 (2011), pp. 435-457. Efforts to answer the question of whether further price increases will drive students away need to factor in metrics beyond price, including median household income, financial aid needs, as well as the growing unmet need among our students.

[4]The proposals for differentiation sprang in large part from Jung Cheol Shin and Sande Milton's article, "Student Response to Tuition Increase by Academic Majors: Empirical Grounds for a Cost-Related Tuition Policy," *Higher Education*, Vol. 55 (2008), pp. 719-734.

Debt Obligation, Service, and Burden:

The question of debt preoccupied the group throughout the summer months and into the fall. Over the last two decades, the University has acquired approximately $62,300,000 in debt, of which $54,400,000 was outstanding at the end of FY2014. Approximately $49,100,000 of the debt was issued in the last three years and relates primarily to a single project, the multi-phase renovations of the Hammond building. The final phase of the Hammond renovations, which is scheduled for the calendar year 2015, will require an additional $15,000,000 in funding and will bring our debt to just under $70,000,000. Roughly 80% of all debt acquired by the FY2015 is devoted to the Hammond project; moreover, all of the debt accrued in the renovations of Hammond will mature in the first half of the 2030s. The remaining $10,700,000 of existing debt will be retired for the most part by the mid-2020s. Going forward there are very few projects remaining from the 2007 Master Plan that require indebtedness. Indeed, just two other bonded projects are possible, though they are not at present queued up – a new parking deck at $14,000,000, and an expansion of the existing Recreation Center at $7,000,000.

The increase in the institution's debt obligations and the limited mechanisms for indebtedness place constraints on our ability to pursue new capital projects. At the end of the FY2014, the University's debt burden ratio (a measure of interest and principal payments over total expenses) was approximately 4.2%, and the bonding for the final phase of Hammond in the FY2015 is likely to put us over 5.0%. To put this in perspective, in the FY2015 the University anticipates spending $4,300,000 on principal and interest payments in a budget with $89,000,000 in total expenses. The Massachusetts Department of Higher Education has a recommended limit on debt burden ratios of 5.0%, and the upper bound of the industry standard is 7.0%.[6] Importantly, it should be noted that all new indebtedness is vetted not only by the University's board of trustees, but also by the building authority and the DHE. A further constraint lies in the fact that most of the remaining needed renovations (N.B.: by and large these do not treat the backlog of deferred maintenance) are in academic spaces, and here we cannot borrow using the same mechanisms (i.e., MSCBA bonds). In short, beyond the final phase of the Hammond renovations, the University will have a limited capacity to borrow funds, and as was discussed above we might have reached the point of diminishing returns – in terms of students attracted and revenues generated – with capital improvements.

[6]The guidance from the Massachusetts DHE appears each year in our audited financial statements: e.g., in the FY2013 financials, on p. ix. On the question of industry standards, see *Strategic Financial Analysis for Higher Education, sixth edition* (KPMG and Prager, Sealy & Co., 2005), which states that "the industry often has viewed an upper threshold for th[e debt burden] ratio at 7 percent, meaning that current principal payments and interest expense should not represent more than 7 percent of total expenditures; however, a number of institutions operate effectively with a higher ratio, while others would find this ratio unacceptable" (p. 66).

Recommendations of the Workgroup for Finance and Operations

To further the end of increasing revenues, the workgroup recommends:

1. Consistently meeting an 80% retention rate by the end of the five year plan. (N.B.: By "retention" the committee means the retaining of first-time, full-time freshmen from the spring of their freshmen year to the fall of their sophomore year.)
2. Improving the overall graduation rate at the University by 5% by the end of the five year plan. As part of this goal, the workgroup recommends that the subgroups of transfer students, Hispanics, and those who find themselves in the "murky middle" each individually meet the goal of a 5% increase in their graduation rates. (N.B.: We define the "murky middle" as those who are retained in the fall term of their sophomore year and who have a GPA between 2.0 and 3.0 but who nevertheless drop out roughly 50% of the time in national surveys).
3. Doubling Hispanic enrollments and simultaneously halving the gap between the current five-year average retention rate for Hispanics and the aggregate goal of 80% by the end of the five year plan.
4. Exploring the viability of increased recruitment of out-of-state students, while taking into consideration the growing financial aid needs and unmet needs of students in these markets.
5. Growing programs in the Graduate and Continuing Education (GCE) division; specifically, we call for the consideration of the development of:
   A. At least one new alternative undergraduate-to-graduate transitional program (i.e., a combined 4+1 baccalaureate and Master's degree program);
   B. At least one evening undergraduate program that attracts new demographics and students who otherwise cannot take Day unit classes; such programs must be closely coordinated with Day unit faculty and the chair in order to ensure academic quality;
   C. A single experimental undergraduate or graduate program (e.g., competency-based learning);
   D. A closer financial alignment between the Day and Evening units, especially in their respective fee structures, in order to support the above initiatives.

   N.B.: These recommendations presuppose discussions regarding the alignment of the Day and Evening unit contracts.
6. Funding more scholarships, academic programs, and student support initiatives through Foundation monies. In the short and medium term, this goal will involve an assessment of current expenditures and the alignment of fundraising to the strategic plan.
7. Raising fees in a "differentiated" manner. The workgroup members specifically call for the University to assess the viability of differentiation of fees by major and raising fees for services (e.g., recreation and athletics); the fees-by-major model might involve an examination of those majors that are most cost-intensive and in which the graduates have a greater expectation of an ROI – that is, a return on their investment over a lifetime.

To further the end of cost containment and reduction, the workgroup recommends:

1. That the University establish a participatory system that includes faculty, staff, and administration to prioritize expenditures on academic and non-academic departments. Additionally, academic program and non-academic department reviews might now speak directly to cost containment.

2. That, in an effort to contain the costs associated with debt service, the University explore opportunities to optimize the terms of debt obligations and seek the most favorable terms for all existing and any future debt.

To ensure our ability to support future borrowings, the workgroup recommends:

1. That the University engage in a broadly-based, participatory discussion on the financial feasibility of any potential future capital projects that entail large-scale debt obligations.

N.B.: All but the last two of the recommendations under net revenue increases are long-term in nature. The last three recommendations on this page involve short- and medium-term goals.