

MEMORANDUM

TO: VSCS Finance & Facilities Committee

David Silverman, Chair
Adam Grinold, Vice-Chair
Lynn Dickinson
Jim Masland
Shawn Tester
Sue Zeller

FROM: Sharron R. Scott, Chief Financial and Operating Officer

DATE: October 13, 2021

SUBJECT: Finance and Facilities Committee Meeting scheduled for October 18, 2021

The Finance and Facilities Committee of the VSC Board of Trustees is scheduled to meet at 2:30 p.m. (or immediately following the Audit Committee meeting, whichever is later) on Monday, October 18, 2021. This meeting will be held via Zoom.

The following topics are included in this meeting.

1. Review and approval of the **minutes of the August 23, 2021 meeting**. The minutes for the last meeting are available in this packet as **ITEM 1**.
2. Review and discuss **FY2021 financial performance** and receive updated information regarding enrollment trends, tuition discounting, net student revenue, and financial ratios. An overview of these topics are available as **ITEM 2** in this packet.
3. First quarter financial results will be available in November. However, at this meeting we will review **key indicators that inform FY2022 budget performance**. Information regarding this topic can be found as **ITEM 3** of this packet.
4. As described at the September 2021 Board Retreat, the VSCS has underfunded capital expenditures on facilities, technology, and equipment as a method of addressing underfunding issues. Additionally, the system has limited “rainy day” or emergency reserves to address unanticipated issues. The Committee will discuss the approaches toward addressing these issues to inform management recommendations that will be offered at the

next Finance and Facilities Meeting. Supplemental information regarding this topic is included in this packet as **ITEM 4**.

5. Receive a brief overview of the **FY2023 State General Fund** and **Capital Appropriations** budget requests.

Should you have any questions regarding these materials please contact me at Sharron.Scott@vsc.edu or 802.224.3022.

CC: VSCS Board of Trustees
 Council of Presidents
 Business Affairs Council

Finance and Facilities Committee

October 18, 2021

**2:30 p.m. (or upon conclusion of the Audit Committee, whichever is later)
via Zoom**

AGENDA

1. Call to Order
2. Review and approve minutes of the August 23, 2021 Meeting
3. FY2021 Financial Performance Discussion
4. FY2022 1st Quarter Progress Update
5. Strategic Financial Plan – Capital Expenditures and Reserves Discussion
6. FY2023 State Budget Request Overview
7. Other Business
8. Public Comment
9. Adjourn

Materials

- ITEM 1:** Minutes of the August 23, 2021 Board Meeting
- ITEM 2:** FY2021 Financial Performance
- ITEM 3:** FY2022 1st Quarter Key Indicators
- ITEM 4:** Strategic Financial Plan - Capital Expenditures & Required Reserves

ITEM 1:
August 23, 2021 Meeting Minutes

Minutes of the VSCS Board of Trustees Finance and Facilities Committee held Monday, August 23, 2021 at 1:00 p.m. via Zoom - UNAPPROVED

Note: These are unapproved minutes, subject to amendment and/or approval at the subsequent meeting.

The Vermont State Colleges Board of Trustees Finance and Facilities Committee met on Monday, August 23, 2021 via Zoom.

Committee members present: David Silverman (Chair), Adam Grinold (Vice Chair), Lynn Dickinson, Jim Masland, Sue Zeller

Absent: Shawn Tester

Other Trustees present: Ryan Cooney

Presidents: Joyce Judy, John Mills, Pat Moulton, Jonathan Spiro

Chancellor's Office Staff: Donny Bazluke, Network/Security Analyst
Kellie Campbell, Chief Information Officer
Doug Eastman,
Wilson Garland, Director of Transformation
Katherine Levasseur, Director of Governmental & External Affairs
Jen Porrier, Administrative Director
Sharron Scott, Chief Financial and Operating Officer
Toby Stewart, System Controller
Patty Turley, General Counsel
Meg Walz, Director, Project Management
Sophie Zdatny, Chancellor
Yasmine Ziesler, Chief Academic Officer

From the Colleges: Sarah Chambers, Coordinator of Instructional Technology, Castleton University
Laura Jakubowski, Chief Budget & Finance Officer, Castleton University
Tom Mauhs-Pugh, Provost, Castleton University
Andy Pallito, Dean of Administration, Community College of Vermont
Dannielle Spring, Chief Budget & Finance Officer, Northern Vermont University

Littleton Tyler, Dean of Administration, Vermont Technical
College

1. Chair Silverman called the meeting to order at 1:01 p.m.
2. Approval of May 24, 2020 Meeting Minutes

Trustee Dickinson moved and Trustee Grinold seconded the motion to approve the May 24, 2020 meeting minutes. The motion was approved unanimously with one abstention (Trustee Zeller).

3. Review and Approve endowments for Northern Vermont University
 - a. Elizabeth Dolci Scholarship in Science
 - b. Sugarman-Sedutto Endowment Change Request

Northern Vermont University President John Mills shared information on the Elizabeth Dolci Scholarship in Science, including that former faculty member Elizabeth Dolci is seeking to convert her indirect research funds into a scholarship for students in the sciences at the NVU-Johnson Campus. Additionally, Kerry Sedutto, former owner of The Sugarman, requests renaming her endowment to the Kerry Sedutto Scholarship Endowment and adding agriculture as one of the areas of focus for students.

Trustee Dickinson moved and Trustee Zeller seconded the motion to recommend to the Board the approval of the Elizabeth Dolci Scholarship in Science and the Sugarman-Sedutto Endowment Change Request. The motion was approved unanimously.

4. Government Affairs Update

Director of External and Governmental Affairs Katherine Levasseur noted that since the last Committee meeting in May, Governor Scott signed the state budget into law, which allocates \$88.9 million to the VSCS in FY22, with some additional funds available to students through the Vermont Student Assistance Corporation and funds previously allocated in Act 9. The state budget funding breaks down into \$30.5 million annual base appropriation, a \$5 million increase to the base appropriation, \$21 million in bridge funding to address structural deficit, for a total new operating funding of \$26 million. Additionally, the VSCS received \$21 million in Transformation funding, \$8 million of which is available to be drawn down on in FY22. There is also \$12 million in free tuition, workforce development and other scholarships for Academic Year 2021-2022 and \$400,000 in startup costs to support the dental therapy program at Vermont Technical College. To date, VSCS has awarded \$725,000 in Welcome Home Scholarships,

\$560,000 in Degree Completion Scholarships and \$5.6 million in Critical Occupations Free Tuitions Program. VSCS continues to market and enroll students in Workforce 2.0 which is the program that offers two free courses to Vermonters impacted by COVID-19. Due to high demand, VSCS has requested and received permission to fund up to \$2.3 million in additional funds to extend the Critical Occupations Free Tuitions Program.

5. Review and discuss FY2021 unaudited financial results and FY2022 budget forecast

Chief Financial and Operating Officer Sharron Scott shared the FY2021 unaudited results presentation which can be found [here](#) on slides 1-6. Overall, financial performance for the year was positive, with an anticipated surplus due to Coronavirus Relief and Higher Education Emergency Relief funds from the State and Federal governments, coupled with savings in personnel, supplies, and services due to the financial conditions surrounding the public health crisis. CFOO Scott also shared that as of the date of this meeting, classes started at three of the four institutions and enrollment is within one-half of a percent of the budget. More information on enrollment will be available by the September 20th Board retreat.

6. Review and discuss transformation projects

- a. Information Technology Infrastructure
- b. Transformation Project Budget
- c. 10 Year Facilities Plan
- d. Annual Deficit Reduction Goal

Chief Information Officer Kellie Campbell presented a discussion on the structural and capacity considerations regarding IT Infrastructure which can be found [here](#). Director of Transformation Projects Wilson Garland added to the discussion with details on the Transformation Budget – the details of which are on slides 9 and 10 of the presentation.

CFOO Scott then discussed the development of a strategic financial plan that seeks to balance the needs of the organization with its potential revenue sources. Those details can be found [here](#) on slides 7-13.

7. Discuss timing of tuition setting for FY2023

CFOO Scott reminded the Committee that in recent years tuition increases for the upcoming fiscal year are usually brought forward for discussion at this meeting. This year, however, it is recommended to delay that conversation to the spring when the VSCS is in a better position legislatively and transformation-wise to make an informed recommendation to the Board. It is expected that a formal tuition proposal will be brought to the Committee at its April meeting. In

the meantime, the VSCS will be assessing tuition setting for the new combined entity as a whole as well as continuing the work of transformation.

8. Other Business

There was no other business.

9. Public Comment

There was no public comment.

10. Adjourn

Chair Silverman adjourned the meeting at 2:04 p.m.

ITEM 2:
FY21 Financial Performance

FY2021 Unrestricted Financial Performance

FY2021 Financial Performance was stronger than budget, with net revenues over expenses ending at a positive \$43 million. Performance at each institution, and the Office of the Chancellor's Office, with the exception of Northern Vermont University, ended in positive territory. Three key factors drove these results, the first is receipt of \$28.8 million in one-time bridge funding from the State of Vermont. The second was the receipt of federal grants in the form of Higher Education Emergency Relief Funding (HEERF) and Coronavirus Relief Funds (CRF). Lastly, modestly improved student revenues and strong budget control by each institution within the VSCS had a positive impact. Despite these efforts, Northern Vermont University did have a loss for FY2022 driven by enrollment declines due to the rescinded March 2020 closure announcement and their inability to draw in all of their HEERF funding during FY2021.

FY2021 Unrestricted Fund	VSCS	Community College of Vermont	Castleton University	Northern Vermont University	Vermont Technical College	Chancellor's Office
Total Revenues	195,618	29,662	53,863	46,082	37,313	28,698
Total Expenses	152,405	24,972	50,121	46,197	34,603	(3,488)
Net Revenue/(Deficit)	43,213	4,690	3,742	(115)	2,710	32,186
	22.1%	15.8%	6.9%	-0.2%	7.3%	112.2%
HEERF/CRF Funding	20,253	2,055	7,895	6,346	3,957	-
Net Revenue w/o CRF/HEERF	22,960	2,635	(4,153)	(6,461)	(1,247)	32,186
Bridge Funding	28,800					28,800
Net Revenue after all One-Time	(5,840)	2,635	(4,153)	(6,461)	(1,247)	3,386

While the VSCS-wide unrestricted performance was favorable, without receipt of these one-time funds, the overall net position for FY2021 would have declined by \$5.8 million. Removing the federal funding first, the net position drops from \$43 million favorable to \$23 million favorable. Castleton University, Northern Vermont University, and Vermont Technical College have negative results without the use of these federal funds. Further, removal of Bridge Funding drops the overall net position for the system to -\$5.8 million placing all institutions, with the exception of CCV, negative.

Student revenues, in the form of tuition and fees and room and board, were better than budgeted as a system with all institutions seeing stronger than budgeted tuition and fee revenue. Room and board revenue was stronger at Castleton University and Vermont Technical College, driven largely by the reopening of their residence halls in Spring 2021. Softer than predicted residential participation at Northern Vermont University can be anecdotally attributed to COVID fatigue in the Spring 2021 semester.

Performance on other revenues: Gifts, Sales and Services, and other forms of revenue were stronger than budget. While performance was mixed across the institutions, the nearly \$2.5 million favorable variance was due almost entirely to sales of property at Vermont Technical College and Community College of Vermont.

From an expense perspective, overall expenses were lower than budget across all categories with the greatest variances, in absolute value, in the areas of Salaries and Benefits, and Services, Supplies, and Travel. In regards to Salaries and Benefits, presidents held positions vacant to an extent never seen before; the result was a 9% favorable variance to budget, or approximately \$10 million. Similarly, Services, Supplies, and Travel purchases were slowed dramatically due to conditions that were unfavorable to travel. The slowed spending in this area resulted in a 17% favorable variance to budget, or a savings of approximately \$6.5 million.

FY2021 Actual Results as of June 30, 2021

October 18, 2021

	(Amounts rounded to \$1,000)											
	Vermont State Colleges System		Community College of Vermont		Castleton University		Northern Vermont University		Vermont Technical College		Chancellor's Office	
	FY2021 Budget	FY2021 Actuals	FY2021 Budget	FY2021 Actuals	FY2021 Budget	FY2021 Actuals	FY2021 Budget	FY2021 Actuals	FY2021 Budget	FY2021 Actuals	FY2021 Budget	FY2021 Actuals
REVENUES												
Tuition and Fees	102,520	105,395	20,517	22,373	34,400	34,895	25,053	25,090	22,550	23,036	-	1
State Appropriation	60,237	60,210	6,020	6,020	6,821	6,821	11,006	11,006	7,590	7,563	28,800	28,800
Room and Board	11,905	12,253	-	-	5,000	5,749	5,983	5,431	922	1,073	-	-
CRF/HEERF: Room & Board	-	11,548	-	-	-	4,980	-	3,555	-	3,013	-	-
Sales and Services	1,841	2,016	6	5	560	695	250	147	1,025	1,169	-	-
Gifts	850	1,030	50	107	420	382	250	183	130	340	-	18
Other Revenue	692	3,166	86	1,157	400	341	150	670	56	1,119	-	(121)
TOTAL REVENUES	178,045	195,618	26,679	29,662	47,601	53,863	42,692	46,082	32,273	37,313	28,800	28,698
EXPENSES												
Salaries and Benefits	110,496	100,531	20,497	20,392	29,495	27,813	32,400	29,331	23,555	22,388	4,549	607
CRF/HEERF: Salaries	(1,091)	(5,565)	-	(2,054)	(330)	(1,198)	(587)	(1,722)	(174)	(591)	-	-
Services, Supplies, Travel	37,116	30,796	4,870	4,737	10,158	7,111	9,135	7,107	7,782	6,307	5,171	5,534
CRF: Services/Supplies/Travel	(543)	(1,994)	-	(1)	(200)	(628)	(343)	(1,029)	-	(336)	-	-
Scholarships	19,240	18,268	170	146	11,600	11,635	5,290	5,119	2,180	1,368	-	-
CRF: Scholarships	-	(1,146)	-	-	-	(1,089)	-	(40)	-	(17)	-	-
Utilities	5,955	5,174	325	241	2,000	1,631	2,158	2,030	1,433	1,236	39	36
Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service	10,827	10,489	1,034	1,034	2,096	2,097	1,756	1,763	1,114	724	4,827	4,871
Chancellor's Office	(23)	-	1,622	1,622	1,837	1,837	2,965	2,964	1,653	1,677	(8,100)	(8,100)
Other Transfers	(5,958)	(4,148)	(1,839)	(1,145)	1,255	912	549	674	1	1,847	(5,924)	(6,436)
CRF: Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	176,019	152,405	26,679	24,972	57,911	50,121	53,323	46,197	37,544	34,603	562	(3,488)
NET REVENUES/(DEFICIT)	2,026	43,213	-	4,690	(10,310)	3,742	(10,631)	(115)	(5,271)	2,710	28,238	32,186
ONE-TIME FUNDS												
All Other	-	115	-	-	-	-	-	115	-	-	-	-
TOTAL ONE-TIME FUNDS	-	115	-	-	-	-	-	115	-	-	-	-
TOTAL OPERATING RESULT	2,026	43,328	-	4,690	(10,310)	3,742	(10,631)	-	(5,271)	2,710	28,238	32,186
Unrestricted use of CRF	(1,634)	(20,253)	-	(2,055)	(530)	(7,895)	(930)	(6,346)	(174)	(3,957)	-	-
Net Revenue without use of CRF	392	22,960	-	2,635	(10,840)	(4,153)	(11,561)	(6,461)	(5,445)	(1,247)	28,238	32,186

Enrollment & Discounting

Currently, VSCS institutions use merit aid, need based scholarships, and scholarship allowances (tuition waivers) as a means of discounting tuition for students. The scholarship allowance is a contra-revenue and therefore lowers the gross tuition and fee revenue on the unrestricted fund. Scholarships & Fellowships are an expense. Combined, the scholarship allowance (contra revenue) and scholarship expense equal the total amount of aid and discounts offered to VSCS students as shown below.

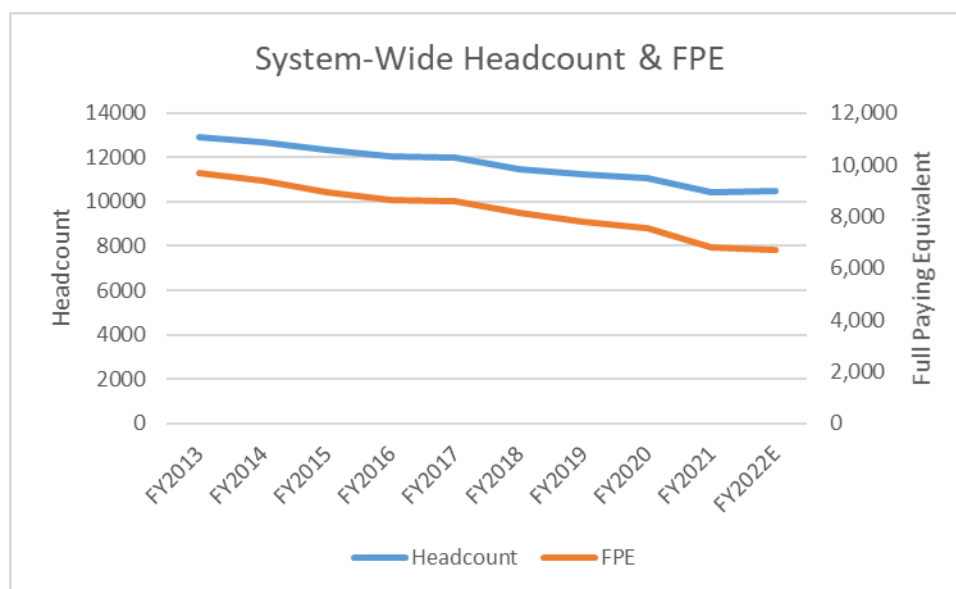
FY2021 Actual Student Revenues (Amounts rounded to \$1,000)					
	CCV	CU	NVU	VTC	VSC
Gross Tuition & Fees	22,972	35,324	26,675	24,118	109,089
Room & Board	-	5,749	5,431	1,073	12,253
Gross Student Revenues (\$K)	22,972	41,073	32,106	25,191	121,342
Scholarship Allowance (Waiver)	(599)	(429)	(1,585)	(1,082)	(3,695)
Scholarship & Fellowship Expense	(146)	(10,546)	(5,079)	(1,351)	(17,122)
Waivers, Discounts & Scholarships	(745)	(10,975)	(6,664)	(2,433)	(20,817)
Net Student Revenue	22,228	30,098	25,442	22,758	100,525
Discount %	-3%	-27%	-21%	-10%	-17%

In FY2021, gross student revenue for the system was \$121 million and the VSCS offered \$20.8 million in various forms of aid to students. The net student revenue was \$100.5 million, for an overall 17% discount rate for the system. The discount rate by institution varies as shown above, with the lowest discount occurring at Community College of Vermont and the highest at Castleton University. Tuition discounting for FY2022 is budgeted comparably to FY2021 with slight increases in discounting anticipated across all institutions as shown below.

FY2022 Budgeted Student Revenues (Amounts rounded to \$1,000)					
	CCV	CU	NVU	VTC	VSC
Gross Tuition & Fees	19,679	33,147	22,871	23,312	99,009
Room & Board	-	9,200	4,926	2,121	16,247
Gross Student Revenues (\$K)	19,679	42,347	27,797	25,433	115,256
Scholarship Allowance (Waiver)	(554)	(547)	(1,355)	(1,091)	(3,546)
Scholarship & Fellowship Expense	(170)	(11,635)	(4,659)	(1,622)	(18,086)
Waivers, Discounts & Scholarships	(724)	(12,182)	(6,014)	(2,713)	(21,633)
Net student Revenue	18,955	30,165	21,783	22,720	93,624
Discount %	-4%	-29%	-22%	-11%	-19%

Since FY2012, System headcount has declined by approximately 2,400 students, or nearly 20%, with all institutions seeing some degree of enrollment decline during this time. Simultaneously, discounting has increased at all of the institutions, with an average discount hovering at around 18-19% system-wide.

A corresponding decline in full-paying equivalency (FPE) has occurred at the stime time. However, the rate of decline in FPE has been faster than the decline in headcount, suggesting that the VSCS is enrolling more students who are attending part-time. Certainly during the most recently completed fiscal year, FY2021, this was anticipated. However, the speed of decline has been more rapid since FY2019. While a portion of this decline is the result of demographics, and the highly competitive nature of higher education in New England, a portion can also be attributed to negative media attention in 2019 and 2020.



Overall headcount and full-paying equivalency by institution for Fall 2012 (FY2013) through Fall 2021E (FY2022E) are shown below.

October 15 (Fall)	Full-Paying Equivalency ¹							Headcount ⁵						
	CCV	CU	NVU	JSC	LSC	VTC	VSCS	CCV	CU	NVU	JSC	LSC	VTC	VSCS
Fall 2021E	2,788	1,843	1,404			1,102	6,734	5,541	2,367	1,747			1,452	10,551
Fall 2020 ²	2,568	1,816	1,656			1,164	6,800	5,102	2,211	1,999			1,572	10,443
Fall 2019 ³	2,560	2,045	1,988			1,359	7,553	5,104	2,399	2,374			1,704	11,060
Fall 2018 ⁴	2,705	1,911	2,192			1,326	7,774	5,378	2,194	2,588			1,638	11,257
Fall 2017	2,820	1,854		1,236	1,006	1,313	8,162	5,504	2,141		1,552	1,147	1,616	11,442
Fall 2016	2,983	2,016		1,223	1,116	1,338	8,594	5,863	2,342		1,524	1,256	1,645	12,009
Fall 2015	3,078	1,961		1,225	1,163	1,286	8,640	5,983	2,246		1,514	1,266	1,559	12,036
Fall 2014	3,186	1,940		1,296	1,283	1,274	8,927	6,019	2,183		1,613	1,430	1,542	12,305
Fall 2013	3,387	2,036		1,343	1,376	1,302	9,396	6,194	2,175		1,692	1,519	1,543	12,656
Fall 2012	3,520	2,023		1,415	1,376	1,402	9,685	6,311	2,156		1,783	1,508	1,645	12,911

¹ Source: VSCS Registrar Report Headcount 10/15/2021 unverified

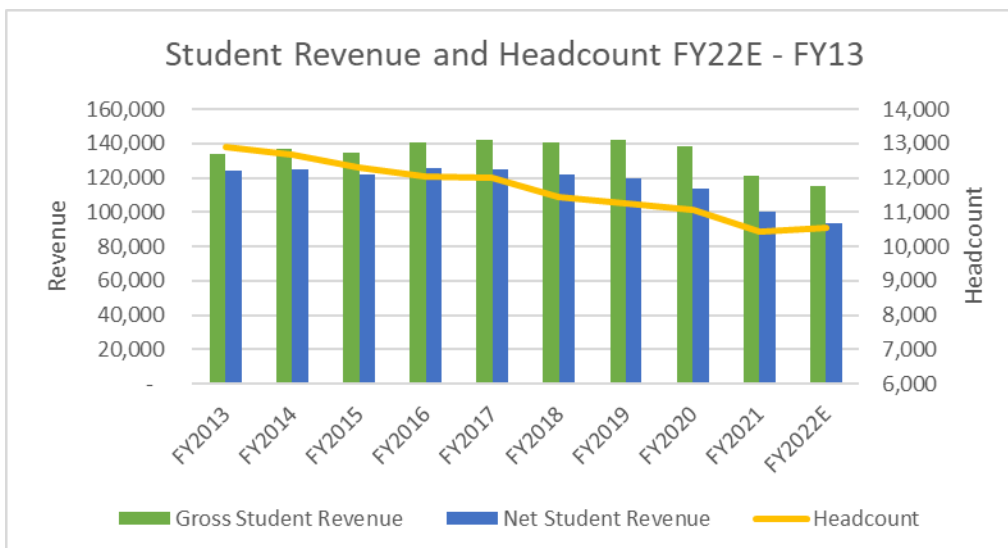
² Pandemic Closure announcements

³ Securing the Future Whitepaper issued

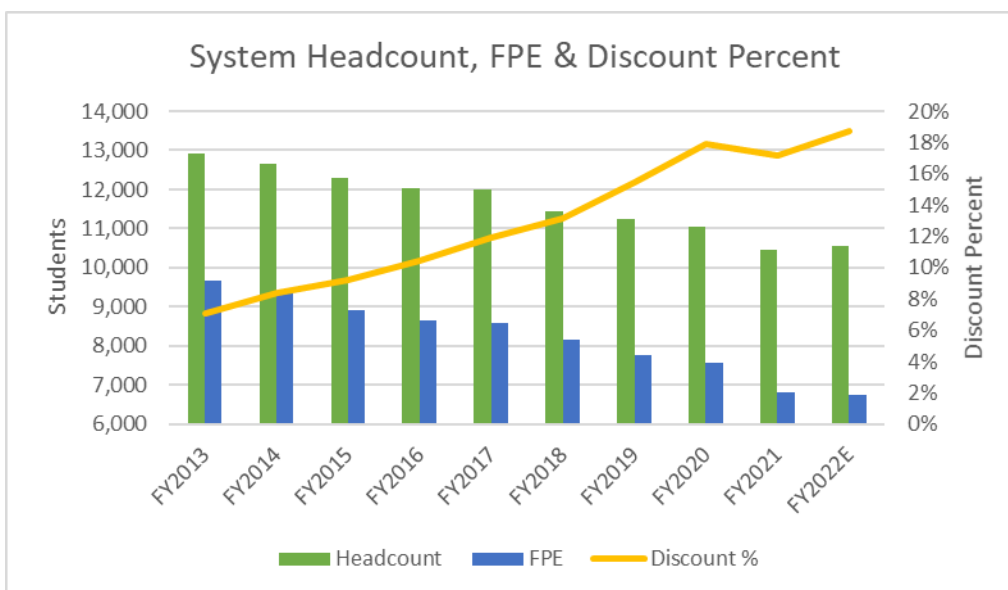
⁴ FY2019 was first year NVU was a unified institution

⁵ Source: VSCS Registrar Report. 10/15/21 unverified

Gross tuition revenues (tuition and fees plus room and board less all scholarships, waivers, and discounts) remained relatively steady between FY2013 and FY2020. Unsurprisingly, gross student revenues for FY2021 declined, in part, due to limited residential programming at Castleton University and Vermont Technical College. However, as shown below, net student revenue has declined since FY2013.



The regional higher education landscape is highly competitive with significant competition from well-funded publics and privates. The Vermont State Colleges are competing with these institutions, and often that competition is based on price.



As shown on the chart above, tuition discounting increased steadily between FY2013 and FY2020 changing from average discount of 7% to an average discount of 18% over this period. For FY2021, the average discount was 17%, due partially to lower enrollment numbers. FY2022's budget is currently estimated at a discount rate of 19%.

No institution was immune to the need to increase discounting. However, the issue was most keenly felt at Castleton University and Northern Vermont University, where discounting increased by 22% and 9% respectively between FY2013 and FY2021.

Discount % By Institution	FY2013	FY2021	FY2022E
Community College of Vermont	2%	3%	4%
Castleton University	5%	27%	29%
Northern Vermont University ¹	12%	21%	22%
Vermont Technical College	7%	11%	10%
¹ FY2013 is the combination of LSC (14%) & JSC (9%)			

Vermont Technical College and Community College of Vermont increased discounting during this period as well. However, the increases were largely due to the expansion of reciprocity agreements with surrounding states. Therefore, the expansion was substantially slower than at the other two institution.

Student Revenues and State Appropriation

Vermont State Colleges	FY2022E	FY2021	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014	FY2013
Tuition & Fees (\$000)	99,009	108,987	119,194	117,623	116,523	117,576	116,024	109,565	111,002	109,052
Room & Board (\$000)	16,247	12,253	18,989	24,126	23,739	24,532	24,564	24,900	25,549	24,950
Waivers, Discounts, Scholarships	(21,633)	(20,817)	(24,707)	(21,862)	(18,471)	(16,886)	(14,634)	(12,347)	(11,496)	(9,488)
Net Student Revenue (\$000)	93,623	100,423	113,476	119,887	121,791	125,222	125,954	122,118	125,055	124,514
\$ Annual Net Revenue / Fall FTE	13,903	14,768	15,024	15,422	14,922	14,571	14,578	13,680	13,309	12,856
Discount %	19%	17%	18%	15%	13%	12%	10%	9%	8%	7%
State Appropriation (\$000)	34,869	30,982	30,996	28,261	28,260	25,510	24,807	23,875	23,875	22,680
\$ Appropriation / Fall Headcount	3,305	2,967	2,803	2,511	2,470	2,112	2,061	1,940	1,886	1,757

Student revenues are comprised of the sum of gross tuition and fees and room and board, less all waivers, discounts and scholarships. Using FY2019 as the comparator (the most recent year unaffected by the pandemic), gross student revenues increased by nearly \$8 million, or about 6%. Simultaneously tuition discounting increased by 130% or more than \$12 million. The overall result was a decline in net student revenues of nearly \$5 million during this period. During the same period, the state appropriation increased by approximately \$5.5 million, offsetting the decline in net student revenue across the system.

The above chart shows average net student revenue based on fall full-paying equivalency for the years FY2013 through FY2021, with FY2022 shown as an estimated number based on budget. During this period, the net revenue per student FTE/FPE has varied considerably, peaking in FY2019. The FTE/FPE was used as the foundation for this calculation as student credit hour is the most equivalent proxy for student revenue as students pay per credit hour.

The state appropriation increased over this same period. The average appropriation per student headcount has increased since FY2013 in proportion to increases in the state appropriation and headcount declines. Increases in the State Appropriation, occurring in FY2018, FY2020, FY2021, and FY2022E have been welcome additions to the VSCS budget. The headcount, rather than the full-paying equivalent, is used as the foundation for this calculation because the State Appropriation is used to support the function of the institution as a whole, regardless of the number of student credit hours. Further, educating three students enrolled in two classes each, requires three times the support of one student enrolled in six classes. For example, registrar, financial aid, advising, and academic supports require triple the support of a single student. Additionally, wear and tear on facilities and other infrastructure is increased with the number of bodies. Further, the costs of student acquisition are typically higher for part-time student enrollments as many students are added each enrollment cycle.

	FY2022E	FY2021	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014	FY2013
CCV	Tuition & Fees (\$000)	19,679	22,972	22,505	23,010	23,484	23,279	24,548	25,113	25,330
	Waivers, Discounts, Scholarships	(724)	(745)	(879)	(605)	(688)	(662)	(715)	(735)	(472)
	Net Student Revenue (\$000)	18,955	22,227	21,626	22,405	22,796	22,617	23,833	24,378	24,858
	\$ Annual Net Revenue / Fall FTE	6,799	8,655	8,448	8,282	8,083	7,581	7,743	7,652	7,062
	Discount %	-4%	-3%	-4%	-3%	-3%	-3%	-3%	-3%	-2%
	State Appropriation (\$00)	6,811	6,020	6,119	5,465	5,465	4,915	4,775	4,775	4,536
	\$ Appropriation / Fall Headcount	1,229	1,180	1,199	1,016	993	838	798	793	719
CU	Tuition & Fees (\$000)	33,147	35,324	37,264	33,768	31,434	31,541	31,050	29,857	30,158
	Room & Board (\$000)	9,200	5,749	8,469	10,419	9,944	10,310	10,368	10,017	10,238
	Waivers, Discounts, Scholarships	(12,182)	(10,975)	(11,452)	(8,805)	(6,133)	(5,128)	(4,265)	(2,999)	(2,356)
	Net Student Revenue (\$000)	30,165	30,098	34,288	35,382	35,245	36,723	37,153	36,875	38,736
	\$ Annual Net Revenue / Fall FTE	16,367	16,578	16,767	18,516	19,015	18,220	18,944	19,008	19,026
	Discount %	-29%	-27%	-25%	-20%	-15%	-12%	-10%	-8%	-6%
	State Appropriation (\$000)	8,169	6,821	6,417	5,465	5,465	4,915	4,775	4,775	4,536
	\$ Appropriation / Fall Headcount	3,451	3,085	2,675	2,491	2,553	2,099	2,126	2,187	2,104
NVU	Tuition & Fees (\$000)	22,871	26,676	31,836	34,985	36,459	37,950	37,177	38,762	39,803
	Room & Board (\$000)	4,926	5,431	6,811	9,428	9,773	10,349	10,188	10,933	10,616
	Waivers, Discounts, Scholarships	(6,014)	(6,664)	(8,390)	(9,030)	(8,806)	(8,695)	(7,572)	(7,298)	(6,983)
	Net Student Revenue (\$000)	21,783	25,443	30,257	35,383	37,426	39,604	39,793	42,397	43,436
	\$ Annual Net Revenue / Fall FTE	15,515	15,367	15,222	16,140	16,693	16,933	16,664	16,439	15,975
	Discount %	-22%	-21%	-22%	-20%	-19%	-18%	-16%	-15%	-14%
	State Appropriation (\$000)	11,868	11,006	11,331	10,929	10,928	9,830	9,550	9,550	9,550
	\$ Appropriation / Fall Headcount	6,793	5,506	4,773	4,223	4,049	3,536	3,435	3,138	2,974
VTC	Tuition & Fees (\$000)	23,312	24,015	27,589	25,860	25,146	24,806	23,249	15,833	15,990
	Room & Board (\$000)	2,121	1,073	3,709	4,279	4,022	3,873	4,008	3,950	3,999
	Waivers, Discounts, Scholarships	(2,713)	(2,433)	(3,986)	(3,422)	(2,844)	(2,401)	(2,082)	(1,315)	(1,470)
	Net Student Revenue (\$000)	22,720	22,758	27,312	26,717	26,324	26,278	25,175	18,468	18,519
	\$ Annual Net Revenue / Fall FTE	20,617	19,560	20,093	20,155	20,046	19,643	19,579	14,496	14,224
	Discount %	-11%	-10%	-13%	-11%	-10%	-8%	-8%	-7%	-7%
	State Appropriation (\$000)	8,021	7,135	7,129	6,402	6,402	5,850	5,707	4,775	4,775
	\$ Appropriation / Fall Headcount	5,524	4,539	4,184	3,908	3,962	3,469	3,661	3,097	3,095

Total Entity

As discussed at the Board of Trustees Retreat in September 2021, the unrestricted fund, presented to the Board of Trustees regularly, is essentially the income statement. However, the income statement is but one measure of the health of the Vermont State Colleges. The balance sheet is as important, if not more important than the income statement, as it shows where the organization has been investing, or more likely in the case of the VSCS not investing. As Jim Page noted in his report to the Joint Fiscal Office in 2020:

Balancing an approved budget is an important [and] noteworthy achievement.

Yet a balanced budget is not necessarily a sign that all is financially well. *A budget may underfund depreciation, for example. This strategy can be useful to bridge a short-term budget gap, but chronic underfunding leads to an inevitable and sometimes unrecoverable increase in deferred maintenance, an issue now requiring VSCS attention.*

*Also, a budget that just breaks even may not have included investment funds to update programs, improve classroom technologies, etc. **Any institution that foregoes investing puts itself at a significant competitive disadvantage.**"¹*

The VSCS has not been investing in itself, and in many ways has been on a starvation diet. The system has used short-term methods to bridge long-term budget gaps, and its capital infrastructure, buildings, technology, and equipment is inadequate. Between FY2013 and FY2021, net revenues have declined, despite several years with favorable unrestricted funds. Below is a summary of the total entity performance by institution between FY2013 and FY2021. The total entity is comprised of the Unrestricted Fund, Restricted Expendable (grants and endowment spin-off), Restricted Non-expendable (endowments), Invested in Capital (facilities and equipment), and the Perkins Loan Fund.

	Incr. (Decr.) Net Assets	Incr./Decr.) Net Assets									
Total Entity Results¹	FY2014-FY2019	FY2014-2021²	FY2021	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014	FY2013
Community College of Vermont	(832)	4,315	4,883	263	(353)	77	(1,474)	(167)	987	98	583
Castleton University	(11,906)	(11,032)	105	769	(1,718)	(2,014)	(3,567)	(2,612)	(2,191)	196	581
Northern Vermont University	(7,521)	(5,749)	2,706	(934)	(2,861)	1,273	(2,491)	(3,408)	(600)	566	(496)
Vermont Technical College	(6,039)	2,618	5,651	3,006	(1,009)	2,035	(1,021)	(532)	(2,781)	(2,731)	7,985

¹ Excludes OPEB/GASB 45 transactions
² FY2014 was used due to large increase in fixed assets in FY2013 and FY2012

As shown on above, when reviewing total entity performance between FY2014 and FY2019 (the last year before the pandemic), no institution had a total net increase in assets. Of the four institutions, Community College of Vermont had the most favorable results, with the majority of their change in net assets derived from use of board-approved carry over funds. The remaining institutions saw a decrease in net assets of between \$12 million and \$6 million over this period.

FY2021 total entity performance saw an increase in net assets across all institutions with the greatest improvement at CCV and VTC due to the sale of facilities. However, all institutions saw an increase due to the receipt of Higher Education Emergency Relief and Coronavirus Relief Funds.

Data by entity and institution is available on the next page.

¹ Report to the Vermont Legislative Joint Fiscal Office Concerning Vermont State Colleges System Funding for FY2020 and FY2021
James H. Page, June 8, 2020 p. 11

Total Entity Results by Fund		FY2021	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014	FY2013
CCV	Unrestricted	4,691	925	347	913	(649)	478	750	29	113
	Restricted Expendable	607	(79)	91	17	32	(112)	90	20	303
	Restricted Unexpendable	178	169	41	40	94	49	55	111	135
	Invested In Capital	(593)	(751)	(831)	(893)	(952)	(582)	92	(62)	32
	Perkins Loans	-	-	-	-	-	-	-	-	-
	Total Entity	4,883	263	(353)	77	(1,474)	(167)	987	98	583
CU	Unrestricted	3,741	2,701	369	1,195	(2,022)	(174)	551	75	(2,705)
	Restricted Expendable	(1,190)	(178)	(196)	349	549	(341)	(611)	942	585
	Restricted Unexpendable	130	106	72	-958	190	94	203	146	155
	Invested In Capital	(2,577)	(1,404)	(2,008)	(1,943)	(2,277)	(2,183)	(2,326)	(942)	2,498
	Perkins Loans	1	(456)	45	(657)	(8)	(7)	(7)	(27)	48
	Total Entity	105	769	(1,718)	(2,014)	(3,567)	(2,612)	(2,191)	196	581
NVU	Unrestricted	(115)	746	(1,585)	983	(932)	(2,245)	353	277	335
	Restricted Expendable	3,512	(84)	298	728	301	(84)	(137)	620	564
	Restricted Unexpendable	1,105	299	237	205	612	379	374	929	222
	Invested In Capital	(1,745)	(1,361)	(1,814)	(586)	(2,505)	(1,476)	(1,201)	(1,270)	(1,610)
	Perkins Loans	(51)	(533)	3	(57)	32	18	10	10	(6)
	Total Entity	2,706	(934)	(2,861)	1,273	(2,491)	(3,408)	(600)	566	(496)
VTC	Unrestricted	2,709	2,896	214	1,760	(204)	30	(26)	(218)	(2,051)
	Restricted Expendable	(510)	76	64	147	145	214	(21)	690	265
	Restricted Unexpendable	164	55	9	10	190	69	49	149	127
	Invested In Capital	3,295	159	(1,311)	202	(1,164)	(847)	(2,804)	(3,358)	9,659
	Perkins Loans	(7)	(180)	15	(84)	11	3	21	5	(15)
	Total Entity	5,651	3,006	(1,009)	2,035	(1,021)	(532)	(2,781)	(2,731)	7,985

Financial Ratios

The Vermont State Colleges is establishing an accountability matrix to provide the Board of Trustees with necessary information to support the Board in its work. The following financial measures are included in the matrix:

- **Primary Reserve Ratio** – a measure of the overall financial strength of the organization
- **Net Operating Revenue Ratio** – measure of the organization's ability to live within its means
- **Return on Net Assets Ratio** – a measure of the organization's total economic return
- **Viability Ratio** - measures the availability of net assets to cover the organization's debt

Combined these four ratios create the **Composite Financial Index (CFI)** a single measure that offers directional insight into the organization. These measures can help the Board answer critical questions such as:

- What is the system's current capacity to carry out its work?
- What is the system's expected capacity to carry out future programs?
- Is the trend improving or deteriorating?

- Are the VSCS's resources sufficient and flexible enough to meet the mission?
- Do operating results indicate the system is living within available resources?
- Does financial asset performance support the strategic direction of the organization?

By reviewing these measures longitudinally, we can see where our actions, or lack thereof, can have a positive or negative impact on the organization as a whole.

Financial Ratio	Preferred Metric	FY21	FY20	FY19	FY18	FY17	FY16	FY15	FY14	FY13	FY12
Primary Reserve	>= 0.40	0.51	0.25	0.21	0.20	0.17	0.18	0.18	0.19	0.18	0.22
Net Operating Revenue	2% to 4%	23.0%	3.4%	-0.8%	-1.4%	-1.2%	-3.1%	-1.2%	-2.7%	-5.2%	-2.4%
Viability Ratio	1.25 to 2.0	0.80	0.38	0.32	0.30	0.25	0.27	0.27	0.28	0.26	0.29
Return on Net Position	3% to 4%	41.9%	6.6%	-1.1%	-1.3%	0.5%	-3.0%	-4.0%	-2.8%	8.4%	7.5%

As shown here, with the exception of FY2021, **the VSC is universally weak across all ratios dating back to 2012**, suggesting that the VSC's structural issues have been years in the making.

The Composite Financial Index combines the four primary ratios into a single measure by standardizing the results on a scale between -1 and 10 and then weighting each ratio according to a formula suggested by the National Association of College and University Business Officers (NACUBO). The CFI score for the years FY12 to FY21 is shown below.

Measure	CFI Score									
	FY21	FY20	FY19	FY18	FY17	FY16	FY15	FY14	FY13	FY12
Primary Reserve	1.35	0.65	0.54	0.53	0.46	0.46	0.48	0.49	0.48	0.59
Net Operating Revenue	1.00	0.49	(0.12)	(0.20)	(0.17)	(0.44)	(0.17)	(0.38)	(0.74)	(0.35)
Viability Ratio	0.67	0.32	0.26	0.25	0.21	0.23	0.23	0.23	0.22	0.24
Return on Net Position	2.00	0.66	(0.11)	(0.13)	0.05	(0.30)	(0.40)	(0.28)	0.84	0.75
Composite Financial Index	5.02	2.11	0.59	0.45	0.55	(0.05)	0.14	0.06	0.79	1.23

Net operating revenue and return on net position exceed the maximum value for these measures for the CFI score and have been limited to the maximum amount allowed.

As shown above, FY2021 and FY2020 performance is significantly stronger than the previous nine years. This improved performance is due to the receipt of Higher Education Emergency Relief, Coronavirus Relief, and bridge funding.

Composite Financial Index Scale	
-1 to 1	Assess viability to survive
0 to 3	Reengineer
3 to 5	Direct resources to allow transformation
5 to 7	Focus resources to compete in future
7 to 9	Opportunities to experiment with new initiatives
8 to 10	Deploy resources to achieve robust mission

According to the Composite Financial Index Scale, the Vermont State Colleges has the resources necessary to direct its attention to allow transformation. In the years FY2013 to FY2019, the VSCS's Composite Financial Index score suggested a need to assess the System's ability to survive.

ITEM 3:
FY2022 1st Quarter Key Indicators

1st Quarter Key Indicators

The FY2022 budget is predicated on key values related to enrollment, room occupancy and employee wages. As part of the FY2022 budgeting process, each institution within the Vermont State Colleges supplied the Finance and Facilities Committee with the foundational metrics upon which their budgets were built as a means for the Committee to gauge current year budget performance.

As shown here, Net Student Revenues includes the sum of tuition and fees net of the scholarship allowance (a contra-revenue) and is expected to be approximately \$6 million, or 6.3% better than budget. The net revenue improvement to budget is due to an overall increase in full paying equivalents as well as the mix of in-state and out-of-state students across the VSCS.

Wages are currently forecasted to be approximately \$2.4 million, or 3.6% better than budget. The combined impact of the wage and student revenue improvements is about \$8 million. In addition to these improvements, room occupancy is currently forecasted at 12% better than budget. This will have an additional positive improvement on the overall net position for FY2022.

Financial Indicators	Vermont State Colleges			
	FY2022	Q1 Forecast	Var	Var %
Student Revenue & Wages (\$millions)				
Net Student Revenue	\$93,357	\$ 99,214	\$ 5,858	6.3%
Annual Employee Wages	\$66,849	\$ 64,451	\$(2,398)	-3.6%
Full Paying Equivalent Enrollment				
Annual FPE	6,595	7,026	431	6.5%
FPE by Term				
Fall	6,216	6,919	703	11.3%
Spring	5,902	5,956	54	0.9%
Other	1,070	1,177	107	
FPE by Value Stream				
Vermonters	4,730	5,036	306	6.5%
Out-of-State	898	1,005	108	12.0%
NEBHE & Good Neighbor	302	314	12	4.0%
Nursing & Allied Health	164	167	3	
Online	264	223	(41)	-15.5%
Graduate				
Vermonters	175	169	(6)	-3.3%
Out-of-State	62	66	4	6.5%
Room Occupancy				
Annual Occupancy	1,410	1,582	172	12.2%
Occupancy by Term				
Fall	1,526	1,711	185	12.2%
Spring	1,268	1,413	145	11.4%
Other	25	21		

Detailed information by institution is shown on the next page.

Financial Indicators	Community College of Vermont				Castleton University				Northern Vermont University				Vermont Technical College			
	FY2022	Q1 Forecast	Var	Var %	FY2022	Q1 Forecast	Var	Var %	FY2022	Q1 Forecast	Var	Var %	FY2022	Q1 Forecast	Var	Var %
Student Revenue & Wages (\$millions)																
Net Student Revenue	\$18,955	\$ 21,545	\$2,590	13.7%	\$30,165	\$ 32,400	\$2,235	7.4%	\$21,516	\$ 21,785	\$ 268	1.2%	\$22,720	\$ 23,485	\$764	3.4%
Annual Employee Wages	\$14,961	\$ 14,857	\$ (104)	-0.7%	\$18,603	\$ 18,000	\$ (603)	-3.2%	\$19,141	\$ 17,500	\$(1,641)	-8.6%	\$14,144	\$ 14,093	\$(51)	-0.4%
Full Paying Equivalent Enrollment																
Annual FPE	2,538	2,915	377	14.9%	1,563	1,649	86	5.5%	1,381	1,311	(70)	-5.1%	1,114	1,151	38	3.4%
FPE by Term																
Fall	2,092	2,743	651	31.1%	1,615	1,705	90	5.6%	1,442	1,368	(74)	-5.1%	1,067	1,103	36	3.4%
Spring	1,998	1,998	-	0.0%	1,510	1,594	84	5.6%	1,319	1,253	(66)	-5.0%	1,075	1,111	36	3.3%
Other	985	1,089	104	10.6%	-	-	-		-	-	-		85	88	3	
FPE by Value Stream																
Vermonters	2,391	2,760	369	15.4%	739	731	(8)	-1.1%	636	590	(46)	-7.2%	964	955	(9)	-0.9%
Out-of-State	133	130	(3)	-1.9%	544	617	73	13.4%	159	197	38	23.9%	62	61	(1)	-1.6%
NEBHE & Good Neighbor	15	26	11	75.9%	30	31	1	3.3%	170	170	-	0.0%	87	87	-	0.0%
Nursing & Allied Health					164	167	3	1.8%					embedded above			
Online									264	223	(41)	-15.5%				
Graduate																
Vermonters					50	63	13	26.0%	125	105	(20)	-16.0%		1	1	100.0%
Out-of-State					35	40	5	14.3%	27	26	(1)	-3.7%		-	-	0.0%
Room Occupancy																
Annual Occupancy					774	833	59	7.6%	442	500	58	13.1%	194	249	55	28.4%
Occupancy by Term																
Fall					800	856	56	7.0%	510	578	68	13.3%	216	277	61	28.5%
Spring					723	770	47	6.5%	373	422	49	13.1%	172	221	49	28.5%
Other					25	21	(4)	-16.0%								

Full-paying equivalent enrollment performance against budget varies by institution, with three of four institutions seeing a favorable variance. While Northern Vermont University's full-paying equivalents are down compared to budget, the mix of in-state versus out-of-state students is having a positive impact on both student tuition and fee revenue and room occupancy.

Community College of Vermont currently anticipates a 31% increase in full-paying equivalents for the fall semester. This improvement is directly attributable to the legislative scholarships, especially 802 Opportunity and Workforce 2.0.

ITEM 4:
Strategic Financial Plan-Capital Expenditures & Required Reserves

Strategic Financial Plan - Capital Expenditures & Required Reserves

At the Board Retreat in September, the Board reviewed a preliminary Strategic Financial plan that allows the Board and management to focus attention on the critical areas of the VSCS budget. As discussed in ITEM 2 of these materials, the VSCS has not been investing in its critical infrastructure, though the unrestricted results have often been favorable.

Total Entity Results by Fund		FY2021	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014	FY2013
CCV	Unrestricted	4,691	925	347	913	(649)	478	750	29	113
	Restricted Expendable	607	(79)	91	17	32	(112)	90	20	303
	Restricted Unexpendable	178	169	41	40	94	49	55	111	135
	Invested In Capital	(593)	(751)	(831)	(893)	(952)	(582)	92	(62)	32
	Perkins Loans	-	-	-	-	-	-	-	-	-
	Total Entity	4,883	263	(353)	77	(1,474)	(167)	987	98	583
CU	Unrestricted	3,741	2,701	369	1,195	(2,022)	(174)	551	75	(2,705)
	Restricted Expendable	(1,190)	(178)	(196)	349	549	(341)	(611)	942	585
	Restricted Unexpendable	130	106	72	-958	190	94	203	146	155
	Invested In Capital	(2,577)	(1,404)	(2,008)	(1,943)	(2,277)	(2,183)	(2,326)	(942)	2,498
	Perkins Loans	1	(456)	45	(657)	(8)	(7)	(7)	(27)	48
	Total Entity	105	769	(1,718)	(2,014)	(3,567)	(2,612)	(2,191)	196	581
NVU	Unrestricted	(115)	746	(1,585)	983	(932)	(2,245)	353	277	335
	Restricted Expendable	3,512	(84)	298	728	301	(84)	(137)	620	564
	Restricted Unexpendable	1,105	299	237	205	612	379	374	929	222
	Invested In Capital	(1,745)	(1,361)	(1,814)	(586)	(2,505)	(1,476)	(1,201)	(1,270)	(1,610)
	Perkins Loans	(51)	(533)	3	(57)	32	18	10	10	(6)
	Total Entity	2,706	(934)	(2,861)	1,273	(2,491)	(3,408)	(600)	566	(496)
VTC	Unrestricted	2,709	2,896	214	1,760	(204)	30	(26)	(218)	(2,051)
	Restricted Expendable	(510)	76	64	147	145	214	(21)	690	265
	Restricted Unexpendable	164	55	9	10	190	69	49	149	127
	Invested In Capital	3,295	159	(1,311)	202	(1,164)	(847)	(2,804)	(3,358)	9,659
	Perkins Loans	(7)	(180)	15	(84)	11	3	21	5	(15)
	Total Entity	5,651	3,006	(1,009)	2,035	(1,021)	(532)	(2,781)	(2,731)	7,985

As shown above, the net asset balance for the “invested in capital” fund has decreased by nearly \$23 million since FY2014. The result is an increase in deferred maintenance and unfunded equipment expense throughout this term.

The Strategic Financial Plan discussed in September proposed planning factors that would increase the system’s spending on capital expenditures, reserves, program updates, and new initiatives.

Strategic Financial Plan – Suggested Planning Factors September 2021

Category	Basis	Planning Factor
Facilities	Owned Property Value	2%
IT Equipment	Asset Value	14% - 7 Year Schedule
Other Equipment	Asset Value	5% - 10% - By Asset Type
Libraries	Asset Value	5%
Board Required Reserve	Budgeted Unrestricted Expenses	25% - 10 year phase-in
Strategic Reserve	Budgeted Unrestricted Expenses	5% - 25% - 10 year phase-in
Program Updates	# of Programs	\$100K per program – 10 Year Cycle
Annual Contingency	Budgeted Unrestricted Expenses	2%
New Initiatives	Budgeted Unrestricted Expenses	1%

Applying these planning factors, expenses on a per student FTE increase by almost \$3K per student FTE, or by approximately \$27 million dollars. Unsurprisingly, the increase in capital expenditures for property, plant, and equipment increases substantially using this model with an increase of more than \$11M for these two areas. This is due to the extreme under investment in both our facilities and our equipment over the years. The second largest increase in this plan relates to a recommended shift in the structure of the financial reserves for the system moving us from a 2.5% board required reserve to a 25% board required reserve and increasing the strategic reserve to 25%. The third largest change is the formal creation of an annual operating contingency reserve within each institution's budget to allow for unforeseen circumstances within the current year. The fourth largest change, but likely the most important in terms of our long-term success, is funding for regular refreshing and updating of the academic programs. Lastly, this plan recommends the creation of a new initiative fund that each institution can use to establish new initiatives and programs so that the organization may continue to grow.

Category	FY19 Actual		FY19 Grossed Up		Variance	
	Unit Cost	Total Cost	Unit Cost	Total Cost	Unit Cost	Total Cost
Assets						
FT Personnel	9,092	83,727,162	9,092	83,727,162	-	-
Facilities	217	2,000,000	1,000	9,204,733	782	7,204,733
Equipment	97	894,401	570	5,249,171	473	4,354,770
Library Collections	56	513,816	83	766,362	27	252,545
Financial Reserves	2	22,375	844	7,773,515	842	7,751,140
Program Updates	-	-	271	2,500,000	271	2,500,000
Consumables						
PT Personnel	2,496	22,983,052	2,496	22,983,052	-	-
Leased Facilities	321	2,955,412	321	2,955,412	-	-
Institutional Aid	1,882	17,332,769	1,882	17,332,769	-	-
Services	1,259	11,592,266	1,259	11,592,266	-	-
Supplies, Travel, Transfers	1,630	15,010,688	1,630	15,010,688	-	-
Utilities	735	6,772,007	735	6,772,007	-	-
Long Term Debt	890	8,191,886	890	8,191,886	-	-
Annual Contingency	-	-	377	3,467,475	377	3,467,475
New Initiatives	-	-	188	1,733,738	188	1,733,738
Total	18,677	171,995,833	21,638	199,260,234	2,961	27,264,401

While each segment of the budget is important, for this meeting the focus will be on capital expenditures and financial reserves. As these are the greatest areas of underfunding for the Vermont State Colleges at this time.

Capital Expenditures

The total cost of capital expenditures on facilities, IT Equipment, and all other equipment in 2019 was approximately \$2.9 million, or about \$315 per student FTE. Using the revised planning factors, this amount should be approximately \$14.5 million, or about \$1,600 per student FTE. As noted earlier, the VSC has used short-term solutions such as underfunding depreciation and not investing in technology to address its chronic underfunding issues. Currently, total VSCS deferred maintenance is estimated at approximately \$110 million. The System's technology is on what amounts to a 25-year replacement schedule – and is addressed largely as part of carryforward budgets from excess operating results. Classroom equipment is updated almost solely by student fees, without substantial regard to the total cost of ownership necessary to run a program.

To quote again from Jim Page's report to the Joint Fiscal Office, “[this] *chronic underfunding [has led] to an inevitable and sometimes unrecoverable increase in deferred maintenance, an issue now requiring VSCS attention.*” It is clear that the VSC must invest in its capital infrastructure to succeed. The transition to doing so is expensive and challenging, however there are several methods that can be employed to lower the annual cost such as:

- Purchasing higher quality products that have a longer life-span,
- Designing solutions with longevity in mind
- Implementing preventative maintenance programs that address issues before they become problems
- Decrease the amount of owned square footage through sale or lease of underused assets
- Reduce the volume of owned equipment
- Share assets across the system in a way that increases each space or piece of equipment's overall usage
- Increasing student FTE will lower the cost per student.

While all of these actions can, and likely will, be deployed in one way or another in the coming years, the fact remains that policy changes will be necessary to require investment in facilities and infrastructure to maintain the assets of the system. At the Finance and Facilities meeting, we would like input from the Committee regarding the approach and timeline for increasing investment in this important category. Questions the Committee should be prepared to discuss at the meeting:

1. What proportion of operating expenses should be dedicated to facilities upgrades/maintenance?
2. What are the pros and cons of longer or shorter equipment replacement lifecycles?
3. How quickly should the VSCS move toward a new approach?

Required Reserves

At the end of 2019, the VSC had \$11.8 million in Board Required and Strategic Reserves available. In total, this was equivalent to about 20 days of operation in the event of catastrophic business issue. Today, the Board Required Reserve is 2.5% of budgeted unrestricted expenses – enough to account for approximately 8 days of operation in any given year. The remaining reserve – the strategic reserve – is an optional reserve that institutions are not required to hold. This model recommends moving from a 2.5% board required reserve to a 25% board required reserve over a 10-year phase in period. The increase in expense would be approximately \$4.4 million a year, adding about 8 additional days of operation each year. Additionally, the proposed model recommends a strategic reserve at each college in the amount of 5% annual operating expenses resulting in an increase of about \$880 thousand dollars each year until fully funded.

By fully funding these reserves the VSC would place itself on sound financial footing well into the future, providing itself with the ability to accommodate emergencies, pandemics, and unforetold issues. However, increases such as these would be difficult to accommodate at the level suggested. Therefore, the board should consider the size of the reserve required as well as the duration of any phase-in of new requirements before implementing such an activity.

At the Finance and Facilities meeting, we would like input from the Committee regarding the size of Board Required and Strategic Reserves, the speed with which they should be increased, as well as thoughts regarding the use of one-time carry forward from FY2021 to assist with funding improved reserve positions.

Questions the Committee should be prepared to discuss at the meeting:

1. What is a reasonable size of Board Required Reserve or Rainy Day Fund?
2. Should Strategic Reserves be optional or required?
3. How many days on hand of cash should the Vermont State Colleges hold?
4. How quickly should the VSCS move toward a new approach?