

Memorandum

To: Senator Jane Kitchel, Chair, Senate Appropriations Committee
Members, Senate Appropriations Committee

From: Jeb Spaulding, Chancellor, Vermont State Colleges System

Date: April 10, 2017

RE: Vermont State Colleges System Budget Request

I appreciated my recent opportunity to testify before your Committee about the Vermont State Colleges System's request for a \$4 million ongoing increase to our base appropriation for FY 18, with annual inflationary adjustments going forward. We appreciate very much that Governor Scott included our request in his Budget proposal to the General Assembly.

The dollar amount of this specific request was intentional: it will eliminate a structural operating deficit that exists, despite the many proactive cost containment and efficiency steps the Vermont State Colleges System (VSCS) has already taken (attached). We simply no longer have the reserve funds to mitigate operating deficits and without the requested funding increase, the VSCS will be forced to consider steps that will undoubtedly have a negative impact both to quality and to access in rural parts of Vermont. On the other hand, a base increase of \$4 million will allow us to close our operating deficit and to push ahead with our six strategic priorities to continue our progress on enrollment, retention, graduation rates, innovation, efficiency, and long term fiscal sustainability (attached).

We are very pleased that the House recognized the importance of investing in the VSCS this year with a \$2 million increase. Their support has buoyed faculty, staff, and students throughout the System. However, the disbursement provides one-time funding only from the Higher Education Trust Fund (HETF), not a sustainable increase that we can rely on in our planning. Such a disbursement may be worth considering if it represents a bridge to a permanent increase; however, \$2 million of one-time funding will not stave off unproductive cuts and tuition increases. We are also concerned that removing funds from the HETF has the effect of penalizing our own students by reducing the funds that support their scholarships. Again, such a use of funds might be worth considering in FY 18 in conjunction with a commitment to greater and ongoing funding for FY 19. Otherwise, such a step will not prove beneficial.

I sincerely appreciate the support your Committee and the Legislature have shown for the Vermont State Colleges System. In particular, you approved new scholarship funds last year, and your support for the unification of Lyndon and Johnson State Colleges in the Budget Adjustment Act and in the FY 18 proposed budget is critical.

I understand this request comes during a particularly challenging budget year. However, this is a significant moment for the VSCS. We have taken courageous steps that have put our colleges and our system in a good position to weather the serious challenges facing public higher education in the Northeast. We are doing so because we believe that Vermonters in all regions of the state deserve access to high quality, affordable postsecondary opportunities. But, we simply can't do it alone. Thanks for your consideration. Please let me know if you have any questions.

Attachments:

- A. Vermont State Colleges System cost containment initiatives
- B. Vermont State Colleges System six strategic priorities

cc: Andy Pallito, Vermont Commissioner of Finance & Management
Emily Byrne, Budget Director, Department of Finance & Management
Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office
Representative Kitty Toll, Chair, House Appropriations Committee

Attachment A:

Vermont State Colleges System Cost Containment Strategies

The Vermont State Colleges System has completed or is undertaking the following initiatives to reduce expenses and to manage financial risk going forward:

First, the System does not have a defined benefit pension plan, and in the fall of 2012, closed its retiree health care benefit to new employees (2015 for faculty). This has resulted in an almost 40% decrease in the System's OPEB liability accrual, from over \$8 million in 2012 to less than \$4.9 million in 2016.

Second, in spring 2016, and in partnership with three of its unions, the System reduced the employer contribution to its 403(b) retirement plan by over 20%, and enacted a mandatory high deductible health care plan for new employees. With the addition of full-time faculty in FY2019, these changes will realize permanent savings in excess of \$2 million annually.

Third, in summer 2016 the System commenced a series of business office consolidations, removing functions performed at each of the colleges and centralizing them in the Chancellor's Office. Accounts payable was completed in November 2016, accounting will be completed in June 2017, and payroll and grants administration are planned for December 2017, with targeted permanent savings of almost \$1 million annually.

Fourth, in fall 2016 the Board of Trustees approved the unification of Johnson State and Lyndon State Colleges into the new Northern Vermont University. In addition to greatly enhancing the resources and faculty available to students from what will be the third largest university in Vermont (after UVM and Champlain), NVU is expected to provide an additional \$2 million in annual personnel savings from consolidation of senior staff and non-academic functions.

Fifth, the System is working with the Vermont Municipal Bond Bank to restructure its debt portfolio to eliminate financial risks and to lower its debt payments. These savings will be used to launch Northern Vermont University, and to replace the System's enterprise resource planning software, which was purchased in 2003.

The Systems efforts are beginning to bear results. In December 2016, and following successive downgrades in 2014 and 2015, S&P reaffirmed the System's credit rating at A- with a stable outlook, in part in recognition of the System's significant progress toward these objectives. S&P also identified the planned debt restructuring as a credit positive.

Further, the Governor and General Assembly have provided a tremendous boost to morale and vote of confidence by providing \$770,000 in the FY2017 Budget Adjustment Act – a first for VSCS – toward the unification of Johnson and Lyndon State Colleges, and by the House’s proposal to increase the System’s biennium capital appropriation from \$2.8 million to \$4 million during FY2018-2019. An increase of \$4 million to the System’s base appropriation would be the key component in the System’s “all of the above” strategy to sustain and enhance its academic mission going forward.

Six Priorities to Support the Mission of the Vermont State Colleges System

For the benefit of Vermont, the Vermont State Colleges system provides affordable, high quality, student-centered, and accessible education, fully integrating professional, liberal, and career study, consistent with student aspirations and regional and state needs.

- 1) Increase the continuation rate of high school students on to postsecondary education.

Strategy 1.a. Provide effective leadership and advocacy, with partners, on the urgent need to increase postsecondary affordability and attainment while sustaining program quality.

Strategy 1.b. Expand strategies (e.g. Introduction to College Studies, dual enrollment, “try a major” events) targeted at current populations of high school students who are not continuing with postsecondary education.

Strategy 1.c. Expand existing and create additional flexible academic pathways into and through our degree programs, including providing meaningful certificates and associate degrees.

- 2) Improve the retention and graduation rates at our colleges.

Strategy 2.a. Implement degree maps to create clear curriculum paths to graduation.

Strategy 2.b. Improve access and use of data and advising technologies.

Strategy 2.c. Develop multiple delivery models for degree completion, including online, connected classrooms, and flexible schedule options.

Strategy 2.d. Continue to increase comprehensive and strategic approaches to student support services.

- 3) Become a more attractive destination for Vermont high school graduates.

Strategy 3.a. Create a positive brand at the VSC system level that supports the unique characteristics of each college and is rooted in the sustained quality of the academic experience.

Strategy 3.b. Continue to improve technological and physical infrastructure.

Strategy 3.c. Enhance relationships with school counselors statewide.

Strategy 3.d. Establish VSC celebration and support of academic excellence (e.g. VSC Hall of Fame).

4) Serve well more working age Vermonters.

Strategy 4.a. Improve and expand flexible and online delivery of programs across the VSC to increase number of degree programs available to students statewide.

Strategy 4.b. Work with employers on needs assessment and flexibility of delivery.

Strategy 4.c. Improve the entire technology infrastructure of the system to ensure that it is user friendly and competitive.

5) Operate as a more integrated system to expand student opportunities and achieve operational efficiencies.

Strategy 5.a. In addition to maximizing productive collaboration and integration across the entire system, develop strategic alliances between Johnson and Lyndon State Colleges, as well as Vermont Technical College and Community College of Vermont, intended to complement and/or supplement their individual strengths and weaknesses.

Strategy 5.b (Also 4c.) Improve the entire technology infrastructure of the system to ensure that it is user friendly and competitive.

Strategy 5.b. Review the financial model of the system to ensure institutional stability and explore financial incentives that support collaboration and system interconnectedness.

Strategy 5.c. Reduce transferability and course-sharing barriers to expand the diversity of student academic and co-curricular learning opportunities.

6) Increase state financial support and other supplemental revenues.

Strategy 6.a. More effectively advocate for state support.

Strategy 6.b. Increase grant-writing capacity in the system.

Strategy 6.c. Collaborate on shared fundraising resources.