

White Paper
Financial Structure & Operations Working Group
Charge

This Working Group of the SPC is responsible for addressing the challenges and opportunities related to net tuition revenue increases and cost reductions as well as capital resources necessary to maintain and enhance robust university programs consistent with Arkansas Tech University's mission. It is also responsible for addressing the challenges and opportunities related to the physical and technological infrastructure necessary to support the university's programs consistent with the mission.

Introduction

The Financial Structure and Operations (FSO) working group has convened eleven times to discuss the major areas of focus given to it at the first of this process. These include finance/revenues, finance/expenses, finance/budget, finance/personnel, infrastructure/plant and infrastructure/technology. Constraints on the conclusions drawn in this document include state and federal requirements, fiscal responsibility, resource restrictions, and required encumbered funds. Discussion of themes and specific items provided to the committee can be found in the appendix materials.

Recommendations

- 1) The University must better project, plan for and adapt to future student enrollments.
 - Tech needs to target critical feeder counties and school districts which account for the greatest amount of student enrollment at all of the ATU campuses.
 - Tech needs to use ADE and other reliable data sources to focus admissions and other student recruitment and retention activities on a long term basis.
 - Tech needs to determine whether or not its current classroom resources accurately reflect the needs of students in its various programs.
 - Tech needs to consider refocusing its recruitment strategies toward higher revenue programs (ex. graduate and online) and limit recruitment in lower revenue programs (ex. concurrent).

- 2) The University must review key personnel issues across all campuses.
 - Tech needs to establish a goal of 100% of relevant CUPA salaries for all faculty and non-classified staff. Classified staff salaries should also be raised to comparable levels where possible.
 - Tech needs to evaluate the employment needs in all departments to determine if there are critical shortages of faculty and staff which need to be addressed.

- 3) The University must reexamine its revenue stream strategies.
 - Tech needs to reevaluate tuition and fee strategies with an eye toward remaining competitive but not "bargain basement," adjusting its strategic outlook to mirror its current status.
 - Tech needs to establish a set of reasonable goals for development personnel for significant long term foundation growth.

- Tech needs to strategically focus on increasing involvement in grant and foundation development activities.
 - Tech needs to coordinate development activities with relevant departments to take advantage of personal relationships and to address specific departmental needs - in addition to efforts being made for the University as a whole.
 - Tech needs to streamline the current grant application process, and a central grants clearinghouse needs to be established. This clearinghouse would assist personnel who want to apply for grants and notify departments of grant availability.
- 4) The University must review its long term fiscal policies.
- Tech needs to review and establish the strategic reserve level it wishes to maintain in order to safeguard cash flows and maintain liquidity goals.
 - Tech needs to review its reserve fund balance goals to match the developing strategies for the entire University.
 - Tech needs to create a budgetary process which remains fiscally sound but also allows for and encourages initiative development.
 - Tech needs to encourage a culture of financial transparency and create a process for the active dissemination and discussion of financial information among all employees.
- 5) The University must reappraise its capital building and maintenance strategies.
- Tech needs to revise its master plan for facilities to address current and anticipated needs.
 - Tech needs to determine if it should continue to plan to fund building projects on a largely debt basis or move to a capital fund-raising strategy.
 - Tech needs to include resource provisions (including support staff salaries and other related costs) and maintenance costs in all building project plans.
 - Tech needs to prioritize specialized classroom, laboratory and office space for new building projects over new classroom or student housing projects.
 - Tech needs to prioritize critical maintenance needs and compare these needs with replacement and new building costs.
 - Tech needs to prioritize accessibility in building projects.
- 6) The University must coordinate and plan its technology initiatives with a more organized and long term focus.
- Tech needs to enforce technology policies requiring all new technology purchases be coordinated with the Office of Information Systems in advance.
 - Tech needs to create and maintain a technology master plan which establishes a strategy for technology initiatives in the future.
 - Tech needs to include upgrade and replacement cost and support resources needed for new technologies adopted in all departments.

Arkansas Tech University's financial status and strategic priorities depend largely on revenues tied to student enrollment. Tech has traditionally received lower than average funding from the state legislature for its operations. The University should continue to lobby for changes in the state funding formula but with understanding that changes are unlikely to significantly boost Tech's total revenues in the near future. As a result, the University will need to seek more reliable and predictable revenue streams. Efficient allocation of resources will also require an examination of fiscal policies concerning operations, fund balances, and resource allocation.

Student Enrollment

Since the fall of 2007, ATU total student enrollment has grown more than 60% across all campuses. This is at a time when college enrollment nationally has begun to plateau and fall. Public school enrollment figures published by the Arkansas Department of Education (ADE) suggest that Arkansas Tech could face a slower rate of growth, but it does not necessarily pose an imminent threat of enrollment decrease (see appendix). Tech student information indicates that 60% or more of ATU incoming freshmen graduate from high schools in nine surrounding Arkansas counties. In addition, the growing counties of northwest Arkansas place in the top 12 Tech feeder areas. Students in these localities are the current and most reliable enrollment pockets for the University. Growth areas might include urban centers surrounding the state and international populations. Further geographic analyses will be important in determining enrollment marketing strategies and may be critical in maintaining or growing Tech's student enrollment numbers in the future.

Much of the recent growth in Tech's student population can be credited to high school concurrent enrollment. Costs for students in these programs are largely subsidized by Tech and bring in little or no revenue. The discount rate (the rate at which student tuition is subsidized by the university) for these students ranges from 33% to 100% compared to an average discount rate of 15% or less for undergraduates at both Tech campuses (see appendix). Also, while the concurrent program introduces high school students to the concept of earning college credit and serves to market the Tech brand, it may only marginally add to the number of degree-seeking students at Tech.

Graduate and online student groups show tremendous potential for increasing degree production and boosting revenues at a much lower discount rate. For graduate students the discount rate is 15% or less, and undergraduate online students typically have a rate under 5%. Both of these groups also incur higher fees on average than face-to-face students, and graduate students pay a higher tuition rate than undergraduate students (about 15% for both in-state and out-of-state students). Mild increases in ATU's tuition for graduate credits may also be possible without hindering enrollment growth. The University of Central Arkansas' graduate tuition rate is about \$30/hour higher than Tech's, and the University of Arkansas at Little Rock's \$300/hour rate is 40% higher than our rate.

With little to no significant change in current recruiting strategies, enrollment growth for Tech's campuses will likely continue. Using high school enrollment data and current enrollment trends for each campus, the committee estimated that the growth over the next five years for the Ozark campus would be about 5% to 8% and for the Russellville campus would be about 3% to 5%. In other words, ignoring actions which may affect enrollment, Tech should expect an increase in total enrollment of 1% to 2% per year across campuses over the next five years based upon enrollment patterns seen in the ADE numbers. Higher levels of retention, increased marketing efforts, focus on growth in online and graduate programs, and other targeted initiatives could increase these predicted enrollment levels and/or produce a greater return on investment over time.

Other Revenue Sources

The University has relied on revenue from student enrollment for its operations over the last several decades. Some 60% of total university revenues comes from tuition and fees while about 38% comes from state funding. Only around 2% comes from grants, gifts, and investments. The state currently provides Tech only about half what is allocated to its principal in-state SREB-3 competitors (UCA, UALR, ASU). Appeals to the state to change its funding formula could result in additional revenue, but historically funding changes have rarely boosted Tech revenue in a significant way. The most reliable source of increased revenue is generated from tuition and fees, but other sources of revenue can help.

Arkansas Tech University has not had a strong history of short term and long term funding through grants and foundation giving. In fact, Tech has one of the smallest foundation levels in the state (around \$20 million). Efforts to increase grant and foundation giving could help relieve pressure in certain areas of the overall budget. Entrepreneurial efforts could also be encouraged among all Tech employees.

Expenditures

For several years ATU has paid faculty and non-classified staff below the CUPA (comparison institution) median. Recently ATU has begun a process of raising salaries and making efforts to increase pay for the most glaringly underpaid employees where possible. To remain competitive, this should continue to be a priority. While pay increases for classified positions are not available through the same strategies due to State of Arkansas rules, Tech should continue to explore available methods to implement pay increases and/or seek benefits to offset limited pay.

Facilities and technology development has lagged behind facility and technology usage that has resulted from 17 years of continuous enrollment growth. In catching up to growth, the University has needed to react to the most immediate technology and maintenance issues. Currently office space and specialized lab space with current technology are in short supply. Tech could benefit from regular and systematic planning

that brings facilities and technology infrastructure up to date while anticipating its future needs.

Tech personnel needs have also lagged behind its growth. Faculty and staff are overloaded in several areas. New positions are needed to provide the best quality educational experience for Tech's students.

Fiscal Policy

Tech should review the fund balance and decide on an acceptable level to maintain operations of the university. Tech needs to maintain sufficient assets in order to be able to sustain fluctuations in cash flows, allow for ongoing projects, and anticipate future state mandates. However, the fund balance does represent assets owned by the University. These assets are accumulated, in part, from both excess revenues and unused, budgeted expenditures remaining at the end of the fiscal year. Maintaining a smaller reserve could free up resources that could be used for other projects, but it could also make it more difficult for the University to respond to cash flow threats in a timely manner. Tech should regularly review the fiscal policy to ensure it achieves appropriate fiscal sustainability and provides for funding operations necessary to move the institution strategically forward (see appendix discussion of fund balance).

The University's current budgeting process has relied heavily on historical data. This is a common and rational approach to creating budgets which has served the University successfully for many years. The budgetary process builds upon a baseline of the prior year's budget. The base budget is presented to the Budget Advisory Committee along with a financial update to communicate the current fiscal climate for consideration. The Budget Advisory Committee is then charged with taking the base budget back to the departments, reviewing the existing allocations, and making recommendations for changes in the budget for the coming fiscal year. Each Vice President oversees the budget development in their respective areas. At the culmination of the process the Budget Advisory Committee re-convenes to discuss items of significance for budget finalization and the budget is then sent to Executive Council, and finally to the Board of Trustees for approval.

Employees at Arkansas Tech University understand that there is a budget process, but questions posed to the committee indicate that they are frustrated with the information available about university finances. A few employees feel that there is a serious lack of transparency in the budget process. Communication about the budgeting process needs to improve at all levels, including broadening the flow of information during the annual budget development period. The University should consider setting special budget funds aside for new initiatives and to encourage entrepreneurial thinking. A regular and public communication between employees and financial personnel could improve the knowledge and participation of the Tech community in the budgeting process.