Whitepaper Series

NH's Community Colleges:

Overview of Tuition and Plans for Financial Resource Allocation and Shared Services Accounting

September, 2017

Community College System of New Hampshire
Chancellor's Office

COMMUNITY COLLEGE
system of New Hampshire

Executive Summary

The purpose of this document is to outline changes the Community College System of New Hampshire (CCSNH) is making in three key areas: tuition, internal allocation of state funding, and shared services between the seven community colleges. These three areas are key to our ongoing work on financial sustainability and reflect strategic priorities directed by the CCSNH Board of Trustees.

How much revenue our colleges raise from tuition, how the state appropriation is allocated within our system to the seven colleges, and the ways we seek and fund efficiencies through shared and centralized services, are interdependent components of CCSNH's fiscal capacity.

Changes to Academic Year (AY) 2017-18 tuition rate, as well as to the allocation of the state appropriation within CCSNH, and to our shared expenses model are all part of a comprehensive recommendation that supports broader work towards financial sustainability. Most importantly, these changes support the CCSNH mission of student access and success. Taken together, these changes allow for a sustainable financial "bottom-line" that allows us to best support students and the state, as expressed in our 65 by 25 vision. These changes will also bring greater clarity, internal fairness, transparency and methodological soundness to CCSNH.

Tuition revenue comprises approximately 57 percent of CCSNH's total operating revenue, making tuition rate decisions a critical part of our overall revenue and budgetary picture.

Tuition

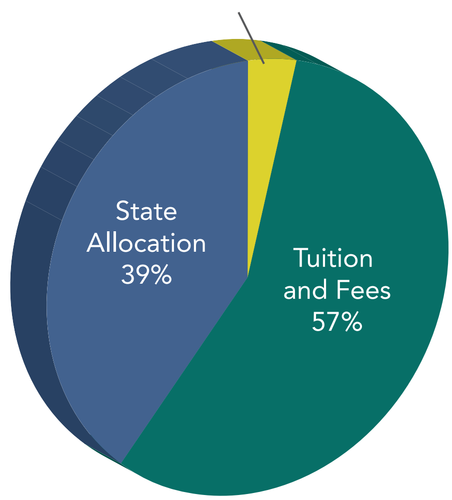
CCSNH has a recent history of tuition reduction, unprecedented in New England, which has undoubtedly helped achieve a relatively smaller decline in enrollment since the peak during the recession of 2008-2010 compared to counterparts in New England.

Tuition revenue comprises approximately 57 percent of CCSNH's total operating revenue, making tuition rate decisions a critical part of our overall revenue and budgetary picture, in addition to their importance to NH students and families seeking affordable postsecondary education.

As for the remaining 43 percent of CCSNH total operating revenue, the vast majority comes from a biennial state appropriation. The impact on each community college of its "portion" of the state allocation is inversely proportional to tuition revenue projected; in other words, colleges with larger enrollments see a more significant benefit from tuition increases due to the relatively higher number of students paying tuition. This consideration has informed a state allocation structure that subsidizes the smaller, rural, northern New Hampshire Colleges proportionately more via the state appropriation, while those Colleges in the southern part of the state remain relatively more reliant upon tuition revenue.

When economic conditions decline, enrollment increases and when economic conditions improve, enrollment declines.

Figure 1: Breakdown of roughly $110M in CCSNH operating revenues



*CCSNH carries a portfolio of more than 50 grants from federal and priviate sources

The result of having a majority of revenue come from tuition is that CCSNH is highly sensitive to fluctuations in enrollment, and enrollment at community colleges is highly sensitive to economic conditions. When economic conditions decline, enrollment increases and when economic conditions improve, enrollment declines. In the last several years, as the economy kept improving and with New Hampshire having one of the lowest unemployment rates in the country, enrollment at CCSNH declined about two percent.
In a strong economy with low unemployment, CCSNH has identified opportunities to work closely with employers to help up-skill incumbent workers looking to improve career prospects, and to assist businesses in having a skilled workforce. These are also part of important efforts to achieve the state's overriding mission of having 65 percent of NH residents with a postsecondary credential of economic value by the year 2025 ("65 by 25").
In furtherance of these efforts, we work to build our enrollment among traditional-age college students – including those who historically have

As a result of these efforts, CCSNH did roughly match national enrollment trends post-recession despite having one of the lowest unemployment rates in the country.

looked outside NH's borders for college - and in older age groups and non-traditional, post-high-school demographic groups. As a result of these efforts, CCSNH did roughly match national enrollment trends post-recession despite having one of the lowest unemployment rates in the country. We hope to increase our partnerships with business and build more successful student retention efforts to stabilize or even grow enrollment, during what hopefully remains a strong economy.

After five consecutive years with no increase in tuition, including one year where CCSNH reduced tuition by 5 percent, tuition at NH's community colleges in AY2017-18 is returning to the 2012-14 tuition level of $210 per credit. This is, essentially, flat over an eight-year timeframe, since CCSNH hopes to keep tuition at $210/credit for AY2018-19. This tuition increase aligns with CCSNH's budgeting needs for the biennium, addressing the gap between the projected $11.5M revenue increase needed to fund increasing wage and benefit costs, as more fully described later in this report, and the $6M increase CCSNH received from the state as part of the biennial budget. The tuition change:

- remains below recent New England community college trends in tuition levels
- meets targets for payroll and benefit expense increases
- is mitigated by considerations for bolstering student aid and increasing overall financial sustainability, and
- complements a necessary transition in a state allocation model, and in how colleges approach shared services – both changes CCSNH intends to implement as a foundation for further financial sustainability.

Figure 2: The chart below illustrates CCSNH's tuition history since 2001. Tuition at CCSNH had nearly doubled from 2001 to 2012. Since 2012, the CCSNH leadership and Board of Trustees have made it a priority to arrest that trend.

Tuition Growth Comparisons – New England

The average growth in tuition rate in New England for the last five years was 15 percent. If CCSNH had grown 15 percent in the six-year period, tuition would presently be $242, and this does not include tuition changes in New England in 2016, 2017 or 2018, which are almost certainly higher, on average given the lack of tuition reduction history outside of New Hampshire in the New England region. (When including fees, the proportions above roughly hold — CCSNH grew 4.7 percent compared to a regional average of 17 percent.)

Over this timeframe, system office staff and administration was reduced by 20 percent, while campus employee counts dropped approximately 16 percent.

Operational Impacts of Tuition Freezes and Reduction

The impact of this tuition stabilization and reduction, with modest enrollment decline in the same timeframe, was a decline in operating revenues. CCSNH looked to all areas to reduce expenses, and ultimately there was an impact in our most significant expense: personnel. As is shown in figure 3 below, 79 percent of operating expenses are personnel related (2017 data). Declines in program enrollment resulted in some personnel reductions, while budgetary considerations necessitated others. Over this timeframe, system office staff and administration was reduced by 20 percent, while campus employee counts dropped approximately 16 percent.

The reductions also had the effect of shifting the teaching balance of full-time to adjunct faculty. As CCSNH explores and implements financial sustainability strategies, one goal is to not tilt the balance further and to strengthen full-time faculty counts where possible.

Figure 3

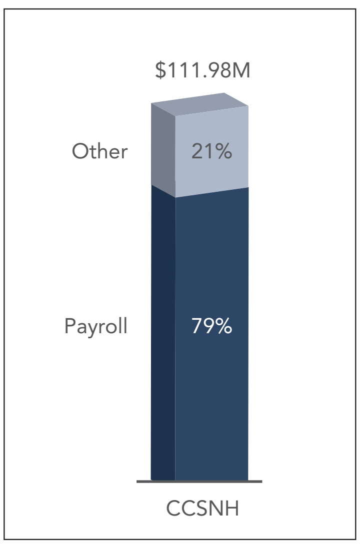
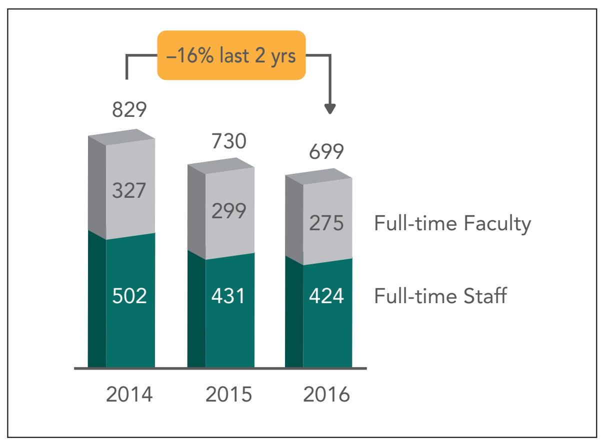


Figure 4: Decrease in FT Employees



During the past 2-3 years, CCSNH also attained cost savings by increasing shared services, deferring maintenance and IT expenditures and saving on utility and other operational costs.

Financial sustainability efforts will continue to focus on areas of cost savings in the next five fiscal years. We detail these in a subsequent section.

In the present environment, CCSNH anticipates specific expenses over the biennium, and these inform both an overall revenue target and a methodology for allocation of funding from the state. Both the tuition rate increase in AY2017-18 and the changes to our allocation methodology derive in part from recent history of revenue and expenses - notably a need to avoid further reductions in force if at all possible, to stop deferring maintenance, and to build financial reserves to better withstand inevitable enrollment fluctuations.

CCSNH Budgetary Requirements for FY2018-19

During the state budget process in the first half of 2017, CCSNH presented an overall budgetary requirement of an increase of $11.5M in salaries and employee benefits over the next biennium.

On top of this, the colleges also require funds for deferred maintenance that are reaching a state of criticality at some locations, and, together, also hope to appropriately fund a Foundation to diversify revenue sources, hire a procurement manager to reduce supplier/vendor costs, and purchase technology for improved student advising and success.

This would keep tuition at $210, the same rate it was in 2012 – a total eight-year time period during which the rest of New England saw steep tuition increases.

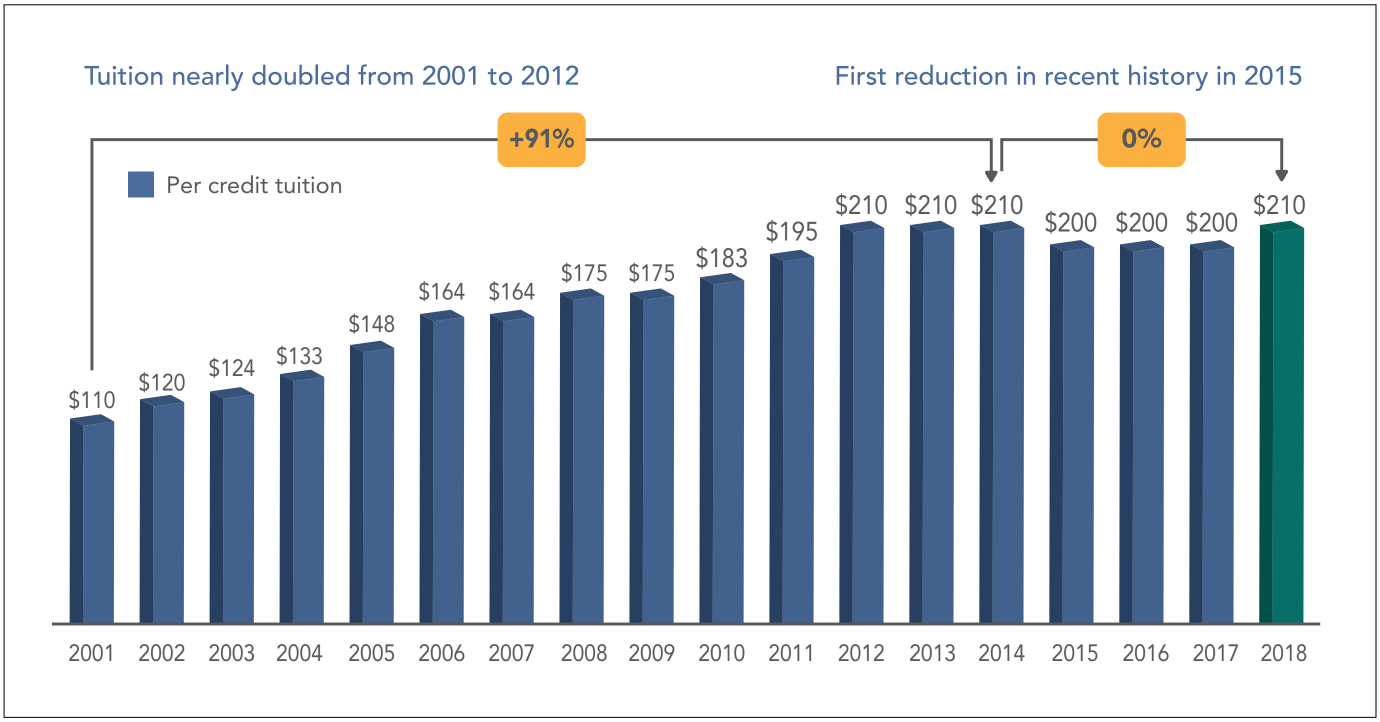
Tuition Rate, AY2017-18

CCSNH's revenue needs were only partially met by the increase in state appropriation for the FY2017-18 biennium. The Board, after careful consideration and at the recommendation of college and system leadership, made the difficult decision to raise the tuition rate for AY2017-18 by $10 per credit (in-state), to $210 per credit.

Next year the Board will consider whether it can hold tuition level for AY2018-19. This would keep tuition at $210, *the same rate it was in AY2012* – a total eight-year time period during which the rest of New England saw steep tuition increases.

It should be noted that the projected revenue from the state appropriation and the tuition rate increase was targeted to meet personnel expense growth, and does not in itself allow for greater funding of activities such as strategic initiatives, foundation activity, deferred maintenance, and reserves growth.

Figure 5



With the state allocation changes described in a later section, along with the $10/credit tuition increase, we expect each college to see a revenue increase that enables continued operations without deepening the trend of losing full-time faculty through purely budget-driven reductions in force. Through these actions, CCSNH will build its capacity to help its students access quality education and, more importantly, learn and ultimately earn a credential of economic and transfer value, becoming the successful alumni New Hampshire needs.

Internal Allocation of State Funds

CCSNH's internal allocation of its state appropriation, to date, has reflected an overall desire to bolster our student access mission by subsidizing colleges in rural areas that do not as easily benefit from large class sizes and economies of scale in certain areas of staff, such as business operations and IT. White Mountains Community College, for instance, receives 11 percent of state allocation while accounting for just over six percent of CCSNH's student enrollment by FTE. Manchester Community College, on the other hand, with over 20 percent of enrollment by FTE, receives only 14 percent of state allocation.

The overall trend of allocation percentages traces, roughly, student enrollment in inverse proportion – colleges with larger enrollments stand to gain more revenue from tuition, and those with smaller enrollments require more state allocation subsidization, but not so much to reduce incentive to increase enrollment. **These percentages however, have been static, built without formula accounting for enrollment changes, and, as a result, certain disparities have emerged over time.**

Figure 6: State Allocation for FY2017, broken down by College, excluding System Office.

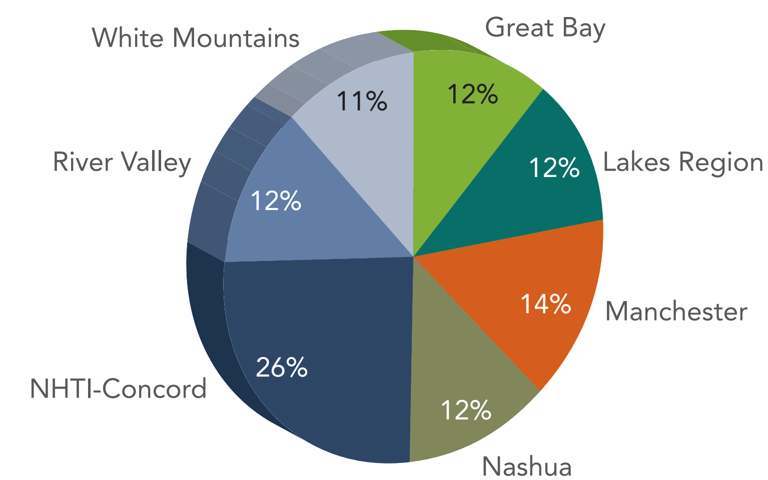
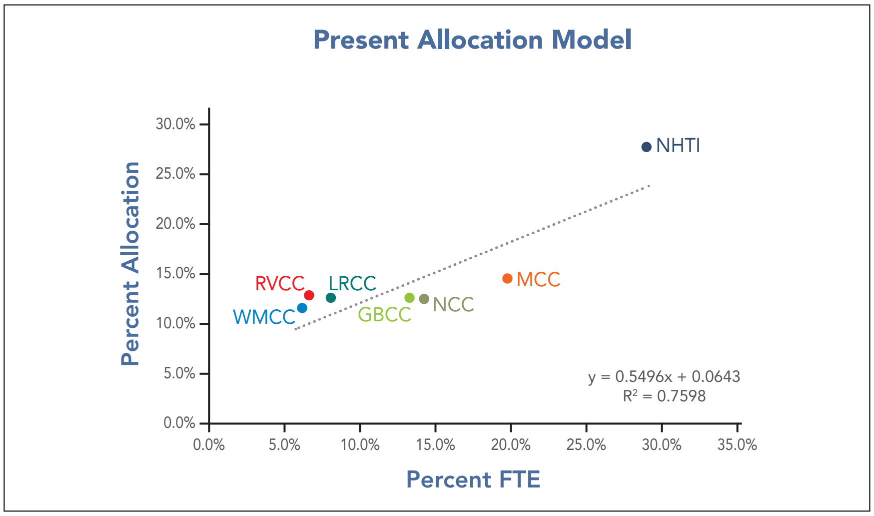


Figure 7: The graph below plots student FTE for FY2017 against state allocation.



With 30 percent of FTE and 26 percent of allocation, NHTI has a ratio of .87 student FTE to percent allocation, while Manchester, Nashua, and Great Bay all have significantly smaller student FTE but allocation proportions low enough that two actually have smaller student FTE to percent allocation ratios than does NHTI. In other words, the largest college at CCSNH receives an allocation percentage higher than those of smaller colleges when rationalized by student FTE, with the difference with Manchester being most stark. The end result is Great Bay, Nashua, and Manchester have been providing the larger proportion of subsidization for White Mountains, River Valley, and Lakes Region compared to NHTI.

When looking to other systems for examples of how CCSNH could base allocation on a formula aligned with our student access mission, we look toward statewide systems with years of experience in a relatively mature state allocation funding model. One significant takeaway is the common use of two aspects to a funding formula: 1) an operating allocation that each College should receive to be able to, at minimum, open its doors, and 2) ways by which the system can account for disparities in enrollment designed to promote service to smaller colleges.

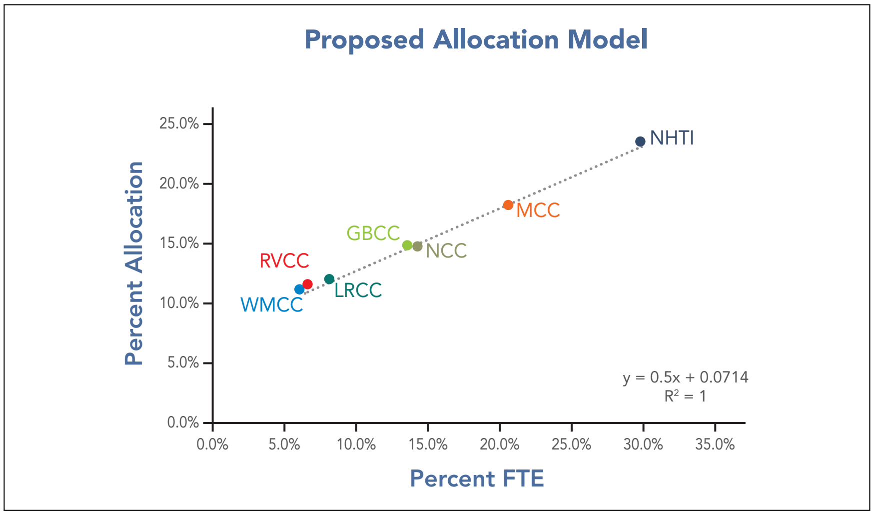
To avoid any fluctuation too dramatic for a college to absorb, CCSNH is providing for a five-year phase-in of the new formula

CCSNH calculated its own minimum operating allowance – the amount a college would need, at minimum, to "open its doors." These include basic staffing positions, facilities, and functions – from faculty to library to information technology and marketing. The total is $2.3M per college, allocated to keep doors open, or roughly 35 percent of the approved FY18 state allocation. The higher this amount, the greater the benefit to smaller colleges at the expense of larger ones, as all are receiving the same minimal operating allocation, regardless of size.

For the remaining two-thirds of the allocation, CCSNH re-examined what colleges would receive on the existing trend line, which roughly matched the range in some of the states modeled. The result is below, which provides for an increase in percentage of allocation to NCC, MCC, and GBCC, rough stability for LRCC, RVCC, and WMCC, and a decrease in percentage of allocation for NHTI (although, as will be shown, not a decrease in absolute dollars due to higher overall state funding increase FY2018-19).

The result is a normalization of the trend line from the prior page.

Figure 8



To avoid any fluctuation too dramatic for a college to absorb, CCSNH is providing for a five-year phase-in of the new formula, so allocations for FY2018 represent 20 percent towards the new ratios between student FTE and allocation, and the addition of minimum operating allowance.

Shared Services

At the same time that we embark on rationalizing state allocation among the colleges, CCSNH also is moving towards a new accounting method for shared services. Shared services are those that are more efficiently delivered in a centralized manner through the system office, thereby avoiding duplication as well as providing for more consistent functionality and provision of services. Examples of shared services include enterprise-wide IT systems, common initiatives in marketing and memberships, as well as jointly employed services such as legal, risk management, payroll services, and more.

Shared Services Method	
Student FTE	Salaries and wages, benefits, supplies, marketing, food institutions, rents and leases, software maintenance, accreditation membership and fees, interest expense, transfers for equipment over $5k, consultants, maintenance, travel, employee training, participant support costs, bad debt, bank fees, NH transfer participation, liability insurance, audit fees, tax form prep, utilities
Payroll	Workers comp and unemployment insurance, payroll services

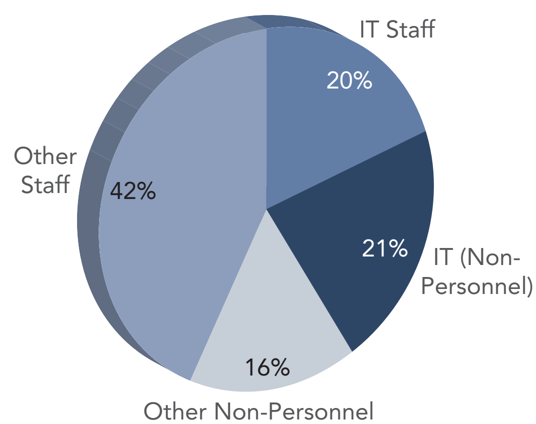
Our historical method of funding shared services, in place through FY2017, started with an upfront allocation from the state appropriation to the system office and, beyond that, used a set percentage of tuition and fees that were "paid" by the colleges to the system office to cover shared expenses. By expressing this activity instead entirely as shared services, without an upfront partial allocation to the system office, CCSNH moves towards a more transparent and proportional method for paying into the common costs noted above.

This method has colleges pay into the joint service as a proportion of their student FTE counts. What these funds purchase are described in the pie chart on the next page *(see Figure 9)*, and are nearly half information technology related services and personnel. IT is the fastest growing expense in the system, which makes sense, as CCSNH moves to automate and share more technology expenses to save money elsewhere and, more importantly, to improve student services.

Shared Service Expenditures

Moving to this new shared model creates a financial accounting foundation from which to rationalize and prioritize shared expenses. The rationalization of what the colleges pay for in common will be fundamental to our work in the next two years for the Financial Sustainability Committee, as it seeks to reduce costs by increasing the sharing of expenses and the type of service efficiencies that can result from their joint delivery when possible.

Figure 9



IT items from FY2017
- Banner-related (~$950k)
- Blackboard (~$400k)
- EAB (~$400k)
- Microsoft (~$350k)
- ADP (~$350k)

The Financial Sustainability Committee of trustees, administrators, faculty, and staff will continue to examine areas where the colleges can share expenses, starting in FY2018 with information technology and marketing.

Savings from CCSNH's financial sustainability efforts will begin to materialize toward the end of FY2018 and early FY2019 since most represent cross-college coordination efforts that will not have immediate effects, as contrasted with prior reductions in payroll and non-payroll operating expenses – the type of per-college reduction that typified CCSNH the last few years and that it cannot further sustain.

Increasing revenue is only part of what makes CCSNH financially sustainable.

Finally, over the course of five years, we hope to diversify revenue primarily as a result of work from a newly-structured Foundation that will work to raise expendable funds, derived primarily from business-backed donations. CCSNH also commits to continued strong focus on student financial aid awarding, including through the new Governor's scholarship program which will provide direct need-based aid to full-time students as well as support for dual and concurrent enrollment in STEM (Science, Technology, Engineering and Math) courses.

Measuring Ourselves: Key Performance Indicators for Financial Sustainability Work

Increasing revenue is only part of what makes CCSNH financially sustainable. Controlling costs and exploring ways to make baseline operations work with the utmost efficiency is the other half. To the extent that CCSNH manages by what it measures, the Presidents, Chancellor, System Office leadership and Board of Trustees adhere to five key performance indicators (KPIs), listed below, by which we measure performance and progress towards achieving a more financially sustainable future for the community college system.

Figure 10: Incentivizing Financial Sustainability starts with KPIs that emphasize financial sustainablilty.

	Rationale
Credits Sold	Strong measure for revenue generation
Income	Emphasizes expenses as much as revenue
% Revenues from Tuition	Measure reliance on tuition vs. fundraising, grants, state. The idea is for this percentage to decrease.
Reserves / Operating	Ratio of ending net position to operating to ascertain ability to withstand enrollment and state fluctuation
Reserves / Debt	Ratio of ending net position to outstanding debt to help measure leverage

While CCSNH tracks metrics in additional areas such as student success, the measures listed above track the effectiveness of the changes in allocation method and tuition, and work in conjunction with metrics in other areas that enable student service and program delivery. It is our hope that by always having an eye towards these key performance indicators, as well as other metrics that serve as leading indicators towards our progress, we can best track the effectiveness of our efforts towards financial sustainability.

CCSNH has a critical role to play in NH's social and economic landscape, and we are committed to meeting our obligations to the very best of our ability.

Conclusion

This document describes changes CCSNH is making in three key areas affecting financial sustainability:

- Tuition for the 2017-18 academic year
- Formula for the internal allocation of state appropriation
- New method of accounting for shared services within growing shared services model to achieve cost savings.

These three changes are key to the short and long-term financial sustainability of NH's community colleges. They are also designed to increase transparency, and to increase and broaden understanding of CCSNH's fiscal environment. It is our hope that, within CCSNH, this information contributes to an ongoing dialog about how we must position ourselves as a system in order to meet our mission for decades to come. It is also our hope that, for external stakeholders, this information begins to illuminate ways CCSNH is working strategically to maximize its impact with limited resources, and plan for the future. CCSNH has a critical role to play in NH's social and economic landscape, and we are committed to meeting our obligations to the very best of our ability.

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