2016 Strategic Plan Key Question Committee – Final Report

Question: How must we change in order to excel in the future, as the state appropriation fails to keep up with inflation and enrollment and tuition increases are limited?

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Summary:

The rationale for asking this Key Question is that based on current trends in state funding and the increasing complexity of the jobs available in our economy, we should expect the following to be true for planning purposes:

1. Funding from the State of Indiana is likely to grow more slowly than inflation and may even decline over the next decade.
2. The demand/need for education will increase and the State of Indiana will expect us to increase both our enrollment and our persistence and graduation rates.
3. Support for students by the federal government will not likely grow faster than inflation.
4. The demographics of our state and region are changing, more slowly than the nation but changing still, and we should expect that a greater proportion of our students in the future will be "students of color" and that their average preparation and ability to pay the cost of their education will not improve relative to today's students.

Given these general assumptions, the Committee has embarked on a process that resulted in a picture of what the ISU of 2025 needs to look like if we are to "succeed." We are viewing success as defined by the benchmarks in the current strategic plan: student persistence and graduation, faculty diversity and quality, and the distinctiveness of our programs. A vision of ISU in 2025 was developed along a number of vectors (finance, enrollment, demographics, student support, student faculty ratio, student staff ratio and physical plant). We then developed a set of tactics that help move us from where we are today to that new place.

Key Findings Summary:

Key Finding 1	Enrollment will need to grow by ~25% over the next decade to maintain the current number of employees and the current physical infrastructure and to meet state and national goals for college degree attainment.
Key Finding 2	The student body will need to become more diverse. Growth in Latino students will be particularly important as will growth in the number of nontraditional adults who study at a distance.
Key Finding 3	Growth in the number of employees must be carefully controlled and in general tightly connected to student success initiatives.
Key Finding 4	We will need to minimize facility costs through strategic remodeling versus new construction and through energy conservation. The number of square feet per student will need to shrink.

Recommended Actions Summary:

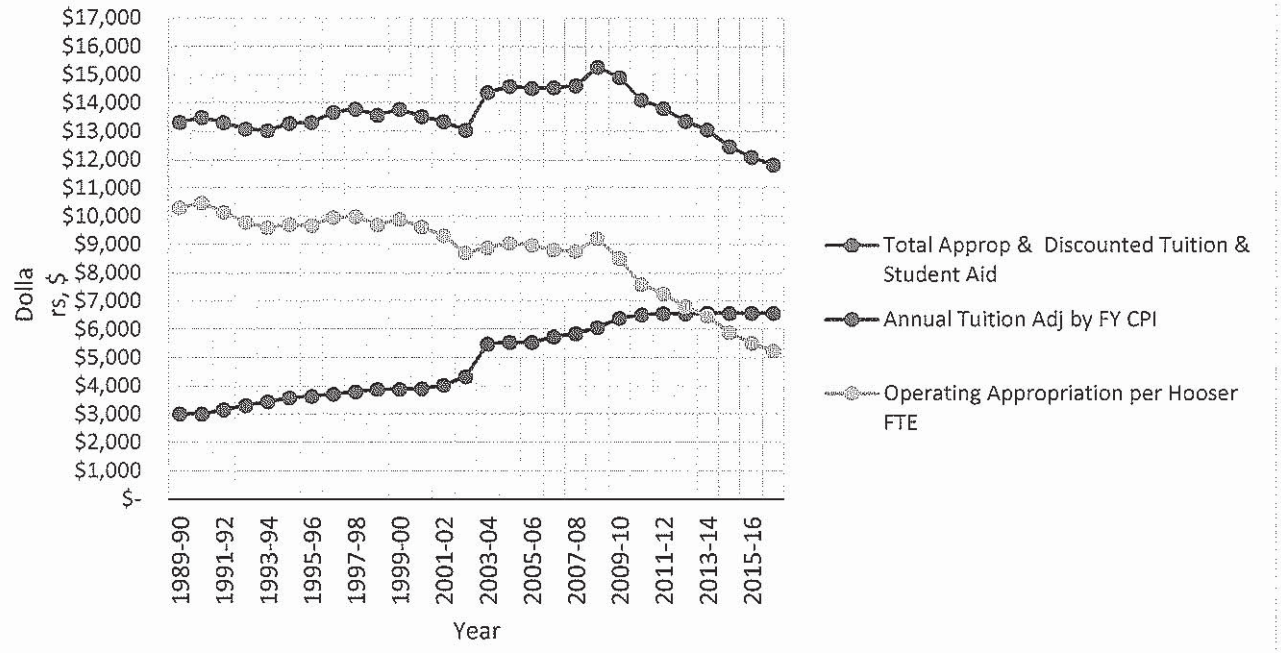
Recommended Action 1	Develop and implement a plan, which will allow the institutional student faculty ratio to grow without resorting to ever-larger classes in some foundational studies courses disproportionally affecting lower division students and the faculty and the departments that teach.
Recommended Action 2	Develop and implement a plan to use Repair and Rehabilitation dollars strategically and to reduce energy costs.
Recommended Action 3	Increase the use of student labor to reduce cost, to reduce the burden of increased enrollment on regular employees and as part of our commitment to Experiential Learning.
Recommended Action 4	Control the growth of Intercollegiate Athletics spending and increase the percentage coming from non-ISU sources.
Recommended Action 5	Continue efforts to grow enrollment at a moderate rate with particular emphasis on increasing the number of distance education students and students of Latino and Asian/Pacific Islander heritage.

Background:

Historically, for the past 30+ years, tuition increases were used to offset the decline in per student funding from the state and to maintain relatively constant per-student expenditures. Given that, tuition at the beginning of this period made up <20% of the operating budget, a 1% decline in state appropriation led to a tuition increase of four times as much. This transfer of cost from the state to the student was facilitated by the concurrent increase in the value of Pell Grants, state need-based scholarships and federally subsidized guaranteed student loans. The era, of the federal government and students of means jointly covering costs formerly paid by the state appears to be over. The federal budget is not growing which limits the expansion of the Pell program, and there is growing concern about the level of debt students are incurring as they seek a post-secondary education. If costs to the student do not stabilize many of our students will be forced, and/or choose to, either defer their education or to seek a lower cost alternative such as Ivy Tech.

The decreases, on a per-student basis, in the state appropriation are not over, (see figure 1.) ISU's inflation adjusted expenses per student have decreased about 10% since FY1990 while the state appropriation

Figure 1. Tuition and Op. Approp. per Hoosier FTE adjusted by FY 2005 CPI (2015 to 2017 projected)



declined by about 50%. The expectation is that pressures on the state's general fund coupled with the anti-tax increase sentiment in both the Indiana General Assembly and the Congress will result in a continued decline in the state appropriation, adjusted for inflation. For planning purposes, the committee assumed a flat state appropriation with no adjustment for inflation or enrollment. We assume tuition will track inflation closely. For our purposes we use as a flat 2% inflation per year. If inflation does not reach or exceeds that level, then tuition would likely adjust accordingly.

Analysis Methods:

The Committee used the following information:

1. The chart above showing a twenty-five year history of state appropriations
2. Demographic data on Indiana public school students and expected trends in that data obtained from Noel-Levitz based on WICHE and NCES data (table 1).
3. Indiana State University's budget forecasting methodology.

Table 1.

Demographics of Indiana High School Graduates 2013-14 to 2023-24

	2013-14	%	2023-24	%	Change	% Change
Blacks	5653	9.3%	6306	10.8%	653	11.6%
Latinos	3908	6.4%	6486	11.1%	2578	66.0%
Asian/Pac. Is.	1314	2.2%	2381	4.1%	1067	81.2%
Caucasian	49871	82.1%	43455	74.1%	-6416	-12.9%
Total	60746		58628		-2118	-3.5%

Compiled by Noel Levitz, based on WICHE and NCES data.

Over the past few years, Indiana State has developed a budget-modelling spreadsheet to project revenue and expenses five to 10 years into the future. That model uses a number of assumptions (e.g. enrollment, tuition, state appropriation, cost of utilities …) to project the current state into the future. The Committee explored a number of scenarios and a "most likely" version is discussed in the results section of this report. Table 2 is the result of the set of assumptions that the Committee felt were most realistic on the revenue side and did not lead to unsustainable expense increases.

Key Findings:

Enrollment growth at ISU over the next decade is necessary for two very important reasons. First, national and state of Indiana goals call for a dramatic increase in the number of degrees awarded. This can only happen if enrollment also increases. Retaining more students to graduation can and should be a significant part of the solution but it will not be sufficient by itself. The other reason we need to grow is that our inflation-adjusted revenue per student is expected to decline by 15% over the decade. To balance our budget we will need to increase the student/faculty and student/staff ratios by the same percentage as enrollment grows or begin cutting positions to maintain payroll at about 64% of the total budget. The only acceptable scenario with this result is a hiring freeze, i.e. no net new positions.

Table 1 tells much about who our future students are likely to be. First they will be less likely to be Caucasian and more likely to be Latinos or Asian/Pacific Islanders. Second, the decline in the total number of high school graduates means that to grow we will need to recruit more adult aged (25+) students. These adult students will likely desire to study at a distance. We also hope to increase our market share of new high school graduates and we hope that the percentage of new graduates that go directly to college will increase. Both of these possibilities come with costs and risks.

About 64% of the current operating budget is salary and benefits. It is important that this percentage does not grow significantly over the decade if we are to maintain sufficient budget flexibility to meet our need for supplies, travel, laboratory equipment, capital equipment and other items that are often treated as "luxury" expenditures, at least during periods of tight budgets such as sabbaticals and internally funded research projects.

Indeed, they are discretionary in any given year but, they are necessary for the long-term health of the institution.

Facility repair and rehabilitation (R&R) and utilities make up about 10% of the current operating budget. Our assumption is that these costs will grow faster than inflation unless we change our planning process and decrease our energy and water consumption. Reducing energy consumption should be a priority of all construction projects. Super inflationary increases in facility costs will require reductions in other areas of the budget and negatively affect our ability to meet the other needs of our students and employees. As we must plan on the number of employees remaining constant so must we plan for our physical plant to remain constant (in terms of square feet) and for it to become more energy and water efficient.

Recommended Actions:

Budget planning is likely the easy part of responding to the Key Findings. It is relatively easy to say no new positions and no net new buildings. It is far more difficult to insure that the stresses that result from such actions are distributed in a way that facilitates overall institutional improvement and meets the desired benchmark goals.

The growth in student faculty and student ratios must be managed in ways that distribute the burden and take advantage of operational efficiencies where they are possible. At a minimum, we recommended that the strategic plan included an initiative to minimize the impact of increasing average student credit hour per faculty member and insure that the "simple" solutions of increased section sizes and increased course loads on faculty are not the default results. Toward these ends, we must investigate the possibilities for reducing the number of very small classes, for reducing program options, and for decreasing in credits in the major.

On the staff side, a key to controlling the number of employees is to take advantage of technology wherever and whenever possible to do things that do not directly involve interaction with students. This strategy will allow us to maintain and sometimes increase staffing in areas that do have direct interaction with students such as tutoring and advising.

Facility improvement dollars will be in short supply. We need to develop a more inclusive process for prioritizing the use of those dollars as a way of making do with fewer resources. An appropriate University standing committee to address this challenge should be considered.

Student labor appears to be one way that we can accommodate an increasing number of students without growing the number of employees. Students, even when paid wages equivalent to those of regular staff, are at least 30% less expensive since their benefit package costs are very low. The added benefit of such a plan is that many, if not most of these new jobs, could provide significant experiential learning opportunities. They would also help students pay for their education. We recommend that ISU substantially increase, over time, the number of student jobs on campus. Success with this initiative will require a rethinking of what students are capable of doing and require a significant effort to convince current employees of its importance and value.

Intercollegiate Athletics (ICA) budgets nationally are growing much faster than inflation. At the mid-major level within Division 1 of the NCAA, those increases are not being matched by increases in new revenue from outside the institutions. ICA budget growth at ISU must not come at the expense of other areas of the budget. We will need to constantly review our competitiveness, and our mix of sports to avoid going down paths that are not in the long-term best interest of the institution. At a minimum, the overall ICA budget and the percentage of the budget that comes from outside sources need to be continuously monitored and reflected upon by the administration and the Board of Trustees.

Enrollment growth over the next ten years must remain a very high priority for the institution. Failure to grow will quickly result in a suspension of pay increases and ultimately in a reduction in the number of employees. Historically, we have depended on new high school graduates as our target population. We will need to diversify our recruiting efforts to yield more non-traditional, distance and international students. It will also be critical that graduate enrollment grows at least at the same rate as undergraduate or we will not be able to sustain many programs. The goal of ~2% enrollment growth per year is possible but only if necessary marketing and recruiting dollars are made available, and we increase our student persistence rates. We should also investigate the revenue enhancement potential of program specific fees. Graduates of high cost programs are often in high demand in the workforce and demand high initial salaries.

Table 2 is the result of an investigation of the impact of a set of assumptions on revenue and expenses for the next ten years. The fourteen (14) assumptions listed at the bottom of the table are the drivers of the budget. They were independently varied and the impacts of the changes on the budget and on statistics such as student/faculty ratio, salary revenue per FTE student and student enrollment reviewed. The revenue assumptions listed in table 2 are reasonable given historic trends. The expense assumptions attempt to balance needs with the requirement of keeping the budget close to equilibrium. The decision to recommend not growing the number of faculty and staff was made once it became clear that without that assumption expenses quickly exceeded revenue by millions of dollars. Any new employees given this reality will need to be paid for using strategic planning money. The budget presented for AY 2025-26 is not balanced, and neither are those for earlier years, but the reduction needed to balance it in each year is $< 0.5\%$ of the total. The uncertainty inherent in trying to predict the future is such that making adjustments at this time are not warranted.

Table 2 INDIANA STATE UNIVERSITY

SCENARIO

Proforma Projected Operating Budget Plan for 2015-16 and 2025-26

	Line	Year 1 2015-16 Increment	Year 1 2015-16 Budget Plan	Year 1 2015-16 %	Year 11 2025-26 Increment	Year 11 2025-26 Budget Plan	Year 11 2025-26 %
Source of Funds							
Operating Approp.	1	(1,114,201)	66,194,030	39%	0	65,929,201	30%
Fee Replacement	2	(781,637)	7,707,860		0	7,872,711	
Sub Total State Approp.	3	(1,895,838)	73,901,890		0	73,801,912	
Student Fees	4	1,538,938	90,802,788	53%	2,587,765	134,563,769	62%
Fee Repl Realignment	5	781,637			0		
Est. Enrollment Increase	6	11,535,300			2,587,765		
Other Fees and Charges	7		1,240,912			1,240,912	
Other Income & Transfers	8	157,500	4,696,947		191,442	6,558,386	
Total Source of Funds	9	12,117,537	170,642,537		5,366,972	216,164,979	
Use of Funds							
Compensation	10						
Faculty	11	814,782	36,553,860		993,214	45,653,923	
Summer	12	57,659	2,940,621		70,286	3,584,601	
EAP Classification	13	507,612	22,638,197		618,776	28,307,567	
Support Staff	14	387,650	14,770,148		472,543	19,099,700	
Graduate/Admin. Asst.	15	53,770	2,742,291		65,546	3,342,838	
Student Wages	16	53,306	2,718,594		64,979	3,313,951	
Reallocation	17	0	0		0	0	
Sub Total Salaries	18	1,874,779	82,363,711		2,285,345	103,302,580	
Fringe Benefits	19	280,475	14,304,244		446,601	18,310,642	
Health Insurance	20	645,729	11,407,882		827,457	17,376,587	
Activation of VEBA	21	(740,165)					
STAFF GROWTH	22	0	0		0	0	
Sub Total Compensation	23	2,060,818	108,075,837	63%	3,559,402	138,989,809	64%
Supplies and Other Expenses	24						
Supplies and Other Exp.	25	276,385	13,595,653		313,245	15,975,479	
Reallocations	26	(500,000)				0	
Repairs & Maintenance	27		4,122,447			4,122,447	
Utilities & Related Expenses	28	263,766	10,814,399		337,643	13,843,345	
Other Committed Expenses	29		1,110,348			1,110,348	
Equipment and Other Capital	30		0				
Library Acquisitions	31		1,640,729			1,640,729	
Capital Equipment	32		879,072			879,072	
Sub Total Equipment	33	0	2,519,801	1.5%	0	2,519,801	1.1%
Student Aid	34	242,526	12,368,844		295,638	15,077,552	
Laptop Scholarship	35	0	1,415,000			1,415,000	
Res for Strategic Plan	36	1,000,000	3,000,000		1,000,000	13,000,000	
Res for State Appropriation	37	(1,346,165)	0			0	
Budgeted Reserve	38	4,755,750	4,755,750		171,253	6,521,673	
Capital Costs R&R	39	250,000	3,750,000	2.2%	150,000	5,250,000	2.4%
Base Adjustments		5,390,842	5,390,842			5,390,842	
Total Use of Funds	40	12,393,923	170,918,925		5,827,181	223,216,297	
Budget Reduction Need	41	(276,385)			(460,210)		
Projected Budget Cumulative Redu	42		(276,387)			(7,051,318)	
Target Budget			170,642,537			216,164,979	

ASSUMPTIONS		2015-16	2025-26	Inflation Adj.
Enrollment HC		13,584	16,559	
Enrollment FTE		11,576	14,111	
Faculty	21.3 Ratio	543	554	
Staff	12.5 Ratio	926	945	
Student Faculty Ratio			25.5	
Student Staff Ratio			14.9	
Revenue per FY FTE		$ 14,741	$ 15,319	$ 12,567
% Change in Revenue per FTE				-15%
Base cost of new Faculty		$ 65,000	$ 79,235	$ 65,000
Base Cost of new Staff		$ 45,000	$ 54,855	$ 45,000
Base Cost of new Benefits		$ 16,500	$ 24,424	$ 20,036

Assumptions

1. State Appropriation	0.0%	6. Utilities	2.5%	11. Strategic Plan	$ 1,000,000
2. Enrollment Increase	2.0%	7. Salary (a)	2.0%	12. Capital Projects	$150,000
3. Student Tuition	2.0%	8. Health Insurance	5.00%	13. No new net state funded projects.	
4 Faculty & Staff Growth	0.0%	9. Student Financial Aid	2.0%	14. Utility Trans Res Life	2.5%
5. Supplies & Expense	2.0%	10. Fringe Benefits	2.5%		

(a)plus $100K for fac/SS, $65K EAP