Summary: Higher Education Institutional Viability

WHAT WE FOUND

Enrollment is a key revenue source and has been declining at some Virginia institutions

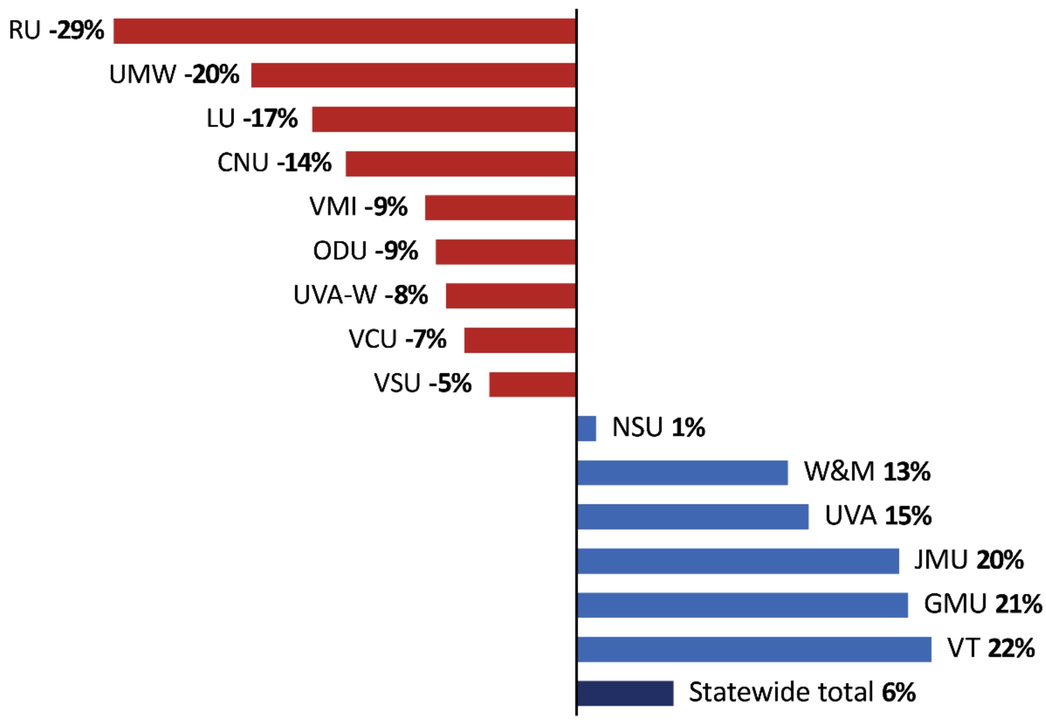
Enrollment is a critical indicator of the appeal of and student demand for a higher education institution and is an essential revenue source. For most institutions, student tuition and fee revenue makes up a substantial portion of their total revenue. If enrollment declines, tuition and fee revenue declines.

In general, large and flagship institutions have increased their enrollment over the past decade, while other institutions have experienced enrollment declines (figure). Two of the state's largest institutions (GMU and Virginia Tech) grew more than the entire student population at seven institutions.

WHY WE DID THIS STUDY
In 2023, the Joint Legislative Audit and Review Commission (JLARC) directed staff to review public four-year higher education institutions. This report addresses institutional viability and academic program offerings.

ABOUT VIRGINIA'S PUBLIC FOUR-YEAR HIGHER EDUCATION INSTITUTIONS
Institutions rely on tuition and fee revenue and state general fund appropriations to operate. Collectively, in FY23, institutions received about $3 billion in tuition and fee revenue and more than $2 billion in state general funds. In the 2023–24 academic year, the 15 institutions enrolled about 211,000 full-time equivalent students.

Six schools gained enrollment over the past decade, and the others lost enrollment



SOURCE: SCHEV FTE enrollment data, 2014–2023.

This trend is not unique to Virginia. Large and flagship institutions have generally experienced enrollment growth nationwide, while many smaller, regional institutions have experienced enrollment declines.

Demographic and market trends will place further financial pressure on many higher education institutions

All institutions will be affected to some degree by demographic shifts that will reduce the traditional college age population in the near future—but institutions that have lost market share recently may be especially vulnerable to further declines. Higher education enrollment is expected to begin declining in 2025, according to the U.S. Department of Education. In addition, declining enrollment at two-year higher education institutions may place additional downward pressure on some four-year institutions that rely on transfer students for enrollment.

Some national data and recent surveys indicate that interest in attending a four-year college is declining, which could compound institutions' challenges related to demographics and market consolidation. The cost of higher education and the increasing numbers of highly compensated occupations that do not require a four-year degree have resulted in young adults and their families questioning the return-on-investment of a four-year degree. For example, a Pew Research Center survey found that nearly half of respondents agreed "it's less important to have a four-year college degree today in order to get a well-paying job than it was 20 years ago." Despite these trends, data still shows that workers with a four-year degree earn more, on average, than those without one.

Virginia institutions face varying degrees of viability risk, but none rates as high risk

As of summer 2024, none of Virginia's 15 public four-year institutions are rated at a high level of viability risk (figure, next page), according to a viability risk assessment conducted by JLARC staff (sidebar). Therefore, no immediate or near-term action is necessary to bail out a troubled institution, broker a merger between institutions, or manage the closure of a Virginia public institution.

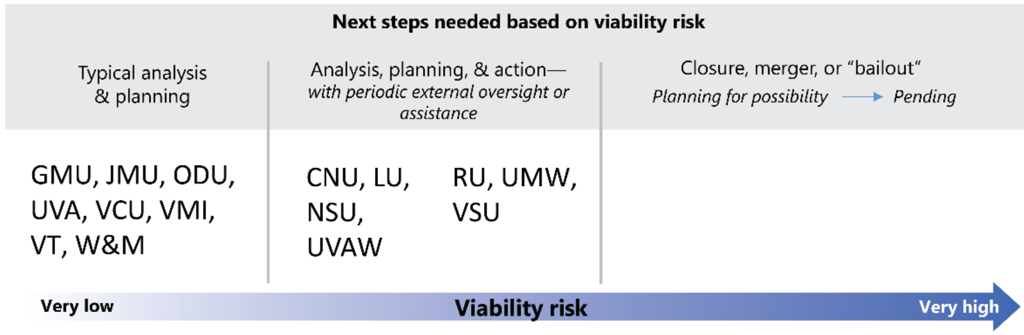
Eight institutions were rated as having very low viability risk. Therefore, from a viability perspective, these institutions require no action from the state other than its typical higher education analysis and planning processes.

None of the remaining seven higher education institutions has a high viability risk, yet each to varying degrees has risk factors that should be monitored in the coming years. These seven institutions were rated as having either relatively low or some viability risk.

JLARC's institutional viability **assessment focuses on an institution's ability to continue operating without needing major changes to survive**, such as a merger or financial bailout.

Institutions may not have a viability challenge identified by the assessment but still need to make operational changes (such as reducing spending or closing academic programs).

No Virginia public institution faces high viability risk (as of 2024)



SOURCE: JLARC summary of viability risk assessment framework results, 2024.
NOTE: Vertical placement of institutions does not have any meaning in relation to viability risk.

The three Virginia institutions that are rated as having some viability risk are Radford University, University of Mary Washington, and Virginia State University, but each is currently attempting to address its viability risks through various initiatives and efforts.

Radford faces risk related to its large enrollment decline

Radford has positive factors such as solid finances, pricing power, state funding levels, and facilities. However, Radford's total full-time enrollment has declined on a percentage basis more than any of Virginia's other public four-year institutions over the past decade (26 percent). Radford's first-year student enrollment declined even more sharply by 38 percent. This decline was large enough to place it below the 10th percentile nationally in terms of first-year enrollment increases. Radford, though, expects its enrollment to stabilize for the 2024–25 academic year. As of August 2024, Radford reports that based on deposits, its first-year enrollment will likely increase almost 30 percent from 1,100 in 2023 to 1,400 in 2024.

Mary Washington faces risks related to pricing power, facilities, and financing

The University of Mary Washington faces several viability risks but also has positive factors including higher-than-predicted graduation rates. Mary Washington has heavily discounted its tuition in recent years, which has reduced its pricing power and led to less tuition revenue. The age and condition of Mary Washington's campus facilities also complicate the school's efforts to recruit and retain students. A private consultant recently concluded that Mary Washington's facilities require substantial maintenance, repair, or renovation. The General Assembly, though, has made recent capital investments, which Mary Washington reports will begin to help improve recruitment of new students.

The institution has also been facing financial risks because of its revenue challenges and relatively higher debt. Its pricing power challenges and enrollment declines have constrained available revenues to meet its ongoing expenditures. Its debt levels have been relatively high, primarily from having to absorb the financial impact of its foundation making poor investment decisions. Mary Washington has made several changes to its foundation in the past two years, which should improve its financial health ratios in the future.

Virginia State faces risk related to its pricing power and facility conditions

Virginia State has positive factors such as enrollment growth over the past eight years—particularly since the pandemic—and relatively stable retention and graduation rates. However, Virginia State's inflation-adjusted tuition revenue per student has declined approximately 26 percent since 2015. The greater financial needs of Virginia State's student population explain—but also compound—its pricing power challenges. Of the state's public four-year higher education institutions, Virginia State has the highest percentage of students receiving a Pell grant. Virginia State also faces risk related to the relatively poor condition of its facilities and lack of adequate student housing. The state, though, has recently been providing more operating and capital funding, which Virginia State anticipates will begin to help. The university expects to open several new buildings for the fall 2025 academic semester.

Viability risks and challenging, changing environment necessitate continued monitoring and additional planning, or action, as needed

The seven institutions rated at relatively low or some overall viability risk will need to closely monitor the risk factors discussed in this report. The demographic decline, further erosion in the belief that four-year degrees are necessary, and the consolidation of students at larger institutions, combined with the risks identified at each of these institutions, make this ongoing monitoring essential.

Regular monitoring is important given the dynamic higher education environment and the likelihood that the challenges and risk levels institutions face are likely to change. For example, while enrollment appears to be stabilizing for some institutions in the short term, it has fluctuated substantially for many Virginia institutions in recent years. In addition, many institutions have responded to enrollment declines with tuition adjustments that have significant implications for revenue and financial strength.

Statute establishes OpSix membership to include the: staff directors of the House Appropriations Committee and the Senate Finance and Appropriations Committee, the director of the Department of Planning and Budget, the director of SCHEV, the secretary of finance, the secretary of education, or their designees.

The state's OpSix has been monitoring risk through the six-year planning process, and the specific factors related to viability necessitate ongoing monitoring and additional planning, or action, as needed. The additional monitoring and planning specifically related to viability will need to continue through this process.

State academic program approval process can be more transparent and streamlined

The State Council of Higher Education for Virginia (SCHEV) is required to review institutions' proposals for new academic programs. Its process requires institutions to submit a prospectus fully describing a new program's purpose, how the program will be operationalized, and demand for the program. SCHEV has approved about 70 percent of proposed programs over the last decade.

Though SCHEV's program approval policy describes components each proposal must include, it lacks criteria to assess the proposals. The process also seems unnecessarily bureaucratic, focusing too much on editorial components of proposals. In addition, SCHEV staff do not consistently document their review and feedback to institutions, which institution staff indicated can lead to misunderstandings about revisions requested.

WHAT WE RECOMMEND
Executive action

- As part of the six-year planning process, monitor the viability risk of: Christopher Newport, Longwood, Norfolk State, Radford, Virginia State, University of Mary Washington, and UVA-Wise.
- Revise the state's academic program approval process to focus on the most essential information needed, discontinue editorial reviews of proposals, and include fillable forms, a checklist, and better documentation of staff reviews.

The complete list of recommendations is available on page vii.