

**REPORT TO THE VERMONT LEGISLATIVE JOINT FISCAL OFFICE  
CONCERNING VERMONT STATE COLLEGES SYSTEM FUNDING  
FOR FY2020 AND FY2021**

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Submitted in partial fulfillment of Vermont Contract #40026

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8 June 2020

## 1. Scope of Work

The work to be carried out under this assignment from the Vermont Joint Fiscal Office is:<sup>1</sup>

- i) Working with the Vermont State Colleges System and the Joint Fiscal Office, undertake a financial assessment of the Vermont State Colleges System in academic years 2019-2020 and 2020-2021 in an advisory capacity. [...] The assessment will include the following:
  1. Identify the financing gap in the current academic year,
  2. Identify the expected financing gap and the timing of needed funds in the 2020-2021 academic year if the system maintains operations at a level to be specified, and
  3. Provide a sense of the risks to the financial assessment given uncertainties in available data, enrollment in the coming academic year, and other factors.
- ii) Conduct a review of the Vermont State Treasurer's internal assessment of the financing gaps described above.
- iii) Present the findings of this work through both written and oral legislative briefings as well as reports and assessments as requested by the Joint Fiscal Office.

This document addresses (i). By agreement with the Joint Fiscal Office, my review of the Treasurer's report was undertaken as part of (i) with relevant notes incorporated here.

This assessment is a good faith, professional opinion offered from an educational administrator's perspective based entirely on a review of documents and representations provided by the Vermont State Colleges System and its member institutions (VSCS), the Joint Fiscal Office (JFO), and the Office of the Treasurer.<sup>2</sup> This assessment is not an audit, nor is it a budget rebuild; neither is it a plan for how VSCS should position itself post-FY2021 to meet the challenges outlined here. That work is outside the scope of this assignment and will be undertaken by others in the coming weeks and months. I will, however, make some observations that may be relevant to their efforts.

All meetings were by phone or teleconference due to Covid-19 restrictions. A list of reviewed documents and individuals consulted is provided in Section 8. Other documents used are referenced in the footnotes.

My thanks to everyone for their constructive engagement throughout the process.

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<sup>1</sup> Contract #40026, Attachment A.

<sup>2</sup> This limitation accords with the expectations of the JFO which, in the Scope of Work, wrote in the above elision: "The financial assessment will represent an independent opinion that is wholly dependent on the accuracy of the information provided by the Vermont State Colleges System and the Treasurer's Office. It is the understanding of the Joint Fiscal Office that any assessments provided in this work will be based on estimates based on data and information provided by Vermont including by the Vermont State Colleges System and the Treasurer's Office. The Contractor bears no responsibility for the differences between estimates used in the work and actual amounts of expenditures/revenues/financial aid that might occur."

## 2. Executive Summary

The Vermont State Colleges System mission reads:

“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.”

VSCS exists for the benefit of Vermont. It educates its citizens and supports its businesses and communities. In return, Vermonters support VSCS through enrollment and tax support. In theory, this relationship creates a healthy cycle of opportunity, growth and advancement. In practice, success depends on resources, both human and financial. VSCS’s long-term challenges threaten to break this cycle over just this question of resources. The planning undertaken and decisions made now and in FY2021 will determine how VSCS can best continue its mission of service to all Vermont families, businesses and communities. The financial decisions made in the next few weeks will determine whether VSCS will have the resources to carry out that work, hence the importance of the issues presented in the Scope of Work.

To summarize this document’s main findings:

- VSCS’s situation can only be understood in the context of a set of very powerful challenges. These include longer-term issues such as demography and levels of State support, as well as those brought on by the Covid-19 emergency and increasing public uncertainty about VSCS’s viability, an uncertainty exacerbated by the System’s spring 2020 plan, since withdrawn, to close certain campuses.
- The FY2020 financial results are likely to be as projected by VSCS, with a range of outcomes varying from a small surplus to a \$500,000 deficit. VSCS has the capacity to cover a deficit within this range.
- The Legislature’s commitment of \$12.2MM for reimbursing accrued Covid-19 costs and its consideration of funding an additional \$15.25MM for specific Covid-19-related expenditures from the Coronavirus Relief Fund (CRF) present a unique and strategic investment in the future of Vermont public higher education while sending a much needed message of support for VSCS and its students.
- Because of the unprecedented uncertainty around fall semester operating conditions, planning for FY2021 has led campuses to create a range of scenarios to reflect possible circumstances. These scenarios are presented as best-to-worst cases with associated deficits of up to \$36MM due primarily to enrollment declines and Covid-19 restrictions. A reasonable Legislative set aside to address these deficits would be \$30MM in addition to its regular appropriation and the CRF funds noted in the previous bullet. There is an additional \$10.3MM deficit should campuses have to suspend in-person instruction and residential services. Under Federal guidelines, this latter expenditure would qualify for relief as well.
- Because of VSCS’s long-term challenges, FY2021 should be thought of as a bridge year used for strategic change planning, and any supplemental FY2021 funds as bridge funding to help position VSCS to make those changes. Any bridge year funding should be directed to the Chancellor’s Office and tied to aligned, measurable Board of Trustees’ priorities and guided outcomes.

### 3. Context and Challenges

This is not the place to introduce or review the Vermont State Colleges System.<sup>3</sup> Nevertheless, assessing VSCS's financial situation requires an understanding of the larger context in which the System is situated. Budgets, after all, reflect longer-term context as well as short-term circumstances.

VSCS faces an extremely serious set of challenges which I have organized under three headings. There are the longer-term challenges presented in VSCS's 2019 "Whitepaper" that set out the demographic, economic, and related trends that threaten the System's viability. There is the singular but ongoing impact of the Covid-19 emergency. Finally, there is the impact of public uncertainty regarding VSCS's future, an uncertainty rooted in the Whitepaper challenges but magnified by the System's Spring 2020 plan to close campuses, an uncertainty that has survived the plan's withdrawal.

- The Whitepaper Challenges

VSCS published "Serving Vermont's Students by Securing the Future of the Vermont State Colleges System" (the Whitepaper) in which VSCS's main systemic challenges were presented in support of a call for major changes.<sup>4</sup> The Whitepaper listed six challenges.<sup>5</sup>

- Demographics
- Levels of State support
- Increasing pricing pressures
- Barriers to adaptability
- Changing student preferences and attitudes
- Disruptive technologies and delivery

I'll not review these as the Whitepaper is readily available. But to assess VSCS's financial situation, it is important to be clear about the demographic facts and their impact on enrollment, as well as the level of State support and the related issue of affordability and student debt.

Vermont's demographic challenges are well known and daunting. The State's overall population has held roughly steady since 2012, registering a less than 1% decline from 626,090 in 2012 to 623,989 in 2019. But a closer look by age group highlights the issue. Between 2012 and 2018, the number of Vermonters graduating high school declined almost 15% from 6,932 to 5,900.<sup>6</sup> As the following JFO chart shows, the next 10 years is even more concerning, with a continuing

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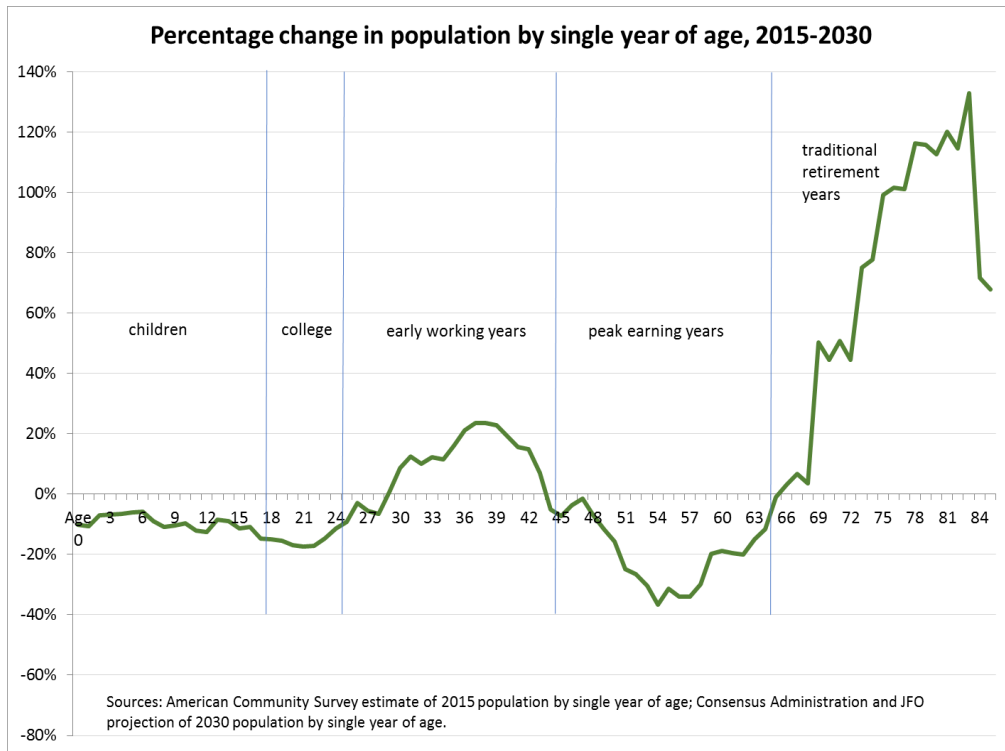
<sup>3</sup> For a general overview see the VSCS website [www.vsc.edu](http://www.vsc.edu) and the February 2020 VSCS Data Sourcebook at the same site.

<sup>4</sup> Office of the Chancellor, v1.2, 26 August 2019. See [www.vsc.edu/wp-content/uploads/2019/08/Securing-the-Future-Whitepaper-08.26.19.pdf](http://www.vsc.edu/wp-content/uploads/2019/08/Securing-the-Future-Whitepaper-08.26.19.pdf).

<sup>5</sup> Whitepaper pp.5-22. There is also the extremely serious matter of the System's forecasted 5-year cumulative budget deficit of \$85MM which accrues if these fundamental challenges are not addressed. (See the System's April 20, 2020 "Transformation for the Future" presentation to the Board of Trustees.) Even as an approximation, no system of VSCS's size and resource base can survive that outcome. The way to address it is to meet the challenges reviewed here.

<sup>6</sup> JFO. A simple comparison provides a sense of scale. In 2018, almost three times as many students attending school in the Manhattan district of NYC graduated high school as in all of Vermont.

decrease in the school- and college-age population and a marked decrease in the number of Vermonters in peak earning years.<sup>7</sup>



This demographic profile is economically challenging for the state and for VSCS. The decrease in the numbers of working age adults inevitably inhibits economic growth and makes the state less economically competitive. One way to measure this is to look at statewide educational attainment.

A nationally accepted benchmark for a state to be competitive in the national economy requires 60% of its adult working population having a 2- or 4-year degree, or a market-recognized credential of value; Advance Vermont has set the number at 70%. There has been progress. The numbers of working age Vermonters 25-64 who meet this target has increased from 43.6% in 2008 to 51.2% in 2018 against a national average of 32.9% in 2008 and 48.4% in 2018.<sup>8</sup> Yet it is arithmetically impossible to reach the 70% goal in the next 10 years using the K12 pipeline alone; there are simply not enough Vermont children. Instead, as VSCS has recognized, the core student profile must be expanded to include a greater number of adult and other non-traditional learners who are often placebound. To meet students where they are, there will need to be significant investment and retooling. Ironically, the Covid-19 emergency may provide the needed opportunity, as I'll discuss in Section 4.

<sup>7</sup> From the JFO Issue Paper "Vermont's Population: Single-Year-of-Age Numbers for 1996 Through 2030". August 2019. Joyce Manchester and Sean Sheehan. The growth in retirement-age Vermonters during this same period will only increase competition for limited State resources.

<sup>8</sup> See Lumina Foundation [www.luminafoundation.org](http://www.luminafoundation.org); Advance Vermont [www.advancevermont.org](http://www.advancevermont.org).

The demographic impact on VSCS is even more direct. Approximately 83% of VSCS students are Vermonters. In FY2020, VSCS revenue from tuition and fees and room and board is slightly more than 78% of total budgeted revenue, essentially the same percentage as for FY2019.<sup>9</sup> Any variance in enrollment therefore has a significant impact on revenue.

The enrollment trends are concerning but not unexpected, keeping close pace with the decline in the number of high school graduates. Between 2012 and 2019, in-state enrollment declined 15.3% (10,794 to 9,142), just about matching the previously noted 15% decline in high school graduates.<sup>10</sup> The cost in dollars will be apparent when we review the projected year-end results and next year's revenue forecasts. As noted, the coming 10-year period offers no demographic relief.<sup>11</sup> While the impacts of these general demographic trends can be mitigated by VSCS increasing its share of Vermonters attending college and by increasing retention rates - all important strategies that must be continued - enrollment trends still most closely reflect the demographic facts.

Moving to the second topic, while VSCS has enjoyed a robust (and enviable) 31% increase in total state base appropriations between FY2011 and FY2019, it still accounts for just 18% of VSCS revenue.<sup>12</sup> This makes the State's funding contribution per (FTE) student the lowest in the nation, along with New Hampshire's.<sup>13</sup> The great majority of VSCS's budgeted revenue comes from a combination of student payments and state support; together, more than 96% of the total. As noted, student charges comprise about 78% of this number. (In 2016, Vermont students bore the highest percentage share of higher education costs in the nation at 84.9% compared to the national average of 46.5%.<sup>14</sup>) The point is that the less State support there is, the more the financial burden shifts to the student, and although there has been a meaningful increase in scholarships and other methods of financial support, the telling factor here is student debt.

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<sup>9</sup> VSCS Consolidated Quarterly Financials 4Q FY2019, 3Q FY2020. The percentages differ slightly by campuses, but the general point holds.

<sup>10</sup> Out-of-state enrollment declined by 9.4% (2117 to 1918) for a total decrease of 14.3% (12,911 to 11,060). VSCS Sourcebook, p.11.

<sup>11</sup> Nathan Grawe's authoritative national study on these matters shows Vermont and the entire northeastern US undergoing a greater than 15% decline in the number of college-going students between 2012 and 2029 (Nathan Grawe, *Demographics and the Demand for Higher-Education*. Baltimore: Johns Hopkins University Press, p.49). For New England regional 4-year colleges, he estimates the reduction in demand during this period to be 25% (p.73). VSCS's institutional accrediting body, the New England Commission for Higher Education (NECHE), is tracking these trends and how they apply to Vermont. In a letter to Vermont Tech that is representative of its recent communications to VSCS campuses, it asks the institution to continue "to enhance the institution's financial stability with attention to diversifying revenue and 'right-sizing' the institution" in its next accreditation self-study (NECHE, letter to VTC, 2/10/16).

<sup>12</sup> VSCS; JFO.

<sup>13</sup> This was not always the case. In 1980, Vermont State appropriations provided 49% of revenue (Whitepaper, p.11). See also the New England Board of Higher Education's 5 May 2020 presentation to the Vermont Legislature's Education Committee "Trends in Higher Education Sustainability", especially slide 10.

<sup>14</sup> Grawe, p.160 n4.

Currently, about 60% of Vermont graduates carry debt.<sup>15</sup> Although somewhat dated, the following compilation of median debt by completion status for VSCS students provides a sense of how large and pervasive this problem is.<sup>16</sup>

<b>Median Debt by Completion Status</b>										
	CCV		CU		JSC		LSC		VTC	
	Complete	Non-Complete	Complete	Non-Complete	Complete	Non-Complete	Complete	Non-Complete	Complete	Non-Complete
<b>2011-2012</b>	\$9,248	\$3,639	\$23,000	\$5,500	\$23,750	\$7,920	\$24,500	\$5,677	\$13,000	\$6,333
<b>2012-2013</b>	\$9,500	\$3,750	\$25,000	\$7,000	\$25,000	\$8,850	\$26,000	\$5,651	\$13,000	\$7,100
<b>2013-2014</b>	\$10,850	\$3,900	\$25,000	\$7,350	\$26,000	\$10,000	\$26,850	\$6,500	\$15,000	\$6,942
<b>2014-2015</b>	\$9,861	\$4,000	\$25,000	\$6,625	\$26,000	\$10,653	\$27,000	\$8,250	\$16,000	\$7,100
<b>2015-2016</b>	\$9,088	\$4,400	\$25,000	\$8,750	\$23,819	\$10,819	\$26,750	\$9,500	\$16,050	\$7,029

The impact of these debt levels on the individual and on his or her communities is well established.<sup>17</sup> Financial hardship is the primary reason students stop or drop out of their programs, and the very risk of accruing substantial debt causes many to decide against pursuing higher education altogether. Graduates with debt are limited in their ability to participate in their local economy and may need to relocate to larger communities where there are jobs that pay enough to discharge their debt to the disadvantage of rural areas which are then deprived of the graduate’s education and skills.<sup>18</sup> Given VSCS’s other challenges, the best immediate chance to alleviate this burden is for the State to increase its share of support.<sup>19</sup>

<sup>15</sup> Advance Vermont. For details concerning student costs, see Sourcebook pp.52ff.

<sup>16</sup> Provided by the Chancellor’s Office, VSCS.

<sup>17</sup> Vermont has an estimated 77,000 citizens, or 15% of its population, who have some college but no degree. (Vermont Insights: [www.vermontinsights.org](http://www.vermontinsights.org) ) Many, likely most, carry debt as the VSCS chart shows. This is a national problem but an opportunity as well if more of these people can be supported in returning to fulfill their educational goals.

<sup>18</sup> There is a wealth of information and studies on this phenomenon. See, for example, Cooper and Wang “Student Loan Debt and Economic Outcomes”, The Federal Reserve of Boston Current Policy Perspectives, No.14-7 at [www.bostonfed.org](http://www.bostonfed.org).

<sup>19</sup> There are, of course, other factors that impact affordability. The availability of scholarships is one, although most VSCS support in this form comes from tuition discounting, not third-party sourced funds or endowments. Increasing discounting rates, however, tends to increase intra-system competition.

Another strategy is cost containment which must be a component of future strategic planning. But there are limits to this strategy. VSCS has too small a resource base to cut its way to success. Cost containment properly implemented bends expense trends in a meaningful way. Cost containment badly implemented hollows out institutions.

- The Covid-19 emergency

Covid-19's impact on higher education is unprecedented, substantial, and unpredictable.<sup>20</sup> The immediate operational impact on VSCS has been the suspension of in-person instruction and residential services on March 13 and the completion of the academic year using distance learning methods. The major immediate financial impact was the proportional refunding of students' room and board charges, and loss of other revenue as will be noted in Section 4.

Covid-19's impact on FY2021 will be operational and financial, carrying considerable risk and costs. The operational risk will be to the health and safety of students, faculty and staff. The operational costs will include developing more capacity for distance / hybrid delivery of programs, creating physical accommodations for social distancing, increased medical testing and other safety features, and increased student services. The financial impact includes the costs of making these changes but center on the risk of a greater and possibly crippling decline in enrollment as well as the possibility of again having to suspend in-person instruction and residential services.<sup>21</sup>

- Public Uncertainty

The final challenge comes from public uncertainty concerning VSCS's future or, more accurately, the future of some of VSCS's member institutions. The Whitepaper challenges were not news to those who had been following developments over the past few years. It was widely appreciated, for example, that the consolidation of Johnson and Lyndon Colleges into Northern Vermont University was a necessary response to the changing circumstances addressed in the Whitepaper. What took many by surprise was the System's spring 2020 plan to shrink its footprint - that is, to close campuses - to accommodate declining enrollment. This dramatic announcement had an immediate impact on all campuses but especially NVU, causing a marked decline in inquiries, applications, and commitments to return as students and their families have concerns about programs and institutions that soon might not be there, a situation only complicated by the uncertainties around Covid-19. Some of these students will enroll elsewhere, many to established online institutions. Others will simply not pursue higher education, at least for a time, thereby adding to Vermont's educational attainment gap. This uncertainty also increases the risk of an institution's losing otherwise committed faculty and staff, and it compromises established and potential projects with external partners. The point is straightforward: uncertainty increases instability and VSCS cannot afford more instability. In addressing these issues, therefore, time is of the essence.

#### **4. FY2020 End of Year Assessment**

In assessing the projected FY2020 financial results, three questions are to be answered:

- i. Are the financial results likely to be as projected by VSCS?

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<sup>20</sup> The 1918 pandemic bears some similarities from a public health perspective, but the size and role of public higher education was so much smaller at that time making the comparison not very useful.

<sup>21</sup> It is unknown at this time what legal liabilities an institution may have if, for example, a student returns to in-person instruction and becomes infected as a result. Higher-ed leadership is currently pressing the Federal Government for guidance on this matter.



- ii. Are the results consistent with VSCS history and with VSCS-identified external challenges?
- iii. Are there significant factors that might improve or exacerbate the projected results?

I'll first consider the System's results as if there had been no Covid-19 emergency. Covid-19's impact will then be added and the total projected result assessed. This order is important so as to be clear about what portion of the projected results is due to structural and longer-term "Whitepaper" issues and what portion is due to Covid-19's immediate impact.

My review of the projected FY2020 results (and for the FY2021 budget projections) is based on a review of data and materials supplied by the Chancellor's Office and the individual campuses, together with phone conferences and individual discussions.<sup>22</sup> VSCS initiated the development of 'best-worse' case scenario planning and the campuses submitted their first drafts of these scenarios to the Treasurer's Office on May 6. This was followed by a series of teleconference meetings with each of the institutions to review and clarify the material that included the Treasurer's Office, the System's CFO, and myself. These meetings generated follow-up submissions with further information and additional or refined scenarios as requested. These materials compose the core of the data and information for my analysis, supplemented by additional discussions I have had with the Chancellor's staff, with each president individually, and with some campus staff.<sup>23</sup>

To understand the budgeting process, I reviewed the VSCS Board of Trustee's budgeting policies and practices as well as a recent history of their annual budgets and end-of-year results to assess consistency and forecasting accuracy.<sup>24</sup> VSCS uses a consolidated budget aggregating the budgets

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<sup>22</sup> See Section 7 for a list of data and documents reviewed.

<sup>23</sup> The Treasurer's and my reviews therefore use common data by design. Our analyses and conclusions, while mutually informed, are our own. I want to thank Treasurer Pearce and her staff for their thorough work and penetrating analysis, and for their willingness to include me in their process.

<sup>24</sup> See the VSCS Consolidated Reviews 2017-2020 as well as the Audited Financial Statements for that same period available on the System's website. VSCS develops its budget in accordance with System Policy 403: System Annual operating Budget, and has followed a standard calendar and framework since FY2017. (Policy 403 is available on the System's website. A description of the calendar and framework is presented in VSCS Memorandum "Rationale for Proposed Reallocation of State Appropriation under Policy 403", 24 September 2018.)

The process begins with the Board Finance and Facilities Committee's February review of the current year's budget results to date, a detailed review of enrollment data and preliminary fall admissions outlook. Budget estimates are at that point top-down, "approximate and conservative". At the Committee's first meeting in April, each institution and the Chancellor's Office present preliminary "bottom up" numbers. A second April meeting reviews these numbers as developed in greater detail. The Committee approves final numbers in May and forwards them to the full Board for June approval. The budget is then checked quarterly throughout the fiscal year at the System and Board level with changes made as appropriate. This process provides adequate if not plentiful time; its effectiveness optimized to the degree campuses collaborate on addressing budget questions and coordinate their efforts.

Policy 403 currently uses an allocation formula that trends towards an outcomes-based funding model. Some systems have moved away from that model as it increases intra-system competition rather than cooperation. This should be considered in the next stage of System strategic planning.

from its four institutions together with that of the System Office using a standard set of Revenue and Expense categories. VSCS's most recent forecast dated March 31 captures actual revenue and expenses through the third quarter and presents an end-of-year projection that is the basis for this review. The summary numbers follow. Breakdown by individual campus is available in the full VSCS document.<sup>25</sup>

**FY2020 Budget Outlook as of March 31, 2020**  
**Vermont State Colleges System**  
**(Amounts rounded to \$1,000)**

**EXECUTIVE SUMMARY**

	FY2020	Outlook as	Mar 31	Var	COVID-19	Mar 31 vs.	Mar 31 vs.
	<u>Budget</u>	of	vs.	> +3%	<u>Changes</u>	<u>w/COVID</u>	<u>w/COVID</u>
		31-Mar	Budget				Budget
<b>REVENUES</b>							
Castleton University	56,958	55,894	(1,064)				
Community College of Vermont	27,504	27,768	264				
Northern Vermont University	56,730	52,469	(4,261)	*			
Vermont Technical College	38,715	40,257	1,542	*			
Chancellor's Office	<u>500</u>	<u>620</u>	<u>120</u>				
<b>TOTAL REVENUES</b>	<b>180,407</b>	<b>177,008</b>	<b>(3,399)</b>				
<b>EXPENSES</b>							
Castleton University	56,952	56,367	(585)				
Community College of Vermont	27,754	27,801	47				
Northern Vermont University	58,496	55,331	(3,165)	*			
Vermont Technical College	38,843	39,428	585				
Chancellor's Office	<u>500</u>	<u>596</u>	<u>96</u>				
<b>TOTAL EXPENSES</b>	<b>182,545</b>	<b>179,523</b>	<b>(3,022)</b>				
<b>NET REVENUES/(DEFICIT)</b>							
Castleton University	6	(473)	(479)	*	(1,938)	<b>(2,411)</b>	(2,417)
Community College of Vermont	0	217	217			<b>217</b>	217
Northern Vermont University	(1,766)	(2,862)	(1,096)	*	(1,183)	<b>(4,045)</b>	(2,279)
Vermont Technical College	(128)	830	958	*	(300)	<b>530</b>	658
Chancellor's Office	0	24	24			<b>24</b>	24
<b>NET REVENUES/(DEFICIT)*</b>	<b><u>(1,888)</u></b>	<b><u>(2,265)</u></b>	<b><u>(377)</u></b>	<b>*</b>	<b><u>(3,421)</u></b>	<b><u>(5,686)</u></b>	<b><u>(3,798)</u></b>
		<b>-1.2%</b>	<b>-0.2%</b>		<b>-1.9%</b>	<b>-3.1%</b>	<b>-2.1%</b>

\* The \$1,888 budgeted deficit in this Summary is inclusive of \$250 of Carried Over Funds from CCV; Carried Over Funds are listed as "Non-Recurring Items" in the VSC Consolidated presentation, resulting in budgeted Net Revenues of negative \$2,138.

Pre-Covid, the above forecasts consolidated revenues of approximately \$177MM and expenses of \$179.5MM leaving a pre-Covid-19 operating deficit of \$2.265MM (-1.2%), \$377M (-0.2%) against budget. The likely accuracy of these numbers was confirmed in discussions with the

<sup>25</sup> VSCS Consolidated Budget vs. Actuals Report for the Quarter Ending March 21, 2020.

VSCS CFO, individual institutional staff members, and in discussions with the Treasurer’s Office.<sup>26</sup> These results are also consistent with recent past results, demonstrating sustained accuracy in budgeting and forecasting as the following chart shows.<sup>27</sup>

FY	Budget	Actual	Variance	
2020	Rev: 180,407,000 Exp: 182,545,000	Rev: 177,008,000 Exp: 179,523,000	(3,399,000) 3,022,000	Pre-Covid19 estimate
2019	Rev: 171,979,000 Exp: 173,969,000	Rev: 173,911,000 Exp: 174,741,000	(1,932,000) (778,000)	
2018	Rev: 173,099,000 Exp: 173,132,000	Rev: 171,416,000 Exp: 168,637,000	(1,683,000) (3,495,000)	

Further comparison comes from looking at a history of student-sourced revenue and state allocations between FY2016-FY2020.<sup>28</sup> In FY2016 tuition and fees accounted for exactly the same percentage of revenue as is budgeted (pre-Covid-19) for FY2020: 64%. Similarly, Room and Board was within a half percent: 14.4% in 2016 v 14% in 2020. Appropriations increased significantly, from 14.9% in 2016 to 18% in 2020. On the expense side, wages and benefits dropped from 66% in 2016 to 62% in 2020, due primarily to position reductions undertaken in response to enrollment declines. It is worth noting that Scholarships / Fellowships - mostly in the form of tuition discounting - increased significantly from 5% of expenses in 2016 to 11% in 2020, reflecting increased attention to affordability, but putting increased pressure on revenue.

While all the revenue and expense categories are important, three revenue categories - Tuition and Fees, State Appropriations, Room and Board - tie directly to the issues highlighted in Section 3 and account for more than 96% of total budgeted FY2020 revenue (Tuition and Fees 64.25%, Appropriations 17.7%, Room and Board 14.42%).<sup>29</sup> These categories received particular attention.

<sup>26</sup> Balancing an approved budget is an important and, under these conditions, a noteworthy achievement. Yet a balanced budget is not necessarily a sign that all is financially well. A budget may underfund depreciation, for example. This strategy can be useful to bridge a short-term budget gap, but chronic underfunding leads to an inevitable and sometimes unrecoverable increase in deferred maintenance, an issue now requiring VSCS attention with its more than \$108MM in deferred maintenance. Also, a budget that just breaks even may not have included investment funds to update programs, improve classroom technologies, etc. Any institution that foregoes investing puts itself at a significant competitive disadvantage.

<sup>27</sup> Another standard method of assessing an institution’s fiscal position would be to look at four core financial ratios (Primary Reserve, Net Operating Revenues, Return on Net Position, Viability). The most recent VSCS report using this method dates from 2016 and so is of limited value here. (See “Vermont State Colleges Ratios, 2012-2016”, prepared by O’Connor & Drew, P.C.) As this analysis will be required by the National Center for Education Statistics in future reporting, I recommend VSCS adopt it as a regular feature of their reporting as soon as is feasible. It should include national benchmarks as well as multi-year VSCS goals. For an example of a fully developed system, see the University of Maine System’s “FY2018 Core Financial Ratios and Composite Financial Index” available at [www.maine.edu](http://www.maine.edu).

<sup>28</sup> The following data are from the April 20, 2020 VSCS Board Presentation.

<sup>29</sup> VSCS Consolidated Budget vs. Actuals Report for the Quarter Ending 31 March 2020. Results for FY2021 will likewise center on these same three categories.

I have concluded from this review process that the forecasted, pre-Covid-19 results should be approximately as presented. I now turn to the projected end-of-year results with Covid-19's impact added.

The March 31 spreadsheet indicates \$3.4MM in known Covid-19 related charges, leaving a total year end deficit of approximately \$5.68MM, or 3.1% of budget. That number will be directly reduced by \$5.1MM in pending CRF reimbursements for Room and Board refunds approved by the Legislature, \$125,000 for cancelled student travel, and \$50,000 of facilities modifications at NVU.<sup>30</sup> While this still leaves a projected deficit of approximately \$500,000, that number should represent a worst-case outcome, one that may be appreciably improved as implemented expense reductions are fully counted. VSCS now believes the final result will be somewhere between a very small surplus, in effect a break-even, and the indicated deficit. In either event, closing a FY2020 deficit within this range is within VSCS's current resources.<sup>31</sup>

- Summer 2020 Investments

Before ending this section, it is important to consider additional VSCS costs and investments to be made in ongoing response to Covid-19. These efforts span the two fiscal years under consideration with many needing to be started before the end of FY2020 and all undertaken this calendar year. Details for FY2020 are in the top half of the following chart.<sup>32</sup> This lists reflects VSCS's substantial and impressive progress in planning for Covid-19's continuing impact. Receiving these funds will be necessary if VSCS is to meet its year-end projections and to make those investments necessary to address the continuing the health and safety threats posed by Covid-19.

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<sup>30</sup> VSCS. This math is correct at the System level, but Federal CARES dollars are allocated to campuses, not systems. Unless the Chancellor's Office and some of the campuses contribute "their" surpluses, the gap isn't really to projected levels. However, I believe the Board has the authority to direct these surpluses.

<sup>31</sup> Personal communication.

<sup>32</sup> Memorandum from VSCS CFO Stephen Wisloski to The Honorable Peter Fagin, House Committee on Appropriations and The Honorable Dylan Giambatista, House Committee on Education concerning VSC Systems requests for assistance from the State of Vermont's Coronavirus Relief Fund, dated 22 May 2020.

**Vermont State Colleges System  
State of Vermont Coronavirus Relief Fund (CRF) Request**

Fiscal Year 2020/Over the Summer	Castleton	Community	Northern	Vermont	System	
	University	College of	Vermont	Technical	Level	Total
COVID-Related Cost	University	of Vermont	University	College		
<b>Room and Board Refunds</b>	<b>\$2,235,834</b>		<b>\$1,922,230</b>	<b>\$959,728</b>		<b>\$5,117,792</b>
<b>(previously reported on May 5)</b>						
Cancelled Student Travel			65,000	60,000		125,000
Masks	37,500	25,000	37,500	25,000		125,000
Equipment & Supplies/PPE	15,000	100,000	15,000			130,000
Facilities Modifications	150,000		150,000	150,000		450,000
Remote/Hybrid Instruction	1,730,000	177,623	1,125,000	1,115,000	70,000	4,217,623
Increased Sanitation & PPE	150,000	100,000	400,000	350,000		1,000,000
Health Screening/Medical Support	25,000	25,000	25,000	25,000		100,000
FFCRA/Sick Leave Costs					950,000	950,000
<b>TOTALS</b>	<b>\$4,343,334</b>	<b>\$427,623</b>	<b>\$3,739,730</b>	<b>\$2,684,728</b>	<b>\$1,020,000</b>	<b>\$12,215,415</b>
<b>Fiscal Year 2021</b>						
	Castleton	Community	Northern	Vermont	System	
COVID-Related Cost	University	College of	Vermont	Technical	Level	Total
	University	of Vermont	University	College		
Health Screening/Medical Support	200,000	25,000	325,000	375,000		925,000
Instruction Changes for Distancing	250,000	2,225,057	200,000	250,000		2,925,057
Mental Health for Students	100,000		80,000	75,000		255,000
Admissions & Recruiting	495,000		721,000	620,000		1,836,000
Financial Aid	1,500,000		2,000,000	2,450,000		5,950,000
Marketing	600,000	20,000	667,000	330,000		1,617,000
FFCRA/Sick Leave Costs					1,750,000	1,750,000
<b>TOTALS</b>	<b>\$3,145,000</b>	<b>\$2,270,057</b>	<b>\$3,993,000</b>	<b>\$4,100,000</b>	<b>\$1,750,000</b>	<b>\$15,258,057</b>
<b>TOTAL FY2020 &amp; FY2021:</b>						<b>\$27,473,472</b>

FY2020 Expenditures include reimbursement for Room and Board refunds along with coverage for a number of medical and safety items, including facilities modifications if there is to be in-person but socially distanced fall instruction. Of particular note are those FY2020 and FY2021 expenditures associated with remote/hybrid instruction. The more than \$7MM associated with these expenditures include substantial investment in VSCS's ability to provide effective distance delivery of programs. It includes technological improvements in, for example, IT infrastructure and software upgrades, developing more "smart" classrooms, and for providing advanced training to make these programs more effective.<sup>33</sup>

<sup>33</sup> Effective distance or hybrid instruction now requires a host of skills in addition to those found in the classroom. These include programmers and digital course designers working in teams with the instructor.

Importantly, almost every dollar invested in this area effectively serves two purposes. These investments enable the institutions to deliver (most of) their programs should Covid-19 repeat in FY2021, and these same investments will advance VSCS's strategic drive to expand program delivery, a necessary step if it is to be competitive in the developing higher educational landscape, especially with respect to serving working adults and other placebound learners. This is a unique opportunity to advance VSCS strategically and must not be passed over. These investments also send an important and timely message of support for VSCS and its students, helping combat the public uncertainty noted above.

There is a caveat. These resources should not simply be distributed to the campuses to carry out local versions of these projects. Uncoordinated implementation will be duplicative, more costly, will optimize the local to the detriment of the whole, and will miss an opportunity for achieving the significant financial and operational return on investment that comes from a tightly coordinated, system-wide project.<sup>34</sup>

Now, to answer (i-iii):

- i. Are the financial results likely to be as projected by VSCS?

Yes. VSCS's leadership has tracked and responded swiftly to the year's developments. VSCS should break-even in FY2020 with projected results running from a small surplus to a \$500,000 deficit. VSCS has the capacity to handle any result in this range.

- ii. Are the results consistent with VSCS history and with VSCS-identified external challenges?

Yes, for both pre-Covid-19 and Covid-19 impacted results.

- iii. Are there significant factors that might mitigate or exacerbate the projected results?

Yes. The Legislature's actions reimbursing accrued FY2020 costs and funding the summer expenditures are essential if VSCS is not to find itself operationally unready or financially exhausted going into FY2021. Furthermore, in making funds available for improved distance / hybrid learning, the Legislature would be making a unique and strategic investment in the future of Vermont public higher education while sending a much-needed message of support for VSCS and its students.

## 5. FY2021 Scenarios Assessment

Deliverable i2 reads: "Identify the expected financing gap and the timing of needed funds in the 2020-2021 academic year if the system maintains operations at a level to be specified." The important issue here is operating "at a level to be specified". It has been determined that no campus will close in academic/fiscal year 2021.<sup>35</sup> Looking, then, at all campuses operationally,

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<sup>34</sup> To be clear, this is not a concern about the professional skill sets that reside on the campuses. Implementation should certainly remain in the hands of the front line IT and instructional professionals. It is a strategic resource allocation and project management issue.

<sup>35</sup> I support this decision. Rural public colleges and universities are often among an economically challenged region's last and most important anchor institutions. Experience in Maine has shown that the

one fact is clear. Although most of the accommodations made in response to Covid-19 will remain in place for some time, the campuses will of necessity begin the new academic year organized and operating generally as they have in the past. There has been no time since the withdrawal of the Chancellor's spring plan or the Covid-19 onset to think through, let alone implement, the degree of changes that a fully realized strategic response to the various challenges demand. For that reason I agree with those who characterize FY2021 as a bridge year, joining past practice to future state. As we will see, there is no level of operations that will not require supplemental State support as bridge funding to support operations during this bridge year and to prepare the institution for whatever changes will come thereafter.<sup>36</sup>

Two primary, and primarily external, factors will drive FY2021 results: enrollment, including both new students and the retention of current ones, and Covid-19 restrictions. In addition to State support, the main budgeting variables driving FY2021 results will be the number of new and returning students and associated revenue from residential services (Room and Board). Enrollment numbers will be driven primarily by students and their families determining whether, how and where they will pursue their educational goals. Decisions about Covid-19 restrictions will be made by System or State authorities in response to general health and safety concerns.

**At this time, no one knows enough about what actual fall health conditions will be or what choices students will make.**<sup>37</sup> In the face of this uncertainty, VSCS has developed a number of campus-centered scenarios and associated budgets organized best case to worst. What follows, therefore, is a range of estimated deficits tied to the various scenarios. This is sound strategy. As a colleague has put it, in this situation every problem needs to be solved four different ways. As circumstances develop, as they quickly will, VSCS will then be prepared to make sound decisions and move forward.<sup>38</sup>

As was the case in reviewing the FY2020 projected results, a number of questions need to be answered in assessing the FY2021 budget scenarios:

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relatively small savings accrued by closing one of these institutions would be outweighed by the economic and social costs to the families, businesses, and communities served by these institutions. Nevertheless, this cannot be taken as an endorsement of the status quo. Maintaining operations may require wholesale change in *how* an institution provides these services.

<sup>36</sup> I am aware of four task forces concerned with the future of VSCS or one of its member institutions, not including any number of campus-based initiatives to address local issues, recruitment or retention, for example. These are: the NVU Strong Advisory Committee; VTC's Transition Action Taskforce; a System-wide task force; and possibly a Legislature-sponsored committee or commission to look at Vermont higher education generally. Coordination amongst these groups is essential if there is to be progress.

<sup>37</sup> Current surveys and other normally reliable enrollment predictors such as year-over-year admissions comparisons on particular dates have to be approached with caution as facts and attitudes are changing rapidly. (The decline in VSCS FAFSA processing referenced in the Treasure's Report may be an important exception.) The most reliable information is what admissions directors know every new morning. Nevertheless, decisions must be made. A simple headline review shows the range of responses as administrators try to bring order to their planning. The California State System, for example, has suspended almost all in-person classes for the fall. Purdue University, on the other hand, has determined it will open in the fall, with appropriate health and safety precautions in place.

<sup>38</sup> None of these scenarios reflect the situation if Vermont experienced an extraordinarily severe recession with major cuts to current levels of State support, students economically unable to enroll, and so forth. In that case a different kind of response might be necessary.

- iv. Do the FY2021 budget scenarios reflect the likely circumstances? What factors might improve or worsen the projected results?
- v. What level of additional state-provided funds should be available to maintain operations?
- vi. What is the timing for these additional funds to be made available?

The process here is the one used in reviewing the FY2020 forecast outlined in Section 4. Because each campus developed their scenarios independently, attention must be paid to the differences in how they are presented. Actual enrollment declines could be anywhere within the identified ranges and will almost certainly differ between institutions. I will briefly summarize each institution’s scenarios - details are in the Treasurer’s Report - and then summarize the whole. All numbers are rounded.

Castleton University offers four scenarios.<sup>39</sup>

	Enrollment decline from FY2020	Operating deficit	Operating deficit with no in-person instruction or residential services
Best Case	-3%	(\$1.6MM)	(\$12MM)
Middle Case	-8.3%	(\$4.1MM)	(\$13.4MM)
Worse Case	-13%	(\$5.8MM)	(\$14.7MM)
Worst Case	-25%	(\$10MM)	(\$16.6MM)

I agree with the Treasurer’s Office that CU’s Best Case, while obviously desirable, is too optimistic for planning purposes and I will not include it in the summary.

It should be noted that CU has few regular online programs for undergraduates. Despite their rapid adjustment to distance delivery this spring, this puts them at a significant short-term competitive disadvantage if there is again a suspension of in-person instruction. Hence the investments in distance / hybrid delivery noted in Section 4 are of particular importance here.<sup>40</sup>

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<sup>39</sup> Plus a “pre-Covid-19” scenario with an operating loss of \$1.3MM, reflecting estimated conditions should Covid-19 not have occurred.

<sup>40</sup> There are two points about CU’s planning to be noted here. First, CU is highly dependent on Room and Board plans for revenue. It appears they have calculated reductions in those plans proportional to any decline in enrollment. Given students’ and their families’ health and safety concerns, that assumption may need to be revisited. Second, CU has budgeted a possible 25% reduction in tuition in the event of a suspension of in-person instruction. But if CU has to suspend in-person instruction, then presumably other VSCS institutions will too, along with most if not all of its regional competitors. It is then not clear that there would need to be a competitive discounting race of this magnitude. All VSCS institutions should be mindful of this issue. The VSCS Board should move to control discounting rates as a response to enrollment challenges, ensuring that any increases at one institution do not come at a cost to their sister institutions.



Northern Vermont University offers three scenarios.

	Enrollment decline from Post-Covid FY2020	Operating deficit	Includes
Best Case	-14.3%	(\$9.1MM)	No in-person instruction or residential services ½ of Fall semester
Worst Case	-29.9%	(\$14.4MM)	No in-person instruction or residential services ½ of Fall semester
Worst+ Case	-29.9%	(\$16.2MM)	No in-person instruction or residential services the entire fall semester

NVU faces the most immediate enrollment threat. While NVU’s recent creation from the merging of Johnson and Lyndon was itself a reaction to local demographics, its enrollment since consolidation has been impacted as potential students and their families take time to become familiar with a “new” institution.<sup>41</sup> NVU then was faced with the fallout from the System’s spring closure plan as well as the Covid-19 impact. The net effect, as one senior NVU administrator put it, has been “devastating”. One can appreciate why. Few, after all, want to invest themselves, their family members, or their money in an institution that might soon not be there. NVU needs meaningful messages of support, and it needs time.

Vermont Technical College offers two scenarios.<sup>42</sup>

	Enrollment decline FY2020	Operating deficit	
Best Case	-10%	(\$3.8MM)	With in-person instruction
Worst Case	-25%	(\$8.5MM)	No in-person instruction for the entire Fall semester

While VTC has enjoyed relatively stable enrollment due in part to its focus on programs that are highly responsive to the needs of state employers, it has also felt some of the effect of the spring plan with its proposed closure of Randolph.

The Community College of Vermont offers four scenarios. Before reviewing them, it is important to note that CCV has a quite different business model. It has no permanent faculty but uses part-time instructors who are specialists in their fields. Budgets are built on average class sizes, providing maximum flexibility around program offerings and cost controls. Should a class not “make” its enrollment, it is cancelled with the instructor paid a cancellation fee. A critical budget

<sup>41</sup> NVU is only in its second year and a certain amount of transitional disruption is normal. The consolidation shows promise, resulting so far in more than \$2.3MM in annual savings, primarily through administrative consolidation. It is too soon to judge whether all the goals hoped for in the consolidation will be successful, but it is also too soon to conclude they will not be.

<sup>42</sup> Plus a pre-Covid-19 scenario that carries an operating surplus of \$285M.

factor, therefore, is class size. CCV’s operating deficits therefore increase considerably if average class size must be reduced to accommodate social distancing or other Covid-19-related factors.

	Enrollment decline from FY2020	Average class size	Operating surplus / deficit
Best Case	no change	12.5	\$300M
Middle Case	no change	9.8	(\$2.1MM)
Worse Case	-25%	12.5	(\$3.1MM)
Worst+ Case	-25%	9.8	(\$5MM)

Prior to Covid-19’s onset, CCV’s enrollment has been impacted by its high tuition rates relative to other nearby community college systems (attributed to state support levels), and to the declining number of high school students. CCV’s 15% (headcount) enrollment decline over the past 5 years mirrors the decline in Vermont high school graduate reviewed in Section 3. While enrollments in community colleges have traditionally run counter-cyclical to economic expansions and contractions, Covid-19 calls even this predictor into question.

Summarizing the four institutional presentations:<sup>43</sup>

	CU	NVU	VTC	CCV	Total
Best Case	(\$4.1MM)	(\$9.1MM)	(\$3.8MM)	(\$2.1MM)	(\$19.1MM)
Worse Case	(\$10.3MM)	(\$14.4MM)	(\$8.5MM)	(\$3.1MM)	(\$36MM)
Worst Case (suspension of in-person instruction and residential services)	(\$16.6MM)	(\$16.2MM)	(\$8.5MM)	(\$5MM)	(\$46.3MM)

(Best Cases for CU and CCV are not recorded here. Their Middle Cases is here considered Best. All worse case enrollment declines are up to 25%; 29.9% for NVU.)

Simplifying considerably, the best-to-worse case deficits of up to \$36MM center on declines to enrollment. The additional \$10.3MM comes from the suspension of in-person instruction and residential services for some or all of the fall semester. Although they are based in part on estimates and a great number of unknowns, they represent the campuses’ best estimates, have been reviewed and checked thoroughly by the Treasurer’s Office and are consistent with the discussions I have had with VSCS leadership.

I have a number of general points to add before making a recommendation concerning bridge funding.

- The worse case scenarios represent just that: worst cases.

<sup>43</sup> See the Treasurer’s Office Summary spreadsheets attached as Exhibit 1 for details. There are minor differences in the tables due to small discrepancies in the data and differences in rounding. They are not material to the conclusions.

- These numbers assume flat FY2021 State appropriations. Any decline in appropriations will increase the deficit commensurately.
- Because of time constraints, there has been little attempt by the campuses to model expense reductions, especially under the more severe scenarios. While there are limits to any personnel changes under collective bargaining, there is much that can be done under the other categories or with reorganizations. Properly planned and implemented, these savings would be material.
- Various practical and legal encumbrances limit the amount of reserve funds readily available to \$8-15MM. The Treasurer and I agree that these funds should be held in reserve and not used to close the FY2021 deficits under any but the most dire circumstances.<sup>44</sup> VSCS will need all the resources it can muster to support the change strategies that emerge from bridge year planning.
- Accepting any one of these scenarios is neither an endorsement of the status quo nor a request that the State write ongoing blank checks. The campuses are not asking for either. They agree the Whitepaper challenges are very real and that those pressures are accelerating.

**Based on these factors, a reasonable and responsible Legislative set aside for bridge funding would be \$30MM to address worse-case enrollment scenarios. An additional \$10.3MM would be needed if there is a suspension of in-person instruction and residential services.**

Importantly, if the campuses are unable to open for in-person fall instruction, or if they reopen but are again forced to suspend in-person instruction and residential services, the \$10.3MM in Room and Board refunds and other directly associated costs would fall within the guidelines for CRF use if funds were still available. However, caution is required. These funds need to be tied to Covid-19-related events that occur before 30 December 30 2020. If these funds were available but fortunately did not have to be used, one would quickly have to find alternative acceptable use for those funds before the end of this calendar year.

The approximately \$6MM difference between the \$36MM worse-case deficit and the recommended \$30MM set aside would be made up primarily by expense reductions and, only if necessary, judicious use of reserves. Should a 25% enrollment decline occur, it is quite reasonable to expect some correlating reduction in expenses. This reduction cannot be dollar-for-dollar, but \$6MM amounts to about 3.5% of forecasted ‘Worse Likely Scenario’ expenses of \$173MM.<sup>45</sup>

Unless there is an unlikely aligning of very best circumstances, failing to provide sufficient funds risks VSCS’s not being able to serve its students or to be in position for successful operations post-FY2021. On the other hand, having these funds available not only ensures continued operation at an appropriate level but also sends a timely, powerful, and much needed message

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<sup>44</sup> See Treasurer’s Report for a complete accounting of VSCS reserves. 25% enrollment declines count as dire.

<sup>45</sup> See Exhibit 1.

that State leadership understands and supports the state's educational needs and the critical role VSCS plays in meeting those needs.

Finally, should the State provide bridge funding, I strongly recommend these funds be released to the Chancellor's Office and tied to aligned, measurable VSCS Board of Trustees priorities and guided outcomes for FY2021, giving VSCS the best chance for securing long-term institutional success. There is no time for diffuse, uncoordinated actions and expenditures.

In terms of when bridge funds should be available, VSCS requests that either the entire amount be available October 1 or whenever the budget for the last three-quarters of the year is complete or, alternatively, that some portion be available by October 1 with additional amounts determined using the FY2021 budget adjustment act in January 2021.<sup>46</sup> This request is reasonable. However, to repeat, I recommend these funds be released to the Chancellor's Office.

What happens after FY2021 with respect to any bridge funding depends, of course, on VSCS's future direction. It is quite likely, however, that whatever next steps are, there will be a need to increase base funding for the reasons outlined here.

To answer questions iv-vi:

- iv. Do the FY2021 budget scenarios reflect the likely circumstances? What factors might improve or worsen the projected results?

Yes, the budget scenarios reflect the likely circumstances, although there is not yet enough information to know with any certainty where in their ranges actual enrollments will be. The key factors driving the deficits are enrollment and Covid-19-related restrictions. Results may be improved by successful enrollment strategies, by tangible State support, and by collaborative, aligned System-wide planning and actions. Where necessary, there should be aggressive but carefully considered and closely monitored cost controls. The largest single decision affecting outcomes will be the decision to re-open or restrict in-person instruction and residential services.

- v. What level of additional state-provided funds should be available to maintain operations?

\$30MM to address worst-case enrollment scenarios and another \$10.3MM for the suspension of in-person instruction and the closing of residential services. As noted, funding for the \$10.3MM may be available from Federal sources.

- vi. What is the timing for these additional funds being available?

The VSCS has requested that bridge funds be available October 1 or when the budget for the last three-quarters of the year is complete. As an alternative, they request some portion be available by October 1 with additional amounts determined using the FY2021 budget adjustment act in January 2021. I agree, subject to the proviso that these funds be released to the Chancellor's Office to be used according to Board priorities and directions.

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<sup>46</sup> Personal communication with the Chancellor's Office.

A final observation: VSCS provides enormous value to its students and to the state. It has managed generally to live within its means, but it is not organized for long-term success. It has neither the time nor resources to meet its challenges at the individual institutional level, yet it still operates mainly as a confederation, not yet as a system. This artificially restricts the Board and Chancellor's ability to undertake strategic planning and to allocate resources as they are needed to implement any such plan. It also restricts the degree and pace of change.

To be successful, VSCS and its institutions must be highly collaborative, functionally integrated, and laser-focused on a single set of Trustee priorities directing how VSCS will best meet its mission. For these reasons, it would not, I think, be a misnomer to label FY2021 the Year of the Board. The Vermont State Colleges System is fortunate to have quality, committed faculty and staff. Working with the Trustees as a true system, there would be every reason to believe in their collective success for the benefit of Vermont.

**6. Exhibit 1: Treasurer's Report Scenarios Summaries**  
(begins next page)

**Summary of Scenarios and Net Revenue**  
**FY 2021**  
**Vermont State Colleges**  
**(Amounts rounded to \$1,000)**

**Best/Middle Likely Scenario Assuming On Campus Access Fall 2020**

	FY2021	NVU	VTC	CCV*	Castleton**
<b>REVENUES</b>					
Tuition and Fees	107,314	26,059	23,603	22,615	35,038
State Appropriation	30,985	10,920	7,142	6,119	6,804
Room and Board	20,188	6,119	3,269	0	10,800
Sales and Services	2,258	681	671	6	900
Gifts	830	250	130	50	400
Other Revenue	1,173	497	170	86	420
<b>TOTAL REVENUES</b>	<b>162,747</b>	<b>44,526</b>	<b>34,984</b>	<b>28,876</b>	<b>54,362</b>
<b>EXPENSES</b>					
Employee Salaries & Benefits	(111,017)	(32,765)	(24,336)	(23,917)	(30,000)
Services, Supplies and Travel	(30,348)	(8,011)	(7,469)	(4,373)	(10,495)
Scholarships and Fellowships	(17,919)	(5,469)	(2,280)	(170)	(10,000)
Utilities	(6,414)	(2,158)	(1,687)	(325)	(2,244)
Other Expenses	(191)			(191)	0
Debt Service	(5,607)	(1,756)	(722)	(1,034)	(2,095)
Chancellor's Office	(7,991)	(2,951)	(1,630)	(1,600)	(1,810)
COVID Efficiencies			394		
Other Transfers	(2,120)	(549)	(288)	626	(1,909)
<b>TOTAL EXPENSES</b>	<b>(181,213)</b>	<b>(53,659)</b>	<b>(38,018)</b>	<b>(30,984)</b>	<b>(58,553)</b>
<b>CAPITAL INVESTMENT &amp; SYSTEM DEBT</b>					
Payment to C/O for System Debt	(392)		(392)		
Investment in Capital	(400)		(400)		
<b>NET REVENUE</b>	<b>(19,258)</b>	<b>(9,133)</b>	<b>(3,826)</b>	<b>(2,108)</b>	<b>(4,191)</b>

\* Data for CCV University utilizes "middle" scenario listed as best. It is essentially an Q3 rollforward to FY21.

\*\* Data for Castleton University utilizes a middle scenario as current enrollment deposits and pre-registration is closer to this projection.

**Summary of Scenarios and Net Revenue**  
**FY 2021**  
**Vermont State Colleges**  
**(Amounts rounded to \$1,000)**

	<b>Worse Likely Scenario*</b>				
	FY2021	NVU	VTC	CCV	Castleton**
<b>REVENUES</b>					
Tuition and Fees	86,580	21,316	19,669	16,963	28,632
State Appropriation	30,985	10,920	7,142	6,119	6,804
Room and Board	16,105	5,005	2,180	0	8,920
Sales and Services	1,567	314	447	6	800
Gifts	830	250	130	50	400
Other Revenue	1,173	497	170	86	420
<b>TOTAL REVENUES</b>	<b>137,239</b>	<b>38,302</b>	<b>29,737</b>	<b>23,224</b>	<b>45,976</b>
<b>EXPENSES</b>					
Employee Salaries & Benefits	(106,402)	(32,765)	(24,336)	(19,301)	(30,000)
Services, Supplies and Travel	(30,348)	(8,011)	(7,469)	(4,373)	(10,495)
Scholarships and Fellowships	(14,623)	(4,473)	(2,280)	(170)	(7,700)
Utilities	(6,414)	(2,158)	(1,687)	(325)	(2,244)
Other Expenses	(191)		0	(191)	0
Debt Service	(5,607)	(1,756)	(722)	(1,034)	(2,095)
Chancellor's Office	(7,991)	(2,951)	(1,630)	(1,600)	(1,810)
COVID Efficiencies	918		918		
Other Transfers	(2,120)	(549)	(288)	626	(1,909)
<b>TOTAL EXPENSES</b>	<b>(172,777)</b>	<b>(52,663)</b>	<b>(37,494)</b>	<b>(26,368)</b>	<b>(56,253)</b>
<b>CAPITAL INVESTMENT &amp; SYSTEM DEBT</b>					
Payment to C/O for System Debt	(392)		(392)		
Investment in Capital	(400)		(400)		
<b>NET REVENUE</b>	<b>(36,331)</b>	<b>(14,361)</b>	<b>(8,549)</b>	<b>(3,144)</b>	<b>(10,277)</b>

\*Decline in enrollment calculated at 25% except NVU which is projected to be 29.9%.

\*\* Castleton University also presented an additional scenario with 13% enrollment decline with a resulting deficit of \$6.0 million; scenario above is at 25% decline.

**Summary of Scenarios and Net Revenue**  
**FY 2021**  
**Vermont State Colleges**  
**(Amounts rounded to \$1,000)**

	<b>Worst Likely Scenario*</b>				
	FY2021	NVU	VTC	CCV**	Castleton***
<b>REVENUES</b>					
Tuition and Fees	80,308	21,316	19,669	16,963	22,360
State Appropriation	30,985	10,920	7,142	6,119	6,804
Room and Board	8,908	3,128	2,180	0	3,600
Sales and Services	1,567	314	447	6	800
Gifts	830	250	130	50	400
Other Revenue	1,173	497	170	86	420
<b>TOTAL REVENUES</b>	<b>123,770</b>	<b>36,425</b>	<b>29,737</b>	<b>23,224</b>	<b>34,384</b>
<b>EXPENSES</b>					
Employee Salaries & Benefits	(108,217)	(32,765)	(24,336)	(21,116)	(30,000)
Services, Supplies and Travel	(29,153)	(8,011)	(7,469)	(4,373)	(9,300)
Scholarships and Fellowships	(10,773)	(4,473)	(2,280)	(170)	(3,850)
Utilities	(6,170)	(2,158)	(1,687)	(325)	(2,000)
Other Expenses	(191)	0	0	(191)	0
Debt Service	(5,607)	(1,756)	(722)	(1,034)	(2,095)
Chancellor's Office	(7,991)	(2,951)	(1,630)	(1,600)	(1,810)
COVID Efficiencies	918		918		
Other Transfers	(2,120)	(549)	(288)	626	(1,909)
<b>TOTAL EXPENSES</b>	<b>(169,303)</b>	<b>(52,663)</b>	<b>(37,494)</b>	<b>(28,183)</b>	<b>(50,964)</b>
<b>CAPITAL INVESTMENT &amp; SYSTEM DEBT</b>					
Payment to C/O for System Debt	(392)		(392)		
Investment in Capital	(400)		(400)		
<b>NET REVENUE</b>	<b>(46,325)</b>	<b>(16,238)</b>	<b>(8,549)</b>	<b>(4,959)</b>	<b>(16,580)</b>

\* The above scenarios assumes 25% decline and closure of campuses for Fall semester for Castleton and Vermont Technical College. NVU decline is projected to be 29.9% with closure of campus for Fall semester.

\*\*CCV assumes -25% enrollment and a reduction in class size.

\*\*\*Castleton University also presented an additional scenario with 13% enrollment decline with closure of campus for Fall semester, with a resulting deficit of \$14.7 million; scenario above is at 25% decline



## 7. Documents Reviewed; Individuals Consulted

### Documents Reviewed

- VSCS Financials: Consolidated Quarterly Financials 4Q 2018 – 3Q 2020; 2019 Audited Financials; Slide presentation “Review with Standard & Poor Global-Ratings”, 18 May 2020; Reserves Reports for 2019, 2020; 2012-2016 Financial Ratios Report, prepared by O’Connor & Drew, P.C.; Median Debt by Completion Status, 2012-2016 report; “Long Term Strategic Plan for the Most Effective Use of Capital Funds”, 2017; Deferred Maintenance Project Report, January 2020.
- VSCS organization and policies: Chancellor’s Office Organizational Chart, May 2020; System Policy 403 “System Annual Operating Budget” and the VSCS Memorandum “Rationale for Proposed Reallocation of State Appropriation under Policy 403”, 24 September 2018.
- VSC basic data: Chancellor’s Office and each institutional website; Sourcebook of Institutional Data, (“Sourcebook”), February 2020.
- VSCS change documents: “Serving Vermont’s Students by Securing the Future of the Vermont State Colleges System” (the Whitepaper), Office of the Chancellor, v1.2, 26 August 2019; the Chancellor’s Office 20 April 20 2020 Board Slide Presentation on Transformative Change.
- VSCS FY2021 data: Consolidated Admissions Report, 5/1/2020; CU, CCV, NVU, VTC FY2021 data, including initial budget estimates, enrollment projections and trends, Best/Worst scenarios with narratives, submitted between May 1 and June 2, 2020.
- Memoranda from VSC CFO Stephen Wisloski to The Honorable Peter Fagin, House Committee on Appropriations and The Honorable Dylan Giambatista, House Committee on Education concerning VSC Systems requests for assistance from the State of Vermont’s Coronavirus Relief Fund, dated May 5, 11, and 22, 2020.
- Various New England Commission for Higher Education (NECHE, formerly NEASC) communications concerning recent accreditation reviews: VTC 5 year interim report summary 2/10/16; CCV 5/2/17 5 year interim report summary; CU 5 year interim report summary 1/12/17; NVU Unification Progress Report 10/28/19.
- Treasurer’s Office Report “The Vermont State Colleges System Financial Review”.

### Individuals Consulted

- Office of the Treasurer  
Elizabeth Pearce, Vermont State Treasurer  
William Kriewald, Chief Financial Officer, Office of the State Treasurer
- Joint Fiscal Office  
Stephen Klein, Chief Fiscal Officer  
Catherine Benham, Associate Fiscal Officer, Chief Operating Officer

Dr. Joyce Manchester, Senior Economist

- Vermont State College System
  - Chancellor's Office
    - Dr. J. Churchill Hindes, Chair, Board of Trustees
    - Sophie Zdatny, Esq., Interim Chancellor
    - Stephen Wisloski, Chief Financial Officer
    - Dr. Yasmine Ziesler, Chief Academic Officer
  - Castleton University
    - Dr. Karen Soforo, President
    - Dr. Jonathan Spiro, Interim President
    - Laura Jakubowski, Chief Budget and Finance Officer
    - Maurice Ouimet, Dean of Enrollment
  - Community College of Vermont
    - Joyce Judy, President
    - Andrew Pallito, Dean of Admissions
  - Northern Vermont University
    - Dr. Elaine Collins, President
    - Sharron Scott, Dean of Admissions
  - Vermont Technical College
    - Patricia Moulton, President
    - Littleton Tyler, Dean of Admissions
    - Jessica Van Deren, Assistant Dean of Admissions

About the author: James Page is the retired Chancellor of the University of Maine System.