

STATE COUNCIL OF HIGHER EDUCATION FOR
VIRGINIA

REPORT ON AUXILIARY ENTERPRISE CAPITAL OUTLAY
GUIDELINES FOR TWO-YEAR PUBLIC INSTITUTIONS

October 11, 2010

Introduction

The State Council of Higher Education for Virginia (SCHEV), under authority of the Code of Virginia, evaluates the need among the Commonwealth's public institutions of higher education for new academic space under its Higher Education Fixed Asset Guidelines for Educational and General Programs. The relevant section is found at:

§ 23-9.9. Preparation of budget requests; submission of budget requests to Council; coordinating requests; submission of recommendations to Governor and General Assembly.

The Council of Higher Education shall develop policies, formulae and guidelines for the fair and equitable distribution and use of public funds among the public institutions of higher education, taking into account enrollment projections and recognizing differences as well as similarities in institutional missions. Such policies, formulae and guidelines as are developed by the Council shall include provisions for operating expenses and **capital outlay programs** and shall be utilized by all public institutions of higher education in preparing requests for appropriations. The Council shall consult with the Department of Planning and Budget in the development of such policies, formulae and guidelines to insure that they are consistent with the requirements of the Department of Planning and Budget¹ (Emphasis added).

SCHEV's Fixed Asset Guidelines are the means by which the capital outlay portion of this mandate is implemented. These guidelines constitute a valuable means for the equitable distribution of available resources among the colleges and universities and have long been relied upon by the Governor and General Assembly as an important source of empirically based impartial analysis in the development of the Commonwealth's long-range capital outlay planning for higher education.

However, until now SCHEV's guidelines dealt with fixed assets only within Educational and General programs. There have been no statewide fixed asset guidelines for Auxiliary Enterprises.

Inclusion in the 2010 Appropriation Act of language directing the Council to establish such guidelines is largely a reaction to the increase in requests for major auxiliary enterprise facilities by two-year institutions that has occurred over the last

¹§ 23-9.9 Code of Virginia. Preparation of budget requests; submission of budget requests to Council; coordinating requests; submission of recommendations to Governor and General Assembly. [LIS Code of Virginia 23-9.9](#)

several years.² Traditionally, these types of facilities have not been essential features on two-year college campuses and the Council has been directed to develop a means to evaluate the need for them now.

Educational and General V. Auxiliary Enterprises

Within higher education finance, “Educational and General” (E&G) is a term used to describe all operations related to an institution’s core educational objectives.

All activities associated with instruction, research, public service, academic support, student services, institutional support and operation and maintenance of plant are included in this classification. Excluded are expenditures for student financial assistance, auxiliary enterprises, and independent operations.³

It has been the long-standing policy of the Commonwealth that E&G operations at public colleges and universities receive significant financial support from the general fund. This is also true for institutions’ E&G capital outlay budgets. Such facilities are routinely financed with general funds or with state-supported debt.

In the treatment of construction of new E&G facilities, SCHEV’s Fixed Asset Guidelines, in most cases, prescribe the amount of academic and support space, by program and category, needed to accommodate any given level of full-time equivalent on-campus enrollment.⁴ Further, the guidelines also prescribe productivity targets for the instructional component of this space. For example, under the guidelines classrooms should be in use, on average, forty hours per week with an occupancy rate of 60%.

It is possible for SCHEV’s guidelines to achieve this level of precision in their treatment of E&G space because they are the product of many years of shared experience among campus facility planners and higher education executives applied to similar sets of activities nationwide. In other words, certain activities are common to all institutions of higher education and require roughly an equivalent amount of space to perform depending on the number of students involved. As will be discussed below, this is not necessarily the case with Auxiliary Enterprise space.

² 2010 Acts of Assembly, Chapter 874, Item 139, N. the State Council of Higher Education has been directed to, “... (E)stablish guidelines to govern recommendations on the construction of student housing, student centers, and other auxiliary facilities at two-year institutions of higher education...”

³ Chart of Accounts for Virginia State-Supported Colleges and Universities, Virginia Department of Accounts and the State Council of Higher Education for Virginia, 1990.

⁴ For the categories of Public Service and Libraries, there are no square-footage space need guidelines. Council’s recommendations are based on programmatic justification on a case-by-case basis.
http://www.schev.edu/AdminFaculty/Fixed_Asset_Guidelines_2001.pdf

Auxiliary Enterprises is the term used to describe operations that are not related to an institution's core educational objectives. Unlike E&G operations, Auxiliary Enterprise operations receive no general fund support. The National Association of College and University Business Officers (NACUBO) provides this definition of Auxiliary Enterprises:

An Auxiliary Enterprise exists to furnish goods or services to students, faculty, staff, other institutional departments, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. **The distinguishing characteristic of an auxiliary enterprise is that it is managed to operate as a self-supporting activity.** Over time, the revenues will equal or exceed the expenses, although in any individual year there may be a deficit or a surplus. Examples are residence halls, food services, intercollegiate athletics (only if essentially self-supporting), college stores, faculty clubs, parking, and faculty housing. Student health services, when operated as an auxiliary enterprise, also are included. Hospitals, although they may serve students, faculty, or staff, are classified separately because of their financial significance.⁵ (Emphasis added).

Not only are Auxiliary Enterprise operations required to be self supporting but also Auxiliary Enterprise capital projects. Therefore, such facilities are routinely financed through the issuance of revenue bonds whose debt service payments are generated by user fees.

As noted above, SCHEV's Fixed Asset Guidelines do not address the need for Auxiliary Enterprise space. This is primarily due to the fact that, unlike E&G programs, Auxiliary Enterprise programs receive no state support, are not related to the core educational objectives of the institution and they lack the commonality across institutions and institution types that is ordinarily required to develop meaningful standards.

The General Assembly's requirement that SCHEV develop capital outlay guidelines for Auxiliary Enterprises, therefore, will require the addition of a new category of programmatic activity to the existing guidelines. The Council will need to develop a framework within which it can assess a public two-year institution's need for dormitories, student centers, *etc.* and to make recommendations related to specific proposals for such projects. Notwithstanding the novelty of capital outlay guidelines for self-supporting activities, the guidelines will, nevertheless, need to conform in principle to those that currently govern the Council's recommendations. The fundamental principles underpinning these guidelines are an adherence to Council's traditional support for

⁵ Financial Accounting and Reporting Manual (FARM), National Association of College and University Business Officers. 2009.

institutional autonomy tempered with its traditional insistence on institutional accountability.⁶

The Changing Model

Considerable disparity exists between the scale of Auxiliary Enterprise operations at the four-year and two-year institutions in Virginia but this is simply a natural reflection of the differences in the roles played by four- and two-year institutions in the Commonwealth's system of higher education. As residential institutions, Auxiliary Enterprises at Virginia's four-year colleges and universities include dormitories, dining halls, telecommunications systems, student health services, student unions, transportation systems, bookstores, and parking. At the two-year non-residential institutions Auxiliary Enterprises have traditionally been limited to bookstores, parking facilities and food service (vending) operations.

This disparity can best be illustrated by a comparison of the annual auxiliary enterprise expenditures at the four-year and two-year institutions. At the public four-year institutions in Virginia, in the most recent year for which national data are available, expenditures in the program of Auxiliary Enterprise totaled \$829 million.⁷ By contrast, at the public two-year institutions the amount was \$14 million. To put this in a real life context, the total Auxiliary Enterprise expenditures for the entire community college system were less than half of those posted for Longwood University.

The disparity is also evident in the amount of space dedicated to Auxiliary Enterprise programs in the institutions' facilities inventories. In the most recent year for which data were submitted, the public four-year institutions reported having 18,000,000 assignable square feet of space dedicated to Auxiliary Enterprise programs. The two-year institutions reported only 162,000 assignable square feet.

The traditional model in the Commonwealth that these examples represent is changing, however. During the past several years the Governor and General Assembly have broken new ground in Virginia by authorizing the construction of major new student

⁶ State Council of Higher Education for Virginia, *Change and Improvement in Virginia Higher Education: A Preliminary Report to the Governor and General Assembly*, 1993. "Central state government should adopt a corporate management model of operation, at least in regard to higher education. It should set general policy, provide service to institutions in their decisions on how to implement those policies, and monitor results. Operational decisions should be made at the closest point to the delivery of services -- at the college or university. The term often used to describe this approach is **decentralization**... This flexibility should permit those institutions that have the capacity and wish to do so to operate their own financial, personnel, purchasing, and capital outlay systems. The institutions, of course, would comply with both state law and state policy and generally accepted accounting principles and other standards. Other models should be established to accommodate colleges and universities that do not have the capacity to decentralize to this degree... The objective of these changes is to give institutions maximum flexibility to concentrate their resources on direct services to their clients." (Emphasis added).

⁷ Source: Integrated Postsecondary Education Data System (IPEDS) Finance Survey 2007-08, National Center for Education Statistics .

fee-supported student centers and residential facilities on the campuses of its two-year institutions.

Displayed below are excerpts from the legislation which authorized, or modified the authorization, of these projects. It is important to note that these projects were authorized in the absence of any relevant state-wide fixed asset guidelines for such projects. It is also important to note that the language in Chapter 874 directing SCHEV to establish Auxiliary Enterprise guidelines contains the following provision, "...In developing these guidelines the State Council shall not utilize previous authorizations as precedents." Nevertheless, an analysis of the rationale for these projects, an assessment of their impact on student fees, and a general evaluation of their overall success can serve as a valuable resource in the development of the guidelines

Recently Authorized Auxiliary Enterprise Projects at Two-Year Institutions

Richard Bland College (241)

C-37.10. Richard Bland College is authorized to enter into a long-term lease or other financing agreement with its affiliated foundation relating to the construction, operation, and payment of debt service on residential facilities in an amount up to **\$27 million** for housing up to 258 students on Richard Bland College land to be leased to said foundation for such purposes. Richard Bland College is further authorized to enter into a written agreement with the foundation for the support, maintenance, and operation of such student housing facilities. Alternatively, Richard Bland College may finance said project through the issuance of 9(d) revenue bonds of the college. In the event student fees are inadequate to provide debt service, Richard Bland College intends to support such project financing with its general revenues.⁸

Virginia Community College System (260)

C-62. New Construction: Construct Student Center, Norfolk
Campus, Tidewater (17068) \$1,100,000
Fund Sources: Trust and Agency \$1,100,000

Additional funds provided in this Item are for the equipment portion of a previously approved capital project authorized in 2004, (Chapter 4, 2004 Acts of Assembly). The total cost of the project with the supplement is **\$18,695,000.**⁹

Virginia Community College System (260)

C-63. New Construction: Construct Student Center, Virginia
Beach Campus, Tidewater (17067) \$1,700,000
Fund Sources: Trust and Agency \$1,700,000

⁸ Chapter 781, 2007 Virginia Acts of Assembly, Item C-37.10

⁹ Chapter 874, 2010 Virginia Acts of Assembly, Item as noted.

Additional funds provided in this Item are for the equipment portion of a previously approved capital project authorized in 2004, (Chapter 4, 2004 Acts of Assembly). The total cost of the project with the supplement is **\$29,070,000.**¹⁰

Virginia Community College System (260)

C-64. New Construction: Construct Student Center,
Portsmouth Campus, Tidewater (17397)..... \$1,100,000
Fund Sources: Trust and Agency \$1,100,000

Additional funds provided in this Item are for the equipment portion of a previously approved capital project authorized in 2007, (Chapter 847, 2007 Acts of Assembly). The total cost of the project with the supplement is **\$19,496,000.**¹¹

Virginia Community College System (260)

C-65. New Construction: Construct Student Center,
Chesapeake Campus, Tidewater (17625)..... \$1,100,000
Fund Sources: Trust and Agency \$1,100,000

Additional funds provided in this Item are for the equipment portion of a previously approved capital project authorized in 2008, (Chapter 879, 2008 Acts of Assembly). The total cost of the project with the supplement is **\$21,853,000.**¹²

Virginia Community College System (260)

C-58. New Construction: Construct Student Housing,
Northern Virginia (17854)..... \$0
Fund Sources: Higher Education Operating..... \$0

The General Assembly authorizes Northern Virginia Community College, Alexandria Campus to enter into a written agreement either with its affiliated foundation or a private contractor to construct a facility to provide on-campus housing on College land to be leased to said foundation or private contractor for such purposes. Northern Virginia Community College, Alexandria Campus, is also authorized to enter into a written agreement with said foundation or private contractor for the support of such student housing facilities and management of the operation and maintenance of the same.¹³

The projects listed above will be discussed in the next section of the report in the categories of Student Housing Facilities and Student Centers.

¹⁰ Ibid., Item as noted.

¹¹ Ibid., Item as noted.

¹² Ibid., Item as noted.

¹³ Ibid., Item as noted.

Student Housing Facilities

The locations of the two recently authorized student housing projects at two-year institutions, the first such facilities in Virginia, are: 1) The Richard Bland College of William and Mary (RBC) and 2) the Alexandria Campus of Northern Virginia Community College (NVCC). The project at RBC has been completed and is in its third year of operation. The project at NVCC has only recently been authorized and is still in the planning stage.

Richard Bland College

The 258 bed dormitory at Richard Bland College, as noted above, is now in its third year of operation. The \$27 million dollar facility was financed with Industrial Development Authority bonds (IDAs) backed by a pledge of user fees (rental payments). The facility consists of 1, 2, 3, and 4 bedroom units with one occupant per bedroom. Management reports that to-date the project has been very successful.

The single largest source of financial risk associated with dormitory construction is overestimation of demand in the planning process. Despite allowing for enrollment variations and for the accumulation of cash reserves, a substantial vacancy rate can lead to significant institution-wide fiscal distress. This has not been the case at RBC. In fact, management reports that in each year of operation demand for on-campus housing has exceeded supply leading to waiting lists for dorm rooms. Revenues from housing rental fees have met expectations and have been sufficient to satisfy debt service requirements and reserve fund contribution requirements.

The keys to the success of this venture are sound financial planning, accurate demand estimates, and attractive residential facilities. An issue that still requires close monitoring is the adequacy of the cash reserves intended to fund routine maintenance and periodic major system renewal and replacement as the facility ages.

Two points of particular interest regarding this project relate to comprehensive fees and student grades. Comprehensive fees are of interest because none are required to support this project. Revenues from user fees in the form of dorm rental income have been sufficient to service the debt and defray normal operating costs. Therefore, costs associated with this project are not borne by students not living in the dorms, thus keeping the overall cost of attendance down. Student grades are of interest because, as noted above, demand for rooms exceeds supply and management has, therefore, established minimum GPA requirements as a condition of qualifying for on-campus housing. This could ultimately have a beneficial effect on overall retention and graduation rates at the college.

Northern Virginia Community College

Though still in the preliminary stages, documents supplied by NVCC describe the project as follows:

The project consists of the construction of an approximately 300-bed student housing complex on the upper portion of the Alexandria Campus. This project will be accomplished through a PPEA, and the College has been approached by three different developers with interests in financing and constructing such a project. Preliminary estimate indicate that the 300-bed scope is accurate, and the College is currently engaged in a comprehensive demand study to ratify the current proposed scope and better determine the ultimate scope for the project.

The cost of the project is estimated at \$32 million. As envisioned, the total cost of debt service and operations would be covered by revenues from user fees (rental payments). There are no plans to assess a comprehensive student fee to support the project.

Although both of the housing projects discussed here involve two-year institutions, it would be impossible to generalize the Richard Bland experience to this project. In the first place, enrollment at the Alexandria Campus of NVCC is several times that at RBC. Thus, a much smaller percent of the student population would be required to achieve full occupancy. Secondly, the demographics of the student bodies differ significantly between the institutions. For example, 68% of RBC's students are full-time versus 37% for NVCC. Also, 78% of RBC's students are in the 17 to 21 age group whereas the comparable figure for NVCC is 44%. These differences could have a material impact on the need for or desirability of on-campus housing at the two institutions. Finally, the Alexandria Campus of NVCC is situated in an highly urban area with abundant alternatives to on-campus housing. This would result in much less price elasticity when setting dorm rental charges.

One point of particular interest regarding this project is that it represents the Commonwealth's first venture into on-campus housing for Community College students. This is a significant departure from past practice. A review of state policy documents regarding the establishment of the Community College System clearly demonstrate that the colleges were not envisioned as residential institutions. In 1975, the Joint Legislative Audit and Review Commission (JLARC) conducted the first comprehensive state-wide review of the VCCS. In several sections, that report notes the significance of the concept of "geographic accessibility" in establishing the system and the strategies designed to achieve that goal.

The General Assembly established the VCCS to make educational opportunities more accessible to Virginians. Accessibility was viewed as encompassing three major areas; geographic, financial and program access... **Geographic access to post-secondary education was perhaps the primary factor influencing the decision to create a community college system...**The 32 existing campuses are located throughout the

Commonwealth and offer virtually complete geographic coverage of the State.¹⁴ (Emphasis added).

The master plan divided the state into 22 regions and colleges were to be located within either 35 miles or 45 minutes of at least the majority of potential students. This meant that some colleges would have more than one campus, e.g. Northern Virginia (5), Tidewater (3), Rappahannock (2), J. Sargeant Reynolds (2), and Southside (2).¹⁵

In a follow-up report JLARC re-emphasized the importance of “geographic access” to the mission of the VCCS:

The Virginia Community College System (VCCS) plays a unique role in Virginia higher education. The VCCS was specifically structured to be geographically and financially accessible to Virginia citizens desiring further education and skill development... The State Board, as one of its first actions, commissioned a consultant to develop A Proposed Master Plan for a Statewide System of Community College Education in Virginia. Recommending that a college campus be within commuting distance of every citizen, the plan divided the entire state into 22 college regions, each to be served by a community college.¹⁶

The residential facility at NVCC authorized by the 2010 General Assembly should prove to be an interesting pilot. Given the original mission of the VCCS, an unusual feature of the initial project proposal was that the project was targeted to meet the needs of foreign students. The following excerpt is from that proposal.

In addition, the Alexandria Campus is the one most likely to be attended by foreign students, which the College is actively recruiting. However, a consistently mentioned drawback of NOVA, based on comments and observations by touring groups trying to establish a foreign student program, is that the College lacks housing. Housing could allow these students to attend NOVA...

Since the project is still in the early planning stages it will be several years before an occupancy permit is awarded. The VCCS does not have any other proposals for student housing facilities in its Board-approved Six-Year Capital Outlay Plan.

¹⁴ Joint Legislative Audit and Review Commission, *Program Evaluation: The Virginia Community College System*, March 17, 1975. p. 34.

¹⁵ *Ibid.*, p. S-2

¹⁶ Joint Legislative Audit and Review Commission, *Follow-Up Report of the Joint Legislative Audit and Review Commission on Review of the Virginia Community College System*, Senate Document No. 4, 1991. pp. 1-3.

In terms of the guidelines under development these two examples provide valuable but incomplete policy direction. Richard Bland College's experience clearly demonstrates that on-campus student housing facilities can become a successful component of the small, public junior college model in the Commonwealth. Unfortunately, it's impossible to generalize this experience to other such institutions because RBC is the Commonwealth's only small public junior college.

NVCC's experience thus far hasn't yielded any meaningful policy direction simply because the process is just getting underway. The implications that this project may have on the development of Auxiliary Enterprise space guidelines are years away.

Student Centers

The location of the four recently authorized student center projects at two-year institutions are the Norfolk, Virginia Beach, Chesapeake and Portsmouth campuses of Tidewater Community College (TCC). These are the first large-scale student centers authorized for construction at a community college in the Commonwealth.

Each of the student centers authorized for TCC are designed to accommodate student support activities, student services, SGA offices, lounge/study areas, copier services, recreation rooms, bookstores, food service operations, child care services and other support offices.

The Financial Feasibility Study submitted by the VCCS in support of these projects provided the following rationale for their construction.

Increasingly, traditional college age students – many directly out of high school – are choosing to begin their collegiate education at community colleges. These students have a greater tendency to be enrolled on a full-time basis and to be engaged in the co-curricular programs of the college. They – and many of their non-traditional classmates – need places to go between classes and they need services such as those typically provided by a student union or center on a traditional 4-year campus. The college has no alternatives available to provide these kinds of amenities to the students who increasingly expect and demand them.

This group of projects represents a significant departure from past practice that will radically alter the physical profile of the college.

In Fall 2008 the VCCS reported a total of 17,166 square feet of Auxiliary Enterprise space across all four campuses of Tidewater Community College. These four new projects will add 257,000 square feet of such space.

The total cost of the combined projects, as detailed in the Appropriation Act, is \$88,914,000. Of this amount \$73,412,000 is student-fee supported debt.¹⁷ The impact on

¹⁷ Source: Financial Feasibility Studies submitted by the VCCS.

student fees is significant. The revenue to support the debt service is generated by a \$600 per year mandatory non-E&G fee assessed against all TCC students.¹⁸ The current base annual tuition and mandatory fees for the VCCS is \$3,285. Thus, the \$600 fee to support these projects translates into an 18% premium being paid by TCC's students.

Since none of the facilities are completed it is premature to assess their performance. The student center at the Norfolk Campus, with an anticipated opening date of January 2011, will be the first to go into operation.

In terms of the guidelines under development these projects, although not yet on-line, do provide useful information. They serve to illustrate the large impact on student fees that a commitment to this course of action entails. By consciously incorporating elements of the cost structure and physical facilities traditionally associated with four-year institutions TCC has relinquished some of the unique characteristics of the other institutions in the Community College System.

The Guidelines

As noted earlier in this report the guidelines under development here are a new type of guideline. During the deliberations on the proposed residential facility at NVCC in January 2010, one member of a legislative committee asked if SCHEV had guidelines related to the construction of such projects. It was clear from the context of the discussion that the legislator wasn't looking for guidance on the appropriate number of square feet per student nor on the recommended size of the kitchen. The policy guidance sought from SCHEV on this issue was whether construction of a student residence facility was consistent with the mission of a community college. Until now, SCHEV's capital outlay guidelines have been silent on such issues.

Further, student fees assessed to pay the debt service and operating costs of Auxiliary Enterprise facilities are an increasingly significant cost driver of financial aid need. As these costs escalate, especially at our lowest cost institutions, policy makers are wondering whether or not the Commonwealth can afford to continue to include these fees in the calculation of student need for financial assistance.¹⁹

It's no accident that in the same legislation requiring the development of Auxiliary Enterprise guidelines for two-year institutions SCHEV is also being asked to perform a review of funding requirements for student financial assistance.²⁰ The General Assembly is seeking policy guidance from SCHEV on whether or not construction of student centers and other auxiliary facilities, and their attendant cost to students,

¹⁸ A full-time student load is defined as 15 credit hours per semester or 30 credit hours per year. The student fee is assessed at \$20 per credit hour. Therefore 30 hrs X \$20 = \$600 per full-time student per year.

¹⁹ Please see: *SCHEV Review of the Funding Model for Student Financial Assistance*, October 2010. p. 13. Also please see floor approved amendments to 2010 HB 30, Item 139.M.1.

²⁰ 2010 Virginia Acts of Assembly, Chapter 874, Item 139.M.1

constitutes a barrier to attendance for the populations traditionally served by this sector of the higher education system.

Fortunately, the conceptual framework that provides Council the avenue to address these critical policy issues in its biennial capital outlay recommendations is already in place. This framework consists of two major components; 1) the Financial Feasibility Study, which is already a legislative requirement for institutions requesting state-sponsored debt and 2) qualitative, as opposed to quantitative, capital outlay guidelines that rely on programmatic justification rather than square-foot-per-student formulas. Libraries and Public Service space guidelines are examples of this type of guideline already in use by the Council.

Financial Feasibility Studies

Colleges and universities in Virginia are required by law to submit Financial Feasibility Studies to SCHEV and/or the State Treasurer for projects where debt service is to be paid from student fees or other institutional funds. The language in the Act is shown below.

§ 4-4.01 GENERAL

j. Capital Projects Financed with Bonds: Capital projects proposed to be financed with (i) 9 (c) general obligation bonds or (ii) 9(d) obligations where debt service is expected to be paid from project revenues or revenues of the agency or institution, shall be reviewed as follows:

...

2. By August 15 of each year, institutions shall also prepare and submit copies of financial feasibility studies to the State Council of Higher Education for Virginia for 9(d) obligations where debt service is expected to be paid from project revenues or revenues of the institution. The State Council of Higher Education shall identify the impact of all projects requested by the institutions of higher education, and as described in § 4-4.01 j.1. of this act, on the current and projected cost to students in institutions of higher education and the impact of the project on the institution's need for student financial assistance. The State Council of Higher Education for Virginia shall report such information to the Secretary of Finance and the Chairmen of the House appropriations and Senate Finance Committees no later than October 1 of each year.²¹

Financial Feasibility Studies (FFS) are comprehensive debt-financed capital outlay project evaluation instruments. Financial Feasibility Studies allow the borrowing institution to provide a complete description of the projects for which state-sponsored debt is being requested and to provide detailed information on the anticipated costs associated with the project and on the sources and uses of funds associated with the

²¹ 2010 Acts of Assembly, Chapter 874, § 4-4.01.j.2

project.²² Part 1 of the instrument consists of four sections; General Information, Cost Information, Revenue Information and General Financial Condition. Part 2 consists of Cost, Revenue and Net Revenues/Coverage spreadsheets.

Under current law, for each applicable project, SCHEV is responsible for receiving FFSs from the institutions, determining the cost to students, estimating the impact of the project on the institution's need for student financial aid, and reporting its findings to the Secretary of Finance and to the money committee chairmen.

Currently, SCHEV's findings are transmitted simply as an information item. They do not constitute a recommendation of the Council.

Recommendation #1: The State Council of Higher Education should include not only an assessment of the impact on student fees in its statutorily required Financial Feasibility Report but also its recommendation on the programmatic justifiability of the two-year institutions' auxiliary enterprise projects contained therein. This approach would:

- Respect the autonomy of the governing boards in developing each institutions' comprehensive Six-Year Capital Outlay plan. Each project submitted would have been subject to its Board approval process and to the criteria applicable to that institution.
- Not impose any new reporting requirements. The Financial Feasibility Studies are already a legal requirement for requesting participation in state-sponsored debt issues.
- Ensure accountability by requiring the disclosure of the impact of the projects on student fees and their impact on the need for student financial assistance.

Qualitative Capital Outlay Guidelines

SCHEV's Fixed Asset Guidelines, which underlie the Council's biennial capital outlay recommendations, have remained largely unchanged for many years. The Council's recommendations have long been relied upon by the Governor and General Assembly in the development of the Commonwealth's long-range capital outlay planning for higher education.

Many of the programmatic activities in higher education, such as instruction, academic support, student services, *etc.* readily lend themselves and their attendant space requirements to quantitative measurement and standardization. Credit hours of instruction, converted to full-time equivalence, and student headcount are the primary drivers of the need for space in these programs and therefore serve as the primary inputs to the quantitative components of SCHEV's capital outlay model.

²² A copy of the Financial Feasibility Study appears as Appendix A.

However, the Council recognized the existence of certain programmatic activities that did not readily lend themselves nor their attendant space requirements to quantitative measurement. Among these, for example, are academic libraries. Recent technological innovations ranging from on-line catalogs to entire collections of digital material allowed for radically different physical space requirements among what are otherwise similar institutions. Therefore, SCHEV's capital outlay recommendations treat requests for library construction on a case-by-case basis.

Public Service is another example of a program area for which standard space requirements are difficult, if not impossible, to establish. This broad program encompasses workforce development services which are often characterized by irregularly scheduled instructional activity of varying durations. It also encompasses agricultural extension activities, lecture series for the general public, community service functions and even public broadcasting studios. Recognizing that these types of activities had unique space requirements, Council, again, incorporated into its guidelines the flexibility to assess the need for new construction projects in this program on a case-by-case basis.

Auxiliary Enterprises activities, like Public Service activities, have unique space requirements that defy standardization. For example, among four-year institutions, not all campuses have dormitories and among those that do the capacity varies widely. Some institutions have sufficient capacity to house over 80% of their undergraduates while others can only accommodate 25% to 30%. Similarly, the existence of transportation systems and parking garages can be influenced by the residential character of an institution or by its size or by the degree of urbanization of its surroundings.

Telecommunication systems are another example of Auxiliary Enterprises that can have widely varying capital outlay requirements on campus. Some institutions have land-line systems while other campuses have gone almost completely wireless.

There are numerous other examples of Auxiliary Enterprise activities whose space needs cannot be standardized based on typical higher education inputs such as credit hours of instruction or student headcount.

Recommendation #2: The State Council of Higher Education should incorporate into its Fixed Asset Guidelines the new category of Auxiliary Enterprise Space for Two-Year Institutions which, like Public Service and Library Space, relies on programmatic justification rather than square-foot-per-student formulae. Adding this guideline would:

- Provide the Council with the flexibility to consider the unique character of each institution and its unique needs in formulating its recommendations. It would not impose a one-size-fits-all formula across all institutions.
- Allow the Council to consider the detailed Financial Feasibility Studies submitted by the institutions in support of their projects. Each major Auxiliary Enterprise

project submitted by a two-year institution could be thoroughly evaluated on a case-by-case basis with particular attention paid to the:

- Centrality of the project to the institution's mission,
- Probable effects of the project on the community and environment,
- Effects of the project on student fees and on the institution's need for student financial aid,
- Probable effect on student retention and graduation, and
- Impact of the project on the institution's debt ratio.

Conclusion

In order to meet its ongoing statutory obligation to develop policies, formulae and guidelines for the fair and equitable distribution and use of public funds among the public institutions of higher education, and in order to meet the more immediate requirement to establish guidelines to govern recommendations on the construction of student housing, student centers, and other auxiliary facilities at two-year institutions of higher education the Council should modify its existing fixed asset guidelines as described above in Recommendations 1 and 2 and communicate these changes to the General Assembly.

Addendum

Council staff would like to gratefully acknowledge the assistance provided by the leadership and the staffs of the two-year institutions, the money committee staffs and representatives of the Department of Planning and Budget in the development of this report. Without their help this project would not have been possible.

Furthermore, it is critically important to note that a central theme recurred throughout this study. That theme is the perceived need for additional individual and group study space and for social and cultural development space at our two-year institutions. It's no secret that enrollment at Virginia's community colleges is growing rapidly. This raises the question: Is there sufficient space on these campuses to accommodate this enrollment surge and is the existing space configured appropriately to accommodate the needs of these students?

Historically, SCHEV would have measured the adequacy of various types of space, including student study space, by referencing its Fixed Asset Guidelines and comparing the institutions' actual space inventory against its formula-driven estimate of the need for such space. Unfortunately, the formulaic determinant in the guidelines was a component of the Library Space guide and the use of this component of the guidelines

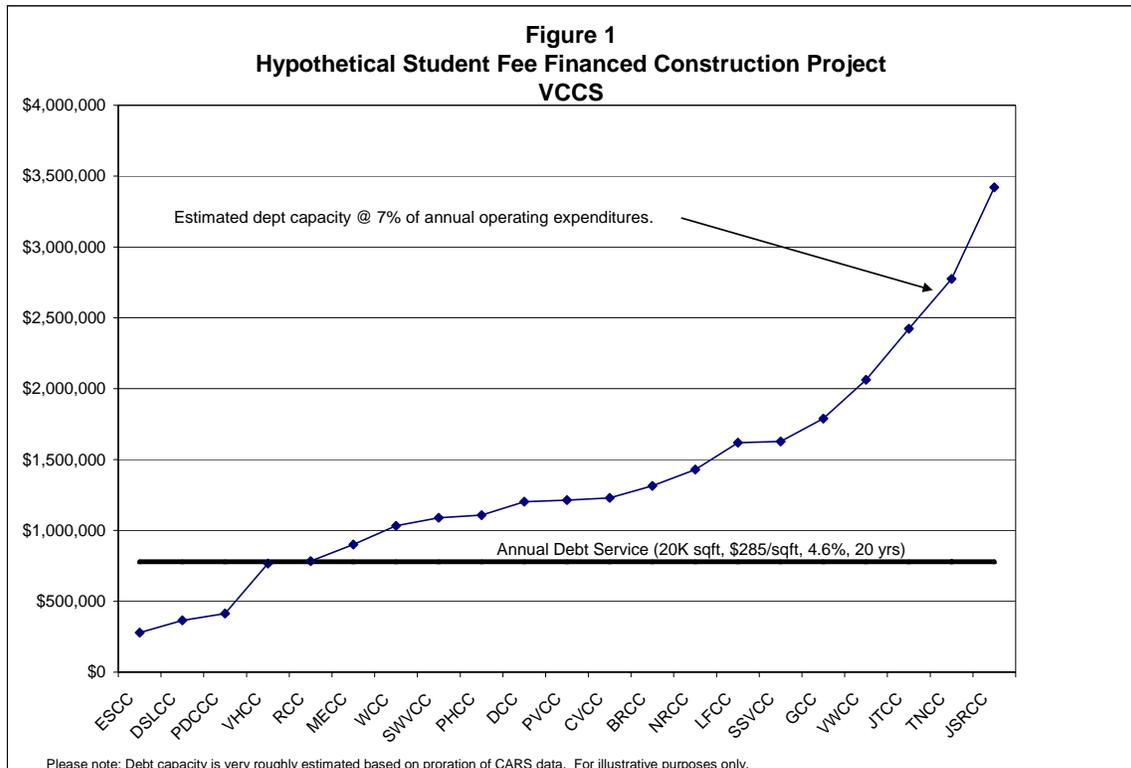
was discontinued in the mid-90s. Therefore, there is no longer a simple way to measure the adequacy of this space through the traditional means.

Insofar as this and similar types of space are also usually included in auxiliary enterprise student centers, a possible strategy on the part of the two-year institutions to address the perceived shortage is to include such facilities in their Six-Year Capital Outlay Plans.

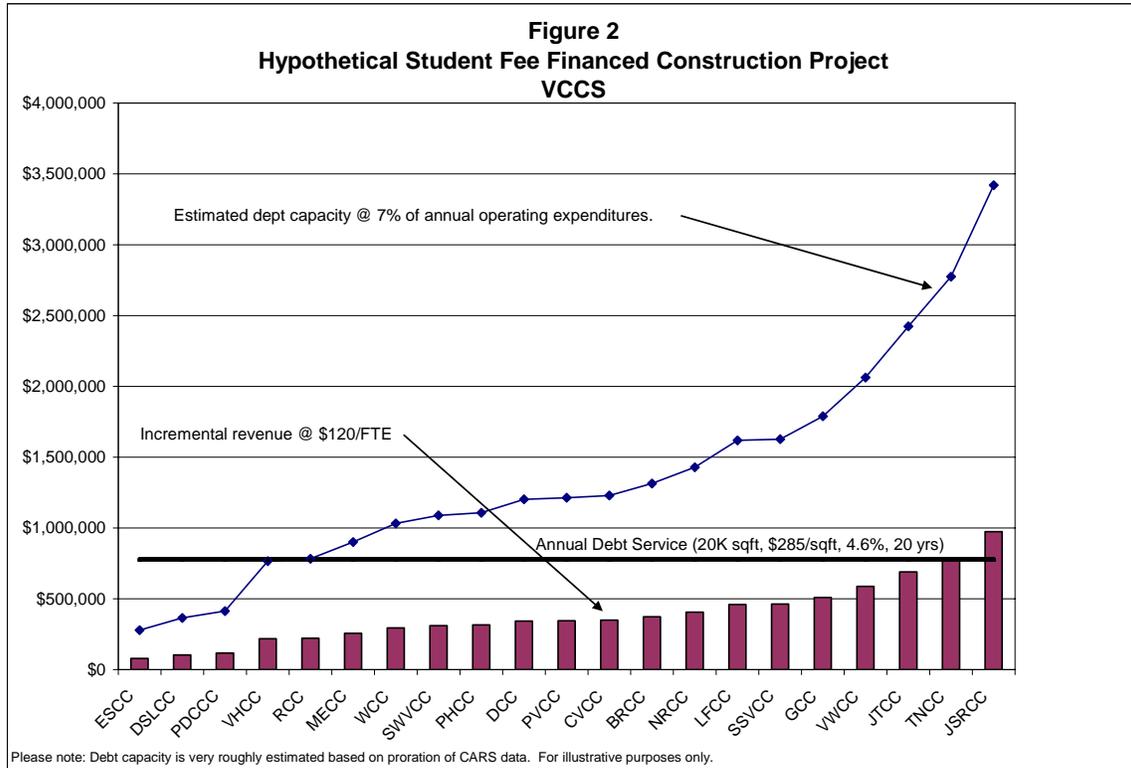
The Auxiliary Enterprise guidelines proposed earlier in this report, would appear to provide a sound approach for Council to evaluate these types of proposals. Modest student fee-financed student centers could be designed to provide individual and group study space, space for student activities and appropriate dining facilities. In fact, two-year institutions with large enough student populations could realistically finance such projects. (Please see Figures 1 and 2 below).

These figures illustrate the approximate debt service payments on a 20 year bond issued at 4.6% used to finance a hypothetical auxiliary enterprise general purpose facility of about 20,000 square feet. They also show the approximate estimated debt capacity of the institutions. Using these rough approximations, all but four of the VCCS institutions could support this project under a debt capacity ceiling of 7% of operating expenses.

The second figure superimposes the revenue that could be generated by assessing



a \$120 per year annual student fee by each institution to support the project. Please note that while most institutions could afford the debt service under the 7% ceiling, very few could actually raise sufficient incremental revenue at this fee level.



However, the question remains: Shouldn't the E&G guidelines provide for much of this type of space, especially study space, rather than requiring the institutions to fund it themselves with student fees?

As the institutions develop their Six-Year Capital Outlay Plans for submission in 2011, SCHEV staff will continue to explore ways to insure that appropriate strategies are available for use by the two-year institutions to address their student's need for study space and space for unstructured activities.

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