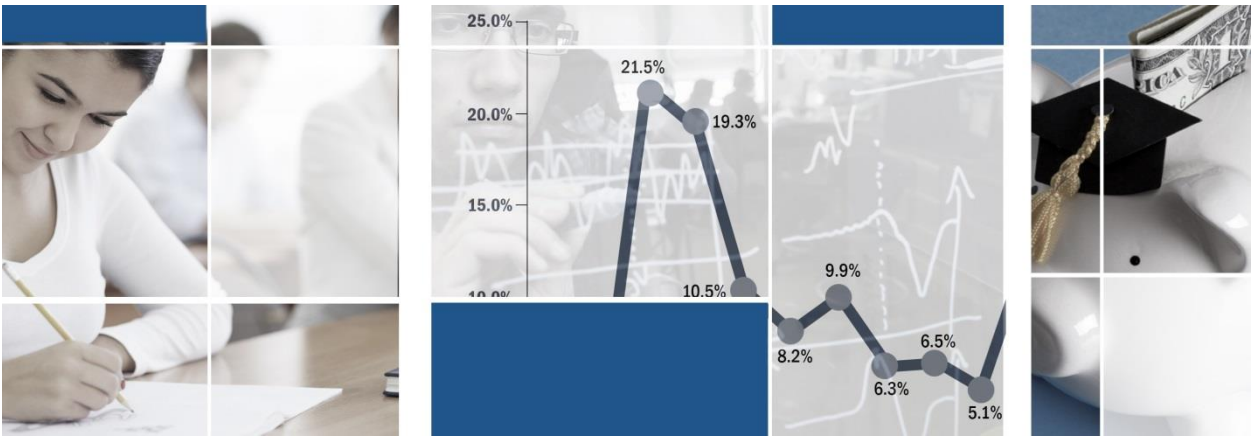


November 1, 2018



FY 2020 Budget and Policy Recommendations for Higher Education in Virginia

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BACKGROUND

Advanced education contributes to greater individual and regional prosperity, including increase earnings, improved economic growth, greater levels of community engagement and improved health outcomes. Rising costs to students and families combined with a student body that may require additional resources to ensure its success, however, may make access to and completion of a credential more challenging in the future.

States are seeking ways to maintain excellence in higher education, make college more affordable, reduce student debt and help individuals and families make smart decisions – all elements of The Virginia Plan for Higher Education. Properly aligned resource and policy decisions will help Virginia meet its goal to be the best-educated state by 2030.

In 2018 the Governor and General Assembly approved an additional \$165.2 million for Virginia higher education to help address these issues. While these amounts were less than the SCHEV recommendations, general fund appropriations for Educational and General Programs (the primary operating funds for colleges and universities) increased 0.3% in the first year of the biennium and 4% in the second year. This funding included a \$28.4 million to increase student success in degree programs related to science, technology, engineering, education and health care, a 2% salary increase for faculty and staff and an additional 2% merit increase for classified staff.

In addition, the Governor and the General Assembly adopted many of the finance policy recommendations that the Council advanced last October, including institutional reserve funds and lower limits on increases in non-Educational and General Program fees.

The Commonwealth finds itself in an excellent economic climate. Federal tax changes, low unemployment and strong economic activity have contributed to higher than anticipated state tax revenues. Yet, funding is not unlimited, and policy makers will have to make difficult decisions. With this in mind, SCHEV staff presents the following budget options and policy considerations for the Council.

SUMMARY

The SCHEV budget and policy considerations for FY2020 are based on the following premises:

- Increasing access, affordability and quality in higher education: To maintain broad access to higher education, keeping higher education affordable for more Virginians is an unavoidable consideration. While cost is an important factor, Virginia's public higher education system ranks as one of the best in the country when considering factors such as graduation rates, average net price, low loan default rates and high return on investment as measured by earnings. It is a status that must be preserved.
- Supporting Council recommendations that were not funded: While the General Assembly provided greater funding to institutions in the second year of the biennium, some of the Council's recommendations were not addressed. The material that follows modifies last year's recommendations in light of the 2018 session and the current higher education environment.
- Advancing policy considerations that support statewide priorities and The Virginia Plan for Higher Education: These proposals are in the areas of the use and allocation of financial aid; enrollment of out-of-state students; the development of affordable pathways that increase credential attainment, including the Governor's *Get Skilled, Get a Job, Give Back* initiative; adjustment to institutional performance thresholds; investment in the technology pipeline; support for research across the Commonwealth; and a review of efficiencies.

The budget options provided on the following pages fall under the four broad areas of:

1. Moderating planned tuition increases and supporting faculty recruitment and retention
2. Providing student financial aid
3. Supporting institutional excellence
4. Improving public awareness of the value of higher education and increasing credential attainment

The recommendations request an additional \$122.4 million for FY 2020 from the general fund. The funding includes \$81.8 million in recurring funds and \$39.6 million in one-time funds. This includes \$50.2 million for Educational and General (E&G) programs (a

3% increase in FY 2020 appropriation), \$30.4 million in financial aid, \$38.3 million in for maintenance reserve and \$3.5 million in statewide initiatives.

The following is a summary table that outlines the funding options.

Summary of SCHEV Budget Recommendations in FY2020
(In Millions)

Recommendations	FY 2020 Additional General Fund
Establishing a fund to address individual institutional needs while advancing the Commonwealth's priorities	
Provide support keep tuition and fee increases low and to support faculty recruitment and retention that aligns with the needs of the Commonwealth	\$ 50.0
Subtotal Fund for Institution and Commonwealth Needs	\$ 50.0
Providing Student Financial Aid	
Undergraduate Need-based Financial Aid	\$ 15.4
Graduate Commonwealth Award (Graduate Aid)	\$ 6.0
Tuition Assistance Grant (TAG)	\$ 5.0
New Economy Workforce Credential Grant Program	\$ 4.0
Subtotal Financial Aid	\$ 30.4
Supporting Institutional Excellence	
Higher Education Equipment Trust Fund - Allocation ¹ (\$20.7)	\$ -
Maintenance Reserve Program (one-time funds)	\$ 38.3
Commonwealth Graduate Engineering Program	\$ 0.2
Subtotal Institutional Excellence	\$ 38.5
Improving Public Awareness of the Value of Higher Education and Increasing Credential Attainment	
Graduate outcome reporting and increased data analysis: Increase staff capacity for data analytics and communications and one-time funds to conduct a study of graduate outcomes. focused on improved reporting of higher education outcomes. (\$1.25 million in one-time funds to conduct a survey of graduate outcomes)	\$ 2.0
Access and completion support for Virginians	\$ 1.5
Subtotal system initiatives	\$ 3.5
Total	\$ 122.4

¹ Debt service for additional funding is not expected until FY 2021.

The Council unanimously passed budget recommendations and policy considerations for FY2020 at its October 30, 2018 meeting. After Council action, the staff will convey the recommendations to the Governor and the General Assembly for their consideration. The recommendations will guide Council and staff in its discussions with

the Governor and the General Assembly prior to and during the 2019 General Assembly Session.

ESTABLISHING A FUND TO ADDRESS INDIVIDUAL INSTITUTIONAL NEEDS WHILE ADVANCING THE COMMONWEALTH'S PRIORITIES

Moderating planned tuition increases

Operational support represents the largest costs for institutions, including costs for faculty salaries and maintenance of instruction-related buildings. The following funding considerations seek to support costs that are not fully supported by the state general fund, thus resulting in higher costs for students and families.

The SCHEV 2018-19 Tuition and Fee Report (<http://schev.edu/index/reports/schev-reports/2018-reports/2018-19-tuition-and-fees-report>) showed that, on average, Virginian students are paying 55% of their educational cost in FY2019. This is 22 percentage points more than the proposed share of 33% based on the state's cost-share policy. It also showed that had the state been able to adhere to the cost-share policy, then tuition could be as much as \$3,000 lower than it is today.

The 2018 General Assembly provided a 2% salary increase for full-time faculty and classified and an additional 2% merit-based salary increase for classified employees, effective July 1, 2020. Until the state can return to a level of funding that more closely approximates the state's cost-share policy, then the Governor and the General Assembly may wish to fund salary increases – and any other initiative which they historically would have split-funded – fully from the state general fund.

SCHEV estimates that the institutions' cost share of the FY 2020 faculty and staff salary increases is approximately \$38 million.

In addition, without state general fund support for operation and maintenance (O&M) of new facilities, institutions are required to divert money from existing budgets or increase tuition to support these needs. Spending for operation and maintenance of instructional classrooms and laboratories has been an increasing part of an institution's budget. Today, it represents, on average, about 12% of the total educational and general programs spending.

Institutions submitted requests to SCHEV for additional funding to operate and maintain new facilities coming online in the 2018-20 biennium. Compared with

institutions' requests for O&M funding in past years, the total funding requests this year is lower than in previous years. SCHEV estimates these costs to be \$16.9 million.

If the state-authorized salary increases and the O&M funding for new facilities were completely funded by the general fund, institutions could pass lower anticipated tuition increases and invest in other priorities, such as financial aid or new program development.

Supporting eminent faculty in high-demand programs

At the core of learning, service and research is an excellent faculty. Virginia's colleges and university must commit substantial resources to attract and retain faculty and to employ faculty in new academic programs in high-demand fields.

While the Governor and the General Assembly authorized a 2% increase for college and university faculty recruitment and retention for FY2020, a review of national data indicates that the higher education market is moving at a greater pace, approximately 3% a year. Institutions stated in their 2018 six-year plans that salaries falling behind those of competitor institutions represent the greatest threat to faculty recruitment and retention. Furthermore, faculty in many of the academic programs with the highest student demand, such as computer science, engineering and health professions, command higher than average salaries.

To ensure that institutions have the means to address market demands, the Commonwealth may wish to invest in targeted efforts to support faculty recruitment and retention. Rather than provide across-the-board increases, institutions could access this appropriation to maintain an institution's competitive advantage as well as meet the state's needs. Funds would be reserved for faculty who teach in academic programs that graduate students in high-demand areas or support research priority areas.

Establishing a fund to address individual institutional needs while advancing the Commonwealth's priorities

One option the Governor and General Assembly may wish to consider is the establishment of a fund to support both tuition moderation and faculty recruitment and retention as described in the sections above. Given the unique missions, populations served and resources available to each public two- and four-year institution, the establishment of the fund – call it a “performance trust fund” – would provide flexibility for institutions to align funds with their key areas of focus for the coming

year. Providing the money through a fund allows the opportunity to allocate funds on priority areas that are a common interest between the Commonwealth and institutions. Institutions would submit proposals that would be reviewed through a process established by the governor and the General Assembly. Some institutions may wish to lower planned tuition increases as a means to enroll more students. Other institutions, with stronger student demand, may wish to use the additional funds to recruit faculty in targeted growth areas.

To support the investment in these areas, SCHEV recommends \$50 million in FY 2020. SCHEV further recommends that the governor and the General Assembly establish the means by which institutions could access the fund in time to be responsive to tuition decisions. This may require an amendment that affects FY 2019.

PROVIDING STUDENT FINANCIAL AID

Financial aid increases make higher education more affordable and increases student success in college. State and national studies have identified the critical role between financial aid and retention and completion.

A 2013 Joint Legislative Audit and Review Committee (JLARC) study of higher education, included a study by the Delta Cost Project (2012) of students who did not complete their degree. This study found that 29% of non-completers cited “financial” as the reason for not remaining enrolled. The other factors cited, including “Personal” (58%) and “Family Responsibilities” (18%), each could have financial implications as well, such as paying for childcare or helping with the family’s monthly bills.

JLARC also reported that a consensus of research demonstrates that a \$1,000 change in need, either through decreased published price or through financial aid, can result in a “three- to five-percentage point increase in college attendance.” These studies and others recognize the critical role financial aid has not only for affordability but also for retention and completion.

Currently the state provides aid through the following programs: Undergraduate need-based aid, graduate aid, the Virginia Tuition Assistance Grant (TAG) and the Workforce Credential Grant. The following includes recommendations for each of the programs for FY 2020.

Undergraduate need-based student financial aid

The state provides financial aid support to students demonstrating financial need through the Virginia Student Financial Assistance Program (VSFAP). The program is currently funded at \$208 million annually in state general fund. It is a strong manifestation of the state's commitment to access for low- and middle-income Virginians.

Last year, the Council recommended a \$45.5 million increase to undergraduate financial aid for the biennium, which would have brought all four-year institutions to a level at which they met 35% of financial need, and all two-year institutions to 25% of need. The General Assembly provided an \$18.9 million increase for FY2020, which is \$10.4 million short of the SCHEV recommended amounts. An additional \$10.4 million would help restore funding to the amounts originally recommended by the Council and provide additional support for priorities identified during the 2018 session, including the increased use of financial aid to support students enrolled in STEM-H programs.

In addition to restoring funds to the original Council recommendation, SCHEV staff identified a need to increase financial aid for schools with declining low-income students. The percent of enrollment of "first-time in college" (FTIC) low- and middle-income students has declined in recent years. As shown in the table below, this occurs whether enrollment is increasing (senior institutions) or declining (Virginia Community College System).

At senior institutions, the percentage of FTIC students demonstrating need is increasing but that is due to an increase in higher-income students demonstrating need while the percentages for low- and middle-income students are stagnant or declining. While the VCCS is experiencing an overall decline in enrollment, the impact is being born exclusively by the low-income students as there are increases both in raw numbers and in percentages among other FTIC income groups.

**Trends in First-time in College Enrollments
Based on Demonstrated Financial Need**

	2012-13		2013-14		2014-15		2015-16		2016-17	
	FTIC	% of Total	FTIC	% of Total	FTIC	% of Total	FTIC	% of Total	FTIC	% of Total
Senior Institutions										
In-state undergraduates	24,810		24,901		24,916		25,635	100.0%	26,272	
Total demonstrating need	12,876	51.9%	13,251	53.2%	13,185	52.9%	13,597	53.0%	14,532	55.3%
\$0 to \$50,000	5,567	22.4%	5,274	21.2%	5,199	20.9%	5,369	20.9%	5,678	21.6%
\$50,001 to \$100,000	4,625	18.6%	4,745	19.1%	4,652	18.7%	4,731	18.5%	4,892	18.6%
Greater than \$100,000	2,682	10.8%	3,226	13.0%	3,326	13.3%	3,496	13.6%	3,960	15.1%
VCCS										
In-state undergraduates	27,648		29,436		29,135		26,669		26,345	
Total demonstrating need	16,944	61.3%	18,416	62.6%	17,179	59.0%	15,390	57.7%	15,381	58.4%
\$0 to \$50,000	13,296	48.1%	13,961	47.4%	12,752	43.8%	10,941	41.0%	10,728	40.7%
\$50,001 to \$100,000	3,293	11.9%	3,966	13.5%	3,935	13.5%	3,912	14.7%	4,002	15.2%
Greater than \$100,000	355	1.3%	489	1.7%	492	1.7%	537	2.0%	651	2.5%

FTIC=First-time in college

In an effort to restore aid to these institutions and support greater access for low- and middle-income students, SCHEV also recommends increasing aid to institutions that have lost students in these cohorts over the last four years.

Institutions experiencing a loss of low-income (\$0-\$50k) and middle-income (\$50k-\$100k) students over last four years have their funding recommendations increased based on the number of such students lost and the average per-student funding provided for their institution. . These institutions are: Christopher Newport University, Longwood University, Norfolk State University, Radford University, University of Virginia’s College at Wise, Virginia State University, Virginia Tech and the community colleges.

The additional funding will enable these institutions to provide financial aid awards that will make enrollment more affordable to low- and middle-income students. This ensures that these institutions will have the funding needed to slow the loss of, and hopefully begin to recover, these lost student populations.

This recommendation also modifies the original recommendation to account for updated information on student need and percent of need met at each institution. JMU and VCU receive an additional bump to keep them at no less than 35% of need met;

meanwhile, CWM, UVA, and VMI remain above 50% of need met and so receive smaller increases.

SCHEV also recommends that the community colleges receive an additional \$1 million for students seeking non-credit workforce credentials aligned to high-demand occupations.

The table on the following page provides the funding amounts by college after applying the above methodology.

FY 2020 Undergraduate Financial Aid (VASFAP) Funding Recommendation

Institution	Total Recommended Increase for FY 2020
CNU	\$644,882
CWM	\$38,855
GMU	\$2,920,393
JMU	\$1,173,512
LU	\$535,893
NSU	\$907,275
ODU	\$597,234
RU	\$628,345
UMW	\$134,119
UVA	\$67,384
UVAW	\$398,527
VCU	\$2,204,146
VMI	\$11,071
VSU	\$480,861
VT	\$991,397
4-Yr Total	\$11,733,895
RBC	\$238,536
VCCS	\$3,474,453
2-Yr Total	\$3,712,990
Grand Total	\$15,446,885

Graduate student financial aid

The graduate Virginia Graduate Commonwealth Award may be awarded as need-based grants, merit-based scholarships or awards for duties that require work. Graduate student financial aid is integral to institutional and student success for graduate education and research.

Graduate research programs are critical economic drivers within the Commonwealth. Funding for these programs not only supports higher education but also assists with the state’s economic health. As such the program supports all four Virginia Plan goals.

The Council consistently has sought additional support for graduate aid. Last fall, the Council recommended an increase of \$3 million first year and \$6 million second year; however, the General Assembly provided no additional funding for the 2018-20 biennium. This recommendation restates the FY 2020 increase of \$6 million.

Virginia Graduate Commonwealth Award Recommended Funding Increase

Institutions	Current FY20 Funding	Option Support Fall 2017 Recommendation for FY 20	Proposed Total FY20 Funding
College of William & Mary	\$925,924	\$244,000	\$1,169,924
George Mason University	\$2,753,941	\$729,000	\$3,482,941
James Madison University	\$915,971	\$92,000	\$1,007,971
Norfolk State University	\$519,279	\$52,000	\$571,279
Old Dominion University	\$2,710,695	\$717,000	\$3,427,695
Radford University	\$918,747	\$92,000	\$1,010,747
University of Virginia	\$5,327,945	\$1,411,000	\$6,738,945
Va. Institute of Marine Sciences	\$321,002	\$375,000	\$696,002
Virginia Commonwealth University	\$3,424,984	\$907,000	\$4,331,984
Virginia State University	\$359,059	\$36,000	\$395,059
Virginia Tech	\$5,077,625	\$1,345,000	\$6,422,625
Total	\$23,312,132	\$6,000,000	\$29,312,132

Virginia Tuition Assistance Grant program (TAG)

TAG is designed to make private nonprofit colleges in Virginia more affordable for Virginia residents and thus increase the level of student choice and access in higher education. TAG was established in 1973 and will provide over \$68.3 million of assistance to over 22,900 students enrolled into 30 institutions in FY2019. The maximum annual undergraduate award is expected to be \$3,270 per student for 2018-19 while graduate and professional students are expected to receive \$1,640.

The following table shows the average annual TAG award for undergraduate and for graduate and professional students since FY 2009.

Fiscal Year	Annual Award Amount
2008-09	\$3,190 / \$1,890
2009-10	\$3,000 / \$1,300
2010-11	\$2,600 / \$1,130
2011-12	\$2,750 / \$1,200
2012-13	\$2,800 / \$1,300
2013-14	\$3,100 / \$1,550
2014-15	\$3,100 / \$1,550
2015-16	\$3,100 / \$1,550
2016-17	\$3,200 / \$1,600
2017-18	\$3,300 / \$1,650
2018-19	\$3,270 / \$1,640 projected
2019-20	\$3,400/\$1,700 recommended

Last year, the Council recommended that the annual award amount in FY 2020 be increased to \$3,400 for an undergraduate student and \$1,700 for a graduate student – a 4% increase in the annual per student award.

Based on projected enrollments for FY 2019 and FY 2020, TAG participation is expected to grow as much as 1% annually for FY 2019 and FY 2020. Based on these assumptions and to increase the award to \$3,400 in FY 2020, SCHEV estimates that the program would require an additional \$5 million. This represents a 7% increase from the current FY 2020 allocation of \$67 million.

The 2018 General Assembly included an additional \$225,000 in FY 2020 in the TAG program to encourage students to go into the teaching profession. Students are not eligible for these funds (an additional \$500 per student) until their senior year. Meanwhile, the Governor and the General Assembly have taken several other affirmative steps to ease the teacher shortage. Given the fact that the incentive comes so late in a student’s career and that the teacher shortage has been addressed in other ways, the governor and the General Assembly could redirect the \$225,000 into the core TAG program, thereby reducing the cost of meeting the \$3,400 target.

Workforce Credential Grant program (WCG)

The governor and General Assembly created the New Economy Workforce Credential Grant program in 2016 to address the growing demand for jobs that require an industry credential but not a degree. The program funding has increased since inception largely due to increased demand. Initial funding was \$4 million in FY 2017. Current funding is \$9.5 million annually.

The Workforce Credential Grant program supports the goal for Virginia to become the best-educated state and objective of the state to meet a growing employer demand for qualified works that do not require a degree through a pay-for-performance model. Based on initial data for FY 2019, it appears the program continues to outpace demand. As of September 30, 2018, VCCS indicates it has obligated 40% of funds even as it has placed additional parameters on the program that prioritize its use.

A preliminary analysis of wage earnings for 1,630 participants enrolled between July 1, 2016, and December 31, 2016, demonstrated increased earnings for individuals when compared to wage earnings in the prior year. Some of the greatest increases in wage earnings appear to be for the lowest wage-earners prior to enrolling in the program. A review of individuals earning less than \$20,000 in 2016, showed significant wage increases in the following year after completion of training – ranging from 54% to 138% (compared to general wage increases for earners in this wage group of 14%).

Given that the program has demonstrated outcomes, particularly for the lowest-income individuals, and that the program continues to exceed demand, additional funding is requested to support increased capacity. SCHEV staff estimate that the average cost to the state for an individual to complete training is \$1,500 and average cost to the state for an individual to complete a credential is \$2,200. This means that each increment of \$1 million can increase the number of individuals served and completing a training/credential by approximately 450 to 630 people.

SCHEV recommends a \$4 million increase, which would grow the total served by 1,800 to 2,520 Virginian’s annually and bring the program to an annual allocation of \$13.5 million. Furthermore, under the recommendation for need-based financial aid, SCHEV also recommended an additional \$1 million to support students in this program.

SUPPORTING INSTITUTIONAL EXCELLENCE

Higher Education Equipment Trust Fund (HEETF)

Virginia’s AAA bond rating allows the Commonwealth to finance, over seven years, millions of dollars’ worth of equipment for a fraction of the upfront cost. Since its inception, the Higher Education Equipment Trust Fund has provided over \$1 billion in instructional and research equipment.

The 2018 General Assembly provided an allocation of \$83 million in FY 2020, of which \$68 million supports instructional equipment and \$15 million supports specialized research equipment.

A consistent level of support is needed to replace current eligible equipment inventories and to provide state-of-the-art equipment for students and researchers. Last year, SCHEV recommended an additional allocation of \$103.7 million for the Higher Education Equipment Trust Fund. An additional \$20.7 million for FY2020 would meet the Council's original recommendation and provide increased support for research institutions. Debt service estimated at \$3 million for the additional funding will not begin until FY 2021.

Higher Education Equipment Trust Fund (HEETF)
Comparison of SCHEV Recommendations to Appropriations
(2019-20)

Institution	Total Recommendation	Total Appropriation	Total Appropriation As Percentage of Recommendation	Recommended Additional Funding ⁽¹⁾
GMU	\$ 5,739,653	\$ 4,421,431	77%	\$ 1,318,222
ODU	\$ 5,597,997	\$ 5,345,270	95%	\$ 252,727
UVA	\$ 21,859,609	\$ 15,647,817	72%	\$ 6,211,792
VCU	\$ 12,732,540	\$ 9,848,982	77%	\$ 2,883,558
VT	\$ 20,487,200	\$ 15,572,097	76%	\$ 4,915,103
W&M	\$ 2,631,801	\$ 2,896,350	>100%	---
W&M-VIMS	\$ 989,464	\$ 537,407	54%	\$ 452,057
CNU	\$ 831,633	\$ 754,464	91%	\$ 77,169
UVA-Wise	\$ 251,565	\$ 250,681	99%	\$ 884
JMU	\$ 2,510,153	\$ 2,309,646	92%	\$ 200,507
LU	\$ 778,183	\$ 743,433	96%	\$ 34,750
UMW	\$ 683,228	\$ 655,746	96%	\$ 27,482
NSU	\$ 1,403,781	\$ 1,200,108	85%	\$ 203,673
RU	\$ 2,033,478	\$ 1,744,993	86%	\$ 288,485
VMI	\$ 1,182,061	\$ 886,084	75%	\$ 295,977
VSU	\$ 1,434,958	\$ 1,342,189	94%	\$ 92,769
RBC	\$ 177,260	\$ 160,149	90%	\$ 17,111
VCCS	\$ 20,239,823	\$ 17,596,542	87%	\$ 2,643,281
SWVHEC	\$ 105,297	\$ 80,111	76%	\$ 25,186
RHEA	\$ 63,321	\$ 77,623	>100%	---
IALR	\$ 237,941	\$ 274,172	>100%	---
SVHEC	\$ 208,601	\$ 95,790	46%	\$ 112,811
New College	\$ 59,672	\$ 34,486	58%	\$ 25,186
EVMS	\$ 1,444,637	\$ 524,429	36%	\$ 920,208
⁽²⁾ TOTAL	\$ 103,683,857	\$ 83,000,000	80%	\$ 20,683,857

⁽¹⁾ Debt service for the additional funding will not begin until FY21. The estimated debt service need is about \$3 million in FY21.

⁽²⁾ Total includes negative values for the three institutions that were funded over 100%.

Base adequacy/cost of education

The Code of Virginia directs SCHEV to calculate the “basic operations and instructional funding need” based on institutional enrollment, academic program mix and other factors. Often called “base adequacy” or “cost of education,” the calculation provides a guideline for the governor and the General Assembly to allocate funds to institutions. Each biennium, SCHEV calculates the institutions’ funding need and compares these amounts with the available resources based on general fund appropriations and estimated nongeneral fund revenue. SCHEV reviewed the cost of education calculations for FY 2020 and identified that the funding shortfall is expected to be minimal for the

coming year. SCHEV does not recommend any funding increases related to base adequacy in FY 2020 and will reassess the calculations for the next biennial budget.

Maintenance reserve program

SCHEV staff visited many institutions and learned that a major capital outlay need in the Commonwealth is through maintenance reserve funding. The maintenance reserve program provides funding for facility repairs that are not addressed in the institutions' operating budget and are usually too small to qualify for capital outlay funding. Examples of typical maintenance reserve projects are roof repair and replacement, boiler and chiller replacement and major electrical system upgrades.

While funding for deferred maintenance has lagged, the Commonwealth has provided two significant capital initiatives for new construction and major renovations at the public institutions through bond proceeds over the past ten years. However, any decision to defer maintenance to these facilities adds to the maintenance reserve need.

For FY 2020, the Commonwealth provided a total of \$128.6 million statewide for the maintenance reserve program, including \$83.3 million (69%) for higher education. This amount was \$38.3 million lower than the Council recommendation of \$121.5 million for FY 2020.

To restore the funding levels to those previously recommended by Council would require an additional \$38.3 million in FY2020.

**Maintenance Reserve
Comparison of SCHEV Recommendations to Appropriations
(2019-20)**

Institution	Total Recommendation	Total Appropriation	Recommended Additional Funding
CNU	\$1,482,554	\$1,015,859	\$466,695
CWM	\$5,351,291	\$3,666,752	\$1,684,539
GMU	\$8,519,850	\$5,837,877	\$2,681,973
JMU	\$7,234,350	\$4,957,041	\$2,277,309
LU	\$2,742,032	\$1,878,865	\$863,167
NSU	\$6,010,090	\$4,118,167	\$1,891,923
ODU	\$5,297,288	\$3,629,749	\$1,667,539
RU	\$3,230,317	\$2,213,442	\$1,016,875
UMW	\$2,412,530	\$1,653,087	\$759,443
UVA	\$18,850,284	\$12,916,383	\$5,933,901
UVAW	\$1,127,796	\$772,776	\$355,020
VCU	\$10,322,789	\$7,073,267	\$3,249,522
VMI	\$2,502,483	\$1,714,724	\$787,759
VSU	\$5,500,803	\$3,769,199	\$1,731,604
VT	\$19,810,324	\$13,574,211	\$6,236,113
RBC	\$752,699	\$515,756	\$236,943
VCCS	\$19,203,546	\$13,158,441	\$6,045,105
VIMS	\$1,170,906	\$802,315	\$368,591
Total	\$121,521,931	\$83,267,911	\$38,254,020

Commonwealth Graduate Engineering Program (CGEP)

The Commonwealth Graduate Engineering Program is a collaborative distance education initiative that began in 1983 and currently involves George Mason University, Old Dominion University, the University of Virginia, Virginia Commonwealth University, and Virginia Tech. Throughout its history, CGEP has delivered courses and degree programs to Virginia's engineering workforce using state-of-the-art online learning technologies. Through this program, graduate engineering courses and degrees are delivered to students located across the Commonwealth of Virginia and beyond.

CGEP's core mission is to serve as the Virginia distributed learning provider of post-baccalaureate education for working engineers who want to enhance their knowledge in engineering-related disciplines. As a result, CGEP contributes to the economic development and social well-being of Virginia by supporting life-long learning in the Commonwealth's engineering workforce. All activities and programs are continuously

reviewed to ensure that they are in full support of and alignment with the goals of The Virginia Plan for Higher Education.

Virginia State University is in the process of joining CGEP. The addition of VSU will fill a gap that CGEP has by providing courses and a master's degree in computer science. Moreover, the addition of VSU will expand access to underrepresented students and meet the critical needs of employers. The online program will provide opportunities to working engineers and computer scientists while also giving access to current undergraduate majors in the areas of computing, engineering and technology that may be seeking a master's degree in computer science after graduation.

For supplemental budget requests, the Appropriation Act directs the participating CGEP institutions to support a request to SCHEV for review and recommendation to the Governor and the General Assembly. VSU estimates that the full cost of the program will be \$0.52 million per year. Institutions administering CGEP typically receive 67% of funding through general fund. SCHEV recommends \$200,000 in general fund for FY2020 to assist VSU with start-up costs. SCHEV staff will work with CGEP and VSU in the coming year to review overall program costs to consider for the 2021-2022 biennium budget.

IMPROVING PUBLIC AWARENESS OF THE VALUE OF HIGHER EDUCATION AND INCREASING CREDENTIAL ATTAINMENT

While the majority of funding recommendations support students through financial aid and institutional support, SCHEV staff has identified targeted initiatives that are needed at a state-level to improve Virginia's higher education system.

These initiatives and potential funding strategies are grounded in several growing concerns:

- Lack of public awareness of the value of higher education: While several organizations publish college rankings based on various measure of quality, Virginia lacks the means to assess and report on the return on investment that higher education provides to individuals, communities and the Commonwealth.
- Lack of standard information and coordinated efforts to provide to students and parents on postsecondary options: Many entities can provide information to students and parents on postsecondary options. However, the information comes in many different forms and is uncoordinated in its use. Many states have

launched coordinated efforts to provide basic information for all individuals interested in postsecondary education.

- Lack of transparency of information and data: The Council has an opportunity to expand and enrich its data capacity to improve decision making at many levels. Additional data analysis and dissemination of data-informed reports can help students, policy makers, institutions and others.

To address these concerns, the Council recommends the following investments:

Graduate outcome reporting and increased data analysis

To address a growing concern regarding the outcomes of graduates and the return on investment of higher education to students, parents and the Commonwealth, the Council recommends support to administer a comprehensive survey of Virginia graduates to measure their success in securing employment and contributing to the civic life in their communities. The survey results will provide valuable insights for all higher education stakeholders, including SCHEV for activities, such as enrollment planning, program approval and strategic planning; institutions to support adjustments to program and services; the Virginia Economic Development Partnership to market Virginia's talent to businesses; and to the Governor and General Assembly to provide feedback on the performance of Virginia's higher education system.

The intent of the survey is to answer the following key policy questions:

- How many graduates stay in Virginia? How many out-of-state graduates become employed in Virginia?
- Do they get employment related to their field of study?
- Are they employed in positions related to the federal government?
- Do graduates value their educational experience?
- What experiences did graduates have in college that were most meaningful to their outcomes?
- How engaged are graduates in civic life?
- How many graduates stay in Virginia?

In addition to the survey, SCHEV also proposes additional resources to increase its capacity to analyze and communicate data to policy makers and the general public. SCHEV recommends \$2 million for these efforts. The survey cost is a one-time expense.

Access and completion support for Virginians

To meet Virginia's goal to become best-educated state, SCHEV staff have identified a need to provide equitable access to the necessary information, resources and experiences that help ensure the pursuit and completion of credentials required to earn sustainable living wages. This effort is designed to provide awareness statewide of college and workforce credential opportunities for students and will align with the Virginia Department of Education's new Profile of a High School graduate and school accreditation requirements. Funding would also support professional development for counselors, schools and community groups; technical assistance to high schools with low postsecondary enrollment rates and grants to institutions focused on implementation of best practices to increase student completion rates.

Many other states provide state-level support for these coordinated efforts as part of their efforts to meet state attainment goals and would allow Virginia to continue to compete to be the best-education state by 2030. The Council recommends \$1.5 million from the general fund for FY 2020.

POLICY CONSIDERATIONS

In addition to the budget recommendation, the Council identified several considerations for the Governor and General Assembly as it develops policy and allocations funding in the coming year. These considerations are in the areas of the use and allocation of financial aid; enrollment of out-of-state students; the development of affordable pathways that increase credential attainment, including the Governor's *Get Skilled, Get a Job, Give Back* initiative; assessment of institutional performance; support for research across the Commonwealth; and a review of efficiencies.

The use and allocation of financial aid

A review of current funding models for financial aid indicate potential gaps that may not align with the attainment goals identified through The Virginia Plan for Higher Education. The first relates to the current model for undergraduate financial aid. The model uses historic enrollment data to allocate new funding. As a result, institutions that lose low- and middle-income students could receive a smaller proportion of funding in future years. In addition, the model does not anticipate future aid needs as our demographic population shifts.

Second, a review of institution's use of tuition revenues for financial aid indicates a need to review the alignment with current practice to the intent of the program. For decades, institutions have used tuition waivers or other means by which student tuition revenue was reallocated for the benefit of other students. The practice accelerated in the early part of this century, as institutions sought additional resources to provide student financial assistance.

In addition, the Top Jobs Act of 2011 focused on the need to provide financial aid for low- and middle-income students and families and allowed institutions to submit through their six-year planning process "plans to mitigate the impact of tuition and fee increases on students and their families" (§ 23.1-306 3.). This included the use of tuition revenues for financial aid.

Limited and reasonable use of tuition and fee revenue for the purpose of providing financial aid is an appropriate strategy. The extent to which an institution engages in this practice is a matter of institutional capacity and culture. Limits that apply equally to all institutions would be counterproductive. In no event, however, should an increase in

tuition revenue for financial aid come at the expense of low- and middle-income students.

Existing Appropriation Act language places the following limits on how institutions use tuition revenue for financial aid:

- In-state students shall not subsidize out-of-state students
- Students must make satisfactory academic progress
- Awards should be based “primarily” on student financial need
- Institutions should provide larger awards to students making timely progress towards a degree
- The governor and the General Assembly may wish to consider an additional provision that says that the net cost for low- and middle-income students should not exceed what would have been provided if tuition had not been raised in order to increase financial aid funds.

Furthermore, the Council may wish to review not only how institutions allocate tuition revenue for financial aid but other financial aid models and practices as well. Over the years, the models for allocating financial aid have attempted to keep up with new legislation and a changing environment, but they have reached an age where they need a more comprehensive review to ensure they are meeting the Commonwealth’s needs and are aligned with The Virginia Plan for Higher Education.

All of these topics are complex, both analytically and practically. SCHEV recommends that the governor and the General Assembly direct SCHEV to work with institutions, legislative, executive and institutional staff and others to review these funding models. The review should include recommendations to enhance affordable access and completion of a degree. It also should assess the current methodology for allocating funds to institutions to ensure that it is the most efficient and effective way to meet the state’s goals for access and completion.

Development of affordable pathways programs for low- and middle-income families, including the Governor’s proposed Get Skilled, Get a Job, Give Back program (G3)

Over the last five years, Virginia established several strategies to encourage skill attainment through non-traditional college paths that support individuals who may need postsecondary training but do not want to pursue a degree. Two programs include the establishment of the New Economy Workforce Credential Grant and non-

credit financial aid. The New Economy Workforce Credential grant focuses on alignment of programs to high-demand jobs.

Furthermore, Governor Northam included in his campaign a plan to help students “get skilled, get a job and give back,” or “G3.” Its premise is to incentivize students to gain a credential in a high-demand field. Many states have established programs by which students are eligible for “free” college, all with different eligibility criteria. Some programs are reserved only for students with financial need and require all other forms of financial aid to be used first (“last-dollar” programs). Others are limited to recent high school graduates and are available only at community colleges. Others require a minimum grade-point-average and public service commitments. Based on assessments of other state programs, the Council supports efforts to encourage more students and families to consider postsecondary education.

Should such a program emerge during the 2019 General Assembly session, SCHEV recommends that it focus on the following areas to meet the Commonwealth’s needs:

- Low- and middle-income students and families who may not consider postsecondary education as an option
- Attainment of certifications or degrees in high-demand jobs in the Commonwealth with a focus on regional needs
- Credential attainment and wage earnings as outcome measures
- Student supports while in college to ensure completion, including increased advising
- Basic financial support for eligible students above the costs of tuition
- Gaps in educational attainment rates between underrepresented students¹ and other students
- Business and community partnerships

Investment in the technology talent pipeline

An investment in the recruitment and retention of faculty will help address core growth associated with the state’s workforce needs. But to make significant gains in the parts of the economy that will drive superior economic prosperity will require a far more substantial investment beyond core growth. Furthermore, institutions and businesses will need to focus on further alignment of curriculum, growth of internship

¹ The Virginia Plan for Higher Education defines “underrepresented” as students meeting at least one of these characteristics: racial or ethnic minority; low income; from localities with low educational attainment; or above age 25.

opportunities, enhancement of research and support of start-up companies to meet the growing demands.

The General Assembly took a step in this direction in 2018 General Assembly session by appropriating funds for a major cyber initiative, the Commonwealth Cyber Initiative. It also appropriated \$28.4 million to institutions based on estimates of additional degrees in specific academic disciplines and \$400,000 over the biennium for an internship pilot program.

Of the areas identified for growth (science, technology, engineering, healthcare and education), programs that support the burgeoning technology talent pipeline may be the most important for another major new investment. Whether it happens in the FY 2020 budget or a later biennium, the Commonwealth would be wise to invest deeply in this field.

Enrollment of out-of-state students

As Virginia continues to experience unmet workforce demands in occupations that require a college degree, the governor and General Assembly may wish to consider strategies to attract individuals from other states to Virginia through its higher education system. The Appropriation Act currently limits the percentage of out-of-state students institutions are allowed to enroll. The limitation currently affects four institutions: James Madison University, The College of William and Mary, University of Virginia and Virginia Tech. Institutions that meet approved enrollment projections for in-state students and have the capacity to increase out-of-state enrollments should have the flexibility do so, provided the enrollment above current limits are in programs that support economic prosperity in the Commonwealth. SCHEV recommends an amendment to the existing Appropriation Act language to authorize this change.

Support of investment in research to strengthen Virginia's economy

In addition to recommending additional funds for research equipment through the Higher Education Equipment Trust Fund, SCHEV also remains committed to the mission of the Virginia Research Investment Committee. While it is possible that VRIC will undergo some changes in the 2019 General Assembly session, it will remain focused on translating university research to the market. A recent review highlighted the need for additional investment to support the following areas: improving university capacity for commercialization; focusing on strategic domain areas; developing

statewide entrepreneurial resources; and organizing around objectives and accountability. While SCHEV offers no specific recommendation at this time, it believes that these initiatives could be a good use for one-time funds.

Identification of promising practices and opportunities related to shared services and efficiencies

The Commonwealth and institutions have made progress to improve efficiencies in Virginia's higher education system over time. There are several shared service models, including the Virtual Library of Virginia (VIVA) program that supports resource sharing across institutions, the Virginia Association of State College and University Purchasing Professionals (VASCUPP) that identifies opportunities for cooperative agreements and cost savings and the Virginia Community Colleges System's share service center. In addition, many institutions have conducted internal reviews of efficiencies. National and state reports also identify methods to measure efficiencies of institutions.

While SCHEV offers no specific recommendation at this time, the Council commits to work with institutions, legislative and executive staff to review existing practices, analyze data and identify further opportunities to support efficiencies in Virginia's higher education system.

APPENDIX 1: STATUTORY RATIONALE FOR SYSTEMWIDE OPERATING CALCULATIONS

The enabling legislation for systemwide operating calculations can be found, in part, in Sections 23.1-208 A through C, 23.1-203 and 23.1-303 of the Code of Virginia. These sections outline the responsibilities of the State Council of Higher Education for Virginia (SCHEV) as they pertain to the calculation of systemwide operating financial requirements of public higher education in Virginia.

Section 23.1-208 A through C charges the Council to develop policies, formulae, and guidelines for the fair and equitable distribution and use of public funds among the public institutions of higher education. Further, this section states that 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.

Section 23.1-203 charges the Council to provide periodic updates on base adequacy funding guidelines adopted by the Joint Subcommittee for Higher Education Funding Policies.

Part A of 23.1-303 requires that SCHEV, following consultation with each institution and the Higher Education Advisory Committee, calculate each institution's basic operations and instruction funding need for each year of the next biennium and shall make that calculation available to the governor, the General Assembly, and all public institutions of higher education.