State Council of Higher Education for Virginia
Policy Scan Memo

Strategic Plan Development Project

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Introduction

The State Council of Higher Education for Virginia (SCHEV) has embarked on the development of a statewide strategic plan for higher education in Virginia. SCHEV has contracted with JBL Associates (JBLA), a research firm, to assist in the process. This document is one of a number of reports prepared by JBL Associates in fulfillment of its contract to assist SCHEV. As part of this strategic planning process, this scan reviews federal and state legal and policy documents, policies and initiatives from other states and ongoing efforts by SCHEV and other entities within Virginia to provide an overview of the environment through which the plan must find a path. It is not intended to be holistic in nature or to address the minutiae of each strategic issue, but rather to highlight those key strategic factors and trends that must be addressed by the plan for it to succeed.

The purpose of this environmental scan is to review the legal, political and policy context in which Virginia's institutions of higher education operate. The scan reveals several key factors and trends poised to converge in the coming years with potentially powerful ramifications for higher education. Virginia's urban areas are growing rapidly, fueled in large part by growth in the Hispanic/Latino demographic group. Meanwhile, the state's economic recovery has been hampered by cuts in federal spending, further constraining public revenue with no major relief in sight. On top of this, a multi-decade slide in state support for higher education nationwide, and in Virginia, has increasingly pushed the burden of financing a college education onto families and students, raising immediate concerns about affordability and student debt. Virginia's past investments in its long tradition of excellence in undergraduate education have stood as a bulwark against these potentially damaging trends, but it is vital that Virginia chart a bold, distinctive course now, before they overcome the system and higher education finds itself in permanent retreat, unable to hold hard won gains

Today, higher education institutions in Virginia have a great deal of autonomy from state policies. Public institutions have their own boards, set their own tuition and fees and have latitude in spending and awarding student aid funded by the state. This policy allows the universities with stronger pricing power to raise tuition, enroll more full-pay out-of-state students (within limits) and attract other forms of funding from alumni and grants. While autonomy benefits the less selective institutions by reducing red tape in certain administrative areas, those institutions are constrained by their limited market power and with regard to setting tuition and fees. This inequality undermines the state goal of providing access to low-income students because the majority of lower-income students in Virginia attend the less selective public colleges and universities in the state, which have the least resources available to support them. Often these students pay a higher net price to attend than their peers at more selective institutions, who tend to come from higher income families, because these less selective institutions do not have money for institutional grant aid to supplement state and federal aid. Further, the less selective institutions do not have adequate funds for the advisors, tutors and other support staff that can help at-risk students succeed.

In its role as a coordinating board, SCHEV does not have the authority to set policy or direct the implementation of new initiatives. From a strategic point of view, SCHEV's strengths are in convening and facilitating dialogue, acting as a resource of policy expertise and providing a statewide view of higher education that is often lost in discussions at the institutional level. SCHEV provides the foundation data to help understand and evaluate the operation of higher education in the Commonwealth. With this perspective in mind, this memo seeks to emphasize strategic trends and durable environmental factors and places less emphasis on actionable initiatives, which will be addressed in subsequent memos as part of the strategic planning process.

Federal policy landscape

Tension has always existed between higher education policy at the federal and state levels. States take precedence in responsibility for education, including public higher education, but the federal government has expanded its funding for, and its interest in, higher education over the years. Federal efforts have concentrated on providing equal educational opportunity and supporting research and development.

Educational opportunity

Federal policy constrains state options in several ways. First, court rulings on desegregation of education have directed states to desegregate higher education. Second, federal dollars are a major source of support for students and institutions, far outstripping state support. Third, the federal government requires compliance with federal laws and regulations that restrict institutional flexibility and add to reporting costs.

It was not until 1977 that the courts ordered the federal government to establish new, uniform criteria for statewide desegregation of higher education. In response, the Office of Civil Rights defined standards of acceptability for plans to desegregate State systems of public higher education (Criteria). Among other things, the Criteria recognized the unique role of Historically Black Colleges and Universities (HBCUs) in meeting the educational needs of black students. Accordingly, the Criteria called for supporting HBCUs through:

- Improvements in physical plants and equipment
- Providing for adequate quantity and quality of faculties, libraries and other financial supports
- Expanding non-minority enrollment at HBCUs by offering on their campuses academic programs that are in high demand or unavailable at the state systems' other campuses
- Efforts to provide HBCUs with resources that would ultimately ensure they were at least comparable to traditionally white institutions having similar missions

These federal requirements, as interpreted by the courts, shaped important higher education choices in Virginia that still resonate today.

The second set of programs that defines the federal interest in equal educational opportunity is student financial aid. Federal student aid requires an application process that is often criticized for being complicated and a barrier to students and their families, who may not be able to complete the application successfully. The growth of federal support for students has resulted in associated regulations that require significant effort by institutions to assure compliance. Student aid has also raised issues that influence political decisions in Virginia, including:

- Does the award of federal student aid and tax credits provide an incentive to public colleges to raise tuition to maximize federal subsidies? This concern leads to an impulse for the federal government to try to regulate tuition increases so that federal student aid in fact reduces the price of attendance for low-income students rather than being captured by institutions through tuition increases.
- Concern about how much debt is appropriate for college students to carry when they leave school.
- Calls for accountability to make sure the students who receive federal grants and loans are successful in their educational efforts. Tracking student outcomes, such as graduation rates and information on job placement, has become part of an important transition from assuring access for low-income students to concern about outcomes for low-income students.
- Requirements for the disclosure of certain information to ensure that institutions are not enticing students into enrolling in a college or school without fully understanding their rights or obligations.

The student aid funded by the federal government has produced an increase in federal requirements for the reporting of information. This information, it is hoped, will empower students to make better educational choices. Examples of tools to help students select a college include the College Scorecard and the Financial Aid Shopping Sheet.

The risk that federal student aid presents relative to state-level policy is that federal government requirements begin to limit the effectiveness of state policy mechanisms. Federal student aid provides $169.7 billion per year in loans and grants to students, according to the College Board. While the principal on these loans is not properly a cost to the federal treasury, the expansion of available debt due to federal subsidies may contribute to tuition inflation by making the immediate out-of-pocket costs of college attendance more bearable by middle-income families. This federal support makes the state portion of support an even smaller piece of the pie. On top of this, federal dollars for academic research add another $40 billion. In comparison, according to SHEEO the states provide a total of $72.2 billion to support higher education. So, while the states have direct responsibility for higher education, the federal government makes available nearly three times the support and funding that the states do. As a result, money alone makes the federal government a compelling partner.

The requirements associated with accounting for federal funds awarded to institutions, or to students attending the institutions, adds a book-length compendiums of regulations to institution's reporting requirements and costs.[1] The compliance and reporting burden that comes with participation in federal programs is a significant issue for institutions and makes them more sensitive to state requests for additional reporting than would otherwise be the case.

[1] National Postsecondary Education Cooperative (NPEC). *Information Required to Be Disclosed Under the Higher Education Act of 1965: Suggestions for Dissemination*. National Center for Education Statistics. (2009).

These federal requirements may also have a dampening effect on creativity and flexibility within institutions. Accreditation procedures have become more regulatory in nature in an attempt to provide assurance to the federal government that postsecondary institutions are operating in a way that protects federal interests. In addition, institutions are monitored for default rates, graduation rates and job placement rates in order to maintain eligibility for student aid. All of these requirements make innovative changes in education, those not foreseen by the regulations, more difficult to accomplish within current reporting environment.

Taken together, these federal programs and attendant concerns have become part of the higher education landscape and constrain state policy options. The federal funds influence institutional and student behavior and the attendant regulations limit institutional flexibility while increasing the costs required for compliance.

Research and development

Colleges and universities are the primary performers of basic research, with the federal government being the largest funding source. In FY2009, the federal government provided approximately 60 percent of an estimated $55 billion in research and development funds expended by higher education institutions.[2,3]

Most of this work is awarded through peer review, but some, such as funding from the Department of Agriculture, is awarded through more direct formulas, congressional earmarking or, in the case of major laboratories, through cooperative agreements. The preponderance of funding comes from the Department of Health and Human Services, followed by NSF. Each agency has its own priorities and processes for awarding funds. Whatever form these funding arrangements take, they are generally made at the institutional level, with limited state involvement. State priorities and goals for research may take a backseat to the federal agencies that fund major research centers.

Virginia policy landscape

Virginia has a long tradition of excellence in undergraduate education that is widely cherished by Virginians. However, this tradition must contend with persistent issues in access and affordability that remain evident in the enrollment demographics[4] and with a multi-decade slide in state support that has seen the share of per student undergraduate state support fall from 77% just twelve years ago to 47% percent today.[5] Virginia is not alone in having to deal with flagging state support for higher education, but there are factors and historical circumstances in Virginia that continue to present challenges to maintaining the quality, accessibility and affordability of a college education for all Virginians.[6] Many of

[2] Association of American Universities. "University Research: The Role of Federal Funding." (2011). http://www.aau.edu/WorkArea/DownloadAsset.aspx?id=11588

[3] American Association for the Advancement of Science. "R&D at Colleges and Universities." (2014). http://www.aaas.org/page/rd-colleges-and-universities

[4] See the Data Memo, prepared for SCHVE as part of this project

[5] SCHEV, Tuition and Fees Report, 2014-15

[6] SHEEO, "State Higher Education Finance Report, FY2013," http://www.sheeo.org/projects/shef-%E2%80%94-state-higher-education-finance.

Virginia's institutions of higher education are well positioned to take on these challenges, but they must all succeed to realize gains at the statewide level.

Institutional autonomy is a great strength of higher education in Virginia. To leverage that strength to accomplish its goals, the strategic plan will require awareness of several key statewide trends and issues, the foremost of which has been the steady decline in state funding for higher education. This trend, seen nationwide, is a natural product of two key factors. First, higher education is seen widely as both a public and a private good, which implies that the cost of college should be split, in some way, between the state and the individual. Second, and partially as a result of the first, funding is not constitutionally mandated in Virginia, or in any other state. As a result, funding for higher education is entirely discretionary and must compete with other priorities for a steadily shrinking portion of the available discretionary dollars as mandated spending for programs like Pre-K-12 education and Medicaid consuming an increasing portion of state revenues. Thus, state support for higher education is subject to both economic tides and political negotiation.

On top of this general trend in declining revenues and state support for higher education, the Great Recession, from 2007 to 2009, had a significant and lasting effect on state support for higher education in Virginia. Because federal spending is a major part of Virginia's economy, the initial contraction of the state economy in response to the recession was less than that experienced by most states. Nevertheless, the cuts Virginia made to higher education were deeper than were those in other states, on average. Because state support for higher education is not mandated in Virginia's constitution, funding for higher education is more vulnerable to cuts, which policymakers and the public often assume that institutions can offset with revenues from other sources – largely through tuition and fee increases. Today, as most of the nation slowly recovers from the recession, Virginia's recovery lags, due in part to the effects of Sequestration on defense spending. It turns out that the federal government presence that protected the state's economy during the recession may be a drag during the recovery.

This slow recovery took a negative turn in the current budgetary cycle when policy makers learned that that their budget projections had overestimated the revenues to be received from non-withholding income taxes by $2.4 billion over the biennium. While this is not likely to recur in future budget cycles, it limits revenue in the short-run and underscores the volatility in state funding precipitated by forces outside the control of higher education. It also highlights important and sensitive role that the Governor and General Assembly play in allocating funding state resources to higher education.

Political decisions are harder to make when they involve funding reductions instead of increases. The legislative reluctance to increase taxes and the growth in other state spending priorities during a downturn put higher education at a disadvantage in the appropriations process. Slow economic growth and, historically, even reductions in state support for higher education have resulted in rapidly increasing tuitions and mandated fees to compensate for the shrinking state support. This price increase to consumers has resulted in more students borrowing and a growing sense among the lower- and middle-income electorate that higher education is increasingly priced beyond their reach.

Add to this the unusual Virginia characteristic of the relatively short tenure of the governor. In addition to appointing members of SCHEV and the public higher education boards, who have four-year terms, the governor can veto bills, has line-item authority and can call special sessions of the legislative bodies. By the time a governor is out of office, he or she may have appointed well over half the board members in higher education, only to see to his or her successor do the same within four years – potentially mitigating the ability of his or her appointments to shape long-term educational policies and practices. This is can exacerbated when the shifting demographics of the electorate lead to swings in party control of the governor's office or in a period when one party holds the governor's office and another has the majority in the General Assembly leading contradictory visions for higher education in the state. Examples include debates about the Virginia's educational content standards, tax policy, Medicaid and gun policies.

Within this environment, Virginia's institutions of higher education operate as a constellation of highly autonomous entities, sharing many characteristics and goals, but funded separately and with great independence to manage enrollment, academic policies, financial aid and set tuition and fees. This approach allows each institution to be responsive to both public needs and market forces, including student demand, price levels and innovation, in part by freeing the institution from many of the bureaucratic state policies and procedures that apply to other state agencies. This approach has served the Commonwealth well, and it will be essential for the statewide strategic plan to leverage its strengths to promote higher education throughout the state. However, the statewide strategic plan must also take into account the distinctive challenges that this approach creates in setting and achieving statewide goals.

One fundamental issue endemic to the high-autonomy model is that the natural motives and incentives for individual institutions may not always be fully aligned with statewide policy goals. Institutional autonomy proponents generally argue that more autonomy allows public universities and colleges to operate with less red tape and smooth out funding fluctuations with greater freedom to manage revenue as state funding has fallen. However, individual institutions, especially the higher-profile and more selective ones, have strong incentives to pay heed to institutional imperatives such as moving up in national rankings, attracting private donors and bringing in research funding. These are all appropriate activities for institutions that compete nationally for students and faculty, but as individual actors pursue their own best interests, the aggregate effects, for which no single institution is held accountable, may be contrary to statewide policy goals such as accessibility and affordability. A major policy factor for the statewide strategic plan will therefore be finding the best way to balance state and institutional interests.

In particular, Virginia's policy of letting its institutions of higher education set their individual tuition and fees has enabled institutions to offset declines in state financial support with revenue from other sources, including tuition and fees. However, it has two important implications for the statewide strategic planning process. First, it creates the potential for tuition increases that may make it impossible for the average family in Virginia to send their children to college without borrowing. The state's lack of control over how financial aid is allocated does not enable the state to guarantee protection of low- and middle-income students from tuition increases.

Second, autonomy benefits the most selective universities, which have market power and therefore can raise tuition and still attract students who can afford to attend. The less selective institutions, however, cannot necessarily attract more students who can pay higher tuitions; they serve more low-income applicants and have a harder time raising tuition without pricing students out of the market. In addition, these less-selective institutions do not have access to other forms of revenue resulting from research, philanthropy and medical programs, which further disadvantages them relative to the prestige universities.

The unique situation of the public Historically Black Colleges and Universities in Virginia puts them in a particularly difficult situation, as well. These institutions were founded in response to legal segregation in education, which has since been stricken down by the courts. The legal changes have allowed Black students to attend any college or university in Virginia, but the residual sensitivity to race has limited the ability of HBCU's to attract many students of other races. The two public HBCU's in Virginia continue to serve their historical mission and have committed alumni and community supporters. Yet, both struggle to find a way forward to build on successes of the past.

This inequality among institutions raises the possibility that as the number of students graduating from high school in Virginia flattens and even declines, the public universities with the least pricing power may not be able to sustain enrollment in the face of continuing state cuts. If this trend persists, the state will need to develop standards for evaluating the sustainability of individual institutions. It may be that some of the universities will have to consider significant restructuring in the face of financial stress. This stress will also affect some of the private, non-profit colleges and universities in the state, which may further reduce enrollment options for Virginia's citizens.

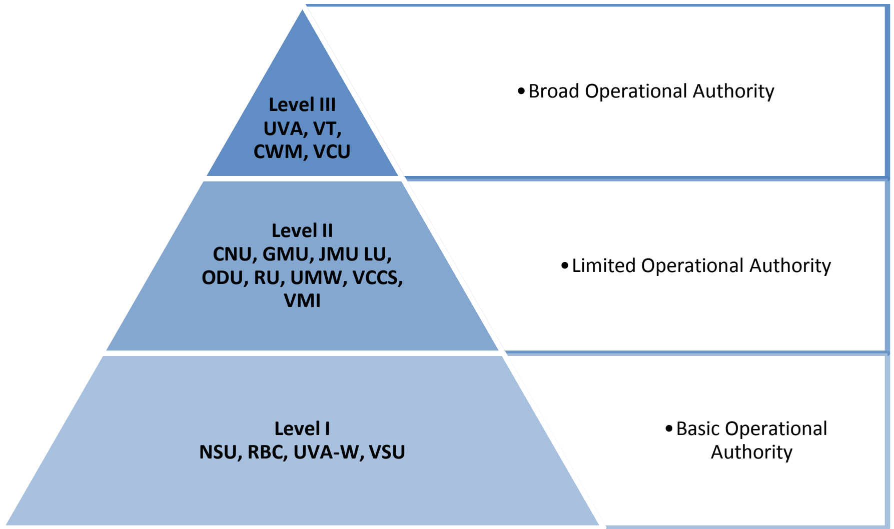
Key legislation

The current legal and policy framework for higher education in Virginia is based on two key pieces of recent legislation. The first was The Restructured Higher Education Financial and Administration Operations Act of 2005, also known as the "Restructuring Act," and the second was the Virginia Higher Education Opportunity Act of 2011, also known as the "Top Jobs Act," or "TJ21." Together, these two acts laid out the freedoms and responsibilities for Virginia's institutions of higher education as they pursue their unique individual educational missions. These laws further refined the relationship between the state and the institutions, and the role that each plays in meeting the higher education needs of the Commonwealth.

The Restructuring Act

During the late 1990's and early 2000's there were a series a large funding swings, tuition increases and legislatively imposed tuition and fee caps that made planning and budgeting difficult for Virginia's institutions of higher education and strained confidence in state support and affordable access. In response, the Restructured Higher Education Financial and Administrative Operations Act of 2005 (Restructuring Act) sought to bolster the financial stability of Virginia's institutions of higher education by affirming their authority to set tuition and fees on an institutional basis and freeing them from burdensome regulations so they could improve the efficiency of their operations. It granted the institutions greater, in some cases much greater, freedom from specific types of state regulations and processes in return for commitments from the institutions' boards of visitors to twelve "state asks" that represented the public interest in higher education.

Figure A. Levels of autonomy under Restructuring Act



Source: SCHEV

Under the Restructuring Act, all of Virginia's institutions of higher education would have to formally commit to the state asks and meeting certain performance targets, and would then be eligible to receive certain financial benefits in addition to begin granted autonomy in basic operations. Institutions that met these basic requirements would be classified as Level I institutions, and would then have the opportunity to seek greater operational autonomy as Level II or III institutions. Level II institutions entered into a joint "Memorandum of Understanding," with the Governor and the respective Cabinet secretaries, which freed them from restrictions in two of the following three areas: capital outlay, information technology or procurement. Eventually, Level II would be come to allow institutions to apply for autonomy in all three areas. Level III institutions, open to those with the greatest managerial capacity, would each establish a "memorandum of understanding" between the institution's Board of Visitors, the Governor and the General Assembly and would receive wide-ranging freedoms from state requirements in the management of capital outlay, information technology, procurement, human resources, and finance.

To balance the autonomy granted to the institutions by the Restructuring Act, the legislation also put into place a system of accountability with two main components: 1) Six-Year Plans and 2) Assessments of Institutional Performance. The Six-Year Plans required the institutions to prepare biennial operating plans with a six-year horizon and update or affirm the plans in off years. The plans would be approved by each institution's Board of Visitors and incorporate three components: one addressing academic programming, one addressing institutional finances and one including enrollment and award projections. Those projections would form the basis for the Assessments of Institutional Performance, which consisted of a set of performance measures for which each institution would set a goal and for which the institution's performance would be reported.

Figure B. The "State Asks" under the Restructuring Act

- **Access** -provide access to higher education for all citizens throughout the Commonwealth, including underrepresented populations
- **Affordability** - ensure that higher education remains affordable, regardless of individual or family income
- **Academic offerings** - Offer a broad range of undergraduate and, where appropriate, graduate programs consistent with its mission and assess regularly the extent to which the institution's curricula and degree programs address the Commonwealth's need for sufficient graduates in particular shortage areas, including specific academic disciplines, professions and geographic regions
- **Academic standards** - ensure that the institution's academic programs and course offerings maintain high academic standards
- **Student progress and success** - Improve student retention such that students progress from initial enrollment to a timely graduation, and that the number of degrees conferred increases as enrollment increases
- **Articulation and dual enrollment** - develop articulation, dual admissions, and guaranteed admissions agreements with all Virginia community colleges and offer dual enrollment programs in cooperation with high schools
- **Economic development** - actively contribute to efforts to stimulate the economic development of the Commonwealth and the area in which the institution is located
- **Research** - consistent with its institutional mission, increase the level of externally funded research conducted at the institution and facilitate the transfer of technology from university research centers to private sector companies
- **Enhancing K12** - Work actively and cooperatively with elementary and secondary school administrators, teachers, and students in public schools and school divisions to improve student achievement, upgrade the knowledge and skills of teachers, and strengthen leadership skills of school administrators
- **Six-year plans**
- **Finance and administrative** - Conduct the institution's business affairs in a manner that maximizes operational efficiencies and economies for the institution, contributes to maximum efficiencies and economies of state government as a whole, and meets the financial and administrative management standards as specified by the Governor
- **Campus safety and security** (added in 2006) - Seek to ensure the safety and security of the Commonwealth's students on college and university campuses

Source: SCHEV

The Top Jobs Act

The Virginia Higher Education Opportunity Act of 2011 (Top Jobs Act) built upon the framework established by the Restructuring Act. In recognition of the need for a highly educated workforce to support economic growth, the signature objective in the Top Jobs Act was to confer an additional 100,000 degrees on Virginians by 2025. It also sought to align institutional behaviors with the public interest by boosting efficiency, affordability and access, and emphasizing economic development though workforce training, research funding and the creation of a public/private partnership to spur cooperation with businesses statewide.

Consistent with the Restructuring Act, the Top Jobs Act relies primarily on funding incentives to influence institutional behavior and accomplish its goals. To this end, the Act allocates institutional funding through four components: a base funding component to cover basic costs of operations and education, per-student enrollment-based funding to encourage in-state enrollment, need-based financial aid funding, and targeted economic and innovation incentives, as outlined in Figure C. The Assessments of Institutional Performance from the Restructuring Act were retained in Top Jobs Act, but the Six-Year Plans were significantly revised to further improve accountability and emphasize the goals established by the new legislation.

Figure C. Funding components under TJ21

Base funding

- Intended to cover basic costs of operation and instruction.
- Goal that 67 percent of cost of education for Virginia students be funded by the state.
- Cost of education calculated as cost of education, using a cost-based funding formula known as "based adequacy guidelines," plus amount needed to achieve 60th percentile of peer group faculty salary goal.

Per-student enrollment-based funding

- A per-student allotment that followed each student and was intended to boost enrollment of in-state students to achieve the goal of conferring an additional 100,000 degrees on Virginians
- The Act provided as guidance a recommendation that the allotment be set equal to the per-student amount provided under the Commonwealth's popular Tuition Assistance Grant (TAG) program, an amount of $3,100 in the 2013-14 academic year.

Need-based financial aid

- Based on the financial aid commitments included in each institution's Six-Year Plan
- To focus on assisting middle- and low-income students.
- SCHEV would provide a need-based aid funding recommendation, based on its Partnership Model.

Targeted economic and innovation incentives

- Incentives that would further encourage the institutions to pursue objectives established by the General Assembly in furtherance of the public good.

Source: SCHEV

The institutional Six-Year Plans have three components: academic, finance and enrollment/degree projections, which are all submitted to SCHEV, the Governor and the Chairs of the House and Senate appropriations committees. SCHEV reviews the enrollment and degree projections and collects the data used to measure the institutions' performance against their projections, as required by code. The secretaries of Finance or Administration and Technology review the components for which their technical expertise is appropriate. However, final approval of the Six-Year Plans rests exclusively with the institutional Boards of Visitors.

The academic component of the Six-Year Plans received an overhaul under TJ21 to align it with the targeted economic and innovation goals established by the legislation. The Act included a set of suggested incentives, which eventually evolved into the five goals outlined in Figure D. These goals created a consistent framework within which each institution would develop an operational plan based on its mission, needs and priorities. The plans would include a description of the strategies to be implemented at each institution, categorized by the state goals that each strategy would address, as well as the incremental funding required for each strategy and amount of required funding covered by tuition and fee increases.

Figure D. State goals to be addressed in the institutional Six-Year Plans under TJ21

Mitigate T&F increases on low- and middle-income students

Optimize year-round use of facilities

Development of resource sharing program

New programs or initiatives, including quality improvements

Institutions may include strategies for the following (optional):

- Increase in-state enrollment
- Increase completions for students with partial credit
- Increase timely completions
- Enhance CC transfer programs and degree-path programs
- Improve retention and graduation rates
- Increase STEM-H degrees conferred
- Other new programs to further Commonwealth's objectives
- Increase research
- Other efficiency reforms
- Technology-enhanced instruction
- Economic opportunity initiatives
- Innovation and continuous improvement
- Strategies to address maintenance of effort or institutional uniqueness

Source: SCHEV

The Secretaries of Education and Finance, Higher Education Advisory Committee, SCHEV, and House Appropriation/Senate Finance staffs have developed funding formulas for higher education consistent with legislative and executive goals and priorities. However, funding of the formulas and incentives has been inconsistent due to state revenue constraints. Most recently, the FY2014-16 budget included formula-based funding recommendations to support enrollment growth, initiatives, incentives, research, financial aid, productivity, and other critical TJ21 goals, but last minute funding cuts resulting in flat funding from the prior biennium.

Together, the independent character of Virginia's institutions of higher education, as affirmed and refined by the Restructuring Act and the Top Jobs Act, establish relatively market-oriented approach to higher education in the Commonwealth, as compared to other states with centralized systems of higher education. This approach has many strengths: it creates system-wide resiliency by enabling the institutions to proactively managing their revenue streams, it promotes efficiency and innovation at the institutional level by allowing institutions to compete individually on quality and price and by free them from onerous bureaucratic red tape and it empowers each institution to create a unique and distinctive character around its own institutional mission. This approach, however, also has inherent weaknesses with regard to protecting the public interest in higher education that can result from the misalignment of statewide and institutional incentives.

Both the Restructuring Act and the Top Jobs Act clearly recognize these potential risks and make major provisions to address them, primarily through the application of performance metrics and incentive based funding. In theory, the Assessments of Institutional Performance, which represent the state's interest in higher education and the Performance Based Incentive Funding provisions in the Top Jobs Act, should provide each institution with motivation engage in behaviors that are consistent with statewide goals. In practice, however, it is not clear that performance measurement system put into place by the legislation has been, or should be expected to be, fully successful in achieving the state's policy goals.

As currently constructed, the primary goals of the legislation are to increase enrollment and completion by in-state students, and the data indicate that they have been successful at achieving that goal. However, the goals of accessibility and affordability are also important, and the current accountability structure does not appear to have been as successful. At the outcome level, this is evidenced by the underrepresentation of minority students at the state's flagship institutions relative to the population (to which inequitable outcomes at the Pre-K-12 educational level are a major contributing factor) and by the persistence of relatively high net-prices paid by students at less-selecting institutions within the state, both of which are presented in the accompanying Data Memo prepared as part of the strategic planning process.

To understand why these state policy goals are not being achieved despite the extensive and concerted efforts evident in the Restructuring Act and Top Jobs Act, and to develop a strategic plan that can contribute to the achievement of those goals, three questions and their answers are instructive:

1. **Can the measures and targets be effectively measured and enforced?**
   On this, the performance measures developed to monitor compliance with the state ask from the Restructuring Act do well. They are clear and the data for the measurements are readily available and effectively collected by SCHEV. The per-student performance funding mechanisms under the Top Jobs is also sufficiently clear and measureable to so it could be effectively measured and enforced.
2. **If fully implemented, would the measures and targets currently in place result in the achievement of the desired outcomes?**
   It is reasonable to conclude that if each institution did very well on each of the performance measures outlined in the Restructuring Act, that, at least, in-state enrollment, in-state graduation rates, and enrollment of underrepresented minorities would be well served, though it cannot be said precisely how well – especially with regard to enrollment of underrepresented minorities.

   However, the fact that the institutions are responsible for setting their own targets effectively prevents the state from using these metrics proactively to set and achieve statewide goals. While there is no evidence to suggest that the institutions are anything but well-intentioned stewards of the policies established by the legislation, the fact that their eligibility for the financial benefits laid out in the legislation depends on meeting their performance targets creates a powerful perverse incentive for them to set easily attainable goals and this appears, in fact, to be what has happened. Additionally, while SCHEV collects data and reports the results for the performance measures, the results are not published or widely distributed, further limiting their effectiveness.

It is not immediately clear that the performance measures resulting from the Restructuring Act would have the desired effect on affordability. This issue is addressed in the Top Jobs Act, which calls on institutions to use financial aid to mitigate the effect of tuition and fee increases on low- and middle-income students, but this call does not provide a clear measure or target to which the institutions can be held specifically accountable. Furthermore, the implementation of the need-based financial aid funding and the targeted economic and innovation incentives via the Six-Year Plans effectively precludes the state from setting statewide goals, particularly for affordability, and holding the institutions accountable for meeting them.

3. **Have (or can) the measures and targets been fully and effectively implemented?**
The performance measures and targets developed from the Restructuring Act have been successfully implemented, from the standpoint that they are defined, the data collected and the results reported. The Six-Year Plans, which are the primary accountability mechanism for the goals in the Top Jobs Act, also appear to be effectively up and running. To an extent, both of these mechanisms, especially the Six-Year Plans, have been useful in creating the foundations for constructive dialogue between the institutions, the Governor's office and the General Assembly.

However, the overall significance of all the performance measures and incentives established by both acts has been minimal due to the lack of funding based clearly on the performance of the institutions. Ultimately, for any performance incentives to be effective, the funding attached to them must be sufficient to change the behavior of the institutions *and* the institutions must be confident that if they meet their targets, they will receive the promised funds. The fact that this has generally not been the case, due to the recession and attendant revenue declines, makes it difficult to evaluate fully the potential effectiveness of any of the accountability mechanisms beyond their theoretical design characteristics. It is, however, possible to conclude that if the funding is not forthcoming, then incentives cannot be highly effective in changing institutional behavior, and the funding has not been reliable.

Executive priorities

Executive Directive Number Twenty-Three

The first higher education policy to come out of Governor Terry McAuliffe's new administration so far has been the "Establishing the New Virginia Economy Workforce Initiative," announced in August of 2014. Executive Order Number Twenty-Three lays out four actions, described in Figure E, emphasizing the importance of sub-baccalaureate credentials in STEM-H fields as the key to filling more than half of an estimated 1.4 million new openings between now and 2022.[7] The Governor's initiative establishes a new goal called the "Pathway to 50K" to attain 50,000 credentials, licenses, apprenticeships and associate's degrees in STEM-H fields, which it recognizes as having good wages and offering a strong return on the state's investment in the initiative. This complements the state's current goal, established in the Top Jobs Act, to confer an additional 100,000 degrees on Virginians by 2025, but also adds to it a new focus on workforce development through sub-baccalaureate credentials. In addition to the "Pathway to 50," the executive order calls for three additional actions to further promote job creation and economic growth. They are:

- "Our Patriot Pledge," with a goal for 10,000 businesses to pledge to hire one of the over 840,000 veterans identified by EO#23 as living in Virginia
- "A Diverse Dominion," which looks to promote small businesses, start-ups, entrepreneurial ventures, and patent production to move Virginia away from dependence on federal dollars
- "Real-Time Resources," an effort to facilitate more timely labor market information in support of developing career pathways to fulfill workforce needs.

These integrated actions provide the overarching structure for the Governor's workforce policy and are supported by a set of agency-level actions described in a Memorandum sent to the state agencies involved in workforce development.

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[7] McAuliffe, Terry. "Executive Order Number Twenty Three." (2014). https://governor.virginia.gov/policy/executive-orders/eo-23-establishing-the-new-virginia-economy-workforce-initiative/

Figure E. Four actions established by Executive Order Number Twenty-Three

Pathyway to 50K

- Goal to obtain 50,000 credentials in STEM-H fields
- Includes credentials, licenses, apprenticeships and associate's degrees
- To be aligned with workforce gaps

Our Patriot Pledge

- Goal for 10,000 businesses to pledge to hire veterans
- Goal to double number of veterans served by "Virginia Values Veterans"
- Acknowlede s the important role of Virginia's 840,000 resident veterans

A Diverse Dominion

- Goal to diversify Virginia's economy outside of federally supported activities
- Focus on small businesses, start-ups, and entrepreneural ventures and patent production
- Upskilling and reskilling Virginia's businesses, workforce and regions for the 21st-century economy

Real-Time Resources

- Virginia will create the Commonwealth Consortium for Advanced Research and Statistics for workforce and education policy
- Addresses the need for timely labor market information to guide higher education career pathway development
- Facilitate alignment between workforce programs and emerging workforce needs of the business community

Source: McAuliffe, Terry. "Executive Order Number Twenty-Three." (2014).

The Strategic Workforce Initiative Memorandum from the Secretary of Commerce and Trade provided further details on the actions state agencies will take to implement the goals laid out in EO No. 23, through a set of nine agency-level actions:

1. Establish annual goals to increase statewide attainment rates of credentials that align with employer needs.
2. Prioritize workforce credentials and levels of attainment to meet regional industry needs.
3. Increase attainment of apprenticeship credentials and align them with community college credentials to create stackable credentials.
4. Improve the Commonwealth's ability to identify workforce credentials that are important for employment and career progression.
5. Increase awareness of the value of workforce credentials for employment and career progression through an online annual wages scorecard.
6. Maximize federal funds for workforce development.
7. Ensure cross-agency/cross-program support for the state effort through the Virginia Career Pathways Work Group and the Virginia Board of Workforce Development.
8. Meet statewide benchmark for workforce credential attainment.
9. Formulate common performance metrics for all career and technical education as well as workforce programs in the Commonwealth.

Together, EO#23 and the supporting Memorandum comprise a plan to meet the growing demand for skilled and credentialed scientific, technical, advanced manufacturing, and healthcare workers, and drive Virginia's economic growth for the near future. However, there may be challenges in implementing this strategic initiative. Foremost among them are the continuing fiscal constraints; the implementing agencies may be hard-pressed to allocate the resources necessary for it to work as envisioned. Some of the responsibility for identifying gaps between the supply of and demand for workers in STEM-H fields resides with the regional Workforce Investment Boards, which have varying capacities for such work. SCHEV will also be responsible for creating a Commonwealth Scorecard of Economic Opportunity by adding post-graduation wages, by programs of study, for Virginians attaining apprenticeship credentials and community college certificates to its current Economic Opportunity Scorecard for graduates of associate's and bachelor's programs.

The greatest burden, however, may fall on the Virginia Community College System (VCCS). Under the plan, the community colleges will play a key role in achieving the governor's attainment goals. They are the leading producers of the associate's degrees, certificates and other credentials at the core of the effort. Even with additional funding, increasing production of credentials would be a significant challenge requiring substantial increases in enrollment and much higher graduation rates. In addition, the governor's policy also calls for better alignment between the credentials produced and the needs of employers. Should new programs need to be created, or existing programs modified, to meet employer needs, the community colleges, and all public institutions of higher education in Virginia, may have difficulty finding the necessary faculty and other resources necessary to start new high-demand programs. The governor's initiative presents Virginia's institutions of higher education with an important strategic opportunity to build this capacity by sharing their collective resources and strengths, but without the necessary funding, success will be difficult to achieve.

Governor's platform

One other source of information about the Governor's policy priorities for higher education is his campaign platform. Governor McAuliffe's platform specifically addressed higher education, laying out priorities for both community colleges and four-year institutions. It emphasizes workforce preparation, but also lays out a fairly comprehensive set of principles to guide higher education policy. Following is a brief summary of the higher education section from the Governor's platform.

In his platform, Governor McAuliffe recognizes that "every dollar spent on community college workforce training creates many more in economic development." He specifically supports the use of the Challenge Grant program to bring in additional resources to support community colleges and speaks to issues of governance and linkages to high schools. To promote high-school linkages, the platform advocates getting students into career training programs and transitioning them into their local community college and calls for community colleges to put more career coaches in high schools to help "guide students toward career readiness." Finally, the Governor's platform called for "increased flexibility and authority" for community college presidents to support innovation.

The Governor's platform also addresses four-year institutions, beginning with protecting the popular Tuition Assistance Grant (TAG) program. He also calls for further improving transfer and articulation agreements between community colleges and private four-years to promote community college transfer as an affordable pathway to a baccalaureate. With regard to public four-year institutions, the Governor's policy statement emphasizes increasing efficiency, reducing costs, ensuring that institutional boards are representative and protecting academic freedom. It also reaffirms the need to support low-income families and veterans in their educational efforts and for investing the modernization of institutional infrastructure.

The Governor's action on workforce training is consistent with his campaign focus. Workforce training has a relatively visible return in the form of relevant credential awarded, which makes it a

Executive Directive Number Six

As part of the implementation of the Top Jobs Act, former Governor Bob McDonnell issued Executive Directive Number Six (ED#6), which directed SCHEV to undertake a process of reform consistent with the legislation. The following actions were specified in the directive:

1. Eliminating assessments of student learning that SCHEV had previously been required to perform. *(Update: Ongoing.)*
2. Gaining authorization to administer Virginia's participation in the national State Authorization Reciprocity Agreement (SARA) reduces the cost and increases the efficiency of authorizing distance education programs. *(Update: Authorizing legislation approved by General Assembly.)*
3. Increasing the efficiency of the program approval process by allowing the Council Staff to approve certain programs. *(Update: SCHEV approved an addendum to the program approval process allowing "facilitated approval" by Council Staff for certain programs.)*
4. Making revisions to the Code of Virginia, and other policy improvements, to aid in the student transfer process. *(Update: Legislation passed to streamline and unify parts of the transfer process, and SCHEV is currently search for a new staff member to lead further efforts.)*
5. Leading a multi-institution collaboration to serve veterans at institutions of higher education. *(Update: SCHEV sought funding for this in the 2014 General Assembly, but it was removed from the final budget, and SCHEV is seeking an alternative path forward.)*
6. Expanding capacity for research, analysis and reporting on higher education issues. *(Update: In planning.)*
7. Expanding outreach efforts to pre-K-12 to improve college and career readiness and transition from secondary to postsecondary education. *(Update: SCHEV is pursuing several efforts including a federal Gear Up grant, a joint readiness assessment project with VDOE, implementing legislation requiring institutions to link to graduate education and employment data, and developing the online college and career planning tool Wizard.)*
8. Expanding efforts to coordinate with colleges and universities on economic development outreach. *(Update: SCHEV met with VEDP, UBED and VCCS to work on the outcomes outlined in the Marketing VA MOU and partnered with stakeholders in hosting a research summit in June of 2014.)*
9. Expanding outreach to public institutions' governing boards. *(Update: SCHEV continues to conduct orientation sessions for new Board of Visitors members and conducted a special session for board leaders.)*

10. Reviewing institutional reporting requirements to ensure that they are relevant. *(Update: Several reporting requirements were removed from the Appropriation Act in 2014 on SCHEV's recommendation.)*
11. Reconsidering the responsible party and process for reporting auxiliary enterprise investment yields, financial feasibility studies and administrative increases in the non-general fund appropriation. *(Update: Addressed by changes in #10.)*
12. Seeking authorization for SCHEV to apply for, hold, and administer expanded grants from public or private sources. *(Update: SCHEV's proposal was not approved by the 2014 General Assembly, work is ongoing.)*
13. Realigning SCHEV staff resources with current policy priorities. *(Update: SCHEV added a staff member at the Director level in the area of higher education innovation and re-purposed and existing position to focus on board outreach, work is ongoing.)*
14. Streamlining the Code of Virginia by eliminating obsolete language. *(Update: SB244, which passed in 2014, removed some items identified by SCHEV, work is ongoing.)*

The goal of these efforts is to bring SCHEV's organization and performance into alignment with the current legislation and improve the efficiency and effectiveness of its operations. The updates included are from the SCHEV Director's Report from July, 2014.

Elementary and secondary education

State policy identifies standards for a rigorous curriculum that prepares students for college, supports the Early Scholars Program and specifies options for dual enrollment. All are designed to improve students' chances of succeeding in college. In addition, Virginia supports the Education Wizard and other guides to careers and college that are designed to help students pick a college and define their program interests.

The Standards of Learning (SOL) for Virginia Public Schools establish minimum expectations for what students should know and be able to do at the end of each grade or course in English, mathematics, science, history/social science, technology, the fine arts, foreign language, health/physical education and driver education. The Virginia College and Career Readiness Initiative builds on the revised standards and is designed to:

1) Ensure that college- and career-ready learning standards in reading, writing, and mathematics are taught in every Virginia high school classroom
2) Strengthen students' preparation for college and the workforce before leaving high school

SCHEV has participated in setting these standards.

The Early College Scholars program allows eligible high school students to earn at least 15 hours of transferable college credit while completing the requirements for an Advanced Studies Diploma. The result is a more productive senior year and a substantial reduction in college tuition. Students earning a college degree in seven semesters instead of eight can save an average of $5,000 in expenses.

To qualify for the Early College Scholars program, a student must:

- Have a "B" average or better
- Be pursuing an Advanced Studies Diploma
- Take and complete college-level course work (i.e., Advanced Placement, International Baccalaureate, Cambridge, or dual enrollment) that will earn at least 15 transferable college credits

Early College Scholars are supported by Virtual Virginia and the Commonwealth College Course Collaborative. Virtual Virginia provides statewide access to college-level courses, while the Commonwealth College Course Collaborative defines the subjects high school students can complete and for which they can receive college degree credit from participating public and private colleges and universities.

In the summer of 2008, a revised collaborative agreement entitled the "Virginia Plan for Dual Enrollment Between Virginia Public Schools and Community Colleges" was signed. This agreement provides a statewide framework for dual enrollment arrangements between Virginia public schools and community colleges.

These arrangements may be made at the local level; i.e., between the representatives of boards of the participating public school and the participating community college authorized to contract such agreements. They may take one of three distinct forms. High school students may be enrolled in:

1. Regularly scheduled college credit courses taught at the community college, alongside other college students
2. Specially scheduled college credit courses conducted exclusively for high school students taught at the high school
3. Specially scheduled college credit courses conducted exclusively for high school students taught at the community college

Virginia has been successful at implementing a variety of programs to improve college readiness and align K-12 and higher education. Developing and maintaining working partnerships between high schools, colleges and the employer community is an important condition for the ongoing success of these efforts. In the long-run, these efforts can lead to greater student success, reduce the time it takes to complete a degree and save money for the student and the state. Developing pathways from high school to college to work for students is an ongoing process in many communities in Virginia. (VDOE, Career Pathways System) For the most part, the effort has been with the VCCS; consideration should be given to engaging more four-year colleges and universities in the effort.

The role of business

The business community is a major stakeholder in higher education, and in Virginia, it plays an important role in the formation of higher education policy. While higher education contributes directly to economic growth in a variety of important ways, including research, partnerships and as a major employer and consumer of goods and services, its primary contribution to the community's economic prosperity is through the development of human capital. Students of higher education gain knowledge, skills and characteristics that employer's value. This includes "soft" skills such as critical thinking and effective communication that are in the core of the liberal arts.

Higher education and the business community are partners in the market for human capital, and both have long recognized the value of effective cooperation. Virginia's institutions of higher education are involved directly with the business community through a wide variety of programs such as the Commonwealth Center for Advanced Logistics Systems (CCALS) and the Commonwealth Center for Advanced Manufacturing, among many others. These models need to be replicated in other regions of the state.

Given its stake in higher education, and its influence in the political arena, it is natural that the business community is also an active participant in shaping higher education policy within the state. The Virginia Business Higher Education Council (VBHEC) is an effective partner for Virginia's institutions of higher education as the champion of the Grow by Degrees Coalition. The Coalition was a key partner in the development and passage of the Top Jobs Act and its goal to confer an additional 100,000 degrees on Virginians, reflecting the powerful political effect that the business community can have when it mobilizes around a higher education agenda. The Virginia Chamber of Commerce, another influential representative of the business community, is developing an initiative called "Blueprint Virginia." Although it is not entirely a higher education plan, it provides important support for higher education, especially the VCCS and STEM-H education, and for the efforts of the VBHEC.

The business community can be a powerful partner in areas where its interests align with those of higher education. One such area of alignment is STEM-H education, which is supported by the VBEHC and the Chamber of Commerce, and was highlighted by Governor McAuliffe's new workforce development initiative. Employers also recognize the need for broader skills that college graduates gain in addition to the specific occupational skills needed by businesses. As the current budget shortfall is resolved, and as future budgets are written, higher education and the business community can work together to ensure that the state continues to invest in its human capital. However, the strategic plan must also set goals that reflect a wider array of interests than those identified by the business community, so that leaders within higher education can maintain an appropriate balance among all of higher education's stakeholders.

Policies from other states

AASCU identified a list of state higher education policy issues they believe will be important in the immediate future. They line up well with the issues being considered in Virginia.

1. Harnessing Higher Education to Address State Economic Goals
2. Agreements Linking State Funding and Tuition Policy
3. Allocation of State Higher Education Appropriations (performance funding)
4. State Educational Attainment and College Completion Goals
5. Vocational and Technical Education
6. College Readiness
7. STEM Related Initiatives (increasing the number of STEM-H degrees and certificates)
8. State Capital Outlay and Deferred Maintenance Funding
9. Guns on Campus (allowing institutions to restrict guns on campus)
10. Immigration (in-state tuition for qualified undocumented students)[8]

There is little that is unique in Virginia that is not also being considered in other states.

A review of policies and initiatives being pursued in other states helps identify examples of programs or approaches for potential inclusion in the statewide strategic plan. This quick overview provides some examples of how other states have addressed core issues in higher education policy; improving college readiness, affordability, and efficiency. The policy options available to states differ based on legal considerations, structure of state decision making, political context, tradition, wealth, and personalities of key players. The policies described below represent possibilities for further consideration rather than suggestions for wholesale implementation.

College readiness is a chronic problem in all states. In North Carolina, the North Carolina Community College System, the University of North Carolina, the North Carolina Department of Public Instruction, and the North Carolina Independent Colleges and Universities have come together to form a coalition for college readiness called NC Ready for Success.[9] Among the aims of this coalition is to promote understanding of the state's new learning standards and alignment between K-12 and postsecondary standards. To accomplish these goals, the coalition is setting up fellowships for participants from K-12 and higher education to provide them the opportunity to work on identifying alignment issues and developing solutions, holding an annual Alignment Summit and awarding mini-grants ($9,000 to $13,000) to projects to enhance K-12 to postsecondary alignment. Alignment was a core part of SCHEV's previous strategic plan. Working with the K-12 community and Virginia's private colleges to implement programs like these would be a way to advance that agenda.

Two other examples of partnerships focused on college readiness are the Road Map Project in the Seattle, WA area and the StrivePartnership operating in Ohio and other states, both grounded in the

[8] AASCU, "Top 10 Higher Education State Policy Issues for 2014," http://www.aascu.org/policy/publications/policy-matters/Top10StatePolicyIssues2014.pdf

[9] http://www.ncreadyforsuccess.com/

theory of "Collective Action."[10] The Road Map project focuses on a specific region, but it exemplifies principles that have broader application, namely: alignment, engagement, data-driven decision-making and system-wide scope. The project's ultimate goal is to provide a structure within which many disparate local projects can agree upon, and work toward, a common set of goals. The StrivePartnership is similarly built around the vision of a community-wide, cradle-to-career approach to education, bringing together partners at each step of a child's development, including higher education and employment.

The StrivePartnership, in particular, represents a demonstrated and scalable model that SCHEV could work to bring to communities in Virginia. The Council staff is already positioned to identify the right people in higher education and could reach out to the Virginia Department of Education for a partner to bring in primary and secondary education participants. To truly establish itself as a go-to partner in facilitating these types of initiatives, however, the members of the Council would likely also have to play roles in finding private sector funding and support. While this might be a departure from past practice, if the Council members were willing to engage at this level, it could carve out a valuable role for SCHEV moving forward.

Another area that has received a considerable amount of attention throughout the nation recently is **college affordability**. The effects of the Great Recession have been felt from coast to coast, and many states are looking for ways to keep college affordable, especially for low-income families. One approach that has garnered considerable attention is the notion of a $10,000 degree. Governors Rick Perry and Rick Scott, of Texas and Florida respectively, have both challenged their institutions of higher education to find a way to provide bachelor's degrees for $10,000 dollars or less. According to PolitiFact Texas, as many as thirteen such affordable degrees have been introduced in Texas since Governor Perry issued this challenge.[11] However, many of these programs require students to complete a significant number of credits online, at area community colleges, or even in high school through dual enrollment.

The story is similar in Florida, where one community college requires students in its $10,000 degree program to enter directly from high school with 3.0 GPA and attend full-time. Both of these characteristics are associated with students that have a high probability of success, and therefore a lower cost of education. While the $10,000 degree may have promise, and political support, there are real concerns that need to be addressed about its effects on access for underserved populations, academic quality and institutional sustainability.

In a similar vein, the Tennessee Promise, announced by Gov. Bill Haslam in 2014, aims to provide the opportunity for a free two-year education at a community college for all Tennessee residents, funded in part by lottery proceeds. According to Education Week, the plan started with a small scale pilot project supported by tnAchieves and is projected to help 25,000 students per year and cost around $34 million

[10] StrivePartnership. Our Policy Aligned Agenda. (2014) http://www.strivepartnership.org/our-aligned-policy-agenda

[11] PolitiFact Texas. "Rick Perry says 13 Texas universities have announced or implemented a $10,000 degree." (2013). http://www.politifact.com/texas/statements/2013/may/31/rick-perry/rick-perry-says-13-texas-universities-have-announc/

per year.[12] On its face, this project appears to raise many of the same concerns as the $10,000 degree concept and may not be sustainable during periods of economic contraction.

One program that did have success, at least in **controlling costs and boosting institutional efficiency**, was the Effectiveness and Efficiency Initiative led by Britt Kirwan at the University System of Maryland (USM).[13] Under this initiative, USM managed to freeze tuition for four years beginning in 2006. By the Winter term of 2014, USM had saved over $462 million through this effort. Along with increased state funding, the steps taken included, "centralizing services such as internal audit, construction management, and real property development; strategically leveraging USM buying power, including a pooled purchase of energy by USM schools acting as a shared entity; and implementing cost-effective energy management strategies." While this initiative was effective in Maryland, it relied heavily on the centralization of redundant functions, which would seem to run counter to the aims of the Restructuring Act in Virginia. Nevertheless, there might be an opportunity for SCHEV facilitate the creation of a partnership among some Virginia institutions to share or centralize redundant resources on a purely voluntary basis.

Looking to the future

The economy has been an important factor in loss of financial support for higher education. Virginia's economy shrank just 0.7 percent in 2009, the recession's worst year, while the U.S. economy declined 2.8 percent. Yet Virginia has lagged behind the nation's economic growth in every year since, a pattern that the Center for Regional Analysis at GMU predicts will continue through 2017. The growth in federal spending since 9/11 has been an economic boon to Virginia, but may be coming to an end with Sequestration and growing efforts to reduce defense spending.

Virginia's rebound so far is weaker at replacing the mid-wage jobs than other recoveries have been. During the recession, Virginia lost close to 80,000 mid-wage jobs but replaced only 20,000 of them so far, according to GMU data. The negative effect on the middle class has been taking place over the past decade. This is not unique to Virginia, where job growth has been in the highest-paid and the lowest-paid occupations.

Many of those mid-wage jobs have been lost in manufacturing sectors, which are declining in Virginia, though there are signs that manufacturing is adding jobs in advanced manufacturing. That may help slow the loss in mid-wage jobs, but will probably not result in a total reversal.[14] Business leaders in Virginia stress the need for more IT and other skilled workers as an important basis for future prosperity. Technical and vocational training and reskilling will be an important factor in determining how well Virginia takes advantage of growth in these sectors, as recognized by the Governor's Workforce Initiative.

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[12] Adams, Caralee J. "States Eye Plans to Lower Cost Barriers to College." *Education Week*. (2014). http://www.edweek.org/ew/articles/2014/03/05/23college_ep.h33.html

[13] University System of Maryland. Effectiveness and Efficiency Initiative. (2014). http://www.usmd.edu/usm/workgroups/EEWorkGroup/eeproject/index

[14] http://www.virginiabusiness.com/news/article/off-the-pace

A near-term future of modest economic growth needs to consider the willingness of an aging population to support increased public spending for higher education. At the same time, the college-age population will become ethnically and racially more diverse and may need more help to succeed in postsecondary education.

Maximizing education access and attainment of Virginia's population needs to be a key part of the mission of the public higher education system. State and higher education officials will need to work together to design a need-based grant aid program that assures all students of an affordable education and align accountability and performance incentives to encourage, not penalize, institutions to enroll and graduate low-income and high-risk students. Virginia will need to expand partnerships with community colleges and invest more in vocational and technical education programs to generate the needed STEM-H degrees and certificates.[15]

Political friction will also result from regional inequalities. The prosperous regions of the state will likely enjoy continued growth, while the rural and low-income regions languish. The need for education and other public services will vary among regions. Higher education will need to be able to provide benefits that are appropriate to the communities they serve.

State support for higher education instruction in Virginia has slipped from 10 percent of state funding to 6 percent (2011). Most of that decline has taken place since 2009, after the worst of the recession was over. Public institutions have raised tuition to compensate for the state cuts. Continued tuition increases in public colleges and universities will be a dream-killing shock to families who have to cope with escalation in tuition and fees that will exceed the ability of the average family to pay. Student tuition policies in public institutions should be based on a shared understanding of the appropriate role for tuition in relation to costs and benefits, and not just what the market will bear. Virginia will need to set policies that combat institutional incentives to simply raise tuition, overuse student fees, discount tuition, and increase out-of-state enrollment.[16]

In addition, ever-increasing student borrowing to pay for college has the potential to become a drag on future spending when the students graduate and want to setup housekeeping in Virginia. Strategies for higher education finance will need to assure manageable debt for students graduating from public colleges and universities.

[15] hhtp://www.nasbo.org/sites/default/files/pdf/improving%20Postsecondary %20Education%20Through%20the%20Budget%20Process-Challenges%20and%20Opportunities.pdf

[16] NASBO, op.cit.

Conclusions

Virginia needs to develop policies that will help stabilize sustainable higher education support and provide affordable enrollment options for all families. Broadly speaking the criteria will need to address the following:

- Is state support predictable?
- Does it provide enough money to operate the colleges at a standard of quality necessary to assure continued relevance to the world's increasing complexity?
- Is there evidence that the public funds are being spent to realize public goals?
- Are public universities affordable for the average family in Virginia?
- Have colleges and universities undertaken efforts to improve operation s to increase efficiency without undermining educational standards?

Without an underlying logic to state support for higher education, Virginia will continue down a path of incremental choices of convenience made without consideration for the longer-term outcomes. Legislated goals are not compelling without consideration for the cost and effort it will take to implement them. Asking colleges and universities to be more attendant to state goals while the state reduces support is not an effective strategy for success.

Allowing tuition and fees to drift on the whims of market forces will not provide assurance that every talented student can attend college regardless of his or her ability to pay. Virginia may eventually find that rebuilding a decayed system of higher education in the future is more expensive than sustaining the relatively healthy system of today. To avoid this, higher education representatives must clearly establish the value – the return on investment – that quality higher education delivers to the state in return for the state's dollars, when making their case to the legislature and the executive for financial support. Measures such as the number of credentials conferred or research dollars brought into the state speak to the immediate policy priorities of elected officials, who tend to value economic growth, job creation and institutional efficiency. Building these measures of contribution into the statewide strategic plan can help higher education make its case in the budget process by showing that SCHEV and the institutions value these priorities and are delivering a return on the state's investment.

Navigating the complex and dynamic policy environment will be a challenge for SCHEV and Virginia's institutions of higher education. The uncertainty inherent in the political process at all levels argues for a strategic approach that clearly articulates the statewide goals for higher education in Virginia, how they will be achieved, and how success will be measured.

Having consistent, transparent goals and metrics, will enable SCHEV to be a more effective advocate for higher education. SCHEV should be able to show the General Assembly and the Governor, in straightforward terms, how funding for higher education contributes to job growth and economic development and that higher education is acting as good steward of public funds. It should also be able to show families and students that progress is being made on keeping college affordable and accessible to all Virginians. SCHEV will also be able to show the institutions that it can be an effective advocate for higher education in a way that is supportive of institutional autonomy.