

*September 9, 2009*

# *The Erosion of State Funding for Virginia's Public Higher Education Institutions*



State Council of Higher Education for Virginia

*Advancing Virginia through Higher Education*



State Council of  
Higher Education for Virginia

## The Erosion of State Funding for Virginia's Public Higher Education Institutions 9.10.09

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### Introduction and Overview

In Virginia, sufficient state support is essential to the vitality of the state's network of public higher education institutions as it currently exists. Unfortunately, a crisis in the funding of Virginia's public higher education system has been evolving over the last two decades. Between 1992 and 2010, general fund appropriations to public higher education in Virginia fell from 14% to 11% of total state appropriations. More specifically, on a per student basis or full-time equivalent (FTE), general fund appropriations to in-state students declined by 18% at the four-year institutions and by 9% at the VCCS from 1992 to 2010 (in constant dollars).

In stark contrast, tuition revenue from all sources has increased by 86% for the VCCS and 90% for the four-year institutions per FTE student. This growing imbalance in higher education funding means that Virginia's students and their families are shouldering an ever-increasing portion of college tuition and fees despite the Commonwealth's commitment to affordable and accessible public higher education.

Further, Virginia's general fund appropriations to public higher education do not compare favorably on a national scale. Based on the data provided in SHEEO's *State of Higher Education Funding 2008 Final Report*, Virginia ranked 40th for state and local appropriations. Our neighboring states to the north and south ranked substantially higher—Maryland ranked 14<sup>th</sup> while North Carolina ranked 7<sup>th</sup>.

It should be noted that Virginia's General Assembly has worked to increase base adequacy funding from 85% of guideline-calculated need in 2004 to 92% as of fiscal year 2008. However, the fact remains that the Commonwealth's support for higher education continues to lag behind most of the country. While the national average for educational appropriations was \$7,059 in 2008, Virginia's appropriation per student was almost \$1,300 lower at \$5,805. Virginia lags behind regionally as well. For 2008, Virginia's per student appropriations was the lowest of all the member states of the Southern Regional Education Board (SREB).

In addition to the aggregate decline in appropriations, Virginia's public higher education institutions must adjust to continually fluctuating funding levels that are tied to the economic cycle of the Commonwealth. When the state is enjoying expansive revenues, the public higher education institutions receive an infusion of funds, but when revenues decline as they have since 2007, the institutions must contend with substantial budget cuts. This revolving cycle of funding increases and reductions plays havoc with the budgets and planning processes of these institutions.

This report examines how state support for public higher education in Virginia has evolved over time to its current state, as well as the steps being taken by one of our neighboring states to address a similar crisis in the funding of that state's public higher education system. The report is offered as a preliminary response to the direction given staff in a Council-approved resolution last October a portion of which states:

***"Finally, we direct our staff to begin preparing a financial plan that will address the growing imbalance in the higher education cost-sharing policy between the Commonwealth and our in-state students and their parents, so that when the economy improves, we can be assured that our acclaimed system of higher education is in a stronger position to meet the challenges of not only today's students but also the students of tomorrow".<sup>1</sup>***

## **The Evolution of State Support for Higher Education in Virginia**

Three hundred years after the founding of Virginia's first higher education institution, Virginia's public higher education system has grown to include 15 public four-year colleges, 1 junior college, and 23 community colleges. While there has always been some level of state support for the Commonwealth's public higher education institutions, a particularly notable period of state support began in the mid-seventies inspired in part by the findings of the 1973 Carnegie Commission on Higher Education. The 1973 Commission developed a tuition policy framework and rationale for higher education funding based on who pays, who benefits, and who should pay.<sup>2</sup>

As part of the study, the Commission reviewed the existing distribution of the costs of education among higher education institutions across the country. Using 1970-71 as the benchmark, the Commission found that on average, students and their families were shouldering approximately 64 percent of the costs of education when spending for loan repayments, subsistence costs, and foregone income were added to the cost of tuition.<sup>3</sup> Given the broad social benefits associated with an educated

population, the Commission determined that public responsibility for funding higher education should increase, and student responsibility should decrease.<sup>4</sup> Please see appendix G for the eight general principles of higher education funding put forth by the 1973 Carnegie Commission on Higher Education.

In response to the Commission's recommendations, the 1976 Virginia General Assembly adopted a six-year plan to achieve a 70/30 funding split for state-supported institutions of higher education throughout the Commonwealth.<sup>5</sup> Under the plan, 70% of an institution's educational and general costs would be borne by the state general fund and 30% would be borne by its students through tuition revenue and other nongeneral funds.<sup>6</sup> At the time of implementation, funding splits varied widely among institutions. For example, in 1976, the University of Mary Washington had a 57/43 split while Virginia Tech enjoyed a 76/24 split.

As indicated in Table 1, the goal of the plan was to bring the funding split to 70/30 at all of Virginia's senior institutions by the 1981-82 fiscal year using annual incremental increases or decreases of approximately 1 percent per year. The incremental progression plan was effective. By 1981-82, state funding complied with a 70/30 split for all senior institutions.

Table 1 – The 70-30 Plan

<b>The 70/30 Plan - 1976 to 1982</b>						
	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Old Dominion University	36.90%	36.0%	34.5%	33.0%	31.5%	30.0%
University of Virginia	25.70%	26.7%	27.7%	28.7%	29.7%	30.0%
Virginia Commonwealth University	28.20%	29.2%	30.0%	30.0%	30.0%	30.0%
Virginia Tech	24.20%	25.3%	26.4%	27.5%	28.7%	30.0%
College of William & Mary	36.30%	34.4%	33.4%	32.3%	31.2%	30.0%
Christopher Newport University	36.60%	35.6%	34.2%	32.8%	31.4%	30.0%
UVA Wise	22.30%	24.0%	25.5%	27.0%	28.6%	30.0%
George Mason University	35.63%	33.8%	32.8%	31.8%	30.8%	30.0%
James Madison University	30.30%	30.0%	30.0%	30.0%	30.0%	30.0%
Longwood University	32.60%	33.5%	32.5%	31.5%	30.5%	30.0%
Mary Washington University	43.20%	40.9%	37.9%	35.3%	32.6%	30.0%
Norfolk State University	24.10%	25.3%	26.5%	27.7%	28.9%	30.0%
Radford University	35%	34.2%	33.2%	32.2%	31.1%	30.0%
Virginia Military Institute	29.70%	30.0%	30.0%	30.0%	30.0%	30.0%
Virginia State University	30.10%	30.0%	30.0%	30.0%	30.0%	30.0%
Richard Bland College			24.8%	25.8%		

Source: State Council for Higher Education (SCHEV)

The Virginia Community College System (VCCS) was not included in the 70/30 plan as the general belief at the time was that these open access institutions should receive a higher level of support.<sup>7</sup> To that end, a funding split of 80/20 was established for the VCCS in 1978. By 1981-82, the funding split for the VCCS was 79/21.

### **Economic Downturns and the 70/30 Plan**

While the 1976 plan achieved its stated objective, the 70/30 split was short-lived as revenue shortfalls for the 1982-84 biennium and further budget reductions in 1990 exacerbated pressure on the funding split. By 1994, the funding split fell to 60/40. Institutions were enacting double-digit tuition increases to offset substantial cuts in state general fund appropriations.

There was a notable turnaround at the beginning of 2000. The General Provisions in the 1999 Appropriation Act announced the General Assembly's intent to ensure that in-state undergraduates pay no more than 25% of the cost of their education at four-year institutions and no more than 20% at community colleges.

Through a combination of tuition freezes from 1994 to 1997, and a 20 percent tuition rollback in 1999-00, the state increased its share of support to an average of 77% for undergraduates at the four-year institutions by fiscal year 2000. A year later, state support for VCCS was also at 77%, just 3% below the 80% target set in 1999.

But a subsequent economic downturn in the 2002-04 biennium once again led to large budget cuts in higher education, representing a funding decline of almost 25% from the previous biennium. The budget cuts combined with large tuition increases resulted in the state's funding share falling once again to an average of 64% for undergraduates in 2004.<sup>8</sup>

To moderate the dramatic fluctuations in costs to parents and students, the General Assembly approved a 67/33 cost share for funding institution-based operations for the 2004-06 biennium.<sup>9</sup> Although the 67/33 funding split continues to be the benchmark for funding Virginia's public higher education institutions, the state's funding share is an average of 62% for fiscal year 2010, falling short of the Commonwealth's stated goal.<sup>10</sup>

## **A Structural Problem**

While it is clear that Virginia's public higher education institutions still enjoy strong support from the Commonwealth's legislators, cyclical economic challenges that are national in scope are a major contributor to the crisis in the funding of Virginia's public higher education system. The cyclical nature of the increases and decreases in state appropriations has to some extent masked the overall decline in higher education appropriations in Virginia. Higher education's share of state general fund has fallen from 14% for 1992-93 to 11% for 2009-10 (appendix A).

Further, there is no question that the large fluctuations in higher education funding have impacted Virginia's students, their families, and the Commonwealth's public higher education institutions. As public higher education costs have increased, so has the financial burden on the state's residents, which is leading to an affordability challenge for ordinary Virginians.

In constant dollars, general fund support for a full-time, in-state undergraduate student at a four-year institution has decreased by a total of 18% since 1992 (appendix B). For the VCCS, state support per in-state student has decreased by 9% for the same time period (appendix C). In contrast, the cost to all students as reflected by nongeneral fund appropriations—that is, tuition revenue from both in-state and out-of-state students—has increased by 90% at four-year institutions and 86% at VCCS for the same time period.

Another indicator of the structural problem within public higher education funding in Virginia is the failing grade for affordability that Virginia received from the National Center for Public Policy and Higher Education (NCPPE) in its *Measuring Up 2008* national report card on higher education. The NCPPE contended that Virginia's families are required to spend a larger share of family income, even after financial aid, for their children to attend both two-year and four-year institutions compared with the best-performing states. Further, students are often required to pay more when the economic situation in the Commonwealth is at its worse and Virginia's families can least afford the increases in tuition.

## **Case Study: Maryland's Higher Education Investment Fund**

Public higher education funding challenges are not unique to the Commonwealth of Virginia. In the two year period following the 1990-91 recession, 55% of all public institutions across the country experienced cuts in their operating budgets because of the effect of the recession on government appropriations.<sup>11</sup> The link between economic cycles and

government appropriations to higher education during recessionary periods seems clear—recessions reduce tax revenues so state and local governments reduce appropriations to public higher education institutions and other types of expenditures in order to balance their budgets.<sup>12</sup> However, what is unique in the funding arena is the steps that some states are taking to address structural funding problems in their states.

Over the past two years, the state of Maryland has taken bold action in an attempt to liberate its higher education system from the fluctuations of the state's economic cycle and the budget cuts that usually follow economic downturns. In 2007, during the Special Session, Maryland's State legislature passed the Tax Reform Act of 2007. As part of the Acts, the corporate income tax rate was increased from 7% to 8.25%. The proceeds from the rate change were dedicated to public higher education and transportation with public higher education receiving 6% of the new revenue. The public higher education allocation was used to create Maryland's Higher Education Investment Fund (HEIF).

The motivation for the Higher Education Investment Fund initially came from the Maryland state legislature in 2004 following a year in which state appropriations to higher education were significantly reduced. As a result of the fiscal year 2003 cuts, tuition was raised in both the fall and spring semesters of that academic year. Resident undergraduate tuition and fees were raised by approximately 10% in 2003 and then by 11% in 2004 for a 21% increase in just two years.

The substantial increases caused an uproar among legislators and constituents in the state. Reacting to these large swings in appropriations and tuition and fees, several legislators introduced bills to address the resulting issues of affordability and predictability. As a result of those initiatives, the House formed a committee on Higher Education Affordability and Access that met four times in 2003 to determine the impact of tuition increase on students and families, as well as strategies to maintain affordability and access for higher education. In its report, the Committee made several recommendations. One recommendation was to impose a corporate income tax surcharge and increase the effective tax rate. The committee recommended that the revenue be placed in a special, non-lapsing fund to be appropriated to support higher education. The House adopted the committee's recommendation and created the Maryland Higher Education Investment Fund (HEIF).

Maryland statute indicates that the purpose of the HEIF is to invest in public higher education and workforce development and to keep tuition affordable for Maryland students and families. The statute requires that the proceeds of the HEIF be invested and reinvested. Any investment

earnings are paid into the HEIF. Further, money in the HEIF may only be expended for the following reasons: a) to supplement general fund appropriations to public senior higher education institutions; b) for public senior higher education capital projects; and c) for workforce development initiatives administered by the Maryland Higher Education Commission (MHEC).

For fiscal years 2008 and 2009, the Maryland General Assembly authorized \$16 million and \$54.3 million respectively for the HEIF. Although the transfers from the corporate tax increase to Maryland HEIF were scheduled to end as of fiscal year 2009, the Maryland General Assembly decided to continue the transfers until fiscal year 2011. The fund will have to be reauthorized by the General Assembly for fiscal year 2011 and beyond. It is important to note that Maryland's General Assembly has not limited its commitment to affordability to increasing state appropriations. The state also instituted a tuition freeze at all public higher education institutions in 2006 and subsequently extended that freeze in 2007, 2008, and 2009.

### **The Economic Benefits of an Educated Citizenry**

Why does affordability matter? Why shouldn't the student who stands to gain the most from his or her education bear the entire burden of the cost of that education? The answer can be summed up in three words—access, affordability, and economics.

Access and affordability are related but separate entities. Access refers to ensuring that graduating high school students are aware of and prepared to enter a postsecondary institution upon graduation. Significant work is being completed in the Commonwealth to ensure that Virginia's students are prepared for higher education. For example, Virginia's P-16 Council seeks to enhance student preparation by better aligning high school standards with the expectations of colleges. However, if the cost of attending a postsecondary institution is beyond the financial reach of students and their families, it does not matter if a student is prepared to attend college as the cost of attending will act as a barrier to enrollment. While there is financial aid available, that aid is finite and cannot serve every student to the extent to which they may require assistance.

Economically, the Commonwealth has almost as much as the student to gain from a student's pursuit of higher education. A college education greatly increases an individual's earning potential and the multiplier effect of that higher income benefits the state's tax base and helps to create a healthy economy within the state. Further, the presence of a world-class system of higher education in Virginia is an effective tool in



attracting companies to the state. The naming of Virginia as the “Best State for Business” for the past three years by Forbes, and most recently by CNBC, is based in part on the educational attainment of the state’s population. There is no question that a highly educated population will continue to encourage businesses to invest in Virginia.

There are also a number of social benefits that an educated population brings to the Commonwealth that are difficult to measure, but, which are equally as important, such as: reduced crime, increased quality of civic life, and increased workforce flexibility.

## **Summary**

Historically, Virginia’s state legislators and the Governor have continually demonstrated a commitment to the financing of the Commonwealth’s public higher education institutions. However, the fluctuations in funding as a result of cyclical economic conditions in the state present a tremendous challenge to the well-being of our public higher education institutions and Virginia’s students and families. While general fund appropriations declined by 18% at four-year institutions and by 9% at the VCCS between 1992 and 2010, tuition revenues from all sources increased by 90% for four-year institutions and 86% for the VCCS during the same time period.

The impact of the fluctuations in funding is reflected in the declining affordability for the state’s residents wishing to attend these institutions, since schools often have no alternative but to raise tuition and fees to help offset reductions in state funding. Further exacerbating the problem is the fact that reductions in state funding—which lead to tuition fee increases—usually occur during labor market downturns when Virginia’s students and their families can least afford it. While the federal stimulus funds provided by the 2009 American Recovery and Reinvestment Act (ARRA) have certainly mitigated tuition increases this year, they are only a temporary fix—expiring by 2011.

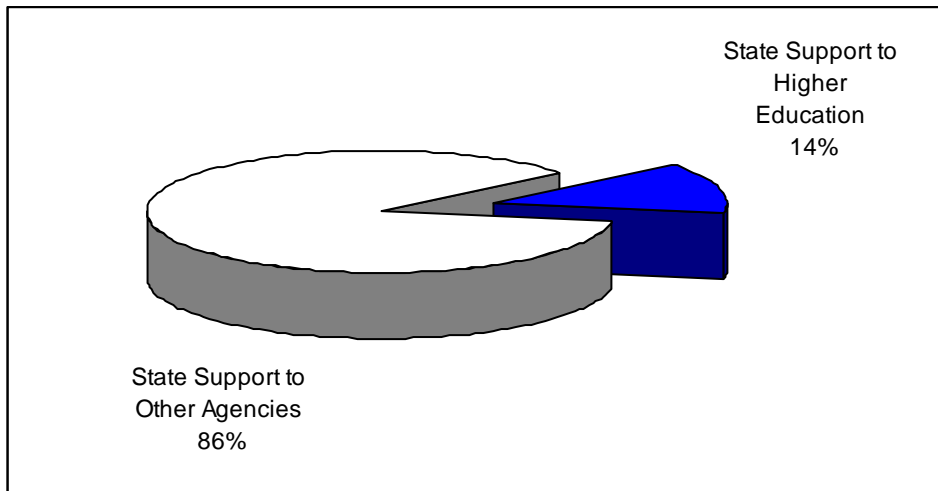
While other states face many of the same funding challenges, Maryland’s state government has established a special fund to help insulate their higher education system from experiencing deep budget cuts during economic downturns. This legislative action was accomplished by the state setting aside a portion of the increase in their corporate tax that was instituted in 2007. In conjunction with the legislative action, the public universities were required to temporarily freeze tuition.

The 1973 Carnegie Commission on Higher Education findings make clear that it is incumbent upon policymakers and the higher education community to formulate a funding policy that will minimize the impact of economic fluctuations on students and provide sufficient resources to the Commonwealth's colleges and universities. The growing importance of higher education as a requirement for sustainable employment imposes an ever-greater responsibility on the state to ensure that Virginia's public higher education institutions remain not only viable, but vibrant. In order to accomplish this goal, a long-term strategy will need to be developed to address the structural problem inherent in the current financing model.

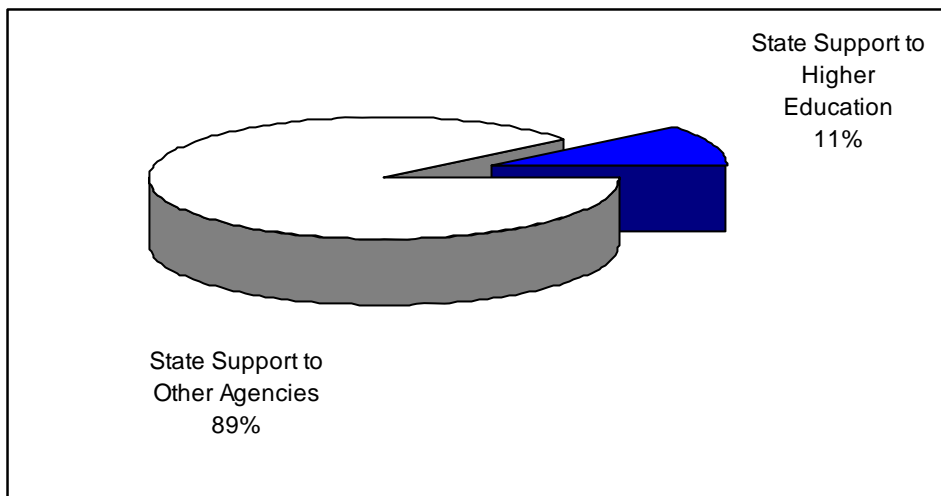
Appendix A

**Percent of General Fund Support to  
Public Higher Education in Virginia**

**1992 - 1993**



**2009 - 2010**

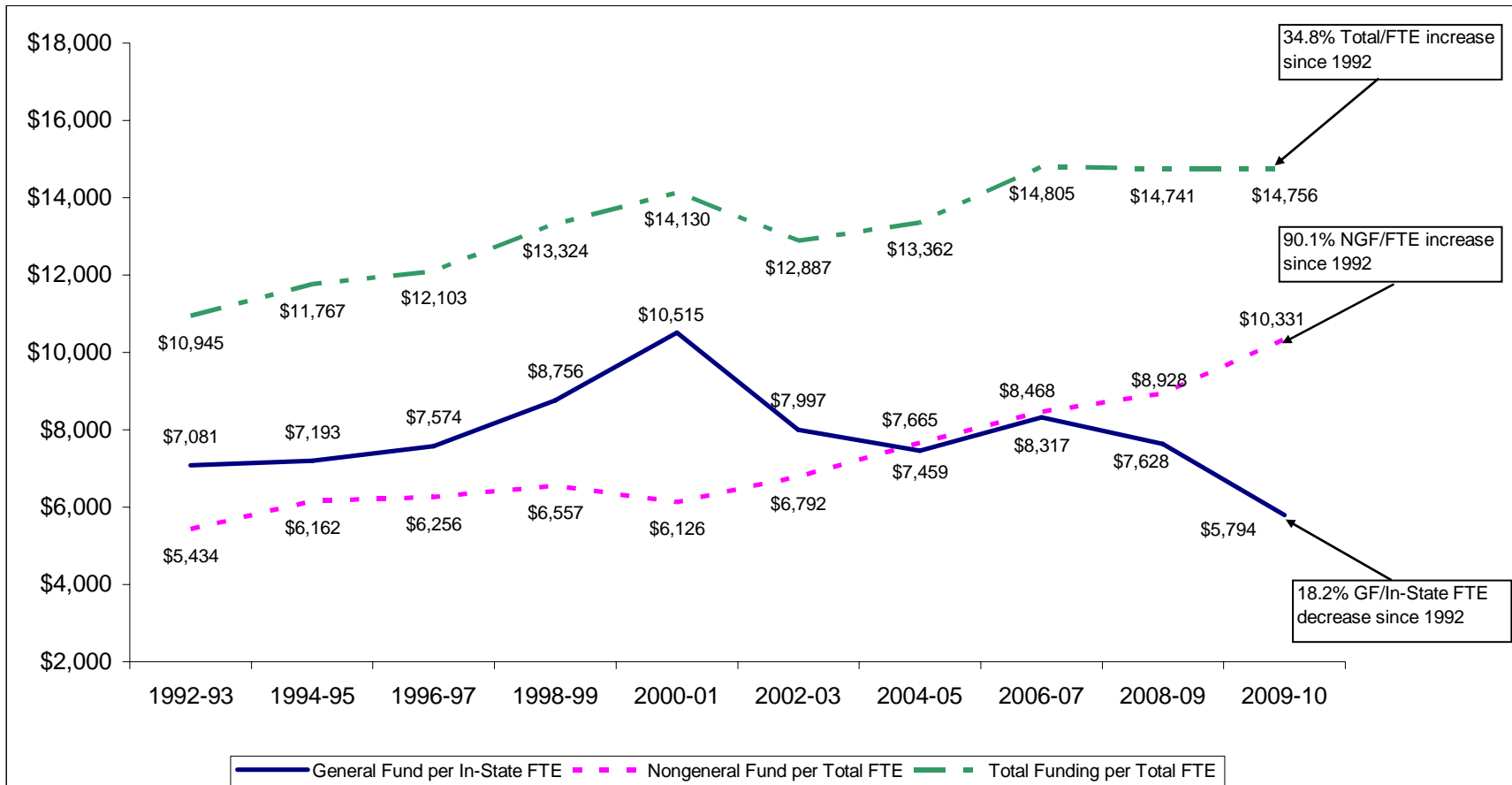


Note: Higher Education includes all public colleges and universities, as well as affiliated and related agencies.

Source: Appropriations Acts of Chapter 994 and Chapter 781

Appendix B

**Average Funding per FTE Student at Four-Year Institutions  
(in 2009-10 constant dollars)**

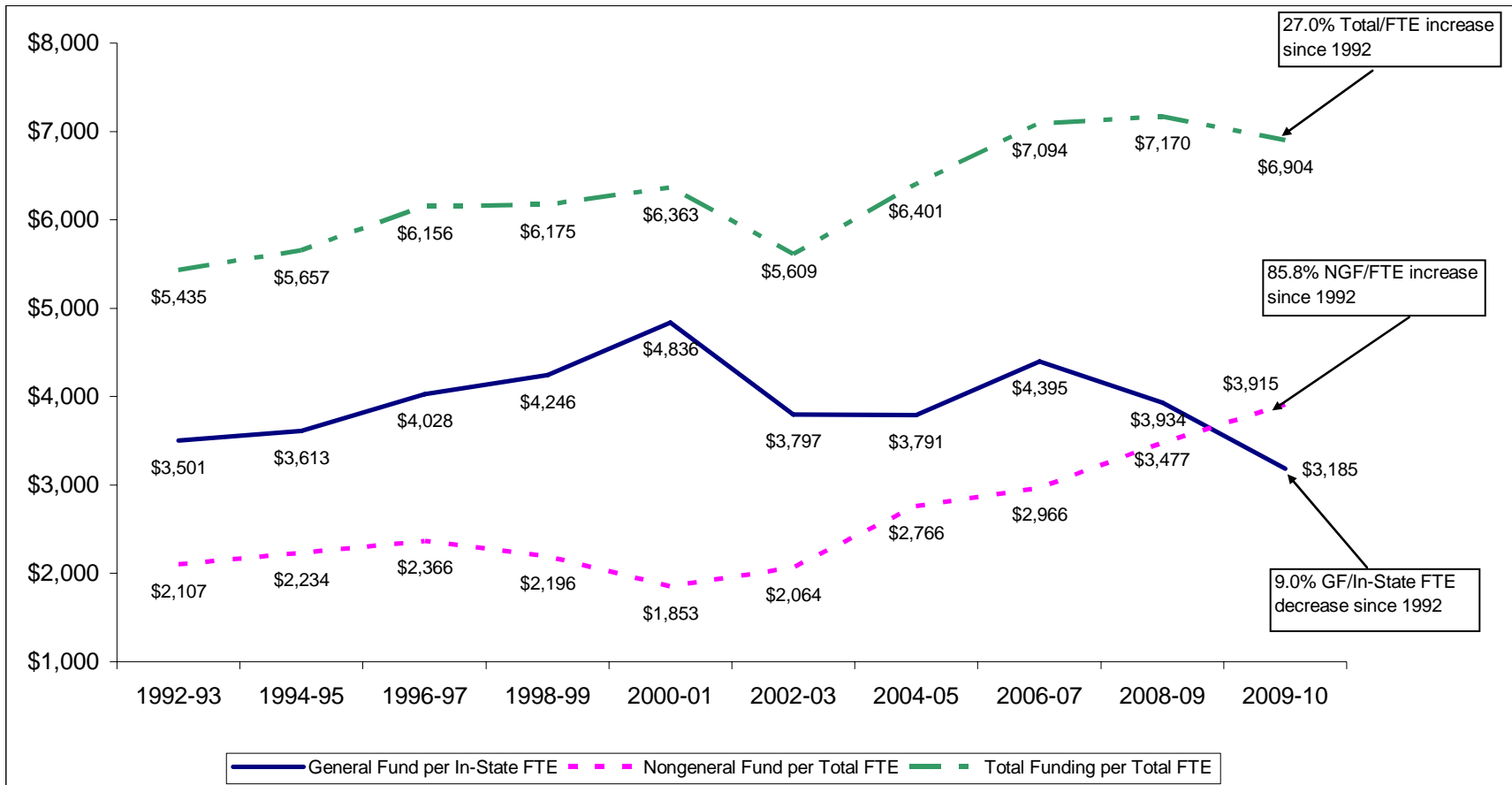


Notes:

- (1) Total Funding per Total FTE is not the sum of General Fund per In-State FTE and Nongeneral Fund per Total FTE.
- (2) FY09 and FY10 are based on projected enrollments. All other years are based on actual enrollments.
- (3) Nongeneral Fund per Total FTE includes funding from the American Recovery and Reinvestment Act of 2009.

Appendix C

**Average Funding per FTE student at Virginia Community Colleges  
(in 2009-2010 constant dollars)**



Notes:

- (1) Total Funding per Total FTE is not the sum of General Fund per In-State FTE and Nongeneral Fund per Total FTE.
- (2) FY09 and FY10 are based on projected enrollments. All other years are based on actual enrollments.
- (3) Nongeneral Fund per Total FTE includes funding from the American Recovery and Reinvestment Act of 2009.

## Appendix D

### FY2008 Public Higher Education Support per Student\*

State and Local			Tuition and Fee			Total		
State	Approp. Per FTE	Ranking	State	Revenue Per FTE	Ranking	State	Revenue per FTE	Ranking
Wyoming	\$15,151	1	Vermont	\$12,423	1	Alaska	\$19,523	1
Alaska	\$14,601	2	Delaware	\$11,065	2	Delaware	\$18,239	2
Hawaii	\$13,150	3	Rhode Island	\$8,654	3	Connecticut	\$17,755	3
Connecticut	\$10,762	4	New Hampshire	\$8,218	4	Wyoming	\$17,417	4
New Mexico	\$9,624	5	Michigan	\$7,900	5	Hawaii	\$16,802	5
Nevada	\$9,102	6	Pennsylvania	\$7,827	6	Vermont	\$15,270	6
North Carolina	\$8,871	7	Connecticut	\$6,993	7	Rhode Island	\$14,742	7
New York	\$8,705	8	New Jersey	\$6,726	8	New Jersey	\$14,685	8
Massachusetts	\$8,506	9	Maine	\$6,659	9	Massachusetts	\$14,511	9
Idaho	\$8,458	10	Maryland	\$6,207	10	Maryland	\$13,853	10
Georgia	\$8,180	11	Indiana	\$6,146	11	Kentucky	\$13,761	11
New Jersey	\$7,960	12	Kentucky	\$6,118	12	Pennsylvania	\$13,713	12
Louisiana	\$7,748	13	Iowa	\$5,942	13	Michigan	\$13,678	13
Maryland	\$7,697	14	Ohio	\$5,867	14	Maine	\$13,463	14
Kentucky	\$7,643	15	Massachusetts	\$5,807	15	Alabama	\$12,749	15
Nebraska	\$7,636	16	Colorado	\$5,703	16	New York	\$12,521	16
Arizona	\$7,614	17	South Dakota	\$5,641	17	Iowa	\$12,314	17
Alabama	\$7,586	18	South Carolina	\$5,625	18	Arizona	\$12,176	18
Illinois	\$7,476	19	Alabama	\$5,582	19	New Hampshire	\$11,759	19
Tennessee	\$7,371	20	Virginia	\$5,322	20	South Carolina	\$11,735	20
Delaware	\$7,226	21	Minnesota	\$5,065	21	Indiana	\$11,547	21
California	\$7,177	22	Oregon	\$4,989	22	Nebraska	\$11,498	22
Oklahoma	\$7,164	23	Alaska	\$4,922	23	Minnesota	\$11,313	23
Utah	\$7,116	24	Arizona	\$4,893	24	North Carolina	\$11,305	24
Washington	\$7,086	25	Montana	\$4,856	25	New Mexico	\$11,154	25
Texas	\$6,962	26	West Virginia	\$4,563	26	Virginia	\$11,127	26
Wisconsin	\$6,810	27	Kansas	\$4,328	27	Nevada	\$11,076	27
Maine	\$6,804	28	North Dakota	\$4,266	28	Tennessee	\$10,930	28
South Carolina	\$6,700	29	Wisconsin	\$4,068	29	Wisconsin	\$10,878	29
Mississippi	\$6,559	30	Missouri	\$3,943	30	Ohio	\$10,865	30
Florida	\$6,534	31	Nebraska	\$3,876	31	Idaho	\$10,857	31
Arkansas	\$6,372	32	Texas	\$3,801	32	Illinois	\$10,779	32
Iowa	\$6,248	33	Tennessee	\$3,688	33	Texas	\$10,759	33
Minnesota	\$6,145	34	Hawaii	\$3,653	34	Oregon	\$10,636	34
Kansas	\$6,125	35	New York	\$3,650	35	Oklahoma	\$10,464	35
Rhode Island	\$6,089	36	Mississippi	\$3,561	36	Kansas	\$10,453	36
Missouri	\$6,032	37	Arkansas	\$3,317	37	Utah	\$10,314	37
West Virginia	\$5,892	38	Oklahoma	\$3,300	38	Louisiana	\$10,226	38
Pennsylvania	\$5,886	39	Utah	\$3,198	39	Georgia	\$10,221	39
Virginia	\$5,805	40	Illinois	\$3,194	40	South Dakota	\$10,169	40
Michigan	\$5,778	41	Louisiana	\$2,478	41	Mississippi	\$10,094	41
Oregon	\$5,647	42	Washington	\$2,446	42	Missouri	\$9,976	42
North Dakota	\$5,579	43	North Carolina	\$2,356	43	Colorado	\$9,917	43
Indiana	\$5,402	44	Wyoming	\$2,266	44	North Dakota	\$9,845	44
South Dakota	\$5,018	45	Idaho	\$2,172	45	West Virginia	\$9,844	45
Ohio	\$4,998	46	Florida	\$2,097	46	Montana	\$9,796	46
Montana	\$4,940	47	Georgia	\$2,042	47	Washington	\$9,531	47
Colorado	\$4,213	48	Nevada	\$1,974	48	Arkansas	\$9,280	48
New Hampshire	\$3,427	49	New Mexico	\$1,555	49	California	\$8,583	49
Vermont	\$2,847	50	California	\$1,406	50	Florida	\$8,580	50
US	\$7,059		US	\$4,004		US	\$11,026	

Note: \*Data include tax appropriations, state funded endowment earnings, and financial aid but exclude enrollment and revenue related to agricultural, medical and research funding.

Source: State Higher Education Executive Officers (SHEEO) SHEF 2008 Final Report.

## Appendix E

Resolution from SCHEV Council Meeting Minutes for October 21, 2008

### Budget Addendum Language

The policies and goals contained in the individual budget amendment items (see list below) reviewed by the Council at its October 21, 2008 meeting, are critical to the quality and affordability of our system of higher education, but the current state revenue shortfall makes it necessary to distinguish between the Council's long-term and short-term goals for higher education in the Commonwealth.

Long-term goals that have been supported strongly and consistently by the Council include:

- 1) Reaching full funding under the base adequacy funding guidelines
- 2) Raising average faculty salaries to the 60<sup>th</sup> percentile
- 3) Securing the funds needed to properly operate and maintain new facility space and address deferred maintenance needs through the Maintenance Reserve program
- 4) Providing sufficient financial aid to needy in-state undergraduate students based on the Partnership model and adequate financial aid to graduate students to ensure competitiveness and strengthen our research efforts

In order to preserve our nationally acclaimed system of higher education and ensure the well being of our citizens, the continued pursuit of these goals is a necessity. However, the economic crisis now threatening the Commonwealth and the nation as a whole makes it necessary to recommend the following strategies for higher education in Virginia that focus more on short-term goals.

- 1) We recommend that need-based financial aid for in-state undergraduate students and Virginia Commonwealth awards for graduate students be identified as the highest priority for any additional funding that may be available since there is currently no increase budgeted in the Appropriation Act in the second year of the biennium. We further recommend that the Tuition Assistance Grant (TAG) minimally be continued at the current level to ensure that resident Virginia students have access to higher education.
- 2) We recommend the use of the base adequacy funding guidelines as a means to equitably reduce institutional budgets if reductions are necessary. In general, institutions that are currently funded at a higher percentage of the guidelines could afford a larger reduction than those institutions at the lower end of the scale.

- 3) We recognize that our institutions should be given the flexibility needed to increase tuition appropriately to help offset any necessary general fund budget reductions provided that, as in many other states, institutions be required to dedicate between 5% and 30% of such tuition increases (depending on their circumstances) to need-based financial aid for in-state students. This recommendation could very well adversely impact the affordability of our institutions in the short-term, but such flexibility may be necessary in order to preserve an acceptable level of service to our students and their families. Without this flexibility, access to essential course offerings and timely graduation could be at risk. Further, we recommend to the institutions that tuition increases be structured so as to minimize—as much as possible—the impact on Virginia students, particularly in-state undergraduates.

Finally, we direct our staff to begin preparing a financial plan that will address the growing imbalance in the higher education cost-sharing policy between the Commonwealth and our in-state students and their parents, so that when the economy improves, we can be assured that our acclaimed system of higher education is in a stronger position to meet the challenges of not only today's students but also the students of tomorrow.



## Appendix F

The eight general principles of higher education funding of the 1973 Carnegie Commission on Higher Education:

1. **Public and private subsidies:** Higher education is both a public as well as a private good, and investing in higher education should reflect both dimensions.
2. **The public/private benefit continuum:** The benefits from investment in higher education in terms of lifetime incomes and enhanced personal opportunities are greater in upper-division and graduate or professional education than at entry levels. Public benefits are greatest at entry levels.
3. **Tuition charges should reflect costs:** While public subsidies are generally justified in all programs because of the public benefits from higher education that occur at all levels, student tuitions should reflect the cost of programs. Higher cost programs should charge higher tuitions.
4. **Student loans:** Student loan financing should be available to enable students to attend high cost programs.
5. **Financial aid:** Responsibility for ensuring economic access to higher education is a broad-based public responsibility and should be funded from the widest source of revenue.
6. **Tuition and aid tied together:** Economic access can be maintained despite higher charges through appropriately structured student aid programs. As tuitions increase, so should funding for financial aid.
7. **The benefits from private higher education:** In private higher education, the benefits of investment are essentially the same as the benefits to investment in public higher education. Therefore, a mix of public and private funding strategies is appropriate for private higher education, as well as for public education.
8. **The opportunity costs of college:** Foregone income, as well as subsistence costs, are legitimate elements of the cost of education and should be factored into the calculus of responsibilities for funding higher education. Opportunity costs in particular represent a higher percentage of family income for low-income students than for middle-and upper-income students.

## Endnotes

1. State Council of Higher Education For Virginia Council Meeting—October, 28, 2008. Minutes No. 528.
2. Wellman, J. V. (2001). *Looking Back, Going Forward: The Carnegie Commission Tuition Policy*. The New Millennium Project on Higher Education Costs, Pricing, and Productivity Working Paper. The Institute for Higher Education Policy. Washington, DC.
3. Ibid.
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