

**2014-16 Systemwide Operating and Financial Aid
Budget Amendment Recommendations for
Public Higher Education in Virginia**



**State Council of
Higher Education for Virginia**

November 2014

Statutory Rationale for Systemwide Operating Calculations

The enabling legislation for systemwide operating calculations can be found, in part, in Sections 23-9.9, 23-9.6:1 and 23-38.87:13 of the Code of Virginia. These sections outline the responsibilities of the State Council of Higher Education for Virginia (SCHEV) as they pertain to the calculation of systemwide operating financial requirements of public higher education in Virginia.

Section 23-9.9 charges the Council to develop policies, formulae, and guidelines for the fair and equitable distribution and use of public funds among the public institutions of higher education. Further, this section states that such policies, formulae, and guidelines as are developed by the Council shall include provisions for operating expenses and capital outlay programs and shall be utilized by all public institutions of higher education in preparing requests for appropriations.

Section 23-9.6:1(19) charges the Council to provide periodic updates on base adequacy funding guidelines adopted by the Joint Subcommittee for Higher Education Funding Policies.

Part A of 23-38.87:13 requires that SCHEV, following consultation with each institution and the Higher Education Advisory Committee, calculate each institution's basic operations and instruction funding need for each year of the next biennium and shall make that calculation available to the Governor, the General Assembly, and all public institutions of higher education.

SCHEV 2014-16 Budget Amendment Recommendations

Fluctuations in state funding, however, present a tremendous challenge to the well being of our public higher education institutions and the state's students and families. On a per-student basis, general fund appropriations declined by 49.6% (\$5,909) on average at the four year-institutions and by 46.6% (\$2,550) at the Virginia Community College System (VCCS) between 2001 and 2016, based on the adjusted budget for FY16.

Since Virginia's students and their families are shouldering an increasingly high proportion of college costs, it is imperative that the Council's highest priority budget amendment recommendation focus on financial support for students. Student financial need has risen in the past years due to an increased number of students (both new and returning) demonstrating financial need, reduction in financial resources, higher tuition charges and other cost increases. With these cost increases and the slow recovery of the economy, the number of students demonstrating financial need increased by 78% from 71,043 students to 126,700 students between FY2011 and FY2014.

The State Council of Higher Education made the following 2014-16 budget amendment recommendations in a priority order and with the assumption that limited additional general fund would be available in FY2016 given the weak economy and state budget situation.

(A) Student Financial Aid

Due to this ever increasing, expanded need, the Council recommends that need-based financial aid for in-state undergraduate students, as well as preservation of the current level of state support for both undergraduate and graduate

students for the Tuition Assistance Grant (TAG) Program, be identified as the highest priority to address college accessibility and affordability. It is estimated that an additional general fund appropriation of \$31.5 million will be required. Without this additional support, Virginians, with great potential and desire to obtain postsecondary education, may unfortunately face financial circumstances that deny them access.

The recommended amount of \$31.5 million includes \$26 million for the core undergraduate financial aid program. This recommendation recognizes that some institutions were funded in FY2015 at comparatively spartan levels and the Council is recommending imposing a minimum level of funding for senior institutions. While there may be a number of ways to allocate the funds, Attachment 1 provides one alternative.

Also included in the recommended amount is \$4 million for two targeted need-based financial aid opportunities. The two targeted opportunities are the existing two-year college transfer grant program and a new effort to address the workforce development needs that you have championed.

The Two-Year College Transfer Grant Program provides up to \$2,000 for eligible students who transfer from a two-year institution to a public or private four-year college or university. This program allows students to get a university education at the community college price. It is not only a good deal for the student but also a good deal for the Commonwealth, as more students will gain valuable credentials and the state will save money by educating more students at a lower-cost institution rate.

The new effort is one that has gained some interest recently as a means to address workforce development needs. Many middle-skills jobs do not require a degree but do require specialized training beyond high school that leads to an industry-

based certificate. At the present time, these students are ineligible for state and federal financial aid programs. The Council recommends that a small sum of money be set aside for these students. Since this would be a new set-up, if funds become available, the Council recommends that the General Assembly direct SCHEV and the Virginia Community College System to establish guidelines for the administration of these funds.

The final portion, \$1.5 million, of the recommended amount of \$31.5 million is for maintaining the current award amounts for the Tuition Assistance Grant Program (TAG). TAG is currently protected from the latest round of budget reductions. However, achieving the new goal of 168,600 degrees by 2030 requires a partnership between public and private institutions - and continued support for the TAG program. If no new funding is provided for TAG, the projected award amounts for FY2016 are \$3,020 for undergraduate students and \$1,510 for graduate students. Alternatively, maintaining awards at the current levels of \$3,100 / \$1,550 would require the recommended \$1.5 million in additional funds.

(B) Higher Education Equipment Trust Fund

The second priority of the Council's budget amendment recommendations focuses on the Higher Education Equipment Trust Fund (HEETF). In order to advance the Commonwealth's research activities to enhance the well being of Virginians and maintain institutions' competitiveness, the Council recommends an additional allocation of \$8.8 million in FY2016 be provided to make up the difference between SCHEV's research and workforce development initiative recommendation and the funding provided by the 2014 session. As the annual cost of debt service for this additional allocation, estimated at \$1.4 million from the general fund, won't be required until FY2017, this would be a very timely and prudent investment. Attachment 2 provides more details.

(C) Funding budget items through tuition capacity

Due to the budget shortfall, the Council recognizes it is not likely that general fund would be provided for institutions' E&G operations in FY2016. Although the Council acknowledges that Item 471.20.B of the amended Chapter 2 (HB5010) directs institutions to manage general fund reductions and savings through productivity and operating efficiencies and not through increases in tuition and fees, our institutions need sufficient funds not only to address accessibility and affordability issues but also to ensure the quality of education. Given that tuition revenues now account for about two-thirds of the institutional operating resources at the system level, the Council proposes that our colleges and universities use their tuition capacity to pursue the funding of high priority budget needs. Institutions can generate revenue not only through tuition increases on in-state students but also through enrollment growth. Some institutions have the capacity to enroll more out-of-state students, which can lessen the tuition impact on in-state students.

(a) Faculty salary

One high priority budget need for the institutions is faculty salaries. Institutions contend that the absence of significant faculty salary increases for half a decade is the greatest threat to the recruitment and retention of faculty. The Council proposes that institutions be allowed to use tuition revenues to fund faculty salary increases and reach the state goal of the 60th percentile of their peer institutions' salaries utilizing a phased approach. Attachment 3 presents an example (any such decisions will, of course, rest with the individual boards of visitors) of the tuition revenue increases that would be necessary in FY2016, and continuing for a five-year period, to reach the Commonwealth's 60th percentile faculty salary goal. Salary increases for faculty should be based on merit and provided as an incentive for meeting state and institutional priorities. The appropriated or authorized salary that is used to measure the gap toward the state goal should incorporate any such tuition revenue-based increases for this purpose.

(b) O&M for new facilities coming online

Another high priority budget need for the institutions is the operation and maintenance (O&M) of new facilities coming online. The 2014 General Assembly provided no additional general fund support for this need. All higher education institutions have submitted requests to SCHEV for additional funding to operate and maintain new facilities coming online in FY2016, totaling \$26.5 million. Without additional funding targeted to maintain new space coming online, institutions will be required to divert money from their existing budgets to support these needs.

When combining the funding needs of faculty salary increases and O&M of new facilities coming online in FY2016, it is estimated that an average tuition revenue increase of 3.7%, from all types of students, would be necessary in FY2016. Institutional increases in tuition revenue would range from 1.9% to 6.0% to cover these two items. Attachment 4 provides more detailed information.

(D) Develop a long-term financial plan

With regard to policy issues, the Council recommends that it is essential that a long-term financial plan for the future funding of public higher education in Virginia be developed and implemented that recognizes the importance of both sustainable revenue and increased efficiency to ensure that Virginia's system of colleges and universities be affordable, accessible, sustainable and vibrant. Doing so will ensure that Virginia's students have an opportunity to obtain an education that enables them to compete in the global marketplace and contribute to a healthy economy within the state.

Attachment 1

FY2016 Virginia Student Financial Assistance Program Funding Proposal

Institution	# Students with Need	2016 Full Funding Goal	FY16 Base Funds	FY16 Funding Level	FY15 PM % Met	Increase Recommended	Proposed FY16 Funding Levels
Christopher Newport University	1,505	12,328,012	4,577,403	37.1%	41.3%	500,000	41.2%
College of William & Mary	752	5,982,946	3,235,804	54.1%	57.9%	200,000	57.4%
George Mason University	7,255	52,797,566	15,536,039	29.4%	30.6%	3,000,000	35.1%
James Madison University	3,286	20,974,757	7,419,088	35.4%	39.8%	900,000	39.7%
Longwood University	1,644	12,743,532	4,176,583	32.8%	36.9%	500,000	36.7%
Norfolk State University	4,209	22,448,596	7,813,592	34.8%	39.5%	1,100,000	39.7%
Old Dominion University	8,565	52,058,809	16,693,350	32.1%	36.4%	2,200,000	36.3%
Radford University	3,311	21,569,303	7,416,618	34.4%	39.0%	900,000	38.6%
University of Mary Washington	1,101	7,996,888	1,821,686	22.8%	29.4%	1,000,000	35.3%
University of Virginia	1,448	7,818,079	5,776,211	73.9%	70.7%	100,000	75.2%
University of Virginia - Wise	950	5,140,362	2,099,938	40.9%	43.9%	100,000	42.8%
Virginia Commonwealth University	9,182	67,895,893	21,170,891	31.2%	38.5%	4,800,000	38.3%
Virginia Military Institute	239	1,962,044	870,928	44.4%	48.4%	100,000	49.5%
Virginia State University	2,858	18,063,430	6,006,890	33.3%	33.9%	1,300,000	40.5%
Virginia Tech	5,070	37,825,165	15,117,631	40.0%	45.8%	2,100,000	45.5%
Four-Year Institution Totals	51,375	347,605,382	119,732,652	34.4%	38.8%	18,800,000	39.9%
Richard Bland College	672	2,758,064	454,107	16.5%	25.2%	200,000	23.7%
Virginia Community College System	76,438	188,794,812	37,891,836	20.1%	21.2%	7,000,000	23.8%
Two-Year Institution Totals	77,110	191,552,876	38,345,943	20.0%	21.2%	7,200,000	23.8%
Totals	128,485	539,158,258	158,078,595	29.3%	32.3%	26,000,000	34.1%

Notes:

- Returns the majority of institutions to approximately FY2015 levels of funding.
- Establishes a minimum “floor” of approximately 35 percent for senior institutions.
- Recognizes challenges faced by NSU and VSU by raising them to approximately 40 percent.
- Caps total increase in new funding for two-year institutions at approximately 20 percent.

Attachment 2

Higher Education Equipment Trust Fund (HEETF) Research and Workforce Development Equipment* (2015-2016)

Inst.	SCHEV Recommendation	Appropriations	Approp. as % of Recommend.	Recommended Add'l Funding
CWM	\$550,695	\$486,458	88%	\$64,237
GMU	\$683,635	\$387,306	57%	\$296,329
ODU	\$447,158	\$268,659	60%	\$178,499
UVA	\$6,796,211	\$4,236,579	62%	\$2,559,632
VCU	\$3,320,820	\$2,445,569	74%	\$875,251
VT	\$6,672,940	\$4,278,311	64%	\$2,394,629
VCCS	\$4,000,000	\$2,000,000	50%	\$2,000,000
VIMS	\$566,542	\$143,120	25%	\$423,422
Total	\$23,038,001	\$14,246,002	62%	\$8,791,999

Note: * Debt service for additional funding won't begin till FY2017. The estimated annual debt service need is about \$1.4 million in FY2017.

Attachment 3

Annual Average Virginia Teaching and Research Faculty Salary to Reach the 60th Percentile of Peers over Five-Years ^{1,2,3,4}

Inst	FY2014		Reaching the Goal Over Five Years by FY2020						
	Appropriated	T&R Faculty	Over Five Years		Funding Need By Fund Share in FY16			Required T&F Incr for 100% NGF Funding	Total Funding Need over Five Years
	Va T&R Faculty Salary	Salary Percentile to Peers	60th Percentile Goal ⁶	Required Annual Increase	GF	NGF	Total		
CNU	\$72,011	40	\$89,749	4.5%	\$578,881	\$367,003	\$945,883	2.5%	\$5,174,653
CWM ⁵	\$96,342	34	\$121,045	4.7%	\$1,283,699	\$1,991,044	\$3,274,743	2.6%	\$17,986,895
GMU	\$83,504	5	\$114,405	6.5%	\$4,629,569	\$4,592,680	\$9,222,249	3.2%	\$52,508,177
JMU	\$77,233	40	\$95,619	4.4%	\$1,954,020	\$2,133,887	\$4,087,907	2.1%	\$22,319,113
LU	\$70,739	53	\$81,361	2.8%	\$292,015	\$169,304	\$461,318	1.4%	\$2,439,429
NSU	\$69,062	61	\$76,462	2.1%	\$181,931	\$144,110	\$326,040	1.0%	\$1,700,123
ODU	\$77,992	35	\$96,289	4.3%	\$1,725,530	\$1,333,920	\$3,059,450	2.2%	\$16,670,612
RU	\$69,954	29	\$89,764	5.1%	\$1,178,074	\$725,115	\$1,903,190	2.7%	\$10,537,353
UMW	\$76,114	26	\$96,916	5.0%	\$600,207	\$429,308	\$1,029,515	2.6%	\$5,688,718
UVA ⁶	\$99,042	32	\$124,293	4.6%	\$2,711,510	\$4,948,123	\$7,659,633	1.7%	\$41,987,435
UVAW	\$72,067	80	\$76,558	1.2%	\$51,830	\$31,364	\$83,194	1.0%	\$426,075
VCU ⁶	\$86,307	33	\$106,160	4.2%	\$2,923,802	\$2,994,825	\$5,918,627	1.8%	\$32,185,570
VMI	\$75,915	35	\$97,112	5.0%	\$189,928	\$287,278	\$477,205	1.9%	\$2,636,860
VSU ⁵	\$67,642	40	\$82,422	4.0%	\$401,432	\$458,166	\$859,598	2.4%	\$4,655,858
VT ⁵	\$93,104	31	\$114,541	4.2%	\$4,062,531	\$5,993,238	\$10,055,769	2.6%	\$54,683,408
RBC	\$60,260	77	\$63,410	1.0%	\$15,323	\$7,859	\$23,182	0.6%	\$118,251
VCCS	\$63,527	51	\$76,046	3.7%	\$4,919,010	\$2,926,301	\$7,845,311	1.5%	\$42,238,722
Total					\$27,699,290	\$29,533,524	\$57,232,814		\$313,957,253
4-yr Average Ranking		38							
Average Increase				4.0%				2.0%	

Notes:

- (1) 2013-14 peer salary came from IPEDS 2013 SA.
- (2) Funding need is derived by assuming salary increases on July 1.
- (3) Institutions' base salary came from 2014 activity-based budget.
- (4) Assumed peer salaries will have an annual 2% increase in 2015-20.
- (5) Includes affiliates.
- (6) Includes family practice program.

Attachment 4

Estimated Required Tuition Increases for Faculty Salary and O&M in FY2016

Inst	FY2015 Tuition Revenue ¹	Required Additional Funding in FY2016			Required Tuition Incr	Planned Tuit Rev Incr ¹	Planned ISUG Tuition Incr ^{1,3}
		Fac Sal Incr ²	O&M	Total Funding			
CNU	\$37,444,784	\$945,883	\$663,000	\$1,608,883	4.3%	9.3%	9.9%
CWM	\$126,289,606	\$3,274,743	\$439,608	\$3,714,351	2.9%	4.5%	12.6%
GMU	\$292,178,000	\$9,222,249	\$4,002,582	\$13,224,831	4.5%	7.4%	5.0%
JMU	\$193,883,846	\$4,087,907	\$1,948,335	\$6,036,242	3.1%	5.4%	7.5%
LU	\$32,723,710	\$461,318	\$526,423	\$987,741	3.0%	11.6%	13.0%
NSU	\$33,594,637	\$326,040	\$1,350,000	\$1,676,040	5.0%	3.9%	13.8%
ODU	\$139,165,666	\$3,059,450	\$1,386,892	\$4,446,342	3.2%	7.5%	7.3%
RU	\$69,439,198	\$1,903,190	\$835,677	\$2,738,867	3.9%	8.4%	5.2%
UMW	\$40,185,000	\$1,029,515	\$783,000	\$1,812,515	4.5%	3.6%	5.0%
UVA	\$440,868,000	\$7,659,633	\$3,359,900	\$11,019,533	2.5%	3.3%	4.5%
UVAW	\$8,046,320	\$83,194	\$395,764	\$478,958	6.0%	4.0%	4.0%
VCU	\$333,857,627	\$5,918,627	\$522,042	\$6,440,668	1.9%	4.9%	2.0%
VMI	\$25,316,000	\$477,205	\$192,932	\$670,137	2.6%	5.8%	6.5%
VSU	\$35,393,864	\$859,598	\$1,115,123	\$1,974,721	5.6%	-0.7%	6.0%
VT	\$393,089,728	\$10,055,769	\$3,943,461	\$13,999,230	3.6%	5.0%	4.9%
RBC	\$4,090,000	\$23,182	\$148,464	\$171,646	4.2%	24.7%	9.9%
VCCS	\$521,536,627	\$7,845,311	\$3,630,945	\$11,476,255	2.2%	9.4%	9.2%
Total	\$2,727,102,612	\$57,232,814	\$25,244,147	\$82,476,962			
Average Increase					3.7%	6.9%	7.4%

Notes:

- (1) Data comes from institutional six-year plans submitted in August 2014.
- (2) The funding need is the annual amount based on a 5-year phase plan.
- (3) ISUG = in-state undergraduate.