

Higher Education Restructuring



House Appropriations Committee Retreat

November 13 - 14, 2007

Background

- Decentralization efforts began in the 1980s and 1990s
 - Payroll
 - Accounting and reporting
 - Capital outlay
 - Teaching hospitals

- Institutions sought greater autonomy after 2001
 - **Primary focus was tuition setting authority**
 - Response to tuition caps, freezes and rollbacks
 - Regulatory relief especially in areas of capital outlay, procurement, personnel, & info tech

Key Legislation / Timelines

- 1980s-1990s: Decentralization pilot programs primarily in finance areas
- 2003: CWM, UVA & VT officials began publicly discussing restructuring
- 2004:
 - HB 1359 (Callahan) – Charter University bill was introduced
 - General Assembly created the Joint Subcommittee to study the administrative and financial relationships between the State and higher education institutions (SJ 90)
 - Hearings conducted during the year and other public institutions became involved seeking to expand restructuring to include all institutions
- 2005:
 - HB 2866 (Callahan) – linking state wide goals to restructuring
 - HB 2034 (Hamilton) – incorporated into HB 2866
 - In August, all BOVs pass resolution committing to state goals (Level I autonomy)
 - SCHEV develops academic performance measures (September)
 - Institutions submit six-year plans (October)

Key Legislation / Timelines (continued)

□ 2006:

- HB 346 (Hamilton) – amends the restructuring act to include campus security as a statewide goal
- HB 1502 (Callahan) – Management Agreements for CWM, UVA & VT
- Academic performance measures approved, interim administrative standards established
- Level II autonomy development continued

□ 2007:

- HB 2306 (Callahan) – Level II autonomy in capital outlay, procurement, and IT introduced (ultimately tabled)
- General Provisions of the Appropriations Act places a moratorium on further decentralization efforts (§ 4-9.00)
- SCHEV issues first evaluation on performance measures (June)

Higher Education Restructuring Act

- In 2005, HB 2866 (Callahan) was aimed at providing decentralization opportunities for all public colleges and universities
- Provided for three levels of institutional decentralization
- Institutions must formally commit to meeting basic state policy objectives
 - Essentially the focus of the discussion shifted from political subdivisions and codified funding to operational autonomy, accountability measures and the state policy objectives (“state ask”)

Three Levels of Decentralization

Level I

- Available to every institution that through BOV action commits to the "State Ask"
- Specific operational autonomy granted over certain transactions such as acquisition of easements, operating leases, designation of administrative faculty
- Financial incentives contingent on state's fiscal health

Three Levels of Decentralization

Level II

Broad authority in no more than 2-3 functional areas such as finance, capital outlay, IT, procurement, or personnel (to some extent VCU, GMU, ODU)

Level I

- Available to every institution that through BOV action commits to the "State Ask"
- Specific operational autonomy granted over certain transactions such as acquisition of easements, operating leases, designation of administrative faculty
- Financial incentives contingent on state's fiscal health

Three Levels of Decentralization

Level III

Broad authority in multiple functional areas depending upon negotiations and GA approval (CWM, UVA, VT)

Level II

Broad authority in no more than 2-3 functional areas such as finance, capital outlay, IT, procurement, or personnel (to some extent VCU, GMU, ODU)

Level I

- Available to every institution that through BOV action commits to the "State Ask"
- Specific operational autonomy granted over certain transactions such as acquisition of easements, operating leases, designation of administrative faculty
- Financial incentives contingent on state's fiscal health

Status of Level II Decentralization

- For the most part, the finance and capital outlay areas were already developed by the 2003 Session through pilot programs
 - GMU, ODU, VCU, JMU & VMI have decentralized payroll and non-payroll processing ability
 - GMU & VCU had expanded authority in personnel
 - GMU, ODU, VCU, JMU, CNU & Radford have NGF capital project authority
- HB 2866 authorized the Governor to submit recommendations for expansion of the decentralization programs
 - Must develop criteria for participation
 - Submit recommendations to the General Assembly for inclusion in the budget
 - Procurement & IT are examples often mentioned by institutions
- No specific proposals have been submitted by the Governor in either 2006 or 2007
 - In 2007 Delegate Callahan introduced HB 2306 to provide expanded and standardized Level II autonomy in capital outlay, procurement, and IT introduced but it was ultimately tabled

Level III Autonomy

- The Restructuring Act also outlines a process through which the board of visitors can request to enter into a “management agreement” with the Commonwealth
- The management agreement would broadly vest responsibility with the board of visitors within parameters mutually agreed to by the Governor and institution and which must be approved by the General Assembly beginning with the 2006 Session
- Criteria to apply for autonomy outlined in “management agreement”
 - Bond rating = AA-
 - Prior success in decentralization pilot
 - Language in Chapter 847 intended to hold off on further decentralization expansions until proper evaluations of current authority is available

Level III Autonomy Requirements

- **Governor must find that institution has necessary financial and administrative ability to operate independently**
 - For example, institutions under Level III could develop their own health insurance program however if that were to lead to higher rates statewide than the institution would be required to reimburse the Commonwealth
 - Do institutions have the financial ability to support the greater autonomy they receive?
- Requires identification of cost savings associated with the increased autonomy
 - Expectation that institution would be able to absorb more students, improve quality, and maintain affordability with marginally less general fund
 - For example, the Governor reduced the three Level III schools at a higher percentage
 - They have greater revenue capacity in part due to student mix
 - Three financial aid programs implemented at the three Level III schools

State Policy Objectives (“State Ask”)

- ❑ Access to higher education for Virginia residents
- ❑ Affordability, regardless of family income
- ❑ Broad range of academic programs
- ❑ High academic standards
- ❑ Improve student retention / timely progress toward degree
- ❑ Uniform articulation agreements with VCCS
- ❑ Work to stimulate economic development
- ❑ Increase Research
- ❑ Work actively to improve K-12
- ❑ Campus Security (added in 2006)
- ❑ Six-year plans (enrollment, academic and financial)
- ❑ Meet financial and administrative standards

Evolving Role of SCHEV

- SCHEV acts as the umpire
 - At the direction of the General Assembly and Governor, SCHEV is now required to move beyond its traditional role of planning and coordination to oversight and managing accountability
- SCHEV develops the Institution Performance Standards (IPS)
 - Process began in 2005 following enabling legislation
 - In November 2006, SCHEV approved measures for each state goal and institutional targets to determine whether an institution met the goal
 - Some performance benchmarks are still in development
- Collect data for each of the measures to evaluate institutional performance
 - In May 2007 SCHEV issued the first “report card” on how well each institution is performing relative to the state goals outlined in restructuring
 - SCHEV provided a PASS or PROGRESS grade for all measures
- Overall the IPS at this point could be characterized as an INCOMPLETE
 - Timing of data collection is still an issue but that should be resolved by the next evaluation
 - Some key standards however are still in development until July 2008 in the areas of affordability and academic standards
- SCHEV will touch on this further in the next presentation

Changes in the Appropriations Act (Chapter 847)

□ §4-9.00 HIGHER EDUCATION RESTRUCTURING

Except for institutions covered under Chapters 933 and 943 of the Acts of Assembly of 2006 and notwithstanding the provisions of the Alternative Authority for Covered Institutions (§ 23-38.91 et seq., Code of Virginia), no institution of higher education may request or receive additional decentralized authority granted under Chapters 933 and 945 of the Acts of Assembly of 2005 without, the express approval of the General Assembly.

- The General Provisions essentially called for a moratorium on further decentralization without the expressed approval of the General Assembly
 - Evaluations are not yet fully developed in terms of data and standards
 - JLARC / SCHEV are also required to conduct a thorough review of Level III beginning summer 2008
 - Move forward in a more deliberative manner
 - Allows for a baseline of performance and accountability to be measured
 - Determine whether decentralization is working as intended especially under Level III
 - What parts of decentralization can improve
 - Allows for the policy discussion of what form Level II decentralization should take
 - Standardization vs. multiple definitions of Level II
 - Avoid pitfall of incremental movement to Level III
 - Are additional state objectives required
 - Criteria for participation in Level II need development and success at Level I should be a prerequisite

Potential Next Policy Steps

- Continue to refine benchmarks
 - Again part of SCHEV's evolving role
- Examine the cost of education
 - Overall cost
 - Tuition
 - Fees especially in non-academic related fees
- Financial aid policies
 - Merit components
 - Examine current models
- Funding model
 - Shift from inputs to outcomes
 - Enrollment or degrees awarded
 - Time to degree
 - Cost containment
- Program growth
 - New or expanded programs
 - How does it meet the goals of the Commonwealth?
 - Economic development
 - Underserved areas
 - Is it cost effective?

Example of Evolving State Policy

Tuition Moderation Incentive Fund

- Growth in tuition and fees have always been a concern of the General Assembly
- In the 2007 Session, the General Assembly created a stronger tie between GF and tuition increases within the construct of the funding model
 - The policy is not a cap, freeze or rollback
 - BOVs are free to set tuition as provided in the Code
 - GF is used as an incentive institutions to keep tuition and fee growth moderate
 - \$7.2 million in general fund increases were tied to tuition and fee increases that were no greater six percent
 - Institutions kept increases within the new policy slowing the growth of tuition increases compared to previous years which had averaged 8 to 10 percent