

Department of Planning and Budget 2011 Fiscal Impact Statement

1. **Bill Number:** HB2510

House of Origin Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. **Patron:** Cox, M.K.

3. **Committee:** Appropriations

4. **Title:** Virginia Higher Education Opportunity Act of 2011

5. **Summary:** The proposed legislation establishes the Virginia Higher Education Opportunity Act of 2011 for the purpose of fueling strong economic growth in the Commonwealth and preparing Virginians for the top job opportunities in the knowledge-driven economy of the 21st century.

The introduced bill provided for (i) a new higher education funding policy; (ii) the calculation of the state general fund share of an institution's basic operations and instruction funding need; (iii) per student enrollment-based funding; (iv) targeted economic and innovation incentives; (v) the creation of a Higher Education Revenue Stabilization Fund as a subfund of the Revenue Stabilization Fund; (vi) the creation of a STEM Public-Private Partnership; and (vii) the creation of a Higher Education Advisory Committee. The bill also makes technical amendments.

The substitute bills deletes the section on Higher Education Revenue Stabilization Fund, but adds an enactment clause requiring the Advisory Committee to review the proposal and make recommendations to the Governor, the Chairman of the House Appropriations and the Chairman of the Senate Finance Committee. The revised bill also removes a number of ongoing policy items (elements of the funding policy, peer group factors, and institution specific conditions used to adjust the cost of education, which the Advisory Committee was charged with reviewing). In addition, several technical changes have been made to correct Code cites.

The proposed legislation is based on the recommendations of the Governor's Commission on Higher Education Reform, Innovation and Investment which:

- Commit the Commonwealth to national and international leadership in college degree attainment and personal income.
- Put Virginia on a focused and sustainable path of higher education reform, innovation, and investment.
- Establish a clear state policy that will serve as a roadmap and catalyst for priority investment as the economy and revenues rebound.

The bill is organized around three major objectives: Economic Opportunity, Reform-Based Investment, and Affordable Access. The following provides a brief summary of the recommendations based on the higher education commission which provides the framework for the proposed legislation.

Economic Opportunity

- ✓ Enroll more Virginia students at the state's public and private colleges to help address the goal of 100,000 more degrees awarded over the next 15 years;
- ✓ Encourage and facilitate degree completion by more Virginians with partial credit;
- ✓ Establish targeted policies and incentives to promote improved retention and graduation rates throughout the Virginia higher education system;
- ✓ Establish a set of "economic opportunity metrics" that will enable everyone in the higher education enterprise, including students and parents, to understand the economic impact and earning potential of particular degree programs at particular institutions;
- ✓ Establish a public-private collaborative effort that engages the business, non-profits, higher education, and K-12 communities in the development of a comprehensive plan to increase STEM degree attainment in Virginia;
- ✓ Develop a statewide strategic roadmap that catalogs all research and development (R&D) assets and activities, particularly those related to federally funded research, and align Virginia's economic development initiatives with additional R&D investments;
- ✓ Establish an emerging technologies fund as a vehicle for strengthening R&D-related programs, including recruitment of eminent faculty, acquisition of research-related equipment, intellectual property commercialization and seed-stage funding; and
- ✓ Create a new state income tax credit to promote private investment in R&D activities.

The Reform-Based Investment

- ✓ Engage each public higher education institution in the expedited development of a plan for optimal year-round utilization of its physical plant and instructional assets;
- ✓ Provide infrastructure and incentives for each institution to participate in "Virtual Departments" that leverage instructional resources across the Virginia higher education system;
- ✓ Promote innovative course redesign initiatives that enhance instructional quality and reduce cost by incorporating new technologies into courses provided at Virginia colleges and universities;
- ✓ Enhance the availability, quality and affordability of online course offerings, especially for non-traditional students with partial college credits;
- ✓ Encourage expanded use of electronic textbooks and other online curriculum;
- ✓ Increase the statewide availability of dual enrollment and advanced placement options that can help reduce the time required to complete college study;

- ✓ Enhance incentives and aggressively promote options for obtaining a bachelor’s degree by enrolling first in a community college and then completing study at a four-year institution;
- ✓ Establish economic incentives for timely and expedited completion of bachelor’s degree programs;
- ✓ Develop a comprehensive college readiness plan that phases out reliance on development (remedial) programs at the college level by accomplishing necessary diagnostic and remedial action at the high school level;
- ✓ Establish an effective consultative process for the development, refinement and endorsement of institutional performance plans with appropriate participation by executive, legislative, and institutional representatives;
- ✓ Revise performance metrics and corresponding incentives to make the incentives more robust and tailored to specific outcomes on state policy priorities, especially those related to economic impact and innovation;
- ✓ Form an executive-legislative-institutional working group to identify additional ways to reduce costs and enhance efficiency by increasing managerial autonomy with accountability at the institutional level; and
- ✓ Support progress on the Virginia Community College System (VCCS) Re-engineering Task Force’s ten major strategies for reform and innovation.

Affordable Access

- ✓ Codify, in the Top Jobs legislation, a funding model that supports sustained long-term effort to achieve the priority policy goals outlined in this report related to economic opportunity, reform-based investment, and affordable access;
- ✓ Provide stable and predictable base funding for each institution using objective peer-based methodology that reduces the influence of ad hoc considerations, such as lobbying;
- ✓ As growth revenues become available, deposit funds in a higher education reserve (“rainy day fund”) so that state investment in the Top Jobs priorities can be sustained over time and sudden surges in tuition can be avoided during future economic downturns;
- ✓ Restore and enhance funding of the tuition assistance grant (TAG) for students attending Virginia’s independent colleges;
- ✓ Make a promise to every Virginia student that a significant increment of state funding will follow the student to the public or private (not-for-profit) college of their choice;
- ✓ Provide additional need-based financial aid – including grants and low income loans, if feasible – to enhance college affordability for low- and middle income students and their families; and
- ✓ Provide performance-based, incentive funding tied to key policy outcomes related to economic impact and innovation.

An Advisory Committee, consisting of the Secretary of Education in consultation with the money committees, Secretary of Finance, Department of Planning and Budget, State Council of Higher Education, public institutions of higher education, and a private non-profit institution, is established and charged with a variety of responsibilities which include:

- Develop and review the methodology and timing for the peer student enrollment growth funding;
- Criteria for determining which families qualify for “low income” and “middle income” and how this relates to federal, state, and institutional policies and programs;
- Criteria for the financial incentives and the benefits or consequences for not meeting the incentives in an institution’s six-year plan;
- Economic opportunity metrics; and
- Additional authority, state goals, and objective criteria for evaluating, and benefits and consequences for meeting and not meeting goals and objectives.

In addition, the Advisory Committee is responsible for reviewing the current policies every five years, which includes the review of federal and state financial aid programs and current institutional practices to ensure that the appropriate level of financial assistance is being provided to both low- and middle-income families and as well as, the feasibility of additional operational autonomy opportunities.

6. **Budget Amendment Necessary:** No.

7. **Fiscal Impact Estimates:** Indeterminate.

8. **Fiscal Implications:** Although the fiscal impact of this legislation cannot be determined at this time, the legislation provides great flexibility to the Governor and the General Assembly in determining the appropriate level of state support. Because of this flexibility, the potential fiscal impact of this bill will be determined by the final level of support recommended by the Governor and approved by the General Assembly. Until the various funding formulas provided in this legislation are calculated, the potential funding need identified for higher education cannot be determined. As a reference, at its October meeting, the State Council of Higher Education (SCHEV) presented recommendations to its Council that totaled almost \$325 million for the following systemwide initiatives:

Major Higher Education Funding Issues	\$ In Millions
Base adequacy (to fully fund base)	\$245.6
Faculty salaries (60 th percentile over 5 years)	\$ 9.8
O&M for new facilities (2010-2012)	\$ 33.9
Undergraduate financial aid	\$ 29.8
Graduate financial aid	\$ 5.3
Total resources needed	\$324.4

Source: SCHEV Agenda Book, October 26, 2010

9. Specific Agency or Political Subdivisions Affected:

Secretary of Finance	Secretary of Education
State Council of Higher Education	Department of Planning and Budget
Public institutions of higher education	Private institutions of higher education
Chairman of the House Appropriations Committee and respective staff	
Chairman of the Senate Finance Committee and respective staff	

10. Technical Amendment Necessary: No.

11. Other Comments: Senate Bill 1459 is similar to House Bill 2510 (substitute).

Date: 2/1/11

Document: g:/aps/legislation/2011sess/HB2510H1.doc