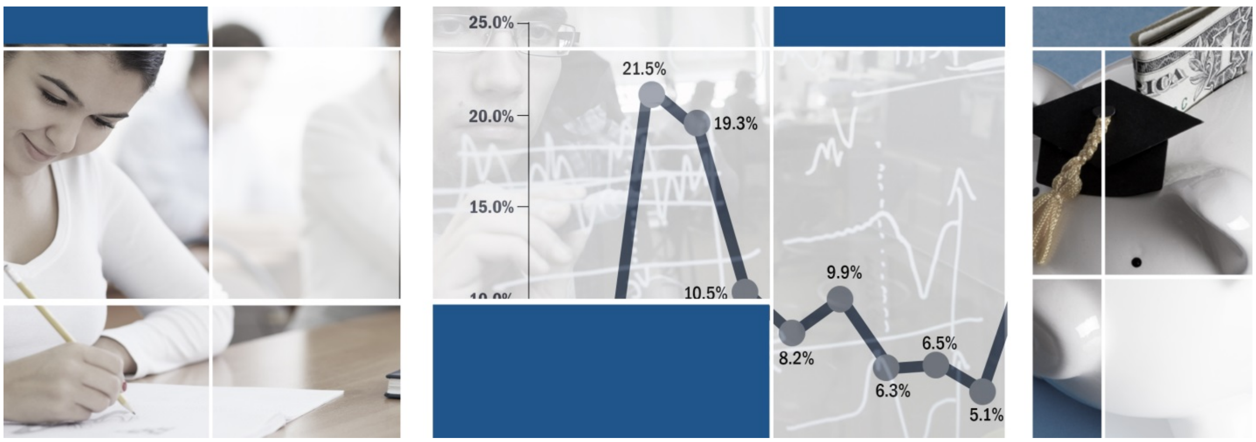

Resources & Planning

Committee Meeting

November 21, 2023

Location:

Virtual

STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA

STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA

November 14, 2023
Resources and Planning Committee Agenda

Item	Time		Page
I. Call to Order	9:45 a.m.	Ms. O'Holleran	
II. Discussion of Budget and Policy Recommendations for the 2024-26 Biennium	9:55 a.m.	Tom Allison	3
III. Motion to Adjourn	11:15 a.m.	Ms. O'Holleran	
NEXT MEETING: January 9, 2024 (SCHEV)			

*Use of courtesy titles is based on the expressed preference of the individual

SCHEV values honesty, quality, diversity, inclusion, growth-orientation, personal well-being, equity, transparency and accountability. Through these values, we create a welcoming work environment that represents the best of who we are as an agency and as individuals.

State Council of Higher Education for Virginia
Agenda Item

Item: II - Resources and Planning Committee – Discussion of Budget and Policy Recommendations for the 2024-26 Biennium

Date of Meeting: November 21, 2023

Presenter: Tom Allison
Assistant Director of Finance Policy & Innovation
tomallison@schev.edu

Most Recent Review/Action:

☐ **No previous Council review/action**

☒ **Previous review/action**

Date: October 23, 2023

Review: The committee discussed staff proposals for budget and policy recommendations. The committee recommended that the full Council approve the recommendations. After discussion with the full Council membership, Council decided to seek further input before taking any further action.

Purpose of the Agenda Item:

The purpose of this item is to give Council members additional time to consider and discuss the staff proposals for the Council's budget and policy recommendations.

Background Information/Summary of Major Elements:

Only the Governor and the General Assembly can enact changes to the Code of Virginia and adopt a budget. That process is often iterative, starting with the Governor's introduced budget in December. Deliberations by both chambers of the Virginia legislature produce extensive changes and compromises throughout the General Assembly session. Therefore, Council recommendations attempt to balance between generalizations and specificity. While the recommendations offer specific dollar amounts with supporting calculations, they also leave room for the policymakers to remain flexible through the process.

Staff intends the individual budget and policy recommendations be interpreted as an integrated package. The individual pieces were developed in concert with one another. For example, staff proposed a modest compromise on funding for the Virginia Military Survivors and Dependents Education Program and also proposed funding to mitigate tuition increases overall. Staff could have proposed the Council recommend a larger amount for VMSDEP and nothing for tuition mitigation. The dollar amount of the combined total might be about the same, but the distribution among institutions would be different. The staff concluded that such an allocation was a fairer way to allocate funds for the two items.

Another example of an integrated package relates to the funding for the Tuition Assistance Grant (TAG) program. Council historically has chosen to increase TAG an at amount that is "commensurate with" the increase recommended for public institutions. If the Council recommended more or less for public institutions, then it might want to revisit the recommendations for TAG.

Staff also calls attention to the "fact packs" and high-level summary report that the Boston Consulting Group produced in consultation with the Secretary of Education, the Secretary of Finance, the Director of the Department of Planning and Budget, the Staff Director of the House Appropriations Committee, the Staff Director of the Senate Finance and Appropriations Committee and the Director of the State Council of Higher Education for Virginia, collectively known as Op-Six. Council staff relied heavily on the insights from these reports, the individual institutional six-year plans and conversations with institutional leadership and Op-Six members in developing its budget and policy proposals.

Finally, Council staff proposes that the Governor and the General Assembly establish a genuine biennial budget – for two years. That is why the numbers in the second year are higher than the number in the first year. Having a two-year budget will improve institutional planning and also has the potential of providing more transparency in tuition planning if institutions choose to set tuition for two years instead of one.

Materials Provided:
Included is the agenda item from the October meeting and a crosswalk of the staff's proposals for budget and policy recommendations with the high-level summary document developed by the Boston Consulting Group in consultation with Op-Six.

Financial Impact:
None.

Relationship to the Goals of *The Virginia Plan for Higher Education*:
Council's budget and policy recommendations are the means through which it and its staff seek support – financial and otherwise – for the strategies and initiatives that are integral to achieving the goals and objectives of the statewide strategic plan.

Timetable for Further Review/Action:
The staff is not seeking any action from Council at this time. The next regularly scheduled Council meeting is January 9, 2024.

Budget and Policy Recommendations for the 2024-2026 Biennium

Introduction

Council historically has prepared budget and policy recommendations each year, with a particular focus on the biennial budget process, which begins in odd-numbered years. Recommendations to amend the biennial budget occur in even-numbered years.) Because Council did not meet in July 2023, the staff materials provided for Council's September 2023 meeting were not as detailed as in prior odd-numbered years.

The 2023 special session of the General Assembly made significant investments in higher education, on top of an already significant investment in higher education over the 2022-24 biennium. Generally, staff budget recommendations reflect "running in place," with new general fund dollars aimed at keeping up with the growth in inflation, student financial need, minimum standards of instruction and students' opportunity to succeed. The recommendations herein are similarly focused and structured.

Summary of Estimated General Fund Requests for 2024-26 Biennium

In the table that follows, staff proposed budget recommendations that total $157.3 million in additional general funds in the first year and $225.3 million in the second year, totaling $382.6 million in additional general funds over the biennium.

The increase for FY 2025 would represent a 4.8% increase over the FY 2024 baseline, and the increase for FY 2026 would represent a 6.8% increase compared to the same FY 2024 baseline.

For context, in 2021 Council recommended $233 million in FY 2023 and $468 million in FY 2025. And 2019, Council recommended $76 million and $137 million for FY 2021 and FY 2022, respectively.

Following the table, explanations of the proposed budget and policy recommendations are grouped into six sections:

1. Improving student success and labor market outcomes;
2. Affordability and access;
3. Institutional operations;
4. Capital outlay;
5. Policy considerations; and
6. Conclusion

Budget Recommendations for 2024-26 Biennium			
		FY 2025	FY 2026
Category	Item	(in millions)	
Improving Student Success and Labor Market Outcomes	Workforce Credential Grant	$1.5	$2.5
	Mental health workforce pilot program	$0.5	$1.0
	Mental health grants	$9.0	$0.0
	Graduate Financial Aid	$10.0	$20.0
	Advising and coaching	$0.8	$1.5
Affordability and Access	Undergraduate need-based financial aid	$33.9	$51.2
	Virginia Military Survivors and Dependent Education Program (VMSDEP) - Waiver	$33.3	$60.5
	Virginia Military Survivors and Dependent Education Program (VMSDEP) - Stipend	$2.0	$2.0
	Virginia Tuition Assistance Grant (TAG)	$0.0	$3.6
Institutional Operations	Tuition Mitigation	$24.3	$35.7
	Address Funding Disparities	$30.5	$30.5
	O&M for new facilities	$8.7	$13.5
	Virtual Library of Virginia (VIVA)	$2.3	$2.8
	Virginia Sea Grant (VASG)	$0.4	$0.4
	Virginia Space Grant Consortium	$0.1	$0.1
Total general fund recommendations		**$157.3**	**$225.3**

1. Improving Student Success and Labor Market Outcomes

***Workforce Credential Grant**:* The Workforce Credential Grant (branded as FastForward by the community colleges) has grown enrollments while maintaining completion and credentialing rates, thus triggering more performance payments. Adjustments to the maximum state reimbursement (raised from $3,000 to $4,000 in the 2023 General Assembly) will put pressure on the current appropriation of $13.5 million per year. Recognizing the need to invest in this program, the General Assembly added $5 million for FY 2024 in its budget amendments. Based on analysis of FY 2023 performance and financial data, as well as the $5 million addition from the budget amendments, SCHEV staff recommend an increase of $1.5 million for FY 2025 and $2.5 million in FY 2026. This addition would bring the total appropriation to $20 million and $22 million.

***Mental Health Workforce Pilot program**:* The 2022 General Assembly allotted funds for SCHEV to award grants that enable institutions to underwrite the salary and benefits of an onsite licensed clinical social worker (LCSW) or licensed professional counselor (LPC) candidate for two years. In turn, the hosting universities hired, trained and are supervising the LCSW/LPC candidates over the two-year period to work at on-campus mental health care facilities until licensed. The higher education mental health workforce pilot seeks to address immediate student demand for services and long-term campus behavioral health workforce development.

Staff's recent report on the program's progress indicates that the pilot is increasing counseling capacity and reducing staff burnout at counseling centers. Within a four-month period, the five grant-funded pre-licensees served 220 individual student-patients, reduced appointment wait times and improved staff morale.

However, the pilot program was oversubscribed; of the ten institutions that applied, funding was available to support only six institutions with $500,000 in FY 2023 and $500,000 in FY 2024. Making the pilot into a permanent program and assuming that the original $500,000 of the pilot is rolled into the next biennium, then increasing funding by $500,000 in the first year and $1 million in the second year would fund up to 15 candidates completing supervision for licensure approximately every two years.

Mental health services to institutions: In his proposed budget amendments for FY 2024, Governor Youngkin included $9 million as a one-time appropriation to support student mental health services in institutions of higher education. His proposal was not included in the final FY 2024 budget. With such funding and in consultation with the Secretary of Education, SCHEV could coordinate and define an allocation process for public institutions to receive a portion of the total funding to provide mental health services to students on their campuses. Private not-for-profit colleges could be eligible to participate in any common vendor contracts procured through this process. Institutions could receive the flexibility to include faculty and staff in their contracts. Such services could include virtual care.

Economic Development through graduate education (Virginia Graduate Commonwealth Award)*:* While most of the attention on affordability is focused on undergraduate enrollments, graduate programs are also critical to the economic health of the Commonwealth. This program is designed to better position the institutions in attracting the best and most diverse students for their graduate programs.

Graduate financial assistance is often associated with economic development. With increasing competition from other states to attract top graduate students, the Commonwealth should consider increasing its investment in this program, especially for research institutions and STEM programs. After receiving no new funding in the prior two biennia, the program grew from $22.9 million in FY 2022 to $28.9 million in FY 2024. Staff recommends an increase of $10 million in FY 2025 and $20 million in FY 2026, with a particular emphasis on research institutions.

Advising and coaching: Staff recommends funding to support additional near-peer and high-touch college counseling and coaching, which are strategies shown by research to improve rates of postsecondary enrollment and student success. These coaches could use resources and tools that highlight the diverse workforce training and postsecondary options Virginia offers to students. Programming also could leverage existing relationships with community-based college access organizations.

An additional $750,000 in the first year and $1.5 million in the second year could place college coaches in Virginia high schools with low postsecondary enrollment rates and high numbers of students receiving free and reduced priced lunch. Recent SCHEV analysis shows that college access services such as college campus visits, financial aid workshops and career counseling can improve the number of students pursuing postsecondary education and training. Research also shows the positive impact of near-peer advising (advisors who are close in age and experience to advisees) and comprehensive personal communication on postsecondary enrollment and outcomes.

SCHEV recently partnered with Strada Education Foundation in its review of the six-year plan process. “Quality Coaching” is one of the five pillars of the Strada Education Foundation, a leading national philanthropic and research organization working to ensure learning after high school provides equitable pathways to opportunity. According to a 2021 survey of recent high school graduates conducted by Strada, students ranked having an advisor as the most helpful support they could have in their pursuit of further education, with students from low-income households reporting it more difficult to find information and guidance.

2. Affordability and Access

SCHEV staff makes a series of connected and balanced recommendations that will make college more affordable and accessible for students. Rather than address affordability through a single strategy, SCHEV believes that making college more affordable requires efforts by many actors on many fronts. The ones listed below are the most common ways to reduce the cost burden for students, but others are described in other sections of this document, such as initiatives to improve student success and labor market alignment (see previous section).

SCHEV also supports efforts by institutions and the Commonwealth to help students and families plan for higher education. To improve planning and increase transparency of student costs, SCHEV recommends that the Governor and the General Assembly provide funding for each year of the biennium so that institutions can make tuition decisions for a two-year period rather than one year at a time.

Undergraduate need-based financial aid*:* The Commonwealth's primary state financial aid program is the Virginia Student Financial Assistance Program. This program provides direct appropriations to public institutions to award the Virginia Commonwealth Award and the Virginia Guaranteed Assistance Program to Virginia students demonstrating financial need. In 2019, SCHEV adopted changes that weighted state aid funding toward institutions whose enrollment has the highest average need per student.

Studies have demonstrated a correlation between levels of unmet need and rates of student retention and completion. Public institutions demonstrating the highest levels of average need typically fall below the system-average completion/graduation rate. Providing higher funding levels to these institutions will assist in addressing access, affordability, retention and completion goals.

The Commonwealth provided historic increases in student financial assistance during the 2022-24 biennium. These new funds will reduce unmet need across institutions as well as narrow the funding gap between institutions; however, the actual impact cannot be measured until student-level data is available for the 2022-23 and 2023-24 award years.

Staff recommendations for additional financial aid are aimed at "running in place" – essentially not reducing unmet student need, but rather maintaining current levels given cost increases and changes in federal policy.

The changes enacted by the federal *FAFSA Simplification Act* impact student need in multiple ways ending in two primary results. Low-income students will demonstrate increased financial need given that the new Student Aid Index (SAI) calculation for these students is projected to be lower than the current Expected Family Contribution (EFC). In contrast, most middle-income students will experience a higher SAI and less need under the new model, which will put returning students at risk of having to drop out after losing eligibility for need-based aid. Furthermore, many four-year institutions have recently undertaken aggressive initiatives to increase low-income, Pell-eligible enrollments. For these reasons, the Commonwealth needs to increase financial aid appropriations to maintain the status quo of student financial need.

Projected increases in student need can be addressed through a combination of general fund support to reduce current tuition assumptions and additional funding in student financial assistance. Based on current tuition assumptions, the following major factors impact financial need.

- The current model projects that additional funds in the FY 2024 budget amendments should mitigate need in FY 2025 but rising costs will increase student financial need by $23.7 million in FY 2026.
- Analysis of the FAFSA Simplification Act projects that student need will increase by about 4 percent overall. A commensurate increase in student financial aid would cost $17.9 million in each year.
- The Commonwealth should consider protecting financial aid levels for students receiving aid in 2023-24 but no longer demonstrating need under the new model in 2024-25. The cost of this provision is indeterminate but could cost $16 million in FY 2025 and $9.6 million in FY 2026.

In light of the historic investment in financial aid in the prior biennium, staff recommends that the Commonwealth address factors that increase need between FY 2024 and the 2024-26 biennium. Such will ensure that the Commonwealth maintains the progress gained in addressing student need with recent appropriations. Collectively, these factors total $33.9 million for FY 2025 and $51.2 million for FY2026.

***Virginia Military Survivors and Dependent Education Program (VMSDEP)*:** The VMSDEP aids Virginia’s veterans who have made significant personal sacrifices, including loss of life, liberty (prisoner of war or missing in action), or “limb” (90% or more disabled as a result of service) by waiving tuition and required fees and providing a stipend to their dependents.

Over the past four years, the estimated cost of the tuition waivers has quadrupled, growing from $12 million in FY 2019 to $19.4 million in FY 2020, to $31.3 million in FY 2021, and $46.3 million in FY 2022. These increases reportedly are due to enhanced marketing and advising by state and federal offices providing services to veterans and their families, increased assistance in completing the VMSDEP applications and increased efficiency in obtaining federal records to verify eligibility. When tuition is waived for one student, the institution either forgoes the tuition revenue or spreads the cost of that waiver to other students.

How long this rate of growth can be sustained is unknown, as is when participation and usage will level off; nonetheless, the Department of Veterans Services reports that high growth rates should continue for at least the next biennium. Under current projections, the lost tuition revenue could grow from $46.3 million in FY 2022 to over $190 million by FY 2026 and the stipend expenditures from $2.8 million to over $13 million over the same timeframe.

While the growth rate for tuition waivers has been uneven across institutions, the speed and amount of the increase has strained every institution's budget. To address the concerns, policymakers could fund all or a portion of the tuition waivers; fund a portion of the net increase in lost waivers; make changes to the eligibility criteria; make changes to the program benefits or implement a combination of the options. A general fund offset on the tuition waivers would provide immediate but short-term relief; however, careful and appropriate changes to the program requirements and benefits can provide a longer lasting solution while preserving the intent of the program.

Sharing half of the marginal increase above FY 2023 is estimated to cost $33.3 million in FY 2025 and $60.5 million in FY 2026. A cost-sharing model would provide needed instant relief, but the Commonwealth could address the program long-term by amending program conditions and use requirements. (For policy recommendations regarding VMSDEP, please refer to Section 5: Policy Recommendations below.)

Staff also recommends increasing funding in FY 2025 and FY 2026 for the VMSDEP stipend by $2 million, yielding a total appropriation of $9.7 million in each year. Additional funding for FY 2026 can be considered again next year after reviewing final data for FY 2024 and preliminary data for FY 2025.

Virginia Tuition Assistance Grant Program (TAG)*:* The Tuition Assistance Grant supports students enrolled into a Virginia private, non-profit colleges and universities. While not a need-based program, approximately 80% of recipients are low- and middle-income students. Over the last two biennia, the Governor and the General Assembly have increased the maximum undergraduate award from $3,750 to $5,000.

Following an all-time high of over 23,000 TAG recipients in FY 2019, the program has experienced a steady decline each year since, awarding 20,848 unique students in FY 2023. In FY 2023, the maximum TAG award for Historically Black College and University institutions was increased by an additional $7,500 above the maximum authorized for all other institutions for a total maximum award of $12,500 in FY 2024.

Raising the TAG award would improve affordability and retention as well as encourage students to consider enrolling at a Virginia private institution. The cost would be approximately $1.7 million per $100 increase to the residential award, which is currently set at $5,000.

Staff recommends increasing the TAG award to $5,125 in FY 2025 and to $5,250 in FY 2026. As previously recommended by the Governor's Office, the Commonwealth could also consider setting the award for online education and distance learning programs at 75 percent of the residential award. Due to declining participation in this program and available balances, the combination of these changes would cost $0 in additional funding in FY 2025 and $3.6 million in FY 2026.

3. INSTITUTIONAL OPERATIONS

Tuition Mitigation: The Code of Virginia mandates that SCHEV calculate "the basic operations and instructional funding need for each public institution of higher education" in each year of the next biennium. Based on objective calculations of generally accepted elements, SCHEV estimated base budget adequacy using the FY 2023 Full-time Equivalent (FTE) enrollments and the FY 2025 resources for each institution. The calculation showed that all institutions are estimated at or above the base funding threshold when compared with their available resources.

Looking ahead, SCHEV staff recognizes that institutional operation costs have faced unavoidable increases and demands on tuition over the last several years. Notably, inflation for goods and services spiked in 2021 and remains tenacious. Also, institutions have used tuition revenue to pay the institutional share of faculty and staff salary increases and the operation and maintenance of new classrooms and laboratories (see below). Given the ongoing pressures on tuition and SCHEV's commitment to affordability and access, SCHEV recommends an additional $24.3 million in FY 2025 and $35.7 million in FY 2026 from the general fund. SCHEV calculated the additional funds by projecting inflation costs on institutional nonpersonal services expenditures. Furthermore, in a break with the traditional way of funding core operating costs, SCHEV staff recommends a cost-share calculation that provides additional funds for in-state undergraduate students. The net effect of covering a portion of unavoidable cost increases and supporting 100% of the costs for in-state undergraduate students will result in tuition increases next biennium that will be materially lower than they would have been otherwise.

Address funding disparities: Due to Virginia public institutions' diverse missions and changing enrollments, state support to these institutions is not necessarily proportional to state goals and strategies. Addressing base budget disparities would establish an equitable base appropriation for all institutions and serve as a starting point for future discussions of a funding model for higher education. This adjustment would assist the joint subcommittee on Higher Education Funding Policies, set to meet in December 2024, to review and improve funding models.

During SCHEV's cost and funding needs study, which the Joint Subcommittee is required to consider, a series of comparison were developed to measure Virginia institutions' expenditures to their national peers. Staff recommends adjustments to three institutions' base operating budgets based on this analysis.

Four peer groups were developed as follows:

- 2007 Salary peers – Institutions in the salary peers were selected through a cluster analysis of public and private institutions. The resulting list of 75 institutions was negotiated down to 25 institutions.

- Updated salary peers – The same cluster analysis was run with more recent data producing a list of 75 institutions.

- NCHEMS peers – As part of the Higher Education Cost and Funding Needs Study, the National Center for Higher Education Management Systems (NCHEMS) conducted a cluster analysis based on sector, programs offered, enrollment, and mission.

- Carnegie Classification **-** Carnegie classifications consist of five categories of public institutions: 2-year, Baccalaureate, Masters, High Research, and Very High Research.

Staff used national Integrated Postsecondary Education Digest of Statistics (IPEDS) data to compare institutions' education and general (E&G) expenditures (instruction, academic support, student services and institutional support expenditure per full-time equivalent student) compared to the interquartile range (25th and 75th percentile) of each set of comparison institutions.

For institutions whose education-related expenditures fell below the 25th percentile of two peer groups, staff calculated the cost of bringing that institution up to the 25th percentile of the Carnegie classification, the broadest set of peer institutions. Staff also included additional general funds provided for FY 2024 as well as applied the cost share between the Commonwealth and institutions The calculations resulted in funding recommendations to three institutions: George Mason University, James Madison University and Virginia Tech.

In October, Governor Youngkin received a joint letter from the United States Department of Education and United States Department of Agriculture reporting that between 1987 and 2020, Virginia State University had been underfunded by $278 million in comparison to Virginia Tech. SCHEV acknowledges the letter but has not conducted an independent analysis of *historical* funding disparities. The recommendation for this item relates only to *current* funding disparities based on the methodology described above.

Operation and maintenance (O&M) of new facilities**:** In addition to growth in costs, each year the state supports a portion of the costs of opening a new building. As a result, new buildings that are expected to open in the coming year will require additional funding for operation and maintenance of the facilities. Staff surveyed institutions for new facilities coming online in 2024-26 and received funding requests for a total of 29 new facilities. The total funding need is approximately $21 million for the biennium. In FY 2024, staff's O&M recommendation for general fund is $8.5 million, and in FY 2025 staff's general fund recommendation is $12.5 million.

Higher Education Equipment Trust Fund (HEETF)*:* Each year, institutions receive funding for equipment through the Higher Education Equipment Trust Fund (HEETF). In 2000, Council established an equipment allocation methodology for the HEETF based on institutional needs for (1) regular inventory replacement and (2) technology upgrades.

Using the methodology for equipment funding based on research equipment replacement, staff calculates an additional $24.5 million annually to maintain current funding levels in research. In addition, staff identified gaps between existing research allocations and what might reasonably be expected based on research activity and recommends an additional funding for George Mason University, Virginia Commonwealth University and James Madison University. The total annual recommended allocation in education facilities revenue bonds for the HEETF program is $122.9 million. Staff notes that an increase in HEETF allocations could impact debt service levels depending on interest rates.

Virtual Library of Virginia (VIVA): The Virtual Library of Virginia (VIVA) is the consortium of academic libraries in Virginia. VIVA provides a national model of collaboration in higher education that combines industry-specific procurement expertise with a robust suite of services to achieve efficiency and cost containment. VIVA has identified significant collection needs in the areas of workforce and career development, foundational research skills to support and improve student retention, artificial intelligence/emerging technologies and streaming media. In addition, VIVA greatly expands the reach of its member institutions' existing collections through the implementation of resource sharing services for students and faculty and through participation in regional and national shared collection initiatives. Staffing is needed to enable greater discovery and access by students and faculty as well as increase Virginia's shared administrative savings through existing and future agreements. An increase of $2,285,000 in FY 2025 and $2,810,000 in FY 2026 would address the significant gaps in collection needs.

Virginia Space Grant Consortium: The Virginia Space Grant Consortium (VSGC) is requesting $120,000 in funding to support students attending accredited colleges in Virginia for internships at NASA Centers. Each year VSGC is provided with a list of potential interns who attend higher education institutions in Virginia. These interns have been selected by a NASA mentor and VSGC sponsorships for the student stipend ensure the students get placed. Placements are made in spring, summer, and fall semesters. This funding would support an estimated 12-16 interns per year.

Virginia Sea Grant: The Virginia Sea Grant (VASG) requests $392,113 in general fund support each year to support one-third of its 10 core staff salaries to enhance federal funding readiness. A university-based state-federal partnership program, VASG currently has no GF support. This legally constrains staff from writing federal grant proposals while being paid only from a federal grant. Between 2020 and 2022 there was a 60 percent increase in the number of competitive funding announcements from the National Sea Grant Office and available funding doubled. A general fund investment would enable VASG to better compete against neighboring Sea Grant programs (NC, MD, DE, and NY), which receive between $500,000 to $1 million in state support, and give it the capacity to pursue additional federal funds to expand core programming. The result would be an increased annual economic return on investment to the Commonwealth of $7.5 million.

4. Capital Outlay

***Capital investments, planning and maintenance reserve**:* The *Code of Virginia* (§ 23.1-208) outlines SCHEV's duties, one of which is to make capital outlay recommendations. The state has made significant capital investments in the 2022-24 biennium. This year, institutions submitted capital requests to the Department of Planning and Budget (DPB) for the 2024-26 biennium. A total of 102 general fund projects were submitted to DPB for consideration. 67 projects submitted were renovation/improvement projects and do not include expanding total square footage on campus. 31 projects are defined as new buildings on campus, expanding total square footage, three projects are acquisition requests, and one project was submitted for a demolition request. Staff have reviewed these requests and provided criteria to consider in the selection of these projects if the Governor and General Assembly wish to provide additional capital in the upcoming biennium. SCHEV's criteria included factors related to the relative age of the facility, critical maintenance components including campus safety, space need and space utilization analysis, enrollment, and programmatic justification. Further, given the large investments over the years in capital, continued investments to maintain facilities should be a priority through increased maintenance reserve amounts.

The table below is a summary of projects submitted to the Department of Planning and Budget in June by the institutions:

Summary of Capital Outlay Requests for the 2024-26 Biennium

Total # of Projects	New Construction	Renovations/ Improvements	Acquisition	Demolition
102	31	67	3	1

5. Policy Considerations

Enrollment: In March, Council's Enrollment Ad Hoc Workgroup reported its efforts and analyses toward better understanding of enrollment trends and projections in Virginia, as well as the factors that have impacted and will continue to impact enrollment in the future. That report noted declines in the college-going rate for recent high school graduates, enrollment declines in for-credit community college programs, and many other trends disaggregated by institution, income, race, ethnicity and gender. The workgroup developed multiple potential policy considerations, some of which would carry budgetary implications.

Throughout the summer, SCHEV staff participated in six-year-plan meetings with each of the public institutions. SCHEV also received and reviewed institutional enrollment projections for the next six years (see related item on approval of enrollment projections and degree estimates).

Based on the work of Council over the last year and the additional insights gained through meetings with institutions and leadership around Capitol Square, SCHEV staff recommends the following actions:

1. Restart a data collection from institutions on student applications and admissions. Over 20 years ago, SCHEV collected this information but suspended it during a period of agency and institutional budget reductions. Such a collection would enable a comprehensive state-level analysis of potential students: where they apply, where they were accepted and where they ultimately enrolled. This would involve costs at both the institutions and SCHEV for staff and data storage, but it will provide insight into the mobility of those applying and attending institutions.
2. Establish an advisory committee to monitor changing demographics, college and university enrollments and strategies underway to ensure a strong and sustainable system of public and private colleges and universities. This would be similar to other advisory committees SCHEV employs to help establish and implement policies and practices.
3. Consider modifying the requirement that institutions charge at least 100% of costs to out-of-state students. This policy was put in place in the 1990s during a recession. Prior to the policy change, the state paid for 25% of the cost of education for out-of-state students. The world has changed since 1990. Other states are lowering their prices to compete for Virginia students. Virginia should consider eliminating or modifying the requirement for all institutions, for some institutions, for some academic programs, or to retain top talent in the Commonwealth. The General Assembly took a step in this direction in 2023 for Norfolk State University and Virginia State University. Previously, it authorized the University of Virginia's College at Wise to lower tuition for students from Appalachian Regional Commission footprint.
4. Reexamine limits to amount of growth in the number and percentage of out-of-state students an institution can enroll. At this time, those limits do not seem to be preventing institutions with significant out-of-state demand to enroll additional out-of-state students. The advisory committee described above should monitor that policy. If it becomes a factor in limiting out-of-state enrollment in a way that would be detrimental to an institution or the system, then the Commonwealth may want to raise the limits.
5. Make targeted investments in "education-to-career" coaching; tuition mitigation; need-based financial aid; outreach and communication to high school students and adults; and talent pathways. These are proven strategies to improve recruitment and retention of students and should be a part of any strategy to

address demographic changes and other competitive enrollment pressures. The Commonwealth and the nation are in an era when more people need higher levels of education.
6. Expand and improve data collection for non-credit credential programs. SCHEV currently collects student-specific data for individuals who received funding through the Workforce Credential Grant program. Some evidence suggests that students are choosing these programs over credit-based programs. Enhancing current data collection efforts for non-credit programs will improve decision-making by institutions and the Commonwealth.
7. Combined with a reconsideration of the status of out-of-state students, consider a recruitment campaign featuring Virginia higher education to attracts students from other states. Such a campaign could highlight the quality of higher education in Virginia, unique features and employment and lifestyle opportunities.

***Affordable "talent pathways"*:** The development and enhancement of affordable pathway programs is a key strategy for improving the success of students and graduates. These strategies can include the development of new degree programs in high-demand areas, such as healthcare, information technology and public health, as well as the enhancement of existing programs to include additional work-based learning and more intern placements. The Commonwealth must ensure that students have opportunities to incorporate work-based learning to further their academic experience, gain on-the-job skills and increase their opportunities for employment, while meeting employer needs. A significant focus in this area, including internship opportunities, could make Virginia the top state for talent, further attract employers to the state and improve the overall quality of life. Staff also notes that the Commonwealth could consider contracting with private non-profit institutions for specific academic programs in high-demand, high-need programs such as nursing and teaching.

Virginia Military Survivors and Dependent Education Program (VMSDEP) The VMSDEP aids Virginia's veterans who have made significant personal sacrifices, including loss of life, liberty (prisoner of war or missing in action), or "limb" (90% or more disabled as a result of service) by waiving tuition and required fees and providing a stipend to their dependents. Additional information and history on this program is available under the same heading within the Access and Affordability section of this agenda item.

To address escalating costs of the program and to minimize the impact on institutions, tuition charges to other students and the state general fund, the Commonwealth could consider amending program requirements and benefits, while minimizing any negative impact on students. Such options include the following items:

1. Give preference to students enrolled in undergraduate programs. Graduate programs cost $7.3 million in FY 2022, or 16% of total cost of the program.

2. Give priority to waiving tuition and educational and general fees prior to waiving non-educational and general fees.
3. Consider other forms of aid before using the VMSDEP waiver. The amount of tuition and fees to be waived will be the remaining balance, if any, after applying the following forms of financial aid.
4. Require that all program recipients complete the federal Free Application for Federal Student Aid (FAFSA) or the Virginia Alternative State Aid Application (VASA), whichever is applicable.
5. Waive only the in-state tuition portion of tuition charges. Non-resident students would still benefit but only up to the amount available to a Virginia student.
6. Restrict the award to those qualifying for in-state tuition – a variation of the above but there would be *no* benefit for those paying out-of-state tuition. Out-of-state students cost $2.6 million in FY2022, or 6% of total cost of the program.
7. Seek funding from the state general fund to pay for up to half of any incremental increase in the total cost of tuition waivers above FY 2023 levels.

Financial aid award restructuring*:* In 2019, SCHEV made several recommendations to improve the state's primary financial aid programs. The first of these recommendations has been completed, as the funding model for institutional appropriations is now better aligned to identify and provide funding to institutions enrolling the neediest students. In 2022, JLARC (Joint Legislative Audit Review Commission) completed its own review, and the resulting recommendations aligned closely with those of SCHEV. The 2022 Joint Legislative Audit and Review Commission (JLARC) report can be found here.

With the recommendations from the two reports in general agreement, work to adopt these recommendations should be completed by late spring 2024 in order to be considered by the 2025 session of the General Assembly. As a reminder, the five recommendations in SCHEV's 2019 report, "Review of Financial Aid Funding Formulas and Awarding Practices," are:

- 2.1 Combine the two financial aid programs into a single program.
- 2.2 Adjust the minimum award requirements.
- 2.3 Restrict aid to low- and middle-income students.
- 2.4 Restructure the incentives designed to encourage student progression to graduation.
- 2.5 Provide institutions with additional award flexibility while maintaining accountability in prioritizing low- and middle-income students and families.

Opinions vary on recommendation 2.5; therefore, staff recommends seeking consensus on a student award policy that is more transparent to the student and easier to administer by the institution.

FAFSA Simplification Act Impact**:** State financial aid is reliant on federal methodology for much of its administration. The Free Application for Federal State Aid (FAFSA) uses information provided by the student to assess student financial strength, which is then used to determine student financial need. The Federal FAFSA Simplification Act of 2021 amends the terminology and methodology used to assess financial strength.

The most visible change is in terminology. The prior calculation of student financial strength was referred to as the Expected Family Contribution, or EFC. Beginning with the current application cycle, this calculation will be named the Student Aid Index, or SAI. This change better reflects the intent and usage of the calculation. The calculation for the SAI will also change as more students will be automatically assigned the maximum Pell grant and calculation for determining the individual SAI will use different data components.

Cumulatively, this is good news for low-income, Pell-eligible students who will complete a stream-lined FAFSA and qualify for larger Pell awards; however, there is a projected over-all negative impact on students falling outside the Pell-eligible range. More detail on these items is available in the September Council agenda.

The FAFSA Simplification Act will impact the administration of state financial aid programs in several areas. The Commonwealth should consider the following:

1. Amend state law references from EFC to SAI. Staff has drafted language that universally recognizes the new SAI as a replacement for the EFC. It is imperative that this be addressed in the next legislative session.
2. Understand the impact on state financial aid need calculations and funding recommendations since the new SAI provides a new calculation that is difficult to model. Various projections estimate an increase in total calculated need of approximately 4 percent. Staff has addressed this within VSFAP funding recommendations.
3. Extend eligibility for returning state financial aid recipients. Current students qualifying for need-based aid under the EFC calculation could lose eligibility under the SAI calculation and be in danger of dropping out due to loss of aid. Staff has addressed this within the VSFAP funding recommendations.
4. Consider impact of using of the negative 1,500 SAI for need calculations. The negative SAI is in recognition of students living under the poverty level and so have greater need for living costs; however, state aid is restricted to tuition and fees. Staff has developed language that would set the minimum SAI at zero for all state funded award calculation purposes. Institutions retain the option to use the negative SAI for purposes of awarding other aid.
5. Consider conforming with the federal title IV treatment for Selective Service registration. With the federal government no longer requiring that students be in compliance with Selective Service registration, the institutions are now required to manually track compliance among students. This is an unfunded mandate. Staff recommends following the federal treatment of this requirement.
6. Consider adjusting the Transfer Grant maximum EFC (currently $12,000) to a new SAI threshold. This issue is not an imperative for the next session but could

be taken up again once data is available to identify a comparable number in SAI to the 12,000 EFC.

***Financial aid technical changes*:** Staff will periodically review financial aid requirements and make recommendations that will improve efficiency, equity and administration of state aid programs. Staff have identified the following concerns:

1. Tuition Assistance Grant Program – TAG has undergone several changes in recent years and as a result current budget language has become obsolete. Staff recommends deleting obsolete language requiring lower graduate student awards and the language addressing the phase-out of TAG eligibility for students enrolled into online education and distance learning programs.
2. Cybersecurity Public Service Scholarship – the Cybersecurity Public Service Grant was defunded in the 2023 special session; however, staff continue to administer the precedent scholarship program, which requires that recipients work in Virginia post-graduation. Some of these students are having trouble meeting the specific work requirements for the program. Staff recommends that the work requirement be modified to recognize any work within the Commonwealth.
3. Teacher Scholarship Programs – Two programs within SCHEV's budget are largely duplicative of programs operated by the Department of Education (VDOE). Staff recommends that the programs be merged into the VDOE budget for greater efficiency.
4. Participation in State Aid Programs – Private non-profit institutions can participate in selected state financial aid programs; however, the criterion for participation is inconsistent. Specifically, the eligibility requirements for the Virginia Tuition Assistance Grant program are far more stringent than that of the Two-Year College Transfer Grant. Staff recommends that the Commonwealth establish a single definition that can be consistently applied across all current and future programs available to private institutions.

***Dual-enrollment pricing*:** A 2022 JLARC study assessed the costs of Virginia's dual enrollment program. While most dual-enrollment courses are taught at high schools by high school teachers, neither dual enrollment courses taught on college campuses nor in career and technical education were included in the study. The report identified a shortage of high school teachers to teach dual enrollment courses and estimated (via survey) that the school divisions incur more expenses than community colleges to operate dual enrollment programs. The report made numerous recommendations including legislative action to assign responsibility to SCHEV for overseeing the state's dual enrollment program.

***Institutional performance standards*:** This policy initiative seeks to streamline and enhance the statutory Institutional Performance Standards (IPS) by updating the measures to be more timely and relevant to the current and future needs of the Commonwealth. Staff will work with Council, members of Op-Six, and other relevant stakeholders as appropriate to consider ways to improve the institutional performance standards.

Campus security: The Campus Threat Assessment Task Force was created out of legislation in the 2023 General Assembly Session; SCHEV is represented among its membership. This task force seeks to determine best practices and develop model policies and procedures for all threat assessment teams and public institutions of higher education. One goal of this task force is to consider and make legislative recommendations on the qualification of members of the campus task force groups by December 1, 2023. The taskforce has also discussed budgetary needs on college campuses to increase campus safety. SCHEV Council and staff recognize the need to ensure students, staff and faculty are safe on college campuses in the Commonwealth and support institutional requests related to improving campus safety.

SCHEV role in emergency aid: The Commonwealth provides funding to address access to and affordability of higher education. However, many students experience one-time unanticipated expenses, sometimes as little as $500, that can make it difficult for a student to maintain enrollment. National reports show the benefit of providing programs that can help a student through a financial emergency. Most public institutions operate such programs, and consensus exists on standard practices for awarding such aid. The existing programs are relatively small and are funded by each institution or by private contributions. SCHEV has previously considered expanding these programs.

In the 2023 special session of the Virginia General Assembly, additional financial assistance was provided to the institutions in FY 2024. Along with these funds is language permitting a portion of state financial aid to be used for emergency assistance programs. SCHEV staff are working to develop guidelines for use of these funds.

Recruitment and retention of talent: Recruiting and retaining talented employees enhances the quality and diversity of any organization. Virginia provided 5% annual salary increases for state employees, including those employed at public institutions in FY 2020, FY 2022 and FY 2023, and then a 7.1% salary increase in FY 2024. Reports from the American Association of University Professors (AAUP) indicate that, nationally over the past three years, instructional faculty salaries increased an average of only 2.4%.

In public higher education, the Commonwealth’s policy has been to fund each institution’s average faculty salary at the 60th percentile of its national peers. Staff analyses project that six public institutions’ average faculty salaries will meet or exceed the 60th percentile of their peers in FY2024, and seven institutions’ average faculty salaries will be above the 50th percentile to their peers. One institution, George Mason University, is below the 30th percentile.

In their draft 2023 six-year plans, several institutions identified a need to use funds to address “talent” issues such as salary compression, diversity (faculty and staff) and differentials in high-demand fields where salaries are lower than in the private sector, not only in academic programs but also in general operation fields. Though the monthly *US Economic Outlook* published by S&P Global Market Intelligence projects that inflation in 2025 and 2026 will be slightly lower than 2024, the labor market will remain tight. Such will create difficulties in institutions' staffing recruitment and retention.

Staff recommends continued efforts to provide competitive salary increases statewide to both faculty and staff. SCHEV also recommends consideration of the creation of a funding pool to support public higher education staff recruitment and retention as a talent recruitment and retention strategy other than across-the-board salary-increase mandates, which require nongeneral fund (i.e., tuition) shares. As a result, such a fund also could mitigate the need for tuition increases on in-state undergraduate students.

6. Conclusion

This set of budget and policy recommendations considers significant recent investments in Virginia higher education. As a result of that additional funding, Virginia is in a stronger position than it has been for a long time to offer high-quality, affordable, accessible and relevant education across the Commonwealth – public, independent, four-year and two-year. It also allows the state and the institutions to step back and manage the new funding ways that result in meaningful outcomes.

As such, the recommendations for this biennium are more modest and targeted at specific activities that have been identified as priorities. They seek a balance between support for institutions and support for students. They embrace an approach to state budgeting that has the potential to make tuition decisions earlier and more transparent. The recommendations also position the Commonwealth and the institutions to make additional investments in the future.

APPENDIX I

FY 2025 E&G Recommendations						
	FY 2024	NPS	Funding Disparities	VMSDEP Waiver	Total	% Increase
CNU	$46,097,000	$462,000		$1,131,000	$1,593,000	3%
GMU	$208,433,000	$2,868,000	$18,536,000	$4,163,000	$25,567,000	12%
JMU	$136,028,000	$1,770,000	$793,000	$2,040,000	$4,603,000	3%
LU	$41,843,000	$282,000		$751,000	$1,033,000	2%
NSU	$82,467,000	$472,000		$1,048,000	$1,520,000	2%
ODU	$177,494,000	$1,648,000		$5,130,000	$6,778,000	4%
RU	$70,290,000	$556,000		$1,018,000	$1,574,000	2%
UMW	$41,976,000	$377,000		$772,000	$1,149,000	3%
UVA	$169,628,000	$2,531,000		$2,191,000	$4,722,000	3%
UVAW	$30,520,000	$196,000		$87,000	$283,000	1%
VCU	$250,913,000	$2,691,000		$6,482,000	$9,173,000	4%
VMI	$21,641,000	$162,000		$523,000	$685,000	3%
VSU	$63,158,000	$499,000		$676,000	$1,175,000	2%
VT	$220,559,000	$3,028,000	$11,179,000	$3,493,000	$17,700,000	8%
WM	$66,364,000	$840,000		$1,713,000	$2,553,000	4%
RBC	$13,035,000	$143,000		$100,000	$243,000	2%
VCCS	$511,910,000	$5,779,000		$2,022,000	$7,801,000	2%
Total	$2,152,356,000	$24,304,000	$30,508,000	$33,340,000	$88,152,000	4%

* Does not include GF share of 7.1% salary increases or TTIP.

FY 2026 E&G Recommendations						
	FY 2024	NPS	Funding Disparities	VMSDEP Waiver	Total	% Increase
CNU	$46,097,000	$674,000		$2,055,000	$2,729,000	6%
GMU	$208,433,000	$4,146,000	$18,536,000	$7,562,000	$30,244,000	15%
JMU	$136,028,000	$2,586,000	$793,000	$3,706,000	$7,085,000	5%
LU	$41,843,000	$419,000		$1,364,000	$1,783,000	4%
NSU	$82,467,000	$712,000		$1,905,000	$2,617,000	3%
ODU	$177,494,000	$2,491,000		$9,319,000	$11,810,000	7%
RU	$70,290,000	$817,000		$1,849,000	$2,666,000	4%
UMW	$41,976,000	$565,000		$1,403,000	$1,968,000	5%
UVA	$169,628,000	$3,568,000		$3,981,000	$7,549,000	4%
UVAW	$30,520,000	$297,000		$158,000	$455,000	1%
VCU	$250,913,000	$3,940,000		$11,776,000	$15,716,000	6%
VMI	$21,641,000	$236,000		$950,000	$1,186,000	5%
VSU	$63,158,000	$742,000		$1,228,000	$1,970,000	3%
VT	$220,559,000	$4,375,000	$11,179,000	$6,345,000	$21,899,000	10%
WM	$66,364,000	$1,253,000		$3,112,000	$4,365,000	7%
RBC	$13,035,000	$217,000		$181,000	$398,000	3%
VCCS	$511,910,000	$8,626,000		$3,672,000	$12,298,000	2%
Total	$2,152,356,000	$35,664,000	$30,508,000	$60,566,000	$126,738,000	6%

* Does not include GF share of 7.1% salary increases or reductions in TTIP.

FY 2024-26 Recommendations for Need-BasedUndergraduate Financial Aid									
		FY2025				FY2026			
	FY2024	Maintain Current Level of Need	Increase need from FAFSA Simplification Act	Hold Harmless Previous Awards	Total	Maintain Current Level of Need	Increase need from FAFSA Simplification Act	Hold Harmless Previous Awards	Total
CNU	780046700%		$312,000	$585,000	$897,000	$381,000	$312,000	$351,000	$1,044,000
GMU	$74,696,253		$2,988,000	$1,965,000	$4,953,000	$3,145,000	$2,988,000	$1,179,000	$7,312,000
JMU	$20,908,575		$836,000	$1,107,000	$1,943,000	$2,067,000	$836,000	$664,000	$3,568,000
LU	$9,208,815		$368,000	$523,000	$892,000	$500,000	$368,000	$314,000	$1,182,000
NSU	$25,907,445		$1,036,000	$815,000	$1,851,000	$975,000	$1,036,000	$489,000	$2,500,000
ODU	$59,375,494		$2,375,000	$1,706,000	$4,082,000	$3,972,000	$2,375,000	$1,024,000	$7,371,000
RU	$27,634,755		$1,105,000	$855,000	$1,960,000	$468,000	$1,105,000	$513,000	$2,087,000
UMW	$6,778,829		$271,000	$289,000	$561,000	$404,000	$271,000	$174,000	$849,000
UVA	$11,438,919		$458,000	$269,000	$727,000	$369,000	$458,000	$162,000	$989,000
UVAW	$5,901,535		$236,000	$231,000	$467,000	$100,000	$236,000	$139,000	$475,000
VCU	$54,398,102		$2,176,000	$2,858,000	$5,034,000	$3,175,000	$2,176,000	$1,715,000	$7,066,000
VMI	$1,543,318		$62,000	$104,000	$166,000	$81,000	$62,000	$63,000	$206,000
VSU	$18,497,520		$740,000	$692,000	$1,432,000	$954,000	$740,000	$415,000	$2,109,000
VT	$29,175,811		$1,167,000	$1,417,000	$2,584,000	$2,985,000	$1,167,000	$850,000	$5,002,000
W&M	$5,199,052		$208,000	$311,000	$519,000	$84,000	$208,000	$186,000	$478,000
4-Year Total	$358,464,890		$14,339,000	$13,727,000	$28,066,000	$19,663,000	$14,339,000	$8,236,000	$42,238,000
RBC	$2,346,080		$94,000	$53,000	$147,000	$75,000	$94,000	$32,000	$201,000
VCCS	$87,553,355		$3,502,000	$2,180,000	$5,682,000	$3,998,000	$3,502,000	$1,308,000	$8,809,000
2-YearTotal	$89,899,435		$3,596,000	$2,234,000	$5,830,000	$4,073,000	$3,596,000	$1,340,000	$9,009,000
Total	$448,364,325		$17,935,000	$15,961,000	$33,896,000	$23,736,000	$17,935,000	$9,577,000	$51,247,000

FY 2024-26 Recommendations for Graduate Financial Aid			
	FY 2024	FY 2025 Recommendation	FY 2026 Recommendation
CNU	$26,563	$9,169	$18,337
GMU	$3,538,941	$1,221,529	$2,443,058
JMU	$1,177,171	$406,322	$812,643
LU	$36,264	$12,517	$25,034
NSU	$497,352	$171,670	$343,340
ODU	$3,483,395	$1,202,356	$2,404,713
RU	$1,180,647	$407,521	$815,043
UMW	$37,033	$12,783	$25,565
UVA	$6,047,345	$2,087,350	$4,174,699
VCU	$4,401,184	$1,519,148	$3,038,295
VIMS	$412,502	$142,382	$284,765
VSU	$557,159	$192,313	$384,627
VT	$6,524,825	$2,252,160	$4,504,321
W&M	$1,051,024	$362,780	$725,560
Total	$28,971,405	$10,000,000	$20,000,000

FY 2024-26 O&M Recommendations		
	FY 2025	**FY 2026**
CNU	$1,296,000	$2,597,000
GMU	$155,000	$716,000
JMU	$0	$278,000
LU	$676,000	$699,000
NSU	$0	$0
ODU	$0	$0
RU	$509,000	$454,000
UMW	$119,000	$119,000
UVA	$1,052,000	$2,078,000
UVAW	$0	$0
VCU	$0	$0
VIMS	$216,000	$241,000
VMI	$0	$0
VSU	$119,000	$1,035,000
VT	$4,052,000	$4,332,000
WM	$90,000	$483,000
RBC	$0	$0
VCCS	$438,000	$438,000
Total	$8,722,000	$13,468,000

FY 2024-26 HEETF Recommendations						
	FY 2025			FY 2026		
	Traditional	Research Initiative	FY 2025 Total	Traditional	Research Initiative	FY 2026 Total
CNU	$934,000	$0	$934,000	$934,000	$0	$934,000
GMU	$5,939,000	$2,465,000	$8,404,000	$5,939,000	$2,465,000	$8,404,000
JMU	$3,069,000	$300,000	$3,369,000	$3,069,000	$300,000	$3,369,000
LU	$1,067,000	$0	$1,067,000	$1,067,000	$0	$1,067,000
NSU	$1,574,000	$0	$1,574,000	$1,574,000	$0	$1,574,000
ODU	$6,307,000	$493,000	$6,800,000	$6,307,000	$493,000	$6,800,000
RU	$2,073,000	$0	$2,073,000	$2,073,000	$0	$2,073,000
UMW	$734,000	$0	$734,000	$734,000	$0	$734,000
UVA	$19,230,000	$7,145,000	$26,375,000	$19,230,000	$7,145,000	$26,375,000
UVAW	$497,000	$0	$497,000	$497,000	$0	$497,000
VCU	$10,352,000	$5,203,000	$15,555,000	$10,352,000	$5,203,000	$15,555,000
VIMS	$389,000	$933,000	$1,322,000	$389,000	$933,000	$1,322,000
VMI	$1,115,000	$0	$1,115,000	$1,115,000	$0	$1,115,000
VSU	$1,277,000	$0	$1,277,000	$1,277,000	$0	$1,277,000
VT	$17,623,000	$9,194,000	$26,817,000	$17,623,000	$9,194,000	$26,817,000
WM	$2,577,000	$743,000	$3,320,000	$2,577,000	$743,000	$3,320,000
RBC	$209,000	$0	$209,000	$209,000	$0	$209,000
VCCS	$18,548,000	$0	$18,548,000	$18,548,000	$0	$18,548,000
SWVHEC	$65,000	$0	$65,000	$65,000	$0	$65,000
RHEA	$23,000	$0	$23,000	$23,000	$0	$23,000
IALR	$2,000	$0	$2,000	$2,000	$0	$2,000
SVHEC	$315,000	$0	$315,000	$315,000	$0	$315,000
NCI	$269,000	$0	$269,000	$269,000	$0	$269,000
EVMS	$2,241,000	$0	$2,241,000	$2,241,000	$0	$2,241,000
Total	$96,429,000	$26,476,000	$122,905,000	$96,429,000	$26,476,000	$122,905,000

APPENDIX II

Background

Council plays multiple, statutory roles in budgetary and policy matters related to Virginia higher education, including:

- "develop policies, formulae, and guidelines for the fair and equitable distribution and use of public funds among the public institutions of higher education, taking into account enrollment projections and recognizing differences and similarities in institutional missions" (*Code of Virginia*, § 23.1-208);
- "provide periodic updates of base adequacy funding guidelines" (*Code of Virginia*, § 23.1-203); and
- "calculate each [public] 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" (*Code of Virginia*, § 23.1-303).

Council historically has prepared budget and policy recommendations each year, with a particular focus on the biennial budget process, which begins in odd-numbered years. Recommendations to amend the biennial budget occur in even-numbered years.) Because Council did not meet in July 2023, the staff materials provided for Council's September 2023 meeting were not as detailed as in prior odd-numbered years.

State Context: The 2023 special session of the General Assembly made significant investments in higher education, on top of an already significant investment in higher education over the 2022-24 biennium. Additional funding in the FY 2024 budget amendments include additional allocations to operating, financial aid, and SCHEV's initiative to help institutions recruit and retain more Pell students. The conference budget included an additional 2% salary increase, on top of the already implemented 5% increase. Such impacts the estimated costs of any potential additional 2% salary increases, as the base of that 2% increase will be higher.

Virginia's unemployment rate in August was an historically low 2.5%, and lower than the U.S. rate of 3.5%. The Virginia Employment Commission also reported labor force participation rate (the proportion of adults either working or looking for work out of the population) at a ten-year high. In his August presentation to the Joint Money Committees, Secretary of Finance Stephen Cummings recommended continued caution as risk factors could still lead to an economic downturn.

Agency Context: SCHEV staff's development of potential budget and policy recommendations is guided by the statewide strategic plan, *Pathways to Opportunity: The Virginia Plan for Higher Education (The Virginia Plan)*, which is created by Council at least every six years. The current *Virginia Plan* lays out three goals for higher education: equitable, affordable and transformative.

For the current plan, Council has approved a series of priority initiatives to guide the agency's implementation of its roles in fulfilling *Pathways to Opportunity.* Council's priority initiatives are aligned with the four goals of the Governor's Higher Education Guiding Objectives, which are: (i) Prepare Students for the Increasing Demands of the Knowledge Economy; (ii) Maintain Affordability and Reduce the Cost of Higher Education; (iii) Build the College and Career Pipeline in Partnership with K-12; and (iv) Promote a Vibrant Campus Life.

SCHEV staff also consider the national context and how Virginia compares to other states. The State Higher Education Executive Officers (SHEEO) "State Higher Education Finance (SHEF) Report" compares how states finance their higher education enterprises. Consistent with previous years, this year Virginia ranks near the median (27th) of states in total funding (state budget and tuition revenues combined) per student in FY 2022. However, Virginia relies more on tuition revenue (18th in nation) and less on state funding (32nd) compared to other states.

Current Environment of Higher Education

The current environment of higher education is also evolving. Policymakers, researchers, students and families are focused on enrollment volume and composition, financial effectiveness and sustainability, and program outcomes and alignment.

While enrollment at Virginia institutions generally stabilized in Fall 2022, some Virginia institutions are experiencing declining enrollment. (See Item IV.D on enrollment projections for more information on the enrollment outlook as well as the 2023 early enrollment estimates.)

In ranking Virginia the #2 Best State For Business, CNBC ranked Virginia #1 for education, a factor which included long-term trends in state support for higher education and each state's each state's community college and career education systems.

A 2021 SCHEV survey of graduates of Virginia institutions found that 88% of graduates were satisfied with their education overall, but only 57% thought their education was worth the cost. A 2022 Strada Education Foundation's outcomes survey found that 65% of bachelor's degree graduates nationwide reported that their education was "worth the cost."

Also, a sharpening focus exists on mental health, free speech, and diversity equity and inclusion on campus. The 2022-23 Student Advisory Council, comprised of student leaders from institutions across the Commonwealth, focused on these issues. Many participated in participated in Governor Youngkin's mental health summit, held at the College of William & Mary in March 2023.

The 2023 six-year plan process reflects these themes. The revised templates emphasized enrollment volume and composition, financial effectiveness and sustainability, and program outcomes and alignment. All institutions included some sort of proposal for internships / experiential learning.

The information below summarizes the agency's processes on budget and policy recommendations and outlines some initial options for Council's consideration. Council's discussion and feedback to staff in September and thereafter will shape and structure the final budget and policy recommendations that staff brings forward at Council's October meeting.

<u>Agency Process</u>: SCHEV's typical process for developing recommendations includes the following assessments, in consideration of the statewide strategic plan's three goals – equitable, affordable and transformative – in each area:

- **Institution requests:** This process begins with the six-year plans and SCHEV's review of planned items. This year plans were received July 17, and staff are in the process of reviewing these requests along with staff of the legislative money committees, the Secretary of Finance, the Secretary of Education and the Department of Planning and Budget.

- **Financial and academic analysis:** This process is an assessment of financial and academic measures to help understand areas of opportunity. For financial matters, this analysis can include a review of funding and costs per full-time equivalent student (FTE), fiscal health of the institutions and comparisons to national averages at a state or institutional level. For academic matters, this analysis can include changes in enrollment, retention, and completion of students (including subgroups). The financial and academic matters can be merged into a performance funding mechanisms to incentivize outcomes aligned with state strategy.

- **Economic factors:** This process includes assessing current economic conditions, such as the impact of costs due to inflation, minimum wage increases, etc. Last year, SCHEV estimated increased costs at institutions for nonpersonal services due to changes in minimum wage and inflationary costs. In addition, SCHEV looks at revenue forecasts for the state in terms of whether additional funds may be available or if cuts may need be considered (in the case of an economic downturn).

- **State or regional needs:** In addition, other factors to support state and regional needs may be considered. Council has developed several priority initiatives related to topics such as strategic access efforts, mental health and disabilities support, restructuring state financial aid, and transparency in transfer. Other state and regional needs include: workforce development, college access and enrollment, and constructive dialogue programs. Staff will review additional statewide and regional needs through the six-year plan process.

Budget Recommendations for 2024-26 Biennium				
		FY 2025	FY 2026	Op-Six summary of key takeaways and policy considerations
Category	Item	(in millions)		
Improving Student Success and Labor Market Outcomes	Workforce Credential Grant	$1.5	$2.5	Provide outcomes transparency Developing a comprehensive and coordinated approach to maximize postcompletion outcomes and fill labor market needs
	Mental health workforce pilot program	$0.5	$1.0	Introduce more comprehensive suite of wraparound services Improving completion for all student populations via data-driven, evidencebased interventions and strong execution
	Mental health grants	$9.0	$0.0	Introduce more comprehensive suite of wraparound services Improving completion for all student populations via data-driven, evidencebased interventions and strong execution
	Graduate Financial Aid	$10.0	$20.0	Increase need-based financial aid Strengthen partnerships with employers, regional economic development organizations at scale
	Advising and coaching	$0.8	$1.5	Seek to drive up college-going rate Coordinate & incentivize pathways between high school, community college, and 4-year institutions
Affordability and Access	Undergraduate need-based financial aid	$33.9	$51.2	Increase need-based financial aid and maintain gains on reducing unmet need
	Virginia Military Survivors and Dependent Education Program (VMSDEP) - Waiver	$33.3	$60.5	Review / optimize VMSDEP to ensure program continues its important mission in a sustainable manner
	Virginia Military Survivors and Dependent Education Program (VMSDEP) - Stipend	$2.0	$2.0	Review / optimize VMSDEP to ensure program continues its important mission in a sustainable manner
	Virginia Tuition Assistance Grant (TAG)	$0.0	$3.6	Being more targeted with state funding (E&G + Financial Aid) to better drive key priorities, incentivize desired actions, support students, and address critical institutional needs
nstitutional Operation	Tuition Mitigation	$24.3	$35.7	Encouraging / supporting lower tuition increases to slow down growth in cost of attendance
	Address Funding Disparities	$30.5	$30.5	Explore new funding formula Encouraging / supporting lower tuition increases to slow down growth in cost of attendance
	O&M for new facilities	$8.7	$13.5	Encouraging / supporting lower tuition increases to slow down growth in cost of attendance
	Virtual Library of Virginia (VIVA)	$2.3	$2.8	Support additional academic interventions
	Virginia Sea Grant	$0.4	$0.4	Strengthen partnerships with employers, regional economic development organizations at scale on programs, skilling, internships, and in-state job placement
	Virginia Space Grant Consortium	$0.1	$0.1	Increase funding and partnerships to support work-based learning
Total general fund recommendations		**$157.3**	**$225.3**	

SCHEV 2024-26 Policy Recommendations

Policy Item	**Op-Six summary of key takeaways and policy considerations**
Enrollment	Seek to drive up college-going rate. Gain market share among in-state students and/or attract more out-of-state students. Increase transparency of enrollment data and projections.
Affordable Talent Pathways	Strengthen partnerships with employers, regional economic development organizations at scale. Enhance support / incentives for in-demand skills / degrees. Increase funding for work-based learning.
VMSDEP	Review / optimize VMSDEP to ensure program continues its important mission in a sustainable manner
Financial Aid Award Restructuring	Increase need-based financial aid and maintain gains on reducing unmet need. Being more targeted with state funding (E&G + Financial Aid) to better drive key priorities, incentivize desired actions, support students, and address critical institutional needs. Promote greater aid transparency.
FAFSA Simplification Act Impact	Increase need-based financial aid and maintain gains on reducing unmet need. Being more targeted with state funding (E&G + Financial Aid) to better drive key priorities, incentivize desired actions, support students, and address critical institutional needs. Promote greater aid transparency.
Financial Aid Technical Changes	Increase need-based financial aid and maintain gains on reducing unmet need. Being more targeted with state funding (E&G + Financial Aid) to better drive key priorities, incentivize desired actions, support students, and address critical institutional needs. Promote greater aid transparency.
Dual-Enrollment Pricing	Coordinate & incentivize pathways between high school, community college, and 4-year institutions. Being more targeted with state funding (E&G + Financial Aid) to better drive key priorities, incentivize desired actions, support students, and address critical institutional needs.
Institutional Performance Standards	Continue to explore performance-based funding models; To tie a portion of funding to outcomes and incentivize desired IHE action on state priorities
Campus Security	Introduce more comprehensive suite of wraparound services to fit student needs E.g., counseling, health services, transportation
SCHEV Role in Emergency Aid	Expand emergency financial support E.g., state funding for greater IHE support for high-need students facing financial disruption
Recruitment and Retention of Talent	Explore new funding formula. Enhance support / incentives for in-demand skills / degrees. Encouraging / supporting lower tuition increases to slow down growth in cost of attendance.