

**REPORT OF THE
JOINT SUBCOMMITTEE**

**Administrative and Financial
Relationships Between The
Commonwealth And Its
Institutions Of Higher Education**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



SENATE DOCUMENT NO. 17

**COMMONWEALTH OF VIRGINIA
RICHMOND
2005**

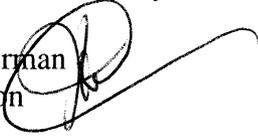


Commonwealth of Virginia

GENERAL ASSEMBLY
RICHMOND

January 12, 2005

To: Mr. Bill Wilson, Director
Division of Legislative Automated Systems

From: John H. Chichester, Chairman
SJR 90 Study Commission 

Re: Report to the 2005 General Assembly

In adopting Senate Joint Resolution 90, the 2004 General Assembly established a one-year joint subcommittee to study the *Administrative and Financial Relationships Between the Commonwealth and Its Institutions of Higher Education*. The resolution directs the joint subcommittee to submit final recommendations to the General Assembly no later than the first day of the 2005 session.

Given the immense public interest in this subcommittee and the related discussions about the proposed Chartered Colleges and Universities Initiative, the joint subcommittee continues to work towards developing final recommendations. To that end, the joint subcommittee met yesterday, January 11, 2005, to hear staff's recommendations on this topic. Based on the dialogue from yesterday's meeting, I remain optimistic that the subcommittee, in conjunction with the public higher education institutions, can advance a joint legislative proposal for action by the 2005 General Assembly.

Because the subcommittee has not yet adopted final recommendations, I have attached a copy of the presentation staff made to the subcommittee at yesterday's meeting, which reflects the work of the subcommittee to date. If questions or comments arise as the subcommittee seeks to conclude its work over the next week to ten days, please direct any questions or comments to me or the subcommittee staff.

cc: Members of SJR 90 joint subcommittee
Ms. Betsey Daley, staff director
Mr. Robert Vaughn, staff director
Mr. Tony Maggio, staff
Ms. Amy Sebring, staff
Mr. Hobie Lehman, staff

Attachment

Higher Education Reform Options



SJR 90 Staff Recommendations
January 11, 2005

Primary objectives

- Facilitate institutions' ability to make business decisions more rapidly and strategically.
- Improve accountability through post-audit.
- Improve coordination between institutional objectives and statewide goals.
 - Better planning at the state and institutional levels
 - Financial planning
 - Enrollment management
 - Academic rigor
 - Stronger coordination and oversight roles for SCHEV

Provide greater institutional flexibility

- Grant institutions greater flexibility in the areas of: **procurement, personnel,** and **capital outlay.**
 - All institutions would be eligible for additional autonomy in the areas of procurement and personnel.
 - Capital outlay authority would be phased-in as institutions participate in, and demonstrate the ability to perform in, previously established NGF decentralization pilot programs.

Procurement



- ❑ Surplus property
- ❑ Sole source procurement
- ❑ Small, women, and minority-owned (SWAM) businesses
- ❑ State credit card purchases
- ❑ Request for Proposals (RFPs) postings
- ❑ Pre-purchase reporting

Disposal of surplus property

- **Current process:** Institutions are required to dispose of surplus property centrally.

- **Proposed process:** All institutions could choose to dispose of surplus property locally.
 - Require revenue from sales to be appropriated/allocated in a timely manner.

Exempt sole source purchases

- **Current process:** Institutions must make all purchases through e-VA often requiring institutions to cover the fees for sole source vendors who conduct limited business with the state.
- **Proposed process:** Exempt sole source purchases from the 1% fee required by e-VA
 - Eliminates fee for unique purchases (e.g., research equipment, specialized periodicals)
 - Maintains record of purchases through electronic system which would remain subject to post-audit
 - Preserves the state's ability to leverage buying power by continuing to require "bulk purchases" for all agencies and institutions

Small, women and minority-owned (SWAM) businesses

- **Current process:** Institutions must monitor their transactions with SWAM based on the Department of Minority Business Enterprises' (DMBE) list of certified businesses.
 - DMBE has been slow to certify businesses, making it difficult for institutions to comply with the Commonwealth's SWAM goals.
- **Proposed process:** Allow institutions to receive credit for transactions with businesses they have independently identified as meeting SWAM criteria unless DMBE "decertifies" the business.
 - Require institutions to maintain updated lists with DMBE.

State credit card purchases

- **Current process:** Commonwealth currently requires institutions to use American Express for small credit card purchases.

- **Proposed process:** Provide institutions with their share of the rebate for purchases made with the state credit card. Allow institutions to negotiate with separate credit card vendors if they can negotiate a better deal.
 - Exempt credit card purchases from SWAM regulations.

RFP postings

- **Current process:** Institutions must advertise all RFPs in news print at an average cost of \$100 per advertisement.
- **Proposed process:** Institutions could post RFPs on their institutions' websites and the e-VA website in lieu of posting them in print.

IT and procurement reporting

- **Current process:** Institutions must currently report:
 - All sole source purchases totaling more than \$10,000 to the Secretary of Education
 - All IT purchases totaling more than \$100,000 to Secretary of Technology each month.

- **Proposed process:** Remove reporting requirements. Require post-audit of purchases.

Personnel

- Administrative faculty
- Merit-based classified salary increases
- Permanent part-time faculty retirement benefits
- 9- and 10-month faculty contracts
- "Academic year" classified employees

Administrative faculty

- **Current Process:** Guidelines established by the Secretary of Education currently determine the extent to which institutions can classify an employee as an administrative faculty member.
 - Institutions often use the administrative faculty classification to give them greater flexibility in offering salary and benefit packages to administrative and professional employees.

- **Proposed Process:** Allow institutions to establish their own board-approved policies on the use of administrative faculty.
 - Require SCHEV to evaluate the use of administrative faculty annually through the Consolidated Salary Authorization.

Flexibility to allocate salary increases

- **Current process:** Through Appropriation Act language, recent General Assemblies have required agencies and institutions to provide across-the-board pay raises for all classified employees who meet satisfactory performance criteria.
- **Proposed process:** Agencies and institutions could allocate funds from General Assembly authorized pay raises in accordance with their own board-approved performance pay plans.

“Permanent part-time” benefits

- **Current process:** Part-time faculty are not eligible to receive retirement benefits.
- **Proposed process:** Allow part-time faculty working at least 20 hours per week to participate in either VRS or ORP on a pro-rated basis.

9- and 10- month faculty contracts

- **Current process:** In order to be eligible for benefits, faculty must have 9- or 10-month contracts effective for the Fall/Spring semesters.
- **Proposed process:** Allow institutions to structure contracts in accordance with program needs as long as faculty members work consecutively for a 9- or 10-month period.

“Academic year” classified employees

- **Current process:** Full-time classified employees who work only during the academic year (e.g., dormitory and dining staff) are not eligible to receive full benefits.
- **Proposed process:** Allow full-time classified employees in positions that are only required during the academic year to be eligible for health care and other fringe benefits.

Capital Outlay

- ❑ Operating lease authority
- ❑ NGF appropriation blanket authorization
- ❑ Project execution methodology
- ❑ Local building code authority

Operating Leases

- **Current process:** DGS must review and approve all terms and conditions prior to an institution entering into an operating lease.
 - The six institutions (CNU, CWM, ODU, RU, UVA and VT) participating in the NGF pilot program can enter into income leases without prior approval from DGS.

- **Proposed process:** Allow institutions to enter into all operating leases (both expense and income) without prior approval from DGS.

- **Proposed eligibility:** All institutions.

NGF blanket authorization

- **Current process:** General Assembly must appropriate funds for all capital projects prior to initiation. Governor has limited authority to “administratively appropriate” projects when the General Assembly is not in session.
- **Proposed process:** Create a blanket authorization for NGF projects (construction, renovation, and acquisition) so institutions can initiate unforeseen projects quickly without prior approval by the General Assembly.
 - Limit authorization to cash projects with no impact on tuition and fee rates; General Assembly would still authorize use of debt
 - Require institutions to notify money committee chairmen prior to project initiation and to submit analysis of life-cycle budget
 - Stipulate that there is no future general fund obligation for O&M, routine or deferred maintenance
- **Proposed eligibility:** All institutions with an approved MOU to participate in NGF decentralization pilot program.
 - CNU, CWM, ODU, RU, UVA, and VT
 - GMU, JMU, and VCU pending

Building code review

- **Current process:** DGS must certify that a building meets the Uniform Building Code prior to issuing a certificate of occupancy. DGS provides UVA with delegated authority.
- **Proposed process:** Provide institutions with three options for capital project execution
 - Institutions may elect to continue using DGS as the building code official **OR**
 - An institution can request that DGS delegate authority for the institution to use its internal building code review team if it meets appropriate qualification criteria, including that the team reports directly to the Board of Visitors **OR**
 - At an institution's request, DGS must delegate authority to the local building code official to certify that the facility meets the Statewide Uniform Building Code.
- **Proposed eligibility:** All institutions with an approved MOU to participate in NGF decentralization pilot program
 - CNU, CWM, ODU, RU, UVA, and VT
 - GMU, JMU, and VCU pending

Project execution/delivery method

- **Current process:** Institutions must use traditional design-bid-build process for GF projects unless they receive prior approval from DGS. Institutions participating in NGF pilot program can select alternative project delivery methods for NGF projects only.

- **Proposed process:** Allow institutions to select project delivery method for GF and NGF projects without prior approval by DGS.
 - As part of decentralization MOU, require institutions and Secretary of Administration to establish criteria for evaluating project delivery alternatives.

- **Proposed eligibility:** All institutions with an MOU to participate in NGF decentralization pilot program.
 - CNU, CWM, ODU, RU, UVA, and VT
 - GMU, JMU, and VCU pending

Expanded capital outlay authority for other institutions

- CNU, CWM, ODU, RU, UVA, and VT have participated in NGF decentralization pilot programs for several years.
- GMU, JMU and VCU are expected to join this year.
- Other institutions may request inclusion in the pilot program based on the boards' assessments of their needs and abilities.
 - Require Secretary of Administration to notify money committee chairmen within 15 days of an institution's request to participate.
 - Determine within 90 calendar days if the institution is eligible to participate.
 - Notify money committee chairmen by December 1 of each year whether an institution has been granted pilot status, and if not, the rationale for denying the institution's request.

Increased accountability through post-audit

- Update of existing financial management standards
- Development of administrative management standards
- Notification of audit findings

Financial and Administrative Management Standards

- Require the Governor to review and update 1988 Commonwealth Financial Management Standards.
- Require the Governor to develop administrative management standards for higher education institutions.
 - Require Governor to establish an independent advisory board with professional expertise in the areas of capital project management, personnel management, and purchasing to oversee development of standards.
 - Require Governor to introduce standards as part of his legislative/budget package for the 2006 session.

Post-audit review

- Require institutions to demonstrate administrative compliance and performance on enhanced management standards as part of annual state audit
 - Institutions found to be out of compliance will be required to develop a remediation plan.
 - Auditor of Public Accounts will report any instances of non-compliance to the General Assembly along with report of institutional progress in meeting remediation plan.

Improved planning

Financial Resources
Enrollment Management
Academic Rigor

Benefits of better financial planning

- Allows Boards of Visitors to develop multi-year financial plans for their institutions
 - Recognizes boards' authority to set tuition rates
- Provides state policymakers with a long-term outlook on funding needs and implications of funding decisions
 - Preserves the ability for state policymakers to protect the public's interest in affordability

Six-year financial plan

- Require all institutions to submit a six-year financial plan by August 31, 2005 to the Governor and chairmen of the House Appropriations and Senate Finance Committees.
 - Plans would be submitted following each short session of the General Assembly.
 - Governor and General Assembly would use the plans to inform the development of the biennial budget.
- Financial plans would identify funding needed to reach 100 percent of base adequacy guidelines under two general fund scenarios:
 1. No additional general fund support; and
 2. Incremental general fund support based on fund share stipulated in the Appropriation Act (current Act sets out 67 percent general fund share of costs for all in-state students).
- Plans would include anticipated tuition and fee increases under both scenarios for all student groups.

Financial coordination

- SCHEV would be responsible for routine updates of the base adequacy funding guidelines adopted by the Joint Subcommittee Studying Higher Education Funding Policies.
- Financial plans would be based on SCHEV-approved calculation of guidelines, assuming projected enrollment increases and full funding of the 60th percentile for full-time teaching and research faculty.
- Institutions would be required to quantify cost savings associated with increased administrative flexibility and identify how they plan to redirect those funds to meet other resource needs.

Enrollment management

- ❑ Require SCHEV to align its six-year enrollment projection process with the time horizon set forth by the six-year financial plan.
- ❑ Direct SCHEV to coordinate institutions' enrollment projections with anticipated demand analyses.
- ❑ Require SCHEV to approve six-year enrollment plan by June 30 of each odd-numbered year.

Benefits to coordinated enrollment planning

- Allows the Commonwealth to align the institutions' abilities and aspirations to accommodate additional students with the state's need to provide postsecondary educational opportunities for a growing number of Virginia students.

Academic planning and assessment

- Require institutions to submit a six-year “academic plan” to SCHEV by October 1, 2005.
 - Tie plan to enrollment management and financial plans.
- Academic plans will also include an evaluation of:
 - On-going efforts to identify and eliminate duplicative or outdated courses/programs
 - Faculty teaching and research productivity, including an assessment of faculty time in “low enrollment” courses/programs
 - How current programs meet the needs of students/employers and advance statewide policy objectives
 - How new programs planned for the six year period will meet anticipated needs and objectives of students and the state
 - Institutional efforts to integrate research activities into the undergraduate and graduate curricula
 - Transfer and articulation agreements

Aligning institutional needs and state policy goals

- Require SCHEV to review institutional plans and to:
 - Assess the effect additional flexibility/autonomy has had on enhancing the institutions' abilities to meet the objectives of institutional and statewide plans
 - Conduct a "gap analysis" to determine where institutions' individual plans may not collectively meet statewide goals or needs
 - Assist institutions in aligning programs and initiatives to meet statewide objectives
 - If necessary, recommend policy/budget changes to the General Assembly to facilitate institutions' ability to meet statewide objectives

What the proposal does
not address...



Areas still under review

- Several areas require additional legislative guidance and/or analysis:
 - **Interest earnings on tuition and fees:** COP has asked that all institutions maintain interest earnings on their tuition and fees. Estimated fiscal impact: \$20 million GF annually
 - **Non-appropriation of NGF revenues:** Some institutions would like to move NGF resources “off book” if there is a way to do so while still satisfying the Constitutional requirement that NGF revenues be appropriated. How would this action benefit the institutions? What would be the benefit to the state?
 - **Alternative retirement plans :** Some institutions have expressed an interest in offering alternative plans for new hires. What are the costs/benefits to the state, the institution, and the employees?
 - **Information technology:** COP has requested autonomy to oversee the implementation of IT projects on campus (higher education is already exempt from many of the VITA requirements). What hurdles remain? What is the cost/benefit to the state and the institutions?
 - **Consequences and incentives:** What incentives are there for an institution to “perform well”? How do institutions benefit from meeting statewide objectives/goals? What consequences are there if an institution does not performance or meet state expectations?

Proposal summary

- The staff's proposal seeks to benefit both the institutions and the Commonwealth by:
 - Providing institutions with greater flexibility to make day-to-day business decisions;
 - Including a more proactive approach to statewide financial, enrollment and academic planning in higher education; and
 - Empowering the boards of visitors to adopt long-range plans and policies that meet institutional needs and respond to statewide policy goals.