

Board of Visitors Retreat

July 10, 2009

General Fund Revenue (REVISED)

Background

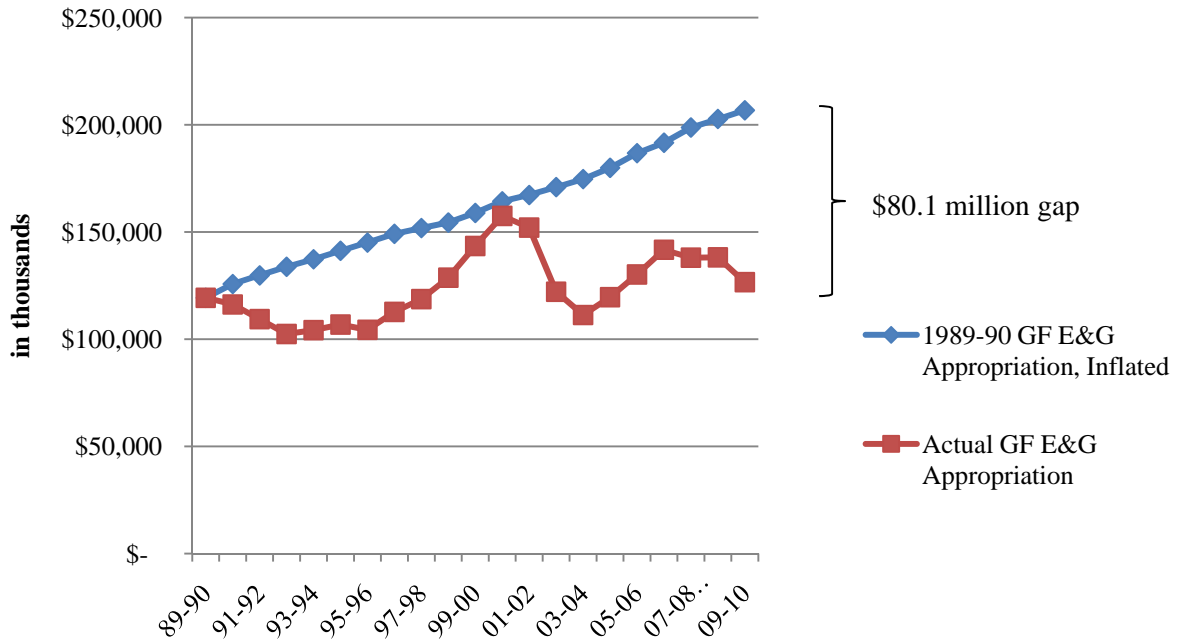
The general fund (GF) or state tax appropriation will comprise 6.9% of the 2009-10 University of Virginia operating budget, prior to any further budget reductions. [The University received instructions on June 30, 2009 to begin planning for budget reductions of up to \$19.3 million in 2009-10.] Excluding the Medical Center, which receives no direct tax support, and the College at Wise the state's share of the Academic Division operating budget will be 11.5% or \$141.0 million. The state provides funding to support the cost of education for in-state students. Out-of-state students are expected to pay at least 100% of the cost of their education. The state's policy is to fund 67% of the cost of an in-state student's education and in recent years it has attempted to achieve this ratio on new dollars appropriated. However, that ratio does not exist in the base operating budget. The fund split in the base budget is 27% general fund and 73% non-general fund (tuition and other revenue).

State support for the University has declined over the last 20 years or more because of absolute reductions imposed by the Governor and General Assembly during downturns in the economy; because the state has not kept pace with cost increases in higher education generally; and because other revenue sources that make up the budget have grown at a faster rate than the state appropriation. Without regard to inflation or enrollment growth, the University will receive \$24.2 million less from the state in 2009-10 for the educational and general budget than in 2000-01, before further budget reductions anticipated for 2009-10.

Historical Trend

It is perhaps helpful to look at the general fund appropriation over a longer time horizon than the last five years. The chart below takes the general fund appropriation in 1989-90, inflates it at the consumer price index, and compares it to the actual general fund appropriation. The result is an \$80.1 million gap between what a simple inflationary increase in our general fund appropriation would produce and what the University currently receives from the state. Converting this to a per in-state student basis and accounting for enrollment growth over that time period results in a gap of \$7,855 per in-state student compared to what would be expected had the state been able to increase its support at the rate of inflation.

**1989-90 State General Fund E&G Appropriation,
inflated
vs.
Actual State General Fund E&G Appropriation**



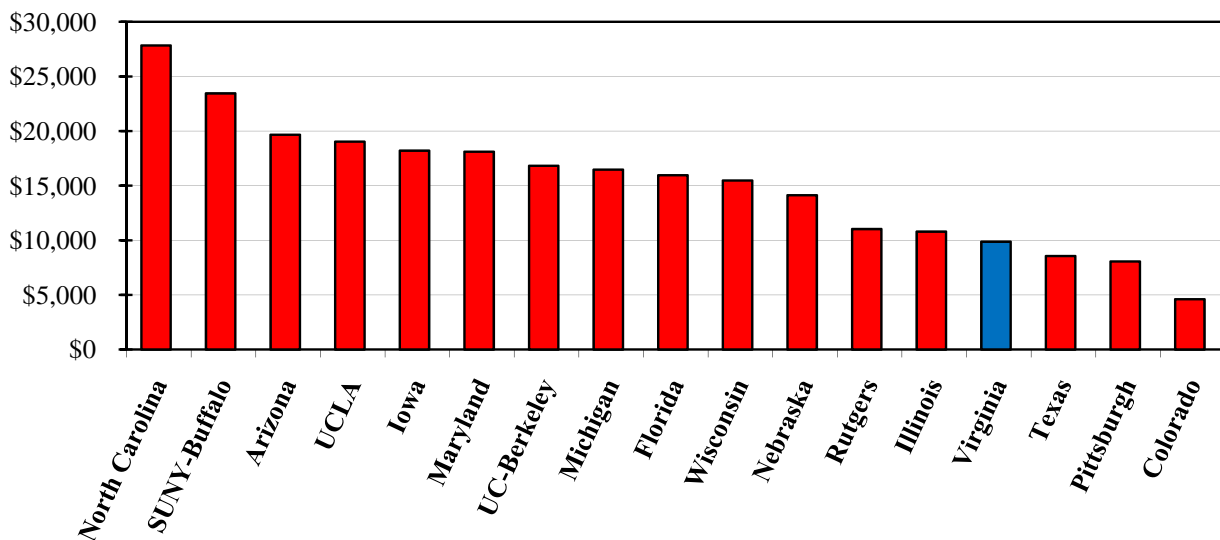
Comparison to Peer Institutions

We often compare ourselves to peer institutions in the tuition and fees we charge, but for a public institution one cannot look at tuition and fees without also considering the support received by that institution from its state. For example, the table below reflects the 2008-09 general fund appropriation per in-state student at a select number of public peer institutions. The comparison is dramatic. UNC-Chapel Hill receives more than 2.5 times the amount of support from the state of North Carolina than the University receives from the Commonwealth of Virginia. The gap between our state appropriation per in-state student and the lowest among this set of peers is \$6,597. We expect this number to drop to \$8,923 per in-state student in 2009-10, before further budget reductions anticipated for 2009-10.

School	2008-09 GF per In-state Student
University of North Carolina – Chapel Hill	\$27,843
University of California – Los Angeles	\$19,031
University of Maryland	\$18,117
University of California – Berkeley	\$16,819
University of Michigan – Ann Arbor	\$16,469
University of Virginia	\$9,872

The following graph adds the remaining public institutions in our SCHEV peer group to the comparison which puts the University at fourth from the bottom with only Texas, Pittsburgh and Colorado receiving less state support per in-state student than the University.

**2008-2009 General Fund Appropriation per In-State Student
SCHEV Public Peers**



Issues for Consideration

- **State’s base adequacy calculation and the imbalance between the state and family (tuition) contribution**

The base adequacy calculation is the state’s current funding formula for higher education that in 2001 replaced the former operating budget guidelines known as Appendix M. Both the former and current sets of guidelines provide a common yardstick for measuring funding for

higher education and a consistent way to evaluate funding requests. At last calculation the University was funded at 94% of the base adequacy guidelines in 2007-08 leaving a shortfall of \$30.9 million. It is important to look behind those numbers at the state's actual contribution to the funding formula versus its target. In fact, the general fund meets only 77% of the calculated general fund need resulting in a \$43 million shortfall while tuition is 104% of the guideline. The budget reductions in 2008-10 will only worsen that condition. We estimate the general fund percentage will fall to 72% of the guideline, before considering additional budget reductions anticipated for 2009-10.

The simple statement here is that the state does not pay for its share of the cost of education and part of that funding shortfall is made up from tuition. Higher education has argued that "fixing the base" is important, however, the state has not had adequate resources to address this issue so the imbalance only increases over the years.

- **Impact of funds received under the American Recovery and Reinvestment Act of 2009**

The American Recovery and Reinvestment Act of 2009 (ARRA) provides states with one-time money to restore funding levels at public institutions of higher education to the higher of 2008 or 2009 levels. The calculation in Virginia resulted in \$276 million available for higher education. The General Assembly chose to allocate only 50% of these funds in fiscal year 2009-10, saving the remaining 50% for fiscal year 2010-11. That action provides \$10.7 million in operating funds in each of the next two fiscal years for the University, enough to partially offset the planned \$23.1 million general fund reduction in 2009-10.

The ARRA money is temporary and goes away in 2011-12. The full general fund reduction will remain. If there is not a significant recovery in the economy and in the state's revenue picture before then the University will be left with a hole in the budget that will require new revenue to fill or reduced expenditures.

- **Virginia's fiscal outlook and its implications for higher education**

The state has experienced a series of revenue reductions in the 2008-10 biennium that total more than \$5.6 billion. The projected growth rate in the budget for fiscal year 2008-09 is a negative 7.3%. Through May actual general fund revenue collections have declined 9.3% compared to the projected annual decline of 7.3%. The percentage loss in general fund revenue for fiscal year 2008-09 is almost twice as bad as in the fiscal year 2002 recession. The adopted budget for fiscal year 2009-10 projects a 4.4% growth rate in the general fund assuming a recovery is reached by 2011. Since 1961 there have been only three years in which the state has experienced negative revenue growth – 1991, 2002, and 2009.

In fiscal year 2010 about 90% of the proposed reduction strategies were on-going savings that would continue in the next biennium. Fiscal year 2010 is the budget on which the 2010-12 biennial budget will be built. On June 30, 2009, state agencies were instructed to prepare plans to reduce existing appropriations in fiscal year 2010 by 5%, 10%, and 15% which will carry forward into the next biennial base budget.

Until 2000 there were five major budget drivers in the state's general fund budget – K-12, mental disabilities, corrections, Medicaid, and higher education. Since then we have added a sixth – car tax relief. In the last 20 years during periods of economic downturn higher education has suffered the most among these major programs. It is only when the economy recovers that we are able to regain some of what we lost.

As for the future, the state's projection of general fund revenue growth is about 5% annually from 2011 through 2015. Higher education will be competing for that revenue growth with the step function growth in K-12 expenditures resulting from rebasing against the Standards of Quality formula; with medical inflation and the needs of an aging population; with new prisons coming on line; with transportation which is an issue that has yet to be dealt with effectively by the Commonwealth; and with general inflationary needs, compensation, and capital outlay for all state agencies.

Strategies for the Future

- Continue to advocate for more state support for higher education generally and the University of Virginia specifically.
- Aggressively support and pursue the strategies being developed in the *Grow By Degrees* strategic positioning program, a non-partisan, privately funded, education based attempt to accomplish a systemic, sustainable transformation in the political-governmental standing of Virginia higher education. The ultimate objective of the program is to secure a reliable, predictable revenue stream and other positive policies that will help make Virginia higher education the national pacesetter over the next decade and beyond.¹
- Pursue additional autonomy in business processes and policies generally as opportunities present themselves which can help facilitate cost reduction.

Question for Discussion

1. Should the University build a reserve to protect the budget against future general fund budget cuts?
2. What role can members of the Board of Visitors play in advocating for more state support for higher education?

¹ *Grow By Degrees*, A Campaign of the Virginia Business Higher Education Council, 2009.