Virginia Tries Restructuring

Financial stress leads to new arrangements between state and campuses

By Robert A. Jones

RICHMOND, VIRGINIA

THROUGH MUCH of the last decade, Virginia's public universities have served as a kind of canary-in-the-coal-mine for higher education systems undergoing financial stress. Few have suffered as much as Virginia's, and many watched to see if the canary would wither under the strain.

Beginning in the '90s, the state legislature repeatedly cut financial support to the campuses, once whacking 22 percent from the higher education budget in a two-year period. Governors alternately froze and then rolled back tuition, occasionally using the universities as a political whipping boy. Virginia's reputation as a nurturer of excellence in higher education teetered on collapse.

The despair expressed by education officials was notable. One college president described the state as delivering "grievous wounds" to the campuses. The director of the state's Council on Higher Education departed his post, saying any more time on the job would amount to "cruel and unusual punishment." A dean at the University of Virginia said the starving of public institutions represented "insane, ideological, odd thinking" in Richmond.

Now, however, there are signs that the poisoned atmosphere of the last decade may be lifting. This spring Governor Mark Warner, a Democrat, signed legislation reconfiguring the entire relationship between the campuses and the state, offering new financial formulas and giving unprecedented autonomy to some institutions. It has been heralded by some as a potential model for other states facing similar dilemmas and has inspired the first optimism in several years at the state's colleges and universities.

Virginia Governor Mark Warner recently signed legislation reconfiguring the entire relationship between Virginia's public universities and the state.

"The script is a happy one so far," said Timothy X. Sullivan, president of the College of William and Mary. "We have the chance of creating an environment that is predictable and controllable. That alone represents a real break from the past."

All acknowledge that the change was born out of desperation. By spring 2004, the accumulated campus deficits had grown so dire that three of the state's leading institutions proposed to dismantle their relationship with the state, replacing it with a charter status. The schools—the University of Virginia, Virginia Tech, and William and Mary—offered to accept a cut in financial support from the state in exchange for their freedom to raise tuition and conduct their own affairs.

Dennis Brack, Black Star, for CrossTalk

State Senator John H. Chichester, a Republican, worked with Democratic Governor Mark Warner to restructure Virginia higher education.

That plan did not fly in the legislature, but, with the support of Warner, it soon morphed into the restructuring of the traditional relationship that was signed into law in April. Under the new structure, some campuses will operate as de facto contractors with the state. They will negotiate management agreements, or contracts, that will grant them widespread autonomy, including the right to set tuition and fees and to carry out campus operations without interference from state agencies. In return, the campuses will be held accountable for meeting a series of state-imposed goals.

But here in Virginia no one is celebrating yet. The arrangement is so complex—the legislation alone consumes 50 single-space pages—that few pretend to know exactly how it will play out. The true impact of the change, college officials say, will be known only after the management agreements have been put into practice and survive the political currents in Richmond.

In a nutshell, the management agreements will spell out the rights and responsibilities for college administrations in virtually every aspect of campus operations, from new construction and personnel to tuition increases and course offerings. The agreements will be drafted by individual campuses and then sent to Warner's office for a round of negotiations with the state.

"Now the hard work begins," Warner said on a recent

Dennis Brack, Black Star, for CrossTalk

Virginia Governor Mark Warner hopes higher education restructuring will cause campuses to consider state manpower needs.

afternoon in his office. "We have constructed these worthy goals for both sides, things like access to higher ed, and focusing on more research. The question is, can we translate these goals into a working arrangement that gets us where we want to go? I'm an optimist and I believe we can, but it's going to take patience and good will on both sides."

Asked about potential sticking points in the negotiations over management agreements, Warner paused and then offered a hypothetical example. "Say the state needs more teachers and more engineers, and say a university campus comes to us with a proposed agreement that puts heavy emphasis on literature or the humanities, and less on the development of teachers and engineers. At that point we will say, 'Hold it, that's not part of the deal. You need to re-work your plan to reflect the state's needs.'"

Exactly how campuses such as UVA or William and Mary would react to such directives remains to be seen. But most college administrators seem guardedly optimistic that the agreements will leave them better off than before.

"Things are not going to change instantaneously," said Leonard Sandridge, executive vice president at the University of Virginia. "This is an agreement to develop a joint plan with the state, and the benefits will come with time. We have every intention of looking back over the next decade and saying, yes, the [restructuring] was smart, and it improved the system of higher education in Virginia."

The changes will be slow in coming because the new structure alters the management of the campuses, and alters *who* will have ultimate management authority, but does not directly address the underlying cause of the preceding decade's trauma: the paucity of dollars coming from Richmond.

"Nothing in the legislation changes the amount of state funding for higher education," said John Bennett, the state's finance secretary. "When the legislation was proposed, the argument made by the universities was that state funding was completely unreliable from year to year. They were right. So this legislation, among other things, is an attempt to make the funding more reliable, not necessarily to increase the amount."

The new structure seeks to accomplish that goal by using a teeter-totter formula for balancing state funding and tuition hikes. As one element goes up, the other goes down.

For example, each campus is required to submit to the state detailed financial projections over a six-year period, estimating tuition hikes under a variety of scenarios. Under a "good" scenario of increased state funding, a particular institution might commit itself to tuition increases in the range of eight to ten percent. Under a "bad" scenario of reduced funding, tuition would rise more sharply to make up the difference.

While that tradeoff might make common sense, it is a tradeoff that was denied Virginia's institutions through most of the '90s. On more than one occasion, the legislature reduced state funding and simultaneously froze tuition.

"We think the agreements will make transparent the relationship between state funding and tuition increases, and that's good," said William and Mary's Timothy Sullivan. "In Virginia, the real question should not be, 'How high is tuition?' but 'Why is tuition as high as it is?' With the agreements in place, the answer to that second question should become clear."

The political momentum for restructuring grew out of an unusual coalition of Republican legislators and Democratic Governor Warner that supported the notion of a thriving higher education system. This coalition also worked together in 2004 to pass a $1.3 billion tax increase that was aimed, in large part, at restoring some of the lost funding for Virginia's public colleges and universities.

"It may sound hard to believe, but politics never entered the picture in the discussions about higher education," said John H. Chichester, a leading Republican in the state Senate. "We started talking with the governor two years ago about the state of higher education which, at the time, was very rocky. Both sides wanted to improve things and sometimes we had different issues, but it never became a Republican-Democratic thing."

The new structure uses a teeter-totter formula for balancing state funding and tuition hikes. As one element goes up, the other goes down.

No one knows, however, whether the coalition will hold in the future. Warner is scheduled to leave office early next year, and the political chemistry in the capital could change under a new administration.

"The extent to which other governors will feel bound by the deal is unknown," said David Breneman, dean of the Curry School of Education at the University of Virginia. "Already, one of the candidates running to succeed Warner

State Goals

UNDER Virginia's restructuring plan, state colleges and universities will be required to work toward meeting 11 state goals in return for greater campus autonomy. Here are the eleven goals:

- Provide access to higher education for all citizens of Virginia, including underrepresented populations.
- Ensure that higher education remains affordable regardless of family income.
- Offer a curriculum that addresses Virginia's needs for sufficient graduates in particular shortage areas.
- Maintain high academic standards.
- Improve student retention and raise graduation rates.
- Allow smooth transition for students moving from two-year to four-year institutions.
- Stimulate economic development of Virginia.
- Increase externally funded research and facilitate technology transfers.
- Aid elementary and secondary schools to improve student achievement.
- Prepare six-year financial plans for submission to the state.
- Increase campus management efficiency and economy.

has said that he believes tuition should not rise faster than the CPI (Consumer Price Index). That is not exactly encouraging."

On the other hand, some college administrators argue that the existence of the signed management agreements will make the deal difficult to violate. For that reason, the universities and the governor's office are working to get the first management agreements approved this December, before Warner leaves office.

The tuition/state funding tradeoff is only part of the structural change, however. The other major component involves a turnover of operational authority from the state to campus administrations. Once a management agreement is approved for a particular campus, college officials will assume control over areas such as construction, purchasing and personnel.

This part of the deal, in fact, was central to the coalition between Warner, a former tech tycoon, and the Republican leadership in the legislature. "You had a Democratic governor who wanted the institutions to be more entrepreneurial," said Peter Blake, the state deputy education secretary for higher education. "And you had a legislature concerned about unnecessary bureaucracy and local autonomy. It all made for an interesting constellation of political interests and motivations, and resulted in widespread support."

Campus administrators also delight at the idea of controlling their operations. Many have war stories about their bureaucratic fights with Richmond. One describes sending staffers on the long drive to Richmond every two weeks to pick up payroll checks because the state would not allow the institutions to process payroll checks themselves. Another recalls weary negotiations with a state agency over how many windows would be allowed in a new building.

The autonomy moves will also save money, but most agree that the amounts will be modest. "When you get the state government involved in every decision, it slows things down and adds costs. You will achieve greater efficiency by turning a job over to campus administrators," remarked Finance Secretary Bennett. "At the same time, the universities will create bureaucracies to handle the jobs that were being done in Richmond. The real dollar savings is probably not great."

In spring 2004, three of the state's leading institutions offered to accept a cut in financial support from the state in exchange for their freedom to raise tuition and conduct their own affairs.

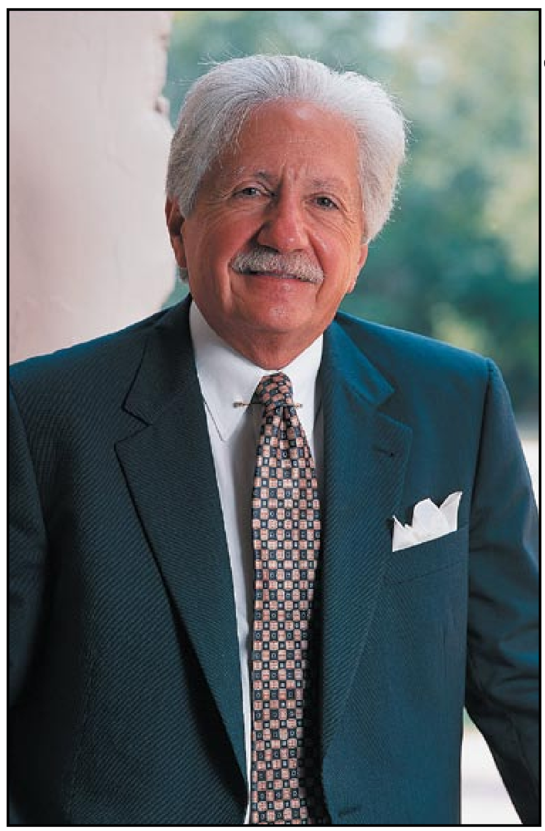
For all the hoopla surrounding restructuring, however, the benefits will not be extended evenly across Virginia's institutions. The greatest autonomies will be extended to UVA, Virginia Tech, and William and Mary—the state's acknowledged "Top Three."

The plan's structure, in fact, almost guarantees that outcome. It creates three levels of participation, and Levels I and II entitle schools only to limited autonomies and do not require management agreements.

To qualify for a Level III application, a campus must demonstrate broad competence in managing campus operations or carry an AA-bond rating. Only then will it be allowed to develop a management agreement.

At present, only the top three meet those qualifications, so other institutions must settle for Levels I or II. This situation contains some ironies. Campuses such as George Mason University in northern Virginia and Virginia Commonwealth University in Richmond now educate far more students than any of the top three and have become substantial institutions in their own right.

Virginia Commonwealth, for example, sprawls over a large part of downtown Richmond, with 29,000 students in 15 schools and one college. It operates one of the largest medical research centers in the state, attracted $185 million in sponsored research



Tom Cogill for CrossTalk

William and Mary President Timothy X. Sullivan supports the restructuring plan but would have preferred "charter" status for his college.

Most college administrators seem guardedly optimistic that the new management agreements with the state will leave them better off than before.

programs in 2004, and is the largest employer in Richmond.

But a crucial difference exists between VCU and its much older counterpart, UVA. Virginia's flagship university has an endowment in excess of $2 billion, which contributed $83 million last year to campus operations.

Further, it can easily attract out-of-state students willing to pay $35,000 a year for a UVA degree, and it could also raise in-state tuition substantially and have no difficulty filling its classrooms. In short, UVA has financial clout, or what is known in Virginia higher education circles as "market potential." And market potential is a major factor in earning a high bond rating.

Virginia Commonwealth University, on the other hand, has little in the way of endowment, and, with many of its students coming from lower-income families, has limited capacity to raise tuition. It lacks market potential, and President Eugene Trani says the university will forego a Level III application. "I want all the operational flexibility I can get (from the restructuring)," said Trani. "But the truth is that operational flexibility pales in importance to other issues at VCU." Those other issues can be boiled down to scrambling for more funding from the state.

During Warner's tenure the state began employing a conceptual figure for each institution known as "base adequacy." Essentially, base adequacy is a dollar figure that the state calculates will be needed to operate a campus over a fiscal year. Pursuing base adequacy has become the Holy Grail for schools like VCU because they have few other sources of income.

"When I see the governor I don't talk so much about restructuring," said Trani. "I say, 'Governor, what about our base adequacy?' Over and over again, I talk about base adequacy. For us, it's far more important than restructuring."

In one sense, then, the restructuring legislation has divided Virginia's public campuses into two groups: At the top sit UVA, Virginia Tech, and William and Mary, who are pursuing Level III status in the hope they can make maximum use of their "market potential." Below them are the remaining campuses, without market potential or Level III status, who will be left scrambling for base adequacy funding.

"In Virginia, there are no statewide bodies like you have in California with the Board of Regents," commented one state official. "So when it comes to making a deal with the state, each campus operates on its own. Those with the most moxie usually win, and that's been the case with restructuring."

Even for the top three, the value of the restructuring prize

UPDATE
Virginia's Restructuring Is a "Work in Progress"

April 2008

THE ATTEMPT by Virginia's public colleges and universities to obtain more freedom from state control has produced mixed results.

When *National CrossTalk* reported on this subject in summer 2005, legislation had been passed to grant public institutions autonomy over some operations, in exchange for their agreement to pursue a set of state goals. Since then, the schools have gained considerable autonomy in the areas of capital outlay, purchasing, human resources and information technology. However, the most important change they sought—the authority to set tuition rates—has remained in the hands of the governor and the legislature.

"They got sort of half a loaf," said David W. Breneman, director of the Master's in Public Policy Program at the University of Virginia, "but that's pretty good" for a new set of policies that involves so many changes from past procedures.

"Overall, there are more positives than negatives in the new approach," said Colette Sheehy, UVA's vice president for management and budget.

So far, most of the changes have taken place at UVA, Virginia Tech and the College of William and Mary—designated as Level III schools in the plan. (Virginia Commonwealth University became the fourth Level III institution in 2008.)

These institutions now plan and build their own academic buildings without prior approval from state agencies, as long as no state dollars are involved.

"Basically, we now have authority to manage a project from beginning to end, including a certificate of occupancy, without getting approval from Richmond," Sheehy said. "This saves time and money." New buildings for the College of Engineering and the College of Arts and Sciences, both financed by private donations, have been added to the Charlottesville campus since the new policy was adopted.

The most important change Virginia's public colleges and universities sought—the authority to set tuition rates—has remained in the hands of the governor and the legislature.

Samuel E. Jones, vice president for finance at William and Mary, said the college was free to build a new $75 million business school, paid for by donations and college-supported bonds, without prior approval from the state. This has cut several months off the process, Jones said.

Officials of the Level III schools agreed that the ability to do their own purchasing, instead of depending on a central office in Richmond, has been helpful. But all three reported some problems in implementing their new authority to handle information technology.

Moving responsibility for "human resources" (including job classification and pay scales) from the state level to individual institutions has been a slow process, encountering many obstacles, but none that seem insurmountable.

However, the all-important ability to set tuition rates for in-state undergraduates, which UVA, Virginia Tech, and William and Mary

A $1.3 billion tax increase in 2004 was aimed, in large part, at restoring some of the lost funding for Virginia's public colleges and universities.

remains in doubt. When the top three universities first proposed their charter initiative, for example, they never envisioned an eventual outcome that would obligate them to meeting a host of state goals in return for gaining control over tuition and management. But that's what they got.

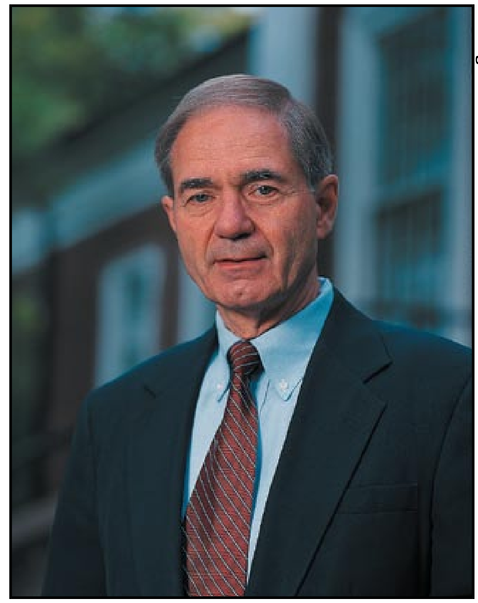
Amy Sebring, higher education analyst for the Senate Finance Committee, said the idea of imposing goals on the universities grew out of concerns that the public needed to be well-served by any structural change. "As the conversation moved on," she said, "legislators and the governor's office began asking the questions, 'What does the state get out of this? How does this process translate into improved education opportunities?'"

Numbering 11 in all, the state goals range widely from increasing enrollment of lower-income students to stimulating economic development and raising graduation rates.

Meeting the goals could leave the universities in something of a sweat. The State Council of Higher Education for Virginia (SCHEV) will first develop "metrics" to measure progress toward the goals, and the universities will be required to show how they will satisfy those metrics in their management agreements and various other documents.

SCHEV will then employ a "gap analysis" to determine whether the plans will, in fact, achieve the goals. If a gap is detected between the plans and the goals, the schools will be required to upgrade their proposals.

Even after the management agreements are approved, the goals will continue to haunt the universities. Each year, SCHEV will review the performance of each campus, measuring their success. If a campus is found to be lacking, its agreement can be revoked.



Tom Cogill for CrossTalk

The University of Virginia's Leonard Sandridge believes the benefits of the agreement "will come with time."

consider vital to retaining academic quality, has eluded them.

In 2008, with state revenues lower than expected, the legislature approved a tuition increase of only three percent for the 2008-09 academic year, plus an additional one percent for student financial aid. "The General Assembly view was that the state is having tough times, families are having tough times, so higher education will have to pick up its share," said Don Finley, president of the Virginia Business Higher Education Council.

But most institutions had planned for larger increases. For instance, George Mason University raised tuition 8.5 percent in 2007-08 and had envisioned a similar increase the following year.

In an attempt to hold tuitions down, the legislature created a "Tuition Moderation Incentive Fund" that would provide the schools with an additional two percent (for a total increase of six percent) from the annual tuition and fee revenue that flows to the state. For 2008-09, that amounted to about $17.5 million, to be divided among the institutions.

This fell far short of what the schools said they needed, forcing them to face a dilemma: They could accept the limit, or raise tuition more than that, risking the legislature's displeasure. But the issue turned out to be short-lived. In 2009, faced with a continuing state budget shortfall, the General Assembly decided to discontinue the incentive fund for 2010, and no tuition increase limit was set for in-state undergraduate students.

The University of Virginia, Virginia Tech and the College of William and Mary can now plan and build their own academic buildings without prior approval from state agencies.

"That's a serious problem," said Richmond attorney Lane Kneedler, one of the architects of the restructuring plan. "If the major schools decide to raise tuition eight or nine percent, they need to be prepared for a battle to avoid caps."

"Many think this goes against the whole idea of restructuring," Finley said.

In return for the new grants of authority, schools must agree to pursue a set of state goals. These include improving student retention and graduation rates and taking steps to make postsecondary education more accessible and more affordable. ("The original 11 goals have subsequently been expanded to include a 12th: "Seek to ensure the safety and security of the Commonwealth's students on college and university campuses.")

All of this is spelled out in "management agreements" between each school and the state. The State Council for Higher Education in Virginia (SCHEV) monitors these agreements and issues annual certifications to those that have complied.

"This is kind of murky work, and it's hard to know what has been achieved," said Peter Blake, vice chancellor for workforce development in the Virginia community college system. "We're still looking for a coordinated vision of where the state needs to be" in areas such as enrollment, tuition and achievement.

John Bennett, senior vice president for finance and administration at Virginia Commonwealth University, summed up the restructuring efforts this way: "It's a work in progress. All of the elements are in place but it's going to take a while to work out the details."

—William Trombley

At UVA, the pressure already is being felt. Goal number nine—"Work actively with elementary and secondary school administrators…to improve student achievement"—resulted in the Curry School of Education receiving marching orders from the UVA administration to seek out and improve a local school. The school was located, and two education professors are now working halftime on the project.

Breneman, the school's dean, views the scrambling with some amusement. "In the effort to get themselves deregulated, the schools may have breathed new life into SCHEV and got themselves re-regulated," he said. "The fact is, every campus is fumbling in the dark with this thing. No one knows how it will turn out."

Warner, whose office had a major hand in developing the goals, predicts the outcome will be good for the schools and for the state. In some areas, he said, the universities have proved themselves sorely lacking, and making them accountable will give the state some powerful leverage.

"Take the area of fostering the careers of women and minorities," he said. "Universities have been some of the worst performers in the state in this regard. That may surprise people, but university systems tend to be run by old-boy networks. I think we're going to see that change as this process moves along. The universities will get their freedom, and the state will get what it needs also."

Campus administrations will also have to tread delicately when it comes to exercising their hard-won authority over tuition and fees. While the new legislation explicitly confers control over tuition to the campuses, it is universally recognized that the General Assembly could snatch it back at any time.

"The schools got the authority, but I wouldn't characterize that authority as unchallenged," said Finance Secretary Bennett. "In effect, the General Assembly was saying, 'Yeah, you've got the right to do 25 percent (in tuition hikes), but if you do 25 percent, we will come back and slap you around."

For all the hoopla surrounding restructuring, the benefits will not be extended evenly across Virginia's institutions.

College administrators largely agree with this assessment. Grabbing control over tuition proved to be a popular political gambit by governors and the legislature during the '90s, and there is nothing to prevent it from being employed again.

But, administrators say, tuition hikes in the foreseeable future will probably run only two to three percent above the inflation rate and thus will be unlikely to attract the ire of politicians. At UVA, tuition increases were projected in the eight to ten percent range last spring, on the assumption that the state carries through on its funding goals. Projections at other schools were somewhat lower.

Given all the uncertainties, was the two-year effort over restructuring worth it? Most university officials, especially those in the top three, appear to believe it was—with caveats.

"We would have preferred to end up where we started (with charter status)," said Sullivan at William and Mary. "What we eventually got was a framework to work out these management agreements that may offer us the chance to plan ahead several years at a time. That would be a huge advantage over the last decade, which left us with zero predictability."


Tom Cogill for CrossTalk

"Nothing in the legislation changes the amount of state funding for higher education," says John Bennett, Virginia's finance secretary.

At UVA, Vice President Sandridge noted that the university hospital was granted widespread autonomy in 1996 under a similar restructuring arrangement. That effort has proved very successful, he said, and he expects the same experience this time.

"It is quite clear that the state always has the authority to overrule their agreement with us. We acknowledge that," said Sandridge. "But it is my experience in Virginia that parties usually operate in good faith. So we are going into this with the expectation that we can work out a reasonable financial plan with the Commonwealth and that we will be able to make decisions at UVA, to operate the campus, and to set tuition consistent with that plan."

The true outcome of the restructuring plan likely will be revealed in stages. By this December, the Level III management agreements are scheduled to be approved and, at that point, the institutions will know exactly what authorities they have gotten from the state and what they have given up. The agreements will be put into practice next July, and the performance of individual campuses will be reviewed by SCHEV the following year.

"It's a case where the final product is never really the final product," said state Senator Chichester. "We will take small steps, see if they work, and then take more steps. And a real judgment as to whether we have succeeded is probably some time away." ◆

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